

LU-VE S.p.A.
Via Vittorio Veneto 11 – 21100 Varese
Economic and Administrative Index no.: VA-191975
Tax Code: 01570130128



Explanatory Report of the Board of Directors on proposals for items on the Agenda of the ordinary Shareholders' Meeting to be held on single call on 27 April 2018

(Report prepared pursuant to art. 125-ter of the Consolidated Law on Finance and articles 73 and 84-ter of the Issuers' Regulation)

Dear Shareholders,

In compliance with art. 125-ter of Italian Legislative Decree no. 58 of 24 February 1998 (the **Consolidated Law on Finance**), LU-VE S.p.A. (the **Company** or **Issuer**) makes an explanatory report (the **Explanatory Report**) available to you. The report refers to matters on the agenda of the ordinary Shareholders' Meeting - called by notice published on 27 March 2018 on the Company's web site (www.luvegroup.com, section *Investor Relations - Documentation of shareholders' meeting - Shareholders' Meeting of 27 April 2018*) and on the authorized storage device *eMarket Storage* www.emarketstorage.com, as well as by abstract in the daily newspaper "Il Sole 24 Ore" - to be held on single call at the Company's administrative offices at Via Caduti della Liberazione 53, Uboldo, at 10:30 on 27 April 2018 (the **Shareholders' Meeting**).

The **agenda** for the aforementioned Shareholders' Meeting is as follows:

1. *Presentation of the Annual Financial Report containing the draft separate financial statements at 31 December 2017, the Board of Statutory Auditors' Report and the Independent Auditors' Report. Related and contingent resolutions.*
2. *Presentation of the Annual Remuneration Report of LU-VE S.p.A. Resolutions pursuant to art. 123-ter, Italian Legislative Decree 58/98.*
3. *Proposed authorisation to purchase and disposal of treasury shares, subject to cancellation of the resolution adopted by the Shareholders' Meeting of 12 April 2017. Related and contingent resolutions.*

This Explanatory Report will be filed and made available to the public on 27 March 2018 at the administrative offices and on the web site of the Company at www.luvegroup.com, section *Investor Relations - Documentation of shareholders' meeting - Shareholders' Meeting of 27 April 2018*, and on the authorized storage device *eMarket Storage* www.emarketstorage.com.

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First item on the Agenda

Presentation of the Annual Financial Report containing the draft separate financial statements at 31 December 2017, the Board of Statutory Auditors' Report and the Independent Auditors' Report. Related and contingent resolutions.

Dear Shareholders,

Following the Board of Directors' approval on 26 March 2018, you will be called upon to resolve upon the draft separate financial statements of LU-VE S.p.A. at 31 December 2017.

The draft financial statements submitted for your approval show profit for the year of €3,513,046.00 (three million five hundred and thirteen thousand and forty-six/00), and envisage the distribution of a gross dividend of €0.22 (zero/22) for each ordinary share outstanding at today's date.

The €0.22 dividend will therefore be allocated - net of the 141,930 treasury shares held at present - to each of the 22,092,438 ordinary shares outstanding, for a total of €4,860,336.36 (four million eight hundred and sixty thousand three hundred and thirty-six/36), of which €3,161,741.40 (three million one hundred and sixty-one

thousand seven hundred and forty-one/40) from the profit for the year, remaining after allocation to the legal reserve, and €1,698,594.96 (one million six hundred and ninety-eight thousand five hundred and ninety-four/96) from the extraordinary reserve. The dividend will be payable from 9 May 2018 on the ex date for coupon no. 3 of 7 May 2018 (record date of 8 May 2018).

We also bring your attention to the following:

(1) the **consolidated financial statements** of the LU-VE Group at 31 December 2017, approved by the Board of Directors on 26 March 2018 which, though not subject to Shareholders' Meeting approval, provide supplementary disclosures to those of the separate financial statements of LU-VE S.p.A.

For all further information in this respect, you are invited to refer to the Annual Financial Report - containing the draft separate financial statements and the consolidated financial statements at 31 December 2017, the Directors' Report, and the attestation pursuant to art. 154-bis, paragraph 5 of the Consolidated Law on Finance - which will be filed and made available to the public on 5 April 2018 at the administrative offices and on the web site of the Company at www.luvegroup.com (section *Investor Relations - Documentation of shareholders' meeting - Shareholders' Meeting of 27 April 2018*) and on the authorized storage device *eMarket Storage* www.emarketstorage.com, together with additional documentation required by current regulations. The Board of Statutory Auditors' Report and Independent Auditors' Report will be made available to the public in the same manner and by the same deadline;

(2) the **consolidated Non-Financial Statement (NFS)**; in this respect, note that - pursuant to Italian Legislative Decree no. 254 of 30 December 2016 (**Legislative Decree 254/2016**) - from 2017 the Company is required to publish the NFS that has to report on a series of issues to the extent necessary to ensure understanding of the business activities, performance, results and the impact the activities generate.

In compliance with the provisions of art. 5, paragraph 3.b of Legislative Decree 254/2016, the Company has therefore prepared its NFS 2017, the reporting scope of which covers all companies in the LU-VE Group. The statement, which is a separate report from the Directors' Report included in the Annual Financial Report, was prepared according to GRI Standards.

The NFS reports on the Group's performance in relation to issues that affect its capacity to create value in the short, medium and long terms, reflecting the significant impacts of the organisation and those of interest to the Group's stakeholders, and is published at www.luvegroup.com, section *Investor Relations - Documentation of shareholders' meeting - Shareholders' Meeting of 27 April 2018*, and on the authorized storage device *eMarket Storage* www.emarketstorage.com.

Note in this respect that the attestation required in accordance with art. 3, paragraph 10, Legislative Decree 254/2016 on compliance of the information provided with that required by the decree and compliance with its principles, methodologies and methods, is issued by the independent auditors *Deloitte&Touche S.p.A.* and is published and made available as an attachment to the consolidated Non-Financial Statement.

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It is therefore proposed that the Shareholders' Meeting adopt the following resolution:

"The ordinary Shareholders' Meeting of LU-VE S.p.A., having examined the Directors' Report and the data in the separate financial statements of LU-VE S.p.A. at 31 December 2016, the Board of Statutory Auditors' Report and the Independent Auditors' Report

resolves

1) to approve the separate financial statements of LU-VE S.p.A. at 31 December 2017, which show a net profit of €3,513,046.00 (three million five hundred and thirteen thousand and forty-six/00), and the Directors' Report;

- 2) *to allocate part of the profit for the year of €3,513,046 amounting to the legal reserve in the sum of €351,304.60;*
- 3) *to distribute a gross dividend to Shareholders of €0.22 for each of the 22,092,438 ordinary shares outstanding (net of the 141,930 treasury shares), for a total of €4,860,336.36, of which €3,161,741.40 from the profit for the year, remaining after allocation to the legal reserve, and €1,698,594.96 from the extraordinary reserve;*
- 4) *to arrange payment of the aforementioned gross dividend of €0.22 (zero/24) per share from 9 May 2018, with ex date of 7 May 2018 on coupon no. 3 (record date of 8 May 2018);*
- 5) *if the number of treasury shares changes prior to the coupon date, to authorise the Chairman of the Board of Directors:*
 - *to allocate the amount of the dividend relating to any shares purchased to the Extraordinary Reserve;*
 - *to reduce the Extraordinary Reserve by the amount corresponding to the dividend relating to any treasury shares sold;*
- 6) *to grant the Board of Directors - and on behalf of the Board to the Chairman, Iginio Liberali, and to the CEO, Matteo Liberali, jointly or separately - all due power to enforce this resolution, with the option of sub-delegating, and file it with the relevant Register of Companies, making any necessary formal amendments, additions or suppressions as appropriate.”*

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Second item on the Agenda

“Presentation of the Annual Remuneration Report of LU-VE S.p.A. Resolutions pursuant to art. 123-ter, Italian Legislative Decree 58/98”.

Dear Shareholders,

In relation to the second item on the Shareholders' Meeting agenda, this year you are called upon for the first time to express your opinion on the “2018 Remuneration Policy” of LU-VE S.p.A. (the Remuneration Policy) described in Section I of the annual Remuneration Report of LU-VE S.p.A., prepared pursuant to the combined provisions of art. 123-ter, paragraphs 3 and 6 of the Consolidated Law on Finance. The annual Shareholders' Meeting called to approve the financial statements is required to express its opinion regarding the Company's policy on the remuneration of members of the administrative body and key managers and on the procedures used to adopt and implement the policy.

As also specifically indicated in the current art. 123-ter, paragraph 6 of the Consolidated Law on Finance, the resolution to be adopted by the Shareholders' Meeting in relation to the Remuneration Policy and associated adoption and implementing procedures will not be binding and must be limited to expressing opinion for or against the Remuneration Policy and its related adoption and implementation. The result of the vote will be disclosed to the public on the Company's web site pursuant to art. 125-quater, paragraph 2 of the Consolidated Law on Finance.

Note that the *Remuneration Report* of LU-VE S.p.A. and, consequently, the 2018 Remuneration Policy contained in Section I of the report, were approved by the Board of Directors on 26 March 2017, at the proposal of the Remuneration and Appointments Committee - in accordance with current legal and regulatory provisions - and will be filed and made available to the public at the administrative offices and on the web site of the Company at www.luvegroupp.com, section *Investor Relations - Documentation of shareholders' meeting - Shareholders' Meeting of 27 April 2018*, and on the authorized storage device *eMarket Storage* www.emarketstorage.com, by the twenty-first day before the date of the Shareholders' Meeting (i.e. from 5 April 2018).

For further details, reference should be made to the contents of the aforementioned report, which are also defined in compliance with the provisions of art. 84-quater of the Issuers' Regulation and in consideration of the related Annex 3A, Templates 7-bis and 7-ter.

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it is therefore proposed that the Shareholders' Meeting adopt the following resolution:

“The Shareholders' Meeting of LU-VE S.p.A.:

- having examined the Remuneration Report of LU-VE S.p.A., prepared according to current legal and regulatory provisions

resolves

to express opinion in favour of the 2018 Remuneration Policy of LU-VE S.p.A. and the related adoption and implementation procedures”.

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Third item on the Agenda

Proposed authorisation to purchase and disposal of treasury shares, subject to cancellation of the resolution adopted by the Shareholders' Meeting of 12 April 2017. Related and contingent resolutions.

Dear Shareholders,

Having cancelled the resolution previously adopted on this matter by the Shareholders' Meeting of 29 April 2016, the Shareholders' Meeting of 12 April 2017 authorised the Company to purchase treasury shares, for a period of 18 months from the date of the resolution, or their disposal within an unlimited period.

At present the Company directly holds 141,930 treasury shares, equal to 0.6386% of the share capital of LU-VE S.p.A. The Company does not, however, hold treasury shares indirectly through subsidiaries, trusts or third parties.

As the validity deadline for the aforementioned authorisation will be reached on 12 October 2018, in order to avoid calling a specific Shareholders' Meeting closer to the deadline and as this proposal is in line with common practices of most listed companies, we consider it appropriate to propose that you now approve a new authorisation to purchase and sell treasury shares, subject to cancellation of the unused part of the authorisation previously resolved by the Shareholders' Meeting of 12 April 2017.

The reasons and methods for purchase and sale of treasury shares for which we ask your authorisation are indicated below.

(A) Reasons for requesting authorisation for the purchase and sale of treasury shares

The request for authorisation to carry out treasury share purchase transactions and, under certain conditions, to sell those shares, in compliance with applicable laws and regulations on equal treatment of shareholders, including Regulation (EU) 596/2014 of the European Parliament and of the Council dated 16 April 2014 on market abuse (Regulation (EU) 596/2014) and the related regulatory technical standards, is justified by the opportunity for the Company:

- a) to be able to arrange investments in Company shares if the stock market performance or the extent of liquid funds make such a transaction convenient in economic terms;
- b) to be able to act in the interests of the Company and of all Shareholders, where necessary and in compliance with applicable regulations, in relation to contingent market situations, by carrying out an activity that improves the share's liquidity and encouraging regular trading performance;
- c) if necessary, to use the treasury shares as part of transactions associated with business or commercial projects and/or transactions, or transactions in any event in the interests of the LU-VE S.p.A. Company or the Group (the Group), including projects and/or transactions in relation to which opportunities arise to trade or sell share packages or pledge the shares;
- d) if necessary, to be able to purchase and/or sell and/or assign treasury shares (or options on the shares) in relation to (i) share-based payment plans pursuant to art. 114-bis of the Consolidated Law on Finance in favour of, for example, directors, employees, collaborators or consultants of the Company or its subsidiaries (also in relation to satisfying obligations deriving from stock option plans), (ii) the issue of financial instruments convertible to shares and (iii) plans to assign shares free of charge to Shareholders;
- e) if necessary, arrange the setup of a stockpile.

(B) Maximum number and nominal value of shares covered by the authorisation

The proposal envisages that the authorisation involves purchases of the Company's shares, also carried out in tranches, up to a maximum of 1,400,000 (one million four hundred thousand) treasury

shares, equal to 6.3% of the share capital, and therefore less than one fifth of the Company's share capital, to this end also taking account any shares held by subsidiaries - and in any event within the limit of distributable profit and available reserves as recorded in the latest duly approved financial statements.

The requested authorisation includes the option to later dispose of the shares held, on one or more occasions, also after having reached the limit on purchases, and if appropriate to buy back those shares, always in compliance with the limits and conditions established in this authorisation.

(C) Information useful to assessing compliance with the provisions of art. 2357, paragraph 3 of the Italian Civil Code

As previously mentioned, the value of the shares for which purchase authorisation is requested does not exceed the corresponding limit of one fifth of the Company's share capital, to this end also taking into account shares already held by the Company and any that may be purchased by subsidiaries.

Specific instructions will be issued in any event to the subsidiaries to ensure that they promptly report any share purchases carried out pursuant to art. 2359-*bis* et seq. of the Italian Civil Code.

At present the Company directly holds 141,930 treasury shares, equal to 0.6386% of the share capital of LU-VE S.p.A. whereas it does not hold treasury shares indirectly through subsidiaries, trusts or third parties.

(D) Duration of the authorisation

The proposal envisages that shares can be purchased within 18 months from the date of adoption of the related Shareholders' Meeting resolution, whilst the authorisation to sell shares is requested without time limits.

(E) Purchase and sale prices of the shares

The purchase price of each treasury share will be established on each occasion by the Board of Directors, with the option of delegating to one or more Directors, with regard to the type of transaction chosen and the related terms and conditions, in accordance with the following methods: the minimum purchase price, including purchase transaction charges, must be not less than 20% (twenty per cent), and the maximum must be no more than 10% (ten per cent), of the official trading price recorded on the MTA market on the day prior to the purchase or announcement of the transaction and, in any event, compliant with the pricing rules envisaged in permitted market practices or in current regulations.

With regard to the sale of shares purchased, only the minimum price limit is set for sales to third parties, which must be sufficient to not have negative economic effects on the Company, and in any event not less than 95% (ninety-five per cent) of the average official prices recorded on the MTA market in the five days prior to the sale and must comply with the pricing rules envisaged in permitted market practices or current regulations. An exception to this price limit can be allowed in trading or sale of treasury shares (or pledging of the shares) if performed to implement business and/or commercial projects and/or are in any event in the interests of the Company or Group, or in the case of assignment and/or sale of shares or associated options in relation to (i) share-based payment plans pursuant to art. 114-*bis* of the Consolidated Law on Finance in favour of, for example, directors, employees, collaborators or consultants of the Company or its subsidiaries, (ii) the issue of financial instruments convertible to shares and (iii) plans to assign shares free of charge to Shareholders or via exchange tender offers.

(F) Methods by which the shares can be purchased or sold

The treasury share purchase transactions must be carried out in compliance with the provisions of art. 5, Regulation (EU) 596/2014 and art. 144-*bis* of the Issuers' Regulations, and therefore, amongst others (i) through exchange tender offers, (ii) on the market or through multilateral trading facilities, in accordance with operating methods established by the market operator which do not allow direct matching of buy trading with predefined proposals for sell trading, or (iii) through purchase and sale, in compliance with current regulatory provisions, of derivatives traded on the market or in multilateral trading facilities that envisage the physical delivery of the underlying shares, or (iv) through assignment to Shareholders, in proportion to the shares they already hold, of a sell option to be exercised within 18 (eighteen) months from the Shareholders' Meeting's adoption of the corresponding resolution, or (v) by methods established as market practices permitted by Consob pursuant to art. 13 of Regulation (EU) 596/2014, or (vi) by other methods permitted in European or domestic regulations in force. In any event, the transactions must ensure equal treatment among the Shareholders and compliance with every applicable domestic or European regulation (specifically including the regulatory technical standards adopted in implementation of Regulation (EU) 596/2014).

Treasury share purchases can be carried out by methods other than those indicated above where permitted and/or compatible with domestic or European regulations in force, taking into account the requirement in any event to comply with the principle of equal treatment of Shareholders.

The purchases can be made in one or more tranches.

With regard to the sale of the shares in question, this can be on one or more occasions, even before having carried out all permitted purchases. The sale must be by the methods considered most appropriate to the interests of the Company, including disposal on the stock market, off-market or through swaps for investments or other securities or through the pledging of shares as part of business and/or commercial projects and/or those in any event in the interests of the Company or Group, through the assignment and/or sale, free of charge or against payment, of shares or associated options in relation to (i) share-based payment plans pursuant to art. 114-*bis* of the Consolidated Law on Finance in favour of, for example, directors, employees, collaborators or consultants of the Company or its subsidiaries, (ii) the issue of financial instruments convertible to shares and (iii) plans to assign shares free of charge to Shareholders or via exchange tender offers.

The shares can also be sold in combination with other financial instruments.

Treasury share sales can be carried out by methods other than those indicated above where permitted and/or compatible with domestic or European regulations in force.

(G) Information on the instrumental nature of a purchase to reduce share capital

Note that the aforementioned purchase of treasury shares is not instrumental to a reduction in share capital.

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In view of the above, we propose that the following resolution be adopted:

"The Shareholders' Meeting of LU-VE S.p.A.,

- *having read the resolution of the ordinary Shareholders' Meeting of LU-VE S.p.A., held on 12 April 2017, regarding the authorisation to purchase and sell treasury shares;*
- *having accepted the Board of Directors' Report and taken into account the current legal and regulatory provisions on such matters,*

resolves

- 1) *to cancel, with effect from the date of this Shareholders' Meeting resolution, to the extent it has not been used, the resolution relating to the authorisation to purchase and sell treasury shares adopted by the Shareholders' Meeting of 12 April 2017;*
- 2) *to authorise the Board of Directors to purchase treasury shares of the Company, in the quantity, price terms and conditions indicated below:*
 - *the purchase can be carried out in tranches within 18 months from the date of this Shareholders' Meeting resolution, of up to a maximum number of 1,400,000 (one million four hundred thousand) treasury shares, equal to 6.3% of the share capital, and therefore less than one fifth of the Company's share capital, to this end also taking account any shares held by LU-VE S.p.A. subsidiaries and, in any event, within the limit of distributable profit and available reserves as recorded in the latest duly approved financial statements;*
 - *except for non-cash prices, the purchase price of each treasury share will be established on each occasion by the Board of Directors, with the option of delegating to one or more Directors, with regard to the type of transaction chosen and the related terms and conditions, in accordance with the following methods: the minimum purchase price, including purchase transaction charges, must be not less than 20% (twenty per cent), and the maximum must be no more than 10% (ten per cent), of the official trading price recorded on the MTA market on the trading day prior to the purchase or announcement of the transaction and, in any event, compliant with the pricing rules envisaged in permitted market practices or in current regulations;*
 - *the share purchase transactions must be carried out in compliance with art. 132, Italian Legislative Decree 58/1998 (Consolidated Law on Finance), as amended, and with art. 144-bis of Consob Regulation no. 11971/1999, as amended, on the regulation of issuers, as well as Regulation (EU) 596/2014 and related regulatory technical standards. In particular, the purchase transactions can be carried out pursuant to art. 132, Consolidated Law on Finance and art. 144-bis of the Issuers' Regulations, (i) through exchange tender offers, (ii) on the market or through multilateral trading facilities, in accordance with operating methods established by the market operator which do not allow direct matching of buy trading with predefined proposals for sell trading, or (iii) through purchase and sale, in compliance with regulatory provisions in force, of derivatives traded on the market or in multilateral trading facilities that envisage the physical delivery of the underlying shares, or (iv) through assignment to Shareholders, in proportion to the shares they already hold, of a sell option to be exercised within 18 (eighteen) months from today's date, or (v) by methods established as market practices permitted by Consob pursuant to art. 13 of Regulation (EU) 596/2014, or (vi) by other methods permitted in European or domestic regulations in force. In any event, the transactions must ensure equal treatment among the Shareholders and compliance with every applicable domestic or European regulation (specifically including the regulatory technical standards adopted in implementation of Regulation (EU) 596/2014);*
- 3) *to authorise the Board of Directors to sell the treasury shares purchased, establishing that:*
 - *this option is granted without time limits, even before making all permitted purchases, on one or more occasions;*
 - *the minimum price limit for sales to third parties must be sufficient to not have negative economic effects on the Company, and in any event not less than 95% (ninety-five per cent) of the average official prices recorded on the MTA market in the five market trading days prior to the sale and must comply with the pricing rules envisaged in permitted market practices or current regulations. An exception to this price limit can be allowed in trading or sale of treasury*

shares (or pledging of the shares) if performed to implement business and/or commercial projects and/or are in any event in the interests of the Company or the LU-VE Group, or in the case of assignment and/or disposal, free of charge or against payment, of shares or associated options to directors, employees, collaborators or consultants of the LU-VE Group and, in general, to implement any plan for this purpose or plans to assign shares free of charge to shareholders;

- *the sale must be by the methods considered most appropriate to the interests of the Company, including disposal on the stock market, off-market or through swaps for investments or other securities as part of business and/or commercial projects and/or those in any event in the interests of the Company or Group, through the assignment and/or sale, free of charge or against payment, of shares or associated options in relation to (i) share-based payment plans pursuant to art. 114-bis of the Consolidated Law on Finance in favour of directors, employees, collaborators or consultants of the Company or its subsidiaries, (ii) the issue of financial instruments convertible to shares and (iii) plans to assign shares free of charge to Shareholders or via exchange tender offers.*

The authorisation to purchase and subsequently sell is considered granted also in relation to financial instruments linked to the shares;

- 4) *to authorise the Board of Directors to ensure all necessary or appropriate accounting entries in relation to the treasury share transactions, in compliance with current legal provisions and applicable accounting standards;*
- 5) *to grant the Board of Directors, and on its behalf the Chief Executive Officer, all due power to carry out the purchases and sales and in any event to implement the above resolutions, also through specifically-appointed powers of attorney, complying with all that is required by the competent authorities.”.*

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Uboldo, 27 March 2018

On behalf of the Board of Directors

The Chairman

Iginio Liberali