

**LU-VE S.p.A.**

**Via Vittorio Veneto 11 – 21100 Varese**

**Economic and Administrative Index no.: VA-191975**

**Tax Code: 01570130128**



# **REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURES**

pursuant to art. 123-bis of the TUF (Consolidated Law on Finance)  
(traditional administration and control model)

## **FY 2018**

approved by the Board of Directors of 22 March 2019

**LU-VE S.p.A.**

*Registered office:* Via Vittorio Veneto 11 – 21100 Varese

*Administrative office:* Via Caduti della Liberazione no. 53 – 21040 UBOLDO (VA)

[www.luvegroup.com](http://www.luvegroup.com)

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## GLOSSARY

**Meeting/Shareholders' meeting:** the shareholders' meeting of LU-VE.

**Shareholders:** the shareholders of LU-VE.

**Corporate Governance Code:** the Corporate Governance Code of listed companies approved in July 2018 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

**Civil Code/C.c.:** Italian Civil Code.

**Code of Ethics:** the code of ethics approved by the Board of Directors on 30 June 2016.

**Board/Board of Statutory Auditors:** the Board of Statutory Auditors of LU-VE.

**Committees:** the Risk and Control Committee and the Remuneration and Appointments Committee.

**Control and Risk Committee:** the Control and Risk Committee with responsibility for Transactions with Related Parties of LU-VE.

**Remuneration and Appointments Committee:** the Remuneration and Appointments Committee of LU-VE.

**Board of Directors/Board/BoD:** the Board of Directors of LU-VE.

**CONSOB:** Commissione Nazionale per le Società e la Borsa, the Italian financial markets regulator, with registered office in Rome, via G.B. Martini, no. 3.

**Framework Resolution:** resolution of the Board of Directors of 13 March 2017, in which LU-VE subscribed to the Corporate Governance Code.

**Financial year:** the company year from 1 January to 31 December 2018.

**Group/LU-VE Group:** LU-VE and its subsidiaries pursuant to art. 93 of the Consolidated Law on Finance and art. 2359 of the Italian Civil Code.

**Guidelines:** the "Guidelines for the identification and performance of the significant transactions of the LU-VE S.p.A. Group", approved by the Board of Directors on 8 February 2018.

**SCIGR Guidelines:** the "Guidelines of the Internal Control and Risk Management System of the LU-VE S.p.A. Group", approved by the Board of Directors on 21 September 2017.

**LU-VE/Company/Issuer:** LU-VE S.p.A., with registered office in Varese, via Vittorio Veneto no. 11.

**MTA:** the Mercato Telematico Azionario, the electronic equity market organised and managed by Borsa Italiana S.p.A..

**OPC Procedure:** the "Related Party Transactions Procedure", with the updated version adopted by the Board of Directors on 3 May 2017.

**Issuers' Regulation:** the Regulation issued by Consob by means of resolution no. 11971 of 1999 (as subsequently amended) regarding issuers.

**Consob Markets Regulation:** the Regulation issued by Consob by means of resolution no. 20249 of 2017 (as subsequently amended) regarding markets.

**Consob Related Party Regulation:** the Regulation issued by Consob by means of resolution no. 17221 of 12 March 2010 (as subsequently amended) regarding transactions with related parties.

**Report:** this report on corporate governance and ownership structures drafted by LU-VE pursuant to art. 123-bis of the Consolidated Law on Finance.

**Remuneration Report:** the "Remuneration report of LU-VE S.p.A." that the Company is required to draft annually in accordance with art. 123-ter of Legislative Decree no. 58 of 24 February 1998 and art. 84-*quater* of the Issuers' Regulation.

**Company's Articles of Association/Articles of Association:** the Articles of Association of LU-VE S.p.A. in force as at the date of this Report.

**Consolidated Law on Finance (TUF):** Italian Legislative Decree no. 58 of 24 February 1998.

# 1. COMPANY PROFILE

The LU-VE Group is among the biggest global manufacturers in the heat exchangers sector. It operates in various market segments: refrigeration (commercial and industrial); process cooling for industrial applications and “power generation”; air conditioning (civil, industrial and precision); glass doors and closing systems for refrigerated counters and windows.

The LU-VE Group (whose parent company is LU-VE S.p.A. has its operational headquarters in Uboldo in the province of Varese) is an international company with 12 production facilities in 8 different countries (Italy, China, India, Sweden, Poland, Czech Republic, Russia and USA), with a network of sales companies and representative offices in Europe, Asia, the Middle East and Oceania. The Group also contains a company responsible for Information and Communications Technology, the development of product calculation software and digitalisation. The Group boasts more than 2,600 qualified employees (of which more than 800 in Italy). 78.7% of products are exported to more than 100 countries.

In 2015, LU-VE completed one of the first combinations between an industrial company and a so-called “SPAC” (special purpose acquisition company, i.e. vehicle company, containing exclusively cash, established for the purpose of obtaining, through the placement of its financial instruments on the markets, the financial resources needed to acquire an operating company, to be used to implement a combination): in fact, LU-VE incorporated SPAC Industrial Stars of Italy S.p.A., with the simultaneous listing of its shares on AIM Italia, the Alternative Capital Market organised and managed by Borsa Italiana S.p.A..

LU-VE’s shares have been traded on the MTA (electronic equity market) since 21 June 2017.

LU-VE employs a traditional corporate governance system (so-called Latin model) which is characterised by the presence:

- of a *Board of Directors*, vested with the powers of ordinary and extraordinary management of the company; two committees have been set up in the Board of Directors (the Remuneration and Appointments Committee and the Control and Risk Committee with responsibility for Related Party Transactions) which, with an investigatory, advisory and proposal role, aim to improve the efficiency and effectiveness of the Board’s activities; the activities of the Board relating to the monitoring and implementation of the rules regarding corporate governance are also supported by the Internal Audit function;
- of a *Board of Statutory Auditors*, required to conduct monitoring activities to ensure that the company, in its operations: (i) respects the law and the Articles of Association; (ii) observes the principles of correct administration; (iii) for aspects within the competence of the Board, is equipped with an adequate internal control system and an adequate administrative-accounting system which is reliable in correctly representing management events; (iv) practically implements the rules of corporate governance set forth in the Corporate Governance Code which the company has communicated its compliance with, as well as those of any additional codes of conduct drafted by the management companies of regulated markets or by trade associations which the Company, through public disclosure, states that it adheres to; and (v) gives enough instructions to its subsidiaries for them to provide the Company with the necessary information for the fulfilment of the communication obligations set forth by law;

- of a *Shareholders' Meeting* which, in ordinary and extraordinary sessions, resolves on the matters reserved to it by law and the Articles of Association.

The independent audit is assigned to an audit company enrolled in the special register kept by CONSOB, appointed by the Shareholders' Meeting in accordance with the procedures required by prevailing national and European regulations.

The roles and responsibilities of the Board of Directors, of the Board of Statutory Auditors and the Shareholders' Meeting are best described later in this Report.

LU-VE is also the entity that exercises management and coordination activities over the Group companies, primarily through: (i) the formulation of Group business and commercial plans; (ii) the determination of the budget and the sharing of objectives and projects; (iii) the provision of information flows suited to the management and control requirements; (iv) the examination and approval of extraordinary or especially significant transactions; (v) the preparation of the financial policy guidelines (e.g. centralisation at Parent Company level of debt and liquidity investment transactions); (vi) the creation of central structures for the performance of some qualified functions for all Group companies; and (vii) the adoption of common codes of conduct.

The objective of the corporate governance system adopted by LU-VE is to ensure the correct functioning of the Company, first and foremost, and of the Group in general, as well as the enhancement, on a global scale, of the reliability of its products and, consequently, its reputation.

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The Company's shares started trading on 21 June 2017 on the Mercato Telematico Azionario (electronic equity market) organised and managed by Borsa Italiana S.p.A..

The Company has adhered to the Corporate Governance Code since its listing on the MTA and the Board of Directors has also adopted the Code of Ethics, which contains the ethical principles and general rules that characterise the organisation and the activities of the Issuer and of the Group, both internally and with respect to third parties.

As at the date of this Report, the Issuer is classified as a SME in accordance with article 1, paragraph 1, letter *w-quater*, 1) of the Consolidated Law on Finance and article 2-*ter* of the Issuers' Regulation. The above-mentioned provision of the Consolidated Law on Finance provides that an issuer is classified as an SME if at least one of the following requirements is met, to be calculated on the basis of the instructions provided under article 2-*ter* of the Issuers' Regulation: (i) sales revenue, even before admission to trading of its shares of less than Euro 300 million; (ii) market capitalisation of less than Euro 500 million. This provision of the Consolidated Law on Finance also provides that issuers who have exceeded both of the above-mentioned limits for three consecutive years may not be classified as SMEs.

The table below shows the thresholds to classify the Issuer as an SME, and more specifically, the value of the sales revenue and capitalisation for the years 2017, 2016 and 2015, as communicated to Consob for publication on the Internet site of the Authority.



Sales Revenue in Euro			Average capitalisation in Euro		
2017	2016	2015	2017	2016	2015
270,032,000	236,266,000	212,264,000	261,620,000	189,580,000	199,430,000

## 2. INFORMATION ON OWNERSHIP STRUCTURES AS AT 22 MARCH 2019

### A) STRUCTURE OF THE SHARE CAPITAL (PURSUANT TO ART. 123-BIS, PARAGRAPH 1, LETTER A), OF THE CONSOLIDATED LAW ON FINANCE)

LU-VE's share capital subscribed and fully paid-up, amounts to Euro 62,704,488.80, and is divided into 22,234,368 ordinary shares, all without nominal value, admitted to trading on the MTA.

The share capital is therefore composed exclusively of ordinary shares.

The Company has not issued financial instruments which entitle holders with the right to subscribe newly-issued shares.

The share capital structure of the Issuer as at 22 March 2019 is presented in Table 1, attached in the appendix to this Report.

### B) RESTRICTIONS ON TRANSFER OF THE SECURITIES (PURSUANT TO ART. 123-BIS, PARAGRAPH 1, LETTER B), OF THE CONSOLIDATED LAW ON FINANCE)

The Articles of Association do not make provision for any restriction on the transfer of securities, nor limits on share ownership or the need to obtain approval from the Company or other shareholders for the admission of shareholders to the shareholding structure.

### C) SIGNIFICANT EQUITY INVESTMENTS IN THE SHARE CAPITAL (PURSUANT TO ART. 123-BIS, PARAGRAPH 1, LETTER C), OF THE CONSOLIDATED LAW ON FINANCE)

Based on the communications received by the Company pursuant to art. 120 of the Consolidated Law on Finance, the entities that, directly or indirectly, are holders of stakes of higher than 5% in the subscribed and paid-up share capital are:

- Mr. Matteo Liberali, through the subsidiary Finami S.p.A., direct holder of 11,175,159 ordinary shares, equal to 50.26% of the Issuer's share capital;
- G4 S.r.l., direct holder of 3,905,112 ordinary shares, equal to 17.56% of the Issuer's share capital

as represented in Table 1, in the appendix to this Report.

## **D) SECURITIES THAT CONFER SPECIAL RIGHTS** (PURSUANT TO ART. 123-BIS, PARAGRAPH 1, LETTER D), OF THE CONSOLIDATED LAW ON FINANCE)

The Company has not issued any securities that confer special control rights, nor does the company Articles of Association provide special powers for some shareholders or holders of special categories of shares.

On 30 October 2018, the Shareholders' Meeting approved the proposal of the Board of Directors to introduce the "Increased voting rights" mechanism in accordance with the provisions of article 127-*quinquies* of the Consolidated Law on Finance, with consequent amendment of the articles of association which took effect from 1 January 2019.

As a result, shareholders (or others with voting rights) who expressly request, may subscribe to a "List" established by the Company in accordance with the provisions of article 143-*quater* of the Issuers' Regulation, which will allow for the attribution of two votes for each share registered on the List and held uninterruptedly for a 24-month period from the date of registration on the List.

For more information on the amendments to the articles of association, please refer to the illustrative report, available on the Internet site of the company [www.luvegroup.com](http://www.luvegroup.com), section "Investor Relations" – "Shareholders' Meetings documentation" - "Shareholders' Meeting of 30 October 2018".

The rules and regulations on the registration procedures for keeping and updating the List are in the "Rules for increased voting rights" adopted by the Board of Directors on 10 December 2018, which can be read on the Company's Internet website [www.luvegroup.com](http://www.luvegroup.com), section "Investor Relations" - "Increased Voting Rights".

In application of the provisions of article 143-*quater*, paragraph 5 of the Issuers' Regulation, the Company has always published the list of shareholders who have equity holdings of over 5% who have asked to be registered on the List in the above-mentioned section of its Internet website.

The table below shows the above-mentioned significant shareholders registered on the List on the date of this Report, and other registration were also made, even for equity holdings of less than 3%.

CONTROLLING PARTY	SHAREHOLDER	NO. OF ORDINARY SHARES	% SHARE CAPITAL	REGISTRATION DATE
G4 S.R.L.	G4 S.R.L.	1,955,112	8.793	17.01.2019
		1,950,000	8.77	21.01.2019
<u>Totale G4 S.r.l.</u>		<b>3,905,112</b>	<b>17.56</b>	
MATTEO LIBERALI	FINAMI S.P.A.	<b>11,175,159</b>	<b>50.26</b>	15.01.2019

As at the date of this Report, the right to increase the voting rights had not yet accrued on the shares registered on the List.

The Articles of Association do not contain provisions relating to the multiple-vote shares pursuant to art. 127-*sexies* of the Consolidated Law on Finance.

**E) SHARE HOLDINGS BY EMPLOYEES: EXERCISE OF THE VOTING RIGHT MECHANISM** (PURSUANT TO ARTICLE 123-BIS, PARAGRAPH 1, LETTER D) OF THE CONSOLIDATED LAW ON FINANCE)

The Articles of Association do not make provision for particular provisions relating to the exercising of voting rights by employees who hold Company shares.

**F) RESTRICTIONS ON THE RIGHT TO VOTE** (PURSUANT TO ARTICLE 123-BIS, PARAGRAPH 1, LETTER F) OF THE CONSOLIDATED LAW ON FINANCE)

The Articles of Association do not contain provisions that determine restrictions or limitations on voting rights, nor terms imposed for the exercising of voting rights, nor the separation of financial rights connected to securities from the ownership of the securities themselves.

**G) SHAREHOLDERS' AGREEMENTS** (PURSUANT TO ART. 123-BIS, PARAGRAPH 1, LETTER G), OF THE CONSOLIDATED LAW ON FINANCE)

During the year, there were a shareholders' agreement and a lock-up agreement in place, signed upon the merger between SPAC Industrial Stars of Italy S.p.A. and LU-VE (the "Merger") completed on 9 July 2015 ("Date of Effectiveness of the Merger"); these agreements were represented as follows:

a) the shareholders agreement between Finami S.p.A. ("Finami"), G4 S.r.l. ("G4"), Giober S.r.l. ("Giober") and Spaclab S.r.l. ("Spaclab") as shareholders of LU-VE on 30 June 2015 and subsequently amended on 16 February 2017, entered into force on 9 July 2015 and expired on 27 April 2018 (date of approval of the financial statements of LU-VE as at 31 December 2017 by the shareholders' meeting) which envisages some provisions relating to the corporate governance of LU-VE (the "Shareholders' Agreement").

b) the lock-up agreement signed on 30 June 2015 between Finami, G4, Giober and Spaclab, as shareholders of LU-VE and UBI Banca S.p.A. as the Company's Nominated Adviser, expiring on 9 July 2018, providing for restrictions on the transfer of the LU-VE securities by Finami S.p.A and G4 S.r.l. (the "LU-VE Lock-up Agreement").

The full versions of the *Shareholders' Agreement* and the *LU-VE Lock-up Agreement* were communicated to CONSOB and filed with the Varese Company Registration Office on 23 June 2017, and published on 24 June 2017 (i) with an excerpt on the national paper "*Milano Finanza*", (ii) on the website of the Company ([www.luvegroupp.com](http://www.luvegroupp.com) section "*Investor Relations*" – "*Capital and Significant Shareholders*" – "*Shareholders' Agreements*"), which should be referred to for further details and (iii) on the authorised "eMarket storage" mechanism ([www.emarketstorage.com](http://www.emarketstorage.com)).

Since the Company received communication of the expiry of both the above-mentioned shareholders' agreements during the year, at the date of approval of this Report, the Issuer was not aware of any agreements between shareholders relating to significant shareholder agreements pursuant to art. 122 of the Consolidated Law on Finance.

The news about the expiry of the Shareholders' Agreement on 27 April 2018 and the LU-VE Lock-up Agreement on 9 July 2018 were published by communication to the Varese Company Registration Office, and (i) published on the national paper "*Il Sole 24Ore*" on 28 April 2018 and 12 September 2018, (ii) on the website of the Company ([www.luvegroup.com](http://www.luvegroup.com) section "*Investor Relations*" – "*Capital and Significant Shareholders*" – "*Shareholders' Agreements*"), and (iii) on the authorised "eMarket storage" mechanism ([www.emarketstorage.com](http://www.emarketstorage.com)).

For further information please refer to the documentation available on the website [www.luvegroup.com](http://www.luvegroup.com) (section "*Investor Relations*" – "*Capital and Significant Shareholders*" – "*Shareholders' Agreements*"), and on the authorised "eMarket storage" mechanism ([www.emarketstorage.com](http://www.emarketstorage.com)).

## **H) CHANGE OF CONTROL CLAUSES** (PURSUANT TO ART. 123-BIS, PARAGRAPH 1, LETTER B), OF THE TUF) **AND STATUTORY PROVISIONS ON TENDER OFFERS** (PURSUANT TO ARTICLES 104, PARAGRAPH 1-TER, AND 104-BIS, OF THE TUF)

At the date of this Report, neither the Company, nor its subsidiaries, are party to significant agreements that are modified or are extinguished in the event of a change of control.

The Articles of Association do not make provision for any exception to the provisions on the so-called passivity rule (company obligation to abstain from carrying out any acts or transactions that may not be in keeping with the achievement of the take-over bid objectives), set forth in art. 104, paragraphs 1 and 1-bis of the Consolidated Law on Finance, nor to the neutralisation rules set forth in art. 104-bis, paragraphs 2 and 3 of the Consolidated Law on Finance.

## **I) AUTHORISATION TO RAISE THE SHARE CAPITAL AND TO PURCHASE TREASURY STOCK** (PURSUANT TO ART. 123-BIS, PARAGRAPH 1, LETTER M), OF THE CONSOLIDATED LAW ON FINANCE)

At the date of this Report, there were no authorisations of the Shareholders' Meeting to the Board of Directors to increase share capital.

The Shareholders' Meeting of 27 April 2018 revoked the previous authorisation of the Board of Directors to purchase treasury shares conferred by the Shareholders' Meeting of 12 April 2017 and conferred a new authorisation to the Board of Directors, pursuant to and in accordance with art. 2357 of the Italian Civil Code, for the purchase of treasury shares of the company, to acquire on one or more occasions, within 18 months from the date of the shareholders' meeting resolution, and therefore by 26 October 2019, treasury shares up to the achievement of a maximum quantity of 1,400,000 (one million four hundred thousand) ordinary shares; the purchase price of each of the treasury shares, to be established by the Board of Directors, must be, including accessory purchase expenses, as a minimum, no less than 20% (twenty percent) and, as a maximum, no more than 10% (ten percent) higher than the official trading price registered on the share listing market on the

open market day prior to the purchase and, in any case, compliant with the indications on determining the consideration set forth in the permitted market practice or applicable legislation.

At the same time, the shareholders' meeting also authorised the Board of Directors, pursuant to art. 2357 of the Italian Civil Code, to dispose of the treasury shares purchased by the company, with no time limit, on one or more occasions; notwithstanding that the minimum price limit of the sale to third parties must be as such not to entail negative economic effects for the company and, nonetheless, not lower than 95% (ninety-five percent) of the average of the official prices recorded on the share listing market in the five days of open market prior to the sale and, in any case, in compliance with the indications on determining the consideration set forth in the permitted market practice or applicable legislation; there may be an exception to this price limit, however, in cases of exchanges or transfers of treasury shares both as part of the implementation of industrial projects and/or nonetheless of interest to the company, and in the case of the assignment and/or transfer, for valuable consideration or gratuitous, of shares or related options in relation (i) to compensation plans based on financial instruments pursuant to article 114-bis of the Consolidated Law on Finance (for directors, employees, business partners, consultants of the Company or the subsidiaries), or (ii) to the issue of financial instruments that can be converted into shares, and (iii) to gratuitous Shareholder allocation programmes or through public offers of sale or exchange. The Shareholders' Meeting also determined that the disposal may take place according to the methods considered the most appropriate in the interest of the company, including therein the disposal on the stock market, out-of-market, or through the exchange with equity investments or other assets as part of industrial and/or commercial projects and/or, nonetheless, of interest for the company or the Group, assignment and/or transfer, for valuable consideration or free, of shares or related options in relation to the cases described above.

It should be noted that, by virtue of the purchases made by the Company based on the authorisations granted previously by the shareholders' meeting, on 27 April 2018, the Issuer held 141,930 treasury shares, equal to 0.6383% of its share capital, purchased at an average book value of Euro 10.3163 per share.

On that date, the Issuer's Board of Directors resolved, in compliance with the authorisation granted by the Shareholders' Meeting, a new programme for the purchase of treasury shares, for a duration of 12 months and therefore up until 26 April 2019, up to the achievement of a maximum number of 300,000 LU-VE shares (equal to 1.3493% of its share capital) to be acquired at a maximum purchase price of no more than Euro 16 per share, and which, including accessory purchase expenses, had to be, as a minimum, not less than 20% (twenty percent) and, as a maximum, no more than 10% (ten percent) of the official trading price registered on the share listing market on the open market day prior to the purchase and, in any case, compliant with the indications on determining the consideration set forth in the permitted market practice or applicable legislation.

During the year, LU-VE purchased a total of 19,911 treasury shares, of which 15,678 based on the authorisation granted by the Shareholders' Meeting on 27 April 2018.

As at 31 December 2018, LU-VE had a total of 157,716 treasury shares in the portfolio, equal to 0.7093% of its share capital, purchased at an average book value of Euro 10.2637 per share. In 2019 and up until the date of this Report, no further purchases were made of the treasury stock.

## **L) MANAGEMENT AND COORDINATION ACTIVITIES** (PURSUANT TO ARTICLE 2497 ET SEQ. OF THE ITALIAN CIVIL CODE)

LU-VE is not subject to management and coordination activities by parent company Finami S.p.A., nor any other entity, pursuant to articles 2497 et seq., given that (i) the industrial, strategic, financial and budget plans of the Group are approved autonomously by the Board of Directors; (ii) the financial and credit policy and functions such as the treasury, administration, finance and control are centralised at LU-VE; (iii) LU-VE operates with full business autonomy in managing relations with customers and suppliers; and (iv) in compliance with the principles of the Corporate Governance Code, the transactions of particular strategic, economic, equity and financial importance of the Group are reserved for the examination by the Board and exclusive approval of the Board of Directors.

\* \* \*

It should be noted that:

- the information required by art. 123-bis, paragraph 1, letter i) of the Consolidated Law on Finance (*“agreements between the company and the directors...which make provision for indemnities in the event of resignation or dismissal without just cause or if their employment contract ceases following a take-over bid”*) are contained in the Remuneration Report, published on the website of the Issuer on the address [www.luvegroup.com](http://www.luvegroup.com), in the section *“Investor Relations” “Corporate Governance” “Annual Reports” “2018”*;
- the information required by art. 123-bis, paragraph 1, letter l) of the Consolidated Law on Finance (*“the regulations applicable to the appointment and replacement of directors... as well as the modification of the articles of association, if different from the legislative and regulatory ones applicable additionally”*) is contained in paragraph 4.1 of this Report.

### **3. COMPLIANCE (PURSUANT TO ART. 123-BIS, PARAGRAPH 2, LETTER A), OF THE CONSOLIDATED LAW ON FINANCE)**

LU-VE follows the Corporate Governance Code (which can be accessed by the public on the website of the Corporate Governance Committee at page <http://www.borsaitaliana.it/comitato-corporate-governance/codice/2015clean.pdf>) and its corporate governance structure is organised in accordance with the recommendations in the above-mentioned Code and relative updates.

The application of the Corporate Governance Code was resolved by the Board of Directors with the adoption, at the meeting on 13 March 2017, of the Framework Resolution (which provides some exceptions indicated hereinafter in this Report, with the clarification of the reasons for not applying some of the recommendations set forth in the Corporate Governance Code as well as the other information requested), which were subsequently followed by a series of additional resolutions of the Board of Directors, targeted at the practical implementation of the criteria and principles dictated by the Code itself.

Neither LU-VE, nor its subsidiaries with strategic relevance (indicated in paragraph 4.3.3 below of this Report) are subject to non-Italian legal provisions that influence LU-VE's corporate governance structure.

## 4. BOARD OF DIRECTORS

### 4.1 APPOINTMENT AND REPLACEMENT (PURSUANT TO ART. 123-BIS, PARAGRAPH 1, LETTER L), OF THE CONSOLIDATED LAW ON FINANCE)

In compliance with the statutory provisions, the Company is administered by a Board of Directors composed of a minimum of 7 (seven) and a maximum of 15 (fifteen) members, according to the resolution of the Shareholders' meeting from time to time; the Directors are appointed for a period of no longer than 3 (three) financial years, they expire on the date of the Shareholders' Meeting called to approve the financial statements for the last year of their office and may be re-elected.

The Board of Directors is appointed on the basis of lists, in observance of prevailing legislation governing independent directors and gender balance.

The methods of presenting lists and appointment and voting proposals are governed by art. 20 of the Articles of Association, in compliance with the applicable legislation and regulations.

Pursuant to the statutory provisions:

- lists may be submitted by the incumbent Board of Directors and by shareholders who, at the time the list is submitted, hold alone or together with others, a share totalling at least 2.5% of the capital (share established by CONSOB with resolution no. 13 of 24 January 2019, in accordance with art. 144-quater and 144-septies, paragraph 1, of the Issuers' Regulation);
- individual shareholders, shareholders subscribing to a shareholders' agreement relating to the Company and of relevance pursuant to art. 122 of the TUF, the parent company, subsidiary companies and those subject to common control and other entities between which a direct or indirect association exists pursuant to applicable legislation and regulations in force at the time, cannot submit or contribute to the submission, not even through a third party or trust company, of more than one list or vote for different lists;
- each candidate may appear on one list only, otherwise they shall be considered ineligible;
- each list contains the names, indicated by a sequential number, of a number of candidates not exceeding the number of members to be elected;
- each list that contains a number of candidates no higher than 7 (seven) must include and identify at least 1 (one) candidate who meets the independence requirements established by applicable legislation and regulations in force at the time on the matter. Each list that contains a number of candidates higher than 7 (seven) must include and identify at least 2 (two) candidates who meet the independence requirements established by applicable legislation and regulations in force at the time on the matter. In the event of failure to comply with the above-mentioned obligations, the list shall be deemed not to have been submitted.
- for the period of application of the applicable legislation and regulations in force at the time on the matter of gender balance, each list that submits a number of candidates equal to or higher than 3 (three) must also include candidates belonging to both genders, so that at least one third



(rounded up) of candidates belong to the under-represented gender. In the event of failure to comply with these obligations, the list shall be deemed not to have been submitted;

- lists submitted must be filed at the Company's registered office, even using distance communication means as indicated in the notice of call, and made available to the public in accordance with the timeframes and procedures established by legislation and regulations in force at the time, accompanied by the certifications of the appointed intermediaries, the CVs of the directors in charge, the relevant declarations and statements required by the applicable legislation and regulations in force at the time and the Articles of Association.

The Board of Directors is elected in observance of the following statutory provisions:

- (a) no account is taken of lists that have not obtained at percentage at least equal to half of the percentage required for submission of lists;
- (b) from the list that obtained the highest number of votes, all the directors to be elected, except 1 (one), are taken, in the sequential order in which they are stated in the list, without prejudice to the provisions set forth below to ensure the presence of a suitable number of directors meeting the independence requirements and the gender balance in compliance with applicable legislation and regulations in force at the time on the matter;
- (c) the remaining director to be elected is taken from the list that obtained the second highest number of votes after the list referred to in letter (b) above, votes cast by shareholders who are not in any way associated, either directly or indirectly, pursuant to applicable legislation and regulations in force at the time, with the shareholders who submitted or voted for the list referred to in letter (b) above.

In the event of a tie between lists, the list submitted by shareholders holding the greater shareholding or, in the alternative, by the highest number of shareholders, shall prevail.

If, after voting has been completed a sufficient number of directors meeting the independence requirements established by applicable legislation and regulations in force at the time have not been elected, the last candidate who does not meet these requirements elected in the sequential order of the list that obtained the highest number of votes shall be excluded and shall be replaced by the first non-elected candidate from the same list who meets the aforesaid independence requirements following the sequential order. If necessary, this procedure shall be repeated until the number of independent directors to be elected has been reached. If at the end of this replacement procedure, the composition of the Board of Directors does not allow compliance with the minimum number of members meeting the independence requirements established by applicable legislation, the replacement shall be made by resolution passed by the Shareholders' Meeting by majority vote of those represented, subject to submission of candidatures of persons meeting said independence requirements. A similar procedure will be implemented if, at the end of the voting with the elected candidates, it has been ensured that the composition of the Board of Directors complies with applicable legislation and regulations in force at the time on gender balance.

If the number of candidates elected on the basis of the lists submitted is lower than the number of directors to be elected, the remaining directors shall be elected by the Shareholders' Meeting, deliberating by majority vote of those represented.

If only one list is submitted, the Shareholders' Meeting casts its vote on said list and, if it obtains the majority of votes represented at the Shareholders' Meeting, all the members of the Board of Directors shall be taken from said list. If no lists are submitted or only one list is submitted and it does not obtain the majority of votes represented at the Shareholders' Meeting or if the entire Board of Directors does not need to be renewed or if it is not possible for any reason to appoint the Board of Directors in accordance with the procedures established by this article, the members of the Board of Directors shall be appointed by the Shareholders' Meeting with ordinary procedures and majority vote of those represented, without applying the list voting mechanism, in compliance with applicable legislation and regulations in force at the time on the minimum number of directors who meet the independent requirements and gender balance.

As regards the replacement of directors, art. 20 of the Articles of Association also sets forth that:

- if, during the year one or more directors are no longer able to fulfil office, the Board of Directors arranges for their replacement by means of a resolution approved by the Board of Statutory Auditors, in compliance with applicable legislation and regulations in force at the time on gender balance, in accordance with the following:

- a) the Board of Directors arranges, where possible, for the outgoing director to be replaced by someone belonging to the same list and the Shareholders' Meeting deliberates, with the legal majorities, observing the same criterion;
- b) if there are no remaining candidates in the aforesaid list who were not previously elected or candidates with the necessary requirements or if for any reason it is not possible to comply with the provisions of letter a), the Board of Directors arranges for the replacement, and the Shareholders' Meeting arranges for the appointment, with the legal majorities and without list voting;

- in any case the Board of Directors and the Shareholders' Meeting shall arrange respectively for the aforesaid replacement and appointment, in compliance with applicable legislation and regulations in force at the time on gender balance and with the minimum number of board members meeting the independence requirements;

- instead of replacing the outgoing director, the Shareholders' Meeting is also entitled to decide to reduce the number of members of the Board of Directors.

It should be noted that, as regards the composition of the Board of Directors, legislative provisions of the sector other than the specific provisions of the Consolidated Law on Finance are not applicable.

With regards to the modification of the Articles of Association, each change must be adopted in observance of the applicable legislative and regulatory principles, with the specification that the Board of Directors is attributed the responsibility to resolve on the matters set forth in art. 2365, paragraph 2 of the Italian Civil Code, including therein adjustments of the Articles of Association into line with the regulatory provisions.

## Succession plans

In the Framework Resolution, the Board of Directors saw fit not to adopt a succession plan for executive directors given that the company management and members of the administrative body are chosen on the basis of competence, professionalism and knowledge of the company so that, in the event of the loss of one or more executive directors and until the new appointment and conferral of powers, the management can oversee the Company's ordinary operations and the Board of Directors the extraordinary operations of the Company.

### **4.2 COMPOSITION** (PURSUANT TO ART. 123-BIS, PARAGRAPH 2, LETTER D), OF THE TUF)

The composition of the Board of Directors in office at the date of this Report is reported in Table 2 attached in the appendix of this Report.

The administrative body composed as so was appointed by the shareholders' meeting on 10 March 2017 and shall remain in office until the date of the shareholders' meeting called to approve the financial statements for the year ended as at 31 December 2019. It should be noted that, at the date of the shareholders' meeting for appointment, the financial instruments of LU-VE were listed on the AIM Italia, the alternative capital market organised and managed by Borsa Italiana S.p.A.: therefore, art. 147-ter, paragraph 1-bis of the Consolidated Law on Finance, which requires the administrative body to be appointed on the basis of list voting, was not applicable to the company, nor was the provision of the appointment on the basis of lists contained in the Articles of Association of LU-VE in force at the time; therefore, the current Board was appointed by the Shareholders' Meeting based on a majority vote.

On 14 May last, Mr Attilio Arietti resigned as a non-executive director of LU-VE due to the addition of professional commitments (with the market informed by press release dated 15 May 2018). At the meeting of 23 May 2018, called to make the related and consequent resolutions regarding the above-mentioned resignation of Mr Arietti, the Board of Directors (as noted in the press release of said date) - after having first said that, for the reasons set out above, Mr Arietti had been appointed by majority vote, without application of the list voting mechanism - acknowledged and agreed with the opinion of the Remuneration and Appointments Committee of the Company regarding the size and composition of the Board of Directors, issued in accordance with the application criteria 5.C.1 letter (a) of the Corporate Governance Code, and decided not to co-opt any new members to replace the director Arietti and to ask the Shareholders' Meeting to decide whether to reduce the number of members of the Board of Directors in office from 13 to 12, or to appoint a new director to replace Mr Arietti up until the current term of office expires. The Shareholders' Meeting, held on 30 October 2018, upon proposal of the Board of Directors, decided to reduce the number of members of the Board of Directors from 13 to 12 for the remaining duration of the term of office.

The personal and professional characteristics of each director in office at the date of approval of this Report are reported below, also pursuant to art. 144-*decies* of the Issuers' Regulation.

- IGINIO LIBERALI – Chairman of the Board of Directors since 16 October 1985.

Mr. Iginio Liberali graduated in Economics and Commerce from the Catholic University of Milan in 1955. Employee at Necchi in Pavia from 1956 to 1976, he held various roles, before taking up the position of Manager of the Compressors Division. In 1976 he assumes the position of General

Manager of Merloni Elettrodomestici S.p.A. during a phase of major expansion in Italy and on the international market. He leaves the Merloni Group in 1985 to found LU-VE S.r.l, then transformed to a S.p.A. (joint-stock company), carrying out one of the first venture capital operations in Italy and acquiring the assets and trademark of Contardo S.p.A. in arrangement with creditors. He founded Mazzoni LB S.p.A. in Busto Arsizio in 1991, for the acquisition of Mazzoni S.p.A., which was bankrupt, returning it to a global leading position in the soap production machinery and plant sector, then selling it in 1999. During his tenure at the Merloni Elettrodomestici Group, he held the position of Associate Professor of International Commerce Technique at the faculty of Economics and Commerce of the University of Ancona and was also President of the Appliance Manufacturers Group of ANIE (National Association of Electrotechnical Companies). He was also the President of the Heat Exchangers Manufacturers Group of CECOMAF (Comité Européen Constructeurs Matériels Frigorifiques). He has been the Chairman of the LU-VE Board of Directors since 1985.

- PIER LUIGI FAGGIOLI – Vice President of the Board of Directors in office since 18 July 2014.

Mr. Pierluigi Faggioli, after graduating in Mechanical Engineering from the University of Bologna, started to work as an associate at Studio Viglino of Turin. After a long stint at Costan S.p.A. (1965-1990) in the role of Plant Manager, he founds the company Sest. In 1998 he also founds IMAP S.p.A and in 2001 contributes to the Sest expansion process, firstly through the incorporation of Sest LUVE Polska (2001) and then OOO Sest-LUVE (2006). From July 2014 he has held a stake in LU-VE through the company G4 and holds the role of Vice President of LU-VE.

- MATTEO LIBERALI – Chief Executive Officer, member of the Board of Directors since 15 July 2003.

Matteo Liberali graduated in Business Economics from the Luigi Bocconi Business University in Milan in 1991, and during his professional career, in 1999 and 2000 he completed a “Business Development” Master at the MIP of the Milan Polytechnic. From January 1992 for more than two years, he worked in the Milan office of independent audit firm Arthur Andersen & Co.. In September 1994 he started working at LU-VE with increasing levels of responsibility, up to his appointment to Head of Sales (2003) then General Manager (2008). Member of the LU-VE Board of Directors from May 2003. Following the process of restructuring of the shareholding structure of the LU-VE Group in 2014, he took up the role of Chief Executive Officer of the LU-VE Group in July 2014.

- MICHELE FAGGIOLI – Chief Operation Officer, member of the Board of Directors since 18 July 2014.

Michele Faggioli was an office worker from 1992 at the company Ferrara S.r.l. and, from 1993, in SEST. Subsequently, in SEST, he covered the position of Purchasing Manager, Human Resources and Organisation Manager of the company, as well as the role of Head of Operations. In January 2002, he became the General Manager of SEST, also assuming the position of Project Russia Manager in 2005 for the construction of the new production facility. In 2007, he was the Head of coordination and supervision of the activities of the Russian plant of the company OOO Sest-Luve. Then in 2008, he also became the Manager of coordination and supervision of the activities of the Polish plant of Sest-LUVE Polska. Since July 2014, he has been the COO of the LU-VE Group.

- GIOVANNI CAVALLINI – Independent director in office since 9 July 2015.

Giovanni Cavallini, engineer, graduated in Civil Engineering with honours at the Polytechnic of Milan in July 1974; between 1976 and 1978 he completed a Master in Business Administration (MBA) at Harvard Business School in Boston (USA).

He started to work at The Boston Consulting Group in 1978, a global leader in strategic advisory services, in the Paris office, with ever-increasing levels of responsibility. He is appointed Vice President and Partner of the company at global level in 1984. In 1985, he opens the Italian office of The Boston Consulting Group in Milan.

After leaving The Boston Consulting Group at the end of 1987, he commences entrepreneurial activities in January 1988, founding two companies in the large-scale retail trade with some shareholders: Società Iniziative Commerciali (S.I.C.), in which he holds the role of CEO, to develop large retail DIY centres, at the time with an insignificant presence in Italy, under the “MisterBrico” brand name, and Società Sviluppo Commerciale (S.S.C.), in which he is director, to develop shopping centres and hypermarkets in Italy, under the “Al Gran Sole” brand name. In December 1993, S.S.C. is transferred to the French large distribution group Carrefour, laying the foundations for Carrefour’s growth in Italy over subsequent years. Similarly, S.I.C. is transferred in June 1994 to the German large distribution group Tengelmann, which, starting with the acquisition of 14 large “MisterBrico” warehouses, will develop its DIY chain in Italy under the OBI brand name. In June 1994, Giovanni Cavallini, engineer, is appointed President of OBI Italia, a post he leaves in June 1996, to take up a managerial/entrepreneurial position at Interpump Group, which will be listed on the Milan Stock Exchange of the same year, in which Giovanni Cavallini held the position of CEO until 2005 and Chairman of the Board of Directors until April 2013.

In 2013, he was the promoter, together with Attilio Arietti of ISI which, having raised Euro 50 million, was admitted to the AIM Italia on 22 July 2013 and, then, was merged with LU-VE, now listed on the MTA of Borsa Italiana.

In 2016, he was the promoter, together with Arietti of Industrial Stars of Italy 2 S.p.A. which, having raised Euro 50.5 million, was admitted to the AIM Italia on 25 May 2016 and, then, was merged with SIT.

In 2017, he was the promoter, together with Attilio Arietti of Industrial Stars of Italy 3 which, having raised Euro 150 million, was admitted to the AIM Italia in October 2017.

Giovanni Cavallini, engineer, was independent director of Brembo S.p.A., high-tech mechanical group and of Ansaldo STS, company operating in the rail segment. Both companies are listed on the Milan Stock Exchange. In addition, since 29 April 2016 he has been an independent director of Davide Campari-Milano S.p.A..

In Turkey, he was independent Director of Migros T.A.S., the most important Turkish large distribution company (supermarkets and hypermarkets, with 710 points of sale), listed on the Istanbul Stock Exchange.

Giovanni Cavallini is also a partner of the Italian Association of Pupils of Harvard Business School and in June 2012 is appointed Cavaliere del Lavoro (Knight of Labour) by the President of the Italian Republic.

- MICHELE GARULLI – Non-executive director in office from 23 October 2008.

Michele Garulli, after graduating in Business Economics from the Luigi Bocconi Business University of Milan, started to work at Citibank Italia in 1984, in the Lending and Mergers & Acquisitions area, then holding the position of Vice President. From 1992, he was the director of the bank Morgan Grenfell in the Mergers & Acquisitions area and, from 1995, Director of Private Equity activities, setting up and managing a fund dedicated to investment activities. He was appointed director in the majority of investee companies in Italy: Konig S.p.A., SGD S.p.A., Piaggio S.p.A., Valli Zabban S.p.A., Motoride S.r.l.. Between 2002 and 2005, he worked at Investindustrial as Principal, overseeing investments in Italy and France. In 2006, he was the co-founder and CEO of Milano Capital Partners S.r.l., company active in Mergers & Acquisitions. From 2007 to 2014, he was responsible for the Mid-Corporate Equity Investment activities of Mediobanca, managing the bank's direct investments in the capital of Italian medium enterprises. He carries out advisory activities in Milan and deals, in particular, with advisory services for extraordinary finance transactions. He has been a Director of Alternative Capital Partners SGR since 2018.

- ANNA GERVASONI – Independent director in office since 10 March 2017.

Anna Gervasoni graduated in Economics and Commerce with honours at the Luigi Bocconi Business University in Milano in 1984, where she worked permanently until 2001 as Professor of Economics and Business Management and Corporate Finance.

She is currently full professor of Economics and Business Management at the Cattaneo University – LIUC, where she manages the University Master specialising in private equity and the “growth finance” research centre.

She is the General Manager of AIFI (Italian Association of Private Equity, Venture Capital and Private Debt) and member of the “Market participant and investors committee” promoted by Consob, and a member of the Borsa Italiana consultation committee.

She has held and continues to hold positions in the company bodies of listed and unlisted companies. She is currently an independent director of Banca Generali, Generfid, SOL, Fondo italiano d'investimento sgr.

She is a Chartered Accountant enrolled in the Register of Auditors.

She collaborates with several economic-financial newspapers and magazines and is the author of 50 publications regarding business development and finance.

- FABIO LIBERALI – Non-executive director in office since 23 October 2008.

Fabio Liberali is currently a member of the National Order of Journalists - Freelance Journalists List. He also holds the position of Board Director and Chief Communications Officer in the LU-VE Group.

He is the co-founder, joint owner and manager of communication, marketing, networking and promotional activities of eQuota, web platform for the management of on-line company finance.

From February 1995 to December 2017, he was editor-in-chief of the international bimonthly magazine “Elevatori – The European Elevator Magazine”. From January 2018, he has been a member of the Elevatori Magazine Technical Committee.

He periodically performs the role of coordinator, speaker and lecturer at universities, seminars, workshops, trade fairs, associative assemblies etc., Italian and international (in Germany, India, Italy, Poland and Turkey, etc.) on themes relating to vertical transport markets; he was correspondent for international industry magazines in Argentina, China, Germany, India, United Kingdom, Spain, Turkey and USA.

He is the joint holder of a TGD patent (no. 31537 filed on 22.03.2017) “Elevator cabin and similar with improved type communication and interactive functionalities”, first IoT product of the LU-VE Group.

From 2002, he is also Editorial Director of the on-line weekly version of “CUS Pavia News”. Editor and then Press Office Manager (March 1994/March 1997); Editorial Director (pro bono) “CUS Pavia News” (March 1997/April 2002).

In the 1996-2002 period, he was communication advisor for Fiera Milano SpA, Rassegne Spa and MADE Expo and was member of the Strategic Committee of Lift Expo / Fiera Milano - Reviews. In this area, he was responsible for international relations and contacts with the international media, manager of the communication plan and contacts with the national and international institutions in the sector (industrial associations, companies, professional orders and commercial and industrial bodies). Coordinator and organiser of international conferences and seminars.

Formerly advisor for communication of ANICA (National Association of Elevator Component Manufacturers).

Formerly scientific manager for Italy of “Elevcon 2002 – Milan”, 12th World Vertical Transport Technology Conference, organised by the International Association of Elevator Engineers.

He was the creator and team leader of “Italia Magnifica – Exhibition dedicated to Italian elevator excellence” at Interlift 2013 (first global industry trade fair).

He conceived, organised and coordinated the first two Italian Joint Pavilions, at the International Elevator and Escalator Expo in Mumbai (India).

- LAURA OLIVA – Non-executive director in office since 10 March 2017.

She is the CEO and co-founder of eKuota, fintech company for financial risk management.

She graduated in business economics from the Luigi Bocconi University of Milan, has more than fifteen years experience in capital markets.

She was Manager of Debt Capital Markets in the Allianz Group, worked for Italian and international merchant banks (including Deutsche Bank and Caboto) holding, from time to time, the role of global product specialist, manager of the structuring and placement of structured finance products, manager of syndicated loans and credit analyst. She is an expert in bond issues and securitisations and handles financial analysis and financial markets. She organised and managed loans and bond issues for the main Italian issuers, including: ENI, Exor, IFIL, Pirelli and Telecom Italia. She writes on financial markets and risk management in international magazines and on-line blogs, and is part of the Advocacy committee of CFA Society ICFAS - Italian Chartered Financial Analyst Association.

- STEFANO PALEARI – Independent director in office since 28 April 2015, appointed Lead Independent Director on 13 March 2017.

Stefano Paleari graduated in Nuclear Engineering with honours from the Milan Polytechnic in July 1990 and became a Management Engineering Researcher at the University of Bergamo in 1996. In 1998, he is Associate Professor in Economics and Business Organisation at the Milan Polytechnic and, in 2001, Full Professor of Analysis of Financial Systems in the Faculty of Engineering at the University of Bergamo. From October 2009 to 30 September 2015, he was the Dean of the University of Bergamo and from September 2013, for a two-year period, was the President of the Conference of Italian University Deans (CRUI). Stefano Paleari has held and holds a number of different positions: from March 2006, scientific director of ICCSAI (International Centre for Competitiveness Studies in the Aviation Industry); from January 2009 to December 2011, external examiner in the Master of Science in Air Transport Management in the Department of Air Transport of Cranfield University (UK); from June 2009, Airneth Academic Fellow and member of the Airneth Scientific Board, international group of the most representative academics in the field of air transport; from April 2013 has been a member of the board of the EUA European University Association. Stefano Paleari is also the author of numerous international scientific publications in the financial markets and air transport fields. From November 2016 to May 2018, he was President of the Committee for the coordination of the scientific project Human Technopole. He was appointed the Special commissioner of Alitalia S.p.A. on 2 May 2017. He has been an independent member of the Board of Directors of Industrial Stars of Italy 3 S.p.A. from 2018, listed on the AIM Italia.

- ROBERTA PIERANTONI – Non-executive director in office since 10 March 2017.

Roberta Pierantoni is an expert lawyer of corporate law and corporate governance for companies (listed and unlisted).

During the first few years of her career, she held the role of manager in the training segment in some public and private institutions, holding course administrator and coordinator roles of courses, masters, and national and international cultural events.

She has worked at the Legal and Tax Practice Biscozzi Nobili in Milan from 2005, where she was professionally trained by Raffaele Nobili; she operates primarily in the commercial and corporate law sector (providing advisory services and legal assistance to major listed groups, also during the listing process), contracts and arbitration (holding, among other things, the positions of presiding judge of the court of arbitration and single arbitrator in proceedings managed by the Milan Chamber of Arbitration).

She graduated in Law with full marks from the “Carlo Bo” University of Urbino, and is enrolled in the Urbino Register of Lawyers. She attended specialist courses on corporate governance and gender balance at the Faculty of Law in the University of Milan and at the European University of Rome.

She has worked, since June 2004, with the Chair of Commercial Law of Enrico Ginevra, firstly at the “Carlo Bo” University of Urbino (participating in the organisation of the Master in “Bank and financial markets law”) and, from 2005 to 2015 at the University of Bergamo, where she gave lectures on the reduction of share capital, on the responsibility of directors of S.p.A. companies (joint-stock companies) and on the regulation of listed companies; in 2008, she won an annual research grant relating to the scientific disciplinary sector IUS/04 – Commercial Law, at the



Department of Legal Science, conducting research on “The new regulation of take-over bids: the rule of neutralisation of preventive protection (so-called Breakthrough rule)”.

She is the author of real estate finance publications (SIIQ - listed real estate investment companies - and non-performing loans).

She is the speaker at seminars and conferences regarding listed companies, asset management companies, listed real estate investment companies (SIIQ), property funds, real estate and corporate governance.

She has held roles in the administrative bodies of companies (listed and unlisted); at present, in addition to being a director and member of the Remuneration and Appointments Committee of the Issuer, she is an independent director and member of the Appointment Committee of Banca Mediolanum S.p.A. (company listed on the MTA of Borsa Italiana), independent director of Safe Bag S.p.A. (company listed on the AIM-Italia market of Borsa Italiana), and member of the Supervisory Body pursuant to Legislative Decree 231/2001 of De' Longhi S.p.A. (company listed on the MTA of Borsa Italiana); since April 2018 she has been an independent director and member of the Committee for Control and Risks and Related Party Transactions of Italo - Nuovo Trasporto Viaggiatori S.p.A.

- MARCO VITALE – Non-executive director in office since 28 November 1985.

Prof. Marco Vitale, a business economist, has enjoyed an intense professional and teaching career at the University of Pavia, the Business University Luigi Bocconi in Milan, the Carlo Cattaneo University in Castellanza (VA) and at the management schools Istao in Ancona and Istud in Baveno (VB). Former shareholder of Arthur Andersen & Co., he is the founding partner and president of Vitale Novello & Co. S.r.l. (currently Vitale-Zane & Co. S.r.l.) in which he is the advisor and director of important companies. He was the co-founder and president of A.I.F.I. and co-founder and first president of the Arca Group, vice president of Banca Popolare di Milano and president of Bipiemme Gestioni SGR until 2008. He is the director of Banca Passadore of Genoa. He is director of the Adriano Olivetti Foundation and member of the ISVI (Italian Institute for Corporate Values) Scientific Committee. He held significant public offices and is the author of several books.

The directors Iginio Liberali, Pier Luigi Faggioli, Matteo Liberali, Michele Faggioli, Attilio Francesco Arietti, Giovanni Cavallini, Michele Garulli, Fabio Liberali, Stefano Paleari and Marco Vitale handed in their resignations on 16 February 2017, effective from the date of the shareholders' meeting which was to appoint a new administrative body, and were all reconfirmed in office by the shareholders' meeting on 10 March 2017.

No changes were made to the composition of the Board of Directors from the date of the close of the year until the date of this Report.

## **Diversity criteria and policies**

At the date of this Report, the company has not adopted a diversity policy in relation to the composition of the Board of Directors.

The Board of Directors saw fit not to adopt any policy regarding the diversity of its composition, in relation to aspects such as age, gender composition and the training and professional path taken,

with decision made at the meeting of 8 February 2018 and confirmed on 18 February 2019, based on the following reasons: (i) the choice of members of the company's administrative body rests, in the first place, with the shareholders' meeting for appointment; (ii) on said occasion, it is hoped that the choice of candidates in the lists to be presented for appointment primarily satisfies the criteria of competence, professionalism and knowledge of the company and of the market in which the company operates, rather than diversity policies relating to aspects such as age and the training and professional process, without prejudice to compliance with the legislation governing gender diversity.

The governing body currently in office was appointed by the Shareholders' Meeting of 10 March 2017 when the financial instruments of LU-VE were listed on the AIM Italia, the alternative capital market organised and managed by Borsa Italiana S.p.A.: therefore the Company had not yet adopted the Corporate Governance Code, and paragraph 1-ter of article 147-ter of the Consolidated Law on Finance did not apply to it, which provides that directors must be appointed on the basis of criteria that ensure gender balance, and the provision of making appointments that respect gender balance was not in the Articles of Association of LU-VE in effect at the time; therefore the current Board was appointed by the Shareholders Meeting by majority voting and a fifth of its members belong to the less represented gender.

However, as described in the general section of this paragraph 4.2 of this Report, the LU-VE Articles of Association in effect as at the date of this Report provide, in accordance with applicable laws, adequate mechanisms to ensure that a third of the members who will be elected upon renewal of the current board will belong to the less represented gender.

The Issuer also pursues policies of equality of treatment and opportunity between the genders in its corporate organisation, as defined in its Code of Ethics, available on the Internet website of the Issuer at [www.luvegroup.com](http://www.luvegroup.com), in the section "*Investor Relations*" "*Corporate Governance*" "*Corporate documents*".

All work positions, for any position in the Group, are open to candidates from both genders, and professional development policies are managed on the basis of merit.

32% of the employees are women. The gender divide is mainly due to the specific nature of the business which mainly attracted male professionals, especially in past years.

## **Maximum accumulation of offices**

The Board of Directors, by means of the Framework Resolution, confirmed at the last meeting on 19 February 2019, resolved not to acknowledge application criterion 1.C.3 of the Corporate Governance Code, which requires the Board to express its guidance on the maximum number of offices of director or statutory auditor in companies listed in regulated markets, including overseas, and in financial companies, banks, insurance companies or large companies which may be considered compatible with effective fulfilment of the engagement of director of the issuer, taking account of the directors' participation in the committees set up within the Board.

In fact, the Board saw fit not to express said guidance, as it relates to an evaluation that rests, first and foremost, with the shareholders at the time of appointment of the directors and, subsequently, the individual director at the time of acceptance of office.

In compliance with application criterion 1.C.2. of the Corporate Governance Code, the table below reports the offices of director or statutory auditor currently held by some directors in third party companies, listed in regulated markets, including overseas, and in financial companies, banks, insurance companies or large companies (with these referring to “large companies” as defined by paragraph 1, letter f) of article 144-*duodecies* of the Issuers’ Regulation) at the date of this Report.

FIRST NAME AND SURNAME	COMPANY	OFFICE HELD
Giovanni Cavallini	Campari S.p.A. (listed)	Independent Director
	SIT S.p.A. (listed)	Director
Michele Garulli	Alternative Capital Partners SGR S.p.A. ( <i>financial</i> )	Director
Anna Gervasoni	Banca Generali S.p.A. (bank)	Independent Director
	Sol S.p.A. (listed)	Independent Director
	Fondo Italiano Investimenti SGR (significant)	Independent Director
	Generfid S.p.A. (significant)	Independent Director
Stefano Paleari	Alitalia S.p.A. (significant)	Special commissioner
Roberta Pierantoni	Banca Mediolanum S.p.A. ( <i>listed bank</i> )	Independent Director and member of the Appointments Committee
Marco Vitale	Ermenegildo Zegna Holding Italia S.p.A. (significant)	Director
	Smeg S.p.A. (significant)	Director

## Induction Programme

In relation to application criterion 2.C.2 of the Corporate Governance Code (which requires the company to allow directors and statutory auditors, during their mandate, to participate in initiatives targeted at providing them with adequate knowledge, inter alia, of the reference regulatory and self-regulation framework), it should be noted that, in the Board’s opinion, Board disclosures, owing to their contents and frequency, allow directors to obtain adequate knowledge of the business sector in which the LU-VE Group operates, the company trends and their developments, the principles of correct risk management as well as the associated reference regulatory framework. In particular, during the meetings of the Board of Directors that are held at the company’s administrative headquarters during the year, the directors received constant insights on each specific sector in which the LU-VE Group carries out its activities, in order to best understand the company trends underlying the business and the relevant developments that have taken place during the year.

In addition to the above, on 24 July 2018, the members of the Board, along with the members of the Board of Statutory Auditors, received from the Director, Roberta Pierantoni, lawyer - who has acquired in-depth knowledge on the subject over the course of her career - a comprehensive information report on the characteristics and the law governing the increased voting right mechanism, with introduction of this subsequently proposed to the Board Meeting of 25 September 2018.

On the same date, the Chief Executive Officer, Matteo Liberali, for the benefit of all members of the Board and the Board of Statutory Auditors, provided an analysis of the types of product and characteristics of the core markets.

### **4.3 ROLE OF THE BOARD OF DIRECTORS** (PURSUANT TO ART. 123-BIS, PARAGRAPH 2, LETTER D), OF THE TUF)

#### **4.3.1 Functioning of the Board of Directors**

LU-VE's Board of Directors holds a central role in determining the strategic objectives and managing the Company and the Group.

The Board of Statutory Auditors met 10 times during the year, with the meetings lasting an average of two and a quarter hours.

The Board meetings were regularly and diligently attended by the directors; the details of the participation of each director in the Board meetings are contained in Table 2 attached in the appendix to this Report.

The Financial Reporting Manager and the Manager of Legal and Corporate Affairs of the Group regularly took part in the meetings of the Board of Directors, in addition to the Head of the Group Internal Audit department if the issues being discussed warranted his/her presence.

Six meetings are planned for the current year, 2 of which (including the one for approval of this Report) have already been held.

The items on the agenda are normally illustrated - also on the basis of the documentation distributed beforehand, according to the term set by the Board of Directors as per the recommendation of the Corporate Governance Code, set out below, and filed in the company's records - by the Chairman of the Board of Directors or the CEO responsible for the matter, or by the Chairman of the competent Committee for the matter. Following the presentation, the debate opens, with speeches by the directors in order to pose questions to the writer or provide suggestions or food for thought: the heterogeneous competences of the members of the Board of Directors make it possible to analyse and examine in-depth the items on the agenda from various perspectives, enriching Board discussions which is the prerequisite for each contemplated and fully-informed decision. The person chairing the meeting ensures that the necessary time is dedicated to the items on the agenda to allow constructive debate.

Pre-Board meeting disclosures are guaranteed through the electronic distribution of all the documentation relating to the items on the agenda of the meeting of the Board of Directors. It should also be noted, in this regard, that in compliance with application criterion 1.C.5., based on the Framework Resolution, the company's Board of Directors determined, at least 2 days before the

meeting (except in urgent cases), the corresponding notice for the transmission of the documentation to the directors. In the meetings held after said determination, the term indicated by the Board was respected.

At the annual board evaluation where the results were examined at the board meeting of 19 February 2019, the Board of Directors - with respect to the pre-meeting information - decided that if the 2 days before the Board meeting did not include holidays, and there was a significant amount of documentation, it could be sent earlier than 2 days beforehand. At the same meeting, the Directors also expressed their unanimous appreciation for the willingness of the Chairperson of the Board of Directors and the Chief Executive Officers to deal with the topics on the agenda thoroughly, providing all the information requested to add to the information received as documents.

### 4.3.2 Powers reserved to the Board of Directors

The Board of Directors is vested exclusively with the powers of ordinary and extraordinary management of the company, with the right to carry out all the acts, including acts of disposal, that it considers appropriate for the pursuit of the corporate purpose, with the sole exception of those that the law expressly reserves to the Shareholders' Meeting.

The Board of Directors is also responsible for resolutions on the following matters: (a) setting up or closing down secondary establishments; (b) specifying which directors have the power to represent the Company; (c) reducing the share capital in the event of shareholder withdrawal; (d) relocation of the registered office within national territory; (e) merger of the Company in the cases established by Articles 2505 and 2505-*bis* of the Italian Civil Code also insofar as cited, for reverse merger, by Article 2506-ter, last paragraph, of the Italian Civil Code; and (f) adapting these Articles of Association to comply with legislative provisions. The fact that these responsibilities have been assigned to the Board of Directors does not exclude the concurrent responsibility of the Shareholders' Meeting for the same matters.

In relation to application criteria 1.C.1 and 7.C.1, acknowledged on the basis of the Framework Resolution, the Board of Directors decided to reserve to its own competence not only the matters established by law or the Articles of Association, but all the competences indicated in application criterion 1.C.1 of the Corporate Governance Code, including therein that of identifying, based on prior determination of the relative criteria, the subsidiaries of strategic relevance, as well as, with the help of the Control and Risk Committee, those indicated in application criteria 7.C.1 of the Corporate Governance Code; the Board of Directors is also attributed the competences regarding the remuneration of executive directors and Key management personnel pursuant to art. 6 of the Corporate Governance Code.

The Board of Directors is therefore required to:

- a) examine and approve the strategic, industrial and financial plans of the issuer and of the Group it heads up, by periodically monitoring their implementation; defining the corporate governance system of the Issuer and the Group structure;
- b) define the nature and level of risk compatible with the Issuer's strategic objectives, including in its evaluations all risks that may be significant in terms of the medium/long-term sustainability of the Issuer's activities;

- c) based on prior determination of the relative criteria, identifying the companies of strategic relevance; evaluating the adequacy of the organisational, administrative and accounting adequacy of the issuer as well as of the subsidiaries of strategic relevance, with particular reference to the internal control and risk management system;
- d) establishing the frequency, nonetheless, no more than quarterly, according to which the delegated bodies must report to the Board on the activities performed in exercise of the powers conferred;
- e) evaluating the general operating performance, taking into consideration, in particular, the information received from the delegated bodies, as well as periodically comparing the results achieved with those planned;
- f) resolving on the transactions of the Issuer and its subsidiaries, when these transactions are of significant strategic, economic, equity or financial relevance for the issuer itself; to this end, the Board of Directors establishes the criteria for identifying the significant transactions;
- g) carrying out, at least once per year, an assessment of the functioning of the Board and its committees, as well as their dimension and composition, also taking account of elements such as professional characteristics, experience, including managerial, as well as of their length of office; taking account of the outcomes of the assessment, expressing an opinion to the shareholders, before the appointment of the new Board, on the professionals whose presence in the Board is considered appropriate; in particular, evaluating the existence of the requirements of enforceability, non-enforceability and independence required by the Corporate Governance Code, ensuring the presence of a number of executive directors, non-executive directors and independent directors in conformance with the application criteria outlined in the Code itself;
- h) providing information, in the corporate governance report: (1) on its composition, indicating, for each member, the qualification (executive, non-executive, independent), the position held in the Board, the main professional characteristics as well as the length of office from the first appointment; (2) on the methods of application of art. 1 of the Corporate Governance Code and, in particular, on the number and average duration of the meetings of the Board and of the executive committee, where present, held during the year as well as on the percentage of attendance of each director; (3) on the methods of performance of the evaluation process set out in previous letter g);
- i) adopting, on the proposal of the Chief Executive Officer appointed or the Chairman of the Board of Directors, a procedure for the internal management and external communication of documents and information concerning the issuer, with particular reference to inside information.

The Board of Directors is also required, with the help of the Control and Risk Committee, to:

- a) define the guidelines of the internal control and risk management system, to ensure that the main risks relating to the issuer and its subsidiaries are correctly identified, as well as adequately measured, managed and monitored, also determining the degree of compatibility of said risks with company management that is consistent with the strategic objectives identified;

- b) internally identify one or more directors responsible for the internal control and risk management system;
- c) evaluate, at least annually, the adequacy of the internal control and risk management system with respect to the characteristics of the company and the risk profile assumed, as well as its effectiveness;
- d) approve, at least annually, based on the prior opinion of the Control and Risk Committee, the work plan prepared by the manager of the Internal Audit function, having consulted the Board of Statutory Auditors and the director responsible for the internal control and risk management system;
- e) describe, in the corporate governance report, based on the prior opinion of the Control and Risk Committee, the main characteristics of the internal control and risk management system, expressing its judgment on the adequacy of the same;
- f) evaluate, based on the prior opinion of the Control and Risk Committee and having consulted the Board of Statutory Auditors, the results reported by the auditor in any letter of suggestions and in the report on the fundamental issues to emerge during the audit.

In relation to art. 6 of the Corporate Governance Code, the following responsibilities are also reserved to the Board of Directors:

- a) examining the proposals of the Remuneration and Appointments Committee, having consulted the Board of Statutory Auditors, determining the additional remuneration of the Chairman and the Vice Chairman and the Chief Executive Officer, and other directors holding special offices; the Board of Directors also determines the fee to be paid to directors for participating in Board committees;
- b) defining, on the proposal of the Remuneration and Appointments Committee, the company Remuneration Policy;
- c) approving the Remuneration Report, pursuant to art. 123-*ter* of the TUF (Consolidated Law on Finance);
- d) preparing, with the help of the Remuneration and Appointments Committee, the remuneration plans based on shares or other financial instruments, and presenting them to the shareholders' meeting for approval, pursuant to art. 114-*bis* of the TUF (Consolidated Law on Finance) and, based on an authorisation of the shareholders' meeting, handling its implementation by availing itself of the Remuneration and Appointments Committee;
- e) preparing, with the help of the Remuneration and Appointments Committee, the medium/long-term "cash" incentive plans and handling their implementation by availing itself of the Remuneration and Appointments Committee;
- f) establishing the Remuneration and Appointments Committee within the Board itself, in observance of the principles indicated in the Corporate Governance Code.

In line with the governance of the company, the Board of Directors is also responsible for:

- a) defining the objectives and approving the company results and the performance plans to which the determination of the variable remuneration of directors is related, where applicable;
- b) approving the general criteria for the remuneration of key management personnel identified by the Board itself;
- c) defining, on the proposal of the director responsible for the Internal Control and Risk Management System, and based on the opinion of the Control and Risk Committee, the structure of the remuneration of the Manager of the Internal Audit function, in accordance with the salary policies of the company and based on the prior favourable opinion of the Control and Risk Committee, as well as having consulted the Board of Statutory Auditors.

In relation to application criterion 1.C.1. of the Corporate Governance Code, as part of the Framework Resolution, the Board of Directors formally reiterated the principle that the delegated bodies report to the Board on the activities carried in exercise of the powers conferred at least on a quarterly basis, all in compliance with the applicable provisions of the law and the Articles of Association. It should be noted that, in observance of the OPC Procedure, the delegated bodies provide a complete disclosure at least quarterly to the Board of Directors and Board of Statutory Auditors on the performance of related party transactions.

#### 4.3.3. Activities of the Board of Directors

In implementation of the principles and responsibilities described above, the Board of Directors:

- a) examined and approved the strategic, industrial and financial plans of the Issuer and of the Group, periodically monitoring their implementation; in particular, on 8 February 2018, it approved the 2018-2021 business plan for the Group, whose implementation is periodically evaluated, and on 19 February 2019 it approved the 2019-2022 business plan of the Group in order to enable the impairment test to be carried out on the goodwill recorded in the financial statements;
- b) defined the nature and level of risks compatible with the strategic objectives identified, most recently at the meeting on 22 March 2019;
- c) evaluated the adequacy of the organisational, administrative and general accounting structure of the Issuer and the subsidiaries of strategic relevance, most recently at the meeting of 22 March 2019, during which the annual financial report as at 31 December 2018 was approved. This was carried out with the help of the Control and Risk Committee which, at its meetings, was able to continuously verify the effective functioning of the Internal Control and Risk Management System of both the Issuer, and of the Group, expressing a favourable opinion on a half-yearly basis, at the meetings of the Board of Directors for approval of the half-yearly financial report and of the annual financial report (at the meetings on 25 September 2018 and 22 March 2019 respectively).

With reference to the **subsidiaries of strategic relevance** of the LU-VE Group, it should be noted that the Board of Directors identified them, firstly at the meeting of 13 March 2017 and most recently at the meeting of 22 March 2019, confirming the following companies as such: Sest S.p.A., with registered office in Italy; Heat Transfer System s.r.o., with registered office in



the Czech Republic; SEST-LUVE- Polska SP.z.o.o., with registered office in Poland; OOO SEST-LUVE, with registered office in Russia; Spirotech Heat Exchanger Pvt. Ltd., with registered office in India.

This identification took account of the satisfaction of at least three of the following size-related, qualitative and organisational parameters, as indicated in the SCIGR guidelines (approved by the Board of Directors at the meeting on 21 September 2017);

1. volume of turnover of no less than Euro 20 million;
2. value of balance sheet assets of no less than Euro 5 million;
3. strategic relevance of the range of products created by the subsidiary or the current and potential markets in which these products are sold;
4. presence of a clear organisational structure, characterised by the presence of a number of employees of no less than 120;

- d) at the meeting on 8 February 2018, guidelines were approved that contain precise criteria for the identification of the transactions entered into with third parties, including through subsidiaries, which, in terms of their economic, capital or financial significance, must first be examined and approved by the Board of Directors;
- e) at the meeting on 3 May 2017, the OPC Procedure was approved, targeted at identifying the transactions realised with related parties by the company and/or its subsidiaries, regulating their implementation processes, in order to ensure their substantive and procedural correctness, as well as the proper information to the market. In this regard, it should be noted that, given LU-VE can classify itself as a “small company” pursuant to art. 3 of the Consob Regulation on Related Parties, and as long as it can qualify itself as such, the Issuer avails itself of the exemption set forth in art. 10 of the Consob Regulation on Related Parties, adopting the same procedure of instruction and approval of all related party transactions (not within the competence of the Shareholders’ Meeting) of Shareholders, without distinguishing those of greater relevance from those of minor relevance;
- f) periodically evaluated (with frequency of no less than quarterly), most recently on 22 March 2019, the general operating performance, taking into consideration the information received from the appointed directors, and comparing the results achieved with those planned;
- g) conducted, at the meeting on 19 February 2019, an assessment of the size, composition and functioning of the Board of Directors and its committees (board evaluation or board review). For the purposes of said evaluation, the directors were presented with a questionnaire, regarding: (i) the adequacy of the size and composition of the Board body for Company transactions, also with reference to the professionals present in the Board; (ii) the ratio between the total number of Board members and the number of non-executive and/or independent directors; (iii) the competences of the Directors and, in particular, the independent directors; (iv) the functioning of the administrative body and the Committees; (v) the adequacy of the rules of corporate governance of the Company for the purpose of ensuring the management of the company and the Group according to existing national and international best practices; (vi) the promptness and completeness of the information and the

documentation transmitted to members of the Board and the committees prior to the respective meetings; (vii) the adequacy and completeness of the information provided by the delegated bodies during the board meetings and, finally, the evaluation of the independence requirements, based on the legal provisions and the Corporate Governance Code. The results of the questionnaires were submitted for the examination and assessment of the Lead Independent Director, Stefano Paleari; the aggregate data and the observations reached as a result of the self-evaluation activities were collected into a file which was sent to the directors who, at the meeting of 19 February 2019, examined and discussed the outcomes of the self-evaluation process, in this regard also taking into account the recommendations formulated on the matter by the Chairman of the Corporate Governance Committee promoted by Borsa Italiana S.p.A. in the letter of 21 December 2018 sent to all listed companies. There was a positive assessment of the improvements made in applying the recommendations of the Corporate Governance Code and the functioning of the committees and skills of the independent directors; the willingness of the Chairperson of the Board of Directors and the CEO's to provide all the information and reasons underlying the decisions made by the Board was appreciated; the greater complexity of risk was understood, and the need to focus further on the induction in the applicable sector, and the related aspects of technological innovation. Taking account of the results of what emerged during the discussion, the Board of Directors expressed its appreciation of its function and the Committees it established, recommending greater efforts to be made to ensure the pre-board meeting documentation is sent more promptly, including by adopting board management instruments.

During said meeting, the existence of the independence requirements set forth in the combined provisions of article 147-ter, paragraph 4 and article 148, paragraph 3 of the Consolidated Law on Finance and art. 3 of the Corporate Governance Code were also verified, as well the requirements of enforceability and non-enforceability relating to each director.

#### 4.3.4 Non-compete obligation

Art. 15.3 of the Articles of Association sets forth that, unless otherwise decided by the Shareholders' Meeting, directors are bound by the non-compete obligation set forth in art. 2390 of the Italian Civil Code.

The Shareholders' Meeting of 10 March 2017, at the time of appointment of the new Board of Directors, did not derogate from said provision.

### 4.4 EXECUTIVE BODIES

The Board of Directors carries out activities not only directly and jointly, but through:

- the Chairman,
- the CEOs Matteo Liberali and Michele Faggioli.

The powers attributed by the Board of Directors to the Chairman and the CEOs of 13 March 2017 are reported below.

- The Chairman, IGINIO LIBERALI has all the powers of ordinary and extraordinary administration, to be exercised with sole signing authority, and with the right to sub-delegate for single acts or categories of acts, with the sole exclusion, of not only the powers that cannot be delegated in

accordance with the law and the Articles of Association, but the competences reserved to the Board of Directors and the Shareholders' Meeting by the Corporate Governance Code and the Guidelines.

• The Chief Executive Officer, MATTEO LIBERALI, in relation to which the interlocking directorate situation does not occur, pursuant to application criterion 2.C.5 of the Corporate Governance Code, was attributed the following: (i) the qualification of "Chief Executive Officer - CEO" of the LU-VE Group; (ii) management of the following company areas: Administration and Finance, Sales, Communication, Marketing, Human Resources, Information Technology, Management Control, Research and Development; and (iii) the powers described herein, always with the exception of those reserved exclusively to the Board of Directors or the Shareholders' Meeting by the articles of association, the law, the Corporate Governance Code and the Guidelines<sup>1</sup>:

- opening and managing, at any bank and other institutions, current accounts in the company's name, making use of them, including in overdraft form, via letter, credit transfer, through the issue of cheques, or through other payment or collection methods, for amounts of up to Euro 500,000.00 (five hundred thousand) per individual transaction with single signature. For higher amounts, but not exceeding Euro 1,000,000.00 (one million), with joint signature with Eligio Macchi. As partial derogation to the provisions of this point, for fund transfer transactions between accounts in the company's name held at various banks or other institutions, the powers are attributed for amounts of up to Euro 1,000,000.00 (one million) per individual transaction with single signature;
- requesting and agreeing with banks or other institutions, also medium-term, loans, current account advances, discounts of bills, advances on exports and imports and similar operations, completing the associated procedures, and any other financial coverage operation, for amounts of up to Euro 500,000.00 (five hundred thousand) per individual transaction with single signing authority. For higher amounts, but not exceeding Euro 1,000,000.00 (one million), with joint signature with Eligio Macchi;
- negotiating and stipulating, with banks or other institutions, factoring and receivables assignment contracts, completing the associated procedures, for amounts of up to Euro 2,000,000.00 (two million) per individual transaction with single signature. For higher amounts, but not exceeding Euro 5,000,000.00 (five million), with joint signature with Eligio Macchi or Michele Faggioli;
- requesting and transferring banker's drafts for amounts of up to Euro 500,000.00 (five hundred thousand) per individual transaction with single signature. For higher amounts, but not exceeding Euro 1,000,000.00 (one million), with joint signature with Eligio Macchi.
- issuing, accepting, endorsing, transferring, both for discount and collection, as well as issuing receipts for any types of bill, certificates of credit, bills of exchange, etc. for amounts of up to Euro 1,000,000.00 (one million) per individual transaction with single signature. For higher

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<sup>1</sup> It should be noted that Matteo Liberali is also a point of contact of Michele Faggioli in the following company areas: Production, Purchasing, Logistics, Mechanical Design, Technologies, Planning, Technical Department, Quality Control.

amounts, but not exceeding Euro 1,500,000.00 (one million five hundred thousand), with joint signature with Eligio Macchi;

- opening postal current accounts and making use of them through the issuing of postal transfers and postal cheques, for amounts of up to Euro 500,000.00 (five hundred thousand) per individual transaction with single signature. For higher amounts, but not exceeding Euro 1,000,000.00 (one million), with joint signature with Eligio Macchi;
- signing the necessary documents for the issuing in favour of third parties of sureties, performance bond and corporate guarantees, also in the interest of subsidiaries, for amounts of up to Euro 200,000.00 (two hundred thousand) per individual transaction with single signature. For higher amounts, but not exceeding Euro 500,000.00 (five hundred thousand), with joint signature with Eligio Macchi;
- arranging, on behalf, in the name and in the interest of the Company, for the collection, release and withdrawal of all sums, all values that are due to the Company for any reason from any party and from the Government Administrations, the Municipalities, the Deposits and Loans Fund, Provincial Treasuries of the State, the Italian Revenue Agencies, Collection Agents, Regional Department of the Revenue Agency, Consortia, as well as Banks and Credit Institutions, including that of the issuing and therefore collection of mandates that have already been issued or which are to be issued by the aforementioned Administrations and above-mentioned Offices and Institutions, both in relation to deposits made by said company, and any other clauses or title, issuing, in the name of the Company, the corresponding declarations of receipt or discharge, and in general, all declarations that may be requested at the time of the performance of individual procedures, including the exoneration of the above-mentioned Offices, Administrations and Institutions of any liability in this regard, with the right to indicate the person or persons appointed to carry out the transactions at the Entities already indicated;
- arranging for payments to suppliers of goods and services, on the contractually agreed expiry dates, for amounts of up to Euro 500,000.00 (five hundred thousand) per individual transaction with single signature. For higher amounts, but not exceeding Euro 1,000,000.00 (one million), with joint signature with Eligio Macchi;
- representing the company in proceedings before the Judicial Authorities (ordinary, administrative and special), including in transnational courts, and in arbitration proceedings. Representing the company before administrative/financial and tax offices and before any level of tax commissions;
- representing the company in checks and tax inspections;
- signing the tax returns set forth in Presidential Decree no. 322 of 12 July 1998, as well as any other communication and/or document set forth in other tax provision. Signing the certificates pursuant to art. 7 bis of Presidential Decree no. 600/1973;
- stipulating insurance contracts for fire/theft/civil liability/transport and risks of any kind, for a duration of no more than 2 years, signing the associated policies for amounts of up to Euro 500,000.00 (five hundred thousand) per individual transaction with single signature. For

policies for higher amounts, but not exceeding Euro 1,000,000.00 (one million), with joint signature with Michele Faggioli. Doing everything necessary to settle claims;

- collecting valuables, packages, letters including registered and insured, as well as ordinary and telegraphic postal orders, at the Post and Telegraphic Offices, as well as nominating special agents for carrying out the above functions;
- carrying out any act or transaction at rail Offices, customs offices, post, telegraph and telephone offices and, in general, any public or private transport office, with the right to issue the due release receipts, declarations of discharge and allowing commitments and disengagement, representing the Company in the performance of all the procedures relating to the above transactions;
- purchasing, selling and exchanging motor vehicles of all types and carrying out any transaction at the Public Automobile Register and any other competent relevant institutions;
- hiring, on fixed-term and open-ended contracts and dismissing workers, employees, middle managers and executives, establishing their duties and powers, salaries, indemnities and any bonuses, establishing, in general, the employment contract conditions of all employees, both at the time of hiring and during the contracts, with the exception of the terms of his own employment contract which may be defined exclusively by the Board of Directors;
- signing credit transfers and cheques regarding amounts due and transactions for work-related differences;
- signing all correspondence relating to the management and conduct of personnel as well as correspondence intended for Social security institutions, Work inspectorates and other Entities and Institutions for problems relating to personnel;
- signing tax forms relating to employees' salaries;
- representing the Company before trade union organisations of entrepreneurs and workers, Inspectorates, the Judiciary and any other Employment Institution or Body, limited to problems regarding employment and company personnel;
- intervening with the power to reach an agreement before the competent offices and Judiciary in legal proceedings and work disputes, with the possibility of appointing advisors, lawyers and prosecutors for that purpose;
- handling the commercial management and marketing of the company and the organisation of the associated services;
- concluding, modifying, resolving sale and exchange contracts and, in general, any contract relating to products and accessories, in Italy and abroad, for amounts of up to Euro 5,000,000.00 (five million) per individual transaction with single signature. For higher amounts, but not exceeding Euro 10,000,000.00 (ten million), with joint signature with Michele Faggioli or Eligio Macchi;
- participating in public and private auctions, appointing, where necessary, special agents to take in part in them, fulfilling all the necessary formalities including the execution of security

deposits, their collection and issuing of acquittances with indemnity against liability for the administrations and entities concerned;

- concluding, modifying, resolving contracts and transactions relating to marketing and advertising activities (trade fairs, shows, promotions, promotional campaigns), in Italy and abroad, for amounts of up to Euro 500,000.00 (five hundred thousand) per individual transaction with single signature. For higher amounts, but not exceeding Euro 1,000,000.00 (one million), with joint signature with Michele Faggioli;
- stipulating transactions, compromises, carrying out revisions or payments of accounts and subsequent settlements with company customers, in Italy and abroad, granting discounts and extensions for amounts of up to Euro 500,000.00 (five hundred thousand) per individual transaction with single signature. For higher amounts, but not exceeding Euro 1,000,000.00 (one million), with joint signature with Michele Faggioli;
- concluding, modifying, resolving contracts with agents, representatives, concessionaires and importers for the sale of Company products, with or without deposit, as well as stipulating transactions or compromises with said parties;
- registering liens, mortgages or other collateral securities in favour of the Company, in relation to payment extensions or subsidies granted, signing any document, application, memorandum or other register or document. Permitting the partial or total cancellation of obligations, their restriction, reduction or transfer;
- concluding, modifying, resolving, for the benefit of the Company, freight, transport or insurance contracts relating to the sale of goods, for amounts of up to Euro 500,000.00 (five hundred thousand) per individual transaction with single signature. For higher amounts, but not exceeding Euro 1,000,000.00 (one million), with joint signature with Michele Faggioli;
- concluding, modifying, resolving contracts:
  - (i) for the purchase, exchange and sale of materials for amounts of up to Euro 500,000.00 (five hundred thousand) per individual transaction with single signature; for higher amounts, but not exceeding Euro 1,000,000.00 (one million), with joint signature with Michele Faggioli;
  - (ii) for the purchase, sale, exchange, financial leasing of plants, machinery and operating assets in general, for amounts of up to Euro 500,000.00 (five hundred thousand) per individual transaction with single signature; for higher amounts, but not exceeding Euro 1,000,000.00 (one million), with joint signature with Michele Faggioli;
  - (iii) concluding, modifying and resolving contracts for advisory services provided by third parties for amounts of up to Euro 300,000.00 (three hundred thousand) per individual transaction with single signature; for higher amounts, but not exceeding Euro 500,000.00 (five hundred thousand), with joint signature with Michele Faggioli.
- ensuring the performance of construction, works, installations, repairs and modification of systems, offices and other premises owned by the company, by acquiring the machines and furniture needed for said offices, such as materials, supplies and provisions, signing tender and supply contracts, for amounts of up to Euro 500,000.00 (five hundred thousand) per

individual transaction with single signature; for higher amounts, but not exceeding Euro 1,000,000.00 (one million), with joint signature with Michele Faggioli;

- concluding, modifying and resolving software licence agreements and telephone contracts, those relating to data networks, etc. for amounts of up to Euro 500,000.00 (five hundred thousand) per individual transaction with single signature. For higher amounts, but not exceeding Euro 1,000,000.00 (one million), with joint signature with Michele Faggioli;
- handling research and development activities, the company's participation in research projects, the conclusion of agreements and conventions with universities and research institutes;
- signing any declarations requested by entities such as Customs, Chamber of Commerce, Shippers, etc. in relation to the importing and/or exporting of goods (origin, source, nature etc.);
- signing correspondence relating to the acts indicated above and of ordinary administration and management;
- handling all formalities related to the fulfilment of the contracts and transactions referred to above;
- issuing authorisations and proxies to third parties within the limits of the powers attributed to him.

• The Chief Executive Officer, MICHELE FAGGIOLI, was attributed the following: (i) the qualification of "Chief Operating Officer - COO" of the Lu-Ve Group; (ii) delegating the management of the following areas of the company to him: Production, Purchasing, Logistics, Mechanical Design, Technologies, Planning, Technical Department, Quality Control, in relation to which he will report to the Director Matteo Liberali; and, (iii) in the aforementioned areas, the powers described herein, always with the exception of those reserved exclusively to the Board of Directors or the Shareholders' Meeting by the articles of association, the law, the Corporate Governance Code or the Guidelines:

- concluding, modifying and resolving contracts for the purchase, exchange, sale of:
  - (i) material, products for amounts of up to Euro 500,000.00 (five hundred thousand) per individual transaction with single signature; for higher amounts, but not exceeding Euro 1,000,000.00 (one million), with joint signature with Matteo Liberali;
  - (ii) raw materials for amounts of up to Euro 2,000,000.00 (two million) per individual transaction with single signature; for higher amounts, but not exceeding Euro 10,000,000.00 (ten million), with joint signature with Matteo Liberali;
- concluding, modifying or resolving purchase, sale, exchange contracts, financial leasing of plants, machinery and operating assets in general, for amounts of up to Euro 500,000.00 (five hundred thousand) per individual transaction with single signature; for higher amounts, but not exceeding Euro 1,000,000.00 (one million), with joint signature with Matteo Liberali;
- negotiating and stipulating, with banks or other institutions, factoring and receivables assignment contracts, completing the associated procedures, for amounts of up to Euro

2,000,000.00 (two million) per individual transaction with single signature. For higher amounts, but not exceeding Euro 5,000,000.00 (five million), with joint signature with Matteo Liberali;

- concluding, modifying and resolving contracts for advisory services for amounts of up to Euro 100,000.00 (one hundred thousand) per individual transaction with single signature; for higher amounts, but not exceeding Euro 500,000.00 (five hundred thousand), with joint signature with Matteo Liberali;
- ensuring the performance of construction, works, installations, repairs and modification of systems, offices and other premises owned by the company, by acquiring the machines and furniture needed for said offices, such as materials, supplies and provisions, signing tender and supply contracts, for amounts of up to Euro 500,000.00 (five hundred thousand) per individual transaction with single signature; for higher amounts, but not exceeding Euro 1,000,000.00 (one million), with joint signature with Matteo Liberali;
- purchasing, selling and exchanging motor vehicles of all types and carrying out any associated transaction at the Public Automobile Register, exonerating the aforementioned Office and its officials from any liability;
- signing any declarations requested by entities such as Customs, Chamber of Commerce, Shippers, etc. in relation to the importing and/or exporting of goods (origin, source, nature etc.);
- signing correspondence relating to the acts indicated above and of ordinary administration and management;
- handling all formalities related to the fulfilment of the contracts and transactions referred to above;
- issuing authorisations and proxies to third parties within the limits of the powers attributed to him.

The Board of Directors also attributed the Chief Executive Officer Michele Faggioli with all the typical responsibilities and tasks, with no exclusions, of Employer, as defined by art. 2, letter b) of Legislative Decree 81/2008 and subsequent amendments and additions, as well as all responsibilities and tasks, with no exclusions, for the protection of the environment pursuant to Legislative Decree 152/2006 and subsequent amendments and additions, establishing that Mr. Faggioli: (i) can make use of the necessary sums for the fulfilment of the obligations deriving from the environmental and accident prevention legislation, with full autonomy and with no spending limits in observance of the company procedures and that, for all activities relating to the “Employer” function, will act in full autonomy without reporting to Matteo Liberali; and (ii) may confer the delegations of functions under the conditions set out in art. 16 of Legislative Decree 81/2008 and any special proxies to other persons that meet the legal requirements.

## **Chairman of the Board of Directors**

The Chairman of the Board of Directors is not the main person responsible for management of the Issuer (CEO), who is instead the Chief Executive Officer Matteo Liberali.



The Chairman of the Board of Directors is not the controlling shareholder of the Issuer.

Also in consideration of the transfer to the Chairman of extensive management powers, the Board of Directors deemed it appropriate to apply the recommendation set out by the application criteria 2.C.4 of the Corporate Governance Code regarding the appointment of a lead independent director to which the functions recommended by the Corporate Governance Code are to be attributed (illustrated in paragraph 4.7 of this Report).

It should also be noted, in relation to principle 2.P.5 (opportunity to avoid the concentration of company offices in one person) and Principle 2.P.6. (illustration of the reasons for which management powers were conferred to the Chairman) that the Board, in re-examining the issue on 19 February 2019, confirmed its opinion, deeming the governance of the Issuer - also from a concentration of offices perspective - to be in full compliance with the company interest, taking into account, inter alia, that (i) the Chairman of the Board of Directors, which was conferred with management powers, is the director that accrued the greater number of years of experience at the company and that his role is not limited to institutional and representation functions, but is fully operational and so essential for the best performance of the company; and that (ii) broad management powers are also conferred to other directors as well as the Chairman of the Board of Directors.

## Information to the Board of Directors

The delegated bodies, in fulfilling the obligations of law, the Articles of Association and the recommendations of the Corporate Governance Code, have always reported to the Board of Directors on the activities carried out in exercise of the powers attributed, with variable frequency according to the importance of the powers and the frequency of their exercise, but nonetheless no less than quarterly, providing, with a reasonable advance notice with respect to the date of the board meeting - except for cases in which, owing to the nature of the resolutions to be assumed, the confidentiality requirements and/or promptness with which the Board had to assume the decisions were recognised as reasons of necessity and urgency - the documentation and information needed to allow the Board of Directors to express an opinion, in a fully informed manner, on the items presented to it for examination and approval.

From the results of the board evaluation process carried out by the Board of Directors in the current fiscal year in accordance with the recommendation set out by application criteria 1.C.1., letter g) of the Corporate Governance Code (to that end, see paragraph 4.3.3, letter g of this Report), it emerged that the elements of information provided by the authorised bodies to the Board were, according to the other directors, always exhaustive and normally covered the strategic reasons or opportunities of the aforementioned transaction, the amount of their subsequent financial commitment and the description of the parties involved, forming the object of an appropriate report.

In compliance with Consob's Regulation on Related Party Transactions, the delegated bodies are required to provide a complete disclosure at least quarterly to the Board of Directors and Board of Statutory Auditors on the performance of related party transactions.

## **4.5 OTHER EXECUTIVE DIRECTORS**

In addition to the Chairman of the Board of Directors, Iginio Liberali, and the other Chief Executive Officers Matteo Liberali and Michele Faggioli, the Vice Chairman Pier Luigi Faggioli is an executive director, who holds the position of chief executive officer of the subsidiaries with strategic relevance Sest S.p.A. and Sest-LUVE Polska Sp.z.o.o.

## **4.6 INDEPENDENT DIRECTORS**

Pursuant to the combined provisions of article 147-*ter*, paragraph 4, and art. 148, paragraph 3 of the Consolidated Law on Finance, as well as art. 3 of the Corporate Governance Code, the Board of Directors currently has 3 independent directors represented by Giovanni Cavallini, Anna Gervasoni and Stefano Paleari.

The Board of Directors evaluates the existence and continuity of the requirements set out above, by also applying all the criteria set forth in the Corporate Governance Code in this regard (application criteria 3.C.1 and 3.C.2), based on the information that the interested parties are required to provide under their own responsibility, i.e. the information nonetheless available to the Board of Directors.

With reference to the Board in office, it should be noted that, during the meeting of 13 March 2017, the Board conducted checks on the independence of the directors after their entry into office, with the outcome stated in the press release of the same date; finally, during the course of the meeting of 19 February 2019, the Board conducted annual checks on the maintenance of the independence requirements by the Directors Anna Gervasoni and Stefano Paleari, which confirmed that they met the independence requirements. At that meeting, the Board of Directors also discussed the declaration of independence of Director Giovanni Cavallini, and found that: (i) in 2018, the shareholders' agreement came to an end, which had linked Giober S.r.l, controlled by Giovanni Cavallini, Finami S.p.A., controlled by the Issuer, and G4 S.r.l. which had a significant holding in the Issuer (see paragraph 2, letter g) of this Report above); and that (ii) following expiry of the term to exercise the warrants issued by LU-VE and the conversion of the special shares in 2017 owned by Giovanni Cavallini, the equity relations that could have compromised his independence no longer applied, and so Director Giovanni Cavallini was also found to have met the independence requirements. Taking account of this, the Board of Directors therefore decided that director Giovanni Cavallini met the independence requirements required under the law and the Articles of Association, and the recommendations of article 3 of the Corporate Governance Code.

In accordance with application criteria 3.C.5 of the Corporate Governance Code, the Board of Statutory Auditors said that it was correct to apply the assessment criteria and procedures adopted by the Board of Directors, most recently at the board meeting of 19 February 2019, to evaluate the independence of its members.

In accordance with the recommendation made by the application criteria 3.C.6 of the Corporate Governance Code, the independent Directors met on 18 March 2019 without the other Directors to examine the Report on corporate governance and the ownership structures.

## **4.7 LEAD INDEPENDENT DIRECTOR**

In consideration of the attribution of management powers to the Chairman of the Board of Directors, the Board of Directors deemed it appropriate to apply the recommendation regarding the appointment of a Lead Independent Director to which the functions recommended by the Corporate Governance Code are to be attributed.

At the meeting on 13 March 2017, the Board of Directors therefore attributed the function of Lead Independent Director to the independent director Stefano Paleari so that he represents a reference and coordination point for the non-executive directors, especially the independent ones, and collaborates with Chairman of the Board of Directors in order to guarantee that the directors are the recipients of complete and prompt information flows, attributing said person with the functions set out in application criterion 2.C.4 of the Corporate Governance Code.

During the Year, the Lead Independent Director collaborated extensively with the Chairman of the Board of Directors in order to ensure the completeness and promptness of the information flows to all directors and chaired the meeting of the independent directors which was held on 18 March 2019.

In addition, in his capacity as Lead Independent Director, Prof. Paleari was also asked to carry out the instruction related functions relating to the annual board evaluation process recommended by application criteria 1.C.1, letter g) of the Corporate Governance Code by the Board of Directors; in carrying out said functions Prof. Paleari, having checked the structure of the questionnaire to send to the directors, examined and evaluated the results of the questionnaires drawn up, and made a report on it to the Board of Directors at the meeting of 19 February 2019.

## 5 PROCESSING OF CORPORATE INFORMATION

In 2015, when listing its financial instruments on the AIM Italia market, the Company adopted the “*Procedure for the internal management and communication to the public of Inside Information*” (the “*Inside Information Procedure*”), which was subsequently updated, taking effect on 3 July 2016, in order to incorporate the new provisions introduced by Regulation (EU) no. 596/2014 and related implementing provisions (Delegated Regulations (EU) 2016/522 and 2016/960 and Implementing Regulations (EU) 2016/959 and 2016/1055); in order to comply with the regulatory changes introduced by Consob with Decision no. 19925 of 22 March 2017, at the meeting of 12 April 2017, the Board of Directors finally decided to approve the change to the above-mentioned procedure, giving the Chairperson of the Board of Directors and CEO, Matteo Liberali, including separately, the power to make all the changes and additions necessary to the procedure in order to align the text with the regulatory provisions that apply to listed companies on a regulated market.

The Inside Information Procedure (available on the Internet website of the Issuer at [www.luvegroup.com](http://www.luvegroup.com) “*Investor Relations*” “*Corporate Governance*” “*Procedure*”) establishes the standards and rules that the Issuer and other companies of the LU-VE Group have to comply with in internal management, and the processing and communication to the outside of inside information pursuant to art. 7, Regulation (EU) 596/2014, or, all the information of a precise nature, that has not been made public, directly or indirectly concerning the Company or its Financial Instruments and which, if made public, could have a significant effect on the prices of those Financial Instruments or the prices of related derivative financial instruments (“*Inside Information*”).

The provisions set forth in the Inside Information Procedure regulate, inter alia: (i) the identification of the parties required to observe the provisions contained therein; (ii) the identification and processing of Inside Information; (iii) the principles of conduct which the parties and company organisational structures involved in various guises in the processing of Inside Information and confidential information must adhere to; (iv) the process for initiating the procedure of delaying the communication of Inside Information to the public; (v) the methods of dissemination and communication to the public of Inside Information.

In particular, it should be noted that the Inside Information Procedure:

- identifies the Chairman of the Board of Directors and the Chief Executive Officer of the Issuer who is attributed the task of organising and managing the area of administration, finance and control of LU-VE (the “*Chief Executive Officer*”), the persons responsible for evaluating the privileged nature of the information concerning, directly or indirectly, the Issuer and its financial instruments;
- establishes that the Chief Executive Officer (i) is responsible for the processing of Inside Information so that said information is circulated in the Issuer without prejudicing its privileged nature; (ii) on behalf of the Company, handles all relations with reporting bodies, professional investors, financial analysts and shareholders in compliance with the applicable legal and regulatory provisions in force from time to time, as well as with the provisions of this procedure;
- regulates, in compliance with the provisions of art. 17, Regulation (EU) 596/2014, the possibility, for the Company, to delay - under its own responsibility and based on a decision taken by the Chairman of the Board of Directors and the Chief Executive Officer, including severally - the public disclosure of Inside Information, provided that all the following conditions are satisfied: (i) the

immediate communication would likely prejudice the Company's legitimate interests; (ii) the delay in communication would probably not mislead the public; (iii) the Company is able to guarantee the confidentiality of said information. In this regard, when the disclosure of Inside Information to the public is delayed, the procedure also requires the company to notify Consob of this delay, providing a written explanation of the aforementioned conditions, immediately after the information has been disclosed to the public and, in any event, in compliance with the terms and conditions envisaged in the regulations applicable from time to time. In addition, pursuant to the procedure, the confidentiality of Inside Information for which the decision has been taken to delay the disclosure to the public will be guaranteed through the adoption of effective measures which allow: (i) the prevention of access to information by persons other than those who need it for exercising their functions in the Company; (ii) the guarantee that persons with access to such information accept the related legal and regulatory obligations and are aware of the possible penalties for abuse or unauthorised disclosure of the information; (iii) immediate public disclosure of the Inside Information, if those persons are not able to guarantee its confidentiality. Lastly, if disclosure of the Inside Information is delayed and the confidentiality of the information is no longer guaranteed, the Company arranges public disclosure as soon as possible.

## **6. INTERNAL BOARD COMMITTEES (PURSUANT TO ART. 123-BIS, PARAGRAPH 2, LETTER D), OF THE CONSOLIDATED LAW ON FINANCE)**

By means of the Framework Resolution, the Board of Directors has adhered to the application principles and criteria of art. 4 of the Corporate Governance Code, establishing the following internally:

- the Remuneration and Appointments Committee; and
- the Control and Risk and Related Party Transactions Committee.

The office of the two Committees currently in office will expire on approval of the financial statements for the year ended as at 31 December 2019.

The establishment and functioning of the two committees are governed by the criteria indicated in the Corporate Governance Code and, in particular:

- a) the Committees are composed of 3 members, all non-executive, the majority of whom are independent; one of the members of the Control and Risk Committee must have adequate accounting and financial experience and one of those of the Remuneration and Appointments Committee must possess adequate knowledge and experience of financial matters and salary policies;
- b) the Chairman of each of the Committees is chosen from its independent members;
- c) minutes are taken for the meetings of each Committee;
- d) in performing their functions, the Committees have the right to access information and the company departments as required to carry out their duties, and the right to make use of external advisors, based on prior authorisation of the Board;
- e) meetings of the Committees may be attended by non-members, if invited by the Committee and limited to the individual items on the agenda.

The Board of Directors also decided on the following:

- (i) at the meeting of 13 March 2017, to attribute the Control and Risk Committee with the role and the relevant responsibilities that the Consob Regulation on Related Parties attributes to the committee composed of non-executive directors, the majority of whom are independent;
- (ii) at the meeting of 13 March 2017, in compliance with the provisions of the principles of the Corporate Governance Code and in consideration of the characteristics of the Company - not to establish an autonomous committee internally to which to attribute the functions regarding the appointments indicated in application criterion 5.C.1 of the Code, and to attribute said functions to a single committee that, therefore, assumed the name of the Remuneration and Appointments Committee;

(iii) at the meeting of 19 February 2019, to put the Control and Risk Committee in charge of sustainability issues.

It should also be specified that, at the date of this Report, the Board of Directors did not reserve to itself the performance of any function that the Corporate Governance Code attributes to the Committees.

In relation to application criterion 4.C.1 letter e) of the Corporate Governance Code, it should be noted that the Board of Directors did not consider it necessary to attribute spending powers to committee members, given willingness, from time to time, to arrange the allocations required by the internal committees to carry out the individual activities.

## **7. REMUNERATION AND APPOINTMENTS COMMITTEE:**

### **7.1 COMPOSITION AND FUNCTIONING OF THE REMUNERATION AND APPOINTMENTS COMMITTEE**

The Remuneration and Appointments Committee was established within the Board of Directors, by means of resolution dated 13 March 2017. At the same board meeting, the Board of Directors - based on prior verification of the requirements of non-enforceability and independence of its members (see paragraphs 4.5 and 4.6 of this Report) - appointed the Remuneration and Appointments Committee for the 2017-2019 three-year period, in the persons of directors Stefano Paleari (independent director – with the role of Chairman), Anna Gervasoni (independent director) and Roberta Pierantoni (non-executive director), confirming, based on the respective curriculum vitae, that their professional track records guarantee adequate knowledge and experience regarding financial matters or salary policies.

At the meeting on 13 March 2017, the Board of Directors attributed the Remuneration and Appointments Committee with the functions for which it is responsible in accordance with the Framework Resolution, in compliance with the provisions of art. 7 of the Corporate Governance Code as well as those of application criterion 5.C.1 of the same Code (for a list of the individual functions attributed to the Remuneration and Appointments Committee please see paragraph 7.2 of this Report).

The activities of the Remuneration and Appointments Committee are coordinated by the Chairman of the Committee, minutes are taken for the meetings and the associated reports are transcribed in the appropriate book. The Chairperson of the Committee reports the main issues arising in the work of the Remuneration and Appointments Committee at the following Board meeting.

Given the Company also adhered to application criterion 6.C.6 of the Corporate Governance Code, the directors must refrain from participating in the meetings of the Committee in which proposals are formulated to the Board of Directors relating their remuneration.

In carrying out its functions, the Remuneration and Appointments Committee had access to the information and company departments necessary for performing its duties.

The Remuneration and Appointments Committee met 6 times during the Year, with all its members present; each meeting lasted around seventy-five minutes and the work was coordinated by the Chairman of the Committee with minutes being taken. The Chairperson of the Committee provided the Board of Directors with information on the issues dealt with at each meeting at the first subsequent board meeting.

Five meetings are planned for the current year, 2 of which have already been held.

At the meetings of the Remuneration and Appointments Committee that were held during the Year and in 2019 up to the date of this Report, the Chairman and at least one of the other two members of the Board of Statutory Auditors attended, and, on invitation of the Chairman, the Group HR Director and the Head of Group Legal and Corporate Affairs, who acted as secretary for the meeting.



## 7.2 FUNCTIONS AND ACTIVITIES OF THE REMUNERATION AND APPOINTMENTS COMMITTEE

Considering the organisational requirements related to the Company's governance structure, the Remuneration and Appointments Committee has been attributed the proposal and advisory duties indicated in the Corporate Governance Code regarding both the appointment of the directors by art. 5, and regarding the remuneration of the directors (and of Key management personnel) by art. 6; therefore the Committee:

- pursuant to application criterion 5.C.1 of the Corporate Governance Code:
  - a) formulates opinions to the Board of Directors on the size and composition of the Board itself and expresses recommendations regarding the professionals whose presence in the Board of Directors is considered appropriate;
  - b) expresses recommendations to the Board of Directors on the maximum number of offices of director or statutory auditor in other companies listed in regulated markets, including overseas, and in financial companies, banks, insurance companies or large companies which may be considered compatible with effective fulfilment of the engagement of director of the Issuer, taking account of the directors' participation in the committees set up within the Board of Directors;
  - c) expresses recommendations to the Board of Directors on any problems relating to the application of the non-compete obligation of directors in accordance with article 2390 of the Italian Civil Code if the company's shareholders' meeting, owing to organisational requirements, has generally and preventively authorised exemptions to this prohibition;
  - d) proposes candidates to the Board of Directors for the office of director in cases of co-optation, where independent directors need to be replaced; and
  - e) carries out a preliminary investigation on the preparation of a succession plan for the Company's executive directors, if the Board of Directors intends to adopt this plan;
- in addition, pursuant to art. 6 of the Corporate Governance Code and, in particular, of application criterion 6.C.5, the Committee:
  - a) formulates proposals to the Board of Directors on the remuneration policy of directors and key management personnel to be adopted annually by the Company, presenting it in advance to the shareholders' meeting for a non-binding vote pursuant to art. 123-ter, paragraph 6, of the Consolidated Law on Finance;
  - b) periodically assesses the adequacy, overall consistency and actual application of the remuneration policy for directors and key management personnel adopted, by availing itself, as regards the latter, of the information provided by the Chief Executive Officer; formulates the relevant proposals to the Board of Directors;
  - c) presents proposals or expresses opinions to the Board of Directors on the remuneration of executive directors and other directors who fulfil particular roles as well as on the

establishment of performance targets relating to the variable component of said remuneration;

- d) monitors the application of the decisions taken by said Board by verifying, in particular, the actual attainment of the performance targets;
- e) supports the Board of Directors in the preparation and implementation of (i) remuneration plans based on shares or other financial instruments and (ii) medium/long-term incentive plans;
- f) reports to shareholders on the methods of performance of its functions; to this end, the presence at the annual shareholders' meeting of the Chairman of the Remuneration and Appointments Committee or another member of said committee is recommended;
- g) if it considers it necessary or appropriate for the fulfilment of the duties attributed to it, avails itself of expert external advisors regarding salary policies; the experts must be independent and, therefore, by way of an example, must not perform relevant activities in favour of the company's Human Resources function, the Company's controlling shareholders or directors or Key management personnel of the Company. The independence of external advisors is verified by the Remuneration and Appointments Committee before the assignment of the associated engagement.

During the Year, the Remuneration and appointments committee, in accordance with application criteria 5.C.1 letter a) of the Corporate Governance Code, and following the resignation of the Director Attilio Arietti, gave its opinion to the Board of Directors regarding the decision not to co-opt any new members to replace the director Arietti, having the Shareholders' Meeting decide whether to reduce the number of members of the Board of Directors of the Company from 13 to 12, or to appoint a new director to replace Mr Arietti.

During the Year, the Remuneration and Appointments Committee, *inter alia*: (i) analysed the final results of the Management by Objectives (MBO) for 2017 and drew up the remuneration policy for 2018; (ii) formulated - within the maximum payment amounts for the Board of Directors set by the shareholders' meeting of 10 March 2017, and taking account of the benchmarks for payments in listed companies with capitalisation characteristics comparable to those of LU-VE - its proposal to the Board of Directors for the variable remuneration of the executive directors for 2018; (iii) draw up a remuneration policy proposal for the executive directors and managers with key responsibilities for the Company for 2018 and the other contents of the draft report on remuneration for 2018 in accordance with article 123-ter of the Consolidated Law on Finance that was then submitted for approval at the Board of Directors meeting of 26 March 2018; (iv) assessed the recommendations of its duties made by the Chairperson of the Committee for Corporate Governance promoted by Borsa Italiana in its letter of 13 December 2017; (vii) established, in accordance with what was recommended by application criteria 5.C.2 of the Corporate Governance Code, the opportunity to adopt a succession plan for the executive directors; (viii) established the need to adopt policies on diversity in relation to the composition of the administration, management and control bodies of the Company regarding aspects such as age, gender balance and the training and professional paths, giving its opinion to the Board of Directors at the meeting of 26 March 2018.

In the two meetings held in 2019, up to the date of approval of this Report, the Remuneration and Appointments Committee: (i) approved its work plan for 2019; (ii) analysed the final results of the Management by Objectives (MBO) of the executive directors for 2018, formulating its attribution proposal for the Board of Directors at the meeting of 22 March 2019; (iii) checked the adequacy and overall consistency and concrete application of the remuneration policy set out under the 2018 Remuneration Report, also with regard to the establishment of the variable remuneration for managers with key responsibilities and the internal audit manager; (iv) drew up, in accordance with the maximum payment amounts for the Board of Directors set by the shareholders' meeting of 10 March 2017 and taking account of the benchmark for remuneration in listed companies with characteristics and capitalisation comparable to those of LU-VE, the proposal for the variable remuneration of executive directors for 2019, then submitted for approval to the Board of Directors at the meeting of 22 March 2019; (v) drew up a remuneration policy proposal for the executive directors and managers with key responsibilities for the Company for 2019 and the other contents of the draft report on remuneration for 2019 in accordance with article 123-ter of the Consolidated Law on Finance that was then submitted for approval of the Board of Directors meeting of 22 March 2019; (vi) assessed the recommendations on remuneration and appointments made by the Chairman of the Committee for Corporate Governance promoted by Borsa Italiana in its letter of 21 December 2018; (vii) evaluated, in accordance with what was recommended by application criteria 5.C.2 of the Corporate Governance Code, the opportunity to adopt a succession plan for executive directors; (viii) evaluated the need to adopt policies on diversity in relation to the composition of the administration, management and control bodies of the Company regarding aspects such as age, gender balance and the training and professional paths, giving its opinion to the Board of Directors at the meeting of 22 March 2019.

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In performing its functions, the Remuneration and Appointments Committee had the right to access the information and the company departments needed to carry out its duties; during the Year, the Remuneration and Appointments Committee did not make use of external advisors.

In relation to application criterion 4.C.1 letter e) of the Corporate Governance Code, it should be noted (see previous paragraph 6 of this Report) that the Board of Directors did not consider it necessary to attribute spending powers to members of the Remuneration and Appointments Committee, given willingness, from time to time, to arrange the allocations required for the performance of the individual activities.

## 8. REMUNERATION OF DIRECTORS

For information relating to this section, please refer to Section I of the “Remuneration Report of LU-VE S.p.A.” published on the Issuer’s website at the address [www.luvegroup.com](http://www.luvegroup.com), in the section “Investor Relations” - “Corporate Governance” – “Annual reports” - “2019”.

It should be noted that, in the Framework Resolution, the Issuer saw fit not to adhere to application criterion 6.C.1, letter f) of the Corporate Governance Code (referenced by application criterion 6.C.3) which, regarding the remuneration of executive directors or directors vested with special roles, as well as key management personnel, requires the issuers to make provision for contractual agreements that allow the Company to request the repayment, wholly or partly, of the variable components of remuneration paid (or to retain sums subject to deferment), determined on the basis of figures that later prove to be clearly incorrect (so-called “claw-back clauses”). This is based on having deemed that the Company’s right to the repayment of sums unduly received by executive directors or key management personnel in relation to the variable component of their remuneration is sufficiently protected in the general statutory remedial provisions that govern the execution of the contract in the presence of circumstances that have arisen or subsequently came to light (resolution, suspension, compensation, repayment of the undue amount, etc.).

## **9. CONTROL AND RISK COMMITTEE**

### **9.1 COMPOSITION AND FUNCTIONING OF THE CONTROL AND RISK COMMITTEE**

The Control and Risk Committee was established within the Board of Directors, by means of resolution dated 13 March 2017. At the same board meeting, the Board of Directors - based on prior verification of the requirements of non-enforceability and independence of its members (see paragraphs 4.5 and 4.6 of this Report) - appointed the Control and Risk Committee for the 2017-2019 three-year period, in the persons of directors Stefano Paleari (independent director – with the role of Chairman), Anna Gervasoni (independent director) and Michele Garulli (non-executive director), confirming, based on the respective curriculum vitae, that their professional experiences guarantee adequate knowledge and experience regarding financial matters or risk management.

In carrying out its functions, the Control and Risk Committee had access to the information and company functions necessary for performing its duties.

During the Year, the Control and Risk Committee held seven meetings; every meeting lasted about two hours.

The meetings were almost always attended by all members of the Control and Risk Committee and the Chairman of the Board of Statutory Auditors; some meetings were also attended by other standing auditors; the activities were coordinated by the Chairman of the Committee and minutes were taken for them. The Chairman of the Committee provided information on the meeting held at the first subsequent Board of Directors meeting.

Seven meetings are planned for the current year, 2 of which have already been held.

### **9.2 FUNCTIONS AND ACTIVITIES OF THE CONTROL AND RISK COMMITTEE**

The Control and Risk Committee is attributed the functions and the tasks set out in the Corporate Governance Code and specified in the SCIGR Guidelines, in order to support, with an adequate investigatory activity, the evaluations and decisions of the Board of Directors relating to the Internal Control and Risk Management System, as well as those relating to the approval of the periodic financial reports.

The Control and Risk Committee has proposal and advisory functions and, more specifically it:

- a) issues opinions to the Board of Directors regarding the identification and updating of the principles and the indications contained in the SCIGR Guidelines;
- b) issues opinions to the Board of Directors regarding the evaluation of the adequacy of the Internal Control and Risk Management System with respect to the characteristics of the company and the risk profile assumed, as well as its effectiveness, in order to ensure that the main company risks are correctly identified and adequately managed. In relation to the above, it reports to the Board of Directors:

- at least half-yearly, normally at the time of (or prior to) the meetings of the Board for approval of the annual financial report and the half-yearly financial report, on the activities performed, as well as on the adequacy and effectiveness of the Internal Control and Risk Management System;
- normally at the time of (or prior to) the meeting of the Board for approval of the annual financial report, on the status of the Internal Control and Risk Management System, also in relation to the factors which may trigger risks for the company and the Group;
- c) issues opinions to the Board of Directors on the approval of the work plan prepared by the Manager of the Internal Audit function;
- d) issues opinions to the Board of Directors on the description, as part of the “Annual report on corporate governance and ownership structures”, of the main characteristics of the Internal Control and Risk Management System;
- e) issues opinions to the Board of Directors on the evaluation of the results reported by the auditor in any letter of suggestions and in the report on the fundamental issues to emerge during the audit;
- f) issues non-binding opinions to the Board of Directors as regards the appointment and revocation of the Manager of the Internal Audit function, the definition of his/her remuneration consistently with company policies, as well as the verification that said person has the necessary resources for fulfilling his/her responsibilities;
- g) supports, with an adequate investigatory activity, the evaluations and decisions of the Board of Directors relating to the management of risks deriving from adverse events which the Board of Directors has learned of;
- h) can request, at any time, the Manager of the Internal Audit function to report on the activities carried out and on the status of the Internal Control and Risk Management System; the Control and Risk Committee may also ask, any time, the Manager of the Internal Audit function for a copy of the documentation kept by the latter in accordance with these SCIGR Guidelines;
- i) may ask the Internal Audit function to perform checks on specific operating areas, simultaneously communicating this to the Chairman of the Board of Statutory Auditors;
- l) where applicable, expresses opinions on specific aspects regarding the identification of the main company risks;
- m) evaluates, together with the Financial Reporting Manager, and having consulted the independent auditors and the Board of Statutory Auditors, the correct use of the accounting standards and their homogeneity for the purposes of the drafting of the consolidated financial statements;
- n) examines, inter alia, the periodic reports and those of particular relevance drafted by the Internal Audit function;
- o) monitors the autonomy, adequacy, effectiveness and efficiency of the Internal Audit function;

q) carries out the additional tasks attributed to it by the Board of Directors.

It should be noted that, on 13 March 2017, the Board of Directors attributed the Control and Risk Committee with the role and the relevant responsibilities that the Consob Regulation on Related Parties attributes to the committee composed of non-executive directors, the majority of whom are independent.

On 19 February 2019, the Board of Directors also put the Control and Risk Committee in charge of sustainability issues.

\* \* \*

Both at the time of the board meeting of 25 September 2018 for approval of the half-yearly financial report as at 30 June 2018, and at the time of the meeting of 22 March 2019 for approval of the draft financial statements as at 31 December 2018, the Chairman of the Control and Risk Committee illustrated to the directors the content of the activities performed by the committee during 2018, presenting the joint administrative body with its judgments on the adequacy and effectiveness of the Internal Control and Risk Management System.

\* \* \*

In 2018, the Control and Risk Committee carried out - in line with the functions and responsibilities attributed to it - essential monitoring and control of the Internal Control and Risk Management System, as well as advisory and proposal activities relating to the prescribed corporate governance obligations. More specifically, the Committee, on the basis of the information available to it through taking part in the meetings of the Board of Directors, the exchange of information with the Board of Statutory Auditors, the Supervisory Body and the Head of the Internal Audit department, the Report by the director in charge of the internal control and risk management System, and the interviews with the department managers of the LU-VE Group, pointed out the risks that were currently most significant for the LU-VE Group. In relation to those risks, it identified the applicable persons in charge, with whom discussions were held during the meetings and who, in most cases, obtained written documentation and reports.

\* \* \*

The Control and Risk Committee meetings held during the year were also attended, on invitation of the Committee, by the Chairperson of the Board of Directors, the CEO, COO, Internal Audit function manager, Financial Reporting Manager and the Manager of Global Legal and Corporate Affairs, which also carried out the functions of secretary for the committee, the Risk Manager, the Group Purchasing Director and the Chairman of the Supervisory Body established in accordance with Legislative Decree 231/2001.

Minutes were duly taken for the Control and Risk Committee meetings.

In performing its functions, the Control and Risk Committee had the right to access the information and the company departments needed to carry out its duties; during the Year, the Control and Risk Committee did not make use of external advisors.

In relation to application criterion 4.C.1 letter e) of the Corporate Governance Code, it should be noted (see previous paragraph 6 of this Report) that the Board of Directors did not consider it

necessary to attribute spending powers to members of the Control and Risk Committee, given willingness, from time to time, to arrange the allocations required for the performance of the individual activities.



## **10. INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

### **10.1 CHARACTERISTICS OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

The internal control and risk management system is the set of organisational rules, procedures and structures which aim to allow the identification, measurement, management and monitoring of the main company risks (“Internal Control and Risk Management System”). An effective Internal Control and Risk Management System helps to ensure:

- a) the effectiveness and efficiency of company processes (administrative, productive, distribution, etc.);
- b) the reliability of the information provided to company bodies and to the market, including economic and financial information;
- c) respect for laws and regulations, as well as the Articles of Association, company provisions and procedures;
- d) the safeguarding of the value of company assets and protection against losses.

On 10 March 2017, for the purposes of the presentation of the application for the admission to trading of LU-VE’s ordinary shares on the MTA, the Board of Directors resolved the adoption of an internal control and risk management system.

This system allows managers to periodically and promptly have a sufficiently exhaustive overview of the economic and financial position of the Company and the main companies of the LU-VE Group and permits the correct: (i) monitoring of the main key performance indicators and risk factors concerning the Company and the main Group companies; (ii) the production of data and information with particular regard to financial disclosures, according to the dimensions of the analysis suited to the type of business, the organisational complexity and unique characteristics of management’s information requirements; (iii) preparation of the prospective financial data of the business plan and of the budget as well as the verification of the achievement of the company objectives through an analysis of gaps.

### **10.2 ACTIVITIES OF THE BOARD OF DIRECTORS**

In 2018, the Board of Directors, which performs the role of management and evaluation of the adequacy of the Internal Control and Risk Management System, based on the prior opinion of the Control and Risk Committee, handled the definition of the SCIGR Guidelines, to ensure that the main risks relating to the Issuer and its subsidiaries (including therein the risks that may assume significance in view of the medium/long-term sustainability of the Company’s activities) are correctly identified, adequately measured, managed and monitored, in line with company management that is consistent with the strategic objectives identified.

By availing itself of the contribution of the director in charge of the internal control and risk management system (“Director in Charge”), Matteo Liberali, and the Control and Risk Committee, at the meeting of 22 March 2019, the Board:

- (i) identified, on the basis of the characteristics of the Company and the Group, taking account of the contributions and the analyses carried out by the advisors during the process of listing of the financial instruments of LU-VE on the MTA, the risks that may assume relevance in view of the medium/long-term sustainability of the LU-VE Group’s activities;
- (ii) defined the nature and level of risks compatible with the strategic objectives of the Issuer;
- (iii) evaluated the adequacy of the Internal Control and Risk Management System in respect of the company characteristics, as well as its effectiveness, also in light of the activities and analyses made by the Control and Risk Committee, the Internal Audit function and by the Supervisory Body established in accordance with Legislative Decree 231/2001; this evaluation was carried out by the Board of Directors, also at the board meeting of 25 September 2018, during which the half-yearly financial report as at 30 June 2018 was approved;
- (iv) approved the work plan prepared by the manager of the Internal Audit function, having consulted the Board of Statutory Auditors and the Director in Charge;
- (v) described, in this Report, the main characteristics of the Internal Control and Risk Management System, expressing its judgment on the adequacy of the same;
- (vi) evaluated, having consulted the Board of Statutory Auditors, the results reported by the independent auditing firm.

For the exercise of these functions, the Board of Directors availed itself of the contribution of the Director in charge and the Control and Risk Committee.

### **10.2.1 Purposes of the Internal Control and Risk Management System**

The Internal Control and Risk Management System (despite being fully aware that no control process can fully safeguard company activities from intrinsic risks, nor from the possibility that fraudulent violations of the laws and regulations or company procedures, human errors or extraordinary events could cause damages to the LU-VE Group) is targeted at:

- contributing to company management consistent with the company objectives defined by the Board of Directors, promoting the assumption of fully-informed decisions;
- ensuring the necessary separation between the operating and control functions, and therefore be structured in such a way to avoid or minimise conflicts of interests in the assignment of responsibilities;
- facilitating the adequate identification, measurement, management and monitoring of the risks assumed by the Issuer and the LU-VE Group, with particular regard, inter alia, to companies of strategic relevance;
- establishing control activities at every operating level and clearly identifying the tasks and responsibilities, in particular in the phases of supervision and intervention and correction of the irregularities identified;

- ensuring reliable information systems and suitable reporting processes at the different levels at which the control functions are attributed;
- guaranteeing that the anomalies identified are promptly brought to the knowledge of adequate levels of the company;
- allowing the registration of all operating events and, in particular, all transactions with an adequate level of detail, ensuring they are correctly attributed from a timing point of view.

The Internal Control and Risk Management System makes it possible, in a reasonably prompt manner, to address the different types of risk to which the Issuer and the LU-VE Group are exposed over time, as well as identify, measure and control the degree of exposure of the Issuer and all other companies - and, in particular, inter alia, of companies with strategic relevance - to the different risk factors, and manage overall exposure, taking into account: (i) the possible correlations between the different risk factors; (ii) the probable significance of the risk verified; (iii) the impact of the risk on company operations; (iv) the extent of the risk as a whole.

### **10.2.2. Risk Management and Internal Control System in relation to the financial disclosure process**

An integral and essential part of the Internal Control and Risk Management System of the LU-VE Group is constituted by the existing risk management and internal control system in relation to the financial disclosure process (administrative and accounting procedures for the preparation of the financial statements and consolidated financial statements and the other reports and/or communications of an economic, equity and financial nature prepared in accordance with the law and/or regulations, as well as for the monitoring of the effective application of the same), prepared with the coordination of the Financial Reporting Manager, appointed by the Board of Directors in compliance with the applicable statutory provisions.

The general managers and administrative managers of each Group company are responsible for maintaining an adequate internal control system.

During the Year, the existing procedures continued to be formalised at administrative and accounting level, targeted at the structuring and reinforcement of the Internal Control and Risk Management System in relation to the financial disclosure process as part of the activities performed according to Law 262/2005. More specifically, the administrative-accounting procedures were drawn up, and are currently being finalised, governing the risks and controls of the processes relating to Human Resources, Sales and the Treasury. The administrative-accounting procedures relating to the following processes are also currently being drawn up: Purchasing; Investments; Warehousing; Preparation of the statutory and consolidated financial statements.

To that end, the related “262” risk control matrices are also currently being formalised.

The central corporate functions of the Group are responsible for the management and dissemination of these procedures to Group companies.

For the purpose of monitoring the accounting and administrative processes, the following basic elements of the Model pursuant to Law 262/2005 were also formalised:

- scoping: the scope of intervention was identified in terms of (i) Company (the Relevant Companies were selected on the basis of quantitative criteria - relating to sales revenue and capital assets - and qualitative criteria - presence or not of specific risk elements) and (ii) relevant processes with respect to financial reporting risks;
- model pursuant to Law 262/2005: the “262” Model is currently being finalised in order to define and govern the process for certifying and continuously evaluating the accounting control system.

The methodology adopted for the design of Form 262 was aligned with the international best practices and guarantees full traceability of the functioning of the same.

In carrying out his activities, the Financial Reporting Manager:

- interacts with the manager of the Internal Audit function, who has the power to carry out autonomous controls on the reliability of the information systems, including accounting systems;
- is supported by the managers of the functions involved which, in relation to the area within their competence, ensure the completeness and reliability of the information flows addressed to the Financial Reporting Manager for the purposes of the preparation of financial disclosures;
- coordinates the activities performed by the administrative managers of the relevant subsidiaries;
- establishes a mutual exchange of information with the Control and Risk Committee and with the Board of Directors, reporting on the activities carried out and on the adequacy of the Internal Control and Risk Management System, with particular reference to the risks relating to financial disclosures.

The Financial Reporting Manager informs the Board of Statutory Auditors of the adequacy, including organisational, and reliability of the administrative-accounting system. Both the monitoring of the effective application of the risk management system relating to financial disclosures, and its periodic evaluation, were performed continuously during the Year.

The checks mentioned did not highlight any risks or situations that were not already subject to monitoring by the Group.

The Financial reporting manager, together with the Chief Executive Officer, provides the certification required by paragraph 5 of art. 154-bis of the Consolidated Law on Finance.

## 10.3 DIRECTOR IN CHARGE OF THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM

On 13 March 2017, the Board of Directors identified the director Matteo Liberali as the Director in charge of the Internal Control and the Risk Management System who, pursuant to the SCIGR Guidelines:

- a) handles the identification of the main company risks, taking account of the characteristics of the activities performed by the Issuer and its subsidiaries, with particular attention to companies of strategic relevance, and presents them to the Board of Directors for examination at least once a year, and normally at the time of (or prior to) the meeting of the Board of Directors for approval of the annual financial report;
- b) implements the SCIGR Guidelines, handling the design, implementation and management of the Internal Control and Risk Management System and constantly verifying its adequacy and effectiveness. More specifically:
  - he identifies the risk factors for the Issuer and the other LU-VE Group companies, with particular attention to companies of strategic relevance - without prejudice to the primary responsibility of the respective chief executive officers of the individual companies - also in light of the changes in the internal and external conditions in which they operate, as well as the operating performances, deviations from the forecasts and the legislative and regulatory framework in force from time to time, including all risks that may assume significance in terms of the medium/long-term sustainability of the company's activities;
  - defines the tasks of the operating units dedicated to the control functions, ensuring that the various activities are managed by qualified personnel, who have specific experience and knowledge. In this regard, the areas of potential conflicts of interests are identified and minimised;
  - establishes effective communication channels in order to ensure that all personnel are aware of the policies and procedures relating to their tasks and responsibilities;
  - defines the information flows targeted at ensuring full knowledge and governability of company events;
- c) at least once a year, normally at the time of (or prior to) the meeting of the Board of Directors for approval of the annual financial report - as well as on each occasion in which, nonetheless, it considers it necessary or appropriate based on the circumstances, as in the event in which new relevant risks emerge or there is a significant increase in the possibility of risk - presents the company risks and the set of control processes implemented and designed for their prevention, reduction and effective and efficient management to the Board of Directors for examination and evaluation, in order to allow the Board of Directors to make an informed and fully-aware decision regarding the strategies and policies for the management of the main risks of the Issuer and of the LU-VE Group, with particular attention to companies of strategic relevance;

- d) proposes to the Board of Directors, also informing the Control and Risk Committee, the appointment, revocation and the remuneration of the Manager of the Internal Audit function and ensures its operating independence and autonomy from each manager of the operating areas, verifying that it has the necessary tools to effectively carry out the tasks assigned to it;
- e) presents the Board of Directors with the annual work plan prepared by the Manager of the Internal Audit function, based on the prior opinion of the Control and Risk Committee and having consulted the Board of Statutory Auditors;
- f) adjusts the Internal Control and Risk Management System into line with the trend in the operating conditions and legislative and regulatory framework;
- g) may ask the Internal Audit function to perform checks on specific operating areas and on the observance of the internal rules and procedures in the performance of company transactions, simultaneously communicating this to the Chairman of the Board of Directors, the Chairman of the Control and Risk Committee and the Chairman of the Board of Statutory Auditors;
- h) promptly reports to the Control and Risk Committee (or the Board of Directors) on problems and criticalities to emerge in the performance of his activities or, nonetheless, he has knowledge of, so that the Control and Risk Committee (or the Board) can take the necessary measures.

\* \* \*

In execution of the engagements and functions assigned to him, during the Year, the Director in charge:

- updated the Internal Audit work plan for 2018, along with the Internal Audit department;
- with the support of the Internal Audit department, monitored the adjustment of the Internal Control and Risk Management System to the applicable legislative and regulatory framework and the operating trends of the Group, verifying its overall adequacy, effectiveness and efficiency.

The identification and management of risks was presented to the Board of Directors for examination, most recently at the meeting on 22 March 2019.

## **10.4 MANAGER OF THE INTERNAL AUDIT FUNCTION**

In compliance with the recommendations of the Corporate Governance Code, the Board of Directors, at the meeting on 19 December 2017, on the proposal of the Director in charge, acknowledged the favourable opinion of the Control and Risk Committee, and having consulted the Board of Statutory Auditors, appointed Ms Elena Negri as Manager of the Internal Audit function.

Ms Negri started the job on 9 January 2018, following Protiviti S.r.l., which the Board of Directors, in the meeting of 12 April 2017 had appointed as Manager of the Internal Audit function, since they did not believe that there was an internal professional working for it at the time that would be able to carry out that role, and therefore deciding to engage an external company, ordering the Director in Charge to decide whether to hire an internal resource.

The remuneration of Ms Negri was determined consistently with the company policies; the Board of Directors assigned her a spending budget deemed adequate, without prejudice to the Board's willingness to attribute additional resources to her where necessary.

As reiterated in the SCIGR Guidelines, the Manager of the Internal Audit function is not responsible for any operating area, reports hierarchically to the Board of Directors and reports functionally to the Director in Charge, to the Board of Directors and to the Control and Risk Committee, ensuring the necessary information to the Board of Statutory Auditors.

Pursuant to the SCIGR Guidelines and in respect of the recommendations of the Corporate Governance Code, the Manager of the Internal Audit function extends her control activities to all companies of the LU-VE Group, with particular regard to the companies identified by the Board of Directors such as companies with strategic relevance, and has access to all their activities and the relevant documentation. The Manager of the Internal Audit function also has direct access to all the useful information for fulfilling her engagement. The Manager of the Internal Audit function is responsible, inter alia, for verifying the suitability of the internal procedures for ensuring the adequate containment of the risks of the Issuer and of the LU-VE Group, and assisting the Group with the identification and evaluation of the greatest exposures to risk, including all risks that may assume significance in terms of the medium/long-term sustainability of the company's activities.

The tasks of the Manager of the Internal Audit function are carried out by performing sample-based checks on the processes subject to verification.

Again pursuant to the SCIGR Guidelines and in respect of the recommendations of the Corporate Governance Code, the Manager of the Internal Audit function:

- a) prepares the annual work plan based on a structured process of analysis and prioritisation of the main risks ("Audit Plan") and illustrates it to the Director in charge, the Control and Risk Committee, the Board of Statutory Auditors, the Supervisory Body and the Board of Directors, in the time needed for them to perform their respective functions and, in particular, to make any suggestions;
- b) supports the Director in charge in handling the design, management and monitoring of the Internal Control and Risk Management System and in identifying the different risk factors, including all risks that may assume significance in terms of the medium/long-term sustainability of the company's activities;
- c) plans and carries out, consistent with the annual work plan, direct and specific control activities in the Issuer and in all other Group companies, with particular regard to the companies of strategic relevance, in order to identify any deficiencies of the Internal Control and Risk Management System in the different risk areas;
- d) verifies, both continuously and in relation to specific needs and in compliance with the international standards, the functioning and suitability of the Internal Control and Risk Management System;
- e) verifies, as part of the Audit Plan, the reliability of the information systems including the accounting systems;

- f) verifies that the rules and procedures of the control processes are respected and that all the entities involved operate in compliance with the pre-established objectives. More specifically:
  - checks the reliability of the information flows, including automatic data processing systems and administrative-accounting data entry systems;
  - verifies, as part of the work plan, that the procedures adopted by the Issuer and by the Group ensure respect, in particular, of the applicable legal and regulatory provisions;
- g) also carries out assessment tasks with regards to specific irregularities, where she considers it necessary or at the request of the Board of Directors, the Control and Risk Committee, the Director in charge or the Board of Statutory Auditors;
- h) ascertains, using the most appropriate methods, that the anomalies in the operations and in the functioning of the controls have been rectified;
- i) keeps all the documentation relating to the activities performed in an organised manner; this documentation is at the disposition of the entities responsible for the control processes who request it;
- l) prepares periodic reports containing adequate information on her activities, the methods used to manage risks, as well as on the observance of the plans defined to contain them. The periodic reports also contain an evaluation of the suitability of the Internal Control and Risk Management System; in addition, in light of both the results of the controls and the analysis of company risks, identifies any deficiencies of the Internal Control and Risk Management System and proposes any necessary system initiatives; the deficiencies identified and the initiatives proposed are outlined in the associated internal audit reports;
- m) where necessary, promptly drafts any reports on any events of particular relevance;
- n) transmits the reports pursuant to points l) and m) to the Director in charge, the Chairman of the Control and Risk Committee, the Chairman of the Board of Directors and the Board of Statutory Auditors, as well as the Supervisory Body, where the Manager of the Internal Audit function has judged that these contain relevant information for the purposes of compliance with model 231; where the control activities involve other Group companies, the reports are also sent, if applicable, to the associated competent bodies of the company concerned.
- o) at least twice a year, in time to allow the Control and Risk Committee and the Board of Directors, as well as the Director in Charge, to carry out their respective tasks at the time of (or prior to) the meetings of the Board for approval of the annual financial report and the half-yearly financial report, prepares a half-yearly summary of the main findings that emerged during the reference half and during the entire year. The annual report compiled for the meeting of the Board for approval of the annual financial report also contains an update of the company risks subject to monitoring that emerged during the year;
- p) in the presence of criticalities that require urgent intervention, informs the Director in Charge of the Internal Control and Risk Management System and the delegated bodies without delay, as well as the Chairman of the Control and Risk Committee, the Chairman of the Board of Directors and the Board of Statutory Auditors in order to update them on the results of her work.



During the Year, the Manager of the Internal Audit function carried out, *inter alia*, the following activities:

- on the basis of the 2017-2020 Audit Plan and the results of the activities carried out in 2017, updated the audit plan for 2018, sharing the proposal with the Director in Charge, the Control and Risk Committee, the Supervisory Body, the Board of Statutory Auditors and the Financial Reporting Manager, and submitting it for approval by the Board of Directors at the meeting of 26 March 2018;
- regularly reported on her work, at the meetings of the Control and Risk Committee, to the members of the committee and the Board of Statutory Auditors;
- regularly reported on her work to the Director in Charge;
- verified, as part of the Audit Plan, the reliability of the information systems including the accounting systems;
- analysed, discussed and shared the results of the audit activities carried out with the managers of the processes/functions concerned from time to time and the Company management, in order to agree and put into effect the preventive/corrective measures;
- monitored the actual implementation of the preventive/corrective measures, agreed by the heads of the processes / functions involved;
- reported on the results of all the audits carried out by sending the audit reports to the members of the Control and Risk Committee and the Board of Statutory Auditors;
- presented her audit reports on a half-yearly basis, which were referred to the Director in Charge, the Control and Risk Committee, the Board of Directors and the Board of Statutory Auditors.

## **10.5 ORGANISATION MODEL PURSUANT TO LEGISLATIVE DECREE 231/2001**

LU-VE adopted an organisation, management and control model pursuant to Legislative Decree 231/2001 (the “**Model**”) available in extract form on the Issuer’s website [www.luvegroup.com](http://www.luvegroup.com) in the section “*Investor Relations*” “*Corporate Governance*” “*Corporate documents*”.

With particular reference to the Issuer, on 30 June 2016, the Board of Directors approved the adoption of the Model, which is composed of a “General Section” and a “Special Section”; in particular:

- the “General Section” describes the reference legislation, including: (i) the Legislative Decree 231/2001 system, which attributes direct responsibility to entities (which may be excluded if the entity has effectively adopted and implemented a model and an offence has been committed through the fraudulent evasion of said model), in the event certain offences are committed in the interest or for the benefit of said entity by the so-called “top management” figures of the entity, who perform the functions of representation, administration or management of the entity, or persons subject to the management or monitoring of one of the aforementioned parties; (ii) the penalty system; (iii) a description of the organisational structure of LU-VE and of the activities carried out for the adoption of Model 231; (iv) the structure and the functions of the Supervisory

Body; (v) the methods of training and information on the contents of the Model; (vi) the disciplinary and penalty system applied to those who commit violations of the rules of conduct set out in the Model;

- the “Special Section” provides a general description of sensitive activities, the system of controls and general principles of behaviour, and therefore analyses in detail the individual sensitive activities, the applicable procedures, their ex-post verifiability, the segregation of duties and the existence of authorisations consistent with the organisational responsibilities assigned.

Together with the Model, a Code of Ethics was drafted, to be applied to both LU-VE and the subsidiaries, which sets out the general principles of behaviour which must be adhered to by employees and those collaborating with the Group in any capacity.

LU-VE’s Supervisory Body (**SB**) comprises three external members, Marco Romanelli, lawyer (Chairman) and Ms Antonella Beretta, appointed on 30 June 2015 up until approval by the Board of Directors of the draft financial statements as at 31 December 2018, and Mr Giuseppe Sozzi, appointed at the meeting of 8 February 2018 to replace Mr Aldrovandi, engineer, who had resigned from the position due to the new role taken on in the Issuer as production manager.

At the meeting on 22 March 2019, the Board of Directors appointed the supervisory body for another three-year period, confirming its members.

The Supervisory Body is assigned the task of:

- monitoring the effectiveness of the Model so that behaviour of the Addressees complies with the provisions contained therein;
- verifying the effectiveness and adequacy of the Model, i.e. checking that the Model prepared is suitable for preventing the offences set out in the Decree from being committed;
- expressing a judgment on the proposed updates and/or revisions to the Model before they are actually adopted;
- implementing all necessary initiatives so that the Board of Directors keeps the Model constantly updated, in order to adjust it into line with regulatory and company changes;
- carrying out the checks and controls set forth in the Model in relation to members of the SB.

At more operational level, the SB is also assigned the job of:

- periodically verifying the mapping of the areas at risk of offence attached to the Model, in order to propose to the Company the necessary adjustments at the time of updating of the Model. To this end, the function managers and employees report to the SB on the control activities performed in relation to the individual functions and any situations capable of exposing the Company to the risk of offence;
- conducting periodic checks, based on an annual plan, communicated to the Board of Directors, targeted at assessing the effectiveness of the Model and, in particular, at verifying that the procedures and controls set forth therein are adequately applied;

- based on these checks, annually preparing a report to be presented to the Board of Directors which highlights the activities carried out, the results of the checks, any corrective actions suggested and their progress status;

- coordinating with the functions (also through the appropriate meetings) for: (i) an exchange of information in order to keep the areas at risk of offence up-to-date; (ii) keeping the risk profile of the activities performed within the Company and their evolution under control in order to ensure constant monitoring; (iii) the various aspects relating to implementation of the Model; (iv) guaranteeing that the corrective actions needed to ensure the Model is adequate and effective are implemented promptly; for collecting, processing and storing all relevant information received in observance of the Model; (v) promoting initiatives for the training of the addressees of the Model and for its communication and dissemination.

Within the limits of the applicable legislation, the SB has free access to all the relevant company documentation, and is able to directly acquire data and information from the persons responsible.

The activities implemented by the SB in exercise of its functions cannot, under any circumstance, be controlled by another company body or structure, without prejudice to the fact, however, that the Board of Directors is required to check the adequacy of the activity of the SB.

The SB receives an annual allocation of funds from the Board of Directors for the autonomous performance of its activities. In any case, in consideration of the unique characteristics of its duties and its professional requirements, the SB, in performing the tasks for which it is responsible, may avail itself of the support of the internal personnel and external advisors of its choice.

The SB met 10 times during the Year, in the presence of all its members. The meetings lasted an average of around two hours and thirty minutes.

During the Year, the Issuer engaged a leading consultancy firm to update the Model in light of the new regulations and the organisational developments of the Issuer.

The Italian subsidiary of LU-VE of strategic relevance Sest S.r.l. also adjusted its internal system into line with the provisions set out in Legislative Decree 231/01, adopting its own Organisation and Management Model in accordance with said Decree, appointing its own Supervisory Body.

The Italian subsidiary Tecnair LV S.p.A. also engaged a leading consultancy firm to update its internal system to bring its system into line with the provisions of Legislative Decree 231/01 and preparing its own Organisation and Management Model in accordance with said Decree.

The Board of Directors, at its meeting of 22 March 2019, following an in-depth evaluation of the opportunity to attribute the Board of Statutory Auditors with the functions of supervisory body pursuant to Legislative Decree 231/2001, considered it preferable to maintain said functions with the Supervisory Body established on an ad hoc basis, also due to the skills that were considered suitable to effectively carry out the functions attributed to the Supervisory Body for an industrial company.

## 10.6 INDEPENDENT AUDITING FIRM

The company tasked with the independent audit of LU-VE is Deloitte & Touche S.p.A., with registered office in via Tortona no. 2, Milan.

The engagement was conferred by the shareholders' meeting of 10 March 2017, effective from the date of the start of the trading of LU-VE shares on MTA, which took place on 21 June 2017, until approval of the financial statements for the year ended as at 31 December 2025.

## 10.7 FINANCIAL REPORTING MANAGER AND OTHER COMPANY ROLES AND FUNCTIONS

At the meeting on 13 March 2017, LU-VE's Board of Directors appointed Eligio Macchi as the **Financial Reporting Manager**, a LU-VE employee with the role of Chief Financial Officer of the LU-VE Group.

Article 21 of the Articles of Association sets forth: (1) that the Financial Reporting Manager is appointed by the Board of Directors, based on the mandatory prior opinion of the Board of Statutory Auditors; (2) that the Financial Reporting Manager must meet, in addition to the requirements of integrity established by applicable legislation and regulations in force at the time for those who carry out administration and management functions in companies whose financial instruments are listed on an Italian regulated market or regulated market of other European Union member states, professional requirements consisting of specific expertise in matters of administration, finance or control and must specifically have attained a degree in economic or financial disciplines or in areas pertaining to business management and organisation and have gained at least three years' experience in: (i) administration, finance or control activities or management duties in joint-stock companies; or (ii) administration or management functions or appointments as external auditor or consultant such as chartered accountant at entities operating in the credit, financial or insurance sectors or in sectors associated with or pertaining to the activity carried out by the Company referred to in art. 2 of these Articles of Association, involving the management of economic and financial resources.

The Financial Reporting Manager is attributed the main task of designing, managing and monitoring the processes regarding, in particular, information flows of an administrative-accounting nature, including automatic data processing and accounting systems, also in order to draft - according to the forms required by law and the relevant implementing regulations - the certifications of their adequacy and effective application and, at the same time, all the powers and resources needed to fulfil this obligation were ensured, including those of:

- directly accessing all the necessary information for the production of accounting data, without the need for authorisations, dedicating himself (as with all members of his office) to ensuring the confidentiality of the documents and information acquired in fulfilling its duty, in observance of the applicable legal and regulatory provisions;
- using internal communication channels that guarantee correct intercompany information;
- structuring his office with reference to both personnel and technical equipment (tangible and IT resources, etc.) in an adequate manner;

- preparing administrative and accounting procedures by also making use of the collaboration of departments that participate in the production of relevant information;
- making use of external advisory services, where special company needs require it, by drawing on the budget assigned to him;
- establishing relationships and flows with other persons responsible for control that guarantee not only the constant mapping of risks and processes, but adequate monitoring of the correct functioning of the procedures (independent auditing firm, Manager of the Internal Audit function).

## **10.8 COORDINATION BETWEEN THE ENTITIES INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

The methods of coordination between the entities involved in the Internal Control and Risk Management System are specified in the SCIGR Guidelines, which define the reciprocal roles and functions.

The various parties maintain a periodic flow of mutual communication, also achieved through periodic joint meetings, which ensure a reciprocal exchange of information and the coordination of the respective activities.

In particular, the Board of Directors performs a role of management and evaluation of the adequacy and efficiency of the Internal Control and Risk Management System. In fulfilling this role, the Board is assisted by the Control and Risk Committee, which has proposal and advisory functions, also exercised (but not solely) through the issuing of opinions to the Board of Directors. The Director in Charge of Control and Risks, supported by the Manager of the Internal Audit function, handles the identification of the main company risks and implements the SCIGR Guidelines, overseeing the design, implementation and management of the Internal Control and Risk Management System and constantly verifying its adequacy and effectiveness.

The Manager of the Internal Audit function is responsible, inter alia, for verifying the suitability of the internal procedures for ensuring the adequate containment of the risks of the Issuer and of the Group, and assisting the Group with the identification and evaluation of the greatest exposures to risk.

The Financial Reporting Manager is attributed the main task of designing, managing and monitoring the processes regarding, in particular, information flows of an administrative-accounting nature, including automatic data processing and accounting systems, also in order to draft - according to the forms required by law and the relevant implementing regulations - the certifications of their adequacy and effective application. First of all, the Financial Reporting Manager is responsible for the Internal Control and Risk Management System regarding financial disclosures and, therefore, for identifying and evaluating the risks regarding financial disclosures, identifying and conducting the necessary controls, targeted at mitigating the possibility of these risks materialising, and monitoring and assessing the effectiveness of the controls within the context of an adequate and functioning internal control and risk management system, in relation to the financial disclosure process.

The Supervisory Body is responsible for the definitive tasks within the Organisation, Management and Control Model approved by the company (indicated in detail in previous paragraph 10.5 of this Report), including that of monitoring the effectiveness of the aforementioned Model targeted at preventing some cases of offence, as well as the opportunity for its updating following changes to the company structure and/or the reference legislation.

Lastly, the Board of Statutory Auditors conducts autonomous evaluations of the effectiveness and functioning of the Internal Control and Risk Management System, and can formulate, whenever it deems it necessary or appropriate, any recommendations to the competent bodies for the purpose of promoting the strengthening of the Internal Control and Risk Management System.

Finally, each of the subjects involved in the Internal Control and Risk Management System are required to meet specific obligations as regards relations and reporting between one another and, ultimately, as regards reporting to the Board of Directors.

## 11. DIRECTORS' INTERESTS AND RELATED PARTY TRANSACTIONS

In 2015, at the time of the listing of its financial instruments on the AIM Italia market, the Company adopted the "Related Party Transactions Procedure" for the regulation of the management of transactions concluded by the Issuer and by the Group with related parties, in respect of the provisions of art. 13 of the AIM Italia Issuers' Regulation, art. 10 of the Regulation on Related Parties and the Provisions regarding related parties issued by Borsa Italiana in May 2012 and applicable to companies that issue shares traded on AIM Italia.

In order to ensure compliance between the content of said procedure and the provisions set forth in the Consob Regulation on Related Parties, at the meeting on 3 May 2017, the Board of Directors approved, based on the prior opinion of the independent directors, a new text of the OPC Procedure, which came into force at the start of trading of LU-VE's shares on the MTA.

The OPC Procedure (available on the Issuer's website [www.luvegroup.com](http://www.luvegroup.com), in the section "Investor Relations" "Corporate Governance" "Procedures") is targeted at identifying the transactions realised with related parties by the Company and/or its subsidiaries, regulating their implementation processes, in order to ensure their substantive and procedural correctness, as well as the proper information to the market.

With regard to the definition of "related party", it should be noted that the OPC Procedure sets out all the categories of entities indicated in the associated concept pursuant to Annex 1 to the Consob Regulation on Related Parties without the indication of additional ones in accordance with art. 4, paragraph 2 of the same regulation.

The role and the relevant responsibilities - attributed by the Consob Regulation on Related Parties to the committees composed wholly or by a majority of independent directors - are, based on the OPC Procedure, attributed to the company's Control and Risk Committee, composed of three non-executive directors, the majority of whom Independent (for more information, please refer to previous paragraph 9 of this Report: this Committee is known as the "Control and Risk and Related Party Transactions Committee" (in short, the "Control and Risk Committee"). This obligation takes account of the fact that LU-VE falls under the definition of "smaller company" set out in art. 3 of the Consob Regulation on Related Parties.

In order for it to qualify as such, the Issuer avails itself of the exemption provided by art. 10 of the Consob Regulation on Related Parties. Based on the above, the OPC Procedure incorporates the same procedure of instruction and approval of all transactions with related parties (not within the competence of the shareholders' meeting), without distinguishing between those of greater relevance (meaning those in which the relevance ratio of the value or of assets or liabilities is higher than the 5% threshold, as better defined and detailed in Annex 3 to the Consob Regulation on Related Parties and in Consob communication no. 10078683 of 24.09.2010 - "*Transactions of Greater Importance*") and those of minor importance (meaning those in which the aforementioned relevance ratios are equal to or less than the 5% threshold, as better defined and detailed in Annex 3 to the Consob Regulation on Related Parties and in the aforementioned communication -

*“Transactions of Lesser Importance”*). In the case in which the Issuer should lose the qualification of *“Smaller company”*, the OPC Procedure sets out that the Board of Directors, having recorded said circumstance, promptly supplements the OPC Procedure with a specific procedure for Transactions of Greater Importance pursuant to the provisions of the Consob Regulation on Related Parties and approves its modified text, based on the prior favourable opinion of the independent directors present in the Board of Directors or, in their absence, the non-binding prior opinion of an independent expert.

In addition, the OPC Procedure envisages, in compliance with what is permitted by the Consob Regulation on Related Parties, the exclusion from the application of the procedure described above of certain categories of transactions, without prejudice to the disclosure obligations set forth in the regulatory provisions in force (in particular, transactions involving a *“negligible amount”*, transactions with or between subsidiaries, including jointly, as well as transactions with associates, provided that there are no *“significant”* interests of other Related Parties of the Company in the counterparty subsidiaries or associates; the shareholders’ meeting resolutions relating to the fees due to members of the Board of Directors and the Executive Committee pursuant to art. 2389, paragraph 1 of the Italian Civil Code; additional resolutions regarding the remuneration of directors vested with special offices and other key management personnel, provided that the conditions set out in art. 13, paragraph 3, letter b) of the Consob Regulation on Related Parties are respected and without prejudice to the periodic disclosure obligations; payment plans based on financial instruments approved by the shareholders’ meeting pursuant to art. 114-bis of the Consolidated Law on Finance and the associated executive transactions; ordinary transactions concluded under conditions equivalent to market or standard conditions).

The OPC Procedure also sets out the principles to be adhered to for Related Party transactions entered into by the subsidiaries of the Issuer, making provision, inter alia, for the involvement of the Control and Risk Committee, required to express a non-binding opinion on the transaction.

\* \* \*

It should be noted that the Board of Directors did not consider it necessary to adopt specific operating solutions for facilitating the identification and adequate management of situations in which a director is a stakeholder on his own behalf or on behalf of third parties, having evaluated, in this regard, the existing control based on the provisions of art. 2391 of the Italian Civil Code to be adequate (*“Directors’ interests”*).



## **12. APPOINTMENT OF STATUTORY AUDITORS**

The Board of Statutory Auditors is composed of 3 (three) standing members and 2 (two) alternate members; the statutory auditors are appointed by the shareholders' meeting for (3) three financial years; their office expires on the date of the Shareholders' Meeting called to approve the financial statements for the last year of their office and may be re-elected.

The statutory auditors are appointed on the basis of lists, in observance of the legislation governing gender balance.

The methods of presenting lists and appointment and voting proposals are governed by art. 23 of the Articles of Association, in compliance with the applicable legislation and regulations.

Pursuant to the statutory provisions:

- lists may be submitted by shareholders who, at the time the list is submitted, hold alone or together with others, a share totalling at least 2.5% of the capital or the different shareholding equal to at least the one established by CONSOB (share confirmed by CONSOB resolution no. 13 of 24 January 2019, adopted in accordance with art. 147-ter, paragraph 1 of the Consolidated Law on Finance);
- individual shareholders, shareholders subscribing to a shareholders' agreement relating to the Company and of relevance pursuant to art. 122 of the TUF, the parent company, subsidiary companies and those subject to common control and other entities between which a direct or indirect association exists pursuant to applicable legislation and regulations in force at the time, cannot submit or contribute to the submission, not even through a third party or trust company, of more than one list or vote for different lists;
- each candidate may appear on one list only, otherwise they shall be considered ineligible;
- each list contains the names, indicated by a sequential number, of a number of candidates not exceeding the number of members to be elected;
- the lists are divided into two sections: one for candidates to the office of standing auditor, the other for candidates to the office of alternate auditor. The first of the candidates of each section must be entered in the register of independent auditors and have carried out auditing activity for no less than 3 (three) years. If the other candidates do not meet the requirement established above, they must meet the other requirements of professionalism established by applicable legislation and regulations in force at the time;
- for the period of application of the legislation and regulations in force at the time on the matter of gender balance, each list that contains – considering both sections present – a number of candidates equal to or higher than 3 (three) must also include candidates belonging to both genders, so that at least one third (rounded up) of candidates to the office of standing auditor and at least one candidate to the office of alternate auditor (if the list also includes candidates to the office of alternate auditor) belong to the under-represented gender;
- lists submitted must be filed at the Company's registered office, even using distance communication means as indicated in the notice of call, and made available to the public in

accordance with the timeframes and procedures established by legislation and regulations in force at the time, accompanied by the certifications of the appointed intermediaries, the CVs of the statutory auditors in charge, the relevant declarations and statements required by the applicable legislation and regulations in force at the time and the Articles of Association.

The Board of Statutory Auditors is elected according to the following statutory provisions:

- (a) from the list that obtained the highest number of votes, 2 (two) standing auditors and 1 (one) alternate auditor are taken, in the sequential order in which they are stated in the appropriate sections of the list;
- (b) the remaining standing auditor and the remaining alternate auditor are taken, on the basis of the sequential order in which they are stated in the appropriate sections of the list, from the list that obtained the second highest number of votes after the list referred to in letter (a) above, votes cast by shareholders who are not in any way associated, either directly or indirectly, pursuant to applicable legislation and regulations in force at the time, with the shareholders who submitted or voted for the list that obtained the highest number of votes.

In the event of a tie between lists, the list submitted by shareholders holding the greater shareholding or, in the alternative, by the highest number of shareholders, shall prevail.

If, after voting has been completed the candidates elected do not ensure that the composition of the Board of Statutory Auditors complies with applicable legislation and regulations in force at the time on gender balance, the last candidate to the office of standing auditor of the over-represented gender elected in the sequential order in the appropriate section of the list that obtained the highest number of votes shall be excluded and shall be replaced by the first non-elected candidate of the under-represented gender from the same section following the sequential order. If at the end of this replacement procedure, the composition of the Board of Statutory Auditors does not comply with applicable legislation and regulations in force at the time on gender balance, the replacement shall be made by resolution passed by the Shareholders' Meeting by majority vote of those represented, subject to submission of candidatures of persons belonging to the under-represented gender.

If the number of candidates elected on the basis of the lists submitted is lower than the number of statutory auditors to be elected, the remaining statutory auditors shall be elected by the Shareholders' Meeting, deliberating by majority vote of those represented and, in any case, so as to ensure compliance with applicable legislation and regulations in force at the time on gender balance. In the event of a tied vote between a number of candidates, a second ballot shall be held between them through a further shareholders' meeting vote, and the candidate who obtains the highest number of votes shall prevail.

If only one list is submitted, the Shareholders' Meeting casts its vote on said list and, if it obtains the majority of votes represented at the Shareholders' Meeting, all the members of the Board of Statutory Auditors shall be taken from said list in compliance with applicable legislation and regulations in force at the time, also on the matter of gender balance. If no lists are submitted or only one list is submitted and it does not obtain the majority of votes represented at the Shareholders' Meeting or if it is not possible for any reason to appoint the Board of Statutory Auditors in accordance with the procedures established by article 23 of the Articles of Association, the members of the Board of Statutory Auditors shall be appointed by the Shareholders' Meeting

with ordinary procedures and majority vote of those represented, without applying the list voting mechanism, and in any case so as to ensure compliance with applicable legislation and regulations in force at the time on gender balance.

The Chairman of the Board of Statutory Auditors is identified as the standing auditor elected by the minority, unless only one list has been voted or no lists have been submitted, in which case the Chairman of the Board of Statutory Auditors shall be appointed by the Shareholders' Meeting deliberating by majority vote of those represented.

As regards the replacement of the Board of Statutory Auditors, art. 20 of the Articles of Association also sets forth that:

- if during the year a member of the Board of Statutory Auditors taken from the list that obtained the highest number of votes is no longer able to fulfil office, he shall be succeeded, until the next Shareholders' Meeting, by the first alternate auditor taken from the same list. If during the year a member of the Board of Statutory Auditors taken from a list other than the list that obtained the highest number of votes is no longer able to fulfil office, he shall be succeeded, also with functions of Chairman of the Board of Statutory Auditors, until the next Shareholders' Meeting, by the first alternate auditor taken from the same list;

- if the aforesaid mechanism of succession of alternate auditors does not allow compliance with applicable legislation and regulations in force at the time on gender balance, the Shareholders' Meeting must be called as soon as possible to ensure compliance with said legislation.

- if, pursuant to law the Shareholders' Meeting must appoint the statutory auditors required to restore the Board of Statutory Auditors to full membership following termination, the procedure shall take place as follows.

(a) if it is necessary to replace one or more members of the Board of Statutory Auditors taken from the list that obtained the highest number of votes, the replacement shall be made by decision of the ordinary Shareholders' Meeting deliberating by majority vote of those represented, without the choice being restricted to components of the lists submitted at the relevant time.

(b) if instead it is necessary to replace the member of the Board of Statutory Auditors taken from a list other than the one that obtained the highest number of votes, the Shareholders' Meeting, by majority vote of those represented, shall select the replacement, if possible, from the candidates stated in the list to which the statutory auditor to be replaced belonged, who provided written confirmation, at least 10 (ten) days before the date set for the Meeting, of their candidature, together with statements relating to the inexistence of causes of ineligibility or forfeiture, as well as the existence of the requirements established by applicable legislation and regulations in force at the time or by the Articles of Association for the office. If this replacement procedure is not possible, the member of the Board of Statutory Auditors shall be replaced by resolution to be passed by the majority vote of those represented in the Shareholders' Meeting, where possible in compliance with minority representation. All of which in compliance with applicable legislation and regulations in force at the time on gender balance.

If the requirements established by legislation and by the Articles of Association are no longer met, the member of the Board of Statutory Auditors shall fall from office.

## **13. COMPOSITION AND FUNCTIONING OF THE BOARD OF STATUTORY AUDITORS (PURSUANT TO ART. 123-BIS, PARAGRAPH 2, LETTER D), OF THE CONSOLIDATED LAW ON FINANCE)**

### **13.1 COMPOSITION OF THE BOARD OF STATUTORY AUDITORS**

The composition of the Board of Statutory Auditors in office at the date of this Report is reported in Table 3 attached in the appendix of this Report.

The Board of Statutory Auditors composed as so was appointed by the shareholders' meeting on 10 March 2017, effective from the date of the start of trading of the financial instruments of LU-VE on the MTA and shall remain in office until the date of the shareholders' meeting called to approve the financial statements for the year ended as at 31 December 2019. It should be noted that, as at said date, the financial instruments of LU-VE were listed on the AIM Italia, the alternative capital market organised and managed by Borsa Italiana S.p.A.: therefore, art. 148 of the Consolidated Law on Finance, which requires the Board of Statutory Auditors to be appointed on the basis of list voting to ensure that a standing member is taken from the list presented by minority shareholders, was not applicable to the Company, nor was the provision of the appointment on the basis of lists contained in the articles of association of LU-VE in force at the time; therefore, the current Board of Statutory Auditors was appointed by the shareholders' meeting based on a majority vote.

The personal and professional characteristics of each standing auditor in office at the date of this Report are reported below, also pursuant to art. 144-*decies* of the Issuers' Regulation.

- PAOLA MIGNANI – Chairman of the Board of Statutory Auditors

Paola Mignani graduated in Economics and Commerce from the Luigi Bocconi University of Milan in 1989. Since 1991, she has been enrolled in the Register kept at the National Institute of Chartered Accountants and, from 1995, has been listed in the Register of Auditors. She carries out her professional activities in Milan, currently at Partners S.p.A., a business advisory services company specialising in valuations of companies and business units, opinions regarding the application of Italian accounting standards and IAS/IFRS, corporate restructuring operations, technical advisory services (in relation to criminal proceedings, civil proceedings and arbitration proceedings) and, in general advisory services in relation to extraordinary transactions. Since 1991, she has been a member of the Board of Statutory Auditors and of the Board of Directors of various companies, including companies whose shares are listed on the Milan Stock Exchange. She is a tutor of Business Economics at the Independent University of Languages and Communication, and was previously a tutor at the Luigi Bocconi University.

- STEFANO BELTRAME – Standing Auditor

Stefano Beltrame, after having graduated in Economics and Commerce at the University of Trento, obtained the title of Chartered Accountants and is listed in the Register kept at the National Institute of Chartered Accountants of Belluno (since 2004). In addition, he has been enrolled in the Register of Auditors since 2003.

Over the course of his career, Stefano Beltrame has gained professional expertise in the field of advisory services and assistance in extraordinary business transactions and corporate restructuring operations, such as incorporations and dissolutions of companies, mergers, spin-offs, company transformations, purchase/sales of companies and corporate shareholdings, disposal of share packages in trusts, generational handovers, drafting of estimate appraisals, including certified, for the valuation of companies and business units, contract, corporate and tax advisory services, also with reference to “transfer pricing”, drafting of separate and consolidated financial statements, including of companies in international groups.

He also carries out auditing of financial statements and tax due diligence activities.

Since 2004, he has been a member of the Board of Statutory Auditors as Chairman, sole statutory auditor and standing auditor of various companies operating in the industrial and commercial sectors.

- IVANO PELASSA – Standing auditor

Ivano Pelassa graduated in Economics and Commerce from the University of Turin in 1999. Since 2003, he has been enrolled in the Register kept at the National Institute of Chartered Accountants of Turin as well as the Register of Auditors.

Since 2016, Ivano Pelassa is a Partner with the Mazars Group in Italy, and during his career, Ivano Pelassa has gained professional expertise in national and international tax matters, and specialist expertise in tax due diligence, transfer pricing and company restructuring processes for national and international entities. He has also gained international experience at a leading tax firm in Dublin, and in the tax department of Baker Tilly in London.

He is a member of the Board of Statutory Auditors of various companies operating in the industrial and commercial sectors, including companies whose shares are listed on the Milan Stock Exchange (MTA and AIM Italia).

## **13.2 FUNCTIONING OF THE BOARD OF STATUTORY AUDITORS**

The Board of Statutory Auditors met 14 times during the year, with the meetings lasting an average of about three hours.

The meetings were regularly and diligently attended by the members of the Board: more specifically, Paola Mignani (Chairman) 100%, Stefano Beltrame 100%, Ivano Pelassa 93%.

At least the majority of the Board of Statutory Auditors in office participated in all meetings of the Control and Risk Committee and the Remuneration and Appointments Committee.

Eleven meetings are planned for the current year, 3 of which have already been held as at the date of this Report.

No changes were made to the composition of the Board of Statutory Auditors from the date of the close of the Year.

In application of application criterion 8.C.1 of the Corporate Governance Code, the Board of Statutory Auditors verified that all its members met the independence requirements, also on the basis of the criteria set out in art. 3.C.1 of the Corporate Governance Code, at the meeting that installed the Board on 26 June 2017, subsequently communicating them to the Board of Directors, which notified these to the public by means of press release dated 27 June 2017.

The Board then verified the continued existence of the aforementioned requirements most recently, at the meeting of 18 March 2019, and reported to the Board of Directors at the board meeting of 22 March 2019.

## Diversity criteria and policies

At the date of this Report, the company has not adopted a diversity policies in relation to the composition of the Board of Statutory Auditors.

The Board of Directors saw fit not to adopt any policy regarding the diversity of the composition of the Board of Statutory Auditors, in relation to aspects such as age, gender composition and the training and professional path taken, with decision made at the meeting of 8 February 2018 and confirmed most recently on 19 February 2019, based on the following reasons: (i) the choice of members of the company's control body rests, in the first place, with the shareholders' meeting for appointment; (ii) on said occasion, it is hoped that the choice of candidates in the lists to be presented for appointment primarily satisfies the criteria of competence, professionalism and knowledge of the company and of the market in which the company operates, rather than diversity policies relating to aspects such as age and the training and professional process, without prejudice to compliance with the legislation governing gender diversity.

The Board of Statutory Auditors currently in office was appointed by the Shareholders' Meeting of 10 March 2017 when the financial instruments of LU-VE were listed on the AIM Italia, the alternative capital market organised and managed by Borsa Italiana S.p.A.: therefore the Company had not yet adopted the Corporate Governance Code, and paragraph 1-*bis* of article 148 of the Consolidated Law on Finance that requires the Company to provide, in its Articles of Association, that the appointment of the statutory auditors to elect has to be done to ensure that the less represented gender obtains at least one third of the standing members of the Board of Statutory Auditors did not apply, and the provision of appointments on the basis of gender balance was not in the Articles of Association of LU-VE in effect at the time; however, even though the current Board of Statutory Auditors was appointed by the Shareholders Meeting by majority voting, a third of its statutory members and one alternate member belong to the less represented gender.

Additionally, as described in the general section of paragraph 4.2 of this Report, the LU-VE Articles of Association in effect as at the date of this Report provide adequate mechanisms to ensure that a third of the members who will be elected upon renewal of the current Board of Statutory Auditors will belong to the less represented gender.

## Induction Programme

In relation to application criterion 2.C.2 of the Corporate Governance Code, it should be noted that participation in the Board meetings, owing to their contents and frequency, allows statutory auditors to obtain adequate knowledge of the business sector in which the LU-VE Group operates, the company trends and their developments, the principles of correct risk management as well as

the associated reference regulatory framework. In particular, during the meetings of the Board of Directors that are held at the company's administrative headquarters during the Year, the statutory auditors received information and constant insights on each specific sector in which the LU-VE Group carries out its activities, in order to best understand the company trends underlying the business and the relevant developments that have taken place during the Year.

In addition, the Chairman of the Board of Directors ensured that the Board of Statutory Auditors was able to receive information on the business sector and on the specific risks relating to the company and to the Group, ensuring that the competent company functions represented the activities in progress and any criticalities to emerge in a comprehensive and accurate manner. All Statutory Auditors also visited the Uboldo facility.

In addition to the above, the Board of Statutory Auditors took part in the induction programme meetings held for the members of the Board of Directors, as illustrated in previous paragraph 4.2 of this Report.

The remuneration of the Statutory Auditors is commensurate to the commitment required, the relevance of the role covered as well as the size and sector-related characteristics of the company.

The Statutory Auditor who has, on his own behalf or on behalf of third parties, an interest in a given transaction of the issuer, promptly and fully informs the other statutory auditors and the Chairman of the Board of Directors regarding the nature, terms, origin and scope of his interest.

The Board of Statutory Auditors, in carrying out its activity, coordinated with the Manager of the Internal Audit function and with the Control and Risk Committee and the Supervisory Body, both through joint meetings and through the participation of the members of one body in the meetings of another body, thus determining the areas of action of each one, in order to optimise the controls and initiatives and guarantee an effective exchange of information.

## **14. RELATIONS WITH SHAREHOLDERS**

In order to make dialogue with its shareholders easier, the Issuer created an appropriate section called “*Investor Relations*” on its website [www.luvegroup.com](http://www.luvegroup.com), in which it publishes all the necessary financial and corporate information for the community of investors and, more specifically, for shareholders for the exercising of their rights in a fully-informed manner.

The Company appointed company director Michele Garulli as the Investor Relation officer, responsible for managing relations with shareholders. The reference details that allow contact to be made with the Investor Relations structure (also accessible on-line on the website [www.luvegroup.com](http://www.luvegroup.com), section “*Contacts*”) are as follows: telephone 02 967 161- fax 02 967 805 60 - e-mail: [investor.relations@luvegroup.com](mailto:investor.relations@luvegroup.com). The Investor Relation Officer, in carrying out his activities, avails himself of the support of the Group CFO and the Manager of Group Legal and Corporate Affairs.

It should be noted that the Company complies with the disclosure obligations set forth in the applicable legislation and regulations, with precision and promptness, and has structured its website to make easy for the public to access information regarding the Issuer.



## **15. SHAREHOLDERS MEETINGS (PURSUANT TO ART. 123-BIS, PARAGRAPH 2, LETTER D) OF THE CONSOLIDATED LAW ON FINANCE)**

Pursuant to art. 11 of the Articles of Association, the Shareholders' Meetings are called according to the methods and terms prescribed in the currently applicable law and regulations.

In compliance with the provisions of application criterion 9.C.2 of the Corporate Governance Code, all directors normally take part in the Shareholders' Meetings. For the validity of constitution and the resolutions of the Shareholders' Meeting, both ordinary and extraordinary, the applicable legal provisions apply pursuant to art. 11 of the Articles of Association.

The Shareholders' Meeting resolves on the matters within its competence pursuant to the applicable legislation, given no provision is made in the Articles of Association for further specific competences. It should be noted that the Articles of Association, pursuant to art. 2365, paragraph 2 of the Italian Civil Code, attributes the Board of Directors with the competence to resolve mergers in the cases set forth in articles 2505 and 2505-bis of the Italian Civil Code, the opening and closing of secondary offices, the reduction in share capital in the event of the withdrawal of shareholders, the adjustment of the Articles of Association in line with the regulatory provisions and the transfer of the company's headquarters within Italy.

The legitimate right to take part in the Shareholders' Meeting and exercise the right to vote are governed by the legislation and regulations currently in force; art. 11 of the Articles of Association envisages that the proxy for representation in the shareholders' meeting may also be notified to the Company electronically, through transmission by certified e-mail in accordance with the procedures stated in the notice of call.

The Articles of Association make no provision for the shareholders' meeting to also be held via audio/video-conference, nor methods of voting electronically or by correspondence.

In accordance with article 6 *bis* of the Articles of Association introduced by the Shareholder's Meeting of 30 October 2018, each shareholder will have the option to have an increased voting right.

More specifically, each share will have the right to a double vote where both the following conditions have been fulfilled: (i) the party has the right to vote in accordance with a legitimate real right (full ownership with voting rights, bare ownership with voting rights or beneficial interest with voting right) for a continuous period of at least twenty-four months; (ii) the existence of said condition has been continuously registered for the same period of time on the special list established by the Company.

The Board of Directors has therefore established a special list to validate the double voting benefit (the "List") and appointed a person to manage the special list, defining the maintenance criteria in a rule published on the website of the Company [www.luvegroup.com](http://www.luvegroup.com), section "Investor relations" "Increased vote".

The list of relevant shareholders registered on the special list to give the right to increased voting rights of LU-VE S.P.A is published in the same section, in accordance with article 143-*quater*, paragraph 5 of the Issuers' Regulation.

With regards to the regulation of the activities of the Shareholders' Meeting, both ordinary and extraordinary, it should be pointed out that, on 10 March 2017, the Shareholders' Meeting adopted the "Shareholders' Meeting Regulation of LU-VE S.p.A", in order to guarantee the correct and organised functioning of the meeting and, in particular, the right of each shareholder to take part, follow the debate, express his/her opinion on the matters being discussed and the right to exercise his/her vote. This regulation - published in the section "*Investor Relations*" - "*Corporate Governance*" – "*Corporate documents*" of the website [www.luvegroup.com](http://www.luvegroup.com) – represents an effective tool for guaranteeing the protection of the rights of all shareholders and the correct establishment of the intent of the shareholders' meeting.

In compliance with art. 8 of the Shareholders' Meeting Regulation and application criterion 9.C.3 of the Corporate Governance Code, all those who attend the Shareholders' Meeting are entitled to take the floor on each of the items put up for discussion, by presenting a written request to the Chairman of the meeting containing an indication of the matter to which the request refers, which may be presented as long as the Chairman of the meeting has not declared the discussion closed on the matter to which the request to speak refers. Taking into account the subject matter and importance of individual items on the agenda, when opening the meeting the Chairman of the meeting can specify the period of time - in any event not less than five minutes - allotted to each speaker to complete their speech. Those who have already participated in the discussion can ask to take the floor again in relation to the same topic, after the replies stage has ended.

The Board of Directors reported to the shareholders on the activities carried out and planned for the shareholders' meeting of 27 April 2018, illustrating the financial and economic performance of the Group for 2017, and giving participants the right to ask any question or make any request considered suitable. Additionally, at the meeting, the Board of Directors, for the first time, has submitted the Remuneration Policy of the LU-VE Group, defined upon proposal of the Remuneration and Appointments Committee.

\* \* \*

Two Shareholders' Meetings were held during the year: on 27 April 2018 and 30 October 2018.

The Shareholders' Meeting of 27 April 2018 was held in the presence of 12 of the 13 directors in office at the time (Chairman Iginio Liberali, Vice Chairman Pier Luigi Faggioli, the directors Matteo Liberali, Michele Faggioli, Attilio Arietti, Giovanni Cavallini, Fabio Liberali, Michele Garulli, Anna Gervasoni, Laura Oliva, Stefano Paleari and Roberta Pierantoni were present; director Marco Vitale was justifiably absent): the Board of Directors, through publication of the documentation required under prevailing laws and regulations, ensured that the shareholders had enough information for them to make, with full knowledge of the facts, the decisions within the competence of the shareholders' meeting.

The Shareholders' Meeting of 30 October 2018 was held in the presence of 6 of the 12 directors in office at the time (Chairman Iginio Liberali, the directors Matteo Liberali, Michele Faggioli, Michele Garulli, Fabio Liberali and Roberta Pierantoni were present; the Vice Chairman, Pier Luigi Faggioli and Directors Giovanni Cavallini, Anna Gervasoni, Laura Oliva, Stefano Paleari and Marco Vitale were justifiably absent): also in this case, the Board of Directors, through publication of the report on the agenda of both the ordinary and extraordinary sessions, ensured that the shareholders had

enough information for them to make, with full knowledge of the facts, the decisions within the competence of the shareholders' meeting.

With reference to application criterion 9.C.4 of the Corporate Governance Code, it should lastly be pointed out that, during the Year, the changes to the market capitalisation of the shares of the Issuer are in line with the market trend, and no substantial changes to the composition of the Issuer's shareholding structure were verified.

**16. ADDITIONAL CORPORATE GOVERNANCE PROCEDURES  
(PURSUANT TO ART. 123-BIS, PARAGRAPH 2, LETTER A), OF THE CONSOLIDATED LAW  
ON FINANCE)**

The Company did not adopt any additional corporate governance procedures with respect to those described in this Report.

## **17. CHANGES AFTER THE CLOSE OF THE YEAR**

From the date of the close of the Year until the date of approval of this Report, no changes to the Company's governance structure were recorded.

## **18. CONSIDERATIONS ON THE LETTER OF 21 DECEMBER 2018 OF THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE**

The recommendations formulated by the Chairman of the Corporate Governance Committee promoted by Borsa Italiana S.p.A. were examined by the Board of Directors at the meeting on 19 February 2019, during which observations were formulated in this regard, taking into account the outcomes of the examination of the aforementioned letter, conducted by the Remuneration and Appointments Committee (at the meetings on 18 February and 18 March 2019) and by the Control and Risk Committee (at the meeting on 18 February 2019), each regarding the matters within their competence.

More specifically, the Board, during the course of the meeting of 19 February 2019, in carrying out the activities on the periodic board evaluation, paid special attention to the letter of December 2018, confirming the importance of promptly receiving information and documentation prior to meetings, in compliance with the recommendations formulated in the aforementioned letter; lastly, it judged the information received from the delegated bodies during the board meetings to be adequate and satisfactory, both with reference to the general operating trend and the transactions carried out with related parties; it also assessed the transparency of the board evaluation process, considering that the procedures followed by the Company, where the Lead Independent Director supervised the entire process, already complied with the instructions contained in the letter. However, considering the role that the Remuneration and Appointments Committee will have to play in the renewal of the corporate offices, which will end with approval of the financial statements as at 31 December 2019, it also decided, starting from 2019, to put the Remuneration and Appointments Committee in charge of the board evaluation process.

The recommendation regarding the concrete and full application of the independence criteria recommended by the Code was fully complied with by the Board of Directors, also when checking whether its members fulfilled those requirements, which it did at the board meeting of 19 February 2019.

With regard to the request in said letter with the recommendation regarding the remuneration of the executive directors, at the meeting of 22 March 2019, the Board of Directors agreed with what had also been pointed out by the Remuneration and Appointments Committee regarding the importance of aiming bonus policies for the executive directors at the sustainable management of the company activities in the medium and long term; to that end, regarding the variable component of the MBO for 2019, executive directors have been given performance goals related to the sustainability of the above-mentioned activities. The Board of Statutory Auditors examined, to the extent of its duties, the recommendations made in the above mentioned letter to both the Control and Risk Committee and the Remuneration and Appointments Committee, at the meeting held on 18 February 2019.

Uboldo, 22 March 2019

The Chairman of the Board of Directors

Iginio Liberali

## TABLES

**TABLE 1: INFORMATION ON OWNERSHIP STRUCTURES**

<b>STRUTTURA DEL CAPITALE SOCIALE</b>				
	<b>n° azioni</b>	<b>% rispetto al c.s.</b>	<b>quotato (indicare i mercati) / non quotato</b>	<b>diritti e obblighi</b>
<b>Azioni ordinarie</b>	22.234.368	100%	quotate nel Mercato Telematico Azionario standard gestito da Borsa Italiana S.p.A.	-
<b>Azioni a voto multiplo</b>	-	-	-	-
<b>Azioni con diritto di voto limitato</b>	-	-	-	-
<b>Azioni prive del diritto di voto</b>	-	-	-	-
<b>Altro</b>	-	-	-	-

<b>PARTECIPAZIONI RILEVANTI NEL CAPITALE</b>			
<b>Dichiarante</b>	<b>Azionista diretto</b>	<b>Quota % su capitale sociale</b>	<b>Quota % su capitale votante</b>
Matteo Liberali	Finami S.p.A.	50,26%	50,26%
G4 S.r.l.	G4 S.r.l.	17,56%	17,56%

**TABLE 2: STRUCTURE OF THE BOARD OF DIRECTORS AND OF THE COMMITTEES**

Consiglio di amministrazione													Comitato controllo e rischi		Comitato Remunerazione e nomine	
Carica	Componenti	Anno di nascita	Data di prima nomina*	In carica da	In carica fino a	Lista** (1)	Esec.	Non eseg.	Indip. Codice	Indip. TUF	N. altri incarichi ***	(*)	(*)	(**)	(*)	(**)
Presidente	Iginio Liberali	1931	1985	10.03.2017	Approvazione bilancio al 31.12.2019	NA	x				0	10/10				
Vice Presidente	Pier Luigi Faggioli	1936	2014	10.03.2017	Approvazione bilancio al 31.12.2019	NA	x				0	9/10				
Amministratore Delegato • ◊	Matteo Liberali	1968	2003	10.03.2017	Approvazione bilancio al 31.12.2019	NA	x				0	10/10				
Amministratore Delegato	Michele Faggioli	1967	2014	10.03.2017	Approvazione bilancio al 31.12.2019	NA	x				0	10/10				
Amministratore	Giovanni Cavallini	1950	2015	10.03.2017	Approvazione bilancio al 31.12.2019	NA		x	x	x	2	8/10				
Amministratore	Michele Garulli	1959	2008	10.03.2017	Approvazione bilancio al 31.12.2019	NA		x			1	10/10	6/7	M		
Amministratore	Anna Gervasoni	1961	2017	10.03.2017	Approvazione bilancio al 31.12.2019	NA		x	x	x	4	8/10	7/7	M	6/6	M
Amministratore	Fabio Liberali	1963	2008	10.03.2017	Approvazione bilancio al 31.12.2019	NA		x			0	8/10				
Amministratore	Laura Oliva	1968	2017	10.03.2017	Approvazione bilancio al 31.12.2019	NA		x			0	10/10				
Amministratore ◦	Stefano Paleari	1965	2015	10.03.2017	Approvazione bilancio al 31.12.2019	NA		x	x	x	1	10/10	7/7	P	6/6	P
Amministratore	Roberta Pierantoni	1971	2017	10.03.2017	Approvazione bilancio al 31.12.2019	NA		x			1	10/10			6/6	M
Amministratore	Marco Vitale	1935	1985	10.03.2017	Approvazione bilancio al 31.12.2019	NA		x			2	5/10				



AMMINISTRATORI CESSATI DURANTE L'ESERCIZIO DI RIFERIMENTO															
<b>Amministratore</b>	<b>Attilio Arietti</b>	1950	2015	10.03.2017	Approvazione bilancio al 31.12.2019	NA		x			0	3/3			
<b>N. riunioni svolte durante l'anno di riferimento: 10</b>						Comitato controllo e rischi: 7			Comitato remunerazioni e nomine: 6						
<b>Quorum richiesto per la presentazione delle liste in occasione dell'ultima nomina: N.A. (1)</b>															

**NOTE**

I simboli di seguito indicati devono essere inseriti nella colonna "Carica":

• Questo simbolo indica l'amministratore incaricato del sistema di controllo interno e di gestione dei rischi.

◊ Questo simbolo indica il principale responsabile della gestione dell'emittente (Chief Executive Officer o CEO).

○ Questo simbolo indica il Lead Independent Director (LID).

\* Per data di prima nomina di ciascun amministratore si intende la data in cui l'amministratore è stato nominato per la prima volta (in assoluto) nel CdA dell'emittente.

\*\* In questa colonna è indicata la lista da cui è stato tratto ciascun amministratore ("M": lista di maggioranza; "m": lista di minoranza; "CdA": lista presentata dal CdA).

\*\*\* In questa colonna è indicato il numero di incarichi di amministratore o sindaco ricoperti dal soggetto interessato in altre società quotate in mercati regolamentati, anche esteri, in società finanziarie, bancarie, assicurative o di rilevanti dimensioni. Nella Relazione sulla corporate governance gli incarichi sono indicati per esteso.

(\*) In questa colonna è indicata la partecipazione degli amministratori alle riunioni rispettivamente del CdA e dei comitati (indicare il numero di riunioni cui ha partecipato rispetto al numero complessivo delle riunioni cui avrebbe potuto partecipare; p.e. 6/8; 8/8 ecc.).

(\*\*) In questa colonna è indicata la qualifica del consigliere all'interno del Comitato: "P": presidente; "M": membro.

(1) alla data dell'assemblea di nomina del CdA, gli strumenti finanziari di LU-VE erano quotati sull'AIM Italia, mercato alternativo del capitale organizzato e gestito da Borsa Italiana S.p.A.: alla Società non era quindi applicabile l'art 147ter del TUF, che prevede che l'organo amministrativo sia nominato con voto di lista, né la previsione della nomina sulla base di liste era contenuta nello statuto sociale di LU-VE allora vigente; pertanto, l'attuale consiglio è stato nominato dall'assemblea con voto a maggioranza.

**TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS**

Carica	Componenti	Anno di nascita	Data di prima nomina*	In carica da	In carica fino a	Lista** (1)	Indip. Codice	Partecipazioni riunioni del Collegio ***	N. altri incarichi ****
Presidente	Paola Mignani	1966	2017	10.03.2017 (2)	Approvazione bilancio al 31.12.2019	NA	x	14/14	16
Sindaco Effettivo	Stefano Beltrame	1973	2014	10.03.2017 (2)	Approvazione bilancio al 31.12.2019	NA	x	14/14	7
Sindaco Effettivo	Ivano Pelassa	1974	2015	10.03.2017 (2)	Approvazione bilancio al 31.12.2019	NA	x	13/14	5
Sindaco Supplente	Mauro Cerana	1965	2008	10.03.2017 (2)	Approvazione bilancio al 31.12.2019	NA	x	NA	17
Sindaco Supplente	Giulia Chiarella	1984	2015	10.03.2017 (2)	Approvazione bilancio al 31.12.2019	NA	x	NA	1
<b>Quorum richiesto per la presentazione delle liste in occasione dell'ultima nomina: N.A. (1)</b>									
<b>Numero riunioni svolte durante l'Esercizio di riferimento: 14</b>									

**NOTE**

\* Per data di prima nomina di ciascun sindaco si intende la data in cui il sindaco è stato nominato per la prima volta (in assoluto) nel collegio sindacale dell'emittente.

\*\* In questa colonna è indicata lista da cui è stato tratto ciascun sindaco ("M": lista di maggioranza; "m": lista di minoranza).

\*\*\* In questa colonna è indicata la partecipazione dei sindaci alle riunioni del collegio sindacale (indicare il numero di riunioni cui ha partecipato rispetto al numero complessivo delle riunioni cui avrebbe potuto partecipare; p.e. 6/8; 8/8 ecc.).

\*\*\*\* In questa colonna è indicato il numero di incarichi di amministratore o sindaco ricoperti dal soggetto interessato ai sensi dell'art. 148-bis TUF e delle relative disposizioni di attuazione contenute nel Regolamento Emittenti Consob. L'elenco completo degli incarichi è pubblicato dalla Consob sul proprio sito internet ai sensi dell'art. 144-quinquiesdecies del Regolamento Emittenti Consob.

(1) alla data dell'assemblea di nomina del Collegio Sindacale gli strumenti finanziari di LU-VE erano quotati sull'AIM Italia, mercato alternativo del capitale organizzato e gestito da Borsa Italiana S.p.A.: alla Società non era quindi applicabile l'art 148 del TUF, che prevede che l'organo di controllo sia nominato con voto di lista, né la previsione della nomina sulla base di liste era contenuta nello statuto sociale di LU-VE allora vigente; pertanto, l'attuale collegio sindacale è stato nominato dall'assemblea con voto a maggioranza.

(2) il Collegio sindacale è stato nominato dall'assemblea in data 10 marzo 2017, con efficacia dalla data di avvio delle negoziazioni dei titoli LU-VE sul MTA, avvenuta il 21 giugno 2017.