



***REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE  
pursuant to art. 123-bis of the Consolidated Financial Act  
(traditional administration and control model)***

***Report approval date: 15 March 2019  
Year to which the Report refers: 2018***

***[www.irce.it](http://www.irce.it)***

## **TABLE OF CONTENTS**

### Glossary

- 1 Issuer profile
- 2 Information on the Ownership Structure (pursuant to art. 123-bis, paragraph 1 of the Consolidated Financial Act)
- 3 Compliance (pursuant to art. 123-bis, paragraph 2, letter a) of the Consolidated Financial Act)
- 4 Board of Directors
- 5 Processing of corporate information
- 6 Committees within the Board (pursuant to art. 123-bis, paragraph 2, letter d) of the Consolidated Financial Act)
- 7 Nomination Committee
- 8 Remuneration Committee
- 9 Remuneration of directors
- 10 Control and Risks Committee
- 11 Internal control and risk management system
- 12 Director interests and related-party transactions
- 13 Appointment of Statutory Auditors
- 14 Composition and functioning of the Board of Statutory Auditors (pursuant to art. 123-bis, paragraph 2, letters d) and d-bis) of the Consolidated Financial Act)
- 15 Relations with shareholders
- 16 Shareholders' Meetings (pursuant to art. 123-bis, paragraph 2, letter c) of the Consolidated Financial Act)
- 17 Further corporate governance procedures (pursuant to art. 123-bis, paragraph 2, letter a) of the Consolidated Financial Act)
- 18 Changes since the end of the reporting period
- 19 Considerations on the letter of the Chair of the Corporate Governance Committee dated 21 December 2018

### **TABLES**

TABLE 1: INFORMATION ON THE OWNERSHIP STRUCTURE

TABLE 2: COMPOSITION OF THE BOARD OF DIRECTORS AND THE COMMITTEES

TABLE 3: COMPOSITION OF THE BOARD OF STATUTORY AUDITORS

## GLOSSARY

**Code/Corporate Governance Code:** the Corporate Governance Code of listed companies approved in July 2014 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A., ABI, Ania, Assogestioni, Assonime and Confindustria.

**Civil Code:** the Italian Civil Code.

**Board:** the Board of Directors of the Issuer.

**Issuer:** the issuer of securities to which the Report refers.

**Year:** the year to which the Report refers.

**Consob Issuers' Regulations:** Regulations issued by Consob with Resolution No. 11971 of 1999 (as subsequently amended) concerning issuers.

**Consob Markets Regulations:** Regulations issued by Consob with Resolution No. 20249 of 2017 (as subsequently amended) concerning markets.

**Consob Regulations on related-party transactions:** Regulations issued by Consob with Resolution No. 17221 of 12 March 2010 (as subsequently amended) concerning transactions with related parties.

**Report:** the report on corporate governance and ownership structure that companies shall prepare in compliance with art. 123-bis of the Consolidated Financial Act.

**Consolidated Financial Act:** Legislative Decree No. 58 of 24 February 1998.

## 1. Issuer profile

### GOVERNANCE

The company's governance structure is based on the traditional model and is composed of the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors.

### MISSION

The IRCE Group is an important industrial player of European significance, which produces and trades the following products:

- Winding wires for electrical machines. This type of product is used in a wide range of applications such as engines and electric generators, transformers, inductors and relays, and its use has grown over the years mainly due to the constant expansion of automation. The production of wires accounts for around 80% of the group's total turnover.
- Insulated electrical cables. This product is used in the production of residential and industrial electrical systems and for the supply and connection of electrical equipment. The production of insulated electrical cables accounts for around 20% of the group's total turnover.

### CORPORATE RESPONSIBILITY

With Board of Directors' resolution of 28 March 2008, the company established its Code of Ethics (updated on 13 December 2014) which states all the rights, duties and responsibilities of company bodies with respect to all the parties they have relations with in achieving the business purpose (customers, debtors, suppliers, employees and/or external staff, shareholders, supervisory bodies, institutions). These conduct guidelines shall thus be taken into consideration in daily work and in compliance with the laws and regulations in force in all the Countries in which the company operates. The code establishes reference standards and rules of conduct aimed at strengthening company decision-making processes and guiding the conduct of all those working for the company.

### SME STATUS

The company falls within the definition of an SME pursuant to art. 1, letter w-quater.1) of the Consolidated Financial Act, and pursuant to art. 2-ter) of Consob Issuers' Regulations. This is due to the fact that for three consecutive years the company has not exceeded either of the limits as per the aforesaid art. 1, letter w-quater.1) of the Consolidated Financial Act.

The company notified Consob of its SME status.

The capitalization and turnover shown in the SME list published by Consob on its website (art. 2-ter, paragraph 2 of Consob Issuers' Regulations) are as follows:

FISCAL CODE	COMPANY NAME	DATE YEAR END IF DIFFERENT FROM 31/12	FINANCIAL YEAR
82001030384	IRCE S.P.A.		2018

2017 AVERAGE CAPITALIZATION	2016 AVERAGE CAPITALIZATION	2015 AVERAGE CAPITALIZATION	2014 AVERAGE CAPITALIZATION
€ 65,780,610	€ 49,905,823	€ 57,032,538	€ 54,828,332

TURNOVER 2017	TURNOVER 2016	TURNOVER 2015	TURNOVER 2014
€ 357,818,008	€ 296,719,894	€ 350,572,234	€ 351,749,372

	TURNOVER COMPONENTS 2017	TURNOVER COMPONENTS 2016	TURNOVER COMPONENTS 2015	TURNOVER COMPONENTS 2014
SALES REVENUES	€ 357,125,758	€ 295,901,236	€ 349,928,648	€ 350,611,474
OTHER INCOME	€ 692,250	€ 818,658	€ 643,586	€ 1,137,898

## **2. Information on the Ownership Structure as at 15 March 2019**

(pursuant to art. 123-bis, paragraph 1, of the Consolidated Financial Act)

### **a) Structure of share capital** (pursuant to art. 123-bis, paragraph 1, letter a) of the Consolidated Financial Act)

The share capital is composed of ordinary shares, ownership of which entails full observance of the Articles of Association and the resolutions of the Shareholders' Meeting; subscribed and paid-up share capital amounts to € 14,626,560 divided into 28,128,000 ordinary shares. The shares are fully subscribed and paid up and bear no rights, privileges or restrictions as far as dividend distribution and capital repayment are concerned.

The share categories which make up the share capital (and the existence of any other financial instruments that grant rights to subscribe to new shares) are shown in Table 1 of the Annex.

There are no share-based incentive plans (stock options, stock grants, etc.) which could result in an increase of the share capital, with consideration or otherwise.

### **b) Restrictions regarding the transfer of shares** (pursuant to art. 123-bis, paragraph 1, letter b) of the Consolidated Financial Act)

There are no restrictions regarding the transfer of shares.

### **c) Significant equity investments** (pursuant to art. 123-bis, paragraph 1, letter c) of the Consolidated Financial Act)

Significant equity investments, whether direct or indirect (for example through stock pyramids or cross-ownership), as emerging from communications provided pursuant to art. 120 of the Consolidated Financial Act and concerning shares with voting rights exceeding 3% of share capital, are shown in Table 1 of the Annex.

### **d) Shares granting special rights** (pursuant to art. 123-bis, paragraph 1, letter d) of the Consolidated Financial Act)

No shares have been issued that grant special control rights.

None of the special powers under Law 474/94 apply, nor are there any provisions in the Articles of Association for shares with multiple voting rights or increased voting rights.

### **e) Employee stock ownership: mechanism for exercising voting rights** (pursuant to art. 123-bis, paragraph 1, letter e) of the Consolidated Financial Act)

There is no employee stock ownership plan.

### **f) Restrictions on voting rights** (pursuant to art. 123-bis, paragraph 1, letter f) of the Consolidated Financial Act)

There are no restrictions on voting rights.

### **g) Agreements among shareholders** (pursuant to art. 123-bis, paragraph 1, letter g) of the Consolidated Financial Act)

The Company is not aware of any agreements among shareholders pursuant to art. 122 of the Consolidated Financial Act.

**h) Change of control clauses** (pursuant to art. 123-bis, paragraph 1, letter h) of the Consolidated Financial Act) **and statutory provisions on takeover bids** (as per art. 104, paragraph 1-ter and art. 104-bis, paragraph 1))

Neither the company nor its subsidiaries have entered into significant agreements that shall be effective, modified or terminated in the event of changes of control of the contracting company.

The Articles of Association of IRCE S.p.A. do not depart from the provisions on the "passivity rule" laid down by art. 104, paragraphs 1 and 2 of the Consolidated Financial Act, nor do they envisage the application of the "neutrality rule" provided for by art. 104-bis, paragraphs 2 and 3 of the Consolidated Financial Act.

**i) Delegated powers to increase share capital and authorisations to purchase treasury shares** (pursuant to art. 123-bis, paragraph 1, letter m) of the Consolidated Financial Act)

No powers have been delegated to the Board in order to increase share capital in compliance with art. 2443 of the Italian Civil Code or to issue financial instruments with characteristics of equity.

On 26 April 2018, the Shareholders' Meeting resolved to authorise the purchase and disposal of treasury shares in compliance with art. 2357 et seq. of the Italian Civil Code; the authorisation had a duration of 18 months. The face value of the purchased shares could not exceed one fifth of the capital. The number of treasury shares that could be purchased could not exceed 5,625,600. The number of treasury shares in the portfolio as at 31 December 2018 is 1,515,314, corresponding to 5.39% of the share capital.

**l) Management and coordination activities** (pursuant to art. 2497 et seq. of the Italian Civil Code)

Although the majority shareholder, Aequafin S.p.A. does not perform management and coordination activities pursuant to art. 2497 et seq. of the Italian Civil Code, the following should be noted:

- the information required by art. 123-bis, paragraph 1, letter i) of the Consolidated Financial Act ("agreements between the company and directors, on indemnities in the event of unfair resignations or dismissals or if the employment relationship ceases following a takeover bid") is not included in the Report on remuneration published in compliance with art. 123-ter of the Consolidated Financial Act since indemnities of this kind are not envisaged;
- the information required by art. 123-bis, paragraph 1, letter l) of the Consolidated Financial Act ("provisions applicable to the nomination and replacement of directors ... and to the amendment of the Articles of Association, if different from legislative and regulatory ones applicable as a supplementary measure") are illustrated in the section of the Report dedicated to the Board of Directors (Section. 4.1).

**3. Compliance** (pursuant to art. 123-bis, paragraph 2, letter a) of the Consolidated Financial Act)

IRCE S.p.A. has adopted an internal organisational structure and a standard system of corporate governance, which complies, in substance, with the Corporate Governance Code for listed companies approved in 2006 by the Corporate Governance Committee and promoted by Borsa Italiana S.p.A. (last update in July 2018).

The Corporate Governance Code is accessible to the public on the website of the Corporate Governance Committee:

<https://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.en.htm>

The company and the subsidiaries are not subject to non-Italian legal provisions that influence their Corporate Governance structure.

## 4. Board of Directors

### 4.1 Appointment and replacement (pursuant to art. 123-bis, paragraph 1, letter l) of the Consolidated Financial Act)

In compliance with the Articles of Association, the company is managed by a Board of Directors composed of a minimum of three and a maximum of twelve members elected on the basis of lists of candidates presented by the shareholders that hold, in total, an interest not lower than that established by the Consob Issuers' Regulations, and who have the obligation of proving ownership of the number of shares necessary to submit the lists within the deadline of two days prior to the shareholders' meeting first call.

In compliance with the Consob Issuers' Regulations, the interest necessary for presenting the list will be indicated in the notice of each Shareholders' Meeting convened to resolve on the appointment of the directors.

Each shareholder, as well as the shareholders belonging to the same group (as defined pursuant to the relevant legal provisions and regulations) or subscribing to a shareholder agreement regarding company shares, cannot present or vote, directly, by third parties, or via trust companies, more than one list.

The lists submitted shall comply with the criteria of art. 147-ter, paragraph 1-ter of the Consolidated Financial Act, so as to ensure that the composition to the board ensures gender balance.

At least one of the members of the Board of Directors is chosen from among a minority list, as prescribed by art. 147-ter, paragraph 3 of the Consolidated Financial Act.

Each candidate may appear in only one list under penalty of ineligibility and must be in possession of the integrity requirements provided by the applicable legal and regulatory provisions.

Each list must include a number of candidates equal at least to the minimum number, and not higher than the maximum number minus one, of directors who can be appointed in compliance with the Articles of Association, listed in progressive order, of which a number equal at least to the one provided for by the Consolidated Financial Act, regulations of the supervisory authority and/or codes of conduct of market management companies, must be in possession of the independence requirements provided for by the above regulations.

The lists must be lodged at the company registered office at least fifteen days prior to the date fixed for the shareholders' meeting first call.

Together with each list, within the presentation deadline, the shareholders that present it must lodge: a detailed information regarding the personal and professional characteristics of the candidates, declarations with which the individual candidates irrevocably accept the office, if appointed, and state, under their own responsibility and under penalty of exclusion from the list, the non-existence of causes of ineligibility or incompatibility, as well as the meeting of the requirements prescribed by the law for taking the office, and the possession of independence requirements, if any.

Lists that have been presented without observing the above-mentioned provisions are considered as not having been presented.

If two or more lists should be presented and admitted, the number of directors will be equal to that of the candidates of the list that has obtained the majority of votes plus one.

In this case, based on the outcome of voting, the candidates of the list that has obtained the majority of votes and the first candidate in the list that has obtained the second best result and is not in any way connected to the shareholders of the list with the majority of votes, will be elected.

The director chosen from among the minority list must be in possession of the independence requirements prescribed by applicable legislative provisions, rules of the supervisory authority and/or codes of conduct of market management companies.

If only one list should be presented, or admitted to voting, the number of directors will be equal to the number of candidates of said list, who will be appointed as directors.

If an equal number of votes are obtained from more than one list, crucial for the purposes of the election procedure, a second vote will be held between such lists by all the shareholders present in the meeting.

The Board of Directors remains in office for the period established by the shareholders' meeting at the

time of appointment, for a maximum of three financial years, and precisely until the date of the Shareholders' Meeting convened to approve the financial statements of the last year of office. Directors whose term of office has expired may be re-elected.

If, during the year, for any reason, one or more directors should cease to hold office, the others shall take measures to replace them with a resolution approved by the Board of Statutory Auditors; the directors appointed in this way remain in office until the next Shareholders' Meeting. Should such a director be a member voted by the minority list, replacement is made preferably by selecting a candidate, in progressive order, from the list to which the director being replaced belonged, provided that the candidate is still eligible and willing to accept the office.

If, due to resignations or other causes, the majority of members of the Board of Directors no longer exist, the entire Board's term of office will end and the directors remaining in office must urgently convene the Shareholders' Meeting to appoint a new Board.

For other aspects not covered by the Articles of Association, reference shall be made to the provisions of the law and regulations in force.

The Articles of Association do not envisage requirements of independence, integrity and professionalism beyond those established for auditors in compliance with art. 148 of the Consolidated Financial Act for assuming the office of director.

The company is not subject to further sector provisions concerning the composition of the Board of Directors.

The lists presented by the shareholders shall comply with the principles laid down by art. 147-ter, paragraph 1-ter of the Consolidated Financial Act to ensure that the composition of the Board of Directors ensure gender balance.

## **Succession plans**

In consideration of the structure and the size of the group, the Board of Directors has not adopted any succession plans for executive directors considering the replacement procedures adopted as appropriate to ensure continuity and certainty for company operations.

## **4.2 Composition** (pursuant to art. 123-bis, paragraph 2, letter d) and d)-bis of the Consolidated Financial Act)

In compliance with company Articles of Association, the Board of Directors is composed of three to twelve members, elected by the Shareholders' Meeting. Their term of office lasts for a period of no more than three years, as established at the time of appointment, and it ends on the date of the Shareholders' Meeting convened to approve the financial statements relating to their last year of office.

At the end of 2018, the Board of Directors was composed as follows:

- Filippo Casadio (Chairman of the Board of Directors, Executive Director);
- Francesco Gandolfi Colleoni (Executive Director);
- Gianfranco Sepriano (Non-Executive Director);
- Orfeo Dallago (Lead Independent Director);
- Francesca Pishedda (Independent Director);
- Gigliola Di Chiara (Independent Director).

The Board in office was appointed by the Ordinary Shareholders' Meeting of 28 April 2016 for the years 2016, 2017 and 2018 and its term of office will end on the date of the Shareholders' Meeting convened to approve the financial statements for the year 2018. Only one list was presented by the shareholder Aequafin S.p.A.; said list was approved unanimously.

A brief description follows of the personal and professional characteristics of each appointed director (in compliance with art. 144-decies of Consob Issuers' Regulations) on the basis of the declarations they provided, as attached to the lists, and as subsequently updated by them.



### **Chairman of the Board of Directors – Mr Filippo Casadio**

He graduated in Economy and Commerce from the University of Turin; since 2008 he has been Chairman of the Board of Directors of IRCE S.p.A.

### **Executive Director – Mr Francesco Gandolfi Colleoni**

He graduated in Engineering from the Politecnico di Torino; currently, he is Director of Research and Development at IRCE S.p.A.

### **Non-Executive Director – Mr Gianfranco Sepriano**

He graduated in Economy and Commerce from the Bocconi University in Milan; he worked at Chase Manhattan Bank as head of para-banking activities in Italy, at Ansaldo S.p.A. as financial co-director, for Montedison Group as member of staff of the Group Management Committee, at Unione Manifatture S.p.A. as general manager, at Finanziaria italiana di Partecipazioni S.p.A. as merchant bank executive and since 2000 he has been working as a consultant.

### **Lead Independent Director – Mr Orfeo Dallago**

He graduated in Political Economics from the University of Trento; since 1987 he has been working for Banca di Credito Cooperativo di Tuenno e Valle di Non.

### **Independent Director – Ms Francesca Pischedda**

She graduated in Economy and Commerce from the University of Bologna; she is registered in the Bologna Register of Accountants and Tax Advisors and in the Register of Auditors; she currently works as an independent consultant in corporate, accounting and fiscal issues.

### **Independent Director – Ms Gigliola Di Chiara**

She graduated in Economy and Commerce from the University of Ancona; she is registered in the Bologna Register of Accountants and Tax Advisors and in the Register of Auditors. She currently works as an independent consultant in corporate, accounting and fiscal issues, in "M&A" transactions, for the preparation of separate and consolidated financial statements (ITA GAAP- and IAS/IFRS-compliant) and in turnaround projects.

### **Diversity policies and criteria**

The Board of Directors has not adopted policies on diversity related to the composition of administrative and management bodies for aspects such as age, gender and training and professional career, considering the company practice as consistent with the criteria ensuring an adequate balance in relation to the compliance of the main objective of ensuring adequate levels of competence and professionalism of its members. At least one third of the Board of Directors' members, and one third of the Board of Statutory Auditors' members, are of the less represented gender.

### **Maximum number of offices held in other companies**

The Board of Directors has not defined the general criteria concerning the maximum number of offices of management and control in other companies that can be considered compatible with an effective performance of the role of director, taking into account the participation of directors in the committees set up within the Board (application criterion 1.C.3). The lack of definition of the maximum number of offices is primarily based on the multitude of situations which are theoretically possible. Situations may vary depending on the characteristics of each individual Director, the type and size of company in which the Director holds other appointments, and the complexity and specific features of the industry in which those companies operate. The situation also depends on the particular role held by the Director in those other companies (executive director, non-executive director, independent director, committee member, standing auditor, or chair of the board of statutory auditors). Because of this, rather than setting a maximum number of offices, the Board of Directors has deemed it preferable to opt for an assessment of the characteristics of each Director on a case-by-case basis (experience, characteristics, offices held).

## Induction Programme

No specific induction programmes have been planned. The bodies delegated at meetings of the Board of Directors (or on other occasions) are responsible for detailing relevant issues for the purpose of company performance, business development, or the industry in which the company operates. This includes any evolution in these issues, or in the regulatory framework or applicable self-regulations.

### 4.3. Role of the Board of Directors (pursuant to art. 123-bis, paragraph 2, letter d) of the Consolidated Financial Act)

During 2018, the Board of Directors held 8 meetings lasting for an average of two hours. The attendance percentages are shown in Table 2 attached to this Report.

In implementing the obligations stated for listed issuers by art. 2.6.2 of the Market Rules of Borsa Italiana S.p.A., the company shall inform Borsa Italiana, within thirty days of the end of the previous solar year, on the Calendar of corporate events.

In compliance with art. 20 of the Articles of Association, the Board of Directors is vested with the widest powers for ordinary and extraordinary management of the company, without limitations, with the authority to carry out all actions that it considers appropriate for achieving corporate purposes, except for those that are reserved by the law to the Shareholders' Meeting.

The Board of Directors is also responsible in the case of mergers on the cases provided by art. 2505 and art. 2505-bis of the Italian Civil Code, for setting-up and closing branches, for updating the Articles of Association to regulatory provisions and for reducing share capital in the event of the withdrawal of a shareholder and in the case provided by art. 2446, last paragraph, of the Italian Civil Code. In such cases art. 2436 of the Italian Civil Code shall be applied.

The Board of Directors may delegate part of its powers to the Chairman and/or to the Managing Directors and/or to the executive committee, if appointed, and/or to the Vice Chairman.

The Board of Directors may also appoint one or more special attorneys-in-fact for specific actions or categories of actions, establishing their remuneration and limits of representation.

In particular, among the topics specified in the Code, the Board has exclusive responsibility for the following issues:

#### in compliance with the provisions of the Articles of Association:

- it establishes, after examining the proposals of the relevant Committee, the remuneration of the managing directors and of those with special offices;
- it grants and repeals powers of directors, defining limitations and operating procedures;

#### as far as it falls within the principles of the Articles of Association regarding ordinary and extraordinary management:

- it examines and approves the strategic, industrial and financial plans of the company and periodic monitoring of their implementation;
- it examines and approves the strategic, industrial and financial plans of the Group to which the company belongs, and periodic monitoring of their implementation;
- it defines the corporate governance system;
- it defines the structure of the Group to which the company belongs;
- it verifies the adequacy of the organisational, administrative and general accounting structure of the company and of the Group, with particular reference to the internal control and risk management system;
- it assesses the general performance of the management periodically comparing the results achieved with those planned;
- it assesses the adequacy of the organisational, administrative and accounting structure of the

subsidiaries with strategic importance, with particular reference to the internal control and risk management system.

With regard to examination and approval by the Board of transactions with significant economic, capital and financial importance, the following transactions are the exclusive decision-making responsibility of the Board, and therefore cannot be delegated: the acquisition of equity investments and/or companies or company branches by the company for an amount of, including financial debts comprised in the acquired equity investment and/or company or company branch, over € 10,000,000.00 and the sale of equity investments and/or companies or company branches the value of which, including financial debts comprised in the sold equity investment and/or company or company branch, is over € 10,000,000.00 and the issue of guarantees and sureties and rights in rem or similar obligations on company assets that are not deemed of interest to the company and/or connected to the ordinary management of amounts of over € 10,000,000.00 and the prior approval of transactions with related parties.

The Chairman of the Board of Directors ensures that the documentation relating to the items on the agenda is notified to the directors and statutory auditors with suitable notice with respect to the date of the board meeting and also ensures that the items on the agenda are given sufficient time for a constructive debate to take place, encouraging the intervention of directors in the meetings.

The Board of Directors' meetings are attended by the Manager responsible for preparing the corporate accounting documents and the Management Control Manager, in order to provide the appropriate explanations about the items on the agenda.

The meetings are convened and chaired by the Chairman who coordinates their activity and guides the way they take place.

The Company Articles of Association does not stipulate a minimum number of meetings.

The Board of Directors can, by law, establish a remuneration for the Directors holding special offices.

The Board assesses the general performance of the management when examining the annual Budget.

When discussing the issues for which it is responsible the Board also assesses the adequacy of the organisational, administrative and general accounting structure of the company.

The Board has assessed its own activities and those of its Committees, along with their size and composition, taking into account the professional qualifications, experience, managerial experience, gender, and length of time in office of its members. Assessment has also taken place in relation to the diversity criteria provided under art. 2 of the Code.

The Shareholders' Meeting has not authorised any exemption from the ban of competition provided for by art. 2390 of the Civil Code.

#### **4.4. APPOINTED BODIES**

##### **Managing Directors**

None of the current Directors in office has received management powers.

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

In order to ensure better company management and more efficient corporate governance, the Board has granted some of its powers to the Chairman.

The Chairman is vested with all the powers of ordinary and extraordinary administration, with the exclusion of those powers that are the exclusive responsibility of the Board, and he also carries out an operating role within the organisational structure of the company.

The Chairman is the Company's chief executive officer.

The Chairman has an investment in the company Aequafin S.p.A. which holds the majority of the issuer's share capital.

**Executive Committee** (pursuant to art. 123-bis, paragraph 2, letter d) of the Consolidated Financial Act)

The company has not appointed an Executive Committee.

### **Information to the Board**

Within the terms provided for by art. 150, paragraph 1 of the Consolidated Financial Act, the Chairman reports to the Board of Directors and the Board of Statutory Auditors on the general business performance and the outlook for operations and on the most significant transactions carried out by the company and its subsidiaries.

### **4.5 Other executive directors**

In addition to the Chairman, the current Board of Directors includes another Executive Director: Mr Francesco Gandolfi Colleoni. He holds a managerial role within the company as Manager responsible for Research and Development.

### **4.6. Independent Directors**

With respect to application criterion 3.C.3 of the Corporate Governance Code, it is noted that at present three of the six company directors are Independent Directors.

In order to identify the independent directors, the instructions given by the Corporate Governance Code were followed; in particular a director do not usually qualify as independent in the following, non-exhaustive cases:

- a) if, directly or indirectly, even through subsidiaries, trustees or third parties, such director controls the issuer or is able to have over it a significant influence, or participates in a shareholder agreement through which one or more persons can control or have a significant influence over the issuer;
- b) if such director is, or has been in the previous three years, a prominent representative of the issuer, of one of its subsidiaries having strategic importance or of a company subject to joint control with the issuer, or of a company or a body which, even together with others through a shareholder agreement, controls the issuer or is able to have a significant influence over it;
- c) if the director currently has (or has had in the previous year) a significant commercial, financial or professional relationship, either directly or indirectly:
  - with the issuer, one of its subsidiaries, or any of its prominent representatives;
  - with an individual who controls the issuer (even if it is done jointly with others through a shareholder agreement), or in the event of companies or entities, with their prominent representatives;
  - or, if the director is (or has been in the previous three years) an employee of one of the above-mentioned parties;
- d) if such director receives (or has received in the previous three years) from the issuer or from a subsidiary or parent company a significant remuneration in addition to the fixed compensation as the issuer's non-executive director, including participation in incentive plans linked to the company's performance;
- e) if such director has been a director of the issuer for more than nine years in the last twelve years;
- f) if such director holds the office of executive director in another company in which an executive director of the issuer holds the position of director;

- g) if such director is a shareholder or director of a company or of an entity belonging to the network of the company appointed to perform the accounting audit of the issuer;
- h) if such director is a close relative of a person who is in one of the situations mentioned in the previous points.

After each appointment the Board of Directors carries out its own assessment on compliance with the requirements of the Corporate Governance Code and with art. 148, paragraph 3 of the Consolidated Financial Act. This assessment is also done subsequently whenever material circumstances for the purpose of independence recur, or in any case, at least annually.

During the meeting following its appointment and based on the information provided by each Director, the Board of Directors has ascertained that three of its members (Ms Francesca Pischedda, Ms Gigliola Di Chiara and Mr Orfeo Dallago) are in possession of the independence requirements according to the criteria contained in the Corporate Governance Code for listed companies, and it has disclosed the results of its assessment.

During the year, an assessment regarding compliance with independence requirements was conducted by the Board of Directors during the meeting of 15 March 2019, by means of questionnaires. The outcome of this self-assessment procedure (on the basis of updated information given by each of the relevant directors) was that, according to the Board, the following Directors meet the independence criteria: Ms Francesca Pischedda, Ms Gigliola Di Chiara, and Mr Orfeo Dallago. The Board also recognised that the composition of the Board is in accordance with the recommendations of current legislation, and with application criterion 3.C.3 of the Corporate Governance Code. In particular, the Board deemed that Director Orfeo Dallago met the independence requirements, while currently holding a share of 2.08% in IRCE S.p.A.

Moreover, in compliance with application criterion 3.C.5 of the Corporate Governance Code, the Board of Statutory Auditors has verified the application of the criteria and assessment procedures adopted by the Board of Directors for assessing the independence of its own members and found them compliant with the indications provided by the Corporate Governance Code.

During the year a meeting of the independent directors was held in the absence of the other directors, in order to protect the interests of the minority shareholders.

#### **4.7. Lead Independent Director**

In line with the policies established by the Corporate Governance Code for listed companies, since the role of Chairman of the Board of Directors coincides with that of the main person responsible for managing the company, the Board appointed a Lead Independent Director.

The Lead Independent Director acts as a point of reference and coordination of the requests and contributions of the non-executive directors and collaborates with the Chairman of the Board of Directors in order to guarantee that the directors receive complete and timely information flows.

The Board appointed Mr Orfeo Dallago as Lead Independent Director.

#### **5. Processing of corporate information**

The Board has drafted a procedure for the external communication of price sensitive documents and information regarding the company. According to such procedure, disclosure of said documents and information should take place through the Investor Relations Office. The Investor Relations Office defines the contents of the communication by drafting a relevant press release and ensures that the communication complies with the requirements laid down by the relevant applicable legislation.

Such a press release is submitted to the Chairman for final approval before being disclosed.

The communication relating to price sensitive information is sent beforehand to the Consob and to Borsa

Italiana via the NIS (Network Information System) circuit, according to the procedures laid down by the relevant applicable regulations.

The press release is also available on the website [www.irce.it](http://www.irce.it).

The Board of Directors of IRCE SPA has also approved the "Internal Dealing" Code of Conduct in implementing art. 2.6.3 of Borsa Italiana S.p.A.'s Regulations.

In particular, the company shall inform the market of the declarations received by Relevant Persons according to the following timescale:

- a) in cases in which an individual person has carried out transactions for a combined amount of € 50,000.00 or more during the quarter, IRCE SPA shall notify the transactions within the tenth day on which the stock exchange is open subsequent to the last day of the calendar quarter;
- b) in cases in which the transactions of an individual person exceed the combined amount of € 250,000.00, IRCE SPA shall notify the transactions within one day of receiving the declaration of the Relevant Person.

## **6. Committees within the Board** (pursuant to art. 123-bis, paragraph 2, letter d) of the Consolidated Financial Act)

The following committees are set up within the Board of Directors:

- Control and Risks Committee;
- Remuneration Committee;
- Related-party Committee.

Under the coordination of the Chairman, no functions of one or more committees provided for by the Corporate Governance Code have been reserved within the Board.

No further committees in addition to those reported in this Section have been set up.

## **7. Nomination Committee**

Taking into account the structure and size of the company, no Nomination Committee was established within the Board of Directors. The relevant functions, as indicated in the Corporate Governance Code, are therefore fulfilled by the Board of Directors.

## **8. Remuneration Committee**

Reference should be made to the relevant paragraphs of the Remuneration Report published in compliance with art. 123-ter of the Consolidated Financial Act.

## **9. Remuneration of directors**

Reference should be made to the relevant paragraphs of the Remuneration Report published in compliance with art. 123-ter of the Consolidated Financial Act.

## **10. Control and Risks Committee**

In compliance with the provisions of art. 4 of the Corporate Governance Code, the Board of Directors established within itself the Control and Risks Committee with consultation and proposal functions.

**Composition and functioning of the Control and Risks Committee** (pursuant to art. 123-bis, paragraph 2, letter d) of the Consolidated Financial Act)

The Committee, which will remain in office until approval of the financial statements as at 31 December 2018, is formed by Ms Gigliola Di Chiara (Independent Non-Executive Director), acting as Chair, and by Mr Gianfranco Sepriano (Non-Executive Director) and Mr Orfeo Dallago (Independent Non-Executive Director).

Therefore, the Control and Risks Committee is composed of three of the six Board members selected from among non-executive directors, the majority of whom are independent.

The Committee members must possess knowledge, skills and experiences that will allow them to fully understand and monitor the company strategies and risk approach.

*At least one member of the Committee possesses adequate experience of accounting and financial issues and risk management.* The Chair coordinates the discussions and minutes are taken at meetings.

The meetings of the Committee held during the year 2018 were attended by the Chairman of the Board of Statutory Auditors, or by another Statutory Auditor as designated by him. Furthermore, at the invitation of the Committee, the following also took part in relation to items on the agenda: Standing Auditors, the Director responsible for the internal control and risk management system, the Head of Internal Audit, the Manager responsible for preparing the corporate accounting documents, members of the Supervisory Body, the Management Control Manager, and external audit company PwC staff, experts and representatives (appointed to audit the accounts), all with consultation functions.

During 2018, the Committee met 5 times, as illustrated in Table 2 attached to this Report, while the meetings lasted an average of two hours.

In 2019 a Committee meeting was held with the following agenda items: a) self-assessment of the Board of Directors and Committees b) report on 2018 internal audit activities, c) planned activities for 2019 as drawn up by internal audit d) assessment on the correct application of accounting standards and their consistency for the purpose of preparing consolidated financial statements (with the assistance of the Manager responsible for preparing the corporate accounting documents and with advice from the External Auditor and the Board of Statutory Auditors).

Committee meetings are scheduled to match the times during the year when the Board of Directors is required to disclose accounting information to the market.

Subject to agreement and in discussing individual topics, during its own meetings, the Committee has interacted with the Director responsible for the internal control and risk management system, the Head of Internal Audit, the Chairman of the Board of Statutory Auditors, the Manager responsible for preparing the corporate accounting documents and the Management Control Manager.

### **Functions attributed to the Control and Risks Committee**

In compliance with art. 7 of the Corporate Governance Code, the Control and Risks Committee was attributed the following consultation and proposal functions by the Board of Directors:

- a) providing the Board with prior opinions when required by the application criterion 7.C.1 of the Corporate Governance Code;
- b) assessing, together with the Manager responsible for preparing the corporate accounting documents and the auditors, the correct implementation of accounting standards and, in the case of groups, their consistency for the purposes of drafting the consolidated financial statements;
- c) expressing opinions on specific aspects regarding the identification of the main corporate risks and the design, implementation and management of the internal control system;
- d) examining the periodic reports concerning the assessment of the internal control and risk management system, and those of particular significance drafted by the Internal Audit function;
- e) monitoring the autonomy, suitability, effectiveness and efficiency of the Internal Audit function;

- f) asking the Internal Audit function to carry out checks on specific operating areas, promptly notifying the Chairman of the Board of Statutory Auditors of this;
- g) supporting the assessment and decisions of the Board of Directors related to the management of risks resulting from prejudicial facts the Board of Directors has acquired knowledge of with suitable investigations.

The Chairman of the Control and Risks Committee reports to the Board of Directors, at the first available opportunity, on the activities carried out and on the adequacy of the internal control and risk management system.

During 2018, the Committee held five meetings during which, as can be deduced from meeting minutes, the following aspects were examined: a) control of the review of company procedures, assisted by the internal audit function, b) control system related to subsidiaries and actions aimed to improve the reporting process, c) examination of periodical reports prepared by the Internal Audit function and of the activity plan; d) examination of the separate and consolidated financial statements, and of the results of the audit process.

In carrying out its duties, the Control and Risks Committee has had the opportunity to access company information and benefit from the assistance of various company departments as necessary in order to carry out the required tasks. The Committee did not deem it necessary to appoint any other external consultants, other than those identified from time to time by the relevant company functions.

## **11. Internal control and risk management system**

In compliance with the provisions of the Corporate Governance Code, the Board of Directors establishes internal control guidelines and periodically checks their suitability and effective functioning, making sure that the main corporate risks are identified and suitably managed.

The internal control system is based on the identification of the main risks related to the specific business carried out by the company and the compliance with the relevant corporate prevention procedures.

As part of the internal control and risk management system concerning the financial reporting process, IRCE S.p.A. has drafted administrative and accounting procedures for the preparation of the separate and consolidated financial statements and for any other communication of a financial nature.

The objectives of the financial reporting process can be identified in terms of the trustworthiness, accuracy, reliability, and timely nature of the disclosure. Risk management activities are an integral part of the internal control system.

The company has adopted the COSO Framework as a reference model.

### **11.1 Director responsible for the internal control and risk management system**

The Chairman of the Board of Directors is the Director appointed to supervise the functions of the internal control and risk management system.

In his capacity as Body with management functions, the Director has constantly reported to the Board of Directors and the Control and Risks Committee on all the aspects of corporate management, including verification of the overall adequacy of the efficacy and efficiency of the internal control and risk management system.

The Director responsible for the internal control and risk management system may ask the Internal Audit function to carry out checks on specific operating areas and in respect of the internal rules and procedures in performing corporate operations, giving prompt notification of this to the Board of Directors, the Chairman of the Control and Risks Committee and the Chairman of the Board of Statutory Auditors.



## **11.2. Internal Audit**

The Board of Directors has entrusted the Internal Audit function to an external party, in the person of Mr Fabrizio Bianchimani and has established his remuneration consistently with corporate policies. It has also ensured that he has adequate resources to fulfil his responsibilities.

Mr Fabrizio Bianchimani has had direct access to all information needed to fulfil his assignment.

The main activities carried out during the year were: verification of the transactions and adequacy of the internal control and accounting systems; control of compliance with accounting and administrative procedures, besides their updating; periodic reports on the status of the internal control system and report on any critical aspects of it.

Taking account of the relevant scope, with reference to the Parent Company, during 2018 the Internal Audit performed control tests on the riskiest processes, in particular sales and distribution and purchasing and inventory management, as well as, according to a rotation rationale, on some processes considered to represent a normal risk, in particular the preparation of the financial statements, the management of the consolidation process, of the treasury and investments procedures.

In relation to subsidiaries, the Internal Auditor has been given the mandate to carry out specific control procedures at the trading companies DMG GmbH in Germany and IRCE SI in Spain. These specific activities are part of the process aimed at strengthening audit procedures for subsidiaries of the parent company.

## **11.3. Organisational Model pursuant to Italian Legislative Decree 231/2001**

In order to guarantee transparency and correctness in corporate operations, and to protect the expectations of shareholders and those that work for and with the company, IRCE S.p.A. has implemented the organisational, management and control model pursuant to Legislative Decree 231/2001 and in compliance with corporate policies.

Such an action was also undertaken with the conviction that the adoption of the Organisational Model is a valid instrument to make those working for the company more sensitive to adopting, when carrying out and conducting their own activities, correct and standard behaviour aimed at preventing the risk of committing the crimes covered in Legislative Decree 231/2001.

The company condemns behaviour contrary to current legal provisions and to the ethical principles also stated in the Code of Ethics adopted.

IRCE S.p.A. referred to the "Guidelines for the creation of organisation, management and control models" pursuant to Legislative Decree No. 231 of 8 June 2001, issued by Confindustria (the general confederation of Italian industry). This document provides guidelines on interpreting and analysing the legal and organisational implications deriving from the introduction of Legislative Decree 231/2001.

In its current version, the Organisational Model intends to specifically prevent the following types of predicate-offences, as referred to in the corresponding article of the Decree indicated within parentheses: Crimes against the Public Administration (arts. 24 and 25), Corporate crimes (art. 25-ter), Market abuse offences (art. 25-sexies), Manslaughter and serious and very serious injuries caused in breach of laws on health and safety protection at the workplace (art. 25-septies), Crimes of receiving stolen goods, money laundering and use of money, goods or benefits of unlawful origin (art. 25-octies), Computer crimes and unlawful data processing (art. 24-bis), Crimes against public trust (art. 25-bis), Crimes against industry and commerce (art. 25-bis.1), Environmental crimes (art. 25-undecies), Crimes committed by employing illegally staying third-country nationals (art. 25-duodecies).

That being stated, following its appointment by IRCE, the consulting company Soluzioni Srl performed the planned activities to review and update the 231 Model which is currently in force as well as all the relevant documentation, in order to update the information flow system and the auditing system to support the activities carried out by the Supervisory Body. In particular, the stages for creating and establishing a

shared macro processing structure have been developed during the reporting period, and in recognition of this, the company has continued along the path towards harmonising existing procedures.

For issues regarding compliance with and interpretation of the Organisational Model, a Supervisory Body was set up when adopting the first version of the Organisational Model.

The current Supervisory Body, appointed by the Board of Directors on 5 September 2016, is composed of:

- Mr Francesco Bassi, professional;
- Mr Gabriele Fanti, professional;
- Mr Gianluca Piffanelli, company employee.

Mr Francesco Bassi was appointed Chairman of the Supervisory Body.

The Body will remain in office for three years; more specifically until 31 August 2019.

During 2018, the Supervisory Body held 5 meetings; meeting minutes were regularly taken.

In regards to the option provided in the for issuers to evaluate the possibility of attributing the Board of Statutory Auditors with supervisory body duties pursuant to Legislative Decree 231/2001, the Board of Directors has deemed it appropriate to define the composition of the Supervisory Body described above. Therefore, no members of the Board of Statutory Auditors shall be appointed to the Supervisory Body and there shall be a prevalence of external professionals. This definition is to ensure both an adequate segregation of duties, and an availability of skilled individuals within the Supervisory Body with specific competencies enabling them to effectively carry out the tasks assigned.

#### **11.4. Independent Auditors**

The Shareholders' Meeting of 29 April 2011 appointed PricewaterhouseCoopers Spa to audit the separate financial statements and the consolidated financial statements of the group, as well as of the interim report of IRCE S.p.A. for each of the reporting periods from 2011 to 2019.

#### **11.5 Manager responsible for preparing the corporate accounting documents**

The Board of Directors nominated Ms Elena Casadio, head of administration and finance of the company and director with proven professionalism and experience in financial and accounting issues, as "Manager responsible for preparing the corporate accounting documents".

In compliance with art. 24 of the Articles of Association: "Subject to the favourable opinion of the Board of Statutory Auditors, the Board of Directors appoints a manager, with proven professionalism and experience in finance and accounting, as Manager responsible for preparing the corporate accounting documents and fulfilling the duties provided for by current legal and regulatory provisions concerning periodic reporting".

#### **11.6 Coordination among the parties involved in the internal control and risk management system**

The Control and Risks Committee's meetings are attended by the Chairman of the Board of Statutory Auditors, subject to agreement and in order to discuss individual topics, the Director responsible for the internal control and risk management system, the Manager responsible for preparing the corporate accounting documents and the Head of the Internal Audit function.

#### **12. Director interests and related-party transactions**

In compliance with art. 4 of the Regulation on related-party transactions adopted by the Consob with Resolution No. 17221 of 12 March 2010, as subsequently amended by Resolutions No. 17389 of 23 June 2010 and No. 19925 of 22 March 2017, the Board of Directors has adopted a procedure for the

management and approval of related-party transactions; this procedure, published on the company's website, has been applied, in compliance with said regulation, starting from 1 January 2011.

This procedure is available on the company website [www.irce.it](http://www.irce.it) in the section Investor relations/Corporate governance. It makes a distinction between transactions of greater importance, transactions of lesser importance, and transactions of negligible amount (which provide for a variety of arrangements).

The Board did not consider it necessary to find further operating solutions to facilitate the identification of situations in which a director is the holder of an interest on his own behalf or on behalf of third parties in addition to the procedure.

### **13. Appointment of Statutory Auditors**

Nomination of members of the Board of Statutory Auditors is governed by art. 23 of the Articles of Association. The Shareholders' Meeting elects a Board of Statutory Auditors composed of 3 (three) Standing Statutory Auditors and 2 (two) Substitute Statutory Auditors. Minority shareholders have only the right to elect one Standing Statutory Auditor and one Substitute Statutory Auditors. The Board of Statutory Auditors is nominated on the basis of lists provided by the shareholders, in which the candidates must be listed using a progressive number. The list is composed of two sections: one containing the three names of the candidates to the position of Standing Statutory Auditor and the other containing the two names of the candidates to the position of Substitute Statutory Auditor. Only shareholders who together hold an interest no lower than that laid down by the Consob Issuers' Regulations, and that have the obligation of proving ownership of the number of shares necessary for presenting the lists within the deadline laid down by the current pro-tempore regulations have the right to provide lists. In compliance with the Consob Issuers' Regulations, the notice of each Shareholders' Meeting convened to resolve on the appointment of Statutory Auditors shall include the interest necessary for presenting the relevant list. Each shareholder, as well as the shareholders belonging to the same group (as defined pursuant to the relevant legal provisions and regulations) or subscribing to a shareholder agreement regarding company shares, cannot present or vote, directly, by third parties, or via trust companies, more than one list. Any candidate appearing on more than one list shall be disqualified; under penalty of ineligibility or disqualification, each Statutory Auditor shall meet the requirements of integrity and professionalism laid down by applicable legal provisions and regulations, shall hold offices of Standing Statutory Auditor in no more than five issuers (as defined pursuant to the relevant legal provisions and regulations) and administration and control offices in companies as per Book V, Title V, Chapters V, VI and VII of the Italian Civil Code within the maximum limit allowed by applicable legal provisions and/or regulations. Outgoing Standing and Substitute Statutory Auditors can be re-elected. The lists must be lodged at the company registered office within the deadline provided by the applicable pro-tempore provision and this shall be mentioned in the relevant notice. Together with each list, within the presentation deadline, the shareholders that present it shall lodge: detailed information regarding the personal and professional characteristics of the candidates, declarations with which the individual candidates irrevocably accept the office, if appointed, and state, under their own responsibility, the non-existence of causes of ineligibility or incompatibility, as well as the meeting of the requirements prescribed by the law and by the Articles of Association for taking the office, where the conditions exist, the declaration stating the absence of any forms of association with shareholders who hold, also jointly, a controlling or majority interest. Lists that have been presented without observing the provisions of this article are considered as not having been presented.

The Statutory Auditors are elected as follows:

1. two standing statutory auditors and one substitute statutory auditor are selected from the list that obtained the highest number of votes in the Shareholders' Meeting, in the progressive order in which they are listed in the sections of the list;
2. the remaining standing statutory auditor and the other substitute statutory auditor are selected from the list that obtained the highest number of votes in the Shareholders' Meeting after the first one and that is not connected, according to the law and regulations in force, with the shareholders that have presented or voted the list resulting first in terms of numbers of votes, in the progressive order in which they are

listed in the sections of the list;

3. if an equal number of votes are obtained from more than one list, crucial for the purposes of the election procedure, a second vote will be held between such lists by all the shareholders present in the meeting. The standing statutory auditor indicated as the first candidate in the list that has obtained the highest number of votes after the first in the Shareholders' Meeting will be appointed as Chairman of the Board of Statutory Auditors. If only one list is presented, the candidates indicated in said list will be elected, by relative majority vote, and the first candidate will be appointed as chair. If the requirements provided for by law and/or by the Articles of Association cease to be met, the Statutory Auditor's term of office will end. In the case of the replacement of a Statutory Auditor, the Substitute Statutory Auditor belonging to the same list as the former will take over. The powers, duties and functions of the Board of Statutory Auditors and its members are governed by the relevant provisions.

The lists presented by the shareholders shall comply with the principles laid down by art. 148, paragraph 1-bis of the Consolidated Financial Act so as to ensure that the composition of the board ensures gender balance.

#### **14. Composition and functioning of the Board of Statutory Auditors** (art. 123-bis, paragraph 2, letters d) and d-bis) of the Consolidated Financial Act)

The composition of the Board of Statutory Auditors in office at the end of the reporting period, as illustrated in Table 3 attached to this Report, is as follows:

- Chairman: Mr Fabio Senese;
- Standing Statutory Auditor: Mr Adalberto Costantini;
- Standing Statutory Auditor: Ms Donatella Vitanza;
- Substitute Statutory Auditor: Mr Gianfranco Zappi;
- Substitute Statutory Auditor: Ms Claudia Maresca.

The Shareholders' Meeting that nominated the Board of Statutory Auditors was held on 28 April 2017 on the basis of the Articles of Association in force. The election for the three-year period 2017 – 2019 took place according to the criterion of the list vote. The only list presented was that of the majority shareholder Aequafin S.p.A. and the candidates were elected unanimously.

A brief description follows of the personal and professional characteristics of each Standing Statutory Auditor (in compliance with art. 144-decies of Consob Issuers' Regulations) on the basis of the declarations provided by each one and attached to the lists as well as any subsequent updates notified by those concerned.

#### **Chairman of the Board of Statutory Auditors – Mr Fabio Senese**

He is registered in the Bologna Register of Accountants and Tax Advisors and in the Register of Auditors. He works as a freelance mainly in national and international tax consultancy and in the management of tax assessment, collection and litigation procedures. He has worked as a technical consultant in civil and criminal proceedings.

He has held and still holds the positions of Statutory Auditor and External Auditor in companies operating in various production and service sectors, including those of navigation, transports, construction, fashion, medical biology, industry and commerce.

#### **Standing Statutory Auditor – Mr Adalberto Costantini**

He is an Accountant and Auditor registered in the Bologna Register of Accountants since 1993.

He has many years' experience in the auditing of important Italian groups and companies listed on the Stock Exchange in his capacity as senior manager of Ernst & Young Italia, audit division, at the Bologna office.

Since 2011 he has been working as a professional Accountant and Auditor in particular with regard to: corporate consultancy, corporate assistance in administrative and accounting issues, legal and voluntary auditing, corporate assessments, equity and economic due diligence, preparation of budgets and economic-financial outlook systems, support within the sphere of Italian Legislative Decree 231/2001.

During his professional career, he has held and currently holds numerous positions as Statutory Auditor and External Auditor in private companies and non-profit entities and he has also held the position of director in local utility companies subject to public control.

### **Standing Statutory Auditor – Ms Donatella Vitanza**

Accountant and Auditor, she has been registered in the Register of Accountants of Bologna since 1991. In 2016, she achieved her Master's in Business Administration at the Bologna Business School.

She deals mainly with corporate, fiscal, company consultancy and legal auditing.

She held and still holds positions as Statutory Auditor and External Auditor in private companies and has been a standing Statutory Auditor in Irce S.p.A., sole listed company, since 2014.

She has been a director of the Association of Accountants and Tax Advisors of Bologna since 2017.

During 2018, the Board of Statutory Auditors held 5 (five) meetings at the registered office of the Company. The meetings lasted an average of two hours.

The Chairman of the Board of Directors reported to the Board of Statutory Auditors adequately and in a timely manner on the activities performed, the general business performance and outlook, and on the most significant transactions – for size and characteristics – carried out by the Issuer and its subsidiaries at least every quarter, as established by law and the Articles of Association.

Since the beginning of 2019 up to the date of approval of this document, 1 meeting of the Board was held. It is expected that during 2019 the Board of Statutory Auditors will hold a number of meetings in line with those held during the previous year.

No changes have been made to the composition of the Board between the end of the reporting period and the date this document was approved.

The Board of Directors has verified that the requirements of integrity, professionalism and independence of the Statutory Auditors have been met.

The Board has also verified that its members are qualified to carry out the functions of the control body from the point of view of professionalism, availability of time and independence.

While carrying out such a verification, it was confirmed that the members of the Board of Statutory Auditors are in possession of the requirements of independence according to the criteria laid down by the Corporate Governance Code and by art. 148, paragraph 3 of the Consolidated Financial Act. In carrying out such assessments, the Board applied the criteria laid down by the Code with reference to directors.

On this regard, application criterion 3.C.1. of the Corporate Governance Code states that the Board of Directors should assess the independence of its non-executive members paying more attention to substance than form and considering that a director does not normally appear independent when certain, non-exhaustive cases occur, including having been a director of the issuer for more than nine of the last twelve years.

The result of that assessment was sent to the Board of Directors for further obligations of an informative nature as laid down in the Issuers' Regulations.

Any statutory auditor who, on his own behalf or on behalf of third parties, has an interest in a specific company transaction shall inform the other statutory auditors and the Chairman of the Board of Directors immediately and in detail about the nature, terms, origin and extent of his own interest.

The members of the Board of Statutory Auditors have adequate knowledge of the industry in which the

Issuer operates, of the company dynamics and their development as well as the reference regulatory and self-regulatory framework.

Legislative Decree 39/2010, "Implementation of Directive 2006/43/EC on statutory audit of annual and consolidated accounts, which amends Directives 78/660/EEC and 83/349/EEC, and abrogates directive 84/253/EEC", identified the Board of Statutory Auditors as the Control and Risks Committee and Audit with supervisory functions on: i) financial disclosure process; ii) effectiveness of internal control systems; iii) legal auditing of annual and consolidated accounts; iv) independence of the audit firm, in particular concerning the supply of non-auditing services to the entity being audited.

In the light of the above, the Board of Statutory Auditors, while performing its activities, coordinated with the Internal Audit function, by acquiring information on the activities performed by the latter, and with the Control and Risks Committee, by taking part in the meetings held by the latter.

Furthermore, the Board of Statutory Auditors:

- acquired information on activities performed by the Supervisory Body set up pursuant to Legislative Decree 231/2001 as part of the organisation model adopted;
- met periodically with the auditing company appointed also to receive information on the nature and entity of any services other than accounting control performed for the Issuer and its subsidiaries by the auditing company and entities belonging to its network.

Fees paid to Statutory Auditors are consistent with the commitment required, the importance of their role and the company size and sector.

## **Diversity policies**

In consideration of the group structure and size, the Board of Statutory Auditors has not adopted policies on diversity related to the composition of administrative and management bodies for aspects such as age, gender and training and professional career, considering the practice followed as based on criteria ensuring an adequate balance when representing diversity with reference to the above aspects.

## **15. Relations with shareholders**

IRCE S.p.A. has set up a special section on its own website, easily identifiable and accessible under the heading Investor Relations of the menu located at the top of the home page, in which it provides information considered significant for shareholders, so as to allow shareholders to exercise their own rights consciously.

The Board of Directors has appointed an Investor Relations Manager in the person of Mr Gianfranco Sepriano, phone no. +39-0382-77535, e-mail address: gianfranco.sepriano@irce-group.com.

## **16. Shareholders' Meetings** (pursuant to art. 123-bis, paragraph 2, letter c) of the Consolidated Financial Act)

The functioning of the Shareholders' Meeting is governed by art. 9 to 14 of the company Articles of Association.

The regularly convened shareholders' meeting represents all shareholders and its resolutions taken in compliance with the law and the Articles of Association are binding to all shareholders. It is ordinary or extraordinary according to the law.

Both the ordinary and extraordinary shareholders' meeting shall be convened through a relevant notice to be published within the deadlines and with the procedures laid down by the law.

Representation in the shareholders' meeting is subject to the law. Shareholders who have sent, at least two working days before the meeting, the communication made by the intermediary, in compliance with

their own accounting entries, in favour of the subject entitled to vote, may take part in the shareholders' meeting. Each shareholder who is entitled to take part in the Shareholders' Meeting may be represented by another person in compliance with the law, by means of a written proxy or a proxy communicated electronically when provided by appropriate regulatory provisions and in accordance with the procedures established by them. In the last case, the electronic notification of the proxy shall be made using the specific section of the Company website according to the procedures specified in the relevant notice.

Regulatory provisions shall apply for establishing Shareholders' Meetings and for the validity of their resolutions, both during ordinary and extraordinary sessions.

The whole Board of Directors takes part in the Shareholders' Meetings and reports on the activity carried out and scheduled and ensures that the shareholders receive adequate information about the relevant issues so that they can take informed decisions.

During the shareholders' meeting held to approve the financial statements, the Chairman of the Remuneration Committee reported to the shareholders on how the committee performs its functions.

As for the functioning of the Shareholders' Meeting, the Rules for Shareholders' Meetings were approved as required by art. 12.4 of the Corporate Governance Code; this document is available on the company's website in the Investor relations/corporate governance section.

During the financial year there were no significant changes in the market capitalisation of company shares and in the ownership structure.

#### **17. Further corporate governance procedures** (pursuant to art. 123-bis, paragraph 2, letter a) of the Consolidated Financial Act)

No Committees in addition to those described in the previous Sections were nominated, while adoption of the Organisational Model in compliance with Legislative Decree 231/2001 is discussed in paragraph three of Section 11.

#### **18. Changes since the end of the reporting period**

No changes were made to the corporate governance structure after the end of the reporting period to the date of approval of this document.

#### **Considerations on the letter of the Chair of the Corporate Governance Committee dated 21 December 2018**

The recommendations contained in the letter dated 21 December 2018 were brought to the attention of all Directors and members of the Board of Statutory Auditors on the same date.

The recommendations contained therein were discussed at the meeting of the Board of Directors held on 15 March 2019, and the following information is provided as requested in the communication sent by the Chair of the Corporate Governance Committee:

- Assessment on the adequacy of pre-meeting information: information on the outcome of the self-assessment process was provided to the Board of Directors at their meeting of 15 March 2019. From this, a positive overall assessment emerged from all directors in regard to the completeness, usability and timeliness of the pre-meeting information. They deemed that it was sufficient for the purpose of being able to respond and act in an informed manner.
- Independence criteria recommended by the Code: with reference to independence, the Board supports the importance of having an adequate number of Non-Executive Independent Directors in the governing body. For this reason – and as specified in section 4.6 – the Board proceeds to periodically verify that independence requirements continue to be met, as required by art. 148, paragraph 3 of the Consolidated Financial Act, art. 3 of the Corporate

Governance Code, and in accordance with the criteria included therein. Updated verification that requirements continued to be met also occurred during the meeting of the Board of Directors on 15 March 2019, following statements made by each of the relevant Directors.

- As far as the executive directors' remuneration is concerned, reference should be made to the relevant report available on the company website at the following address [www.irce.it](http://www.irce.it).

Imola, 15 March 2019



**TABLE 1: INFORMATION ON THE SHAREHOLDING STRUCTURE**

<b>SHARE CAPITAL STRUCTURE</b>				
	<b>No. of shares</b>	<b>% on the SC</b>	<b>Listed/ Unlisted</b>	<b>Rights and obligations</b>
Ordinary shares	28,128,000	100%	MTA	Each share gives the right to one vote. The rights and obligations of the shareholders are those laid down by articles 2346 et seq. of the Italian Civil Code.

<b>SIGNIFICANT EQUITY INVESTMENTS</b>			
<b>Declaring party</b>	<b>Direct shareholder</b>	<b>% on ordinary capital</b>	<b>% on voting capital</b>
AEQUAFIN S.p.A.	AEQUAFIN S.p.A.	50.027%	50.027%
ANNA MARIA MONGARDI	ANNA MARIA MONGARDI	4.828%	4.828%

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

BOARD OF DIRECTORS													Control and Risks Committee		Remuneration Committee		Related-party Committee				
Office	Members	Year of birth	Date of first appointment *	In office from	In office until	List (M/m) **	Executive	Non-executive	Independent as per the Code	Independent as per the Consolidated Financial Act	No. of other offices ***	(*)	(**)	(*)	(**)	(*)	(**)	(*)			
Chairman	Filippo Casadio	1948	1987	28/04/2016	2018	M	X				4	8/8									
Director	Francesco Gandolfi Colleoni	1947	1990	28/04/2016	2018	M	X				0	7/8									
Director	Gianfranco Sepriano	1946	1990	28/04/2016	2018	M		X			3	8/8	M	5/5	M	1/1					
Director	Orfeo Dallago	1964	2009	28/04/2016	2018	M		X	X	X	0	8/8	M	5/5	M	1/1	P	3/3			
Director	Francesca Pischedda	1975	2013	28/04/2016	2018	M		X	X	X	0	8/8			P	1/1	M	3/3			
Director	Gigliola Di Chiara	1968	2016	28/04/2016	2018	M		X	X	X	1	8/8	P	5/5			M	3/3			
<b>DIRECTORS WHOSE OFFICE ENDED DURING THE YEAR</b>																					
-																					
													<b>Number of meetings during the year:</b>		<b>8</b>	<b>CRC:</b>	<b>5</b>	<b>RC:</b>	<b>1</b>	<b>RPC:</b>	<b>3</b>

Quorum for presenting the lists by the minority for the election of one or more members (pursuant to art. 147-ter Cons. Fin. Act): 2%

**NOTES**

\* By first date of nomination of each director we mean the date on which such director was nominated for the first time (ever) in the Issuer's Board of Directors.

\*\* This column indicates the list from which each director was selected (M: majority list; m: minority list; BoD: list presented by the BoD).

\*\*\* This column indicates the number of offices held as director or statutory auditor at other companies listed on a regulated market, in Italy or abroad, as well as in financial, banking, insurance companies or companies of significant sizes.

(\*) This column indicates the attendance of directors at meetings respectively of the BoD and Committees (indicate the number of meetings they have attended compared with the overall number of meetings which they should have attended; e.g. 6/8 etc.).

(\*\*) This column indicates the position of the director within the Committee: C, Chairman; M, Member.

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

BOARD OF STATUTORY AUDITORS									
Office	Members	Year of birth	Date of first appointment *	In office from	In office until	List **	Independent as per the Code	Board meetings attended ***	No. of other offices ****
Chairman	Fabio Senese	1961	2014	28/04/2017	2019	M	X	6/6	7
Standing Statutory Auditor	Donatella Vitanza	1966	2014	28/04/2017	2019	M	X	5/6	8
Standing Statutory Auditor	Adalberto Costantini	1965	2011	28/04/2017	2019	M	X	6/6	10
Substitute Statutory Auditor	Gianfranco Zappi	1938	2014	28/04/2017	2019	M	X	0	8
Substitute Statutory Auditor	Claudia Maresca	1982	2014	28/04/2017	2019	M	X	0	2
STATUTORY AUDITORS WHOSE OFFICE ENDED DURING THE YEAR									
-									
Number of meetings during the year:			6						
Quorum for presenting the lists by the minority for the election of one or more members (pursuant to art. 148-ter Cons. Fin. Act): 2%									

**NOTES:**

\* By date of first nomination of each statutory auditor we mean the date on which the statutory auditor was nominated for the first time (ever) in the Issuer's Board of Statutory Auditors.

\*\* This column indicates the list from which each statutory auditor was selected (M: majority list; m: minority list).

\*\*\* This column indicates the attendance of the statutory auditors at the meetings of the Board of Statutory Auditors (indicate the number of meetings they attended compared with the overall number of meetings they should have attended; e.g. 6/8 etc.).

\*\*\*\* This column indicates the number of offices held as director or statutory auditor by the person concerned in compliance with art. 148-bis of the Consolidated Financial Act and the relevant implementation provisions contained in the Consob Issuers' Regulations.

The complete list of offices is published by Consob on its own website in compliance with art. 144-quinquiesdecies of Consob Issuers' Regulations.

Those holding office of member of the control body of only one Issuer are excluded from such disclosure obligation.

# **IRCE SPA Group**

**Annual Report of the Manager responsible for preparing the  
corporate accounting documents**

**Year 2018**

# **TABLE OF CONTENTS**

## **ANNUAL REPORT OF THE MANAGER RESPONSIBLE FOR PREPARING THE CORPORATE ACCOUNTING DOCUMENTS**

### **INTRODUCTION**

- 1. SCOPING AND DEFINITION OF THE SCOPE OF APPLICATION**
- 2. FORMALISATION OF PROCESSES AND ANALYSIS OF RISKS AND CONTROLS**

# **ANNUAL REPORT OF THE MANAGER RESPONSIBLE FOR PREPARING THE CORPORATE ACCOUNTING DOCUMENTS**

## **INTRODUCTION**

Art. 154-bis of the Consolidated Financial Act – incorporating the provisions of Italian Law No. 262 of 28 December 2005 (Provisions for the protection of savings and the regulation of financial markets) as subsequently amended, as well as Italian Legislative Decree 195/2007 on Transparency – has introduced the mandatory role of the “Manager responsible for preparing the corporate accounting documents” with specific responsibilities regarding provision of a true and fair view of the assets, liabilities and equity, financial position, and profit or loss of listed issuers, while also extending the scope of application to companies issuing financial instruments listed on regulated markets.

The Manager responsible for preparing the corporate accounting documents is responsible for the System and, to this end, she defines the administrative-accounting procedures for drafting the periodic accounting documents and any other financial communication, certifying, together with the Chairman, the adequacy and effective implementation during the period to which the documents refer.

The Board of Directors is responsible for appointing the Manager responsible for preparing the corporate accounting documents and establishing the relevant term of office; furthermore, in compliance with art. 154-bis of the Consolidated Financial Act, the Board makes sure that the Manager is attributed the adequate powers and means to exercise the assigned tasks and that said procedures are fully complied with.

The controls established to protect financial reporting are subject to evaluation and monitoring in order to check, over time, both its “design”, i.e. the abstract suitability to mitigate identified risks in an acceptable manner, and the actual “operating powers”, i.e. their actual operation. The verification activities relating to the System adequacy and actual functioning are the responsibility of the Manager responsible for preparing the corporate accounting documents, through the manager’s own structure and through the direct involvement of the managers responsible for the activities/processes, also through the support of the Internal Audit function.

The objective of this document is therefore to fully report on the activities implemented by IRCE SPA, ranging from the identification of the scope under analysis to the outcome of the assessments of the reliability and adequacy of the internal control system, which could affect accounting and financial reporting that is functional to the certifications required by regulations, as listed below:

1. DEFINITION OF THE SCOPE OF APPLICATION
2. FORMALISATION OF PROCESSES AND ANALYSIS OF RISKS AND CONTROLS
3. TEST OF EFFECTIVENESS OF CONTROLS
4. EVALUATION OF EXCEPTIONS

As part of the internal control and risk management system concerning the financial reporting process, IRCE S.p.A. has drafted administrative and accounting procedures for the preparation of separate and consolidated financial statements and for any other communication of a financial nature.

The objectives of the financial reporting process can be identified in terms of the trustworthiness, accuracy, reliability, and timely nature of the disclosure. Risk management activities are an integral part of the internal control system.

The company has adopted the COSO Framework as a reference model.

This Report is submitted to the Board of Directors and the Board of Statutory Auditors of IRCE S.p.A. in order to allow for the fulfilment of the activity pursuant to art. 154-bis, paragraph 4, of the Consolidated Financial Act, as well as for the issue – by the delegated Management Body and the Manager responsible for preparing the corporate accounting documents – of the certification of adequacy, compliance,

suitability, correspondence and actual application of the administrative and accounting procedures for the preparation of the separate and consolidated financial statements.

## **1. DEFINITION OF THE SCOPE OF APPLICATION**

During the phase of *definition of the scope of application*, the following are identified:

- a) the companies of the Group which are deemed significant on the basis of quantitative and qualitative criteria and in terms of their contribution to the consolidated financial reporting in the reporting period;
- b) significant accounts by means of quantitative measurements and additional refinements of qualitative nature ("*significant items*");
- c) company processes ("*significant processes*") which are associated with the accounts subject to testing activities for the *significant locations* previously defined.

The objectives of the control – which aim to prevent any errors/fraud that could occur during the activities of initiation, registration, management and reporting of a transaction – have been identified by IRCE by taking into account:

- the significant accounts, i.e. the items of the financial statements which are individually significant in terms of materiality;
- the administrative and accounting processes which generate the significant accounts which are identified as specified above;
- the relevance of the abovementioned processes which are identified at the level of each company that belongs to the scope of consolidation.

IRCE SPA has identified the scope of application on the basis of the materiality of the significant accounts, and their associated administrative-accounting processes for each individual company of the Group, in relation to the consolidated financial statements.

In particular:

- companies in the Group whose assets or turnover are respectively 2% higher than the total consolidated assets or 5% higher than the total consolidated turnover were considered significant and therefore included in the possible scope of application;
- the selection of significant accounts was implemented by calculating a threshold of Group materiality by using a benchmark which uses the higher of 1% of Shareholders' Equity and 5% of profit before tax;
- the riskiest processes for the purposes of prescriptions pursuant to Italian Law 262 were identified.

In order to confirm the company and process scope deriving from the materiality analysis, the company has also implemented subsequent qualitative analysis.

By applying the model, it has been possible to identify the risk profile inherent in each process and the associated control activities used for monitoring purposes; the procedures and control matrices for each process which turned out to be sensitive on the basis of the abovementioned criteria were formalised.

## **2. FORMALISATION OF PROCESSES AND ANALYSIS OF RISKS AND CONTROLS**

On an annual basis, the company:

- monitors the processes which significantly contribute to change the items of the consolidated financial statements;
- defines and implements testing plans;
- guarantees the resolution of detected critical factors.

Taking account of the relevant scope, with reference to the Parent Company, during 2018 the Internal Audit performed control tests on the riskiest processes, in particular sales and distribution and purchasing and inventory management, as well as, according to a rotation rationale, on some processes considered to represent a normal risk, in particular the preparation of the financial statements, the management of the consolidation process, of the treasury and investments procedures.

In relation to subsidiaries, the Internal Auditor has been given the mandate to carry out specific review procedures in 2018 for the trading companies DMG GmbH in Germany and IRCE SL in Spain, and at the start of 2019 for the manufacturing company Isodra GmbH in Germany.

Imola, 15 March 2019