



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

Report approval date: 14 March 2018
Year to which the Report refers: 2017

www.irce.it

TABLE OF CONTENTS

Glossary

1. Issuer profile
2. Information on Shareholding 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 systems
12. Director interests and related-party transactions
13. Appointment of the Statutory Auditors
14. Composition and functioning of the Statutory Board of Auditors (pursuant to art. 123-bis, paragraph 2, letter d) 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 closure of the reference financial year
19. Considerations on the letter of the Chair of the Corporate Governance Committee dated 13 December 2017

TABLES

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: 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 Co-related Parties Regulations: Regulations issued by Consob with resolution no. 17221 of 12 March 2010 (as subsequently amended) concerning operations with co-related parties.

Report: the report on corporate governance and corporate structure which companies are obliged to draft in compliance with art. 123-bis of the Consolidated Financial Act.

Consolidated Financial Act: Legislative Decree n. 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 represents around 80% of the group's total turnover.
- insulated electrical cables. This product is used in the production of civil and industrial electric systems and for the supply and connection of electrical equipment. The production of insulated electrical cables represents around 20% of the group's total turnover.

CORPORATE RESPONSIBILITY

With Board of Directors' resolution of 28th March 2008 with latest up-date on 13th December 2014, the company established its Code of Ethics which states all the rights, duties and responsibilities of the members of the Company with respect to all the subjects with whom it has relations in achieving its own corporate object (clients, debtors, suppliers, employees and/or external collaborators, shareholders, supervisory bodies, institutions); it is therefore a directive with rules of conduct that must be taken into consideration in daily work and in respect of 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 company collaborators.

2. Information on the Shareholding Structure as at 15 March 2017

(pursuant to art. 123-bis, comma 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.

Share capital is composed of the following categories of shares:

TABLE 1: INFORMATION ON THE SHAREHOLDING STRUCTURE

SHARE CAPITAL STRUCTURE				
	No. of shares	% on the SC	Listed/ Unlisted	Rights and obligations
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) 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)

From communications made in compliance with art. 120 of the Consolidated Financial Act and from communications made by significant subjects in compliance with art. 152-octies of the Issuers' Regulations, subjects who own, directly or indirectly, shares with voting rights in excess of 3% of the share capital are as follows:

SIGNIFICANT EQUITY INVESTMENTS			
Declaring party	Direct shareholder	% on ordinary capital	% on voting capital
AEQUAFIN S.p.A.	AEQUAFIN S.p.A.	50,027%	50,027%
ANNA MARIA MONGARDI	ANNA MARIA MONGARDI	4,828%	4,828%

Note that:

- the business of the Holding Company Aequafin S.p.A. is limited to owning the sole significant holding represented by the control package of IRCE S.p.A.

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.

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 in compliance with 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)

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 passivity rules laid down by art. 104, paragraphs 1 and 2 of the Consolidated Financial Act, nor do they envisage the application of the neutralisation rules contemplated by art. 104-bis, paragraphs 2 and 3 of the Consolidated Financial Act.

i) Proxies 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 proxies had been given to the Board for the increase in share capital in compliance with art. 2443 of the Civil Code or for the issue of financial instruments.

On 28 April 2017, 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 2017 is 1,411,774, corresponding to 5.02 % 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 in compliance with art. 2497 et seq. of the civil code.

Note that:

- the information required by art. 123-bis, paragraph 1, letter i) of the Consolidated Financial Act ("agreements between the company and Directors, ... which envisages indemnities in the event of resignations or dismissals without just cause or if their employment ceases following a public purchase bid"), is not contained 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, essentially, with the Corporate Governance Code for listed companies approved in 2006 by the Italian Corporate Governance Committee and sponsored by Borsa Italiana S.p.A., lastly updated in July 2015.

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

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

The Issuer and the subsidiaries are not subject to non-Italian legal provisions that influence the Corporate Governance structure of the Issuer itself.

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 administered 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, a shareholding quota no lower than that established by the Consob Issuers' Regulations, and who have the obligation of proving ownership of the number of shares necessary for presenting of the lists within the deadline of two days prior to the shareholders' meeting in first call.

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

Each shareholder, as well as the shareholders belonging to one same group (for the definition of which reference should be made 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 presented must observe the principles laid down in art. 147-ter, paragraph 1-ter, of the Consolidated Financial Act in order to ensure that the allotment of the directors to be elected guarantees a gender balance.

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

Each candidate may be presented in only one list under penalty of non-eligibility 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 laid down 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 by the above regulations.

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

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

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 most votes plus one.

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

The director taken from 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 ballot 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 nomination, for a maximum of three financial years, and precisely until the date the shareholders' meeting is called for approving the financial statements of the last financial year of the period of office. Directors whose period of office has expired may be re-elected.

If, during the financial 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. If such a director should be the 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 will fall from office and the directors remaining in office must urgently convene the Shareholders' Meeting to nominate the new board.

For other aspects not covered by the Articles of Association, reference must 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 shareholders must observe the principles laid down in art. 147-ter, paragraph 1-ter, of the Consolidated Financial Act in order to ensure that the allotment of the directors to be elected guarantees a gender balance.

Succession plans

In consideration of the structure and the size of the group, the Board of Directors has not adopted succession plans for executive directors considering the replacement procedures adopted appropriate for ensuring continuity and certainty for corporate management.

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

In compliance with corporate Articles of Association, the Board of Directors is composed from three to twelve members, elected by the Shareholders Meeting. They remain in office for a period of no more than three financial years, established at the time of nomination, and fall from office on the date of the Shareholders' Meeting called to approve the financial statements relating to the last financial period of their office.

At closure of the financial year 2017, the Board of Directors is composed as follows:

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

The Board in office was nominated by the Ordinary Shareholders' Meeting of 28/04/2016 for the financial years 2016, 2017 and 2018 and shall fall from office on the date of the Shareholders' Meeting called to approve the financial statements referring to the financial 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 director in charge (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.

Chair of the Board of Directors – Filippo Casadio

A graduate in Economy and Commerce from Turin University, since 2008 he has been Chair of the Board of Directors of IRCE S.p.A.

Executive Director – Francesco Gandolfi Colleoni

A graduate in Engineering from Turin Polytechnic, he has been Director of Research and Development at IRCE S.p.A.

Non-executive Director – Gianfranco Sepriano

A graduate in Economy and Commerce from Bocconi University of Milan, he worked at Chase Manhattan Bank as head of para-banking activities in Italy, for Ansaldo S.p.A. as financial co-director, for Montedison Group as member of staff of the group management Committee, for Unione Manifatture S.p.A. as managing director, for Finanziaria italiana di Partecipazioni S.p.A. as merchant banking executive and since 2000 he works as a consultant.

Lead Independent Director – Orfeo Dallago

A graduate in Political Economy from Trento University, since 1987 he has been working at the Banca di Credito Cooperativo di Tuenno e Valle di Non.

Independent Director – Francesca Pischedda

A graduate in Economy and Commerce from Bologna University, she is registered in the Bologna Register of Accountants and Tax Advisors and in the Register of Legal Auditors and is employed free-lance mainly as a consultant in corporate, accounting and fiscal matters.

Independent Director – Gigliola Di Chiara

A graduate in Economy and Commerce from Ancona University, she is registered in the Bologna Register of Accountants and Tax Advisors and in the Register of Legal Auditors. She is employed free-lance mainly as a consultant in corporate, accounting and fiscal matters, in "M&A" transactions, in drawing up individual and consolidated financial statements (ITA Gaap and IAS/IFRS) and turnaround projects.

Diversity policies

In consideration of group structure and size, 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 practice followed as consistent based on criteria ensuring an adequate balance when representing diversity with reference to the above aspects.

Maximum number of offices covered in other companies

Considering that among the current members of the Board of Directors only a few cover positions in just as many other companies, the Board has not defined the general criteria concerning the maximum number of offices of administration and control in other companies that can be considered compatible with an effective performance of the role of director of the company, also taking into account the participation of directors in the committees set up within the Board (application criteria 1.C.3).

Induction Programme

Specific induction programmes have not been envisaged; directors, however, receive information on the industry the company operates in, on corporate dynamics and their evolution as well as on the reference regulatory and self-regulatory framework.

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

During 2017, 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 implementation of 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 financial year, on the Calendar of corporate events.

In compliance with art. 20 of the Articles of Association, the Board of Directors is invested with the widest powers for ordinary and extraordinary management of the company, without limitations, with the authority of carrying 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 articles 2505 and 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 Civil Code shall be applied.

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

The Board of Directors may also nominate one or more special proxy holders 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:

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 that cover special offices;
- it grants and repeals powers of directors, defining limitations and operating procedures;

as far as it falls within the principle 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 systems;
- it assesses the general performance of the management periodically comparing the results achieved with the scheduled ones;
- it assesses the adequacy of the organisational, administrative and accounting structure of the subsidiaries having strategic significance, 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, 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 real rights or similar obligations on company assets that are not deemed of interest to the Company and/or connected to the ordinary management of amounts over € 10,000,000.00 and the prior approval of the transactions with related parties.

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

The meetings of the Board of Directors are attended by the Manager responsible for preparing the corporate accounting documents and the management control manager, for providing the appropriate explanations about the topics on the agenda.

The meetings are convened and chaired by the Chairperson 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 matters for which it is responsible the Board also assesses the adequacy of the organisational, administrative and general accounting structure of the company.

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

4.4. APPOINTED BODIES

Managing Directors

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

Chair of the Board of Directors

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

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

The Chair is the Company's chief executive officer.

The Chair has an investment in the company Aequafin S.p.A. that 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 nominated an Executive Committee.

Information to the Board

Within the terms provided by art. 150, paragraph 1 of the Consolidated Financial Act, the Chair 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 Chair, the Board of Directors is composed of another Executive Director, Mr Francesco Gandolfi Colleoni, who has an executive office within the company as Manager responsible for the Research and Development area.

4.6. Independent Directors

Three independent directors are also members of the company's Board of Directors.

In order to identify the independent directors, the instructions given by the Corporate Governance Code were followed; in particular a director cannot usually be qualified as independent in the following, non-peremptory 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 financial 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, directly or indirectly, such director has, or has had in the previous financial year, a significant commercial, financial or professional relationship with the issuer, one of its subsidiaries, or with any of their prominent representatives, with an entity that controls the issuer, or with their

- prominent representatives or is, or has been in the previous three financial years, an employee of one the aforementioned entities;
- d) if such director receives, or has received in the previous three financial years, from the issuer or from a subsidiary or parent company a significant remuneration in addition to the fixed compensation of the issuer's non-executive director, including therein 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 has the office of executive director in another company in which an executive director of the issuer has 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.

The Board carries out its own assessments of the requirements laid down by the Corporate Governance Code for directors qualified as independent and periodically assesses the independence of the directors.

The Board has ascertained that three of its members (Francesca Pischedda, Gigliola Di Chiara and Orfeo Dallago) are in possession of the requirements of independence according to the criteria contained in the Corporate Governance Code for listed Companies, making the result of their assessments known.

In particular, Director Orfeo Dallago, who currently holds a 2.08% stake in IRCE S.p.A., is considered to possess the requirement of independence.

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

Once a year, the Board of Directors verifies the existence of the requirements of independence laid down by the Corporate Governance Code and by art. 148, paragraph 3 of the Consolidated Financial Act for the independent directors.

During the financial 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.

On the date this report was drafted, the directors who, in the lists for the nomination of the Board, had indicated they were suitably qualified as independent, have maintained their independence.

4.7. Lead independent director

In line with the policies established by the Corporate Governance Code for listed companies, since the role of Chair of the Board of Directors coincides with that of the main person responsible for managing the company, the Board appointed an independent director as 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 Chair of the Board of Directors 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. Such procedure envisages that the external communication of said documents and information should take place via the Investor Relations Office. The Investor Relations Office defines the contents of the communication through the drafting of a 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 Chair for final approval before being released.

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 made public on the website www.irce.it.

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

In particular, the company shall inform the market of the declarations received by *Significant Persons* according to the following time scale:

- a) in cases in which an individual declaring party has carried out transactions for a combined amount of € 50,000.00 or more during the quarter, IRCE S.P.A. shall notify the transactions within the tenth day on which the stock exchange is open following the last day of the calendar quarter;
- b) in cases in which the transactions of an individual declaring party exceed the combined amount of € 250,000.00, IRCE S.P.A. shall notify the transactions within one day of receiving the declaration of the *Significant 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.

Under the coordination of the Chair, no functions of one or more committees laid down 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 parts concerning 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 parts concerning the Remuneration Report published in compliance with art. 123-ter of the Consolidated Financial Act.

10. Control and Risks Committee

In fulfilment of art. 4 of the Corporate Governance Code, the Board of Directors established within it the Control and Risks Committee with consultation and proposing 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 31/12/2018, is formed by Gigliola Di Chiara (Independent Director), acting as Chair, and by Gianfranco Sepriano (Non-executive Director) and Orfeo Dallago (Independent Director).

The Chair coordinates the discussions and the meetings are recorded regularly in minutes.

The Chair of the Board of Statutory Auditors or another auditor appointed by the Chair may take part in the discussions of the Risks and Control Committee; the other auditors may also take part. The Chair of the Board of Directors may also attend the Committee's meetings.

During 2017, the Committee met 6 times, as illustrated in Table 2 attached to this Report, while the meetings lasted an average of two hours.

It is estimated that during 2018 the number of meetings that will be held by the Committee shall not be fewer than those held during the previous financial year.

The Control and Risk Committee therefore results to be composed of three of the six members of the Board of Directors selected from the 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 strategies and risk tendencies of the company.

At least one member of the Committee possesses adequate experience of accounting and financial matters and risk management.

Following agreement and in discussing individual topics, during its own meetings, the Committee has interacted with the Director appointed to the internal control and risks management system, the Internal Audit function, the Chair of the Statutory Board of Auditors and with the Management Control Manager.

Functions attributed to the Control and Risks Committee

The Committee formulates its own opinion to the Board of Directors concerning:

- internal control and risks management guidelines;
- the adequacy of the internal control system and risks management with respect to the characteristics of the company and the assumed risk profile, as well as its effectiveness;
- the work plan prepared by the internal audit function;
- the results illustrated by the legal auditor in any letter containing suggestions and in the report on the fundamental matters emerged during the legal audit.

The Committee has the following functions:

- a) to assist the Board in carrying out its duties in compliance with art. 7.C.1 of the Corporate Governance Code;
- b) to assess, 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) to express opinions on specific aspects regarding the identification of the main corporate risks and the design, implementation and management of the internal control system;
- d) to examine the periodic reports concerning the assessment of the internal control and risk management systems, and those of particular significance drafted by the Internal Audit function;
- e) to monitor the autonomy, suitability, effectiveness and efficiency of the Internal Audit function;
- f) to ask the Internal Audit function to carry out checks on specific operating areas, notifying the Chair of the Board of Statutory Auditors about this at the same time;
- g) to support the assessment and decisions of the Board of Directors related to management of risks resulting from prejudicial facts the Board of Directors has acquired knowledge of with suitable investigations.

The Chair of the Control and Risks Committee reports to the Board of Directors, during the first useful meeting, on the activity carried out and on the adequacy of the internal control and risks management system.

During 2017, the Committee held six 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 correlated to subsidiaries and actions to improve the reporting process, c) examination of periodical reports prepared by the Internal Audit function and of the activity plan.

In carrying out its functions, the Control and Risks Committee has the right to access the information and company functions necessary for performing its duties and may use external consultants, within the terms established by the Board.

11. Internal control and risk management systems

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 identification of the main risks related to the specific business carried out by the company and compliance with the relevant corporate prevention procedures.

As part of the internal control and risks management systems concerning the financial reporting process, IRCE S.p.A. has drafted administrative and accounting procedures for the preparation of the financial statements 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 disclosures themselves. Risk management activities are an integral part of the internal control system.

The company has adopted the Co.S.O Framework as a reference model.

11.1 Director appointed to the internal control and risk management systems

The Chair of the Board of Directors is the Director appointed to supervise the functions of the internal control and risks management systems.

In his or her capacity as Body with management function, the Director reports constantly 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 risks management systems.

The Director appointed to the internal control and risks 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 executing corporate operations, giving notification of this simultaneously to the Board of Directors, the Chair of the Control and Risks Committee and the Chair of the Statutory Board of Auditors.

11.2. Internal Audit

The Board of Directors has entrusted Internal Auditing to an external subject, in the person of Mr Fabrizio Bianchimani and has established his compensation consistently with corporate policies. It has also ensured that he is provided with 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 financial year were: verification of the transactions and adequacy of the internal control and accounting systems, control of the correct observance of accounting and administrative procedures, providing periodic reports on the status of the internal control system and reporting any critical aspects of the system itself.

Bearing in mind the established scope of application, with reference to the Parent Company, during 2017 the Internal Audit performed control tests on the most risky 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 handling of the preparation of the financial statements, the human resources management, the consolidation process and the financial instruments management procedures.

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

Sensitive to the need to guarantee conditions of transparency and correctness in conducting corporate business, and to protect the expectations of shareholders and those that work for and with the company, IRCE S.p.A. has considered it in compliance with corporate policies to proceed with implementing the organisational, management and control model pursuant to Legislative Decree 231/2001.

Such an action was also undertaken with the conviction that adoption of the Organisational Model could be a valid instrument in order to make those working for the company more sensitive to adopting, when carrying out and conducting their own activities, correct and linear 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. was inspired by the Confindustria "Guidelines for constructing organisational, management and control models" pursuant to Legislative Decree no. 231 of 8 June 2001. The aforementioned guidelines offer guidance for interpreting and analysing the juridical and organisational implications resulting from introduction of Legislative Decree 231/2001.

In its current version, the organisation 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 in the workplace (art. 25-septies), Crimes of receiving of stolen goods, money laundering and utilisation 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 (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, during the year in question, all the stages to identify and update activities performed in each company department, the census of existing controls, risk assessment and development of information flows relevant for application of Legislative Decree 231/2001 have been completed. Moreover, Soluzioni Srl supported company managers with defining a shared macro-processes structure, based on which activities to harmonise existing procedures started.

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, was broken down as follows:

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

Mr Francesco Bassi was appointed Chair of the Supervisory Body.

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

During 2017, the Supervisory Body held 4 meetings, which were regularly recorded.

11.4. Independent Auditors

The Shareholders' Meeting of 29/04/2011 appointed PricewaterhouseCoopers S.p.A. to carry out the legal audit of the financial statements for the financial year and the consolidated financial statements of the group, and also to carry out the audit of the six-monthly report of IRCE S.p.A. for each of the financial years 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 matters, as "Manager responsible for preparing the corporate accounting documents".

In compliance with art. 24 of the Articles of Association: "Following 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, responsible for preparing the corporate accounting documents and fulfilling the duties laid down by current legal and regulatory provisions concerning periodic reporting."

11.6 Coordination among subjects involved in the internal control and risk management systems

Following agreement and in order to discuss individual topics, the Control and Risks Committee meetings are attended by the Chair of the Statutory Board of Auditors, the Director appointed to the internal control and risks management system, the Manager responsible for preparing the corporate accounting documents and the Manager responsible for the Internal Audit function.

12. Director interests and related-party transactions

In fulfilment of art. 4 of the Regulation on related-party transactions adopted by the Consob with resolution no. 17221 of 12 March 2010, the Board of Directors has adopted (with Resolution of 30 November 2010) a procedure for the management and approval of related-party transactions; this procedure, published on the company's website, is applied, in compliance with said regulation, starting from 1st January 2011.

The procedure is available on the website www.irce.it in the Investor relation/Corporate governance section.

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

13. Appointment of the Statutory Auditors

Nomination of members of the Statutory Board of 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 interest necessary for presenting the list will be indicated each time in the notice of call of the Shareholders' Meeting convened to resolve on the appointment of the statutory auditors. Each shareholder, as well as the shareholders belonging to one same group (for the definition of which reference should be made 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 annulment, each Statutory Auditor must meet the requirements of integrity and professionalism laid down by applicable legal provisions and regulations, must cover offices of standing Statutory Auditor in no more than five issuers (for the definition of which reference should be made 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 headquarters of the company within the deadline provided by the applicable pro-tempore provision and this will be mentioned in the call notice. Together with each list, within the presentation deadline, the shareholders that present it must lodge: a detailed information brief regarding the personal and professional characteristics of the candidates, declarations with which the individual candidates irrevocably accept the office, where appointed, and state, under their own responsibility, the inexistence 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 assumption of 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 holding. 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, 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 ballot 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 chairperson 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 chairperson. If the requirements provided for by law and/or by the articles of association cease to be met, the Statutory Auditor will fall from office. 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 according to that provided by the relevant provisions.

The lists presented by the shareholders must comply with the principles laid down by art. 148, paragraph 1-bis of the Consolidated Financial Act to ensure that the allotment of the statutory auditors to be elected guarantees a gender balance.

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

The composition of the Statutory Board of Auditors in office on the closing date of the financial year, as illustrated in Table 3 attached to this report, is as follows:

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

The Shareholders' Meeting that nominated the Statutory Board of Auditors met on 28/04/2017 on the basis of current Articles of Association rules. 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.

Chair of the Statutory Board of Auditors – Mr Fabio Senese

He is registered in the Bologna Register of Accountants and Tax Advisors and in the Register of Legal Auditors. He works 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 covered and still covers the positions of Statutory Auditor and legal 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 Legal 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 in the Stock Exchange in his capacity as senior manager of Ernst & Young Italia, auditing division of the Bologna office.

Since 2011 he has been working as a professional Accountant and Legal Auditor in particular with regard to: corporate consultancy, corporate assistance in administrative and accounting matters, 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 covered and covers numerous positions as Statutory Auditor and legal Auditor in private companies and non-profit bodies and he has also covered the position of director in local utility companies subject to public control.

Standing Statutory Auditor – Ms Donatella Vitanza

Accountant and Legal 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 Legal 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 Register of Accountants and Tax Advisors of Bologna since 2017.

During 2017, the Board of Statutory Auditors held 6 (six) meetings at the registered office of the Company. The meetings lasted an average of two hours.

The Chair of the Board of Directors reported to the Board of Statutory Auditors adequately and in a timely manner on activities performed, the general business performance and on its foreseeable evolution, 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 2018 up to the date of approval of this document, 1 meeting of the Board was held. It is expected that during 2018 the Statutory Board of Auditors will hold a number of meetings in line with those held during the previous financial year.

No changes have been made to the composition of the Board between closure of the financial year and the date this document was approved.

The Board of Directors has ensured verification of the ascertainment of the requirements of integrity, professionalism and independence of the Statutory Auditors.

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 Statutory Board of 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-peremptory cases occur, including having been a director of the issuer for more than nine of the last twelve years.

In the first meeting after appointment, the Chair of the Board of Statutory Auditors pointed out to the other Auditors that the above hypothesis does exist as he himself had held the position of independent director of the company from 2004 to 2013. Considering how that assignment was performed, they did not feel the situation compromised independence.

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.

The Board of Directors transmitted the information to the market on 15 June 2017.

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

Legislative Decree 39/2010, "Implementation of Directive 2006/43/EC on statutory audit of annual accounts 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 Audit, Control and Risks Committee with supervisory functions on: i) financial information process; ii) effectiveness of internal control systems; iii) legal auditing of annual and consolidated accounts; iv) independence of the auditing company, in particular concerning the supply of non-auditing services to the body being audited.

In the light of the above, the Board of Statutory Auditors, when performing its activities, coordinated with the Internal Audit function, acquiring information on activities performed by the latter, and with the Control and Risks Committee, 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 accounts control performed for the Issuer and its subsidiaries by the auditing company and bodies belonging to its network.

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

Diversity policies

In consideration of 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 consistent 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 Relation Manager in the person of Mr Gianfranco Sepriano, ph.: 0382 77535 - e-mail: 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 articles 9 to 14 of the corporate 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 oblige all shareholders. It is ordinary or extraordinary according to the law.

Both the ordinary and extraordinary shareholders' meeting must be called via a 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 to whom the voting right is due, 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 in them. In the last case, the electronic notification of the proxy may be made using the specific section of the Company website according to the procedures specified in the call notice.

The law will be applied for establishing the 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 refers on activity carried out and scheduled and shall ensure that the shareholders receive adequate information about the elements necessary so that they can take the relevant shareholders' meeting decisions with awareness.

During the shareholders' meeting for approval of the financial statements, the Chair of the Remuneration Committee reported to the shareholders on the procedures for exercising the functions of the committee.

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 shareholding structure.

17. Further procedures of corporate governance (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 closure of the reference financial year

No changes were made to the corporate governance structure between closure of the financial year and the date of approval of this document.

19. Considerations on the letter of the Chair of the Corporate Governance Committee dated 13 December 2017

The recommendations made in the letter of 13 December 2017 were submitted to the attention of the Board of Directors and to the company's competent Committees. Considering those recommendations, the Board of Directors resolved, in relation to the pre-board information, assessment of the independence requirement and board review activities, not to take any further actions other than those already taken as the company has already ensured its compliance with them. In relation to the areas of improvement suggested by the Committee such as claw-back clauses, the setting-up of the Appointments Committee and succession plans, the Board of Directors resolved for the time being not to take any actions for the reasons indicated in the corresponding paragraphs of the Governance Report and the Remuneration Report.

Imola, 14 March 2018

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	9/9						
Director	Francesco Gandolfi Colleoni	1947	1990	28/04/2016	2018	M	X				0	9/9						
Director	Gianfranco Sepriano	1946	1990	28/04/2016	2018	M		X			3	9/9	M	6/6	M	1/1		
Director	Orfeo Dallago	1964	2009	28/04/2016	2018	M		X	X	X	0	9/9	M	6/6	M	1/1	C	1/1
Director	Francesca Pischedda	1975	2013	28/04/2016	2018	M		X	X	X	0	9/9			C	1/1	M	1/1
Director	Gigiola Di Chiara	1968	2016	28/04/2016	2018	M		X	X	X	1	9/9	C	6/6			M	1/1
DIRECTORS WHOSE OFFICE ENDED DURING THE YEAR																		
-																		
Number of meetings during the year:												9	CRC:	6	RC:	1	RPC:	1

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	5/5	7
Standing Statutory Auditor	Donatella Vitanza	1966	2014	28/04/2017	2019	M	X	4/5	8
Standing Statutory Auditor	Adalberto Costantini	1965	2011	28/04/2017	2019	M	X	5/5	12
Substitute Statutory Auditor	Gianfranco Zappi	1938	2014	28/04/2017	2019	M	X	0	10
Substitute Statutory Auditor	Claudia Maresca	1982	2014	28/04/2017	2019	M	X	0	1
STATUTORY AUDITORS WHOSE OFFICE ENDED DURING THE YEAR									
-									
Number of meetings during the year:			5						
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 S.P.A. Group

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

Year 2017

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

Article 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) and its subsequent amendments, as well as Italian Legislative Decree no. 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, financial position and profit or loss of the listed issuers, while also extending the scope of application to companies issuing financial instruments and which are listed on regulated markets.

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

The Board of Directors is responsible for appointing and establishing the duration of the office of the Manager responsible for preparing the corporate accounting documents and also, in compliance with article 154-bis of the Consolidated Financial Act, makes sure that the same is in possession of adequate powers and means to exercise the assigned tasks and that he/she also observes said procedures.

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 related to the adequacy and actual operation of the System are the responsibility of the Manager responsible for preparing the corporate accounting documents, through his/her own structure and through the direct involvement of the management responsible for the activities/processes, also through the support of the Internal Audit function.

The objective of this document is therefore to fully report the activities implemented by IRCE S.p.A., ranging from the identification of the scope of consolidation under analysis, the outcomes of assessments of the reliability and adequacy of the internal control system and 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 risks management systems concerning the financial reporting process, IRCE S.p.A. has drafted administrative and accounting procedures for the preparation of the financial statements 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 disclosures themselves. Risk management activities are an integral part of the internal control system.

The company has adopted the Co.S.O Framework as a reference model.

This Report is presented 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 Article 154-bis, paragraph 4, of the Consolidated Financial Act, as well as to issue – on the part of the delegated Administrative Body and the Manager responsible for preparing the corporate accounting documents himself/herself – the certification of adequacy, compliance, suitability, correspondence and effective application of the administrative and accounting procedures for the preparation of the financial statements and of the 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 year in question;
- 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 that must be subjected 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 S.p.A. 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, for 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 utilises a threshold value between the higher of 1% of Shareholders' Equity and 5% of profit before tax;
- the most risky processes for the purposes of prescriptions pursuant to Italian law 262 were identified.

In order to confirm the company and process scope of application derived 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 grids 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 feeding into the items of the consolidated financial statements;
- defines and implements testing plans;
- guarantees the resolution of detected critical factors.

Bearing in mind the established scope of application, with reference to the Parent Company, during 2017 the Internal Audit performed control tests on the most risky 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 handling of the preparation of the financial statements, the human resources management, the consolidation process and the financial instruments management procedures.

The subsidiaries belonging to the IRCE S.p.A. Group are independently responsible for their own internal control system regarding financial reporting processes. Each company, in the person of its CFO, is responsible for ensuring its own compliance to the provisions established by Italian law 262 through a reporting process defined by the parent company.

The results of the testing activities and the improvement plans (the so-called corrective actions) are defined and immediately shared with the Chair of the Board of Directors and the Control and Risks Committee.

Imola, 14 March 2018