

Report of the Board of Directors on corporate governance and ownership structure 2017

This report sets out, on a purely voluntary basis and without reference to any specific editorial guidelines - although drawing inspiration from the VII Edition of the 'Format for Corporate Governance and Ownership Structure Reports' published in January 2018 by Borsa Italiana S.p.A., the Italian Stock Exchange as well as from the Code of Conduct published by Borsa Italiana S.p.A.'s Corporate Governance Committee - the *corporate governance* model adopted by the company in the light of its current Articles of Association, the aim of which is to establish an efficient and effective set of operating rules.

This report will be submitted for the approval of the Board of Directors at its meeting on 22 March 2018.

1. Corporate Governance Structure

The company's corporate governance structure follows a traditional model which, notwithstanding the duties reserved to the shareholders' meeting - assigns corporate management to the Board of Directors - the linchpin of the organisational system, control functions to the Board of Statutory Auditors, and the statutory audit function to independent auditors appointed by the shareholders' meeting.

2. Role of the Board of Directors

Pursuant to the Articles of Association, the Board of Directors is vested exclusively with the ordinary and extraordinary management of the company. It may therefore take any action, including disposals, that it deems appropriate in pursuit of the corporate objective, with the sole exception of those actions that the law expressly reserves to the shareholders' meeting. Also, resolutions concerning the following matters are expressly reserved for the Board of Directors:

- a) the establishment or closure of secondary places of business
- b) the award of powers of representation of the company to some Directors
- c) reductions in the registered capital in the event of the withdrawal of a shareholder
- d) the transfer of the registered office within the national territory
- e) the merger of the company in the cases provided for in Articles 2505 and 2505 *bis* of the Italian Civil Code, the latter insofar as it is referred to by the last paragraph of Article 2506 *ter* of the Civil Code in relation to demergers.
- f) the amendment of the Articles of Association to conform to regulatory provisions.

The primary role of the Board of Directors is one of guidance and control over the general activities of the Group. The Board of Directors is responsible, *inter alia*, for:

- a) defining management strategies for the industrial and financial development of the company and the group
- b) granting and revoking the powers of the Chairman, Vice Chairmen and Managing Directors (hereinafter the “**Executive Directors**”) and, if appointed, the Executive Committee, for the purposes established in the Articles of Association, within the limits indicated below
- c) determining, after examination of the proposals of the Remuneration Committee and consulting with the Board of Statutory Auditors, the remuneration of Executive Directors and Directors who hold particular positions, and the allocation of the total remuneration due to each member of the Board of Directors as provided by resolution of the shareholders' meeting
- d) overseeing general management performance, with particular attention to situations of conflict of interest, taking into account information received from Executive Directors, as established by the Articles of Association
- e) examining and approving particularly significant economic and financial transactions, with particular reference to transactions with related parties, as established by the Articles of Association
- f) reporting to the shareholders' meeting.

More specifically, the Board of Directors retains exclusive competence over all matters not specifically delegated to the Executive Directors, such as, by way of example: the purchase or sale of immovable property; the exercise of stock options, the purchase or sale of shareholdings in other companies, enterprises, business units, or other assets already controlled directly or indirectly by the company; transactions involving the purchase or sale of shareholdings in other companies, enterprises or business units not controlled directly or indirectly by the company for sums in excess of €3,000,000 for each individual acquisition or disposal, and in any case for transactions that exceed a maximum annual amount of €3,000,000 (including any assumption of liabilities); the granting of mortgages, loans, guarantees or sureties for sums loaned or collateral in excess of €10,000,000 where the sum is granted in relation to loans and lines of credit obtained by subsidiaries, or for a collateral value in excess of €5,000,000 in other cases, as well as all matters that are specific and exclusive responsibility of the Board of Directors or that are non-delegable.

It is worth reminding that, effective as of January 1st, 2016, the company activity has become to all extent that of a holding.

3. Composition of the Board of Directors - Appointment and Replacement

The Articles of Association provide that the company is administered by a Board of Directors composed of 11 (eleven) members appointed from lists submitted by shareholders. On the proposal of one or more category X shareholders and with the favourable vote of at least 65% of the registered capital entitled to vote at ordinary shareholders' meetings, the latter may elect additional two (2) Directors. Members of the Board of Directors hold office for three years, may be re-elected and cease to hold office on the date of the shareholders' meeting convened to approve the financial statement for the last year of their term.

Pursuant to Article 18 of the Articles of Association, in the event that, for any reason, the majority of directors appointed by the shareholders' meeting cease to hold office, or in the event of the cessation of two or more Directors at the same time or at different times but separated by a period of forty (40) days or less, the entire Board is deemed to have ceased to hold office with effect from the time of its re-establishment.

The Board of Directors was appointed by a shareholders' meeting held on 11 April 2017, on the basis of a single list submitted jointly by all shareholders, and is currently composed, also in light of subsequent changes, as highlighted in the footnotes, of eleven directors.

The members of the Board are as follows:

- Mr Dardanio Manuli
- Mr Mario Manuli
- Mr Luca Coccioli
- Mr Marco Manuli
- Ms Antonella Manuli
- Ms Alessandra Manuli
- Ms Elisabetta Manuli
- Ms Martina Giuliana Manuli
- Mr John Munro
- Mr Bill Wilson¹
- Mr Gianmario Verona

The current Board of Directors was appointed for a three-year term and will remain in office until the approval of the financial statements at 31 December 2019.

With regard to the company's diversity policies in relation to the composition of the Board of Directors with regard to aspects such as age, gender, training and professional development, it should be noted that the last renewal of the Board of Directors promoted a suitable generational change and, therefore, an adequate heterogeneity at the age level of its members. Furthermore, in order to ensure gender balance, on a voluntary basis, it is specified that 4 out of 11 directors are an expression of the less represented gender. The importance of the presence of members with diversified skills and experiences, finally, can promote the plurality of approaches and perspectives in analyzing the issues and taking decisions at Board level, thus ensuring a constructive dialectical confrontation between all directors.

It was not deemed necessary to define general criteria for the number of management and control positions in other companies that is compatible with the effective performance of the role of a director of the company, or a specific method to achieve a gender balance.

The Board of Directors did not consider it necessary to adopt a specific plan for the succession of Executive Directors.

¹ Appointed by cooptation by the Board of Directors on July 25, 2017, subsequent to the resignations of Mr Franco Gerla.

In order to have access to the capital markets and in accordance with the highest principles, companies are more and more requested to have a rotation of offices within their corporate bodies as well as an assorted and diverse composition, since it is deemed that directors with difference experiences or coming from different cultures or backgrounds might contribute more effectively in the definition of strategies or in the evaluation of risks and opportunities. The company has already started this process and has confidence to continue it in the coming years.

4. Meetings and functioning of the Board of Directors

In order for resolutions of the Board of Directors to be valid, the presence of a majority of the incumbent directors is required. Resolutions are adopted by an absolute majority vote of those present. Directors who abstain due to a conflict of interest are not counted in the calculation of such majorities. In the event of a tie, the Chairman shall have the casting vote. Board members may participate in meetings of the Board of Directors remotely through the use of teleconference or video-conference facilities, provided all participants can be identified by the Chairman and all other participants, that they are able to follow the discussion and participate in real time on the topics being discussed, that they are able to exchange documents relating to such matters and that all the above circumstances are noted in the minutes.

Pursuant to Article 22 of the Articles of Association, the Chairman convenes meetings of the Board of Directors at least four times a year on the basis of a work schedule that is approved annually, whenever deemed necessary, and wherever requested by at least two directors or the Board of Statutory Auditors. The notice of meeting contains the agenda of business and must be sent to the directors and auditors by registered post normally sent at least five (5) days before the date of the meeting. In cases of urgency, the notice may be sent by telegram or fax sent at least two days before the date set for the meeting.

Six meetings of the Board of Directors were held during 2017, of an average duration of 45 minutes each and with the participation, on average, of approximately 85% of the actual directors. Five meetings are currently scheduled to take place in 2018. Company executives may be invited to attend meetings of the Board of Directors to provide specific information on certain topics. As provided in Article 2391 of the Italian Civil Code, before reaching a decision on each item on the agenda, each director is required to disclose any interest, directly or through third parties, that he or she may have in relation to the matters or issues being discussed.

The Group Chief Financial Officer is usually invited to the Board of Directors meetings. Other internal or external functions may be invited on a case by case basis, in light of the topics to be discussed.

With a view to deepening the directors' understanding of the company dynamics, at Board meeting held in 2014 the Executive Directors gave a special presentation on the activities of the MRI Group, providing detailed descriptions of the Group's products with their many and varied applications, the reference markets, internal organisation, the competitive environment and sales and service channels, pointing out the different trade dynamics of the various corporate structures and outlining recent developments. In the course of 2016, further to his appointment,

an ample and detailed explanation of the Group's activity has been given to Mr Gianmario Verona.

It is in this context that the directors assess, under their own responsibility as provided at Article 2390 of the Italian Civil Code, any cases of conflict of interest, including in relation to other positions or offices held, and take the appropriate decisions, where necessary reporting specific issues to the shareholders' meeting.

In view of the presence of two foreign directors on the Board of Directors, all documentation pertaining to the meetings is always translated into English and distributed to the participants, who understand English. Furthermore, (a) all discussions at Board meetings in which Mr John Munro and Mr Bill Wilson participated physically or by audio conference were held in English; (b) participants in meetings may request that the secretary translate any passages that are not clear; (c) participants in meetings may speak in Italian, asking the secretary to translate into English; (d) the minutes of the meetings are translated into English and, in the event of a discrepancy between the two versions of the minutes, the contents of the Italian minutes prevails; (e) the English version of the minutes of Board meetings are not transcribed into the minute book, except in special cases that require its transcription; and (f) if documents are in Italian, on-site support will be provided to the English-speaking directors.

5. Chairman of the Board of Directors - Managing Director – Information to the Board of Directors

By resolution adopted at its meeting of 11 April 2017, the Board of Directors appointed Messrs Dardanio Manuli, Mario Manuli as Managing Directors, vested with powers of ordinary management of the company. The Managing Director Mario Manuli was granted slightly different powers, given his lesser involvement in ordinary and operational matters. The Chairman and Managing Director Mr Dardanio Manuli also uses the title 'Chief Executive Officer' as the position is widely known in the English-speaking world.

Mr. Mario Manuli, in light of his less operative role of Managing Director in the Company's daily activities, asked to revoke the powers conferred to himself. The Board of Directors on November 14, 2017 revoked the powers conferred on Mr. Mario Manuli as Managing Director and redefined his gross annual fee and benefits, set forth by the Board of Directors on April 11, 2017.

The Chairman and the Managing Director are responsible for the legal representation of the company, within the limits of their individual powers.

The Chairman convenes meetings of the Board, formulates the agenda, and ensures that directors are confidentially provided in advance with adequate information on matters to be discussed. Such information is usually furnished about three business days before the date of the meeting and, when possible, even earlier. The Chairman coordinates the activities of the Board of Directors and guides and stimulates the discussion.

The Board of Directors did not deem it necessary to adopt a specific procedure for internal management and external disclosure of documents and information concerning the company.

In accordance with the Articles of Association, the Executive Directors shall report to the Board of Directors and the Board of Statutory Auditors, at least on a half-yearly basis, on operating performance, foreseeable developments, and the magnitude and nature of the most significant operations of the company and its subsidiaries. Any significant changes in the organisational and administrative structure of the company are also reported and discussed at least every six months in order to verify their adequacy for the company's scale and activities. During 2017, the Executive Directors reported to the Board of Directors and the Board of Statutory Auditors on such matters on three occasions.

6. Remuneration of Directors

The Remuneration Committee was appointed by the Board of Directors on 11 April 2017 and subsequently on July 25, 2017 and is currently composed of three Directors.

- Mr Gianmario Verona – Chairman
- Mr John Munro
- Mr Bill Wilson

Committee meetings are attended by the Chairman and Managing Director, the Chairman of the Board of Auditors and, upon invitation, other company officers. The Committee is entitled to access company information and functions as necessary to perform its duties. Committee members possess adequate knowledge and experience in accounting, finance and remuneration policies.

The main task of the Remuneration Committee, which in 2017 met two times, is to submit recommendations to the Board of Directors on the fixed and variable remuneration of the Executive Directors and those holding specific positions and, on the instruction of the Executive Directors, to establish criteria for determining the variable part of the remuneration of the company's top management and the fixed remuneration of key management personnel. As part of the determination of the variable component of the remuneration system, the Committee proposes specific economic/financial objectives for the Group, as well as certain individual goals, including goals that are not strictly economic in nature. The Committee also works to achieve the right balance between the fixed and the variable components of remuneration in view of the company's strategic and performance objectives and risk management policy, while taking into account the sector in which the company operates.

The Remuneration Committee regularly assesses the adequacy, overall consistency and actual application of the general policy adopted for the remuneration of Executive Directors, other directors with particular offices, and key executives.

Comprehensive minutes of meetings of the Remuneration Committee are kept by its Chairman.

7. Internal Audit

Within the company, the position of "Internal Audit Officer" has been created by the Internal Audit Department. The Internal Audit Officer is responsible, *inter alia*, for the implementation, operation and monitoring of the internal control system.

The Internal Audit Department is responsible to the Chairman and reports on its work to the Executive Directors, to enable them to act promptly when required, the Internal Audit Committee, and Auditors, in order to keep them up to date on the results of its work.

8. Internal Audit Committee

The Internal Audit Committee was appointed by the Board of Directors on 11 April 2017 and subsequently on July 25, 2017 and is currently composed of two Directors:

- Mr John Munro – Chairman
- Mr Gianmario Verona
- Mr Bill Wilson

Committee meetings are attended by the Chairman and Managing Director, the Chairman of the Board of Statutory Auditors and, upon invitation, other company officers and representatives of the independent auditors. The Committee is entitled to access company information and functions as necessary to perform its duties. Committee members possess adequate knowledge and experience in accounting, finance and risk management.

The Internal Audit Committee, which in 2017 met four times, performs a consultative and advisory role in the organisation and operation of the company's internal control system, which is understood as a system for verifying effectiveness and compliance with both existing and planned internal procedures, ensuring sound and efficient management, and insofar as possible identifying and preventing financial and operational risks and fraud against the Company. In particular, the Internal Audit Committee (a) assesses the adequacy of the internal control system and the working plan drawn up by the Head of the Internal Audit Department, (b) receives regular reports from the Internal Audit Department, (c) assesses the adequacy of the risk assessment framework; (d) reports to the Board at least every six months, on the occasion of the approval of the annual and interim report on its activities and on the adequacy of the internal control system, (e) performs any other duties that may be assigned to it by the Board, particularly with regard to relations with the independent auditors; and (f) generally assists the Board of Directors in performing the Board's duties in relation to internal control. The Internal Audit Committee also assists the Board of Statutory Auditors in assessing proposals from external auditors for appointment as the company's independent auditors, comments on the established working plan for the audit, the findings of the independent auditors' report, and any letter of recommendations.

The Internal Audit Committee reports to the Board of Directors and the Board of Statutory Auditors at least every six months on its activities, those of the Internal Audit Department, and on the existing internal control structure in general, also highlighting the internal risk management policies.

Comprehensive minutes of meetings of the Internal Audit Committee are kept by its Chairman.

9. The Supervisory Body and the Organisational Model pursuant to Legislative Decree No. 231

As provided in the Organisation, Management and Control Model established by Legislative Decree No. 231/2001, adopted by the company on 22 April 2008 and updated by subsequent resolutions on 13 November 2008, 22 March 2012, 14 March 2013, 22 March 2016, 25 July 2017 and more recently on March 22, 2018, the company has appointed a Supervisory Board. The Board is collegial body which is autonomous and independent of other corporate and internal control bodies. It is responsible for monitoring the functioning of and compliance with the Organisational Model, and for updating the Model as required.

In particular, the Supervisory Board is required to:

- supervise the functioning of and compliance with the Model (and the Code of Ethics) by corporate bodies, employees and associates of Group companies, monitoring the actual implementation of the Model within the corporate structure and its actual ability to prevent commission of the offences contemplated by the Decree and administrative offences that may involve the liability of Group companies
- update the Model in response to developments in legislation and the company's activities
- activate control procedures, keeping in mind that the primary responsibility for the control of activities, including those relating to risk areas, rests with the operational management
- conduct inspections of corporate activities in order to update the mapping of risk areas
- carry out periodic checks on specific operations or actions undertaken in risk areas
- collect, process and preserve the relevant information
- coordinate with other company departments to monitor activities in risk areas.

Through a resolution dated March 22, 2016, the Board of Directors has assigned the Supervisory Board's functions to the Board of Statutory Auditors, in accordance with Section 6.4 bis of Legislative Decree No. 231/2001.

The Board of Statutory Auditors regularly reports to the Board of Directors on its supervising activities and also submits an annual written report to the Board of Directors.

It should also be noted that on 13 November 2007 the company adopted a **Code of Ethics**, setting out the principles and ethical values of reference for the company and its directors, employees and consultants. This Code of Ethics has been updated and supplemented, and a new version was approved by the Board of Directors on 22 March 2012. Along with the implementation of the Code of Ethics, the company also adopted a series of procedures and

policies including, on 5 June 2007 and more recently on April 19, 2017, a specific **Antitrust and Competition Policy** setting out its principles of reference for compliance with antitrust legislation and, on 25 March 2014, an **Anti-Corruption Code**, in line with the most stringent international principles.

10. Independent Auditors

The statutory audit of the Company is entrusted, as provided by law, to independent auditors, the appointment of which is approved on the proposal of the Board of Statutory Auditors.

The current independent auditors are KPMG SpA to which the shareholders' meeting held on 16 April 2015 granted a mandate for the audit of the financial statements and consolidated financial statements pursuant to Article 2409-*bis* of the Civil Code, and for a limited audit of the interim report of the company, also in consolidated form, for the years 2015-2016-2017.

The Shareholders meeting, convened for April 12, 2018 on first call or for April 13, 2018 on second call, will resolve and appoint a new independent auditor for the period 2018-2019-2020.

11. Shareholders' Meeting

The duly constituted shareholder's meeting represents all shareholders and its resolutions, adopted in accordance with law and the Articles of Association, are binding on all shareholders, including absent and dissenting shareholders.

The shareholders' meeting is convened when the Board of Directors deems it appropriate and when requested by shareholders representing at least one twentieth of the registered capital, provided that the request for the convocation of a meeting indicates the matters to be discussed. An ordinary shareholders' meeting must be convened at least once per year for approval of the financial statement, within one hundred and twenty days of the end of the financial year, or within one hundred and eighty days where the law permits this longer term. A shareholders' meeting can also be immediately convened on the request of the Board of Statutory Auditors.

As provided by the Articles of Association, a shareholders' meeting is convened by means of a notice sent by registered letter with return receipt or by fax at least eight days before the date set for the meeting. By resolution of the Board of Directors, the notice of meeting may be published in the "*Il Sole 24 Ore*" or the "*Il Giornale*" daily newspapers at least fifteen days before the date set for the meeting. Shareholders' meetings may be validly held when participants are located in distinct adjoining or distant locations which are linked by audio/video connection, provided that the collective method of decision-making and the principles of good faith and equality of treatment of shareholders are respected.

Shareholders that have deposited their shares at the registered office or at the entities indicated in the notice of meeting at least two (2) days before the day set for the meeting are entitled to participate at the shareholders' meeting. Shareholders may be represented at the shareholders' meeting as provided in the Articles of Association.

In general, the shareholders' meeting is duly convened and may adopt resolutions by the majorities established by law, except in the following cases, in which a qualified majority of ninety per cent (90%) of the registered capital is required at the first and at each subsequent convocation

- For ordinary shareholders' meetings:
 - purchases or sales of own shares, with the exception of those made by methods that guarantee the equality of treatment of shareholders;
 - the exercise of the rights established in Article 28, paragraph 4 of the Articles of Association (dividend distribution) if the dividend to be distributed is less than 30% of the consolidated net profit;
 - the exercise of the right established at Article 27, paragraph 3 of the Articles of Association (award of mandate for accounting control to the Board of Auditors).
- For extraordinary shareholders' meetings:
 - amendment of Articles 8, 9, 10 and 11 (rules for the transfer of shares), 18 paragraphs 1 and 3, 19, 20 paragraphs 2, 21 paragraph 3 (appointment and functioning of the Board of Directors), 26 paragraph 5 (appointment of the Board of Auditors), 27 paragraph 1 and 2 (accounting control) and 28 paragraphs 2 and 3 (financial statement and profits);
 - the introduction, amendment, or removal of restrictions on the circulation of shares
 - the issue of new shares other than those of category X and Y.

12. Board of Statutory Auditors

Pursuant to Article 26 of the Articles of Association, the Board of Statutory Auditors is composed of five statutory members and two alternate members. Current and alternate members are appointed on the basis of lists presented by shareholders. At its meeting of 11 April 2017, the shareholders' meeting appointed the Board of Statutory Auditors on the basis of a sole list sent jointly by all shareholders. The Board of Statutory Auditors is mandated to ensure compliance with law and the Articles of Association, conduct a management audit, and perform all the other functions attributed to it by law.

The Board of Statutory Auditors does not perform accounting control, which is entrusted to a leading auditing company. In general, the powers, duties term of office and methods of appointment of auditors are as established by law.

The current members of the Board of Statutory Auditors are:

- Mr Giovanni Borgini – Chairman
- Mr Filippo Maria Cova – Statutory Auditor
- Mr Carlo Lazzarini – Statutory Auditor
- Mr Giorgio Ferrante – Statutory Auditor
- Ms Tiziana Stracquadanio – Statutory Auditor
- Mr Franco Caramanti – Alternate Auditor
- Mr Giorgio Caldart – Alternate Auditor

As is the case with directors, statutory auditors receive documentation concerning items on the agenda for meetings of the Board of Directors. The Board of Directors and the Executive Directors report to meetings of the Board of Statutory Auditors and with the same frequency on general management performance and outlook, and on the most significant transactions, due to their size and nature, carried out by the company and its subsidiaries.

As mentioned above, the Board of Statutory Auditors also conducts supervising activities in the frame of Legislative Decree No. 231/2001.

Seven meetings of the Board of Statutory Auditors were held during 2017, of an average duration of 120 minutes each and with the participation, on average, of more than 95% of the statutory auditors. Six meetings are currently scheduled to take place in 2018, before expiration of current period and, as of the date of this report, one of these was held in the month of February.

13. Ownership Structure - Rules for shares and their transfer

The registered capital of the company is made up of ordinary registered shares. More specifically, the registered capital is of the value of €5,017,905.72, divided into 83,631,762 shares of a nominal value of €0.06 each.

As provided in the Articles of Association, 2 (two) categories of shares exist: 50,179,058 category "X" shares and 33,452,704 category "Y" shares. As provided in the Articles of Association, both categories entitle holders to particular rights in addition to rights established by law.

The transfer of shares is governed by Articles 8 et seq. of the Articles of Association, which establish specific rights of pre-emption and rights and obligations of co-sale if certain conditions pertain. The Articles of Association also establishes the preliminary procedures necessary for transfer transactions.

The company is subject to the management and coordination, pursuant to Article 2497 set seq. of the Italian Civil Code, by DAM Srl.

14. Regular reports and certifications

Pursuant to Article 28 of the Articles of Association, the company prepares and makes a financial statement and consolidated financial statement available to its shareholders for each financial year as provided by law and, on the basis of the same accounting principles used for the preparation of the financial statement, a half-yearly report within 90 days of the close of each half year, and three interim management reports within 45 days of the close of each of the first three quarters of the year, according to the models applicable to listed companies, without prejudice to the possibility of postponing approval of the second interim report if the half-yearly report is issued within 60 days of the end of the half-year period.

The company also submits its annual financial statement and the consolidated financial statement of the Group to which it belongs, for certification by a leading independent audit company and also submits its half-yearly management reports to a limited audit by the same independent auditors.

15. Transactions with related parties

Transactions undertaken by the company with related parties mainly involve an exchange of goods, the provision and utilisation of financial resources, and the provision of services to subsidiaries and other entities identified as related parties pursuant to IAS 24. All transactions undertaken are part of ordinary management and are settled under market conditions, i.e. under the conditions that would be applied between two independent parties.

22 March 2018

For the Board of Directors

Mr Dardanio Manuli
Chairman and Managing Director