

## PANARIAGROUP INDUSTRIE CERAMICHE S.P.A.

Registered office in Finale Emilia (MO), at Via Panaria Bassa 22/A  
Share capital Euro 22,677,645.50 fully paid-in  
Registration number with Modena Companies House: 01865640369  
Website [www.panariagroup.it](http://www.panariagroup.it)

### BOARD OF DIRECTORS' REPORT ON ITEMS 1, 2 AND 3 ON THE AGENDA OF THE ORDINARY SHAREHOLDERS MEETING OF 28 MAY 2020

*Drafted in accordance with article 125-ter of Legislative Decree no. 58 of 24 February 1998 ("Consolidated Finance Act") and 84-ter of the Regulation adopted by Consob by means of resolution no. 11971/99 ("Issuers' Regulation"), as subsequently amended and supplemented, for the ordinary Shareholders' Meeting of Panariagroup Industrie Ceramiche S.p.A. set, at single call, on 28 May 2020.*

Dear Shareholders,

this report illustrates the proposals that the Board of Directors of Panariagroup Industrie Ceramiche S.p.A. (hereinafter "**Panariagroup**" or the "**Company**") intends to submit for your approval with reference to the items on the agenda of the Shareholders' Meeting that will be held at single call on 28 May 2020.

**Item 1 on the agenda-** *Presentation of the Panariagroup Group consolidated financial statements and approval of the annual financial statements as at 31 December 2019; related and consequent resolutions.*

*1.1 Approval of the financial statements as at 31 December 2019 and the Board of Directors' report on operations;*

*1.2 Allocation of the net result.*

Dear Shareholders,

The Board of Directors of your Company has convened you to an ordinary Shareholders' Meeting to propose to you the approval of the Company's annual financial statements as at 31 December 2019 and to present you with the consolidated financial statements at 31 December 2019.

The draft financial statements as at 31 December 2019 of the company were approved by the Board of Directors on 13 March 2020.

Please note that the report on operations and consolidated non-financial declaration ("**NFD**") were made available to the public, together with the draft annual financial statements of Panariagroup as at 31 December 2019, the consolidated financial statements of Panariagroup as at 31 December 2019, the certificate of the manager appointed to prepare the Company's accounting documents, the report by the Board of Auditors and the report by the independent auditing firm, at the Company's registered office, at Borsa Italiana S.p.A., on the Company's

website [www.panariagroup.it](http://www.panariagroup.it) as well as at the authorised storage mechanism IInfo at [www.linfo.it](http://www.linfo.it), in accordance with the terms of the law.

For complete information about the matter in question, please refer to the report by the Board of Directors on operations and the additional documentation which were made available to the public, in accordance with the law, at the registered office and at Borsa Italiana S.p.A., and on the company website [www.panariagroup.it](http://www.panariagroup.it), in the Investor Relations section, as well as on the authorised storage mechanism IInfo, at [www.linfo.it](http://www.linfo.it).

As specified above, only the annual financial statements will be submitted for approval by the Shareholders' Meeting, in accordance with Art. 2364, paragraph 1, point 1) of the Italian Civil Code, while the consolidated financial statements are subject merely to presentation to the Shareholders, but do not have to be approved by the Shareholders' Meeting.

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In light of the above, in relation to this item on the agenda, the Shareholders' Meeting will carry out two separate votes, based on the proposals formulated hereunder.

### ***1.1 Approval of the annual financial statements as at 31 December 2019 and the Board of Directors' report on operations.***

In light of the above, also making reference to the report on operations, the Board of Directors presents the following proposed resolution for your approval:

*"The ordinary Shareholders' Meeting of Panariagroup Industrie Ceramiche S.p.A.*

- after examining the annual financial statements of the Company as at 31 December 2019 and the Board of Directors' report on operations;*
- having regard to the report by the Board of Auditors to the Shareholders' Meeting pursuant to Art. 153 of Italian Legislative Decree no. 58 of 24 February 1998;*
- having regard to the report by the Independent Auditing Firm in relation to the draft annual financial statements as at 31 December 2019;*

***resolved***

- to approve the annual financial statements of the Company as at 31 December 2019 and the Board of Directors' report on operations;*
- to confer to the Chairman of the Board of Directors and the Chief Executive Officer, separately and with the right to sub-delegate, the mandate for the performance of all the activities pertinent, consequent or connected to the implementation of this resolution".*

### ***1.2 Allocation of the net result.***

In light of the above, also making reference to the report on operations, the Board of Directors presents the following proposed resolution for your approval:

*“The ordinary Shareholders’ Meeting of Panariagroup Industrie Ceramiche S.p.A.*

- after examining the annual financial statements of the Company as at 31 December 2019 and the Board of Directors’ report on operations;*
- having regard to the report by the Board of Auditors to the Shareholders’ Meeting pursuant to Art. 153 of Italian Legislative Decree no. 58 of 24 February 1998;*
- having regard to the report by the Independent Auditing Firm in relation to the draft annual financial statements as at 31 December 2019;*

**resolved**

- to carry forward the loss for the year;*
- to confer to the Chairman of the Board of Directors and the Chief Executive Officer, separately and with the right to sub-delegate, the mandate for the performance of all the activities pertinent, consequent or connected to the implementation of this resolution”.*

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**Item 2 on the agenda** - *Resolutions regarding the report on the remuneration policy and compensation paid pursuant to Art. 123-ter of Legislative Decree 58/1998 and art. 84-quater of Consob Regulation no. 11971/1999.*

- 2.1 Binding vote on the policy on remuneration relating to 2020 illustrated in the first section of the report; related and consequent resolutions;*
- 2.2 Consultation on the second section of the report relating to the compensation paid in 2019 or relating to it; related and consequent resolutions.*

Dear Shareholders,

In relation to the second item on the agenda, the Board of Directors intends to submit for the approval of the Shareholders’ Meeting the report on the remuneration policy and on compensation paid in relation to members of the administration and control bodies, general managers and executives with strategic responsibilities of the Company (the “**Report**”). The report was prepared in accordance with articles 123-ter of the Consolidated Finance Act and 84-quater of the Issuers’ Regulation, as well as art. 6 of the Code of Corporate Governance (July 2018 version) and was drafted in compliance with Annex A, Schemes 7-bis and 7-ter, of the Issuers’ Regulation.

Pursuant to art. 123-ter of the Consolidated Finance Act - as recently amended by Legislative Decree no. 49 of 10 June 2019, in implementation of Directive (EU) 2017/828 (so-called “Shareholder II Directive”) of the European Parliament and Council of 17 May 2017 which modifies Directive 2007/36/EC (so-called “Shareholder I Directive”) as regards encouraging long-term shareholder commitment - the aforementioned Report is structured into two sections.

The first section illustrates, in a clear and easy-to-understand way, the Company’s policy on the remuneration of the members of the administrative and control bodies, general managers

and managers with strategic responsibilities with reference to at least the following financial year as well as the procedures used to adopt and implement said policy. The remuneration policy illustrated in said section, pursuant to art. 123-ter, paragraphs 3-bis and 3-ter, of the Consolidated Finance Act, introduced by Legislative Decree no. 49/2019, is subject to the binding vote of the ordinary Shareholders' Meeting.

The second section, in a clear and easy-to-understand way and, on a named basis for members of the administrative and control bodies and general managers, and in aggregate form for managers with strategic responsibilities, instead must (i) provide an adequate representation of each of the items making up the remuneration, including the entitlements envisaged in the event of the termination of office or end of the employment contract, highlighting their consistency with the Company's remuneration policy in relation to the reference financial year; (ii) provide a detailed breakdown of the compensation paid in the reference year for any reason and in any form by the Company and by its subsidiaries or associates, reporting any components of the aforementioned compensation that relate to activities carried out in years prior to the reference year and also outlining the compensation to be paid in one or more subsequent years for the activities performed in the reference year; (iii) show how the Company has taken account of the vote expressed in the previous year on the second section of the report. This section, pursuant to new paragraph 6 of art. 123-ter of the Consolidated Finance Act, as introduced by Legislative Decree no. 49/2019, is subject solely to a consultative and non-binding vote of the ordinary Shareholders' Meeting, which is required to rule either for or against said section.

Lastly, any equity investments held by the above-mentioned parties in the Company or its subsidiaries are indicated in the Report.

For complete information on the matter in question, please refer to the Report drafted by the Board of Directors pursuant to articles 123-ter of the Consolidated Finance Act and 84-quater of the Issuers' Regulation, as well as art. 6 of the Code of Corporate Governance (July 2018 version), which was made available to the public, according to the methods and terms prescribed by law, at the Company's registered office, at Borsa Italiana S.p.A., on its website [www.panariagroup.it](http://www.panariagroup.it), as well as on the authorised storage mechanism IInfo at [www.1info.it](http://www.1info.it).

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In light of the above, in relation to this item on the agenda, the Shareholders' Meeting will carry out two separate votes, based on the proposals formulated hereunder.

## ***2.1 Binding vote on the policy on remuneration relating to 2020 illustrated in the first section of the report; related and consequent resolutions.***

Now, therefore, the Board of Directors presents the following proposals relating to the first section of the aforementioned Report for your approval:

*“The ordinary Shareholders' Meeting of Panariagroup Industrie Ceramiche S.p.A.,*

- having examined the first section of the “Report on the remuneration policy and on the compensation paid” envisaged by art. 123-ter, paragraph 3, of Legislative Decree no. 58 of 24 February 1998, prepared by the Board of Directors based on the proposal of the Remuneration Committee, regarding the illustration of the Company's policy on the remuneration of the members of the administrative and control bodies, general managers and managers with strategic responsibilities with reference to 2020, as well as the procedures used to adopt and implement said policy;*

- *having considered that the first section of the Report on the remuneration policy and on the compensation paid and the remuneration policy described therein conform to the provisions of the applicable legislation and regulations governing the remuneration of members of the administrative and control bodies, general managers and managers with strategic responsibilities; and*
- *having considered that the report on the remuneration policy and on the compensation paid has been provided to the public in accordance with the methods and time-scales set forth in the legislation in force,*

***resolved***

- *to approve, pursuant to and in accordance with the provisions of art. 123-ter, paragraph 3-bis and 3-ter, of the Consolidated Finance Act, the remuneration policy described in the first section of the “Report on the remuneration policy and on the compensation paid”, prepared by the Company’s Board of Directors on 13 March 2020”.*

***2.2 Consultation on the second section of the report relating to the compensation paid in 2019 or relating to it; related and consequent resolutions.***

With reference to the second section of the aforementioned Report, the Board of Directors submits the following proposal for your approval:

“The ordinary Shareholders’ Meeting of Panariagroup Industrie Ceramiche S.p.A.

- *having examined the second section of the “Report on the remuneration policy and on the compensation paid” envisaged by art. 123-ter, paragraph 4, of Legislative Decree no. 58 of 24 February 1998, prepared by the Board of Directors based on the proposal of the Remuneration Committee, regarding the indication of the compensation paid to members of the administrative and control bodies, general managers and managers with strategic responsibilities with reference to 2019 or related to it;*
- *having considered that the second section of the Report on the remuneration policy and on the compensation paid described conforms to the provisions of the applicable legislation and regulations governing the remuneration of members of the administrative and control bodies, general managers and managers with strategic responsibilities; and*
- *having considered that the report on the remuneration policy and on the compensation paid has been provided to the public in accordance with the methods and time-scales set forth in the legislation in force,*

***resolved***

- *to rule in favour, pursuant to and in accordance with the art. 123-ter, paragraph 6, of the Consolidated Finance Act, of the second section of the “Report on the remuneration policy and on the compensation paid”, prepared by the Company’s Board of Directors on 13 March 2020”.*

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**Item 3 on the agenda** - *Appointment of the Board of Directors; related and consequent resolutions.*

*3.1 Determination of the number of members of the Board of Directors;*

*3.2 Determination of the term of office of the Board of Directors;*

*3.3 Appointment of the members of the Board of Directors;*

*3.4 Determination of the compensation due to members of the Board of Directors.*

Dear Shareholders,

With reference to item 3 on the agenda, the Board of Directors notes that the approval of the annual financial report as at 31 December 2019 marks the expiry of the office of the Board of Directors of Panariagroup Industrie Ceramiche S.p.A., appointed by the Shareholders' Meeting on 28 April 2017.

The Board of Directors is currently composed of the following members: Emilio Mussini (Chairman of the Board of Directors and Chief Executive Officer), Paolo Mussini (Deputy Chairman and Chief Executive Officer), Andrea Mussini (Deputy Chairman and executive director), Giuliano Pini (Chief Executive Officer), Giuliano Mussini (executive director), Daniele Prodi (non-executive director), Silvia Mussini (non-executive director), Sonia Bonfiglioli (independent director), Tiziana Ferrari (independent director) and Francesca Bazoli (independent director).

The Shareholders' Meeting is therefore required, pursuant to the applicable legislation and regulations and art. 21 of the Articles of Association, to which reference should be made in full, to appoint the new members of the Board of Directors, based on a prior determination of the respective number and duration of term of office, as well as establish their compensation.

The next Shareholders' Meeting will then be required to resolve on the appointment of one or more company Chief Executive Officers, pursuant to art. 25 of the Articles of Association, as well as, if the Shareholders' Meeting has made no provision for it, the appointment of the Chair of the Board of Directors and one or more Deputy Chairpersons in accordance with art. 22 of the Articles of Association.

### ***3.1 Determination of the number of members of the Board of Directors.***

Dear Shareholders,

pursuant to art. 21 of the Articles of Association, the Company is administered by a Board of Directors composed of a minimum of 7 members and a maximum of 15, according to the term resolved by the Shareholders' Meeting at the time of appointment. The directors need not be shareholders and may be re-elected.

With reference to the determination of the number of members of the Board of Directors, it is proposed that the new Board of Directors be composed of 10 (ten) or 12 (twelve) members.

Now, therefore, the Board of Directors presents the following proposed resolution for your approval:

*“The ordinary Shareholders' Meeting of Panariagroup Industrie Ceramiche S.p.A., having acknowledged the explanatory report prepared by the Board of Directors*

*resolved*

- *to determine the number of members of the Board of Directors at 10 (ten)."*

*or*

*"The ordinary Shareholders' Meeting of Panariagroup Industrie Ceramiche S.p.A., having acknowledged the explanatory report prepared by the Board of Directors*

*resolved*

- *to determine the number of members of the Board of Directors at 12 (twelve)."*

### **3.2 Determination of the term of office of the Board of Directors.**

Dear Shareholders,

pursuant to art. 21 of the Articles of Association, the Company is administered by a Board of Directors that remains in office for one, two or three financial years, according to the resolution approved by the shareholders' meeting at the time of appointment, with the office expiring on the date of the Shareholders' Meeting called to approve the financial statements for the last year of the term of office.

With the reference to the term of office, it is proposed that the new Board of Directors remain in office for the years 2020-2021-2022, and therefore until the approval of the financial statements as at 31 December 2022.

Now, therefore, the Board of Directors presents the following proposed resolution for your approval:

*"The ordinary Shareholders' Meeting of Panariagroup Industrie Ceramiche S.p.A., having acknowledged the explanatory report prepared by the Board of Directors*

*resolved*

- *to determine the term of office of the Board of Directors as a period of three financial years (2020-2021-2022), and therefore until the approval of the financial statements as at 31 December 2022."*

### **3.3 Appointment of the members of the Board of Directors.**

Dear Shareholders,

pursuant to art. 21 of the Articles of Association, in order to ensure the election of a member of the Company's Board of Directors by the minority, the Board of Directors is appointed on the basis of the lists presented by the shareholders in which the candidates are listed by progressive number.

Therefore, the Board of Directors will be appointed in accordance with the terms and methods pursuant to art. 21 of the Articles of Association (to which specific reference should be made for matters not reported hereunder). In particular, we point out to the following:

Shareholders who, alone or together with other shareholders, hold shares representing at least 2.5% (two point five) of the share capital with voting rights at the Shareholders' Meeting are entitled to submit lists, pursuant to Consob Managerial Resolution no. 28 of 30 January 2020.

Each shareholder, shareholders signed up to a shareholder agreement, the parent company, subsidiaries and joint ventures pursuant to Article 93 of the Consolidated Finance Act, cannot submit or participate in the submission of more than one list, either directly or through a third party or a trustee, nor can they vote for any list other than that presented, either directly or through a third party or a trustee. Acceptances or votes breaching such prohibition shall not be assigned to any list.

The lists must be filed at the Company's registered office by the twenty-fifth day prior to the date of the Shareholders' Meeting, and made available to the public at the Company's registered office, on the website and using the other methods set forth in the legal and regulatory provisions, at least twenty-one days before the date of the Shareholders' Meeting. Ownership of the necessary equity investment for the presentation of lists by shareholders is determined with regard to the shares registered in favour of the shareholder on the day in which the lists are filed at the Company's registered office. The relevant certification, issued pursuant to the applicable legislation by an authorised financial intermediary, can also be produced after the filing, provided that it reaches the Company within the deadline set forth in the provisions, including regulatory, in force for the publication of lists by the Company.

Each list must include at least a number of candidates - in compliance with the applicable legislation - who meet the independence requirements prescribed by law or the applicable regulatory provisions, indicating them separately and inserting one of them in first place on the list. At the time of filing of the lists, information must also be provided that enables those presenting the lists to be identified.

In this regard, it should be noted that:

- (i) art. 147-ter, paragraph 4 of the Consolidated Finance Act, requires at least one of the members of the Board of Directors, or two if the Board of Directors is composed of more than seven members, to meet the independence requirements set forth for statutory auditors in accordance with art. 148, paragraph 3 of the Consolidated Finance Act; and
- (ii) pursuant to art. IA.2.10.6 of the Instructions on the Regulation of markets organised and managed by Borsa Italiana S.p.A., for the purposes of maintaining the requirements envisaged for STAR issuers (such as the Company), if the Board of Directors is composed of a number of members not exceeding 8, the Board must contain at least 2 independent directors; if the Board of Directors is composed of between 9 and 14 members, it must contain at least 3 independent directors; and, if the Board is composed of more than 14 members, it must include at least 4 independent directors.

Together with each list, the declarations must also be submitted whereby the individual candidates accept their candidacies and certify, under their own personal responsibility, the absence of any grounds for ineligibility and conflict of interest, as well as fulfilment of the requirements prescribed by applicable laws and the Articles of Association for the respective

position. Together with said declarations, for each candidate, a comprehensive description of their personal and professional profiles, with an indication of their suitability for qualifying as independent pursuant to law, is filed at the Company's registered office.

Those who present a "minority list" are also the recipients of the recommendations drawn by Consob by means of Communication no. DEM/9017893 of 26 February 2009.

Article 21 of the Articles of Association also establishes that the Board of Auditors shall be renewed in compliance with the regulations governing gender balance pursuant to the applicable legal and regulatory provisions.

In this regard, it should be noted that, on 1 January 2020, the provisions of Law no. 160 of 27 December 2019 ("**2020 Budget Law**") entered into force, which amend art. 147-ter, paragraph 1-ter and art. 148, paragraph 1-bis, of the Consolidated Finance Act, introduced by Law no. 120 of 12 July 2011 (so-called "Golfo-Mosca Law"), regarding gender balance in the corporate bodies of companies with listed shares.

In relation to the renewal of the administrative body, pursuant to the provisions of the 2020 Budget Law and taking into account the recommendations drawn up by Consob, lists that present a number of candidates equal to or more than three must include candidates of a different gender, so that a number of candidates at least equal to two-fifths belong to the less represented gender. If the application of the criterion for gender distribution results in a whole number of members of the administration bodies belonging to the less represented gender, this number is rounded up to the nearest unit, with the exception of lists that present a number of candidates equal to three for which the number is rounded down to the nearest unit.

The list for which the above provisions are not observed is considered as having not been presented.

Shareholders who intend to submit a list may e-mail [renato.martelli@panariagroup.it](mailto:renato.martelli@panariagroup.it) in advance, to acquire the necessary operational details.

Bear in mind that, in observance of the provisions of the Code of Corporate Governance of listed companies, which Panariagroup subscribes to, the Board of Directors, as part of the annual self-assessment process, expressed, in view of the renewal of the Board of Directors, its stance on the composition of the Board itself, in the hope that the shareholders, in presenting the lists, maintain a similar level of quality of the Board in terms of the skills and experiences represented, taking account of the characteristics, including gender, of the candidates. It should be noted that, pursuant to the Code of Corporate Governance, it is hoped that shareholders, when presenting lists and subsequently appointing directors, evaluate, also in light of the opinion expressed by the Board on the matter and the diversity criteria identified by the issuer, the professional profiles, experience, including managerial, the complexity and unique characteristics of the business sector in which it operates, as well as the size of the Board of Directors.

In light of the above, we therefore invite you to appoint the Board of Directors by voting in favour of one of the lists of candidates which will be presented and published in respect of the legal provisions and the indications of the Articles of Association.

### ***3.4 Determination of the compensation due to members of the Board of Directors***

Dear Shareholders,

Lastly, we should point out to that, pursuant to art. 29 of the Articles of Association, you are also required to determine the compensation to be paid to the Board of Directors for the year 2020.

Please remember that the Shareholders' Meeting of 29 April 2019, in implementation of the referenced art. 29 of the Articles of Association, determined that the fixed part of the amount to be paid to the Board of Directors by way of compensation for FY 2019 would be a gross figure of Euro 615,000.00 (six hundred and fifteen thousand) and, nonetheless until approval of the financial statements as at 31 December 2019, and the variable emoluments to be paid to directors with executive positions would be a gross maximum of Euro 200,000.00 (two hundred thousand); this was decided after consulting with the Board of Auditors and the Remuneration Committee.

In continuity with the resolution approved by the aforementioned Shareholders' Meeting, notwithstanding that the compensation must be attributed in compliance with the remuneration policy approved recently by the shareholders according to the elements outlined in relation to the second item on the agenda, the Board of Directors submits the following proposed resolution for your approval:

*“The ordinary Shareholders' Meeting of Panariagroup Industrie Ceramiche S.p.A., having acknowledged the explanatory report prepared by the Board of Directors*

***resolved***

- to determine that the fixed part of the amount to be paid to the Board of Directors by way of compensation for FY 2020 would be a gross figure of Euro 615,000.00 (six hundred and fifteen thousand) and, nonetheless until approval of the financial statements as at 31 December 2020, and the variable emoluments for FY 2020 to be paid to directors with executive positions would be a gross maximum of Euro 200,000.00 (two hundred thousand); this was decided after consulting with the Board of Auditors and the Remuneration Committee;*
  
- to assign a mandate to the Board of Directors, to carry out all the necessary legal and regulatory formalities related to the preceding resolution.”*

\* \* \*

Sassuolo, 16 April 2020

For the Board of Directors  
The Chairman  
**Emilio Mussini**