

# **CORPORATE GOVERNANCE AND SHAREHOLDING STRUCTURE REPORT**

pursuant to Article 123-*bis* of the TUF  
(traditional management and control model)

Issuer: De' Longhi S.p.A.

Website: [www.delonghigroup.com](http://www.delonghigroup.com)

Financial year to which the Report refers: 2017

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## GLOSSARY

**Annual Shareholders' Meeting:** the meeting of the shareholders of De' Longhi S.p.A.

**Shareholders:** the shareholders of De' Longhi S.p.A.

**Code/Corporate Governance Code:** the Corporate Governance Code for Listed Companies approved in July 2015 by the Corporate Governance Committee set up by Borsa Italiana S.p.A., ABI, ANIA, Assogestioni, Assonime and Confindustria.

**Civil Code/c.c.:** the Italian Civil Code adopted with Royal Decree No. 262 of 16 March 1942.

**Code of Ethics:** the code of ethics approved by the board of directors of De' Longhi S.p.A., in its updated version, on 12 May 2014.

**Board of Auditors/Board of Statutory Auditors:** the board of statutory auditors of De' Longhi S.p.A.

**Board/Board of Directors:** the board of directors of De' Longhi S.p.A.

**Issuer/Company/De' Longhi:** De' Longhi S.p.A., with registered office in Treviso, Via Lodovico Seitz 47.

**Financial year:** the financial year 2017.

**Group/De' Longhi Group:** De' Longhi and its subsidiaries pursuant to Art. 93 of Legislative Decree No. 58 of 24 February 1998 and Art. 2359 of the Civil Code.

**Significant Transactions Guidelines:** the “*Guidelines on particularly significant transactions*” approved by the Board of Directors, in its updated version, on 12 November 2010.

**Internal Control Guidelines:** the “*Guidelines for the Internal Control and Risk Management System of Gruppo De' Longhi S.p.A.*” approved by the Board of Directors, in their updated version, on 10 November 2016.

**OPC Procedure:** the “Procedure on transactions with related parties of the De' Longhi S.p.A. Group” prepared in accordance with Consob Regulation no. 17221/2010 and approved by the Company's Board of Directors, in its updated version, on 12 November 2013.

**Issuers' Regulation:** Consob Regulation No. 11971 issued in 1999 (as later amended) concerning issuers.

**Market Regulation:** Consob Regulation no. 20249 issued in 2017 on financial markets.

**Consob Related Parties Regulation:** the Regulation no. 17221 issued by Consob in 2010 (as later amended) on transactions with related parties.

**Report:** this report on corporate governance and shareholding structure that De' Longhi is required to draft pursuant to Art. 123-*bis* of Legislative Decree No. 58 of 24 February 1998.

**Remuneration Report:** the report on remuneration that De' Longhi is required to draft pursuant to Art. 123-*ter* of Legislative Decree No. 58 of 24 February 1998 and Art. 84-*quater* of the Issuers' Regulation.

**Articles of Association:** the articles of association of De' Longhi.

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

## 1. ISSUERS' PROFILE

De' Longhi is a leader in the household appliance sector and is mainly active in the coffee and food preparation segments, which represent around 80% of the Group's total revenues. The Group's brand portfolio contains 3 global brands with distinctive premium market positions: De' Longhi, leader in espresso coffee machines; Kenwood, leader in food preparation; and Braun, under perpetual licence in the kitchen and ironing segments and other minor categories. The Group's activities are highly diversified geographically, with direct commercial presence in Europe, North America, Middle East, Africa and Asia/Pacific. From an industrial perspective, De' Longhi can count on 4 production sites in Italy, Romania and China, plus a joint venture plant with the TCL Group in China.

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De'Longhi's corporate governance system is the traditional system (the so-called "Latin" model). The corporate bodies of De' Longhi are, therefore, the Shareholders' Meeting, the Board of Directors and the Board of Statutory Auditors. The Control, Risks and Corporate Governance Committee ("Control and Risks Committee" for short), the Remuneration and Appointments Committee and the Independent Committee are all part of the administrative body.

The Board of Directors monitors and implements the corporate governance rules with the support of the aforementioned Control and Risks Committee and the Internal Audit department. The Company is the entity that performs management and coordination activities on the companies in the De' Longhi Group, also with regard to governance, using the recommendation to adopt the principles (e.g. those contained in the Code of Ethics) and, where possible, the specific regulations (e.g. the Significant Transactions Guidelines, which assign the responsibility of examining and approving transactions having a significant economic, capital and financial impact within the Group to the Board).

The goal of the corporate governance system adopted by De' Longhi is that of ensuring the proper functioning of the Company, first and foremost, and the Group in general, and promoting the reliability of its products globally and, consequently, the brand name.

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The Company's shares have been traded on the Mercato Telematico Azionario, organised and managed by Borsa Italiana S.p.A., since 24 July 2001.

The Company has adhered to the Corporate Governance Code since March 2007 and the Board of Directors has adopted a Code of Ethics which contains the ethical principles and general rules

that characterise the Issuer's and the Group's organisation and business internally and towards third parties.

## **2. INFORMATION ON THE OWNERSHIP STRUCTURE (PURSUANT TO ART. 123-BIS, PARA. 1, TUF) AT 1 MARCH 2018**

### **A) SHARE CAPITAL STRUCTURE (PURSUANT TO ART. 123-BIS, PARA. 1(A), TUF)**

De' Longhi's entire share capital is made up of ordinary shares with voting rights and these are traded on the Mercato Telematico Azionario managed by Borsa Italiana S.p.A.

The share capital subscribed and paid up is 224,250,000 euros divided into no. 149,500,000 ordinary shares with a par value of 1.50 euros each. The share capital consists entirely of ordinary shares.

On 14 April 2016, the Company's Shareholders' Meeting resolved to increase the share capital by payment, in one or more tranches, for a maximum nominal amount 3,000,000 euros, with the issue of a maximum of 2,000,000 ordinary shares with a par value of 1.50 euros each, with the same characteristics as the ordinary shares in circulation at the date of issue, excluding pre-emption rights pursuant to Art. 2441, paragraphs 4, second subparagraph, 6 and 8 of the Italian Civil Code, Art. 158 of the TUF and Art. 5-bis, paragraph 3 of the Articles of Association. The share capital increase was for an equity based incentive plan called the "*2016-2022 Stock Options Plan*", for the Company's Chief Executive Officer and a limited number of managers and key resources of De' Longhi and the other companies in the Group, to be implemented with a scrip issue of stock options to the beneficiaries. For details on the plan, please refer to the Information Document and Remuneration Report, both published on the website [www.delonghigroup.com](http://www.delonghigroup.com) in the section "*Investor Relations*" – "*Governance*" – "*Annual Shareholders' Meeting*" – "2016".

It should be noted that the Company has not issued any financial instruments granting the right to subscribe to newly issued shares.

The Issuer's share capital structure at 1 March 2018 is shown in Table 1 enclosed with this Report.

**B) RESTRICTIONS ON THE TRANSFER OF SHARES (PURSUANT TO ART. 123-BIS, PARA. 1(B), TUF)**

The Articles of Association do not set any restrictions to the transfer of shares, nor limits to owning shares or the approval of the corporate or shareholder bodies to admit Shareholders within the shareholding structure.

**C) MAJOR SHAREHOLDINGS (PURSUANT TO ART. 123-BIS, PARA. 1(C), TUF)**

Based on the entries in the Register of Shareholdings on the date this Report is approved and the communications received by the Company in accordance with Art. 120 of the TUF and other information available to the Company, the major shareholdings in De' Longhi are indicated in Table 1 in the Appendix to this Report.

**D) SHARES GRANTING SPECIAL RIGHTS (PURSUANT TO ART. 123-BIS, PARA. 1(D), TUF)**

On 11 April 2017, the Shareholders' Meeting approved the proposal of the Board of Directors to amend Art. 5-bis of the Articles of Association in order to introduce increased voting rights in accordance with Art. 127-quinquies of the TUF.

Consequently, shareholders (or others with voting rights) who make express request can be registered in a special "List" set up by the Company, in compliance with the provisions laid down in Art. 143-*quater* of the Issuers' Regulation, which will assign them two votes for each share registered in the List and held uninterruptedly for a period of 24 months from the date of List registration.

For more information on the change to the Articles of Association, reference is made to the Report available on the Company's website [www.delonghigroup.com](http://www.delonghigroup.com), in the section "*Investor Relations*" – "*Governance*" – "*Annual Shareholders' Meeting*" – "*2017*".

The rules on registration, keeping and updating the List are contained in the "*Rules for increased voting rights*" adopted by the Board of Directors on 11 April 2017 and can be viewed on the Company's website [www.delonghigroup.com](http://www.delonghigroup.com), in the section "*Investor Relations*" – "*Governance*" – "*Increased voting rights*".

The first registrations in the List occurred during the Financial Year. In application of Art. 143-*quater*, para. 5 of the Issuers' Regulation, the Company has always published the list of shareholders with an interest higher than 3% who have requested registration in the List.



The table below contains the significant shareholders referred to above who are registered in the List on the date of this Report. It should be noted that there have been other registrations though these were related to interests of less than 3%.

SHAREHOLDER	NO. ORDINARY SHARES	% OF CAPITAL	REGISTRATION DATE
DE LONGHI INDUSTRIAL S.A.	85,199,660	56.99	21.04.2017
APG ASSET MANAGEMENT N.V.	10,000,000	6.689	27.06.2017
<b>TOTAL</b>	<b>95,199,660</b>	<b>63.679</b>	

\* The holder of the financial instruments is Stichting Depositary APG Developed Markets Equity Pool, while the subject with the voting right is APG ASSET MANAGEMENT N.V., as per the communication pursuant to Art. 23, 23-bis and 24 of the Post Trading Provision issued by the intermediary.

At the date of this Report, no share recorded in the List had matured the increased voting right.

The Company's Articles of Association do not contain provisions regarding increased voting rights pursuant to Art. 127-*sexies* of the TUF.

**E) EMPLOYEE SHAREHOLDINGS: MECHANISM FOR EXERCISING VOTING RIGHTS (PURSUANT TO ART. 123-BIS, PARA. 1(E), TUF)**

The Articles of Association do not contain specific provisions on the exercise of voting rights by employee Shareholders.

**F) RESTRICTIONS ON VOTING RIGHTS (PURSUANT TO ART. 123-BIS, PARA. 1(F), TUF)**

There are no special provisions in the Articles of Association restricting or limiting voting rights, nor any separation of the financial rights associated with the shares from ownership of the same. The terms and procedures that should be followed when exercising voting rights are those described in section 15 of this Report.

**G) SHAREHOLDER AGREEMENTS (PURSUANT TO ART. 123-BIS, PARA. 1(G), TUF)**

The Company is not aware of any Shareholder Agreements pursuant to Art. 122 of the TUF.

**H) CHANGE-OF-CONTROL CLAUSES (PURSUANT TO ART. 123-BIS, PARA. 1(H), TUF) AND STATUTORY PROVISIONS RELATING TO TAKEOVERS (PURSUANT TO ART. 104, PARA. 1-TER AND 104-BIS, PARA. 1, TUF)**

The following significant agreements contain contractual clauses relating to changes in control of the Company:

- (i) the agreement underlying the bond placed with US institutional investors (so-called US Private Placement), in the event that the Issuer's current majority shareholder decreases its shareholding to below 51%, it provides for the lender being entitled to request early repayment;
- (ii) the loan agreement with Unicredit S.p.A., in the event that the Issuer's current majority shareholder decreases its shareholding to below 51%, it provides for the lender being entitled to request early repayment;
- (iii) the loan agreement with Intesa Sanpaolo S.p.A., in the event that the Issuer's current majority shareholder decreases its shareholding to below 51%, it provides for the lender being entitled to request early repayment.

The Articles of Association do not derogate from the provisions set out in Art. 104, para. 1 and 2 of the TUF on the passivity rule (namely the Company's obligation to refrain from any action likely to conflict with the pursuit of the objectives of the takeover bid), nor do they contain the neutralisation rules contemplated by Art. 104-bis, para. 2 and 3 of the TUF.

**I) POWERS TO INCREASE THE SHARE CAPITAL AND AUTHORISATIONS TO PURCHASE OWN SHARES (PURSUANT TO ART. 123-BIS, PARA. 1(M), TUF)**

Except as reported in letter A above on the capital increase for the “Stock Options Plan 2016-2022”, the Shareholders' Meeting had not granted the administrative body the power to increase the share capital.

Article 5-ter of the Articles of Association state that the Company may issue participative financial instruments, in compliance with and within the limits set down by the regulations in force at the moment of issue, but without any specific indication of methods and conditions of issue.

The ordinary Shareholders' Meeting, held on 11 April 2017, authorised - subject to the revocation of the shareholders' meeting resolution dated 14 April 2016 - the Board of Directors, in accordance with Art. 2357 et seq. of the Civil Code, to buy back its own shares until the maximum amount of 14,500,000 shares is reached for a period of 18 months from the date of

the resolution and, therefore, until 11 October 2018. The authorisation also includes the power to later dispose of the own shares in its portfolio, even before exhausting the buyback, and to repurchase the same shares, though still in accordance with the limits and conditions set by the authorisation.

The buyback, in accordance with Art. 132 of the TUF and Art. 144-*bis* of the Issuers' Regulation, may be made: (i) via public tender or exchange offer; (ii) on the market, according to procedures set by the company managing the market, which do not permit the direct matching of purchase offers with predetermined sell orders; (iii) by way of purchase and sale, in accordance with the regulatory provisions in force, of derivatives traded on the market that provide for the physical delivery of the underlying shares; (iv) by allocating Shareholders, in proportion to the shares held, a put option to be exercised within 18 months from 11 April 2017; and in any case ensuring that Shareholders are treated equally and all applicable regulations, including EU regulations, are observed. The purchase price of each repurchased share, inclusive of ancillary costs of the purchase, must be no less than 20%, at a minimum, and no greater than 10%, at a maximum, of the official trading price recorded on the Mercato Telematico Azionario the day before the purchase. The sale price to third parties is defined only in the minimum price which must be such as to not cause negative economic impact on the Company and in any case not lower than 95% of the average of official prices recorded on the Mercato Telematico Azionario in the five days before the sale. This price limit may be waived only in cases where the exchanges or transfers of own shares are related to the realisation of industrial projects and/or in any case those of interest to the Company and in the case of the assignment and/or transfer of shares or the related options to directors, employees or collaborators of the Group, and, in general, while executing any plan adopted under Art. 114-*bis* of the TUF or programmes for issuing bonus shares to Shareholders.

On 31 December 2017, the closing date of the Financial Year, neither the Issuer nor its subsidiaries held De'Longhi shares.

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

De' Longhi is not subject to the management and coordination of the parent company De Longhi Industrial S.A., nor of any other person or entity, pursuant to Art. 2497 et seq. of the Civil Code while it performs management and coordination activities on its own subsidiaries.

In compliance with the principles of the Corporate Governance Code, the operations of particular strategic, economic, equity and financial importance to the Group must be examined and approved exclusively by the Board of Directors of the Issuer, consisting of - as last verified

on 22 February 2018 - five (non-executive and) independent directors according to the criteria set by Art. 3 of the Corporate Governance Code as adopted by the Company and those set forth by the combined provisions of Art 147-ter, para. 4, and 148, para. 3, of the TUF.

The Company deems that the responsibility and authority of non-executive and independent directors and their significant weight in the passing of board decisions constitutes an additional guarantee that all Board decisions will be adopted solely in the interests of the Company and without any direction or interference from third parties with interests that are alien to those of the Group.

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It should be noted that:

- the information required by Art. 123-bis, para. 1(i) of the TUF (*“the agreements between the company and the directors ... which provide for an indemnity to be paid in the event of resignation or termination of employment without just cause or if the employment relationship is terminated following a takeover bid”*) are contained in the Remuneration Report, published on the Issuer's website [www.delonghigroup.com](http://www.delonghigroup.com), in the section *“Investor Relations” – “Governance” – “Annual Shareholders’ Meeting”- “2018”*;
- the information required by Art. 123-bis, para. 1(l) of the TUF (*“rules governing the appointment and replacement of directors ... and changes to the articles of association, if different from the additional laws and regulations applicable”*) are contained in the section 4.1 of this Report.

### **3. COMPLIANCE (PURSUANT TO ART. 123-BIS, PARA. 2(A), TUF)**

The Company adheres to the Corporate Governance Code and its corporate governance is set up in compliance with the recommendations contained in the above Code and related updates.

The Corporate Governance Code is available to the public on the website of the Corporate Governance Committee on the page <http://www.borsaitaliana.it/comitato-corporate-governance/codice/codice.htm>.

The Company believes that aligning its internal corporate governance structures with those recommended by the Corporate Governance Code is a valid and invaluable opportunity to increase its reliability in the eyes of the market.

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Some subsidiaries with strategic importance are subject to provisions of foreign law that nevertheless do not influence the corporate structure of the Issuer itself.

It should also be noted that the Company is not subject to provisions of foreign law that may affect the Issuer's corporate governance structure.

## 4. BOARD OF DIRECTORS

### 4.1. APPOINTMENT AND REPLACEMENT (PURSUANT TO ART. 123-BIS, PARA. 1(L), TUF)

At the meeting held on 18 December 2012, the Company's Board of Directors passed a resolution to change Articles 9 and 14 of the Articles of Association - concerning the appointment and composition of the corporate and control bodies, in order to comply with the new provisions contained in Art. 147-ter, para. 1-ter and Art. 148, para. 1-bis of the TUF - as amended by Law no. 120/2011 "*provisions concerning gender equality in the management and control bodies of companies listed on regulated markets*" ("Law 120") - and the current provisions of Art. 144-undecies of the Issuers' Regulation. As a consequence of these changes, the articles of association of listed companies must provide a criterion for appointing members to the corporate bodies that ensures that the least represented of the genders holds at least one third (rounded up) of the positions on the Board of Directors and of the permanent positions on the Board of Statutory Auditors. The new composition of the corporate bodies, renewed by the Shareholders' Meeting held on 14 April 2016, reflects the percentage of the least represented gender (women) laid down by the Articles of Association, in accordance with the provisions of law on the subject.

The methods and criteria for appointing members of the Board of Directors are described below, as provided for by Art. 9 of the Articles of Association.

In compliance with Art. 147-ter of the TUF, electing the Board of Directors is performed using the list voting system.

The Articles of Association grant those Shareholders possessing a holding equal to at least that determined by Consob in accordance with Art. 144-quater of the Issuers' Regulation, which was set at 1% by Consob Regulation no. 20273 dated 24.01.2018, to submit lists of candidates for the election of directors.

The lists of candidates submitted by the Shareholders must be filed at the Company's registered office - with the special certificates issued by the authorised intermediaries, the curriculum vitae of each candidate and the related statements required by the law and regulations in force and by the Articles of Association - within the term set by Art. 147-ter, para 1-bis of the TUF, namely by the twenty-fifth day prior to the date on which the Shareholders' Meeting called to approve the appointment of the members of the Board of Directors will be held.

Each list contains a number of candidates up to a maximum of thirteen, listed using sequential numbering.

At least two candidates, always indicated at least at the second and seventh place of each list, must possess the requirements of independence established by Art. 147-ter of the TUF. The Articles of Association do not provide for independence requisites of directors beyond those established for statutory auditors in accordance with Art. 148, para. 3, of the TUF, nor requisites related to good repute and/or other professional skills other than those required by law for people holding the position of director.

The lists containing three or more candidates must comprise candidates belonging to both genders (male and female), so that each gender represented by at least one third (rounded up to the nearest whole number) of candidates.

The Board of Directors is elected as follows:

- a) all the directors except one are taken, in the order they appear on the list, from the list that obtained the highest number of votes cast by the Shareholders, except as provided below to ensure a balance between the genders in compliance with the laws and regulations in force regarding gender equality;
- b) the remaining director is taken from the list which obtained the second greatest number of votes cast by the Shareholders, and who is not connected in any way, not even indirectly, with the Shareholders who submitted or voted for the list with the greatest number of votes.

For the purposes of electing directors, the Company's Articles of Association do not contain the provision that the list of candidates must obtain a minimum percentage of votes at the Shareholders' Meeting.

In the event that only one list is submitted or admitted to the vote, the candidates of said list will be nominated directors, respecting the sequential order of the candidates as they appear on the list itself.

If, as a result of the list voting or voting on the only list submitted, the composition of the Board of Directors does not comply with the rules and regulations on gender equality in force at the time, the candidate of the most represented gender elected last in sequential order in the list which obtained the highest number of votes will be replaced by the first candidate of the least represented gender, from the same list and in sequential order, who was not elected. This replacement procedure will be used until the composition of the Board of Directors complies with the rules and regulations in force at the time and, in particular, those concerning gender equality. If this replacement procedure does not ensure gender equality, directors will be replaced using a Shareholders' Meeting resolution passed by a simple majority after candidates belonging to the least represented gender have been submitted.

Should it not be possible to appoint the directors using this list method, the Shareholders' Meeting shall resolve with a legal majority, without observing the procedure above, in

compliance with the laws and regulations in force at the time, particularly those regarding gender equality.

The replacement of one or more directors elected by the Shareholders' Meeting must take place in compliance with the laws and regulations in force at the time, particularly those regarding gender equality.

It should be noted that, with regard to the composition of the Board of Directors, no legislation in this field other than the specific provisions of the TUF applies.

With regard to the amendment of the Articles of Association, any changes will be made in accordance with the principles contained in the legislation and regulation in force, it being specified that the Board of Directors has the power to resolve on the issues referred to in Art. 2365, para. 2 of the Civil Code, including amendments to the Articles of Association in order to comply with regulatory provisions.

#### **SUCCESSION PLANS**

The Board of Directors decided not to adopt the succession plan for executive directors, because it believes that its members are chosen for their skills, professionalism and knowledge of the company which make them able to continue, in the event that one or each executive director ceases to hold office, the ordinary and extraordinary management of the Company until new directors are appointed and powers delegated.

#### **4.2. COMPOSITION (PURSUANT TO ART. 123-BIS, PARA. 2(D) AND (D-BIS), TUF)**

The current composition of the Board of Directors is shown in Table 2 in the Appendix to this Report. This Board of Directors - which will expire at the Shareholders' Meeting to approve the financial statements as of 31 December 2018 - was appointed by the Shareholders' Meeting held on 14 April 2016, which set the total number of directors at 11.

All the members of the current Board of Directors were taken from the only list submitted by the shareholder De' Longhi Industrial S.A., which listed all the candidates elected, in the following order: (1) Giuseppe de' Longhi; (2) Cristina Pagni; (3) Fabio de' Longhi; (4) Silvia de' Longhi; (5) Stefania Petruccioli; (6) Carlo Garavaglia; (7) Renato Corrada; (8) Giorgio Sandri; (9) Silvio Sartori; (10) Alberto Clò; and (11) Luisa Maria Virginia Collina.

Given a voting capital represented by 130,168,780 ordinary shares equal to 87.069418% of the share capital, all the above directors received 108,525,135 votes in favour equal to 83.372630% of the voting capital.

The following section contains the personal and professional details of each director in office at the date this Report was approved, also in accordance with Art. 144-*decies* of the Issuers' Regulation:

1. **GIUSEPPE DE' LONGHI**, Chairman and Executive Director, in office at the date the Company was listed, and more specifically since 18 April 2001, was born in Treviso, Italy on 24 April 1939. After graduating in Economics from the Venice Ca' Foscari University, he developed the Company until it became the parent company of a multinational Group. He is currently the Chairman of the Board of Directors of De'Longhi S.p.A. and of other companies in the De'Longhi Group.

2. **CRISTINA PAGNI**, non-executive and independent director, in office since 23 April 2013, was born in Pisa, Italy on 22 March 1955. She graduated with honours in Law from the University of Pisa and is authorised to practice law before the Court of Cassation. After having been partner in some of the most important international law firms, she has been partner in Studio Legale Mazzoni Regoli Cariello Pagni since 1 January 2016, in the Litigation and Arbitration department.

3. **DOTT. FABIO DE' LONGHI**, Vice-Chairman and CEO, member of the Board of Directors since the Company was listed and, more specifically, since 18 April 2001, was born in Treviso, Italy on 24 September 1967. After graduating in Business Economics from the Bocconi University in Milan, he has held several positions in the Company's Sales and Marketing Department, in Italy and abroad. He currently holds the position of Vice-Chairman and CEO of De' Longhi S.p.A. and other executive positions in various Group companies.

4. **SILVIA DE' LONGHI**, executive director, in office since 12 July 2007, was born on 8 September 1984 in Trieste, Italy. She obtained the International Baccalaureate at Sevenoaks College (UK) and a degree in Political Science from Trieste University. Currently, she holds the position of director on the Board of De'Longhi S.p.A. After holding positions in the Marketing and Communication Department of Kenwood based in Havant (UK), in organisation development for the Human Resources department of the De' Longhi Group, in 2016, she was appointed Chief Corporate Services Officer for the Group, entrusted with managing the Legal and Corporate Affairs, Human Resources and Organisation, Quality and Information Technologies Departments.

5. **STEFANIA PETRUCCIOLI**, independent director, in office since 23 April 2013, was born in Turin, Italy on 5 July 1967. She graduated in Business Economics with honours from the Bocconi University in Milan and is a Chartered Accountant. After years of experience in a leading private equity management company, she took on the role of partner and shareholder in



Progressio SGR S.p.A., a company that manages two private equity funds, Progressio Investimenti I and II, for a total of €305 million funds under management, where she has worked since 2004. She is currently head of investments of the private equity and venture capital fund Principia III – Health. She has also worked as a lecturer on the Economics of Industrial Companies course at the Bocconi University.

6. **CARLO GARAVAGLIA**, non-executive director, in office since the Company was listed, namely from 18 April 2001 to 15 July 2009 and since 21 April 2010, was born in Legnano, Italy on 15 May 1943. He graduated in Economics and Business from the Università Cattolica of Milan. He has been a member of the Association of Chartered Accountants of Milan since 1972. He has been a Certified Public Accountant since 1979, now a Legal Auditor. He was a manager and partner of KPMG in Milan from 1970 to 1976. Founding partner of Studio Legale Tributario L. Biscozzi – A. Fantozzi and, since 1998, founding partner of Studio Legale e Tributario Biscozzi Nobili. Carlo Garavaglia is Honorary Consul of Luxembourg in Lombardy. He speaks at conferences, has written books and articles. He is Chairman of the Board of Statutory Auditors and Chairman of the Supervisory Body of Banca Progetto S.p.A. and also Chairman of the Board of Directors of Eunomia S.p.A. Centro Medico Visconti di Modrone, director in unlisted companies such as Cordifin S.p.A., Ori Martin S.p.A. and Ori Martin S.A.

7. **RENATO CORRADA**, independent director, in office since 28 April 2004, was born in Milan, Italy on 23 July 1949. He attended the faculty of Economics at the Università Cattolica del Sacro Cuore. He held important positions in the Rizzoli Corriere della Sera Group and in Rusconi Editore S.p.A. In 1997, he entered the Fininvest Group and held important positions in the Group's companies. Since May 2017 he mainly provides consulting services to leading Italian entrepreneurial families in particular. He has also collaborated on numerous occasions with the universities SDA Bocconi and A.S.A.M. Associazione per gli Studi Aziendali e Manageriali (Association for Business and Managerial Studies), of which he was also a board member, and the San Carlo College in Milan, where he was a board member until 2015.

8. **GIORGIO SANDRI**, non-executive director, in office since the Company was listed and more specifically since 18 April 2001, was born in Udine, Italy on 19 June 1944. Founding partner of Max Information, he has worked in advertising since 1966. He and his staff have been involved in the highly successful promotion of products in Italy and abroad. He has worked on the De'Longhi Group's advertising since 1983. An expert in mass communication, he has taught in Bologna for over eight years. He has shot commercials with Oscar winners Robert De Niro and Kevin Costner and Italian Oscar winner Tonino Guerra. When Rai and the Tecnici Pubblicitari

association won the Golden Lion at the Cannes Lions Festival in 1986, the highest recognition in the world of advertising, they dedicated it saying, “To Giorgio Sandri for his contribution to the advancement of advertising.” Since 2000 he has been on the Board of Gruppo Armando Testa, one of the leading Italian Communication Agencies.

9. **SILVIO SARTORI**, non-executive director, in office from 31 May 2002 to 27 June 2005 and from 12 November 2005 to date, was born in Belluno, Italy on 11 September 1941.

He graduated in Economics from the University of Pescara. He joined De' Longhi in November 1969 and left as CEO in 1991. He has held several significant leadership roles in various companies of the De'Longhi Group, particularly in the sector of air conditioning units, refrigeration and dehumidification for industrial use and for large civil systems which belong to the company Climaveneta S.p.A. (DeLclima Group, now Mitsubishi). From 1995 to 2016 he was the Chairman of its Board of Directors.

10. **ALBERTO CLÒ**, independent director, in office since 28 April 2004, appointed Lead Independent Director on 21 June 2007, was born in Bologna, Italy on 26 January 1947. He has taught at the University of Bologna as Ordinary Professor of Applied Economics, Industrial Economics and Public Service Economics. In 1980 he co-founded, together with Prof Romano Prodi, the journal “Energia” of which he is Managing Editor. He is the author of many books, essays and articles on industrial economics and energy and cooperates with several newspapers and economic journals. He held office (from January 1995 to May 1996) as Minister of Industry and Acting Minister for Foreign Trade in the technocratic government formed by Lamberto Dini and he chaired the EU Council of Industry and Energy Ministers during the Italian presidency during the first half of 2006. The President of the Republic awarded him the highest honour for his work as Minister, the Knight Grand Cross of the Order of Merit of the Italian Republic. He has held the office of independent director in several listed companies, including Eni, Finmeccanica, Italcementi, Atlantia and Snam. Currently, he is independent director of GEDI Gruppo Editoriale as well as De' Longhi.

11. **LUISA MARIA VIRGINIA COLLINA**, independent director, appointed on 14 April 2016 and in office since that date, she was born in Milan on 26 October 1968. Architect, Research Doctorate and Ordinary Professor in Design at the Politecnico di Milano. From 2005 to 2015, she was coordinator and Head of the Product Service System Design course at the School of Design in the Politecnico di Milano. Currently, she is the President of the School of Design in the Politecnico di Milano and Delegate of the Rector for the university's External Relations. She is mainly interested in interior design, focussing particularly on services and strategic design.

She collaborates with universities, research centres and enterprises for international research programmes and strategic innovation projects in design. The results of her research and teaching have been presented at numerous conferences and in numerous publications. From 2004 to 2008 and from 2013 to 2015 she was elected board member of the Politecnico di Milano; from 2009 to 2010 she was appointed by the Rector of the Politecnico di Milano to be a member of the university's Assessment Unit. From 2010 to 2016, she was Delegate of the Rector of the Politecnico di Milano for the Expo and the University's Grand Events and for Internationalisation Policies and since 2013, she has been President of Cumulus, the international association of universities and colleges of design, art and media. She was a member of the Scientific Committee of the XXI Triennale International Exhibition held in Milan in 2016.

It should be noted from the outset that the Board of Directors has assessed the existence of executive/non-executive and independence/non-independence requirements of Company directors in compliance with the criteria laid down by Art. 2 and Art. 3 of the Corporate Governance Code, and the combined provisions of Art. 147-ter, para. 4 and Art. 148, para. 3 of the TUF, most recently during the Board meeting held on 22 February 2018 and that the Board of Statutory Auditors has noted that such criteria have been correctly implemented.

It should also be noted that, after the closing of the Financial Year, on 1 March 2018, the Board of Directors - deeming the addition of an expert in e-commerce to its number would be appropriate - proposed to the Shareholders' Meeting on 19 April 2018 to increase the number of Directors from 11 to 12. On this point, having received the favourable opinion of the Remuneration and Appointments Committee, the Board proposed Massimiliano Benedetti.

## DIVERSITY POLICIES

At the date of this Report, the Company has not adopted diversity policies in relation to the composition of the Board of Directors.

In the meeting held on 1 March 2018, the Board of Directors, considering the resolution taken regarding the proposed addition of a new director with digital and e-commerce skills to be submitted to the next Shareholders' Meeting, decided – also considering the favourable opinion of the Remuneration and Appointments Committee on the adoption of these policies – that its composition is such that it ensures diversity in its members, not just with regard to gender as is required by the law in force but also with regard to age, training and professional career.

Considering the Shareholders will be asked to renew the Board of Directors in office during the next financial year, in order to provide the Shareholders with relevant elements to guide them in identifying the people to propose in the lists of candidates that can be presented, the Board of Directors in office will assess during the current financial year whether to formulate this guidance with the adoption of an ad hoc policy or adopt the methods used in the past, in compliance with the recommendations of the Corporate Governance Code.

#### MAXIMUM NUMBER OF POSITIONS HELD IN OTHER COMPANIES

With regard to criterion 1.C.3. of the Corporate Governance Code (which requires that the Board of Directors expresses its opinion on the maximum number of directorships that may be considered compatible with the effective performance of the office of director in the Company, also in light of directors' participation in committees formed within the Board) the Company's Board of Directors decided not to adopt said criterion. The Board of Directors has therefore not expressed its opinion to this effect, indicating general ad hoc criteria because it considers that evaluating candidates' suitability, also in light of the offices held in other companies, first should be done by the Shareholders during the appointment of directors and then by the individual director upon accepting the office.

In accordance with criterion 1.C.2. of the Corporate Governance Code, the following table shows the offices of director or statutory auditor currently held by the directors in other companies listed on regulated markets, including foreign markets, and in financial, banking, insurance or large companies at the time this Report was approved.

Name and surname	Company	Office held
<b>GIUSEPPE DE' LONGHI</b>	De Longhi Industrial S.A. ( <i>financial</i> )	Chairman of the Board of Directors
	De' Longhi Appliances S.r.l. ( <i>significant</i> )	Chairman of the Board of Directors
	De' Longhi Capital Services S.r.l. ( <i>financial</i> )	Chairman of the Board of Directors
<b>FABIO DE' LONGHI</b>	De' Longhi Appliances S.r.l. ( <i>significant</i> )	Chief Executive Officer
	De' Longhi Capital Services S.r.l. ( <i>financial</i> )	Chief Executive

		Officer
<b>SILVIA DE' LONGHI</b>	De' Longhi Appliances S.r.l. ( <i>significant</i> )	Director
<b>ALBERTO CLÒ</b>	GEDI Gruppo Editoriale S.p.A. ( <i>listed</i> )	Director
<b>CARLO GARAVAGLIA</b>	Banca Progetto S.p.A. ( <i>banking</i> )	Chairman of the Board of Statutory Auditors
	Eunomia S.p.A. Centro Medico Visconti di Modrone ( <i>significant</i> )	Director
	Cordifin S.p.A. ( <i>financial</i> )	Director
	Ori Martin S.p.A. ( <i>significant</i> )	Director
	Ori Martin S.a. ( <i>significant</i> )	Director
<b>GIORGIO SANDRI</b>	Armando Testa S.p.A. ( <i>significant</i> )	Director
<b>STEFANIA PETRUCCIOLI</b>	Rcs Group S.p.A. ( <i>listed</i> )	Director
	Interpump Group S.p.A. ( <i>listed</i> )	Director
	Banca Monte dei Paschi di Siena S.p.A. ( <i>listed</i> )	Director

#### INDUCTION PROGRAMME

To implement criterion 2.C.2 of the Corporate Governance Code (which requires that the Company allows directors and statutory auditors, during their term of office, to participate in initiatives aimed at providing them with an adequate knowledge, inter alia, of the regulatory and governance framework), it is noted that Board of Directors and the Board of Statutory Auditors took part in a training course on the “world of coffee”, which represents one of the Group’s main product lines. The induction session saw the participation of some marketing and production managers and a presentation by a professional who led participants in a coffee tasting.

Again in accordance with the recommendations of the Corporate Governance Code, the meetings of the Board of Directors, held during the Financial Year, were also attended by the managers in charge of the relevant company departments for the items on the agenda, so that they could provide the necessary information for the Board to make its resolutions.

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

The Board of Directors plays a central role in determining the Issuer's and the Group's strategic objectives.

During the Financial Year, the Board of Directors met 8 times and 5 meetings have been scheduled for the current financial year (2 of which have already been held, including the one held to approve this Report). As a rule, Board meetings last about 3 and a half hours.

The directors attended the meetings regularly and consistently. A breakdown of each Director's participation in the board meetings is given in Table 2 in the appendix of this Report.

Company employees have attended the Board meetings (including, in particular, the General Counsel, the Chief Financial Officer and HR and Organization Director), as guests with regard to specific matters being discussed by the Board of Directors.

The items on the agenda are usually described by the CEO, often with the participation and assistance of the managers involved in the matter, or by the Chairman of the committee in charge of the matter. After the items have been described, the discussion begins, in which the directors participate and question the drafter or make suggestions or provide insights.

The Board members are informed of the items before the meeting when all the documentation related to the items on the agenda for the Board meeting is sent electronically by the Corporate Affairs office, accompanied - in accordance with the Corporate Governance Code recommendations in the comment to Art. 1 - when such documentation is voluminous or complex, by a document that summarises the most significant and relevant points for the decision. On this point it should be noted that, pursuant to criterion 1.C.5. of the Corporate Governance Code, the Company's Board of Directors decided the reasonable notice for sending the documentation to the directors as being at least 2 days before the meeting (except in emergencies). The term set by the Board has been met in the meetings held during the Financial Year.

Art. 10 of the Articles of Association reserves the following duties as the exclusive responsibility of the Board of Directors:

- to approve budgets and three-year plans;
- to fix the criteria for the drafting and amending of company bylaws;
- the appointment and removal of general managers.

The Articles of Association also provides that, in the execution of its own resolutions and management of the Company, the Board of Directors, within the limits of the law, may also:

- establish an Executive Committee, determining its powers, the number of members and its working methods;
- delegate appropriate powers, determining the limits of this authority, to one or more directors;
- nominate one or more Committees with advisory functions, also with the purpose of bringing the company management system in line with the corporate governance recommendations
- appoint one or more managing directors, determining their functions and powers;
- appoint, or grant directors the power to appoint managers, deputy managers, attorneys in fact and, in general, agents, for the fulfilment of certain acts or categories of acts or for certain operations.

The Board of Directors also has the authority to resolve on, in compliance with Art. 2365 of the Civil Code: (i) mergers in the cases provided for by Art. 2505 and 2505-*bis* of the Civil Code; (ii) the creation or closure of secondary offices; (iii) capital reduction in the event Shareholders withdraw from the Company; (iv) amendment of the Articles of Association to comply with changes in legislation; (v) the transfer of the registered office within Italy.

Art. 5-*ter* of the Company's Articles of Association also gives the Board of Directors the authority to approve the issue of bonds that are not convertible into shares (as provided for by Art. 2410 Civil Code).

With regard to the criteria 1.C.1 and 7.C.1 of the Corporate Governance Code, the Board of Directors resolved to assign itself, in addition to the responsibilities provided by the law and by the Articles of Association (and within the limits thereof), all the responsibilities indicated in the criterion 1.C.1 of the Corporate Governance Code, and, with the assistance of the Control and Risks Committee, those indicated in criterion 7.C.1. of the same Code. The Board of Directors is therefore required to:

- a) examine and approve the strategic, operational and financial plans of both the issuer and the corporate group it heads, monitoring periodically the related implementation; it defines the issuer's corporate governance and the relevant group structure;
- b) define the risk profile, both as to nature and level of risks, in a manner consistent with the Issuer's strategic objectives, including its assessment of all the risks that may be significant for the issuer's business from a sustainability perspective over the medium-long term;
- c) by determining the related criteria, identify companies with strategic importance, evaluate the adequacy of the organisational, administrative and accounting structure of the issuer as well as of its strategically significant subsidiaries in particular with regard to the internal control system and risk management;

- d) specify the frequency, in any case no less than once every three months, with which the delegated bodies must report to the board on the activities performed in the exercise of the powers delegated to them;
- e) evaluate the general performance of the company, paying particular attention to the information received from the delegated bodies and periodically comparing the results achieved with those planned;
- f) resolve upon transactions to be carried out by the issuer or its subsidiaries having a significant impact on the issuer's strategies, profitability, assets and liabilities or financial position. To this end, the Board of Directors establishes general criteria for identifying the important transactions;
- g) perform, at least annually, an evaluation of the performance of the board and its committees, as well as their size and composition, taking into account the professional skills, experience (including managerial experience), gender of its members and the number of years in office; bearing in mind the results of the evaluation, give shareholders, before the appointment of the new Board, a guideline on the professional figures whose presence on the Board is deemed appropriate; in particular, assess whether the requirements of the Corporate Governance Code regarding executive, non-executive and independent members are met, ensuring that the number of executive, non-executive and independent members complies with the criteria outlined in the Corporate Governance Code;
- h) whenever deemed appropriate or under the circumstances referred to in criterion 2.C.3. of the Corporate Governance Code, designate a lead independent director (LID) who is granted the powers to:
  - coordinate the work of non-executive directors and, in particular those who are independent, in order to improve their contribution to the work and functioning of the Board;
  - cooperate with the Chairman to ensure that the directors receive timely and complete information;
  - convene meetings for the independent directors only whenever the LID deems it necessary for the performance of his duties, ensuring that the independent directors meet with each other, without the other directors, at least once a year;
- i) taking into account the outcome of the evaluation mentioned under item g), report its view to shareholders on the managerial and professional profiles deemed appropriate for the composition of the board, prior to its nomination;
- l) provide information in the report on corporate governance and ownership structure on: (1) its composition, indicating for each member the qualification (executive, non-executive, independent), the relevant role held within the Board of Directors, the main professional characteristics as well as the duration of his/her office since the first appointment; (2) the



application of Art. 1 of the Corporate Governance Code and, in particular, on the number and average duration of the meetings of the Board and of the executive committee, if any, held during the financial year, as well as the related percentages of attendance of each director; (3) how the self-assessment procedure referred to in item g) above is performed;

m) adopt, upon proposal of the CEO or the chairman of the board of directors, a procedure for the internal handling and disclosure to third parties of documents and information concerning the issuer, particularly with regard to price sensitive information.

The Board of Directors is also obliged, with the assistance of the Control and Risks Committee, to:

a) define and update the Guidelines for the Internal Control and Risk Management System, so that the main risks relating to the Issuer and its subsidiaries are correctly identified, adequately measured, managed and monitored, and determine the degree of compatibility of such risks with management of the company that is in line with the strategic objectives identified;

b) identify one or more directors, from within the board, responsible for the internal control and risk management system;

c) evaluate, at least once a year, the adequacy of the Internal Control and Risk Management System with regard to the company's characteristics and risk profile, as well as its effectiveness;

d) approve, at least on an annual basis, after receiving the opinion of the Control and Risks Committee, the work schedule prepared by the Internal Audit Manager, having heard the Board of Statutory Auditors and the Director responsible for Internal Control and Risk Management System;

e) describe in the corporate governance report - after consulting the Control and Risks Committee - the main characteristics of the Internal Control and Risk Management System, expressing its assessment of the adequacy of said system;

f) appoint and replace, upon the proposal of the director responsible for the internal control and risk management system, after consulting the board of statutory auditors, one or more individuals responsible for internal control, and also determining their remuneration in line with company policy;

g) evaluates, after consulting the Control and Risks Committee and having heard the Board of Statutory Auditors, the results presented by the legal auditor in the letter of recommendations and in the report on key issues arising from the legal audit.

The Board is also assigned, in relation to Art. 6 of the Corporate Governance Code, the powers to:

- a) examine the proposals of the Remuneration and Appointments Committee and, having consulted the Board of Statutory Auditors about determining the Chairman's and Vice-Chairman's additional compensation, as well as that of the CEO and any other directors holding special offices. The Board of Directors also determines the compensation to be paid to Directors for participating in board committees;
- b) define, upon the proposal of the Remuneration and Appointments Committee, the Company's remuneration policy;
- c) approve the Remuneration Report, in accordance with Art. 123-ter of the TUF;
- d) prepare, with the assistance of the Remuneration and Appointments Committee, the compensation plans based on shares or other financial instruments and submits them to the Shareholders' Meeting for its approval in accordance with Art. 114-bis of the TUF and, as authorised by the Shareholders' Meeting, ensures their implementation using the Remuneration Committee;
- e) prepare, with the assistance of the Remuneration and Appointments Committee, the medium-long term cash incentive plans and ensure their implementation using the Committee itself;
- f) set up a Remuneration and Appointments Committee among its members in accordance with the principles laid down by the Corporate Governance Code.

In line with the Company's corporate governance, the Board of Directors also has the power to:

- g) define the objectives and approve the business results and the performance plans to which the determination of directors' variable compensation is connected, if provided;
- h) approve the general criteria for the compensation of Key Managers with Strategic Responsibilities;
- i) define, upon the proposal of the Director responsible for the internal control and risk management system and, having heard the opinion of the Control and Risks Committee, the compensation structure for the Internal Audit Manager, in line with the Company's remuneration policies and after the favourable opinion of the Control and Risks Committee and having heard the Board of Statutory Auditors.

In relation to criterion 1.C.1 of the Corporate Governance Code, the Board of Directors formally stated the principle that the delegated bodies report to the Board on the activities performed in the exercise of the powers granted to them at least every three months, in accordance with the provisions of law in force and the Articles of Association. It should be noted that in compliance with the OPC Procedure, the delegated bodies are required to provide full disclosure, at least on a quarterly basis, to the Board of Directors and the Board of Statutory Auditors on the execution of transactions with related parties.

To implement the principles and responsibilities described above, the Board of Directors has:

- a) checked, at the meeting held on 22 February 2018, the implementation of the Group's three-year business and strategy plan 2015-2017, approved by the Company's Board of Directors at the meeting held on 19 February 2015;
- b) defined, most recently in the meeting held on 1 March 2018, the nature and level of risk compatible with the strategic objectives identified;
- c) assessed the adequacy of the Issuer's organisational, administrative and general accounting structure and that of the subsidiaries with strategic importance, with the assistance of the Control and Risks Committee which, during its own meetings - attended by the Internal Audit Manager - has been able to continuously check the effective functioning of the Issuer's and Group's Internal Control and Risk Management System, particularly with regard to subsidiaries with strategic importance, and giving a favourable opinion, every six months during the Board meetings for approving the annual financial report and the half-year financial report.

It should be noted that the Board of Directors has identified, most recently in the board meeting held on 9 November 2017, those subsidiaries with strategic importance, based on the identification criteria laid down in Art. 11.3 of the Internal Control Guidelines and more specifically:

- (i) qualitative criteria, represented by the strategic importance of the company within the Group;
- (ii) quantitative criteria, identified as revenues and assets above 5% or one of the two parameters greater than 10%, calculated on the consolidated data at the end of the previous financial year;
- d) adopted, on 20 February 2006, the *“Guidelines and identification criteria for significant transactions and, in particular, transactions with related parties”*, which contain precise criteria for identifying transactions that are the responsibility of the Board because they are significant transactions with third parties (and, until the recent update of the above guidelines, also with related parties), including through subsidiaries.

After the Consob Related Parties Regulation entered into force, the text of these guidelines was updated to take into account the fact that the regulation on transactions with related parties has been included, since 1 January 2011, in the related OPC Procedure adopted by the Board of Directors in the meeting held on 12 November 2010, referred to in point d) below. The Board has also updated the criteria used to identify the “significance” of the transactions submitted to its prior examination and approval, also taking into account - among other things - the criteria used by the Consob Related Parties Regulation and has therefore approved the new text of the document which is now called *“Guidelines on particularly significant transactions”*;

- e) adopted, on 12 November 2010, the OPC Procedure in compliance with the provisions of the Consob Related Parties Regulation, identifying the transactions of greater importance with

related parties in accordance with the relevance thresholds provided in Annex 3 to the Consob Related Parties Regulation. With regard to Consob Notice no. DEM/10078683 dated 24.9.2010, which recommends a review of the OPC Procedure every three years, at the meeting held on 12 November 2013, the Company's Board of Directors adopted - after consulting and receiving suggestions from the Control, Risks and Corporate Committee and after the approval of the Independent Committee - some amendments to the OPC Procedure, the new version of which came into force that same day.

It should be noted that, in accordance with the Consob Related Parties Regulation and in compliance with the OPC Procedure, approval of transactions of greater importance with related parties (or its proposed resolution to be submitted to the Shareholders' Meeting in the event the latter has the authority) is reserved for the Board which must resolve by acting upon the reasoned favourable opinion of the Independent Committee. In the event that the transaction of greater importance with related parties is to be performed by a subsidiary of the Issuer, the Board examines it in advance, upon the binding opinion of the Company's Independent Committee;

f) evaluated, on 1 March 2018, the overall management performance based on the information received from the delegated bodies, comparing the results achieved with those planned. On this point it should be noted that the Board of Directors formally stated the principle that the delegated bodies report to the Board on the activities performed in the exercise of the powers granted to them at least every three months, in accordance with the provisions of law in force;

g) carried out - at the meeting held on 22 February 2018 - the assessment on the size, composition and functioning of the Board itself and its committees (board evaluation). For the purposes of assessment, the Directors were given a questionnaire, concerning: (i) the adequacy of the Issuer's corporate governance rules aimed at ensuring the Company and the Group are run in accordance with national and international best practices; (ii) the adequacy of the size and composition of the board and the committees set up within it for the Company's operation; (iii) the completeness of the information provided to the Board by the Company and by the delegated bodies with regard to the situation in which the Group operates; (iv) the timeliness and completeness of the information and documentation sent to the Board and Committee members before their respective meetings. The results of the questionnaire were collected by Corporate Affairs Office, which drafted a summary document which was sent to the Directors. Taking into account the board evaluation carried out, the Board of Directors has: (i) seen the opportunity to integrate a new professional role, expert in the sector of e-commerce, (ii) identified, on the proposal of the Chief Executive Officer and having received the favourable opinion of the Remuneration and Appointments Committee, the name of a possible candidate

and (iii) resolved to submit the proposal to add another member to the current administrative body to the next Shareholders' Meeting.

During the same meeting, the independence and executive or non-executive requirements of each director was also verified.

h) adopted a “*Procedure for the public disclosure of price sensitive information*”, which came into force on 1 April 2006, which was most recently updated by the Board in the meeting held on 16 February 2017, also in consideration of the subsequent legislative changes, more specifically the new EU regulations on market abuse;

i) complied with the disclosure requirements resulting from the resolution adopted, pursuant to Art. 3 of Consob Resolution no. 18079 dated 20 January 2012, acknowledging in the financial reports that it has adopted the opt-out regime laid down in Art. 70, para. 8 and Art. 71, para. 1-*bis* of Consob Regulation no. 11971/99 with effect from 18 December 2012, and namely availing itself of the power to derogate from the obligations to publish information documents required during major operations such as mergers, demergers, capital increase by contributions of assets in kind, acquisitions and divestments.

It should be noted that Art. 13-*ter* of the Articles of Association expressly provides that the members of the Board of Directors not be subject to the non-competition obligation under Art. 2390 of the Civil Code.

The Board of Directors does not adopt criterion 1.C.4. of the Corporate Governance Code, deeming that the law on conflicts of interests and the provisions contained in the “*Procedure for transactions with related parties of the De' Longhi S.p.A. Group*” are sufficient. The Board is therefore not required to assess any potential issues on this matter nor report any problems to the next Shareholders' Meeting.

#### 4.4. DELEGATED BODIES

The Board of Directors performs its duties not only directly and jointly, but also through:

- the Chairman,
- the Vice-Chairman,
- the Chief Executive Officers, which for the Company are the Chairman and the Vice-Chairman.

The powers attributed by the Board of Directors to the Chairman and the Chief Executive Officer (and Vice-Chairman) on the date of their appointment, which took place on 14 April 2016, are listed below:

- **the Chairman, Giuseppe de' Longhi**, is granted all powers for ordinary and extraordinary administration, to be exercised with the authority to sign individually, and with the power to delegate single actions or categories of actions to Company managers or attorneys, with the sole exception, in addition to those that may not be delegated under the law and under the Articles of Association, of the following powers:

- subscription, purchase, sale of shares, even minority shareholdings and creation of secured rights on them above € 10,000,000.00 (ten million euros/zero cents) per transaction;
- purchase, sale, lease of a business or business unit; purchase, sale or licencing of company trade marks above € 10,000,000.00 (ten million euros/zero cents) per transaction;
- purchase or transfer of real estate property with a value of over € 10,000,000.00 (ten million euros/zero cents) per transaction;
- allocation of contributions or sponsorships to third parties and non-profit organisations and/or associations above the maximum limit of € 50,000.00 (fifty thousand euros/zero cents), in line with the provisions of the Code of Ethics approved by the Board of Directors on 12 September 2003, and last amended on 12 May 2014;
- operations falling under the exclusive responsibility of the Board of Directors in accordance with the Guidelines.

- **the Chief Executive Officer and Vice-Chairman, Fabio de' Longhi** – who is the person chiefly responsible for managing the Company (Chief Executive Officer) and who has no cross directorships, as identified in criterion 2.C.5. - is granted all powers for ordinary and extraordinary administration, to be exercised with the authority to sign individually, and with the power to delegate single actions or categories of actions to Company managers or attorneys, with the sole exception, in addition to those that may not be delegated under the law and under the Articles of Association, of the following powers:

- subscription, purchase, sale of shares, even minority shareholdings and creation of secured rights on them above € 10,000,000.00 (ten million euros/zero cents) per transaction;
- purchase, sale, lease of a business or business unit; purchase, sale or licencing of company trade marks above € 10,000,000.00 (ten million euros/zero cents) per transaction;
- purchase or transfer of real estate property with a value of over € 10,000,000.00 (ten million euros/zero cents) per transaction;
- allocation of contributions or sponsorships to third parties and non-profit organisations and/or associations above the maximum limit of € 50,000.00 (fifty thousand euros/zero cents), in line with the provisions of the Code of Ethics approved by the Board of Directors on 12 September 2003, and last amended on 12 May 2014;

- operations falling under the exclusive responsibility of the Board of Directors in accordance with the Guidelines.

#### **CHAIRMAN OF THE BOARD OF DIRECTORS**

The Chairman of the Board of Directors is not the person chiefly responsible for managing the Issuer (CEO), who is instead the Chief Executive Officer, Fabio de' Longhi. Also in consideration of specific management powers granted to the Chairman, the Board of Directors has decided to adopt the recommendation regarding the appointment of a Lead Independent Director (LID) to whom the functions recommended by the Corporate Governance Code are attributed.

It should also be noted that, with regard to Principle 2.P.4 (avoiding concentration of corporate offices in one single individual) and Principle 2.P.5 (illustrating the reasons why management powers have been delegated to the Chairman) of the Corporate Governance Code, which the Board, when it re-examined the matter most recently on 1 March 2018, confirmed its opinion on the grounds that the Issuer's governance - also in terms of concentration of offices - is fully consistent with the corporate interest, also taking into account that (i) the Chairman, who has been delegated management powers, is the director with the greatest number of years of experience in the company and whose role has not been limited to institutional functions and representation, but fully operational and therefore essential for the Company's best performance; and that (ii) management powers have also been delegated to other directors, in addition to the Chairman.

#### **INFORMATION FOR THE BOARD**

The delegated bodies, complying with its obligations under law and under the Articles of Association and the implementing provisions of the Corporate Governance Code, have always reported to the Board of Directors on the activities performed in exercising the powers attributed to them, at differing intervals depending on the importance of the powers delegated and the frequency they are exercised, but still not less than quarterly, reasonably in advance of the meeting - except in cases where, owing to the nature of the resolutions, the need for confidentiality and/or the promptness with which the Board has had to adopt decisions, grounds of need and urgency were recognised - providing the necessary documentation and information for the Board of Directors to make fully informed decisions on matters submitted to their consideration and approval.

In accordance with the Consob Related Parties Regulation and the OPC Procedure, the delegated bodies are required to provide full disclosure, at least on a quarterly basis, to the



Board of Directors and the Board of Statutory Auditors on the execution of transactions with related parties.

#### 4.5. OTHER EXECUTIVE DIRECTORS

Silvia de' Longhi is considered the Executive Director of De' Longhi because she holds an executive role in the Issuer, in her position as Chief Corporate Services Officer.

#### 4.6. INDEPENDENT DIRECTORS

The Board of Directors, in the meeting held on 14 April 2016 after the appointment of the directors currently in office, has examined the individual criterion 3.C.1 of the Corporate Governance Code, focusing in particular on the parameter indicated in point e) of the same criterion, according to which “*a director usually does not appear independent (...) if he/she was a director of the issuer for more than nine years in the last twelve years.*” In this meeting, the Directors acknowledged that the “duration of office” referred to in letter e) is only one parameter of the criterion of the principles laid down by Art. 3 of the Corporate Governance Code, which states that independence consists in not maintaining (or not having recently maintained) “*business relationships [...] of such significance as to influence [directors'] autonomous judgement*” (3.P.1.) and that it is subject to assessment – which is understood as discretionary – by the Board of Directors, (3.P.2.). The Board also noted that the same criterion 3.C.1 of the Corporate Governance Code specifies that the Board of Directors assesses the independence of the non-executive directors “*keeping in mind that a director usually does not appear independent in the following events [including a duration of over nine years referred to in letter e)] to be considered merely as an example and not limited to*” and then listing the events that must be considered mere “symptomatic indications” of non-independence.

After the discussion, the Board agreed to proceed with the assessment of its members' independence under Art. 3 of the Corporate Governance Code, not applying parameter e) of criterion 3.1.C. This was done in consideration of the excessive rigidity of the parameter, its dubious consistency with the essence of the independence requirement, as well as the inefficiency that may be created from the risk of depriving the company of valuable expertise. To support this decision, the Board also noted how a director's long-term knowledge of corporate events can only add to the role of independent directors and noted that the non-application of this parameter offers the Board the opportunity to have a broader evaluation of the independence of its directors.

Based on these reasons and without applying the assessment parameter indicated in criterion 3.C.1, point e) of the Corporate Governance Code, based on the information given by each



director, the Board has decided that the independence requirements exist for the directors: Alberto Clò, Renato Corrada, Stefania Petruccioli, Cristina Pagni and Luisa Maria Virginia Collina and therefore for 5 of the 11 members. The requirement contained in Art 147-ter of the TUF is therefore observed for boards composed of a more than 7 members.

At the meeting held on 22 February 2018, the Board of Directors checked that the independence requirements of these directors still existed.

The independence criteria applied by the Company are those laid down by the law in force and by Art. 3 of the Corporate Governance Code, except, as just described, the assessment parameter contained in criterion 3.C.1 point e) of the Corporate Governance Code.

In accordance with criterion 3.C.5. of the Corporate Governance Code, the Board of Statutory Auditors held that the criteria and procedures adopted by the Board to assess the independence of its members had been applied correctly.

It should be noted that in implementing criterion 3.C.6 of the Corporate Governance Code, the independent directors met, without the other directors, on 1 December 2017. During this meeting, the independent directors discussed the information provided to them and their actual involvement during the Financial Year and the correct functioning of the Committees set up within the Board of Directors.

#### 4.7. LEAD INDEPENDENT DIRECTOR

In consideration of the specific management powers granted to the Chairman, the Board of Directors has decided to adopt the recommendation regarding the appointment of a Lead Independent Director to whom the functions recommended by the Corporate Governance Code are attributed, even though this recommendation is not directly applicable to the Issuer.

In the meeting held on 14 April 2016, after the Board's renewal, it confirmed the independent director Alberto Clò as Lead Independent Director so that he may, in accordance with the provisions of the Code: (i) coordinate the activities of non-executive directors in order to improve the contribution to the Board's activities and functioning; (ii) cooperate with the Chairman and the Chief Executive Officer to ensure that all the directors are given full and timely information; (iii) convene meetings for just the independent directors each time he believes it necessary in order to perform his duties and in any case at least once a year.

During the Financial Year, the Lead Independent Director gave the Chairman his full cooperation in order to ensure the completeness and timeliness of the information flows to the directors and convened a meeting of the independent directors, held on 1 December 2017.

## 5. TREATMENT OF CORPORATE INFORMATION

In accordance with the provisions laid down for “inside information” and the related public disclosure obligations by Regulation (EU) 596/2014 and by the related implementing provisions - including Delegated Regulations (EU) 2016/522 and 2016/960 and Implementing Regulations (EU) 2016/959 and 2016/1055 - as well as national regulations, including regulations in force from time to time, on “information regulated” by the TUF and Issuers’ Regulation, at the meeting held on 16 February 2017, the Company adopted the new versions of the “*Procedure for the internal management and disclosure to the market of documents and information concerning De’ Longhi S.p.A., particularly with regard to price sensitive information*” and the “*Procedure for setting up, managing and updating the Group Register of people with access to price sensitive information of De’ Longhi S.p.A.*”

## 6. BOARD COMMITTEES (PURSUANT TO ART. 123-BIS, PARA. 2(D), TUF)

The Board of Directors resolved to adopt the principles and criteria contained in Art. 4 of the Corporate Governance Code, providing for the creation of two internal committees with the functions of investigating, consulting and making recommendations, in application of the recommendations of the Corporate Governance Code, namely:

- the Remuneration and Appointments Committee; and
- the Control, Risks and Corporate Governance Committee.

The two Committees currently in office will expire upon the approval of the Financial Statements at 31 December 2018.

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

- the Committees are composed of no less than 3 members, all non-executive and the majority independent. One of the members of the Control and Risks Committee must have adequate experience in accounting and finance and one of the members of the Compensation Committee must have adequate knowledge and experience in financial matters or remuneration policies;
- the Chairman of each Committee is chosen from among its independent members;
- the meetings of each Committee are minuted;

- in performing their functions, the Committees have the authority to access the information and business departments necessary for the execution of their functions, and to use external consultants, subject to the authorisation of the Board of Directors;
- people who are not members of the Committees may participate in their meetings, subject to invitation by the Committee itself and limited to specific items on the agenda.

In addition to the committees established and operating in accordance with the Code, the Board of Directors set up the Independent Committee and attributed it the relevant role and powers that the Consob Related Parties Regulation and the OPC Procedure attribute to the committee consisting solely of independent directors. This committee operates in compliance with the principles of the Corporate Governance Code which regulate the functioning of the Control and Risks Committee. The Control and Risks Committee is attributed the relevant role and powers that the Consob Related Parties Regulation and the OPC Procedure attributes to the committee composed of a majority of independent non-executive directors. The Independent Committee in office at the date of this Report was appointed during the Board of Directors meeting held on 14 April 2016 and is composed of the Issuer's five independent directors: Alberto Clò (who serves as Chairman), Stefania Petruccioli, Cristina Pagni, Renato Corrada and Luisa Maria Virginia Collina.

It should be noted that, again at the meeting held on 14 April 2016, the current Board of Directors (appointed that day by the Shareholders' Meeting) considered - as permitted by the corporate governance principles of the Corporate Governance Code and in consideration of the Company's characteristics - not to set up an ad hoc committee to attribute the functions referred to in criterion 5.C.1 of the Corporate Governance Code and attribute such functions to the Compensation Committee already established within the Board (which has adopted the name Remuneration and Appointments Committee).

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

With regard to criterion 4.C.1 point e) of the Corporate Governance Code, it should be noted that the Board of Directors considers it unnecessary to attribute spending powers to the members of the committees, as it is willing to provide the funds requested each time by the internal committees to perform each activity.

## 7. REMUNERATION AND APPOINTMENTS COMMITTEE

For information on this section, please refer to Section I of the “*Remuneration Report of De’ Longhi S.p.A.*” published on the Issuer’s website [www.delonghigroup.com](http://www.delonghigroup.com), in the section “*Investor Relations*” – “*Governance*” – “*Annual Shareholders’ Meeting*” – “*2018*”.

## 8. DIRECTORS’ COMPENSATION

For information on this section, please refer to Section I of the “*Remuneration Report of De’ Longhi S.p.A.*” published on the Issuer’s website [www.delonghigroup.com](http://www.delonghigroup.com), in the section “*Investor Relations*” – “*Governance*” – “*Annual Shareholders’ Meeting*” – “*2018*”.

## 9. CONTROL, RISKS AND CORPORATE GOVERNANCE COMMITTEE

In line with the recommendations contained in the Corporate Governance Code, responsibility for the Internal Control System lies with the Board of Directors which establishes the guidelines for internal control and the management of business risks. The Board periodically reviews the functioning of the Internal Control System with the assistance of the Control and Risks Committee and the Internal Audit department.

### COMPOSITION AND FUNCTIONING OF THE CONTROL AND RISKS COMMITTEE (PURSUANT TO ART. 123-BIS, PARA. 2(D), TUF)

The Committee in office at the date of this Report was appointed - after checking the non-executive and independence requirements in compliance with the law and the application criteria of Art. 3 of the Corporate Governance Code - during the meeting of the Board of Directors held on 14th April 2016 and is composed of three non-executive directors: Renato Corrada (who serves as Chairman), Stefania Petruccioli and Silvio Sartori. Renato Corrada and Stefania Petruccioli possess the independence requirements laid down by the TUF and the Corporate Governance Code.

During the Financial Year the Committee met 6 times and 6 meetings are scheduled for the current financial year (one has already taken place). As a rule, Committee meetings last about 3 hours on average.

The Committee members have attended the meetings regularly and consistently (the percentage of each member's attendance at the meetings is indicated in Table 2 in the Appendix to this Report).

The Committee meetings were duly minuted.

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During the Financial Year, the Control and Risks Committee has remained composed of three non-executive directors, the majority of whom are independent.

The professional experience of the appointed directors ensure the Committee has adequate knowledge of accounting and financial matters and risk management and were considered adequate by the Board of Directors at the time of their appointment.

People who are not members of the Committee have participated in the Committee's meetings held during the Financial Year, at the invitation of the Committee itself and with regard to specific items on the agenda.

#### **FUNCTIONS ATTRIBUTED TO THE CONTROL AND RISKS COMMITTEE**

The functions and duties of the Control and Risks Committee are specified in the Internal Control Guidelines, which implement the principles contained in the Corporate Governance Code on this matter.

The Control and Risks Committee has the functions of investigating, consulting and making recommendations and, in particular:

- a) issues opinions to the Board of Directors on the identification and updating of the principles and indications contained in the Internal Control Guidelines;
- b) issues opinions to the Board of Directors concerning the evaluation of the adequacy of the Internal Control and Risk Management System with regard to the company's characteristics, as well as its effectiveness in order to ensure that the principal company risks are correctly identified and managed adequately. With regard to which it informs the Board of Directors:
  - at least twice a year and as a rule at the Board meetings to approve the annual and half-year financial reports, about the activities carried out as well as the adequacy and effectiveness of the Internal Control and Risk Management System;
  - as a rule at (or before) the Board meeting to approve the annual financial report, on the state of the Internal Control System in relation to factors which may result in risks to the Company and the Group;
- c) issues opinions to the Board of Directors for the approval of the work schedule prepared by the Internal Audit Manager;
- d) issues opinions to the Board of Directors regarding the evaluation of the results presented by the legal auditor in the letter of recommendations and in the report on key issues arising from the legal audit;
- e) issues binding opinions to the Board of Directors on the appointment and removal of the Internal Audit Manager, the definition of the latter's remuneration in line with company policies, and checks that the latter has adequate resources to perform his/her responsibilities;

- f) supports, with adequate investigations, the assessments and decisions of the Board of Directors regarding the management of risks arising from prejudicial events of which the Board of Directors has become aware;
- g) assesses, jointly with the Financial Reporting Manager and with the auditing firm and the Board of Statutory Auditors, the correct use of the accounting principles and their consistency with the aims of drafting the consolidated financial statements;
- h) where necessary, issues opinions on specific aspects regarding the identification of the key business risks;
- i) examines, among other things, the periodic reports and those of particular relevance prepared by the internal audit department;
- l) monitors the autonomy, adequacy, effectiveness and efficiency of the internal audit department;
- m) may ask the internal audit department to perform audits on specific operational areas, giving notice of this to the Chairman of the Board of Statutory Auditors;
- n) may ask the Internal Audit Manager at any time for a report on the activity carried out and on the state of the Internal Control and Risk Management System; the Control and Risks Committee may also ask the Internal Audit Manager at any time for a copy of the documentation kept by the latter in accordance with the Guidelines;
- o) performs the duties which, in compliance with the regulations in force at the time, are assigned to it in accordance with the OPC procedure;
- p) performs further duties assigned to it by the Board of Directors.

Lastly, it should be noted that the Control and Risks Committee has been attributed the relevant role and powers that the Consob Regulation on Related Parties and the OPC Procedure attributes to the Committee composed of a majority of independent non-executive directors, with specific reference to transactions with related parties of lesser importance.

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At the Board meeting to approve the half-year Financial Report at 30 June 2017 and at the meeting to approve the Annual Financial Report at 31 December 2017, the Chairman of the Internal Audit Committee presented the activities carried out by the Committee during the Financial Year, explaining to the Board his own assessment of the adequacy of the internal control and risk management system.

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During the Financial Year, the Control and Risks Committee performed - in line with the functions and duties assigned to it - essential monitoring and control of the Company's internal control system and risk management, as well as consulting and recommendation activities for the prescribed corporate governance requirements.

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At the invitation of the Committee, the Committee meetings held during the Financial Year were attended by the Board of Statutory Auditors (in the person of its Chairman and/or the other standing auditors), the Internal Audit Manager, the Financial Reporting Manager and the General Counsel, who also acted as secretary for the Committee.

In performing its functions, the Committee has the authority to access the information and business departments necessary for the execution of its duties, and to use external consultants, subject to the authorisation of the Board of Directors.

During the Financial Year, sufficient financial resources were made available to the Committee so that it could perform its duties.

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

The Board of Directors has adopted, upon the proposal of the Director responsible for Internal Control and with the assistance of the Control and Risks Committee, the Internal Control Guidelines that were later amended by the Board in order to adapt them to the new criteria and principles contained in the Corporate Governance Code with regard to the control and risk management system, as ruled by Art. 7 of the Corporate Governance Code. Following the amendments made by the Corporate Governance Committee to the Corporate Governance Code in July 2015, at the meeting held on 10 November 2016, the Board of Directors approved some amendments to the Internal Control Guidelines in order to adapt the contents to the new recommendations of the Corporate Governance Code.

The Internal Control Guidelines set out the powers and duties attributed to the various parties involved in the Issuer's internal control and risk management system, including the Director responsible for the Internal Control and Risk Management System and the Internal Audit Manager.

The same Internal Control Guidelines attribute ultimate responsibility for the adequacy of the Internal Control and Risk Management System to the Board of Directors, and more specifically set out the related duties.

The Internal Control and Risk Management System of the Issuer and of the Group is a set of rules, procedures and organisational structures having the purpose of monitoring observance of the corporate strategies and achievement of the following objectives based on the principles of

the Corporate Governance Code and the reference model COSO report (Committee of sponsoring organisations of the Treadway Commission):

- a) effectiveness and efficiency of the company processes (administration, production, distribution, etc.);
- b) reliability, accuracy, trustworthiness and timeliness of economic and financial information;
- c) observance of the laws and regulations, the Articles of Association and company rules and procedures;
- d) safeguarding the value of the company assets and protecting, as far as possible, against losses;
- e) identification, measurement, management and monitoring of main risks.

The controls involve the administrative bodies of the Company (Board of Directors, Control and Risks Committee, Director responsible for the internal control and risk management system), the Board of Statutory Auditors, the Chief Financial Officer/Financial Reporting Manager, the Internal Audit Manager, the Supervisory Body and all the De' Longhi staff and the Directors and Statutory Auditors of the Issuer's subsidiaries, under their different roles and respective responsibilities: all of whom comply with the indications and principles contained in the Internal Control Guidelines.

The Internal Control and Risk Management System, which is subject to periodic review and verification, taking into account the evolution of the company's operations and the context of reference, must allow the different types of risk the Issuer and the Group are exposed to over time to be dealt with reasonably promptly and the identification, measurement and control of the level of exposure of the Issuer and all the other companies of the Group - and in particular, among others, companies with strategic importance - to the different risk factors, and manage the overall exposure, considering:

- (i) possible correlations existing between the different risk factors;
- (ii) the significant probability that the risk will actually occur;
- (iii) the impact of the risk on company operation;
- (iv) the entity of the risk on the whole.

#### **THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM AND THE FINANCIAL REPORTING PROCESS**

An integral and essential part of the Group's internal control and risk management system is constituted by the existing risk management and internal control system with regard to the financial information process (administrative and accounting procedures for the preparation of the balance sheet and consolidated financial statements and all the other reports and



communications of an economic, equity and/or financial nature prepared in accordance with the law and/or regulations, and for the monitoring of the effective application of the same), prepared with the coordination of the Financial Reporting Manager.

The Internal Audit Manager, who is responsible for verifying that the internal control and risk management system is working efficiently and effectively, drafts an annual work schedule which is presented to the Board of Directors which approves it with the prior approval of the Control and Risks Committee and having heard the Board of Statutory Auditors and the Director responsible for the internal control and risk management system, also based on the indications given by the Financial Reporting Manager and the provisions of Legislative Decree 262/05. The Internal Audit Manager reports to the Control and Risks Committee on the results of the activities performed with regard to any problems found, the improvement actions agreed and the results of the testing. Lastly, the Internal Audit Manager also provides a summary report for the Financial Reporting Manager and the administrative body responsible for assessing the adequacy and effective application of the administrative procedures for drafting the consolidated financial statements.

In order to identify and manage the main business risks particularly with regard to corporate governance and adapting to the legislative and regulatory standards (including, in particular, the recommendations of the Corporate Governance Code for Listed Companies), during 2013 the Issuer implemented a company project aimed at strengthening the risk management system (ERM) in collaboration with a leading consulting firm.

This project envisaged the development and monitoring of a structured ERM model in order to effectively manage the main risks the Issuer and the Group are exposed to.

It was therefore possible to map the main business risks based on the Group's value chain, identifying the inherent risk, the associated residual risk with particular focus on the possible main risks and a proposed intervention action to resolve them. In subsequent years, a plan of activities for defining the risk management strategy was prepared, with a proposal to focus on the high level of risk, as well as plan of actions to continue monitoring and managing these risks also through follow-up activities and meetings with the Control and Risks Committee, the Board of Statutory Auditors and the Director responsible for the risk management system.

The risk management system led to the definition of Internal Control Guidelines with a top-down logic and identification of the duties and responsibilities of the different people involved through different levels of control:

- (i) recognition and identification of the main risks by the operating functions and the subsequent treatment activities;

- (ii) control activity by the functions in charge of risk control by defining the tools and methods for managing the risk system.

#### DESCRIPTION OF THE MAIN CHARACTERISTICS

The Group uses a risk management and internal control system with regard to the financial reporting system pursuant to Art. 123-bis, para 2(b) TUF, which is part of the larger internal control system.

The Group has a system of administrative and accounting operating procedures that ensure an adequate and reliable financial reporting system. This system includes the manual of accounting principles and the updating of the new regulations and accounting principles, the consolidation rules and periodic financial reporting, as well as the necessary coordination with its subsidiaries. The Group's central corporate functions are responsible for managing and disseminating such procedures to the Group companies.

The assessment, monitoring and continuous updating of the internal control system on the financial reporting is performed in line with the COSO model within the activities carried out in accordance with Law 262/2005. In this context, the processes and sub-processes with critical issues have been identified first by finding the significant companies, based on quantitative and qualitative relevance parameters for financial reporting (significant companies in terms of size and significant companies only for some specific risks and processes).

Starting from this significance, the mapping is then carried out by identifying the main manual and automatic controls, and attributing a priority scale (high, medium, low). These controls are then tested.

The scope of companies falling under the aforementioned mapping for the purposes of Law No. 262/2005 has been changed over the years to adapt it to the changes that have occurred in the Group, in quantitative as well as qualitative terms, and to conform said scope to that already considered for companies deemed strategic.

The general managers and administrative managers of each company in the Group are responsible for maintaining an adequate internal control system and, as managers, they have to issue statements in which they confirm that the internal control system functions correctly.

The Internal Audit department, within its audit plan, also performs assessments on the internal controls using the self-assessment checklist.

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In application of criterion 7.C.1 of the Corporate Governance Code and the Internal Control Guidelines, during the Financial Year, and most recently in the meeting held on 1 March 2018, the Board verified the adequacy of the Internal Control and Risk Management System, with

regard to the company's characteristics and risk profile, and its effectiveness in particular, ensuring - with the assistance of the Control and Risks Committee - that (i) the duties and responsibilities are allocated clearly and appropriately; (ii) the control functions, including the Internal Audit Manager, the Financial Reporting Manager and the Supervisory Body, are provided with adequate resources to perform their duties and have been given the appropriate level of autonomy within the structure. The Internal Audit Manager has in any case been assured independence from each operational area manager.

#### **10.1. DIRECTOR RESPONSIBLE FOR THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

In compliance with the principles of the Corporate Governance Code and the Internal Control Guidelines, on 14 April 2016 the Board of Directors confirmed Fabio de' Longhi as the Director responsible for the Internal Control and Risk Management System (the "Director responsible for Control and Risks").

According to the Internal Control Guidelines, the Director responsible for Control and Risks:

- a) deals with the identification of the principal company risks, considering the characteristics of the activities performed by the Issuer and its subsidiaries, paying particular attention to companies having strategic importance, and submits them to the examination of the Board of Directors at least once a year, and as a rule at the meeting of the Board of Directors to approve the annual financial report;
- b) implements the Internal Control Guidelines, dealing with the planning, realisation and management of the Internal Control and Risk Management System and constantly monitoring its adequacy and effectiveness. In particular, he:
  - identifies the risk factors for the Issuer or other companies of the De'Longhi Group, paying particular attention to companies having strategic importance - without prejudice to the primary responsibility of the respective chief executive officers of the individual companies - also in light of the changes in the internal and external conditions in which they operate, and the management performances, deviations from the forecasts and the legislative and regulatory situation in force at the time, including all the risks that could be significant for the company's business in terms of sustainability over the medium-long term;
  - defines the duties of the operating units dedicated to the control functions, ensuring that the various activities are directed by qualified personnel, possessing experience and specific knowledge. In this respect, the areas of potential conflict of interest are identified and reduced to a minimum;

- establishes effective communication channels in order to ensure that all the personnel are aware of the policies and procedures regarding their own duties and responsibilities;
- defines the information flows aimed at ensuring full knowledge and governability of the company actions; and ensures that the Board of Directors identifies the Group's significant transactions - concluded by the Issuer or its subsidiaries - which must be submitted to the prior examination of the Parent Company's Board of Directors;
- c) at least once a year, and as a rule at (or before) the meeting of the Board of Directors to approve the annual financial report - and all the times it is considered necessary or appropriate with regard to the circumstances, as in the case in which new important risks arise or there are considerable increases in the possibilities of risk - it submits to the examination and assessment of the Board of Directors the company risks and the set of control processes implemented and planned for their prevention, their reduction and their effective and efficient management, in order to allow the Board of Directors to make an informed and cognisant decision with regard to the strategies and policies for managing the principal risks of the Issuer and the De' Longhi Group, paying particular attention to companies having strategic importance;
- d) proposes to the Board of Directors, also informing the Control and Risks Committee, the appointment, removal and remuneration of the Internal Audit Manager and assures the latter's independence and operational autonomy from each operational area manager, checking that he/she has the appropriate means to effectively perform the duties assigned to him/her;
- e) submits the annual work schedule prepared by the Internal Audit Manager, after consulting with the Control and Risks Committee and the Board of Statutory Auditors, to the Board of Directors;
- f) adapts the Internal Control and Risk Management System to changes in the operating conditions and legislative and regulatory situation;
- g) may ask the internal audit department to perform audits on specific operational areas and on observance of the internal rules and procedures in performing company operations, giving notice of this to the Chairman of the Control and Risks Committee and to the Board of Statutory Auditors, and, where appropriate, in relation to those issues under examination, also to the Chairman of the Board of Directors;
- h) promptly reports to the Control and Risks Committee (or to the Board of Directors) with regard to issues and problems that emerge during his work or which he receives information about, so that the Committee (or Board) can take appropriate action.

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In the execution of the duties and functions assigned to him, as described above, during the Financial Year the Director responsible for Control and Risks identified the main business risks, taking into account the characteristics of the activities carried out by the Company and its

subsidiaries, and implemented the Internal Control Guidelines, constantly checking the overall adequacy, effectiveness and efficiency of the Internal Control and Risk Management System, and adapting the system to changes in the operating conditions and the legislation and regulation in force. He most recently reported to the Board on the adequacy of the Internal Control and Risk Management System with regard to the legislation and regulations in force at the meeting held on 1 March 2018. The Director responsible for Control and Risks has also submitted a document summarising the policy on identifying and managing the main business risks to the Board of Directors.

## **10.2. INTERNAL AUDIT MANAGER**

In accordance with the Corporate Governance Code recommendations, the Board of Directors has appointed, upon the proposal of the Director responsible for Internal Control and Risks and approved by the Internal Control and Risks Committee, Marco Mantovani as the Company's Internal Audit Manager.

The Internal Audit Manager is not responsible for any operational area, reports hierarchically to the Board of Directors and coordinates with the CEO on the organisational programme, ensuring the information flows to the Control and Risks Committee, the Board of Directors, the Board of Statutory Auditors and to the Financial Reporting Manager.

For the purposes of criterion 7.C.6 of the Corporate Governance Code, it is specified that the role of Internal Audit Manager is not entrusted, even partially, to people outside of the Company.

Pursuant to the Internal Control Guidelines, the Internal Audit Manager (who is assured independence and operational autonomy from each operational area manager subject to his monitoring):

extends his/her audit activity to all the companies of the Group, paying particular attention to companies identified by the Board of Directors as companies with strategic importance, and has access to all their activities and related documentation. The Internal Audit Manager has direct access to all the useful information in order to perform his job;

is also responsible for verifying, among other things, the suitability of the internal procedures for ensuring the adequate containment of the Issuer's and the Group's risks, and to assist the Group in the identification and assessment of major exposures to risk, including all the risks that could be significant for the company's business in terms of sustainability over the medium-long term;

The duties of the Internal Audit Manager are performed by carrying out sample audits on the processes under examination.

Pursuant to the Internal Control Guidelines, the Internal Audit Manager:

- a) prepares the annual work schedule based on a structured process of analysis and prioritisation of the main risks and illustrates it to the Director responsible for the Internal Control and Risk Management System, the Control and Risks Committee, the Board of Statutory Auditors and the Board of Directors, in good time for the execution of their respective functions and, in particular, for any suggestions they intend to make;
- b) assists the Director responsible for the Internal Control and Risks in planning, managing and monitoring the Internal Control and Risk Management System and in identifying the different risk factors;
- c) schedules and carries out, in compliance with the annual work schedule, the direct and specific control activity in the Issuer and in all the other companies in the Group, paying particular attention to companies having strategic importance, in order to verify any deficiencies of the Internal Control and Risk Management System in the different risk areas;
- d) checks, on a continuous basis or in relation to specific needs and in compliance with international standards, the operation and suitability of the Internal Control and Risk Management System;
- e) checks, as part of the audit schedule, the reliability of the information systems including the accounts recording systems;
- f) checks that the rules and procedures of the control processes are observed and that all the subjects involved operate in accordance with the set objectives. In particular, he:
  - checks the reliability of the information flows, including the automatic data elaboration systems and the administrative/accounts recording systems;
  - verifies, as part of the work schedule, that the procedures adopted by the Issuer and the Group ensure the observance, in particular, of the provisions of law and the regulations in force;
- g) also performs assessment duties with regard to specific aspects, where it deems appropriate or at the request of the Board of Directors, the Control and Risks Committee, the Director responsible for the Internal Control and Risk Management System or the Board of Statutory Auditors;
- h) ascertains, using those methods considered most appropriate, whether the anomalies found in the operation and functioning of the controls have been removed;
- i) keeps in order all the documentation regarding the activities carried out. This documentation will be made available to the people in charge of the control processes who ask for it;
- l) prepares periodic reports containing adequate information on its activities, the methods used to perform risk management, and on compliance with the plans defined for their containment. The periodic reports contain an assessment of the Internal Control and Risk Management System's appropriateness; moreover, in light of the results of the audits as well as the analysis of

the business risks, he identifies any deficiencies in the Internal Control and Risk Management System and proposes any necessary action to be taken on the System; the weaknesses identified and proposed actions are included in the related Internal Audit Reports;

m) promptly prepares reports on events of major importance;

n) sends the reports referred to in points l) and m) to the Director responsible for Control and Risks, the Chairman of the Board of Statutory Auditors, the Chairman of the Control and Risks Committee and, where appropriate in relation to those issues under examination, to the Chairman of the Board of Directors, the Financial Reporting Manager and to the Supervisory Body, when the same Internal Audit Manager has assessed that they contain information that is relevant in terms of 231 compliance and, in any case, limited to these parties; when the control activities concern other companies in the Group, if necessary, the reports are also sent to the relevant competent bodies of the company concerned. The Control and Risks Committee ensures that the reports are sent to the other members of the Board of Directors with regard to the issues on the agenda; the Board of Statutory Auditors examines said documents during the meetings of the Control and Risks Committee;

o) at least twice a year, in good time to allow the Control and Risks Committee and the Board of Directors, and the Director responsible for Control and Risks to perform their respective duties at (or before) the Board meetings to approve the annual and half-year financial report, he prepares a six-monthly summary of the principal findings that emerged in the relevant six-month period and during the whole year. The annual report prepared for the Board meeting to approve the annual financial report also contains an update of the company risks being monitored that emerged during the year;

p) in the presence of critical aspects which suggest urgent action is required, he informs without delay the Director responsible for the Internal Control and Risk Management System and the company bodies, and the Chairman of the Control and Risk Committee, the Chairman of the Board of Statutory Auditors and, where appropriate, the Chairman of the Board of Directors and the Financial Reporting Manager, to update them on the results of their work.

The Board, upon the proposal of the Director responsible for Control and Risks and, with the approval of the Control and Risks Committee and having heard the Board of Statutory Auditors, defined the compensation for the Internal Audit Manager, in line with the Company's policies, as most recently updated at the meeting held on 9 November 2017.

During the Financial Year, the Internal Audit Manager has had access to all the information relevant for performing his duties and has sent reports on his audit activities to the Chairman of



the Control and Risks Committee and to the Chairman of the Board of Statutory Auditors, and to the Director responsible for Control and Risks and the Supervisory Body.

During the Financial Year, the Company made the sum of € 126,000.00 available to the Internal Audit Manager to enable him to carry out the duties and functions assigned to him.

In 2017, the Internal Audit department was composed of 6 people.

During the Financial Year, the internal audit activity performed focused on:

(i) from the perspective of compliance with Law no. 262/2005: updating of the process matrices mapped previously for all the companies with strategic importance and testing their effectiveness based on the approved plan; (ii) with regard to audit and follow-up activities in Italian and foreign companies: this work was performed by the Internal Audit Manager using checklists and direct on-site verification at the respective foreign offices.

(iii) SoD analysis (segregation of duties) and compensating controls on the Group companies. The activity is designed to monitor the execution of significant activities for the production of financial information within the Group's different SAP systems, in particular with regard to the separation of duties in the drafting of accounts in the Group companies that use SAP;

(iv) risk assessment and mapping for risk assessment. In this area during the 2017 Financial Year the Group extended the risk assessment to significant companies aimed at strengthening the risk management system within the Group;

(v) development and creation of a new cloud platform for all activities related to compliance with Law 262/2005;

(vi) development and creation of a SAP BW FI application for analysing the accounting records of all the Group companies.

The above activities are periodically reported to the Director responsible for Control and Risks, the Chairman of the Board of Statutory Auditors, the Chairman of the Control and Risks Committee and the Financial Reporting Manager. In his reports, the Internal Audit Manager also presented his assessments on the appropriateness of the Internal Control and Risk Management System.

### **10.3. ORGANISATIONAL MODEL PURSUANT TO LEGISLATIVE DECREE 231/2001**

The Issuer has adopted an organisation, management and control model in accordance with Legislative Decree no. 231 of 8 June 2001. The Company has adopted the “*Organisation and Management Model*” in accordance with Legislative Decree No. 231/2001 and appointed the Supervisory Body entrusted with the task of supervising the Organisational Model's efficiency and effectiveness, and whether to update it as a result of changes in the corporate structure and/or the regulations.



In compliance with the Corporate Governance Code recommendations contained in the comment to Art. 7, the Board of Directors carefully assessed the opportunity of attributing the Board of Statutory Auditors with the functions of a supervisory body pursuant to Legislative Decree No. 231/2001, but considered it preferable to keep such functions the responsibility of the Supervisory Body established ad hoc.

During the Financial Year, the Supervisory Body was composed of the following members: Simona Carolo, Marco Giovanni Mancino, Marco Mantovani, Fiorenzo Benatti and Marco Piccitto. At the Board of Directors meeting held on 22 February 2018, as the two-year mandate for the Supervisory Body had ended, the Company's administrative body appointed the following people as the new members of the Supervisory Body: Simona Carolo (Chairman), Roberta Pierantoni, Maddalena Leon, Claudia Costa, Marco Piccitto. The new Supervisory Body will hold office for two years.

The Organisational Model adopted by the Company on 27 March 2006 has since been amended, most recently at the Board of Directors' meeting held on 11 November 2015.

In the construction of the Organisation Model the Company has not only complied with the provisions of the Decree and the applicable rules and regulations, but has, with regard to unregulated aspects, also complied with the guidelines issued by Confindustria and with the best practices for audits.

The current Organisational Model is composed of two parts:

A) a General Part, which contains the key points of the Organisational Model and the different types of offence established by the Decree and, in particular, offences with regard to relations with public administrations, corporate crimes, market abuse, manslaughter and negligently causing serious or grievous bodily harm in violation of the rules on health and safety at work, crimes related to receiving, laundering or using money, goods or assets of illegal origin and cybercrime and unlawful processing of data, corporate crimes and environmental crimes.

The General Part also deals with the functioning of the Supervisory Body and the disciplinary system, also with reference to the Code of Ethics;

B) a Special Part containing the protocols and procedures, divided by area, prepared by the Company to manage risks and prevent crimes.

The Supervisory Body performs its own monitoring tasks based on an annual Audit Plan which indicates the ordinary and extraordinary activities that the Supervisory Body is expected to perform and the timeframe for the meetings. The Supervisory Body is also expected to meet at least on a quarterly basis and to report annually to the Board of Directors and to the Board of Statutory Auditors on the activities performed and results of the audits.

During the Financial Year, the Supervisory Body met 4 times, the meetings lasted on average one and a half hours.

The Italian subsidiary with strategic importance, De' Longhi Appliances S.r.l., has also adjusted its internal system to the provisions of Legislative Decree No. 231/01, adopting its own Organisation and Management Model in accordance with the same Decree, periodically updating it with regard to new legislation and organisational changes and appointing a Supervisory Body consisting of five members.

#### **10.4. INDEPENDENT AUDITING FIRM**

The company entrusted with the legal audit of De' Longhi is EY S.p.A. with registered office in via Po 32, Rome and registered in the register of independent auditors. The appointment was granted by the ordinary Shareholders' Meeting of De' Longhi with resolution dated 21 April 2010 and will expire with the approval of the financial statements at 31 December 2018.

#### **10.5. FINANCIAL REPORTING MANAGER**

The Manager responsible for drafting the company accounts (the “Financial Reporting Manager”) is Stefano Biella, Chief Financial Officer of the Company.

According to Art. 13-*bis* of the Articles of Association, the Financial Reporting Manager must be chosen by the administrative body, after consulting the Board of Statutory Auditors, from among those persons with at least three years' experience in accounting or administration in a listed company or in any case one of significant size.

The Board of Directors has granted Stefano Biella, in his capacity as Financial Reporting Manager, all the powers necessary to perform the duties assigned to him by law and by the Company's Articles of Association and by the new Internal Control Guidelines, and more particularly to:

- access directly all the information necessary to produce the accounting data without requiring authorisations, undertaking (as with all the members of his office) to keep the documents and the information acquired during the performance of his duty confidential;
- use internal communication channels that guarantee correct infra-company information;
- autonomously structure his office/department with regard to personnel and technical resources (material, IT resources etc.);
- prepare the Company's (and the De' Longhi Group's) administrative and accounting procedures autonomously, also with the cooperation of the offices participating in the production of the relevant information;

- propose and/or assess and/or veto all the “sensitive” procedures adopted inside the Company (and the De’ Longhi Group);
- participate in the board meetings in which topics of interest to his department are discussed; use external consultants, where particular business needs make it necessary (drawing from the budget assigned to him);
- establish relationships with the other persons responsible for control and flows that guarantee, in addition to the constant mapping of the risks and processes, an adequate monitoring of the correct functioning of the procedures (External Auditors, general manager, Internal Audit Manager, etc.);
- delegate some specific activities, duties and/or procedure phases to an external subject/entity or to internal offices, without prejudice to his general competence and responsibility.

#### **10.6 COORDINATION BETWEEN THE PARTIES INVOLVED IN THE INTERNAL CONTROL AND RISK MANAGEMENT SYSTEM**

The methods for coordinating the various people involved in the Company's Internal Control and Risk Management System are indicated in the Internal Control Guidelines.

In particular, the Board of Directors performs the role of guiding and periodically assessing the adequacy of the Internal Control and Risk Management System. In performing this role it is assisted by the Control and Risks Committee, which performs the functions of investigating, consulting and making recommendations which are exercised also (but not only) by issuing opinions to the Board of Directors. The Director responsible for Control and Risks, assisted by the Internal Audit Manager, identifies the main business risks and implements the Internal Control Guidelines, dealing with the planning, realisation and management of the Internal Control and Risk Management System and constantly monitoring its adequacy and effectiveness.

The Internal Audit Manager is also responsible for verifying, among other things, the suitability of the internal procedures for ensuring the adequate containment of the Issuer's and the Group's risks, and to assist the Group in the identification and assessment of major exposures to risk.

The Financial Reporting Manager is responsible, firstly, for the Internal Control and Risk Management System with regard to financial reporting and, therefore, for identifying and assessing the risks related to financial reporting, identifying and implementing the appropriate controls, intended to mitigate the possibility that such risks will occur, and monitoring and assessing the effectiveness of the controls in the context of an internal control and risk management system, with regard to the financial reporting process, that is adequate and functioning.

The Supervisory Body is responsible for supervising the Organisational Model's efficiency and effectiveness, aimed at preventing some types of crimes, and whether to update it as a result of changes in the corporate structure and/or the regulations.

Lastly, the Board of Statutory Auditors arranges for the autonomous assessment of the effectiveness and functioning of the Internal Control and Risk Management System, and can formulate, whenever it considers it necessary or appropriate, any recommendations to the competent authorities in order to strengthen the Internal Control and Risk Management System. Each party involved in the Internal Control and Risk Management System has specific obligations with regard to reporting to each other and, ultimately to the Board of Directors.

## **11. DIRECTORS' INTERESTS AND TRANSACTIONS WITH RELATED PARTIES**

The Board of Directors - in compliance with the Consob Related Parties Regulation and Notice no. DEM/10078683 dated 24 September 2010, and with Art. 9.C.1 of the Corporate Governance Code – after consulting a committee composed exclusively of independent directors – approved, in the meeting held on 12 November 2010, the OPC Procedure, effective from 1 January 2011.

The OPC Procedure, in accordance with applicable regulations, distinguishes transactions with related parties according to their lesser or greater importance, identifying transactions of greater importance in compliance with the ratios in Annex 3 to the Consob Related Parties Regulation, and these transactions are the exclusive responsibility of the Board of Directors.

The OPC Procedure provides for two different procedures for launching and approving transactions with related parties, graded in relation to their (greater or lesser) importance (and therefore a “general” procedure for all transactions of lesser importance with related parties, and a “special” procedure for those exceeding the relevance thresholds identified in accordance with the criteria established by Consob). Both types of procedures (general and special) are characterised by the emphasis placed on the role of independent auditors, who must always issue a prior opinion on the proposed transaction. It is also provided that whenever the "special" procedure is applied, this opinion is binding on the Board, and that the independent directors are also involved in the "investigation" stage prior to the approval of the transactions.

The OPC Procedure provides that the relevant role and powers that the Consob Related Parties Regulation attributes to the committee composed of non-executive directors, the majority of whom are independent, are the responsibility of the Issuer's Control and Risks Committee. A Committee consisting of solely independent directors was also established (“Independent Committee”) and it was attributed the role and relevant powers that the Consob Related Parties

Regulation attributes to the committee composed exclusively of independent directors. This Committee is appointed and functions in accordance with the principles contained in Art. 6 of the OPC Procedure.

With regard to the disclosure rules, the OPC Procedure provides that an information document must be published for all transactions of greater importance, together with any opinions by the independent directors and/or, where appropriate, by the Board and/or - for essential elements - by the independent experts.

The OPC Procedure also contemplates, as permitted by the Consob Related Parties Regulation, exclusion from applying the new rules to some categories of transaction. In particular, transactions "of small amounts" (identified by the relevance criteria set out in Annex 3 to the Consob Related Parties Regulation, to which the absolute thresholds indicated in Art. 9.2 of the OPC Procedure apply) are excluded and the transactions concluded with and between subsidiaries, even jointly, by De' Longhi and the transactions with companies associated with the Company (provided there are no "significant" interests of related parties of De' Longhi in these companies), and the other cases permitted by the Consob Related Parties Regulation indicated in detail in Art. 9 of the OPC Procedure to which reference is made.

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It should be noted that the Board of Directors did not consider it necessary to adopt specific operational solutions for facilitating the identification and adequate management of situations in which a director has an interest on his own behalf and on behalf of others. On this point, the Board believes that the existing coverage under the provisions contained in Art. 2391 of the Civil Code ("Directors' interests") is adequate.

## 12. APPOINTMENT OF STATUTORY AUDITORS

The appointment of Statutory Auditors and the Chairman of the Company's Board of Statutory Auditors is the responsibility of the Shareholders' Meeting.

The method for presenting lists with appointment proposals and voting are governed by the Articles of Association, in accordance with the legislation and regulations in force.

Art. 14 of the Articles of Association establishes that the Board of Auditors must be composed of three standing statutory auditors and two alternate auditors who meet the requirements of the applicable laws and regulations and that equality between the genders in the Board of Statutory Auditors must be ensured in observance of the laws and regulations in force on the subject at the time.

The same article of the company's Articles of Association aims to ensure that the Chairman of the Board of Statutory Auditors may be appointed by the minority, drawing from the list that obtained the second greatest number of votes.

In particular, the number of Shareholders possessing a shareholding equal to at least that determined by Consob in accordance with Art. 144-*quater* of the Issuer's Regulation (most recently set at 1%, with Consob Resolution No. 20273 dated 24.01.2018) can present one list, which must be submitted at the company's registered office within the term set by Art. 147-*ter*, para. 1-*bis* of the TUF and in any case within twenty-five days before the Shareholders' Meeting convened to resolve on the appointment of the Board of Statutory Auditors. Each list must include the information required under the provisions of law and regulations in force at the time. A shareholder may not submit or vote for more than one list, even through a third party or trust company; shareholders belonging to the same group and shareholders who are party to a shareholder agreement concerning Company shares may not submit or vote for more than one list, even through a third party or trust company.

The lists containing a total number of three or more candidates must comprise candidates belonging to both genders, so that both genders are represented by at least one third (rounded up to the nearest whole number) of candidates for the position of Standing Statutory Auditor and by at least one third (rounded up to the nearest whole number) of candidates for the position of Alternate Auditor.

Each candidate may only be indicated on one single list or shall be deemed ineligible. Candidates who do not possess the requisites required by the applicable laws or who do not observe the limits to the number of offices held as established by the applicable laws and the related implementation rules in force at the time may not be elected auditors.

Lists which do not observe the provisions contained in Art. 14 of the Articles of Association shall be deemed as not submitted.

In the event that at the date the term expires only one list has been filed (or lists that are “connected” to each other as per the provisions of law and regulations in force), further lists may be submitted up to three days later and the threshold for submission is halved.

Appointment of the members of the Board of Statutory Auditors shall be carried out as follows:

- two Standing Auditors and one Alternate Auditor are taken from the list which has obtained the greatest number of votes.
- one Standing Statutory Auditor - who becomes the chairman of the Board of Statutory Auditors - and one Alternate Auditor are taken from the second list not “connected”, in accordance with the laws and regulations, with the Shareholders who submitted or voted for the list with the greatest number of votes, respecting the sequential order of the candidates as they appear on the list itself;

- in the event that more than one list has obtained the same number of votes, these lists must be put to a second ballot by the shareholders at the meeting, and the candidates on the list that obtains a simple majority of votes shall be elected.

If, as a result of the list voting, the composition of the standing members of the Board of Statutory Auditors does not comply with the rules and regulations on gender equality in force at the time, the candidate of the most represented gender elected last in sequential order in the list which obtained the highest number of votes will be excluded and replaced by the next candidate of the least represented gender, from the same list and in sequential order.

The Chairman of the Board of Statutory Auditors shall be the Standing Auditor taken from the second list, if submitted, which obtained the greatest number of votes.

Pursuant to Art. 14 of the Articles of Association, if only one list has been submitted, the Shareholders' Meeting will vote on it. If the list obtains the relative majority, the first three candidates indicated in sequential order are elected Standing Statutory Auditors and the fourth and fifth candidates are elected Alternate Auditors. The first candidate on the list submitted is made chairman. If, as a result of the list voting on the only list submitted, the composition of the standing members of the Board of Statutory Auditors, does not comply with the rules and regulations on gender equality in force at the time, the candidate of the most represented gender the third elected Statutory Auditor in sequential order in the single list will be replaced by the next candidate, who is elected as Alternate Auditor and who is the opposite gender. The Auditor replaced under this procedure will become Alternate Auditor in place of the Auditor appointed standing member under this same procedure.

### **13. COMPOSITION AND FUNCTIONING OF THE BOARD OF STATUTORY AUDITORS (PURSUANT TO ART. 123-BIS, PARA. 2(D) AND (D-BIS), TUF)**

The Board of Statutory Auditors in office on the date this Report was approved has been appointed by the resolution of the ordinary Shareholders Meeting held on 14 April 2016 and expires with the approval of the financial statements at 31 December 2018.

Its current composition is shown in Table 3 in the Appendix to this Report.

The current Board of Statutory Auditors was elected based on two lists: the list presented by the majority shareholder De Longhi Industrial S.A. submitted on 18 March 2016 and the list submitted on 24 March 2016 – following a re-opening of the terms for submitting a list of candidates, in accordance with current legislation, – by a group of asset management companies and financial intermediaries, holders of a total of 801,771 ordinary shares in the Company, equal to 0.536% of the share capital with voting rights.



As a result of the vote, the following candidates were elected: (1) Cesare Conti, as Chairman, taken from the minority list; (2) Gianluca Ponzellini; (3) Paola Mignani; (4) Alberta Gervasio, taken from the minority list; (5) Piera Tula.

Given a voting capital represented by 130,168,780 ordinary shares equal to 87.069418% of the share capital, the election of the aforementioned Auditors occurred with 104,321,388 votes in favour, equal to 80.143171% of the voting capital for the list submitted by the shareholder De Longhi Industrial S.A. (List 1) and with 25,312,833 votes in favour, equal to 19.446163% of the voting capital for the list submitted by the group of asset management companies and financial intermediaries (List 2).

During the Financial Year, the Board of Statutory Auditors met 12 times and 2 meetings have already taken place in the current financial year. As a rule, the Board of Auditors meetings last approximately 4 hours on average. The Auditors have attended the meetings regularly and consistently (see Table 3 in the Appendix to this Report). The Board of Auditors has attended all the meetings of the Board of Directors and at least one of its members has attended the meetings of the Control and Risks Committee and the Remuneration and Appointments Committee.

From the end of the Financial Year to the date this Report was approved there have been no changes to the composition of the Board of Statutory Auditors.

The curriculum vitae of the Standing Auditors currently in office are given below.

**CESARE CONTI**, Chairman of the Board of Statutory Auditors, was born in Bergamo, Italy in 1963. Associate Professor of Corporate Finance in the Finance Department of the Università Bocconi in Milan, where he teaches “Corporate Finance”, “Financial Management & Markets” and “Financial Risk Management in Businesses” for undergraduate, post-graduate and master courses, in Italian and English. Author of numerous publications focused on: corporate finance and business valuations; management of business and financial risks; governance, management, reporting, valuation and balance sheet recognition of derivative products. Independent consultant for issues on business valuations, corporate finance, financial risk management, new borrowing operations, refinancing, debt restructuring and the stipulation, restructuring and closure of derivative products. Registered in the Register of Chartered Accountants of Milan, Register of Legal Auditors and Register of Technical Consultants for the Court of Milan.

**GIANLUCA PONZELLINI**, Standing Auditor, was born in Varese, Italy in 1947. He graduated in Economics and Business from the Università Cattolica in Milan, and qualified to practice as a



chartered accountant in 1976, registered in the Register of Chartered Accountants of Varese since 1976. From 1973 to 1979, he worked in Italy and in the US with leading Independent Auditors and Accounting Organisations, and since 1980 he has worked as an independent chartered accountant, participating in the creation of the Independent Auditing Firm “Metodo S.r.l.”, where to date he is Partner. As a consultant, he has carried out the legal audit of accounts, business valuations, assistance in extraordinary business operations (sale, purchase, merger, demerger, restructuring, etc.), organisation of accounts and administration and as technical consultant in the interest of national and international companies and organisations. He is a member of the control and administration boards of several national and international companies, among which, currently: Banca IMI S.p.A., GS S.p.A. (Carrefour Group), Luisa Spagnoli S.p.A., Telecom Italia S.p.A.

**PAOLA MIGNANI**, Standing Member, was born in Turin, Italy on 17 April 1966. She graduated in Business Economics from the Bocconi University of Milan in 1989, and has been registered in the Register of Chartered Accountants and Accounting Experts of Milan since 1991 and, since 1995, also in the Register of Legal Auditors. She provides financial and business consulting services at a leading firm in Milan and is a member of the Board of Statutory Auditors and Board of Directors of several companies operating in industrial and financial sectors, including a company listed on the stock exchange. She is lecturer of Business Economics on the degree course Public Relations and Corporate Communication of the Libera Università di Lingue e Comunicazione.

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With regard to criterion 8.C.1 of the Corporate Governance Code, it should be noted that the independence of Auditors is considered already assured by the observance of the applicable laws and Articles of Association and, therefore, the Board of Directors did not consider it necessary to apply the independence criteria referred to in Art. 3 of the Corporate Governance Code also to the Auditors.

For this reason, in the assessment on whether such independence requirements continued to exist during office, only the criteria required by law and the Articles of Association were taken into account.

In compliance with criterion 8.C.3 of the Corporate Governance Code, the Auditor who, on his/her own behalf or on behalf of others, has an interest in a particular transaction of the Issuer promptly and fully informs the other Auditors and the Chairman of the Board of Directors on the nature, terms, origin and extent of his/her interest.

In implementation of Art. 19 of Legislative Decree no. 39/10 and the Internal Control Guidelines, the Board of Statutory Auditors has supervised the independence of the external auditors, verifying both observance of the provisions of law on the matter and the nature and entity of the non-auditing services provided to the Issuer and its subsidiaries by the same external auditor and the entities belonging to its network.

In compliance with criterion 8.C.1 of the Corporate Governance Code, the Board of Statutory Auditors verified the existence of the independence requirements of its members in the meeting held on 14 April 2016 immediately after appointment and then verified its continued existence during the Finance Year in the meeting held on 10 February 2017.

Lastly, it is noted that the Board of Statutory Auditors, in performing its duties, also coordinates with the Internal Audit Manager and with the Control and Risks Committee.

With regard to criterion 8.C.4 of the Corporate Governance Code, considering that on 14 April 2016 the Shareholders' Meeting set the annual remuneration for the members of the Board of Statutory Auditors for the three-year period 2016-2018 at a gross annual amount of €61,900 for the Chairman and €41,300 for each of the two Standing Auditors, the Company deems that the Statutory Auditors' remuneration is commensurate with the commitment required, the importance of the role held and the company size and sector.

#### **DIVERSITY POLICIES**

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

In the meeting held on 1 March 2018, the Board of Directors, having received the favourable opinion of the Remuneration and Appointments Committee, decided that the current composition of the Board of Statutory Auditors is such that it ensures diversity in its members, not just with regard to gender - as is required by the law in force - but also with regard to age, training and professional career. Considering the Shareholders will be asked to renew the Board of Statutory Auditors in office during the next financial year, in order to provide the Shareholders with relevant elements to guide them in identifying the people to propose in the lists of candidates that can be presented for the Board's renewal, the Board of Directors will assess during the current financial year whether to formulate this guidance with the adoption of an ad hoc policy.

#### **INDUCTION PROGRAMME**

With regard to the Induction Programme for Statutory Auditors, the Board of Statutory Auditors took part in the Induction Day described in section 4.2 above.

### **14. RELATIONS WITH SHAREHOLDERS**

In order to facilitate dialogue with its Shareholders, the Issuer has set up a special section on its website [www.delonghigroup.com](http://www.delonghigroup.com), “*Investor Relations*”, where all the financial and corporate information that may be useful for the investor community and, more specifically, for Shareholders (so that they can exercise their rights in an informed manner) is published.

The Company has an Investor Relations department which is responsible for managing relations with Shareholders. This department is managed by Fabrizio Micheli, who holds the position of Director of Mergers & Acquisitions, and is part of the Strategy and Control area, headed by Marco Cenci (Chief Strategy & Control Officer). The details for contacting the Investor Relations department (also available online on the website [www.delonghigroup.com](http://www.delonghigroup.com), in the section “Contacts”) are the following: telephone +39 0422 4131 – fax: +39 0422 414346 - e-mail: [investor.relations@delonghigroup.com](mailto:investor.relations@delonghigroup.com)

It should be noted that the Company complies accurately and promptly with the disclosure requirements provided under the laws and regulations in force, and has structured its website so that it is easier for the public to access the information concerning the Issuer.

### **15. SHAREHOLDERS’ MEETING (PURSUANT TO ART. 123-BIS, PARA. 2(C), TUF)**

Pursuant to Art. 7 of the Articles of Association, convening the ordinary and extraordinary Shareholders' Meeting is governed by reference to the rules provided under the law in force.

In accordance with the provisions of criterion 9 of the Corporate Governance Code, the Shareholders' Meeting are normally attended by all the directors. For the validity of the constitution and resolutions of the ordinary and extraordinary Shareholders' Meeting, the provisions of law in force apply.

The Shareholders' Meeting resolves on matters that fall under its responsibility in accordance with current regulations, since no further specific responsibilities are provided under the Articles of Association. It should be noted that the Articles of Association, in compliance with Art. 2365, para. 2 of the Civil Code, attributes the Board of Directors with the power to approve mergers in the cases provided for by Articles 2505 and 2505-*bis* of the Civil Code, the creation or closure of secondary offices, capital reductions in the event Shareholders withdraw from the

Company, amendment of the Articles of Association to comply with changes in legislation and the transfer of the registered office within Italy.

The right to participate and be represented in the Shareholders' Meeting are governed, in accordance with Art. 7 of the Articles of Association, with reference to the rules provided by applicable law. On this point, it should be noted that Art. 7 of the Articles of Association provides that the proxy for representation in the Shareholders' Meeting can also be granted electronically in observance of the law and regulations in force at the time, and may be notified to the Company by certified e-mail sent to the address indicated in the notice of call, in observance of the applicable provisions and regulations in force.

The regulations contained in Art. 83-*sexies* of the TUF apply with regard to participation in the Shareholders' Meeting.

In compliance with Art. 7-*bis* of the Articles of Association, the Shareholders' Meeting may also be held - if envisaged in the notice of call - by videoconference, with the indication of the audio/video locations connected by the Company, where the attendees may take part. In any case, the following must be permitted:

- the Chairman of the Meeting, also availing him/herself of the Chairman's Office, is able to ascertain the identity and legitimisation of the persons present, verify whether the Meeting is duly convened and the correct number of shareholders is present to carry a resolution, manage and regulate the discussion, set the order and procedures for the voting and announce the result;
- the person taking the minutes is able to adequately perceive the meeting events to be minuted;
- all the attendees are able to participate in the discussion and simultaneously vote on the topics on the agenda, as well as view, receive and transmit documents.

The meeting is deemed as being held in the place where both the Chairman of the Meeting and the person taking the minutes of the meeting are in attendance together.

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With regard to the rules for ordinary and extraordinary Shareholders' Meetings, the Shareholders' Meeting of the Company adopted the “*Regulation for the Annual Shareholders' Meetings of De' Longhi S.p.A.*” in order to ensure the correct and proper functioning of the same and, in particular, of the right of each Shareholder to intervene, follow the discussion, express their opinion on the matters being discussed and exercise their right to vote. This regulation – published in the section “*Investor Relations*” – “*Governance*” – “*Annual Shareholders' Meeting*” of the website [www.delonghigroup.com](http://www.delonghigroup.com) – is a valuable tool to protect the rights of all the Shareholders and the correct formation of the meeting.

In compliance with Art. 13 of the Shareholders' Meeting Regulation and criterion 9.C.3 of the Corporate Governance Code, all Shareholders' Meeting participants are entitled to speak on any of the matters under discussion, by submitting a written request to the Chairman containing

details of the subject to which the request refers, that may be submitted until the Chairman declares the discussion closed on the subject. The Chairman, having taken into account the importance of the individual items on the agenda, may decide the time - no less than eight minutes - available to each speaker at the opening of the meeting. Those who have already taken part in the discussion may ask to take the floor a second time on the same subject, once all reply stage has ended.

\*\*\*

It should be noted that the Board of Directors has reported to the Shareholders' Meeting, most recently at the meeting held on 11 April 2017, on the activities carried out and planned and has always worked to ensure that the Shareholders have adequate information on the necessary aspects so that they can make informed decisions at the Shareholders' Meeting. All the Directors of the Company attended the Shareholders' Meeting held on 11 April 2017. The Remuneration and Appointments Committee reported on its functioning and the activities carried out in the Remuneration Report presented to the shareholders at the Shareholders' Meeting.

With reference to criterion 9.C.4 of the Corporate Governance Code, it should be specified that during the Financial Year variations in the market capitalisation of the Issuer's shares were in line with the market trend and there have been no material changes to the Issuer's shareholding structure.

## **16. OTHER CORPORATE GOVERNANCE PRACTICES (PURSUANT TO ART. 123-BIS, PARA. 2(A), TUF)**

The Company has not adopted any other corporate governance practices other than those described in this Report.

## **17. CHANGES SINCE THE CLOSING OF THE FINANCIAL YEAR**

From the end of the Financial Year to the date this Report was approved there have been no changes to the Company's governance structure.

## **18. CONSIDERATIONS ON THE LETTER FROM THE CHAIRMAN OF THE CORPORATE GOVERNANCE COMMITTEE DATED 13 DECEMBER 2017**

The recommendations formulated by the Chairman of the Corporate Governance Committee promoted by Borsa Italiana S.p.A. have been examined by the Board of Directors in the meeting

held on 1 March 2018. Considerations on this subject were formulated during this meeting, taking into account the results of the preliminary examination of the above letter by the Remuneration and Appointments Committee and the Control and Risks Committee, for the parts related to their areas, at the meetings held on 22 February and 27 February 2018, respectively.

In particular, during the above meetings, the Board of Directors: *(i)* in implementing the board evaluation activities, focused on the recommendations on this subject in the letter dated December 2017, arriving at the opinion that the integration of a new professional role, expert in the sector of e-commerce, among its members would be appropriate; taking this into account, the Board of Directors – having identified, on the proposal of the Chief Executive Officer and having received the favourable opinion of the Remuneration and Appointments Committee, the name of a possible candidate – resolved to submit the proposal to add another member to the current administrative body to the next Shareholders' Meeting, proposing Massimiliano Benedetti; *(ii)* also assessed its governance by taking into account the explanations for the Company's decision not to apply some of recommendations formulated in the Corporate Governance Code, indicating them specifically in this Report.

Treviso, 1 March 2018

Chairman of the Board of Directors

(Giuseppe de' Longhi)

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

<b>SHARE CAPITAL STRUCTURE</b>				
	N° shares	% of share capital	Listed (indicate market) / not listed	Rights & obligations
Ordinary shares	149,500,000	100%	Listed on the Mercato Telematico Azionario managed by Borsa Italiana S.p.A.	-
Shares with multiple voting rights	-	-	-	-
Shares with limited voting rights	-	-	-	-
Shares without voting rights	-	-	-	-
Other	-	-	-	-

<b>MAJOR SHAREHOLDINGS</b>			
Declarant	Direct shareholder	% Share of ordinary capital	% Share of voting capital
<b>THE LONG E TRUST</b>	<b>DE LONGHI INDUSTRIAL SA</b>	56.99%	56.99%
<b>APG ASSET MANAGEMENT N.V.</b>	<b>APG ASSET MANAGEMENT N.V. *</b>	6.689%	6.689%

\* The holder of the financial instruments is Stichting Depositary APG Developed Markets Equity Pool, while the subject with the voting right is APG ASSET MANAGEMENT N.V., as per the communication pursuant to Art. 23, 23-bis and 24 of the Post Trading Provision issued by the intermediary.

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

Board of Directors													Control and Risks Committee		Rem. & Appoint. Committee	
Office	Members	Year of birth														
Date of first appointment *	In office since	In office until	List **	Exec.	Non- exec.	Indep. as per CG Code ****	Indep. as per TUF	N° other positions ***	(*)	(*)	(**)	(*)	(**)			
Chairman	DE' LONGHI GIUSEPPE	1939	2001	14.04.2016	Approval of Accounts at 31.12.2018	M	X				3	7/8				
Chief Executive Officer • ♦	DE' LONGHI FABIO	1967	2001	14.04.2016	Approval of Accounts at 31.12.2018	M	X				2	8/8				
Director	DE' LONGHI SILVIA	1984	2007	14.04.2016	Approval of Accounts at 31.12.2018	M	X				1	7/8				
Director	GARAVAGLIA CARLO	1943	2001	14.04.2016	Approval of Accounts at 31.12.2018	M		X			5	8/8			4/4	M
Director	PAGNI CRISTINA	1955	2013	14.04.2016	Approval of Accounts at 31.12.2018	M		X	X	X	-	8/8			4/4	M
Director	CORRADA RENATO	1949	2004	14.04.2016	Approval of Accounts at 31.12.2018	M		X	X	X	-	8/8	6/6	C		
Director	SANDRI GIORGIO	1944	2001	14.04.2016	Approval of Accounts at 31.12.2018	M		X			1	8/8				
Director	PETRUCCIOLI	1967	2013		Approval of			X	X	X	3	8/8	6/6	M		



	STEFANIA			14.04.2016	Accounts at 31.12.2018	M											
Director	SARTORI SILVIO	1941	2002	14.04.2016	Approval of Accounts at 31.12.2018	M		X			-	8/8	6/6	M			
Director	LUISA VIRGINIA MARIA COLLINA	1968	2016	14.04.2016	Approval of Accounts at 31.12.2018	M		X	X	X	-	8/8					
Director ◦	CLÒ ALBERTO	1947	2004	14.04.2016	Approval of Accounts at 31.12.2018	M		X	X	X	1	8/8			4/4	C	
N° meetings held during the financial year: 8									Control and Risks Committee: 6			Rem. & Appoint. Committee 4					
Quorum required for the presentation of lists at the last appointment: 1% of share capital (as determined by Consob with Resolution N° 19499 of 28.01.2016).																	

## NOTES

The following symbols must be entered in the “Office” column:

• This symbol indicates the Director responsible for the Internal Control and Risk Management System.

◊ This symbol indicates the main person responsible for managing the Issuer (Chief Executive Officer or CEO).

◊ This symbol indicates the Lead Independent Director (LID).

\* The date of first appointment of each director means the date on which the director was appointed for the first time (ever) in the Issuer’s Board of Directors.

\*\* The list from which each director was taken is indicated in this column (“M”: majority list; “m”: minority list; “BoD”: list submitted by the Board of Directors).

\*\*\* The number of offices of director or statutory auditor held by the person in other companies listed on regulated markets, including foreign regulated markets, and/or financial, banking, insurance companies and/or of significant size is indicated in this column. The offices are indicated in full in the Corporate Governance Report.

(\*). This column shows the attendance of directors in the meetings of the Board of Directors and the committees respectively (indicate the number of meetings attended out of the total number of meetings held, e.g. 6/8, 8/8 etc.).

(\*\*). The position of the director within the Committee is indicated in this column: “C”: chairman; “M”: member.

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

Office	Members	Year of birth	Date of first appointment *	In office since	In office until	List (M/m) **	Indep. as per Code	Participation in of the Board of Statutory Auditors ***	N° other positions ****
<b>Chairman</b>	CESARE CONTI	1963	2016	14.04.2016	31.12.2018	m	X	12/12	1
<b>Standing auditor</b>	GIANLUCA PONZELLINI	1947	2004	14.04.2016	31.12.2018	M	X	12/12	15
<b>Standing auditor</b>	PAOLA MIGNANI	1966	2013	14.04.2016	31.12.2018	M	X	12/12	3
<b>Alternate auditor</b>	PIERA TULA	1967	2013	14.04.2016	31.12.2018	M	X	N/A	N/A
<b>Alternate auditor</b>	ALBERTA GERVASIO	1965	2016	14.04.2016	31.12.2018	M	X	N/A	N/A
AUDITORS WHO LEFT DURING THE FINANCIAL YEAR									
<b>Standing auditor</b>	ALBERTO VILLANI	1962	2013	23.04.2013	14.04.2016	M	NA		
<b>Quorum required for the presentation of lists at the last appointment: 1% of share capital (as determined by Consob with Resolution N° 20273 of 24.01.2018), reduced by 0.5% pursuant to Art. 144-sexies, para. 5, of the Issuers' Regulation.</b>									
<b>Number of meetings held during the financial year: 12</b>									

**NOTES**

\* The date of first appointment of each auditor means the date on which the auditor was appointed for the first time (ever) in the Issuer's Board of Statutory Auditors.

\*\* The list from which each auditor was taken is indicated in this column ("M": majority list; "m": minority list).

\*\*\* This column shows the attendance of auditors in the meetings of the Board of Statutory Auditors (indicate the number of meetings attended out of the total number of meetings held, e.g. 6/8, 8/8 etc.).

\*\*\*\* The number of offices of director or statutory auditor held by the person pursuant to Art. 148-bis of the TUF and the related implementing provisions contained in the Consob Issuers' Regulation. The full list of offices is published by Consob on its website pursuant to Art. 144-quinquiesdecies of the Consob Issuers' Regulation.