



DE' LONGHI S.P.A.

Registered office in Treviso – Via Ludovico Seitz 47

Share capital 224,250,000.00 euros fully paid up

Tax Code and Registration in the Company Register of Treviso No. 11570840154

DIRECTORS' REPORT

**ON THE FIRST ITEM ON THE AGENDA FOR THE EXTRAORDINARY PART OF THE MEETING OF
SHAREHOLDERS OF DE' LONGHI S.P.A CONVENED IN ORDINARY AND EXTRAORDINARY SESSIONS FOR
14 APRIL 2016, IN A SINGLE CALL**

SHAREHOLDERS' MEETING OF 14 APRIL 2016

*(Report drafted pursuant to Art. 125-ter of the TUF and Art. 72 of the Issuers' Regulation and
in compliance with Scheme 2 of Annex 3A)*

Item 1 on the agenda for the extraordinary part - Share capital increase by payment, in one or more tranches, with the exclusion of pre-emption rights pursuant to Article 2441, paragraphs 4, second subparagraph, 6 and 8 of the Italian Civil Code, Article 158 of Legislative Decree No. 58 of 24 February 1998 and subsequent amendments and additions, and Article 5-bis, paragraph 3 of the Articles of Association, by issuing, in one or more issues, a maximum of 2,000,000 ordinary shares with a par value of 1.50 euros each and for a maximum nominal amount of 3,000,000 euros, reserved for the beneficiaries of the “2016-2022 Stock Option Plan.” Subsequent introduction of the new Article 5-quater in the Articles of Association. Resolutions thereon.

Dear Shareholders,

This report should be read together with the separate reports on the items on the agenda of the Shareholders’ Meeting, prepared in accordance with the applicable articles of Legislative Decree No. 58 of 24th February 1998, as subsequently amended (the “**TUF**”) and of the related implementing regulation concerning the issuers’ regulation, adopted by CONSOB with Resolution No. 11971 of 14th May 1999, as subsequently amended, (the “**Issuers’ Regulation**”). This report has been prepared pursuant to Art. 125-ter of the TUF and Art. 72 of the Issuers’ Regulation and it has been drafted in compliance with Scheme 2 of Annex 3A to the same regulation, in order to illustrate the reasons for and the contents of the following proposal.

In the meeting held on 19 February 2016, the Company’s Board of Directors (the “**Board of Directors**”) decided to call you the Shareholders, in an extraordinary session, to submit for your approval the proposed resolution regarding the share capital increase by payment, in one or more tranches, with the exclusion of pre-emption rights pursuant to Article 2441, paragraphs 4, second subparagraph, 6 and 8 of the Italian Civil Code, Article 158 of the TUF and Article 5-bis, paragraph 3 of the Articles of Association of De’ Longhi S.p.A. (the “**Articles of Association**”), for a maximum nominal amount of 3,000,000 euros, by issuing, in one or more issues, a maximum of 2,000,000 ordinary shares with a par value of 1.50 euros each, regular dividend rights, reserved for the beneficiaries of the “*2016-2022 Stock Option Plan*” (the “**Capital Increase**”).

1. Reasons for and purpose of the Capital Increase

The resolution submitted for the approval of the extraordinary Shareholders’ Meeting serves the implementation of a stock option plan called the “*2016-2022 Stock Option Plan*” (the “**Stock Option Plan**”) reserved to the Chief Executive Officer of De’ Longhi S.p.A. (the “**Company**” or “**De’ Longhi**”) and to a small number of executives and key

resources (the “**Top Management**”) of the Company and the companies it controls directly or indirectly pursuant to Art. 2359 of the Civil Code (the “**Subsidiaries**” and, together with the Company, the “**De’ Longhi Group**”), which will be identified from among those who hold positions that are more directly responsible for the company results or that are of strategic interest (the “**Beneficiaries**”), in compliance with the “*Rules for the 2016-2022 Stock Option Plan*” (the “**Rules**”) approved by the Board of Directors upon the proposal of the Company’s Remuneration and Appointments Committee (the “**Remuneration and Appointments Committee**”), having heard the opinion of the Board of Statutory Auditors and submitted for the approval of the Shareholders’ Meeting convened, also in ordinary session, for 14 April 2016 (the “**Ordinary Shareholders’ Meeting**”).

The proposed resolution concerning approval of the Capital Increase is therefore subject to the approval of the proposal relating to the Stock Option Plan and its Rules by the Ordinary Shareholders’ Meeting, illustrated in the special report drafted by the Board of Directors pursuant to Art. 114-*bis* and 125-*ter* of the TUF, containing the information document drafted pursuant to Art. 84-*bis* of the Issuers’ Regulation in compliance with Scheme 7 of Annex 3A of the same regulation (the “**Information Document**”), which will be filed and made available to the public at the Company’s registered office and on its website www.delonghigroup.com, (“*Investor Relations*” – “*Governance*” – “*Annual Shareholders’ Meeting*” – “*2016*”), and on the authorised storage mechanism accessible on the website www.linio.it, by 5 March 2016.

Considering market practices with regard to incentives, the positioning of the remuneration package and the current strategic situation, the reasons that led to the Board of Directors to propose the adoption of the Stock Option Plan lie in the need to offer Beneficiaries a variable remuneration system which:

- (i) links their remuneration to the creation of value for the Company’s shareholders;
- (ii) promotes the continued market competitiveness of Beneficiaries’ remuneration;
- (iii) strengthens their loyalty by incentivising their permanence in the Group.

Since the Stock Option Plan envisages the allocation of a maximum of 2,000,000 options to the Beneficiaries, granting each holder the right to subscribe newly issued ordinary De’ Longhi shares (the “**Shares**”) with a nominal value of 1.50 euros each to the amount of one share per option (the “**Options**”), it requires the approval of a special share capital increase by payment, in one or more tranches, with the exclusion of pre-emption rights pursuant to Article 2441, paragraphs 4, second subparagraph, 6 and 8 of the Italian Civil Code, Article 158 of the TUF and Article 5-bis, paragraph 3 of the Articles of Association for the Stock Option Plan.

The Capital Increase envisages that the issue price of the shares, including any premium, when exercising the option rights assigned to the Beneficiaries of the Stock Option Plan is equal to the arithmetical average of the official prices recorded for the De’ Longhi shares on the Mercato Telematico Azionario organised and managed by

Borsa Italiana S.p.A. (the “MTA”) in the 60 (sixty) calendar days before the date for the approval of the Stock Option Plan and its Rules by the Ordinary Shareholders’ Meeting.

The Capital Increase envisages the exclusion of 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, since the newly issued Shares are intended exclusively for the Beneficiaries of the Stock Option Plan and this issue excluding pre-emption rights is in any case less than the limit of 10% of De’ Longhi’s share capital.

For more details describing the Stock Option Plan and the reasons behind its adoption, please refer to the “*Directors’ report on the fifth item on the agenda for the ordinary part of the Meeting of Shareholders of De’ Longhi S.p.A. convened in ordinary and extraordinary sessions for 14 April 2016, in a single call*” prepared pursuant to Art. 114-*bis* and Art. 125-*ter* of the TUF and to the Rules and the Information Document attached to it.

2. The Board of Directors’ consideration regarding the correspondence of issue price for the new shares with the market value

In the meeting held on 19 February 2016, the Company’s Board of Directors decided to propose to the Shareholders’ Meeting, upon the proposal of the Remuneration and Appointments Committee, the criteria for determining the issue price described below in order to arrive at an exercise price for the Options that corresponds to the market value of the Shares, that is identical for all the Beneficiaries of the Stock Option Plan.

The price of the shares to be issued under the Capital Increase - upon exercising the option rights assigned to the Beneficiaries of the Stock Option Plan - will be determined by the Board of Directors, equal to the arithmetical average of the official prices recorded for the Company’s shares on the MTA in the 60 (sixty) calendar days before the date of the Shareholders’ Meeting of the Company which will approve the Stock Option Plan and its Rules.

The criteria proposed by the Board of Directors (and described above) allows a period of time near to the moment the issue price is determined - though long enough to cleanse the price of the stock market volatility which has recently affected the financial markets - to be taken as reference and therefore better reflect the value that the market attributes to the Company’s shares.

On this point, the Board of Directors has asked the independent auditors Reconta Ernest & Young S.p.A. to issue a report containing the opinion required by law, which will be filed and made available to the public at the Company’s registered office and published on its website www.delonghigroup.com (section “*Investor Relations*” – “*Governance*”

– “Annual Shareholders’ Meeting” –“2016”), and on the authorised storage mechanism accessible on the website www.lininfo.it at least 21 days before the date of the Shareholders’ Meeting (therefore, by 24 March 2016).

3. Changes to the Articles of Association

The operation concerning the Capital Increase described above will entail the addition of a new article - “**Art. 5-quater**” under Chapter II of the Articles of Association. The text of this new article is given in the right hand side of the table below.

Current Text	Proposed Text
<p data-bbox="272 757 735 831">Chapter II - COMPANY SHARE CAPITAL - SHARES</p> <p data-bbox="333 869 675 902">Newly introduced article</p>	<p data-bbox="858 757 1321 831">Chapter II - COMPANY SHARE CAPITAL - SHARES</p> <p data-bbox="999 869 1181 902">Art. 5-quater</p> <p data-bbox="807 943 1369 1973">“On 14 April 2016 the Shareholders’ Meeting resolved to increase the share capital by payment, in one or more tranches, for a maximum nominal amount 3,000,000 euros (three million euros zero cents), with the issue of a maximum of 2,000,000 (two million) ordinary shares with a par value of 1.50 euros (one euro fifty cents) each, with the same characteristics as the ordinary shares in circulation at the date of issue, with the exclusion of pre-emption rights pursuant to Article 2441, paragraphs 4, second subparagraph, 6 and 8 of the Italian Civil Code, Article 158 of Legislative Decree No. 58 of 24 February 1998 and subsequent amendments and additions, and Article 5-bis, paragraph 3 of the Articles of Association. The capital increase is for the “2016-2022 Stock Option Plan” reserved for the Company’s Chief Executive Officer and for the Top Management (as defined in the “Rules for the 2016-2022 Stock Option Plan”).</p> <p data-bbox="807 1980 1369 2013">The Board of Directors has the power to</p>

Current Text	Proposed Text
	<p>assign the related subscription rights according to criteria and in the manner provided in the “<i>Rules for the 2016-2022 Stock Option Plan</i>”.</p> <p>The capital increase can be subscribed based on the rights as assigned by 31st December 2022 (twenty twenty-two) and, if not fully subscribed by that date, will be determined as the lower amount resulting from the actual subscriptions.</p> <p>The issue price of the shares, including any premium, when exercising the option rights assigned to the Beneficiaries of the Plan, will be determined by the Company’s Board of Directors at the price per share equal to their market value, corresponding to the arithmetical average of the official prices recorded for the Company’s shares on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. in the sixty calendar days before the date the “<i>2016-2022 Stock Option Plan</i>” and its Rules were approved by the Meeting of the Company’s Shareholders. The shares will have regular dividend rights and, therefore, the rights related to them will belong to each beneficiary from the moment in which the beneficiary becomes the owner of the shares.</p> <p>In any case, the assigned options can be exercised by the beneficiaries within the times and in the manner and under the conditions envisaged in the “<i>Rules for the 2016-2022 Stock Option Plan</i>”.</p> <p>The Board of Directors is granted the power to implement this resolution, including the power to: (i) determine when to assign the subscription rights, taking into account the period in which these can be exercised; (ii) upon the proposal of the</p>

Current Text	Proposed Text
	Company's Chief Executive Officer, identify by name the individual beneficiaries belonging to the Top Management and to determine the quantity of subscription rights to assign to each one; (iii) with the support of the Remuneration and Appointments Committee and having heard the Board of Statutory Auditors, determine the quantity of subscription rights to assign to the Company's Chief Executive Officer; and (iv) issue the new shares and amend the Articles of Association with the amount of share capital resulting from the subscription operations."

The proposed amendment to the Articles of Association does not assign the withdrawal right pursuant to Art. 2437 of the Civil Code to those shareholders who did not participate in these deliberations.

4. Proposed resolution

Dear Shareholders,

For the reasons given above, the Board of Directors proposes that you adopt the following resolution:

“The Extraordinary Meeting of the Shareholders of De’ Longhi S.p.A., validly constituted and entitled to pass resolutions under extraordinary session:

- based on the Report by the Board of Directors, drafted pursuant to Art. 125-ter of Legislative Decree No. 58 of 24 February 1998, as subsequently amended, and Art. 72 of Consob Resolution No. 11971 of 14 May 1999, as subsequently amended;

- in view of the report issued by the independent auditors Reconta Ernst & Young S.p.A. containing the opinion given pursuant to Art. 2441, para. 4, subparagraph 2 of the Civil Code and Art. 158, para. 1, of Legislative Decree No. 58 of 24 February 1998, as subsequently amended;

- acknowledging that the share capital currently subscribed of 224,250,000 euros is fully paid up, as confirmed by the Statutory Auditors,

RESOLVES

1. to increase the share capital by payment, in one or more tranches, for a maximum nominal amount 3,000,000 euros (three million euros zero cents), with the issue of a maximum of 2,000,000 (two million) ordinary shares with a par value of 1.50 euros (one euro fifty cents) each, with the same characteristics as the ordinary shares in circulation at the date of issue, with the exclusion of pre-emption rights pursuant to Article 2441, paragraphs 4, second subparagraph, 6 and 8 of the Italian Civil Code, Article 158 of Legislative Decree No. 58 of 24 February 1998 and subsequent amendments and additions, and Article 5-bis, paragraph 3 of the Articles of Association. The capital increase is for the “2016-2022 Stock Option Plan” reserved for the Company’s Chief Executive Officer and for the Top Management (as defined in the “Rules for the 2016-2022 Stock Option Plan”).

The Board of Directors has the power to assign the related subscription rights according to criteria and in the manner provided in the “Rules for the 2016-2022 Stock Option Plan”.

The capital increase can be subscribed based on the rights as assigned by 31st December 2022 (twenty twenty-two) and, if not fully subscribed by that date, will be determined as the lower amount resulting from the actual subscriptions.

The issue price of the shares, including any premium, when exercising the option rights assigned to the Beneficiaries of the Plan, will be determined by the Company’s Board of Directors at the price per share equal to their market value, corresponding to the arithmetical average of the official prices recorded for the Company’s shares on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. in the sixty calendar days before the date the “2016-2022 Stock Option Plan” and its Rules were approved by the Meeting of the Company’s Shareholders. The shares will have regular dividend rights and, therefore, the rights related to them will belong to each beneficiary from the moment in which the beneficiary becomes the owner of the shares.

In any case, the assigned options can be exercised by the beneficiaries within the times and in the manner and under the conditions envisaged in the “Rules for the 2016-2022 Stock Option Plan”.

The Board of Directors is granted the power to implement this resolution, including the power to: (i) determine when to assign the subscription rights, taking into account the period in which these can be exercised; (ii) upon the proposal of the Company’s Chief Executive Officer, identify by name the individual beneficiaries belonging to the Top Management and to determine the quantity of subscription rights to assign to each one; (iii) with the support of the Remuneration and Appointments Committee and having heard the Board of Statutory Auditors, determine the quantity of subscription rights to

assign to the Company's Chief Executive Officer; and (iv) issue the new shares and amend the Articles of Association with the amount of share capital resulting from the subscription operations."

2. As a result of the resolution in point 1 above, to introduce a new article "Art. 5-*quater*" in Chapter II of the Article of Association, worded as follows:

"Art. 5-*quater* - On 14 April 2016 the Shareholders' Meeting resolved to increase the share capital by payment, in one or more tranches, for a maximum nominal amount 3,000,000 euros (three million euros zero cents), with the issue of a maximum of 2,000,000 (two million) ordinary shares with a par value of 1.50 euros (one euro fifty cents) each, with the same characteristics as the ordinary shares in circulation at the date of issue, with the exclusion of pre-emption rights pursuant to Article 2441, paragraphs 4, second subparagraph, 6 and 8 of the Italian Civil Code, Article 158 of Legislative Decree No. 58 of 24 February 1998 and subsequent amendments and additions, and Article 5-bis, paragraph 3 of the Articles of Association. The capital increase is for the "2016-2022 Stock Option Plan" reserved for the Company's Chief Executive Officer and for the Top Management (as defined in the "Rules for the 2016-2022 Stock Option Plan").

The Board of Directors has the power to assign the related subscription rights according to criteria and in the manner provided in the "Rules for the 2016-2022 Stock Option Plan".

The capital increase can be subscribed based on the rights as assigned by 31st December 2022 (twenty twenty-two) and, if not fully subscribed by that date, will be determined as the lower amount resulting from the actual subscriptions.

The issue price of the shares, including any premium, when exercising the option rights assigned to the Beneficiaries of the Plan, will be determined by the Company's Board of Directors at the price per share equal to their market value, corresponding to the arithmetical average of the official prices recorded for the Company's shares on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A. in the sixty calendar days before the date the "2016-2022 Stock Option Plan" and its Rules were approved by the Meeting of the Company's Shareholders. The shares will have regular dividend rights and, therefore, the rights related to them will belong to each beneficiary from the moment in which the beneficiary becomes the owner of the shares.

In any case, the assigned options can be exercised by the beneficiaries within the times and in the manner and under the conditions envisaged in the "Rules for the 2016-2022 Stock Option Plan".

The Board of Directors is granted the power to implement this resolution, including the power to: (i) determine when to assign the subscription rights, taking into account the period in which these can be exercised; (ii) upon the proposal of the Company's Chief Executive Officer, identify by name the individual beneficiaries belonging to the Top Management and to determine the quantity of subscription rights to assign to each one;

(iii) with the support of the Remuneration and Appointments Committee and having heard the Board of Statutory Auditors, determine the quantity of subscription rights to assign to the Company's Chief Executive Officer; and (iv) issue the new shares and amend the Articles of Association with the amount of share capital resulting from the subscription operations.”

This Report will be filed and made available to the public at the Company's registered office and published on its website www.delonghigroup.com (section “*Investor Relations*” – “*Governance*” – “*Annual Shareholders’ Meeting*” – “*2016*”), and on the authorised storage mechanism called IINFO accessible on the website www.linfo.it at least 21 days before the date of the Shareholders’ Meeting (therefore, by 24 March 2016).

Treviso, 19 February 2016

For the Board of Directors

The Chairman

Giuseppe de’ Longhi