



REPORT
ON CORPORATE GOVERNANCE
AND THE OWNERSHIP STRUCTURE
pursuant to Article 123-*bis* of the TUF

(traditional management and control model)

DE'LONGHI S.p.A.

www.delonghigroup.com

Financial year 1st January – 31st December 2014

Approved by the Company's Board of Directors on 3rd March 2015

DE' LONGHI S.P.A. – REGISTERED OFFICE IN VIA LUDOVICO SEITZ, 47 – 31100
TREVISO – SHARE CAPITAL 224,250,000 EUROS FULLY PAID UP – TAX
IDENTIFICATION CODE AND REGISTRATION NUMBER WITH THE COMPANY REGISTER
OF TREVISO 11570840154 – VAT NUMBER 03162730265

Dear Shareholders,

In accordance with the applicable provisions of law and regulation, the instructions accompanying Borsa Italiana's Market Regulation and, taking into account the fifth edition of the "*Format for the report on corporate governance and the ownership structure*" published by Borsa Italiana (Italian Stock Exchange) in January 2015, the Board of Directors of De' Longhi S.p.A. hereby provides full information on its corporate governance system, also with reference to the principles of the Corporate Governance Code for Listed Companies (July 2014 edition), and its ownership structure in accordance with the provisions of Article 123-*bis* of the TUF, as defined below.

With regard to information relating to the Compensation Committee and directors' compensation, it should be noted that such information has been included in the "*De'Longhi S.p.A. Annual Report on Compensation 2015*", drafted in accordance with Articles 123-*ter* of the TUF and 84-*quater* of the Issuers' Regulation and in accordance with the recommendations of Article 6 of the Code, available on the Company's website www.delonghigroup.com, in the section "*Investor Relations*" – "*Governance*" – "*Corporate Documentation*" – "*2015*" and made available to the public by other means provided for by law.

This Report was approved by the Company's Board of Directors at the meeting held on 3rd March 2015 and was published on the Company's website www.delonghigroup.com, in the section "*Investor Relations*" – "*Governance*" – "*Annual Shareholders' Meeting*" – "*2015*", under terms established by law.

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GLOSSARY

Annual Shareholders' Meeting: the meeting of De' Longhi's shareholders.

Code/Corporate Governance Code: the Corporate Governance Code for Listed Companies approved in July 2014 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 16th March 1942.

Board of Auditors/Board of Statutory Auditors: De' Longhi's board of statutory auditors.

Board/Board of Directors: De' Longhi's Board of Directors.

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

Financial Year: the financial year 2014.

Group or Gruppo De' Longhi: De' Longhi and its subsidiaries pursuant to Art. 93 of the TUF and Art. 2359 of the Civil Code.

OPC Procedure: the "*Procedure on transactions with related parties of Gruppo De' Longhi S.p.A.*" prepared in accordance with Consob Regulation no. 17221/2010, as defined below, approved by the Company's Board of Directors on 10th November 2010 and updated by the Board, to the version currently in force, on 12th November 2013.

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

Market Regulation: Consob Regulation no. 16191 issued in 2007 (as later amended) on financial markets.

Consob Regulation no. 17221/10: Regulation no. 17221 issued by Consob in 2010 (as later amended) on transactions with related parties.

Report: this report on corporate governance and the ownership structure that De' Longhi is required to draft pursuant to Art. 123-*bis* TUF.

TUF: Legislative Decree no. 58 of 24th February 1998 (Consolidated Finance Law).

1. ISSUER'S PROFILE

THE COMPANY'S CORPORATE GOVERNANCE SYSTEM.

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 Compensation and Appointment 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 Gruppo De' Longhi, 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 "*Guidelines on particularly significant transactions*" in the updated version approved by the Board of Directors in the meeting held on 12th November 2010, which assign the responsibility of examining and approving transactions having a significant economic, capital and financial impact within Gruppo De' Longhi to the Board), published on the website www.delonghigroup.com, in the section "*Investor Relations*" – "*Governance*" – "*Corporate Documentation*" – "*2010*".

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 Gruppo De' Longhi' in general, and promoting the reliability of its products globally and, consequently, the brand name.

• ANNUAL SHAREHOLDERS' MEETING.

The responsibilities, role and functions of the Annual Shareholders' Meeting are set by law and by the Articles of Association (the current version, in force since 7th January 2013, is published on the Company's website www.delonghigroup.com, in the section "*Investor Relations*" – "*Governance*" – "*Corporate Documentation*" – "*2013*"), to which comprehensive reference is made.

It is also noted that the Annual Shareholders' Meeting of the Company adopted the "*Regulation for the Annual Shareholders' Meetings of De' Longhi S.p.A.*" on 18th April 2001. The Regulation governs the orderly and functional conduct of the Company's ordinary and extraordinary Shareholders' Meeting and is published on the website www.delonghigroup.com, in the section "*Investor Relations*" – "*Governance*" – "*Annual Shareholders' Meeting*".

• BOARD OF DIRECTORS

The Board of Directors is composed of a number of members between three and thirteen, as determined by the Shareholders' Meeting. The Board elects a Chairperson from among its members – if the Shareholders' Meeting has not already done so – and, if necessary, also a Vice-Chairperson. The Board of Directors currently in office is composed of 10 members.

According to Art. 15 of the Articles of Association, the power to legally represent the company and act as corporate signatory, with all related powers including those needed to act in any judicial proceedings and the power to appoint proxies or attorneys to appear in court also under general mandate, belong to the Chairperson of the Board of Directors and, if nominated, the Vice-Chairperson and the directors who have been granted specific powers, within the limits of the powers delegated to them by the Board of Directors.

As explained in more detail below, the Board of Directors is vested with the broadest powers for the Company's ordinary and extraordinary management (excluding only those the law reserves for the Shareholders' Meeting), including the power to approve mergers in the cases provided for by Art. 2505 and 2505-*bis* of the Civil Code, the creation or closure of secondary offices, capital reduction 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 COMMITTEES

The Committees are internal bodies of the Board of Directors and have the role of investigating, consulting and making recommendations, the goal of which is to improve the Board's functioning and ability to manage the Company strategically.

In accordance with the provisions of the Corporate Governance Code, the Control, Risks and Corporate Governance Committee and the Compensation and Appointments Committee have been established within the Board of Directors. It was not considered necessary to establish an Executive Committee.

In accordance with Consob Regulation no. 17221/10 and the OPC Procedure, the Independent Committee was also set up and attributed the role and appropriate powers that Consob Regulation no. 17221/10 attributes to a committee composed exclusively of independent directors with regard to transactions with related parties of greater importance.

It should be noted that, in accordance with Consob Regulation no. 17221/10, the Control and Risks Committee and the Independent Committee receive specific information flows regarding transactions with related parties and they have, each to the extent of its powers (associated with the importance of the transactions), the duty (among others) to issue specific (binding or non-binding) opinions on such transactions.

• BOARD OF STATUTORY AUDITORS

This board is the Company's control body and is composed of three standing statutory auditors and two alternate statutory auditors. The Board of Auditors is responsible for ensuring that the Company, in all its operations, complies with the laws and the Articles of Association, observes the principles of sound management and gives adequate instructions to its internal bodies and its subsidiaries. The Board of Statutory Auditors must also monitor the adequacy of the Company's organisational structure, its administrative and internal control and accounting systems and the reliability of the latter to correctly represent management actions by carrying out all the necessary checks.

The Board of Auditors also monitors the effective implementation of the corporate governance rules provided by the Corporate Governance Codes drafted by the companies managing regulated markets or by trade associations to which the Company states it complies with, through disclosure to the public, and monitors the adequacy of the instructions given by the Company to its subsidiaries so that the latter can provide the Company with all the necessary information in order to comply with the disclosure obligations established by law.

In accordance with Legislative Decree no. 39 of 27th January 2010, the Board of Statutory Auditors monitors in particular the effectiveness of the internal control systems, internal audit, if applicable, and the legal audit of the annual accounts and consolidated accounts and the independence of the external legal auditor or auditing firm, in particular with regard to the provision of non.-audit services to the Issuer.

2. INFORMATION ON THE OWNERSHIP STRUCTURE (PURSUANT TO ART. 123-BIS, PARA. 1, TUF).

as of 3/3/2015

Information on the ownership structure, prior to the date this Report was approved, is provided below in accordance with the provisions in force contained in Art. 123-bis, para. 1 of the TUF.

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 current share capital, fully subscribed and paid up, is equal to € 224,250,000.00 (two hundred and twenty-four million, two hundred and fifty thousand euros, zero cents) divided into 149,500,000.00 (one hundred and forty-nine million, five hundred thousand) ordinary shares each with a par value of €1.50 (one euro fifty cents). The share capital therefore consists entirely of ordinary shares.

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

On the date this Report was approved, there were no share-based incentive plans that involved share capital increases, even free increases.

Please refer to Table 1 in the Appendix to this Report (page 63).

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 Shareholders and the updates available on the date this Report was approved, including any communications received by the Company in accordance with Art. 120 of the TUF, as well as any other information available, the people who are, directly or indirectly, holders of shares greater than 2% of the subscribed and paid up share capital, are those indicated in Table 1 in the Appendix to this Report (page 64).

D) SHARES GRANTING SPECIAL RIGHTS (pursuant to Art. 123-bis, para. 1(d), TUF)

The Company has not issued shares granting special controlling rights, nor do the Articles of Association provide special powers for some shareholders or holders of particular categories of shares.

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 below.

G) SHAREHOLDER AGREEMENTS (pursuant to Art. 123-bis, para. 1(g), TUF)

On the date this Report was approved, the Company was 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 Art. 104-bis para. 1)

Significant agreements containing contractual clauses relating to changes in control of the Company include the agreement behind the bond placed with US institutional investors (so-called US Private Placement) and the medium-long term bank financing contract, which, in the event that the Issuer's current majority shareholder decreases its shareholding to below 51%, provide for the lender being entitled to request early repayment (please see the Notes to the Financial Statements for further details on financial obligations and the remaining amount of the above financing).

The Company's 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 (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)

As of the date the Report was approved, 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 15th April 2014, authorised - subject to the revocation of the shareholders' meeting resolution dated 23rd April 2013 - the Board of Directors, in accordance with Article 2357 at seq. of the Civil Code, to buy back its own shares until the maximum amount of 28,000,000 (twenty-eight million) is reached for a period of 18 months from the date of the resolution and, therefore, until 15th October 2015. 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 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 15th April 2014; and in any case ensuring that Shareholders are treated equally and all applicable regulations, including EC regulations, are observed. The purchase price of each repurchased share must be, inclusive of ancillary costs of the purchase, no less than 20% (twenty percent), at a minimum, and no greater than 10% (ten percent), 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 must 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% (ninety-five percent) 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 De' Longhi Group, and, in general, while executing any plan adopted under Art. 114-*bis* of the T.U.F., and programmes for issuing bonus shares to Shareholders.

On 31st December 2014, 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 S.p.A. 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 Articles 2497 et seq. of the Civil Code and it performs management and coordination activities on its own subsidiaries.

In compliance with the principles of Corporate Governance - and as described below in better detail - the operations of particular strategic, economic, equity and financial importance to Gruppo De' Longhi S.p.A. must be examined and approved exclusively by the Board of Directors of the Issuer De' Longhi S.p.A., consisting of - as last verified on 3rd March 2015 - four (non-executive and) independent directors according to the criteria set by Art. 3 of the Corporate Governance Code as adopted by the Company (see section 4.6 for more detail on this) and those set forth by the combined provisions of Art. 147-*ter*, para. 4 and Art. 148, para. 3 of the TUF.

It is considered 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.

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 *“Annual Report on Compensation of De’ Longhi S.p.A.”* drafted in accordance with Art. 123-ter of the TUF and Art. 84-quater of the Issuers' Regulation and in compliance with Annex 3, schema 7-bis of the same Issuers' Regulation, published on the Issuer's website www.delonghigroup.com, in the section *“Investor Relations” – “Governance” – “Corporate Documentation”- “2015”*;
- 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 of the Report on the Board of Directors (section 4.1, page 13).

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

The Company's Board of Directors has complied with the Corporate Governance Code (available to the public on the website of the Corporate Governance Committee on the page <http://www.borsaitaliana.it/comitato-corporate-governance/codice/2014clean.pdf>) since 1st March 2007 by adopting a Framework Resolution and a series of subsequent resolutions aimed at the practical implementation of the criteria and principles contained therein. In order to bring the Company's corporate governance in line with the new recommendations and changes made to the Code in December 2011, at the meeting held on 18th December 2012 the Board of Directors passed a new Framework Resolution which reiterated its compliance with the Corporate Governance Code (with some exceptions that will be highlighted in this Report, indicating the reasons for such exceptions and any other information specified by the Corporate Governance Code), implementing the new recommendations and confirming the resolutions on corporate governance passed previously. When the amended Corporate Governance Code was issued in July 2014, the Board of Directors - in office since April 2013 - adopted (at the meeting held on 19th February 2015) the changes introduced by the Corporate Governance Code, consequently amending the framework resolution adopted on 18th December 2012 (hereinafter, the framework resolution of 18th December 2012 as modified by resolution of 19th February 2015, the **"Framework Resolution"**).

Before moving on to describe the Issuer's corporate governance structure, it should be noted that, with regard to the 2014 financial year, at the meeting held on 11th November 2014 the

Board of Directors of the parent company De' Longhi confirmed that the following companies had been identified as "*subsidiaries with strategic importance*" of Gruppo De' Longhi: the Italian companies De' Longhi Capital Services S.r.l. and De' Longhi Appliances S.r.l., the Chinese company De' Longhi-Kenwood Appliances (Dongguan) Co. Ltd, the English company Kenwood Ltd, the German company DL Deutschland GmbH, the Australian company De' Longhi Australia PTY Ltd and the Russian company De' Longhi LLC and resolved to also include De' Longhi America and De' Longhi Kenwood MEIA FZW, companies with commercial importance within the Group, within this scope, noting that, in the opinion of the Board, the foreign companies are not subject to any provisions of foreign law that may affect the Company's governance structure).

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 18th 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. Law 120 also provides for a transitional arrangement which, in place of having the higher quota of at least one third which will be applied under the standard arrangement, allows the quota reserved for the less represented gender to be equal to at least one fifth of the directors and auditors elected, for the first term of office of the three for the implementation of the new provisions. The Board of Directors of De' Longhi S.p.A. decided to avail itself of this transitional arrangement, as shown in the new Article 20 of the Articles of Association, which was applied during the appointment of the board of directors resolved by the Shareholders' Meeting held on 23rd April 2013.

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. 18775 dated 29.01.2014, 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 both genders are represented by at least one third (rounded up to the nearest whole number) - or one fifth during the transitional period - of candidates.

The Board of Directors is elected as follows:

- a) all directors to be elected except one are taken from the list which obtained the greatest number of votes cast by the Shareholders, in the sequential order of candidates as they appear on the list;
- 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.

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 (as in the case, referred to above, of adapting to Law 120).

SUCCESSION PLANS

Under the Framework Resolution and in particular the meeting held on 19th February 2015, 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 both executive directors 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), TUF)

The composition of the Board of Directors in office at the date this Report was approved is shown in Table 2 in the annexes to this document (page 64). This Board of Directors - which will expire at the Shareholders' Meeting to approve the financial statements as of 31st December 2015 - was appointed by the Shareholders' Meeting held on 23rd April 2013, which set the total number of directors at 10.

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) Alberto Clò; (3) Fabio de' Longhi; (4) Silvia de' Longhi; (5) Stefania Petruccioli; (6) Carlo Garavaglia; (7) Cristina Pagni; (8) Renato Corrada; (9) Giorgio Sandri; (10) Silvio Sartori.

Given a voting capital represented by 119,369,323 ordinary shares equal to 79.8457% of the share capital, all the above directors received 117,274,247 votes in favour equal to 98.2449% 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 18th April 2001, was born in Treviso, Italy on 24th 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 Chairman of the Board of Directors of DeLclima S.p.A., and of other companies in Gruppo De'Longhi and Gruppo DeLclima.

2. **ALBERTO CLÒ**, non-executive and independent director, in office since 28th April 2004, appointed Lead Independent Director on 21st June 2007, was born in Bologna, Italy on 26th 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 1996. 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 and Italcementi. Currently, he is independent director of Atlantia and Snam as well as De' Longhi.

3. **FABIO DE' LONGHI**, Vice-Chairman and CEO, member of the Board of Directors since the Company was listed and, more specifically, since 18th April 2001, was born in Treviso, Italy on 24th 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, and the position of director in the listed company DeLclima S.p.A.

4. **SILVIA DE' LONGHI**, non-executive director, in office since 12th July 2007, was born on 8th 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. and the listed company DeLclima S.p.A. After holding positions in the Marketing and Communication Department of Kenwood based in Havant (UK) for 4 years, she is now involved in organisation development in the Human Resources department of Gruppo De' Longhi.

5. **STEFANIA PETRUCCIOLI**, non-executive and independent director, in office since 23rd April 2013, was born in Turin, Italy on 5th July 1967. She graduated in Business Economics with honours from the Bocconi University in Milan and has been a member of the Association of Chartered Accountants in Milan since 1996. 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 18th April 2001 to 15th July 2009 and since 21st April 2010, was born in Legnano, Italy on 15th 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 and is member of the Supervisory Board and the Internal Control Committee of UBI Banca S.c.r.l., member and chairman of the Compensation Committee of DeLclima S.p.A. and director in unlisted companies such as Cordifin S.p.A., Eunomia Centro Medico S.p.A. and director of O.r.i. Martin S.p.A.; Chairman of the Board of Statutory Auditors of Comitalia Compagnia Fiduciaria S.p.A. and auditor in Gebau S.A.P.A.

7. **CRISTINA PAGNI**, non-executive and independent director, in office since 23rd April 2013, was born in Pisa, Italy on 22nd 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, since 2005 she has worked as *of counsel* in the Litigation and Arbitration department of Simmons & Simmons.

8. **RENATO CORRADA**, non-executive and independent director, in office since 28th April 2004, was born in Milan, Italy on 23rd 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 has held important positions in the Group's companies; today he is a member of the Board of Directors of many companies in the Group. He is also a member of the Board of the San Carlo College in Milan and of the Advisory Committee of the "Scarlati" Mutual Real Estate Investment Fund. 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 is a director.

9. **GIORGIO SANDRI**, non-executive director, in office since the Company was listed and more specifically since 18th April 2001, was born in Udine, Italy on 19th 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 products in Italy and abroad. He has worked on Gruppo De' Longhi'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 partner and on the Board of Gruppo Armando Testa, leading Italian Communication Agencies.

10. **SILVIO SARTORI**, non-executive director, in office from 31st May 2002 to 27th June 2005 and from 12th November 2005 to date, was born in Belluno, Italy on 11th 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 Gruppo De' Longhi, 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). He has been the Chairman of its Board of Directors since 1995.

It should be noted from the outset that the Company's 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 3rd March 2015 and that the Board of Statutory Auditors has noted that such criteria have been correctly implemented.

The composition of the Board of Directors and the relevant information for each director appointed member of the Compensation and Appointment Committee and/or member of the Control and Risks Committee and/or member of the Independent Committee are given in Table 2 in the annexes to this Report (page 64).

It should also be noted that there have been no changes in the composition of the Board of Directors since the end of the Financial Year.

MAXIMUM NUMBER OF POSITIONS HELD IN OTHER COMPANIES

With regard to criterion 1.C.3. of the 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 recently decided, in the meeting held on 19th February 2015 to implement the new recommendations of the Code, not to adopt said criterion. The Board 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 Code, the office of director or statutory auditor currently held by some 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 are shown below.

Name and surname	Company	Office held
GIUSEPPE DE' LONGHI	DeLclima S.p.A. (<i>listed</i>)	Chairman of the Board of Directors
ALBERTO CLÒ	Atlantia S.p.A. (<i>listed</i>) Snam (<i>listed</i>)	Director Director

Name and surname	Company	Office held
RENATO CORRADA	Fininvest Sviluppo Immobiliari S.p.A. (<i>real estate</i>)	Chairman of the Board of Directors
	Edilizia Alta Italia S.p.A. (<i>real estate</i>)	Sole Director
	"SCARLATTI", a closed-end and reserved Mutual Real Estate Investment Fund (<i>financial</i>)	Member of the Executive Committee
	Collegio San Carlo S.r.l. (<i>significant</i>)	Director
FABIO DE' LONGHI	DeLclima S.p.A. (<i>listed</i>)	Director
SILVIA DE' LONGHI	DeLclima S.p.A. (<i>listed</i>)	Director
CARLO GARAVAGLIA	Eunomia S.p.A. (<i>significant</i>)	Director
	Cordifin S.p.A. (<i>financial</i>)	Director
	DeLclima S.p.A. (<i>listed</i>)	Director
	UBI Banca S.c.r.l. (<i>listed</i>)	Member of the Supervisory Board and of the Internal Control Committee
	Ori Martin S.p.a. (<i>significant</i>)	Director
	Comitalia S.p.a. (<i>trust</i>)	Chairman of the Board of Statutory
	Gebau di Tosolini & C. S.A.P.A. (<i>financial</i>)	Auditors Standing auditor
GIORGIO SANDRI	Armando Testa S.p.A. (<i>significant</i>)	Director
SILVIO SARTORI	Climaveneta (<i>significant</i>)	Chairman of the

Name and surname	Company	Office held
		Board of Directors
STEFANIA	Cairo Communication S.p.A. (<i>significant</i>)	Director
PETRUCCIOLI		

INDUCTION PROGRAMME

To implement criterion 2.C.2 of the 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 of the business sector where the issuer operates, of the corporate dynamics and the relevant evolutions), it is noted that on 11th June 2014, the whole Board of Directors and the Board of Statutory Auditors took part in the opening day of an international event that the Company's Commercial Department organises each year and which involves the marketing and business sectors related to all the subsidiaries of Gruppo De'Longhi. During the plenary meeting with all participants, the Directors and the Auditors had the opportunity to benefit from reports by the key business figures in the sectors related to the creation and marketing of products covered by the Group's businesses. In particular, reports were made by, among others, the Group's Director of Planning and Control, the Group's Commercial Director, the Group's Trade Marketing & Communication Director, and the Heads of Trade Marketing & Communication of the individual Group brands (De'Longhi, Braun and Kenwood).

Again in accordance with the recommendations of the Corporate Governance Code, the meetings of the Board of Directors, held during the 2014 financial year, were also attended by the managers in charge of the relevant company departments for the items on the agenda, so that they 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)

As already highlighted in the Reports on Corporate Governance and Ownership Structure related to previous financial years, the Board of Directors of De'Longhi S.p.A. plays a central role in determining the Issuer's and the Group's strategic objectives.

During the Financial Year, the Board of Directors met 5 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 hours.

The directors attended the meetings regularly and consistently, and more specifically: Giuseppe de' Longhi 100%; Fabio de' Longhi 100%; Alberto Clò 100%; Renato Corrada 90%; Silvia de' Longhi 100%; Carlo Garavaglia 100%; Stefania Petruccioli 100%; Giorgio Sandri 90%; Silvio Sartori 100%; Cristina Pagni 100%.

As mentioned above, non-Board members have attended the Board meetings (including the Manager responsible for drafting the company accounts and the Group's Legal and Corporate Affairs Officer, namely the Chief of Legal and Corporate Affairs, who were present at all the meetings held during the financial year), as guests with regard to specific matters being discussed by the Board of Directors.

The items on the agenda are usually described - also using documentation distributed beforehand within the period set by the Board of Directors as per the Corporate Governance Code's recommendation, as described later, and filed among the Company's records - by the CEO, often with the participation and assistance of the managers involved in the matter, or by the Chairperson 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, with acknowledgement of receipt and reading, by the Corporate Affairs officer, 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., under the Framework Resolution, 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 after this decision.

The Company's Articles of Association (Art. 10) 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;

- delegating 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.

The Company's Articles of Association (Art. 5-*ter*) also give 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, implemented under the framework resolution, 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 Code, and, with the assistance of the Control and Risks Committee, those indicated in criterion 7.C.1. of the 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;
- 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 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;
- h) whenever deemed appropriate or under the circumstances referred to in criterion 2.C.3. of the 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 Chairperson 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 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 as at item g) above;
- m) adopt, upon proposal of the CEO or the chairperson 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, Risks and Corporate Governance Committee, to:

- a) defines and updates 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 determines 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.

At the same meeting held on 18th December 2012, the Board was assigned, in relation to Art. 6 of the Corporate Governance Code, the powers to:

- a) examine the proposals of the Compensation and Appointment Committee and, having consulted the Board of Statutory Auditors, determining the Chairperson's and Vice-Chairperson'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 Compensation and Appointment Committee, the Company's compensation policy;
- c) approve the Compensation Report, in accordance with Art. 123-*ter* of the TUF;
- d) prepare, with the assistance of the Compensation and Appointment 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 Compensation Committee;

e) prepare, with the assistance of the Compensation and Appointment Committee, the medium-long term cash incentive plans and ensures their implementation using the Compensation Committee;

f) set up a Compensation and Appointment 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:

g) defines the objectives and approves the company's results and the performance plans connected to the determination of directors' variable compensation, where required;

h) approves the general criteria for the compensation of Managers with Strategic Responsibilities;

i) defines, 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 compensation policies and after the favourable opinion of the Control and Risks Committee and having heard the Board of Statutory Auditors.

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

a) approved, at the meeting held on 19th February 2015, the Group's three-year business and strategy plan 2015-2017 and checked the results of the implementation of the Group's three-year plan 2012-2014, approved by the Board of Directors of the Company at the meeting held on 28th August 2012;

b) defined, most recently in the meeting held on 3rd March 2015, 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 (as we shall see below) - 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 (at the meetings held on 10th March 2014 and 27th August 2014 respectively).

With regard to subsidiaries with strategic importance, it should be noted that the Board of Directors, based on the identification criteria laid down in Art. 11.3 of the Company's "*Guidelines for the Internal Control System of Gruppo De' Longhi*" and more specifically:

(i) qualitative criteria, concerning 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, confirmed, in the meeting held on 11th November 2014, the following companies as "*subsidiaries with strategic importance*" of Gruppo De' Longhi: the Italian companies De' Longhi Capital Services S.r.l. and De' Longhi Appliances S.r.l., and the foreign companies - De' Longhi - Kenwood Appliances (Dong Guan) Co.Ltd (China), Kenwood Ltd, De' Longhi Deutschland GmbH, De' Longhi Australia PTY Ltd and De' Longhi LLC (Russia), and also resolved to include De' Longhi America and De' Longhi Kenwood MEIA FZE, companies with commercial importance within the Group, within this scope and on the basis of the above criteria;

d) adopted, on 20th February 2006, the "*Guidelines and identification criteria for significant transactions and, in particular, transactions with related parties*" ("*Guidelines*"), 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 Guidelines, also with related parties), including through subsidiaries.

After Consob Regulation no. 17221/10 entered into force, the text of the "*Guidelines*" was updated to take into account the fact that the regulation on transactions with related parties has been included, since 1st January 2011, in the related OPC Procedure adopted by the Board of Directors in the meeting held on 12th 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 Consob in Regulation no. 17221/10, and has therefore approved the new text of the document which is now called "*Guidelines on particularly significant transactions*";

e) adopted, on 12th November 2010, the OPC Procedure in compliance with the provisions of Consob Regulation no. 17221/10, identifying the transactions of greater importance with related parties in accordance with the relevance thresholds provided in Annex 3 to Consob Regulation no. 17221/10. 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 12th 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 Consob Regulation no. 17221/10 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 3rd March 2015, 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 (as part of the Framework Resolution adopted) 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 same meeting held on 3rd March 2015 - the assessment on the size, composition and functioning of the Board itself and its committees (so-called self assessment). 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 Gruppo De' Longhi 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, which has drafted a summary document which is then sent to the Directors. At the meeting held on 3rd March 2015, the Board of Directors examined and discussed the results of the self-assessment, on the basis of which it expressed its positive assessment on the functioning of the Board and its Committees and deemed the information and documentation provided before the meetings as adequate, complete and timely. It acknowledged that there has been continued improvement in the internal processes relating to them compared to the previous financial year and also deemed the information received from the delegated bodies during the board meetings as appropriate and satisfactory, both with regard to general management performance and transactions with related parties.

During the meeting held on 3rd March 2015, 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 1st April 2006, which was then updated by the Board in the meeting held on 18th December 2012, also in consideration of the subsequent legislative changes;

i) complied with the disclosure requirements resulting from the resolution adopted, pursuant to Art. 3 of Consob Resolution no. 18079 dated 20th 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 18th 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.

The Shareholders' Meeting, upon the appointment of the administrative body currently in office, has authorised, in accordance with Art. 2390 Civil Code, the appointed directors to take on positions and conduct business in competing companies. On this point it should be noted that Art. 13-*ter* of the Articles of Association now expressly provides that the members of the Board of Directors are not subject to the non-competition obligation under Art. 2390 Civil Code.

Under the Framework Resolution, the Board of Directors stated that it did not adopt criterion 1.C.4. of the Code, deeming that the law on conflicts of interests and the provisions contained in the "*Procedure for transactions with related parties of Gruppo De' Longhi S.p.A.*" 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 Chairperson,
- the Vice-Chairperson,
- the Chief Executive Officers, which for the Company coincide with the Chairperson and the Vice-Chairperson.

The powers attributed by the Board of Directors to the Chairman and the CEO (and Vice-Chairman) on the date of their appointment, which took place on 23rd April 2013, 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 12th September 2003, and last amended on 12th May 2014;
- operations falling under the exclusive responsibility of the Board of Directors in accordance with the Guidelines.

● **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 12th September 2003, and last amended on 12th May 2014;
- operations falling under the exclusive responsibility of the Board of Directors in accordance with the Guidelines.

CHAIRPERSON OF THE BOARD OF DIRECTORS

The Chairman of the Board of Directors is not the person chiefly responsible for managing the Issuer (CEO), instead it is the CEO 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 (described in section 4.7, page 32).

It should also be noted that, with regard to Principle 2.P.4. (avoiding concentration of corporate offices in one single individual) and in Principle 2.P.5. (illustrating the reasons why management powers have been delegated to the Chairperson), which the Board, when it re-examined the matter on 3rd March 2015, 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 Chairperson, 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 Chairperson.

INFORMATION FOR THE BOARD

The delegated bodies, complying with its obligations under law and under the Articles of Association (see Art. 10-*bis*) 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 timeliness with which the Board has had to adopt decisions, grounds of need and urgency were recognised - the necessary documentation and information for the Board of Directors to make fully informed decisions on matters submitted to their consideration and approval.

The information provided to the Board has always been, according to the other directors, comprehensive and has covered the strategic reasons or opportunities of the above operations, the extent of their consequent financial commitment and a description of the related parties, forming the subject of a special report.

In accordance with Consob Regulation no. 17221/10 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

There are no other executive directors other than those indicated in section 4.4. above.

4.6. INDEPENDENT DIRECTORS

The Board of Directors, in the meeting held on 23rd April 2013 after the appointment of the directors currently in office, has examined the individual assessment criterion 3.C.1 of the 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"*. With regard to said criterion the Directors - acknowledging that in accordance with the Code an assessment on the independence of its members must be carried out focusing more on the substance than the form - have considered this parameter as not significant for the purposes of assessment, since it is the result of an automatic mechanism which, in practice, is not relevant for this purpose. Based on these reasons and without applying the assessment parameter indicated in criterion 3.C.1, point e) of the 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 and Cristina Pagni, and therefore for 4 members. The requirement contained in Art. 147-ter of the TUF is observed for Boards composed of a more than 7 members.

At the meeting held on 3rd March 2015, 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 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 Code, the independent directors met, without the other directors, on 15th December 2014. During this meeting, the independent directors discussed and, with regard to the information provided to them and their actual involvement during the financial year in question 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 (LID) 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 23rd April 2013, the Board appointed the (non-executive and) 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 Chairperson and the CEO 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 15th December 2014.

5. TREATMENT OF CORPORATE INFORMATION

In accordance with the provisions of Art. 114, para. 1 and 12, and Art. 115-*bis* of the TUF, and Art. 66 and subsequent and Art. 152-*bis* and subsequent of the Issuers' Regulation, the Company adopted the "*Procedure for the disclosure of price sensitive information*" (approved by the Board of Directors in the meeting held on 27th March 2006 and then amended in the meeting held on 18th December 2012, the new version is available on the website www.delonghigroup.com, "*Investor Relations*" – "*Governance*" – "*Corporate Documentation*" – "2013"), 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.*" (approved by the Board of Directors in the meeting held on 27th March 2006 and subsequently amended in the meeting held on 14th February 2013).

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

Since the meeting held on 1st March 2007 and, most recently upon the renewal of the Board of Directors which took place on 23rd April 2013, 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 Compensation and Appointment Committee; and
- the Control, Risks and Corporate Governance Committee ("Control and Risks Committee" for short).

The two Committees currently in office will expire upon the approval of the Financial Statements at 31st December 2015.

The creation and functioning of the two committees are regulated by the criteria indicated in the 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 compensation 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, at the meeting held on 12th November 2010 the Board of Directors set up the Independent Committee and attributed it the relevant role and powers that Consob Regulation no. 17221/10 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 Consob Regulation no. 17221/10 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 23rd April 2013 and is composed of the Issuer's four independent directors: Alberto Clò (who serves as Chairman), Stefania Petruccioli, Cristina Pagni and Renato Corrada.

It should be noted that, again at the meeting held on 23rd April 2013, the current Board of Directors appointed that day by the Shareholders' Meeting considered - as permitted by the corporate governance principles 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 Code and attribute such functions to the Compensation Committee already established within the Board (which has adopted the name Compensation and Appointment 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 Code attributes to Committees.

With regard to criterion 4.C.1 point e) of the 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. COMPENSATION AND APPOINTMENTS COMMITTEE

For information on this section, please refer to Section I of the “*Report on Compensation of De’Longhi S.p.A.*” published on the Issuer's website www.delonghigroup.com, in the section ““*Investor Relations*” – “*Governance*” – “*Corporate Documentation*” – “*2015*”.

8. DIRECTORS' COMPENSATION

For information on this section, please refer to Section I of the “*Report on Compensation of De’Longhi S.p.A.*” published on the Issuer's website www.delonghigroup.com, in the section ““*Investor Relations*” – “*Governance*” – “*Corporate Documentation*” – “*2015*”.

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, Risks and Corporate Governance Committee ("Control and Risks Committee" for short) set up among its members 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 non-executive and independence requirements in compliance with the law and the application criteria of Art. 3 of the Corporate Governance Code as adopted by the Company (see section 4.6 for more details on this) - during the meeting of the Board of Directors held on 23rd April 2013 and is composed of three non-executive directors: Renato Corrada, who serves as Chairman, Stefania Petruccioli and Silvio Sartori - the first two possessing independence requirements.

During the Financial Year the Committee met 5 times and 6 (six) meetings are scheduled for the current financial year (two have already taken place on 11th February and 26th February 2015). As a rule, the meetings last approximately two and a half hours.

The Committee members have attended the meetings regularly and consistently (an overall attendance of 90%). The percentage of each member's attendance at the meetings is indicated in Table 2 in the Annex to this Report (page 64).

The meetings were duly minuted and the minutes have been transcribed in the appropriate book.

* * *

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 “*Guidelines for the Internal Control and Risk Management System of Gruppo De’ Longhi S.p.A.*” , the most recent version of which was approved by the Board of Directors, with the assistance of the Committee, in the meeting held on 14th February 2013 ("Guidelines"), which incorporate the principles of 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 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 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) assesses, jointly with the Manager responsible for drafting the company accounts and with the legal auditor 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;
- g) where necessary, issues opinions on specific aspects regarding the identification of the key business risks;
- h) examines, among other things, the periodic reports and those of particular relevance prepared by the internal audit department;
- i) monitors the autonomy, adequacy, effectiveness and efficiency of the internal audit department;
- l) may ask the internal audit department to perform audits on specific operational areas, giving notice of this to the Chairperson of the Board of Statutory Auditors;
- m) 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;
- n) performs the duties which, in compliance with the regulations in force at the time, are assigned to it in accordance with the OPC procedure;
- o) 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 Consob Regulation no. 17221/10 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.

* * *

At the Board meeting to approve the half-year Financial Report at 30th June 2014 and at the meeting to approve the draft financial statements at 31st December 2014, the Chairman of the Internal Audit Committee presented the activities carried out by the Committee during the 2014 Financial Year, explaining to the Board his own assessment of the adequacy and effectiveness of the Internal Control and Risk Management System.

* * *

During the Financial Year 2014, 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.

* * *

At the invitation of the Committee, the Committee meetings held during the Financial Year were attended by the Board of Statutory Auditors, the Internal Audit Manager, the Manager responsible for drafting the company accounts and the Corporate Affairs Officer, who also acted as secretary for the Committee.

The meetings of the Control and Risks Committee were duly minuted and the minutes were transcribed in the appropriate book.

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.

Adequate resources were made available to the Internal Audit Manager and the Manager responsible for drafting the company accounts, as part of the refinement and implementation of risk management systems, (also) with regard to financial reporting, the updating of procedures pursuant to Law no. 262/2005 and Legislative Decree no. 231/2001 and the updating of models pursuant to Legislative Decree no. 231/2001.

10. INTERNAL CONTROL SYSTEM

As explained above, in accordance with the recommendations of the Corporate Governance Code, since the meeting held on 1st March 2007, the Board of Directors of DeLonghi has adopted, upon the proposal of the Director responsible for Internal Control and with the assistance of the Control and Risks Committee, the Guidelines were recently amended by the Board at the same meeting held on 14th February 2013 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.

The 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 (see section 10.1) and the Internal Audit Manager (see section 10.2).

The same 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 System of the Issuer and of Gruppo De' Longhi S.p.A. 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 corporate

governance principles 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 parent company De' Longhi (Board of Directors, Control and Risks Committee, Director responsible for the internal control and risk management system), the Board of Statutory Auditors, the Manager responsible for drafting the company accounts, 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 Guidelines.

The Internal Control 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 Gruppo De' Longhi - 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 WITH REGARD TO THE FINANCIAL REPORTING PROCESS

An integral and essential part of the Internal Control and Risk Management System of Gruppo De' Longhi 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 Manager responsible for drafting the company accounts.

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 Manager responsible for drafting the company accounts and the provisions of Legislative Decree no. 262/05. Reports to the Control and Risks Committee on, among other things, the results of the activities performed with regard to any problems found, the improvement actions agreed and the results of the testing. He also provides a summary report for the Manager responsible for drafting the company accounts 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. The project was completed at the end of 2013 and the results were shared with the Director responsible for Internal Control and Risk Management, with the Control and Risks Committee and the Board of Statutory Auditors.

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. The subsequent planned stages for the ERM update project were carried out during 2014. These envisaged the preparation of an action plan to define the risk management strategy, with a proposal for concentrating, in a first stage, on the level of risk considered high, and the actions to continue monitoring and managing these risks.

Activity was also carried out to update risks considered medium level risks.

The risk management system currently being defined also envisages the definition of guidelines for the control and risk management system using 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.

An audit by the departments responsible is scheduled for 2015.

Description of the main characteristics

Gruppo De'Longhi 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. This system is designed to ensure the reliability, accuracy, trustworthiness and timeliness of the financial reporting and it was defined in accordance with the COSO framework – *Committee of sponsoring organisations of the Treadway Commission* – COSO report and for IT aspects with the COBIT (Control Objectives for information and related Technology).

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 no. 262/2005. In this context, the processes and sub-processes with critical issues have been identified first by finding the important companies, based on quantitative and qualitative relevance parameters for financial reporting (important companies in terms of size and important companies only for some specific risks and processes).

Starting from this relevance, 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.

With regard to the obligations under Title VI of the Implementing Regulation of Legislative Decree no. 58 of 24th February 1998 concerning the regulation of markets ("Market Regulation"), it should be noted that De' Longhi S.p.A. directly or indirectly controls eight companies incorporated and regulated by the law of non-EU member States with particular importance in accordance with Art. 151 of the Issuers' Regulation.

In view of the obligations laid down by Art. 36 of the Market Regulation, it is specified that:

- the above companies have, in the Issuer's opinion, an administrative/accounting and reporting system that is appropriate for regularly reporting the economic, asset and financial data necessary for the drafting of the consolidated financial statements and the audit of the accounts to the senior management and the auditor of De' Longhi S.p.A. respectively;
- the same companies provide the auditor of De' Longhi S.p.A. with all the information necessary to conduct the audit of the annual and interim accounts of the parent company;
- the Issuer has the Articles of Association and information on the composition of corporate bodies, with their relevant powers, of the above companies and is kept constantly up-to-date with any changes to the same;
- the accounts of the above companies, prepared for the purposes of drafting the consolidated financial statements of Gruppo De' Longhi, have been made available in the manner and within the terms established by law. On this point it should be noted that the identification and analysis of risk factors contained in this Report have been carried out also in view of the change to strategic companies, as resolved by the Board of Directors.

* * *

In application of criterion 7.C.1 of the Code and the Guidelines, during the Financial Year, and most recently in the meeting held on 3rd March 2015, 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 Manager responsible for

drafting the company accounts 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 Guidelines, on 23rd April 2013 the Board of Directors appointed Fabio de' Longhi as Director responsible for the Internal Control and Risk Management System (the "*Director responsible for Control and Risks*").

According to the new Guidelines, as recently revised by the Company in order to implement the new recommendations of the Corporate Governance Code, 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 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:
 - identifies the risk factors for the Issuer or other companies of Gruppo De' Longhi, paying particular attention to companies having strategic importance - without prejudice to the primary responsibility of the respective CEOs 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;
 - 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 Gruppo'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 Gruppo De' Longhi, 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, 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 Chairperson 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 Chairperson 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.

* * *

In the execution of the duties and functions assigned to him, as described above, during the Financial Year the Director Fabio de' Longhi identified the main business risks, taking into account the characteristics of the activities carried out by the Company and its subsidiaries, and implemented the 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 3rd March 2015.

The Director responsible for Internal Control 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, since the meeting held on 1st March 2007, upon the proposal of the Director responsible for Internal Control and approved by the Internal Control Committee, Marco Mantovani as the Company's Internal Audit Manager (who still holds this position at the date of this Report).

Pursuant to the Guidelines, the updated version of which was approved by the Board on 14th February 2013, 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 Gruppo De' Longhi S.p.A., 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/her 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 Gruppo De' Longhi's risks, and to assist the Group in the identification and assessment of major exposures to risk. The duties of the Internal Audit Manager are performed by carrying out sample audits on the processes under examination.

Again pursuant to the "Guidelines", the updated version of which was approved by the Board on 14th February 2013, 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 Risk Management System 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 Gruppo, 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:

- 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 Gruppo ensure the observance 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 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, it 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 the Internal Control and Risk Management System, the Chairperson of the Board of Statutory Auditors, the Chairperson of the Control and Risks Committee and, where appropriate in relation to those issues under examination, to the Chairperson of the Board of Directors, and to the Supervisory Body; when the control activities concern companies of the Gruppo, 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 the Internal Control System to perform their respective duties at 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 System and the company bodies, and the Chairpersons of the Control and Risk Committee and the Board of Statutory Auditors, and where appropriate of the Board of Directors, to update them on the results of their work.

The Board, upon the proposal of the Director responsible for the Internal Control and Risk Management System 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 10th March 2014.

In compliance with criterion 7.C.5. b) of the Code, it should also be noted that the Internal Audit Manager is not responsible for any operational area and reports to the Board of Directors.

During the Financial Year 2014, 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 executive Director responsible for the Internal Control and Risk Management System and the Supervisory Body.

During the Financial Year 2014 the Company made the sum of € 130,000.00 available to the Internal Audit Manager to enable him to carry out the duties and functions assigned to him.

During 2014, the Internal Audit department is composed of 6 people, including one part-time independent assistant.

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 (to which the Chinese company De' Longhi – Kenwood Appliances (Dong Guan) Co.Ltd. were added to those of the previous financial year), and testing their effectiveness based on the approved plan; a platform for Law 262 purposes was implemented for the Group's integrated compliance;

(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) finalisation of the SoD project (*segregation of duties*) and compensating controls on the Group companies. The project was 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 2014 Financial Year the Group carried out a risk management project aimed at strengthening the risk management system within the Group. In particular, the project was divided into: (i) detection and analysis of the risk profile; (ii) preparation of the documentation supporting the risk management process; (iii) the operational implementation plan and search for software supporting the ERM process;

(v) a new fraud management project to prevent fraud;

(vi) project for implementing SAP in the Group and benchmarking;

(vii) training new employees and staff joining Group companies with a 231 organisational model and updating the General Part of Group companies' 231 Models as a result of new legislation.

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. In his reports, the Internal Audit Manager also presented his assessments on the appropriateness of the Internal Control and Risk Management System.

The activities carried out by the Committee during the Financial Year were explained to the Board in particular at both the Board meeting convened to approve the annual Financial Report and the one convened to approve the half-year Financial Report.

10.3. ORGANISATIONAL MODEL PURSUANT TO LEGISLATIVE DECREE NO. 231/2001

The Issuer and the Italian subsidiaries with strategic importance have adopted an organisation, management and control model in accordance with Legislative Decree no. 231 of 8th June 2001. With Board resolution dated 27th March 2006, the Company 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.

The current Supervisory Body, appointed by the Board of Directors on 14th February 2014 is composed of the following five members: Simona Carolo, Roberto Ceschin, Marco Mantovani, Fiorenzo Benatti and Marco Piccitto.

The Organisational Model adopted by the Company on 27th March 2006 has since been amended, most recently on 9th May 2013 and, with regard to the Code of Ethics, on 12th May 2014.

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 offense established by the Decree and, in particular, offenses 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 5 times, the meetings lasted on average two hours.

The Italian subsidiary of De' Longhi with strategic importance, De' Longhi Appliances S.r.l., has 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.

In compliance with the Corporate Governance Code recommendations contained in the comment to Art. 7, in the Framework Resolution, the Board of Directors, having 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, for the moment, to keep such functions the responsibility of the Supervisory Body established ad hoc.

10.4. INDEPENDENT AUDITING FIRM

The company entrusted with the legal audit of De' Longhi is Reconta Ernst & Young 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 21st April 2010 and will expire with the approval of the financial statements at 31st December 2018.

10.5. MANAGER RESPONSIBLE FOR DRAFTING THE COMPANY ACCOUNTS

The Manager responsible for drafting the company accounts (the "Financial Reporting Manager") is Stefano Biella, Managing Director of De' Longhi S.p.a.

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 Guidelines approved on 14th February 2013, and more particularly:

- access directly all the information necessary to produce the accounting data without requiring authorizations, 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 Gruppo De' Longhi'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 Gruppo De' Longhi);

- 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, risk manager, compliance officer, 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 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 Guidelines, the most recent version of which was approved at the meeting held on 14th February 2013 and included revisions made to adapt them to the new recommendations of the Corporate Governance Code.

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 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 Gruppo De' Longhi'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 monitor and assess 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. Lastly, 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

As mentioned above, the Board of Directors - in compliance with Consob Regulation no. 17221/10 and Notice no. DEM/10078683 dated 24th 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 12th November 2010, the OPC Procedure, effective from 1st January 2011 (the full text of the OPC Procedure – in the version updated by the Board of Directors on 12th November 2013 - is available on the website www.delonghigroup.com, in the section “*Investor Relations*” – “*Governance*”– “*Corporate Documentation*” – “*2013*”).

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 Consob Regulation no. 17221/10, 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 Consob Regulation no. 17221/10 attributes to the committee composed of non-executive directors, the majority of whom are independent are attributed to the Issuer's Control and Risks Committee. As noted above, on 12th November 2010 a Committee consisting of solely independent directors was also established ("Independent Committee") and it was attributed the role and relevant powers that Consob Regulation no. 17221/10 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 Consob Regulation no. 17221/10, 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 Consob Regulation no. 17221/10, 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 Consob Regulation no. 17221/10 indicated in detail in Art. 9 of the OPC Procedure to which reference is made.

* * *

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 AUDITORS

The appointment of Auditors and the Chairperson 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, as recently amended in order to implement the provisions of Law no. 120/2011 on gender equality in corporate bodies, establish 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 Chairperson 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. 19109 dated 28.1.2015) 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 chairperson of the Board of Statutory Auditors - and one Alternate Auditor are taken from the second not "connected" list in accordance with the laws and regulations with Shareholders who have 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 Chairperson of the Board of Statutory Auditors shall be the Standing Statutory 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 chairperson. 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), 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 23rd April 2013 and expires with the approval of the financial statements at 31st December 2015.

Its current composition is shown in Table 3 in the Annex to this Report (page 67).

All the standing and alternate members of the current Board of Statutory Auditors were taken from the single list submitted by the Shareholder De' Longhi Industrial S.A. and filed at the company offices on 28th March 2013. All the candidates elected were indicated on this list, in the following order: (1) Gianluca Ponzellini; (2) Paola Mignani; (3) Alberto Villani; (4) Piera Tula; (5) Enrico Pian.

Given a voting capital represented by 119,369,323 ordinary shares equal to 79.8457% of the share capital, the election of the aforementioned Auditors occurred with 118,429,037 votes in favour equal to 99.2123% of the voting capital.

During the Financial Year, the Board of Statutory Auditors met 11 times and 3 meetings have already taken place in the current financial year. As a rule, the Board of Auditors meetings last approximately 2 hours 30 minutes. The Auditors have attended the meetings regularly and consistently (an overall attendance of 100%).

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 Members currently in office are given below.

GIANLUCA PONZELLINI, Chairman of the Board of Statutory Auditors, 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 accounting 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 works as an independent chartered accountant, and participates in the creation of the Independent Auditor "Metodo S.r.l."- where he is still Partner and Chairman. 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), Intesa Sanpaolo S.p.A., Luisa Spagnoli S.p.A., Telecom Italia S.p.A.

PAOLA MIGNANI, Standing Member, was born in Turin, Italy on 17th 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 works as a chartered accountant at a leading firm in Milan and is a member of the Board of Statutory Auditors of several companies operating in industrial and financial sectors. She is lecturer of Business Economics on the degree course Public Relations and Corporate Communication of the Libera Università di Lingue e Comunicazione.

ALBERTO VILLANI, Standing Member, he was born in Milan, Italy on 30th November 1962. He graduated in Economics and Business from the Luigi Bocconi University of Milan in 1988 and has been registered in the Register of Chartered Accountants since 1990 and in the Register of Legal Auditors since 1995. He works as a chartered accountant at his own firm in Milan and is a member of the Board of Statutory Auditors of several companies.

* * *

With regard to criterion 8.C.2 of the 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 Code, the Auditor who, on his 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 interest.

Pursuant to Art. 19 of Legislative Decree no. 39/10 and the new 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.

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.

In compliance with Criterion 8.C.1 of the Corporate Governance Code, the Board of Statutory Auditors has verified the continued existence of the independence requirements of its members during the Financial Year in the meeting held on 30th January 2015.

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.

INDUCTION PROGRAMME

With regard to the Induction Programme for auditors, the Board of Statutory Auditors took part in the induction day held on 11th June 2014 and described in section 4.2. above.

The Company intends to extend the decisions made on this matter with regard to the directors to the auditors (see 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, “*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

Chief Financial Officer of the Company. The references for contacting the Investor Relations department (also available online on the website www.delonghigroup.com, in the section “*Contacts*”) are the following: telephone +39 0422 413235 - fax +39 0422 414346 - e-mail: 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' MEETINGS (PURSUANT TO ART. 123-BIS, PARA. 2(C), TUF)

Pursuant to Art. 7 of the Articles of Association in force on the day this Report was approved, 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 Code, the Shareholders' Meeting are normally attended by all the directors. In particular, all the appointed Directors of the Company, candidated by the majority shareholder, attended the Shareholders' Meeting held on 23rd April 2013.

For the validity of the constitution and resolutions of the ordinary and extraordinary Shareholders' Meeting, the provisions of law in force in accordance with Art. 7 of the Articles of Association.

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, referring 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, in which the attendees may take part. In any case, the following must be permitted:

- the Chairperson of the Meeting, also availing him/herself of the Chairperson'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 Chairperson of the Meeting and the person taking the minutes of the meeting are in attendance together.

* * *

With regard to the rules for ordinary and extraordinary Shareholders' Meetings, it should be noted that the Shareholders' Meeting of the Company adopted the "*Regulation for the Annual Shareholders' Meetings of De' Longhi S.p.A.*" on 18th April 2001 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 – is a valuable tool to protect all the Shareholders' rights and the correct formation of the meeting.

In compliance with Art. 13 of the Shareholders' Meeting Regulation and Criterion 9.C.3 of the Code, all Shareholders' Meeting participants are entitled to speak on any of the matters under discussion, by submitting a written request to the Chairperson containing details of the subject to which the request refers, that may be submitted until the Chairperson declares the discussion closed on the subject. The Chairperson, 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 15th April 2014, 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. In addition to the Chairman, Giuseppe de' Longhi, and the CEO, Fabio de' Longhi, the directors Silvia de' Longhi, Renato Corrada, Carlo Garavaglia, Cristina Pagni, Stefania Petruccioli and Giorgio

Sandri also attended the Shareholders' Meeting held on 15th April 2014. During the meeting the members of the Compensation and Appointments Committee present did not report to the shareholders on the committee's methods of performing its functions, instead referring to the indications given in the "*Annual Report on Compensation of De' Longhi S.p.A. – March 2014*".

Lastly, with reference to the Criterion 9.C.4 of the 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 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

On 3rd March 2015, the Company's Board of Directors approved, upon the proposal of the Compensation Committee, the "*Annual Compensation Report of De' Longhi S.p.A.*", in accordance with Art. 123-*ter* of the TUF including the compensation policy of De' Longhi S.p.A. to be submitted to the non-binding vote of the Shareholders' Meeting convened on 14th April 2015.

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.

Treviso, 3rd March 2015

The Chairman of the Board of Directors
(Giuseppe de' Longhi)

TABLE 1: INFORMATION ON THE OWNERSHIP STRUCTURE

SHARE CAPITAL STRUCTURE				
	N° SHARES	% COMPARED TO SHARE CAPITAL	LISTED (INDICATE MARKET / NOT LISTED)	RIGHTS & OBLIGATIONS
ORDINARY SHARES	149,500,000.00	100%	Listed on the standard Mercato Telematico Azionario managed by Borsa Italiana S.p.A.	–
SHARES WITH LIMITED VOTING RIGHTS	–	–	–	–
SHARES WITHOUT VOTING RIGHTS	–	–	–	–

MAJOR SHAREHOLDINGS			
DECLARANT	DIRECT SHAREHOLDER	% SHARE OF ORDINARY CAPITAL	% SHARE OF VOTING CAPITAL
THE LONG E TRUST	DE LONGHI INDUSTRIAL SA	67.006%	67.006%
FMR LLC	FMR LLC	2.09%	2.09%

Annex B: TABLE 2 – STRUCTURE OF THE BOARD OF DIRECTORS AND THE COMMITTEES

Board of Directors													Control and Risks Committee		Comp. & Appoint. Committee	
Position	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	23.4.2013	Approval of Accounts at 31.12.2015	M	X	-	-	-	1	100				
Chief Executive Officer	DE' LONGHI FABIO	1967	2001	23.4.2013	Approval of Accounts at 31.12.2015	M	X	-	-	-	1	100				
Director	DE' LONGHI SILVIA	1984	2007	23.4.2013	Approval of Accounts at 31.12.2015	M	-	X	-	-	1	100				
Director	GARAVAGLIA CARLO	1943	2001	23.4.2013	Approval of Accounts at 31.12.2015	M		X	-	-	7	100			100	M
Director	PAGNI CRISTINA	1955	2013	23.4.2013	Approval of Accounts at 31.12.2015	M	-	X	X	X	-	100			100	M
Director	CORRADA RENATO	1949	2004	23.4.2013	Approval of Accounts at 31.12.2015	M	-	X	X	X	4	90	90	P		
Director	SANDRI GIORGIO	1944	2001	23.4.2013	Approval of Accounts at 31.12.2015	M	-	X			1	90				
Director	PETRUCCIOLI STEFANIA	1967	2013	23.4.2013	Approval of Accounts at 31.12.2015	M	-	X	X	X	1	100	100	M		
Director	SARTORI SILVIO	1941	2002	23.4.2013	Approval of Accounts at	M	-	X			1	100	100	M		

					31.12.2015											
<i>LID</i>	CLÒ ALBERTO	1947	2004	23.4.2013	Approval of Accounts at 31.12.2015	M	-	X	X	X	2	100			100	P
Number of meetings held during the relevant Financial Year: 5						Control and Risks Committee: 5					Comp. & Appoint. Committee: 3					

Annex C

TABLE 3: STRUCTURE OF THE BOARD OF STATUTORY AUDITORS

Position	Members	Date of first appointment	In office since	In office until	List (M/m)*	Indep. as per Code	**	N° other positions ***
Chairman	GIANLUCA PONZELLINI	2004	23.04.2013	31.12.2015	M	NA	100	14
Standing auditor	PAOLA MIGNANI	2013	23.04.2013	31.12.2015	M	NA	100	14
Standing auditor	ALBERTO VILLANI	2013	23.04.2013	31.12.2015	M	NA	100	11
Alternate auditor	PIERA TULA	2013	23.04.2013	31.12.2015	M	NA	NA	1
Alternate auditor	ENRICO PIAN	2006	23.04.2013	31.12.2015	M	NA	NA	8
Quorum required for the presentation of lists at the last appointment: not provided.								
Number of meetings held during the relevant Financial Year: 11								