

## **DE' LONGHI S.p.A.**

Registered Office in Treviso — Via L. Seitz 47, Share Capital Euro 224,250,000

Tax Code 11570840154 and VAT Registration No. 03162730265, Treviso  
Economic and Administrative Registry No. 224758

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### **REPORT BY THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS'** **MEETING**

Dear Shareholders,

This report, drafted pursuant to Art. 153 of Legislative Decree 58/1998 ("TUF"), also taking into account the applicable CONSOB recommendations, is prepared by the Board of Statutory Auditors of De' Longhi S.p.A. ("De Longhi" or the "Company") to report to you on the supervisory activity carried out and its results, as well as on the significant events that occurred during the financial year.

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**1. Preamble.** Over the financial year ending 31 December 2016, the Board of Statutory Auditors conducted the supervisory activities required by law, also taking into account the CONSOB recommendations on audits and the activities of the board of statutory auditors, the principles of conduct of the Board of Statutory Auditors of listed companies recommended by the National Association of Certified Accountants and Accounting Professionals and, lastly, the indications given in the Corporate Governance Code for Listed Companies, to which De'Longhi adheres in the main with some exceptions given in the "Annual Report at 31 December 2016".

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**2. Observance of the law and the Articles of Association.** In its supervisory work during the financial year, the Board of Statutory Auditors held regular meetings, participated in the Shareholders' Meetings, the board of directors and the committees set up by the latter, and therefore the Internal Auditing and Corporate Governance Committee and the Compensation and Appointments Committee. In particular, the Board of Statutory Auditors:

- held 12 board meetings, which were as a general rule attended by all the standing members;
- participated, as a general rule collectively, in 6 meetings held by the Board of Directors;
- participated, as a general rule collectively, in 4 meetings held by the Internal Auditing and Corporate Governance Committee. This Committee has also been attributed the role and powers that Article 3 of CONSOB's "Regulation concerning transactions with related parties" grants to a specially constituted committee, which has not been appointed in De'Longhi (as

described and reasoned in Article 3.4 of the “Procedure for Transactions with Related Parties of the De’Longhi S.p.A. Group”);

participated, as a general rule with the presence of the Chairman and/or another statutory auditor, in 4 meetings held by the Compensation and Appointments Committee;

- participated collectively in the Ordinary Shareholders’ Meeting to approve the financial statements for 2015 which was held on 14 April 2016, in which the Board of Statutory Auditors was renewed;
- visited two operating units in China and the headquarters in Hong Kong, as part of a specific induction activity;
- maintained a constant channel of information and held regular meetings with the External Auditors in order to promptly exchange the data and information relevant for discharging their respective tasks;
- maintained a constant channel of information and held regular meetings with the Supervisory Board;
- maintained a constant channel of information and held regular meetings with the Head of the Internal Audit function;

meet the Board of Statutory Auditors of the Italian subsidiaries, without any relevant aspects having arisen that require mention here.

These activities were undertaken by the Board of Statutory Auditors to check that the organizational structure, internal procedures, company instruments and the resolutions of the corporate bodies comply with the law, the Articles of Association and applicable regulations, as well as with the codes of conduct that the Company has adopted.

In general, the Board of Statutory Auditors is of the opinion that the laws and the Articles of Association have been observed and no violations of the provisions of law or of the Articles of Association have been found nor have any transactions been implemented by the Directors that are clearly reckless or imprudent, in potential conflict of interest, in contradiction to the resolutions taken by the Shareholders’ Meeting or such that would compromise the integrity of the corporate assets.

It should be noted that with regard to the Board’s activities, in 2016:

- no reports pursuant to Art. 2408 of the Civil Code have been received;
- no complaints have been received;
- where required by law, the Board expressed opinions during the Board of Director meetings and those of the Committees in which the Board of Statutory Auditors participated.

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**3. Observance of the principles of correct administration.** The Board of Statutory Auditors has examined, insofar as it falls within its remit, the annual budget and the draft Group and separate financial statements and the transactions of greater economic, capital or financial significance, atypical and/or unusual transactions carried out with related parties, with third parties or with Group Companies, intercompany transactions and with ordinary related parties.

As far as operations that are capable of significantly affecting the Company's economic, capital and financial situation, these are related in the Report on Operations and in the Explanatory Notes to the financial statements, where the Directors indicate, among others:

- the entity and geographical allocation of investments, which have been made primarily in the Romanian site, the industrial platforms in Asia and in Italy. These investments are reflected in the growth in volumes produced in the Romanian site, in maintaining in Italy the production of super automatic coffee machines and, lastly, in the optimization of Asian industrial platforms;
- a new Group organizational structure starting from the first level of positions reporting to the CEO. The new organizational structure intends to simplify the lines of command to make the decision-making process more effective;
- an agreement to take over the production activity of a strategic supplier, put into effect through a business lease with a commitment to purchase the company;
- approval of the "2016-2022 Stock Option Plan" reserved for the Chief Executive Officer and to a limited number of key positions in the company, for a maximum capital increase of a nominal three million euros.

The Board of Statutory Auditors has not found any atypical and/or unusual transactions carried out with related parties, with third parties or with Group Companies.

Specifically with regard to transactions with related parties, the Board of Statutory Auditors has monitored compliance of the procedures adopted by the Company with the principles indicated by CONSOB, and on their observance, including through participation in the meetings of the Internal Auditing and Corporate Governance Committee. On this point it was found that:

- the Group has engaged, and continues to engage, in commercial relations with related parties. These relations envisage conditions that are in line with market conditions;
- the Company has adopted a procedure to govern the Group's operation with related parties, in accordance with the principles laid down by the Supervisory Authority with CONSOB Regulation No. 17221 of 12 March 2010. This procedure identifies the transactions subject to specific examination and approval rules, graduated depending on their greater (or lesser) significance, and is characterized by the strong use of the role of Independent Directors, in which a prior opinion must be issued on the proposed transaction (if the transaction is of greater

significance, the opinion is binding for the Board).

In particular, Independent Directors must be involved in the “examination” stage before approval of transactions of greater significance;

- Directors have properly indicated the intercompany transactions and transactions with ordinary related parties in their Report on Operations and in the Explanatory Notes to the financial statements, taking into account their size.

In keeping with the Corporate Governance Code (Art. 8), the Board’s supervision of the principles of correct administration was shown in its prior monitoring and not just ex post monitoring of processes. Where necessary, the outcome of this supervision was brought to the attention of directors, so that they could adopt a plan of corrective actions.

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**4. Adequacy of the organizational structure.** The Board of Statutory Auditors has monitored the adequacy of the Company’s and the Group’s organizational structure, in terms of structure, procedures, powers and responsibilities, taking into account the size of the Company, the nature and manner of pursuing the corporate purpose and, lastly, the fact that the organizational structure was significantly revised in 2016, which was described in full in the Report on Operations and in the Explanatory Notes to the financial statements. On this point, the Board does not express any finding and, at the same time, observes that all the effects of the change to the new organizational structure, in gradual implementation, have not yet unfolded.

With regard to its own composition, the Board of Statutory Auditors has verified that each of the three standing members and the two alternates have communicated to the Company the list of administration and control appointments, together with information about their own personal and professional characteristics. The corporate governance system does not implement point 8.C.1. of the Corporate Governance Code (concerning the independence requirement of statutory auditors) and the Company is of the opinion that, to safeguard the independence requirement, the provisions of law contained in Art. 148 of the TUF are sufficient. Also, but not only on such basis, the Board has recognised the independence requirement for the board member who has held the role of statutory auditor for more than nine years over the last twelve. On this point, after a self-assessment process, the Board is of the opinion that it has carried out its activity without restrictions and with adequate support from the corporate structure.

With regard to the composition, size and functioning of the Board of Directors and of the Committees, particularly with regard to the requirements laid down for independent directors and to the determination of compensation, and to the completeness, the powers and responsibilities connected to each corporate function, the Board refers, in general, to the “Report on Corporate

Governance and Ownership Structure” and observes the following:

- the Articles of Association provide for the independence requirements laid down in Art. 148, paragraph 3, of the TUF, for directors;
- all the members of the current Board of Directors have been taken from the single list presented by the shareholder De’Longhi Industrial S.A. The Board of Directors decided not to adopt criterion 1.C.3. of the Corporate Governance Code, which requires that the Board of Directors expresses its opinion on the maximum number of directorships that may be considered compatible with the effective performance of the office of director in the Company;
- the Board of Directors carries out its activity, in addition to directly and collectively, through the chairman, the Vice-Chairman and the Chief Executive Officer, which for the Company are the Chairman and the Vice-Chairman;
- the new composition of the corporate bodies, renewed by the Shareholders’ Meeting held on 14 April 2016, reflects the percentage of women laid down by the Articles of Association;
- in accordance with criterion 1.C.5. of the Corporate Governance Code, the Company's Board of Directors decided the reasonable notice for sending the documentation to the directors as being at least two days before the meeting (except in emergencies). The Board has monitored to ensure that this provision was observed, so as to guarantee that directors and statutory auditors acquire the information they need to make a fully informed opinion well in advance.

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**5. Adequacy of the Internal Control System.** The Board of Statutory Auditors supervised the most significant activities and functions carried out by the internal control and risk management system, on the work of the Internal Auditing and Corporate Governance Committee and, lastly, on the work of the Compensation and Appointments Committee. On this point, it was found that:

- during 2016, the Company continued to strengthen the internal control and risk management system, understood as the set of rules, procedures and organizational structures designed to enable the company to be run in a way that is healthy, fair and consistent with its strategic objectives, through an adequate process of identification, measurement, management and monitoring of the main risks. The internal control and risk management system is described in detail in the Report on Corporate Governance and Ownership Structure, together with the Company’s risk factors;
- the Board of Directors is responsible for governing the process underlying the internal control system, as detailed in the “Guidelines for the Internal Control System of the De’ Longhi S.p.A. Group” (the latest version of which was approved at the Board of Directors

meeting held on 10 November 2016). The organizational units are responsible for managing the process of identification, measurement, management and monitoring of risks, as well as the definition of the related countermeasures;

- the main enterprise risks were mapped in 2013 during an Enterprise Risk Management project and were subject to follow up in the subsequent financial years. During 2016, the Chief Executive Officer, in his capacity as director responsible for the internal control and risk management system, discussed the main risks that exist for the Group with the Internal Auditing Committee, sharing a programme to update the process of risk identification and management which is still gradually being carried out.

Overall, no significant issues emerged from the definition and application of the internal control and risk management system that would significantly compromise the achievement of an acceptable overall risk profile. At the same time some areas for improvement were identified which would minimize risk exposure and ensure that all the stages of the internal control and risk management process are completely adequate.

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**6. Adequacy of the accounting system and the statutory audit of accounts.** The Board of Statutory Auditors has monitored the accounting system and the financial reporting process. In particular, the Board of Statutory Auditors observes the following:

- during 2016, the Accounting Management, insofar as it falls within its remit, continued to coordinate the Group's accounting management by arranging the maintenance and dissemination of Holding and Operating Companies' information systems to ensure effective supervision in the management of the whole Group's data and information. In particular, organizational consultancy continued which was aimed at pursuing a more extensive and efficient use of the common SAP system at the various Group companies;
- the Company gave appropriate instructions to Subsidiaries pursuant to Art. 114, paragraph 2, of Legislative Decree No. 58/98, so that the latter provide the information needed to discharge the disclosure obligations laid down by law, without finding any exceptions;
- the main characteristics of the risk management and internal control system in relation to the financial reporting process are described by Directors in the Report on Operations;
- the Financial Reporting Officer carried out an assessment of the internal accounting control system. No critical issues emerged from the annual report this Officer submitted to the Board of Directors;
- the company entrusted with the statutory audit of De'Longhi is EY S.p.A. The appointment was granted by the ordinary Shareholders' Meeting of De' Longhi with resolution dated 21

- April 2010 and will expire with the approval of the financial statements at 31 December 2018;
- in addition to the statutory audit and the limited audit on the half year report, during the 2016 financial year De' Longhi S.p.A. and its subsidiaries granted two appointments to EY S.p.A. for other services, amounting to € 112,000. The Board of Statutory Auditors is not aware of any other appointments granted to persons with ongoing relationships with EY S.p.A. either by De' Longhi S.p.A. or by its Subsidiaries;
  - no significant aspects emerged during the systematic meetings between the Board of Statutory Auditors and the Independent Auditors that require mention here. On this point, the Board of Statutory Auditors:
    - analysed the audit plan prepared by the External Auditors, checking the appropriateness of the scheduled audits and findings with regard to the Company's size and organizational and entrepreneurial complexity;
    - received the report pursuant to Art. 19, third paragraph, of Legislative Decree 39/2010 from the External Auditors on 20 March 2017. The Board found no issues with regard to the internal control system concerning the preparation of the accounting documents and expressed its opinion on compliance with the financial reporting obligations;
    - no critical issue was found with regard to the independence of the External Auditors and the Board confirms that it has received confirmation of independence pursuant to Art. 17, paragraph 9(a), of Legislative Decree No. 39/2010 from the External Auditors. Furthermore, the Board has verified compliance with the provisions of Legislative Decree No. 135/2016 and Regulation (EU) No. 537/2014 which, in order to ensure the independence of the External Auditor, provide for specific limits in the attribution of consultancy projects to External Auditors that already perform audits.

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**7. Implementation of the corporate governance rules.** The Company has implemented the corporate governance principles approved by Borsa Italiana and the contents of the related Corporate Governance Code. The Directors have provided analytical information on this point, which are included in the Annual Report on Corporate Governance and Ownership Structure attached to the financial statements, to which reference is made. This report is appropriate for the provisions contained in Art. 123-bis of the TUF.

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**8. Observations on the group and separate financial statements, their approval and the issues within the remit of the Board of Statutory Auditors.** Within the limits of the function for which the Board is responsible, by means of direct checks and information obtained from the External Auditors and through the Financial Reporting Officer, the Board of Statutory Auditors has evaluated the separate and Group financial statements and the related reports on operations, focusing in particular on the promptness and accuracy of the drawing up of the documents that make up the financial statements and the procedure followed to prepare them and submit them to the Shareholders' Meeting. No reprehensible actions, omissions or impropriety emerged during the supervisory activity which would require reporting to the control bodies or mention in this report. The External Auditors, in their reports issued pursuant to Articles 14 and 16 of Legislative Decree No. 39 of 27 January 2010, have given their unqualified opinion on the Group and separate financial statements for 2016. The statements of the Financial Reporting Officer and the Chief Executive Officer provided for by Art. 154-bis of the TUF are attached to the Group and separate financial statements. From the Group results at 31 December 2016 show revenues of €1,845.4 million, an EBITDA before non-recurring expenses of €295.4 million, a net profit of €167.4 million (after income of €15.9 million due to the fair value measurement of the earn out resulting from the acquisition of the permanent Braun licence) and, lastly, a positive net financial position of €307.6 million which is an increase of €118.8 million compared to the previous year.

The ordinary and extraordinary Shareholders' Meeting convened to approve the 2016 financial statements is also asked to make a resolution on other issues within its remit, including:

- for the ordinary part, the distribution to shareholders of a dividend of Euro 0.80 per share, for a total of €119.6 million, as well as renewal of the authorization to purchase and then dispose of own shares;
- for the extraordinary part, the introduction of increased voting rights.

Based on the activity carried out during the financial year, the Board of Statutory Auditors has found no reasons against approving the financial statements at 31 December 2016 and the related proposed resolutions prepared by the Board of Directors.

Treviso, 20 March 2017

The Board of Statutory Auditors of De'Longhi S.p.A.

Cesare Conti (Chairman)

Paola Mignani

Gianluca Ponzellini