

OVS S.p.A.

Registered office: Via Terraglio 17 – 30174 Venice - Mestre

Share capital: €227,000,000.00 fully paid-in

Tax code, VAT number and Venice Trade Register no. 04240010274

R.E.A.: VE-378007

**REPORT BY THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS'
MEETING, PREPARED AS PER ARTICLE 153 OF LEGISLATIVE DECREE NO. 58/1998
(CONSOLIDATED LAW ON FINANCE) AND THE SECOND PARAGRAPH OF ARTICLE
2429 OF THE ITALIAN CIVIL CODE**

To the Shareholders,

1. Introduction

The board of statutory auditors of OVS (the "Company"), formed by Mr Giuseppe Moretti, chairman, and Mr Roberto Cortellazzo Wiel and Mr Lucio Giulio Ricci, statutory auditors (the "Board"), was appointed by the quotaholders' meeting of the then OVS S.r.l. on 23 July 2014 for three financial years, until the meeting called to approve the financial statements as at 31 January 2017.

The Company was incorporated as a limited liability company (Srl) on 14 May 2014 and, until 31 January 2015, was not listed and was 100% owned by Gruppo Coin S.p.A.

With effect from 31 July 2014, Gruppo Coin S.p.A. (at the time the sole quotaholder) contributed its OVS-UPIM business unit – which comprises the organised set of assets, liabilities and legal relationships used to manage the retail and wholesale of personal, home, work and leisure products at the OVS, OVS Kids, Upim and Blukids stores – to the Company and, with effect from the same date, approved the conversion of the Company into a joint-stock company (SpA).

The conversion was preparatory to the listing of the Company's ordinary shares on the Italian Stock Exchange's MTA (regulated equity market). On 10 February 2015, Borsa Italiana S.p.A. approved the trading of the Company's ordinary shares on the MTA and, on 12 February 2015, Consob approved the prospectus for the public offering and subscription.

On 24 February 2015, the global offering for subscription and sale was successfully completed, with 5,233 applicants requesting a total of 226,832,292 shares, and 2 March 2015 was the first day of trading of the Company's shares on the MTA.

The individual financial statements of the Company as at 31 January 2015, to which this report relates, are therefore the first financial statements of the Company and are for a period (14 May 2014-31 January 2015) in which the Company was not listed on the stock exchange.

2. Supervisory activities

The Company's Board has, since the date on which it accepted its appointment, performed its supervisory activities as required by law. After the Company's ordinary shares were admitted to trading on the MTA, the Board's duties increased and it also took into account the Consob communications and recommendations on the supervision of companies and the activities of boards of statutory auditors (especially Communication no. DAC/RM 97001574 of 20 February 1997 and Communication no. DEM/1025564 of 6 April 2001, as supplemented by Communication no. DEM/3021582 of 4 April 2003 and Communication no. DEM/6031329 of 7 April 2006), the principles of conduct for boards of statutory auditors of listed companies, recommended by the National Council of Professional Accountants (*Consiglio Nazionale dei Dottori Commerciali e degli Esperti Contabili*), and the indications given in the Code of Conduct for the Self-Regulation of the Corporate Governance Committee of Listed Companies (*Codice di Autodisciplina del Comitato per la Corporate Governance delle società quotate*)

- 2.1** In the financial year ended 31 January 2015, the Board verified that the law and the articles of association were observed, and that the principles of sound management were respected.

To do so, the Board also relied on the internal and external information flows set up by the Company, which enable the Board to verify that the Company's organisational structure, internal procedures, corporate deeds and internal resolutions are compliant with the rules of law, the Company's articles of association and relevant regulations.

To carry out its supervisory duties, in the course of the year the Board of Auditors held six meetings.

In order to ensure an adequate and effective flow of information, the Board also:

- ✓ collectively attended six board of directors' meetings, as well as three shareholders' meetings;
- ✓ held one meeting with the audit firm PriceWaterhouse Coopers S.p.A. (the "Audit Firm"), appointed to audit the Company's individual and consolidated financial statements.

As the Company had adopted the Code of Conduct for the Self-Regulation of the Corporate Governance Committee of Companies listed on the Italian Stock Exchange (the "Code"), the Board, in accordance with the Code, also attended meetings of the Internal Control and Risk Management Committee and of the Remuneration Committee after the start of trading of the Company's shares on the MTA.

During these meetings the Board gathered information and verified, as far as its own remit goes, that the principles of sound management were observed and that the Company's administrative structure adequately reflected these principles.

With regard to the decision-making processes of the board of directors, the Board checked that the operating decisions taken by the directors complied with the law and the articles of association and verified that their resolutions were not contrary to the interests of the Company.

On the basis of the information it acquired, the Board believes that the principles of sound management were respected and that operating decisions were made on an informed basis and were reasonable, and that the directors were aware of the level of risk and effects of the transactions that they approved and implemented.

- 2.2** The Board periodically obtained information about the general performance of the Company and its outlook, and about the most significant transactions of the Company in terms of their size or characteristics.

Among the most significant events of the financial year ended 31 January 2015, the Board must report, in addition to the start of the process of listing the Company's shares (which ended successfully after the year-end), the renegotiation of a bank loan prior to the Company's stock exchange listing. More particularly, on 23 January 2015, the Company entered into a new loan agreement, conditional upon the completion of the IPO, with Banca IMI as the lender and agent bank, and with Unicredit S.p.A., Natixis S.A. - Milan Branch, HSBC Bank plc - Milan Branch, Crédit Agricole Corporate and Investment Bank - Milan Branch, Banca Popolare Friuladria S.p.A., BNP Paribas - Milan Branch, Banca Monte dei Paschi di Siena S.p.A., MPS Capital Services - Banche per le Imprese S.p.A., Banca Popolare di Vicenza S.c.p.A., Banca Popolare di Milano S.c.a.r.l., Banca Popolare di Sondrio ScpA, Banca Popolare Soc. Coop. and Banca Popolare dell'Alto Adige S.c.p.A., as lending banks. This new contract grants a medium- to long-term credit line of €375,000,000.00 – which, together with the proceeds from the capital increase serving the global offering, is to be used to pay the Company's pre-existing debts and the costs associated with the listing process – and a €100,000,000.00 revolving credit line, which can be used in different currencies, for a total amount of €475,000,000.00.

The disbursement of the senior loan took place at the same time as trading of the Company's shares started on the MTA. On 2 March 2015, the Company repaid its old loan in full, using part of the revenues from the global offering to reduce the gross financial debt of the OVS Group, and the senior loan to restructure the outstanding amount.

The Company's stock exchange listing resulted in an increase of €7,000,000.00 in its share capital, from €140,000,000.00 (as at 31 January 2015) to €227,000,000.00. The share capital at the date of this report is therefore divided into 227,000,000 ordinary shares with no par value.

Following the IPO, Gruppo Coin S.p.A.'s interest in the Company was reduced to 52.12%. Despite this majority stake, the Company decided that it was not under Gruppo Coin S.p.A.'s direction and coordination, for the reasons detailed in the directors' report on the year ended 31 January 2015.

- 2.3** The Board did not discover any atypical and/or unusual transactions with group companies, third parties or related parties. With regard to the group's structure, the Company's main subsidiaries are: (a) Oriental Buying Services Ltd with headquarters in Hong Kong, which operates in the Far East; (b) OVS Maloprodaja d.o.o., which operates in the Croatian market; (c) OVS department store Beograd d.o.o., which operates in the Serbian market; (d) OVS Bulgaria EOOD.

As specified by the directors in their explanatory notes to the consolidated and individual financial statements, the Company's transactions with group companies or related parties are at arm's length and reflect current market conditions.

With regard to these transactions, the Board believes that the information provided by the draft individual financial statements is adequate.

The Company, through a resolution of 23 July 2014, adopted, with effect from 2 March 2015, a special procedure for Company transactions with related parties, without, however, appointing a special committee, but entrusting the task of implementing the procedure to the non-executive directors.

- 2.4** The Board, as far as its own remit goes, obtained information on the Company's organisational structure and checked the structure, and believes that it is, on the whole, adequate.
- 2.5** In the financial year, the Board did not issue any opinions, declarations or observations. During the meeting of 22 April 2015, the Board expressed a favourable opinion, pursuant to article 2389 of the Italian Civil Code, on the allocation of fees to directors vested with particular responsibilities.

In accordance with the Code, the Board also verified that:

- a) the assessment criteria and procedures, adopted by the board of directors to determine whether its members are independent on the basis of the criteria laid down by law and the Code, were correctly applied;
- b) the statutory auditors themselves continued to meet the independence requirements, on the basis of the criteria laid down by law and the Code, it being understood that whenever a statutory auditor, on

his own behalf or on behalf of third parties, has an interest in one of the Company's transactions, he must promptly give full information to the other members of the Board and the chairman of the board of directors on the nature, terms, origin and scope of his interest.

In the financial year, no situations arose in which the auditors had an interest, on their own behalf or on behalf of third parties, in a given transaction.

2.6 The Board notes that, on 25 March 2015, a complaint pursuant to article 2408 of the Italian Civil Code was made by shareholder Mr Francesco Mercurio. In his complaint, the shareholder alleged that:

(a) the rules on gender balance were not reflected in the composition of the board of directors and the Board;

(b) there was a failure to check the independence of the non-executive directors, especially that of Mr Heinz Jürgen Krogner Kornalik, who, the shareholder claims, was in previous financial years a prominent figure of Gruppo Coin S.p.A.

Believing the allegations of the shareholder to be unfounded, the Board – in accordance with the principles of conduct for boards of statutory auditors of listed companies recommended by the National Council of Professional Accountants – responded to the complaint (although it had no legal obligation to do so) in a letter that was sent, with a copy to Consob, from the certified e-mail account of the chairman of the Board. A copy of the letter can be found at the Company's headquarters.

Following are the summarised contents of the letter.

Regarding the first point (*gender balance*), the Board states that, in accordance with Law no. 120/2011 and recommendations and interpretations provided by Consob Communication DIE no. 0061499 of 18 July 2013, the Company, prior to its stock exchange listing, duly adapted its articles of association to the rules on gender balance and will, as expressly allowed by those Consob recommendations and interpretations, adapt the composition of its corporate bodies "*upon their first renewal following the stock exchange listing*", when the financial statements for the year ending 31 January 2017 are approved. Information about this was duly provided to the public in the prospectus for the public offering.

Regarding the second allegation (*check of the independence of the directors*) made especially in respect of Mr Heinz Jürgen Krogner Kornalik, it should be noted that, pursuant to criterion 3.C.2. of the Code, "*the organisation's president, the chairman of the board of directors, the executive directors and the directors with strategic responsibilities in the company or the entity in question*" are considered prominent figures of a company or entity. As Mr Heinz Jürgen Krogner Kornalik was only a director of Gruppo Coin S.p.A. (and not of the Company), he does not qualify as a "significant representative"

under the Code and, therefore, the Board, based on the information provided by the directors themselves and made available to the Company, believes that the independence of the directors was properly checked, in line with the information provided in the prospectus and shared with Consob during its investigations.

No other complaints were received.

- 2.7** The Board of Auditors verified that the Company had adopted a system of internal control and risk management, valid also for the group, consisting of a set of rules, procedures and organisational structures whose purpose is to ensure the identification, measurement, management and monitoring of the main business risks. In particular, the Board checked that, since the Company's stock exchange listing, work had begun on adapting the system to the Company's new circumstances.

The Board, in order to monitor the adequacy of the Company's internal control system, initiated a process of interaction and coordination with the Internal Control and Risk Management Committee, the director in charge of the Internal Control and Risk Management system, the head of Internal Audit and the Supervisory Board. In its capacity as Internal Control and Audit Committee (in accordance with article 19 of Legislative Decree no. 39/2010), the Board will establish an ongoing exchange of information with the Internal Control and Risk Management Committee.

As part of their ordinary exchange of information, the Board liaised with the Audit Firm and it was informed about the absence of significant weaknesses in the internal control system.

The Board also noted that the Company had adopted an organisational model which complies with the principles set out in Legislative Decree no. 231/2001, and had appointed a supervisory board. The Board also reviewed the Supervisory Board's annual report, submitted to the board of directors on 22 April 2015, and has no comments to make about it.

In light of its supervisory work, the Board, as far as its own remit goes, has no comments to make.

- 2.8** The Board verified – by collecting information from the Financial Reporting Manager (*Dirigente Preposto*) and those in charge of the relevant departments, examining company documentation and exchanging information with the Audit Firm – the Company's administrative and accounting system and that it could be relied on to give a true picture of operational items.

In particular, the Board was able to establish – for the Company and its strategically important subsidiaries – that the Financial Reporting Manager had completed an assessment of the adequacy and actual implementation of the administrative and accounting procedures, in accordance with article 154-*bis* of the T.U.F. Following this assessment, the Financial Reporting Manager certified that the financial

statements give a true and fair view of the assets and liabilities and financial position of the Company and its strategically important subsidiaries.

The Financial Reporting Manager's statements, procedures and certifications were, according to the information obtained by the Board, complete.

In light of its supervisory work and the board of directors' adequacy assessment of the Company's organisational, administrative and accounting structure, the Board believes, as far as its own remit goes, that this system is generally adequate and can be relied upon to give a true picture of operational items.

2.9 The reports by the Audit Firm on the individual and consolidated financial statements – issued, pursuant to articles 14 and 16 of Legislative Decree no. 39/2010, on 5 May 2015 – were unqualified and/or did not include any emphasis of matter paragraphs. They certified that the individual financial statements and the consolidated financial statements were drawn up clearly and properly and give a true and fair view of the assets and liabilities, financial position, P&L result and cash flows of the Company and the OVS Group for the financial year ended 31 January 2015. As an emphasis of matter, these reports show that the year ended 31 January 2015 was the first year, respectively, of the Company and the Group OVS, since the Company was established on 14 May 2014 and, with effect from 31 July 2014, received from Gruppo Coin SpA, through the transfer, the Company Division OVS-UPIM. These reports also attest that the directors' report and the information referred to in letters c), d), f) and m) of the first paragraph and letter b) of the second paragraph of article 123-*bis* of the T.U.F., presented in the report on the corporate governance and ownership structure, were consistent with the individual financial statements and the consolidated financial statements.

The Board also examined the statement that the Audit Firm issued, pursuant to article 17 of Legislative Decree no. 39 of 27 January 2010, on 4 May 2015, which (i) certified that it had found no situations likely to compromise independence or give rise to causes of incompatibility according to articles 10 and 17 of the aforementioned Decree; (ii) indicated the non-auditing services it had provided to the Company, also through its network.

2.10 During the year, the Board regularly met the persons in charge at the Audit Firm to exchange relevant data and information. During these meetings, the Audit Firm did not report any facts or anomalies of such importance that they need to be mentioned in this report.

The Audit Firm and its network, according to the information gathered, is entitled to fees of:

- to the Audit Firm: (i) €485,000.00 for auditing the Company's accounts; (ii) €39,000.00 for auditing the subsidiaries (iii) €1,325,000.00 for conducting checks and issuing a subsequent statement.

- to other companies belonging to the network of Audit Firm: (i) €39,000.00 for audit activities of subsidiaries; (ii) €78,000.00 for performance audit purposes of certification.

For services other than auditing, the Audit Firm's network is entitled to €23,500.00. Fees associated by the Company to the Audit Firm for no audit services amounted to €87,500.00 and reflect the IPO. In light of the above and the statement issued by PricewaterhouseCoopers, confirming its independence and the absence of any causes of incompatibility, the Board believes that no critical aspects have emerged with regard to the independence of the Audit Firm.

2.11 The Company adopted the Code.

The Board of Directors in accordance with the provisions of this law approved by resolution passed on 22 April 2015, the report on corporate governance and the ownership structure for the year 2014, which, as the Report of the Board of Directors on 'business performance, is available in full on the Company's website, to the address <http://www.ovscorporate.it/>.

The report was drawn up in compliance with Borsa Italiana S.p.A.'s Market Rules.

The report details the system of governance adopted by the Company. The system complies with the model of governance prescribed by the Code, and the principles laid down by that Code are effectively and properly applied.

2.12 During the supervisory work and checks conducted by the Board throughout the year, it found no wrongful acts, omissions or irregularities of such importance that they require mention in this report.

As far as the Board is aware, in preparing the individual and consolidated financial statements there were no departures from the provisions of law.

Also in view of the results of the work carried out by the Audit Firm, the Board, as far as its own remit goes, does not see any reason not to approve the individual financial statements as at 31 January 2015, as prepared and approved by the board of directors at its meeting of 22 April 2015, which closed with a loss of €10,536,472.00, which the board of directors suggests carrying forward.

Milan, 5 May 2015

For the Board of Statutory auditors

Signed by Mr Giuseppe Moretti (President)