

# ANNUAL REPORT AT 31 DECEMBER 2017



DēLonghi Group



KENWOOD

BRAUN

*Ariete*





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# Company Officers\*



## Board of Directors

GIUSEPPE DE' LONGHI	Chairman
FABIO DE' LONGHI	Vice-Chairman and Chief Executive Officer
ALBERTO CLÒ**	Director
RENATO CORRADA**	Director
SILVIA DE' LONGHI	Director
CARLO GARAVAGLIA	Director
CRISTINA PAGNI**	Director
STEFANIA PETRUCCIOLI**	Director
GIORGIO SANDRI	Director
SILVIO SARTORI	Director
LUISA MARIA VIRGINIA COLLINA**	Director

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## Board of Statutory Auditors

CESARE CONTI	Chairman
GIANLUCA PONZELLINI	Standing member
PAOLA MIGNANI	Standing member
PIERA TULA	Alternate auditor
ALBERTA GERVASIO	Alternate auditor

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## External Auditors

EY S.P.A.\*\*\*

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## Internal Auditing and Corporate Governance Committee

RENATO CORRADA\*\*  
SILVIO SARTORI  
STEFANIA PETRUCCIOLI\*\*

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## Compensation Committee

ALBERTO CLÒ\*\*  
CARLO GARAVAGLIA  
CRISTINA PAGNI\*\*

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\* The company officers were elected at the shareholders' meeting of 14 April 2016 for the period 2016–2018.

\*\* Independent directors.

\*\*\* The engagement to audit the financial statements for 2010–2018 was approved at the shareholders' meeting of 21 April 2010.

## Vision

Worldwide, Every Day,  
by your Side

A desirable object,  
An emotion,  
An authentic experience,  
To be lived,  
To be shared.



# Values

We are Everyday Makers

We are the ones that make it happen

Feeding our knowledge with

Ambition 

Courage 

Team Work 

Passion 

Competence 

Heritage 

Respect 



## Mission

To be a **global leader** in the industry of Small Domestic Appliances by developing categories, segments and geographies through a clear competitive edge generated by:

Listening to **consumer** diversities, a source of inspiration for superior solutions that can anticipate and influence new market trends

Building up **our brands'** value potential, with a clear strategy to support all markets

Accelerating the offer of **distinctive products** with a strong focus on design, innovation and technology, that enables us to win the trust of today's and tomorrow's consumers

Strong **growth in markets with the greatest potential**,  
to balance our presence globally

Strong commitment to draw on the diversity and talents  
of **our people** to accomplish challenging goals through  
determination and passion of each and every one

Moreover

To explore expansion opportunities in related categories, with the ambition  
to be a leader, leveraging the De'Longhi Group's strengths.



## **Letter from the Chairman**



As expected by the Group's management, 2017 was characterized by a return to robust growth in revenues compared to the prior year – 2016 – when the focus was on protecting margins in light of market conditions which were not favorable to volume growth.

The Group's 2017 results were very positive, in terms of organic growth, margins and cash flow generation. The Group also continued to make significant investments in research and development, communication, as well as in strengthening production capacity and the commercial network.

In terms of geographies, growth was posted rather widely spread across the board with a few limited exceptions, and was particularly strong in growing markets, North America and the Far East above all.

As for cash generation, the performance was very good, thanks also to efficient management of working capital, despite the considerable absorption of financial resources linked to the industrial investment plan, the acquisition of the real estate complex in Treviso and the Eversys acquisition which marks the De'Longhi Group's entry into the professional espresso coffee machine market, with a focus on the fully automatic models.

In light of the positive growth results achieved in 2017, the Group's management will continue to pursue the strategy of a greater commitment to investments in research and development, communication and marketing, and in distribution structures needed to meet the rapid changes in consumer demand and in the competitive environment.

# 2017 Highlights





Revenues (\*)

**1,972.8 M€**

**+6.8%**

vs 2016

EBITDA before non recurring expenses (\*)

**309.5 M€**

**+4.7%**

vs 2016

EBIT (\*)

**245.4 M€**

**+2.6%**

vs 2016

Net profit

**178.3**

**+6.5%**

vs 2016

Net financial assets (\*)

**250.6 M€**

(\*) Data refer to continuing operations

## Key performance indicators



## Group results/Statement of financial position

### CONSOLIDATED RESULTS

(€/million)	2017	% revenues	2016 (*)	% revenues	Change	Change %
Revenues	2,010.5	100.0%	1,855.0	100.0%	155.5	8.4%
EBITDA before non-recurring expenses/stock option costs	309.4	15.4%	295.8	15.9%	13.6	4.6%
Profit (loss) pertaining to the Group	178.3	8.9%	167.4	9.0%	10.9	6.5%

### RESULTS FOR CONTINUING OPERATIONS(\*\*)

(€/million)	2017	% revenues	2016 (*)	% revenues	Change	Change %
Revenues	1,972.8	100.0%	1,846.7	100.0%	126.1	6.8%
Net industrial margin	967.3	49.0%	914.4	49.5%	52.9	5.8%
EBITDA before non-recurring expenses/stock option costs	309.5	15.7%	295.7	16.0%	13.8	4.7%
Net profits (loss)	245.4	12.4%	239.3	13.0%	6.1	2.6%
Group's net profit from continuing operations	179.7	9.1%	167.7	9.1%	12.1	7.2%

### STATEMENT OF FINANCIAL POSITION

(€/million)	31.12.2017		31.12.2016	
	Consolidated figures	Continuing Operations (**)	Consolidated figures (***)	Continuing Operations (**)
Net working capital	267.9	257.8	254.3	249.1
Net operating working capital	375.1	365.2	329.3	324.0
Net capital employed	788.2	772.7	707.5	698.1
Net financial asset	233.5	250.6	306.6	316.2
of which:				
- Net bank financial position	254.1	271.1	307.5	314.1
- Other financial receivables (payables)	(20.5)	(20.5)	(0.1)	2.1
Net Equity	1,021.7	1,023.3	1,014.0	1,014.3
Net working capital/Net revenues	13.3%	13.1%	13.7%	13.5%
Net operating working capital/Net revenues	18.7%	18.5%	17.8%	17.5%

(\*) For the sake of comparison with 2017, the comparison figures for 2016 were adjusted with respect to prior financial reports in order to reflect the reclassification of a few commercial components of revenue and operating costs.

(\*\*) In accordance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*, in light of the industrial partnership agreement described in the section “Significant events” which calls for the sale of the controlling interest, the figures for NPE S.r.l. are reported separately. In this report continuing operations refers to the results for the consolidation perimeter excluding NPE S.r.l.. Unless otherwise indicated, the figures reported refer to continuing operations.

(\*\*\*) Comparative figures were redetermined following the final accounting of the business combination relating to NPE s.r.l. as required by IFRS 3 – *Business Combinations*.



## Report on operations



## Performance review

The Group's 2017 results were very positive, in terms of organic growth, margins and cash flow generation. After a 2016 during which the focus was on protecting margins in order to offset the negative exchange effect, the Group concentrated on taking the steps needed to return to organic growth. This performance was supported by significant investments in advertising and promotional activities aimed at supporting the main brands and markets.

Unless indicated otherwise, the results commented on in this report refer to continuing operations, namely excluding NPE S.r.l. (which is included in the perimeter of Discontinued Operations), the controlling interest of which was sold as described in the section "Significant Events".

The Group closed the fourth quarter of 2017 with revenues growth of €52.6 million, a +7.7% increase despite the negative exchange effect, confirming the acceleration already seen in the first nine months of the year; at constant exchange rates the rise in fourth quarter sales would have reached 9.0%. This positive performance was supported, above all, by higher sales volumes in the APA region and the main European markets, with the exception of the United Kingdom and Italy which posted weak performances, and continuous double digit growth in coffee sales.

These increases were, however, offset by a negative price effect and the negative exchange effect recorded in the fourth quarter of 2017 linked mainly to the strengthening of the Euro against the US dollar.

Net revenues amounted to €1,972.8 million in FY 2017, 6.8% higher compared to FY 2016. At constant exchange rates revenues would have amounted to €1,975.3 million, +6.6% against the same period 2016.

The main growth driver was coffee which rose by around €148 million and went from 40% to 45% of revenues thanks to the increased sales of both fully automatic (+ around €65 million) and Nespresso machines; the latter benefitted from the launch of the complete product line in the United States and Switzerland, as well as the initial sales of the new *Lattissima One*. Comfort benefitted from the positive performance of air conditioning products and a favorable season for heating in a few markets. The food preparation segment was down as the solid sales for handblenders failed to offset the drop in sales of a few products categories.

Growth, albeit of varying intensity, was posted in all the commercial areas, with the exception of MEIA. Revenues in Europe rose 5.4% (+€67.6 million) thanks mainly to the contribution of the North East, where excellent results were recorded above all in Russia/Ukraine, but also in Poland, Scandinavia and the Czech Republic. Conversely, revenues in the United Kingdom were down due to the weakening of the pound and sluggish demand linked to the negative impact of Brexit.

In the South West positive results were recorded in Switzerland, thanks to the introduction of the complete line of Nespresso products, in France and the Iberian Peninsula; a weak performance was recorded in Italy explained by the difficulties encountered by a few retailers and a lackluster season for air conditioning.

Sales dropped in the MEIA region (- 12.3 million or - 8.8%) as a result of the difficult situation in a few key markets. Excellent results were reported in the APA region (+ €70.8 million or +15.7%), which benefitted, above all, from increased sales in the United States/Canada, due also to the launch of the complete Nespresso line, and in Japan.

The net industrial margin rose €52.9 million (dropping slightly as a percentage of revenues from 49.5% in 2016 to 49.0%). The result reflects the above mentioned increase in volumes, a better mix and a positive exchange effect, despite the negative price adjustments made in a few markets, above all in Russia, to offset the strengthening of the local currency and recover profitability, and the increase in production costs.



EBITDA before non-recurring and stock option costs amounted to €309.5 million in 2017 or 15.7% of revenues, higher than the €295.7 million (or 16.0% of revenues) recorded in 2016. The increase is linked to the good performance of the industrial margin which held despite the increase in operating costs: higher advertising and promotional costs (+ €22.2 million) incurred to support growth and the higher supply chain costs linked mainly to the increased volumes transported and handled at warehouses.

EBITDA was affected, above all, by the costs connected to stock option plans (which amounted to €3.7 million in the twelve month period) and the reorganization of a commercial branch.

EBIT amounted to €245.4 million in 2017 or 12.4% of revenues (€239.3 million or 13.0% of revenues in 2016), after amortization and depreciation of €58.2 million, an increase explained for €5.7 million by the recent investments made in production which are now operating at capacity and for €4.7 million by the write-downs of a few assets.

Financial expenses were €3.3 million higher, rising from the €27.5 million recorded in 2016 to €30.8 million due to the negative exchange effect recorded in the fourth quarter attributable primarily to currency volatility.

“Non-recurring financial income” includes the gain recorded as a result of the change in the fair value of the earnout payable as a result of the Braun Household acquisition, net of the impact of the early termination of the USD bond loan and the relative hedge (previously recognized under net equity).

Profit generated by continuing operations amounted to €179.7 million in 2017, an increase of €12.1 million compared to 2016 (€167.7 million) after tax of €49.5 million (€59.3 million in 2016); Discontinued operations closed the year with a loss of €1.5 million. The lower tax rate is attributable primarily to lower corporate income tax (IRES) in Italy and the patent box incentives (tax incentives on income from patents, trademarks and inventions) as a result of an agreement signed with the tax authorities for the period 2015–2019.

The net financial position came to a positive €250.6 million at 31 December 2017 (versus €316.2 million at 31 December 2016), €271.1 million of which relating to the net position with banks (€314.1 million at 31 December 2016). The twelve month comparison of the net position with banks shows a decrease of €43.0 million linked to non-recurring cash-outs, the most important of which were the new investment plan (enhancement of the production facility in Romania, the acquisition of Eversys, the purchase of a real estate complex in Treviso) and the payment of higher dividends. Normalized net cash flow came to €153.1 million in the last twelve months (€175.5 million in the previous twelve months).

Net working capital was €8.7 million higher due mainly to the acceleration in sales recorded in the last few months of the year; inventory benefitted from the acceleration in sales posted in the fourth quarter; trade receivables were higher as a result of the same dynamic and lengthier payment terms in a few markets; supply management was penalized by a general change in procurement policies in order to fill orders in the last few months of the year.



## Significant events

2017 was characterized by several events relating to new strategic and organizational initiatives, including the Eversys acquisition, the acquisition of a real estate complex in Treviso in order to expand R&D department and headquarters, as well as the launch of the new business plan in Romania.

On 13 June 2017 the acquisition of the Swiss Group Eversys, active in the design and integrated production of espresso coffee makers for professional users, was finalized. This transaction marks the entry of the De'Longhi Group in the professional espresso coffee machine market, with a focus on the fully automatic models. The company acquired, which brings with it a wealth of highly innovative technology and a management team with proven experience in the sector, aims at a leading position in the global market for professional coffee makers, also due to the technological, industrial and distribution synergies which De'Longhi is able to ensure. Eversys coffee makers are characterized by their highly innovative approach and premium brand positioning. The company was able, in a few years, to gain an outstanding reputation and win clients among the main restaurant and luxury hotel chains, owing not only to the qualitative excellence of its machines, but also to the introduction of a modular structure which facilitates the maintenance process. The agreement calls for the purchase of 40% of Swiss Group Eversys, with the option to acquire the remaining 60% through a "put & call" mechanism to be exercised by June 30, 2021. The initial cash out reached around CHF 21 million which includes consideration of CHF 17.4 million and, for the remainder, a shareholder loan to finance the investments envisaged in the business plan.

At the beginning of June, as part of its plan for the development plan of its businesses, the Group acquired its headquarters in Treviso. The investment plan calls for the construction of a new building in the same location in order to increase the amount of available space. The purchase, which qualified as a related party transaction, is subject to Consob Regulation n. 17221/2010 and the provisions of the De'Longhi Group's "Procedures for Related Party Transactions" insofar as the seller is controlled by De'Longhi S.p.A.'s largest shareholder. The price of the transaction, €16.4 million, was based on the appraisals of independent experts and the opinion of De' Longhi S.p.A.'s Risk and Control Committee.

As part of its financial strategy and in order to sustain current operations, as well as the 2017–2018 investment plan, the Group decided to take advantage of particularly favorable market conditions and complete a few financial transactions which included:

- (i) the issue and placement of unsecured, non-convertible notes with US institutional investors (the "US Private Placement") for an amount of Euro 150 million. The issue, which was subscribed by Pricoa Capital Group, part of the US group Prudential Financial Inc., was also completed in order to redeem the outstanding USD 85 million USPP, issued in 2012, as the economic conditions were no longer compelling. The securities were issued in a single tranche, have a duration of 10 years and expire in June 2027. This issue is part of a private shelf facility based on which Pricoa group companies can subscribe bonds with a 3-year duration for up to USD 300 million;
- (ii) an amendment to the securitization agreement which resulted in a significant drop in factoring costs and a simplification of the related operating procedures;
- (iii) the signing, in June and July, of two 4/5 year fixed rate (thanks to hedges) bilateral loans for a total of €195 million with two premiere lenders.

In September 2016 the De'Longhi Group signed an agreement to take over the manufacturing business of a strategic supplier of electronic components experiencing financial difficulties and involved in insolvency proceedings (procedura concorsuale); as a result of this agreement the Group had a 36-month business lease and, subsequently, could purchase the company. Through this agreement, the De'Longhi Group ensured the operational control of a strategic supplier of electronic components. In September 2017 the acquisition of the business was finalized and title to the business and the production facility were transferred in a notarized deed after the courts in Bologna accepted the proposal submitted by NPE S.r.l.. In light of the fact that the De'Longhi Group's core business does not involve electronic components and in order to foster the acquired company's organic growth, as well as improve operations and profitability, in 2017 discussions relating to a possible industrial partnership were begun with an industry player (the H&T Group, premiere Chinese electronics group listed on the Shenzhen stock exchange).

On 22 February 2018 an industrial partnership agreement was reached for the sale of 55% of NPE S.r.l.'s share capital. Based on the agreement the two shareholders will also make an equity contribution totaling €7.7 million to support development of the company and another 25% may be sold in the first half of 2020 at a price to be determined based on the extent to which certain economic targets have been achieved. The agreement will be finalized by the end of April 2018, subject to the applicable antitrust clearances.

Investments in distribution networks also continued, namely in Mexico, where the work begun in the second half of 2017 on direct distribution.

As for operations, 2017 was ripe with activity and development of production in Europe given the strong increase in volumes of both coffee machines and handblenders. Of note was the intense activity geared to improve the service provided to markets/customers thanks to a more flexible management of production plans with the introduction, on a trial basis, of minimum production lots limited to ten or so units which will make it possible to further improve time to market already in 2018. The increase in production was also possible thanks to the investments made in the Romanian facility. During the year work continued on enhancing the production platform and the investment plan was basically completed. The plant was increased by 20,000 m<sup>2</sup> and systems and production lines were expanded.

In Asia the Group worked to consolidate production, focusing particularly on optimizing the investments made over the last few years. Not only were steps taken to improve a few internal production processes (quality control and product testing) and recover efficiency, but activities were also undertaken to improve the service of the component sub-suppliers, key to guaranteeing the continuous improvement of both quality and productivity in a production system tending increasingly toward an integrated supply chain.

As for the Supply Chain, in 2017 implementation and fine tuning of the "Swim Lanes" project continued and was tested in the fully automatic coffee machine segment: by integrating the procedures for the management and organization of supply side transactions, it was possible to significantly improve the time needed to fulfill orders and, consequently, customer service. Extending this project to include other product segments which could benefit from a similar model is currently being evaluated.

In 2017 execution of another Supply Chain project began, namely the creation of a distribution hub for Northern Europe with a view to improving control of working capital through the use of a centralized warehouse for a few of the group's European branches.

During the year the Group continued the activities focused on expanding the existing offer with the introduction of new models and enhancement of the existing lines.

The line of fully automatic coffee machines was expanded through the launch of two new models. In March the *Primadonna S EVO* was introduced, with updated functions and a new interactive interface, with a view to enhancing the premium product range; during IFA 2017 the new *Primadonna Class* was presented which completes this range of products. The single-serve coffee machine segment was strengthened thanks to the simultaneous launch of two internally produced products; the new Nespresso *Lattissima One* which also features a single serve system for milk based drinks, and the new *Dolcegusto Colors* machine which has new functions, a new design and interchangeable covers in three different colors. The line of compact machines was strengthened thanks to the introduction of the new *Essenza*. As for Kenwood, two new food preparation machines were launched in the first part of 2017, the new *Chef* and *Cooking Chef*. Two new traditional food processors, the *Multipro Compact* and the innovative *Kenwood KFEX* were launched in Australia during the third quarter of the year. The *Triblade* line was enhanced and two new breakfast collections were also launched.

The Braun brand benefitted from the launch in 2016 of the *MQ9* and *MQ3* series which was expanded in 2017 with the introduction of the *MQ3 Vario* and the new *MQ Baby* which marks the debut in the baby food preparation market. The introduction of the *MultiMix 5*, which is more powerful than the previous *Multimix 3*, enhanced the range of hand mixers. With a view to strengthening the brand's presence in irons, two new ironing systems *TexStyle 7Pro* and *TexStyle 9*, were launched in the first part of the year. Of note, lastly, is the launch at the end of 2017 of the first *PurEase* breakfast collection which comprises a filter coffee machine, two different sized toasters and kettles, and the first *SensorAir* air purifier in China. The results of this launch are expected for next year.

## Global market conditions

In 2017 the world economy continued to expand at a robust pace, showing signs of increasing synchronization. The very positive performance recorded in the last quarter, particularly in December, reflects the vigorous expansion underway in advanced economies and the recovery in emerging markets, driven, in particular, by China and India.

Economic recovery continued in the United States: activity was boosted by accommodative monetary policies and sustained confidence; the labor market continued to strengthen, in line with the robust economic activity.

On 22 December 2017 President Trump signed the "Tax Cuts and Jobs Act". The reform, effective as of 1 January 2018, calls for a profound reorganization of the US tax code and will result in a number of changes including, for example: a permanent reduction of the corporate income tax rate which will drop from 35% to 21% and the full deduction, for five years, of investments from taxable income which will gradually be phased out; simplification of and a temporary decrease in personal income tax; a reduction in income tax for small businesses; the transition to a "hybrid" territorial system under which most of the profits of foreign subsidiaries of US multinationals will be exempt from taxation. The tax burden of US companies will, consequently, fall close to the levels existing in different Euro zone countries. Overall the reform will provide the US economy with significant fiscal stimulus over the next ten years and could have some spillover effects in the Euro zone, though overall the impact will likely be rather limited.

The Euro zone will also be affected by changes in the international fiscal environment resulting in a high level of uncertainty and complexity.

In Japan, economic activity has continued to be solid and the labor market has continued to strengthen; wage pressure was, overall, modest; as for inflation, businesses were persistently cautious about any further price increases.

In the United Kingdom, economic activity recovered slightly after the noticeable slowdown recorded in the first half of 2017.

The economic indicators in China point to a solid expansive dynamic.

Solid and generalized expansion continued in the Euro zone. In the third quarter of 2017 the real GDP rose 0.7% against the prior period, driven by the positive contribution of internal demand and net exports, after a similar increase in the second quarter.

There was a further rise in consumer spending, which continues to play a key role in sustaining the current economic expansion.

Labor markets continue to improve, helping to sustain household income and spending. The most recent economic indicators show that the vigorous growth observed in the last months of the year should continue in the short-term.

As confidence improved, yields and stock market prices increased. As for the currency markets, overall the Euro strengthened on a weighted basis against the dollar.

(Source: European Central Bank).

## Group results

The reclassified De'Longhi Group consolidated income statement is summarized as follows:

<b>(€/million)</b>	<b>2017</b>	<b>% revenues</b>	<b>2016</b>	<b>% revenues</b>
<b>CONTINUING OPERATIONS</b>				
<b>Revenues</b>	<b>1,972.8</b>	<b>100.0%</b>	<b>1,846.7</b>	<b>100.0%</b>
<i>Change 2017/2016</i>	<i>126.1</i>	<i>6.8%</i>		
Materials consumed & other production costs (production services and payroll costs)	(1,005.5)	(51.0%)	(932.3)	(50.5%)
<b>Net industrial margin</b>	<b>967.3</b>	<b>49.0%</b>	<b>914.4</b>	<b>49.5%</b>
Costs for services and other expenses	(481.5)	(24.4%)	(448.7)	(24.3%)
Payroll (non-production)	(176.3)	(8.9%)	(170.0)	(9.2%)
<b>EBITDA before non-recurring expenses / stock option costs</b>	<b>309.5</b>	<b>15.7%</b>	<b>295.7</b>	<b>16.0%</b>
<i>Change 2017/2016</i>	<i>13.8</i>	<i>4.7%</i>		
Other non-recurring expenses / stock option costs	(5.8)	(0.3%)	(3.8)	(0.2%)
<b>EBITDA</b>	<b>303.7</b>	<b>15.4%</b>	<b>291.9</b>	<b>15.8%</b>
Amortization	(58.2)	(3.0%)	(52.6)	(2.8%)
<b>EBIT</b>	<b>245.4</b>	<b>12.4%</b>	<b>239.3</b>	<b>13.0%</b>
<i>Change 2017/2016</i>	<i>6.1</i>	<i>2.6%</i>		
Financial income (expenses)	(30.8)	(1.6%)	(27.5)	(1.5%)
Non-recurring financial income (expenses)	14.6	0.7%	15.9	0.9%
<b>Profit (loss) before taxes</b>	<b>229.2</b>	<b>11.6%</b>	<b>227.8</b>	<b>12.3%</b>
Income taxes	(49.5)	(2.5%)	(59.3)	(3.2%)
<b>Net profit of continuing operations</b>	<b>179.7</b>	<b>9.1%</b>	<b>168.4</b>	<b>9.1%</b>
<b>DISCONTINUED OPERATIONS</b>				
Net profit / (loss) of discontinued operations	(1.5)		(0.2)	
<b>Consolidated profit (loss)</b>	<b>178.3</b>	<b>8.9%</b>	<b>168.2</b>	<b>9.1%</b>
Profit (loss) pertaining to minority interests	-	-	(0.8)	0.0%
<b>Profit (loss) pertaining to the Group</b>	<b>178.3</b>	<b>8.9%</b>	<b>167.4</b>	<b>9.0%</b>

The Continuing Operations net industrial margin reported in the reclassified income statement differs by €158.8 million in 2017 (€138.9 million in 2016) from the consolidated income statement; this is because, in order to represent period performance better, production-related payroll and service costs have been reclassified from payroll and services respectively.

For the sake of comparison with 2017, the comparison figures for 2016 were adjusted with respect to prior financial reports in order to reflect the reclassification of a few commercial components of revenue and operating costs.

## Revenues – Continuing Operations

In 2017 the De'Longhi Group's revenues from continuing operations amounted to €1,972.8 million, an increase of €126.1 million or 6.8% (revenues amounted to €1,846.7 million in 2016); in organic terms growth would have reached 6.6%. All geographies contributed to the good results, with the sole exception of the MEIA region.

### Markets

The following table summarizes sales performance in the Group's various business regions:

(€/million)	2017	% revenues	2016	% revenues	Change	Change %
North East Europe	513.6	26.0%	456.5	24.7%	57.1	12.5%
South West Europe	810.7	41.1%	800.1	43.3%	10.6	1.3%
<b>EUROPE</b>	<b>1,324.2</b>	<b>67.1%</b>	<b>1,256.6</b>	<b>68.0%</b>	<b>67.6</b>	<b>5.4%</b>
<b>MEIA (Middle East/India/Africa)</b>	<b>128.0</b>	<b>6.5%</b>	<b>140.3</b>	<b>7.6%</b>	<b>(12.3)</b>	<b>(8.8%)</b>
United States and Canada	189.5	9.6%	147.3	8.0%	42.1	28.6%
Australia and New Zealand	109.0	5.5%	105.7	5.7%	3.3	3.1%
Japan	80.1	4.1%	72.2	3.9%	7.8	10.8%
Other countries area APA	142.0	7.2%	124.5	6.7%	17.5	14.1%
<b>APA (Asia/Pacific/Americas)</b>	<b>520.6</b>	<b>26.4%</b>	<b>449.8</b>	<b>24.4%</b>	<b>70.8</b>	<b>15.7%</b>
<b>Total revenues</b>	<b>1,972.8</b>	<b>100.0%</b>	<b>1,846.7</b>	<b>100.0%</b>	<b>126.1</b>	<b>6.8%</b>

Revenues in Europe grew by 5.4% to €1,324.2 million.

Revenues in South West Europe rose slightly (+ €10.6 million or +1.3%) compared to the prior year to €810.7 million (€ 800.1 million in 2016) thanks to the positive contribution of all the markets, with the exception of Italy. This solid performance was driven by the sale of De'Longhi brand products, namely the main coffee lines and comfort, which benefitted from a positive summer season with the exception of Italy where, overall, the season was not positive. Two important Nespresso launches (*Essenza Mini* and *Lattissima One*) and the launch of the Nescafé *Dolce Gusto Colors* provided a significant boost. The Braun brand benefitted from the success of the new *Multiquick 9 Active Blade* handblender line and irons, both traditional and ironing systems. Conversely, Kenwood brand products were adversely impacted by the sector slowdown. In terms of markets, positive results were recorded in Germany where sales rose 2.0% thanks to the sale of coffee machines and a favorable season for De'Longhi brand air conditioners; revenues for Kenwood and Braun brand products were not as solid due, in part, to a largely stable food preparation market which is important for both brands. Good revenue growth was also reported in France (+4.4%) driven by the sale of coffee machines which was offset by the persistent difficulties encountered in the kitchen machine market. The Iberian Peninsula closed what was a particularly favorable year in terms of revenue growth thanks also to the sale of Braun brand products (handblenders and irons). Italy, the only exception to this growth trend, reported a decline linked to the difficulties encountered by a few large retailers and the lackluster performance of portable air conditioners.

A very positive performance was posted in North East Europe (+12.5% at current exchange rates and +10.3% in organic terms) thanks to double digit growth in Russia/Ukraine, and the good results posted in Poland, Scandinavia and the Czech Republic. The British market was down and did not show signs of reversing the trend seen in prior quarters.

Sales in the MEIA region reached €128.0 million, down 8.8% (-7.6% in organic terms) against 2016. Revenues were impacted by unfavorable changes in key markets, particularly in the Arabian Peninsula and North Africa, as well as the weakness of the US dollar.

Sales in the APA region reached €520.6 million, an increase of 15.7% fueled by the good results recorded in the United States linked to higher sales of coffee machines attributable, above all, to the launch of the complete range of Nespresso brand products, and Braun products. Sales in Japan benefitted from the excellent results posted by comfort linked to the sale of heaters; sales for fully automatic coffee machines and Braun brand handblenders were also good. A positive sales performance was also posted in Australia/New Zealand and China.

## Business lines

The sales trend varied from business line to business line.

Coffee machines achieved very positive results, reaching double digit growth. Fully automatic machines sales reported a steady increase, both in terms of volumes and total value, in line with market trend. This product family benefitted from the above mentioned launch of the fully automatic machines *Primadonna S EVO* and *Primadonna Class*.

Sales were good for traditional pump machines thanks mainly to the *Dedica* line.

The Nespresso line, which reported good growth in traditional markets also benefitted from the expansion of the Nestlé partnership to include the United States and Switzerland. The expanded product range linked to the launch of the new *Lattissima One* and the introduction of the *Essenza Mini* had a positive impact. Sales of Nescafé Dolcegusto products maintained a solid performance thanks mainly to a better mix and the contribution of *Colors*, the new Dolcegusto model.

Sales for food preparation and cooking machines fell slightly compared to the prior year, but growth for Braun brand handblenders and contact grills, which benefitted from the launch of new models, was positive. Kitchen machines was adversely impacted by a lackluster market and intense competition in the traditional European markets, while good results were reported in eastern Europe (Russia, Ukraine and Poland) and in the APA region.

Home cleaning products and irons were down, while comfort posted a positive performance thanks, on the one hand, to a favorable summer season in a few markets which sustained the sale of portable air conditioners and, on the other, a particularly cold winter which fueled the sale of heating products, particularly in Japan.

## Profitability

The net industrial margin amounted to €967.3 million in the year (€914.4 million in the prior year) and went from 49.5% of revenue in 2016 to 49.0% in 2017. The performance benefitted from an increase in volumes, a better mix and a positive exchange effect which offset the increased production costs and the negative price effect explained by repositioning in a few markets, mainly Russia, which became necessary in order to recover profitability.

EBITDA before non-recurring/stock option costs came to €309.5 million with an EBITDA margin which was basically in line with 2016 despite higher investments in promotional activities (+€22.2 million) and the increase in supply chain costs explained by the increased volumes transported and higher tariffs.

EBITDA was impacted by the costs connected to stock option plans (which amounted to €3.7 million in the twelve month period) and the reorganization of a commercial branch.

EBIT amounted to €245.4 million in 2017 or 12.4% of revenues (€239.3 million or 13.0% of revenues in 2016), after amortization and depreciation of €58.2 million, an increase explained for €5.7 million by the recent investments made in production which are now operating at capacity and for €4.7 million by the write-downs of a few assets.

Financial expenses were €3.3 million higher, rising from the €27.5 million recorded in 2016 to €30.8 million due to the negative exchange effect recorded in the fourth quarter attributable primarily to currency volatility.

“Non-recurring financial income” includes the gain recorded as a result of adjustments made to the value of the earn-out payable for the Braun Household acquisition, net of the impact of the early termination of the USD bond loan and the relative hedge (previously recognized under net equity).

Profit generated by continuing operations amounted to €179.7 million in 2017 (€167.7 million in 2016) after tax of €49.5 million (€59.3 million in 2016). The Group's consolidated net profit includes the net loss reported by discontinued operations of €1.5 million. The lower tax rate is attributable to lower corporate income tax (IRES) in Italy and the patent box incentives (tax incentives on income from patents, trademarks and inventions) as a result of an agreement signed with the tax authorities for the period 2015–2019.

## Operating segment disclosures

The De'Longhi Group has identified three operating segments which coincide with the Group's three main business regions: Europe (North East and South West), MEIA (Middle East, India and Africa) and APA (Asia, Pacific, America). Each segment is responsible for all aspects of the Group's brands and services different markets. This breakdown is in line with the tools used by Group management to run operations, as well as evaluate the company's performance and make strategic decisions.

The results by operating segment can be found in the Explanatory Notes.

## Review of the statement of financial position

The reclassified consolidated statement of financial position is presented below:

(€/million)	Continuing Operations			Consolidated figures		
	31.12.2017	31.12.2016	Change	31.12.2017	31.12.2016 (**)	Change
- Intangible assets	320.9	322.7	(1.8)	321.1	323.1	(2.0)
- Property, plant and equipment	233.1	194.9	38.2	240.6	201.6	39.0
- Financial assets	26.1	8.0	18.0	26.0	8.0	18.0
- Deferred tax assets	32.3	38.4	(6.1)	32.6	38.4	(5.8)
<b>Non-current assets</b>	<b>612.4</b>	<b>564.1</b>	<b>48.3</b>	<b>620.3</b>	<b>571.1</b>	<b>49.2</b>
- Inventories	329.7	313.4	16.3	340.2	320.4	19.8
- Trade receivables	401.5	367.9	33.7	406.3	372.8	33.5
- Trade payables	(366.1)	(357.3)	(8.8)	(371.4)	(363.8)	(7.6)
- Other payables (net of receivables)	(107.4)	(74.9)	(32.5)	(107.2)	(75.0)	(32.2)
<b>Net working capital</b>	<b>257.8</b>	<b>249.1</b>	<b>8.7</b>	<b>267.9</b>	<b>254.3</b>	<b>13.6</b>
<b>Total non-current liabilities and provisions</b>	<b>(97.5)</b>	<b>(115.1)</b>	<b>17.6</b>	<b>(100.0)</b>	<b>(118.0)</b>	<b>18.0</b>
<b>Net capital employed</b>	<b>772.7</b>	<b>698.1</b>	<b>74.7</b>	<b>788.2</b>	<b>707.5</b>	<b>80.7</b>
<b>Net financial assets (*)</b>	<b>(250.6)</b>	<b>(316.2)</b>	<b>65.6</b>	<b>(233.5)</b>	<b>(306.6)</b>	<b>73.1</b>
<b>Total net equity</b>	<b>1,023.3</b>	<b>1,014.3</b>	<b>9.0</b>	<b>1,021.7</b>	<b>1,014.0</b>	<b>7.7</b>
<b>Total net debt and equity</b>	<b>772.7</b>	<b>698.1</b>	<b>74.7</b>	<b>788.2</b>	<b>707.5</b>	<b>80.7</b>

(\*) Net financial position as at 31 December 2017 includes €20.5 million in net financial liabilities (€ 2.1 million at 31 December 2016 in net financial assets) relating to the fair value of derivatives and the financial debt connected to business combinations and pension fund.

(\*\*) Comparative figures were redetermined following the final accounting of the business combination relating to NPE s.r.l. as required by IFRS 3 – *Business Combinations*.

Capital expenditures amounted to €122.7 million in 2017, €85.1 million of which in plant, property and equipment (€41.5 million in 2016) and include the purchase of the real estate complex in Treviso, as well as enhancement of the production plant in Romania (for €20.5 million). Investments in non-current financial assets mainly reflect the Eversys acquisition.

Consolidated net working capital rose by €8.7 million to €257.8 million at 31 December 2017 (€249.1 million in 2016) due mainly to the acceleration in revenues recorded in the fourth quarter, and fell as a percentage of rolling revenues from 13.5% to 13.1%.

While trade receivables benefitted from the negative exchange effect, they were affected by the acceleration in sales in the latter part of the year and lengthier payment terms in a few markets. Inventory benefitted from the negative exchange effect and the acceleration in sales posted in the last quarter of the year.

The rise in trade payables was not proportionate to the increased activity due specifically to the timing of the flows generated by operations in 2017. In light of the expectation that sales would accelerate in the last quarter, production was stepped up and purchasing costs were settled by year-end.



Net working capital includes the reclassification of certain payables pertaining to employee incentive plans for 2015 – 2017 which were previously recognized as long-term liabilities.

The net financial position for continuing operations came to €250.6 million at 31 December 2017 (versus €316.2 million at 31 December 2016), €271.1 million of which relating to the net position with banks (€314.1 million at 31 December 2016).

Details of the net financial position are as follows:

(€/million)	Continuing Operations			Consolidated figures		
	31.12.2017	31.12.2016	Change	31.12.2017	31.12.2016 <sup>(*)</sup>	Change
Cash and cash equivalents	664.7	458.0	206.7	668.0	461.4	206.6
Other financial receivables	8.3	35.7	(27.4)	8.2	25.7	(17.5)
Current financial debt	(138.3)	(106.2)	(32.1)	(150.6)	(109.3)	(41.3)
<b>Net current financial position</b>	<b>534.7</b>	<b>387.4</b>	<b>147.2</b>	<b>525.6</b>	<b>377.8</b>	<b>147.8</b>
<b>Non-current financial debt</b>	<b>(284.1)</b>	<b>(71.2)</b>	<b>(212.9)</b>	<b>(292.1)</b>	<b>(71.2)</b>	<b>(220.9)</b>
<b>Total net financial position</b>	<b>250.6</b>	<b>316.2</b>	<b>(65.6)</b>	<b>233.5</b>	<b>306.6</b>	<b>(73.1)</b>
<i>of which:</i>						
- Position with banks and other financial payables	271.1	314.1	(43.0)	254.1	307.5	(53.5)
- Financial assets/(liabilities) other than bank debt (fair value of derivatives, financial debt related to business combinations and pension funds)	(20.5)	2.1	(22.7)	(20.5)	(0.1)	(19.6)

(\*) Comparative figures were redetermined following the final accounting of the business combination relating to NPE s.r.l. as required by IFRS 3 – Business Combinations.

There was a noticeable increase in non-current financial debt at 31 December 2017 as a result of the loan transactions described above.

The net financial position reflects a few specific financial items, including primarily the fair value measurement of derivatives and the residual debt owed on business combinations which show a negative balance of €20.5 million at 31 December 2017 (positive for €2.1 million at 31 December 2016).

Net of these items, the net position with banks for continuing operations reached €271.1 million at 31 December 2017, with cash flow reaching a negative €43.0 million in the twelve month period (positive €97.5 million in the previous twelve month period), explained primarily by the investment plan described above and the payment of higher dividends.



The statement of cash flows is presented on a condensed basis as follows:

(€/million)	Continuing Operations		Consolidated figures	
	2017	2016	2017	2016 <sup>(*)</sup>
Cash flow by current operations	277.6	286.2	277.3	289.1
Cash flow by changes in working capital	(67.5)	(37.2)	(73.4)	(42.4)
<b>Cash flow by current operations and changes in working capital</b>	<b>210.1</b>	<b>249.0</b>	<b>204.0</b>	<b>246.8</b>
Cash flow by investment activities	(122.7)	(52.5)	(124.1)	(59.9)
<b>Cash flow by operating activities</b>	<b>87.4</b>	<b>196.5</b>	<b>79.9</b>	<b>186.8</b>
Dividends paid	(119.6)	(65.8)	(119.6)	(65.8)
Cash flow by changes in cash flow hedge reserves	(14.5)	4.2	(14.6)	4.2
Cash flow by other changes in net equity	(19.0)	(7.5)	(18.8)	(7.5)
<b>Cash flow absorbed by changes in net equity</b>	<b>(153.0)</b>	<b>(69.1)</b>	<b>(152.9)</b>	<b>(69.1)</b>
<b>Cash flow for the period</b>	<b>(65.6)</b>	<b>127.4</b>	<b>(73.1)</b>	<b>117.7</b>
<b>Opening net financial position</b>	<b>316.2</b>	<b>188.9</b>	<b>306.6</b>	<b>188.9</b>
<b>Closing net financial position</b>	<b>250.6</b>	<b>316.2</b>	<b>233.5</b>	<b>306.6</b>

(\*) Comparative figures were redetermined following the final accounting of the business combination relating to NPE s.r.l. as required by IFRS 3 – *Business Combinations*.

Consolidated cash flow generated by current operations and changes in net working capital reached a significant level again in 2017 (€204.0 million), but the comparison with 2016 reflects the above mentioned increase in working capital.

As a result of the above mentioned non-recurring investments, consolidated net operating cash flow came to 79.9 million, down compared to the previous twelve month period.

Cash flows in the year were adversely affected by changes in net equity: the payment of €119.6 million in dividends (versus €65.8 million in 2016), the negative impact of the fair value measurement of hedging instruments (€14.5 million for continuing operations) and the negative exchange differences resulted in a net decrease of €153.0 million (versus -€69.1 million in 2016).

Net of the non-recurring items recorded in the twelve month period, cash flow amounted to €153.1 million (€175.5 million in the previous twelve month period).

## Research and development – quality control

In 2017 the Group invested a total of around €51 million in research and development (operating figures, around €49 million in 2016), €12.0 million of which capitalized as intangible assets. Research and development was carried out at the main product development hubs in Italy, Germany and the United Kingdom.

As a result of the reorganization begun in 2016, the Group's technical offices are gradually being transformed into transversal structures, no longer servicing single Group brands, but rather specific business lines.

2017 was, therefore, a year of important transition for the Group's technical structures. The goal was to gradually make the company's best practices available to all, including in different geographies, with a view to streamlining the development of new products in different product families and avoiding expensive overlapping of activities, while also, above all, ensuring an effective allocation of resources. As a result of this mapping and optimization of resources, a few teams were strengthened further.

The focus for food preparation products was on the development of new interfaces to be used with new generation products, including connectible devices currently being developed and ready to be launched.

Particular attention was also paid to the new Braun breakfast collection, development of a new model of hand mixer, launched during the year, and expansion of the handblender line with the introduction of a few options.

In addition to the activities related to coffee which resulted in the launch of the new models mentioned above, the De'Longhi breakfast segment was also expanded with the introduction of an entry level collection complete with toaster and kettle. The renewal of the premium oven segment in the United States was also completed with a small/midsize model; a sandwich maker, which should be launched in 2018, is being developed along with a compact version of the no oil fryer/multicooker.

As for Comfort, in addition to the above mentioned Braun brand air purifier for the Chinese market which is equipped with IFD (Intense Field Dielectric) filter technology based on which the filters may be washed and reused, the first multifunctional (combination of heating, fans and air purification) product platform was developed, "*Halo Project*", which aims to meet consumer needs in the different seasons. With regard to the emerging IoT trend and connectivity, in addition to the Apple HomeKit system products already available in Japan, a solution integrated with Apple Watch is being developed which allows for better quality sleep thanks to the device's temperature settings which adjust to the different stages of sleep based on the measurement of biometric parameters. In the USA it was necessary to make adjustments to the entire range of Portable Air conditioners in order to comply with the new DOE regulations effective beginning in 2018.

As for irons, the Group's technical team worked on the launch of two new models, in addition to the development in a new ironing system which is expected to be launched in 2018.

In 2017 the Group also worked on quality, investing, firstly, in initiatives designed to foster the sharing and standardization of documents (the SAP PLM project), as well as the definition of quality benchmarks and relative standardization across all the main product categories with a view to transversal branding. Already part of European operations, the traceability of food contacts was introduced and implemented in Chinese plants. ISO 9001 certification was also obtained for Braun and an upgrade in the ISO 9001:2015 certification based on new standards was obtained for Kenwood. Implementation of the ISMS (Information Security Management System) was begun and, the first guidelines for compliance with the European General Data Protection Regulation GDPR 2016/679, were defined and issued.

## Communication activities

In 2017 communication activities supporting the three main brands continued on various fronts.

With regard to the De'Longhi brand, during the year support of the espresso coffee machines continued with two campaigns targeting different markets based on the level of maturity.

A first campaign, called *Postcards*, was created for the more mature markets in which the brand can leverage on the Italianity aspect. The second campaign, *Delivery boy*, was developed for the less mature markets and conceived to convey the message that the De'Longhi fully automatic machines ensure the best tasting experience right at home, starting from the fresh coffee beans. Both campaigns were accompanied by a vast range of tools used by the different countries with great flexibility, from the traditional TV campaign to the more modern Instagram story, from the printed hard copies to the publication of content on Facebook or other social medial channels. Similarly, communication campaigns accompanied by a vast range of tools were developed to support cooking products and comfort.

As for the Kenwood brand, which continues to be associated with kitchen machines, the emphasis on the products' emotional impact increased; consequently the Group worked, firstly, on improving the store ambiance which is very important, above all, for the high end products. The fittings were developed to reflect a new type of excellence: the key products were presented in a way which engaged the consumer.

Digital marketing tools were also leveraged on to supplement content (recipe videos, tutorials, how to videos, etc.) on mobile devices in order to increase awareness as to the potential of the products and the relative accessories.

With regard to the Braun brand, in 2017 the Group supported the launch of the new *MQ 5 Baby* handblender, developing a complete range of communication tools; in many countries in Europe and the APA region advertising campaigns were also used to support the launch, which took place in the latter part of 2016, of the *MQ 9* model. Important advertising campaigns were also developed to support irons, namely the two new ironing systems *TexStyle 7 Pro* and *TexStyle 9*.

Looking at the digital strategy, a PIM (Product Information Management) strategy was implemented which makes it possible to systematically group and organize all the useful information found (information on products, translated texts, images and videos), as well as quickly and accurately share them through different channels. The Group also continued working on SEO (Search Engine Optimization) with excellent results in terms of the increase in the number of visitors on the websites of the three main brands. Work also continued on implementing and managing the eCommerce platform.

## Human resources

Here follows a detail of the average workforce in 2017:

	2017	2016
Blue collar	5,044	3,945
White collar	2,990	2,859
Senior managers	101	97
<b>Continuing Operations</b>	<b>8,135</b>	<b>6,901</b>
Discontinued Operations	261	262
<b>Total</b>	<b>8,396</b>	<b>7,163</b>

The Group had an average of 8,396 employees in 2017, an increase of 1,233 employees attributable primarily to increased staffing at the Romanian plant.

2017 was a year of great change in human resources thanks to the deployment of a new Group-wide human resources management system called *Success Factor*. The project progressed as planned: during the year the first (*Employee Central*) of the three modules became operative which is used to manage the personal information of all the Group's employees and which will be connected to other available modules. The second module, which focuses on training (*Learning & Development*) and will allow for training paths to be created at a Group or individual level, by market or division, including via e-learning, will be launched in the first few months of 2018; the third and last module of this initial phase of the project will be deployed in the first four months of 2018 and will support the salary review process, as well as MBO management.

In 2017 management was still very involved in the Group-wide implementation of the initiatives identified during the 2015 *Survey*; furthermore, a second *Survey* was conducted in October with the support of external consultants in which all employees participated, including the production personnel in the Italian and international plants. Two Group projects, developed as a result of the first *Survey* and undertaken already at the end of 2016, reached the implementation phase. February 2017 was marked by the launch of the second phase of the project linked to *Leadership*, namely *Group Identity*, which resulted in a communication campaign centered on the Group's new identity defined in 2016 based on a new *Vision*, a new *Mission* and new *Values*. The new *Values* were the first to be shared by way of a video and photography contest which a great number of employees participated in spontaneously. The goal of the contest was to use a natural, creative and engaging process to convey the concepts underlying the values through images relating to the participants' professional and personal lives.

The *Mission* and the *Vision* were shared in two videos presented during the international meeting held in March 2017, visible through live streaming for the first time, and subsequently made available to all Group employees.

A fourth video in which the Group's story was summarized, reinforcing the identity message, closed the communication campaign. This campaign, propelled by the content and innovative methods used, went viral and strengthened the sense of belonging and a shared identity.

The Group's new identity was also at the core of internal and external communication initiatives like, for example, the welcome event for new hires, *Welcome on Board*, which presented a whole new approach giving ample room to the new *Values*, the new *Vision* and the new *Mission*, as did the Employer Branding materials developed and used at Italian universities in Venice, Padua and Milan (Politecnico and Bocconi).

In 2017 the second project, linked to *My Manager*, was implemented through a development program called *UConnect* which involved around 500 managers in more than forty editions worldwide. The purpose of the program, comprised of a three day workshop (two consecutive days and one six months later), in addition to two follow-ups of two hours each, was to support managerial development in light of the new business challenges and create a more engaged and better performing organization.

Another event connected to the *Survey* was developed for all employees in Italy and their families, namely “*Prendiamo un Caffè Insieme*” (literally “*Let’s have a cup of coffee together*”), and held at the headquarters in Mignagola. The purpose of this family day style event was to increase familiarity with the plant’s production team, as well as promote socialization and the sense of belonging to the company.

Other projects involved corporate welfare systems and flexible hours. In Italy a platform was launched which provides healthcare, charitable, educational, and leisure time services to employees financed, in part, by the bonus awarded for the 2016 results and, in part, based on the new national collective labor contract. New flexible hours were provided to all white collar workers, middle managers and company executives in order to promote greater work-life balance.

In 2017 specialized/technical training courses were also offered.

## Report on corporate governance and ownership structure

De’Longhi S.p.A.’s Report on Corporate Governance and Ownership Structure drawn up in accordance with art.123 – *bis* of Legislative Decree n. 58/98 (“TUF”) can be found in a report not included in the Report on Operations, published at the same time as the latter and available on the company’s website [www.delonghigroup.com](http://www.delonghigroup.com) (section “Investor relations” – “Governance” – “Annual Shareholders’ Meeting” – “2018”).

## Risk management and internal control system relating to the financial reporting process

### Introduction

The Issuer’s and the De’Longhi Group’s Internal Control System consists in the set of rules, procedures and organizational structures set in place to ensure that company strategies are adhered to and, based on the corporate governance standards and model included in the COSO report (Committee of Sponsoring Organizations of the Treadway Commission), to guarantee:

- a) efficient and effective company operations (administration, production, distribution, etc.);
- b) reliable, accurate, trustworthy and timely economic and financial information;
- c) compliance with laws and regulations, as well as the corporate articles of associations, rules and company procedures;
- d) safeguarding of the company’s assets and protection, to the extent possible, from losses;
- e) identification, assessment, management and monitoring of the main risks.

The executive administrative bodies of the Parent Company De’Longhi S.p.A. (Board of Directors, the Risk and Control and Corporate Governance Committee, Director in Charge of the Internal Control and Risk Management System), the Board of Statutory Auditors, the Director of Internal Audit, the Supervisory Board, the Chief Financial Officer/Financial Reporting Officer and all De’Longhi personnel, as well as the Directors and Statutory Auditors of the Issuer’s subsidiaries, are involved in the controls, with different roles and in function of their expertise and adhere to the recommendations and principles found in the guidelines.

The Internal Control System that is subject to examination and periodic audits, taking into account changes in the company’s operations and reference context, makes it possible to address the main risks to which the Issuer and the Group are exposed to over time, in a timely manner, as well as to identify, assess and control the degree of the exposure of the Issuer and all the other companies of the De’Longhi Group – particularly the strategically important subsidiaries – to the different types of risk, and also makes it possible to manage the overall exposure taking into account:

- (i) the possible correlations between the different risk factors;
- (ii) the probability that the risk materializes;
- (iii) the impact of the risk on the company’s operations;
- (iv) the overall impact of the risk.

The internal control and risk management system relating to the financial reporting process (administrative and accounting procedures used to draft the separate and consolidated annual financial statements and the other economic and/or financial reports and disclosures prepared in accordance with the law and/or regulations, as well as ensuring correct implementation) coordinated by the Chief Financial Officer/Financial Reporting Officer, is an integral and essential part of the De'Longhi Group's Internal Control and Risk Management System.

The Director of Internal Audit – who is in charge of verifying that the internal control and risk management system works efficiently and effectively – prepares a work plan each year that is presented to the Board of Directors for approval, subject to the positive opinion of the Risk and Control and Corporate Governance Committee and after having consulted with the Board of Statutory Auditors and the Director in Charge of the Internal Control and Risk Management System, based also on the comments made by the Chief Financial Officer/Financial Reporting Officer, as well as pursuant to Legislative Decree 262/05. Discusses the steps taken to resolve any problems, to make the improvements agreed upon, as well as the results of the testing activities with the Risk and Control and Corporate Governance Committee. Provides the Chief Financial Officer/Financial Reporting Officer, as well as the administrative body assigned, with a summary report based on which they can assess the adequacy and application of administrative procedures to be used to prepare the consolidated financial statements.

## Description of main characteristics

The De'Longhi Group uses a system of risk management and internal control for the financial reporting process that is part of the wider system of internal controls as required under art. 123-bis par. 2.(b) of TUF.

For the purposes of ensuring reliable internal controls over its financial reporting, the Group has implemented a system of administrative and accounting procedures and operations that include an accounting policies manual, updating in order to comply with the law and changing accounting standard, rules for consolidation and interim financial reporting, as well as coordination with subsidiaries as needed.

The Group's central corporate functions are responsible for managing and communicating these procedures to other Group companies.

The assessment, monitoring and continuous updating of the internal control system relating specifically to financial reporting is carried out in accordance with the COSO model and, where applicable, Law 262/2005. Critical processes and sub-processes relating to the principal risks have been identified in order to establish the principal controls needed to reduce such risks. This has involved identifying the strategically important companies, based on quantitative and qualitative financial parameters (i.e. companies that are relevant in terms of size and companies that are relevant just in terms of certain processes and specific risks).

Having identified these companies, the risks have been mapped and assessed and the key manual and automatic controls have been identified and rated as high/medium/low priority accordingly; these controls have then been tested. The perimeter of the companies included in the mapping for the purposes of Law 262/2005 has changed over the years to reflect the changes in the Group, both quantitative and qualitative, and this perimeter was also considered for the definition of companies viewed as strategic.

The general managers and administrative heads of each Group company are responsible for maintaining an adequate internal control system and, given their roles, must certify that the internal control system works properly.

Internal Audit must also include verification of the internal controls through the use of a self-assessment check list in its Audit Plan.

With regard to compliance with Title VI of the Regulation implementing Legislative Decree n. 58 of 24 February 1998 relating to market regulations, De' Longhi S.p.A. controls, directly or indirectly, eight companies formed and regulated by the law of countries that are not part of the European Union considered relevant pursuant to art. 151 of the Issuer Regulations.

With reference to the requirements of art. 36 of the Market Regulations, it is reported as follows:

- in the issuer's opinion, these companies have suitable accounting and reporting systems for regularly providing management and the auditors of De'Longhi S.p.A. with all the financial information needed to prepare the consolidated financial statements and perform the audit of the accounts;
- these companies provide the auditors of De'Longhi S.p.A. with the information needed to audit the parent company's interim and annual financial statements;

- the issuer keeps the articles of association of the aforementioned companies and details of their company officers and related powers, which are constantly updated for any changes in the same;
- the financial statements of such companies, prepared for the purposes of the De'Longhi Group's consolidated financial statements, have been made available in the manner and terms established by existing law. Please note that the identification and analysis of the risk factors contained in this report were carried out including in light of the change in strategic companies as resolved by the Board of Directors.

In order to identify and manage the Company's main risks, with regard particularly to corporate governance and compliance with the law and regulatory standards (including the Corporate Governance Code for Listed Companies), during 2013 the Issuer undertook a project designed to strengthen enterprise risk management (ERM) with the support of a premiere consulting company.

This project called for the development and monitoring of a structured ERM model in order to effectively manage the main risks to which the Issuer and the Group are exposed. It was possible, therefore, to map the main business risks based on the Group's value chain, identify inherent and residual risk with particular emphasis on what are potentially the biggest risks and proposing solutions; during following years a plan of activities to define the risk management strategy has been arranged, with the proposal of focusing on considered high risk level and actions to go on monitoring and managing the aforementioned risks, also through follow-up and meetings with the the Risk and Control Committee, the Board of Statutory Auditors and Director in Charge of Internal Control and Risk Management.

In 2017, it was decided to integrate this activity with a recognition of the main risks of the Group's foreign companies considered "strategically important companies" for corporate governance purposes.

The risk plan also calls for guidelines to be established for the control and risk management system using a top down approach, as well as the identification of the duties and responsibilities of the various individuals involved in the different levels of control:

- (i) the recognition and identification by operations of the main risks and subsequent treatment;
- (ii) control by the risk control department of the risks and definition of the instruments and methods to be used to manage the risks.

## Risk factors for the De'Longhi Group

The risk factors and uncertainties that could materially affect the De'Longhi Group's business are discussed below.

These risk factors also take into account the above mentioned ERM project and the assessments carried out in prior years including through more in depth analysis shared with the Risk and Control Committee and De'Longhi S.p.A.'s Board of Statutory Auditors (for a complete analysis of risks please refer to the ERM).

With reference to the main risks, highlighted below, the De'Longhi Group monitors and places continuous attention to any situations and developments in the macroeconomic, market and demand trends in order to be able to implement any necessary and timely strategic actions.

They should also be noted that in addition to the risk factors and uncertainties identified in this report, other risks and uncertain events not currently foreseeable, or which are currently thought unlikely, could also influence the business, the economic and financial conditions and prospects of the De'Longhi Group.

**1 – Risks relating to macroeconomic trends: the De'Longhi Group's economic performance and financial position are also affected by macroeconomic trends such as: trends in consumption, interest and exchange rates, as well as the cost of raw materials and any changes in policies introduced in some important markets (see recent and potential regulatory changes in the United States as regards trade, economic, environmental and tax agreements and the so-called "Brexit" in Great Britain).**

The economic environment already described in this report and the difficulties in preventing economic cycles, the prices of raw materials (steel, plastic and copper) and energy (especially oil), the crises in a few markets linked to ongoing conflicts (first of all the situation in North Korea and in the Middle East) and political and economic changes in the United States and in Great Britain (Brexit), along with the other factors listed in this section, could have a significant impact on the Group's results and financial position. De'Longhi Group periodically monitors aforesaid economic trends in order to be able to implement any necessary and timely strategic actions.



**2 – Socio-political risks relating to market trends and demand, and to the Group's presence in emerging markets. The De'Longhi Group does business in many foreign markets, primarily on a direct basis and through agreements in certain emerging countries like China.**

The Group has therefore long had the characteristics typical of a multinational company and this inevitably exposes it to a number of risks relating to economic conditions and policies of the individual countries in which it operates.

These risks not only affect consumption trends in the various markets concerned, but may also be relevant in terms of concentration of the Group's production sites in foreign markets if policies were introduced that limit or restrict foreign investment, imports and exports or capital repatriation.

These are systemic risks, common to all businesses, for whom the ability to generate value depends first on the dynamics and size of the market and only second, on their ability to compete and consolidate/acquire the largest possible market share.

The Group, in the persons of the Chairman of the Board of Directors, the Chief Executive Officer, and the division and market managers, constantly monitors market trends in order to promptly seize opportunities to increase business and to assess the likelihood of any risks (and their potential effects on the Group's results).

The occurrence of adverse political and economic events in the markets in which the De'Longhi Group operates (and particularly in emerging markets), could have adverse economic and financial consequences for it.

**3 – Risks relating to strong competition in the sectors in which the De'Longhi Group operates: the business in which the De'Longhi Group operates is highly competitive and there is a tendency for the business to be concentrated in a few important players.**

The Group competes with other major international industrial groups. The target markets are highly competitive in terms of product quality, innovation, price, energy saving, reliability, safety and assistance.

The trade, furthermore, is gradually becoming more and more concentrated in a few international players in some of the main markets, also due to the exponential growth of e-commerce business and its main players; in order to counteract this concentration, the strength of the Group's brands, as well as the ability to propose a compelling commercial offering, which is proving to be very important.

If the Group were unable to adapt effectively to the external context, this could have an adverse impact on the Group's business prospects, as well as on its economic performance and/or financial position.

**4 – Risks involved in relation to supply agreements and strategic alliances: the Group also operates through agreements with strategic partners that foresee the development, production and marketing of products, particularly coffee makers sold in international markets.**

Consequently, the Group's failure to maintain or renew these agreements could impact economic results and the financial position. These agreements, which are generating very positive results in terms of growth and development as well as full satisfaction both for De'Longhi Group and for strategic partners, are carefully managed and monitored by top management.

**5 – Risks relating to the De'Longhi Group's ability to achieve continuous product innovation: the De'Longhi Group's ability to generate value also depends on the ability of its companies to offer technologically innovative products that respond to market trends.**

In this respect, the Group has proved in the past to be a leader in technological innovation and in creating new invogue designer products, also thanks to the importance it places on those working in product development and design, which it intends to maintain in the future. By way of confirmation, market shares are increasing in the main markets and product lines in which the Group operates. In particular, if the Group were unable to develop and continue to deliver innovative, competitive products relative to its major competitors in terms of price, quality and functionality, amongst others, or if there were delays in the market launch of models strategic to its business, the Group could lose market share, with an adverse impact on its business prospects, as well as on its economic performance and/or its financial position.

**6 – Risks relating to patents and trademarks. Given the importance of developing products that are innovative in both technology and design (see point 5 above), the Group pursues a policy of protecting its research and development by registering patents for inventions, utility models and designs in the various markets concerned; similar protection must be assured for the Group's trademarks.**



The Group's legal offices are responsible for the legal protection of industrial property rights (patents for inventions, utility models, designs and models as well as trademarks) and constantly monitor and control the situation around the world, using the services of specialist consultants in the various countries concerned. Such actions cannot absolutely guarantee that the Group's products will not be imitated and furthermore, certain jurisdictions (such as China and the United Arab Emirates) do not protect property rights to the same extent as European law.

The Group's policy is nonetheless based on incurring the necessary costs to ensure that its property rights have the greatest possible global protection in the various markets where it operates. Moreover, there is no guarantee that protection of the industrial property rights still in the registration process (and, in particular, patents for inventions and utility models) will be actually granted as filed, since the extent of protection may be reduced – even significantly – not only as a result of technical examination by the competent office but also as a result of opposition to the registration and licensing of the rights that might be presented by third parties. Lastly, although the Group does not believe that its products infringe third-party property rights, it is not possible to exclude that third parties might successfully claim that such infringements exist, including through legal proceedings.

**7 – Exchange rate fluctuation risks: The Group does business in many foreign markets and is exposed to the risk of fluctuations in currencies.**

For the purposes of protecting its income statement and statement of financial position from such fluctuations, the Group adopts a suitable hedging policy and tools, free from speculative connotations. Hedging is carried out centrally by a special team on the basis of information obtained from a detailed reporting system, using instruments and policies that comply with international accounting standards. Hedging activities are defined when the yearly budget is approved (or when the three-year plan is approved). The purpose of hedging is to protect – at individual company level – the future revenues/costs contained in budgets and/or long-term plans; furthermore also trade and financial receivables/payables are protected. The level of coverage relative to revenues and costs is determined including based on market trends and cost/benefit analyses. The principal currencies to which the Group is exposed are the US dollar (in which a part of the costs relative to raw materials, parts and finished products are denominated) the Chinese renminbi and the currencies of the main export markets (the British pound, the US dollar, the Japanese yen, the Australian dollar, the Ruble, etc.).

Significant fluctuations of the main currencies might represent a risk of higher costs due to the Group foreign companies financial statements consolidation (so-called consolidation risk).

Despite the Company's effort to minimize the abovementioned risk, sudden currency fluctuations could have an adverse impact on the Company's results and business prospects.

**8 – Risks relating to manufacturing, commodity prices and supplier relationships.**

Production is carried out at facilities in Italy, Romania and China and, therefore, balanced across three different geographic regions which reduces the risk that operations will be interrupted.

The Group's production costs are influenced by the prices of the most important raw materials like steel, plastic and copper. A significant portion of the purchases are made in China; the related risks are associated with production by Chinese subsidiaries that serve as suppliers to the Group, by the network of third-party suppliers and by suppliers of parts to the Group's manufacturing subsidiaries (see point 2 for the strategic risks of manufacturing in China).

The Group manages these risks through:

- (a) a permanent evaluation system for the various suppliers, used for decision-making purposes and to identify the reliability of each recurrent supplier in terms of quality and price of the products supplied;
- (b) assessment of the risk of fluctuation by the Chinese currency against the US dollar, the Group's reference currency which is protected by the Group's hedging policies;
- (c) review of the financial status of suppliers and hence of the allocation of appropriate production volumes to each supplier;
- (d) evaluation of the services provided by suppliers in terms of logistics and timeliness of deliveries and of the consequent decisions adopted each time;
- (e) inspections, prior to product shipment by suppliers, intended to prevent any defects in the quality of products acquired.
- (f) periodic assessment of the buy/make strategies for the Group's main products taking into account any global market conditions that could result in the need to change the strategy.

In addition, with reference to steel, one of its principal raw materials, the Group has dealt for a long time with the same suppliers, selected for their reliability; up until now, these suppliers have always guaranteed the results of production expected. Lastly, the Group defends its reputation with suppliers in their dealings with employees.

Such caution is duly reflected in contractual dealings and furthermore, every supplier is given a copy of the De'Longhi Ethical Code governing all its activities.

Nevertheless, it is conceivable that a breach of contract by one or more suppliers to Group companies could have adverse effects on the Group's operations, economic performance, assets and liabilities and financial position.

The price of these raw materials and parts can fluctuate significantly, depending on several factors, including the cyclical nature of the markets concerned, supply conditions and other factors beyond the Group's control and difficult to predict.

The trend in the price of these raw materials and parts is constantly monitored in order to take necessary action to keep the Group competitive.

At the date of the present report, the Group does not have any contracts to hedge the risk of fluctuations in commodity prices. There is also a possible risk linked to the dependence on one supplier for a few types of components of strategic production; in order to address this risk the Group has begun searching for secondary suppliers and to define an alternative strategy for purchasing/production.

**9 – Risks relating to human resources management: The Group's success largely depends on the ability of its executive directors and other members of management to effectively manage the Group and the individual areas of business and on the professionalism of the human resources that it has been able to attract and develop.**

The principal risks relating to human resources are linked to the Group's ability to attract, develop, motivate, retain and empower staff who have the necessary talent, values, and specialist and/or managerial skills to satisfy the Group's changing needs.

The loss of such individuals or other key employees without adequate replacement, or the failure to attract and retain new qualified resources could therefore adversely affect the Group's business prospects, as well as its economic performance and/or financial position.

In terms of being able to attract quality resources, the Group's principal companies not only have specialist qualified professional human resources teams, but they also plan actions to improve the quality of working environment for its employees and staff as well as the Group's external image (communication, contact with schools and universities, testimonials, internships, etc.), in some cases using the services of specialist professional firms with a proven track record.

In terms of motivating and developing personnel, actions taken include the strengthening of managerial, specialist, business and regulative competencies, with initiatives that involve managers and staff from different areas of the business.

The salary review process also includes reward systems for employees at various levels in the organization – from the plant worker through to top management and key people – which are linked to the achievement of short-term and/or medium/long term targets.

As far as plant personnel is concerned, the Group operates in China and Italy and in Romania. Having a production facility in Eastern Europe beginning in 2013 has made it possible to diversify the Group's industrial platform, so as to partly restore the balance in production between the previously dominant China and Europe. As regards the Chinese facility, certain risks associated with high staff turnover within the Chinese manufacturing workforce exist, combined with higher payroll costs following the Chinese government's decision to significantly raise minimum wages. These risks are managed through the development of incentive systems to foster staff retention (production bonuses and retention bonuses spread over time for workers, wage increases linked to length of service, and incentive schemes for management), investment in training and developing more qualified internal resources, improvements in living and working conditions within the various factories (canteens, recreational and leisure activities, internet access).

About Romanian facility, where the production has significantly increased during last years, thanks also to the huge investments done, we can see a sharp rise in the workforce demand and consequently in the labor costs; in view of such complexity, the De'Longhi Group has started to find and maintain work resources, in collaboration with external firms too.

Nevertheless, any problem in finding the necessary workforce might lead to a slowdown in production and have an adverse impact on the Group's business, economic performance, assets and liabilities and financial position.

**10 – Risks relating to product quality and product liability: The Group's products have to meet different quality standards according to the different jurisdictions in which they are marketed.**

The main risk is that products do not meet the quality standards required by the different regulations in such jurisdictions. This could justify the return of such products, with increased costs of production and an impact on the Group's image that could harm its reputation.

The activities of the De'Longhi Group involve it assuming typical producer liability for damage caused by defective products: part of its sales take place in jurisdictions (like the USA) where the rules governing liability for damage caused by products to people or things are particularly strict.

The Group therefore applies strict standards of control to its products: it has a protocol for managing quality risk that involves a series of activities and procedures in defence of product quality; there is also a special team that controls quality directly in manufacturing units and at supplier locations.

In addition, the Group has product liability insurance that is deemed adequate to cover these risks.

Nonetheless, it is conceivable that such insurance coverage could be inadequate for manufacturing defects in some of the Group's products or in other circumstances. The initiation of significant product liability claims, or the identification of defects in the Group's products, could harm the Group, with adverse consequences for the management and development of its business.

**11 – Risks relating to inventory levels and delivery punctuality: In view of the importance of inventory and supply chain management within the Group's organization, certain risks can be hypothesized: in fact, the Group is exposed to a stock level risk, associated with correctly predicting product quantities and assortment for subsequent sale.**

In particular, if the Group did not have an adequate quantity of products it could run the risk of failing to adequately and promptly meet customer demand; if, however, the quantity of such products exceeded orders, the Group might face the risk of unsold stock or higher stock than expected with subsequent related charges. Another risk is the efficient management of the supply chain that could affect the adequacy of customer service.

The Group currently has a logistics centre that ensures careful and timely planning and management of every stage of the supply chain.

As for the standard of customer service, the Group's procedures require that each customer's individual needs are taken into account.

If the Group is unable to predict and/or respond to issues that could give rise to these risks, there could be adverse consequences for the Group's business, economic performance, assets and liabilities and financial position.

**12 – Risks relating to IT systems: The information systems of a complex international group are an important and delicate part of the company's processes.**

The risks involved include events that could jeopardise the ability to provide continuous service, the safekeeping of data, obsolescence of telecommunications and data processing technologies.

The Group has taken the steps needed to limit the above mentioned risks which include the standard security devices used to protect systems and hardware (from the use of back-up devices to outsourcing with specialized companies). Continuous technological updates are assured by the prevalent use of the SAP platform. While the Group has taken all the steps needed to minimize these risks, catastrophic events that could compromise the information systems cannot be excluded.

**13 – Credit risk: The Group is exposed to credit risk on its trading activities.**

The socio-political (or country) risks discussed earlier (see point 2) could also have an impact on credit risk; the same applies to the market risks in relation to the ongoing concentration in the retail business and to the strengthening of the e-commerce channel that may cause the crises of some retailers (see point 3).

Trade credit risk is monitored using formal procedures for selecting and assessing customers, for defining credit limits, for monitoring expected receipts and for their recovery, and involves taking out insurance policies with major insurers, and in some cases requesting additional guarantees from customers, principally in the form of sureties.

However, these procedures might not be sufficient to prevent losses related to the credit risk, that could affect the Group's result.

**14 – Risks arising from the seasonality of sales: The De'Longhi Group's sells, amongst others, seasonal products as air conditioners and portable radiators.**

These products, which represent approximately 11% of the total revenues (12% in 2016), are typically seasonal with their sales concentrated in a limited period of the year.

Seasonality of sales could adversely affect the Group's business prospects, as well as its economic performance and/or financial position.

**15 – Risks relating to changes in the regulatory framework, particularly concerning environmental protection: The Group is subject, in the various jurisdictions in which it operates, to the national and international legal requirements and technical standards applicable to the type of products sold.**

Particularly important are safety and energy consumption standards for domestic electrical appliances and regulations on consumer contracts, defective products, minimum warranty periods, recyclability and environmental compatibility.

Although De'Longhi S.p.A. considers that the Group's organization and production comply with current regulations and that the Group has demonstrated over time its ability to anticipate regulatory changes when designing new products, the enactment of additional regulatory requirements applicable to the Group or its products or changes to the legislation currently in force in the sectors in which the Group operates, including at an international level, could require it to adopt stricter standards or affect its freedom of action or strategic decisions in various areas of business.

This could result in compliance costs for its production facilities or products or even limit the Group's operations, with a consequently adverse effect on its business, economic performance, assets and liabilities and financial position.

In particular, any changes in environmental regulatory standards or requirements currently in force and the occurrence of unforeseen or exceptional circumstances, could require the Group to incur unanticipated costs. Such costs could therefore have an adverse impact on the Group's business, economic performance, assets and liabilities and financial position.

**16 – Risks relating to environmental damage: The industrial production carried out by the Group with its factories and equipment could, in certain cases of serious faults or breakdown in such equipment, cause damage to third parties, accidents or environmental damage.**

Such accidents and damage could also occur in view of the structural characteristics of certain production facilities for which assessments and work are in progress to make them comply with current laws and regulations.

Although the Group has taken the necessary safety precautions and complies with the applicable regulations for preventing these types of risks, if there was an accident or damage to the environment, the Group could be held liable, including criminally, by the people harmed and by the competent authorities, and its production activity could be disrupted, with consequent adverse effects on the company's and/or Group's economic performance, assets and liabilities and financial position.

Although Group companies have taken out insurance policies against environmental damage, with the related coverage considered reasonable in relation to the estimated risk in question, it is nonetheless not possible to exclude the occurrence of damage, in which the compensation payable exceeds the maximum coverage provided by such policies.

**17 – Liquidity and financing risks – Interest rate risk: The liquidity risk possibly faced by the Group is the risk of not having the funds needed to fulfil payment obligations arising from operating and investment activities and from the maturity of financial instruments. The Group holds assets and liabilities that are sensitive to interest rate changes and that are necessary to manage its liquidity and financial needs.**

It is the Group's policy to maintain a sufficiently large portfolio of counterparties of international repute for the purposes of satisfying its financing and hedging needs.

The Group uses specific policies and procedures for the purposes of monitoring and managing this risk, including the centralized cash management (financial debt and cash management, the raising of medium and long-term finance on capital markets and the obtaining of short-term credit lines that allow wide room for manoeuvre when managing working capital and cash flows).

Anyway, to this day, the Group has a widely positive net financial position and medium-term bank credit lines and short-term credit lines (typically renewed on an annual basis), which are optionally used to finance working capital and other operating needs.

The Group has also entered a revolving agreement for the factoring of trade receivables without recourse, thus granting an optimization of receipt cash flows.

About the interest rate risk, at 31 December 2017 the Group's net financial position is positive and financial debt is mainly medium-long term, in order to take advantage of the favourable market conditions characterized by very low interest rates.

This risk is managed centrally by the same team that manages currency risks. Nevertheless, sudden fluctuations in interest rates could have an adverse impact on the Group's business prospects, as well as on its economic performance and/or financial position.

At the date of this report, the Group has two hedging contracts to protect two medium/long term loans from the interest rates fluctuation risk.

## **18 – Compliance and corporate reporting risks:**

*A. Financial reporting: Risks associated with the reliability of financial reporting, particularly that the information contained in the annual and interim financial reports might not be correct, warrant particular attention, especially for a listed company.*

In 2017, effective implementation of the system of managing financial reporting risks was monitored on a continuous basis and periodically evaluated under the guidance of the functions in charge.

For the purposes of ensuring reliable internal controls over its financial reporting, the Group has implemented a system of administrative and accounting procedures and operations that include:

- an accounting policies manual;
- accounting policy instructions and updates;
- other procedures for preparing the consolidated financial statements and periodic financial reports.

The Group's central "Corporate" functions are responsible for managing and communicating these procedures to other Group companies. The control bodies (internal and external) carry out the related audit within their own authority. Possible deficiencies in maintaining adequate processes and administrative-accounting and management checks may result in errors in Group corporate reporting.

*B. Risks relating to the administrative liability of legal: In compliance with EU directives, Decree 231/2001 has introduced into Italian law special rules applying to the liability of entities for certain offences, where "entities" mean limited liability business enterprises, partnerships or associations, including those without legal status.*

Under this legislation and amendments and additions thereto, the Group's main Italian companies have adopted, in accordance with art. 6 of Decree 231/2001, the "Model of organization, management and control" suitable for avoiding the occurrence of such liability at their own expense and the related "Ethical code", intended to apply not only to the Group's Italian companies but also, as far as applicable, to its foreign subsidiaries, since De'Longhi S.p.A. is also answerable, under art. 4 of Decree 231/2001, for offences committed abroad.

Therefore, the company's administrative liability under Decree 231/2001 could exist when this is effectively established as a result of an action brought against one of the Group companies, including the foreign subsidiaries; in such a case, it is not possible to exclude, in addition to the resulting application of penalties, adverse consequences for the company's and/or Group's operations, economic performance, assets and liabilities and financial position.

## **19 – Related parties: The Group has had and continues to have transactions of a commercial nature with related parties. Such transactions carry conditions that are in line with market ones.**

The Company adopted a new set of procedures to govern the Group's transactions with related parties, in compliance with the standards set by the supervisory authorities in CONSOB Regulation 17221 dated 12 March 2010.

The procedures identify those related party transactions subject to specific examination and approval rules, which change according to whether such transactions are above or below defined thresholds. The procedures place particular importance on the role of the independent directors, who must always issue a prior opinion on the proposed transaction (if the transaction qualifies as material, this opinion is binding on the Board of Directors); the independent directors must also be involved in the preliminary examination of material transactions prior to their approval.

These procedures are considered to represent an additional guarantee of the transparency of the De'Longhi Group's operations.

## Annual remuneration report

Please refer to the Annual Remuneration Report for all relevant information not contained in the present report.

## Reconciliation of net equity and profit (loss) for the year

Below is a concise reconciliation between net equity and profit of the parent company, De'Longhi S.p.A., and the figures shown in the consolidated financial statements:

Figures in thousands of Euro	Net equity 31.12.2017	Profit for 2017	Net equity 31.12.2016	Profit for 2016
<b>De'Longhi S.p.A. financial statements</b>	<b>458,249</b>	<b>174,610</b>	<b>393,877</b>	<b>125,767</b>
Share of subsidiaries' equity and results for period attributable to the Group, after deducting carrying value of the investments	579,424	121	639,681	46,858
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	20,086	(2,411)	22,454	(2,420)
Elimination of intercompany profits	(34,395)	5,347	(39,763)	(2,575)
Other adjustments	(1,635)	596	(2,202)	565
<b>Consolidated financial statements</b>	<b>1,021,729</b>	<b>178,263</b>	<b>1,014,047</b>	<b>168,195</b>
Minority interests	-	-	3,420	784
<b>Group portion</b>	<b>1,021,729</b>	<b>178,263</b>	<b>1,010,627</b>	<b>167,411</b>

## Tax consolidation

The Parent Company De'Longhi S.p.A. and a few of the Italian subsidiaries exercised, jointly with the consolidator De Longhi Industrial S.A., the option to adhere to group taxation, referred to as "Domestic Tax Consolidation", as permitted under articles 117–129 of the Consolidated Income Tax Act (TUIR) as per Presidential Decree n. 917 of 22 December 1986, and the Decree of the Ministry of Economy and Finance of 9 June 2014, for the three-year period 2016–2018.

## Related party transactions

Related party transactions fall within the normal course of business by Group companies. Information on related party transactions is summarized in Appendix 3 to the Explanatory notes.

## Alternative performance indicators

In addition to the information required by IFRS, this document presents other financial measures which provide further analysis of the Group's performance. These indicators must not be treated as alternatives to those required by IFRS.

More in detail, the non-GAAP measures used include:

### Net industrial margin and EBITDA:

the Group uses these measures as financial targets in internal presentations (business plans) and in external presentations (to analysts and investors), since they are a useful way of measuring operating performance by the Group and its individual divisions besides EBIT.

Net industrial margin is calculated as total revenues minus the cost of materials consumed and of production-related services and payroll.



EBITDA is an intermediate measure that derives from EBIT after adding back depreciation, amortization and impairment of property, plant and equipment and intangible assets. EBITDA is also presented net of non-recurring items, which are reported separately on the face of the income statement.

Net working capital:

this measure is the sum of inventories, trade receivables, current tax assets and other receivables, minus trade payables, tax liabilities and other payables.

Net operating working capital:

this measure is the sum of inventories and trade receivables, minus trade payables.

Net capital employed:

this measure is the sum of net working capital, intangible assets, property, plant and equipment, equity investments, other non-current receivables, and deferred tax assets, minus deferred tax liabilities, employee severance indemnity and provisions for contingencies and other charges.

Net financial position:

this measure represents financial liabilities less cash and cash equivalents and other financial receivables. The individual line items in the statement of financial position used to determine this measure are analysed later in this report.

The figures contained in this report, including some of the percentages, have been rounded relative to their full euro amount. As a result, some of the totals in the tables may differ from the sum of the individual amounts presented.

## Non-financial statement

Based on Legislative Decree n.254/2016, in implementation of the Directive 95/2014 or "Barnier Directive", large public interest undertakings are required to publish a Non-Financial Statement (NFS) as of FY 2017.

The De'Longhi Group's Non-Financial Statement, prepared in accordance with art.5, paragraph 3, letter b, of Legislative Decree n. 254/2016 can be found in Appendix 1 attached to the Report on Operations.

## Subsequent events

On 22 February 2018 an industrial partnership agreement was signed with a premiere Chinese electronics group (the H&T Group) based on which 55% of NPE S.r.l.'s share capital will be sold and the two shareholders will make a total equity contribution of €7.7 million to support development of the company. The agreement will be finalized by the end of April 2018, subject to the applicable antitrust clearances.

## Outlook

In light of the positive growth results achieved in 2017, the Group's management will continue to pursue the strategy of a greater commitment on investments in research and development, in communication and marketing, in distribution structures, in face of the quick changes in consumers' demand and in competitive framework which lead to interesting growth opportunities for the main products of the Group (first of all coffee machines), as well as in expansion markets (such as North America and Greater China).

Therefore, it is important to carry on the commercial action plan started in 2017 during this current year too, in order not to lose the positive growth results achieved so far and to make them repeatable also in the following periods, and thus to go back to margins expansions through the operating leverage action.

*Treviso, 1 March 2018*

*For the Board of Directors  
Vice Chairman and Chief Executive Officer  
Fabio de' Longhi*

# Appendices





This appendix provides information in addition to what is provided in the Report on Operations, of which it is an integral part.

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# Introduction

Based on Legislative Decree n.254/2016, in implementation of the Directive 95/2014 or "Barnier Directive", large public interest undertakings are required to publish a Non-Financial Statement (NFS) as of FY 2017. This statement must provide information about a series of topics which help to understand the company's activities, its performance, results and impact. More in detail, Legislative Decree 254 calls for non-financial reporting on topics relating to five areas: environmental protection, social responsibility, treatment of employees, protection of human rights and anticorruption and fraud issues. A description of the main risks, the entity's policies, the relative performance indicators, as well as the business and organizational models must be provided.

In accordance with Legislative Decree 254, this document provides a description of the De'Longhi Group's performance with respect to a group of topics deemed most relevant to the Group and of greatest interest to its stakeholders. These topics were identified in accordance with the latest version of the GRI Standards developed by the Global Reporting Initiative (GRI), the most important international sustainability reporting organization. The topics were identified based, firstly, on the analysis of a study of the main expectations and concerns of the Group's stakeholders. More in detail, the greatest attention was paid to the topics which reflect the stakeholders' expectations and which have the greatest impact on business strategies. The topics identified were then evaluated by management based on priorities and strategic objectives. For more information on the Group's activities please refer to the Report on Operations.

The topics reported on this document in relation to each area contemplated under Legislative Decree 254 are shown below. For the sake of clarity and easier comparison, the GRI Standards, material topics and the areas referred to in the Decree, are all shown in the chart below, along with scope of application and any boundaries.

Legislative Decree 254	Material topics for De'Longhi	GRI	Scope of application		Boundaries on the scope of reporting	
			Internal	External	Internal	External
<b>Anti-corruption</b>	Ethics and compliance	GRI 205 - Anticorruption	Group	-	-	-
		GRI 206 - Anticompetitive behavior	Group	-	-	-
<b>Human resources management and human rights</b>	Human resources management	GRI 102- 8 Employment	Group	-	-	-
		GRI 403 - Occupational health and safety	Group	Suppliers, Contact Center	-	Reporting does not include suppliers or the Contact Centers
		GRI 404 - Training and education	Group	-	-	-
		GRI 406 - Non discrimination	Group	Suppliers	-	Reporting does not include suppliers
<b>Social aspects</b>	Product quality	GRI 416 - Consumer health and safety	Group	OEM suppliers	-	-
		GRI 417 - Marketing and labeling	Group	OEM suppliers	-	-
<b>Social aspects Environmental aspects</b>	Product innovation	GRI 302 - Energy	Group	-	-	-
<b>Social aspects</b>	Customer relations	GRI 418 - Customer privacy	Group	Contact Center	-	-
<b>Social aspects Human rights</b>	Supply chain management	GRI 412 - Human rights assessment	Group	Suppliers	-	-
		GRI 414 - Supplier social assessment	Group	Suppliers	-	-
<b>Environmental aspects</b>	Limiting environmental impacts	GRI 302 - Energy	Group	-	-	-
		GRI 305 - Emissions	Group	Suppliers, Contact Center	-	Reporting does not include suppliers or the Contact Centers

With reference to the issues expressly mentioned in the Legislative Decree 254/2016, in light of the materiality judgment, water consumption, dialogue with social partners and agreements with international and supranational organizations were not relevant. Therefore these issues are not reported in the current document.

Information relating to the material topics – scenario and risks, policies and future objectives, organizational and business models, indicators – for each area contemplated under the Decree is provided in the following pages.

## Description of the business model

In accordance with the Article 3.1.a of Legislative Decree 254/2016, a brief description of the De'Longhi Group's business model is provided below with a view to enhancing the understanding of the information relating to the material topics identified for each of the five areas included in the Decree.

De'Longhi S.p.A. (hereinafter also referred to as the "Company" or "Group"), listed on the Italian Stock exchange (*Mercato Telematico Azionario* or MTA) managed by *Borsa Italiana*, is the holding company of a group of companies active in the manufacture and distribution of small domestic appliances including coffee makers, food preparation and cooking machines, air conditioners and heaters, as well as household cleaning devices.

More in detail, the Group operates in international markets through 4 main brands (De'Longhi, Kenwood, Braun and Ariete) and commercial regions: North East Europe, South West Europe, MEIA and APA.

### **The value chain**

The Group's work begins with research, development and design. These activities are shared across the Group and are carried out by the technical offices based on product line, together with the Marketing and Design divisions. As a result of the recent reorganization completed by the Group in 2016, R&D now works transversely (namely by product line) and no more by brand. In the Hong Kong branch there is also a technical office responsible for research products developed in partnership with local providers.

Once the solution to be launched on the market is defined, the semi-finished goods and raw materials are purchased. The Group's manufacturing and assembly are done at four plants located in Italy, Romania and China which cover more than 60% of sales and by a group of qualified partners or "Original Equipment Manufacturers". In 2016, the Group also purchased the production facility of New Procond Elettronica (NPE), a strategic supplier and leader in the manufacture of electronic components for appliances and cars (included under Discontinued Operations as a result of the industrial partnership agreement described above).

Based on the Group's "local for global" approach, manufacture of products is plant specific. More in detail, the De'Longhi brand traditional and fully automatic coffee machines are manufactured at the plant in Mignagola, Treviso, in Italy, as well as at the plant in Cluj, Romania where also Braun brand kitchen machines and other coffee products are manufactured. The manufacture of cooking and comfort products is done in the Chinese plant found in Zhongshan, while Kenwood brand food preparation appliances, De'Longhi brand cooking machines, Braun brand household products, traditional and built-in coffee machines are manufactured in the Dongguan plant.

Once production is completed, the machines manufactured are tested. The main purpose of this activity, managed at each plant by a dedicated team, is to verify product safety. Specific audits are conducted by the Quality Division in order to verify the quality of the OEM products.

Subsequently, the new products manufactured in-house and purchased from third parties are delivered to the sourcing centers and logistics hubs, namely to the warehouses (five of which proprietary), from which goods are distributed by providers of logistics services throughout the Group's commercial network.

Lastly, the Group provides information and technical assistance to all end consumers before, during and after sales.

# Ethics and compliance

Anti-corruption and fraud

## **Scenario and risks**

The globalized market, characterized by a proliferation of national, as well as supranational, laws and regulations and a generalized increase in controls, investigations and sanctions have created a complex regulatory environment for the Group.

More in detail there are risks linked to: i) the reliability and accuracy of the financial information, of particular importance for a listed company; ii) the administrative responsibility for legal entities for which the Italian legal system has established criminal liability for certain types of crimes, in accordance with EC regulations; iii) the necessary transparency and substantive, as well as procedural, fairness of commercial transactions with related parties entered into by the Group.

The small appliances market is also regulated by laws relating to safety and energy consumption described in the chapter Product Quality found in this report.

## **Business and organizational model**

Compliance is overseen by Legal and Internal Audit and the Group Financial Reporting Officer, as well as the Quality Division with respect to product and the qualifications/assessment of suppliers (\$Product quality).

More in detail, every year Internal Audit and the Financial Reporting Officer check and assess the control system, and **audit the accounting processes and procedures**, as well as compliance with Law 262 financial reporting processes with a view to ensuring they are reliable, complete, accurate and timely in accordance with Group accounting and administrative procedures. In 2017 an audit plan was defined, calling for varying timeframes and execution methods for audits of Group companies, with particular focus on strategically important companies. Law 262, in fact, calls for an annual audit of the strategically important companies, while Group companies with sales of more than €50 million are subject to either an annual audit or a remote check point which can be carried out through a platform developed for checking accounting entries made in the period and between companies. All the other companies are subject to a check point or big data analysis every 3 years.

Overall, **risk assessment and management** is done in accordance with a corporate ERM project, developed in prior years which is monitored and updated continuously by Internal Audit. In 2017 Internal Audit assessed the progress made on the work begun as a result of the 2013 risk assessment. At the end of 2017, Internal Audit, together with the CFO/ Financial Reporting Officer also used this risk analysis to analyze the strategic foreign branches and update the relative risk mapping. More in detail, some functions were separated to ensure that the duties assigned to Group personnel were adequately distributed in order to minimize the risk of any errors and/or fraud. In order to increase control of compliance with internal regulations and laws of the different Countries in which it operates, in 2015 the Group conducted other controls to verify any episodes of abuse of office and corruption to the extent that the Group does not have commercial relationships with the Public Administration.

The Group also ensures that, in addition to regulatory compliance, **models of conduct** have been defined and implemented with a view to minimizing the risk of acts which are subject to sanctions under the law. In 2017, therefore, De'Longhi implemented a project dedicated to analyzing the company's operations in relation to: administrative responsibilities, compliance with privacy and antitrust measures, consumer protection in e-commerce, internal policies governing compliance with anti-money laundering and anti-corruption laws. As a result of this project in 2017 an assessment was made of seven Group companies, based on criteria including economic importance, regulatory similarities and the overall ability to complete the project with the resources available.

The Italian Group's companies also adopted an "**Organizational, Management and Control Model**" pursuant to and in accordance with Legislative Decree 231/2001, which calls for the appointment of a Supervisory Board to oversee the correct functioning and compliance with the Model.

In order to monitor Group transactions with related parties and the relative risk the Parent Company, in accordance with CONSOB Regulation n. 17221 of 12 March 2010, has also defined a procedure for related party transactions subject to specific rules and approval based on the degree of materiality.

### Polices and objectives

The Code of Ethics indicates the standards employees and all third parties, such as suppliers, clients and public administrations must adhere to which aspire to transparency, fairness, honesty, integrity and loyalty. A specific anti-fraud policy will be adopted in 2018 as part of the anti-fraud program developed over the three-year period 2014–2016 and defined based on the guidelines of the Association of Certified Fraud Examiners (ACFE).

In 2018 the Group will also continue with the compliance audit of seven companies which will result in the implementation of shared organizational solutions, as well as preventive control and reporting activities relating to: administrative responsibilities, compliance with privacy and antitrust measures, consumer protection in e-commerce, internal policies governing compliance with anti-money laundering and anti-corruption laws.

The "Organizational, Management and Control Model" adopted pursuant to and in accordance with Legislative Decree 231/2001 by the Italian companies was updated based on the results of the risk assessment conducted year-end 2017.

### Key figures

No violations of the anti-corruption laws were recorded in the last two years.

Information relating to persons apprised of the company policies and procedures, as well as the employees who received anti-corruption training in the two-year period 2016–2017, is shown in the following table.

Item	Unit of measurement	Europe		APA		De'Longhi Group	
		2016	2017	2016	2017	2016	2017
<b>Persons apprised of the company anti-corruption procedures and policies</b>							
Senior managers	n	46	52	33	33	79	85
White collar workers	n	121	159	169	164	290	323
Blue collar workers	n	1	4	68	59	69	63
<b>Total employees</b>	<b>n</b>	<b>168</b>	<b>215</b>	<b>270</b>	<b>256</b>	<b>438</b>	<b>471</b>
Commercial partners	n	3	1	2	4	5	5
<b>Employees who received anti-corruption training</b>							
Senior managers	n	46	43	5	7	51	50
White collar workers	n	110	119	30	57	140	176
Blue collar workers	n	-	2	2,576	3,439	2,576	3,441
<b>Total employee</b>	<b>n</b>	<b>156</b>	<b>164</b>	<b>2,611</b>	<b>3,503</b>	<b>2,767</b>	<b>3,667</b>

Note: Statistics relating to anti-corruption training are not available for offices in: Romania, Greece, Shanghai, Shenzhen, Hong Kong, USA, Canada. Statistics for Ukraine offices are available only for 2017.

No legal complaints relating to anti-competitive, anti-trust and monopolistic practices were filed in 2017. In 2016 the proceeding begun in 2015 by the Austrian anti-trust authorities relative to monopolistic behavior was settled and resulted in the payment of a fine of €650 thousand.



# Human resources management

Human resources management  
Human rights

## **Scenario and risks**

In a highly diverse international context, the Group uses different methods to increase the sense of belonging and **personal satisfaction**, as well as protect **occupational health and safety**.

Key to retaining and attracting resources and talent, as well as business continuity and its sustainability in the longterm, is the Group's ability to promote the professional growth of its people and a safe, healthy workplace, founded on values like ambition, courage, passion, competence, heritage, teamwork and respect, which encourage employees to engage in fair, correct, trustworthy behavior, leveraging the value of diversity and avoiding any kind of discrimination.

The main challenges are, in fact, tied to the Group's ability to attract, motivate and retain people capable of changing with the Group's needs in terms of both numbers and key professional expertise, values, attitudes in line with the Group's values and philosophy. As a result of the current organization of production, based on which a large part of the human resources are in plants in China, Italy and Romania, the high employee turnover presents another issue in China and also in Romania, albeit in more moderate terms.

## **Business and organizational model**

At a Group level, management of human resources and related fields, is assigned to a corporate human resources division, coordinated by the Chief Corporate Services Officer and supervised locally by a regional HR Manager, as well as directors of administration and operations at a few companies. Over the last few years the Group has also identified two new regional resources which assist the companies with the training and developing initiatives planning, in accordance with Group guidelines.

In order to better understand people's expectations and increase loyalty, in October 2015 the corporate human resources division promoted the **Employee Engagement Survey – "Your Voice: to Make the Difference"**. More than 2,600 employees were involved in the initiative with 94% responding which made it possible to identify two areas in need of improvement relating to organizational clarity following the company reorganization completed year-end 2016 and strengthening the Group's identity which were addressed in a timely manner. After analyzing the results, the Group defined a new vision, a new mission and new company values, and implemented a global development project in order to increase the awareness and expertise of managers with respect to the development and management of teams. The production personnel was involved in the second edition of the survey, implemented during 2017, through the use of a questionnaire focused on specific production related issues. The achieved results are being shared and deepened during the first months of 2018.

As of 2017 a **new international management system**, *SAP Success Factors*, is also active which gathers information about employees at all the Group's offices, the European production plants and one plant in China. In 2017 the corporate human resources division also launched a pilot program in the UK relating to the implementation of a travel management system integrated with *Success Factors*.

The human resources division also guides the **performance assessment** process used to promote personal and professional growth, encouraging the use of a dedicated system (up to the middle management level) by all Group companies. The results of the performance assessment, based on dialogue between supervisors and staff members, makes it possible to assign an average score for each key competency and define training priorities, which are then managed locally.

With regard to overall improvement of work-life balance, as well as protection of worker safety and wellbeing, the human resources division is assisted by people charged with monitoring compliance with health and safety regulations like, for example, the Prevention and Protection Department in Italy and the plant managers in China and Romania. These individuals are responsible for assessing risks related to the activities and implement any improvements needed including with a view to improving the ergonomics of the work stations in the plants and offices. In Italy the responsibilities and procedures relating to health and safety are defined based on an organizational model which is in line with the OHSAS 18001 "*Occupational Health and Safety Assessment Series*" standards.

Any complaints received are managed locally by human resources and legal departments which may, in specific instances, involve the Supervisory Board.

### Policies and objectives

De'Longhi's Code of Ethics refers to the importance of protecting and enhancing human resources in order to promote the professional growth of employees while working to eliminate any discrimination based on age, gender, race, nationality, personal and social conditions, religion or political beliefs and promoting equal opportunities. The Code of Ethics also gives voice to the Group's commitment to and focus on work conditions which respect individual dignity, as well as on safe and healthy work environments that are compliant with the law and workers' rights.

With regard specifically to the health and safety of workers, the Code of Ethics also requires that each employee pay the utmost attention to carrying out his/her duties, adhering strictly to all of the safety and preventive measures in place, while also complying with all the instructions and directives relating to how to fulfill obligations relating to a safe and healthy workplace. A health and safety policy was formalized for the Mignagola plant in Treviso, Italy after having adopted a OHSAS 18001 certified operating system. Over the next few years the Group intends to begin using this operating system at the Romanian plant, as well.

De'Longhi Group defined a formalized policy relating to human resources topics, with reference to the compensation of the Group's Board and of Directors having strategic responsibilities. This policy is communicated every year to all the Companies of the Group.

In 2018 the Group will define a new plan based on the results of the second engagement survey "*Your Voice: to Make the Difference*", conducted in 2017. The survey made it possible to better understand the perception and expectations of employees relative to eight strategic Group factors like leadership ability, sense of belonging to the company, relationship with supervisors, professional growth, wellbeing, equal pay, social initiatives, team relationships.

The project to standardize human resources management practices will also continue in 2018 with the implementation of new modules of the operating system adopted in 2017 with a view to mapping the information gathered relating to training, professional development and remuneration.

With regard to safety and health measures, the plan to redesign some production lines in Italy and initiatives to gradually improve the workplace at plants in China and Romania will continue in coming years with new investments. Along with physical changes, work will also continue on training and raising awareness relative to the protection of personal health and safety through traditional courses and innovative experiential initiatives like physical training and personalized consulting. The model used to manage health and safety at the Mignagola plant in Treviso, Italy will be audited in order to obtain UNI-INAIL certification.

### Key figures

The key figures for De'Longhi Group personnel are shown below.

Employees by contract type	Unit of measurement	Italy		Europe		APA		MEIA		De'Longhi Group	
		2016	2017	2016	2017	2016	2017	2016	2017	2016	2017
<b>Employees by contract type</b>											
Permanent positions	<i>n</i>	1,471	1,469	2,255	3,203	2,663	2,692	74	67	6,463	7,431
of which women	<i>n</i>	554	554	1,181	1,781	1,237	1,225	38	27	3,010	3,587
of which men	<i>n</i>	917	915	1,074	1,422	1,426	1,467	36	40	3,453	3,844
Temporary positions	<i>n</i>	29	140	47	52	493	574	-	-	569	766
of which women	<i>n</i>	12	78	28	30	211	247	-	-	251	355
of which men	<i>n</i>	17	62	19	22	282	327	-	-	318	411
<b>Total</b>	<b><i>n</i></b>	<b>1,500</b>	<b>1,609</b>	<b>2,302</b>	<b>3,255</b>	<b>3,156</b>	<b>3,266</b>	<b>74</b>	<b>67</b>	<b>7,032</b>	<b>8,197</b>

Configuration of De'Longhi Group S.p.A.'s Board		Unit of measure	Italy	
			2016	2017
Men	< 30 years	n	-	-
	> 30 < 50 years	n	1	1
	> 50 years	n	6	6
<b>Men total</b>		<b>n</b>	<b>7</b>	<b>7</b>
Women	< 30 years	n	-	-
	> 30 < 50 years	n	3	3
	> 50 years	n	1	1
<b>Women total</b>		<b>n</b>	<b>4</b>	<b>4</b>
<b>TOTAL</b>		<b>n</b>	<b>11</b>	<b>11</b>

Training	Unit of measurement	De'Longhi Group	
		2016	2017
Average training hour by employee	h	16.6	16.3

Note: Statistics relating to training carried out in Czech Republic, USA, Scandinavia and Canada are not available.

Types of Injuries and injuries rates		Italy				Europe			
		2016		2017		2016		2017	
		Men	Women	Men	Women	Men	Women	Men	Women
Total number of injuries	n.	24	10	20	10	14	14	10	12
- of which commuting injuries	n.	9	7	4	6	1	-	-	-
Work-related fatalities	n.	-	-	-	-	-	-	-	-
Injury rate	-	9.0	3.3	9.4	4.2	6.3	6.2	4.0	4.0
Occupational disease rate	-	1.2	2.2	0.6	2.1	-	-	-	0.3
Lost day rate	-	247.7	148.6	348.6	319.6	23.7	2.1	41.2	0.9
Absentee rate	-	27.0	39.2	31.7	37.1	40.2	52.9	28.3	49.3

Types of injury and rates of injury		APA				MEIA			
		2016		2017		2016		2017	
		Men	Women	Men	Women	Men	Women	Men	Women
Total number of injuries	n.	32	7	37	8	-	-	-	-
- of which commuting injuries	n.	2	-	-	-	-	-	-	-
Work-related fatalities	n.	1.0	-	-	-	-	-	-	-
Injury rate	-	6.8	1.8	6.4	1.7	-	-	-	-
Occupational disease rate	-	-	-	-	-	-	-	-	-
Lost day rate	-	88.4	33.0	170.8	24.9	-	-	-	-
Absentee rate	-	9.4	8.3	4.6	3.8	2.6	7.9	8.6	26.8

Note: Statistics relating to injuries and diseases in 2016 and 2017 are not available for offices in Czech Republic, Scandinavia, USA and Canada. Statistics for offices in South Africa and Brasil are available only for 2017. Statistics on workable hours are not available for Romanian offices.

In 2017 a complaint was received in at the UK branch alleging discrimination based on the sexual orientation of an employee, while in 2016 a complaint was received alleging discrimination tied to a handicap. These complaints were managed based on internal rules which call for an investigation to be carried out by heads of other divisions and for a report on the outcomes to be issued. If the employee is not satisfied with the outcome, another investigation will be made.

# Product quality

Social aspects

## **Scenario and risks**

Top quality product is key to consumer confidence and the brands' reputation, as well as to ensuring business continuity and long-term profitability. Product quality focuses on two specific arenas; safety and accurate, as well as adequate, disclosure.

The complexity of the regulatory environment requires that particular attention be paid to compliance with the product quality standards applied in the different jurisdictions referred to above as, based on the local for global approach adopted by the Group, the products are to be developed in accordance with the most stringent standards applicable in the more than one hundred countries where they are distributed.

Lastly, typical of manufacturers, the Group assumes the responsibilities for damages caused by defective products. In these instances the laws and regulations can be particularly severe in some jurisdictions, like the United States. Consequently any significant litigation relating to the manufacturer's responsibilities could cause economic and reputational burdens.

The manufacturer is also responsible for providing correct product information which may vary from country to country. In the United States, for example, the Group is subject to "Proposition 65" based on which the presence of any hazardous substances must be indicated on the packaging and warning labels used.

## **Business and organizational model**

The Quality Division, comprised of more than 500 people Group-wide, together with the Regulatory Affairs team, supervises all the legal aspects of the current laws and regulations relating to product safety, including food, defining guidelines and criteria for control at all companies. Compliance with the corporate provisions is assured thanks to 2 groups of teams: teams at plants dedicated to quality control of products made by the Group and suppliers of finished goods, as well as other teams responsible for quality control during the product development phase and when any feedback is received from the market. Paying careful attention to product quality beginning with the initial planning phases helps to keep any breakage or product malfunctions to a minimum.

Product quality is also monitored as part of the **ISO 9001** certified organizational model in place at the European plants and also implemented at the Group's Chinese production facilities. In order to manage food safety, the Group adopted an organizational model based on the **Good Hygienic Practices** (GHP) and the ISO 22000 and ISO 1672-2 food safety standards which specify how to ensure hygienic and sanitary safety for food and the products which it is in contact with. The 22000 standard is based on the HACCP principles and the *Codex Alimentarius* which makes it possible to identify and manage the possible risks, prevent incidents along the entire production chain and assess the compliance of products with laws and regulations. The organizational model was also developed in accordance with the **ISO 22005** product traceability standards and requirements in order to provide, for each component and finished product, information relating to the supplier and the client recipient of the product.

Lastly, with a view to guaranteeing electrical and food safety during the pre-production phase all Group products are certified by third parties with respect to compliance with electrical safety and food contact standards. Subsequently, once production has begun, the electrical safety of all products is tested while a sample group of products is tested periodically for food safety compliance.

In order to ensure the quality of the finished products, the Quality Division also supervises the production quality of its suppliers through specific audits (§ Supply chain management).

Lastly, with regard to product information, the Regulatory Affairs team of the Quality Division assists Research and Development and Marketing with the creation of labels and booklets which comply with the regulations specific to each country. In order to comply with laws relating to product information and labeling, the country of origin and the presence of any refrigerants is reported for each appliance distributed by the Group. Instructions relating to how to safely use and dispose of the product at the end of its life cycle are also provided in the product manuals.

### ***Policies and objectives***

One of the values underlying the Company's ethics is the importance of making excellent products, conceived and continually innovated through research in order to guarantee, in addition to other things, the safety and wellbeing of the consumer.

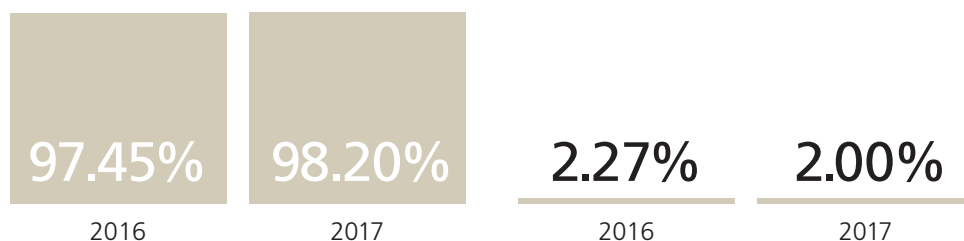
The Group adopted a group-wide **Quality Policy** which supports the commitment to the development and distribution of safe products which comply with all laws and regulations and meet the needs of end consumers.

### ***Key figures***

The qualitative efficiency of this process is assessed based on the First Time Quality Indicator (FTQ) which looks at the type of defects, functional or esthetic, linked to the single products. More in detail, the indicator expresses the number of perfect products as a percentage of total production. In the two-year period 2016–2017, the overall FTQ rose slightly and came in at more than 98% in 2017. The Service Call Rate measures the machines repaired in the first year under warranty as a percentage of total yearly sales. In 2017 the total number of products in need of repair or which malfunctioned during the first year under warranty was 2% of the total product sold, down slightly against the prior year.

*First Time Quality Indicator*

*Service Call Rate*



In 2017 no instances of noncompliance relating to health and product safety, nor the information or product labeling, were reported. In 2016 there was one instance of noncompliance with the European Directive 2014/35/EU, the "Low Tension Directive", as well as two incidents linked to an incorrect specification of the product power frequency ("60Hz" rather than "50/60Hz") and the failure to include instructions in the language of the country where four products were distributed.



# Product innovation

Social aspects  
Environmental aspects

## **Scenario and risks**

In the last few years the electronics and electronic devices sector has been subject to a group of regulations which has driven innovation focused on improving energy efficiency and reducing the overall environmental impact of products.

For example, the European Eco-design Directive for Energy-using Products (EuP) which calls for the use of specific design criteria which help to reduce environmental impact and improve energy efficiency. From the time the Directive took effect, a series of implementing regulations have been issued which define specific regulations for each product category relating to, for example, eco-friendly vacuum cleaners (Regulation 666/2013/EU), energy labeling (Regulation 1369/2017 EU), energy consumption in stand-by mode and when turned off (Regulation 1275/2008/EC).

The issue of further laws applicable to the Group and its products or changes to the laws currently in effect in the sectors in which the Group operates, including on an international level, could impact the freedom to move or make strategic choices relating to various areas of activity, even more so in the presence of a business model like "local for global" which calls for the development of one design capable of complying with the more stringent requirements found in the various laws and regulations.

Above and beyond changing regulations, successfully creating value through innovation depends on the Group companies' ability to develop products which are technologically innovative and reflect market trends that are increasingly more focused on wellbeing and healthy lifestyles. Value innovation also means getting the product to market when it will be well received by the market. Whenever there are delays in the launch of models deemed strategic to the Group's business, the Group's market share could drop which could negatively impact the consolidated income statement and/or the financial position.

## **Business and organizational model**

The Operations and Technology division is committed to innovation and product planning which focuses on maximum multi-functionality, design, ergonomics, as well as silent, long lasting, reliable goods and developing technologies capable of facilitating and supporting healthy and innovative lifestyles connected, for example, to the use of digital technology (Internet of Things) and remote connectivity.

The planning of new products is shared across the entire Group and is guided by specific NPD (New Project Development) procedures used by the technical departments, as well as Marketing and Design. The technical departments are comprised of more than 350 people located in offices in Treviso and Gorgo al Monticano in Italy, Frankfurt, Germany and Havant, UK. These offices, together with the Regulatory team of the Quality Division, develop solutions and find materials which comply with applicable laws. The Group's local for global approach calls for the development of products which comply with the most stringent standards applicable in the more than one hundred countries where the Group's solutions are distributed.

The development of innovative products is also promoted and supported by the collaboration of Operations and Technology with a few commercial partners for which the Group designs and manufactures a group of coffee products.

The Group protects the design of new products through specific patents managed centrally by headquarters. There is an office in the Hong Kong branch which is in charge of research projects developed in partnership with local suppliers.

## **Policies and objectives**

Currently the Group does not have a formalized policy, though the Code of Ethics does refer to the commitment to excellent products, the design and production of which must take into account the economy, product durability and the highest level of environmental friendliness possible.

**Key figures**

A few new energy saving products are described below.

Between 2013 and 2014 research and development introduced a new range of vacuum cleaners (which is currently being marketed). 97% of the total products have a Class A rating for both energy efficiency and floor cleaning performance. The improvements made it possible to develop and market a product which is highly effective in terms of cleaning and, at the same time, the smaller motor (reduced by around 0.35 kW) allows for total energy savings of 2,275,000 kWh/year<sup>1</sup>.

With an A++ energy efficiency rating, the Pinguino PAC EX100 SILENT is the most efficient air conditioner on the European market. Thanks to the continuous DC technology used for the fan motors, utilized for the first time with this type of product, and the dedicated remote software which allows for a greater and more precise range of controls, the product allows for a significant reduction in energy consumption.

<sup>1</sup> The figure was calculated based on an estimated annual production of 130,000 units and average annual consumption per device of 50 h.

# Consumer relations

Social aspects

## **Scenario and risks**

In addition to the essential product quality, the loyalty of end consumers and the strengthening of the brand reputation is fueled by different factors including: clear and honest communication before the purchase, protection of data and service capable of understanding and quickly responding to the end consumers' needs as effectively as possible.

The aspects connected to the ability to respond to the needs of end consumers also include compliance with laws governing consumer rights relating to, for example, management of defective products, minimum warranty periods, recyclable elements and environmental friendliness.

Data protection is largely a function of obsolescence in telecommunications technologies and the way in which data is treated.

## **Business and organizational model**

The communication of the Group and its brands is managed by the corporate Marketing and Communication Division and the marketing offices of each brand. After Sales is responsible for managing the requests of end consumers through contact centers and service centers, as well as defining the standards to be used by the whole Group.

The contact center network – managed in outsourcing and in place at almost all of the Group's branches – manages the requests for assistance received from the end consumers, provides product information and continuous support with a view to constantly improving the customer journey through a dedicated Customer Relation Management system.

The support service network is made of around 1,800 service centers owned by the Group, around 300 of which are in Italy, mainly outsourced, as well as 12,000 centers serviced by distribution partners. In order to ensure a high level of control of these activities, over the years the Group has internalized a series of repair activities, previously managed by third party suppliers in Germany, UK, Switzerland, Belgium, the Netherlands, Japan and South Africa.

In addition to sharing joint guidelines and standards, After Sales constantly monitors the quality of the support service teams and contact centers through inspections, as well as the use of specific indicators, and periodically provides training. The training of employees and specialized external support service providers takes place during the year in classrooms, through web training and the e-learning platform, with a final exam at the end. When new products are launched specialized training courses are also organized. In 2017 training was provided to around 500 people through 51 courses for a total of 5,000 hours of training and an international event for employees and distributors. In addition, together with Marketing, each year After Sales offers a dedicated training course to contact center operators.

The information provided by consumers on the institutional websites is stored on Google Cloud Platform web servers. The security of which is guaranteed by Google's modern service technologies, as well as Google's commitment to compliance with data protection laws and the main international standards for information security (ISO 27001) and cloud services (ISO 27017 and ISO 27018).

## **Policies and objectives**

The Group operates in accordance with the consumer codes developed in the different countries in which the products are distributed and is committed to improving access to support services in order to increase product life and improve the consumer experience overall. These aspects are not currently formalized in a specific policy, but the Group has given itself a series of targets which aim to increase the analysis and understanding of the consumer's most frequent requests with regard to product information, as well as after sales assistance, including through big data analysis systems.

As for internal and external communications, based on the Code of Ethics the disclosures made both inside and outside the Group must be clear, complete, truthful, and not misleading so that the recipients are able to make informed decisions. Lastly, consistent with the principle of confidentiality found in its Code of Ethics, the Group is committed to protecting the confidentiality of the client and consumer information, and data, in its possession. No specific policies have yet to be formalized for either of these areas.

**Key figures**

In the two-year period under examination, no violations of laws governing privacy were reported.

With regard to the service provided to end consumers, in 2017 the average service period was 5 days for around 95% of the products. The quality of the repairs made by support services is monitored based on the First Time Fix (FTF) which measures the number of repaired products that did not need further repairs in the six months following completion of the initial repair as a percentage of total product repairs. In 2017 the FTF was above 95% which indicates that almost all products received adequate, quality repairs.

At the end of 2017 two complaints had been received relating to misleading promotional statements which caused the message to be changed or removed. No complaints of this sort were recorded in 2016.

# Supply chain management

Social aspects  
Human rights

## **Scenario and risks**

Preventing and managing the risks associated with the supply chain is essential to ensuring the continuity of the Group's business. The suppliers are, in fact, key to the De'Longhi Group's activities and, therefore, the focus of supply chain management is on promoting the best practices for product quality, working conditions, human rights, health, safety and environmental responsibility.

The Group's manufacturing and assembly are done at four plants located in Italy, Romania and China which cover 60% of sales, and by a group of qualified partners or "Original Equipment Manufacturers" which develop, manufacture and distribute products, above all coffee machines. Failure by the Group to maintain or renew the agreements with these partners could impact the economic results and the consolidated financial position.

The cost of raw materials, like steel, plastic and copper can affect the Group's production costs.

## **Business and organizational model**

Supply chain management is done by Supply Chain and Quality, as well as Purchasing, with a view to, firstly, ensuring business continuity and compliance with the company's quality standards and the purchasing parameters, as well as certain environmental requirements and correct labor practices.

Assessment of the finished product suppliers is done by three different offices based on product category and proximity to production: in Italy, coffee and irons; in the United Kingdom, motor driven products; Hong Kong, comfort. This structure makes it possible to respond to the specific needs of the different markets effectively and quickly.

Management of the materials for components (quantity and logistics) needed for production in Europe is entrusted to two teams of the Supply Chain Division, one in Italy and one in Romania. Management of materials in the Chinese plants is supervised directly by the plant directors with the support of three purchasing offices broken down by product category.

The Quality Division periodically audits and investigates the quality of the finished products and also conducts audits in order to ensure compliance with human rights protection and the values and principles included in the Code of Ethics relating to labor practices. The social audits are done of the suppliers of the Chinese plants in accordance with the international standard SA 8000 (Social Accountability). More in detail, the audits make it possible to investigate a multitude of different aspects including, for example, freedom of association and collective bargaining, work hours, work conditions, health and safety, child labor, forced labor, discrimination and training of personnel.

Product quality is assessed based on a group of specific indicators:

1. **Technical Factory Audit (TFA):** measures the effectiveness of the processes and evaluates the results of tests relating to product life.
2. **Quality Evaluation (QE):** measures product quality based on statistical sampling of each single lot.
3. **On Time Delivery (OTD):** measures the delivery time of the supplier and, more specifically, the difference between the delivery date agreed upon and the actual one.
4. **Order Fill Rate (OFR):** measures the ability of the supplier to refill the entire quantity requested by the Group.

Product quality assessment leads to a **vendor rating** which is used to classify partners as preferred, approved, probation or exit plan and subsequently evaluate the conditions and intensity of future partnerships.

Lastly, with regard to logistics optimization, in 2017 a hub in the Netherlands was created which completed the project to centralize logistics begun in 2016 when the first hub was created in Italy. Currently, the Dutch hub services Benelux, France and Scandinavia.



**Policies and objectives**

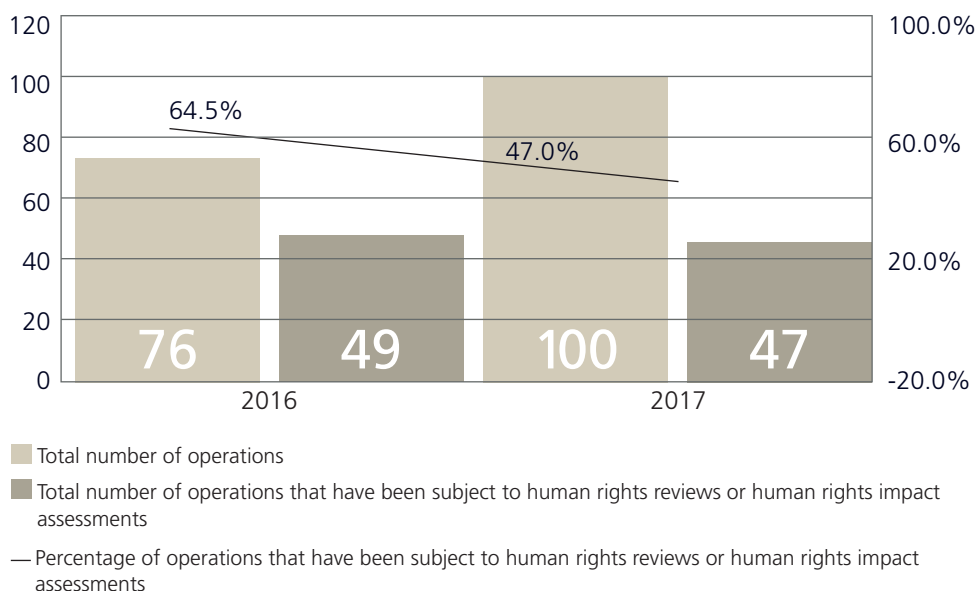
While there is no formal Group policy, the Code of Ethics governs the relationships with suppliers which should be conducted in accordance with the law and applicable regulations, as well as the general principles defined in the same Code. The selection process, furthermore, should be done based on an objective comparison of quality, price, execution and assistance while avoiding any and all forms of favoritism or discrimination.

Supply Chain and Quality are committed to developing enduring relationships with suppliers in order to ensure quick responses to production needs. As for logistics, the Group intends to build a direct and simplified network favoring direct deliveries.

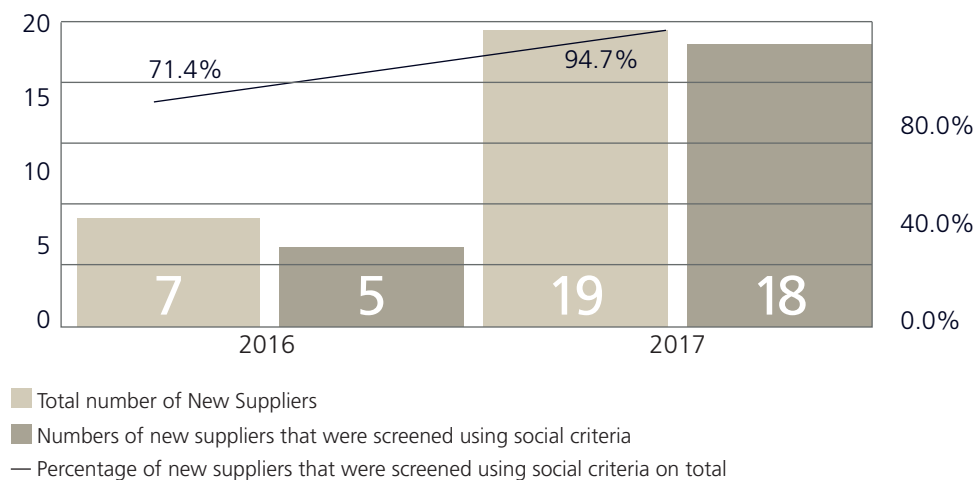
**Key figures**

In 2017 almost all the new suppliers were subject to assessments based on social criteria, consistent with standard SA 8000 [GRI 414-1]. In 2017 a total of 47 audits were carried out in order to verify the working conditions at 45 suppliers and 2 Group sites. While there was not a significant difference in the number of audits conducted, the overall percentage of sites audited was down in 2017 as a result of the greater number of suppliers [GRI 412-1].

*Number and percentage of operations subject to human rights assessments*



*New suppliers assessed based on social criteria*



# Reducing environmental impact

## Environmental aspects

### Scenario and risks

Climate change and its consequences require that businesses manage the emission of greenhouse gases carefully and responsibly. The Group's main emissions are generated by manufacturing activities.

Any environmental accidents or damages could expose the Group to potential liabilities, including criminal, with respect to the damaged parties and relative authorities and production could be suspended with possible negative repercussions for the Group's economic and financial situation.

### Business and organizational model

At a Group level, the environmental aspects are managed by the Operations & Technology Division and Quality. More in detail, an ISO14001 certified environmental management system is in place at the production facilities in Mignagola and Cluj. The Group carried out an environmental analysis which made it possible to define the steps needed to reduce the environmental impact of the entire production chain.

### Policies and objectives

The environmental policy, applied at the production facilities in Mignagola and Cluj and the Kenwood headquarters supports compliance with all current legislation and the commitment to steady improvement of environmental performances, optimization of the consumption of resources and energy, the reduction and, if possible, elimination of any form of pollution, as well as the deployment of technologies and processes which minimize environmental risks. A similar policy has yet to be formalized for the entire Group, although one of the founding principles of the Code of Ethics is the protection of the environment in accordance with specific legislation.

### Key figures

The main energy consumed by the organization and the relative emissions.

Fuel consumption by type	Unit of measurement	Production facilities		Offices		De'Longhi Group	
		2016	2017	2016	2017	2016	2017
<b>Direct Energy consumption from non-renewable sources</b>							
Gas	GJ	2,550.4	2,384.6	14,521.4	14,391.8	17,071.8	16,776.5
Diesel	GJ	6,506.0	6,121.0	26,509.4	23,597.8	33,015.4	29,718.8
Natural gas	GJ	29,000.8	39,845.5	5,171.5	4,280.5	34,172.3	44,126.1
LPG	GJ	394.2	585.2	66.5	112.5	460.6	697.7
Fuel oil	GJ	-	-	204.3	205.2	204.3	205.2
<b>Total</b>	<b>GJ</b>	<b>38,451.4</b>	<b>48,936.4</b>	<b>46,473.1</b>	<b>42,587.8</b>	<b>84,924.5</b>	<b>91,524.2</b>
<b>Direct Energy consumption from renewable sources</b>							
Energy produced from renewable sources and consumed	GJ	3,482.2	3,811.0	38.4	45.4	3,520.6	3,856.4
<b>Total direct Energy consumption</b>	<b>GJ</b>	<b>41,933.6</b>	<b>52,747.4</b>	<b>46,511.5</b>	<b>42,633.2</b>	<b>88,445.1</b>	<b>95,380.6</b>
<b>Indirect energy consumption</b>							
Electricity	GJ	192,729.2	218,114.3	28,349.8	29,087.2	221,079.0	247,201.6
District heating	GJ	-	-	3,427.5	3,698.0	3,427.5	3,698.0
Cooling	GJ	-	-	540.2	553.7	540.2	553.7
<b>Total indirect energy consumption</b>	<b>GJ</b>	<b>192,729.2</b>	<b>218,114.3</b>	<b>32,317.5</b>	<b>33,338.9</b>	<b>225,046.7</b>	<b>251,453.2</b>
<b>Total energy consumption</b>	<b>GJ</b>	<b>234,662.8</b>	<b>270,861.7</b>	<b>78,829.0</b>	<b>75,972.1</b>	<b>313,491.8</b>	<b>346,833.8</b>

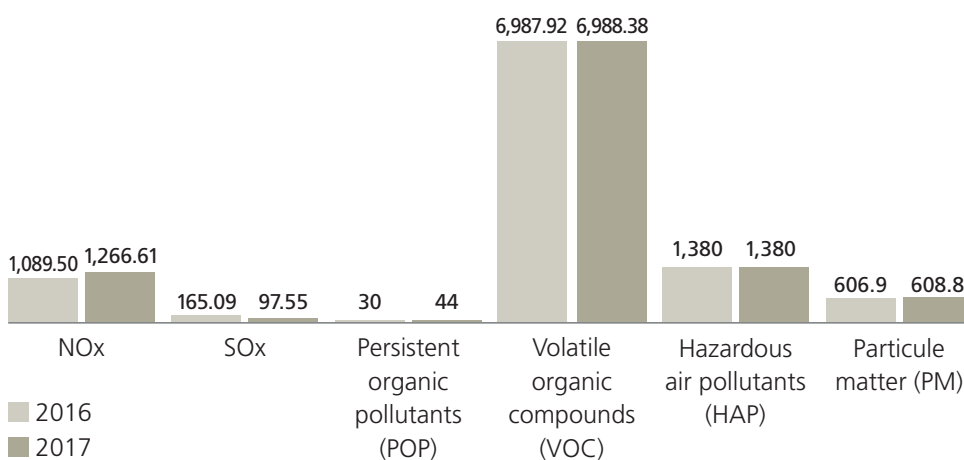
Note: Figures for the offices in the Czech Republic, Scandinavia, Dubai, Canada and Shenzhen are not available. Figures relating to energy consumption for freehold stores and the Japanese branch are available only for 2017. Figures for electricity consumption for E-Services are available only for 2016.

In 2016 and 2017, 11.6 and 12.3 GJ of Energy from renewable sources were produced at Group's plants, then sold to the national grid.

Emissions	Unit of measurement	Production facilities		Offices		De'Longhi Group	
		2016	2017	2016	2017	2016	2017
Direct	ton CO <sub>2</sub>	2,310.9	2,890.9	3,324.2	3,054.1	5,635.1	5,944.9
Indirect	ton CO <sub>2</sub>	26,900.0	29,651.8	3,492.0	3,394.0	30,392.0	33,045.8
<b>Total</b>	<b>ton CO<sub>2</sub></b>	<b>29,210.9</b>	<b>32,542.7</b>	<b>6,816.1</b>	<b>6,448.1</b>	<b>36,027.0</b>	<b>38,990.8</b>

Note: figures for direct and indirect CO<sub>2</sub> emission are not available for offices in Dubai, the Czech Republic, Scandinavia, Canada, Shenzhen.

The emissions of the Group's plants are shown below (in Kilos)



## Note on methodology

### Process used to identify material topics

The material topics were identified by the Group based on the analysis made to understand the main concerns of the Group's stakeholders and business priorities in relation to the five areas referred to in Legislative Decree 254/2016.

The Group's material topics were identified as a result of the following assessments:

- Analysis of the sustainability trends for the sector: mapping of the main non-financial aspects reported on by the Group's main peers;
- Analysis of sector concerns: mapping of the non-financial aspects deemed material for the retail sector based on the publications of a few international organizations like, for example GRI, RobecoSam, SASB, Dow Jones Sustainability Indexes;
- Analysis of business priorities: based on interviews of management, analysis of the main corporate documents like, for example the Code of Ethics, Code of Conduct, Decree 231 Model.

The results of these assessments helped to define the non-financial aspects that are the most relevant and necessary to fostering understanding of the company's business, performance, results, and impact and, therefore, reported on in the Group's Non-Financial Statement. For additional details and their connection to the Legislative Decree 254/2016 please refer to the introduction of the present document.

### Reporting scope and standards used

In accordance with the Decree, the reporting scope corresponds with the scope of consolidation used in the consolidated financial statements, namely all the companies consolidated using the line-by-line method in the financial reports. The information and figures used in this section refer to 2017.

The Group used the GRI Sustainability Reporting Standards, published in 2016 by GRI – Global Reporting Initiative, to prepare its NFS. More in detail, as called for in paragraph 3, Standard GRI 101: Foundation, the following reporting standards were used in this statement:

GRI STANDARDS	GRI Disclosures	Description
GRI 102 – General Disclosure	GRI 102-8	Information on employees and other workers
	GRI 102-47	List of material topics
	GRI 102-55	GRI content index
	GRI 102-56	External assurance
GRI 103 – Management approach	GRI 103-1	Explanation of the material topic and its Boundary
	GRI 103-2	The management approach and its components
	GRI 103-3	Evaluation of the management approach
GRI 205 – Anti-corruption	GRI 205-2	Communication and training about anti-corruption policies and procedures
	GRI 205-3	Confirmed incidents of corruption and actions taken
GRI 206 – Anti-competitive behavior	GRI 206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices

GRI STANDARDS	GRI Disclosures	Description
GRI 302 – Energy	GRI 302-1	Energy consumption within the organization
	GRI 302-5	Reductions in energy requirements of products and services
GRI 305 – Emissions	GRI 305-1	GHG emissions (scope 1)
	GRI 305-2	Energy indirect (Scope 2) GHG emissions
	GRI 305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions
GRI 403 – Occupational Health and Safety	GRI 403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region and by gender
GRI 404 – Training and Education	GRI 404-1	Average hours of training per year per employee
GRI 405 – Diversity and Equal Opportunity	GRI 405-1	Diversity of governance bodies and employees
GRI 406 – Non-discrimination	GRI 406-1	Incidents of discrimination and corrective actions taken
GRI 412 – Human Rights Assessment	GRI 412-1	Operations that have been subject to human rights reviews or impact assessments
GRI 414 – Supplier Social Assessment	GRI 414-1	New suppliers that were screened using social criteria
GRI 416 – Customer Health and Safety	GRI 416-1	Assessment of the health and safety impacts of product and service categories
	GRI 416-2	Incidents of non-compliance concerning the health and safety impacts of products and services
GRI 417 – Marketing and Labeling	GRI 417-1	Requirements for product and service information and labeling
	GRI 417-2	Incidents of non-compliance concerning product and service information and labeling
	GRI 417-3	Incidents of non-compliance concerning marketing communications
GRI 418 – Customer Privacy	GRI 418-1	Substantiated complaints concerning breaches of customer privacy and losses of customer data

### ***The reporting process and the methods of calculation used***

The content used in the NFS 2017 was prepared by all the relevant company divisions and those responsible for the aspects referred to in the report.

The main methods of calculation used are listed below:

1. **Turnover rate** is the number of separations (new hires and exits) expressed as a percentage of the number of people present in the Group at 31 December 2017;
2. **Injury rate** is the total number of injuries expressed as a percentage of the total number of labor hours multiplied by 1,000,000, excluding commuting accidents;
3. **Severity rate** is the total number of work days lost due to injuries expressed as a percentage of the total number of labor hours multiplied by 1,000;
4. **Lost day rate** is the number of working days lost due to injury as of the day following the injury;
5. **Absentee rate** is the number of work days lost to absenteeism in the reporting period as a percentage of the total number of working days in the same period;
6. the **first time quality (FTQ) indicator** is the number of perfect products as a percentage of total production for the year;
7. the **service call rate (SCR)** is the number of machines repaired in the first year under warranty as a percentage of total yearly sales. This indicator is calculated quarterly on a rolling 12-month basis. The figure for 2017 was updated as at the month of September as the figure for December was not available.
8. the **first time fix (FTF) indicator** is the number of repaired products that did not need further repairs in the six months following completion of the initial repair as a percentage of total product repairs;
9. **greenhouse gas emissions** are calculated based on the international standard ISO 14064-1. The only greenhouse gas considered was carbon monoxide (CO<sub>2</sub>). The self-produced energy from renewable sources excluded from the calculation of greenhouse gas emissions.

Emission factors used to calculate CO<sub>2</sub> emissions were determined as follows:

**Direct emissions (Scope 1):** the emissions linked to the consumption of natural gas, diesel heating fuel, gas, diesel fuel and LPG for the company cars was determined based on the emission factors reported in the table of national standards published by the Italian Ministry of the Environment, for the years 2015, 2016 and 2017.

**Indirect emissions (Scope 2):** indirect emissions are linked to the consumption of electricity; the emissions were calculated by taking into account, for each country, the factors referred to in the most recent version (relative to 2015) of Table 49 – Primary socio-economic and energy indicators published by Terna (Italian grid operator) in the International Comparison section.



# GRI Content Index

GRI Standard	Disclosure	Page	Omission
<b>GRI 102: GENERAL DISCLOSURES 2017</b>			
102-8	Information on employees and other workers	50-51	The distinction between full-time employees and part-time employees is not disclosed into current document.
102-15	Key impacts, risks and opportunities	47, 49, 52, 54, 56, 58, 60	
102-18	Governance structure	Report on corporate governance and the ownership structure – 1.Issuer's profile	
102-46	Defining report content and topic Boundaries	45-46	
102-47	List of material topics	45	
102-55	GRI content index	64	

GRI Standard	Disclosure	Page	Omission
<b>MATERIAL TOPICS</b>			
<b>ANTI-CORRUPTION</b>			
<b>GRI 103: Management Approach 2017</b>			
103-1	Explanation of the material topic and its Boundary	47-48, 45	
103-2	The management approach and its components	47-48	
<b>GRI 205: Anti-corruption 2017</b>			
205-2	Communication and training about anti-corruption policies and procedures	48	Communication and training to Company officers is not disclosed into current document.
205-3	Confirmed incidents of corruption and actions taken	48	
<b>ANTI-COMPETITIVE BEHAVIOR</b>			
<b>GRI 103: Management Approach 2017</b>			
103-1	Explanation of the material topic and its Boundary	47-48, 45	
103-2	The management approach and its components	47-48	
<b>GRI 206: Anti-competitive Behavior 2017</b>			
206-1	Legal actions for anti-competitive behavior, anti-trust and monopoly practices	48	
<b>ENVIRONMENTAL INDICATORS</b>			
<b>ENERGY</b>			
<b>GRI 103: Management Approach 2017</b>			
103-1	Explanation of the material topic and its Boundary	60-61, 45	

<b>GRI Standard</b>	<b>Disclosure</b>	<b>Page</b>	<b>Omission</b>
<b>103-2</b>	<i>The management approach and its components</i>	60-61	
<b>GRI 302: Energy 2017</b>			
<b>302-1</b>	<i>Energy consumption within the organization</i>	60-61	
<b>302-5</b>	<i>Reductions in energy requirements of products and services</i>	60-61	
<b>EMISSIONS</b>			
<b>GRI 103: Management Approach 2017</b>			
<b>103-1</b>	<i>Explanation of the material topic and its Boundary</i>	60-61, 45	
<b>103-2</b>	<i>The management approach and its components</i>	60-61	
<b>GRI 305: Emissions 2017</b>			
<b>305-1</b>	<i>Direct (Scope 1) GHG emissions</i>	61	
<b>305-2</b>	<i>Energy indirect (Scope 2) GHG emissions</i>	61	
<b>305-7</b>	<i>Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions</i>	61	
<b>SOCIAL ASPECTS INDICATORS</b>			
<b>OCCUPATIONAL HEALTH AND SAFETY</b>			
<b>GRI 103: Management Approach 2017</b>			
<b>103-1</b>	<i>Explanation of the material topic and its Boundary</i>	49-50,45	
<b>103-2</b>	<i>The management approach and its components</i>	49-50	
<b>GRI 403: Occupational Health and Safety 2017</b>			
<b>403-2</b>	<i>Types of injury and rates of injury, occupational diseases, lost days, and absenteeism and number of work-related fatalities</i>	51	
<b>TRAINING AND EDUCATION</b>			
<b>GRI 103: Management Approach 2017</b>			
<b>103-1</b>	<i>Explanation of the material topic and its Boundary</i>	49-50,45	
<b>103-2</b>	<i>The management approach and its components</i>	49-50	
<b>GRI 404: Training and Education 2017</b>			
<b>404-1</b>	<i>Average hours of training per year per employee</i>	51	This disclosure is limited to the average of the total of De'Longhi Group's employees
<b>DIVERSITY AND EQUAL OPPORTUNITY</b>			
<b>GRI 103: Management Approach 2017</b>			
<b>103-1</b>	<i>Explanation of the material topic and its Boundary</i>	49-50,45	
<b>103-2</b>	<i>The management approach and its components</i>	49-50	

<b>GRI Standard</b>	<b>Disclosure</b>	<b>Page</b>	<b>Omission</b>
<b>GRI 405: Diversity and Equal Opportunity 2017</b>			
405-1	<i>Diversity of governance bodies and employees</i>	50-51	This disclosure only relates to De'Longhi S.p.A.'s Board
<b>NON-DISCRIMINATION</b>			
<b>GRI 103: Management Approach 2017</b>			
103-1	<i>Explanation of the material topic and its Boundary</i>	49-50,45	
103-2	<i>The management approach and its components</i>	49-50	
<b>GRI 406: Non discrimination 2017</b>			
406-1	<i>Incidents of discrimination and corrective actions taken</i>	51	
<b>HUMAN RIGHTS ASSESSMENT</b>			
<b>GRI 103: Management Approach 2017</b>			
103-1	<i>Explanation of the material topic and its Boundary</i>	58-59, 45	
103-2	<i>The management approach and its components</i>	58-59	
<b>GRI 412: Human Rights Assessment 2017</b>			
412-1	<i>Operations that have been subject to human rights reviews or impact assessments</i>	59	
<b>SUPPLIER SOCIAL ASSESSMENT</b>			
<b>GRI 103: Management Approach 2017</b>			
103-1	<i>Explanation of the material topic and its Boundary</i>	58-59, 45	
103-2	<i>The management approach and its components</i>	58-59	
<b>GRI 414: Supplier Social Assessment 2017</b>			
414 -1	<i>New suppliers that were screened using social criteria</i>	59	
<b>CUSTOMER HEALTH AND SAFETY</b>			
<b>GRI 103: Management Approach 2017</b>			
103-1	<i>Explanation of the material topic and its Boundary</i>	52-53,45	
103-2	<i>The management approach and its components</i>	52-53	
<b>GRI 416: Customer Health and Safety 2017</b>			
416-1	<i>Assessment of the health and safety impacts of product and service categories</i>	52-53	

<b>GRI Standard</b>	<b>Disclosure</b>	<b>Page</b>	<b>Omission</b>
<b>MARKETING AND LABELING</b>			
<b>GRI 103: Management Approach 2017</b>			
<b>103-1</b>	<i>Explanation of the material topic and its Boundary</i>	52-53,45	
<b>103-2</b>	<i>The management approach and its components</i>	52-53	
<b>GRI 417: Marketing and labeling 2017</b>			
<b>417-1</b>	<i>Requirements for product and service information and labeling</i>	53	
<b>417-2</b>	<i>Incidents of non-compliance concerning product and service information and labeling</i>	53	
<b>417-3</b>	<i>Incidents of non-compliance concerning marketing communications</i>	53	
<b>CUSTOMER PRIVACY</b>			
<b>GRI 103: Management Approach 2017</b>			
<b>103-1</b>	<i>Explanation of the material topic and its Boundary</i>	56-57, 45	
<b>103-2</b>	<i>The management approach and its components</i>	56-57	
<b>GRI 418: Customer Privacy 2017</b>			
<b>418-1</b>	<i>Substantiated complaints concerning breaches of customer privacy and losses of customer data</i>	57	
<b>NOT GRI DISCLOSURE</b>			
<b>AFTER SALES SERVICES</b>			
<b>GRI 103: Management Approach 2017</b>			
<b>103-1</b>	<i>Explanation of the material topic and its Boundary</i>	56-57, 45	
<b>103-2</b>	<i>The management approach and its components</i>	56-57	
	<i>First time fix (FTF) indicator</i>	57	
	<i>Average time of technical service</i>	57	



# 2017 Consolidated Financial Statements





## CONSOLIDATED INCOME STATEMENT

(€/000)	Notes	2017	of which non-recurring	2016	of which non-recurring
<b>CONTINUING OPERATIONS</b>					
Revenues from sales and services	1	1,947,366		1,822,925	
Other revenues	1	25,427		23,774	
<b>Total consolidated revenues</b>		<b>1,972,793</b>		<b>1,846,699</b>	
Raw and ancillary materials, consumables and goods	2	(877,742)		(780,041)	
Change in inventories of finished products and work in progress	3	16,424		(19,125)	
Change in inventories of raw and ancillary materials, consumables and goods	3	14,570		5,739	
<b>Materials consumed</b>		<b>(846,748)</b>		<b>(793,427)</b>	
Payroll costs	4-8	(254,030)	(422)	(238,023)	(2,959)
Services and other operating expenses	5-8	(559,177)	(1,603)	(508,432)	(376)
Provisions	6-8	(9,159)	(90)	(14,923)	(131)
Amortization	7	(58,236)		(52,576)	
<b>EBIT</b>		<b>245,443</b>	<b>(2,115)</b>	<b>239,318</b>	<b>(3,466)</b>
Financial income (expenses)	9	(30,848)		(27,511)	
Non recurring financial income (expenses)	10	14,627	14,627	15,947	15,947
<b>PROFIT (LOSS) BEFORE TAXES</b>		<b>229,222</b>		<b>227,754</b>	
Income taxes	11	(49,493)		(59,318)	
<b>NET PROFIT (LOSS) FROM CONTINUING OPERATIONS</b>		<b>179,729</b>		<b>168,436</b>	
<b>DISCONTINUED OPERATIONS</b>					
Net profit (loss) from discontinued operation		(1,466)		(241)	
<b>CONSOLIDATED PROFIT (LOSS) AFTER TAXES</b>		<b>178,263</b>		<b>168,195</b>	
Profit (loss) pertaining to minority interests	28	-		784	
<b>PROFIT (LOSS) PERTAINING TO THE GROUP</b>		<b>178,263</b>		<b>167,411</b>	
<b>EARNINGS PER SHARE (in Euro)</b>					
- basic	27	€ 1.19		€ 1.12	
- diluted		€ 1.18		€ 1.12	

In accordance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*, in light of the industrial partnership agreement described in these Explanatory Notes, in both periods the figures for assets held for sale are shown separately and analyzed in the section Discontinued Operations. In this report Continuing Operations refers to the results for the consolidation perimeter excluding NPE S.r.l..

Appendix 3 reports the effect of related party transactions on the income statement, as required by CONSOB Resolution 15519 of 27 July 2006.

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(€/000)	2017	2016
<b>Consolidated profit (loss)</b>	<b>178,263</b>	<b>168,195</b>
<b>Other components of comprehensive income from Continuing Operations:</b>		
- Change in fair value of cash flow hedges and financial assets available for sale	(14,486)	3,787
- Tax effect on change in fair value of cash flow hedges and financial assets available for sale	2,955	62
- Differences from translating foreign companies' financial statements into Euro	(38,166)	3,146
<b>Total other comprehensive income will subsequently be reclassified to profit (loss) for the year</b>	<b>(49,697)</b>	<b>6,995</b>
- Actuarial valuation funds	391	(1,751)
- Tax effect of actuarial valuation funds	(72)	459
<b>Total other comprehensive income will not subsequently be reclassified to profit (loss) for the year</b>	<b>319</b>	<b>(1,292)</b>
<b>Total components of comprehensive income from Continuing Operations</b>	<b>(49,378)</b>	<b>5,703</b>
<b>Other components of comprehensive income from Discontinued Operations:</b>		
- Change in fair value of cash flow hedges	(105)	-
- Tax effect on change in fair value of cash flow hedges	25	-
<b>Total other comprehensive income will subsequently be reclassified to profit (loss) for the year</b>	<b>(80)</b>	<b>-</b>
- Actuarial valuation funds	(3)	-
- Tax effect of actuarial valuation funds	1	-
<b>Total other comprehensive income will not subsequently be reclassified to profit (loss) for the year</b>	<b>(2)</b>	<b>-</b>
<b>Total components of comprehensive income from Discontinued Operations</b>	<b>(82)</b>	<b>-</b>
<b>Other components of comprehensive income</b>	<b>(49,460)</b>	<b>5,703</b>
<b>Total comprehensive income</b>	<b>128,803</b>	<b>173,898</b>
<b>Total comprehensive income attributable to:</b>		
Owners of the parent	128,803	173,158
Minority interests	-	740

In accordance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*, in light of the industrial partnership agreement described in these Explanatory Notes, in both periods the figures for assets held for sale are shown separately. In this report Continuing Operations refers to the results for the consolidation perimeter excluding NPE S.r.l..

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS (€/000)	Notes	31.12.2017	31.12.2016
<b>NON-CURRENT ASSETS</b>			
INTANGIBLE ASSETS		320,910	323,112
- Goodwill	12	92,400	92,400
- Other intangible assets	13	228,510	230,712
PROPERTY, PLANT AND EQUIPMENT		231,850	200,242
- Land, property, plant and machinery	14	129,476	114,936
- Other tangible assets	15	102,374	85,306
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		26,119	12,720
- Equity investments	16	22,957	4,739
- Receivables	17	3,083	3,283
- Other non-current financial assets	18	79	4,698
DEFERRED TAX ASSETS	19	32,322	38,379
<b>TOTAL NON-CURRENT ASSETS</b>		<b>611,201</b>	<b>574,453</b>
<b>CURRENT ASSETS</b>			
INVENTORIES	20	329,710	320,366
TRADE RECEIVABLES	21	401,545	372,777
CURRENT TAX ASSETS	22	13,551	9,787
OTHER RECEIVABLES	23	28,023	32,328
CURRENT FINANCIAL RECEIVABLES AND ASSETS	24	8,277	25,676
CASH AND CASH EQUIVALENTS	25	664,724	461,430
<b>TOTAL CURRENT ASSETS</b>		<b>1,445,830</b>	<b>1,222,364</b>
ASSETS RELATED TO DISCONTINUED OPERATIONS		37,186	-
Elimination of financial receivables from DISCONTINUED OPERATIONS		(7,958)	-
Non-current assets held for sales	26	1,287	1,389
<b>TOTAL ASSETS</b>		<b>2,087,546</b>	<b>1,798,206</b>

In accordance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*, in light of the industrial partnership agreement described in these Explanatory Notes, in both periods the figures for assets held for sale are shown separately and analyzed in the section Discontinued Operations. In this report Continuing Operations refers to the results for the consolidation perimeter excluding NPE S.r.l..

Comparative figures were redetermined following the final accounting of the business combination relating to NPE S.r.l. as required by IFRS 3, *Business combinations*.

Appendix 3 reports the effect of related party transactions on the income statement, as required by CONSOB Resolution 15519 of 27 July 2006.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<b>NET EQUITY AND LIABILITIES (€/000)</b>	<b>Notes</b>	<b>31.12.2017</b>	<b>31.12.2016</b>
<b>NET EQUITY</b>			
GROUP PORTION OF NET EQUITY		1,021,729	1,010,627
- Share capital	27	224,250	224,250
- Reserves	28	619,216	618,966
- Profit (loss) pertaining to the Group		178,263	167,411
MINORITY INTERESTS	28	-	3,420
<b>TOTAL NET EQUITY</b>		<b>1,021,729</b>	<b>1,014,047</b>
<b>NON-CURRENT LIABILITIES</b>			
FINANCIAL PAYABLES		284,135	75,883
- Bank loans and borrowings (long-term portion)	29	128,792	-
- Other financial payables (long-term portion)	30	155,343	75,883
DEFERRED TAX LIABILITIES	19	27,288	27,576
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		70,167	90,423
- Employee benefits	31	29,936	42,691
- Other provisions	32	40,231	47,732
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>381,590</b>	<b>193,882</b>
<b>CURRENT LIABILITIES</b>			
TRADE PAYABLES	33	366,061	363,847
FINANCIAL PAYABLES		138,345	109,337
- Bank loans and borrowings (short-term portion)	29	67,477	29,376
- Other financial payables (short-term portion)	30	70,868	79,961
CURRENT TAX LIABILITIES	34	37,133	29,528
OTHER PAYABLES	35	111,882	87,565
<b>TOTAL CURRENT LIABILITIES</b>		<b>653,421</b>	<b>590,277</b>
LIABILITIES RELATED TO DISCONTINUED OPERATIONS		38,764	-
Elimination of financial debt/payable from DISCONTINUED OPERATIONS		(7,958)	-
<b>TOTAL NET EQUITY AND LIABILITIES</b>		<b>2,087,546</b>	<b>1,798,206</b>

In accordance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*, in light of the industrial partnership agreement described in these Explanatory Notes, in both periods the figures for assets held for sale are shown separately and analyzed in the section Discontinued Operations. In this report Continuing Operations refers to the results for the consolidation perimeter excluding NPE S.r.l..

Comparative figures were redetermined following the final accounting of the business combination relating to NPE s.r.l. as required by IFRS 3, *Business combinations*.

Appendix 3 reports the effect of related party transactions on the income statement, as required by CONSOB Resolution 15519 of 27 July 2006.

## CONSOLIDATED STATEMENT OF CASH FLOW

	Notes	2017	2016
Profit (loss) pertaining to the group from Continuing Operations		179,729	167,652
Income taxes for the period		49,493	59,318
Amortization		56,444	52,576
Net change in provisions and other non-cash items		(8,028)	6,680
Cash flow absorbed by movements in working capital from <i>Discontinued Operations</i>		(314)	2,912
<b>Cash flow generated by current operations (A)</b>		<b>277,324</b>	<b>289,138</b>
<b>Change in assets and liabilities for the period:</b>			
Trade receivables		(45,825)	(2,700)
Inventories		(30,992)	13,388
Trade payables		27,679	(12,093)
Other changes in net working capital		16,974	(3,453)
Payment of income taxes		(35,327)	(32,388)
Cash flow absorbed by movements in working capital from <i>Discontinued Operations</i>		(5,861)	(5,118)
<b>Cash flow absorbed by movements in working capital (B)</b>		<b>(73,352)</b>	<b>(42,364)</b>
<b>Cash flow generated by current operations and movements in working capital (A+B)</b>		<b>203,972</b>	<b>246,774</b>
<b>Investment activities:</b>			
Investments in intangible assets		(14,249)	(13,274)
Other cash flows for intangible assets		28	12
Investments in property, plant and equipment		(85,065)	(41,468)
Other cash flows for property, plant and equipment		387	2,070
Net investments in financial assets and in minority interest		(20,097)	184
Cash flow absorbed by investment activities from <i>Discontinued Operations</i>		(1,354)	(7,451)
<b>Cash flow absorbed by ordinary investment activities (C)</b>		<b>(120,350)</b>	<b>(59,927)</b>
Dividends paid		(119,600)	(65,780)
Change in currency translation reserve on cash and cash equivalents		(22,316)	(2,772)
Increase in minority interests		-	447
Other changes in Net Equity		(200)	(10)
New loans		345,000	-
Payment of interests on loans		(3,797)	(3,228)
Repayment of loans and other net changes in sources of finance		(83,490)	(25,090)
Cash flow generated by changes in net equity and by financing activities from <i>Discontinued Operations</i>		7,349	13,106
<b>Cash flow generated (absorbed) by changes in net equity and by financing activities (D)</b>		<b>122,946</b>	<b>(83,327)</b>
<b>Cash flow for the period (A+B+C+D)</b>		<b>206,568</b>	<b>103,520</b>
<b>Opening cash and cash equivalents</b>	25	<b>461,430</b>	<b>357,910</b>
Increase in cash and cash equivalents (A+B+C+D)		206,568	103,520
<b>Closing cash and cash equivalents</b>		<b>667,998</b>	<b>461,430</b>
<i>Of which:</i>			
<i>Cash and cash equivalents included as Discontinued Operations</i>		3,274	-
<b>Cash and cash equivalents as reported in the statement of financial position</b>	25	<b>664,724</b>	<b>461,430</b>

In accordance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations, in light of the industrial partnership agreement described in these Explanatory Notes, in both periods the figures for assets held for sale are shown separately and analyzed in the section *Discontinued Operations*. In this report *Continuing Operations* refers to the results for the consolidation perimeter excluding NPE S.r.l..

Appendix 2 reports the statement of cash flows in terms of net financial position.

## CONSOLIDATED STATEMENT OF CHANGES IN NET EQUITY

	SHARE CAPITAL	SHARE PREMIUM RESERVE	LEGAL RESERVE	EXTRAORDINARY RESERVE	FAIR VALUE AND CASH FLOW HEDGE RESERVES	STOCK OPTION RESERVE	CURRENCY TRANSLATION RESERVE	PROFIT (LOSS) CARRIED FORWARD	PROFIT (LOSS) PERTAINING TO GROUP	GROUP PORTION OF NET EQUITY	MINORITY INTERESTS	TOTAL NET EQUITY
<b>Balance at 31 December 2015</b>	<b>224,250</b>	<b>162</b>	<b>15,573</b>	<b>21,733</b>	<b>4,793</b>	<b>-</b>	<b>45,652</b>	<b>441,187</b>	<b>149,533</b>	<b>902,883</b>	<b>2,973</b>	<b>905,856</b>
Allocation of 2015 result as per AGM resolution of 14 April 2016												
- distribution of dividends				(1,791)				(63,989)		(65,780)		(65,780)
- allocation to reserves			3,368					146,165	(149,533)	-		-
Fair value Stock Option						366				366		366
Other changes in minority interests										-	(293)	(293)
<b>Movements from transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>3,368</b>	<b>(1,791)</b>	<b>-</b>	<b>366</b>	<b>-</b>	<b>82,176</b>	<b>(149,533)</b>	<b>(65,414)</b>	<b>(293)</b>	<b>(65,707)</b>
Profit (loss) after taxes									167,411	167,411	784	168,195
Other components of comprehensive income					3,849		3,146	(1,248)		5,747	(44)	5,703
<b>Comprehensive income (loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,849</b>	<b>-</b>	<b>3,146</b>	<b>(1,248)</b>	<b>167,411</b>	<b>173,158</b>	<b>740</b>	<b>173,898</b>
<b>Balance at 31 December 2016</b>	<b>224,250</b>	<b>162</b>	<b>18,941</b>	<b>19,942</b>	<b>8,642</b>	<b>366</b>	<b>48,798</b>	<b>522,115</b>	<b>167,411</b>	<b>1,010,627</b>	<b>3,420</b>	<b>1,014,047</b>
<b>Balance at 31 December 2016</b>	<b>224,250</b>	<b>162</b>	<b>18,941</b>	<b>19,942</b>	<b>8,642</b>	<b>366</b>	<b>48,798</b>	<b>522,115</b>	<b>167,411</b>	<b>1,010,627</b>	<b>3,420</b>	<b>1,014,047</b>
Allocation of 2016 result as per AGM resolution of 11 April 2017												
- distribution of dividends				(121)				(119,479)		(119,600)		(119,600)
- allocation to reserves			6,288					161,123	(167,411)	-		-
Fair value Stock Option						3,717				3,717		3,717
Other changes in minority interests								(1,818)		(1,818)	(3,420)	(5,238)
<b>Movements from transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>6,288</b>	<b>(121)</b>	<b>-</b>	<b>3,717</b>	<b>-</b>	<b>39,826</b>	<b>(167,411)</b>	<b>(117,701)</b>	<b>(3,420)</b>	<b>(121,121)</b>
Profit (loss) after taxes									178,263	178,263		178,263
Other components of comprehensive income					(11,611)		(38,166)	317		(49,460)		(49,460)
<b>Comprehensive income (loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(11,611)</b>	<b>-</b>	<b>(38,166)</b>	<b>317</b>	<b>178,263</b>	<b>128,803</b>	<b>-</b>	<b>128,803</b>
<b>Balance at 31 December 2017</b>	<b>224,250</b>	<b>162</b>	<b>25,229</b>	<b>19,821</b>	<b>(2,969)</b>	<b>4,083</b>	<b>10,632</b>	<b>562,258</b>	<b>178,263</b>	<b>1,021,729</b>	<b>-</b>	<b>1,021,729</b>



## Explanatory notes



## Group business

The De'Longhi Group is headed up by the parent De'Longhi S.p.A., a company with its registered office in Treviso whose shares are listed on the Italian stock exchange run by Borsa Italiana.

The Group is active in the production and distribution of coffee machines, small appliances for food preparation and cooking, domestic cleaning and ironing, air conditioning and portable heaters; the companies included in the scope of consolidation are listed in Appendix 1 to the Explanatory notes.

## Accounting standards

The De'Longhi Group's consolidated financial statements at 31 December 2017 have been prepared on the basis of the international accounting and financial reporting standards issued by the International Accounting Standards Board (IASB), including the SIC and IFRIC interpretations, as endorsed by the European Commission (at the date of 31 December 2017), pursuant to EC Regulation 1606 of 19 July 2002.

The following documents have been used for interpretation and application purposes even though not endorsed by the European Commission:

- Framework for the Preparation and Presentation of Financial Statements of the International Accounting Standards Board (issued by the IASB in 2001);
- Implementation Guidance, Basis for Conclusions, IFRIC and other documents issued by the IASB or IFRIC to complement the accounting standards;
- Interpretations published by the Italian Accounting Board relating to how to apply IAS/IFRS in Italy.

The accounting policies and measurement bases used for preparing the financial statements at 31 December 2017 are the same as those used for preparing the consolidated financial statements at 31 December 2016, except for certain new amendments and accounting standards described below.

The consolidated financial statements at 31 December 2017 comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in net equity and these explanatory notes.

The statement of financial position has been prepared on a basis that distinguishes between current and noncurrent items.

The income statement has been presented on the basis of the nature of expense, being a suitable structure for faithfully representing the Group's performance.

The statement of cash flows has been prepared using the "indirect method" allowed by IAS 7.

The present financial statements and notes are presented in Euro, with all amounts rounded to thousands of Euro, unless otherwise indicated.

The present annual financial report was approved and authorized for publication by the Board of Directors on 1 March 2018. The financial statements used for consolidation purposes are the separate ones for the year ended 31 December 2017 prepared by the Boards of Directors of the individual companies, as adjusted if necessary for the Group's accounting policies and measurement bases.

The financial statements have been prepared on the historical cost basis, adjusted as required for the valuation of certain financial instruments, and under the assumption of going concern. The Group has verified that there are no material uncertainties that might cast significant doubt upon its ability to continue as a going concern, as defined in par. 25 of IAS 1.

The risks and uncertainties relating to the business are described in a specific section of the Report on operations. The methods used by the Group to manage financial risks are described in note 39. *Risk management* of the present Explanatory notes.

## Translation of balances in foreign currencies

The following exchange rates have been used:

Currency		31.12.2017		31.12.2016		% Change	
		Period-end exchange rate (*)	Average exchange rate (*)	Period-end exchange rate (*)	Average exchange rate (*)	Period-end exchange rate	Average exchange rate
US dollar	USD	1.1993	1.1293	1.0541	1.1069	13.8%	2.0%
British pound	GBP	0.88723	0.87615	0.85618	0.81948	3.6%	6.9%
Hong Kong dollar	HKD	9.372	8.8012	8.1751	8.59219	14.6%	2.4%
Chinese renminbi (Yuan)	CNY	7.8044	7.6264	7.3202	7.35222	6.6%	3.7%
Australian dollar	AUD	1.5346	1.4729	1.4596	1.48828	5.1%	(1.0%)
Canadian dollar	CAD	1.5039	1.4644	1.4188	1.46588	6.0%	(0.1%)
Japanese yen	JPY	135.01	126.6545	123.4	120.19665	9.4%	5.4%
Malaysian ringgit	MYR	4.8536	4.8501	4.7287	4.58355	2.6%	5.8%
New Zealand dollar	NZD	1.685	1.5895	1.5158	1.58862	11.2%	0.1%
Polish zloty	PLN	4.177	4.2563	4.4103	4.36321	(5.3%)	(2.5%)
South African rand	ZAR	14.8054	15.0434	14.457	16.26448	2.4%	(7.5%)
Singapore dollar	SGD	1.6024	1.5582	1.5234	1.52754	5.2%	2.0%
Russian rouble	RUB	69.392	65.8877	64.3	74.14457	7.9%	(11.1%)
Turkish lira	TRY	4.5464	4.1214	3.70720	3.34325	22.6%	23.3%
Czech koruna	CZK	25.535	26.3272	27.021	27.03429	(5.5%)	(2.6%)
Swiss franc	CHF	1.1702	1.1115	1.07390	1.09016	9.0%	2.0%
Brazilian real	BRL	3.9729	3.6041	3.4305	3.85614	15.8%	(6.5%)
Croatian kuna	HRK	7.44	7.4644	7.5597	7.53329	(1.6%)	(0.9%)
Ukrainian hryvnia	UAH	33.7318	30.0276	28.7386	28.28491	17.4%	6.2%
Romanian leu	RON	4.6585	4.5687	4.539	4.49043	2.6%	1.7%
South Korean won	KRW	1,279.61	1,275.83	1,269.36	1,284.18113	0.8%	(0.7%)
Chilean Peso	CLP	737.29	732.19	704.945	748.47666	4.6%	(2.2%)
Swedish krona	SEK	9.8438	9.6369	9.5525	9.4689	3.0%	1.8%
Mexican Peso	MXN	23.6612	21.3278	21.7719	20.66731	8.7%	3.2%

(\*) Source: Bank of Italy



## Amendments and new accounting standards applied for the first time by the Group

This financial report complies with the amendments and new accounting standards which became mandatory beginning 1 January 2017 as established by the European Commission in the regulations published in the Official Gazette.

With Regulation 2017/1989 of 6 November 2017 the European Commission adopted amendments to IAS 12 – *Income taxes – recognition of deferred tax assets for unrealized losses* which aims to clarify how to account for a deferred tax asset on a debt instrument measured at fair value.

Amendments to IAS 7 *Statement of Cash Flows – Financial reporting disclosures* were also adopted in Regulation 2017/1990 which provide a clearer definition of the information on financial activities to be provided to the users of financial statements.

Application of these updated standards did not have a material impact on the information found in this consolidated annual report.

## International financial reporting standards and/or interpretations endorsed by the European Union but not yet applicable

The Commission Regulation (EU) n. 2016/1905 of 22 September 2016 adopts IFRS 15 *Revenue from Contracts with Customers*; subsequently, on 31 October 2017, clarifications to IFRS 5 were adopted in Regulation 2017/1987 in order to clarify certain requirements and provide further assistance in the application of the standard. IFRS 15 relates to all customer contracts with the exception of contracts relating to leasing, insurance, financial instruments and non-monetary exchanges.

The new standard contains a 5–point guide relating to identifying the contract, identifying performance guidelines, determining the transaction price, allocating the transaction price to performance obligations, recognition of revenue. The standard establishes that the revenue must be recognized when the obligation is performed, namely when the promised good (or service) is transferred to the customer.

The consideration in the contract with the customer may include fixed, variable or both amounts. In the case of variable components, the consideration must be estimated correctly based on reasonably available information (historical, current and forecasts).

The amounts owed for royalties are an exception as they may be recognized only after the underlying sale or usage has been completed.

The standard provides specific indications with respect to the allocation of the transaction price between the performance obligations, amendment of the transaction price and the definition of incremental contract costs.

The operating guide, which constitutes an integral part of the standard, also provides great detail about various topics including sales with the right of return, consignment agreements, and deferred delivery sale agreements.

With Regulation 2016/2067 of 22 November 2016 the European Commission adopted IFRS 9 – *Financial Instruments* which introduces new requirements for the classification and measurement of financial assets previously reported based on IAS 39.

The new standard divides all financial assets into two classifications, namely those measured at amortized cost and those measured at fair value.

Financial assets that satisfy two conditions are measured at amortized cost: the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. All other financial assets must be measured at fair value through other comprehensive income profit or loss.

In order to remedy the temporary accounting differences attributable to the difference in the effective date of IFRS 9 and the new accounting standard (IFRS 17) for insurance contracts which will substitute IFRS 4, on 3 November 2017 the European Commission approved Regulation 2017/1988 *Application of IFRS 9 Financial Instruments with IFRS 4 Insurance contracts*.

The changes introduced in the above mentioned regulations will be applicable beginning on or after 1 January 2018. The Group did not apply any new standards, interpretations or amendments endorsed, but not yet applicable, in advance; application of these revised standards is not, however, expected to have a material impact on the Group's income statement or net equity.

IFRS 16 *Leasing* was adopted by the EU in Regulation 2017/1986 on 31 October 2017. This standard aims to improve the financial reporting of leases. The scope of the new principle is largely unchanged with respect to IAS 17 which it is substituting. Leasing includes those contracts which convey the right to control the use of an identified asset for a period of time in exchange for consideration. The new standard eliminates the distinction between financial and operating leases for lessors and establishes a single category. As of the effective date, the lessee recognizes a right-of-use asset and a liability for the lease. The right-of-use asset is initially recognized at cost, while the liability is measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease. Leases with a term of less than twelve months without purchase options and leases when the underlying asset has a low value may be recognized as an expense over the term of the lease or based on another systematic method. The new standard will be applicable beginning on or after 1 January 2019. While this new principle was not adopted in advance, the Group has begun to assess the possible impact of its application. At the date of this annual report, the effects have yet to be quantified.

### **International accounting standards and/or interpretations not yet endorsed by the European Union**

After a long consultation period, on 18 May 2017 the IASB issued a new international accounting standard, IFRS 17 *Insurance contracts* which substitute the current IFRS 4. The new standard establishes rules for the recognition, measurement, presentation and disclosure of insurance contracts; it will be applied to all insurance contracts which will be measured using estimates for discounted future cash flows, adjusted for risk, and a Contractual Service Margin (CSM). Once the standard is endorsed by the European Union, the new standard will be applicable beginning on or after 1 January 2021.

In June the IASB issued IFRIC Interpretation 23 — *Uncertainty over Income Tax Treatments* which provides guidelines about how to account for income taxes when there is uncertainty over income tax treatments. IFRIC 23 will take effect on 1 January 2019.

In September the IASB published *Practice Statement 2 Making Materiality Judgements* which provides companies with non-binding guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with IAS/IFRS international accounting standards; the statement begins by with the definition of material information. Information is deemed material if omitting it or misstating it could influence the decisions made by user and provides a practical 4-step guide to a systematic approach to defining material information.

## **Consolidation procedures**

The scope of consolidation includes the parent company, De'Longhi S.p.A., and its subsidiaries at 31 December 2017, meaning those companies in which the parent directly or indirectly owns the majority of share capital or shares with voting rights, or over which the parent has the power, including through contractual agreements, to govern their financial and operating policies.

### **Subsidiary companies**

These are companies over which the Group exercises control. Such control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are consolidated starting from the date that control is assumed.

Minority interests represent the portion of profit or loss and of net equity not held by the Group and are reported separately in the income statement and in the statement of financial position, where they are presented as part of equity but separately from the Group portion.

Subsidiary companies are consolidated on a line-by-line basis; all of the assets and liabilities, income and expenses of consolidated companies are combined on a line-by-line basis with those of the parent.

The book value of the related equity investments is eliminated against the parent's share of the subsidiary's net equity, with all assets, liabilities and contingent liabilities recognized at their acquisition date fair values. Any positive difference is recognized as "Goodwill" in non-current assets.

The portion of equity and results attributable to minority shareholders is shown separately in the consolidated statement of financial position and income statement respectively.

Any gains arising on the disposal of interests in consolidated companies, which do not result in a loss of control, are recognized in the income statement as the difference between the sale price and corresponding portion of equity sold (under the parent entity extension method).

**Associated companies**

These are companies in which the Group has a significant influence over their financial and operating policies and which are neither subsidiaries nor joint ventures. The consolidated financial statements show the Group's portion of results of the associated companies, accounted for using the equity method, starting from the date when the significant influence began.

**Joint ventures**

These are companies over whose activities the Group has joint control, as established by contract. The consolidated financial statements include the Group's share of the results of joint ventures, reported using the equity method as per IAS 28 – Investment in associates and joint ventures amended.

**Consolidation of foreign companies**

All the assets and liabilities of foreign companies that report in a currency other than the Euro and which fall within the scope of consolidation are translated into Euro using the exchange rate ruling at the end of the reporting period (current exchange rate method). Income and costs are translated using average rates for the reporting period. The exchange differences arising from this method are booked directly to the "currency translation reserve" under consolidated net equity.

**Transactions eliminated upon consolidation**

All transactions and balances between Group companies and all unrealized gains and losses arising on intercompany transactions are eliminated on consolidation.

**Transactions in foreign currency**

Transactions in foreign currency are recorded at the exchange rate in force on the transaction date. Monetary assets and liabilities in foreign currency are translated using the exchange rate ruling on the reporting date. Exchange differences arising on the extinguishment of monetary items or their translation at different rates to those used for their translation upon initial recognition or in previous financial statements are recorded in the income statement.

Exchange differences arising on monetary items that are effectively part of the Group's net investment in foreign operations are classified in net equity until the investment's disposal, at which time such differences are recognized in the income statement as income or expenses.

## Discontinued operations

In September 2016 the De'Longhi Group signed an agreement to take over the manufacturing business of a strategic supplier of electronic components experiencing financial difficulties and involved in insolvency proceedings (procedura concorsuale); as a result of this agreement the Group had a 36-month business lease and, subsequently, could purchase the company. In September 2017 the acquisition of the business was finalized and title to the business and the production facility were transferred in a notarized deed after the courts in Bologna accepted the proposal submitted by NPE S.r.l..

In light of the fact that the De'Longhi Group's core business does not involve electronic components and in order to foster the acquired company's organic growth, as well as improve operations and profitability, in 2017 discussions relating to a possible industrial partnership were begun with an industry player (the H&T Group, premiere Chinese electronics group listed on the Shenzhen stock exchange).

On 22 February 2018 an industrial partnership agreement was reached for the sale of 55% of NPE S.r.l.'s share capital. Based on the agreement the two shareholders will also make an equity contribution totaling €7.7 million to support development of the company and another 25% may be sold in the first half of 2020 at a price to be determined based on the extent to which certain economic targets have been achieved. The agreement will be finalized by the end of April 2018, subject to the applicable antitrust clearances.

In light of the planned disposal of the controlling interest in NPE S.r.l. and the treatment, in accordance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*, of NPE S.r.l.'s activities as Discontinued Operations, the balance sheet figures for the current year are not always comparable with those published at the end of prior reporting periods.

In this section the details of the items related to Discontinued Operations are provided as shown in the consolidated income statement and the statement of financial position.

In terms of methodology, please note that Discontinued Operations are included in the De'Longhi Group's scope of consolidation at 31 December 2017 in accordance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations* and, therefore, the balances shown for the entire Group were determined by eliminating the economic and financial transactions between Continuing and Discontinued Operations.



More in detail:

- the single lines of the income statement relating to Continuing Operations and the single items comprising the net result for Discontinued Operations shown in this report are shown without taking into account elisions of intercompany transactions between the two Operations;
- at the financial level, the single items relating to Continuing Operations and the single items relating to Discontinued Operations' assets/liabilities shown in this report are shown without taking into account elisions of intercompany transactions between the two Operations;
- in the consolidated statement of financial position, therefore, the total amount of the financial transactions subject to elisions are shown in a separate line "Elimination of balance sheet items relating to Discontinued Operations";
- as for the statement of cash flows, all the cash flows generated by Discontinued Operations are shown in specific lines relating to current operations, movements in net working capital, investing activities and financing activities. These items are shown net of the impact of any transactions carried out between the Operations.

## NET PROFIT (LOSS) FOR DISCONTINUED OPERATIONS

The income statement for Discontinued Operations is provided below:

(€/000)	2017	2016
Revenues from sales and services	51,861	11,441
Other revenues	1,885	214
<b>Total revenues</b>	<b>53,746</b>	<b>11,655</b>
Raw and ancillary materials, consumables and goods	(39,123)	(8,589)
Change in inventories of finished products and work in progress	1,078	-
Change in inventories of raw and ancillary materials, consumables and goods	2,412	1,504
<b>Materials consumed</b>	<b>(35,633)</b>	<b>(7,085)</b>
Payroll costs	(11,132)	(2,917)
Services and other operating expenses	(6,797)	(1,532)
Provisions	(261)	-
Amortization	(1,653)	(377)
<b>EBIT</b>	<b>(1,730)</b>	<b>(256)</b>
Financial income (expenses)	(176)	(82)
<b>PROFIT (LOSS) BEFORE TAXES</b>	<b>(1,906)</b>	<b>(338)</b>
Income taxes	440	97
<b>NET PROFIT (LOSS) FROM DISCONTINUED OPERATIONS</b>	<b>(1,466)</b>	<b>(241)</b>

## ASSETS AND LIABILITIES – DISCONTINUED OPERATIONS

Assets and liabilities pertaining to Discontinued Operations at 31 December 2017 are shown below:

ASSETS (€/000)	31.12.2017
<b>NON-CURRENT ASSETS</b>	
INTANGIBLE ASSETS	204
- Goodwill	-
- Other intangible assets	204
PROPERTY, PLANT AND EQUIPMENT	7,447
- Land, property, plant and machinery	6,065
- Other tangible assets	1,382
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS	2
- Equity investments	-
- Receivables	2
- Other non-current financial assets	-
DEFERRED TAX ASSETS	257
<b>TOTAL NON-CURRENT ASSETS</b>	<b>7,910</b>
<b>CURRENT ASSETS</b>	
INVENTORIES	10,492
TRADE RECEIVABLES	12,363
CURRENT TAX ASSETS	259
OTHER RECEIVABLES	2,888
CURRENT FINANCIAL RECEIVABLES AND ASSETS	-
CASH AND CASH EQUIVALENTS	3,274
<b>TOTAL CURRENT ASSETS</b>	<b>29,276</b>
<b>TOTAL ASSETS</b>	<b>37,186</b>
<b>NET EQUITY AND LIABILITIES (€/000)</b>	<b>31.12.2017</b>
<b>NET EQUITY</b>	
GROUP PORTION OF NET EQUITY	(1,578)
- Share capital	10
- Reserves	(122)
- Profit (loss) pertaining to the Group	(1,466)
<b>TOTAL NET EQUITY</b>	<b>(1,578)</b>
<b>NON-CURRENT LIABILITIES</b>	
FINANCIAL PAYABLES	8,000
- Bank loans and borrowings (long-term portion)	8,000
- Other financial payables (long-term portion)	-
DEFERRED TAX LIABILITIES	-
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES	2,552
- Employee benefits	2,552
- Other provisions	-
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>10,552</b>
<b>CURRENT LIABILITIES</b>	
TRADE PAYABLES	12,940
FINANCIAL PAYABLES	12,353
- Bank loans and borrowings (short-term portion)	12,003
- Other financial payables (short-term portion)	350
CURRENT TAX LIABILITIES	15
OTHER PAYABLES	2,904
<b>TOTAL CURRENT LIABILITIES</b>	<b>28,212</b>
<b>TOTAL NET EQUITY AND LIABILITIES</b>	<b>37,186</b>

## Change in the scope of consolidation – business combinations

On 12 April 2017, the De'Longhi Group reached an agreement, which was finalized on 13 June 2017, for the acquisition of 40% of the Swiss Group Eversys, with the option to acquire the remaining 60% through a "put & call" mechanism to be exercised by June 30, 2021 (but not earlier than 2 years following the closing date).

This transaction marks the entry of the De'Longhi Group in the professional espresso coffee machine market, with a focus on the fully automatic models.

The initial cash-out for the 40% interest and the shareholder loan amounted to approximately CHF 21 million. As the companies are associates, the equity investment was accounted for using the equity method in accordance with IAS 28 – *Investments in associates and joint ventures*.

For additional information refer to note 16. *Equity investments*.

## Restatement of comparison figures

In accordance with IFRS 3 – *Business combination*, in 2017 accounting of the business combination relating to NPE S.r.l., a company purchased in the prior year, was finalized.

In the previous financial statements the cost and fair value of the assets, liabilities and potential liabilities at the time of the acquisition had only been temporarily allocated.

At 31 December 2017, as twelve months had passed since the acquisition, the transaction numbers were revisited and allocated definitively.

The comparison figures at 31 December 2016 were redetermined accordingly.

The main effects are shown below.

At 31 December 2016	Published figures	Effects of the definitive PPA for NPE S.r.l.	Restated figures
Goodwill	97,080	(4,680)	92,400
Land, property, plant and machinery	110,723	4,213	114,936
Other intangible assets	84,372	934	85,306
Inventories	320,786	(420)	320,366
Employee benefits	42,707	(16)	42,691
Trade payables	365,315	(1,468)	363,847
Other financial payables (short-term portion)	78,903	1,058	79,961
Other payables	87,092	473	87,565

## Disclosure by operating segments

Please refer to Note 42. *Operating segments*.

The report on operations contains comments on the economic results by geographical area.

## Principal accounting policies

### Intangible assets

#### *Goodwill*

Business combinations, whereby control of a company/entity is acquired, are accounted for in accordance with the purchase method, meaning that the assets and liabilities acquired are initially measured at their market value on the acquisition date. The difference between the cost of acquisition and the Group's share of net assets acquired is attributed to specific assets and liabilities to the extent of their acquisition date fair value; any remaining difference is allocated to goodwill, if positive, and to the income statement if negative. The cost of acquisition is determined on the basis of the acquisition date fair value of the assets transferred, the liabilities assumed, the equity instruments issued and any other related amount.

Goodwill is not amortized but tested for impairment once a year or more often if specific events or changed circumstances indicate that its value may have been impaired. This procedure is in accordance with IAS 36 – *Impairment of assets*. After initial recognition, goodwill is carried at cost less any accumulated impairment losses.

#### *Research and development costs*

Developments costs for the production of new products or parts are recognized as assets only if the costs can be reliably determined, the Group has the intention and resources to complete them, the technical feasibility of completing them is such that they will be available for use, and the expected volumes and prices indicate that the costs incurred for development will generate future economic benefits.

Capitalized development costs include only those expenses that can be directly attributed to the development process.

Capitalized development costs are amortized on a systematic basis, starting from the commencement of production and lasting the length of the product or process's estimated life, generally ranging between three and five years. All other development costs are expensed to the income statement as incurred.

Research costs are also expensed to the income statement as incurred.

#### **Trademarks**

These are costs of long-term benefit incurred for the protection and dissemination of the Group's trademarks. Such costs are recognized as an asset when, in accordance with IAS 38 – *Intangible assets*, it is probable that the future economic benefits attributable to the asset's use will flow to the Group and when its cost can be reliably measured.

These assets are valued at purchase or production cost and amortized, if they have a finite life, on a straight-line basis over their estimated useful life, generally between 10 and 20 years.

Trademarks with an indefinite useful life are not amortized but tested for impairment once a year or more often, any time there are signs that their value might be impaired.

#### **Other intangible assets**

Other intangible assets purchased or internally generated are recognized as assets in accordance with IAS 38 – *Intangible assets*, when it is probable that the future economic benefits attributable to their use will flow to the Group and when the cost of the asset can be reliably measured.

These assets are valued at purchase or production cost and amortized, if they have a finite life, on a straight-line basis over their estimated useful life, generally between 10 and 20 years.

## **Property, plant and equipment**

#### **Land, property, plant and machinery**

Buildings, plant and equipment owned by the Group are recorded at purchase or production cost and systematically depreciated over their residual useful lives. The land pertaining to buildings is not depreciated. The cost of assets qualifying for capitalization also includes the borrowing costs directly attributable to the acquisition, construction or production of the asset itself.

Subsequent expenditure is capitalized only if it increases the future economic benefits flowing to the enterprise.

Ordinary and/or routine maintenance and repair costs are directly expensed to the income statement when incurred. Costs relating to the expansion, modernization or improvement of owned or leased assets are capitalized to the extent that they qualify for separate classification as an asset or part of an asset under the component approach, whereby every component whose useful life and related value can be autonomously assessed must be treated individually. All other costs are expensed to income as incurred.

The useful lives, estimated by the Group for its various categories of property, plant and equipment, are as follows:

Industrial buildings	10–33 years
Plant and machinery	5–18 years
Industrial and commercial equipment	3–5 years
Other	3–10 years

#### **Property, plant and equipment under finance lease**

Assets held under finance lease, whereby all the risks and rewards incident to ownership are substantially transferred to the Group, are recognized among the Group's assets at the lower of the asset's fair value or the present value of the minimum lease payments. The corresponding liability due to the lessor is reported in the statement of financial position under financial payables. Leases under which the lessor substantially retains all the risks and rewards incident to ownership of the asset are classified as operating leases. The costs relating to operating leases are recognized as an expense in the income statement on a straight-line basis over the lease term.

### **Impairment of non-financial assets**

The Group tests, at least once a year, whether the book value of intangible assets and property, plant and equipment reported in the financial statements has suffered any impairment loss. If there is evidence of impairment, book value is written down to the related recoverable amount. If it is not possible to estimate the recoverable amount of an individual asset, the Group assesses whether the cash-generating unit to which it belongs is impaired. In the case of goodwill and other intangible assets with indefinite useful lives, the impairment test must be carried out at least once a year, and whenever there is an indication that an intangible asset may be impaired.

### **Assets and liabilities held for sale and Discontinued Operations**

Non-current assets and disposal groups are classified as held for sale or Discontinued Operations if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amounts and fair value less costs to sell.

### **Inventories**

Inventories of raw materials, semi-finished and finished products are valued at the lower of cost and market value. Cost is determined using the weighted average cost method. The valuation of inventories includes the direct cost of materials and labour as well as indirect (variable and fixed) costs. Allowances for obsolete and slowmoving goods are calculated for materials and finished products, taking account of their future expected use and realizable value.

## Financial instruments

### *Financial assets*

All financial assets are initially recognized at fair value, corresponding to the consideration paid plus all directly attributable acquisition costs. They are recognized on the trade date, meaning the date when the Group makes a commitment to buy or sell the asset. Financial assets are derecognized only when all the associated risks and rewards are substantially transferred together with the assets; if such risks and rewards are not substantially transferred or retained, the Group derecognizes the assets when it no longer has control of them.

The Group reviews at every reporting date whether a financial asset or group of financial assets has suffered any impairment. If there is objective evidence of impairment, the related loss is recognized in the income statement.

The way financial assets are classified determines how they are subsequently measured:

### *Financial assets at fair value through profit or loss:*

This category includes financial assets acquired mainly for the purpose of selling them in the near term, those designated at fair value upon initial recognition if so permitted, or those for which the fair value option may be exercised.

Financial assets in this category are measured at fair value (or at cost, if they are unlisted or if the fair value is not reliable or cannot be determined, as adjusted for any impairment losses calculated in accordance with IAS 39); the related changes in fair value during the period of ownership are recorded in the income statement. Financial instruments in this category are classified as current assets if they are held for trading or if they are expected to be sold within twelve months of the reporting date. Derivatives are treated as assets or liabilities depending on whether their fair value is positive or negative respectively; positive and negative fair values relating to transactions with the same counterparty are offset when contractually allowed.

### *Receivables:*

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets, except for those contractually due after more than twelve months from the reporting date, which are classified as non-current assets. The latter are measured at amortized cost using the effective interest method. Receivables which are due after more than one year and which bear no interest or interest at a rate below the market one, are discounted to present value using market rates. Trade receivables are discounted to present value if their payment terms are longer than the average ones generally granted.

If there is objective evidence that an asset is impaired, its carrying amount is reduced to the present value of the estimated future cash flows. Impairment losses are recognized in the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the carrying amount of the asset is reinstated but to no more than what its amortized cost would have been had the impairment not been recognized.

### *Available-for-sale financial assets:*

This category includes non-derivative financial assets that are designated as available for sale and are not classified in any of the previous categories. Financial assets in this category are measured at fair value; the related changes in fair value during the period of ownership are recognized in the statement of comprehensive income. If the fair value cannot be determined, these assets are carried at cost, as adjusted for any impairment.

The Group's financial assets are classified as both current and non-current assets. Non-current equity investments and other financial assets include equity investments in other companies, noncurrent loans and receivables and other non-current available-for-sale financial assets. Current financial assets include trade receivables, other current financial assets, the positive fair value of derivatives and cash and cash equivalents. Cash and cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.



### **Financial liabilities**

Financial payables are initially recognized at fair value, less any transaction costs directly attributable to the issue of the liability itself. Subsequent to initial recognition, financial liabilities are valued on the basis of amortized cost, using the effective interest method. Financial liabilities relating to contingent consideration for business combinations are measured at fair value, in accordance with IFRS 3.

### **Derivatives**

Derivatives are used solely for hedging purposes, in order to reduce exposures to currency and interest rate risk. As allowed by IAS 39, derivatives may qualify for special hedge accounting only when, at the inception of the hedge, the following conditions are satisfied:

- there is a formal designation that the instrument is a hedging one;
- there is formal documentation of the hedging relationship, which is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is highly effective throughout the different financial reporting periods for which it was designated.

IAS 39 requires that all derivatives be measured at fair value. If financial instruments qualify for hedge accounting, the following treatment applies:

#### **• Fair value hedge**

If a derivative instrument is designated as a hedge of the exposure to changes in the fair value of a recognized asset or liability that is attributable to a particular risk that will affect profit or loss, the gain or loss from remeasuring the hedging instrument at fair value should be recognized in the income statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the income statement.

#### **• Cash flow hedge**

If a derivative instrument is designated as a hedge of the exposure to variability in cash flows attributable to a highly probable forecast transaction which could affect profit or loss, the effective portion of the gains or losses on the hedging instrument is recognized directly in the statement of comprehensive income. The effective portion of the cumulative gains or losses are reversed from net equity and reclassified to profit or loss in the same period in which the hedged transaction is reported in the income statement. Gains or losses associated with a hedge or part thereof that has become ineffective are reclassified to the income statement. If a hedging instrument or hedging relationship is terminated, but the transaction being hedged has not yet occurred, the cumulative gains and losses, recorded up until then in the statement of comprehensive income, are reported in the income statement at the same time that the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the unrealized gains or losses reported directly in net equity are immediately reclassified to the income statement. If hedge accounting cannot be applied, the gains or losses arising from the fair value measurement of the derivatives are transferred immediately to the income statement.

#### **• Net investment hedge**

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized in the statement of comprehensive income, while any gains or losses relating to the ineffective portion are recognized in the statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the statement of profit or loss.

### **Factoring of trade receivables**

The Group factors some of its trade receivables. Trade receivables factored without recourse, resulting in the substantial transfer of the related risks and rewards, are derecognized from the financial statements at the time of their transfer. Receivables whose factoring does not result in the substantial transfer of the related risks and rewards, are retained in the statement of financial position. The Group has entered a five-year agreement for the factoring of trade receivables, involving the revolving monthly transfer of a portfolio of trade receivables without recourse.

The receivables are assigned without recourse to a bank, which then transfers them to a special purpose entity which finances the purchase of the receivables by issuing asset-backed securities; the repayment of these securities, placed on the market and all subscribed by institutional investors, as well as the related interest, depends on the cash flow generated by the portfolio of securitized receivables. Receivables are sold at their face value, less a discount that reflects credit risk and the transaction's financial costs. The Group acts as servicer for the special purpose entity. The contractual terms of this operation involve the substantial transfer of the risks and rewards relating to the securitized receivables and their consequent derecognition from the financial statements.

## Employee benefits

### *Pension and other incentive plans*

Net obligations relating to employee benefit plans, chiefly the provision for severance indemnities (for the portion retained in Group companies) and pension funds, are recorded at the expected future value of the benefits that will be received and which have accrued at the reporting date. The Group's obligation to finance defined benefit pension funds and the annual cost reported in the income statement are determined by independent actuaries using the projected unit credit method.

### *Equity based compensation*

The Group grants additional benefits to the Chief Executive Officer, a limited number of executives and key resources under the form of stock options. Based on IFRS 2 *Share-based payment*, the current value of the stock option determined on the grant date is recognized on a straight-line basis in the income statement as a payroll cost in the period between the grant date and the date on which the rights granted to employees, executives and others who routinely provide services to one or more Group companies parties fully vest, with a corresponding increase in equity.

At each reporting date the Group will revise estimates based on the number of options that are expected to vest, independent of the fair value of the options. Any differences with respect to the original estimates will be recognized in the consolidated income statement with a corresponding increase in equity. Once the stock option is exercised, the amounts received by the employee, net of transactions costs, will be added to the share capital in the amount of the nominal value of the shares issues. The remainder will be recognized in the share premium reserve.

The fair value of the stock options is determined using the Black-Scholes model which takes into account the conditions for the exercise of the right, the current share price, expected volatility, a risk free interest rate, as well as the non-vesting conditions. The fair value of the stock options is included within the Stock option Reserve.

The dilutive effect of unexercised options will be reflected in the calculation of the diluted earnings per share.

## Provisions for contingencies and other charges

The Group recognizes provisions for contingencies and charges when (i) it has a present obligation (legal or constructive) to third parties (ii) it is probable that the Group will need to employ resources to settle the obligation and (iii) a reliable estimate can be made of the amount of the obligation. Changes in these estimates are reflected in the income statement in the period in which they occur (also see the comments in the paragraph on "Estimates and assumptions").

Where the effect of the time value of money is material and the date of extinguishing the liability can be reasonably estimated, provisions are stated at the present value of the expected expenditure, using a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. An increase in the amount of the provision for the time value of money is accounted for in interest expense. Contingencies for which the probability of a liability is remote are disclosed in the notes but no provision is recognized.

## Revenue recognition

Revenues are recognized to the extent that it is probable that the economic rewards will flow to the Group and their amount can be measured reliably, in other words when the principal risks and rewards of ownership of the goods have been transferred to the buyer. Revenues are reported net of discounts, allowances and returns, including those estimated on the basis of past trends.

### *(a) Sale of goods*

Revenues from the sale of goods are recognized when the risks and rewards of ownership of the goods have been transferred to the buyer, usually coinciding with the despatch of goods to customers and their acceptance of the same. Another condition for recognizing revenue is that the collection of the related receivable is reasonably certain.

### *(b) Sale of services*

The sale of services is recognized in the accounting period in which the services are rendered, by reference to the stage of completion of the services at the end of the accounting period.

## Costs and expenses

Costs and expenses are accounted for on an accrual basis.

## Dividends

Dividend distributions represent a movement in net equity in the period in which they are declared by the shareholders in general meeting. Dividends received are reported when the Group is entitled to receive the payment.

## Income taxes

Income taxes include all the taxes calculated on the Group's taxable income. Income taxes are recorded in the income statement, except for those relating to items directly debited or credited to net equity, in which case the associated tax is recognized directly in net equity.

Deferred taxes are provided on the basis of global provision for the liability. They are calculated on all the temporary differences emerging between the tax base of an asset or liability and their book value in the consolidated financial statements, except for goodwill whose amortization cannot be deducted for tax purposes and those differences arising from investments in subsidiaries which are not expected to reverse in the foreseeable future. Deferred tax assets on the carryforward of unused tax losses and tax credits are recognized to the extent that it is probable that future taxable profit will be available against which these can be recovered. Current and deferred tax assets and liabilities may be offset when the income taxes are charged by the same tax authority and when there is a legal right of set-off. Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability settled, based on tax rates and laws applying in the countries where the Group operates. Deferred taxes on reserves of distributable earnings in subsidiaries are recognized only if it is probable that such reserves will be distributed.

## Earnings per share

Basic earnings per share are calculated by dividing the earnings for the year payable to the parent company's ordinary shareholders by the weighted average number of ordinary shares outstanding during the period.

The diluted earnings per share are calculated by dividing the earnings for the year payable to the parent company's ordinary shareholders by the weighted average number of ordinary shares outstanding during the period and the shares potentially issued following the exercise of assigned stock options.

## Estimates and assumptions

These financial statements, prepared in accordance with IFRS, contain estimates and assumptions made by the Group relating to assets and liabilities, costs, revenues and contingent liabilities at the reporting date. These estimates are based on past experience and assumptions considered to be reasonable and realistic, based on the information available at the time of making the estimate. The assumptions relating to these estimates are periodically reviewed and the related effects reflected in the income statement in the same period: actual results could therefore differ from these estimates.

The following paragraphs discuss the principal assumptions used for estimation purposes and the principal sources of uncertainty, that have a risk of causing material adjustment to the book value of assets and liabilities in the future; details of book value can be found in the individual explanatory notes.

***Allowance for doubtful accounts***

The allowance for doubtful accounts reflects estimated expected losses on trade receivables recognized in the financial statements and not covered by insurance. It is determined on the basis of past experience, by analyzing current and previous past due amounts and the quality of credit. Changes in the economic environment could cause the performance of some of the Group's customers to deteriorate, with an impact on the recoverability of trade receivables, to the extent uninsured.

***Recoverable amount of non-current assets***

The Group reviews all its non-financial assets at every reporting date for any evidence of impairment. Goodwill and other intangible assets with an indefinite useful life are tested annually for impairment. The recoverable amount of non-current assets is usually determined with reference to value in use, being the present value of the future cash flows expected from an asset's continuing use. The forecast cash flows are determined based on the information available when estimated based on the opinion of the directors regarding the future performance of certain variables – such as prices and the subsequent revenues, costs, increase in demand, production flows – which are discounted at a risk-adjusted rate. The test also involves selecting a suitable discount rate for calculating the present value of the expected cash flows.

***Employee benefits***

The cost of defined benefit pension plans is determined using actuarial valuations, based on statistical assumptions regarding discount rates, expected returns on investments, future salary growth and mortality rates. The Group believes the rates estimated by its actuaries to be reasonable for the year-end valuations, but cannot rule out that large future changes in rates could have a material impact on the liabilities recognized in the financial statements.

***Recoverability of deferred tax assets***

Deferred tax assets include those relating to carryforward tax losses to the extent that there is likely to be sufficient future taxable profit against which such losses can be recovered. Management must use their discretion when determining the amount of deferred tax assets for recognition in the financial statements. They must estimate the likely timing of reversal and the amount of future taxable profit, as well as the future tax planning strategy.

***Provisions for contingencies***

The Group makes several provisions against disputes or risks of various kinds relating to different matters falling under the jurisdiction of different countries. The determination, probability and quantification of these liabilities involve estimation processes that are often very complex, for which management uses all the available information at the date of preparing the financial statements, including with the support of legal and tax advisors.

***Product warranty provisions***

The Group makes provisions for the estimated cost of product warranties. Management establishes the amount of these provisions on the basis of past trends relating to the frequency and average cost of under-warranty repairs and replacement.

## Comments on the income statement – *continuing operations*

### 1. REVENUES

Revenues, comprising revenues from sales and services and other revenues, are broken down by geographical area by region of destination as follows:

	2017	% revenues	2016	% revenues	Change	% change
North East Europe	513,551	26.0%	456,501	24.7%	57,050	12.5%
South West Europe	810,664	41.1%	800,096	43.3%	10,568	1.3%
<b>EUROPE</b>	<b>1,324,215</b>	<b>67.1%</b>	<b>1,256,597</b>	<b>68.0%</b>	<b>67,618</b>	<b>5.4%</b>
<b>MEIA (Middle East/India/Africa)</b>	<b>128,008</b>	<b>6.5%</b>	<b>140,306</b>	<b>7.6%</b>	<b>(12,298)</b>	<b>(8.8%)</b>
United States and Canada	189,454	9.6%	147,347	8.0%	42,107	28.6%
Australia and New Zealand	109,026	5.5%	105,723	5.7%	3,303	3.1%
Japan	80,068	4.1%	72,234	3.9%	7,834	10.8%
Other countries area APA	142,022	7.2%	124,492	6.8%	17,530	14.1%
<b>APA (Asia/Pacific/Americas)</b>	<b>520,570</b>	<b>26.4%</b>	<b>449,796</b>	<b>24.4%</b>	<b>70,774</b>	<b>15.7%</b>
<b>Total revenues</b>	<b>1,972,793</b>	<b>100.0%</b>	<b>1,846,699</b>	<b>100.0%</b>	<b>126,094</b>	<b>6.8%</b>

For the sake of comparison, revenues at 31.12.2016 was adjusted to reflect the reclassification of a few commercial components of revenue and operating costs.

Comments on the most significant changes can be found in the “Markets” section of the report on operations.

“Other revenues” is broken down as follows:

	2017	2016	Change
Freight reimbursement	5,326	5,765	(439)
Commercial rights	2,990	2,354	636
Damages reimbursed	522	729	(207)
Out-of-period gains	236	88	148
Other income	16,353	14,838	1,515
<b>Total</b>	<b>25,427</b>	<b>23,774</b>	<b>1,653</b>

### 2. RAW AND ANCILLARY MATERIALS, CONSUMABLES AND GOODS

The breakdown is as follows:

	2017	2016	Change
Finished products	394,868	364,660	30,208
Parts	399,729	348,202	51,527
Raw materials	66,288	52,265	14,023
Other purchases	16,857	14,914	1,943
<b>Total</b>	<b>877,742</b>	<b>780,041</b>	<b>97,701</b>

### 3. CHANGE IN INVENTORIES

The difference between the overall change in inventories reported in the income statement and the change in balances reported in the statement of financial position, net of the reclassification of Discontinued Operations, is mainly due to differences arising on the translation of foreign subsidiaries financial statements.

#### 4. PAYROLL COSTS

These costs include €73,636 thousand in production-related payroll (€64,668 thousand at 31 December 2016).

	2017	2016	Change
Employee wages and salaries	242,277	227,206	15,071
Temporary workers	11,753	10,817	936
<b>Total</b>	<b>254,030</b>	<b>238,023</b>	<b>16,007</b>

The figures relating to the cost of employee benefits provided by certain Group companies in Italy and abroad are reported in note 31. *Employee Benefits*.

In 2017 the item included non-recurring expenses of €422 thousand incurred for the reorganization of a few foreign subsidiaries (€2,959 thousand at 31 December 2016) and of €3,717 thousand relating to the notional cost (fair value) of the stock option plan (€366 thousand at December 2016).

The average size of the Group's workforce during the year is analyzed as follows:

	2017	2016
Blue collar	5,044	3,945
White collar	2,990	2,859
Senior managers	101	97
<b>Total</b>	<b>8,135</b>	<b>6,901</b>

#### 5. SERVICES AND OTHER OPERATING EXPENSES

These are detailed as follows:

	2017	2016	Change
Advertising and promotional expenses	220,580	198,345	22,235
Transport (for purchases and sales)	83,551	69,293	14,258
Subcontracted work	44,944	40,949	3,995
Rentals and leasing	32,476	33,727	(1,251)
Consulting services	21,745	15,391	6,354
Travel	17,718	18,304	(586)
Storage and warehousing	17,460	16,221	1,239
Technical support	13,486	15,802	(2,316)
Power	7,919	7,614	305
Commissions	7,707	8,449	(742)
Insurance	5,449	5,729	(280)
Product certification and product inspection fees	5,368	4,539	829
Maintenance	4,162	4,660	(498)
Postage, telegraph and telephones	3,913	3,696	217
Credit insurance fees	3,133	3,116	17
Directors' emoluments	3,052	2,959	93
Other utilities and cleaning fees, security, waste collection	2,676	2,556	120
Statutory auditors' emoluments	264	310	(46)
Other sundry services	26,283	21,571	4,712
<b>Total services</b>	<b>521,886</b>	<b>473,231</b>	<b>48,655</b>
Sundry taxes	33,097	30,209	2,888
Out-of-period losses	85	131	(46)
Bad debts	2	233	(231)
Other	4,107	4,628	(521)
<b>Total other operating expenses</b>	<b>37,291</b>	<b>35,201</b>	<b>2,090</b>
<b>Total services and other operating expenses</b>	<b>559,177</b>	<b>508,432</b>	<b>50,745</b>

For the sake of comparison, services at 31.12.2016 was adjusted to reflect the reclassification of a few commercial components of revenue and operating costs.

In 2017 the item includes non-recurring expenses of €1,603 thousand (€376 thousand at 31 December 2016) incurred for the reorganization of the Group structure and a few foreign subsidiaries.



## 6. PROVISIONS

These include €11,549 thousand in provisions for contingencies and other charges net of the release of provisions for doubtful accounts of €2,390 thousand. The main changes in this item are discussed in note 32. *Other provisions for non-current contingencies and charges.*

The figure at 31 December 2017 includes non-recurring provisions totaling €90 thousand (€131 thousand at 31 December 2016).

## 7. AMORTIZATION

The breakdown is as follows:

	2017	2016	Change
Amortization of intangible assets	14,637	12,164	2,473
Depreciation of property, plant and equipment	43,599	40,412	3,187
<b>Total</b>	<b>58,236</b>	<b>52,576</b>	<b>5,660</b>

More details about amortization and depreciation can be found in the tables reporting movements in intangible assets and property, plant and equipment.

The item also includes non-recurring write-downs of fixed assets for €4,694 thousand.

## 8. NON-RECURRING INCOME/(EXPENSES)

The net non-recurring expenses of €2,115 thousand recorded at 31 December 2017 were recognized directly in the relative lines of the income statement (€422 thousand in payroll costs, €1,603 thousand in costs for services and €90 thousand in provisions); the amount reflects the costs incurred for the reorganization of the Group structure and a few foreign subsidiaries.

## 9. FINANCIAL INCOME (EXPENSES)

Net financial income and expenses are broken down as follows:

	2017	2016	Change
<b>Exchange differences and gains (losses) on currency hedges</b>	<b>(7,515)</b>	<b>(2,596)</b>	<b>(4,919)</b>
<b>Share of profit of equity investments consolidated by the equity method</b>	<b>238</b>	<b>739</b>	<b>(501)</b>
<b>Income from equity investments available for sale</b>	<b>-</b>	<b>232</b>	<b>(232)</b>
Net interest expense	(5,634)	(5,628)	(6)
Financial discounts	(15,662)	(16,792)	1,130
Other financial income (expenses)	(2,275)	(3,466)	1,191
<b>Other net financial income (expenses)</b>	<b>(23,571)</b>	<b>(25,886)</b>	<b>2,315</b>
<b>Financial income (expenses)</b>	<b>(30,848)</b>	<b>(27,511)</b>	<b>(3,337)</b>

“Exchange differences and gains (losses) on currency hedges” include losses arising from exchange losses and fees on derivatives hedging currency risk; the change is explained mainly by currency management and hedges in the last quarter of the year during which the main currencies were extremely volatile, as well as the exchange differences linked to consolidation.

“Net interest expense” includes bank interest on the Group’s financial debt (recalculated using the amortized cost method) and the financial cost of factoring receivables without recourse.

No net gains or losses on financial instruments have been recognized in the year apart from interest which has been reported separately and the income posted as a result of the fair value measurement of financial payables described in note 10. *Financial income from the fair value measurement of financial payables.*

## 10. NET NON-RECURRING FINANCIAL INCOME (LOSSES)

"Net non-recurring financial income" includes mainly the income of €22,276 thousand deriving from the accounting of the earn-out payable on the Braun Household acquisition, net of the impact of the termination of the USPP (in particular, of the relative hedge) which came to €7,026 thousand.

## 11. INCOME TAXES

These are analyzed as follows:

	2017	2016	Change
Current income taxes:			
- Income taxes	38,515	48,902	(10,387)
- IRAP (Italian regional business tax)	3,297	3,119	178
Deferred (advanced) taxes	7,681	7,297	384
<b>Total</b>	<b>49,493</b>	<b>59,318</b>	<b>(9,825)</b>

This item reflects the lower tax rate in Italy in effect as of 1 January 2016 and the patent box incentives (tax incentives on income from patents, trademarks and inventions) as a result of an agreement signed with the tax authorities for the period 2015–2019. The estimated patent box benefit reaches €14.5 million for the period 2015–2017, €10.5 million of which (remainder for 2015–2016 of €4.7 million and €5.8 million for 2017) was recognized in 2017.

This item includes the estimated tax credit for research and development pursuant to Law 190/2014 for the current year supported by the relative documentation.

"Deferred (advanced) taxes" include the taxes calculated on the temporary differences arising between the accounting values of assets and liabilities and on the corresponding tax base (particularly for taxed provisions recognized by the parent company and its subsidiaries) and on the distributable income of the subsidiaries. They also include the benefit arising from the carryforward of unused tax losses which are likely to be used in the future.

The actual and theoretical tax charge are reconciled as follows:

	2017	%	2016	%
Profit before taxes	229,222	100.0%	227,754	100.0%
Theoretical taxes	55,013	24.0%	62,632	27.5%
Other <sup>(*)</sup>	(8,817)	(3.8%)	(6,433)	(2.8%)
<b>Total income taxes</b>	<b>46,196</b>	<b>20.2%</b>	<b>56,199</b>	<b>24.7%</b>
IRAP (Italian regional business tax)	3,297	1.4%	3,119	1.4%
<b>Actual taxes</b>	<b>49,493</b>	<b>21.6%</b>	<b>59,318</b>	<b>26.0%</b>

(\*) Mostly refers to the net tax effect of permanent differences, of different tax rates applied abroad relative to the theoretical ones applied in Italy and of adjustments on prior years taxes. The item also include the benefit of the patent box incentives.

## Comments on the statement of financial position: assets – continuing operations

### Non-current assets

#### 12. GOODWILL

	31.12.2017		31.12.2016	
	Gross	Net	Gross	Net
Goodwill	99,147	92,400	99,147	92,400

Goodwill is not amortized because it is considered to have an indefinite useful life. Instead, it is tested for impairment at least once a year to identify any evidence of loss in value.

For the purposes of impairment testing, goodwill is allocated by CGU (cash generating unit), namely De'Longhi, Kenwood and Braun, as follows:

Cash-generating unit	31.12.2017
De'Longhi	26,444
Kenwood	17,120
Braun	48,836
<b>Total</b>	<b>92,400</b>

The objective of the impairment test is to determine the value in use of the CGU to which the goodwill refers, meaning the present value of the future cash flows expected to be derived from continuous use of the assets; any cash flows arising from extraordinary events are therefore ignored.

In particular, value in use is determined by applying the discounted cash flow method to forecast cash flows contained in three-year plans approved by management. These plans have been prepared assuming realistic scenarios based on the information available at the reporting date, also including the budget for 2018, which has already been approved and the business plan for the period 2018–2020 approved by the Board of Directors on 22 February 2018.

Plan data was projected beyond the explicit planning period using a perpetuity growth rate that was no higher than those expected for the markets in which the individual CGUs operate. The growth rate in terminal values used for projecting beyond the planning period was therefore 2% for all the CGUs.

The cash flows and discount rate were determined net of tax. The discount rate was calculated using the weighted average cost of capital (WACC) for a group of peers. The discount rate of 5.7%, used for all the CGUs, reflects therefore current market assessments of the time value of money and takes account of the risks specific to the sector.

The impairment tests carried out at the end of 2017 have not revealed any other significant evidence of goodwill impairment. The results obtained using the discounted cash flow method have been tested for their sensitivity to changes in certain key variables, within reasonable ranges and on the basis of mutually consistent assumptions. The variables altered were the discount rate (between 5.5% and 5.9%) and the growth rate in terminal value (in the range 1.8%–2.2%). With regard to the CGUs De'Longhi and Kenwood, which represent the Group's traditional business, the impairment tests and sensitivity analyses showed that the estimated recoverable amounts were significantly higher than book value. For the CGU Braun, the recoverable value determined by the test is vastly higher than book value, even though the brand, which was acquired recently, is still in need of strong investments in promotional activities, as well as advertising, and the earning potential has yet to be fully expressed.

Based on the above mentioned Group business plan, revenues will accelerate further in coming years (after rising already in the two-year period 2016–2017) and margins will expand gradually.

The estimated recoverable amounts for all the CGUs, however, were higher than book value and the sensitivity analyses point to relatively stable results; in fact, the minimum and maximum amounts diverged by around 10% from the central point when both variables were altered, while the divergence was considerably smaller when more reasonable assumptions regarding the change in variables were adopted.

No events of significance have occurred in the first few months of 2018 such as might indicate any further impairment in the carrying amount of goodwill.

However, estimating CGU recoverable amount requires management to make discretionary judgements and estimates. In fact, several factors also associated with developments in the difficult market context could make it necessary to reassess the value of goodwill. The Group will be constantly monitoring those events and circumstances that might make it necessary to perform new impairment tests.

### 13. OTHER INTANGIBLE ASSETS

These are analyzed as follows:

	31.12.2017		31.12.2016	
	Gross	Net	Gross	Net
New product development costs	83,300	12,448	80,005	15,719
Patents	38,414	5,010	36,699	5,085
Trademarks and similar rights	281,103	185,050	280,919	188,221
Work in progress and advances	21,596	19,098	13,121	12,692
Other	22,487	6,904	23,343	8,995
<b>Total</b>	<b>446,900</b>	<b>228,510</b>	<b>434,087</b>	<b>230,712</b>

The following table reports movements in the main asset categories during 2017:

	New product development costs	Patents	Trademarks and similar rights	Work in progress and advances	Other	Total
<b>Net opening balance</b>	<b>15,719</b>	<b>5,085</b>	<b>188,221</b>	<b>12,692</b>	<b>8,995</b>	<b>230,712</b>
Reclassification to Discontinued Operations	(277)	(11)	-	(78)	-	(366)
Additions	1,953	1,749	187	10,024	336	14,249
Amortization	(6,279)	(1,778)	(3,355)	(1,990)	(1,235)	(14,637)
Translation differences and other movements <sup>(*)</sup>	1,332	(35)	(3)	(1,550)	(1,192)	(1,448)
<b>Net closing balance</b>	<b>12,448</b>	<b>5,010</b>	<b>185,050</b>	<b>19,098</b>	<b>6,904</b>	<b>228,510</b>

(\*) "Other movements" refers primarily to the reclassification of intangible assets.

The principal additions refer to the capitalization of new product development projects, based on detailed reporting and analysis of the costs incurred and the estimated future utility of such projects. The Group has capitalized a total of €11,968 thousand in development costs as intangible assets in 2017, of which €1,953 thousand in "New product development costs" for projects already completed at the reporting date and €10,015 thousand in "Work in progress and advances" for projects still in progress.

"Patents" mostly refer to internal development costs and the subsequent cost of filing for patents and to costs for developing and integrating data processing systems.

"Trademarks and similar rights" include €79.8 million for the "De'Longhi" trademark, as well as €95.0 million for the perpetual license over the Braun brand, calculated based on an indefinite useful life in accordance with IAS 38, taking into account, above all, brand awareness, economic benefits, reference market characteristics, brand specific strategies and the amount of investments made to sustain the brands.

The impairment test carried out at the end of 2017 for both brands based on an indefinite useful life, did not reveal any evidence that these assets might have suffered an impairment loss.

No events of significance have occurred in the first few months of 2018 such as might suggest that the carrying amount of trademarks could have suffered any impairment loss.

The method used to test impairment involves discounting to present value the royalties that the Group would be able to earn from permanently granting third parties the right to use the trademarks in question.

This method, which is based on royalty receipts and reasonably estimated sales volumes, is the most commonly used for company valuation purposes since it is able to provide a suitable expression of the relationship between the strength of the trademark and business profitability.

The discount rate (6.6% net of tax) reflects current market assessments of the time value of money. The cash flows discounted to present value are stated net of tax (in keeping with the discount rate).

The results of the impairment test have been tested for their sensitivity to changes in certain key variables, within reasonable ranges and on the basis of mutually consistent assumptions. The variables altered were the discount rate (between 6.4% and 6.8%) and the growth rate in terminal value (in the range 1.8%–2.2%).

The sensitivity analysis has revealed relatively stable results; in fact, the minimum and maximum amounts diverged by around 10% from the central point when both variables were changed, while the divergence was considerably smaller when more reasonable assumptions regarding the change in variables were adopted.

#### 14. LAND, PROPERTY, PLANT AND MACHINERY

These are analyzed as follows:

	31.12.2017		31.12.2016	
	Gross	Net	Gross	Net
Land and buildings	100,555	74,144	83,001	60,259
Plant and machinery	127,501	55,332	136,373	54,677
<b>Total</b>	<b>228,056</b>	<b>129,476</b>	<b>219,374</b>	<b>114,936</b>

The following table reports movements during 2017:

	Land and buildings	Plant and machinery	Total
<b>Net opening balance</b>	<b>60,259</b>	<b>54,677</b>	<b>114,936</b>
Reclassification to Discontinued Operations	(3,359)	(1,929)	(5,288)
Additions	23,126	6,426	29,552
Disposals	(7)	(41)	(48)
Depreciation	(6,112)	(8,692)	(14,804)
Translation differences and other movements	237	4,891	5,128
<b>Net closing balance</b>	<b>74,144</b>	<b>55,332</b>	<b>129,476</b>

The increase in "Land and buildings" refers to the Group's purchase of the Treviso property and the surrounding area. This investment is part of the project to expand R&D structures which calls for the construction of a new center dedicated to new product development, along with new offices and general services. The purchase, which qualified as a related party transaction, is subject to Consob Regulation n. 17221/2010 and the provisions of the De'Longhi Group's "Procedures for Related Party Transactions" insofar as the seller is controlled by De'Longhi S.p.A.'s largest shareholder. The price of the transaction, €16.4 million, was based on the appraisals of independent experts and the favorable opinion of De' Longhi S.p.A.'s Risk and Control Committee.

The increases also reflect the purchase of a property already used by a foreign commercial branch as headquarters based on a lease agreement.

The investments in "Plants and machinery" refer mainly to coffee machine production lines in Italy and the purchase of systems for a plant in China.

The balance of property, plant and equipment includes the following assets purchased under finance lease (reported at their net book value):

	31.12.2017	31.12.2016
Plant and equipment	3,740	4,142
Other	-	2
<b>Total</b>	<b>3,740</b>	<b>4,144</b>

Information on the financial liability arising under the related lease agreements can be found in note 30. *Other financial payables.*

## 15. OTHER TANGIBLE ASSETS

Other tangible assets are analyzed as follows:

	31.12.2017		31.12.2016	
	Gross	Net	Gross	Net
Industrial and commercial equipment	275,531	49,486	261,141	44,707
Other	76,528	22,161	76,620	23,017
Work in progress and advances	30,727	30,727	17,582	17,582
<b>Total</b>	<b>382,786</b>	<b>102,374</b>	<b>355,343</b>	<b>85,306</b>

The following table reports movements during 2017:

	Industrial and commercial equipment	Other	Work in progress and advances	Total
<b>Net opening balance</b>	<b>44,707</b>	<b>23,017</b>	<b>17,582</b>	<b>85,306</b>
Reclassification to Discontinued Operations	(1,262)	(154)	-	(1,416)
Additions	19,389	7,471	28,653	55,513
Disposals	421	(366)	(7)	48
Depreciation	(21,294)	(7,501)	-	(28,795)
Translation differences and other movements	7,525	(306)	(15,501)	(8,282)
<b>Net closing balance</b>	<b>49,486</b>	<b>22,161</b>	<b>30,727</b>	<b>102,374</b>

The additions to "Industrial and commercial equipment" refer primarily to the purchase of moulds for the manufacturing of new products.

The increase in "Work in progress" refers to the investments in the Romanian production facility and the initial investments linked to the development of the new headquarters.

## 16. EQUITY INVESTMENTS

Details of equity investments are as follows:

	31.12.2017	31.12.2016
Equity investments consolidated using the equity method	22,906	4,678
Other equity investments available-for-sale	51	61
<b>Total</b>	<b>22,957</b>	<b>4,739</b>

"Equity investments consolidated using the equity method" refers to the equity investments subject to joint control as per contractual agreements and associated companies, accounted for using the equity method in accordance with IAS 28 – *Investments in associates and joint venture* (please refer to Appendix 1 for complete list).

The changes in 2017 are shown below:

	31.12.2017
<b>Opening net balance</b>	<b>4,678</b>
Acquisition of 40% of Group Eversys	18,973
Interest in net profit	238
Exchange differences	(261)
Payment of dividends	(722)
<b>Closing net balance</b>	<b>22,906</b>



## 17. NON-CURRENT RECEIVABLES

The balance at 31 December 2017 comprises €3,083 thousand in security deposits (€3,283 at 31 December 2016).

## 18. OTHER NON-CURRENT FINANCIAL ASSETS

At 31 December 2017, these refer entirely to the fair value of derivatives which amounted to €79 thousand (€4,698 at December 2016). Please refer to note 39. *Risk management* for further details.

## 19. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

Deferred tax assets and deferred tax liabilities are analyzed as follows:

	31.12.2017 Continuing Operations	31.12.2017 Discontinued Operations	31.12.2017 Total	31.12.2016
Deferred tax assets	32,322	257	32,579	38,379
Deferred tax liabilities	(27,288)	-	(27,288)	(27,576)
<b>Net asset balance</b>	<b>5,034</b>	<b>257</b>	<b>5,291</b>	<b>10,803</b>

"Deferred tax assets" and "Deferred tax liabilities" include the taxes calculated on temporary differences between the carrying amount of assets and liabilities and their corresponding tax base (particularly taxed provisions recognized by the parent company and its subsidiaries), the tax effects associated with the allocation of higher values to fixed assets as a result of allocating consolidation differences based on the applicable tax rate and the deferred taxes on the distributable income of subsidiaries. Deferred tax assets are calculated mainly on provisions and consolidation adjustments. They also include the benefit arising from the carryforward of unused tax losses which are likely to be used in the future.

The net balance is analyzed as follows:

	31.12.2017 Continuing Operations	31.12.2017 Discontinued Operations	31.12.2017 Total	31.12.2016
Temporary differences	1,565	257	1,822	5,490
Tax losses	3,469	-	3,469	5,313
<b>Net asset balance</b>	<b>5,034</b>	<b>257</b>	<b>5,291</b>	<b>10,803</b>

The change in the net asset balance also reflects an increase of €2,955 thousand relating to the "Fair value and cash flow hedge reserve" recognized in net equity and a drop in "Profit (loss) carried forward" of €72 thousand relating to the actuarial gains/(losses) recognized in the comprehensive income statement pursuant to the new IAS 19 – *Employee Benefits*.

## Current assets

### 20. INVENTORIES

"Inventories", shown net of an allowance for obsolete and slow-moving goods, can be analyzed as follows:

	31.12.2017 Continuing Operations	31.12.2017 Discontinued Operations	31.12.2017 Total	31.12.2016
Finished products and goods	267,560	1,972	269,532	268,057
Raw, ancillary and consumable materials	69,626	10,576	80,202	63,695
Work in progress and semi-finished products	24,338	715	25,053	22,972
Inventory writedown allowance	(31,814)	(2,771)	(34,585)	(34,358)
<b>Total</b>	<b>329,710</b>	<b>10,492</b>	<b>340,202</b>	<b>320,366</b>

The value of inventories is stated after deducting an allowance for obsolete or slow-moving goods totaling €31,814 thousand (€34,358 thousand at 31 December 2016, of which €2,787 thousand relating to Discontinued Operations) in relation to products and raw materials that are no longer of strategic interest to the Group.

### 21. TRADE RECEIVABLES

These are analyzed as follows:

	31.12.2017 Continuing Operations	31.12.2017 Discontinued Operations (*)	31.12.2017 Total	31.12.2016
Trade receivables				
- due within 12 months	411,623	5,036	416,659	388,071
- due beyond 12 months	33	-	33	255
Allowance for doubtful accounts	(10,111)	(261)	(10,372)	(15,549)
<b>Total</b>	<b>401,545</b>	<b>4,775</b>	<b>406,320</b>	<b>372,777</b>

(\*) The amount is shown net of intercompany elisions.

Trade receivables are stated net of an allowance for doubtful accounts of €10,111 thousand, representing a reasonable estimate of the expected risk at the reporting date. The allowance refers to a number of disputed receivables or those whose collection is otherwise in doubt and takes account of the fact that a significant portion of the receivables are covered by insurance policies with major insurers.

In accordance with the disclosure required by Consob Circular 3369 of 9 April 1997, we report that the total amount of receivables factored without recourse and outstanding at 31 December 2017 is €135,561 thousand (€130,863 related to Continuing Operations). The total amount of receivables factored by the Group during 2017 (under Law 52/1991 known as the Factoring Law) was €711,507 thousand (€700,329 related to Continuing Operations).

Movements in the allowance for doubtful accounts are shown in the following table:

	31.12.2016	Accrual / Net release	Utilization	Translation differences and other movements	31.12.2017
Allowance for doubtful accounts	15,549	(2,390)	(2,013)	(1,035)	10,111

The change in the allowance is explained, in addition to translation differences, by utilization during the year to cover bad debt for which provisions had already been made.

The Group has received guarantees from customers as collateral against trade balances; in addition, a significant portion of the receivables are covered by insurance policies with major insurers. More details can be found in note 39. *Risk management*.

## 22. CURRENT TAX ASSETS

These are analyzed as follows:

	31.12.2017 Continuing Operations	31.12.2016
Direct tax receivables	7,532	4,614
Tax payments on account	3,887	3,903
Tax refunds requested	2,132	1,270
<b>Total</b>	<b>13,551</b>	<b>9,787</b>

There are no current tax assets due beyond 12 months.

## 23. OTHER RECEIVABLES

"Other receivables" are analyzed as follows:

	31.12.2017 Continuing Operations	31.12.2017 Discontinued Operations	31.12.2017 Total	31.12.2016
VAT	9,950	2,061	12,011	13,067
Advances to suppliers	5,397	544	5,941	6,257
Other tax receivables	4,078	-	4,078	3,612
Prepaid insurance costs	1,106	-	1,106	1,216
Employees	214	-	214	229
Other	7,278	283	7,561	7,947
<b>Total</b>	<b>28,023</b>	<b>2,888</b>	<b>30,911</b>	<b>32,328</b>

There are no current tax assets due beyond 12 months.

## 24. CURRENT FINANCIAL RECEIVABLES AND ASSETS

"Current financial receivables and assets" are analyzed as follows:

	31.12.2017 Continuing Operations	31.12.2017 Discontinued Operations (*)	31.12.2017 Total	31.12.2016
Fair value of derivatives	4,755	-	4,755	25,576
Other financial receivables	3,522	(110)	3,412	100
<b>Total</b>	<b>8,277</b>	<b>(110)</b>	<b>8,167</b>	<b>25,676</b>

(\*) The amount is shown net of intercompany elisions.

More details on the fair value of derivatives can be found in note 39. *Risk management*.

## 25. CASH AND CASH EQUIVALENTS

This balance consists of surplus liquidity on bank current accounts, mostly relating to customer payments received at period end and temporary cash surpluses.

Some of the Group's foreign companies have a total of €400.2 million in cash on current accounts held at the same bank. These cash balances form part of the international cash pooling system and are partially offset by €396.6 million in overdrafts held at the same bank by other foreign companies. This bank therefore acts as a "clearing house" for the Group's positive and negative cash balances. Considering the substance of the transactions and technical workings of the international cash pooling system, the positive and negative cash balances have been netted against one another in the consolidated statement of financial position, as permitted by IAS 32. The bank in question has been given a lien over all the cash balances within the international cash pooling system in respect of this service.

The cash balances at 31 December 2017 include €507 thousand in current accounts of certain subsidiaries, that are restricted, having been given as collateral.

## 26. NON-CURRENT ASSETS HELD FOR SALE

The item refers to the value of a freehold property of a subsidiary that was classified under non-current assets held for sale, as required under IFRS 5 – *Non-current assets held for sale and discontinued operations*, insofar as the Group initiated a program to locate a buyer and complete the disposal.

The amount corresponds to the net carrying amount, insofar as it is not less than the fair value of the assets held for sale, net of the selling costs.

	<b>31.12.2016</b>	<b>Translation differences</b>	<b>31.12.2017</b>
Non-current assets held for sale	1,389	(102)	1,287

## Comments on the statement of financial position: net equity and liabilities – *continuing operations*

### NET EQUITY

Net equity is made up as follows:

	31.12.2017	31.12.2016	Change
Group portion	1,021,729	1,010,627	11,102
Minority interests	-	3,420	(3,420)
<b>Total</b>	<b>1,021,729</b>	<b>1,014,047</b>	<b>7,682</b>

The main objective of the Group's capital management is to guarantee maintenance of a solid credit rating and adequate financial ratios with a view to supporting business activity and maximizing value for the shareholders.

Movements in the equity accounts are reported in one of the earlier schedules forming part of the financial statements; comments on the main components and their changes are provided below.

The Annual General Meeting (AGM) of De'Longhi S.p.A. held on 11 April 2017 approved a dividend totalling €119,600 thousand, which was paid in full during the year.

### 27. SHARE CAPITAL

Share capital is made up of 149,500,000 ordinary shares of par value €1.5 each, for a total of €224,250 thousand.

The Annual General Meeting of De'Longhi S.p.A. held on 14 April 2016 resolved to increase share capital against payment by up to a maximum nominal amount of €3,000,000 by 31 December 2022 through the issue, including on one or more occasions, of a maximum of 2,000,000 ordinary shares with a par value of €1.5 each pari passu with all shares outstanding at the issue date, to service the stock option plan.

A total of 1,830,000 shares were assigned at 21 November 2016; the remaining 170,000 shares were assigned on 4 April 2017.

Earnings per share are calculated by dividing the earnings for the year by the weighted average number of the Company's shares outstanding during the period.

	31.12.2017
Weighted average number of shares outstanding	149,500,000
Weighted average number of diluted shares outstanding	151,455,611

The dilutive impact of the stock option plan was not significant at 31 December 2017, therefore the difference between the diluted earnings per share (€1.18) and the basic earnings per share (€1.19) is not material.

## 28. RESERVES

These are analyzed as follows:

	31.12.2017	31.12.2016	Change
Share premium reserve	162	162	-
Legal reserve	25,229	18,941	6,288
Other reserves:			
- Extraordinary reserve	19,821	19,942	(121)
- Fair value and cash flow hedge reserve	(2,969)	8,642	(11,611)
- Stock option reserve	4,083	366	3,717
- Currency translation reserve	10,632	48,798	(38,166)
- Profit (loss) carried forward	562,258	522,115	40,143
<b>Total</b>	<b>619,216</b>	<b>618,966</b>	<b>250</b>

The "Share premium reserve" was set up following the public offering at the time of the parent company's listing on the Milan stock exchange on 23 July 2001 which was subsequently reduced following the demerger transaction in favour of De'Lclima S.p.A. to €162 thousand.

The "Legal reserve" had a balance of €18,941 thousand at 31 December 2016. The increase of €6,288 thousand is explained by the allocation of profit for the year approved by shareholders during De'Longhi S.p.A.'s AGM held on 11 April 2017.

The "Extraordinary reserve" decreased by €121 thousand due to the allocation of the profit for the year, as approved by shareholders of De'Longhi S.p.A. during the above AGM.

The "Fair value and cash flow hedge reserve" reports a negative balance of €2,969 thousand, net of €1,089 thousand in tax.

The change in the "Fair value and cash flow hedge" reserve in 2017, recognized in the statement of comprehensive income for the year, is attributable to the fair value of the cash flow hedge and available-for-sale securities of €14,591 thousand net of €2,980 thousand in tax.

The "Stock option" reserve amounted to €4,083 thousand which corresponds to the fair value of the options at the assignment date, recognized on a straight-line basis from the grant date through vesting.

The reserve relates to the stock-based incentive plan "Stock option plan 2016–2022" reserved for the Chief Executive Officer of the parent company De'Longhi S.p.A. and a limited number of Group managers and key resources approved during the Shareholders' Meeting held on 14 April 2016.

Please refer to the 2016 Annual Report and the Report on Remuneration for more detailed information about the Plan.

For the purposes of valuation under IFRS 2 – *Share-based payments*, two different tranches were defined for each award which contain the same number of options broken down equally into the plan's two exercise periods. The fair value per share of the options assigned in 2016 amounted to € 5.3072 for the first tranche and to €5.2488 for the second. The fair value per share of the options assigned in 2017 amounted to €7.6608 for the first tranche and to €7.4442 for the second.

The fair value of the stock options is determined using the Black-Scholes model which takes into account the conditions for the exercise of the right, the current share price, expected volatility, a risk free interest rate, as well as the non-vesting conditions. Volatility is estimated based on the data of a market provider and corresponds to the estimated volatility of the stock over the life of the plan.

The assumptions used to determine the fair value of the options assigned are shown below.

	2017 award	2016 award
Expected dividends (Euro)	0.80	0.43
Estimated volatility (%)	28.09%	33.23%
Historic volatility (%)	31.12%	36.067%
Market interest rate	Euribor 6M	Euribor 6M
Expected life of the options (years)	2.142/3.158	2.51 / 3.53
Exercise price (Euro)	20.4588	20.4588



“Profit (loss) carried forward” includes the retained earnings of the consolidated companies and the effects of consolidation adjustments and adjustments to comply with Group accounting policies. The net increase posted in the year reflects the profit carried forward from the previous year of €167,411 thousand, net of dividends paid, allocation to other reserves, as well as the difference between the amount owed for the purchase of the non-controlling interest in E-Services S.r.l. and the percentage of net equity acquired.

At 31 December 2016 the minority interests in net equity amount to €3,420 thousand and refer to the non-controlling interest (49%) held in E-Services S.r.l., acquired in the first-half by the parent company De'Longhi S.p.a which, at the date of this report, owns 100% of the company.

Below is a reconciliation between the net equity and profit reported by the parent company, De'Longhi S.p.A., and the figures shown in the consolidated financial statements:

Figures in thousands of Euro	Net equity 31.12.2017	Profit for 2017	Net equity 31.12.2016	Profit for 2016
<b>De'Longhi S.p.A. financial statements</b>	<b>458,249</b>	<b>174,610</b>	<b>393,877</b>	<b>125,767</b>
Share of subsidiaries' equity and results for period attributable to the Group, after deducting carrying value of the investments	579,424	121	639,681	46,858
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	20,086	(2,411)	22,454	(2,420)
Elimination of intercompany profits	(34,395)	5,347	(39,763)	(2,575)
Other adjustments	(1,635)	596	(2,202)	565
<b>Consolidated financial statements</b>	<b>1,021,729</b>	<b>178,263</b>	<b>1,014,047</b>	<b>168,195</b>
Minority interests	-	-	3,420	784
<b>Group portion</b>	<b>1,021,729</b>	<b>178,263</b>	<b>1,010,627</b>	<b>167,411</b>

## Non-current liabilities

### 29. BANK LOANS AND BORROWINGS

“Bank loans and borrowings” are analyzed as follows:

	31.12.2017 Continuing Operations	31.12.2017 Discontinued Operations	31.12.2017 Total	31.12.2016
Overdrafts	185	-	185	651
Short-term loans	67,292	12,003	79,295	28,725
Long-term loans	128,792	8,000	136,792	-
<b>Total bank loans and borrowings</b>	<b>196,269</b>	<b>20,003</b>	<b>216,272</b>	<b>29,376</b>

In June 2017 a new 5-year floating rate loan of €95,000 thousand was granted by Intesa Sanpaolo S.p.A. which is subject to half-yearly financial covenants beginning on 31 December 2017. The loan is repayable in half-yearly installments beginning on 29 December 2017. An interest rate swap (IRS) was used to hedge interest rate risk which made it possible to exchange floating rate debt for fixed rate debt at an annual “all-in” cost of 0.61%. The change in the fair value of the IRS came to a negative €90 thousand at 31 December 2017 and is recognized under other non-current financial liabilities.

On 4 July 2017 another 4-year floating rate loan of €100,000 thousand was granted by Unicredit S.p.A. which is repayable in half-yearly installments and is subject to half-yearly financial covenants beginning on 31 December 2017. An interest rate swap (IRS) was used to hedge interest rate risk which made it possible to exchange floating rate debt for fixed rate debt at an annual “all-in” cost of 0.62%. The change in the fair value of the IRS came to a negative €225 thousand at 31 December 2017 and is recognized under other non-current financial liabilities.

None of the financial covenants included in the two loan agreements, based on net debt/equity and net debt/EBITDA, had been breached at 31 December 2017.

The main bank debt is floating rate; the hedges on both of the medium/long term loans made it possible to exchange floating rate debt for fixed rate debt. The fair value of the loans, calculated by discounting expected future interest flows at current market rates, is not significantly different from the debt's book value.

### 30. OTHER FINANCIAL PAYABLES

This balance, inclusive of the current portion, is made up as follows:

	31.12.2017 Continuing Operations	31.12.2017 Discontinued Operations	31.12.2017 Total	31.12.2016
Private placement (short-term portion)	16	-	16	7,365
Negative fair value of derivatives	12,887	-	12,887	5,356
Payables to lease companies (short-term portion)	365	-	365	776
Other short term financial payables	57,600	239	57,839	66,464
<b>Total short-term payables</b>	<b>70,868</b>	<b>239</b>	<b>71,107</b>	<b>79,961</b>
Private placement (one to five years)	42,736	-	42,736	29,453
Payables to lease companies (one to five years)	5	-	5	338
Negative fair value of derivatives	224	-	224	-
Other financial payables (one to five years)	5,116	-	5,116	1,422
<b>Total long-term payables (one to five years)</b>	<b>48,081</b>	<b>-</b>	<b>48,081</b>	<b>31,213</b>
Private placement (beyond five years)	107,147	-	107,147	44,403
Other financial payables (beyond five years)	115	-	115	267
<b>Total long-term payables (beyond five years)</b>	<b>107,262</b>	<b>-</b>	<b>107,262</b>	<b>44,670</b>
<b>Total other financial payables</b>	<b>226,211</b>	<b>239</b>	<b>226,450</b>	<b>155,844</b>

(\*) The amount is shown net of intercompany elisions.

On 14 June 2017 the parent company De'Longhi S.p.A., after having received approval from the Board of Directors on 9 June 2017, completed the issue and placement of €150 million in unsecured, non-convertible notes with US institutional investors (the "US Private Placement"). At the same time of the new issue the Group redeemed the USD 85 million bond loan issued in 2012.

The securities were issued in a single tranche, have a duration of 10 years, expire in June 2027, and an average life of 7 years. The notes will accrue interest from the subscription date at a fixed rate of 1.65% per annum.

The notes will be repaid yearly in equal installments beginning June 2021 and ending June 2027, without prejudice to the Company's ability to repay the entire amount in advance.

The securities are unrated and are not intended to be listed on any regulated markets.

The notes are subject to half-yearly financial covenants in line with those contemplated in other existing loan transactions. At 31 December 2017 the covenants (ratio of consolidated financial debt on consolidated net equity, ratio of consolidated financial debt on EBITDA before non-recurring items/stock option and ratio of EBITDA before non-recurring items/stock option on net financial charges) had not been breached. The issue is not secured by collateral of any kind.

"Negative fair value of derivatives" refers to hedges on currencies, foreign currency receivables and payables, as well as on future revenue streams.

Please refer to note 39. *Risk management* for information on the fair value of hedges in place at 31 December 2017.

"Other short term financial payables" refers to factoring without recourse and the debt consolidated as a result of a business combination involving the property of a foreign subsidiary. These also include the remaining short-term portion of the pension fund liabilities pertaining to a subsidiary which were transferred to third parties and the portion of a loan granted to an Italian subsidiary (MIUR).

At 31 December 2016 the item also included the earn-out payable under the Braun sales agreement.

## Net financial position

Details of the net financial position are as follows:

	31.12.2017 Continuing Operations	31.12.2017 Discontinued Operations (*)	31.12.2017 Total	31.12.2016
A. Cash	143	2	145	139
B. Cash equivalents	664,581	3,272	667,853	461,291
C. Securities	-	-	-	-
<b>D. Total liquidity (A+B+C)</b>	<b>664,724</b>	<b>3,274</b>	<b>667,998</b>	<b>461,430</b>
E. Current financial receivables and other securities	8,277	(110)	8,167	25,676
<i>of which:</i>				
<i>Fair value of derivatives</i>	4,755	-	4,755	25,576
F. Current bank loans and borrowings	(23,623)	(10,003)	(33,626)	(29,376)
G. Current portion of non-current debt	(43,854)	(2,000)	(45,854)	-
H. Other current financial payables	(70,868)	(239)	(71,107)	(79,961)
<i>of which:</i>				
<i>Fair value measurement of derivatives, financial payables linked to business combinations and pension fund transactions</i>	(20,162)	-	(20,162)	(30,433)
<b>I. Current financial debt (F+G+H)</b>	<b>(138,345)</b>	<b>(12,242)</b>	<b>(150,587)</b>	<b>(109,337)</b>
<b>J. Net current financial debt (D+E+I)</b>	<b>534,656</b>	<b>(9,078)</b>	<b>525,578</b>	<b>377,769</b>
Non-current financial receivables and other securities	79	-	79	4,698
<i>of which:</i>				
<i>Fair value of derivatives</i>	79	-	79	-
K. Non-current bank loans and borrowings	(128,792)	(8,000)	(136,792)	-
L. Bonds	(149,883)	-	(149,883)	(73,856)
M. Other non-current payables	(5,460)	-	(5,460)	(2,027)
<i>of which:</i>				
<i>financial payables linked to business combination and pension fund transactions</i>	(4,753)	-	(4,753)	-
<b>N. Non-current financial debt (K+L+M)</b>	<b>(284,056)</b>	<b>(8,000)</b>	<b>(292,056)</b>	<b>(71,185)</b>
<b>Total</b>	<b>250,600</b>	<b>(17,078)</b>	<b>233,522</b>	<b>306,584</b>

(\*) The amount is shown net of intercompany elisions.

For a better understanding of changes in the Group's net financial position, reference should be made to the full consolidated statement of cash flows, appended to these explanatory notes, and the condensed statement presented in the report on operations.

More details on the fair value of derivatives can be found in note 39. *Risk management*.

Details of financial receivables and payables with related parties are reported in Appendix 3.

## 31. EMPLOYEE BENEFITS

These are made up as follows:

	31.12.2017 Continuing Operations	31.12.2017 Discontinued Operations	31.12.2017 Total	31.12.2016
Provision for severance indemnities	10,966	2,552	13,518	14,103
Other defined benefit plans	18,970	-	18,970	18,055
Long term benefits	-	-	-	10,533
<b>Total</b>	<b>29,936</b>	<b>2,552</b>	<b>32,488</b>	<b>42,691</b>

The provision for severance indemnities includes amounts payable to employees of the Group's Italian companies and not transferred to supplementary pension schemes or the pension fund set up by INPS (Italy's national social security agency). This provision has been classified as a defined benefit plan, governed as such by IAS 19 – *Employee benefits*.

Some of the Group's foreign companies provide defined benefit plans for their employees.

Some of these plans have assets servicing them, but severance indemnities, as an unfunded obligation, do not. These plans are valued on an actuarial basis to express the present value of the benefit payable at the end of service that employees have accrued at the reporting date.

The amounts of the obligations and assets to which they refer are set out below:

*Provision for severance indemnities:*

Movements in the year are summarized below:

Net cost charged to income	2017	2016	Change
Current service cost	186	187	(1)
Interest cost on defined benefit obligation	153	218	(65)
<b>Total Continuing Operations</b>	<b>339</b>	<b>405</b>	<b>(66)</b>

Change in present value of obligations	31.12.2017	31.12.2016	Change
<b>Present value at 1 January</b>	<b>14,103</b>	<b>11,195</b>	<b>2,908</b>
Reclassification to Discontinued Operations	(2,873)	-	(2,873)
Current service cost	186	187	(1)
Utilization of provision	(562)	(550)	(12)
Interest cost on obligation	153	218	(65)
Actuarial gains & losses recognized in the comprehensive income statement	(41)	180	(221)
Change in the scope of consolidation	-	2,873	(2,873)
<b>Present value Continuing Operations at reporting date</b>	<b>10,966</b>	<b>14,103</b>	<b>(3,137)</b>

*Other defined benefit plans:*

Net cost charged to income	2017	2016	Change
Current service cost	1,210	1,419	(209)
Return on plan assets	(4)	(8)	4
Interest cost on obligations	292	327	(35)
<b>Total</b>	<b>1,498</b>	<b>1,738</b>	<b>(240)</b>

Change in present value of obligations	31.12.2017	31.12.2016	Change
<b>Present value at 1 January</b>	<b>18,055</b>	<b>14,915</b>	<b>3,140</b>
Net cost charged to income	1,498	1,738	(240)
Benefits paid	(341)	(261)	(80)
Translation difference	(167)	93	(260)
Actuarial gains & losses recognized in the comprehensive income statement	(286)	1,570	(1,856)
Other movements	211	-	211
<b>Present value at reporting date</b>	<b>18,970</b>	<b>18,055</b>	<b>915</b>

Movements in the year are as follows:

The outstanding liability at 31 December 2017 of €18,970 thousand (€18,055 thousand at 31 December 2016) refers to a few subsidiaries (mainly in Germany and Japan).

Assumptions used	Severance indemnity 2017	Severance indemnity 2016	Other plans 2017	Other plans 2016
Discount rate	1.30%	1.40%	0.5%-1.85%	0.5%-1.85%
Future salary increases	1.3%-2.3%	1.4%-2.4%	0%-3%	0%-3%
Inflation rate	1.30%	1.40%	2%	2%-5.8%

The assumptions used for determining the obligations under the plans described are as follows:

The other long-term employee benefits refer to an incentive plan 2015-2017 accrued in the past and in 2017 for the current portion; this item at 31 December 2017 has been reclassified to "Other payables" (please refer to note 35 – *Other payables*) at the end of vesting period.

For more information please refer to the Annual Report on Remuneration.

## 32. OTHER PROVISIONS FOR NON-CURRENT CONTINGENCIES AND CHARGES

These are analyzed as follows:

	31.12.2017	31.12.2016
Agents' leaving indemnity provision	1,904	1,807
Product warranty provision	30,491	31,985
Provision for contingencies and other charges	7,836	13,940
<b>Total</b>	<b>40,231</b>	<b>47,732</b>

Movements are as follows:

	31.12.2016	Utilization	Net accrual	Translation difference and other movements	31.12.2017
Agents' leaving indemnity provision	1,807	(58)	155	-	1,904
Product warranty provision	31,985	(16,857)	15,356	7	30,491
Provision for contingencies and other charges <sup>(*)</sup>	13,940	(3,515)	(3,962)	1,373	7,836
<b>Total</b>	<b>47,732</b>	<b>(20,430)</b>	<b>11,549</b>	<b>1,380</b>	<b>40,231</b>

(\*) "Other movements" refers mainly to a reclassification.

The agents' leaving indemnity provision covers the payments that might be due to departing agents in accordance with art. 1751 of the Italian Civil Code, as applied by collective compensation agreements in force.

The product warranty provision has been established, for certain consolidated companies, on the basis of estimated under-warranty repair and replacement costs for sales taking place by 31 December 2017. It takes account of the provisions of Decree 24/2002 and of European Community law.

The "Provision for contingencies and other charges" includes the provision of €4,782 thousand (€8,206 thousand at 31 December 2016) for legal disputes and product complaint liabilities (limited to the Group's insurance deductible), the provision of €745 thousand (€3,989 thousand at 31 December 2016) for restructuring and reorganization, as well as the provisions made by the parent company, as well as a few subsidiaries, relating to commercial risks and other charges.

## Current liabilities

### 33. TRADE PAYABLES

The balance represents the amount owed by the Group to third parties for the provision of goods and services. The item does not include amounts due beyond 12 months.

### 34. CURRENT TAX LIABILITIES

"Current tax liabilities" refers to the Group's direct tax and, with respect to the Italian subsidiaries who adhered to the Domestic Tax Consolidation regime, the amount owed the parent company De Longhi Industrial S.A.; for additional information please refer to Annex n.3.

The item does not include tax due beyond 12 months.

### 35. OTHER PAYABLES

These are analyzed as follows:

	31.12.2017 Continuing Operations	31.12.2017 Discontinued Operations <sup>(*)</sup>	31.12.2017 Total	31.12.2016
Employees	49,884	1,951	51,835	33,561
Indirect taxes	28,914	-	28,914	21,065
Social security institutions	7,199	546	7,745	6,723
Withholdings payables	6,057	386	6,443	4,931
Other taxes	714	-	714	1,366
Advances	660	13	673	154
Other	18,454	7	18,461	19,765
<b>Total</b>	<b>111,882</b>	<b>2,903</b>	<b>114,785</b>	<b>87,565</b>

(\*) The amounts are shown net of intercompany elisions.

The amounts due beyond twelve months at 31 December 2017 include €17 thousand in payable to social security institutions and €1 thousand in other taxes (€25 thousand at 31 December 2016).

Employee payables include the amounts payable in 2018 to the Chief Executive Officer and a few Group executives under the 2015–2017 incentive plan. This amount, previously recognized under "Other medium/long term benefits" (note 31. *Employee benefits*), was reclassified at the end of the vesting period.

### 36. COMMITMENTS

These are detailed as follows:

	31.12.2017	31.12.2016
Guarantees given to third parties	2,140	2,203
Other commitments	5,323	4,815
<b>Total</b>	<b>7,463</b>	<b>7,018</b>

"Other commitments" mainly consist of contractual obligations pertaining to the subsidiaries.

In addition De'Longhi S.p.A., as part of its factoring of trade receivables without recourse, the total exposure for which amounted to €135,561 at 31 December 2017, the Group issued a surety and a credit mandate.



## 37. IFRS 7 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are classified below in accordance with IFRS 7, using the categories identified in IAS 39.

31/12/2017 (Continuing Operations)	Book value	Assets		
		Loans and receivables	Available for sale	Derivatives
<b>Non-current assets</b>				
- Equity investments	22,957		51	
- Receivables	3,083	3,083		
- Other non-current financial assets	79			79
<b>Current assets</b>				
- Trade receivables	401,545	401,545		
- Current tax assets	13,551	13,551		
- Other receivables	28,023	28,023		
- Current financial receivables and assets	8,277	3,522		4,755
- Cash and cash equivalents	664,724	664,724		
31/12/2017 (Continuing Operations)	Book value	Liabilities		
		Loans		Derivatives
<b>Non-current liabilities</b>				
- Bank loans and borrowings (long-term portion)	(128,792)		(128,792)	
- Other financial payables (long-term portion)	(155,343)		(155,119)	(224)
<b>Current liabilities</b>				
- Trade payables	(366,061)		(366,061)	
- Bank loans and borrowings (short-term portion)	(67,477)		(67,477)	
- Other financial payables (short-term portion)	(70,868)		(57,981)	(12,887)
- Current tax liabilities	(37,133)		(37,133)	
- Other payables	(111,882)		(111,882)	
31/12/2016 (Continuing Operations)	Book value	Assets		
		Loans and receivables	Available for sale	Derivatives
<b>Non-current assets</b>				
- Equity investments	4,739		61	
- Receivables	3,283	3,283		
- Other non-current financial assets	4,698			4,698
<b>Current assets</b>				
- Trade receivables	372,777	372,777		
- Current tax assets	9,787	9,787		
- Other receivables	32,328	32,328		
- Current financial receivables and assets	25,676	100		25,576
- Cash and cash equivalents	461,430	461,430		
31/12/2016 (Continuing Operations)	Book value	Liabilities		
		Loans		Derivatives
<b>Non-current liabilities</b>				
- Bank loans and borrowings (long-term portion)	-			
- Other financial payables (long-term portion)	(75,883)		(75,883)	
<b>Current liabilities</b>				
- Trade payables	(363,847)		(363,847)	
- Bank loans and borrowings (short-term portion)	(29,376)		(29,376)	
- Other financial payables (short-term portion)	(79,961)		(74,605)	(5,356)
- Current tax liabilities	(29,528)		(29,528)	
- Other payables	(87,565)		(87,565)	

### 38. HIERARCHICAL LEVELS OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The following table presents the hierarchical levels in which the fair value measurements of financial instruments have been classified at 31 December 2017. As required by IFRS 7, the hierarchy comprises the following levels:

- level 1: quoted prices in active markets for identical assets or liabilities;
- level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- level 3: inputs for the asset or liability that are not based on observable market data.

Financial instruments measured at fair value	Level 1	Level 2	Level 3
Derivatives:			
- derivatives with positive fair value	-	4,834	-
- derivatives with negative fair value	-	(13,111)	-
Available for sale financial assets:			
- equity investments	51	-	-
- other non-current financial assets	-	-	-
Financial payables linked to business combinations			(11,561)

There were no transfers between the levels during the year.

### 39. RISK MANAGEMENT

The Group is exposed to the following financial risks as part of its normal business activity:

- credit risk, arising from commercial activities and from the investment of surplus cash;
- liquidity risk, arising from the need to have adequate access to capital markets and sources of finance to fund its operations, investment activities and the settlement of financial liabilities;
- exchange rate risk, associated with the significant amount of purchases and sales in currencies other than the Group's functional currency;
- interest rate risk, relating to the cost of the Group's debt.

#### Credit risk

Credit risk consists of the Group's exposure to potential losses arising from failure by a counterparty to fulfill its obligations. Trade credit risk is associated with the normal conduct of trade and is monitored using formal procedures for selecting and assessing customers, for defining credit limits, for monitoring expected receipts and for their recovery if necessary. Credit risk is partly mitigated by insurance policies with major insurers, with the aim of insuring against the risk of default by a portfolio of customers selected together with the insurer, who then undertakes to pay an indemnity in the event of default.

Although there is a certain concentration of risk associated with the size of some of the principal buying groups, this is counterbalanced by the fact that the exposure is spread across counterparties operating in different geographical areas.

Positions are written down when there is objective evidence that they will be partially or entirely uncollected; such writedowns are based on past data and information about the counterparty's solvency, taking account of insurance and any other guarantees as described above.

The Group's maximum exposure to credit risk is equal to the book value of trade receivables before the allowance for doubtful accounts, and amounts to €416,692 thousand at 31 December 2017 and €388,326 thousand at 31 December 2016.

This amount corresponds to the gross balance of trade receivables of €453,170 thousand at 31 December 2017 (€428,627 thousand at 31 December 2016), net of deductions and accounting offsets, which reduce the overall credit risk, mainly in the form of credit notes and other documents not yet issued to customers.

The following analysis of credit risk, carried out on the basis of receivables ageing and the reports used for credit management, refers to the trade balances before these deductions because the documents awaiting issue cannot be specifically allocated to the ageing categories.

Trade receivables of €453,170 thousand at 31 December 2017 comprise €414,597 thousand in current balances and €38,573 thousand in past due amounts, of which €32,866 thousand past due by less than 90 days and €5,707 thousand past due by more than 90 days.

The amount of insured or guaranteed receivables at 31 December 2017 is €324,396 thousand.

The Group has recognized €10,372 thousand in allowances for doubtful accounts against unguaranteed receivables of €128,774 thousand.

Trade receivables of €428,627 thousand at 31 December 2016 comprise €400,600 thousand in current balances and €28,027 thousand in past due amounts, of which €20,175 thousand past due by less than 90 days and €7,852 thousand past due by more than 90 days.

The amount of insured or guaranteed receivables at 31 December 2016 is €364,914 thousand.

The Group has recognized €15,549 thousand in allowances for doubtful accounts against unguaranteed receivables of €63,714 thousand.

As far as financial risk is concerned, it is the Group's policy to maintain a sufficiently large portfolio of counterparties of high international repute for the purposes of temporary investment of surplus resources or for the negotiation of derivatives.

The maximum credit risk in the event of counterparty default relating to the Group's other financial assets, whose classification is presented in note 37. *IFRS 7 classification of financial assets and liabilities*, is equal to the book value of these assets.

## Liquidity risk

Liquidity risk is the risk of not having the fund needed to fulfil payment obligations arising from operating and investment activities and from the maturity of financial instruments.

The Group uses specific policies and procedures for the purposes of monitoring and managing this risk, including:

- centralized management of financial payables and cash, supported by reporting and information systems and, where possible, cash pooling arrangements;
- raising of medium and long-term finance on capital markets;
- diversification of the type of financing instruments used;
- obtaining of short-term credit lines so as to ensure wide room for manoeuvre for the purposes of managing working capital and cash flows;
- monitoring of current and forecast financing needs and distribution within the Group.

The Group has both medium-term bank credit lines and short-term credit lines (typically renewed on an annual basis), for financing working capital and other operating needs (issue of guarantees, currency transactions etc.).

These credit lines, along with cash flow generated by operations, are considered sufficient to satisfy the Group's annual funding requirements for working capital, investments and settlement of payables on their natural due dates.

Note 37. *IFRS 7 classification of financial assets and liabilities* presents the book value of financial assets and liabilities, in accordance with the categories identified by IAS 39.

The following table summarizes the due dates of the Group's financial liabilities at 31 December 2017 and 31 December 2016 on the basis of undiscounted contractual payments.

	Undiscounted cash flows at 31.12.2017	Within one year	One to five years	Beyond five years	Undiscounted cash flows at 31.12.2016	Within one year	One to five years	Beyond five years
Bank loans and borrowings <sup>(*)</sup>	217,333	79,922	137,411	-	29,376	29,376	-	-
Other financial payables <sup>(**)</sup>	242,707	73,571	57,458	111,678	158,127	81,662	34,724	41,741
Trade payables	371,413	371,413	-	-	365,315	365,315	-	-
Current tax payables and other payables	151,676	151,655	21	-	116,620	116,594	25	-

(\*) The corresponding balance reported in the financial statements was €216,272 thousand at 31 December 2017 vs. €29,376 thousand at 31 December 2016 and refers to medium/long and short term bank debt.

(\*\*) The corresponding balance in the accounts is €226,450 thousand at 31 December 2017 and €154,786 at 31 December 2016 refers to the short-term portion of long-term leases, the loans from the Ministry of Industry and the bond loan.

## Exchange rate risk

The Group is exposed to the risk of fluctuations in currencies (other than its functional one) in which ordinary trade and financial transactions are denominated. For the purposes of protecting its income statement and statement of financial position from such fluctuations, the Group adopts a suitable hedging policy that eschews speculative ends.

### Hedging policies

Hedging is carried out centrally by a special team on the basis of information obtained from a detailed reporting system, using instruments and policies that comply with international accounting standards. The purpose of hedging is to protect – at individual company level – the future revenues/costs contained in budgets and/or long-term plans, trade and financial receivables/payables and net investments in foreign operations.

### Purpose of hedging

Hedging is carried out with three goals:

- to hedge cash flows of budgeted or planned amounts up until the time of invoicing, with a time horizon that doesn't go beyond 24 months;
- to hedge the monetary amounts of receivables and payables originating from invoicing and financing transactions;
- to hedge exchange rate risk relating to net investments in foreign operations.

The principal currencies to which the Group is exposed are:

- the US dollar (mainly the EUR/USD and GBP/USD), being the currency in which a significant part of the cost of raw materials, parts and finished products is expressed;
- the Japanese yen (JPY/HKD), for sales on the Japanese market;
- the Australian dollar (AUD/HKD) for sales on the Australian market;
- the Ruble (RUB/GBP), for sales on the Russian market;
- the British Pound (EUR/GBP and GBP/EUR), for sales and purchase costs relative to the UK company;
- the Renminbi (CNY/HKD) for the cost of raw materials, parts and finished products.

### Instruments used

Highly liquid instruments of a non-speculative nature are used, mostly forward purchase/sale agreements. The transactions are entered into with primary, well known counterparties of international standing.

### Operating structure

Hedging activity is centralized (except for isolated, negligible cases) under De'Longhi Capital Services S.r.l., a Group company, which intervenes on the markets on the basis of information received from the individual operating companies. The terms and conditions thus negotiated are passed down in full to Group companies so that De'Longhi Capital Services S.r.l. does not directly carry derivatives for risks that are not its own.

### *Sensitivity analysis*

When assessing the potential impact, in terms of change in fair value, of a hypothetical, sudden +/-5% change in year-end exchange rates, it is necessary to distinguish between the risk associated with expected future revenues/costs and the risk associated with foreign currency assets and liabilities at 31 December 2017:

- (a) with regard to the risk connected to future flows (revenues/costs forecast in the budget and/or multi-year plans), at 31 December 2017 the fair value of the relative hedges were recognized in net equity in accordance with IAS standards as described in the section *Accounting standards – Financial instruments* found in these Explanatory Notes; a change of +/- 5% in the year-end exchange rates of the exposed currency is estimated to produce a change of +/- €2.5 million before tax (- €12.0 million and + €12.8 million before tax at 31 December 2016). This figure would impact the income statement solely in the year in which the hedged revenues/costs materialize;
- (b) as for the risk associated with foreign currency assets and liabilities, the analysis considers only unhedged receivables/payables in currencies other than the functional currency of the individual companies, since the impact of any hedges is assumed to be equal and opposite to that of the hedged items. A +/- 5% change in year-end exchange rates of the principal exposed currencies (mainly the USD) against the principal functional currencies would produce a change in fair value of around +/- €0.6 million before tax (+/- €0.7 million before tax at 31 December 2016).

The hedging transactions at 31 December 2017 are described in the paragraph *"Interest rate and currency exchange hedges at 31 December 2017"*.

## Interest rate risk

The Group is exposed to interest rate risk on floating rate loans and borrowings. This risk is managed centrally by the same team that manages currency risks.

All of the Group's debt at 31 December 2017 is floating rate with the exception of two bilateral loans granted during the year for €195 million.

The purpose of interest rate risk management is to fix in advance the maximum cost (in terms of the interbank rate, which represents the benchmark for these borrowings) for a part of the debt.

At 31 December 2017 there were two IRS (interest rate swaps), hedging the loans taken out by the Parent company.

### *Sensitivity analysis*

When estimating the potential impact of a hypothetical, sudden material change in interest rates (+/- 1% in market rates) on the cost of the Group's debt, only those items forming part of net financial position which earn/incur interest at floating rates have been considered and not any others (meaning total net assets of €620.3 million on a total of €233.5 million in net debt at 31 December 2017 and total net assets of €427.9 million on a total of €307.6 million in net debt in 2016).

The Group's debt is currently all at floating rates and, with the exception of the two long-terms loans completed by the parent company, therefore unhedged, so any change in market rates has a direct impact on its total cost, in terms of higher/lower interest payments.

A +/- 1% change in interest rates would have an impact of +/- €6.2 million before tax at 31 December 2017 recognized entirely in the income statement (+/- €4.3 million before tax at 31 December 2016).

## Interest rate and currency exchange hedges at 31 December 2017

At 31 December 2017 the Group has a number of derivatives, hedging both the fair value of underlying instruments and exposure to changes in cash flow.

For accounting purposes, derivatives that hedge changes in cash flow are treated in accordance with hedge accounting as called for in IAS 39.

Derivatives that hedge foreign currency payables and receivables are reported as financial assets and liabilities held for trading with changes in their fair value reported in the income statement. These instruments offset the risk on the hedged item (which is a recognized asset or liability).

The fair value of the outstanding derivatives at 31 December 2017 is provided below:

	<b>Beyond five years</b>
FX forward agreements	(2,859)
<b>Derivatives hedging foreign currency receivables/payables</b>	<b>(2,859)</b>
FX forward agreements	(5,103)
Derivatives hedging interest rate risk (IRS)	(315)
<b>Derivatives covering expected cash flows</b>	<b>(5,418)</b>
<b>Total fair value of the derivatives</b>	<b>(8,277)</b>

*Forward agreements to hedge against a change in 2018 trade flows:*

A list of the forward agreements hedging a change in 2017 trade flows at 31 December 2016:

Currency	Notional amount (in thousands)			Fair value (in €/000)	
	Purchases	Sales	Total	Current Assets	Current Liabilities
AUD/HKD	-	86,200	86,200	-	(954)
CAD/USD	-	34,000	34,000	565	-
CHF/EUR	-	15,000	15,000	286	-
CNY/HKD	(645,000)	-	(645,000)	869	(6)
GBP/EUR	-	172,000	172,000	151	(5,124)
JPY/HKD	-	6,290,000	6,290,000	1,193	-
KRW/HKD	-	16,000,000	16,000,000	-	(156)
USD/EUR	(199,256)	-	(199,256)	206	(1,609)
USD/GBP	(60,000)	-	(60,000)	31	(555)
				<b>3,301</b>	<b>(8,404)</b>

A negative cash flow hedge reserve of €2,654 thousand has been recorded in net equity at 31 December 2017 in relation to these hedges, after €1,013 thousand in related tax (at 31 December 2016 this same reserve was a positive €15,148 thousand at, after the related tax of €3,750 thousand).

During 2017 the Group reversed to the income statement a net amount of €15,148 thousand from the cash flow hedge reserve at 31 December 2017.

This amount was reported in the following lines of the income statement:

	<b>2017</b>	<b>2016</b>
Increase (reduction) in revenues	6,990	(470)
(Increase) reduction in materials consumed	10,228	13,166
Financial income (expenses)	1,680	640
Taxes	(3,750)	(3,468)
<b>Total recognized in income statement</b>	<b>15,148</b>	<b>9,868</b>



*Hedges against foreign currency receivables and payables:*

Currency	Notional amount (in thousands)			Fair value (in €/000)	
	Purchases	Sales	Total	Current Assets	Current Liabilities
AUD/EUR	-	581	581	-	(2)
AUD/HKD	(12,324)	36,827	24,503	58	(788)
BRL/HKD	-	12,649	12,649	-	(22)
CAD/USD	-	19,157	19,157	-	(283)
CHF/EUR	(2,102)	6,883	4,781	23	-
CLP/HKD	-	4,834,512	4,834,512	-	(426)
CNY/HKD	(74,232)	158,004	83,772	108	(286)
CZK/EUR	-	15,979	15,979	-	(1)
CZK/GBP	(168,055)	375,955	207,900	12	(154)
DKK/GBP	(2,020)	19,383	17,363	-	(20)
EUR/GBP	(3,281)	18,922	15,641	5	(178)
EUR/HKD	(293)	3,867	3,574	4	(69)
GBP/EUR	(27,923)	69,173	41,250	476	(188)
HKD/EUR	(1,626)	-	(1,626)	-	(3)
HUF/EUR	(175,554)	1,588,820	1,413,265	1	(50)
JPY/HKD	(1,155,919)	2,836,095	1,680,176	23	(145)
KRW/HKD	-	4,963,465	4,963,465	-	(86)
PLN/EUR	-	2,344	2,344	-	(4)
PLN/GBP	(13,519)	98,143	84,624	5	(394)
RON/EUR	(14,670)	40,283	25,614	80	(20)
RUB/GBP	(202,400)	917,072	714,672	-	(265)
SEK/GBP	(3,050)	31,470	28,420	4	(54)
SGD/HKD	-	661	661	-	(6)
TRY/EUR	(3,751)	22,008	18,257	3	(2)
USD/CLP	(467)	820	352	46	(5)
USD/EUR	(5,367)	-	(5,367)	-	(47)
USD/GBP	(9,570)	10,100	530	46	(107)
ZAR/USD	(3,613)	11,965	8,352	13	(68)
MXN/HKD	-	14,213	14,213	16	-
USD/AUD	(6,650)	3,500	(3,150)	122	(52)
EUR/AUD	(15)	15	-	-	-
USD/RON	-	10,348	10,348	-	(111)
EUR/RON	(9,500)	25,263	15,763	50	(79)
NZD/AUD	(16,350)	38,150	21,800	359	(398)
				<b>1,454</b>	<b>(4,313)</b>

*IRS (Interest Rate Swap) hedging interest rate risk on loans:*

The fair value of the derivatives is calculated using the discounted cash flow method based on the swap curve, not including the spread; at 31 December 2017 the fair value of the derivatives, which also takes into account counterparty risk in accordance with IFRS 13 – *Fair Value measurement*, came to a negative €315 thousand which is recognized under financial receivables (for €79 thousand) and other financial payables (for €394 thousand).

As the hedge on future interest flows qualifies as an effective hedge, at 31 December 2017 a negative cash flow hedge reserve of €315 thousand was reported in net equity, net of the related tax effect of €76 thousand.

Details are as follows (the figures are shown before tax):

	<b>31.12.2017</b>
	<b>Fair value (in €/000)</b>
<i>Interest Rate Swap (IRS) connected to the loan Intesa Sanpaolo S.p.A</i>	(90)
<i>Interest Rate Swap (IRS) connected to the loan Unicredit S.p.A</i>	(225)
<b>Totale fair value of the derivatives</b>	<b>(315)</b>
<i>of which:</i>	
<i>negative short-term fair value</i>	(169)
<i>negative medium/long-term fair value</i>	(225)
<i>positive short-term fair value</i>	79

#### 40. TAX POSITION

There is nothing to observe with respect to the tax position at 31 December 2017.

#### 41. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Appendix 3 contains the information concerning transactions and balances with related parties required by CONSOB Circulars 97001574 dated 20 February 1997, 98015375 dated 27 February 1998 and DEM/2064231 dated 30 September 2002 relating to related party transactions; all transactions fell within the Group's normal scope of operations and were settled under arm's-length terms and conditions.

Transactions and balances between the parent company and subsidiaries are not reported since these have been eliminated upon consolidation.

## 42. OPERATING SEGMENTS

As required under IFRS 8, following the demerger transaction the Group's activities were broken down into three operating segments (Europe, APA, MEIA) based on business region.

Each segment is responsible for all aspects of the Group's brands and services different markets; the revenues and the margins, therefore, generated by each operating segment (based on business region) may not coincide with the revenues and margins of the relative markets (based on geographic area) given the sales made by a few Group companies outside of their respective geographical areas and the intragroup transactions not allocated based on destination.

Information relating to operating segments is presented below:

### *Income Statement data – Continuing Operations*

	2017				Total
	Europe	APA	MEIA	Intersegment eliminations (**)	
<b>Total revenues (*)</b>	<b>1,500,418</b>	<b>979,180</b>	<b>107,847</b>	<b>(614,652)</b>	<b>1,972,793</b>
<b>EBITDA</b>	<b>200,264</b>	<b>89,251</b>	<b>12,742</b>	<b>1,422</b>	<b>303,679</b>
Amortization	(43,485)	(14,667)	(84)	-	(58,236)
<b>EBIT</b>	<b>156,779</b>	<b>74,584</b>	<b>12,658</b>	<b>1,422</b>	<b>245,443</b>
Financial income (expenses)					(16,221)
<b>Profit (loss) before taxes</b>					<b>229,222</b>
Income taxes					(49,493)
<b>Profit (loss) after taxes</b>					<b>179,729</b>
Profit (loss) pertaining to minority interests					-
<b>Profit (loss) for the year</b>					<b>179,729</b>

(\*) The revenues for each segment include revenues generated by both third parties and other Group operating segments.

(\*\*) Eliminations refer to intersegment revenues generated and eliminated on a consolidated basis.

### *Data from statement of financial position – Continuing Operations*

	31 December 2017				Total
	Europe	APA	MEIA	Intersegment eliminations	
Total assets	1,480,074	635,724	35,598	(93,078)	2,058,318
Total liabilities	(870,350)	(248,631)	(9,108)	93,078	(1,035,011)

*Income Statement data – Continuing Operations*

	Europe	APA	2016 MEIA	Intersegment eliminations (**)	Total
<b>Total revenues (*)</b>	<b>1,401,912</b>	<b>936,172</b>	<b>120,220</b>	<b>(611,605)</b>	<b>1,846,699</b>
<b>EBITDA</b>	<b>191,409</b>	<b>87,343</b>	<b>14,004</b>	<b>(862)</b>	<b>291,894</b>
Amortization	(39,626)	(12,889)	(61)	-	(52,576)
<b>EBIT</b>	<b>151,783</b>	<b>74,454</b>	<b>13,943</b>	<b>(862)</b>	<b>239,318</b>
Financial income (expenses)					(11,564)
<b>Profit (loss) before taxes</b>					<b>227,754</b>
Income taxes					(59,318)
<b>Profit (loss) after taxes</b>					<b>168,436</b>
Profit (loss) pertaining to minority interests					784
<b>Profit (loss) for the year</b>					<b>167,652</b>

(\*) The revenues for each segment include revenues generated by both third parties and other Group operating segments. For the sake of comparison the income statement at 31.12.2016 was, moreover, adjusted to reflect the reclassification of a few commercial components.

(\*\*) Eliminations refer to intersegment revenues generated and eliminated on a consolidated basis.

*Data from statement of financial position*

	31 December 2016				Total
	Europe	APA	MEIA	Intersegment eliminations	
Total assets	1,152,052	741,795	45,245	(140,886)	1,798,206
Total liabilities	(640,903)	(271,185)	(12,957)	140,886	(784,159)

**43. SUBSEQUENT EVENTS**

On 22 February 2018 an industrial partnership agreement was signed with a premiere Chinese electronics group (the H&T Group) which calls for the sale of 55% of NPE S.r.l.'s share capital and an equity contribution to be made by the two shareholders of €7.7 million to support development of the company. The agreement will be finalized by the end of April 2018, subject to the applicable antitrust clearances.

*Treviso, 1 March 2018*

*De'Longhi S.p.A.  
Vice Chairman and Chief Executive Officer  
Fabio de' Longhi*

# Appendices



These appendices contain additional information to that reported in the explanatory notes, of which they form an integral part.

This information is contained in the following appendices:

1. List of consolidated companies
2. Statement of consolidated cash flows in terms of net financial position
3. Transactions and balances with related parties:
  - a) *Income statement and statement of financial position*
  - b) *Summary by company*
4. Fees paid to the external auditors
5. Certification of the consolidated financial statements pursuant to art. 81-ter of CONSOB Regulation 11971 dated 14 May 1999 and subsequent amendments and additions.



## List of consolidated companies

(Appendix 1 to the Explanatory notes)

### CONTINUING OPERATIONS

#### LINE-BY-LINE METHOD

Company name	Registered office	Currency	Share capital <sup>(1)</sup>	Interest held at 31/12/2017	
				Directly	Indirectly
DE'LONGHI APPLIANCES S.R.L.	Treviso	EUR	200,000,000	100%	
DE'LONGHI AMERICA INC.	Upper Saddle River	USD	9,100,000		100%
DE'LONGHI FRANCE S.A.R.L.	Clichy	EUR	2,737,500		100%
DE'LONGHI CANADA INC.	Mississauga	CAD	1		100%
DE'LONGHI DEUTSCHLAND GMBH	Neu-Isenburg	EUR	2,100,000	100%	
DE'LONGHI BRAUN HOUSEHOLD GMBH	Neu-Isenburg	EUR	100,000		100%
DE'LONGHI ELECTRODOMESTICOS ESPANA S.L.	Barcelona	EUR	3,066		100%
DE'LONGHI CAPITAL SERVICES S.R.L. <sup>(2)</sup>	Treviso	EUR	53,000,000	11.32%	88.68%
E- SERVICES S.R.L.	Treviso	EUR	50,000	100%	
DE'LONGHI KENWOOD A.P.A. LTD	Hong Kong	HKD	73,010,000		100%
TRICOM INDUSTRIAL COMPANY LIMITED	Hong Kong	HKD	171,500,000		100%
PROMISED SUCCESS LIMITED	Hong Kong	HKD	28,000,000		100%
ON SHIU (ZHONGSHAN) ELECTRICAL APPLIANCE CO.LTD.	Zhongshan City	CNY	USD 21,200,000		100%
DE'LONGHI-KENWOOD APPLIANCES (DONG GUAN) CO.LTD.	Qing Xi Town	CNY	HKD 285,000,000		100%
DE LONGHI BENELUX S.A.	Luxembourg	EUR	181,730,990	100%	
DE'LONGHI JAPAN CORPORATION	Tokyo	JPY	450,000,000		100%
DE'LONGHI AUSTRALIA PTY LTD.	Prestons	AUD	28,800,001		100%
DE'LONGHI NEW ZEALAND LTD.	Auckland	NZD	16,007,143		100%
ZASS ALABUGA LLC	Elabuga	RUB	95,242,767		100%
DE'LONGHI LLC	Mosca	RUB	3,944,820,000		100%
KENWOOD APPLIANCES LTD.	Havant	GBP	30,586,001		100%
KENWOOD LIMITED	Havant	GBP	26,550,000		100%
KENWOOD INTERNATIONAL LTD.	Havant	GBP	20,000,000		100%
KENWOOD APPL. (SINGAPORE) PTE LTD.	Singapore	SGD	500,000		100%
KENWOOD APPL. (MALAYSIA) SDN.BHD.	Subang Jaya	MYR	1,000,000		100%
DE'LONGHI-KENWOOD GMBH	Wr Neudorf	EUR	36,336	100%	
DE'LONGHI SOUTH AFRICA PTY.LTD.	Maraiburg	ZAR	100,332,501		100%
DE'LONGHI KENWOOD HELLAS S.A.	Atene	EUR	452,520		100%
DE'LONGHI PORTUGAL UNIPESSOAL LDA	Matosinhos	EUR	5,000		100%
ARIETE DEUTSCHLAND GMBH	Dusseldorf	EUR	25,000		100%
CLIM.RE. S.A.	Luxembourg	EUR	1,239,468	4%	96%
ELLE S.R.L.	Treviso	EUR	10,000		100%
DE'LONGHI BOSPHORUS EV ALETLERI TICARET ANONIM SIRKETI	Istanbul	TRY	3,500,000		100%
DE'LONGHI PRAGA S.R.O.	Praga	CZK	200,000		100%
KENWOOD SWISS AG	Baar	CHF	1,000,000		100%
DL HRVATSKA D.O.O.	Zagabria	HRD	20,000		100%
DE'LONGHI BRASIL - COMÉRCIO E IMPORTAÇÃO Ltda	São Paulo	BRL	43,857,581		100%
DE'LONGHI POLSKA SP. Z.O.O.	Varsavia	PLN	50,000	0.1%	99.9%
DE'LONGHI APPLIANCES TECHNOLOGY SERVICES (Shenzen) Co. Ltd	Shenzen	CNY	USD 175,000		100%
DE'LONGHI UKRAINE LLC	Kiev	UAH	549,843		100%
DE'LONGHI TRADING (SHANGHAI) CO. LTD	Shanghai	CNY	USD 945,000		100%
DE'LONGHI KENWOOD MEIA FZE	Dubai	USD	AED 2,000,000		100%
DE'LONGHI ROMANIA S.R.L.	Cluj-Napoca	RON	140,000,000	10%	90%
DE'LONGHI KENWOOD KOREA LTD	Seoul	KRW	900,000,000		100%
DL CHILE S.A.	Santiago del Cile	CLP	3,079,065,844		100%
DE'LONGHI SCANDINAVIA AB	Stockholm	SEK	5,000,000		100%
DE'LONGHI MEXICO SA DE CV	Bosques de las Lomas	MXN	11,576,000		100%
TWIST LLC	Mosca	RUB	10,000		100%

## INVESTMENTS VALUED IN ACCORDANCE WITH THE EQUITY METHOD

Company name	Registered office	Currency	Share capital <sup>(1)</sup>	Interest held at 31/12/2017	
				Directly	Indirectly
DL-TCL HOLDINGS (HK) LTD.	Hong Kong	HKD	USD 5,000,000		50%
TCL-DE'LONGHI HOME APPLIANCES (ZHONGSHAN) CO.LTD.	Zhongshan City	CNY	USD 5,000,000		50%
EVERSYS HOLDING S.A.	Ardon	CHF	4,100,000		40%
EVERSYS S.A.	Ardon	CHF	2,500,000		40%
EVERSYS INC	Woodbridge	CAD	-		40%

## OTHER SUBSIDIARIES (IN LIQUIDATION OR DORMANT)

Company name	Registered office	Currency	Share capital <sup>(1)</sup>
<b>Controlled companies: <sup>(3)</sup></b>			
DE'LONGHI LTD.	London	GBP	4,000,000

**DISCONTINUED OPERATIONS**

Company name	Registered office	Currency	Share capital <sup>(1)</sup>	Interest held at 31/12/2017	
				Directly	Indirectly
NPE S.R.L.	Treviso	EUR	10,000		100%

(1) Figures at 31 December 2017, unless otherwise specified.

(2) The articles of association, approved by the extraordinary shareholders' meeting held on 29 December 2004, give special rights to De'Longhi S.p.A. (holding 89% of the voting rights) for ordinary resolutions (approval of financial statements, declaration of dividends, nomination of directors and statutory auditors, purchase and sale of companies, grant of loans to third parties); voting rights are proportional as far as other resolutions are concerned, except for the preferential right to receive dividends held by the shareholder Kenwood Appliances Ltd.

(3) Dormant company, whose financial statement is unavailable.

## Statement of consolidated cash flows in terms of net financial position

(Appendix 2 to the Explanatory notes)

	2017	2016
Profit (loss) pertaining to the group from <i>Continuing Operations</i>	179,729	167,652
Income taxes for the period	49,493	59,318
Amortization	56,444	52,576
Net change in provisions and other non-cash items	(8,028)	6,680
Cash flow generated by current operations from <i>Discontinued Operations</i>	(314)	2,912
<b>Cash flow generated by current operations (A)</b>	<b>277,324</b>	<b>289,138</b>
<b>Change in assets and liabilities for the period:</b>		
Trade receivables	(45,825)	(2,700)
Inventories	(30,992)	13,388
Trade payables	27,679	(12,093)
Other changes in net working capital	16,974	(3,453)
Payment of income taxes	(35,327)	(32,388)
Cash flow absorbed by movements in working capital from <i>Discontinued Operations</i>	(5,861)	(5,118)
<b>Cash flow absorbed by movements in working capital (B)</b>	<b>(73,352)</b>	<b>(42,364)</b>
<b>Cash flow generated by current operations and movements in working capital (A+B)</b>	<b>203,972</b>	<b>246,774</b>
<b>Investment activities:</b>		
Investments in intangible assets	(14,249)	(13,274)
Other cash flows for intangible assets	28	12
Investments in property, plant and equipment	(85,065)	(41,468)
Other cash flows for property, plant and equipment	387	2,070
Net investments in financial assets and minority interest	(23,835)	184
Cash flows absorbed by investment activities from <i>Discontinued Operations</i>	(1,354)	(7,451)
<b>Cash flow absorbed by ordinary investment activities (C)</b>	<b>(124,088)</b>	<b>(59,927)</b>
Dividends paid	(119,600)	(65,780)
Fair value and cash flow reserves	(14,486)	4,150
Change in currency translation reserve	(18,755)	(7,935)
Increase (decrease) in minority interests	-	447
Other changes in Net Equity	(200)	(10)
Cash flow generated by changes in net equity and by financing activities from <i>Discontinued Operations</i>	95	10
<b>Cash flow absorbed by changes in net equity and by financing activities (D)</b>	<b>(152,946)</b>	<b>(69,118)</b>
<b>Cash flow for the period (A+B+C+D)</b>	<b>(73,062)</b>	<b>117,729</b>
<b>Opening net financial position</b>	<b>306,584</b>	<b>188,855</b>
Cash flow for the period (A+B+C+D)	(73,062)	117,729
<b>Consolidated closing net financial position</b>	<b>233,522</b>	<b>306,584</b>
<i>Of which:</i>		
Net financial position of <i>Discontinued Operations</i>	(17,078)	
<b>Closing net financial position from Continuing Operations</b>	<b>250,600</b>	

## Transactions and balances with related parties

(Appendix 3 to the Explanatory notes)

(€/000)	2017	<i>of which with related parties</i>	2016	<i>of which with related parties</i>
<b>CONTINUING OPERATIONS</b>				
Revenues from sales and services	1,947,366	1,124	1,822,925	820
Other revenues	25,427	1,085	23,774	829
<b>Total consolidated revenues</b>	<b>1,972,793</b>		<b>1,846,699</b>	
Raw and ancillary materials, consumables and goods	(877,742)	(19,428)	(780,041)	(17,552)
Change in inventories of finished products and work in progress	16,424		(19,125)	
Change in inventories of raw and ancillary materials, consumables and goods	14,570		5,739	
<b>Materials consumed</b>	<b>(846,748)</b>		<b>(793,427)</b>	
Payroll costs	(254,030)		(238,023)	
Services and other operating expenses	(559,177)	(4,878)	(508,432)	(5,570)
Provisions	(9,159)		(14,923)	
Amortization	(58,236)		(52,576)	
<b>EBIT</b>	<b>245,443</b>		<b>239,318</b>	
Financial income (expenses)	(30,848)	26	(27,511)	
Non recurring Financial income (expenses)	14,627		15,947	
<b>PROFIT (LOSS) BEFORE TAXES</b>	<b>229,222</b>		<b>227,754</b>	
Income taxes	(49,493)		(59,318)	
<b>NET PROFIT (LOSS) FROM CONTINUING OPERATIONS</b>	<b>179,729</b>		<b>168,436</b>	
<b>DISCONTINUED OPERATIONS</b>				
Net profit (loss) from discontinued operation	(1,466)		(241)	
<b>CONSOLIDATED PROFIT (LOSS) AFTER TAXES</b>	<b>178,263</b>		<b>168,195</b>	
Profit (loss) pertaining to minority interests	-		784	
<b>PROFIT (LOSS) PERTAINING TO THE GROUP</b>	<b>178,263</b>		<b>167,411</b>	

<b>ASSETS</b> <b>(€/000)</b>	<b>31.12.2017</b>	<i>of which with related parties</i>	<b>31.12.2016</b>	<i>of which with related parties</i>
<b>NON-CURRENT ASSETS</b>				
INTANGIBLE ASSETS	320,910		323,112	
- Goodwill	92,400		92,400	
- Other intangible assets	228,510		230,712	
PROPERTY, PLANT AND EQUIPMENT	231,850		200,242	
- Land, property, plant and machinery	129,476		114,936	
- Other tangible assets	102,374		85,306	
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS	26,119		12,720	
- Equity investments	22,957		4,739	
- Receivables	3,083		3,283	
- Other non-current financial assets	79		4,698	
DEFERRED TAX ASSETS	32,322		38,379	
<b>TOTAL NON-CURRENT ASSETS</b>	<b>611,201</b>		<b>574,453</b>	
<b>CURRENT ASSETS</b>				
INVENTORIES	329,710		320,366	
TRADE RECEIVABLES	401,545	1,242	372,777	989
CURRENT TAX ASSETS	13,551		9,787	
OTHER RECEIVABLES	28,023	267	32,328	241
CURRENT FINANCIAL RECEIVABLES AND ASSETS	8,277	3,088	25,676	
CASH AND CASH EQUIVALENTS	664,724		461,430	
<b>TOTAL CURRENT ASSETS</b>	<b>1,445,830</b>		<b>1,222,364</b>	
ASSETS RELATED TO DISCONTINUED OPERATIONS	37,186		-	
Elimination of financial receivables from DISCONTINUED OPERATIONS	(7,958)		-	
Non-current assets held for sales	1,287		1,389	
<b>TOTAL ASSETS</b>	<b>2,087,546</b>		<b>1,798,206</b>	
<b>NET EQUITY AND LIABILITIES</b> <b>(€/000)</b>				
<b>NET EQUITY</b>				
GROUP PORTION OF NET EQUITY	1,021,729		1,010,627	
- Share capital	224,250		224,250	
- Reserves	619,216		618,966	
- Profit (loss) pertaining to the Group	178,263		167,411	
MINORITY INTERESTS	-		3,420	
<b>TOTAL NET EQUITY</b>	<b>1,021,729</b>		<b>1,014,047</b>	
<b>NON-CURRENT LIABILITIES</b>				
FINANCIAL PAYABLES	284,135		75,883	
- Bank loans and borrowings (long-term portion)	128,792		-	
- Other financial payables (long-term portion)	155,343		75,883	
DEFERRED TAX LIABILITIES	27,288		27,576	
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES	70,167		90,423	
- Employee benefits	29,936		42,691	
- Other provisions	40,231		47,732	
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>381,590</b>		<b>193,882</b>	
<b>CURRENT LIABILITIES</b>				
TRADE PAYABLES	366,061	994	363,847	96
FINANCIAL PAYABLES	138,345		109,337	
- Bank loans and borrowings (short-term portion)	67,477		29,376	
- Other financial payables (short-term portion)	70,868		79,961	
CURRENT TAX LIABILITIES	37,133	21,819	29,528	13,269
OTHER PAYABLES	111,882	508	87,565	500
<b>TOTAL CURRENT LIABILITIES</b>	<b>653,421</b>		<b>590,277</b>	
LIABILITIES RELATED TO DISCONTINUED OPERATIONS	38,764	(259)	-	
Elimination of financial debt/payable from DISCONTINUED OPERATIONS	(7,958)		-	
<b>TOTAL NET EQUITY AND LIABILITIES</b>	<b>2,087,546</b>		<b>1,798,206</b>	

## Transactions and balances with related parties

### Summary by company

In compliance with the guidelines and methods for identifying significant transactions, especially those with related parties covered by the De'Longhi S.p.A. rules on corporate governance, we shall now present the following information concerning related party transactions during 2017 and related balances with commercial nature at 31 December 2017:

(€/million)	Revenues	Costs	Trade and other receivables	Financial receivables	Trade and other payables
<i>Related companies <sup>(1)</sup></i>					
DL Radiators S.r.l.	1.9	-	1.3	-	0.5
TCL-De'Longhi Home Appliances (Zhongshan) Co.Ltd.	0.1	19.4	-	-	0.1
Gamma S.r.l.	0.1	4.9	0.1	-	0.9
De'Longhi Industrial S.A.	0.0	-	0.0	-	21.8
Eversys Holding S.A.	-	-	-	3.1	-
<b>TOTAL RELATED PARTIES - CONTINUING OPERATIONS</b>	<b>2.2</b>	<b>24.3</b>	<b>1.5</b>	<b>3.1</b>	<b>23.3</b>
Discontinued Operations					(0.3)
<b>TOTAL RELATED PARTIES</b>	<b>2.2</b>	<b>24.3</b>	<b>1.5</b>	<b>3.1</b>	<b>23.1</b>

<sup>(1)</sup> Commercial relationships.

The Parent Company De'Longhi S.p.A. and a few Italian subsidiaries adhered to the national tax consolidation regime (Presidential Decree. n. 917/1986 – articles 117 through 129, and Decree of 9.6.2004), as part of a tax group formed by De'Longhi Industrial S.A.; the agreement entered into covers the three-year period 2016–2018 and may be renewed. The €21.8 million included in tax payables is comprised of the taxes payable by the members of the tax group through De'Longhi Industrial S.A..

The amount owed to DL Radiators S.p.A. refers to taxes payable in prior years when the companies were part of De'Longhi S.p.A.'s tax group.

The purchase of the property in Treviso from Gamma S.r.l., described in the Explanatory Notes above, is not shown in this statement as the consideration had already been paid at 31 December 2017.

The financial receivables with Eversys Holding S.A. refer to the interest-bearing shareholders' loan granted as per the agreements signed.

Please refer to the "Report on Remuneration" for information relating to the compensation of directors and statutory auditors.



## Fees paid to the external auditors

### Disclosure pursuant to art. 149-duodecies of the Consob Issuer Regulations

(Appendix 4 to the Explanatory notes – €/000)

Type of service	Party performing the service	Recipient	Fees earned in 2017
Auditing	EY S.p.A.	De'Longhi S.p.A. (parent company)	158
	EY S.p.A.	Italian subsidiaries	238
	Network of parent company auditor	Foreign subsidiaries	907
Other services	EY S.p.A.	De'Longhi S.p.A. (parent company)	121
	EY S.p.A.	Italian subsidiaries	21
	Others auditors	Foreign subsidiaries	37

## Certification of the consolidated financial statements pursuant to art. 81-ter of CONSOB Regulation 11971 dated 14 May 1999 and subsequent amendments and additions.

(Appendix 5 to the Explanatory notes)

The undersigned Fabio de' Longhi, Chief Executive Officer, and Stefano Biella, Financial Reporting Officer of De'Longhi S.p.A., attest, also taking account of the provisions of paragraphs 2, 3 and 4, art. 154-bis of Decree 58 dated 24 February 1998:

that the accounting and administrative processes for preparing the consolidated financial statements during 2017:

- have been adequate in relation to the company's characteristics and
- have been effectively applied.

It is also certified that the consolidated financial statements at 31 December 2017:

- have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union under Regulation (EC) 1606/2002 of the European Parliament and Council dated 19 July 2002 and with the measures implementing art. 9 of Decree 38/2005;
- correspond to the underlying accounting records and books of account;
- are able to provide a true and fair view of the issuer's statement of financial position and results of operations and of the Group of companies included in the consolidation.

The report on operations contains a reliable account of performance and of the results of operations and of the situation of the issuer and the Group of companies included in the consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

*Fabio de' Longhi*  
Chief Executive Officer

*Stefano Biella*  
Financial Reporting Officer

## External auditors' report on the consolidated financial statements



# De'Longhi S.p.A.

Consolidated financial statements as at December 31, 2017

Independent auditor's report in accordance with article 14 of  
Legislative Decree n. 39, dated 27 January 2010, and article  
10 of EU Regulation n. 537/2014

# Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014

(Translation from the original Italian text)

To the Shareholders of  
De'Longhi S.p.A.

## Report on the Audit of the Consolidated Financial Statements

### Opinion

We have audited the consolidated financial statements of De'Longhi Group (the Group), which comprise the consolidated statement of financial position as at December 31, 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of De'Longhi S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



We identified the following key audit matter:

Key Audit Matter	Audit Response
<p>Evaluation of goodwill and intangible assets with indefinite useful life</p>	
<p>At December 31, 2017 the carrying amount of goodwill and intangible assets with indefinite useful life relating to brands was Euro 92.4 million and Euro 174.8 million respectively, and referred to goodwill and to a brand allocated to the Braun Household Cash Generating Unit (CGU) for Euro 48.8 million and Euro 95.0 million respectively.</p> <p>Management tests brands for impairment at the CGU level and then at the single asset level, determining their recoverable amount with the "relief from royalties" method.</p> <p>The processes and methods to evaluate and determine the recoverable amount, in terms of value in use, of brands with indefinite useful life and of each CGU, are based on assumptions that are in some cases complex and that, due to their nature, imply the use of judgement by Management, in particular with reference to cash flow forecasts for the period covered by the Group business plan, to normalized cash flows used to estimate terminal value and to discount and long term growth rates applied.</p> <p>Considering the level of judgement and complexity of the assumptions applied in estimating the recoverable amount of goodwill and brands we have determined that this area constitutes a key audit matter.</p> <p>The disclosures relating to goodwill, brands with indefinite useful lives and methods and main assumptions used for impairment test are included in explanatory notes 12. "Goodwill", 13. "Other intangible assets" and in the section "Estimates and assumptions".</p>	<p>Our audit procedures relating to this key audit matter included, inter alia:</p> <ul style="list-style-type: none"> <li>- Understanding and evaluating the process and key controls implemented by the Group to test for impairment goodwill and brands with indefinite useful life;</li> <li>- Validating the CGUs perimeter and the allocation of the carrying value of asset and liabilities to each CGU;</li> <li>- Analysis of cash flow forecasts;</li> <li>- Reconciling cash flow forecasts of each CGU with Group business plan;</li> <li>- Evaluating the use of these forecasts in light of the historical accuracy of the Group's forecasts;</li> <li>- Assessing discount and long term growth rates.</li> </ul> <p>We involved EY valuation specialists who independently performed their own calculations and also performed sensitivity analyses of key assumptions to determine which changes could materially impact the valuation of recoverable amount.</p> <p>Finally, we reviewed the adequacy of the disclosures made in the explanatory notes and relating to evaluation of goodwill and intangible assets with indefinite useful lives.</p>



## Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; have designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit



evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

## Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholder of De'Longhi S.p.A., in the general meeting held on December 31, 2017, engaged us to perform the audits of the consolidated financial statements of each year ending December 31, 2010 to December 31, 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

## Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of De'Longhi S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of De'Longhi Group as at December 31, 2017, including their consistency with the related consolidated financial statements and their

compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of De'Longhi Group as at December 31, 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of De'Longhi Group as at December 31, 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of De'Longhi S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report issued by another auditor.

Verona, March 26, 2018

EY S.p.A.  
Signed by: Daniele Tosi, Partner

*This report has been translated into the English language solely for the convenience of international readers.*





**Independent auditors' report  
on the consolidated  
non-financial statement**





**INDEPENDENT AUDITOR'S REPORT ON THE  
CONSOLIDATED NON-FINANCIAL STATEMENT  
PURSUANT TO ARTICLE 3, PARAGRAPH 10, OF LEGISLATIVE  
DECREE NO. 254/2016 AND ARTICLE 5 OF CONSOB  
REGULATION NO. 20267**

**DE'LONGHI SPA**

**YEAR ENDED 31 DECEMBER 2017**



## ***Independent Auditor's report on the consolidated non-financial statement***

*pursuant to article 3, paragraph 10, of Legislative Decree No. 254/2016 and article 5 of CONSOB Regulation No. 20267*

To the Board of Directors of De'Longhi SpA

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016 (the "Decree") and article 5 of CONSOB Regulation No. 20267, we have performed a limited assurance engagement on the consolidated non-financial statement of De'Longhi SpA and its subsidiaries (hereafter the "group") for the year ended 31 December 2017 prepared in accordance with article 4 of the Decree and approved by the Board of Directors on March the 1<sup>st</sup>, 2018 (hereafter the "NFS").

### **Responsibility of the Directors and of the Board of Statutory Auditors for the NFS**

Directors are responsible for the preparation of the NFS in accordance with article 3 and 4 of the Decree and with the "Global Reporting Initiative Sustainability Reporting Standards" defined in 2016 by the GRI - Global Reporting Initiative ("GRI Standards"), with reference to selected GRI Standards, as laid down in the "Introduction" to the NFS, identified by them as the reporting standard.

Directors are responsible, in the terms prescribed by law, for such internal control they deem to be necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

Directors are responsible for identifying the content of the NFS, within the matters mentioned in article 3, paragraph 1, of the Decree, considering the activities and characteristics of the group and to the extent necessary to ensure an understanding of the group's activities, performance, results and related impacts.

Directors are responsible for defining the business and organisational model of the group and, with reference to the matters identified and reported in the NFS, for the policies adopted by the group and for the identification and management of risks generated and/or faced by the group.

The Board of Statutory Auditors are responsible for overseeing, in the terms prescribed by law, compliance with the Decree.

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#### **PricewaterhouseCoopers SpA**

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### ***Auditor's Independence and Quality Control***

We are independent in accordance with the principles of ethics and independence set out in the Code of Ethics for Professional Accountants published by the International Ethics Standards Board for Accountants, which are based on the fundamental principles of integrity, objectivity, competence and professional diligence, confidentiality and professional behaviour. Our audit firm adopts International Standard on Quality Control 1 (ISQC Italy 1) and, accordingly, maintains an overall quality control system which includes processes and procedures for compliance with ethical and professional principles and with applicable laws and regulations.

### ***Auditor's responsibilities***

We are responsible for expressing a conclusion, on the basis of the work performed, regarding the compliance of the NFS with the Decree, with the GRI Standards and the additional reporting methodology according to Regulation UNI 7249/2007 relating to personnel incidents. We conducted our engagement in accordance with International Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information (hereafter “ISAE 3000 Revised”), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. The standard requires that we plan and apply procedures in order to obtain limited assurance that the NFS is free of material misstatement. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not provide us with a sufficient level of assurance that we have become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

The procedures performed on the NFS were based on our professional judgement and consisted in interviews, primarily of company personnel responsible for the preparation of the information presented in the NFS, analyses of documents, recalculations and other procedures designed to obtain evidence considered useful.

In particular, we performed the following procedures:

1. Analysis of the relevant matters reported in the NFS relating to the activities and characteristics of the company, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree and the with the reporting standard adopted;
2. Analysis and assessment of the criteria used to identify the consolidation area, in order to assess their compliance with the Decree;
3. Comparison of the financial information reported in the NFS with the information reported in the group's consolidated financial statements;
4. Understanding of the following matters:
  - Business and organisational model of the group, with reference to the management of the matters specified by article 3 of the Decree;
  - Policies adopted by the group with reference to the matters specified in article 3 of the Decree, actual results and related key performance indicators;

- Main risks, generated and/or faced by the group, with reference to the matters specified in article 3 of the Decree.

With reference to those matters, we compared the information obtained with the information presented in the NFS and carried out the procedures described under point 5 a) below.

5. Understanding of the processes underlying the preparation, collection and management of the significant qualitative and quantitative information included in the NFS.  
In particular, we held meetings and interviews with the management of De'Longhi SpA and Kenwood Limited, and we performed limited analyses of documentary evidence, to gather information about the processes and procedures for the collection, consolidation, processing and submission of the non-financial information to the function responsible for the preparation of the NFS.

Moreover, for material information, considering the activities and characteristics of the group:

- at a group level,
  - a) with reference to the qualitative information included in the NFS, and in particular to the business model, the policies adopted and the main risks, we carried out interviews and acquired supporting documentation to verify their consistency with available evidence;
  - b) with reference to quantitative information, we performed analytical procedures as well as limited tests, in order to assess, on a sample basis, the accuracy of consolidation of the information;
- at a site/ plant level: De'Longhi's head office at Treviso (Italy) and Kenwood Limited's registered office at Havant (UK), which were selected on the basis of their activities, their contribution to the performance indicators at a consolidated level and their location, we carried out site visits and walk through procedures during which we met local management and gathered supporting documentation regarding the correct application of the procedures and calculation methods used for the key performance indicators.

### ***Conclusions***

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of De'Longhi SpA as of 31 December 2017 has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with GRI Sustainability Reporting Standards, with reference to selected GRI Standards, as laid down in the "Introduction" to the NFS.



***Other aspects***

The comparative information presented in the NFS in relation to the financial year ended 31 December 2016 has not been subjected to any procedures.

Milan, 26 March 2018

PricewaterhouseCoopers SpA

*Signed by*

Maria Cristina Landro  
(Partner)

Paolo Bersani  
(Authorised signatory)

*This report has been translated from the Italian original solely for the convenience of international readers.*

## Report on operations to the separate financial statements





## Review of the income statement

(€/million)	2017	% revenues	2016	% revenues
<b>Revenues</b>	<b>28.3</b>	<b>100.0%</b>	<b>25.9</b>	<b>100.0%</b>
<i>Changes 2017/2016</i>	2.4	9.3%		
Materials consumed	(0.1)	(0.2%)	(0.1)	(0.2%)
Other services and expenses	(35.0)	(123.7%)	(31.6)	(121.9%)
Payroll	(7.7)	(27.1%)	(6.7)	(25.8%)
<b>EBITDA before non-recurring expenses / stock option</b>	<b>(14.4)</b>	<b>(50.9%)</b>	<b>(12.4)</b>	<b>(48.0%)</b>
<i>Changes 2017/2016</i>	(2.0)	16.0%		
Other non-recurring expenses / stock option	(4.8)	(17.0%)	(0.4)	(1.4%)
<b>EBITDA</b>	<b>(19.2)</b>	<b>(68.0%)</b>	<b>(12.8)</b>	<b>(49.4%)</b>
Amortization	(0.4)	(1.5%)	(0.1)	(0.4%)
<b>EBIT</b>	<b>(19.7)</b>	<b>(69.5%)</b>	<b>(12.9)</b>	<b>(49.8%)</b>
<i>Changes 2017/2016</i>	(6.8)	52.4%		
Dividends	198.3	700.2%	145.4	561.1%
Financial income (expenses)	(10.5)	(36.9%)	(4.3)	(16.7%)
<b>Profit (loss) before taxes</b>	<b>168.2</b>	<b>593.8%</b>	<b>128.2</b>	<b>494.6%</b>
Income taxes	6.4	22.6%	(2.4)	(9.3%)
<b>Profit (loss) after taxes</b>	<b>174.6</b>	<b>616.5%</b>	<b>125.8</b>	<b>485.3%</b>

De'Longhi S.p.A, the parent of the De'Longhi Group, performs holding company activities involving the management and supply of centralized services to its subsidiaries. The income statement, therefore, reflects the dividends received from the subsidiaries, other chargebacks for services provided, as well as operating (payroll costs and the cost of services) and financial expenses.

De'Longhi S.p.A., in its capacity as a holding company, carries out the centralized management of a few costs (amounts payable to clients – international commercial groups and global marketing costs relative to the Group's brands) shared by several Group companies.

The relative costs are then allocated and charged back to the Group companies which had an impact of €20 million (€18 million in 2016).

EBITDA was impacted for €3.7 million by the costs connected to the stock option plan (€0.4 million in 2016).

In 2017 dividends amounted to €198.3 million (€145.4 million in 2016) while net operating expenses came to €10.5 million (€4.3 million in 2016).

"Financial income (expenses)" includes the impact of the early termination of the USD bond loan and the relative hedge (previously recognized in the cash flow hedge reserve).

Net profit came to €174.6 million (€125.8 million in 2016).



## Review of the statement of financial position

The reclassified statement of financial position is presented below:

(€/million)	31 December 2017	31 December 2016	Change	% change
- Tangible and intangible assets	1.1	0.3	0.8	324.6%
- Financial assets	567.5	560.3	7.3	1.3%
<b>Non-current assets</b>	<b>568.6</b>	<b>560.5</b>	<b>8.1</b>	<b>1.4%</b>
- Trade receivables	33.3	29.1	4.2	14.5%
- Trade payables	(24.3)	(20.5)	(3.9)	19.0%
- Other current payables (net of other receivables)	(2.1)	(3.7)	1.6	(43.5%)
<b>Net working capital</b>	<b>6.9</b>	<b>4.9</b>	<b>1.9</b>	<b>39.4%</b>
<b>Total non-current liabilities and provisions</b>	<b>(2.4)</b>	<b>(4.0)</b>	<b>1.6</b>	<b>(39.9%)</b>
<b>Net capital employed</b>	<b>573.1</b>	<b>561.5</b>	<b>11.6</b>	<b>2.1%</b>
<b>Net debt</b>	<b>114.8</b>	<b>167.6</b>	<b>(52.8)</b>	<b>(31.5%)</b>
<b>Total net equity</b>	<b>458.2</b>	<b>393.9</b>	<b>64.4</b>	<b>16.3%</b>
<b>Total net debt and equity</b>	<b>573.1</b>	<b>561.5</b>	<b>11.6</b>	<b>2.1%</b>

The statement of cash flows, reclassified on the basis of net financial position, is summarized as follows:

(€/million)	2017	2016
Cash flow by current operations	(26.0)	(15.3)
Cash flow by other changes in working capital	1.1	4.2
<b>Cash flow by current operations and changes in working capital</b>	<b>(24.9)</b>	<b>(11.1)</b>
Cash flow by investment activities	189.8	145.5
<b>Cash flow by operating activities</b>	<b>164.9</b>	<b>134.4</b>
<b>Cash flow by changes in net equity</b>	<b>(112.1)</b>	<b>(67.2)</b>
<b>Cash flow for the period</b>	<b>52.8</b>	<b>67.2</b>
<b>Opening net financial position</b>	<b>(167.6)</b>	<b>(234.8)</b>
<b>Closing net financial position</b>	<b>(114.8)</b>	<b>(167.6)</b>

Net cash flow from operating activities amounted to €164.9 million (€134.4 million in 2016), a drop of €30.5 million with respect to the prior year. This change is due mainly to the increase in the dividends received from subsidiaries.

Cash flow to net equity reached a negative €112.1 million (negative €67.2 million in 2016), explained primarily by dividend payments and the change in the cash flow hedge reserve relating to the fair value of derivatives.

## Reconciliation of net equity and profit (loss) for the year

Below is a concise reconciliation between net equity and profit of the parent company, De'Longhi S.p.A., and the figures shown in the consolidated financial statements:

Figures in thousands of Euro	Net equity 31.12.2017	Profit for 2017	Net equity 31.12.2016	Profit for 2016
<b>De'Longhi S.p.A. financial statements</b>	<b>458,249</b>	<b>174,610</b>	<b>393,877</b>	<b>125,767</b>
Share of subsidiaries' equity and results for period attributable to the Group, after deducting carrying value of the investments	579,424	121	639,681	46,858
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	20,086	(2,411)	22,454	(2,420)
Elimination of intercompany profits	(34,395)	5,347	(39,763)	(2,575)
Other adjustments	(1,635)	596	(2,202)	565
<b>Consolidated financial statements</b>	<b>1,021,729</b>	<b>178,263</b>	<b>1,014,047</b>	<b>168,195</b>
Minority interests	-	-	3,420	784
<b>Group portion</b>	<b>1,021,729</b>	<b>178,263</b>	<b>1,010,627</b>	<b>167,411</b>

## Annual remuneration report

Please refer to the Annual Remuneration Report for all relevant information not contained in the present report.

## Human resources and organization

The company had 44 employees at 31 December 2017 (42 at 31 December 2016).

The following table summarizes the average number of employees during 2017 compared with 2016:

	2017	%	2016	%	Change
White collar	31	70%	31	78%	-
Senior managers	13	30%	9	22%	4
<b>Total</b>	<b>44</b>	<b>100%</b>	<b>40</b>	<b>100%</b>	<b>4</b>

## Research and development

As a holding company, the company does not directly carry out any research and development. Such activities are carried out by personnel within the individual subsidiary companies. More details can be found in the paragraph on "Research and development" in the Report on Operations accompanying the consolidated financial statements.

## Report on corporate governance and ownership structure

Company's Report on Corporate Governance and Ownership Structure drawn up in accordance with art. 123 – *bis* of the Uniform Finance Act can be found in a report not included in the Report on Operations, published at the same time as the latter and available on the company's website [www.delonghigroup.com](http://www.delonghigroup.com) (section "Investor relations" – "Governance" – "Annual Shareholders' Meeting" – "2018").

# Risk management and internal control system relating to the financial reporting process

## Introduction

The Company's Internal Control System consists in the set of rules, procedures and organizational structures set in place to ensure that company strategies are adhered to and, based on the corporate governance standards and model included in the COSO report (Committee of Sponsoring Organizations of the Treadway Commission), to guarantee:

- a) efficient and effective company operations (administration, production, distribution, etc.);
- b) reliable, accurate, trustworthy and timely economic and financial information;
- c) compliance with laws and regulations, as well as the corporate articles of associations, rules and company procedures;
- d) safeguarding of the company's assets and protection, to the extent possible, from losses;
- e) identification, assessment, management and monitoring of the main risks.

The executive administrative bodies of the Parent Company De'Longhi S.p.A. (Board of Directors, the Risk and Control and Corporate Governance Committee, Director in Charge of the Internal Control and Risk Management System), the Board of Statutory Auditors, the Director of Internal Audit, the Supervisory Board, the Chief financial officer/Financial Reporting Officer and all De'Longhi personnel, as well as the Directors and Statutory Auditors of the Issuer's subsidiaries, are involved in the controls, with different roles and in function of their expertise and adhere to the recommendations and principles found in the guidelines.

The Internal Control System that is subject to examination and periodic audits, taking into account changes in the company's operations and reference context, makes it possible to address the main risks to which the Issuer and the Group are exposed to over time, in a timely manner, as well as to identify, assess and control the degree of the exposure of the Issuer and all the other companies of the Group – particularly the strategically important subsidiaries – to the different types of risk, and also makes it possible to manage the overall exposure taking into account:

- (i) the possible correlations between the different risk factors;
- (ii) the probability that the risk materializes;
- (iii) the impact of the risk on the company's operations;
- (iv) the overall impact of the risk.

The internal control and risk management system relating to the financial reporting process (administrative and accounting procedures used to draft the separate and consolidated annual financial statements and the other economic and/or financial reports and disclosures prepared in accordance with the law and/or regulations, as well as ensuring correct implementation) coordinated by the Chief financial officer/Financial Reporting Officer, is an integral and essential part of the De'Longhi Group's Internal Control and Risk Management System.

The Director of Internal Audit – who is in charge of verifying that the internal control and risk management system works efficiently and effectively – prepares a work plan each year that is presented to the Board of Directors for approval, subject to the positive opinion of the Risk and Control and Corporate Governance Committee and after having consulted with the Board of Statutory Auditors and the Director in Charge of the Internal Control and Risk Management System, based also on the comments made by the Chief financial officer/Financial Reporting Officer, as well as pursuant to Legislative Decree 262/05. Discusses the steps taken to resolve any problems, to make the improvements agreed upon, as well as the results of the testing activities with the Risk and Control and Corporate Governance Committee. Provides the Chief financial officer/Financial Reporting Officer, as well as the administrative body assigned, with a summary report based on which they can assess the adequacy and application of administrative procedures to be used to prepare the financial statements.

## Description of main characteristics

The Company uses a system of risk management and internal control for the financial reporting process that is part of the wider system of internal controls as required under art. 123-*bis* par. 2 (b) of TUF.

For the purposes of ensuring reliable internal controls over its financial reporting, the Company has implemented a system of administrative and accounting procedures and operations that include an accounting policies manual, updating in order to comply with the law and changing accounting standard, rules for consolidation and interim financial reporting, as well as coordination with subsidiaries as needed.

The central corporate functions are responsible for managing and communicating these procedures to other Group companies.

The assessment, monitoring and continuous updating of the internal control system relating specifically to financial reporting is carried out in accordance with the COSO model and, where applicable, Law 262/2005. Critical processes and sub-processes relating to the principal risks have been identified in order to establish the principal controls needed to reduce such risks. This has involved identifying the strategically important companies, based on quantitative and qualitative financial parameters (i.e. companies that are relevant in terms of size and companies that are relevant just in terms of certain processes and specific risks).

Having identified these companies, the risks have been mapped and assessed and the key manual and automatic controls have been identified and rated as high/medium/low priority accordingly; these controls have then been tested.

The perimeter of the companies included in the mapping for the purposes of Law 262/2005 has changed over the years to reflect the changes in the Group, both quantitative and qualitative, and this perimeter was also considered for the definition of companies viewed as strategic.

The general managers and administrative heads of each Group company are responsible for maintaining an adequate internal control system and, given their roles, must certify that the internal control system works properly.

Internal Audit must also include verification of the internal controls through the use of a self-assessment check list in its Audit Plan.

With regard to compliance with Title VI of the Regulation implementing Legislative Decree n. 58 of 24 February 1998 relating to market regulations, De' Longhi S.p.A. controls, directly or indirectly, eight companies formed and regulated by the law of countries that are not part of the European Union considered relevant pursuant to art. 151 of the Issuer Regulations.

With reference to the requirements of art. 36 of the Market Regulations, it is reported as follows:

- in the issuer's opinion, these companies have suitable accounting and reporting systems for regularly providing management and the auditors of De'Longhi S.p.A. with all the financial information needed to prepare the consolidated financial statements and perform the audit of the accounts;
- these companies provide the auditors of De'Longhi S.p.A. with the information needed to audit the parent company's interim and annual financial statements;
- the issuer keeps the articles of association of the aforementioned companies and details of their company officers and related powers, which are constantly updated for any changes in the same;
- the financial statements of such companies, prepared for the purposes of the De'Longhi Group's consolidated financial statements, have been made available in the manner and terms established by existing law. Please note that the identification and analysis of the risk factors contained in this report were carried out including in light of the change in strategic companies as resolved by the Board of Directors.

In order to identify and manage the Company's main risks, with regard particularly to corporate governance and compliance with the law and regulatory standards (including the Corporate Governance Code for Listed Companies), during 2013 the Issuer undertook a project designed to strengthen enterprise risk management (ERM) with the support of a premiere consulting company.

This project called for the development and monitoring of a structured ERM model in order to effectively manage the main risks to which the Issuer and the Group are exposed. It was possible, therefore, to map the main business risks based on the Group's value chain, identify inherent and residual risk with particular emphasis on what are potentially the biggest risks and proposing solutions; during following years a plan of activities to define the risk management strategy has been arranged, with the proposal of focusing on considered high risk level and actions to go on monitoring and managing the aforementioned risks, also through follow-up and meetings with the Risk and Control Committee, the Board of Statutory Auditors and Director in Charge of Internal Control and Risk Management.

In 2017, it was decided to integrate this activity with a recognition of the main risks of the Group's foreign companies considered "strategically important companies" for corporate governance purposes.

The risk plan also calls for guidelines to be established for the control and risk management system using a top down approach, as well as the identification of the duties and responsibilities of the various individuals involved in the different levels of control:

- (i) the recognition and identification by operations of the main risks and subsequent treatment;
- (ii) control by the risk control department of the risks and definition of the instruments and methods to be used to managed the risks.

## Risk factors

The risk factors and uncertainties that could materially affect the Company's business are discussed below.

These risk factors also take in to account the above mentioned ERM project and the assessments carried out in prior years including through more in depth analysis shared with the Risk and Control Committee and Company's Board of Statutory Auditors.

With reference to the main risks, highlighted below, the Company monitors and places continuous attention to any situations and developments in the macroeconomic, market and demand trends in order to be able to implement any necessary and timely strategic actions.

It should also be noted that in addition to the risk factors and uncertainties identified in this report, other risks and uncertain events not currently foreseeable, or which are currently thought unlikely, could also influence the business, the economic and financial conditions and prospects of the Company.

### **1 – Risks relating to macroeconomic trends: the Company's economic performance and financial position are also affected by macroeconomic trends.**

In 2017 the world economy continued to expand at a robust pace, showing signs of increasing synchronization.

The very positive performance recorded in the last quarter, particularly in December, reflects the vigorous expansion underway in advanced economies and the recovery in emerging markets, driven, in particular, by China and India.

Economic recovery continued in the United States: activity was boosted by accommodative monetary policies and sustained confidence; the labor market continued to strengthen, in line with the robust economic activity.

On 22 December 2017 President Trump signed the "Tax Cuts and Jobs Act". The reform, effective as of 1 January 2018, calls for a profound reorganization of the US tax code and will result in a number of changes including, for example: a permanent reduction of the corporate income tax rate which will drop from 35% to 21% and the full deduction, for five years, of investments from taxable income which will gradually be phased out; simplification of and a temporary decrease in personal income tax; a reduction in income tax for small businesses; the transition to a "hybrid" territorial system under which most of the profits of foreign subsidiaries of US multinationals will be exempt from taxation. The tax burden of US companies will, consequently, fall close to the levels existing in different Euro zone countries. Overall the reform will provide the US economy with significant fiscal stimulus over the next ten years and could have some spillover effects in the Euro zone, though overall the impact will likely be rather limited.

The Euro zone will also be affected by changes in the international fiscal environment resulting in a high level of uncertainty and complexity.

In Japan, economic activity has continued to be solid and the labor market has continued to strengthen; wage pressure was, overall, modest; as for inflation, businesses were persistently cautious about any further price increases.

In the United Kingdom, economic activity recovered slightly after the noticeable slowdown recorded in the first half of 2017.

The economic indicators in China point to a solid expansive dynamic.

Solid and generalized expansion continued in the Euro zone. In the third quarter of 2017 the real GDP rose 0.7% against the prior period, driven by the positive contribution of internal demand and net exports, after a similar increase in the second quarter.

There was a further rise in consumer spending, which continues to play a key role in sustaining the current economic expansion.

Labor markets continue to improve, helping to sustain household income and spending.

The most recent economic indicators show that the vigorous growth observed in the last months of the year should continue in the short-term.

As confidence improved, yields and stock market prices increased. As for the currency markets, overall the Euro strengthened on a weighted basis against the dollar. (Source: European Central Bank).

The economic environment already described and the difficulties in preventing economic cycles, the prices of raw materials (steel, plastic and copper) and energy (especially oil), the crises in a few markets linked to ongoing conflicts (first of all the situation in North Korea and in the Middle East) and political and economic changes in the United States and in Great Britain (Brexit), along with the other factors listed in this section, could have a significant impact on the Company's results and financial position.

The Company periodically monitors aforesaid economic trends in order to be able to implement any necessary and timely strategic actions.

**2 – Exchange rate fluctuation risks: the Company does business in many foreign markets and is exposed to the risk of fluctuations in currencies.**

For the purposes of protecting its income statement and statement of financial position from such fluctuations, the Company adopts a suitable hedging policy and tools, free from speculative connotations.

Hedging is carried out centrally by a special team on the basis of information obtained from a detailed reporting system, using instruments and policies that comply with international accounting standards.

The main currencies to which the Company is exposed are the US dollar, the HK dollar and the British pound.

Despite the Company's effort to minimize the abovementioned risk, sudden currency fluctuations could have an adverse impact on the Company's results and business prospects.

**3 – Risks relating to human resources management: the Company's success largely depends on the ability of its executive directors and other members of management to effectively manage the Company and the individual areas of business and on the professionalism of the human resources that it has been able to attract and develop.**

The principal risks relating to human resources are linked to the Company's ability to attract, develop, motivate, retain and empower staff who have the necessary talent, values, and specialist and/or managerial skills to satisfy the Company's changing needs.

The loss of such individuals or other key employees without adequate replacement, or the failure to attract and retain new qualified resources could therefore adversely affect the Company's business prospects, as well as its economic performance and/or financial position.

In terms of being able to attract quality resources, the Company not only have specialist qualified professional human resources teams, but they also plan actions to improve the quality of working environment for its employees and staff as well as the Company's external image (communication, contact with schools and universities, testimonials, internships, etc.), in some cases using the services of specialist professional firms with a proven track record.

In terms of motivating and developing personnel, actions taken include the strengthening of managerial, specialist, business and regulative competencies, with initiatives that involve managers and staff from different areas of the business. The salary review process also includes reward systems for employees at various levels in the organization – from the staff through to top management and key people – which are linked to the achievement of short-term and/or medium/long term targets.



**4 – Risks relating to IT systems: the information systems of a complex international group are an important and delicate part of the company's processes.**

The risks involved include events that could jeopardise the ability to provide continuous service, the safekeeping of data, obsolescence of telecommunications and data processing technologies.

The Company has taken the steps needed to limit the above mentioned risks which include the standard security devices used to protect systems and hardware (from the use of back-up devices to outsourcing with specialized companies). Continuous technological updates are assured by the prevalent use of the SAP platform.

While the Company has taken all the steps needed to minimize these risks, catastrophic events that could compromise the information systems cannot be excluded.

**5 – Liquidity, financing and interest rate risks: the liquidity risk possibly faced by the Company is the risk of not having the funds needed to fulfil payment obligations arising from operating and investment activities and from the maturity of financial instruments. The Company holds assets and liabilities that are sensitive to interest rate changes and that are necessary to manage its liquidity and financial needs.**

It is the Company's policy to maintain a sufficiently large portfolio of counterparties of international repute for the purposes of satisfying its financing and hedging needs.

The Company uses specific policies and procedures for the purposes of monitoring and managing this risk, including the centralized cash management (financial debt and cash management, the raising of medium and long-term finance on capital markets and the obtaining of short-term credit lines that allow wide room for manoeuvre when managing working capital and cash flows).

The Company has short-term bank credit lines (typically renewed on an annual basis), which are used to finance working capital and other operating needs.

About the interest rate risk, at 31 December 2017 the Company's net financial position is negative and financial debt is medium-long term, in order to take advantage of the favourable market conditions characterized by very low interest rates.

This risk is managed centrally by the same team that manages currency risks. Nevertheless, sudden fluctuations in interest rates could have an adverse impact on the Company's business prospects, as well as on its economic performance and/or financial position.

At the date of this report, the Company has two hedging contracts to protect two medium/long term loans from the interest rates fluctuation risk.

**6 – Compliance and corporate reporting risks:**

*A. Financial reporting: risks associated with the reliability of financial reporting, particularly that the information contained in the annual and interim financial reports might not be correct, warrant particular attention, especially for a listed company.*

In 2017, effective implementation of the system of managing financial reporting risks was monitored on a continuous basis and periodically evaluated under the guidance of the functions in charge.

For the purposes of ensuring reliable internal controls over its financial reporting, the Group has implemented a system of administrative and accounting procedures and operations that include:

- an accounting policies manual;
- accounting policy instructions and updates;
- other procedures for preparing the consolidated financial statements and periodic financial reports.

The Company's central "Corporate" functions are responsible for managing and communicating these procedures to other Group companies. The control bodies (internal and external) carry out the related audit within their own authority. Possible deficiencies in maintaining adequate processes and administrative-accounting and management checks may result in errors in Company's corporate reporting.

*B. Risks relating to the administrative liability of legal: in compliance with EU directives, Decree 231/2001 has introduced into Italian law special rules applying to the liability of entities for certain offences, where "entities" mean limited liability business enterprises, partnerships or associations, including those without legal status.*

Under this legislation and amendments and additions thereto, the Company has adopted, in accordance with art. 6 of Decree 231/2001, the "Model of organization, management and control" suitable for avoiding the occurrence of such liability at their own expense and the related "Ethical code", intended to apply not only to the Group's Italian companies but also, as far as applicable, to its foreign subsidiaries, since the Company is also answerable, under art. 4 of Decree 231/2001, for offences committed abroad.

Therefore, the company's administrative liability under Decree 231/2001 could exist when this is effectively established as a result of an action brought against one of the Group companies, including the foreign subsidiaries; in such a case, it is not possible to exclude, in addition to the resulting application of penalties, adverse consequences for the Company's operations, economic performance, assets and liabilities and financial position.

**7 – Related parties: the Company has had and continues to have transactions of a commercial nature with related parties. Such transactions carry conditions that are in line with market ones.**

The Company adopted a new set of procedures to govern transactions with related parties, in compliance with the standards set by the supervisory authorities in CONSOB Regulation 17221 dated 12 March 2010.

The procedures identify those related party transactions subject to specific examination and approval rules, which change according to whether such transactions are above or below defined thresholds. The procedures place particular importance on the role of the independent directors, who must always issue a prior opinion on the proposed transaction (if the transaction qualifies as material, this opinion is binding on the Board of Directors); the independent directors must also be involved in the preliminary examination of material transactions prior to their approval.

These procedures are considered to represent an additional guarantee of the transparency of the Company's operations. Information on related party transactions is summarized in Appendix 4 to the Explanatory Notes.

The present annual report and financial statements have been prepared on a going concern basis. The uncertainties associated with the current macroeconomic context and the problems relating to the risks described above have been judged not significant and in any case not such as to cast significant doubt on the business's ability to continue as a going concern.

More information about the company's risk management can be found in the Explanatory notes.

## Number and value of shares

Share capital is made up of 149,500,000 ordinary shares of par value €1.5 each, for a total of €224,250,000.

## Tax consolidation

The Company exercised, jointly with the consolidator De Longhi Industrial S.A., the option to adhere to group taxation, referred to as "Domestic Tax Consolidation", as permitted under articles 117–129 of the Consolidated Income Tax Act (TUIR) as per Presidential Decree n. 917 of 22 December 1986, and the Decree of the Ministry of Economy and Finance of 9 June 2014, for the three-year period 2016–2018.

## Related party transactions

Related party transactions fall within the normal course of the company business. Information on related party transactions is summarized in Appendix 4 to the Explanatory notes.

## Alternative performance indicators

In addition to the information required by IFRS, this document presents other financial measures which provide further analysis of the Company's performance. These indicators must not be treated as alternatives to those required by IFRS.

More in detail, the non-GAAP measures used include:

EBITDA:

the Company uses these measure as financial targets in internal presentations (business plans) and in external presentations (to analysts and investors), since it is a useful way of measuring operating performance besides EBIT.

EBITDA is an intermediate measure that derives from EBIT after adding back depreciation, amortization and impairment of property, plant and equipment and intangible assets. EBITDA is also presented net of non-recurring items, which are reported separately on the face of the income statement

Net working capital:

this measure is the sum of inventories, trade receivables, current tax assets and other receivables, minus trade payables, current tax liabilities and other payables.

Net capital employed:

this measure is the sum of net working capital, intangible assets, property, plant and equipment, equity investments, other non-current receivables, and deferred tax assets, minus deferred tax liabilities, employee severance indemnity and provisions for contingencies and other charges.

Net debt/(Positive net financial position):

this measure represents gross financial liabilities less cash and cash equivalents and other financial receivables. The individual line items in the statement of financial position used to determine this measure are analysed later in this report.

The figures contained in the present document, including some of the percentages, have been rounded relative to their full Euro amount. As a result, some of the totals in the tables may differ from the sum of the individual amounts presented.

## Non-financial statement

Based on Legislative Decree n.254/2016, in implementation of the Directive 95/2014 or "Barnier Directive", large public interest undertakings are required to publish a Non-Financial Statement (NFS) as of FY 2017.

For more information please refer to Appendix 1 attached to the Consolidated Annual Report's Report on Operations.

## Subsequent events

No significant events took place after the close of the year.

## Proposed allocation of profit

Dear Shareholders,

In submitting for your approval the financial statements for 2017, which report a net profit of €174,610,425, we propose:

- to approve the Directors' Report on Operations and the financial statements at 31 December 2017;
- to allocate the net profit for the year of €174,610,425 as follows: €8,730,521 to the legal reserve; €16,379,904 to the extraordinary reserve; and the remaining €149,500,000 to shareholders as a gross dividend of €1.00 on each of the 149,500,000 outstanding shares;
- to pay the dividend of €1.00 as of 25 April 2018, with shares going ex-coupon on 23 April 2018 and with the record date, pursuant to art. 83-*terdecies* of Legislative Decree n. 58/98, as at 24 April 2018.

*Treviso, 1 March 2018*

*For the Board of Directors  
Vice Chairman and Chief Executive Officer  
Fabio de' Longhi*

**2017**  
**Separate financial statements**



## INCOME STATEMENT

(Amounts in Euro)	Notes	2017	of which non-recurring	2016	of which non-recurring
Revenues	1	28,325,076		25,914,958	
<b>Total revenues</b>		<b>28,325,076</b>		<b>25,914,958</b>	
Raw and ancillary materials, consumables and goods	2	(50,528)		(53,417)	
<b>Materials consumed</b>		<b>(50,528)</b>		<b>(53,417)</b>	
Payroll costs	3	(11,381,512)		(7,063,670)	
Services and other operating expenses	4	(36,240,396)	(1,105,500)	(31,594,723)	
Provisions	5	100,000		-	
Amortization	6	(424,568)		(108,844)	
<b>EBIT</b>		<b>(19,671,928)</b>		<b>(12,905,696)</b>	
Financial income (expenses)	7	187,877,061		141,082,222	
<b>PROFIT (LOSS) BEFORE TAXES</b>		<b>168,205,133</b>		<b>128,176,526</b>	
Income taxes	8	6,405,292		(2,409,117)	
<b>NET PROFIT (LOSS)</b>		<b>174,610,425</b>		<b>125,767,409</b>	

## STATEMENT OF COMPREHENSIVE INCOME

(Amounts in Euro)	2017	2016
<b>Net profit (loss)</b>	<b>174,610,425</b>	<b>125,767,409</b>
- Change in fair value of cash flow hedges and financial assets available for sale	7,429,022	(1,640,164)
- Tax effect on change in fair value of cash flow hedges and financial assets available for sale	(1,782,966)	337,919
<b>Total other comprehensive income will subsequently reclassified to profit (loss) for the year</b>	<b>5,646,056</b>	<b>(1,302,245)</b>
- Actuarial valuation funds	(3,048)	(3,606)
- Tax effect of actuarial valuation funds	732	865
<b>Total other comprehensive income will not subsequently reclassified to profit (loss) for the year</b>	<b>(2,316)</b>	<b>(2,741)</b>
<b>Other components of comprehensive income</b>	<b>5,643,740</b>	<b>(1,304,986)</b>
<b>Total comprehensive income</b>	<b>180,254,165</b>	<b>124,462,423</b>

Appendix 4 reports the effect of related-party transactions on the income statement, as required by CONSOB resolution 15519 of 27 July 2006.



## STATEMENT OF FINANCIAL POSITION

ASSETS (Amounts in Euro)	Notes	31.12.2017	31.12.2016
<b>NON-CURRENT ASSETS</b>			
INTANGIBLE ASSETS		894,131	14,469
- Other intangible assets	9	894,131	14,469
TANGIBLE ASSETS		186,046	239,911
- Land, property, plant and machinery	10	170,432	192,546
- Other tangible assets	11	15,614	47,365
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		567,744,129	565,001,685
- Equity investments	12	567,516,127	560,265,420
- Receivables	13	148,960	39,249
- Other non-current financial assets	14	79,042	4,697,016
<b>TOTAL NON-CURRENT ASSETS</b>		<b>568,824,306</b>	<b>565,256,065</b>
<b>CURRENT ASSETS</b>			
TRADE RECEIVABLES	15	33,274,059	29,056,356
CURRENT TAX ASSETS	16	4,436,106	3,736,106
OTHER RECEIVABLES	17	8,007,778	3,371,170
CURRENT FINANCIAL RECEIVABLES AND ASSETS	18	209,210,972	1,759,871
CASH AND CASH EQUIVALENTS	19	25,880	24,503
<b>TOTAL CURRENT ASSETS</b>		<b>254,954,795</b>	<b>37,948,006</b>
<b>TOTAL ASSETS</b>		<b>823,779,101</b>	<b>603,204,071</b>

NET EQUITY AND LIABILITIES (Amounts in Euro)	Notes	31.12.2017	31.12.2016
<b>NET EQUITY</b>			
NET EQUITY		458,248,899	393,877,302
- Share capital	20	224,250,000	224,250,000
- Reserves	21	59,388,474	43,859,893
- Profit (loss)		174,610,425	125,767,409
<b>TOTAL NET EQUITY</b>		<b>458,248,899</b>	<b>393,877,302</b>
<b>NON-CURRENT LIABILITIES</b>			
FINANCIAL PAYABLES		280,151,967	73,856,008
- Bank loans and borrowings (long-term portion)	22	128,791,914	-
- Other financial payables (long-term portion)	23	151,360,053	73,856,008
DEFERRED TAX LIABILITIES	24	1,450,433	449,939
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		939,116	3,525,591
- Employee benefits	25	539,466	3,025,941
- Other provisions	26	399,650	499,650
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>282,541,516</b>	<b>77,831,538</b>
<b>CURRENT LIABILITIES</b>			
TRADE PAYABLES	27	24,335,312	20,458,117
FINANCIAL PAYABLES		44,133,127	100,253,567
- Bank loans and borrowings (short-term portion)	22	43,855,246	1,082
- Other financial payables (short-term portion)	23	277,881	100,252,485
CURRENT TAX LIABILITIES	28	266,416	25,831
OTHER PAYABLES	29	14,253,831	10,757,716
<b>TOTAL CURRENT LIABILITIES</b>		<b>82,988,686</b>	<b>131,495,231</b>
<b>TOTAL NET EQUITY AND LIABILITIES</b>		<b>823,779,101</b>	<b>603,204,071</b>

Appendix 4 reports the effect of related-party transactions on the statement of financial position, as required by CONSOB resolution 15519 of 27 July 2006.

## STATEMENT OF CASH FLOW

(Amounts in Euro)	Notes	31.12.2017	31.12.2016
Net profit (loss)		174,610,425	125,767,409
Income taxes for the period		(6,405,292)	2,409,117
Income for dividends receipt		(198,334,233)	(145,416,166)
Amortization		424,568	108,843
Net change in provisions and other non-cash items		3,691,243	1,787,525
<b>Cash flow absorbed by current operations (A)</b>		<b>(26,013,289)</b>	<b>(15,343,272)</b>
<b>Change in assets and liabilities for the period:</b>			
Trade receivables		(4,217,703)	2,219,854
Trade payables		3,877,195	(718,873)
Other current assets and liabilities		1,475,308	2,758,847
Payment of income taxes		(15,000)	(4,359)
<b>Cash flow generated by changes in working capital (B)</b>		<b>1,119,800</b>	<b>4,255,469</b>
<b>Cash flow absorbed by current operations and changes in working capital (A+B)</b>		<b>(24,893,489)</b>	<b>(11,087,803)</b>
<b>Investment activities:</b>			
Investments in intangible assets		(1,187,175)	-
Investments in tangible assets		(63,190)	(256,728)
Net investments in equity investments		(7,250,707)	362,168
Dividends receipt		183,434,233	180,416,166
<b>Cash flow generated by investment activities (C)</b>		<b>174,933,161</b>	<b>180,521,606</b>
Dividends paid		(119,600,000)	(65,780,000)
New loans		345,000,000	-
Payment of interests on loans		(3,792,394)	(3,227,620)
Repayment of loans and other net changes in source of finance		(371,645,901)	(100,427,797)
<b>Cash flow absorbed by changes in net equity and by financing activities (D)</b>		<b>(150,038,295)</b>	<b>(169,435,417)</b>
<b>Increase (decrease) in cash and cash equivalents (A+B+C+D)</b>		<b>1,377</b>	<b>(1,614)</b>
<b>Opening cash and cash equivalents</b>	19	<b>24,503</b>	<b>26,117</b>
Decrease in cash and cash equivalents (A+B+C+D)		1,377	(1,614)
<b>Closing cash and cash equivalents</b>	19	<b>25,880</b>	<b>24,503</b>

Appendix 2 presents the statement of cash flows at 31 December 2017 in terms of net financial position, that represents gross financial liabilities less cash and cash equivalents and other financial receivables. The individual items in the statement of financial position are analysed later in the paragraph Detail of net financial position.

## STATEMENT OF CHANGES IN NET EQUITY

(Amounts in Euro)	SHARE CAPITAL	SHARE PREMIUM RESERVE	LEGAL RESERVE	EXTRAORDINARY RESERVE	FAIR VALUE AND CASH FLOW HEDGE RESERVES	STOCK OPTION RESERVE	ACTUAL EVALUATION RESERVE	PROFIT (LOSS) CARRIED FORWARD	PROFIT (LOSS) FOR THE PERIOD	TOTAL
<b>Balance at 31 December 2015</b>	<b>224,250,000</b>	<b>162,545</b>	<b>15,573,139</b>	<b>21,733,028</b>	<b>(4,583,153)</b>	<b>-</b>	<b>(104,765)</b>	<b>10,441,324</b>	<b>67,356,982</b>	<b>334,829,100</b>
Allocation of 2015 result as per AGM resolution of 14 April 2016										
- distribution of dividends				(1,790,867)				(63,989,133)	(65,780,000)	
- allocation to reserves			3,367,849					(3,367,849)	-	
Fair value Stock Option						365,779				365,799
<b>Movements from transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>3,367,849</b>	<b>(1,790,867)</b>	<b>-</b>	<b>365,779</b>	<b>-</b>	<b>-</b>	<b>(67,356,982)</b>	<b>(65,414,221)</b>
Profit (loss) after taxes								125,767,409	125,767,409	
Other components of comprehensive income					(1,302,245)		(2,741)		(1,304,986)	
<b>Comprehensive income (loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,302,245)</b>	<b>-</b>	<b>(2,741)</b>	<b>-</b>	<b>125,767,409</b>	<b>124,462,423</b>
<b>Balance at 31 December 2016</b>	<b>224,250,000</b>	<b>162,545</b>	<b>18,940,988</b>	<b>19,942,161</b>	<b>(5,885,398)</b>	<b>365,779</b>	<b>(107,506)</b>	<b>10,441,324</b>	<b>125,767,409</b>	<b>393,877,302</b>
Allocation of 2016 result as per AGM resolution of 11 April 2017										
- distribution of dividends				(120,961)				(119,479,039)	(119,600,000)	
- allocation to reserves			6,288,370					(6,288,370)	-	
Fair value Stock Option						3,717,432				3,717,432
<b>Movements from transactions with shareholders</b>	<b>-</b>	<b>-</b>	<b>6,288,370</b>	<b>(120,961)</b>	<b>-</b>	<b>3,717,432</b>	<b>-</b>	<b>-</b>	<b>(125,767,409)</b>	<b>(115,882,568)</b>
Profit (loss) after taxes								174,610,425	174,610,425	
Other components of comprehensive income					5,646,056		(2,316)		5,643,740	
<b>Comprehensive income (loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,646,056</b>	<b>-</b>	<b>(2,316)</b>	<b>-</b>	<b>174,610,425</b>	<b>180,254,165</b>
<b>Balance at 31 December 2017</b>	<b>224,250,000</b>	<b>162,545</b>	<b>25,229,358</b>	<b>19,821,200</b>	<b>(239,342)</b>	<b>4,083,211</b>	<b>(109,822)</b>	<b>10,441,324</b>	<b>174,610,425</b>	<b>458,248,899</b>





## Explanatory notes



## Company business

De'Longhi S.p.A., a company with its registered office in Treviso whose shares are listed on the Italian stock exchange run by Borsa Italiana, is the parent company of the De'Longhi Group and performs holding company activities involving the management and supply of centralized services to its subsidiaries and the management of subsidiary undertakings.

## Accounting standards

The financial statements of De'Longhi S.p.A. at 31 December 2017 have been prepared on the basis of the international accounting and financial reporting standards issued by the International Accounting Standards Board (IASB), including the SIC and IFRIC interpretations, as endorsed by the European Commission (at the date of 31 December 2017), pursuant to EC Regulation 1606 of 19 July 2002. The following documents have been used for interpretation and application purposes even though not endorsed by the European Commission:

- Framework for the Preparation and Presentation of Financial Statements (issued by the IASB in 2001);
- Implementation Guidance, Basis for Conclusions, IFRIC and other documents issued by the IASB or IFRIC to complement the accounting standards;
- Interpretations published by the Italian Accounting Board relating to how to apply IAS/IFRS in Italy.

The accounting policies and measurement bases used for preparing the financial statements at 31 December 2017 are the same as those used for preparing the financial statements at 31 December 2016, except for certain new amendments and accounting standards described below.

The financial statements at 31 December 2017 comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in net equity and these explanatory notes.

The statement of financial position has been prepared on a basis that distinguishes between current and non-current items.

The income statement has been presented on the basis of the nature of expense, being a suitable structure for faithfully representing the company's performance.

The statement of cash flows has been prepared using the "indirect method" allowed by IAS 7.

The present financial statements and notes are presented in Euro (the company's functional currency) with all amounts in financial statements presented in Euro, as required by the Italian Civil Code, while amounts in explanatory notes are rounded to thousands of Euro, unless otherwise indicated.

The financial statements have been prepared on the historical cost basis, adjusted as required for the valuation of certain financial instruments, and under the assumption of going concern. In fact, despite the difficult economic and financial context, the company has assessed that there are no material uncertainties that cast significant doubt upon its ability to continue as a going concern, as defined in par. 25 of IAS 1.

The risks and uncertainties relating to the business are described in a specific section of the Report on operations. The methods used by the company to manage financial risks are described in note 33. *Risk management* of the present Explanatory notes.



## **Amendments and new accounting standards applied for the first time by the Company**

This financial report complies with the amendments and new accounting standards which became mandatory beginning 1 January 2017 as established by the European Commission in the regulations published in the Official Gazette.

With Regulation 2017/1989 of 6 November 2017 the European Commission adopted amendments to IAS 12 – *Income taxes – recognition of deferred tax assets for unrealized losses* which aims to clarify how to account for a deferred tax asset on a debt instrument measured at fair value.

Amendments to IAS 7 *Statement of Cash Flows – Financial reporting disclosures* were also adopted in Regulation 2017/1990 which provide a clearer definition of the information on financial activities to be provided to the users of financial statements.

Application of these updated standards did not have a material impact on the information found in this annual report.

## **International financial reporting standards and/or interpretations endorsed by the European Union but not yet applicable**

The Commission Regulation (EU) n. 2016/1905 of 22 September 2016 adopts IFRS 15 *Revenue from Contracts with Customers*; subsequently, on 31 October 2017, clarifications to IFRS 5 were adopted in Regulation 2017/1987 in order to clarify certain requirements and provide further assistance in the application of the standard.

IFRS 15 relates to all customer contracts with the exception of contracts relating to leasing, insurance, financial instruments and non-monetary exchanges.

The new standard contains a 5-point guide relating to identifying the contract, identifying performance guidelines, determining the transaction price, allocating the transaction price to performance obligations, recognition of revenue.

The standard establishes that the revenue must be recognized when the obligation is performed, namely when the promised good (or service) is transferred to the customer.

The consideration in the contract with the customer may include fixed, variable or both amounts. In the case of variable components, the consideration must be estimated correctly based on reasonably available information (historical, current and forecasts).

The amounts owed for royalties are an exception as they may be recognized only after the underlying sale or usage has been completed.

The standard provides specific indications with respect to the allocation of the transaction price between the performance obligations, amendment of the transaction price and the definition of incremental contract costs.

The operating guide, which constitutes an integral part of the standard, provides great detail about various topics including sales with the right of return, consignment agreements, and deferred delivery sale agreements.

With Regulation 2016/2067 of 22 November 2016 the European Commission adopted IFRS 9 – *Financial Instruments* which introduces new requirements for the classification and measurement of financial assets previously reported based on IAS 39.

The new standard divides all financial assets into two classifications, namely those measured at amortized cost and those measured at fair value.

Financial assets that satisfy two conditions are measured at amortized cost: the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets must be measured at fair value through profit or loss.

In order to remedy the temporary accounting differences attributable to the difference in the effective date of IFRS 9 and the new accounting standard (IFRS 17) for insurance contracts which will substitute IFRS 4, on 3 November 2017 the European Commission approved Regulation 2017/1988 *Application of IFRS 9 Financial Instruments with IFRS 4 Insurance contracts*.

The changes introduced in the above mentioned regulations will be applicable beginning on or after 1 January 2018. The Company did not apply any new standards, interpretations or amendments endorsed, but not yet applicable, in advance; application of these revised standards is not, however, expected to have a material impact on the Company's income statement or net equity.

IFRS 16 - *Leasing* was adopted by the EU in Regulation 2017/1986 on 31 October 2017. This standard aims to improve the financial reporting of leases. The scope of the new principle is largely unchanged with respect to IAS 17 which it is substituting. Leasing includes those contracts which convey the right to control the use of an identified asset for a period of time in exchange for consideration. The new standard eliminates the distinction between financial and operating leases for lessors and establishes a single category. As of the effective date, the lessee recognizes a right-of-use asset and a liability for the lease. The right-of-use asset is initially recognized at cost, while the liability is measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease.

Leases with a term of less than twelve months without purchase options and leases when the underlying asset has a low value may be recognized as an expense over the term of the lease or based on another systematic method.

The new standard will be applicable beginning on or after 1 January 2018. While this new principle was not adopted in advance, the Group has begun to assess the possible impact of its application. At the date of this annual report, the affects have yet to be quantified.

### **International accounting standards and/or interpretations not yet endorsed by the European Union**

After a long consultation period, on 18 May 2017 the IASB issued a new international accounting standard, IFRS 17 *Insurance contracts* which substitute the current IFRS 4. The new standard establishes rules for the recognition, measurement, presentation and disclosure of insurance contracts; it will be applied to all insurance contracts which will be measured using estimates for future cash flows, adjusted for risk, and a Contractual Service Margin (CSM). Once the standard is endorsed by the European Union, the new standard will be applicable beginning on or after 1 January 2021.

In June the IASB issued IFRIC Interpretation 23 — *Uncertainty over Income Tax Treatments* which provides guidelines about how to account for income taxes when there is uncertainty over income tax treatments. IFRIC 23 will take effect on 1 January 2019.

In September the IASB published *Practice Statement 2 Making Materiality Judgements* which provides companies with non-binding guidance on how to make materiality judgements when preparing their general purpose financial statements in accordance with IAS/IFRS international accounting standards; the statement begins by with the definition of material information. Information is deemed material if omitting it or misstating it could influence the decisions made by user and provides a practical 4-step guide to a systematic approach to defining material information.

## Disclosure by operating segments

Segment information is reported only with reference to the consolidated financial statements, as allowed by IFRS 8.

## Principal accounting policies

### Intangible assets

#### *Other intangible assets*

Other intangible assets purchased or internally generated are recognized as assets in accordance with IAS 38 – *Intangible assets*, when it is probable that the future economic benefits attributable to their use will flow to the company and when the cost of the asset can be reliably measured.

These assets are valued at purchase or production cost and amortized, if they have a finite life, on a straight-line basis over their useful life, generally estimated in 4 years.

### Property, plant and equipment

Property, plant and equipment owned by the company are recorded at purchase or production cost and systematically depreciated over their residual useful lives.

The cost of assets qualifying for capitalization also includes the borrowing costs directly attributable to the acquisition, construction or production of the asset itself.

Subsequent expenditure is capitalized only if it increases the future economic benefits flowing to the enterprise. All other costs are expensed to income as incurred.

The useful lives, estimated by the Company for its various categories of property, plant and equipment, are as follows:

Industrial buildings	6 years
Industrial and commercial equipment	1 year
Other	4 – 8 years

#### *Impairment of non-financial assets*

The Company tests, at least once a year, whether the book value of intangible assets and property, plant and equipment reported in the financial statements has suffered any impairment loss. If there is evidence of impairment, book value is written down to the related recoverable amount.

If it is not possible to estimate the recoverable amount of an individual asset, the Company assesses whether the cash-generating unit to which it belongs is impaired.

#### *Assets and liabilities held for sale and Discontinued Operations*

Non-current assets and disposal groups are classified as held for sale or Discontinued operations if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amounts and fair value less costs to sell.

## Financial instruments

### *Financial assets*

All financial assets are initially recognized at fair value, corresponding to the consideration paid plus all directly attributable acquisition costs. They are recognized on the trade date, meaning the date when the Company makes a commitment to buy or sell the asset. Financial assets are derecognized only when all the associated risks and rewards are substantially transferred together with the assets; if such risks and rewards are not substantially transferred or retained, the Company derecognizes the assets when it no longer has control of them.

The Company reviews at every reporting date whether a financial asset or group of financial assets has suffered any impairment. If there is objective evidence of impairment, the related loss is recognized in the income statement.

The way financial assets are classified determines how they are subsequently measured:

### *Financial assets at fair value through profit or loss:*

This category includes financial assets acquired mainly for the purpose of selling them in the near term, those designated at fair value upon initial recognition if so permitted, or those for which the fair value option may be exercised.

Financial assets in this category are measured at fair value (or at cost, if they are unlisted or if the fair value is not reliable or cannot be determined, as adjusted for any impairment losses calculated in accordance with IAS 39); the related changes in fair value during the period of ownership are recorded in the income statement. Financial instruments in this category are classified as current assets if they are "held for trading" or if they are expected to be sold within twelve months of the reporting date. Derivatives are treated as assets or liabilities depending on whether their fair value is positive or negative respectively; positive and negative fair values relating to transactions with the same counterparty are offset when contractually allowed.

### *Receivables:*

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets, except for those contractually due after more than twelve months from the reporting date, which are classified as non-current assets. The latter are measured at amortized cost using the effective interest method.

Receivables which are due after more than one year and which bear no interest or interest at a rate below the market one, are discounted to present value using market rates.

If there is objective evidence that an asset is impaired, its carrying amount is reduced to the present value of the estimated future cash flows. Impairment losses are recognized in the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the carrying amount of the asset is reinstated but to no more than what its amortized cost would have been had the impairment not been recognized.

### *Available-for-sale financial assets:*

This category includes non-derivative financial assets that are designated as available for sale and are not classified in any of the previous categories. Financial assets in this category are measured at fair value; the related changes in fair value during the period of ownership are recognized in the statement of comprehensive income.

If the fair value cannot be determined, these assets are carried at cost, as adjusted for any impairment.

### *Equity investments in subsidiary and associated companies:*

Equity investments in subsidiary and associated companies are carried at cost less any impairment losses. These equity investments are tested for impairment once a year, or more often if specific events or circumstances indicate evidence of possible impairment. If there is evidence that these equity investments are impaired, the impairment loss is recognized in the income statement. If the company's share of losses in an equity investment exceeds the book value of the investment, and the company has an obligation to answer for them, the value of the equity investment is reduced to zero and the company's share of additional losses is recognized as a provision classified under liabilities. If the impairment loss subsequently disappears or is reduced, the value of the equity investment is reinstated through the income statement but to no more than its original cost.

The Company's financial assets are classified as both current and non-current assets.

"Non-current equity investments and other financial assets" include equity investments and non-current loans and receivables.

Current financial assets include trade receivables, other current financial assets, the positive fair value of derivatives and cash and cash equivalents.

Cash and cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### **Financial liabilities**

Financial payables are initially recognized at fair value, less any transaction costs directly attributable to the issue of the liability itself. Subsequent to initial recognition, financial liabilities are valued on the basis of amortized cost, using the effective interest method.

### **Derivatives**

Derivatives are used solely for hedging purposes, in order to reduce exposures to currency and interest rate risk. As allowed by IAS 39, derivatives may qualify for special hedge accounting only when, at the inception of the hedge, the following conditions are satisfied:

- there is a formal designation that the instrument is a hedging one;
- there is formal documentation of the hedging relationship, which is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is highly effective throughout the different financial reporting periods for which it was designated.

IAS 39 requires that all derivatives be measured at fair value.

If financial instruments qualify for hedge accounting, the following treatment applies:

#### **• Fair value hedge**

If a derivative instrument is designated as a hedge of the exposure to changes in the fair value of a recognized asset or liability that is attributable to a particular risk that will affect profit or loss, the gain or loss from remeasuring the hedging instrument at fair value should be recognized in the income statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the income statement.

#### **• Cash flow hedge**

If a derivative instrument is designated as a hedge of the exposure to variability in cash flows attributable to a highly probable forecast transaction which will affect profit or loss, the effective portion of the gains or losses on the hedging instrument is recognized directly in the statement of comprehensive income. The effective portion of the cumulative gains or losses are reversed from net equity and reclassified to profit or loss in the same period in which the hedged transaction is reported in the income statement. Gains or losses associated with a hedge or part thereof that has become ineffective are reclassified to the income statement.

If a hedging instrument or hedging relationship is terminated, but the transaction being hedged has not yet occurred, the cumulative gains and losses, recorded up until then in the statement of comprehensive income, are reported in the income statement at the same time that the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the unrealized gains or losses reported directly in net equity are immediately reclassified to the income statement. If hedge accounting cannot be applied, the gains or losses arising from the fair value measurement of the derivatives are transferred immediately to the income statement.

## **Employee benefits**

### **Pension and other incentive plans**

Net obligations relating to employee benefit plans, chiefly the provision for severance indemnities (for the portion retained in the company) and pension funds, are recorded at the expected future value of the benefits that will be received and which have accrued at the reporting date. The Company's obligation to finance defined benefit pension funds and the annual cost reported in the income statement are determined by independent actuaries using the projected unit credit method.

### **Equity based compensation**

The Company grants additional benefits to the Chief Executive Officer, a limited number of executives and key resources under the form of stock options. Based on IFRS 2 *Share-based payment*, the current value of the stock option determined on the grant date is recognized on a straight-line basis in the income statement as a payroll cost in the period between the grant date and the date on which the rights granted to employees, executives and others who routinely provide services to one or more Group companies parties fully vest, with a corresponding increase in equity.

At each reporting date the Company will revise estimates based on the number of options that are expected to vest, independent of the fair value of the options. Any differences with respect to the original estimates will be recognized in the consolidated income statement with a corresponding increase in equity.

Once the stock option is exercised, the amounts received by the employee, net of transactions costs, will be added to the share capital in the amount of the nominal value of the shares issues. The remainder will be recognized in the share premium reserve.

The fair value of the stock options is determined using the Black-Scholes model which takes into account the conditions for the exercise of the right, the current share price, expected volatility, a risk free interest rate, as well as the non-vesting conditions.

The fair value of the stock options is included within the Stock option Reserve.

### **Provisions for contingencies and other charges**

The Company recognizes provisions for contingencies and charges when (i) it has a present obligation (legal or constructive) to third parties (ii) it is probable that the company will need to employ resources to settle the obligation and (iii) a reliable estimate can be made of the amount of the obligation. Changes in these estimates are reflected in the income statement in the period in which they occur (also see the comments in the paragraph on "Estimates and assumptions").

Where the effect of the time value of money is material and the date of extinguishing the liability can be reasonably estimated, provisions are stated at the present value of the expected expenditure, using a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

An increase in the amount of the provision for the time value of money is accounted for in interest expense. Contingencies for which the probability of a liability is remote are disclosed in the notes but no provision is recognized.

### **Revenue recognition**

Revenues are recognized to the extent that it is probable that the economic rewards will flow to the Company and their amount can be measured reliably, in other words when the principal risks and rewards of ownership of the goods have been transferred to the buyer. Revenues are reported net of discounts, allowances and returns, including those estimated on the basis of past trends.

Revenues from services are recognized when the service is rendered.

### **Costs and expenses**

Costs and expenses are accounted for on an accrual basis.

### **Dividends**

Dividend distributions represent a movement in net equity in the period in which they are declared by the shareholders in general meeting.

Dividends received are recognized in the income statement when the shareholder's right to receive payment is established.

### **Income taxes**

Income taxes include all the taxes calculated on the Company's taxable income. Income taxes are recorded in the income statement, except for those relating to items directly debited or credited to net equity, in which case the associated tax is recognized directly in net equity.

Deferred taxes are provided on the basis of global provision for the liability. They are calculated on all the temporary differences emerging between the tax base of an asset or liability and their book value, except for differences arising from investments in subsidiaries which are not expected to reverse in the foreseeable future. Deferred tax assets on the carryforward of unused tax losses and tax credits are recognized to the extent that it is probable that future taxable profit will be available against which these can be recovered. Current and deferred tax assets and liabilities may be offset when the income taxes are charged by the same tax authority and when there is a legal right of set-off.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability settled.

Deferred taxes on reserves of distributable earnings in subsidiaries are recognized only if it is probable that such reserves will be distributed.



## **Estimates and assumptions**

These financial statements, prepared in accordance with IFRS, contain estimates and assumptions made by the Company relating to assets and liabilities, costs, revenues and contingent liabilities at the reporting date. These estimates are based on past experience and assumptions considered to be reasonable and realistic, based on the information available at the time of making the estimate.

The assumptions relating to these estimates are periodically reviewed and the related effects reflected in the income statement in the same period; actual results could therefore differ from these estimates.

The following paragraphs discuss the principal assumptions used for estimation purposes and the principal sources of uncertainty, that have a risk of causing material adjustment to the book value of assets and liabilities in the future; details of book value can be found in the individual explanatory notes.

### ***Employee benefits***

The cost of defined benefit pension plans is determined using actuarial valuations, based on statistical assumptions regarding discount rates, expected returns on investments, future salary growth and mortality rates.

The Company believes the rates estimated by its actuaries to be reasonable for the year-end valuations, but cannot rule out that large future changes in rates could have a material impact on the liabilities recognized in the financial statements.

### ***Recoverability of deferred tax assets***

Deferred tax assets could include those relating to carryforward tax losses to the extent that there is likely to be sufficient future taxable profit against which such losses can be recovered.

Management must use their discretion when determining the amount of deferred tax assets for recognition in the financial statements. They must estimate the likely timing of reversal and the amount of future taxable profit, as well as the future tax planning strategy.

### ***Provisions for contingencies***

The company makes several provisions against disputes or risks of various kinds relating to different matters falling under the jurisdiction of different countries. The determination, probability and quantification of these liabilities involve estimation processes that are often very complex, for which management uses all the available information at the date of preparing the financial statements, including with the support of legal and tax advisors.

## Comments on the income statement

### 1. REVENUES

These are analyzed as follows:

	2017	2016	Change
Out-of-period gains	75	24	51
Damages reimbursed	6	34	(28)
Other income	28,244	25,857	2,387
<b>Total</b>	<b>28,325</b>	<b>25,915</b>	<b>2,410</b>

"Other income" include €26,469 thousand in revenue from related parties, as reported in Appendix 4.

These revenues primarily refer to costs charged back to Group companies related to commissions/incentives paid to clients – international commercial Groups and global marketing costs.

### 2. RAW AND ANCILLARY MATERIALS, CONSUMABLES AND GOODS

These are analyzed as follows:

	2017	2016	Change
Other purchases	51	53	(2)
<b>Total</b>	<b>51</b>	<b>53</b>	<b>(2)</b>

### 3. PAYROLL COSTS

The figures relating to the provisions made by the Company relative to severance and long-term benefits are summarized in note 25. *Employee benefits*.

#### 4. SERVICES AND OTHER OPERATING EXPENSES

These are analyzed as follows:

	2017	2016	Change
Incentives paid to clients - international commercial groups - global marketing costs	20,674	18,355	2,319
Consulting services	5,023	1,443	3,580
Travel and entertaining	3,566	4,592	(1,026)
Insurance	2,810	3,198	(388)
Director's emoluments	2,493	2,508	(15)
Rentals and leasing	348	317	31
Statutory auditors' emoluments	146	146	-
Telecommunication costs	24	74	(50)
Advertising and promotional activities	24	25	(1)
Other sundry services	804	643	161
<b>Total services</b>	<b>35,912</b>	<b>31,301</b>	<b>4,611</b>
Sundry taxes	203	98	105
Other	125	196	(71)
<b>Total other operating expenses</b>	<b>328</b>	<b>294</b>	<b>34</b>
<b>Total services and other operating expenses</b>	<b>36,240</b>	<b>31,595</b>	<b>4,645</b>

"Cost of services" includes the costs incurred by the Company to carry out its activities as a holding company and a few centralized costs shared by several Group companies (payment of international commercial Groups and global marketing costs) that are subsequently charged back to the subsidiaries.

"Services and other operating expenses" include €8,132 thousand in costs from related parties, as reported in Appendix 4 and €1,106 thousand in non-recurring costs related to reorganization of the Group's structure.

#### 5. PROVISIONS

This includes the release of provisions for uninsured liabilities following the settlement of disputes during the year (please refer to note 26. *Other provisions*).

#### 6. AMORTIZATION

These are analyzed as follows:

	2017	2016	Change
Amortization of intangible assets	307	11	296
Depreciation of property, plant and equipment	118	98	20
<b>Total</b>	<b>425</b>	<b>109</b>	<b>316</b>

## 7. FINANCIAL INCOME (EXPENSES)

Net financial income and expenses are broken down as follows:

	2017	2016	Change
Dividends	198,334	145,416	52,918
Gain on investments disposal	-	232	(232)
<b>Financial income (expenses) from equity investments</b>	<b>198,334</b>	<b>145,648</b>	<b>52,686</b>
Gains (losses) on currency hedging transactions	(10,864)	2,563	(13,427)
Exchange gains (losses)	4,519	(2,770)	7,289
<b>Exchange gains (losses)</b>	<b>(6,345)</b>	<b>(207)</b>	<b>(6,138)</b>
Interest income from loans	48	-	48
Bank interest income	3	3	-
<b>Financial income</b>	<b>51</b>	<b>3</b>	<b>48</b>
Interest expense on long-term loans and borrowings	(441)	-	(441)
Interest expenses on bonds	(3,233)	(2,744)	(489)
Interest expenses on short-term loans and borrowings	(355)	(1,468)	1,113
<b>Financial expenses</b>	<b>(4,029)</b>	<b>(4,212)</b>	<b>183</b>
Other sundry income (expenses)	(134)	(150)	16
<b>Other financial income (expenses)</b>	<b>(134)</b>	<b>(150)</b>	<b>16</b>
<b>Financial income (expenses)</b>	<b>187,877</b>	<b>141,082</b>	<b>46,795</b>

"Financial income (expenses)" includes €198,074 thousand in income from group companies, as reported in Appendix 4.

Dividends relate primarily to amounts declared by the subsidiaries De Longhi Benelux S.A., De'Longhi Appliances S.r.l., De'Longhi Deutschland GmbH, E-Services S.r.l., De'Longhi Kenwood GmbH and De'Longhi Capital Services S.r.l..

## 8. INCOME TAXES

These are analyzed as follows:

	2017	2016	Change
Current tax assets	5,623	300	5,323
Advanced (deferred) taxes	782	(2,709)	3,491
<b>Total</b>	<b>6,405</b>	<b>(2,409)</b>	<b>8,814</b>

The Company has made an election to file for income tax on a group basis for companies based in Italy, as allowed by art. 117 *et seq* of the Income Tax Consolidation Act (Presidential Decree 917/86), as part of the tax group formed by the Parent Company De Longhi Industrial S.A. for the three-year period 2016–2018.

“Deferred income tax liabilities (assets)” report the taxes calculated on the temporary differences arising between the carrying amount of assets and liabilities and the corresponding tax base, and the distributable earnings of subsidiaries. More information on deferred taxes can be found in note 24. *Deferred tax liabilities*.

The actual and theoretical tax charge are reconciled as follows:

	2017	%	2016	%
Profit before taxes	168,205	100.0%	128,177	100.0%
Theoretical taxes	(40,369)	(24.0%)	(35,248)	(27.5%)
Permanent tax differences (dividends, net of disallowable costs) and other effects	46,774	27.8%	32,839	25.6%
<b>Actual taxes</b>	<b>6,405</b>	<b>3.8%</b>	<b>(2,409)</b>	<b>(1.9%)</b>

# Comments on the statement of financial position: Assets

## Non-current assets

### 9. INTANGIBLE ASSETS

These are analyzed as follows:

	31 December 2017		31 December 2016		Change
	Gross	Net	Gross	Net	
Patents	1,317	894	130	14	880
<b>Total</b>	<b>1,317</b>	<b>894</b>	<b>130</b>	<b>14</b>	<b>880</b>

The following table reports movements during 2017:

	Patents
<b>Net opening balance</b>	<b>14</b>
Additions	1,187
Amortizations	(307)
<b>Net closing balance</b>	<b>894</b>

The increases refer primarily to the purchase of software during the year.

### 10. LAND, PROPERTY, PLANT AND MACHINERY

These are analyzed as follows:

	31 December 2017		31 December 2016		Change
	Gross	Net	Gross	Net	
Land and buildings	320	170	257	193	(23)
<b>Total</b>	<b>320</b>	<b>170</b>	<b>257</b>	<b>193</b>	<b>(23)</b>

The following table reports movements during 2017:

	Land and buildings
<b>Net opening balance</b>	<b>193</b>
Additions	63
Amortizations	(86)
<b>Net closing balance</b>	<b>170</b>



## 11. PROPERTY, PLANT AND EQUIPMENT

These are analyzed as follows:

	31 December 2017		31 December 2016		Change
	Gross	Net	Gross	Net	
Industrial and commercial equipments	17	-	17	-	-
Other	203	15	203	47	(32)
<b>Total</b>	<b>220</b>	<b>15</b>	<b>220</b>	<b>47</b>	<b>(32)</b>

The following table reports movements during 2017:

	Other
<b>Net opening balance</b>	<b>47</b>
Amortizations	(32)
<b>Net closing balance</b>	<b>15</b>

## 12. EQUITY INVESTMENTS

These are analyzed as follows:

	31 December 2017	31 December 2016	Change
De Longhi Benelux S.A.	266,737	266,737	-
De'Longhi Appliances S.r.l.	242,678	242,678	-
De'Longhi Deutschland GmbH	40,800	40,800	-
De'Longhi Capital Services S.r.l.	6,005	6,005	-
E-Services S.r.l.	5,264	26	5,238
De'Longhi Romania S.r.l.	3,078	1,065	2,013
De'Longhi Kenwood GmbH	2,900	2,900	-
Clim.Re S.A.	54	54	-
De'Longhi Polska Sp.Zo.o.	-	-	-
<b>Total equity investments</b>	<b>567,516</b>	<b>560,265</b>	<b>7,251</b>

The list of equity investments and the related movements during 2017 can be found in Appendix 3.

The €7,251 thousand increase in the value of equity investments in subsidiaries is explained:

- for €2,013 thousand, by the subscription of the Company's portion of the subsidiary De'Longhi Romania's capital increase;
- for €5,238 thousand, by purchase of the residual 49% interest in E-Services S.r.l. which is now a fully-owned subsidiary.

The recoverability of the value of the equity investments has been tested for impairment by applying the Discounted Cash Flow method to cash flow forecasts contained in the three-year plans approved by management. These plans have been prepared assuming realistic scenarios based on the information available at the reporting date, also taking account of the budget approved for 2018 in respect of the subsidiaries. Plan data was projected beyond the explicit planning period using a perpetuity growth rate that was no higher than those expected for the markets in which the individual cash-generating units (CGUs) operate. The growth rate in terminal values used for projecting beyond the planning period was 2% for all the CGUs.

The cash flows and discount rate were determined net of tax. The discount rate of 5.7%, used for all the CGUs and so also for the equity investments, reflects current market assessments of the time value of money and takes account of the risks specific to the sector.

The impairment tests carried out at the end of 2017 have not revealed any significant evidence that equity investments are impaired. The results obtained using the discounted cash flow method have been tested for their sensitivity to changes in certain key variables, within reasonable ranges and on the basis of mutually consistent assumptions. The variables altered were the discount rate (between 5.5% and 5.9%) and the growth rate in terminal value (in the range 1.8% – 2.2%). The sensitivity analysis has revealed relatively stable results; in fact, the minimum and maximum amounts diverged by around 10% from the central point when both variables were altered, while the divergence was considerably smaller when more reasonable assumptions regarding the change in variables were adopted.

### 13. NON-CURRENT RECEIVABLES

This balance is analyzed as follows:

	31 December 2017	31 December 2016	Change
Receivables from subsidiary companies	149	39	110
<b>Total</b>	<b>149</b>	<b>39</b>	<b>110</b>

Appendix 4 contains details of "Receivables from subsidiary companies".

### 14. OTHER NON-CURRENT FINANCIAL ASSETS

Details are as follows:

	31 December 2017	31 December 2016	Change
Fair value of derivatives	79	4,697	(4,618)
<b>Total</b>	<b>79</b>	<b>4,697</b>	<b>(4,618)</b>

More details on the fair value of derivatives can be found in note 33. *Risk management*.

## Current assets

### 15. TRADE RECEIVABLES

These are analyzed as follows:

	31 December 2017	31 December 2016	Change
Trade receivables due within 12 months	33,300	29,082	4,218
Allowance for bad debts	(26)	(26)	-
<b>Total</b>	<b>33,274</b>	<b>29,056</b>	<b>4,218</b>

Trade receivables are stated net of an allowance for doubtful accounts of €26 thousand, representing the estimated risk at the reporting date.

"Trade receivables" include €31,532 thousand in receivables from related parties, as reported in Appendix 4.

There were no changes in the allowance for doubtful accounts in the year.

Trade receivables do not include any amounts due beyond 12 months.

## 16. CURRENT TAX ASSETS

These are detailed as follows:

	31 December 2017	31 December 2016	Change
Direct taxes	4,436	3,736	700
<b>Total</b>	<b>4,436</b>	<b>3,736</b>	<b>700</b>

In 2017, in order to optimize the financial management of its tax affairs, the Company availed itself of both the VAT Group settlement permitted under Ministerial Decree n. 13/12/1979 and the "Domestic Tax Consolidation" governed by Title II, Section II of Presidential Decree n. 917/86.

This item refers to the credits for which a refund has been requested and the IRES credits matured as part of the previous "Domestic Tax Consolidation" for which the Company acted as consolidator.

## 17. OTHER RECEIVABLES

These are analyzed as follows:

	31 December 2017	31 December 2016	Change
VAT receivables	908	826	82
Prepaid costs	18	14	4
Employees	10	12	(2)
Advances to suppliers	5	256	(251)
Other	7,067	2,263	4,804
<b>Total</b>	<b>8,008</b>	<b>3,371</b>	<b>4,637</b>

"Prepaid costs" mainly refer to the payment of insurance premiums relating to the following year.

Other receivables include €5,014 thousand in amounts due from related parties, as reported in Appendix 4, relating primarily to the "Domestic Tax Consolidation".

None of the other receivables is due beyond 12 months.

## 18. CURRENT FINANCIAL RECEIVABLES AND ASSETS

These are analyzed as follows:

	31 December 2017	31 December 2016	Change
Financial receivables	209,211	-	209,211
Fair value of derivatives	-	1,760	(1,760)
<b>Total</b>	<b>209,211</b>	<b>1,760</b>	<b>207,451</b>

"Current financial receivables and other assets" includes €194,311 thousand owed by De'Longhi Capital Services S.r.l. relating to the cash pooling agreement and €14,900 thousand owed by De'Longhi Deutschland GmbH as shown in Appendix n. 4.

More details on the fair value of derivatives can be found in note 33. *Risk management*.

None of the current financial receivables is due beyond 12 months.

## 19. CASH AND CASH EQUIVALENTS

This balance consists of surplus liquidity on bank current accounts.

# Comments on the statement of financial position:

## Net equity

### Net equity

The primary objective of the company's capital management is to maintain a solid credit rating and adequate capital ratios in order to support its business and maximize value for shareholders.

The annual general meeting (AGM) of De'Longhi S.p.A. held on 11 April 2017 declared a dividend totalling €119,600 thousand.

Changes in net equity are reported as part of the financial statements; comments on the main components and their changes are provided below.

### 20. SHARE CAPITAL

Share capital is made up of 149,500,000 ordinary shares of par value €1.5 each, for a total of €224,250 thousand.

The Annual General Meeting of De'Longhi S.p.A. held on 14 April 2016 resolved to increase share capital against payment by up to a maximum nominal amount of €3,000,000 by 31 December 2022 through the issue, including on one or more occasions, of a maximum of 2,000,000 ordinary shares with a par value of €1.5 each pari passu with all shares outstanding at the issue date, to service the stock option plan.

A total of 1,830,000 shares were assigned at 21 November 2016; the remaining 170,000 shares were assigned on 4 April 2017.

### 21. RESERVES

These are analyzed as follows:

	31 December 2017	31 December 2016	Change
Share premium reserve	163	163	-
Legal reserve	25,229	18,941	6,288
Other reserves:			
- Extraordinary reserve	19,821	19,942	(121)
- Stock option reserve	4,083	366	3,717
- Fair value and cash flow hedge reserve	(239)	(5,885)	5,646
- Actuarial valuation reserve	(110)	(108)	2
- Profit (loss) carried forward	10,441	10,441	-
<b>Total</b>	<b>59,388</b>	<b>43,860</b>	<b>15,528</b>

The "Share premium reserve" was set up following the public offering at the time of the parent company's flotation on the Milan stock exchange on 23 July 2001. The residual amount of this reserve was €325 thousand at 31 December 2011; following the demerger transaction in favour of DeLclima S.p.A. the share premium reserve was reduced to €163 thousand.

The "Legal reserve" has a balance of €25,229 thousand at 31 December 2017. The increase of €6,288 thousand with respect to 31 December 2016 follows the allocation of profit for 2016, as approved by the AGM on 11 April 2017.

The "Extraordinary reserve" has a balance of €19,821 thousand. The decrease of €121 thousand with respect to 31 December 2016 follows the allocation of profit for 2016, as approved by the AGM on 11 April 2017.

The "Stock option" reserve amounted to €4,083 thousand which corresponds to the fair value of the options at the assignment date, recognized on a straight-line basis from the grant date through vesting.

The reserve relates to the stock-based incentive plan "Stock option plan 2016–2022" reserved for the Chief Executive Officer of the Company and a limited number of Group managers and key resources approved during the Shareholders' Meeting held on 14 April 2016.

Please refer to the 2016 Annual Report and the Report on Remuneration for more detailed information about the Plan.

For the purposes of valuation under IFRS 2 – *Share-based payments*, two different tranches were defined for each award which contain the same number of options broken down equally into the plan's two exercise periods. The fair value per share of the options assigned in 2016 amounted to € 5.3072 for the first tranche and to €5.2488 for the second. The fair value per share of the options assigned in 2017 amounted to €7.6608 for the first tranche and to €7.4442 for the second.

The fair value of the stock options is determined using the Black-Scholes model which takes into account the conditions for the exercise of the right, the current share price, expected volatility, a risk free interest rate, as well as the non-vesting conditions.

Volatility is estimated based on the data of a market provider and corresponds to the estimated volatility of the stock over the life of the plan.

The assumptions used to determine the fair value of the options assigned are shown below:

	2017 award	2016 award
Expected dividends (EURO)	0.80	0.43
Estimated volatility (%)	28.09%	33.23%
Historic volatility (%)	31.12%	36.067%
Market interest rate	Euribor 6M	Euribor 6M
Expected life of the options (years)	2.142/3.158	2.51/3.53
Exercise price (Euro)	20.4588	20.4588

The "Fair value and cash flow hedge reserve" reports a negative balance of €239 thousand, net of €76 thousand in tax. This amount reflects the negative fair value of the cash flow hedge derivatives.

More details on the fair value of derivatives can be found in note 33. *Risk management*.

The following table provides information on the permitted distribution of reserves:

Nature/Description	Amount	Permitted use	Available amount
Share capital	224,250 <sup>(1)</sup>		
Capital reserves:			
- Share premium reserve	163 <sup>(2)</sup>	A, B	
Earnings reserves:			
- Stock option reserve	4,083		
- Legal reserve	25,229	B	
- Extraordinary reserve	19,821	A, B, C	19,821
- Fair value and cash flow hedge reserve	(239)		
- Actuarial valuation reserve	(110)		
- Profit (loss) carried forward	10,441	A, B, C	1,866
<b>Total</b>	<b>283,638<sup>(3)</sup></b>		<b>21,687</b>
Undistributable amount			349
<b>Distributable amount</b>			<b>21,338</b>

(1) There is a tax restriction over €2,853 thousand following a bonus increase in capital in 1997 using tax-suspended reserves. The restriction was updated based on the figures from the 2017 tax return.

(2) As allowed by art. 2431 of the Italian Civil Code, the full amount of this reserve may be distributed only if the legal reserve has reached the amount established by art. 2430 of the Italian Civil Code.

(3) There are tax restrictions relating to the realignment of tax and accounting values carried out in 2000 and 2005 as follows: €54,031 thousand relating to share capital, €1,256 thousand relating to the legal reserve and €18,722 thousand relating to the extraordinary reserve. The restriction was updated based on the figures from the 2017 tax return.

Key:

A: to increase share capital

B: to cover losses

C: distribution to shareholders



# Comments on the statement of financial position: Liabilities

## Non-current liabilities

### 22. BANK LOANS AND BORROWINGS

Bank loans and borrowings are analyzed as follows:

	Within one year	One to five years	Beyond five years	Balance 31.12.2017	Within one year	One to five years	Beyond five years	Balance 31.12.2016	Change
Overdrafts	1	-	-	1	1	-	-	1	-
Long-term loans (current portion)	43,854	-	-	43,854	-	-	-	-	43,854
<b>Total short-term bank loans and borrowings</b>	<b>43,855</b>	<b>-</b>	<b>-</b>	<b>43,855</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>43,854</b>
Long-term loans	-	128,792	-	128,792	-	-	-	-	128,792
<b>Total bank loans and borrowings</b>	<b>43,855</b>	<b>128,792</b>	<b>-</b>	<b>172,647</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>1</b>	<b>172,646</b>

Bank loans can be broken down as follows:

Loans (including short-term portion)	31.12.2017	31.12.2016	Change
Intesa Sanpaolo S.p.A.	85,301	-	85,301
Unicredit S.p.A.	87,345	-	87,345
<b>Total long-term loans</b>	<b>172,646</b>	<b>-</b>	<b>172,646</b>

In June 2017 a new 5-year floating rate loan of €95,000 thousand was granted by Intesa Sanpaolo S.p.A. which is subject to half-yearly financial covenants beginning on 31 December 2017. The loan is repayable in half-yearly instalments beginning on 29 December 2017. An interest rate swap (IRS) was used to hedge interest rate risk which made it possible to exchange floating rate debt for fixed rate debt at an annual "all-in" cost of 0.61%. The change in the fair value of the IRS came to a negative €90 thousand at 31 December 2017 and is recognized under other non-current financial liabilities.

On 4 July 2017 another 4-year floating rate loan of €100,000 thousand was granted by Unicredit S.p.A. which is repayable in half-yearly instalments and is subject to half-yearly financial covenants beginning on 31 December 2017. An interest rate swap (IRS) was used to hedge interest rate risk which made it possible to exchange floating rate debt for fixed rate debt at an annual "all-in" cost of 0.62%. The change in the fair value of the IRS came to a negative €225 thousand at 31 December 2017 and is recognized under other non-current financial liabilities.

None of the financial covenants included in the two loan agreements, based on net debt/equity and net debt/EBITDA, had been breached at 31 December 2017.

The main bank debt is floating rate; the hedges on both of the medium/long term loans made it possible to exchange floating rate debt for fixed rate debt. The fair value of the loans, calculated by discounting expected future interest flows at current market rates, is not significantly different from the debt's book value.

## 23. OTHER FINANCIAL PAYABLES

This balance, inclusive of the current portion, is made up as follows:

	31 December 2017	31 December 2016	Change
Negative fair value of derivatives (short-term portion)	178	1	177
Private placement (short-term portion)	16	7,365	(7,349)
Other short-term financial payables	84	92,886	(92,802)
<b>Total long-term payables</b>	<b>278</b>	<b>100,252</b>	<b>(99,974)</b>
Negative fair value of derivatives (one to five years)	225	-	225
Private placement (one to five years)	42,736	29,453	13,283
Other financial payables (one to five years)	1,252	-	1,252
<b>Total long-term payables (one to five years)</b>	<b>44,213</b>	<b>29,453</b>	<b>14,760</b>
Private placement (beyond five years)	107,147	44,403	62,744
<b>Total long-term payables (beyond five years)</b>	<b>107,147</b>	<b>44,403</b>	<b>62,744</b>
<b>Total</b>	<b>151,638</b>	<b>147,108</b>	<b>(22,470)</b>

On 14 June 2017 the Company, after having received approval from the Board of Directors on 9 June 2017, completed the issue and placement of €150 million in unsecured, non-convertible notes with US institutional investors (the "US Private Placement"). At the same time of the new issue the Company redeemed the USD 85 million bond loan issued in 2012.

The securities were issued in a single tranche, have a duration of 10 years, expire in June 2027, and an average life of 7 years. The notes will accrue interest from the subscription date at a fixed rate of 1.65% per annum.

The notes will be repaid yearly in equal instalments beginning June 2021 and ending June 2027, without prejudice to the Company's ability to repay the entire amount in advance.

The securities are unrated and are not intended to be listed on any regulated markets.

The notes are subject to half-yearly financial covenants in line with those contemplated in other existing loan transactions. At 31 December 2017 the covenants (ratio of consolidated financial debt on consolidated net equity, ratio of consolidated financial debt on EBITDA before non-recurring items/stock option and ratio of EBITDA before non-recurring items/stock option on net financial charges) had not been breached. The issue is not secured by collateral of any kind.

"Other short term financial payables" refers to payables to the subsidiary company De' Longhi Capital Services S.r.l. for financial services rendered. At 31 December 2016 this item included amounts owed the same company as part of the cash pooling agreement, as well as for financial services rendered. As a result of the cash pooling agreement there was a credit position at 31 December 2017 commented on in note 18. *Current financial receivables and other assets*.

More details on the fair value of derivatives, hedging both exchange rate and interest rate risk, can be found in note 33. *Risk management*.

The balance includes €93 thousand in payables to Group companies, as reported in Appendix 4.

## Net financial position

Details of the net financial position are as follows:

	31 December 2017	31 December 2016	Change
A. Cash	17	18	(1)
B. Cash equivalents	9	6	3
C. Securities	-	-	-
<b>D. Total liquidity (A+B+C)</b>	<b>26</b>	<b>24</b>	<b>2</b>
E. Current financial receivables and other securities	209,211	1,760	207,451
of which:			
<i>Fair value of derivatives</i>	-	1,760	(1,760)
F. Current bank loans and borrowings	(1)	(1)	-
G. Current portion of non-current debt	(43,854)	-	(43,854)
H. Other current financial payables	(278)	(100,252)	99,974
of which:			
<i>Fair value of derivatives</i>	(178)	(1)	(177)
<b>I. Current financial debt (F+G+H)</b>	<b>(44,133)</b>	<b>(100,253)</b>	<b>56,120</b>
<b>J. Net current financial debt (D+E+I)</b>	<b>165,104</b>	<b>(98,469)</b>	<b>263,573</b>
Non-current financial receivables and other securities	228	4,736	(4,508)
of which:			
<i>Fair value of derivatives</i>	79	4,697	(4,618)
K. Non-current bank loans and borrowings	(128,792)	-	(128,792)
L. Bonds	(149,883)	(73,856)	(76,027)
M. Other non-current payables	(1,477)	-	(1,477)
of which:			
<i>Fair value of derivatives</i>	(225)	-	(225)
<b>N. Non-current financial debt (K+L+M)</b>	<b>(279,924)</b>	<b>(69,120)</b>	<b>(210,804)</b>
<b>Total net financial debt (J+N)</b>	<b>(114,820)</b>	<b>(167,589)</b>	<b>52,769</b>

Details of financial receivables and payables with related parties are reported in Appendix 4.

For a better understanding of changes in the company's net financial position, reference should be made to the full statement of cash flows and the reclassified table in the report on operations.

## 24. DEFERRED TAX LIABILITIES

"Deferred tax liabilities" include the taxes calculated on temporary differences between the carrying amount of assets and liabilities and their corresponding tax base, and the distributable earnings of subsidiaries.

Details are as follows:

	31 December 2017			31 December 2016			Effect on income statement
	Taxable amount	Tax rate	Total tax	Taxable amount	Tax rate	Total tax	
Provisions for contingencies and other charges	(397)	24.0%	(95)	(3,069)	24.0%	(736)	641
Other temporary differences	(3,575)	24.0%	(858)	(1,003)	24.0%	(241)	(617)
<b>Total deferred tax assets recognized in the income statement</b>	<b>(3,972)</b>		<b>(953)</b>	<b>(4,072)</b>		<b>(977)</b>	<b>24</b>
<b>Reserves distributable by subsidiaries</b>	<b>10,476</b>	<b>24.0%</b>	<b>2,514</b>	<b>13,832</b>	<b>24.0%</b>	<b>3,320</b>	<b>(806)</b>
<b>Total deferred tax assets/advance tax recognized in the income statement</b>	<b>6,504</b>		<b>1,561</b>	<b>9,760</b>		<b>2,343</b>	<b>(782)</b>
Fair value of cash flow hedge derivatives	(315)	24.0%	(76)	(7,744)	24.0%	(1,859)	1,783
Actuarial valuation of provision according to IAS 19	(145)	24.0%	(35)	(141)	24.0%	(34)	(1)
<b>Total temporary differences recognized in net equity</b>	<b>(460)</b>		<b>(111)</b>	<b>(7,885)</b>		<b>(1,893)</b>	<b>1,782</b>
<b>Net total</b>	<b>6,044</b>		<b>1,450</b>	<b>1,875</b>		<b>450</b>	<b>1,000</b>

"Reserves distributable by subsidiaries" refer to the deferred tax calculated on the accumulated reserves of subsidiaries that are potentially distributable in the future.

There are no temporary differences or carryforward tax losses for which deferred tax assets have not been recognized.

## 25. EMPLOYEE BENEFITS

These are analyzed as follows:

	31 December 2017	31 December 2016	Change
Provision for severance indemnities	539	463	76
Long term benefits	-	2,563	(2,563)
<b>Total</b>	<b>539</b>	<b>3,026</b>	<b>(2,487)</b>

The composition of the company's workforce is analyzed in the following table:

	31 December 2017	Average 2017	31 December 2016	Average 2016
White collar	31	31	33	31
Senior managers	13	13	9	9
<b>Total</b>	<b>44</b>	<b>44</b>	<b>42</b>	<b>40</b>

### Provision for severance indemnities

The provision for severance indemnities includes amounts payable to the company's employees and not transferred to alternative pension schemes or the pension fund set up by INPS (Italy's national social security agency). This provision has been classified as a defined benefit plan, governed as such by IAS 19 – *Employee benefits*. Severance indemnity, as an unfunded obligation, does not have any assets servicing it.

This plan is valued on an actuarial basis to express the present value of the benefit payable at the end of service that employees have accrued at the reporting date.

Movements in the year are summarized below:

<b>Severance indemnity obligations</b>	<b>31 December 2017</b>	<b>31 December 2016</b>	<b>Change</b>
Defined benefit obligations	539	463	76

<b>Net cost charged to income statement</b>	<b>31 December 2017</b>	<b>31 December 2016</b>	<b>Change</b>
Current service cost	-	-	-
Interest cost on obligations	6	8	(2)
<b>Total</b>	<b>6</b>	<b>8</b>	<b>(2)</b>

<b>Change in present value of obligations</b>	<b>31 December 2017</b>	<b>31 December 2016</b>	<b>Change</b>
<b>Present value at 1 January</b>	<b>463</b>	<b>452</b>	<b>11</b>
Current service cost	-	-	-
Utilization of provision	(2)	(1)	(1)
Interest cost on obligations	6	8	(2)
Actuarial gain losses booked in the statement of comprehensive income	3	4	(1)
Other changes	69	-	69
<b>Present value at reporting date</b>	<b>539</b>	<b>463</b>	<b>76</b>

The principal assumptions used for determining the obligations under the plan described are as follows:

<b>Assumptions used</b>	<b>Severance indemnity 2017</b>	<b>Severance indemnity 2016</b>
Discount rate	1.3%	1.4%
Future salary increases	1.3% – 2.3%	1.4% – 2.4%
Inflation rate	1.3%	1.4%

“Long term benefits” were reclassified as Other Payables. Please refer to note 29. *Other payables*.

## 26. OTHER PROVISIONS

Movements are as follows:

	<b>31 December 2016</b>	<b>Utilization</b>	<b>31 December 2017</b>
Provision for uninsured liabilities	110	(100)	10
Other provisions for contingencies	390	-	390
<b>Total</b>	<b>500</b>	<b>(100)</b>	<b>400</b>

“Provisions for uninsured liabilities” include provisions made for disputes and potential liabilities, as well as the insurance deductibles payable relating to submitted claims. The settlement of a few disputes led to the decrease of €100 thousand recorded in the year.

## Current liabilities

### 27. TRADE PAYABLES

This balance of €24,335 thousand represents the amount owed by the company to third parties and Group companies for the supply of services. Details of amounts owed to Group companies are reported in Appendix 4.

Trade payables do not include any amounts due beyond 12 months.

### 28. CURRENT TAX LIABILITIES

These are analyzed as follows:

	31 December 2017	31 December 2016	Change
Direct taxes	266	26	240
<b>Total</b>	<b>266</b>	<b>26</b>	<b>240</b>

This balance refers to substitute tax payables and do not include any amounts due beyond 12 months.

### 29. OTHER PAYABLES

These are analyzed as follows:

	31 December 2017	31 December 2016	Change
Employees	5,604	1,223	4,381
Payables towards Group companies	4,314	5,418	(1,104)
Withholdings payable	1,294	1,265	29
Social security institutions	434	389	45
Other	2,608	2,463	145
<b>Total</b>	<b>14,254</b>	<b>10,758</b>	<b>3,496</b>

Payables to employees include the benefits of the 2015 – 2017 Incentive Plan for which provisions were made in the period under examination. After determining the amount of the benefits payable, the amount recognized previously under "Long term benefits" (note 25. *Employee benefits*) was reclassified under "Other payables". These benefits will be paid in 2018; for additional information please refer to the annual Report on Remuneration.

"Payables towards Group companies" mostly refer to amounts owed as a result of the Company's decision to adopt a group tax election, under Chapter II Section II of Presidential Decree 917/86, and to pay VAT on a group basis, under the Ministerial Decree dated 13 December 1979, as described in note 16. *Current tax assets*.

"Withholdings payable" relate to withholdings made by the company and payable to the tax authorities after the reporting date.

"Social security institutions" include €279 thousand in payables to Italy's principal social security agency (INPS), and €155 thousand in payables to pension funds.

There are no other payables due beyond 12 months.



### 30. COMMITMENTS

These are detailed as follows:

	31 December 2017	31 December 2016	Change
<b>Guarantees given for the benefit of:</b>			
De'Longhi Capital Services S.r.l.	305,697	298,997	6,700
De'Longhi Kenwood A.P.A. Ltd.	96,464	73,593	22,871
NPE S.r.l.	27,790	-	27,790
De'Longhi Australia PTY Ltd.	20,623	18,828	1,795
De'Longhi Japan Corp.	10,369	13,047	(2,678)
Dong Guan De'Longhi Kenwood Appliances Co. Ltd.	8,338	9,487	(1,149)
De'Longhi LLC	6,839	7,778	(939)
De'Longhi Brasil Ltda.	6,662	7,685	(1,023)
De'Longhi Romania S.r.l.	5,467	6,215	(748)
De'Longhi Appliances S.r.l.	4,984	4,914	70
De'Longhi Kenwood Korea Ltd.	1,683	1,690	(7)
De'Longhi Mexico S.a.	1,251	-	1,251
Kenwood Limited Ltd.	845	876	(31)
DeLonghi South Africa Pty Ltd.	453	467	(14)
Elle S.r.l.	446	446	-
De'Longhi Kenwood MEIA FZE	341	388	(47)
De'Longhi Ukraine LLC	83	95	(12)
De'Longhi Scandinavia A.B.	83	86	(3)
De'Longhi Polska Sp.Zo.o.	30	28	2
DL Chile S.A.	13	14	(1)
E-Services S.r.l.	11	11	-
Kenwood Appliances Malaysia Sdn. Bhd.	4	5	(1)
De'Longhi New Zeland Ltd.	-	33	(33)
<b>Total De'Longhi Group companies</b>	<b>498,476</b>	<b>444,683</b>	<b>53,793</b>

The guarantees given in the interest of Group companies refer primarily to credit lines which have been partially drawn down and to short-term loans.

In addition to the above:

- as part of its factoring of trade receivables without recourse, the total exposure for which amounted to €135,561 at 31 December 2017 (€120,082 at 31 December 2016), the Company issued a surety and a credit mandate in the interest of its subsidiaries involved;
- the Company also issued a guarantee in the interest of subsidiaries relative to currency hedging, the positive fair value of which amounted to €7,963 thousand at 31 December 2017 (€18,460 at 31 December 2016);
- the Company also issued third party guarantees totalling €31 thousand.

No elements of risk as defined by IAS 37 have been noted to date.

### 31. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are classified below in accordance with IFRS 7, using the categories identified in IAS 39.

31/12/2017	Assets			
	Book value	Loans and receivables	Available for sale	Derivatives
<b>Non-current assets</b>				
- Equity investments (other)	-			
- Receivables	149	149		
- Other non-current financial assets	79			79
<b>Current assets</b>				
- Trade receivables	33,274	33,274		
- Current tax assets	4,436	4,436		
- Other receivables	8,008	8,008		
- Current financial receivables and assets	209,211	209,211		
- Cash and cash equivalents	26	26		
<b>Liabilities</b>				
31/12/2017	Book value	Loans	Derivatives	
<b>Non-current liabilities</b>				
- Bank loans and borrowings (long-term portion)	(128,792)	(128,792)		
- Other financial payables (long-term portion)	(151,360)	(151,135)		(225)
<b>Current liabilities</b>				
- Trade payables	(24,335)	(24,335)		
- Bank loans and borrowings (short-term portion)	(43,855)	(43,855)		
- Other financial payables (short-term portion)	(278)	(100)		(178)
- Current tax liabilities	(266)	(266)		
- Other payables	(14,254)	(14,254)		

31/12/2016	Assets			
	Book value	Loans and receivables	Available for sale	Derivatives
<b>Non-current assets</b>				
- Equity investments (other)	-			
- Receivables	39	39		
- Other non-current financial assets	4,697			4,697
<b>Current assets</b>				
- Trade receivables	29,056	29,056		
- Current tax assets	3,736	3,736		
- Other receivables	3,371	3,371		
- Current financial receivables and assets	1,760			1,760
- Cash and cash equivalents	24	24		
<b>Liabilities</b>				
31/12/2016	Book value	Loans	Derivatives	
<b>Non-current liabilities</b>				
- Bank loans and borrowings (long-term portion)	-			
- Other financial payables (long-term portion)	(73,856)	(73,856)		
<b>Current liabilities</b>				
- Trade payables	(20,458)	(20,458)		
- Bank loans and borrowings (short-term portion)	(1)	(1)		
- Other financial payables (short-term portion)	(100,252)	(100,251)		(1)
- Current tax liabilities	(26)	(26)		
- Other payables	(10,758)	(10,758)		

## 32. HIERARCHICAL LEVELS OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The following table presents the hierarchical levels in which the fair value measurements of financial instruments have been classified at 31 December 2017. As required by IFRS 7, the hierarchy comprises the following levels:

- level 1: quoted prices in active markets for identical assets or liabilities;
- level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- level 3: inputs for the asset or liability that are not based on observable market data.

Financial instruments measured at fair value	Level 1	Level 2	Level 3
Derivatives:	266	26	240
- derivatives with positive fair value		79	
- derivatives with negative fair value		(403)	

There were no transfers between the levels during the year.

### 33. RISK MANAGEMENT

The company is exposed to the following financial risks as part of its normal business activity:

- **credit risk**, mainly arising from the investment of surplus cash;
- **liquidity risk**, arising from the need to have adequate access to capital markets and sources of finance to fund its operations, investment activities and the settlement of financial liabilities;
- **exchange rate risk**, associated with the exposure to currencies other than the company's functional currency;
- **interest rate risk**, relating to the cost of the company's debt.

#### *Credit risk*

Credit risk consists of the company's exposure to potential losses arising from failure by a counterparty to fulfil its obligations.

Trade credit risk is associated with the normal conduct of trade and is monitored using formal procedures for assessing customers and extending them credit.

Positions are written down when there is objective evidence that they will be partially or entirely uncollected, bearing in mind that a significant proportion of receivables are covered by insurance policies with major insurers.

This is not a material risk for the Company, whose principal credit exposures are to Group companies.

As far as financial credit risk is concerned, it is the company's policy to maintain a sufficiently large portfolio of counterparties of high international repute for the purposes of satisfying its financing and hedging needs.

#### *Liquidity risk*

Liquidity risk is the risk of not having the funds needed to fulfil payment obligations arising from operating and investment activities and from the maturity of financial instruments.

The Company complies with specific group policies and procedures for the purposes of monitoring and managing this risk, including:

- centralized management of financial payables and cash, supported by reporting and information systems and, where possible, cash pooling arrangements;
- raising of medium and long-term finance on capital markets;
- diversification of the type of financing instruments used;
- obtaining of short-term credit lines such as to ensure wide room for manoeuvre for the purposes of managing working capital and cash flows;
- monitoring of current and forecast financing needs and distribution within the group.

The Company has medium-term credit lines, linked to current loans and described in this report, and short-term credit lines (typically renewed on an annual basis), for financing working capital and other operating needs (issue of guarantees, currency transactions etc.).

These credit lines, along with cash flow generated by operations, are considered sufficient to satisfy the company's annual funding requirements for working capital, investments and settlement of payables on their natural due dates.

Note 31. *Classification of financial assets and liabilities* presents the book value of financial assets and liabilities, in accordance with the categories identified by IAS 39.

The following table summarizes the due dates of financial liabilities at 31 December 2017 and at 31 December 2016 on the basis of undiscounted contractual payments.

	Undiscounted cash flows at 31.12.2017	Within one year	One to five years	Beyond five year	Undiscounted cash flows at 31.12.2016	Within one year	One to five years	Beyond five year
Bank loans and borrowings <sup>(*)</sup>	(173,708)	(44,297)	(129,411)	-	(1)	(1)	-	-
Other financial payables <sup>(**)</sup>	(167,471)	(2,559)	(53,350)	(111,562)	(175,644)	(101,631)	(32,538)	(41,475)
Trade payables	(24,335)	(24,335)	-	-	(20,458)	(20,458)	-	-
Current tax liabilities and other payables	(14,520)	(14,520)	-	-	(10,784)	(10,784)	-	-
<b>Total</b>	<b>(380,034)</b>	<b>(85,711)</b>	<b>(182,761)</b>	<b>(111,562)</b>	<b>(206,887)</b>	<b>(132,874)</b>	<b>(32,538)</b>	<b>(41,475)</b>

(\*) The corresponding balance reported in the financial statements is €172,647 thousand at 31 December 2017 and €1 thousand at 31 December 2016. See note 22. *Bank loans and borrowings*.

(\*\*) The corresponding balance reported in the financial statements is €151,235 thousand at 31 December 2017 (net of the fair value of financial derivative instruments for €403 thousand) and €174,108 thousand at 31 December 2016 (net of the fair value of financial derivative instruments for €1 thousand). See note 23. *Other financial payables*.

More details about the maturity of the company's financial assets and liabilities can be found in notes 13. *Other non-current receivables*, 15. *Trade receivables*, 18. *Current financial receivables and assets*, 22. *Bank loans and borrowings*, 23. *Other financial payables* and 27. *Trade payables*.

#### Exchange rate risk

The Company is exposed to the risk of fluctuations in currencies (other than its functional one) in which ordinary trade and financial transactions are denominated. For the purposes of protecting its income statement and statement of financial position from such fluctuations, the Company adopts a suitable hedging policy that eschews speculative ends. Details of the policies, instruments and purpose of hedging at group level can be found in the notes to the consolidated financial statements.

#### Sensitivity analysis:

The potential impact, in terms of change in fair value, of a hypothetical, sudden +/-5% change in year-end exchange rates was estimated in light solely of receivables/payables in unhedged currencies insofar as the impact on the income statement of the receivables/payables in hedged currencies is mitigated or offset by the respective hedges.

A +/- 5% change in year-end exchange rates of the principal exposed currencies (USD, HKD and GBP) is estimated to produce a change in fair value of around +/- €0.3 million (+/- €0.3 million at 31 December 2016). As most of the receivables/payables in question are due beyond twelve months the change in fair value would impact the income statement of the following year.

The hedging transactions at 31 December 2017 are described in the paragraph "*Interest rate and currency exchange hedges at 31 December 2017*".

#### Interest rate risk

The Company is exposed to interest rate risk on floating rate loans and borrowings. This risk is managed centrally by the same team that manages currency risks.

The purpose of interest rate risk management is to fix in advance the maximum cost (in terms of the interbank rate, which represents the benchmark for these borrowings) for a part of the debt.

As a result of the Interest Rate Swaps used to hedge the loans taken out during the year, the Company's financial debt is primarily fixed rate.

#### Sensitivity analysis:

When estimating the potential impact of a hypothetical, sudden material change in interest rates (+/- 1% in market rates) on the cost of the Company's debt, only those items forming part of net financial position which earn/incur interest have been considered and not any others (meaning total net assets of €194.3 million on a total of €114.8 million in net

debt at 31 December 2017 and total net liabilities of €92.8 million on a total of €167.6 million in net debt in 2016). In the absence of hedges, any change in interest rates would directly impact the cost of that portfolio of debt resulting in an increase/decrease in financial expenses.

A +/-1% change in interest rates would have an impact of +/- €1.9 million before tax at 31 December 2017 recognized entirely in the income statement (+/- €0.9 million before tax at 31 December 2016).

With regard to the loans, the interest rate swaps used to hedge interest rate risk made it possible to exchange floating rate debt for fixed rate debt. Any change, therefore, in interest rates would not impact the income statement. In light, however, of the fact that the hedges are measured at fair value and that the portion relating to future interest flows is recognized at net equity, at 31 December 2017 a change of +/- 1% in rates would cause a change in the cash flow hedge of +/- €0.5 million before tax.

Please refer to the paragraph "Interest rate and currency exchange hedges at 31 December 2017" for more information.

#### *Interest rate and currency exchange hedges at 31 December 2017*

The Company had a number of derivatives at 31 December 2017, hedging both the fair value of underlying instruments and exposure to changes in cash flow.

For accounting purposes, derivatives that hedge changes in cash flow are treated in accordance with hedge accounting as called for in IAS 39.

Derivatives that hedge foreign currency payables and receivables are reported as financial assets and liabilities held for trading with changes in their fair value reported in the income statement. These instruments offset the risk on the hedged item (which is a recognized asset or liability).

The fair value of the outstanding derivatives at 31 December 2017 is provided below:

	<b>31/12/2017 Fair value</b>
FX forward agreements	(9)
<b>Derivatives hedging foreign currency receivables/payables</b>	<b>(9)</b>
Derivatives hedging interest rate risk (IRS)	(315)
<b>Derivatives covering expected cash flows</b>	<b>(315)</b>
<b>Total fair value of the derivatives</b>	<b>(324)</b>

#### *Hedges against foreign currency receivables and payables:*

Currency	Notional amount						Fair value with Group	
	Group			Third parties			Asset	Liability
	Purchases	Sales	Total	Purchases	Sales	Total		
USD/EUR	(683)	-	(683)	-	-	-	-	(8)
GBP/EUR	(273)	-	(273)	-	-	-	-	(1)
<b>Total Fair Value Value</b>								<b>(9)</b>

#### *IRS (Interest Rate Swap) hedging interest rate risk on loans:*

The fair value of the derivatives is calculated using the discounted cash flow method based on the swap curve, not including the spread; at 31 December 2017 the fair value of the derivatives, which also takes into account counterparty risk in accordance with IFRS 13 – *Fair Value measurement*, came to a negative €315 thousand which is recognized under financial receivables (for €79 thousand) and other financial payables (for €394 thousand).

As the hedge on future interest flows qualifies as an effective hedge, at 31 December 2017 a negative cash flow hedge reserve of €315 thousand was reported in net equity, net of the related tax effect of €76 thousand.



Details are as follows (the figures are shown before tax):

	<b>31.12.2017</b>
	<b>Fair value</b>
<i>Interest Rate Swap (IRS)</i> connected to the loan Intesa Sanpaolo S.p.A.	(90)
<i>Interest Rate Swap (IRS)</i> connected to the loan Unicredit S.p.A.	(225)
<b>Totale fair value of the derivatives</b>	<b>(315)</b>
<i>of which:</i>	
<i>negative short-term fair value</i>	(169)
<i>negative medium/long-term fair value</i>	(225)
<i>positive short-term fair value</i>	79

In 2017, following termination of the CCIRS – Cross Currency Interest Rate Swap hedging both the interest rate and currency risk of the previous Private Placement, the company eliminated from net equity and recognized in the income statement the cash flow hedge reserve reported in the financial statements at 31 December 2016 of €5,885 thousand (net of the tax effect of €1,859 thousand).

This amount was reported in the following lines of the income statement:

	<b>2017</b>
(Increase) decrease in financial expenses	(7,744)
Taxes	1,859
<b>Total recognized in income statement</b>	<b>(5,885)</b>

#### 34. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Appendix 4 contains the information concerning transactions and balances with group companies and related parties required by CONSOB Regulations 97001574 dated 20 February 1997, 98015375 dated 27 February 1998 and DEM/2064231 dated 30 September 2002; all such transactions have fallen within the Group's normal operations, except as otherwise stated in these notes, and have been settled under arm's-length terms and conditions.

#### 35. SUBSEQUENT EVENTS

No significant events took place after the close of the year.

## 36. PROPOSED ALLOCATION OF PROFIT

Dear Shareholders,

In submitting for your approval the financial statements for 2017, which report a net profit of €174,610,425, we propose:

- to approve the Directors' Report on Operations and the financial statements at 31 December 2017;
- to allocate the net profit for the year of €174,610,425 as follows: €8,730,521 to the legal reserve; €16,379,904 to the extraordinary reserve; and the remaining €149,500,000 to shareholders as a gross dividend of €1.00 on each of the 149,500,000 outstanding shares;
- to pay the dividend of €1.00 as of 25 April 2018, with shares going ex-coupon on 23 April 2018 and with the record date, pursuant to art. 83-*terdecies* of Legislative Decree n. 58/98, as at 24 April 2018.

*Treviso, 1 March 2018*

*De'Longhi S.p.A.*

*Vice Chairman and Chief Executive Officer*

*Fabio de' Longhi*

# Appendices



These appendices contain additional information to that reported in the explanatory notes, of which they form an integral part.

This information is contained in the following appendices:

1. Certification of the financial statements pursuant to art. 81-ter of CONSOB Regulation 11971 dated 14 May 1999 and subsequent amendments and additions.
2. Statement of cash flows in terms of net financial position.
3. List of subsidiary companies and changes in equity investments.
4. Transactions and balances with related parties:
  - a) *Income statement and statement of financial position*
  - b) *Summary by company*

## Certification of the consolidated financial statements pursuant to art. 81-ter of CONSOB Regulation 11971 dated 14 May 1999 and subsequent amendments and additions

(Appendix 1 to the Explanatory Notes)

The undersigned Fabio de' Longhi, Chief Executive Officer, and Stefano Biella, Financial Reporting Officer of De'Longhi S.p.A., attest, also taking account of the provisions of paragraphs 2, 3 and 4, art. 154-bis of Decree 58 dated 24 February 1998:

that the accounting and administrative processes for preparing the consolidated financial statements during 2017:

- have been adequate in relation to the company's characteristics and
- have been effectively applied.

It is also certified that the financial statements at 31 December 2017:

- have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union under Regulation (EC) 1606/2002 of the European Parliament and Council dated 19 July 2002 and with the measures implementing art. 9 of Decree 38/2005;
- correspond to the underlying accounting records and books of account;
- are able to provide a true and fair view of the issuer's statement of financial position and results of operations and of the group of companies included in the consolidation.

The report on operations contains a reliable account of performance and of the results of operations and of the situation of the issuer and the group of companies included in the consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

*Fabio de' Longhi*  
Chief Executive Officer

*Stefano Biella*  
Financial Reporting Officer

## Statement of cash flows in terms of net financial position

(Appendix 2 to the Explanatory Notes)

(Amounts in thousand of Euro)	2017	2016
Net profit (loss)	174,610	125,767
Income taxes for the period	(6,405)	2,409
Income for dividends receipt	(198,334)	(145,416)
Amortization	425	109
Net change in provisions and other non-cash items	3,691	1,788
<b>Cash flow absorbed by current operations (A)</b>	<b>(26,013)</b>	<b>(15,343)</b>
<b>Change in assets and liabilities for the period:</b>		
Trade receivable	(4,218)	2,220
Trade payables	3,877	(719)
Other current assets and liabilities	1,476	2,759
Payment of income taxes	(15)	(4)
<b>Cash flow generated by changes in working capital (B)</b>	<b>1,120</b>	<b>4,256</b>
<b>Cash flow absorbed by current operations and changes in working capital (A+B)</b>	<b>(24,893)</b>	<b>(11,087)</b>
<b>Investment activities:</b>		
Investments in intangible assets	(1,187)	-
Investments in tangible assets	(63)	(257)
Net investments in equity investments	(7,251)	362
Dividends receipt	198,334	145,416
<b>Cash flows generated by investment activities (C)</b>	<b>189,833</b>	<b>145,521</b>
Cash flows hedge and IAS 19 reserve related to actuarial evaluation of provisions	7,429	(1,408)
Dividends paid	(119,600)	(65,780)
<b>Cash flow absorbed by changes in net equity (D)</b>	<b>(112,171)</b>	<b>(67,188)</b>
<b>Cash flow for the period (A+B+C+D)</b>	<b>52,769</b>	<b>67,246</b>
<b>Opening net financial position</b>	<b>(167,589)</b>	<b>(234,835)</b>
Cash flow for the period (A+B+C+D)	52,769	67,246
<b>Closing net financial position</b>	<b>(114,820)</b>	<b>(167,589)</b>



## List of equity investments in subsidiary companies (art. 2427 of the Italian Civil Code) (Appendix 3 to the Explanatory Notes)<sup>(\*)</sup>

Company name profit	Registered office		Share capital		Net equity		Latest reported profit or (loss)	Interest held (directly)	Book value
<b>Subsidiaries</b>									<b>€/thousands</b>
De Longhi Benelux S.A. <sup>(1)</sup>	Luxembourg	Eur	181,730,990	Eur	291,504,373	Eur	107,401,551	100%	266,737
De'Longhi Appliances S.r.l.	Treviso	Eur	200,000,000	Eur	326,901,552	Eur	81,788,415	100%	242,678
De'Longhi Deutschland GmbH <sup>(2)</sup>	Neu Isenburg	Eur	2,100,000	Eur	29,955,508	Eur	11,443,581	100%	40,800
De'Longhi Capital Services S.r.l. <sup>(3)</sup>	Treviso	Eur	53,000,000	Eur	57,965,080	Eur	2,867,054	11.32%	6,005
E-Services S.r.l.	Treviso	Eur	50,000	Eur	1,808,148	Eur	1,351,795	100%	5,264
De'Longhi Romania S.r.l. <sup>(2)(4)</sup>	Cluj-Napoca	Ron	140,000,000	Ron	227,152,259	Ron	30,511,483	10%	3,078
De'Longhi Kenwood GmbH <sup>(2)</sup>	Wr. Neudorf	Eur	36,336	Eur	5,509,665	Eur	2,566,635	100%	2,900
Clim.Re S.A. <sup>(1)(4)</sup>	Luxembourg	Eur	1,239,468	Eur	1,604,407	Eur	72,684	4%	54
De'Longhi Polska Sp.Zoo <sup>(2)(4)</sup>	Warszawa	Pln	50,000	Pln	54,848,134	Pln	21,299,131	0.1%	-
<b>Total</b>									<b>567,516</b>

(\*) Statutory figures at 31 December 2017, unless otherwise specified.

(1) Statutory figures at 31 December 2016.

(2) Figures used for the purposes of consolidation at 31 December 2017.

(3) The articles of association, approved by the extraordinary shareholders' meeting held on 29 December 2004, give special rights to De'Longhi S.p.A. (holding 89% of the voting rights) for ordinary resolutions (approval of financial statements, declaration of dividends, nomination of directors and statutory auditors, purchase and sale of companies, grant of loans to third parties); voting rights are proportional as far as other resolutions are concerned.

(4) The residual interest is held indirectly.

## Changes in equity investments

(Appendix 3 to the Explanatory Notes – cont'd)

(Amounts in thousands of Euro)

Equity investments	Book value at 31 December 2016	Acquisitions, subscriptions and recapitalizations	Demerger	Net impairment losses and reversals	Book value at 31 December 2017
<b>Subsidiaries</b>					
De Longhi Benelux S.A.	266,737	-	-	-	266,737
De'Longhi Appliances S.r.l.	242,678	-	-	-	242,678
De'Longhi Deutschland GmbH	40,800	-	-	-	40,800
De'Longhi Capital Services S.r.l.	6,005	-	-	-	6,005
E-Services S.r.l.	26	5,238	-	-	5,264
De'Longhi Romania S.r.l.	1,065	2,013	-	-	3,078
De'Longhi Kenwood GmbH	2,900	-	-	-	2,900
Clim.Re S.A.	54	-	-	-	54
De'Longhi Polska Sp.Zo.o.	-	-	-	-	-
<b>Total equity investments</b>	<b>560,265</b>	<b>7,251</b>	<b>-</b>	<b>-</b>	<b>567,516</b>

## Transactions and balances with related parties

(Appendix 4 to the Explanatory Notes)

<b>INCOME STATEMENT PURSUANT TO CONSOB RESOLUTION 15519 OF 27 JULY 2006 (Amounts in thousands of Euro)</b>	<b>Notes</b>	<b>2017</b>	<b>of which related parties</b>	<b>2016</b>	<b>of which related parties</b>
Revenues	1	28,325	26,469	25,915	23,630
<b>Total revenues</b>		<b>28,325</b>		<b>25,915</b>	
Raw and ancillary materials, consumables and goods	2	(51)		(53)	
<b>Materials consumed</b>		<b>(51)</b>		<b>(53)</b>	
Payroll costs	3	(11,381)		(7,064)	
Services and other operating expenses	4	(36,240)	(8,132)	(31,595)	(6,421)
Provisions	5	100		-	
Amortization	6	(425)		(109)	
<b>EBIT</b>		<b>(19,672)</b>		<b>(12,906)</b>	
Financial income (expenses)	7	187,877	198,074	141,082	143,860
<b>PROFIT (LOSS) BEFORE TAXES</b>		<b>168,205</b>		<b>128,176</b>	
Income taxes	8	6,405		(2,409)	
<b>NET PROFIT (LOSS)</b>		<b>174,610</b>		<b>125,767</b>	

## Transactions and balances with related parties

(Appendix 4 to the Explanatory Notes – cont'd)

<b>STATEMENT OF FINANCIAL POSITION PURSUANT TO CONSOB RESOLUTION 15519 OF 27 JULY 2006 ASSETS (Amounts in thousands of Euro)</b>					
	<i>Notes</i>	<b>31.12.2017</b>	<i>of which related parties</i>	<b>31.12.2016</b>	<i>of which related parties</i>
<b>NON-CURRENT ASSETS</b>					
INTANGIBLE ASSETS		894		14	
- Other intangible assets	9	894		14	
TANGIBLE ASSETS		186		240	
- Land, property, plant and machinery	10	170		193	
- Other tangible assets	11	16		47	
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		567,744		565,002	
- Equity investments	12	567,516		560,266	
- Receivables	13	149	149	39	39
- Other non-current financial assets	14	79		4,697	
<b>TOTAL NON-CURRENT ASSETS</b>		<b>568,824</b>		<b>565,256</b>	
<b>CURRENT ASSETS</b>					
TRADE RECEIVABLES	15	33,274	31,532	29,056	26,816
CURRENT TAX ASSETS	16	4,436		3,736	
OTHER RECEIVABLES	17	8,008	5,014	3,371	464
CURRENT FINANCIAL RECEIVABLES AND ASSETS	18	209,211	209,211	1,760	
CASH AND CASH EQUIVALENTS	19	26		25	
<b>TOTAL CURRENT ASSETS</b>		<b>254,955</b>		<b>37,948</b>	
<b>TOTAL ASSETS</b>		<b>823,779</b>		<b>603,204</b>	
<b>STATEMENT OF FINANCIAL POSITION PURSUANT TO CONSOB RESOLUTION 15519 OF 27 JULY 2006 NET EQUITY AND LIABILITIES (Amounts in thousands of Euro)</b>					
	<i>Notes</i>	<b>31.12.2017</b>	<i>of which related parties</i>	<b>31.12.2016</b>	<i>of which related parties</i>
<b>NET EQUITY</b>					
NET EQUITY		458,249		393,877	
- Share capitals	20	224,250		224,250	
- Reserves	21	59,389		43,860	
- Net profit (loss)		174,610		125,767	
<b>TOTAL NET EQUITY</b>		<b>458,249</b>		<b>393,877</b>	
<b>NON-CURRENT LIABILITIES</b>					
FINANCIAL PAYABLES		280,152		73,856	
- Bank loans and borrowings (long-term portion)	22	128,792		-	
- Other financial payables (long-term portion)	23	151,360		73,856	
DEFERRED TAX LIABILITIES	24	1,451		450	
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		939		3,526	
- Employee benefits	25	539		3,026	
- Other provisions	26	400		500	
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>282,542</b>		<b>77,832</b>	
<b>CURRENT LIABILITIES</b>					
TRADE PAYABLES	27	24,335	7,705	20,458	5,899
FINANCIAL PAYABLES		44,133		100,253	
- Bank loans and borrowings (short-term portion)	22	43,855		1	
- Other financial payables (short-term portion)	23	278	93	100,252	92,888
CURRENT TAX LIABILITIES	28	266		26	
OTHER PAYABLES	29	14,254	4,314	10,758	5,418
<b>TOTAL CURRENT LIABILITIES</b>		<b>82,988</b>		<b>131,495</b>	
<b>TOTAL NET EQUITY AND LIABILITIES</b>		<b>823,779</b>		<b>603,204</b>	

## Transactions and balances with related parties

### Summary by company

(Appendix 4 to the Explanatory Notes – cont'd)

Amounts in €/million	Revenues <sup>(1)</sup>	Materials consumed and cost for services <sup>(1)</sup>	Financial income (expenses)	Non-current financial receivables	Current financial receivables	Other receivables <sup>(2)</sup>	Current financial payables	Other payables <sup>(3)</sup>
<b>Ultimate parent companies:</b>								
DE LONGHI INDUSTRIAL S.A.	-	-	-	-	-	5.0	-	-
<b>Total ultimate parent companies (a)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5.0</b>	<b>-</b>	<b>-</b>
<b>Subsidiary companies:</b>								
DE'LONGHI APPLIANCES S.R.L.	15.2	(2.4)	56.4	-	-	19.2	-	(6.5)
KENWOOD LIMITED	4.6	(4.3)	-	-	-	5.4	-	(4.3)
DE'LONGHI KENWOOD A.P.A. LTD	3.9	-	0.2	0.1	-	3.9	-	-
DE'LONGHI KENWOOD MEIA FZE	1.4	-	-	-	-	1.4	-	-
E-SERVICES S.R.L.	0.5	(0.2)	6.5	-	-	0.6	-	(0.1)
DE'LONGHI DEUTSCHLAND GMBH	0.4	-	14.9	-	14.9	0.4	-	-
DE'LONGHI S.R.L. - ROMANIA	0.1	-	-	-	-	0.1	-	-
DE'LONGHI HOUSEHOLD GMBH	0.1	-	-	-	-	0.1	-	-
NPE S.R.L.	0.1	-	-	-	-	0.1	-	-
DE'LONGHI AMERICA INC.	-	(1.1)	-	-	-	-	-	(0.6)
DE LONGHI BENELUX S.A. (LUXEMBOURG BRANCH)	-	-	118.0	-	-	-	-	-
DE'LONGHI-KENWOOD GMBH - AUSTRIA	-	-	2.5	-	-	-	-	-
DE'LONGHI CAPITAL SERVICES S.R.L.	-	-	(0.4)	-	194.3	-	(0.1)	-
ELLE S.R.L.	-	-	-	-	-	0.1	-	-
<b>Total subsidiary companies (b)</b>	<b>26.3</b>	<b>(8.0)</b>	<b>198.1</b>	<b>0.1</b>	<b>209.2</b>	<b>31.3</b>	<b>(0.1)</b>	<b>(11.5)</b>
<b>Related companies:</b>								
GAMMA S.R.L.	0.1	(0.1)	-	-	-	0.1	-	-
DL RADIATORS S.P.A.	0.1	-	-	-	-	0.1	-	(0.5)
<b>Total related companies (c)</b>	<b>0.2</b>	<b>(0.1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.2</b>	<b>-</b>	<b>(0.5)</b>
<b>Total ultimate parent, subsidiary and related companies (a+b+c)</b>	<b>26.5</b>	<b>(8.1)</b>	<b>198.1</b>	<b>0.1</b>	<b>209.2</b>	<b>36.5</b>	<b>(0.1)</b>	<b>(12.0)</b>

(1) These mostly refer to dealings of a commercial nature and the supply of administrative services by company employees.

(2) These consist of € 31.5 million in "Trade receivables" and € 5.0 million in "Other receivables".

(3) These consist of € 7.7 million in "Trade payables" and € 4.3 million in "Other payables".

Please refer to the "Report on Remuneration" for information relating to the compensation of directors and statutory auditors.





**External auditors' report on the  
separate financial statement**





# De'Longhi S.p.A.

Financial statements as at December 31, 2017

Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010, and article 10 of EU Regulation n. 537/2014

## Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014

(Translation from the original Italian text)

To the Shareholders of  
De'Longhi S.p.A.

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of De'Longhi S.p.A. (the Company), which comprise the statement of financial position as at December 31, 2017 and the statement of income, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

We did not identify any key audit matters to report.

#### Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; have designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

## Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholder of De'Longhi S.p.A., in the general meeting held on April 21, 2010 engaged us to perform the audits of the financial statements of each years ending December 31, 2010 to December 31, 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

## Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of De'Longhi S.p.A. are responsible for the preparation of the Report on Operation and of the Report on Corporate Governance and Ownership Structure of De'Longhi S.p.A. as at December 31, 2017, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of De'Longhi S.p.A. as at December 31, 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operation and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of De'Longhi S.p.A. as at December 31, 2017 and comply with the applicable laws and regulations. With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of De'Longhi S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report issued by another auditor.

Verona, 26 marzo 2018

EY S.p.A.

Signed by: Daniele Tosi, partner

*This report has been translated into the English language solely for the convenience of international readers.*









This report is available on the corporate website:

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

**De'Longhi S.p.A.**

Registered office: Via L. Seitz, 47 - 31100 Treviso

Share capital: EUR 224,250,000 (subscribed and paid-in)

Tax ID and Company Register no: 11570840154

Treviso Chamber of Commerce no: 224758

VAT no: 03162730265



## ANNUAL REPORT 2017

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DēLonghi Group



KENWOOD

BRAUN

*Ariete*