

ANNUAL REPORT
AT 31 DECEMBER

2019



DēLonghi Group

Annual report at 31 December 2019

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Letter from the Chairman



After a difficult first quarter, revenues grew in 2019, above all in European markets, thanks also to the increased investments in advertising made to support and strengthen the Group's brands.

In a complex and increasingly competitive market environment, penalized also by discontinuities in a few business lines, the Group closed 2019 with satisfactory results, especially in terms of cash generation, thanks to both revenue and the containment of working capital.

The approval of the Annual Report 2019 comes at a particularly critical time, for the sector and for the global economy, in general, due to the current health emergency.

Thanks to the effort made by all Group employees, we are guaranteeing the continuity of our business, though the priority is to protect the health and safety of our workers and comply with the recommendations of the World Health Organization (WHO), as well as the restrictions imposed by the governments in the different countries where the Group operates.

Similar to what was done at our Chinese plants, in Italy extraordinary security measures were adopted to guarantee the health of employees and we are ready to apply these measures to our companies worldwide, if necessary. Thanks to these measures, our European facilities are fully operative and the Chinese platform is gradually regaining capacity. With regard to services and back-office functions, the flexible work methods suggested by the Government are being implemented as much as possible. The Group is also gradually increasing inventory in order to guarantee market continuity in the coming months, even in the face of additional supply chain restrictions.

Undoubtedly, in this environment of continuous change, the visibility for the next few months is limited. Even though the preliminary sales figures for the first months of the year are positive, the current scenario calls for caution, including when making economic forecasts.

De' Longhi Group



Our vision, our mission, our values

Worldwide, Every Day, by your Side
A desirable object, An emotion, An authentic experience
To be lived, To be shared.

The Group has its roots in the early 1900s when the de' Longhi family founded a workshop for the production of industrial components; over the years it became a manufacturer of finished goods for third parties; in 1974 the first De' Longhi brand appliance was launched, marking the beginning of the Group's history.

Known initially as a manufacturer of portable electric heaters and air conditioners, over the years the Company increased the range of products produced.

Today, the Group offers a range of small domestic appliances for the preparation of coffee, food preparation and cooking, comfort (air conditioning and heating), as well as home care, and operates through the De' Longhi, Kenwood and Braun brands.

The Group, whose main headquarters are in Treviso (in Italy's Veneto region), is present worldwide thanks to the direct commercial branches and a network of distributors; it also owns four plants and a few stores in Italy, China, Japan, Korea and France.

The Group aims to strengthen its global leadership, reaching consumers worldwide with superior solutions for design, quality and technology.

The strong points that the Group can count on to achieve these goals include a portfolio comprised of strong, unique and diversified brands, the ability to see the new market trends, an extensive global reach, as well as the diversity and talent of its people.

The Group's values reflect who we are, our character, and our way of being and working. They are ideals that guide the Group's operations through the day-to-day work of its people and their projects.



The business model



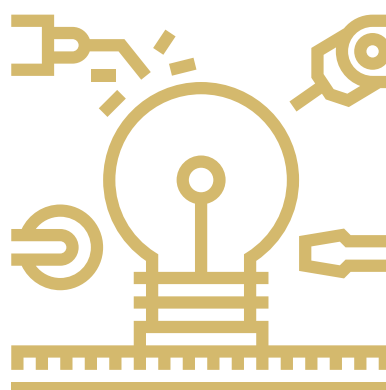
We design products and experiences

Each product is born out of research, development, and engineering involving our technical units as well as the Marketing and Design divisions.

After defining the solution, the Group purchases the required raw materials and inputs.

From raw materials to products

The purchased raw materials and components are shipped to the Group's production sites and to the partners that manufacture and assemble the products. The process is structured around specialized centers where a specific product is always manufactured inside the same plant.



Test after test, quality and safety

At the end of the manufacturing process all products, including the solutions made by the partners that supply finished products, are tested to guarantee the highest safety and quality standards.



Reaching customers and consumers

The products are shipped from the sourcing centers and logistics hubs to the various warehouses and then distributed across the Group's entire sales network.



Sustainability

*We are working, with dedication and pride,
to make a positive contribution beginning today,
we are not only everyday makers, but also the builders of tomorrow.*

Fabio de' Longhi

In the past few years, ethical and environmental factors have increasingly influenced the choices of consumers and people, in general, above all in the younger segment. Today sustainability has become a crucial competitive factor for companies: sustainability means thinking of the future, having a company strategy that addresses economic, social and environmental responsibility.

The De' Longhi Group has embarked on a path which, beginning with the first Consolidated Non-Financial Statement published in 2017 and the second 2018 edition, resulted in greater awareness as to its non-financial impact and the desire to define sustainability goals for the future.

The *Sustainability Report* made it possible for the entire Group to understand that sustainability means looking to the future by virtue of a commitment that is renewed each year, and to understand the Company's role in the world, at the center of a tight network of social, economic and environmental relationships, which calls for the definition of a strategy to lessen and improve the Group's impact and create long-term value for the company and its stakeholders.

In order to better integrate sustainability in its strategy, the Group instituted a new Board committee referred to as the *Control and Risks, Corporate Governance and Sustainability Committee* which testifies to the company's commitment to including sustainability in its business and governance models.

The *Sustainability Steering Committee*, which refers to this Committee, is comprised of top management and strives to define the Group's strategic guidelines in relation to sustainability. Lastly, during the year, *Sustainability Ambassadors*, charged with the task of implementing the strategy and following the guidelines, were selected. They report directly to the members of the *Sustainability Steering Committee*.

The sustainability model is based on the 3 pillars described below:

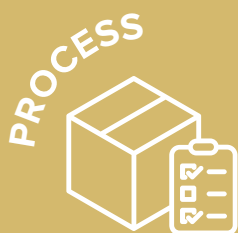


Valuing our people, the Everyday Makers

Workplaces must be stimulating, capable of attracting, motivating, and facilitating the growth of our people; places that are safe and healthy, where each individual can feel valued and develop their potential.

Integrating sustainability in product design and innovation

The Group intends to innovate its products by focusing on materials, durability, energy efficiency, and technologies that can enable and promote healthy food habits for our consumers.



Running sustainable supply chain and operation

The Group pays particular attention to environmental and social impacts throughout our value chain. Specifically, the Group strives to manage energy resources in a responsible and efficient manner, actively contributing to the fight against climate change. In addition, the goal is to protect human rights and improve working conditions along the entire production chain, as well as contribute to the growth of the communities in which the Group operates.

The main achievements



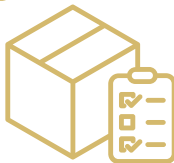
- Continuous reduction in injuries (injury rate -35% compared to 2018, -41% compared to 2017).
- Constant increase in the average hours of training provided to each employee (+12% against 2018, +21% against 2017) with 2,039 employees involved in performance reviews (+4% against 2018).
- Reorganization of the Human Resources division in order to guarantee people management which is more consistent with the recent organizational changes made, including the strengthening of talent acquisition, training and development of the Group's people.
- Definition and implementation of engagement plans for corporate and local employees as per the results of the 2017 edition of the Employee Engagement Survey – “*Your Voice: to Make the Difference*” intended for all Group personnel.
- Participation was high, equal to about 90% of the employees involved in the third edition (2019) of the survey “*Your voice: to Make the Difference*” which focuses on understanding the level of satisfaction and employee engagement of the Group's personnel.
- Implementation of the salary review which resulted in the definition of methodologies which are increasingly more formalized and standardized and the adoption of a specific Group policy.

PRODUCTS



- Invested 2.5% of turnover in research and development.
- Obtained the new edition of the ISO 9001:2015 certification at all production sites.
- Promotion of long-term partnerships with the best Italian universities, such as the Design Department of Milan's Politecnico and the University of Padua, in order to promote sustainable product innovation and consumer experiences, as well as consumer wellbeing.

PROCESS



- Reduced Group energy consumption (direct and indirect) by about 7% compared to 2018 with a largely constant trend in the three-year period for energy consumption per unit produced (6.2 kWh per unit produced in 2019).
- Reduced the Group's CO₂ emissions by around 5% compared to 2018 with a largely constant trend in the three-year period for Scope 2 CO₂ emissions per unit produced (3 kg. of CO₂ per unit produced in 2019).
- Prepared the *Supplier Code of Conduct* signed in 2019 by OEM suppliers in China.
- Inclusion of environmental controls in the social accountability audits, already carried out by the Group, for OEM suppliers.
- High degree of control and guarantee of operating efficiency and logistics, thanks to the *local for global* management of the logistics HUBs found in centralized locations in the countries where the Groups goods are distributed.

Company officers *

Board of Directors

Giuseppe de' Longhi	Chairman
Fabio de' Longhi	Vice-Chairman and Chief Executive Officer
Silvia de' Longhi	Director
Massimiliano Benedetti**	Director
Ferruccio Borsani**	Director
Luisa Maria Virginia Collina**	Director
Renato Corrada	Director
Carlo Garavaglia	Director
Maria Cristina Pagni **	Director
Stefania Petruccioli**	Director
Giorgio Sandri	Director

Board of Statutory Auditors

Cesare Conti	Chairman
Paola Mignani	Standing member
Alberto Villani	Standing member
Laura Braga	Alternate auditor
Alberta Gervasio	Alternate auditor

External Auditors

PriceWaterhouseCoopers S.p.A. ***

Control and Risks, Corporate Governance and Sustainability Committee

Stefania Petruccioli**

Maria Cristina Pagni **

Renato Corrada

Remuneration and Appointments Committee

Maria Cristina Pagni**

Stefania Petruccioli**

Carlo Garavaglia

Indipendent Committee

Maria Cristina Pagni**

Massimiliano Benedetti**

Ferruccio Borsani**

Luisa Maria Virginia Collina**

Stefania Petruccioli**

* The company officers were elected at the shareholders' meeting of 30 April 2019 for the period 2019-2021.

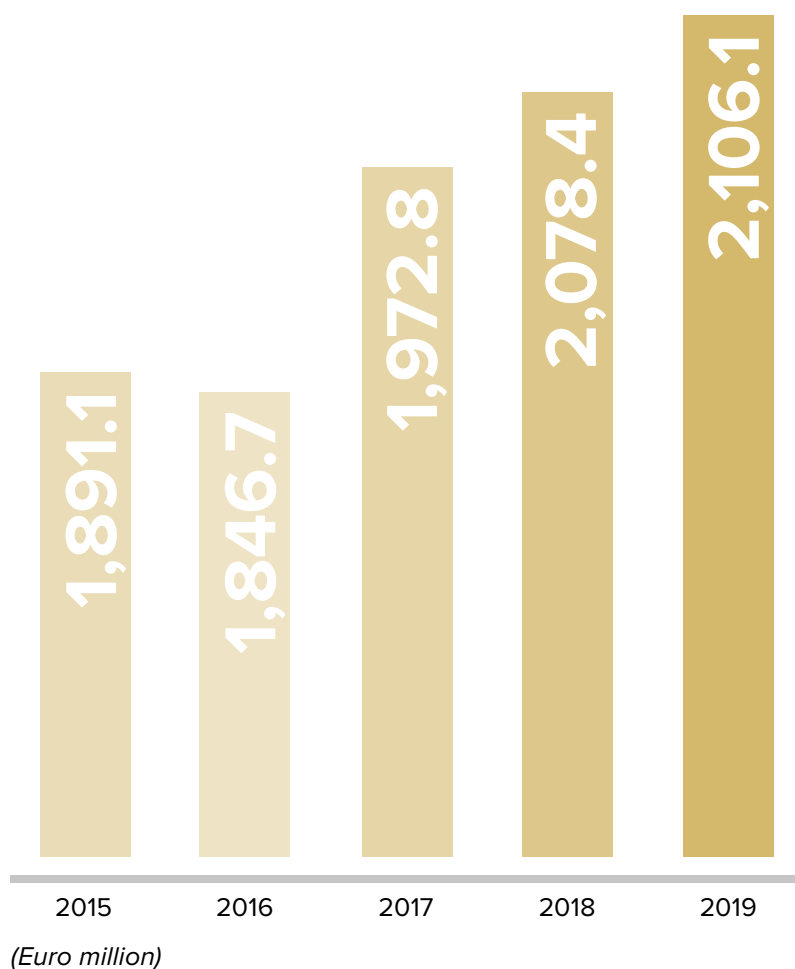
The Company informs that the Board of Directors of De' Longhi S.p.A., in a meeting held on January 20, 2020, having heard the favorable opinion of the Remuneration and Appointments Committee and of the Board of Statutory Auditors, unanimously approved the proposal presented by the Chairman Giuseppe de' Longhi and the Vice President and CEO Fabio de' Longhi aimed at the appointment of Mr. Massimo Garavaglia as a Director of the Company and to assign him the powers of Chief Executive Officer and appoint him as General Manager of De' Longhi S.p.A.. The validity of the proposal made to Mr. Massimo Garavaglia is subject to the approval of the Shareholders' Meeting on 22 April, called to approve the Group's Financial Report as at 31.12.2019, as well as the proposal to increase the number of the members of the Board of Directors to 12 from the current 11.

** Independent directors.

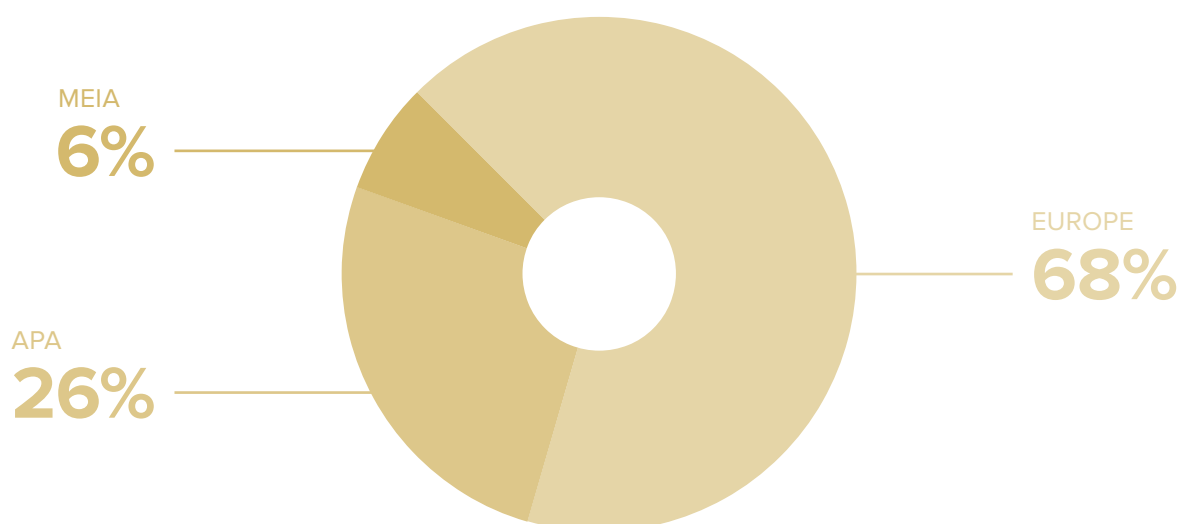
*** Assigned by the shareholders' meeting of 24 April 2018 for the financial years 2019-2027.

Key performance indicators

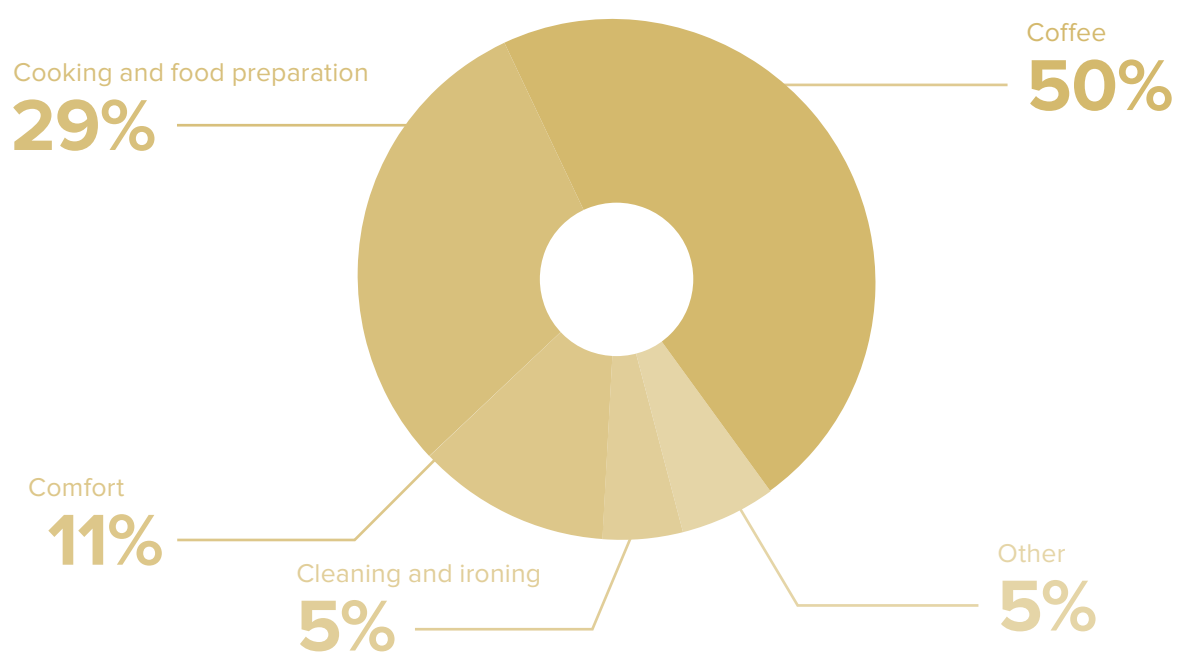
Normalized **consolidated revenues** amount to €2,106.1 milioni, +1.3%.
Good growth in the main **European markets**.
The success of **coffee products** confirmed.



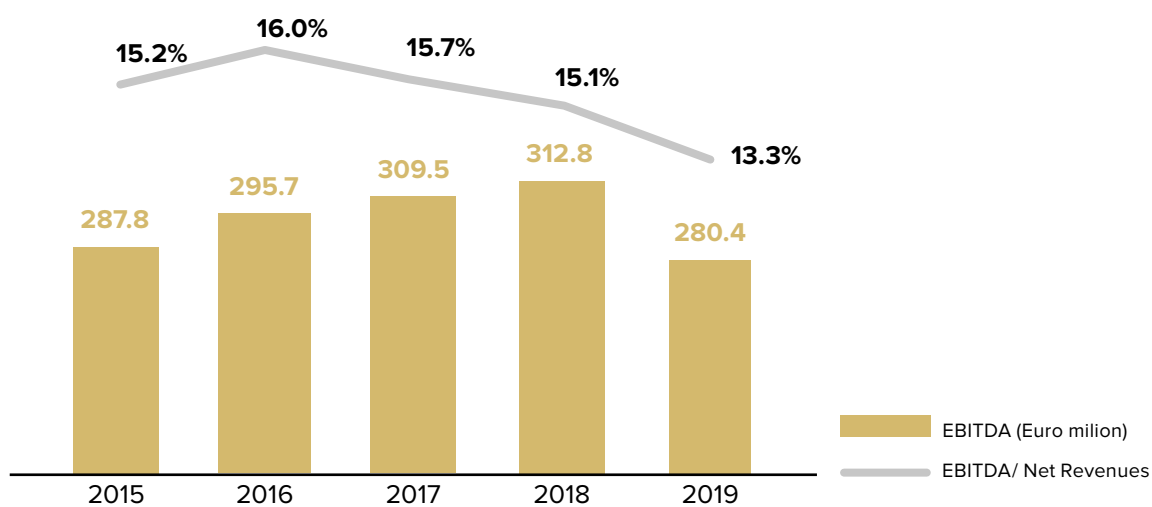
Consolidated revenues by geographical area



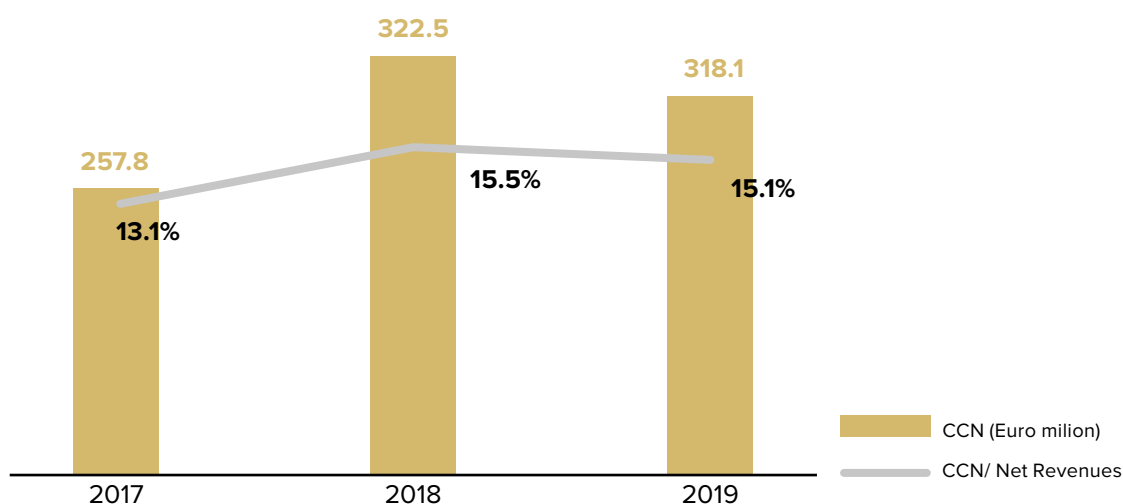
Consolidated revenues by product category



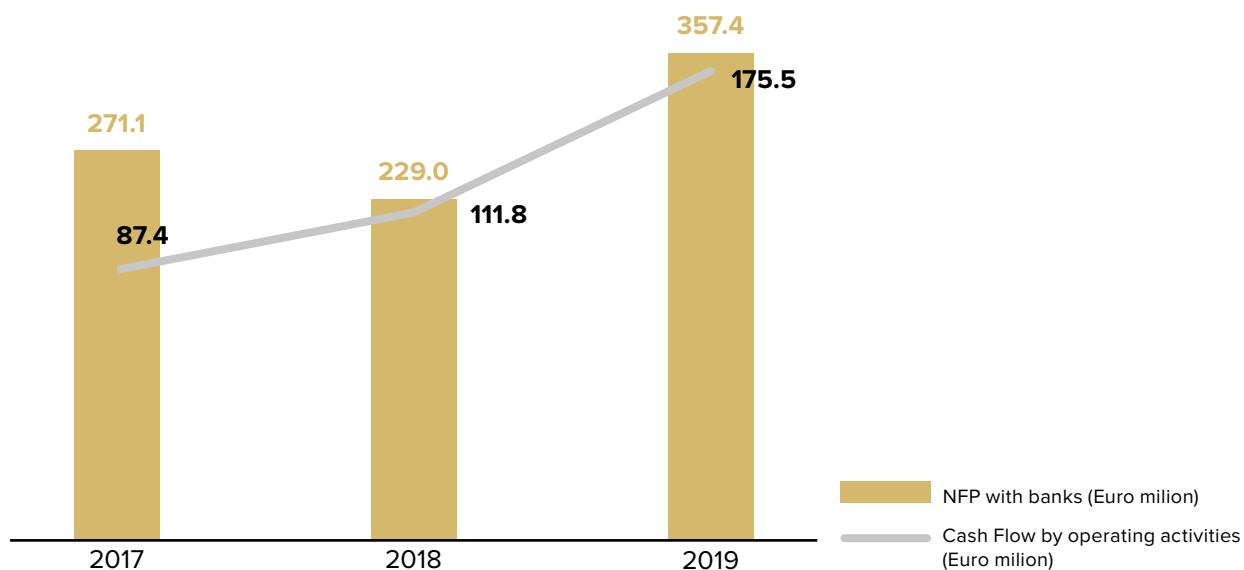
Normalized EBITDA before non-recurring/stock option cost comes to €280.4 million.



Normalized **NWC** of €318.1 million, lower than in 2018 thanks to inventory control and the organic decline in receivables.



NFP with banks of €357.4 million.
Operating cash flow reaches €175.5 million.



Definitions

Unless stated otherwise, the figures for 2018 in this report refer to Continuing Operations, namely the perimeter without NPE S.r.l., in light of the industrial partnership agreement which called for the sale of the controlling interest in the company, finalized in a deed dated 19 December 2018.

“Normalized” refers to 2019 figures net of the impact of IFRS 16 application and the reclassification of a few categories of commercial contributions following the implementation in the fourth quarter of 2019 of a new Commercial Policy in the main European markets.

The figures at constant exchange rates (also referred to as organic) are calculated excluding the effects of converting currency balances and accounting of derivatives.

Results

(€/million)	2019	% revenues	2019 normalized	% normalized revenues	2018	% revenues	Normalized Change	Normalized Change %
Revenues	2,101.1	100.0%	2,106.1	100.0%	2,078.4	100.0%	27.7	1.3%
<i>Revenues at constant exchange rates</i>	<i>2,070.4</i>	<i>100.0%</i>	<i>2,075.4</i>	<i>100.0%</i>	<i>2,077.1</i>	<i>100.0%</i>	<i>(1.7)</i>	<i>(0.1%)</i>
Net industrial margin	990.2	47.1%	995.2	47.3%	990.7	47.7%	4.5	0.5%
EBITDA before non-recurring / stock option costs	295.3	14.1%	280.4	13.3%	312.8	15.1%	(32.4)	(10.4%)
<i>EBITDA before non-recurring / stock option costs at constant exchange rates</i>	<i>292.8</i>	<i>13.9%</i>	<i>277.9</i>	<i>13.4%</i>	<i>310.5</i>	<i>14.9%</i>	<i>(32.5)</i>	<i>(10.5%)</i>
EBIT	210.9	10.0%	215.0	10.2%	242.9	11.7%	(27.9)	(11.5%)
Profit (loss) pertaining to <i>Continuing Operations</i>	161.0	7.7%	161.7	7.7%	183.9	8.8%	(22.2)	(12.1%)
Profit (loss) pertaining to the Group	161.0	7.7%	161.7	7.7%	184.7	8.9%	(23.0)	(12.4%)

Statement of financial position

(€/million)	31.12.2019	31.12.2019 normalized	31.12.2018
Net working capital	318.8	318.1	322.5
Net operating working capital	415.1	414.6	414.3
Net capital employed	912.6	839.3	837.8
Net financial assets	277.8	351.8	228.1
<i>of which:</i>			
— <i>Net bank financial position</i>	357.4	357.4	229.0
— <i>Other financial receivables (payables)</i>	(79.6)	(5.5)	(0.9)
Net Equity	1,190.5	1,191.2	1,065.9
Net working capital/Net revenues	15.2%	15.1%	15.5%
Net operating working capital /Net revenues	19.8%	19.7%	19.9%
Cash flow by operating activities	101.5	175.5	111.8

Report on operations



Performance review

The De' Longhi Group closed 2019 with higher fourth quarter revenues (+3.1% normalized¹) which, together with the positive trend recorded in the second and third quarters of 2019, helped to offset the weak performance reported in the first three months of the year.

Revenues amounted to €2,101.1 million in the twelve months (€2,106.1 million normalized, an increase of 1.3% compared to 2018); in organic terms revenues, which benefitted from the positive exchange effect, would have been basically in line with 2018.

Both revenues and margins were impacted by a number of discontinuities in 2019. Several endogenous factors, like a different timing in the sale of air conditioners in the United States which affected the comparison with the prior year, the interruption in the sale of capsule products, the commercial reorganization in Latin America and Turkey, the revised distribution model in a few markets and the exit from a few unprofitable businesses; along with other exogenous factors connected to global market conditions and social dynamics in a few markets, like the uncertainty linked to the outcome of Brexit and its continuous delays, the trade dispute between the United States and China, as well as the political unrest in Hong Kong. The endogenous factors had an impact on revenues of around €36.1 million. Net of these elements, normalized revenues would have been about 3.1% higher in the twelve months.

Margins in 2019 were influenced, in addition to the above, by the decision to make considerable investments in advertising in the last quarter of the year in order to support the growth of the Group's brands.

Excellent cash generation is explained by both revenue and the containment of working capital.

The total sales growth is attributable to the European markets, where performances varied, while APA and MEIA were down against 2018, despite the positive exchange effect.

¹ "Normalized" refers to 2019 figures net of the impact of IFRS 16 application and the reclassification of a few categories of commercial contributions following the implementation in the fourth quarter of 2019 of a new Commercial Policy in the main European markets.

Normalized revenues reached €1,424.9 million in **Europe**, an increase of 4.3% compared to 2018 (+3.6% in organic terms).

France, Poland, Russia, Ukraine and other CIS countries reported double-digit growth.

The German market posted good growth (+5.1%) thanks to the acceleration seen in the fourth quarter (+12.6%).

In Italy a particularly difficult market resulted in a drop of around 3.2%, despite the positive performance of coffee (both fully automatic and manual models, as well the Nespresso business products), deep fryers and home care products, due to a drop in the sale of kitchen machines and portable air conditioners, which reflected a sell-in influenced by high inventory from the prior season.

The United Kingdom closed the year with lower sales due mainly to the uncertainty surrounding the outcome of Brexit and the continuous postponements which triggered a generalized drop in consumption.

In **APA** revenues fell 4.3% against 2018 to €541.6 million, despite the positive exchange effect (down 6.7% in organic terms), due to the discontinuities mentioned above.

The United States and Canada bucked the regional trend and closed the year with growth of 2.6%, despite the penalizing comparison with 2018 attributable to the advance sale of comfort products at the end of last year in light of the expected increase in tariffs as a result of the trade disputes with China.

Revenues in Australia fell by 7.0% due to the exit from the unprofitable free standing cookers business and the commercial restructuring aimed at the rationalization of structural costs.

China and Hong Kong reported a decline of 8.5%; the market was impacted by discontinuity in the capsule machine business and the political tensions in Hong Kong, as well as the implementation of a new online business in China which caused a temporary drop in 2019 sales, but will lead to higher sales and margins in 2020.

Sales in Japan were impacted negatively by a particularly mild winter which was not favorable to the sale of heating products. Conversely, Braun brand handblenders and the breakfast line performed well.

MEIA closed the year with revenues of €139.6 million, lower (-4.9% at current exchange rates; -8.8% in organic terms) than in 2018. The performance reflects the region's market and political situation, as well as the discontinuity stemming from the change made to the business model in Turkey. De' Longhi maintained its leadership in market share for the food preparation and espresso machine segments, increased its market share for the ironing segment, despite lackluster demand and an uncertain political environment.

Looking at segments, coffee continues to be the main growth driver, reaching about 50% of the total sales and rising 7.7% compared to 2018, despite discontinuities in the capsule machine market. Sales for fully automatic and manual machines were positive, with double digit growth fueled also by the launch of the new *Maestosa* and *La Specialista*. This improvement was partially offset by the performance of single serve machines which were down due to an interruption in distribution in a few countries; net of these items, the segment would have been basically unchanged with respect to 2018.

Consistent with the market trend, food preparation and cooking products posted a decline attributable to a drop in the sale of kitchen machines. Cooking food processors reported a positive performance, while handblender sales were largely in line with the prior year. As for other segment products, the comparison with the prior year reflects the exit from the unprofitable free standing cookers business in Australia.

Cleaning products and irons reported an increase of around 4.7% driven by the good sales performance of Braun brand products.

Comfort's performance (down overall by around 8%) reflects a few external factors, namely the different timing in the sale of air conditioners in the United States and, for heating products, a particularly mild winter versus a colder winter in 2018.

The net industrial margin amounted to €990.2 million or 47.1% of revenues.

The normalized net industrial margin came to €995.2 million, largely unchanged with respect to 2018 (€990.7 million) both at current exchange rates and in organic terms; as a percentage of revenues (47.3%), the figure benefitted from higher sales volumes and a better mix, which offset higher manufacturing costs and a negative price effect.

EBITDA before non-recurring/stock option costs amounted to €295.3 million or 14.1% of revenues.

Normalized EBITDA before non-recurring/stock option costs amounted to €280.4 million, lower than 2018 (coming to 13.3% of revenues in 2019 versus 15.1% in 2018); the result reflects higher investments in advertising and promotional activities (over +€18 million compared to 2018) made mainly in the last quarter of the year (an increase of €12.3 million was recorded in the fourth quarter of 2019) linked to the investments made to support commercial activities in the main markets.

EBITDA was affected by the costs connected to stock option plans (which amounted to €2.1 million in the twelve month period) and the non-recurring costs of €4 million connected mainly to the reorganization of a few foreign branches and the commercial structure.

EBIT amounted to €210.9 million or 10.0% of revenues.

Normalized EBIT came to €215.0 million (€242.9 million in 2018) or 10.2% of revenues, after amortization and depreciation of €59.2 million, a decrease of €2.3 million compared to 2018 which included the one-off write-downs of a few assets.

Financial expenses reached €15.1 million, €18.3 million in normalized terms (€19.0 million in 2018) explained by higher financial income net of higher foreign exchange costs.

The Group's portion of net profit reached €161.0 million after taxes of €34.8 million.

Tax benefitted from the patent box incentives recognized as a result of an agreement signed with the tax authorities relating to the determination of income for the period 2015-2019 and tax credits for research and development pursuant to Law 190/2014.

The net financial position came to a positive €277.8 million at 31 December 2019. The normalized figure, excluding the impact of IFRS 16 application, came to €351.8 million (versus €228.1 million at 31 December 2018), €357.4 million of which relating to the net position with banks (€229.0 million at 31 December 2018). The twelve-month comparison of the net position with banks shows an increase of €128.3 million (-€42.1 million in the twelve-month period 2018) explained by greater normalized operating cash flow (€175.5 million) which increased considerably against 2018 (€111.8 million).

Net working capital came to €318.8 million at 31 December 2019, a decrease of €3.7 million compared to 31 December 2018 (down €4.4 million on normalized basis), despite the acceleration recorded in the fourth quarter, due to the net impact of inventory control, a decrease in suppliers and the positive trend in receivables, in organic terms.

Significant events

In a context influenced by the numerous discontinuities mentioned previously, in 2019 the De' Longhi Group worked on several fronts to guarantee stability, improve processes and lay the foundation for future growth.

For manufacturing, 2019 was basically a year in which production capacity was stabilized, characterized by investments in the equipment needed to sustain the increased demand and cost efficiencies in the manufacture of coffee machines in both Europe and China, as well as the search for new capacity in East European countries in order to centralize production now carried out externally.

In the European plants work continued on increasing flexibility in production in order to respond to the ever increasing need to address changes in market volumes and the relative product mix; steps were also taken to identify how to make the necessary enhancements to production capacity, along with investments in automation aimed at reducing production costs and improving product quality. Lastly, important insourcing of work done previously in outsourcing was carried out.

With regard to the Chinese plants, a lot of work was done on the engineering of new products, for both the coffee and the food preparation sectors; at the same time, work continued on improving production, with the introduction of further automation in the mass production phases.

As for the supply chain, in 2019 new warehouses were opened in order to strengthen and improve distribution efficiency, as well as support growth and meet the changing market needs.

With regard to the commercial structure, work continued on revising the business model in a few markets, particularly at a few commercial branches in Latin America and Turkey.

The Group also worked on a few important initiatives, like the implementation of a new commercial policy in the main European markets in order to standardize commercial terms and improve profitability beginning in 2020, and the continuation of the activities connected to the instore execution program in Europe with a view to improving the sell out for strategic products.

Further important investments were made in the development and launch of new products in all segments.

In the coffee segment, the launch of the premium fully automatic *Maestosa* machine, begun year-end 2018, was expanded in other countries. The new manual espresso machine *La Specialista*, presented during IFA 2018 in Berlin, was also launched. In addition to the two new top models, other medium/high end products were introduced like the fully automatic machine *Perfecta Evo*. The Braun brand *Multiserve Coffee Machine*, which provides a vast range of drinks, conceived solely for the North American market, was launched. It is the first model of this product range to obtain *Specialty Coffee Association* certification.

The range of food preparation products was strengthened thanks to the introduction of highly innovative products like the new Kenwood brand cooking food processor, the *kCook MultiSmart*, launched year-end 2018, which can be operated using a smartphone/tablet application and the *CookEasy+* model launched in 2019, another smart product with an intuitive touch screen. During the year the already vast range of kitchen machines was enriched with the launch a new basic model, *Prospero+*, with a compact design and a high performing motor. As for handblenders, the mid/high range of products was increased with the European launch in September 2019 of the Braun brand, *MultiQuick 7*, winner of the *iF Design Award*. In the month of March, a new breakfast collection, *Identity*, was launched. This collection includes, among other things, a filter coffee machine, kettles with or without temperature controls and a two-sided toaster with a new sandwich function.

Looking at home care, the latest developments for irons, both ironing systems and traditional irons, were focused on finding cost efficient solutions for a more competitive range of products, particularly in the mid-entry level segments. The year benefitted from the work done in the past to increase the offer with the introduction of the three platforms launched in 2018: the top of the line ironing systems *Carestyle 7*, the *TexStyle3* irons and the *CarestyleCompact* system.

As for cleaning products, in 2019 *Colombina EVO*, a new range of rechargeable, multifunctional, electric brooms with a high powered 21.6V lithium battery, was introduced.

With respect to comfort, a dehumidifier connected to w-fi and usable through *Apple Homekit* was introduced; the entire range of dehumidifiers and portable air conditioners was converted from the refrigerant R410A to the natural propane refrigerant R290.

Consistent with the Group's development plan, expansion continued of the headquarters and the construction of a new building which will increase the area by approximately 20,000 square meters and will be used for offices, new employee infrastructures, as well as to increase the space used for R&D. The new building will be completed by the end of 2020.

As for digital, the Group invested in the optimization of the corporate websites in terms of both user experience (UX) and user interface (UI) in order to improve the consumer's approach to the brands and continued working on SEO (Search Engine Optimisation), the Social Media and the expansion of the e-commerce platform.

Important work was also dedicated to building the new corporate website www.delonghigroup.com launched at the end of February 2020 in order to renew communication based on shared values.

From an organizational standpoint, during the year the changes begun in the past involving mainly the first-level employees reporting to the Group CEO continued, resulting in the reorganization of the structures reporting to the Chief Officers.

Global market conditions

Global economic activity was moderate in 2019, but there were signs of stabilization toward the end of the year. Financial activities were strengthened by monetary policy and glimpses of a possible waning of the international trade disputes.

Preliminary estimates confirm that the global GDP slowed in the fourth quarter of 2019 due to the socio-political tensions in a number of countries.

At the beginning of 2020 the health crisis linked to the spread of the Coronavirus (Covid-19) exploded. Initially, the epicenter of the epidemic was the Chinese province of Hubei, but the virus spread rapidly first throughout China and then globally, despite the timely implementation of restrictions on movement. The interruption in Chinese manufacturing affected the rest of the world very quickly, given the key role that the country plays in the manufacture of goods and the supply of raw materials. Tourism and many other related sectors also suffered immediately from the repercussions of the restrictions on the free movement of people.

To date the prospects for growth, therefore, are uncertain.

The base-case scenario is based on the hypothesis that the peak of the Chinese epidemic will dissipate in the first quarter of 2020, with a gradual recovery in activity in the second quarter, and that contagion in the rest of the world will be sporadic and contained.

In this environment, global GDP is expected to drop by half a percentage point from +2.9% to +2.4% in 2020 to then rise in 2021 by +3.25%, albeit with performances that vary from country to country.

With regard to China, in 2020 the GDP is expected to grow by just below +5%, to then reach levels around +6.25%-6.5% in 2021, basically in line with the forecasts made prior to the emergency. A similar trend, though less pronounced, is expected for interconnected economies like China, Japan, Korea, Australia and Indonesia.

With regard to the economies that are less entwined with China, in particular the United States and China, the impact of the health crisis is expected to be less severe, though the drop in consumer confidence, supply chain issues and weakening external demand will slow growth.

Looking at Euro zone countries, taking into account the possibility of a trade agreement in favor of the free trade of goods with the United Kingdom, growth is expected to reach a yearly average of +1% in the period 2020/2021, considering the impact of the epidemic in the first half of 2020; growth in Italy is expected to be basically flat.

The emerging markets are expected to recover gradually in the period 2020/2021.

The growth could be even weaker (a drop of one and half points more than the initial estimates) in a domino scenario – broader contagion, namely a more widespread epidemic which lasts longer, prolonged international trade disputes, uncertainty in the relationship between Europe and the United Kingdom.

According to the OECD, the health emergency reinforces the need for political measures to contain the spread of the virus and strengthen healthcare systems by providing adequate resources, increase consumer confidence and demand, as well as limit supply chain damage.

It is indispensable for the countries which have been affected the most to create buffers for the most vulnerable social groups, allowing for and promoting flexibility in work and/or instituting temporary assistance programs.

In the short-term, guaranteeing an adequate level of liquidity is of fundamental importance; furthermore, temporary fiscal measures could support the sectors that are the most exposed.

Policies to reduce interest rates can have a positive effect on demand, but can also be less effective in supply chain recovery and the mandatory restrictions on the movement of people.

In this context, on 2 March 2020, the Chairman of the European Central Bank issued a press release in which she declared that the rapid expansion of the Coronavirus emergency puts the economic forecasts and the performance of the financial markets at risk. The Chairman also declared that the European Central Bank is continuously monitoring the evolution of the situation and implications for economic activity, medium-term inflation and aspects of monetary policy, in order to adopt adequate protective measures in a timely manner.

On 3 March 2020, the Federal Reserve cut interest rates by half a percentage point in order to mitigate the risks stemming from the spread of the virus, support employment and maintain price stability, albeit in what is still a strong economic environment.

(Source: OECD / European Central Bank / Federal Reserve).

Group results

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

(€/million)	2019	% revenues	2019 normalized	% revenues	2018	% revenues
Revenues	2,101.1	100.0%	2,106.1	100.0%	2,078.4	100.0%
<i>Change 2019/2018</i>	<i>22.7</i>	<i>1.1%</i>	<i>27.7</i>	<i>1.3%</i>		
Materials consumed & other production costs (production services and payroll costs)	(1,110.9)	(52.9%)	(1,110.9)	(52.7%)	(1,087.8)	(52.3%)
Net industrial margin	990.2	47.1%	995.2	47.3%	990.7	47.7%
Costs for services and other expenses	(513.0)	(24.4%)	(532.9)	(25.3%)	(503.7)	(24.2%)
Payroll (non-production)	(181.9)	(8.7%)	(181.9)	(8.6%)	(174.1)	(8.4%)
EBITDA before non-recurring expenses / stock option costs	295.3	14.1%	280.4	13.3%	312.8	15.1%
<i>Change 2019/2018</i>	<i>(17.5)</i>	<i>(5.6%)</i>	<i>(32.4)</i>	<i>(10.4%)</i>		
Other non-recurring expenses / stock option costs	(6.1)	(0.3%)	(6.1)	(0.3%)	(8.3)	(0.4%)
EBITDA	289.2	13.8%	274.3	13.0%	304.5	14.7%
Amortization	(78.3)	(3.7%)	(59.2)	(2.8%)	(61.6)	(3.0%)
EBIT	210.9	10.0%	215.0	10.2%	242.9	11.7%
<i>Change 2019/2018</i>	<i>(32.0)</i>	<i>(13.2%)</i>	<i>(27.9)</i>	<i>(11.5%)</i>		
Net financial income (expenses)	(15.1)	(0.7%)	(18.3)	(0.9%)	(19.0)	(0.9%)
Profit (loss) before taxes	195.8	9.3%	196.7	9.3%	223.9	10.8%
Income taxes	(34.8)	(1.7%)	(35.0)	(1.7%)	(40.0)	(1.9%)
Net profit of continuing operations	161.0	7.7%	161.7	7.7%	183.9	8.8%

The net industrial margin reported in the reclassified income statement differs by €163.5 million in 2019 (€171.7 million in 2018) from the consolidated income statement as, in order to better represent the period performance, production-related payroll and service costs have been reclassified from payroll and services, respectively.

The net profit for 2018 shown above refers solely to *Continuing Operations*; after income from Discontinued Operations of €0.8 million, the Group's portion of net profit comes to €184.7 million.

"Normalized" refers to 2019 figures net of the impact of IFRS 16 application and the reclassification of a few categories of commercial contributions following the implementation in the fourth quarter of 2019 of a new Commercial Policy in the main European markets.

Revenues

Revenues amounted to €2,101.1 million in 2019 (€2,106.1 million normalized, slightly higher, +1.3%, against 2018; revenues reached €2,078.4 million in 2018, basically unchanged at constant exchange rates).

This performance reflects a number of different factors, described above, which created discontinuities compared to the prior year amounting to around €41 million. Net of these discontinuities, revenues would have been about 3.1% higher.

The result was also influenced by non-recurring global factors, including Brexit which impacted consumption on the British market, trade disputes between the United States and China, and political unrest in Hong Kong with affected sales in China and Hong Kong.

Markets

Revenues benefitted from the good overall performance of the European markets, partially offset by the drop recorded in APA and MEIA.

The breakdown is summarized below:

(€/million)	2019	% revenues	2019 normalized	% revenues	2018	% revenues	Normalized change	Normalized change %
EUROPE	1,419.9	67.6%	1,424.9	67.7%	1,365.7	65.7%	59.2	4.3%
APA (Asia/Pacific/Americas)	541.6	25.8%	541.6	25.7%	566.0	27.2%	(24.3)	(4.3%)
MEIA (Middle East/India/Africa)	139.6	6.6%	139.6	6.6%	146.7	7.1%	(7.2)	(4.9%)
Total revenues	2,101.1	100.0%	2,106.1	100.0%	2,078.4	100.0%	27.7	1.3%

Normalized revenues in **Europe** came to €1,424.9 million in 2019, an increase of 4.3% compared to the twelve month period in 2018 (+3.6% in organic terms), with different dynamics in the single markets, but with a strong, double-digit contribution from sales in France, Poland, Russia, Ukraine and other CIS Countries.

Growth was generally driven by the De' Longhi brand which progressed in the main coffee and comfort categories, particularly air conditioners. Coffee benefitted, once again, from the continuous improvement in the sale of fully automatic machines. The single serve capsule machine segment is still weak.

Strong revenue growth (+ 20.4%) was posted in France, thanks to the good performance of the coffee segment.

Russia, Ukraine and other CIS countries showed further, strong progression in sales (+ 19.4%) thanks to the good performance of all sales channels, including online and the business tied to the loyalty programs of the main retail chains. Sales for coffee were up by around 10%, driven by fully automatic models and sustained by manual models like *La Specialista*. Sales for Kenwood brand kitchen machines, irons, handblenders and the Braun brand breakfast line were positive.

Strong revenue growth was posted in the Polish market (+ 22.7%), with a good sales trend for fully automatic machines and, albeit with lower volumes, rapid growth in two product categories: water kettles and irons in particular for ironing systems.

Positive results were recorded in the Czech Republic and Hungary where the coffee segment posted growth of around 7.0% and the food preparation segment was positive, though more in line due to the net effect of kitchen machine's good performance which was partially offset by the drop in handblender sales.

Positive results were recorded by the German market (+5.1%), accelerating in the last quarter of 2019 thanks to the sale of coffee, a good season for De' Longhi brand air conditioners and the change in the trend of Kenwood brand food preparation products; a difficult situation in the capsule machine business and changes to the distribution model, with the termination of sales to a few wholesalers, did, however, limit growth.

In Italy the market was particularly difficult due to a lack of consumer confidence and a change in spending habits which penalized retailers to the benefit of online channels; despite the drop of around 3.2%, positive results were recorded by coffee for fully automatic and manual models, thanks above all, to the launch of the new *La Specialista* model, as well the Nespresso business products. Sales for deep fryers and home care products were positive. Sales for portable air conditioners were down due to a sell-in influenced by high inventory from the prior season.

The United Kingdom closed the year with lower sales due mainly to the uncertainty surrounding the outcome of Brexit and the continuous postponements which triggered a generalized drop in consumption.

In **APA** revenues fell 4.3% against 2018 to €541.6 million (-6.7% in organic terms), despite the positive exchange effect.

The region was impacted by the Group's closure of a few non-strategic businesses, rationalization of the product range offered, the sales performance of comfort products which was influenced by the US – China trade disputes, and the impact of a mild winter, as well as the restructuring of a few commercial branches.

The United States and Canada bucked the regional trend and closed the year with growth of 2.6%.

The positive performance is attributable to the good performance of coffee sales, both manual machines, which benefitted from the launch of the new *La Specialista* model, and fully automatic machines, as well as Nespresso business products. The period was impacted by the penalizing comparison with 2018 attributable to the advance sale of comfort products at the end of last year in light of the expected increase in tariffs as a result of the trade disputes with China.

In Australia the focus was on recovering margins by increasing prices, exiting the unprofitable free standing cookers business and the commercial restructuring aimed at the rationalization of structural costs, which resulted in a decline of 7.0%. Net of the discontinuity linked to the sale of cookers and the exchange effect, the market would have been largely in line with the prior year, thanks, above all to an increase in the sale of manual coffee machines which benefitted from the launch of *La Specialista*.

China and Hong Kong reported a decline of 8.5%. The market was impacted by discontinuity in the capsule machine business and the political tensions in Hong Kong; furthermore, the implementation of a new online business model in China influenced the sales trend without showing a positive impacts on margin yet, due to the still ongoing transition phase. Sales for coffee were positive, with the exception of capsule machines, and Braun brand products, above all handblenders.

In Japan sales, while down in organic terms, benefitted from a positive exchange effect; the performance was impacted negatively by a particularly mild winter which was not favorable to the sale of heating products. Conversely, Braun brand handblenders and the breakfast line performed well, particularly the water kettles.

Sales in Latin American countries were impacted by the commercial restructuring underway which will result in the Group to managing the market through distributors.

MEIA closed the year with revenues of €139.6 million, lower (-4.9% at current exchange rates; -8.8% in organic terms) than in 2018. The economy of some of the region's countries depends largely on the export of commodities, in others the political situation remains uncertain or characterized by conflict. The Group, therefore, was faced with a market characterized, on the one hand, by a drop in the demand for food preparation appliances and, on the other, a positive trend in the demand for coffee. In this context, while sales were down, De' Longhi maintained its leadership in market share for the food preparation segment. The Group also recorded good results for the espresso machine segment and was confirmed as the segment leader. The market share for the ironing segment increased, thanks also to the launch of the Braun Series 3 model.

Business lines

Looking at the business lines, 2019 confirmed the success of coffee and highlighted the good results of the home care segment and irons, while the negative trend for cooking and food preparation products continued, along with the slowdown of the comfort segment due mainly to the discontinuities described above.

A positive trend for coffee machines was confirmed with growth of around 7.7% compared to the previous twelve months.

The sales for fully automatic machines grew by around 10.4% across almost all the main markets, thanks to the positive contribution of the new *Maestosa* launch, but also thanks to the proven success of the line's other models.

Results for the traditional manual machines, which benefitted from the launch of the new *La Specialista* model, were very good.

Despite the robust growth in the sale of Nespresso business products, particularly in the United States where the Vertuo line was very successful, revenues for capsule coffee machines were impacted by the interruption in distribution in a few countries; net of the discontinuities, sales would have been largely unchanged.

In a context of global contraction (GFK world 46 figures), the cooking and food preparation segment closed the year down slightly (around -3.8%).

The Kenwood brand, present with an ample range of models to which the new *Prospero+* was added in 2019, maintained its clear position as the kitchen machine leader thanks, in some instances, to an aggressive incentives policy. Group sales in this sector were down slightly, due a decline in the traditional European markets which was only partially offset by the good sale performance in Eastern European countries like Russia, Ukraine, the Czech Republic and Hungary. Cooking food processors recorded a positive performance, supported by the introduction of smart models like *kCOOK Multi Smart* and *CookEasy+*. Sales for the handblender segment, of which Braun is the market leader (GFK world 46 figures) were basically in line with the prior year thanks to the sale of the Braun brand MQ5, MQ7 and MQ9 models and the Kenwood brand Triblade line. With regard to the segment's other products, the comparison with the prior year reflects the exit from the unprofitable free standing cookers business in Australia.

The home care segment recorded an increase in revenues of around 4.7%.

With regard to irons, sales grew by around 4%, while the market share of the Braun brand increased (GFK world 46 figures) thanks to the expansion of the three product platforms launched in 2018: for ironing systems, *Carestyle 7* and *Carestyle Compact*, and for irons, the *TexStyle3*.

Lastly, sales for cleaning products were also positive (+6.5%).

Comfort's performance (down overall by around 8%) needs to be looked at in light of a few external factors. Firstly, as mentioned above, the air conditioning segment was affected by the comparison with the prior year which benefitted from a different timing in sales; net of this inconsistency, the segment's sales would have been in line with the previous twelve months. A particularly mild winter versus a colder winter in 2018 also affected heating products.

Profitability

The net industrial margin amounted to €990.2million or 47.1% of revenues.

The normalized net industrial margin came to €995.2 million (47.3% of revenues), largely unchanged with respect to 2018 both at current exchange rates and in organic terms thanks to higher sales volumes and a better mix which offset higher manufacturing costs and a negative price effect.

EBITDA before non-recurring/stock option costs amounted to €295.3 million.

EBITDA before non-recurring/stock option costs adjusted for the impact of IFRS 16 application and the implementation of the Group's new commercial plan amounted to €280.4 million, 10.4% lower than in 2018 (€312.8 million). The result reflects higher investments in advertising and promotional activities (+€18.2 million compared to 2018), mainly in the last quarter of the year, linked to the investments made to support commercial activities in the main markets. The investments were made in advertising campaigns on traditional and online channels like, for example, the CoffeeLab campaign promoting the fully automatic machines, and other promotional activities, particularly in store.

The decline also reflects an increase in import duties stemming from the US – China trade disputes and logistics costs incurred to manage inventories.

Non-recurring costs, connected mainly to the reorganization of the commercial structure and a few foreign branches, amounted to €4.0 million, while stock option costs came to €2.1 million.

EBITDA amounted to €289.2 million; €274.3 million in normalized terms.

Amortization and depreciation came to €78.3 million. Net of the portion of the right-of-use capitalized in accordance with IFRS 16, amortization and depreciation amounted to €59.2 million, €2.3 million lower than in the prior year. This result, on the one hand, reflects the investments made in previous years which are now operating at capacity and, on the other hand, benefits from the comparison with 2018 which included the one-off write-downs of a few assets no longer in use.

Net of amortization and depreciation, EBIT amounted to €210.9 million (€215.0 million normalized).

Financial expenses reached €15.1 million, €18.3 million in normalized terms (€19.0 million in 2018) explained by higher financial income net of higher foreign exchange costs.

Taxes, which amounted to €34.8 million, €35.0 million in normalized terms, benefitted from the patent box incentives recognized as a result of an agreement signed with the tax authorities relating to the determination of income for the period 2015-2019 and tax credits for research and development pursuant to Law 190/2014.

The Group's portion of net profit reached €161.0 million.

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, Americas).

Each segment is responsible for all aspects of the Group's brands and serves 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)	31.12.2019	31.12.2019 normalized	31.12.2018	Variazione normalized
- Intangible assets	314.8	314.8	316.9	(2.0)
- Property, plant and equipment	315.1	242.7	237.2	5.5
- Financial assets	30.2	30.2	29.6	0.6
- Deferred tax assets	47.3	47.0	36.1	10.9
Non-current assets	707.4	634.8	619.8	15.0
- Inventories	343.5	343.5	404.8	(61.3)
- Trade receivables	437.4	437.4	429.3	8.1
- Trade payables	(365.8)	(366.3)	(419.8)	53.5
- Other payables (net of receivables)	(96.3)	(96.5)	(91.8)	(4.6)
Net working capital	318.8	318.1	322.5	(4.4)
Total non-current liabilities and provisions	(113.5)	(113.5)	(104.4)	(9.1)
Net capital employed	912.6	839.3	837.8	1.5
Net financial assets (*)	(277.8)	(351.8)	(228.1)	(123.7)
Total net equity	1,190.5	1,191.2	1,065.9	125.2
Total net debt and equity	912.6	839.3	837.8	1.5

(*) Net financial position as at 31 December 2019 includes € 79.6 million in net financial liabilities (€ 0.9 million at 31 December 2018 in net financial assets) relating to the fair value of derivatives and the financial debt connected to business combinations, pension fund and financial liabilities for leasing. Net of the impact of IFRS 16 application, the normalized net financial liabilities amount to €5.5 million.

Capital expenditures amounted to €62.1 million in the twelve month period (€50.6 million in 2018) and related to plant, property and equipment, namely equipment and molds, as well as production lines and one-off investments relating to the construction of the real estate complex in Treviso.

Net working capital amounted to €318.8 million at 31 December 2019, €318.1 million net of the effects of IFRS 16 application, showing a decrease of €4.4 million compared to 31 December 2018, despite the acceleration seen in the fourth quarter, due to inventory control and the reduction of suppliers. Trade receivables came to €437.4 million, an increase at current exchange rates compared to 31 December 2018 (€429.3 million), but down in organic terms due to a decrease in average payment terms.

The net financial position came to a positive €277.8 million at 31 December 2019 (versus €228.1 million at 31 December 2018), €357.4 million of which relating to the net position with banks (€229.0 million at 31 December 2018). The balance of the net position with banks was positive for €128.3 million (negative for €42.1 million in 2018) thanks to a strong increase in normalized operating cash flows which came to €175.5 million, versus €111.8 million in 2018.

Details of the net financial position are shown below:

(€/million)	31.12.2019	31.12.2019 normalized	31.12.2018	Variazione normalized
Cash and cash equivalents	731.5	731.5	569.3	162.2
Other financial receivables	102.4	102.2	54.2	47.9
Current financial debt	(138.2)	(119.7)	(156.1)	36.3
Net current financial position	695.7	713.9	467.5	246.4
Non-current financial debt	(417.9)	(362.1)	(239.4)	(122.7)
Total net financial position	277.8	351.8	228.1	123.7
<i>of which:</i>				
- <i>Position with banks and other financial payables</i>	357.4	357.4	229.0	128.3
- <i>Lease liabilities</i>	(74.0)	-	-	-
- <i>Financial assets/(liabilities) other than bank debt (fair value of derivatives, financial debt related to business combinations and pension funds)</i>	(5.5)	(5.5)	(0.9)	(4.6)

The net financial position reflects a few specific financial items, including primarily the fair value measurement of derivatives, the residual debt owed on business combinations and pension funds which show a negative balance of €5.5 million at 31 December 2019 (negative for €0.9 million at 31 December 2018).

The financial position with banks at 31 December 2019 also reflects lease liabilities recognized in accordance with IFRS 16 of €74.0 million.

Net of these items, the net position with banks came to €357.4 million at 31 December 2019, with cash flow reaching a positive €128.3 million in the twelve month period thanks also to net operating cash flow.

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

(€/million)	2019	2018
Cash flow by current operations	259.2	289.5
Cash flow by changes in working capital	(21.6)	(111.3)
Cash flow by current operations and changes in working capital	237.5	178.1
Cash flow by investment activities	(62.1)	(66.4)
Cash flow by operating activities normalized before IFRS 16 application	175.5	111.8
Lease liabilities IFRS 16	(74.0)	-
Cash flow by operating activities	101.5	111.8
Dividends paid	(55.3)	(149.5)
Cash flow by changes in cash flow hedge reserves	(1.7)	5.0
Cash flow by other changes in net equity	5.2	10.3
Cash flow absorbed by changes in net equity	(51.8)	(134.3)
Cash flow for the period	49.7	(22.5)
Opening net financial position	228.1	250.6
Closing net financial position	277.8	228.1

Net operating cash flow, which amounted to €175.5 million in 2019 (€111.8 million in 2018), benefitted from the cash flow generated by current operations and movements in net working capital of €237.5 million (€178.1 million in 2018), while cash flow from investment activities reached €62.1 million (€66.4 million in 2018).

Cash flow, which was positive for €49.7 million in 2019 (versus net absorption of €22.5 million in 2018), reflects cash flow absorption of €74.0 million linked to the application of IFRS 16 Leases.

Normalized cash flow, namely net of these effects, was positive for €123.7 million, and reflects changes in net equity, namely the payment of €55.3 million in dividends (€149.5 million in 2018), the change in the cash flow hedge reserve which was negative for €1.7 million (positive for €5.0 million in 2018) and other changes, such as the change in the translation reserve, which were positive for €5.2 million (€10.3 million in 2018).

Research and development – quality control

In 2019 the Group invested a total of around €52.3 million in research and development, basically in line with 2018, €11.2 million of which capitalized as intangible assets.

Research and development were carried out at the main product development hubs in Italy, Germany and the United Kingdom through transversal structures which service specific business lines and not the Group's single brands.

During the year preparation for the introduction in 2020 of the PLM (*Product Lifecycle Management*) software continued. The goal is to manage all data, information and documentation connected to product development in a shared database accessible by the entire organization. Meanwhile, the Group continued with its commitment to digitalizing and further improving company processes, while assessing new software to introduce inside the labs and electronic design offices.

Looking at coffee, the Group continued to invest in many areas. Development of fully automatic machines involved both cost efficiencies and expansion of the product range. Work was also done on connectivity in the context of projects which call for even more interaction between smartphone/tablet and the machine. For a few drip coffee machine models, the improved performance made it possible to receive certification from the *Specialty Coffee Association* and the *European Coffee Brewing Centre*. At the same time, the design of a few solutions which would reduce the environmental impact of different models, from packaging to the materials used in production, is underway.

Projects involving food preparation products focused on new functions and improving the consumer's experience. Connectivity development projects for the kitchen machines and food processors continued which resulted in the launch of the new *CookEasy+* model in 2019.

With regard to comfort, the focus of development was on connectivity, the design of new interfaces and lowering environmental impact, particularly for portable air conditioners and dehumidifiers for which the synthetic refrigerant R410 was substituted with a low GWP (Global Warming Potential) refrigerant.

In home care, particularly for irons, special attention was dedicated to improving performances and optimizing the programs for steam delivery combined with greater energy efficiency. The focus for cleaning products was on the introduction of new range of rechargeable electric brooms capable of combining high performance with adequate operating autonomy.

Looking at quality control, in 2019 further work was done on the integration of all operations in the Corporate Quality System in order to complete Group Corporate Certification.

A Code of Conduct was drafted and, then, issued for the Chinese suppliers of finished products which includes a check-list and operating procedures for carrying out audits of the same suppliers. At the same time, the organizational structure was redesigned with a view to integrating the activities carried out by single units in order to create a consistent Group strategy.

Communication activities

In 2019 the Group continued on various fronts with investments in advertising in order to support the three main brands. Communication was channeled online through the Group's or the retailers' websites, as well as through social media, as the consumer is increasingly moving in a digital direction while, at the same time, looking for a certain type of in store experience.

With regard to the De' Longhi brand, in 2019 the communication activities were focused mainly on two new top coffee products, *Maestosa* and *La Specialista*. In order to support the launch of the two products, specific advertising campaigns which leveraged on digital, as well as, in store elements, were created; influencers, chosen from among baristas and coffee experts, were used to convey personalized messages based on the destination countries, like Australia, the United States and the United Kingdom. With the support of an important agency the Group developed an important advertising campaign, again for coffee, targeting, at least initially, the German market, called *Coffee Lab*. The tagline of this campaign is *We Take Coffee Seriously*. With regard, rather, to other product categories, the focus was mainly on in house activities and conveying the value of the product through a consistent message.

For the Kenwood brand, in 2019 the work begun the previous year with the *Feed your imagination* campaign, geared to creating a new perception of the brand beginning with the brand's heritage and its leadership in the food preparation segment, continued. TV sponsorships continued, particularly as part of cooking shows which proved to be effective above all in what are considered less traditional markets for the Group. In response to changing consumer habits, increasingly more digital focused, communication through social media was increased. At the same time, activities targeting buyers of high-end kitchen machines in traditional points of sale continued; the goal is to provide products with greater visibility, to provide engaging information and convincing messages about the entire product range in order to help with the purchase decision.

For the Braun brand the most emblematic product in the food preparation segment was, as in 2018, the *MQ9* handblender supported, like the whole category, by a large advertising campaign launched on TV, press, and digital channels, particularly in Japan, Spain and Portugal. During the year a *MQ7* model with *ActiveBlade* technology was launched in Europe. With regard to irons, many countries were involved in the promotion of Group products, particularly the new *CareStyle Compact*, through TV campaigns, digital initiatives and in store activities. Lastly, the launch of the *Braun Multiserve coffee machine* in the United States was supported by a dedicated digital campaign, trade news and strong in store promotions. In addition to the activities to support the launch of new products, a few markets invested in the opening of new social media channels in order to strengthen brand visibility and promote consumer engagement.

As for digital, the Group invested in the optimization of corporate websites, in terms of both user experience (UX) and user interface (UI) in order to improve the consumer's approach to its brands. The results achieved include implementation of a PIM (Product Information Management) solution which makes it possible to systematically group and organize all the useful information (product information, translated texts, images and videos) and distribute it through different channels quickly and accurately. The Group also continued to work on SEO (Search Engine Optimization) and on social media, strengthening the presence on Facebook and YouTube through channels dedicated to each of the main brands. Significant investments were also made in expanding the e-commerce platform, operative in the United States, Canada, the United Kingdom, Australia, New Zealand, Austria and the Netherlands; the idea is to promote the sale of accessories and attachments purchased directly by the end consumer.

Human resources

Here follows a detail of the average workforce in 2019:

	2019	2018
Blue collars	5,081	5,426
White collars	2,855	2,885
Managers	255	264
Total	8,191	8,575

The Group had an average of 8,191 employees in 2019, a decrease of 384 employees. The decrease is related mainly to production personnel and reflects, in comparative terms, a particularly high 2018 figure (an average increase of 440 employees was recorded in 2018 when employees went from 8,135 employees of 2017 to 8,575).

2019 was a year full of initiatives relating also to the HR Digital Transformation project begun in 2016. The new IT system for MBO management allows for the digitalization of the entire process of assigning and calculating the business targets to which the yearly variable compensation of eligible Group employees is linked.

A project to standardize payroll systems for the Chinese companies was launched in order to simplify attendance records, adopt rules that are more consistent across the different locations relating to the calculation of wages and production of shared reporting. The goal of the project is also to facilitate the integration of administrative information in order to improve the governance of all the administrative/managerial aspects.

For Training and Development 2019 was an important year thanks to two global initiatives, *Values Makers* and *WeMake*, which represent the reply to the *Global Engagement Survey* conducted by the Group year-end 2017. The focus of these projects was teamwork and the development of management know-how. An innovative activity was used in the *Values Makers* project to explore and experiment with the company values.

Developed and conceived in synergy with the *Values Makers* initiative, *WeMake* is the continuation of the voyage undertaken a couple of years ago with the internal management development program, *U-Connect*. Launched in July 2019, the development program is shaped by the Group's mission and gives all the managers worldwide an opportunity to create a future shared with their teams. The goal of the program is to make internal collaboration a performance accelerator, involving all the managers directly in a veritable laboratory of experiences.

The new e-learning training program was launched, again on a global level. The program, *Get to know De' Longhi Group*, is offered to all employees and provides flexible and widespread access to welcome materials which leverage on the induction moment with dynamic activities and team building.

In October 2019 the new edition of the engagement survey, which the Group carries out every two years, was conducted. Participation of both office and production personnel in this edition was also extraordinary. The overall results shared with all the Group's employees at the end of the year confirm the trend of further, gradual improvement with respect to the survey's previous editions.

In the wake of the appreciation expressed for the initiatives described above, in 2019 a pilot project, *De' Longhi Cares*, was launched in Italy. The project consists in a series of paths which strive to provide employees with support by promoting and incentivizing the honing of soft skills which, developed by each employee through their daily life experiences taking care of loved ones, prove to be extremely useful also in the work environment.

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 (section "Home" – "Governance" – "Company Documents").

Pursuant to art.16.4 of the Market Regulations please note that De' Longhi S.p.A. is not subject to the direction and control of the parent company De Longhi Industrial S.A., or of any other party, pursuant to and in accordance with articles 2497 *et seq* of the Italian Civil Code, insofar as (i) the Group's business, strategic and financial plans, as well as the budget, are approved independently by De' Longhi S.p.A.'s Board of Directors; (ii) the financial and funding policies are defined by De' Longhi S.p.A.; (iii) De' Longhi S.p.A. conducts its relationships with clients and suppliers in full autonomy; and (iv) in accordance with the principles of the Corporate Governance Code, important strategic, economic, equity and financial transactions are examined by the board and approved exclusively by the Board of Directors.

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 Control and Risks, Corporate Governance and Sustainability 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 Control and Risks, Corporate Governance and Sustainability 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 Control and Risks, Corporate Governance and Sustainability 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, seven 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), the Issuer undertook a project 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.

During 2019, activities for implementing this Enterprise Risk Management (ERM) project continued. ERM is aimed at strengthening the risk control and management system by mapping the main risks to which the Company is exposed on the basis of the Group value chain, identifying the inherent and of the related residual risk and assessing and implementing action plans for their elimination/mitigation. Furthermore, the Internal Audit Director and the Officer Responsible for Preparing the Company's Financial Report continued the work for specifically and analytically governing the ERM risk management system, through some additional activities.

In 2019, the risk management model (ERM) has been further integrated and its scope has thus been extended through the evidence of the main strategic risks as identified by the Chief Executive Officer and an additional analysis carried out within the strategically important companies.

This analysis has been updated in 2019 on the basis of the recommendations coming from the CEO and the Financial Controllers of the companies involved. Moreover, with the purpose of further supporting the ERM project, with the help of the Internal Audit function, it is undertaken the initiative to map the risk perception, as perceived by the Managers of the audited companies. This initiative has been carried out also in 2019.

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 Control and Risks, Corporate Governance and Sustainability 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 document, 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;
- cost of raw materials;
- interest and exchange rates;
- 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);
- any disorder, tumult and strikes or any other kind of demonstration (see what happened in Hong Kong during 2019);
- any outbreak and/or serious health issues (see the current situation with reference to the Coronavirus crisis).

The economic environment 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 the Middle East) and political and economic changes in the United States and in Great Britain (Brexit), along with the other factors above mentioned listed, 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.

Furthermore, the Group is subject to the risks pertaining the occurrence of any outbreak or serious health issues in the main reference markets which might lead to the stop or the limitation of the business in these markets (with reference to both production, supply chain and the sales of products).

These phenomena are not predictable; nevertheless the Group, by leveraging on the experience acquired, is able to react and to put in place all the necessary measures in the attempt to limit the consequences of these phenomena.

Nevertheless, the persistence of these situations might lead to the interruption and/or to the limitation of the Group business with subsequent impact on economic and financial results.

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 which puts strong pressure on margins.

The market is also characterized by any consumers activities change in the markets in which the Group operates, thus limiting the growth potential as a consequence

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.

Therefore the Group must adopt effective strategies in order to combat this phenomenon.

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 in-vogue 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.

The unfavourable trend as well as the aforementioned exposure to the currency risk, might lead to unexpected loss in margins, especially in some specific markets where the subsidiaries of the Group operate.

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 key 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) a network of reliable and trustworthy key suppliers;
- (f) inspections, prior to product shipment by suppliers, intended to prevent any defects in the quality of products acquired.
- (g) 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.

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 organization and 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 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. With regards to the Chinese platform, certain risks exist associated with the high turnover of the Chinese manufacturing workforce, the difficulty in finding Chinese production personnel combined with higher payroll costs following the Chinese government's decision to raise the minimum wage significantly. 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), policies for recruiting and managing production staff, 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 2018), 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 2019 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 three hedging contracts to protect three 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 2019, 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 31,12,2019	Profit for 2019	Net equity 31,12,2018	Profit for 2018
De' Longhi S.p.A, financial statements	551,146	119,094	484,643	172,265
Share of subsidiaries' equity and results for period attributable to the Group, after deducting carrying value of the investments	655,966	32,776	607,129	22,380
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	15,765	(1,875)	17,660	(2,408)
Elimination of intercompany profits	(32,180)	10,364	(42,612)	(8,280)
Other adjustments	(243)	646	(895)	745
Consolidated financial statements	1,190,454	161,005	1,065,925	184,702
Patrimonio netto di pertinenza di terzi	-	-	-	-
Minority interests	1,190,454	161,005	1,065,925	184,702

Treasury shares

De' Longhi S.p.A., the Parent Company, does not possess nor did it possess treasury shares as at December 31, 2019, not even through a third party or trust company, and therefore, has not pursued purchase operations of such shares during the period

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 2004, for the three-year period 2019-2021.

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.

Consolidated Non-Financial Statement

Introduction

Based on Legislative Decree n.254/2016, as amended, 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, 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, human resources, protection of human rights, as well as anti-corruption and fraud issues. A description of the main risks, generated and/or undertaken, the entity’s policies, the relative performance indicators, as well as the business and organizational models used must be provided. Paragraph 1073 of the Budget Law n.145/2018, which took effect as of 31 December 2018, also amended Legislative Decree 254 and in addition to disclosing the main risks, entities are also required to describing how the risks are managed.

In accordance with Decree 254, this document provides a description of the non-financial qualitative/quantitative performances of the De’ Longhi Group relative to a group of topics deemed material for the Group and its stakeholders.

Information on the material topics – scenario and risks, policies and objectives, organizational and business models, indicators – for each of the topics referred to in the Decree is provided in this report (for more information on the material topics and how they are defined please refer to the Note on Methodology).

Description of the business model

A brief description of the De’ Longhi Group’s business model is provided below with a view to a better understanding of the information provided on 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 screen based 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 coffee making products, 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 regional commercial structures.

De’ Longhi’s sustainability path

The De’ Longhi Group embarked on a path which, beginning with the first Consolidated Non-Financial Statement published in 2017, resulted in greater awareness as to its non-financial impact and the desire to define sustainability goals for the future.

Toward this end, the Group sought to determine concrete steps, consistent with the business strategy, to lessen and improve its impact and generate long-term value for the company and its stakeholders.

In the first few months of 2019 the Control, Risk and Corporate Committee added sustainability to its area of expertise and changed the name to the **Control and Risks, Corporate Governance and Sustainability Committee** and became the corporate governance body, comprised of top management, responsible for defining the Groups strategy for sustainability. Lastly, during the year, “**Sustainability**

Ambassadors", charged with the task of implementing the strategy and following the guidelines, were selected. They report directly to the members of the Sustainability Steering Committee.

Thanks to the proactive and synergic collaboration of these groups, the Group has identified three "pillars" of sustainability, based on which the sustainability strategy is defined and future goals are identified. The three pillars are: "Valuing our people, the everyday makers", "Integrating sustainability in product design and innovation" and "Running sustainable supply chain and operations". For more information, please refer to the sustainability section found on De' Longhi's corporate website.

The value chain

The De'Longhi 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 only. In the Hong Kong branch, there is also a technical office responsible for research projects 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 De' Longhi 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" (hereinafter also referred to as "OEM").

Based on the Group's local for global approach, manufacture of products is plant specific. More in detail, the Nespresso Lattissima capsule machines and the De' Longhi brand fully automatic coffee machines, as well as the fully automatic built-in machines, are manufactured at the plant in Mignagola, Treviso, in Italy; in addition to fully automatic coffee machines and Nescafé Dolce Gusto capsule machines, the manufacture of Braun brand kitchen products is concentrated at the plant in Cluj, Romania. 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, and manual machines are manufactured at 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. The quality controls are done based on specific audits which also include a specific process for verifying the quality of the OEM products.

Subsequently, the new products manufactured by the Group are delivered and stored at the sourcing center warehouses and logistics hubs. The finished products are, lastly, distributed through the Group's commercial network by providers of logistics services.

Customer Care provides information and technical assistance to all end consumers during both the purchase and after sale phases.

The Group's stakeholders

Through the direct involvement of company management, the De' Longhi Group created a map of its stakeholders based on an analysis of the company structure, the value chain, businesses and those activities not strictly related to the latter, but which are an integral part of the Group's reality.

This mapping made it possible to identify 40 or so main stakeholders which were then grouped together based on the type of interests, needs and relationship with the Group.

The Group interfaces with each group of stakeholders using different methods of engagement and listening based on principles of transparency and fairness, as well as clear and complete information, in order to foster the ability to make informed decisions. The main topics related to business activities that emerged through the listening and communication channels used are reported below:

Stakeholders	Communication channel	Main topics that emerged
Agents	Periodic meetings	Client management
Trade associations	Annual meetings, periodic meetings	Consumer rights, workers' rights, environmental performance
Shareholders	Corporate documents /Shareholders' meetings/ Events	Economic performance, business strategies
Call centers	Training	Knowledge of products, new products
Retail customers	Sales meetings	Innovation, product quality and safety, efficiency of the distribution network
Local communities and sponsorships	Periodic meetings	Sponsorships, social impact, contribution to the community
Consumers	Satisfaction questionnaires, test panels, Skype (technical assistance), advertising campaigns, culinary events, Youtube "How to" channel	Customer assistance, product safety and quality, product availability, feedback about ease of use and product satisfaction, privacy
Employees	Employee Engagement Survey, annual performance reviews, periodic meetings to share results, corporate intranet used to access Group information, Group house organ, new HRMS	Organizational clarity, improved management of resources by managers, appreciation of individual contributions to the company, improvement in internal communications and access to information
Suppliers	Contracts, qualifications and assessment, periodic meetings	Way in which supplier relationships are managed
Future generations/environment	-	Reduce emissions and fight climate change
Investors, financial analysts, media	Interviews, meetings, road shows, press conferences	Economic performance, new products/ services/organizational models, specific social initiatives
Nonprofit organizations	Sponsorships for specific initiatives	Raising of awareness about specific problems
Commercial partners	Sales meetings, audit	Product safety and quality, flexibility and adaptability to requests
E-commerce portals	Sales meetings	Innovation, product safety and quality, efficiency of the distribution network
Universities/research institutions/ laboratories	Dedicated meetings, partnerships on different research projects	Recruiting and retaining talents, recruiting support

Ethics and compliance

Scenario and risks

For information on the ethical and compliance risks, as well as the relative risk management, please refer to the section “Risk factors for the De’ Longhi Group”, specifically paragraphs 18 (Compliance and corporate reporting risks) and 19 (Related parties).

For information on the management of the risks connected to ethics and compliance, please also refer to the table “The main risks associated with non-financial issues and management methods” in the Note on Methodology.

Business and organizational model

Compliance is overseen by the Legal and Internal Audit Divisions, the Group’s Officer Responsible for Preparing the Company’s Financial Report, as well as the Quality Division with respect to product and the qualifications/screening of suppliers (§Product quality and innovation).

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 relating to financial reporting processes with a view to ensuring reliable, complete, accurate and timely Group accounting and administrative procedures consistent with Group administrative and accounting policies. The audits are carried out with a view to gradually covering all the companies and, at the same time, focusing on the most relevant ones based on an audit plan coordinated with the Group’s Officer Responsible for Preparing the Company’s Financial Report and the Control and Risks, Corporate Governance and Sustainability Committee.

The Group also continues to address risk assessment and management through the implementation of Enterprise Risk Management (ERM) under the supervision of Internal Audit and the Group’s Officer Responsible for Preparing the Company’s Financial Report. As part of this project, in 2019 a number of activities were carried out including interviews (about 40% more than in 2018) of local and international management in order to integrate the ERM matrix with the risks perceived in each area and, more generally, the country of operation. During the year preparations were made for the creation of a dynamic platform which will become operative in 2020, and which will allow all the selected people for the identification of risks in a timely and independent manner. The system will also allow for changes to be made to the risk map based on user profile in order to guarantee the utmost control and separation of roles.

Lastly, even though the Group does not have commercial relationships with public administrations, in order to increase compliance with internal regulations and the laws in effect in the different countries of operation, as of 2015 the Group also carries out other controls relating to abuse of authority and corruption.

The Group also ensures that, in addition to total transparency and 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 2018 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, compliance with internal legal policies and anti-money laundering and anti-corruption laws.

Furthermore, in order to standardize the Governance policies across the Group, in 2018 “**Corporate Governance Guidelines**” were adopted which call for, among other things, the adoption of a Code of Ethics and define the different mandates based on spending power. The implementation of these guidelines was entrusted to the local heads of administration by way of an internal document which is easily accessed by all employees.

The Italian De’ Longhi Group 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. During the previous year, the Model was updated and amended, as was the entire system which aims to prevent the crimes contemplated under Legislative Decree 231. In 2019, the Group adopted an internal management system which automatically monitors the flow of information and the processes controlled by the system used to prevent the crimes indicated in Legislative Decree 231.

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

Policies and objectives

The De’ Longhi Group’s **Code of Ethics**, on 31 July 2018, defines the ethical standards that must be adhered to by employees and in the course of all the relationships between the company and third parties, which aspire to legality and transparency, fairness, integrity and professionalism, as well as protection of privacy.

As part of the **Anti-Fraud Program** defined based on the guidelines of the *Association of Certified Fraud Examiners* (ACFE), in 2019 the Group focused on the areas in need of improvement that emerged in past years, with regard particularly to Group merchandising promoters through a survey of cross-company purchasing practices.

In 2020 the Group will adopt an external platform dedicated to whistleblowing which was first tested in 2019.

Key figures

No violations of the anti-corruption laws were recorded in the three-year reporting period (2017-19.)

Information relating to persons apprised of the company policies and procedures, as well as the employees who received anti-corruption training in the three-year period 2017-2019, is shown below.

Category	Europe			APA ^{2*}			MEIA ³			De' Longhi Group		
	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
Number of people with whom the company's anti-corruption procedure was shared												
Managers	52	93	56	33	26	31	-	5	4	85	124	91
White collars	159	424	229	164	220	259	-	23	26	323	667	514
Blue collars	4	3	-	59	282	1,768	-	3	-	63	288	1,768
Total employees	215	520	285	256	528	2,058	-	31	30	471	1,079	2,373
Commercial partners	1	2	1	4	7	8	-	-	-	5	9	8
Employees who received anti-corruption training												
Managers	43	19	51	7	5	6	-	5	-	50	29	57
White collars	119	174	209	57	103	76	-	23	-	176	300	285
Blue collars	2	1	-	3,439	5,416	5,280	-	3	-	3,441	5,420	5,280
Total employees	164	194	260	3,503	5,524	5,362	-	31	-	3,667	5,749	5,622

*The hours of training for new hires, which addresses business ethics and anti-corruption, are taken into consideration APA. The statistics are not available for offices located in Canada.

No legal complaints relating to anti-competitive, anti-trust and monopolistic practices were filed in the three-year period 2017-2019.

In 2018 and in 2019 no complaints relating to discrimination were filed. In 2017 a complaint was received at the UK branch alleging discrimination based on the sexual orientation of an employee. This complaint, which was unfounded, was 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.

In 2018 one instance of child labor, found during an audit conducted by a client, at the OnShiu plant in China. More in detail, the under-age son of employees had submitted falsified documents in order to be hired. After further investigation, the minor and his parents were suspended and additional steps were taken to make sure all plant employees were hired legitimately. In light of this incident, various initiatives and verifications were instituted relating to the hiring process, agreed upon with local authorities, in order to prevent this from happening again. The steps taken proved effective as no complaints about Human Rights violations within the Group were reported in 2019.

² APA refers to the counties located in Asia, Pacific, Americas.

³ MEIA refers to the countries located in Middle East, India, Africa.

Human resources management

Scenario and risks

In an international context, with highly diverse cultures and traditions, the De' Longhi Groups uses different methods to increase the sense of belonging and **personal satisfaction**, as well as protect health and the **safety of the workplace**.

Values that stands with the Group's people, among all ambition, courage, passion, expertise, heritage, teamwork and mutual respect, daily encourage the employees to put in place sound and fair behavior and to behave with mutual trust, leveraging on the value of diversity, eliminating any form of discrimination. These principles drive the Group's ability to promote the professional growth of its people and a safe healthy workplace, in order to attract and retain talents and to guarantee, as a consequence, business continuity.

For more detailed information on the risks connected to human resources management and risk management, please refer to the section "Risk factors for the De'Longhi Group", specifically paragraph 9 (Risks relating to human resources management).

For more information on the measures used to prevent and manage risks please also refer to the table "The main risks associated with non-financial issues and management methods" in the Note on Methodology.

Business and organizational model

The Group management of human resources and related activities is assigned to a corporate Human Resources Management and Organization Division, which is coordinated by the Chief Corporate Services Officer; local supervision is carried out by dedicated HR structures in both the main geographical areas and the Group's more structured branches. These structures are involved in administrative aspects of employee relationships and, above all, in the management and development of internal resources, talent acquisition development and retention, internal communications, development of important initiatives tied to both employee engagement, as well as supervision of topics relating to health and safety in the workplace and organizational issues like relations with labor unions. In 2019, the corporate HR structure was re-evaluated and redesigned in order to ensure greater consistency with the recent organizational changes made by the Group. The new organizational structure calls for:

- the breakdown of managerial role in three macro-clusters focused the supervision of functional areas, as well as specific expertise:

- Brand Headquarters and commercial organization Europe
- Corporate Staff, Services and Organization of Operations Europe
- Commercial organization Asia Pacific and Operations China

The Group Human Resources Management and Organization Director is responsible for the supervision of the remaining commercial structures;

- the strengthening of the Group's corporate structure with regard to talent acquisition, Training and Development of Human Resources and internal communications, as well as the development and implementation of important projects fostering the full expression of the full potential and talent of the Group's human resources and their retention.

During the year more investments were made in initiatives and the increasing digitalization of important company processes linked to the management and development of human resources.

2019 marked the third edition of the engagement survey “*Your voice: to make a difference*” which measures the degree of the group employees’ satisfaction and employee engagement. Participation in the survey was higher than in the past, with about 91% of the white-collar staff and 85% of the blue collars, which testifies to the commitment and desire of the Group’s people to be involved in the growth and improvement of the company they belong to. The main areas of interest included “*Giving Something Back*” which received the best results and is the result of a number of initiatives underway which promote active involvement in the community surrounding De’ Longhi’s facilities.

As in the previous years, the digitalization of HR processes involved the deployment of the SAP management system, *SuccessFactors*, and the module relative to variable pay which was adopted by all the Group companies. The PULSE platform, active since 2018, allows Group employees to create personalized learning plans based on specific needs and access a catalogue of on-line courses available through e-learning. It was also possible to track the training carried out in 2019 in order to analyze results and identify training priorities.

The gradual expansion of the application *Concur*, used for the reporting travel expenses, to a growing number of Group companies is also underway.

The Human Resources Division also guides the global **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. The Human Resources Division also provides coaching for key figures at the branches in Italy and worldwide, accurately mapping the profiles and adopting a continuous assessment approach. In 2018 a new MBO management system was also adopted, which monitors the variable compensation paid to employees of Group companies, with a view to also integrating the salary review process using methods which are more and more formalized and standardized across the Group. As mentioned already, this integration was supported by the SAP *SuccessFactors* system used by all Group companies.

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 head and staff of the Prevention, Protection and Environment Department in Italy, China and Romania. These individuals are responsible for assessing risks related to the activities carried out by the Group employees and implementing any improvements needed with a particular focus to improving the ergonomics of the work stations in the plants and offices. The responsibilities and procedures relating to health and safety are defined based on an organizational model which is in line with the international OHSAS 18001 “*Occupational Health and Safety Assessment Series*” standards for the entire Group.

As in prior years, in 2019 the Group moved forward with several initiatives dedicated to the health and safety of its people: the activities focused mainly on improving the quality of the work environment by making several improvements at the production sites in order to increase the wellbeing of its employees. The human resources departments inside the plants and branches focused their work on the ergonomics of the work station, air conditioning systems in the areas dedicated to the loading/unloading of merchandise and air treatment devices in production areas where fumes are produced.

With regard specifically to the Italian plant, in 2019 new machines were purchased, designed specifically for De' Longhi, which automate a few production processes and noticeably reduce the physical exertion required. At the Mignagola plant innovative solutions were used which increase the efficiency of the resources reallocation process along the production lines and improve the ability to monitor risks at each work station. The idea is to gradually move forward with these projects in other Group plants in the future.

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

Policies and objectives

The Code of Ethics dedicates an entire section to the management of human resources which testifies to the increased focus on people, considered to be of primary importance to the Group's ability to achieve its objectives through the professional and personal contribution of its people as part of a relationship based on integrity, fairness and mutual trust. Particular attention is paid to the recruitment of personnel which should be done with a view to equal opportunities for all. The Code of Ethics also condemns undocumented working relationships, the use of child labor, any and all forms of forced labor and of undue advantage in the face of a state of need of workers. The Group also prohibits any form of discrimination in dealings with its employees and staff members, providing equal opportunities in employment and professional advancement.

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 on how to fulfill obligations relating to a safe and healthy workplace, as well as of prevention on workplace. A health and safety policy was formalized for the Mignagola plant in Treviso, Italy and in Cluj, Romania after having adopted an operating system which complies with the international standard, OHSAS 18001.

With a view to integrated management for all the companies of topics relating to human resources like for example, the compensation of the Board of Directors and the Executives with Strategic Responsibilities, the Group defined a formalized policy. Furthermore, consistent with the process of standardizing practices and policies across the Group, in 2019 a new Group MBO policy was adopted, which aims to further consolidate Group identity, through dedicated instruments.

In 2019 the Group continued with the activities tied to the engagement survey "Your Voice: to Make the Difference", conducted in the past and conducted again in 2019, through a plan of action defined based on the feedback received. During the year the Group also launched several global initiatives in order to promote corporate values and promote the creation of a more transversal network of Group company employees. These include, an initiative brought to life in 2019 involving different Group companies and employees of all levels: an escape room was created shaped by De' Longhi's 7 global values. This initiative, which was very well received with significant engagement, succeeded in promoting company values through games, also providing a change to share and promote ideas normally communicated through more traditional channels.

With regard to safety and health measures, in 2019 further investments were made to improve the ergonomics of the work stations at the plants in Italy, China and Romania. Along with structural 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.

Key figures

The Group had 7,850 employees at 31 December 2019, a decrease of 7% compared to the prior year. Taking into account the average number of employees in 2019, the difference (-4%) is less significant compared to 2018. Women represent 49% of the De'Longhi Group's workforce. 93% of the employees have permanent contracts, slightly higher than in the prior year (90%).

Employees, by type of contract	Italy			Europe			APA			MEIA			De' Longhi Group		
	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
Number of employees by contract type															
Permanent positions	1,469	1,551	1,577	3,203	3,270	3,084	2,692	2,712	2,551	67	62	61	7,431	7,595	7,273
women	554	602	611	1,781	1,860	1,765	1,225	1,270	1,209	27	23	25	3,587	3,755	3,612
men	915	949	966	1,422	1,410	1,319	1,467	1,442	1,342	40	39	36	3,844	3,840	3,661
Temporary positions	140	84	14	52	33	26	574	697	536	-	-	1	766	814	577
women	78	48	11	30	21	16	247	302	241	-	-	1	355	371	269
men	62	36	3	22	12	10	327	395	295	-	-	-	411	443	308
Total	1,609	1,635	1,591	3,255	3,303	3,110	3,266	3,409	3,087	67	62	62	8,197	8,409	7,850
Number of employees by contract type															
Full-time	1,493	1,519	1,472	3,167	3,220	3,028	3,248	3,397	3,074	67	62	61	7,975	8,198	7,635
women	520	537	506	1,736	1,811	1,715	1,456	1,562	1,438	27	23	25	3,739	3,933	3,686
men	973	982	966	1,431	1,409	1,313	1,792	1,835	1,636	40	39	36	4,236	4,265	3,949
Part-time	116	116	119	88	83	82	18	12	13	-	-	1	222	211	215
women	112	113	116	75	70	66	16	10	12	-	-	1	203	193	195
men	4	3	3	13	13	16	2	2	1	-	-	-	19	18	20
Total	1,609	1,635	1,591	3,255	3,303	3,110	3,266	3,409	3,087	67	62	62	8,197	8,409	7,850
Number of employees by gender															
Total women	632	650	622	1,811	1,881	1,781	1,472	1,572	1,450	27	23	26	3,942	4,126	3,879
Total men	977	985	969	1,444	1,422	1,329	1,794	1,837	1,637	40	39	36	4,255	4,283	3,971

During the year the Group availed itself of approximately 530 contract workers at the production plants.

Breakdown of the workforce		Unit of measure	De' Longhi Group 2018	De' Longhi Group 2019
Managers				
Men	< 30 years	%	-	-
	> 30 < 50 years	%	2.1%	1.7%
	> 50 years	%	1.0%	1.3%
Total men		%	3.1%	3.0%
Woman	< 30 years	%	-	0.1%
	>30 < 50 years	%	0.8%	0.7%
	> 50 years	%	0.1%	0.2%
Total women		%	0.9%	0.9%
TOTAL		%	4.2%	3.9%
White collars				
Men	< 30 years	%	2.4%	2.1%
	> 30 < 50 years	%	12.9%	13.3%
	> 50 years	%	3.1%	3.8%
Total men		%	18.4%	19.2%
Woman	< 30 years	%	2.9%	2.6%
	> 30 < 50 years	%	10.0%	10.8%
	> 50 years	%	1.6%	2.3%
Total women		%	14.5%	15.6%
TOTAL		%	32.9%	34.9%
Blue collars				
Men	< 30 years	%	8.9%	6.4%
	> 30 < 50 years	%	16.2%	15.8%
	> 50 years	%	4.4%	6.0%
Total men		%	29.5%	28.3%
Woman	< 30 years	%	7.3%	5.7%
	> 30 < 50 years	%	22.7%	21.9%
	> 50 years	%	3.6%	5.3%
Total women		%	33.6%	32.9%
TOTAL		%	63.1%	61.2%

Note: The same breakdown for 2017 is not available.

In 2019, the De'Longhi Group's BoD comprised 6 men and 4 women; of which 80% over the age of 50.

Composition of the Parent Company's BoD		Unit of measure	Italy		
			2017	2018	2019
Men	< 30 years	n	-	-	-
	> 30 < 50 years	n	1	1	1
	> 50 years	n	6	7	5
Total men		n	7	8	6
Women	< 30 years	n	-	-	-
	> 30 < 50 years	n	3	2	1
	> 50 years	n	1	2	3
Total women		n	4	4	4
TOTAL		n	11	12	10

The success of the De'Longhi Group's products lies with its people. In order to foster their knowledge and expertise, as well as ensure adequate training in terms of health and safety, in 2019 the De'Longhi Group provided an average of 20.6 hours of training to each employee (+ 13% compared to 2018) for a total of approximately 161,977 hours, about 6% higher than in the prior year.

Training	Unit of measure	De' Longhi Group		
		2017	2018	2019
Average hours per employee	h	16.3	18.2	20.6

Note: the statistics relating to training provided in 2017 are not available for the Czech Republic, USA, Scandinavia, Canada.

Training	Unit of measure	De' Longhi Group	
		2018	2019
Training by job level			
Average hours for managers	h	14.8	19.9
Average hours for blue collars	h	17.7	23.2
Average hours for white collars	h	18.6	19.2
Training by gender			
Average hours per women	h	13.3	18.1
Average hours per men	h	23.0	23.1

The Group's rate of injuries fell about 35%, coming in at 2.7 in 2019 versus 4.2 in 2018, due to the decrease in the number of injuries during the year. The gravity rate in 2019 was lower for both men and women, reaching 0.07 compared to 0.13 in 2018.

Types of Injuries and rate of injury		De' Longhi Group								
		2017			2018			2019		
		Men	Women	Group	Men	Women	Group	Men	Women	Group
Accidents	n.	67	31	98	59	31	90	42	22	64
<i>Of which related to commuting</i>	n.	4	7	11	5	5	10	5	10	15
Fatal accidents	n.	-	-	-	-	-	-	-	-	-
Rate of injury	-	6.3	2.8	4.6	5.3	2.9	4.2	3.8	1.4	2.7
Rate of occupational disease	-	0.1	0.3	0.2	-	0.3	0.2	-	0.4	0.2
Gravity rate	-	0.17	0.05	0.11	0.18	0.08	0.13	0.08	0.06	0.07
Absentee rate	%	1.6	2.5	2.0	2.3	3.9	3.0	1.7	3.7	2.7

Injuries and rate of injury – breakdown by geography		2018							
		Italy		Europe		APA		MEIA	
		Men	Women	Men	Women	Men	Women	Men	Women
Accidents	n.	19	11	8	11	31	9	1	-
<i>Of which related to commuting</i>	n.	5	5	-	-	-	-	-	-
Fatal accidents	n.	-	-	-	-	-	-	-	-
Rate of injury	-	8.3	6.0	3.3	3.6	5.1	1.8	26.2	-
Rate of occupational disease	-	-	2.0	-	0.3	-	-	-	-
Gravity rate	-	0.30	0.17	0.03	0.03	0.22	0.11	-	-
Absentee rate	%	2.8	3.9	4.8	7.5	0.6	0.4	0.3	0.3

Injuries and rate of injury – breakdown by geography		2019							
		Italy		Europe		APA		MEIA	
		Men	Women	Men	Women	Men	Women	Men	Women
Accidents	n.	12	7	12	8	18	7	-	-
<i>Of which related to commuting</i>	n.	3	4	1	5	1	1	-	-
Fatal accidents	n.	-	-	-	-	-	-	-	-
Rate of injury	-	5.3	3.1	4.7	1.0	3.0	1.3	-	-
Rate of occupational disease	-	-	2.1	-	0.3	-	-	-	-
Gravity rate	-	0.15	0.16	0.08	0.03	0.06	0.07	-	-
Absentee rate	%	3.0	4.0	3.7	7.4	0.1	0.3	0.6	0.6

Injuries and rate of injury of contract workers in production plants		Gruppo De' Longhi								
		2017			2018			2019		
		Men	Women	Group	Men	Women	Group	Men	Women	Group
Accidents	n.	5	1	6	3	1	4	4	1	5
<i>Of which related to commuting</i>	n.	-	-	-	-	-	-	2	1	3
Fatal accidents	n.	-	-	-	-	-	-	-	-	-
Rate of injury	-	2.0	0.4	1.2	0.9	0.3	0.6	0.6	-	0.3

Product quality and innovation

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. Business continuity and, therefore, product quality are a function of compliance with safety regulations and adequate disclosure.

The Group operates in different realities worldwide, in a complex and heterogeneous regulatory environment, so the constant attention and full compliance with the standards applied in the different jurisdictions is imperative and must be monitored continuously; toward this end, based on De'Longhi's typical *local for global* approach, the products are to be developed in accordance with the most stringent standards applicable in the numerous countries where they are distributed. Some of the most well-known examples include EU Regulation n. 1907/2007 or REACH (*Registration, Evaluation, Authorization and Restrictions of Chemicals*) and the RoHS (*Restrictions of Hazardous Substances*) directive 2002/95/EC, both of which all Group's companies comply with even though the scope of application is strictly European.

Lastly, the Group assumes the manufacturers' 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. For example, in 2018 adjustments were made to comply with US regulations relative to the comfort segment, specifically portable air conditioners, based on the *Department of Energy* (DOE)'s domestic *Appliance & Equipment Standards*.

The manufacturer is also responsible for providing correct product information which may vary from country to country. In the United States, for example, the De'Longhi 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.

For more information about the risks connected to quality and product innovation, as well as risk management, please refer to the section "Risk factors for the De'Longhi Group", specifically paragraphs 5 (Risks relating to the De'Longhi Group's ability to achieve continuous product innovation), 6 (Risks relating to patents and trademarks) and 10 (Risks relating to product quality and product liability).

For more information on the measures used to prevent and manage risks relating to product quality and innovation, please refer to the table "The main risks associated with non-financial issues and management methods" in the Note on Methodology.

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 criterion 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 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 conditions 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.

With a view to guaranteeing **electrical and food safety**, during the pre-production phase compliance with the highest electrical safety and food contact standards of all the De'Longhi Group products is certified by third parties. More in detail, 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.

The Operations and Technology Division guides **innovation and product design** which is based on the search for maximum multi-functionality, ease of use, design, ergonomics, sophisticated materials, as well as silent, reliable, energy efficient (particularly for comfort) goods and developing technologies capable of facilitating and supporting healthy lifestyles. The De'Longhi Group also continues to invest in the research and development of durable products with components that are easy to take apart and clean.

The recent market trends, which drive noticeable product digitalization, caused the De'Longhi Group to develop innovative solutions tied to digital technology (the *Internet of Things*) and remote connectivity. The planning of new products is shared across the entire De'Longhi 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 Italy, Germany, UK and at the Dongguan plant in China. These offices, together with the Quality Division's Regulatory team, develop solutions 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 commercial partnerships that Operations and Technology based on which the De'Longhi Group designs and manufactures a collection of coffee products, as well as with a few Italian and foreign universities which focus on product design and improving the user experience.

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

One of the Group's founding values 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. In the Code of Ethics, the Group commits to guaranteeing that consumers and clients will be provided with high quality and the best service possible. More in detail, product design and production must take into account product efficiency and durability, as well as the maximum environmental compatibility.

The Group, finally, wants to be a reliable and safe partner for its clients and intends to develop its markets based on this principle, providing top-tier quality products and services.

The Group adopted a group-wide **Quality Policy** which reinforces 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 three-year period 2017–2019, the overall FTQ was stable confirming the Group's excellent performance. The *Service Call Rate* (SCR) measures the machines repaired in the first two years under warranty as a percentage of total yearly sales. The overall SCR in 2019 and the constant improvement over the three-year period confirm the De'Longhi Group's commitment to designing and producing high quality products.

In the two-year period 2018-2017 no instances of noncompliance relating to health and product safety were reported.

In 2019 there was only one instance of noncompliance with the European Directive 2014/35/EU, the "Low Tension Directive" which caused a not significant administrative penalty; following this instance, the Group has promptly put in place the internal procedures in order to solve the noncompliance issue. In 2018 one complaint of noncompliance was relating to the European directive mentioned above and labeling, while in 2019 two complaints of noncompliance with this directive were received. In 2018 a complaint was filed by the Customs Department in Hong Kong relating to the "Commercial Ordinance" and the labeling of a dehumidifier.

In 2019, as in the prior year, the Group continued with its investments plans and research and development in order to enhance its capacity for innovation (please refer to the section "Research and development – quality control" for more information).

A few of the product designs which exemplify the characteristics of the De'Longhi Group innovation are described below:

Connected products

As in the past, in 2019 the Group continued to invest in the development of solutions which guarantee connectivity and ease-of-use through digital technologies like Wi-Fi and touch screens, given the potential these technologies have for increasing personalization, as well as preventing malfunctions and, consequently, improving efficiency and timely customer care.

More in detail, the study for the development of a line of coffee machines that can be connected via Wi-Fi as well as Bluetooth, already available for the De'Longhi fully automatic machines since 2015, was completed.

Connectivity and the development of new interfaces were also the focus of development in the comfort and food preparation segments. In addition to the *Apple Homekits* for heaters already available in Japan, in 2018 European distribution of a dehumidifier which can be connected via Wi-Fi was also begun.

Durable and detachable products

During the development phase, coffee machines are subject to numerous tests relating to the durability of components and finished products. More in detail, thousands of drinks are made under standard conditions in order to verify product reliability and durability. There are a few models like, for example, *Maestosa* and *La Specialista* for which different initiatives are underway focused on increasing durability and guaranteeing optimal performances. For example, in test phase *Maestosa* guarantees numerous cycles, testimony to the attention the Group pays to this aspect. Beginning in 2018 new initiatives focused on enhancing performance were also started, like the “double wall” coffee filter which makes it possible to disassemble and substitute part of the water filter mechanism - comprised of two walls – which otherwise would have to be replaced entirely if broken or punctured – or separate (and, therefore, substitute) the grinder of coffee machines with built-in grinders.

In 2019, as part of the initiative focused on the standardization of internal components of the Kenwood brand kitchen machines begun last year, progress was made in further improving the durability and efficiency of the electric motors. For the Kenwood Chef the types of whisks went from 13 to only 2, made out of stainless steel rather than plastic which both helps reparability and promotes the use of materials that are more resistant over time.

In the Home segment initiatives focused on improving durability were also begun, with regard, particularly, to irons through design solutions for the soleplates and the use of resins for filters in order to reduce scale formation, as well as power vacuum cleaners which are subject to EU regulation n. 666/2013.

In addition to the essential elements of quality and durability, the De'Longhi Group is also committed to the development of products that are increasingly easier to take apart in order to ensure the highest degree of reparability possible. Toward this end, the ability to easily disassemble fully automatic coffee machines and Braun brand handblenders, together with the “dishwasher safe” characteristic, help to reduce the water consumption associated with handwashing and the use of polluting cleaning products. As already noted in 2018, the fully automatic coffee machines are equipped with patented systems which facilitate washing with water, without having to use detergents and lubricants, while the milk system is cleaned using steam and hot water at the end of each use so that any remaining milk can be stored in the refrigerator and used again.

Energy efficient products

The research and development of increasingly energy efficient products is not only a must for the De'Longhi Group, it is also a topic that is changing constantly and widely discussed by regulators.

With regard to coffee, almost all fully automatic De'Longhi coffee machines are at least class A⁴, as are all the Lattissima and manual machines with electronic controls like the Dedica machine. Also, beginning in 2018 the "Eco-mode" was also available already. This mode makes it possible to save energy during the warm-up phase of the fully automatic machines and also introduced a stand-by function for all product families which results in energy consumption that is lower than regulatory limits. In 2019 this mode was further improved to maintain the same level of performance.

Moreover, all the manual coffee machines, which typically consume more energy than the fully automatic machines, are equipped with a patented De' Longhi system that makes it possible to cut off the power supply or turn off automatically after a period of inactivity, resulting in energy savings.

As for Comfort, in accordance with EU regulation n. 517/2014 of the European Parliament and of the Council of 16 April 2014 on fluorinated greenhouse gases, an initiative was begun in 2018 to substitute the refrigerant gas, which has high global warming potential, used in the refrigerant circuits of products for the European market with propane gas.

Healthy lifestyle products

The De' Longhi Group is able to promote healthy lifestyles, consistent with recent health trends and increasingly healthy eating habits. This has resulted in, for example, kitchen machines capable of maintaining the principle nutritional elements of food unchanged.

The De'Longhi brand fully automatic and manual coffee machines meet these needs perfectly; thanks to the electronically controlled boiler temperature these machines maintain the brewing temperature within the limits recommended in international sector standards which leaves the coffee's organoleptic properties unchanged, unleashing maximum flavor and aroma. In the last few years the Group has also started a partnership with the University of Padua which resulted in the development of different innovations, like a coffee machine that can make drinks using vegetable milk in order to meet consumers' new food needs and a pre-development of a "vibro-chemical" system which allows for an even flow of ground coffee which provides optimal flavor and aroma.

The quest for products that meet consumers' healthy food needs also drove the development of Kenwood brand products. Thanks to the Scrolling Technology, the Pure Juice line is able to reduce the overheating and oxidation of ingredients making it possible to extract juice from fruits and vegetables without compromising the nutritional properties. The developments in this sector were also possible thanks to the productive partnership entered into with the University of Reading which resulted in the Group financing nutritional research. A number of initiatives relating to health were already begun last year, including the Multifry fryers which cook food using hot air. This reduces the use of vegetable oils (and, therefore, fat), as well as the environmental impact of cooking oils related to the waste management.

As for comfort, during the year a "Certification Mark of Allergy Standard Ltd" dehumidifier "Asthma & Allergy Friendly™" was launched, as was a radiator and an air purifier which allow for uniform heating using air flows that was developed in partnership with Politecnico in Turin.

⁴ Beginning in 2009, the FEA (Swiss Association of the domestic appliances industry) in agreement with the Swiss authorities, introduced the energy label for espresso machines, which became mandatory in 2014 for all machines sold in the Swiss market. In this context, the De'Longhi Group has decided to extend the certification in accordance with the standard EN 60661/2014 "Methods for measuring the performance of domestic coffee machines" to all coffee machines, regardless of the distribution market. The energy label proposed in the Swiss agreement classifies espresso machines on the basis of their energy efficiency on a scale that goes from class D to A +++.

Consumer relations

Scenario and risks

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

Other aspects related to the ability to respond to the needs of end consumers include compliance with laws governing consumer rights relating to, for example, minimum warranty periods, handling of the warrants when products are defective, recyclable elements and environmental friendliness.

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

For more information about risk management and the risks related to consumer relations, please refer to the table "The main risks associated with non-financial issues and management methods" in the Note on Methodology.

Business and organization model

Group and brand communication are managed by the corporate Marketing and Communication Division and the marketing offices of each brand. In order to reflect the increasingly integrated customer service provided both during the purchase phase and after the sale, in 2019, After Sales, which was already responsible for managing the before and after sales care, was renamed the Customer Care division. The contact center and the service centers continue to be an essential part of the new division which defines 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 need to for an optimal customer journey. The dedicated Customer Relation Management system monitors the activities in order to guarantee compliance with the best standards.

Consistent with prior years, the support service network is made of around 1,800 service centers, approximately 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, the UK, Switzerland, Benelux, and Japan. To date repair personnel, hired by the Group, amounts to more than 500 employees who work primarily in Italy.

In addition to sharing joint guidelines and standards, Customer Care 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 certification exam at the end. When new products are launched specialized training courses are also organized. In addition, together with Marketing, each year Customer Care offers a dedicated training course to contact center operators.

In 2019, a CRM management system (an extension of SAP) which allows for integrated and efficient management of consumer information was also used. This system covers consumers representing around 80% of the Group's sales, generates feedback and analyzes the information gathered. Lastly, the information provided by consumers is stored on Google Cloud Platform web servers. The security of this platform 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 De' Longhi 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. 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, the Code of Ethics is particularly focused on consumers and clients as listening to their needs is considered to be a driving force behind the ability to provide better solutions which both anticipate and influence new market trends. The Group, therefore, strives to guarantee that relationships with consumers and clients are handled professionally, in a timely manner, carefully, openly, respectfully, collaboratively and with a passion that ensures the highest quality, as well as the best level of service possible.

As for external communications, based on the Code of Ethics the disclosures made both inside and outside the Group must comply with the law, regulations, and professional best practices and be clear, transparent, timely and accurate. Lastly, consistent with the principle of confidentiality found in its Code of Ethics, the Group is committed to protecting the confidentiality of the information, and data in its possession, in compliance with current laws and regulations relating to customers and consumers. No specific policies have yet to be formalized for either of these areas.

Key figures

With regard to the processing and protection of data, in 2019 there was one instance of noncompliance involving a Group company in Germany due to a potential data breach which was resolved once the problem area was identified. In 2018 there was a loss of data which affected the information relative to three consumers. In 2017, no violations of laws governing privacy were reported.

Looking at the service provided to end consumers, in 2019 the average service period was less than 5 days for around 95% of the products. The quality of the repairs made by support services was 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 2019 the FTF was above 95%, higher than in 2018, which indicates that almost all products received adequate, quality repairs.

Looking at the instances of noncompliance in marketing and communications, in 2019 there were two, resolved incidents, which did not result in fines, only a warning. In 2018 there were four complaints: two related to brand information and the remainder to promotional disclosures. In 2017 two complaints were received relating to promotional statements which caused the message to be changed or removed.

Supply chain management

Scenario and risks

Preventing and managing the risks associated with the supply chain is essential to ensuring the continuity of the Group's business. For the Group, 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 De'Longhi Group's manufacturing and assembly of finished products are done at four plants located in Italy, Romania and China which covers 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 consolidated results and financial position.

For more information about management of the risks linked to supply change management, please refer to the section "Risk factors for the De'Longhi Group", specifically paragraph 8 (Risks relating to manufacturing, commodity prices and supplier relationships).

For more information on the measures used to prevent and manage risks please also refer to the table "The main risks associated with non-financial issues and management methods" in the Note on Methodology

Business and organizational model

Supply chain management is carried out by the Supply Chain Division, together with Quality and Purchasing, with a view to ensuring business continuity, compliance with the highest quality standards and certain environmental, as well as social, requirements.

Three offices are involved in monitoring and supporting the providers of finished products based on based on product category and proximity to production: the offices focused on coffee and irons are in Italy; motor-driven products are managed through the UK office; in Hong Kong, lastly, the focus is on 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 protection of human rights and compliance with the values and principles included in the Code of Ethics relating to labor practices and, beginning in 2019, the main environmental regulations. The social and environmental 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 (which relate to both initial screening and subsequent periodic monitoring, are normally carried out every two years) make it possible to investigate a multitude of different social 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.

Beginning in 2019, the Social Accountability audits also include specific environmental controls, including compliance with environmental regulations and the applicable standards (for example REACH, RoHS, etc.), management and disposal of waste and commitment to environmental protection.

The information gathered, any corrective measures and the relative follow-up are logged into a specific system which monitors supplier updates and obligations. This assessment process is formalized and monitored based on a specific process which, beginning in 2019, established officially that all new suppliers are subject to the SCOC (*Social Accountability Code of Conduct*).

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. This type of audit is conducted every year and focuses on both initial quality, as well as subsequent periodic monitoring of suppliers. As mentioned below, in 2019 the checklist for this type of audit included a section dedicated to environmental issues.

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.

The assessments of product quality are included in a **vendor rating** which is used to classify partners in four categories - preferred, approved, probation and exit plan - as well as evaluate the structure and intensity of partnerships in the future, with a view also to continuous improvement.

Lastly, with regard to logistics optimization, after the complete integration of the hub in the Netherlands and the system reorganization carried out in 2018, no significant changes were made in 2019. During the year logistics was, in fact, focused on stabilizing the existing organization and market related contingent needs.

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 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. Throughout any relationship with the Group, the suppliers are also required to comply fully with the law and the Code. The Group suppliers must ensure that the working conditions of its employees do not violate basic human rights, comply with international agreements and current law. The supplier must provide any of its sub-contractors with a copy of the updated Code of Ethics.

In order to further strengthen the Group's commitment to responsible supply chain management, as of 2019 the Chinese suppliers are required to also sign the Group Code of Conduct which is presented to them in English and Chinese.

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

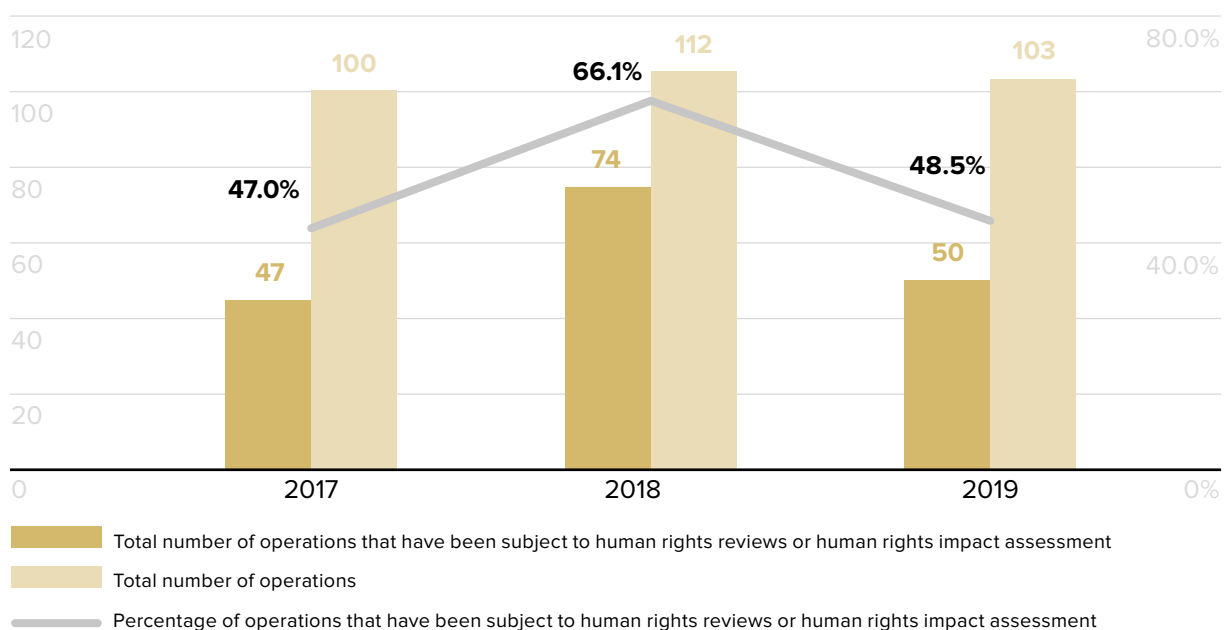
As mentioned above, in 2019 the Group formalized the social accountability and environmental audits of Chinese providers in a dedicated procedure.

Key figures

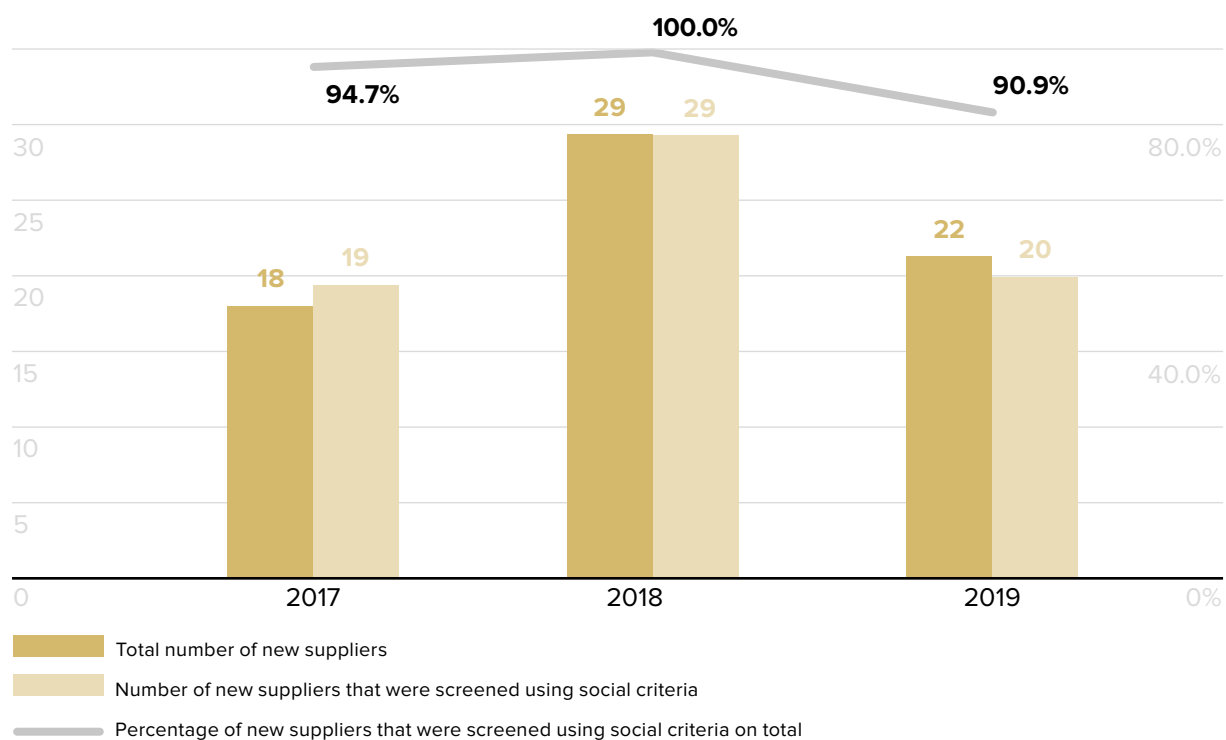
In 2019, almost all the new suppliers of finished products were subject to a social accountability audit, in accordance with standard SA 8000 (90.9%). The difference with respect to 2018 (100%) is explained by the fact that only the quality audit of two suppliers had been completed at 31 December 2019, while the SCOC audit was completed at the beginning of 2020. To date none of SCOC (*Social Accountability Code of Conduct*) audits had a “zero tolerance” outcome and, therefore, resulted in the termination of the relationship with the supplier. With regard to environmental aspects, in 2019 environmental audits of 18 or 81.8% of the new suppliers of finished products were carried out; the difference between this future and the social accountability audits is attributable to the fact that environmental audits were begun in the second half of the year and, consequently, were fewer in absolute terms.

In 2019 a total of 50 audits were carried out in order to verify that no human rights violations had occurred at 47 supplier plants and 3 Group plants, which covered almost half of the Group’s operations, (slightly less than in the prior year).

Number and percentage of Operations subject to human rights assessments



New suppliers of finished products subject to social accountability audits



Reducing environmental impact

Scenario and risks

In light of the evolving context subject to climate change, every day the De' Longhi Group pays constant attention to the proper management of its manufacturing processes.

Consistent with this constant change, environmental regulations are updated continuously and are, therefore, a factor which should not be underestimated in terms of business management and the impact they could have on the company.

For more information about environmental risks, as well as risk management, please refer to the section "Risk factors for the De'Longhi Group", specifically paragraphs 15 (Risks relating to changes in the regulatory framework, with respect, in particular, to environmental protection) and 16 (Risks relating to environmental harm).

For more information on the measures used to prevent and manage environmental risks please also refer to the table "The main risks associated with non-financial issues and management methods" in the Note on Methodology.

Business and organizational model

At a Group level, the environmental aspects are managed by the Operations & Technology and Quality Divisions. More in detail, the ISO14001 certified environmental management system in place at the production facilities in Mignagola and Cluj make it possible to carry out environmental assessments of these plants and define the steps needed to reduce the environmental impact of the entire production chain. The Group's remaining production facilities strive to comply with the best practices for environmental management consistent with internal procedures and applicable regulations.

More in detail, at the Mignagola plant solar panels were installed which allow for the self-production of about 7% of the electricity consumed and reduce the environmental impact of manufacturing. In 2019 the replacement of lighting fixtures with LED systems at the Italian plants, and the one in Cluj, continued. At the same level of performance, these lighting systems allow for a significant reduction in energy consumption.

In an effort to save energy, an innovative heating system for the warehouses was installed at the Cluj plant which uses the heat generated in the plant's drying facilities which reduces the use of natural gas for traditional heating. Lastly, in 2019 further investments were made along the assembly lines to increase the energy efficiency of the machinery.

In China, where already in 2018 the plastic stamp machinery was renewed – preferring machinery fueled by electricity than traditional pneumatic ones, thus guaranteeing a reduction in consumption of electricity by 25%- during the year work was also done on further improving the energy efficiency of manufacturing assets and productivity.

During the year an energy saving plan was also implemented which, through the installation of specific meters, makes it possible to monitor the consumption of electricity and find the areas and functions which consume the most energy. Thanks to this initiative, it was possible to reduce the consumption of the different areas and define the steps needed to reduce energy consumption and improve energy efficiency at the Chinese facilities.

Over the years a number of timely initiatives were implemented, promoted both centrally and locally by the R&D Divisions, which aim to reduce the environmental impact of its products when used by consumers. These initiatives, which target energy efficiency, durability and product repairability, are consistent with the Group's approach to sustainability. Please refer to the section "Product innovation and quality" for more information.

In 2019 projects involving the **recovery of production by products**, which favor a circular economy, were expanded. For example, at the Mignagola and Dongguan plants, in 2018 plastic scraps were reused in the manufacturing cycle which reduces initial raw material costs and the amount of waste to dispose of. The results of this activity were excellent and the initiative was also promoted at the plant in Cluj. The metal scrapes, rather, are resold as raw materials. Paper, cardboard and nylon scraps are sent to be regenerated.

In 2019 the Group continued with a few analyses with a view to efficiencies and **the reduction of packaging materials** which produced very satisfying results in both environmental and economic (the purchasing costs for these materials were lower) terms. In 2018, for example, initiatives focused on reducing the size of the cardboard boxes used for kitchen machines were launched which made it possible to reduce the size by around 8%. In 2019 work was done on finding ways to reduce the amount of plastic used in Braun brand handblenders.

The initiatives focused on more efficient packaging also involved internal logistics and the Group's operations. More in detail, at the Chinese plants and the one in Cluj, the goal is to reuse the plastic and cardboard packaging of the components delivered which are otherwise disposed of upon arrival. In Romania, the preference is to use repaired pallets, rather than purchase new ones, which in 2019 made it possible to save more than 5,500 wooden pallets.

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 the steady improvement of environmental performances, optimization in the consumption of resources and energy, the reduction or, 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 and public safety in accordance with specific legislation. Well aware of the impact of its activities on economic and social development, as well as general wellbeing, the Group strives to achieve a balance between economic initiatives and environmental needs, including with a view to future generations. This commitment ensures that the projects, processes, methods and materials are based on scientific research and development, as well as the best environmental practices, that respect the community, as well as prevent pollution and protect both the environment and the landscape.

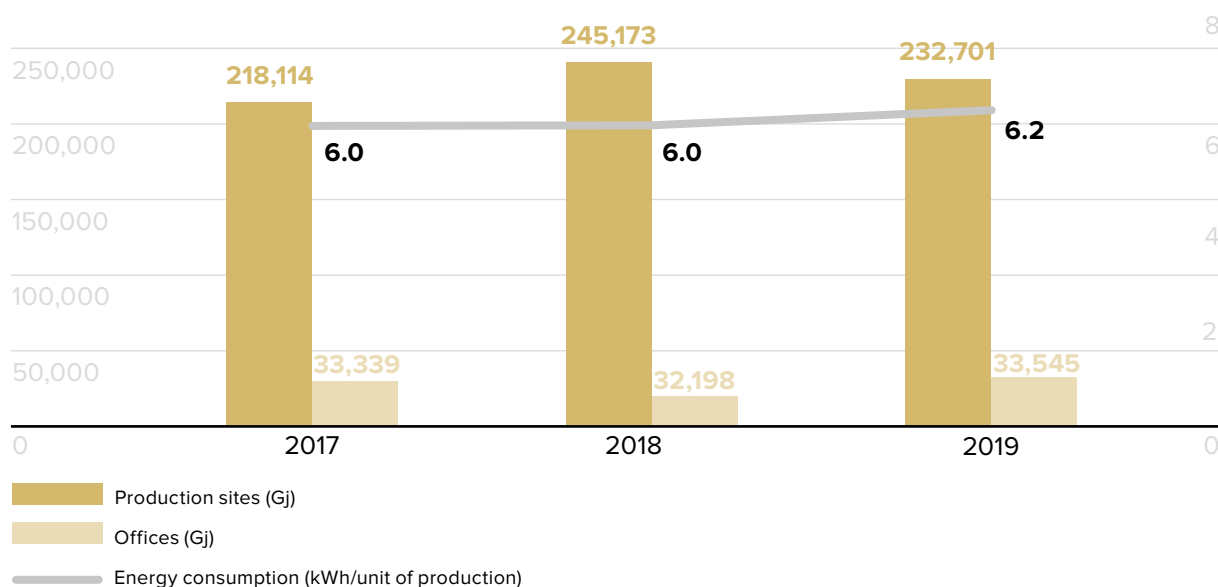
Key figures

In 2019, consumption dropped 7% with respect to the prior year (353,782 GJ in 2019 compared to 380,431 GJ in 2018). The amount of direct consumption for heating and transport, as well as indirect (electricity through district heating and cooling) was basically unchanged in the three-year reporting period.

Fuel consumption	um	Production facilities			Offices			De' Longhi Group		
		2017	2018	2019	2017	2018	2019	2017	2018	2019
Direct energy consumption from non-renewable sources										
Gas	GJ	2,385	2,801	3,017	14,392	14,664	9,605	16,776	17,465	12,623
Diesel	GJ	6,121	6,885	6,170	23,598	23,374	22,847	29,719	30,259	29,112
Natural gas	GJ	39,846	45,230	36,298	4,281	5,498	5,145	44,126	50,728	41,443
LPG	GJ	585	523	568	113	133	-	698	657	568
Fuel oil	GJ	-	-	-	205	205	203	205	205	203
Total	GJ	48,936	55,440	46,053	42,588	43,875	37,801	91,524	99,314	83,949
Direct energy consumption from renewable sources										
Energy produced from renewable sources and consumed	GJ	3,811	3,709	3,548	45	37	39	3,856	3,746	3,587
Total direct energy consumption	GJ	52,747	59,148	49,601	42,633	43,911	37,840	95,381	103,060	87,536
Indirect energy consumption										
Electricity purchased	GJ	218,114	245,173	232,701	29,087	29,082	31,206	247,202	274,256	263,887
District heating	GJ	-	-	-	3,698	2,718	2,359	3,698	2,718	2,359
Cooling	GJ	-	-	-	554	398	-	554	398	-
Total indirect consumption	GJ	218,114	245,173	232,701	33,339	32,198	33,565	251,453	277,372	266,246
Total consumption	GJ	270,862	304,322	282,301	75,972	76,110	71,405	346,834	380,431	353,782

In the three-year period 2017- 2019, 12.3, 5.5 and 6.5 GJ of electricity produced from renewable sources were produced at the Group's sites, which were then transferred to the national grid. In 2018 the method used to measure the electricity consumed at the Campi Bisenzio offices was changed.

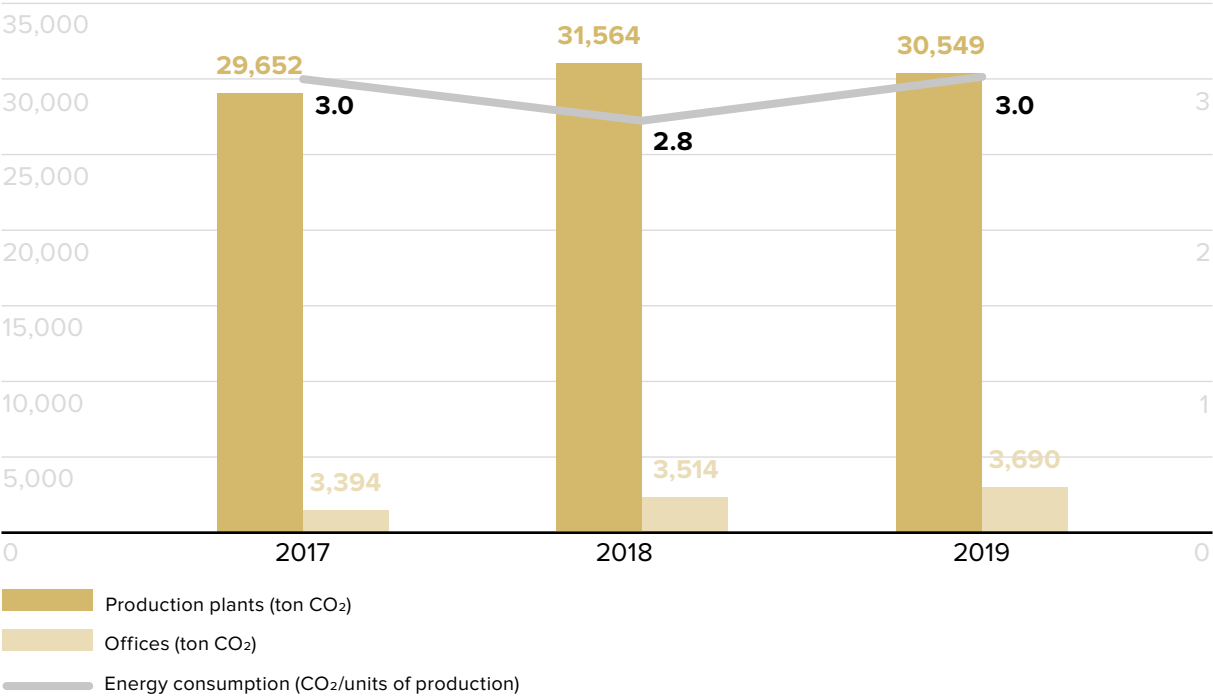
The indirect electricity consumption per unit of production rose slightly from 6.0 kWh in 2018 to 6.2 kWh in 2019 (about +3%).



In 2019 total CO₂ emissions reached 39,674 tons, a decrease of 4% against the 41,482 tons recorded in 2018 (based on CO₂ emissions calculated using the “Location Based” method). The amount of CO₂ emissions is explained primarily by the consumption of electricity (about 86% of the Group’s total CO₂ emissions).

Emissions [ton CO ₂]	Production facilities			Offices			De' Longhi Group		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
Direct	2,891	3,276	2,743	3,054	3,127	2,689	5,944	6,403	5,439
Indirect – Location Based	29,652	31,564	30,549	3,394	3,514	3,692	33,045	35,078	34,240
Indirect – Market Based	32,833	36,057	33,852	4,301	4,322	4,616	37,134	40,379	38,465
TOT (Direct + Indirect – Location Based)	32,543	34,840	33,293	6,448	6,642	6,381	38,991	41,482	39,679
TOT (Direct + Indirect – Market Based)	35,724	39,333	36,596	7,355	7,449	7,305	43,079	46,783	43,905

The comparison of Scope 2 CO₂ emission per unit products shows a slight increase of 7% against the prior year, rising from 2.8 kg of CO₂ per unit produced in 2018 to 3.0 kg of CO₂ per unit produced in 2019.



Note on methodology

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 the continuing operations fully consolidated using the line-by-line method in the financial reports, unless provided otherwise. The information and figures used in this section refer to 2019.

The De'Longhi Group used the GRI Sustainability Reporting Standards (hereinafter the GRI 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 “Reconciliation of De'Longhi's material topics and the GRI Standards”, shown below (“GRI-referenced” claim), shows the reporting standards used. In addition to what is shown in this table, the following standards were also used in this NFS: **GRI 102 - General Disclosures 2016** (102-1, 102-2, 102-3, 102-4, 102-5, 102-6, 102-7, 102-8, 102-9, 102-10, 102-11, 102-13, 102-18, 102-40, 102-42, 102-43, 102-44, 102-45, 102-46, 102-47, 102-48, 102-49, 102-50, 102-52, 102-53, 102-56) e **GRI 103 - Management Approach 2016** (103-1, 103-2).

Definition of the material topics

In accordance with Legislative Decree 254/2016, as amended, this statement provides a description of the De'Longhi Group qualitative/quantitative performances with respect to the topics deemed material for the Group and its stakeholders.

The De'Longhi Group carried out a materiality analysis in accordance with GRI 101 – Foundation and the disclosure standards GRI 102-46 and 102-47 in order to determine the material topics based on the economic, environmental and social impact of its businesses and their influence on the assessments and decisions of the Group's stakeholders that are focused on in the NFS 2019.

The Group's material topics were defined after having completed the following analyses:

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

The results of these analyses led to the definition of the non-financial aspects that are the most material and key to understanding the company's business, performance, results, as well as impact, and, therefore, reported on in the De'Longhi Group's non-financial report. More in detail, more weight was given to the topics that better express the expectations of the stakeholders that are the most dependent on the Group and that can have the greatest impact on corporate strategies. The topics identified were then, subsequently, assessed and integrated by company management based on priorities and strategic objectives.

The material topics reported on in this consolidated Non-Financial Report for each area of Legislative Decree 254 are shown below. For the sake of greater clarity and to facilitate the comparison of the GRI Standards, the material topics and the areas covered under the Decree are shown in the chart below which also includes the topic perimeter and any boundaries.

Reconciliation of De'Longhi's material topics with the GRI Standards⁵

Decree 254	Macro areas	Material topics	GRI standards	Topic-Specific GRI disclosure	Topic perimeter		Boundaries of the reporting perimeter	
					Internal	External	Internal	External
Fight against corruption	Ethics and compliance	Compliance	GRI 205 – Anti-corruption (2016)	GRI 205-2 (points b,c,e); GRI 205-3	Group	Commercial partners	-	-
			GRI 206 – Anti-competitive behavior (2016)	GRI 206-1	Group	-	-	-
					Group	-	-	-
Human resources management Human rights	Personnel management	Talent acquisition and retention	GRI 404 – Training and education (2016)	GRI 404-1	Group	-	-	-
			GRI 405 – Diversity and equal opportunities (2016)	GRI 405-1	Group	-	-	-
		Health and safety of workers	GRI 403 – Workplace health and safety (2016)	GRI 403-2	Group	Suppliers Contact Center	-	Reporting does not involve the Contact Centers
		Human rights	GRI 406 – Non-discrimination (2016)	GRI 406-1	Group	Suppliers	-	Reporting does not involve suppliers
Social aspects Environmental aspects	Quality and product innovation	Product safety	GRI 416 – Customer health and safety (2016)	GRI 416-1	Group	OEM suppliers	-	-
		Product labeling	GRI 417 – Marketing and product labeling (2016)	GRI 412-1; GRI 417-2; GRI 417-3	Group	OEM suppliers	-	-
		Product innovation	-		Group	-	-	-
		Eco – friendly design	-		Group	-	-	-
Social aspects	Consumer relations	Use of consumer data	GRI 418 – Customer privacy (2016)	GRI 418-1	Group	Contact Center	-	-
		Efficiency of network distribution	-		Group	-	-	-
		After sales services	-	[NON GRI INDICATOR] First time fix (FTF) indicator Average time of technical assistance	Group	Contact Center	-	-

Decree 254	Macro areas	Material topics	GRI standards	Topic-Specific GRI disclosure	Topic perimeter		Boundaries of the reporting perimeter	
					Internal	External	Internal	External
Social aspects Human rights	Supply chain management	Management supply chain risks	GRI 412 – Human rights assessments (2016)	GRI 412-1	Group	Suppliers	-	-
			GRI 414 – Supplier social assessment (2016)	GRI 414-1	Group	Suppliers	-	-
			GRI 308 – Supplier environmental assessment (2016)	GRI 308-1	Group	Suppliers		
Environmental aspects	Reduction of environmental impact	Management of emissions and the fight against climate change	GRI 302 – Energy (2016)	GRI 302-1; GRI 302-3	Group	-	-	-
			GRI 305 - Emissions (2016)	GRI 305-1; GRI 305-2; GRI 305-4	Group	Suppliers, Contact Center	-	Reporting does not involve suppliers or Contact Centers

With regard to the topics referred to explicitly in Legislative Decree 254/2016, please note that water consumption, the dialogue with social entities and the agreements of international and supranational organizations did not result material in the materiality analysis. These topics, therefore, are not reported on in this document.

⁵ In addition to the 13 themes reported in the matrix, the following non-material issues were also analyzed: diversity of the Board, information security and patent protection, responsible taxation, local investments, creation of local jobs, waste management, welfare, training and development of soft skills, promotion of sustainable lifestyles, product recyclability and end-of-life management, product durability, packaging.

The main risks associated with non-financial issues and management methods

With regard to the possible risks, inflicted and caused, associated with the issues identified by the De' Longhi Group as "material", the main risks associated with and the relative management of the area of Legislative Decree 254 are described in following table.

Legislative Decree 254	Main risks	Risk management tools
Fight against corruption	<ul style="list-style-type: none"> • Risks connected to administrative liability of legal entities, particularly with regard to Legislative Decree 231/2001 which introduced specific rules relating to liability for a few types of crimes to the Italian legal system • Risks tied to the Group's current or past commercial relationships with related parties • Reputational risk 	<ul style="list-style-type: none"> • Group Code of Ethics • Model of organization, management and control pursuant to Legislative Decree 231/2001 • Group's internal control and compliance system • Corporate Governance Guidelines • Procedure for Related Party Transactions
Human resources management Human rights	<ul style="list-style-type: none"> • Risks connected to human resources management, particularly with regard to the Group's ability to recruit, develop, motivate, retain and promote personnel with the attitudes, values, specialized professional and/or managerial skills needed to meet the Group's changing needs. • With regard to the Chinese platform, there are also a few risks related to high turnover of Chinese blue-collar workers • Risks tied to possible instances of discrimination 	<ul style="list-style-type: none"> • Group Code of Ethics • Model of organization, management and control pursuant to Legislative Decree 231/2001 • Group's internal control and compliance system • OHSAS 18001 compliant organizational model • Worker safety and health policy in place at European plants • Compensation policy for the BoD and executives with strategic responsibilities • Performance review process • MBO procedure • Employee surveys • For the Chinese plants: incentive schemes to foster staff retention, investment in training and the development of more qualified internal resources, improvements in living and working conditions inside the different plants
Social aspects Environmental aspects	<p>Product quality and innovation</p> <ul style="list-style-type: none"> • Risks connected to the De' Longhi Group's to continue with product innovation • Risks associated with patents and trademarks • Risks connected to product quality and liability for violations of the quality standards applied in the different jurisdictions where the Group • Risks connected with regulatory changes, relating in particular to environmental protection, especially the regulations relating to the safety and energy efficiency of electric household appliances, recyclability and environmental friendliness. 	<ul style="list-style-type: none"> • Group Code of Ethics • UNI EN ISO 9001:2015 certified Quality System • Food safety management model • Quality policy • NPD procedures • Quality audits • Constant monitoring of regulatory changes • Registration of product patents and trademarks

Legislative Decree 254	Main risks	Risk management tools
Social aspects	Consumer relations <ul style="list-style-type: none"> • Risks associated with warehouse size and the timeliness of deliveries; more in detail, in the event the Group doesn't have an adequate quantity of products it could run the risk of not being able to meet customer demand in a timely manner. Another risk stems from potential supply chain issues which could impact the adequacy of the service provided • Risks relating to IT systems: in relation to events which could compromise service continuity and integrity of the data 	<ul style="list-style-type: none"> • Group Code of Ethics • Model of organization, management and control pursuant to Legislative Decree 231/2001 • Group's internal control and compliance system • GDPR policy (includes policy for the storage of data and procedure for the management of data breaches) • Training of employees in IT safety and privacy • Presence of structures dedicated to monitoring the level of customer satisfaction
	Supply chain management <ul style="list-style-type: none"> • Risks connected to supplier relationships with regard, in particular, to reliable product quality, logistics and timely deliveries, as well as relationships with company employees • Risk of being dependent on a single supplier for certain types of components for strategic products 	<ul style="list-style-type: none"> • Group Code of Ethics • Model of organization, management and control pursuant to Legislative Decree 231/2001 • Procedure for Related Party Transactions • Social accountability audits
Environmental aspects	<ul style="list-style-type: none"> • Risks relating to environmental harm: the manufacturing done by the Group at its plants and facilities could harm third parties, cause accidents or environmental harm if serious breakdown or malfunctions were to occur 	<ul style="list-style-type: none"> • Group Code of Ethics • UNI EN ISO 14001:2015 certified environmental management system for the European plants • Group's internal control and compliance system • Environmental policy applicable also the production facilities in Mignagola and Cluj, as well as the Kenwood plant.

The reporting process and the methods of calculation used

The content used in the NFS 2019 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:

- **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;
- **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;
- **Lost day rate** is the number of working days lost due to injury as of the day following the injury;
- **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;
- the **first-time quality (FTQ) indicator** is the number of perfect products as a percentage of total production for the year;
- 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 **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;
- **greenhouse gas emissions** are calculated based on the international standard ISO 14064-1. The only greenhouse gas considered was carbon monoxide (CO₂). The self-produced energy from renewable sources was excluded from the calculation of greenhouse gas emissions.

Emission factors used to calculate CO₂ 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 2017, 2018 and 2019.

Indirect emissions (Scope 2): indirect emissions are linked to the consumption of electricity and district heating; the emissions linked to electricity were calculated based on a location and market based approach. Location based emissions were calculated by taking into account, for each country, the factors referred to in the most recent version of Table 49 – Primary socio-economic and energy indicators published by Terna (Italian grid operator), in the International Comparison section, based on the most recent Enerdata data used to calculate Scope 2 emissions, version 2017 for 2019, 2016 version for 2018, 2015 version for 2017. In the event a country was not listed in the above table, we used the emission factor for the continent. When there were several branches in several countries, the highest of the emissions factors among these countries was used.

With regard to the market based emissions, when available, the residual mixes found in the “European Residual Mixes”, published by ABI for the years 2016-2018, were used. An average residual mix per NERC Region, calculated based on the residual mixes shown in the document Green-e Energy Residual Mix Emissions Rates, were used for America and Canada for the years 2017-2018. As for the countries for which no residual mix figures were available, location based emissions factors found in the above mentioned Terna table were used.

District heating emissions were calculated using the emissions factors found in the document “UK Government GHG Conversion Factors for Company Reporting” published by the Department for Environment Food & Rural Affairs (DEFRA) table for the three-year period 2017-2018-2019.

Subsequent events

Subsequent to 31 December 2019 through the approval date of this report, no significant events occurred which would have impacted the financial and economic results shown pursuant to IAS 10 *Events after the reporting period* § 8.

On January 20 2020, after having heard the favorable opinion of the Remuneration and Appointments Committee and the Board of Statutory Auditors, the Board of Directors unanimously approved the proposal presented by the Chairman Giuseppe de' Longhi and the Chief Executive Officer Fabio de' Longhi to include Massimo Garavaglia as a member of the Company's Board of Directors, grant him the powers as Chief Executive Officer and appoint him De' Longhi S.p.A.'s General Manager.

The purpose of this proposal is to strengthen the managerial structure at a time of constant expansion for the Group in order to continue along the highly successful path of the past years and face the new challenges of the rapidly changing global markets, seizing every favorable opportunity.

On 3 February 2020 the acquisition of another production plant in Romania was finalized. The plant comprises 2 buildings for a total of around total 25,000 square meters, with machines and facilities that are already operative which can be used by the Group for its production. This deal is meant to support the expected organic growth pursued by the Group in the main markets and is consistent with the strategy to reduce the time to market of our products, preserving quality and control. This new location will employ more than 500 workers and, backed by the successful experience achieved in the Romanian Cluji region, will strengthen the Group's presence in the region.

The emergency and the spread of the Coronavirus (Covid-19) which in the first weeks of 2020 initially impacted economic activity in China and, subsequently, spread to other countries, is not considered an adjusting event pursuant to IAS 10 § 21 – insofar as, while the phenomenon materialized toward the end of this reporting period, it wasn't until January 2020 that the World Health Organization declared an international health emergency and cases in other countries were found which called for the adoption of specific measures in China, as well as other countries.

With regard to China, the Group does not have manufacturing facilities in the Wuhan area, as the existing production plants in China are located in Dongguan and Zhongshan, in the southeast near Hong Kong. In addition, the Chinese commercial branch is based in Shanghai, while the company dedicated to sourcing and procurement for the Far East, as well as the headquarters for APA's commercial activity, is in Hong Kong. These places were all affected marginally by the epidemic which made it possible to reopen production facilities and offices as of mid-February 2020 and recommence with supply chain activities; this guaranteed supplies for production, in the hubs and the Group's commercial branches.

In February the health emergency spread in Europe, particularly in Italy, where the Group, faced with a constantly changing situation, implemented emergency plans aimed at, above all, protecting the health and safety of its employees and identifying potential problems for the production, the distribution of its products and the supply chain in the main markets.

Based on the current levels of inventory and the fact that production plants are fully operative, to date the Group does not foresee any problems with supply for the main products in the short-term; furthermore, a back-up strategy is currently being drafted in order to be prepared for potential long-term stoppages in the supply chain which could interrupt or limit activities. At the moment the methods for the management of risks connected to production, the costs of raw materials and the supply chain adopted by the Group and described in the Report on Operations are still sufficient.

With regard to the management of human resources, the Group has, since the beginning, rigorously applied the guidelines and conduct recommended for all employees working in China and Hong Kong or who travel for business to/from these countries. These guidelines are based on the recommendations of the World Health Organization (WHO), the Chinese government, the government of the Hong Kong Special Administrative Region, the Italian government and other authorities, as well as the recommendations given by health agencies worldwide to their citizens.

Furthermore, in light of the spread of Covid-19 contagion in Italy and the announcements made by the Italian Prime Minister, specific precautionary measures have also been adopted for the production and offices based in Italy.

With regard to the Group's financial assets, we believe that in the short-term their value will only be marginally impacted by market trends, also considering the type of financial assets held. Furthermore, the Group's financial position is particularly solid and able, not only to absorb the temporary loss in value of a few financial assets, but also to support any temporary periods of negative cash flow.

As for the overall trend in consumption and the possible impact on revenues, the sensitivity analyses conducted relative to the value of invested capital and, more specifically, the value of intangible assets, show there will be no loss in value. Toward this end, please refer to the single items reported on in the Explanatory Notes. Overall, based on information currently available, the factors of uncertainty seem to already be factored into the main valuations.

The current environment of uncertainty stemming from the health crisis does, however, call for precaution, also when making economic forecasts.

Even though the preliminary sales figures for the first months of the year are positive, thanks also to available inventories, and production at the plants and main suppliers in China is recovering, we cannot exclude that, if the contagion expands, there could be some logistics problems and generally critical market conditions.

A significant spread of the health crisis could also have a sizeable impact on future growth prospects given the repercussions for the general economy and the financial markets, including as a result of the containment measures adopted by government authorities.

With the exception of the above, no other significant events occurred after the close of the year.

Outlook

De' Longhi closed the year 2019 with results that, considering the difficult market conditions of the year, we consider satisfactory in particular from the point of view of cash generation. We are now facing a very challenging time, for the industry and for the world economy in general.

The first months of 2020 show a very satisfactory sales trend, in line with our initial expectations; this trend is certainly supported by the contribution of advertising investments incurred last year.

There is no doubt that in this constantly changing context, visibility for the coming months is limited. Uncertainties about how consumption and market development will be affected by the ongoing epidemic will have an impact on economic growth in the coming months. Therefore, more precise indications on 2020 will be communicated as soon as the general picture has normalized.

Treviso, 12 March 2020

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

Consolidated financial statements



Consolidated financial statements

Income statement
Statement of comprehensive income
Statement of financial position
Statement of cash flow
Statement of changes in net equity

Consolidated income statement

(€/000)	Notes	2019	of which non-recurring	2018	of which non-recurring
CONTINUING OPERATIONS					
Revenues from contracts with customers	1-8	2,081,150		2,056,634	(307)
Other revenues	1	19,988		21,498	
Total consolidated revenues		2,101,138		2,078,132	(307)
Raw and ancillary materials, consumables and goods	2	(880,629)		(990,096)	
Change in inventories of finished products and work in progress	3-8	(61,371)	(209)	78,562	230
Change in inventories of raw and ancillary materials, consumables and goods	3	(5,382)		(4,201)	
Materials consumed		(947,382)	(209)	(915,735)	230
Payroll costs	4-8	(268,018)	(1,630)	(268,684)	(2,878)
Services and other operating expenses	5-8-15	(582,590)	(1,790)	(575,652)	(1,530)
Provisions	6-8	(13,968)	(362)	(13,563)	
Amortization	7-15	(78,257)		(61,581)	
EBIT		210,923	(3,991)	242,917	(4,485)
Net financial income (expenses)	9-15	(15,132)		(19,026)	
PROFIT (LOSS) BEFORE TAXES		195,791		223,891	
Income taxes	10	(34,786)		(39,999)	
NET PROFIT (LOSS) from Continuing Operations		161,005		183,892	
DISCONTINUED OPERATIONS					
Net profit (loss) from Discontinued Operation		-		810	
CONSOLIDATED PROFIT (LOSS) AFTER TAXES		161,005		184,702	
EARNINGS PER SHARE (in Euro)					
	27				
- basic		€ 1.08		€ 1.24	
- diluted		€ 1.06		€ 1.22	

In accordance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*, in light of the industrial partnership agreement which called for the sale of the controlling interest of NPE S.r.l., with reference to 2018, 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..

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)	2019	2018
Consolidated profit (loss)	161,005	184,702
Other components of comprehensive income from Continuing Operations:		
- Change in fair value of cash flow hedges and financial assets available for sale	(1,657)	4,960
- Tax effect on change in fair value of cash flow hedges and financial assets available for sale	437	(1,336)
- Differences from translating foreign companies' financial statements into Euro	20,837	964
Total other comprehensive income will subsequently be reclassified to profit (loss) for the year	19,617	4,588
- Actuarial valuation funds	(4,050)	652
- Tax effect of actuarial valuation funds	1,126	(177)
Total other comprehensive income will not subsequently be reclassified to profit (loss) for the year	(2,924)	475
Total components of comprehensive income from Continuing Operations	16,693	5,063
Total components of comprehensive income from Discontinued Operations	-	82
Other components of comprehensive income	16,693	5,145
Total comprehensive income	177,698	189,847

In accordance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*, in light of the industrial partnership agreement which called for the sale of the controlling interest of NPE S.r.l., with reference to first half 2018, 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	31.12.2019	31.12.2018
NON-CURRENT ASSETS			
INTANGIBLE ASSETS		314,829	316,855
- Goodwill	11	92,400	92,400
- Other intangible assets	12	222,429	224,455
PROPERTY, PLANT AND EQUIPMENT		313,807	236,099
- Land, property, plant and machinery	13	134,247	141,733
- Other tangible assets	14	107,169	94,366
- Right of use assets	15	72,391	-
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		40,873	29,597
- Equity investments	16	26,724	26,169
- Receivables	17	3,486	3,428
- Other non-current financial assets	18	10,663	-
DEFERRED TAX ASSETS	19	47,253	36,087
TOTAL NON-CURRENT ASSETS		716,762	618,638
CURRENT ASSETS			
INVENTORIES	20	343,535	404,829
TRADE RECEIVABLES	21	437,360	429,294
CURRENT TAX ASSETS	22	8,872	18,234
OTHER RECEIVABLES	23	23,212	26,607
CURRENT FINANCIAL RECEIVABLES AND ASSETS	24-15	102,419	54,242
CASH AND CASH EQUIVALENTS	25	731,491	569,327
TOTAL CURRENT ASSETS		1,646,889	1,502,533
Non-current assets held for sales	26	1,277	1,121
TOTAL ASSETS		2,364,928	2,122,292

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

Consolidated statement of financial position

Net equity and liabilities

(€/000)	Notes	31.12.2019	31.12.2018
NET EQUITY			
GROUP PORTION OF NET EQUITY		1,190,454	1,065,925
- Share capital	27	224,250	224,250
- Reserves	28	805,199	656,973
- Profit (loss) pertaining to the Group		161,005	184,702
TOTAL NET EQUITY		1,190,454	1,065,925
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES		428,562	239,361
- Bank loans and borrowings (long-term portion)	29	218,746	84,915
- Other financial payables (long-term portion)	30	153,976	154,446
- Lease liabilities (long-term portion)	15	55,840	-
DEFERRED TAX LIABILITIES	19	35,838	33,966
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		77,689	70,468
- Employee benefits	31	41,114	33,968
- Other provisions	32	36,575	36,500
TOTAL NON-CURRENT LIABILITIES		542,089	343,795
CURRENT LIABILITIES			
TRADE PAYABLES	33	365,778	419,795
FINANCIAL PAYABLES		138,200	156,087
- Bank loans and borrowings (short-term portion)	29	66,651	101,765
- Other financial payables (short-term portion)	30	53,093	54,322
- Lease liabilities (short-term portion)	15	18,456	-
CURRENT TAX LIABILITIES	34	35,567	38,506
OTHER PAYABLES	35	92,840	98,184
TOTAL CURRENT LIABILITIES		632,385	712,572
TOTAL NET EQUITY AND LIABILITIES		2,364,928	2,122,292

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

Consolidated statement of cash flow

(€/000)	Notes	2019	2018
Profit (loss) pertaining to the Group		161,005	183,892
Income taxes for the period		34,786	39,999
Amortization		78,257	61,581
Net cash flows from IFRS16 Leases application		(18,307)	-
Net change in provisions and other non-cash items		3,436	3,997
Cash flow generated by current operations from Discontinued Operations		-	313
Cash flow generated by current operations (A)		259,177	289,782
Change in assets and liabilities for the period:			
Trade receivables		5,864	(32,414)
Inventories		66,752	(74,361)
Trade payables		(56,615)	50,263
Other changes in net working capital		(7,067)	(18,597)
Payment of income taxes		(30,573)	(36,231)
Cash flow generated by movements in working capital from Discontinued Operations		-	10,179
Cash flow absorbed by movements in working capital (B)		(21,639)	(101,161)
Cash flow generated by current operations and movements in working capital (A+B)		237,538	188,621
Investment activities:			
Investments in intangible assets		(12,265)	(14,180)
Other cash flows for intangible assets		202	530
Investments in property, plant and equipment		(50,552)	(50,312)
Other cash flows for property, plant and equipment		535	966
Net investments in financial assets and in minority interest		29	14
Cash flow generated by investment activities from Discontinued Operations		-	3,110
Cash flow absorbed by ordinary investment activities (C)		(62,051)	(59,872)
Cash flow by operating activities (A+B+C)		175,487	128,749
Dividends paid		(55,315)	(149,500)
Change in currency translation reserve on cash and cash equivalents		6,712	11,161
New loans		200,000	-
Payment of interests on loans		(2,690)	(2,775)
Repayment of loans and other net changes in financing activities		(162,030)	(66,061)
Cash flow generated (absorbed) by changes in net equity and by financing activities from Discontinued Operations		-	(20,245)
Cash flow generated (absorbed) by changes in net equity and by financing activities (D)		(13,323)	(227,420)
Cash flow for the period (A+B+C+D)		162,164	(98,671)
Opening cash and cash equivalents	25	569,327	667,998
Increase in cash and cash equivalents (A+B+C+D)		162,164	(98,671)
Closing cash and cash equivalents	25	731,491	569,327

In accordance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*, in light of the industrial partnership agreement which called for the sale of the controlling interest of NPE S.r.l., with reference to first half 2018, the figures for assets held for sale are shown separately.

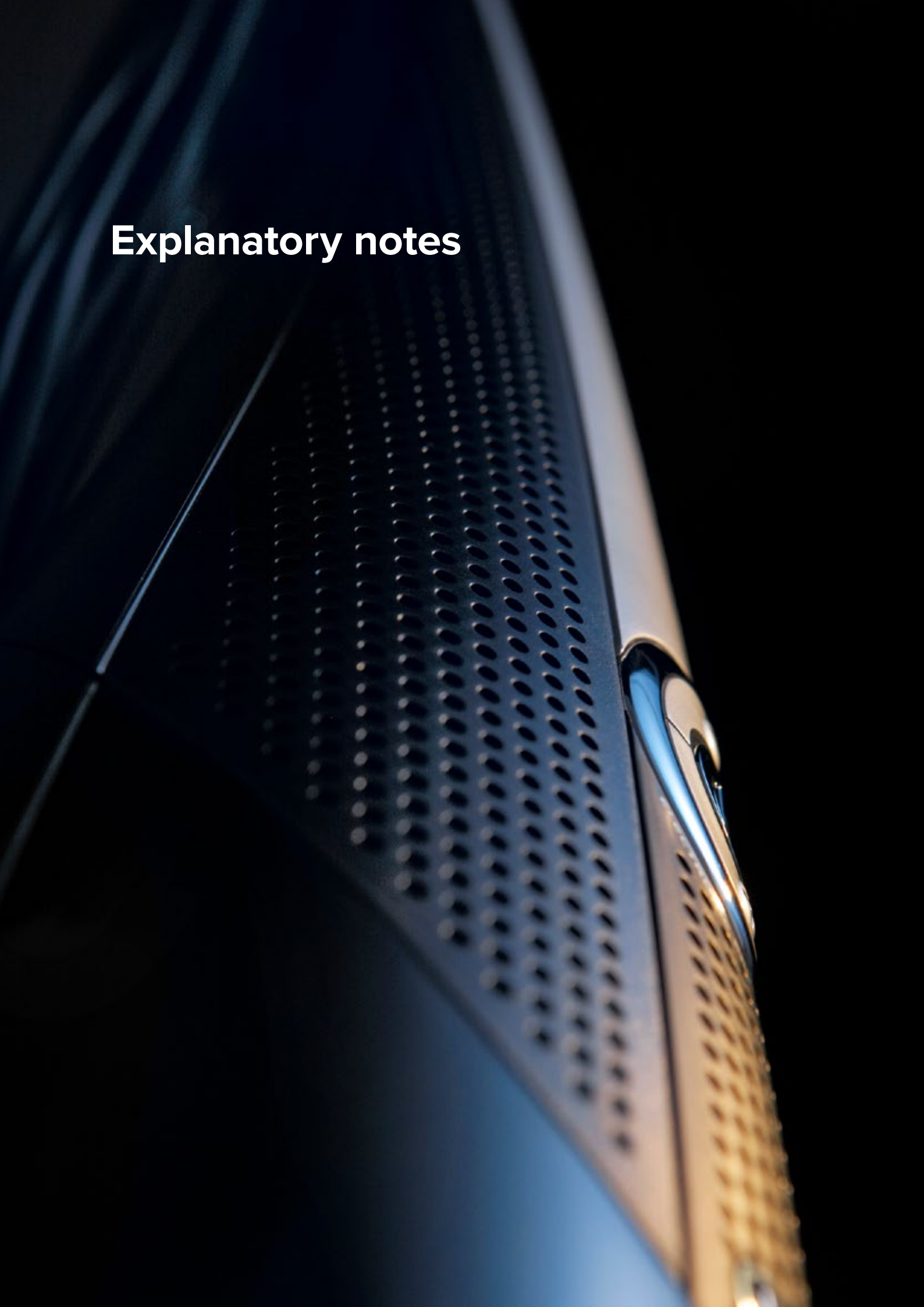
In this report Continuing Operations refers to the results for the consolidation perimeter excluding NPE S.r.l..

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

Consolidated statement of changes in net equity

(€/000)	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
Balance at 31 December 2017	224,250	162	25,229	19,821	(2,969)	4,083	10,632	562,258	178,263	1,021,729	-	1,021,729
Allocation of 2017 result as per AGM resolution of 19 April 2018												
- distribution of dividends								(149,500)		(149,500)		(149,500)
- allocation to reserves			8,731	16,380				153,152	(178,263)	-	-	-
Fair value Stock Option						3,849				3,849		3,849
Other changes in minority interests										-	-	-
Movements from transactions with shareholders	-	-	8,731	16,380	-	3,849	-	3,652	(178,263)	(145,651)	-	(145,651)
Profit (loss) after taxes									184,702	184,702		184,702
Other components of comprehensive income					3,704		964	477		5,145		5,145
Comprehensive income (loss)	-	-	-	-	3,704	-	964	477	184,702	189,847	-	189,847
Balance at 31 December 2018	224,250	162	33,960	36,201	735	7,932	11,596	566,387	184,702	1,065,925	-	1,065,925
Balance at 31 December 2018	224,250	162	33,960	36,201	735	7,932	11,596	566,387	184,702	1,065,925	-	1,065,925
Allocation of 2018 result as per AGM resolution of 30 April 2019												
- distribution of dividends								(55,315)		(55,315)		(55,315)
- allocation to reserves			8,613	108,337				67,752	(184,702)	-	-	-
Fair value Stock Option						2,146				2,146		2,146
Other changes in minority interests										-	-	-
Movements from transactions with shareholders	-	-	8,613	108,337	-	2,146	-	12,437	(184,702)	(53,169)	-	(53,169)
Profit (loss) after taxes									161,005	161,005		161,005
Other components of comprehensive income					(1,220)		20,837	(2,924)		16,693		16,693
Comprehensive income (loss)	-	-	-	-	(1,220)	-	20,837	(2,924)	161,005	177,698	-	177,698
Balance at 31 December 2019	224,250	162	42,573	144,538	(485)	10,078	32,433	575,900	161,005	1,190,454	-	1,190,454

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 2019 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 2019), 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 2019 are the same as those used for preparing the consolidated financial statements at 31 December 2018, except for certain new amendments and accounting standards described below.

The consolidated financial statements at 31 December 2019 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 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 12 March 2020. The financial statements used for consolidation purposes are the separate ones for the year ended 31 December 2019 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:

		31.12.2019		31.12.2018		% Change	
Currency		Period-end exchange rate (*)	Average exchange rate (*)	Period-end exchange rate (*)	Average exchange rate (*)	Period-end exchange rate	Average exchange rate
US dollar	USD	1.1234	1.1195	1.1450	1.18149	(1.89%)	(5.25%)
British pound	GBP	0.8508	0.87777	0.89453	0.88475	(4.89%)	(0.79%)
Hong Kong dollar	HKD	8.7473	8.7715	8.9675	9.25987	(2.46%)	(5.27%)
Chinese renminbi (Yuan)	CNY	7.8205	7.7355	7.8751	7.80736	(0.69%)	(0.92%)
Australian dollar	AUD	1.5995	1.6109	1.6220	1.57992	(1.39%)	1.96%
Canadian dollar	CAD	1.4598	1.4855	1.5605	1.53019	(6.45%)	(2.92%)
Japanese yen	JPY	121.94	122.0058	125.85	130.40955	(3.11%)	(6.44%)
Malaysian ringgit	MYR	4.5953	4.6374	4.7317	4.76418	(2.88%)	(2.66%)
New Zealand dollar	NZD	1.6653	1.6998	1.7056	1.70585	(2.36%)	(0.35%)
Polish zloty	PLN	4.2568	4.2976	4.3014	4.26058	(1.04%)	0.87%
South African rand	ZAR	15.7773	16.1757	16.4594	15.61336	(4.14%)	3.60%
Singapore dollar	SGD	1.5111	1.5273	1.5591	1.59284	(3.08%)	(4.11%)
Russian rouble	RUB	69.9563	72.4553	79.7153	74.05508	(12.24%)	(2.16%)
Turkish lira	TRY	6.6843	6.3578	6.0588	5.69857	10.32%	11.57%
Czech koruna	CZK	25.408	25.6705	25.724	25.64316	(1.23%)	0.11%
Swiss franc	CHF	1.0854	1.1124	1.1269	1.15488	(3.68%)	(3.68%)
Brazilian real	BRL	4.5157	4.4134	4.4440	4.30874	1.61%	2.43%
Croatian kuna	HRK	7.4395	7.418	7.4125	7.41815	0.36%	0.00%
Ukrainian hryvnia	UAH	26.7195	28.922	31.7362	32.11569	(15.81%)	(9.94%)
Romanian leu	RON	4.783	4.7453	4.6635	4.65405	2.56%	1.96%
South Korean won	KRW	1,296.28	1,305.32	1,277.93	1,299.2533	1.44%	0.47%
Chilean peso	CLP	844.86	786.89	794.37	756.9625	6.36%	3.95%
Swedish krona	SEK	10.4468	10.5891	10.2548	10.25674	1.87%	3.24%
Mexican peso	MXN	21.2202	21.5565	22.4921	22.71603	(5.65%)	(5.10%)

(*) Source: Bank of Italy

International accounting standards adopted by the Group for the first time

IFRS 16 - *Leases* was adopted by the EU in Regulation 2017/1986 on 31 October 2017. The new standard is applicable for reporting periods beginning on or after 1 January 2019.

The scope of the new principle is largely unchanged with respect to IAS 17 which it is substituting. The biggest change is the elimination for the lessee of the distinction between financial and operating leases, which was part of IAS 17, and establishes a single category and requires a uniform accounting treatment. Leasing includes those contracts which convey the right to control the use of an identified asset for a defined period of time in exchange for the consideration agreed upon. Based on the new standard, therefore, in addition to the identification of the leased asset, the contract must clearly state that the lessee is entitled to direct the identified asset's use and to obtain substantially all the economic benefits from that use. The asset may be identified explicitly or implicitly, or an asset can also be a portion of a larger asset if this portion is physically distinct; furthermore, the asset is identified if the supplier does not have substantive right of substitution throughout the contract term. With regard to obtaining all the economic benefits deriving from the use of the asset, the lessee's specific right-of-use contemplated in the contract must be considered (ex. use of the asset in a specific place, use of the asset for a certain number of hours). Control of the asset exists when the lessee can direct the use of the asset without changes being made by the supplier or if the way in which and the purpose for which the asset is to be used has been predetermined. The lessee's right to direct usage of the asset will not be forfeited in the event the supplier only maintains protective rights which make it possible to protect the asset and personnel, as well as comply with the law. Lastly, the new standard provides certain exemptions, as well as practical expedients which facilitate application. The lessee may decide to not apply IFRS 16 to leases of less than 12 months which do not provide for redemption options and to contracts relating to assets of marginal value like tablets, personal computers, small office furniture and telephones; in this instance the accounting of the contracts needs to comply with the part of IAS 17 relative to operating leases, meaning the consideration needs to be expensed across the life of the contract or using another systematic approach. Similar contracts may be grouped and accounted for together if application of the standard to each contract would not have a significantly different impact on the financial statements. The lessee must recognize the right-of-use asset and the lease liability as of the effective date. The right-of-use asset must be valued at cost comprehensive of the present value of future payments, the initial costs incurred directly by the lessee, any advance lease payments made and the estimate of the costs for elimination, removal and restoration; the asset value must be systematically depreciated in accordance with IAS 16. The liability must equal the present value of the payments payable over the term of the lease discounted at the interest rate implicit in the lease, if easily determined, or alternatively, at the incremental borrowing rate which is the rate that the lessee would pay on a loan with a similar duration and conditions. In the event the lease term, purchase options, the residual value guaranteed, or variable payments based on indices or rates, are redetermined, the lease liability must be restated. With regard to transition, IFRS 16 provides two possible approaches: the full retrospective approach, based on which the new provisions are applied retroactively to each previous year in which IAS 8 was applied; and the modified retrospective approach, based on which the new standard is applied retroactively by recognizing the cumulative effect of initial application as an adjustment to the opening balance of retained earnings.

De' Longhi Group has adopted the new standard beginning on 1 January 2019 using the modified retrospective approach based on which the recognized amount of the right-to-use asset should equal the lease liability, namely equal to the present value of the remaining payments discounted using the incremental borrowing rate at the date of initial application, without restating the comparative figures. The Group has applied the provision which allows for the new definition of leasing not to be applied during the transition phase. The Group, therefore, has applied the standard only to contracts which were already identified as leases under IAS 17 and IFRIC 4.

Another expedient, which allows for the exclusion of initial direct costs stemming from the right-of-use measurement of assets upon first time application of IFRS 16, was also applied. In addition, the Group decided not to recognize leases whose terms ends within twelve months as at 1 January 2019 by using short-term lease accounting.

The incremental borrowing rate – IBR used at the time of initial application was based on the Parent Company De' Longhi S.p.A.'s average cost of borrowing at 31 December 2018 adjusted to reflect the country where the leased asset is located, as well as the currency in which the lease is denominated. The interest rates used to discount lease rental fees, defined, as specified above, in relation to the country in which the lease contract was stipulated and is outstanding, are included within the range of 0.8% - 25%.

The Group also took into account cash outflows to which it is potentially exposed which are not taken into account when measuring lease liabilities linked to variable payments linked to current leases, extension and termination options, as well as guarantees on residual amounts.

Subsequent to IFRS 16 application, new assets (reported separately in the consolidated statement of financial position) and related financial liabilities (the lease obligations) are recognized in the net financial position as nonbanking items. The value of the right-of-use is depreciated and interest recognized, while costs represented by the lease payments made are eliminated.

For further information, please refer to note 15. *Leases*.

Other leases in which the Group is lessor had no a material impact.

Furthermore, as from 1 January 2019, the amendments to IFRS 9 - *Financial instruments - Prepayment Features with Negative Compensation* introduced by the European Commission with Regulation 2018/498 of 22 March 2018 were adopted in order to clarify the classification of certain prepayable financial assets when IFRS 9 is applied.

The interpretation IFRIC 23 - *Uncertainty over Income Tax Treatments* (Regulation 2018/1595 of 23 October 2018) and the amendments to IAS 28 - *Long-term Interests in Associates and Joint Ventures* (Regulation 2019/237 of 8 February 2019) were applied for the first time in this financial year.

On 12 December 2017 IASB published *Annual Improvements to IFRSs 2015-2017 Cycle*, as part of a routine procedure to streamline and clarify international accounting standards in order to resolve questions that aren't urgent relating to inconsistencies or provide clarifications of certain terms, discussed within the IASB in the design phase. These annual improvements concerned IFRS 3 - *Business combinations*, IFRS 11 - *Joint Arrangements*, IAS 12 - *Income taxes* and IAS 23 - *Borrowing costs*.

On 7 February 2018 IASB published a few amendments to IAS 19 - *Employee Benefits*. The document "*Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*" as part of a routine procedure to streamline and clarify international accounting standards. The purpose of the amendments is to clarify how to redetermine net liabilities (assets) of a defined benefit plan for the period remaining after a defined benefit plan has been changed, reduced or terminated. These amendments were endorsed by the European Commission which adopted them in Regulation 402/2019 of 13 March 2019.

The Amendments to IAS 28 - *Long-term interests in Associates and Joint Ventures*, endorsed by Regulation 237/2019 of 8 February 2019 and applicable from 1 January 2019, are intended to clarify the scope of application of IFRS 9 with regard to long-term interests in associates or joint ventures, including, for example, long-term loans whose payment is not planned for a certain future.

International financial reporting standards and/or not yet applicable

On 29 November 2019, the European Commission, through Regulation 2019/2075, approved some amendments to the IFRS standards that will be mandatory from 1 January 2020, whose title is Amendment to references to the conceptual framework in IFRS Standards.

These amendments aim to update the existing references to the previous frameworks in various accounting standards and interpretations, replacing them with references to the revised conceptual framework.

The *Amendments to IAS 1 and IAS 8 – Definition of material* and the *Amendments to IFRS 9, IAS 39 and IFRS 17: Interest Rate Benchmark Reform* were endorsed and will be mandatory from 1 January 2020.

The amendments to IAS 1 and IAS 8 aim to clarify the definition of materiality and how it should be applied. Based on the amendments, information is deemed material if omitting it or misstating it could reasonably influence the decisions made by the primary users of the financial statements. In the new version reference to size and nature in the definition of material has been eliminated; furthermore, the scope of the users for which the information in the financial statements is intended has been narrowed from users to primary users, namely current and potential investors, lenders and other creditors.

The *Amendments to IFRS 9, IAS 39 and IFRS 17* belong to “phase 1” of a project which has the aim to consider what, if any, reliefs to give from the effects of IBOR reform. The key reliefs provided by the amendments relate to: (i) risk components, (ii) “highly probable” requirement, (iii) prospective assessments, (iv) retrospective effectiveness test and (v) recycling of the cash flow hedging reserve.

Furthermore, the amendments require disclosure of hedge accounting impacted by uncertainty.

The Group did not apply the aforesaid amendments 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.

One of the main changes made by the IASB, which, instead, have yet to be endorsed, includes the introduction of IFRS 17 - *Insurance* contracts which will substitute 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 using an accounting model based on the discounted cash flow method, adjusted for risk, and a Contractual Service Margin (CSM). Initially, once endorsed the European Union, the new standard was to be applied to reporting periods beginning on or after 1 January 2021. The date of initial application was, subsequently, postponed a year, to 1 January 2022.

Once endorsed by the relevant authorities, the *Amendments to IFRS 3 – Business combinations* will also take effect. The main amendments to IFRS 3 clarify how to define a business and introduces an optional fair value “concentration test”; additional guidelines, along with new examples, are also provided.

Lastly, the first application date for the amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* has yet to be determined. The purpose of the amendments is to clarify how to account for the loss of control of business (governed by IFRS 10), as well as downstream transactions (governed by IAS 28) if the object of the transaction was or was not a business, as defined in IFRS 3.

Consolidation procedures

The scope of consolidation includes the parent company, De' Longhi S.p.A., and its subsidiaries at 31 December 2019, 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 with the line-by-line method.

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

In accordance with IFRS 3, business combinations are accounted for using the acquisition method. Under this method, the consideration transferred for the acquisition is measured at fair value except for the following items which are measured in accordance with the applicable standard: i) deferred tax assets and liabilities, ii) assets and liabilities for employee benefits and iii) assets held for sale. In the case in which it is only possible to estimate provisionally the fair value of assets, liabilities and potential liabilities, the business combination is accounted for on the basis of provisional estimated values. Any subsequent corrections required following completion of the valuation process are accounted for within 12 months of the acquisition date.

If an element of the consideration depends on the outcome of future events, such element is included in the estimate of fair value at the time of the business combination.

The acquisition of further shares in subsidiaries and any sale of shares which do not lead to loss of control are accounted for as transactions between shareholders; as such, the accounting effects of such operations are reflected directly in the Group equity.

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.

Changes in the scope of consolidation

In 2019 there were no significant changes in the scope of consolidation.

Disclosure by operating segments

Please refer to Note 42. *Operating segments*.

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

Main 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

Right-of-use assets

In accordance with IFRS 16 the right-of-use asset is valued as the present value of future payments (discounted at the interest rate implicit in the lease, if easily determined, or alternatively, at the incremental borrowing rate, namely the interest rate that the lessee must pay over the term of the loan and similar guarantees), the initial costs incurred directly by the lessee, any advance lease payments made and the estimate of the costs for elimination, removal and restoration. The asset value is systematically depreciated.

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.

Net assets held for sale and Discontinued Operations

Net 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.

Net 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 slow-moving goods are calculated for materials and finished products, taking account of their future expected use and realizable value.

Financial instruments

Financial assets

Upon initial recognition, financial assets are classified based on the measurement methods used in one of the three categories found in IFRS 9. The classification depends on the nature of the contractual cash flows and the business model the company uses to manage them.

The business model refers to the way in which the cash flows are generated which can be from the collection of contractual cash flows, the sale of assets or both.

A financial asset is classified among the assets valued at amortized cost if held as part of a business model where the objective is collecting contractual cash flows represented solely by payments to be made on certain dates, principal and interest. The valuation is made based on the effective interest rate.

A financial asset is classified among the assets valued at fair value with changes passing through the comprehensive income statement if held as part of a business model where the objective is collecting contractual cash flows and selling the assets and the cash flows contemplated under the contract refer solely to payments of principal and interest made on predetermined dates. For the assets included in this category, the interest receivable, the foreign exchange differences and losses in value are recognized in the income statement for the reporting period; other changes in fair value are recognized in the comprehensive income statement. Upon elimination, the cumulative change in fair value recognized as other comprehensive income is released to the income statement.

During the initial recognition phase, equity instruments may be included in the category of assets measured at fair value with changes recognized in the comprehensive income statement.

The category of assets valued at fair value with changes recognized in the income statement include assets held for trading, namely acquired to be sold in the short-term, and the assets designated as such.

Upon initial recognition, equity instruments not held for trading may be included in the category of financial instruments measured at fair value with changes recognized in the comprehensive income statement. This choice may be made for each asset and is irrevocable.

The trade receivables without a significant financing component are valued at the transaction price determined in accordance with IFRS 15.

Financial liabilities

Financial liabilities refer mainly to loans valued at amortized cost based on the effective interest rate. Financial liabilities are derecognized when the underlying obligation is extinguished, cancelled or fulfilled.

Lease liabilities

Lease liabilities equal the present value of the payments payable and not yet paid at the date of the financial statements discounted at the interest rate implicit in the lease, if easily determined, or alternatively, at the incremental borrowing rate which is the rate that the lessee would pay on a loan with a similar duration and conditions. In the event the lease term, purchase options, the residual value guaranteed, or variable payments based on indices or rates, are redetermined, the lease liability is remeasured.

Derivatives

Derivatives are used solely for hedging purposes, in order to reduce exposures to currency and interest rate risk. As allowed by IFRS9, 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.

In accordance with IFRS9, all derivatives are 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 forecasted 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 is 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 shares. 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 issued. 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 not probable but neither remote are disclosed in the notes but no provision is recognized.

Recognition of revenues

The item "Revenues" includes the consideration received for goods sold to customers and services rendered.

Revenues represent the consideration owed in exchange for the transfer of goods and/or services to the customer, excluding amounts received on behalf of third parties. The Group recognizes the revenue when contractual obligations are fulfilled, namely when control of the good or service is transferred to the customer.

Based on the five-step model introduced in IFRS 15, the Group recognizes revenue after the following requirements have been met:

- a) the parties have approved the contract (in writing, orally or in accordance with other common commercial practices) and are committed to fulfilling the respective performance obligations; an agreement between the parties which creates rights and obligations regardless of the form of the agreement has, therefore, been created;
- b) the rights of each of the parties in relation to the goods and services to be transferred can be identified;
- c) the payment terms for the goods or services to be transferred can be identified;
- d) the contract has commercial substance;
- e) it is probable that the company will receive the consideration to which it is entitled in exchange for the goods or services transferred to the customer.

If the consideration referred to in the contract has a variable component, the Group will estimate the amount of the consideration it will be entitled to in exchange for the goods or services transferred to the customer.

The Group typically provides warranties for the repair of defects existing at the time of the sale, in accordance with the law. These warranties, which are standard warranties on quality, are accounted for in accordance with IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets*.

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.

Any uncertainty regarding tax treatments is considered in the tax calculation in accordance with the recommendations of IFRIC 23 *Uncertainty over Income Tax Treatments*.

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 losses on trade receivables recognized in the financial statements and not covered by insurance. The losses equal the difference between the amounts the Group is entitled to receive based on contracts with customers and the estimated inflows. 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 the uninsured portion of trade receivables.

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.

Deferred tax assets recoverability

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

1. Revenues

In 2019 revenues, including revenues from sales and services and other revenues, amount to €2,101,138 thousand (€2,078,439 thousand in 2018, including one-offs of €307 thousand).

Revenues are broken down by geographical area as follows:

	2019	% revenues	2018	% revenue	Change	Change %
EUROPE	1,419,944	67.6%	1,365,741	65.7%	54,203	4.0%
APA (Asia/Pacific/Americas)	541,627	25.8%	565,973	27.2%	(24,346)	(4.3%)
MEIA (Middle East/India/Africa)	139,567	6.6%	146,725	7.1%	(7,158)	(4.9%)
Total revenues	2,101,138	100.0%	2,078,439	100.0%	22,699	1.1%

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:

	2019	2018	Change
Freight reimbursement	3,602	4,250	(648)
Commercial rights	2,372	1,905	467
Grants and contributions	1,308	1,417	(109)
Damages reimbursed	764	1,347	(583)
Out-of-period gains	56	257	(201)
Other income	11,886	12,322	(436)
Total	19,988	21,498	(1,510)

With regard to Law n. 124 of 4 August 2017, which regulates transparency in public funding, the item "Grants and contributions" includes income of €325 thousand stemming from the incentives granted by Gestore dei Servizi Energetici GSE S.p.A. for the production of energy at the Mignagola (TV) plant through photovoltaic systems connected to the grid.

2. Raw and ancillary materials, consumables and goods

The breakdown is as follows:

	2019	2018	Change
Parts	424,482	467,854	(43,372)
Finished products	365,958	425,265	(59,307)
Raw materials	71,239	79,684	(8,445)
Other purchases	18,950	17,293	1,657
Total	880,629	990,096	(109,467)

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, is mainly due to differences arising on the translation of foreign subsidiaries financial statements.

4. Payroll costs

These costs include €82,349 thousand in production-related payroll (€87,843 thousand at 31 December 2018).

	2019	2018	Change
Employee wages and salaries	252,665	250,239	2,426
Temporary workers	15,353	18,445	(3,092)
Total	268,018	268,684	(666)

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 2019 payroll costs included non-recurring expenses of €1,630 thousand incurred for structural reorganization of the Group and to revise the business model in a few markets (€2,878 thousand at 31 December 2018) and of €2,146 thousand relating to the notional cost (fair value) of the stock option plan for the year (€3,849 thousand at 31 December 2018).

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

	2019	2018
Blue collars	5,081	5,426
White collars	2,855	2,885
Managers	255	264
Total	8,191	8,575

5. Services and other operating expenses

These are detailed as follows:

	2019	2018	Change
Promotional expenses	179,719	174,314	5,405
Advertising	65,647	52,851	12,796
Transport (for purchases and sales)	84,001	84,714	(713)
Subcontracted work	44,108	47,326	(3,218)
Consulting services	22,581	21,175	1,406
Technical support	16,230	14,904	1,326
Storage and warehousing	16,079	15,419	660
Rentals and leasing	15,907	33,585	(17,678)
Travel	13,688	14,585	(897)
Power	8,815	8,907	(92)
Commissions	7,172	7,415	(243)
Product certification and product inspection fees	6,094	6,330	(236)
Insurance	5,395	4,999	396
Maintenance	4,310	4,393	(83)
Postage, telegraph and telephones	3,706	3,697	9
Credit insurance fees	3,271	3,629	(358)
Other utilities and cleaning fees, security, waste collection	3,212	3,170	42
Directors' emoluments	3,064	3,104	(40)
Statutory auditors' emoluments	310	337	(27)
Other sundry services	29,931	26,768	3,163
Total services	533,240	531,622	1,618
Sundry taxes	42,309	38,166	4,143
Out-of-period losses	532	224	308
Bad debts	88	64	24
Other	6,421	5,576	845
Total other operating expenses	49,350	44,030	5,320
Total services and other operating expenses	582,590	575,652	6,938

In 2019 the item includes non-recurring expenses for €1,790 thousand (€1,530 thousand at 31 December 2018).

In 2019 the item "Rentals and leasing" includes, in addition to €846 thousand in commercial rights (€1,364 thousand in 2018), operating costs relating to contracts that are not or do not contain a lease (€12,404 thousand), as well as costs relating to leases of less than twelve months' duration (€2,540 thousand) or relating to low-value assets (€117 thousand); for further information, please refer to note 15. *Leases*.

Otherwise, the figure for 2018 also includes costs relating to leases classified as operating in accordance with IAS 17. Consequently, comparability between the two periods is no longer possible.

6. Provisions

These include €13,856 thousand in provisions for contingencies and other charges net of the release of provisions for doubtful accounts of €50 thousand. The main changes in this item are discussed in note 32. *Other provisions for non-current contingencies and charges.*

7. Amortization

The breakdown is as follows:

	2019	2018	Change
Amortization of intangible assets	14,300	17,689	(3,389)
Depreciation of property, plant and equipment	44,935	43,892	1,043
Depreciation of Right of Use assets	19,022	-	19,022
Total	78,257	61,581	16,676

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

8. Non-recurring income/(expenses)

The non-recurring items of €3,391 thousand recorded at 31 December 2019 are recognized directly in the relative lines of the income statement (€1,790 thousand in costs for services, €1,630 thousand in payroll costs, €362 thousand in provisions and €209 thousand on changes in inventory); the amount reflects primarily the costs incurred to revise the business model in a few markets and reorganize the commercial structure.

The non-recurring items recorded at 31 December 2018 amounted to €4,485 thousand (€307 thousand in costs of revenues from contracts with customers, €2,878 thousand in payroll costs, €1,530 thousand in costs for services and a gain of €230 thousand on changes in inventory); the amount reflected primarily the costs incurred to revise the business model in a few markets and reorganize the commercial structure.

9. Net financial income (expenses)

Net financial income and expenses are broken down by nature as follows:

	2019	2018	Change
Exchange differences and gains (losses) on currency hedges (*)	(848)	2,553	(3,401)
Share of profit of equity investments consolidated by the equity method	922	1,063	(141)
Net interest expense	(2,309)	(4,084)	1,775
Interest for leasing	(1,809)	(54)	(1,755)
Financial discounts and other financial income (expenses)	(11,088)	(18,504)	7,416
Other net financial income (expenses)	(15,206)	(22,642)	7,436
Net financial income (expenses)	(15,132)	(19,026)	3,894

(*) The item includes €11 thousand relating to exchange rate losses on leases accounted for in accordance with IFRS 16 Leases.

“Exchange differences and gains (losses) on currency hedges” includes the rate differentials on currency risk hedges, as well as the exchange differences linked to consolidation.

“Share of profit of equity investments consolidated by the equity method” includes income from the joint venture TCL/DL (€602 thousand), dedicated to the manufacture of portable air conditioners, and the interest held in the Eversys Group (€680 thousand) which is active in the professional espresso coffee machine sector. It also includes the losses arising from the valuation of the investment in NPE S.r.l., a supplier of electronic components whose control was sold in 2018 to the Chinese industrial group H&T.

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

Interest on leases is equal to the portion of financial expenses payable matured in the reporting period on a liability, recognized in accordance with IFRS 16 - *Leases*. For more information see note 15. *Leases*.

10. Income taxes

These are analyzed as follows:

	2019	2018	Change
Current income taxes:			
- Income taxes	39,195	35,811	3,384
- IRAP (Italian regional business tax)	2,625	3,096	(471)
Deferred (advanced) taxes	(7,034)	1,092	(8,126)
Total	34,786	39,999	(5,213)

This item includes the patent box incentives (tax incentives on income from patents, trademarks and inventions), recognized as a result of the agreement signed with the tax authorities relating to the determination of grant for the period 2015-2019.

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

"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:

	2019	%	2018	%
Profit before taxes	195,791	100.0%	223,891	100.0%
Theoretical taxes	46,990	24.0%	53,734	24.0%
Other (*)	(14,829)	(7.6%)	(16,831)	(7.5%)
Total income taxes	32,161	16.4%	36,903	16.5%
IRAP (Italian regional business tax)	2,625	1.3%	3,096	1.4%
Actual taxes	34,786	17.8%	39,999	17.9%

(*) 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

Non-current assets

11. Goodwill

	31.12.2019		31.12.2018	
	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	31.12.2019
De' Longhi	26,444
Kenwood	17,120
Braun	48,836
Total	92,400

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 plans prepared assuming realistic scenarios on the information available at the reporting date, also including the 2020 budget proposal submitted to the Board of Directors on 20 February 2020.

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, deemed representative of a precautionary growth rate in terminal values.

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 6.2%, used for all the CGUs, reflects therefore current market assessments and the time value of money and takes account of the risks specific to the sector.

The impairment tests carried out at the end of 2019 have not revealed any other significant evidence of goodwill impairment.

With regard to the CGUs De' Longhi and Kenwood, which comprise the Group's traditional business, the recoverable amounts shown in the impairment tests and the sensitivity analysis are much higher than book value.

For the CGU Braun, the recoverable amount determined by the test was higher than book value, even though the brand was acquired more recently.

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 6.0% and 6.4%) and the growth rate in terminal value (in the range 1.8%-2.2%).

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.

The current environment of uncertainty triggered by the Coronavirus health crisis, in light of which approval of the 2020 budget has been postponed for the moment, calls for caution when making economic forecasts.

The state of emergency caused by the Coronavirus is an event that occurred after the close of these financial statements and which does not call for an adjustment to be made to the figures for the reporting period, but only that adequate information be provided in these explanatory notes (please refer to Note 43. *Subsequent events*).

As impairment tests are based on forecasts and as, currently, these figures are subject to uncertainty, it was, however, deemed opportune to also model a precautionary scenario for 2020, limited to the Braun CGU, solely for the purposes of impairment testing, which takes into account a possible slowdown in production and sales. Even though the preliminary figures for the first few months of the year are positive, thanks also to the stock of inventory, and production at the plants and main suppliers in China is gradually recovering, we cannot exclude the possibility that a few logistics problems and a generally critical market environment could affect results, above all in the second and third quarters of 2020. Based on the dynamics imaginable today, we believe that the precautionary scenario will not compromise recovery in the next three-year period.

The sensitivity tests confirmed the results of the impairment testing.

Group Board of Directors approved the assumptions and the criteria used to perform the impairment tests.

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.

12. Other intangible assets

These are analyzed as follows:

	31.12.2019		31.12.2018	
	Gross	Net	Gross	Net
New product development costs	103,900	17,490	95,340	16,995
Patents	40,106	3,217	39,745	4,514
Trademarks and similar rights	281,617	178,834	281,291	181,893
Work in progress and advances	24,307	17,810	21,601	15,244
Other	22,878	5,078	22,557	5,809
Total	472,808	222,429	460,534	224,455

The following table reports movements in the main asset categories during 2019:

	New product development costs	Patents	Trademarks and similar rights	Work in progress and advances	Other	Total
Net opening balance	16,995	4,514	181,893	15,244	5,809	224,455
Additions	1,079	492	295	10,090	309	12,265
Amortization	(8,065)	(1,658)	(3,385)	(140)	(1,052)	(14,300)
Translation differences and other movements (*)	7,481	(131)	31	(7,384)	12	9
Net closing balance	17,490	3,217	178,834	17,810	5,078	222,429

(*) "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 usefulness of such projects.

The Group has capitalized a total of €11,169 thousand in development costs as intangible assets in 2019, of which €1,079 thousand in "New product development costs" for projects already completed at the reporting date and €10,090 thousand in "Work in progress and advances" for projects still in progress.

"Patents" mostly refers 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" includes €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 2019 for both brands based on an indefinite useful life, did not reveal any evidence that these assets might have suffered an 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 cash flows 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 (7.1% net of tax) reflects current market assessments and the time value of money. The growth rate in terminal values used for projecting beyond the planning period was therefore 2% for all the CGUs, deemed representative of a precautionary growth rate in terminal values.

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 6.9% and 7.3%) 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.

In light of what has transpired in the first few months of 2020, as a result of the Coronavirus epidemic described above, a sensitivity analysis was run in order to verify the absence of impairment indicators even when a precautionary scenario is used for 2020, which takes into account a possible drop in revenue for the current year stemming from a potential slowdown in production and sales (already described in Note 11. Goodwill).

This analysis was conducted only for the Braun brand, as the recoverable value of the De' Longhi brand found as a result of impairment testing is much higher than book value.

The sensitivity test confirmed the results of the impairment test.

13. Land, property, plant and machinery

These are analyzed as follows:

	31.12.2019		31.12.2018	
	Gross	Net	Gross	Net
Land and buildings	118,344	82,316	116,101	84,934
Plant and machinery	151,306	51,931	137,790	56,799
Total	269,650	134,247	253,891	141,733

The following table reports movements during 2019:

	Land and buildings	Plant and machinery	Total
Net opening balance	84,934	56,799	141,733
Additions	1,874	2,446	4,320
Disposals	(34)	(95)	(129)
Depreciation	(4,938)	(9,804)	(14,742)
Translation differences and other movements	480	2,585	3,065
Net closing balance	82,316	51,931	134,247

The increase in "Land and buildings" is explained primarily by investments made in Italian and American properties.

The investments in "Plants and machinery" refer mainly to the purchase of machinery for a plant in China and to the coffee machine production lines increases in Italy. The other movements refer, first of all, to the reclassification of the amount relating to the investments made in 2018 in the production plants (in China, Romania and Italy) previously classified under tangible assets in progress.

14. Other tangible assets

Other tangible assets are analyzed as follows:

	31.12.2019		31.12.2018	
	Gross	Net	Gross	Net
Industrial and commercial equipment	318,088	55,564	300,198	53,908
Other	88,471	23,149	82,816	23,323
Work in progress and advances	28,456	28,456	17,135	17,135
Total	435,015	107,169	400,149	94,366

The following table reports movements during 2019:

	Industrial and commercial equipment	Other	Work in progress and advances	Total
Net opening balance	53,908	23,323	17,135	94,366
Additions	17,973	6,832	21,424	46,229
Disposals	(2)	(208)	-	(210)
Depreciation	(22,563)	(7,557)	(73)	(30,193)
Translation differences and other movements	6,248	759	(10,030)	(3,023)
Net closing balance	55,564	23,149	28,456	107,169

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 linked to the development of the new headquarters and the investments in the Romanian production facility.

15. Leases

Existing leases are functional to the Group's operations and refer mainly to the leasing of properties, automobiles and other capital goods.

The new standard was adopted by the Group at 1 January 2019 using the modified retrospective approach based on which the recognized amount of the right-to-use asset should equal the lease liability, namely equal to the present value of the remaining payments discounted using the incremental borrowing rate at the date of initial application, without restating the comparative figures.

At the transition date, right of use assets and corresponding lease liabilities of €76,952 thousand were recognized.

In 2019, subsequent to the application of the new IFRS 16 - *Leases*, €19,022 thousand of depreciation were recognized in the income statement, as well as €1,809 thousand of interest payable and €11 thousand of exchange rate losses while € 19,901 thousand of costs represented by the lease payments made were eliminated.

Movements in the leased right of use assets in 2019 are shown below:

	Land and buildings	Industrial and commercial equipment	Other	Total
Net opening balance	-	-	-	-
IFRS 16 First time adoption at 1 January 2019	71,817	872	4,263	76,952
Additions	11,471	677	2,869	15,017
Disposals	(607)	(10)	(638)	(1,255)
Depreciation	(16,603)	(283)	(2,136)	(19,022)
Translation differences and other movements	690	(2)	11	699
Net closing balance	66,768	1,254	4,369	72,391

At 31 December 2019 financial liabilities for leases of €74,296 thousand, of which €55,840 thousand expiring beyond 12 months, and financial assets for advanced payments of €267 thousand, included in “Current financial receivables and assets”, were recognized in the financial statements (please refer to note 24).

The maturities of the undiscounted lease liabilities (based on contractual payments) are shown below:

	Undiscounted flows at 31.12.2019	Payable in one year	Payable in 1-5 years	Payable n more than five years
Lease liabilities	78,650	19,655	42,508	16,487

16. Equity investments

Details of equity investments are as follows:

	31.12.2019	31.12.2018
Equity investments consolidated using the equity method	26,672	26,115
Investment measured at fair value	52	54
Total	26,724	26,169

“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*.

The changes in 2019 are shown below:

	31.12.2019
Opening net balance	26,115
Interest in net profit	922
Exchange rate differences	93
Payment of dividends	(458)
Closing net balance	26,672

17. Non-current receivables

The balance at 31 December 2019 comprises €3,482 thousand in security deposits (€3,428 thousand at 31 December 2018) and €4 thousand in other non-current financial receivables.

18. Other non-current financial assets

This item includes €10,010 thousand relating to a €10 million bond, expiring in 2026, subscribed by the Group as part of liquidity management; the investment was accounted for using the amortized cost method.

This item also includes €653 thousand relating to the fair value measurement of derivatives (see Note 39. *Risk management* for more information).

19. Deferred tax assets and deferred tax liabilities

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

	31.12.2019	31.12.2018
Deferred tax assets	47,253	36,087
Deferred tax liabilities	(35,838)	(33,966)
Net asset balance	11,415	2,121

"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:

	31.12.2019	31.12.2018
Temporary differences	8,507	(1,000)
Tax losses	2,908	3,121
Net asset balance	11,415	2,121

The change in the net asset balance also reflects an increase of €437 thousand relating to the "Fair value and cash flow hedge reserve" recognized in net equity and of €1,126 thousand in "Profit (loss) carried forward" and relating to the actuarial gains/(losses) recognized in the comprehensive income statement pursuant to the 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:

	31.12.2019	31.12.2018
Finished products and goods	288,603	344,297
Raw, ancillary and consumable materials	59,700	65,758
Work in progress and semi-finished products	24,162	26,514
Inventory writedown allowance	(28,930)	(31,740)
Total	343,535	404,829

The value of inventories is stated after deducting an allowance for obsolete or slow-moving goods totaling €28,930 thousand (€31,740 thousand at 31 December 2018) in relation to products and raw materials that are obsolete and slow-moving or are no longer of strategic interest to the Group.

21. Trade receivables

These are analyzed as follows:

	31.12.2019	31.12.2018
Trade receivables		
- due within 12 months	446,048	439,056
- due beyond 12 months	142	10
Allowance for doubtful accounts	(8,830)	(9,772)
Total	437,360	429,294

Trade receivables are stated net of an allowance for doubtful accounts of €8,830 thousand, representing a reasonable estimate of the expected losses during the entire life of the receivables. The allowance 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 2019 is €163,354 thousand (€164,312 thousand at 31 December 2018). The total amount of receivables factored by the Group (turnover) during 2019 (under Law 52/1991 known as the Factoring Law) was €791,632 thousand (€713,479 thousand during 2018).

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

	31.12.2018	Accrual / Net release	Utilization	Translation differences and other movements	31.12.2019
Allowance for doubtful accounts	9,772	(50)	(721)	(171)	8,830

The change in the allowance is explained, in addition to translation differences, to 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:

	31.12.2019	31.12.2018
Direct tax receivables	5,512	13,263
Tax payments on account	2,182	3,335
Tax refunds requested	1,178	1,636
Total	8,872	18,234

There are no current tax assets due beyond 12 months.

23. Other receivables

"Other receivables" are analyzed as follows:

	31.12.2019	31.12.2018
VAT	8,464	10,333
Advances to suppliers	2,915	3,028
Other tax receivables	2,204	3,820
Prepaid insurance costs	1,765	1,690
Employees	358	219
Other	7,506	7,517
Total	23,212	26,607

There are no other receivables due beyond 12 months.

24. Current financial receivables and assets

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

	31.12.2019	31.12.2018
Fair value of derivatives	3,563	10,307
Advances for leasing contracts	267	-
Fair value of other current financial assets	55,272	30,060
Other current financial assets	43,317	13,875
Total	102,419	54,242

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

"Fair Value of other current financial assets" includes a few insurance policies taken out as part of liquidity management; these policies were measured at fair value and the changes were recognized in the income statement.

"Other current financial assets" includes the amounts in capital guarantee funds which pay interest quarterly and repay capital upon maturity, as well as a loan made to related parties (please see Appendix.3 for more details).

25. Cash and cash equivalents

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

Some of the Group's foreign companies have a total of €440.6 million in cash on bank accounts held at the same bank. These cash balances form part of the international cash pooling system and are partially offset by €418.1 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 2019 include €115 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.

	31.12.2018	Translation differences	31.12.2019
Non-current assets held for sale	1,121	156	1,277

Comments on the statement of financial position: net equity and liabilities

Net equity

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 30 April 2019 approved a dividend totalling €55,315 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.

On 30 June 2019 a change was made to the voting rights as a result of the increased voting rights matured on 97,311,515 ordinary shares of De' Longhi S.p.A., at two voting rights for each share; voting rights, consequently, went from 149,500,000 to 246,811,515.

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.

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.

	31.12.2019
Weighted average number of shares outstanding	149,500,000
Weighted average number of diluted shares outstanding	151,445,000

The dilutive impact of the stock option plan was not significant at 31 December 2019, therefore the difference between the diluted earnings per share (€1.06) and the basic earnings per share (€1.08) is not material.

28. Reserves

These are analyzed as follow:

	31.12.2019	31.12.2018	Change
Share premium reserve	162	162	-
Legal reserve	42,573	33,960	8,613
Other reserves:			
- Extraordinary reserve	144,538	36,201	108,337
- Fair value and cash flow hedge reserve	(485)	735	(1,220)
- Stock option reserve	10,078	7,932	2,146
- Currency translation reserve	32,433	11,596	20,837
- Profit (loss) carried forward	575,900	566,387	9,513
Total	805,199	656,973	148,226

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 DeLclima S.p.A. to €162 thousand.

The "Legal reserve" had a balance of €33,960 thousand at 31 December 2018. The increase of €8,613 thousand is explained by the allocation of profit for the year approved by shareholders during De' Longhi S.p.A.'s AGM held on 30 April 2019.

The "Extraordinary reserve" increased by €108,337 thousand due to the allocation of the profit for the year, as approved by shareholders of De' Longhi S.p.A. during the above mentioned AGM.

The "Fair value and cash flow hedge reserve" reports a negative balance of €485 thousand, net of €168 thousand in tax.

The change in the "Fair value and cash flow hedge" reserve in 2019, recognized in the statement of comprehensive income for the year, is attributable to the negative fair value of the cash flow hedge and available-for-sale securities of €1,657 thousand net of €437 thousand in tax.

The "Stock option" reserve amounted to positive €10,078 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 Annual Remuneration Report 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 a number of options broken down equally into the plan's two exercise periods. The fair value per share of the options assigned in 2016 is therefore different in the two tranches and 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 €67,752 thousand, net of dividends paid for €55,315 thousand.

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:

	Net equity 31.12.2019	Profit for 2019	Net equity 31.12.2018	Profit for 2018
De' Longhi S.p.A. financial statements	551,146	119,094	484,643	172,265
Share of subsidiaries' equity and results for period attributable to the Group, after deducting carrying value of the investments	655,966	32,776	607,129	22,380
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	15,765	(1,875)	17,660	(2,408)
Elimination of intercompany profits	(32,180)	10,364	(42,612)	(8,280)
Other adjustments	(243)	646	(895)	745
Consolidated financial statements-Group portion	1,190,454	161,005	1,065,925	184,702

Liabilities

29. Bank loans and borrowings

"Bank loans and borrowings" are analyzed as follows:

	31.12.2019	31.12.2018
Overdrafts	581	2,949
Current bank loans and borrowings	260	54,907
Loans (short term portion)	65,810	43,909
Loans (one to five years)	218,746	84,915
Total bank loans and borrowings	285,397	186,680

On 1 October 2019 a new 5-year floating rate €200,000 thousand loan was granted by Intesa Sanpaolo S.p.A.. The loan calls for compliance with financial covenants, which will be verified every year effective 31 December 2019 and is repayable in 6-month instalments beginning on 31 March 2020. Interest rate risk was hedged using an €100,000 thousand IRS - Interest Rate Swap + Floor which allowed for the hedged portion of the loan to be swapped from floating rate to fixed rate.

With regard to the loans taken out, none of the financial covenants included in the loan agreements, based on net debt/equity and net debt/ EBITDA before non – recurring /stock option costs, had been breached at 31 December 2019.

The main loans are 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, does not differ significantly from the amount of debt recognized in the financial statements.

30. Other financial payables

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

	31.12.2019	31.12.2018
Private placement (short-term portion)	-	-
Negative fair value of derivatives	5,615	6,242
Other short term financial payables	47,478	48,080
Total short-term payables	53,093	54,322
Private placement (one to five years)	85,621	64,168
Negative fair value of derivatives	140	188
Other financial payables (one to five years)	3,907	4,364
Total long-term payables (one to five years)	89,668	68,720
Private placement (beyond five years)	64,308	85,726
Other financial payables (beyond five years)	-	-
Total long-term payables (beyond five years)	64,308	85,726
Total other financial payables	207,069	208,768

The bond loan refers to the issue and placement of €150 million in unsecured, non-convertible notes with US institutional investors (the “US Private Placement”) completed in 2017.

The securities were issued by De’ Longhi S.p.A. in a single tranche, mature in 10 years in June 2027 and have 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 2019 the covenants (ratio of consolidated net financial position on consolidated net equity, ratio of consolidated net financial position on EBITDA before non-recurring/stock option costs and ratio of EBITDA before non-recurring/stock option costs 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 interest rates and currencies, foreign currency receivables and payables, as well as on future revenue streams (anticipatory hedges). Please refer to note 39. *Risk management* for information on the fair value of hedges in place at 31 December 2019.

“Other short term financial payables” refers mainly to factoring without recours related payables, to the remaining short-term portion of the pension fund liabilities pertaining to a subsidiary which risks were transferred to third parties and a portion of a loan granted to an Italian subsidiary (MIUR).

“Other financial payables (one to five years)” refers mainly to the fair value of the put & call options on the Eversys Group acquisition, the variable consideration payable for the purchase of minority interests and the remaining long-term portion of the pension fund related liabilities of a foreign subsidiary.

Net financial position

Details of the net financial position are as follows:

	31.12.2019	31.12.2018
A. Cash	98	133
B. Cash equivalents	731,393	569,194
C. Securities	-	-
D. Total liquidity (A+B+C)	731,491	569,327
E. Current financial receivables and other securities	102,419	54,242
<i>of which:</i>		
<i>Fair value of derivatives and advances for leasing</i>	3,830	10,307
F. Current bank loans and borrowings	(841)	(57,856)
G. Current portion of non-current debt	(65,810)	(43,909)
H. Other current financial payables	(71,549)	(54,322)
<i>of which:</i>		
<i>Fair value measurement of derivatives, lease liabilities and financial payables linked to pension fund transactions</i>	(24,162)	(6,977)
I. Current financial debt (F+G+H)	(138,200)	(156,087)
J. Net current financial receivables (payables) (D+E+I)	695,710	467,482
K1. Non-current financial receivables	10,667	-
<i>of which:</i>		
<i>Fair value of derivatives</i>	653	-
K2. Non-current bank loans and borrowings	(218,746)	(84,915)
L. Bonds	(149,929)	(149,894)
M. Other non-current payables	(59,887)	(4,552)
<i>of which:</i>		
<i>Fair value measurement of derivatives, financial payables linked to business combinations, lease liabilities and financial payables linked to pension fund transactions</i>	(59,887)	(4,254)
N. Non-current financial debt (K1+K2+L+M)	(417,895)	(239,361)
Total	277,815	228,121

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:

	31.12.2019	31.12.2018
Provision for severance indemnities	10,108	10,086
Defined benefit plans	25,004	20,005
Other long term benefits	6,002	3,877
Total	41,114	33,968

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	2019	2018	Change
Current service cost	156	131	25
Interest cost on defined benefit obligation	157	139	18
Total	313	270	43

Change in present value of obligations	31.12.2019	31.12.2018	Change
Present value at 1 January	10,086	10,966	(880)
Current service cost	156	131	25
Utilization of provision	(676)	(831)	155
Interest cost on obligation	157	139	18
Actuarial gains & losses recognized in the comprehensive income statement	385	(319)	704
Present value at reporting date	10,108	10,086	22

Defined benefit plans:

Movements in the year are as follows:

Net cost charged to income	2019	2018	Change
Current service cost	1,158	1,122	36
Return on plan assets	8	(4)	12
Interest cost on obligations	332	313	19
Total	1,498	1,431	67

Change in present value of obligations	31.12.2019	31.12.2018	Change
Present value at 1 January	20,005	18,970	1,035
Net cost charged to income	1,498	1,431	67
Benefits paid	(208)	(170)	(38)
Translation difference	44	107	(63)
Actuarial gains & losses recognized in the comprehensive income statement	3,665	(333)	3,998
Present value at reporting date	25,004	20,005	4,999

The outstanding liability at 31 December 2019 of €25,004 thousand (€20,005 thousand at 31 December 2018) refers to a few subsidiaries (mainly in Germany and Japan),

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

Assumptions used	Severance indemnity 2019	Severance indemnity 2018	Other plans 2019	Other plans 2018
Discount rate	0.80%	1.60%	0.5% - 1.15%	0.5% - 1.95%
Future salary increases	1.3%-2.3%	1.3%-2.3%	0.0% - 3%	0.0% - 3%
Inflation rate	0.80%	1.30%	0.0% - 1.5%	0.0% - 2.0%

“Other long-term employee benefits” refers to the amount accrued for the incentive plan 2018-2020 in the reporting period. This plan was approved by the Board of Directors on 31 July 2018 for the Chief Executive Officer of the parent company De’ Longhi S.p.A. and a limited number of Group executives and key resources.

For more information please refer to the Annual Remuneration Report .

32. Other provisions for non-current contingencies and charges

These are analyzed as follows:

	31.12.2019	31.12.2018
Agents' leaving indemnity provision	1,657	1,599
Product warranty provision	29,255	27,732
Provision for contingencies and other charges	5,663	7,169
Total	36,575	36,500

Movements are as follows:

	31.12.2018	Utilization	Net accrual	Translation difference and other movements	31.12.2019
Agents' leaving indemnity provision	1,599	-	58	-	1,657
Product warranty provision	27,732	(14,434)	14,662	1,295	29,255
Provision for contingencies and other charges	7,169	(552)	(864)	(90)	5,663
Total	36,500	(14,986)	13,856	1,205	36,575

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 2019. 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 €3,260 thousand (€4,410 thousand at 31 December 2018) for legal disputes and product complaint liabilities (limited to the Group's insurance deductible), the provision of €382 thousand (€454 thousand at 31 December 2018) for restructuring and reorganization and the provisions made by a few subsidiaries relating to commercial risks and other charges.

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 net amount owed the parent company De Longhi Industrial S.A..

The Parent Company De' Longhi S.p.A. and a few of the Italian subsidiaries renewed, 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 Decree of the Ministry and Finance of 9 June 2004, for the three-year period 2019 - 2021.

For additional information please refer to Appendix.3.

The item does not include tax due beyond 12 months.

35. Other payables

These are analyzed as follows:

	31.12.2019	31.12.2018
Employees	35,662	37,709
Indirect taxes	28,121	24,876
Social security institutions	8,193	9,305
Withholdings payables	5,916	7,579
Other taxes	246	1,371
Advances	1,840	928
Other	12,862	16,416
Total	92,840	98,184

The amounts due beyond twelve months at 31 December 2019 include €7 thousand in "Other taxes" (€6 thousand at 31 December 2018) and €1 thousand in "Other" (€3 thousand at 31 December 2018).

36. Commitments

These are detailed as follows:

	31.12.2019	31.12.2018
Guarantees given to third parties	1,724	2,211
Other commitments	2,873	3,194
Total	4,597	5,405

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

In addition to the above, the Group issued guarantees, mainly a surety to secure a short-term loan of €5,000 thousand in favor of the affiliate NPE S.r.l. which, in accordance with the agreement, will be substituted with guarantees that are commensurate with the commitments of each of the parties.

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 IFRS 9.

at 31 December 2019		Assets		
	Total value	Amortized cost	Fair value in Profit&Loss	Fair value in OCI
Non-current assets (*)				
Equity investments	52	-	52	-
Receivables	3,486	3,486	-	-
Other non-current financial assets	10,663	10,010	653	-
Current assets				
Trade receivables	437,360	437,360	-	-
Current tax assets	8,872	8,872	-	-
Other receivables	23,212	23,212	-	-
Current financial receivables and assets	102,419	43,584	56,590	2,245
Cash and cash equivalents	731,491	731,491	-	-
at 31 December 2019		Liabilities		
	Total value	Amortized cost	Fair value in Profit&Loss	Fair value in OCI
Non-current liabilities (**)				
Bank loans and borrowings (long-term portion)	218,746	218,746	-	-
Other financial payables (long-term portion)	150,340	150,200	-	140
Current liabilities (***)				
Trade payables	365,778	365,778	-	-
Bank loans and borrowings (short-term portion)	66,651	66,651	-	-
Other financial payables (short-term portion) (***)	53,093	47,478	2,971	2,644
Current tax liabilities	35,567	35,567	-	-
Other payables	92,840	92,840	-	-

(*) Interests in subsidiaries, associates and joint ventures are not included (IFRS 9 - 2.1 a).

(**) Lease liabilities under IFRS 16 (IFRS 9.-2.1b) and Forward contracts that will result in an acquisition to be considered as a business combination within the scope of IFRS 3 Business combination are not included (IFRS 9 – 2.1 f).

(***) Lease liabilities to which IFRS 16 Leases is applied (IFRS 9 - 2.1 b) are not included.

at 31 December 2018		Assets		
	Total value	Amortized cost	Fair value in Profit&Loss	Fair value in OCI
Non-current assets (*)				
Equity investments	54	-	54	-
Receivables	3,428	3,428	-	-
Other non-current financial assets	-	-	-	-
Current assets				
Trade receivables	429,294	429,294	-	-
Current tax assets	18,234	18,234	-	-
Other receivables	26,607	26,607	-	-
Current financial receivables and assets	54,242	13,874	33,987	6,381
Cash and cash equivalents	569,327	569,327		
at 31 December 2018		Liabilities		
	Total value	Amortized cost	Fair value in Profit&Loss	Fair value in OCI
Non-current liabilities (**)				
Bank loans and borrowings (long-term portion)	84,915	84,915	-	-
Other financial payables (long-term portion)	150,810	150,622	-	188
Current liabilities (***)				
Trade payables	419,795	419,795	-	-
Bank loans and borrowings (short-term portion)	101,765	101,765	-	-
Other financial payables (short-term portion)	53,682	47,440	2,930	3,312
Current tax liabilities	38,506	38,506	-	-
Other payables	98,184	98,184	-	-

(*) Interests in subsidiaries, associates and joint ventures are not included (IFRS 9 - 2.1 a).

(**) Forward contracts that will result in an acquisition to be considered as a business combination within the scope of IFRS 3 Business combination are not included (IFRS 9 – 2.1 f).

(***) Lease liabilities to which IAS 17/IFRS 16 Leases applies (IFRS 9 - 2.1 b) and forward contracts that will result in an acquisition to be considered as a business combination within the scope of IFRS 3 Business combination (IFRS 9 – 2.1 f) are not included.

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 2019. As required by IFRS 13, 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 with positive fair value	-	4,216	-
Derivatives with negative fair value	-	(5,755)	-
Other financial assets	52	55,272	-

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 mitigated by insurance policies with major insurers, with the aim of insuring against the risk of default by punctually performing a selection of a portfolio of customers 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 €446,190 thousand at 31 December 2019 and €439,066 thousand at 31 December 2018.

This amount corresponds to the gross balance of trade receivables of €495,477 thousand at 31 December 2019 (€473,648 thousand at 31 December 2018), 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 still to be issued cannot be specifically allocated to the ageing categories.

Trade receivables of €495,477 thousand at 31 December 2019 comprise €461,065 thousand in current balances and €34,412 thousand in past due amounts, of which €29,035 thousand past due within 90 days and €5,377 thousand past due by more than 90 days.

The amount of insured or guaranteed receivables at 31 December 2019 is €378,501 thousand.

The Group has recognized €8,830 thousand in allowances for doubtful accounts against unguaranteed receivables of €116,976 thousand.

Trade receivables of €473,648 thousand at 31 December 2018 comprise €447,763 thousand in current balances and €25,885 thousand in past due amounts, of which €17,642 thousand past due within 90 days and €8,243 thousand past due by more than 90 days.

The amount of insured or guaranteed receivables at 31 December 2018 is €354,229 thousand.

The Group has recognized €9,772 thousand in allowances for doubtful accounts against unguaranteed receivables of €119,419 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 reputation 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 (related to the loans disclosed in this Financial Statements) 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 IFRS 9.

The following table summarizes the due dates of the Group's financial liabilities at 31 December 2019 and 31 December 2018 on the basis of contractual payments which have not been discounted.

	Undiscounted cash flows at 31.12.2019	Within one year	One to five years	Beyond five years	Undiscounted cash flows at 31.12.2018	Within one year	One to five years	Beyond five years
Bank loans and borrowings (*)	288,069	67,475	220,594	-	187,345	102,110	85,235	-
Other financial payables (**)	215,485	56,411	93,197	65,877	218,216	56,162	73,511	88,543
Trade payables	365,778	365,778	-	-	419,795	419,795	-	-
Current tax payables and other payables	128,407	128,399	8	-	136,690	136,681	8	1

(*) The corresponding balance reported in the financial statements was €285,397 thousand at 31 December 2019 vs. €186,680 thousand at 31 December 2018 and refers to medium/long and short term bank debt.

(**) The corresponding balance in the accounts is €203,433 thousand at 31 December 2019 and €204,492 at 31 December 2018 refers to long-term payables comprehensive of their short-term portion, the loans from the Ministry of Industry and the private placement.

With regard to lease liabilities in accordance with IFRS 16, please refer to Note 15. *Leases*.

Exchange rate risk

In carrying on its business, 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:

- a) 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;
- b) to hedge the monetary amounts of receivables and payables originating from invoicing and financing transactions;
- c) 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 Russian Ruble, the Czech koruna and the Polish Zloty, for sales on the East Europe market;
- the British Pound (EUR/GBP), for sales on the UK market;
- 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 and using methods which allow for best practice execution for each transaction.

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 2019:

- (a) with regard to the risk connected to future flows (revenues/costs forecast in the budget and/or multi-year plans), at 31 December 2019 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 +/- €5.6 million before tax (+/- €6.0 million before tax at 31 December 2018). 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 and the Renminbi) against the principal functional currencies would produce a change in fair value of around +/- €0.7 million before tax (+/- €1.1 million before tax at 31 December 2018).

The hedging transactions at 31 December 2019 are described in the paragraph *“Interest rate and currency exchange hedges at 31 December 2019”*.

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 2019 is fixed rate with the exception of a part of the two-sided loan granted during 2019.

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 financial debt.

At 31 December 2019 there were three 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 €479.8 million on a total of €277.8 million in net debt at 31 December 2019 and total net assets of €544.2 million on a total of €228.1 million in net debt in 2018).

It is estimated that a +/- 1% change in interest rates would have an impact of +/- €4.8 million before tax at 31 December 2019 recognized entirely in the income statement (+/- €5.4 million before tax at 31 December 2018).

Interest rate and currency exchange hedges at 31 December 2019

At 31 December 2019 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 expected future cash flow are treated in accordance with hedge accounting as called for in IFRS 9.

Derivatives that hedge foreign currency payables and receivables are reported 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 2019 is provided below:

Fair Value at 31/12/2019	
FX forward agreements	(1,653)
Derivatives hedging foreign currency receivables/payables	(1,653)
FX forward agreements	(36)
IRS hedging Parent Company's loans	150
Derivatives covering expected cash flows	114
Total fair value of the derivatives	(1,539)

Forward agreements to hedge against a change in 2020 trade flows:

A list of the forward agreements hedging a change in 2020 trade flows at 31 December 2019:

Currency	Notional amount (in thousands)			Fair value (in €/000)	
	Purchases	Sales	Total	Current Assets	Current Liabilities
EUR/CHF*	-	14,100	14,100	15	(47)
EUR/GBP*	-	26,200	26,200	-	(797)
EUR*/RON	-	30,000	30,000	15	(29)
EUR/USD*	(41,092)	-	(41,092)	1	(70)
GBP/USD*	(37,900)	-	(37,900)	-	(1,338)
HKD/CNY*	(770,000)	-	(770,000)	1,828	-
HKD/JPY*	-	1,520,000	1,520,000	386	-
				2,245	(2,281)

* Risk currency

A negative cash flow hedge reserve of €609 thousand has been recorded in net equity at 31 December 2019 in relation to these hedges, after €207 thousand in related tax (at 31 December 2018 this same reserve was a positive €1,204 thousand, after the related tax of €417 thousand).

During 2019 the Group reversed to the income statement a net amount of €1,204 thousand from the negative cash flow hedge reserve at 31 December 2018.

This amount was reported in the following lines of the income statement:

	2019	2018
Increase (reduction) in revenues	968	(1,351)
(Increase) reduction in materials consumed	727	(917)
Net financial income (expenses)	(74)	(1,474)
Taxes	(417)	1,013
Total recognized in income statement	1,204	(2,729)

Hedges against foreign currency receivables and payables:

Notional amount (in thousands)				Fair value (in €/000)	
Currency	Purchases	Sales	Total	Current Assets	Current Liabilities
AUD*/HKD	(2,395)	34,600	32,205	19	(494)
AUD/NZD*	-	6,550	6,550	-	(79)
BRL*/HKD	(5,000)	24,900	19,900	15	(151)
EUR/AUD*	-	670	670	-	(5)
EUR*/AUD	(11)	-	(11)	-	-
EUR/CHF*	-	46,487	46,487	-	(332)
EUR/CZK*	(85,000)	999,475	914,475	6	(172)
EUR/DKK*	-	26,700	26,700	-	-
EUR/GBP*	(26,725)	17,403	(9,322)	367	(163)
EUR/HKD*	(245,360)	198,055	(47,305)	116	(214)
EUR/HUF*	(134,000)	1,891,000	1,757,000	26	-
EUR/JPY*	-	8,980	8,980	-	-
EUR/PLN*	(49,400)	144,728	95,328	21	(106)
EUR/RON*	(2,053)	40,272	38,219	-	(14)
EUR*/RON	(10,224)	18,630	8,406	18	(20)
EUR/RUB*	(224,400)	3,660,100	3,435,700	35	(143)
EUR/SEK*	-	16,400	16,400	4	-
EUR/USD*	(25,406)	5,940	(19,466)	37	(137)
EUR*/USD	-	40,000	40,000	-	(272)
GBP/USD*	(9,600)	9,800	200	63	(18)
HKD/CLP*	-	4,590,130	4,590,130	-	(114)
HKD/CNH*	(370,000)	-	(370,000)	283	-
HKD/JPY*	(1,050,000)	2,680,000	1,630,000	247	(3)
HKD/KRW*	(830,000)	3,870,000	3,040,000	5	(72)
HKD/MXN*	-	65,200	65,200	-	(49)
SGD*/HKD	(5,362)	9,725	4,363	8	(3)
USD/CAD*	(2,000)	22,000	20,000	13	(293)
USD*/CLP	(100,138)	98,319	(1,819)	3	(1)
USD*/RON	(7,110)	3,000	(4,110)	23	(81)
USD/ZAR*	(6,200)	14,400	8,200	9	(35)
				1,318	(2,971)

* Risk currency

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 2019 the fair value of the derivatives, which also takes into account counterparty risk in accordance with IFRS 13 – *Fair Value measurement*, came to a positive €150 thousand which is recognized under financial receivables for €653 thousand and thousand under other financial payables for €503.

As the hedge on future interest flows qualifies as an effective hedge, at 31 December 2019 a positive cash flow hedge reserve of €163 thousand was reported in net equity, net of the related tax effect of €39 thousand.

Details are as follows (the figures are shown before tax):

31.12.2019		
	Notional amount (in €/000)	Fair value (in €/000)
Interest Rate Swap (IRS) connected to the loan Intesa Sanpaolo S.p.A.	100,000	628
Interest Rate Swap (IRS) connected to the loan Intesa Sanpaolo S.p.A.	47,500	(333)
Interest Rate Swap (IRS) connected to the loan Unicredit S.p.A.	37,500	(145)
Total fair value of the derivatives		150
of which:		
positive medium/long-term fair value		653
negative short-term fair value		(363)
negative medium/long-term fair value		(140)

40. Tax position

The following position emerged during the periodic audits carried out by the tax authorities:

De' Longhi Appliances S.r.l.

A target audit was carried out by the Veneto Regional Office of the Revenue Service relating to the main changes made for the purposes of IRES (Italian Corporate Income tax) and IRAP (Italian Regional Business tax), as well as intercompany transactions, for the tax year 2016. The audit was then expanded to include the tax years 2014 and 2015, but only with respect to intercompany transactions.

A preliminary notice of findings relating to tax year 2014 was issued on 28 October 2019 and on 30 December 2019 the Veneto Regional Office of the Revenue Service sent, via certified e-mail, a notice of assessment relating to IRES and IRAP.

A preliminary notice of findings relating to tax years 2015 and 2016 was also issued on 13 February 2020.

With regard to the notice of assessment for 2014, on 31 January 2020 the Company submitted a tax settlement proposal. As the procedure is still in its preliminary stage, for the first rebuttal was received on 21 February 2020, a tax settlement has yet to be reached.

When preparing the present annual report, the Group evaluated, with the assistance of its tax advisors, the possible outcomes of the above proceedings which were still uncertain at the end of the reporting period and, given the complexity of the subject, as well as the country's health crisis, it's likely that the procedure will not be completed before the end of the 90 day period provided for under the law (therefore, not before 28 May 2020).

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

					2019
	Europe	APA	MEIA	Intersegment eliminations (**)	Total
Total revenues (*)	1,622,292	1,019,233	117,208	(657,595)	2,101,138
EBITDA	211,966	64,961	12,360	(107)	289,180
Amortization	(57,241)	(20,523)	(492)	-	(78,257)
EBIT	154,725	44,438	11,868	(107)	210,923
Net financial income (expenses)					(15,132)
Profit (loss) before taxes					195,791
Income taxes					(34,786)
Profit (loss) for the year					161,005

(*) 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

					31 December 2019
	Europe	APA	MEIA	Intersegment eliminations	Total
Total assets	1,753,182	685,053	56,032	(129,339)	2,364,928
Total liabilities	(1,016,736)	(275,826)	(11,256)	129,344	(1,174,474)

Income Statement data - Continuing Operations

					2018
	Europe	APA	MEIA	Intersegment eliminations (**)	Total
Total revenues (*)	1,582,649	1,058,037	121,741	(683,988)	2,078,439
EBITDA	203,470	84,544	16,641	(157)	304,498
Amortization	(47,209)	(14,200)	(172)	-	(61,581)
EBIT	156,261	70,344	16,469	(157)	242,917
Net financial income (expenses)					(19,026)
Profit (loss) before taxes					223,891
Income taxes					(39,999)
Profit (loss) for the year					183,892

(*) The revenues for each segment include revenues generated by both third parties and other Group operating segments; the figure is net of other non-recurring items.

(**) Eliminations refer to intersegment revenues generated and eliminated on a consolidated basis.

Data from statement of financial position

					31 December 2018
	Europe	APA	MEIA	Intersegment eliminations	Total
Total assets	1,563,155	672,171	47,694	(160,728)	2,122,292
Total liabilities	(893,863)	(307,334)	(15,898)	160,728	(1,056,367)

43. Subsequent events

Subsequent to 31 December 2019 through the approval date of this report, no significant events occurred which would have impacted the financial and economic results shown pursuant to IAS 10 *Events after the reporting period* § 8.

On January 20 2020, after having heard the favourable opinion of the Remuneration and Appointments Committee and the Board of Statutory Auditors, the Board of Directors unanimously approved the proposal presented by the Chairman Giuseppe de' Longhi and the Chief Executive Officer Fabio de' Longhi to include Massimo Garavaglia as a member of the Company's Board of Directors, grant him the powers as Chief Executive Officer and appoint him De' Longhi S.p.A.'s General Manager.

The purpose of this proposal is to strengthen the managerial structure at a time of constant expansion for the Group in order to continue along the highly successful path of the past years and face the new challenges of the rapidly changing global markets, seizing every favourable opportunity.

On 3 February 2020 the acquisition of another production plant in Romania was finalized. The plant comprises 2 buildings for a total of around total 25,000 square meters, with machines and facilities that are already operative which can be used by the Group for its production. This deal is meant to support the expected organic growth pursued by the Group in the main markets and is consistent with the strategy to reduce the time to market of our products, preserving quality and control. This new location will employ more than 500 workers and, backed by the successful experience achieved in the Romanian Cluji region, will strengthen the Group's presence in the region.

The emergency and the spread of the Coronavirus (Covid-19) which in the first weeks of 2020 initially impacted economic activity in China and, subsequently, spread to other countries, is not considered an adjusting event pursuant to IAS 10 § 21 – insofar as, while the phenomenon materialized toward the end of the this reporting period, it wasn't until January 2020 that the World Health Organization declared an international health emergency and cases in other countries were found which called for the adoption of specific measures in China, as well as other countries.

With regard to China, the Group does not have manufacturing facilities in the Wuhan area, as the existing production plants in China are located in Dongguan and Zhongshan, in the southeast near Hong Kong. In addition, the Chinese commercial branch is based in Shanghai, while the company dedicated to sourcing and procurement for the Far East, as well as the headquarters for APA's commercial activity, is in Hong Kong. These places were all affected marginally by the epidemic which made it possible to reopen production facilities and offices as of mid-February 2020 and recommence with supply chain activities; this guaranteed supplies for production, in the hubs and the Group's commercial branches.

In February the health emergency spread in Europe, particularly in Italy, where the Group, faced with a constantly changing situation, implemented emergency plans aimed at, above all, protecting the health and safety of its employees and identifying potential problems for the production, the distribution of its products and the supply chain in the main markets.

Based on the current levels of inventory and the fact that production plants are fully operative, to date the Group does not foresee any problems with supply for the main products in the short-term; furthermore, a back-up strategy is currently being drafted in order to be prepared for potential long-term stoppages in the supply chain which could interrupt or limit activities. At the moment the methods for the management of risks connected to production, the costs of raw materials and the supply chain adopted by the Group and described in the Report on Operations are still sufficient.

With regard to the management of human resources, the Group has, since the beginning, rigorously applied the guidelines and conduct recommended for all employees working in China and Hong Kong or who travel for business to/from these countries. These guidelines are based on the recommendations of the World Health Organization (WHO), the Chinese government, the government of the Hong Kong Special Administrative Region, the Italian government and other authorities, as well as the recommendations given by health agencies worldwide to their citizens.

Furthermore, in light of the spread of Covid-19 contagion in Italy and the announcements made by the Italian Prime Minister, specific precautionary measures have also been adopted for the production and offices based in Italy.

With regard to the Group's financial assets, we believe that in the short-term their value will only be marginally impacted by market trends, also considering the type of financial assets held. Furthermore, the Group's financial position is particularly solid and able, not only to absorb the temporary loss in value of a few financial assets, but also to support any temporary periods of negative cash flow.

As for the overall trend in consumption and the possible impact on revenues, the sensitivity analyses conducted relative to the value of invested capital and, more specifically, the value of intangible assets, show there will be no loss in value. Toward this end, please refer to the single items reported on in the Explanatory Notes. Overall, based on information currently available, the factors of uncertainty seem to already be factored into the main valuations.

The current environment of uncertainty stemming from the health crisis does, however, call for precaution, also when making economic forecasts.

Even though the preliminary sales figures for the first months of the year are positive, thanks also to available inventories, and production at the plants and main suppliers in China is recovering, we cannot exclude that, if the contagion expands, there could be some logistics problems and generally critical market conditions.

A significant spread of the health crisis could also have a sizeable impact on future growth prospects given the repercussions for the general economy and the financial markets, including as a result of the containment measures adopted by government authorities.

With the exception of the above, no other significant events occurred after the close of the year.

Treviso, 12 March 2020

*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)

List of consolidated companies using line-by-line method

Company name	Registered office	Currency	Share capital (1)	Interest held at 31/12/2019	
				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.	Barcellona	EUR	3,066		100%
DE'LONGHI CAPITAL SERVICES S.R.L. (2)	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.	Constantia Kloof	ZAR	100,332,501		100%
DE'LONGHI KENWOOD HELLAS SINGLE MEMBER 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%

Company name	Registered office	Currency	Share capital (1)	Interest held at 31/12/2019	
				Directly	Indirectly
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	HRK	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 11,745,000		100%
DE'LONGHI KENWOOD MEIA F.ZE	Dubai	USD	AED 2,000,000		100%
DE'LONGHI ROMANIA S.R.L.	Cluj-Napoca	RON	140,000,000	10%	90%
DE'LONGHI 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	53,076,000		100%
TWIST LLC	Mosca	RUB	10,000		100%
DE'LONGHI APPLIANCES (SHANGHAI) CO. LTD	Shanghai	CNY	USD 200,000		100%

Investments valued in accordance with the equity method

Company name	Registered office	Currency	Share capital (1)	Interest held at 31/12/2019	
				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	Toronto	CAD	100		40%
EVERSYS UK LIMITED	Wallington	GBP	70,000		20.4%
EVERSYS IRELAND LIMITED	Dublin	EUR	100		20.4%
NPE S.R.L.	Treviso	EUR	1,000,000		45%

(1) Figures at 31 December 2019, 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.

Statement of consolidated cash flows in terms of net financial position

(Appendix 2 to the Explanatory notes)

(€/000)	2019	2018
Profit (loss) pertaining to the Group	161,005	183,892
Income taxes for the period	34,786	39,999
Amortization	78,257	61,581
Net cash flows from IFRS16 Leases application	(18,307)	-
Net change in provisions and other non-cash items	3,436	3,997
Cash flow generated by current operations from Discontinued Operations	-	313
Cash flow generated by current operations (A)	259,177	289,782
Change in assets and liabilities for the period:		
Trade receivables	5,864	(32,414)
Inventories	66,752	(74,361)
Trade payables	(56,615)	50,263
Other changes in net working capital	(7,067)	(18,597)
Payment of income taxes	(30,573)	(36,231)
Cash flow generated by movements in working capital from Discontinued Operations	-	10,179
Cash flow absorbed by movements in working capital (B)	(21,639)	(101,161)
Cash flow generated by current operations and movements in working capital (A+B)	237,538	188,621
Investment activities:		
Investments in intangible assets	(12,265)	(14,180)
Other cash flows for intangible assets	202	530
Investments in property, plant and equipment	(50,552)	(50,312)
Other cash flows for property, plant and equipment	535	966
Cash flow generated by investment activities from Discontinued Operations	-	14
Net investments in financial assets and in minority interest	29	3,110
Cash flow absorbed by ordinary investment activities (C)	(62,051)	(59,872)
Cash flow by operating activities before IFRS 16 application (A+B+C)	175,487	128,749
Cash flows absorbed by leases accounted for in accordance with IFRS 16 (D)	(74,030)	-
Cash flow by operating activities (A+B+C+D)	101,457	128,749
Dividends paid	(55,315)	(149,500)
Fair value and cash flow reserves	(1,656)	4,960
Change in currency translation reserve	5,208	10,283
Cash flow generated by changes in net equity and by financing activities from Discontinued Operations	-	107
Cash flow absorbed by changes in net equity and by financing activities (E)	(51,763)	(134,150)
Cash flow for the period (A+B+C+D+E)	49,694	(5,401)
Opening net financial position	228,121	233,522
Cash flow for the period (A+B+C+D+E)	49,694	(5,401)
Consolidated closing net financial position	277,815	228,121

Transactions and balances with related parties

(Appendix 3 to the Explanatory notes)

Consolidated income statement

pursuant to Consob resolution 15519 of 27 July 2006

(€/000)	2019	of which with related parties	2018	of which with related parties
CONTINUING OPERATIONS				
Revenues from contracts with customers	2,081,150	1,588	2,056,634	3,507
Other revenues	19,988	2,566	21,498	2,045
Total consolidated revenues	2,101,138	-	2,078,132	
Raw and ancillary materials, consumables and goods	(880,629)	(26,748)	(990,096)	(42,591)
Change in inventories of finished products and work in progress	(61,371)		78,562	
Change in inventories of raw and ancillary materials, consumables and goods	(5,382)	-	(4,201)	
Materials consumed	(947,382)		(915,735)	
Payroll costs	(268,018)		(268,684)	
Services and other operating expenses	(582,590)	(777)	(575,652)	(4,630)
Provisions	(13,968)		(13,563)	
Amortization	(78,257)	-	(61,581)	
EBIT	210,923		242,917	
Net financial income (expenses)	(15,132)	(265)	(19,026)	(730)
PROFIT (LOSS) BEFORE TAXES	195,791		223,891	
Income taxes	(34,786)		(39,999)	
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS	161,005		183,892	
DISCONTINUED OPERATIONS				
Net profit (loss) from Discontinued Operation	-		810	-
CONSOLIDATED PROFIT (LOSS) AFTER TAXES	161,005		184,702	

Statement of financial position

pursuant to Consob resolution 15519 of 27 July 2006

Assets

(€/000)	31.12.2019	of which with related parties	31.12.2018	of which with related parties
NON-CURRENT ASSETS				
INTANGIBLE ASSETS	314,829		316,855	
- Goodwill	92,400		92,400	
- Other intangible assets	222,429		224,455	
PROPERTY, PLANT AND EQUIPMENT	313,807		236,099	
- Land, property, plant and machinery	134,247		141,733	
- Other tangible assets	107,169		94,366	
- Right of use assets	72,391		-	
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS	40,873		29,597	
- Equity investments	26,724		26,169	
- Receivables	3,486		3,428	
- Other non-current financial assets	10,663		-	
DEFERRED TAX ASSETS	47,253		36,087	
TOTAL NON-CURRENT ASSETS	716,762		618,638	
CURRENT ASSETS				
INVENTORIES	343,535		404,829	
TRADE RECEIVABLES	437,360	2,785	429,294	4,057
CURRENT TAX ASSETS	8,872		18,234	
OTHER RECEIVABLES	23,212	228	26,607	199
CURRENT FINANCIAL RECEIVABLES AND ASSETS	102,419	8,123	54,242	3,666
CASH AND CASH EQUIVALENTS	731,491		569,327	
TOTAL CURRENT ASSETS	1,646,889		1,502,533	
Non-current assets held for sales	1,277		1,121	
TOTAL ASSETS	2,364,928		2,122,292	

Statement of financial position

pursuant to Consob resolution 15519 of 27 July 2006

Net equity and liabilities

(€/000)	31.12. 2019	of which with related parties	31.12. 2018	of which with related parties
NET EQUITY				
GROUP PORTION OF NET EQUITY	1,190,454		1,065,925	
- Share capital	224,250		224,250	
- Reserves	805,199		656,973	
- Profit (loss) pertaining to the Group	161,005		184,702	
TOTAL NET EQUITY	1,190,454		1,065,925	
NON-CURRENT LIABILITIES				
FINANCIAL PAYABLES	428,562		239,361	
- Bank loans and borrowings (long-term portion)	218,746		84,915	
- Other financial payables (long-term portion)	153,976		154,446	
- Lease liabilities (long-term portion)	55,840	27,493	-	
DEFERRED TAX LIABILITIES	35,838		33,966	
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES	77,689		70,468	
- Employee benefits	41,114		33,968	
- Other provisions	36,575		36,500	
TOTAL NON-CURRENT LIABILITIES	542,089		343,795	
CURRENT LIABILITIES				
TRADE PAYABLES	365,778	7,500	419,795	14,798
FINANCIAL PAYABLES	138,200		156,087	
- Bank loans and borrowings (short-term portion)	66,651		101,765	
- Other financial payables (short-term portion)	53,093		54,322	
- Lease liabilities (short-term portion)	18,456	3,509	-	
CURRENT TAX LIABILITIES	35,567	17,119	38,506	22,706
OTHER PAYABLES	92,840		98,184	8
TOTAL CURRENT LIABILITIES	632,385		712,572	
TOTAL NET EQUITY AND LIABILITIES	2,364,928		2,122,292	

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 2019 and related balances with mainly commercial nature at 31 December 2019:

(€/million)	Revenues	Costs	Financial Income (Expense)	Trade and other receivables	Financial receivables	Trade and other payables	Financial payables – IFRS 16
Related companies:							
DL Radiators S.r.l.	1.5	-	-	1.0	-	0.5	-
DL-TCL Holdings (HK) Ltd	-	-	-	0.5	-	-	-
TCL-De' Longhi Home Appliances (Zhongshan) Co.Ltd.	-	11.4	-	-	-	0.1	-
NPE S.r.l.	0.9	15.4	-	0.4	-	5.8	-
Gamma S.r.l.	0.5	0.5	(0.4)	0.4	-	1.4	31.0
Eversys Holding S.A.	-	-	0.2	-	8.1	-	-
Eversys S.A.	0.8	0.2	-	0.4	-	0.1	-
De Longhi Industrial S.A.	-	-	-	-	-	16.6	-
Other companies	0.4	-	-	0.3	-	-	-
TOTAL RELATED PARTIES	4.2	27.5	(0.3)	3.0	8.1	24.6	31.0

The amount owed DL Radiators S.p.A. refers mainly to taxes payable in prior years when the companies were part of De' Longhi S.p.A.'s tax group.

Following the application of IFRS 16 Leases, payables owed to Gamma S.r.l., along with the relative right-of-use assets, stemming from the leases for two locations in Italy were recognized; interest expenses owed for the period was also recognized.

The financial receivables with Eversys Holding S.A. refer to the interest-bearing shareholders' loan granted as per the agreements signed.

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 – “TUIR” - 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 2019-2021 and may be renewed. The €16.6 million included in tax payables is comprised of the taxes payable by the members of the tax group through De Longhi Industrial S.A..

Please refer to the yearly “Annual Remuneration Report ” 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 2019
Auditing	PwC S.p.A.	De' Longhi S.p.A. (parent company)	141
	PwC S.p.A.	Italian subsidiaries	187
	Network of parent company auditor	Foreign subsidiaries	861
	Other auditors	Foreign subsidiaries	53
Other services	PwC S.p.A.	De' Longhi S.p.A. (parent company)	27
	Network of parent company auditor	De' Longhi S.p.A. (parent company)	64
	PwC S.p.A.	Italian subsidiaries	35
	Network of parent company auditor	Foreign subsidiaries	317

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, as Officer Responsible for Preparing the Company's Financial Report 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 2019:

- 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 2019:

- 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
*Officer Responsible for Preparing
the Company's Financial Report*

External auditors' report on the consolidated financial statements





Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of De'Longhi SpA

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 statement of financial position as of 31 December 2019, the income statement, the statement of comprehensive income, the statement of changes in net equity, the statement of cash flows for the year then ended and the explanatory 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 of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

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 this report. We are independent of De'Longhi SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. 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.

PricewaterhouseCoopers SpA

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Key Audit Matters

Auditing procedures performed in response to key audit matters

Recoverability of the value of indefinite-lived intangible assets

Notes 11 and 12 to the consolidated financial statements

The consolidated financial statements of De'Longhi SpA include indefinite-lived intangible assets, which are not amortised but tested for impairment at least annually.

Indefinite-lived intangible assets comprise goodwill for Euro 92.4 million and trademarks for Euro 174.8 million.

For impairment testing purposes, the Group's net assets have been allocated to the following cash generating units ("CGU"s): De'Longhi, Kenwood and Braun.

Within 'Other intangible assets', the item 'Trademarks and similar rights' includes, among other items, the 'De'Longhi' trademark for Euro 79.8 million and a perpetual licence on the 'Braun' trademark for Euro 95.0 million, which are considered to have an indefinite useful life.

To determine the recoverable amount of the individual CGUs to which goodwill has been allocated, management determined value in use using the discounted cash flow method, where value in use is calculated as the sum of the present value of the future cash flows over the explicit forecast horizon and a terminal value obtained applying a long-term growth rate to the last year of the business plan. The recoverable amount of each CGU to which goodwill has been allocated was compared with its carrying amount, determined as the sum of the assets and liabilities attributable to the CGU, including goodwill.

The method adopted for testing trademarks for impairment consisted in discounting to present value the royalties that the Group would be able to earn by transferring the right to use the trademark in question to a third party on a permanent basis.

As part of our audit of the consolidated financial statements as of 31 December 2019, we performed the procedures illustrated below.

We obtained the impairment tests prepared by management to determine the recoverable amounts of CGUs identified and trademarks. The assumptions and criteria used in those tests were approved by the board of directors on 12 March 2020.

We understood and evaluated the Group's internal control over the process of testing the recoverability of goodwill and trademarks.

We analysed the reasonableness of Group management's considerations about the identification of the CGUs and the process of allocation of goodwill to the individual CGUs.

We analysed the estimated future cash flows and the royalty flows used in the impairment testing models; in detail, we verified the reasonableness of the assumptions used in light of the past results of individual CGUs, individual trademarks and the whole Group, comparing the growth rates used by management with external sources and other information commonly available to market analysts.

With the support of business valuation experts from the PwC network, we verified that the valuation methods used were consistent with prevailing practice, and specifically with International Financial Reporting Standards as adopted by the European Union. Moreover, the key valuation parameters adopted were analysed in terms of reasonableness. With specific reference to the method of calculation of discount rates and royalty rates, we verified that

Key Audit Matters

This method involves estimating the sales volumes that can reasonably be expected from the trademarks being tested, the royalty flows and the discount rate. The recoverable amounts thus obtained were compared with the carrying amounts of the trademarks.

Furthermore, in consideration of the present uncertainty arising from the Coronavirus emergency, management considered it appropriate to model alternative scenarios that take into account a possible fall in revenue and profits generated by a possible slow-down of manufacturing and trading operations. This analysis was conducted only for the Braun CGU and trademark, because for the other CGUs and for the De'Longhi trademark the recoverable amounts resulting from the impairment tests were significantly higher than the respective carrying amounts.

In the course of our audit of the consolidated financial statements as of 31 December 2019, we focused on these areas as a key audit matter in consideration of the magnitude of the balances and the fact that the recoverability was verified by management based on assumptions that are sometime complex, and that by nature involve the use of judgement, specifically with reference to the estimation of the future cash flows expected to be generated from each CGU and the royalties from trademarks, and the determination of the long-term growth rates and discount rates applied.

Auditing procedures performed in response to key audit matters

these had been determined in accordance with prevailing practice and based on market figures. Similarly, for the determination of the medium/long-term growth rates we verified their consistency with the provisions of International Financial Reporting Standards as adopted by the European Union.

We verified the mathematical accuracy of the calculations underlying the test and the values of net invested capital of the CGUs identified, including goodwill, as of 31 December 2019 used for comparison with values in use.

Moreover, we analysed the alternative scenarios modelled by management for the Braun CGU and trademark in connection with the uncertainty generated by the Coronavirus emergency.

Finally, our procedures included an analysis of the notes to the consolidated financial statements to assess the adequacy and completeness of disclosures.

Other aspects

The consolidated financial statements of De'Longhi Group for the year ended 31 December 2018 have been audited by other auditors who, on 8 April 2019, expressed an unqualified opinion on the consolidated financial statements.



Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate De'Longhi SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, 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 auditors' 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we 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 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 evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's 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 consolidated 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 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 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 on the consolidated financial statements.

We 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 identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other 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 determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional disclosures required by article 10 of Regulation (EU) No. 537/2014

On 19 April 2018 the shareholders of De'Longhi SpA in general meeting engaged us to perform the statutory audit of the Company's and the consolidated financial statements for the years ending 31 December 2019 to 31 December 2027.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.



Report on compliance with other laws and regulations

Opinion in accordance with article 14, paragraph 2, letter e), of Legislative Decree No. 39 of 27 January 2010 and article 123-bis, paragraph 4, of Legislative Decree No. 58 of 24 February 1998

The directors of De'Longhi SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the De'Longhi Group as of 31 December 2019, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Group as of 31 December 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of the De'Longhi Group as of 31 December 2019 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39 of 27 January 2010, issued on the basis of our knowledge and understanding of the Group and its environment obtained in the course of the audit, we have nothing to report.

Statement in accordance with article 4 of Consob's regulation implementing Legislative Decree No. 254 of 30 December 2016

The directors of De'Longhi SpA are responsible for the preparation of the non-financial statement pursuant to Legislative Decree No. 254 of 30 December 2016.
We have verified that management approved the non-financial statement.



Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Treviso, 30 March 2020

PricewaterhouseCoopers SpA

Signed by

Filippo Zagagnin
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

Indipendent auditors' report on 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 of January 2018

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. 20267/2018, 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 2019 prepared in accordance with article 4 of the Decree and approved by the Board of Directors on 12 March 2020 (hereafter the "NFS").

Responsibility of Management and the Board of Statutory Auditors for the NFS

The Directors are responsible for the preparation of the NFS in accordance with article 3 and 4 of the Decree and with the "GRI-Sustainability Reporting Standards" defined in 2016 (hereafter the "GRI Standards"), with reference to a selection of GRI Standards.

The Directors are responsible, in accordance with the law, for the implementation of internal controls necessary to ensure that the NFS is free from material misstatement, whether due to fraud or unintentional errors.

Moreover, the 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, its performance, its results and related impacts.

Finally, the 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 is responsible for overseeing, in the terms prescribed by law, compliance with the Decree.

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 and with the GRI Standards. We conducted our engagement in accordance with "International Standard on Assurance Engagements ISAE 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 ("reasonable assurance engagement") 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 with company personnel responsible for the preparation of the information presented in the NFS, analysis 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 Group, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree and with the reporting standards adopted;
- 2 analysis and assessment of the criteria used to identify the consolidation area, in order to assess their compliance with the Decree;
- 3 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 4 a) below;
- 4 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 the personnel of De'Longhi Romania Srl and we performed limited analysis 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 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;
- for the Italian perimeter (composed of the office of Treviso and the plants of Mignagola, Gorgo al Monticano and Campi Bisenzio), and Romanian perimeter (composed by the office and plant of Cluj Napoca) 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 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 Group as of 31 December 2019 has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with the GRI Standards, with reference to the selection of GRI Standards included in the NFS.

Treviso, 30 March 2020

PricewaterhouseCoopers SpA

Signed by

Filippo Zagagnin
(Statutory auditor)

Signed by

Paolo Bersani
(Authorised signatory)

This report has been translated from the Italian original solely for the convenience of international readers. We have not performed any controls on the NFS 2019 translation.

Report on operations on separate financial statements



Review of the income statement

(€/million)	2019	% revenues	2018	% revenues
Revenues	9.4	100.0%	24.6	100.0%
<i>Changes 2019/2018</i>	<i>(15.2)</i>	<i>(61.8%)</i>		
Materials consumed	(0.1)	(0.7%)	(0.1)	(0.3%)
Other services and expenses	(12.9)	(137.2%)	(28.7)	(116.6%)
Payroll	(8.4)	(89.7%)	(8.9)	(36.3%)
EBITDA before non-recurring expenses / stock option	(12.0)	(127.6%)	(13.1)	(53.2%)
<i>Changes 2019/2018</i>	<i>1.1</i>	<i>(8.4%)</i>		
Non-recurring expenses / stock option	(3.9)	(41.3%)	(5.2)	(21.1%)
EBITDA	(15.9)	(168.9%)	(18.3)	(74.4%)
Amortization	(0.8)	(8.9%)	(0.6)	(2.4%)
EBIT	(16.7)	(177.8%)	(18.9)	(76.8%)
<i>Changes 2019/2018</i>	<i>2.2</i>	<i>(11.5%)</i>		
Dividends	135.6	1,440.8%	191.1	776.2%
Financial income (expenses)	(2.8)	(30.2%)	(3.3)	(13.4%)
Profit (loss) before taxes	116.1	1,232.8%	168.9	686.0%
Income taxes	3.0	32.3%	3.4	13.7%
Profit (loss) after taxes	119.1	1,265.1%	172.3	699.7%

The company adopted the new accounting standard IFRS 16 – *Leases* as of 1 January 2019 which resulted in the recognition in the reclassified income statement of an increase in “Amortization” of €258 thousand, a decrease in “Costs for services” of €271 thousand and an €18 thousand increase in “Financial expenses”.

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 € 3.2 million (€ 18.1 million in 2018) and € 3.2 million (€ 17.8 million in 2018).

In 2019 dividends amounted to €135.6 million (€191.1 million in 2018) while net financial expenses came to €2.8 million (€3.3 million in 2018).

Net profit came to €119.1 million (€172.3 million in 2018).

Review of the statement of financial position

The reclassified statement of financial position is presented below:

(€/million)	31 December 2019	31 December 2018	Change	% change
- Tangible and intangible assets	2.0	1.3	0.7	57.7%
- Financial assets	567.5	567.5	-	-
Non-current assets	569.5	568.8	0.7	0.1%
- Trade receivables	3.0	30.7	(27.8)	(90.3%)
- Trade payables	(6.4)	(21.0)	14.7	(69.7%)
- Other current payables (net of other receivables)	(2.2)	(4.1)	1.9	(47.3%)
Net working capital	(5.5)	5.6	(11.2)	(198.3%)
Total non-current liabilities and provisions	(4.6)	(3.9)	(0.7)	18.5%
Net capital employed	559.3	570.5	(11.2)	(2.0%)
Net debt	8.2	85.9	(77.7)	(90.5%)
Total net equity	551.1	484.6	66.5	13.7%
Total net debt and equity	559.3	570.5	(11.2)	(2.0%)

Net debt amounted to €8.2 million (€85.9 million at 31 December 2018), broken down as follows:

(€/million)	31 December 2019	31 December 2018	Change
Liquidity	0.1	0.1	-
Other financial receivables	427.9	194.6	233.3
Current financial debt	(66.5)	(45.1)	(21.4)
Net current financial position	361.5	149.6	211.9
Non-current financial debt	(369.7)	(235.5)	(134.2)
Total net financial position	(8.2)	(85.9)	77.7
Of which:			
- Net position with banks and other lenders	(6.4)	(84.0)	77.6
- Lease payables	(1.3)	-	(1.3)
- Other net assets/(liabilities) (fair value of derivatives, financial payables linked to the purchase of equity investments)	(0.5)	(1.9)	1.4

Net debt includes a few specific financial items, including the fair value measurement of derivatives and the residual debt owed for the purchase of equity investments which shows a negative balance of €0.5 million at 31 December 2019 (negative for €1.9 million at 31 December 2018).

Net debt also reflects the impact of IFRS 16 adoption which resulted in the recognition of €1.3 million in "Lease payables".

Net of these items, net debt was €6.4 million at 31 December 2019, with cash flow reaching a positive €77.6 million at 31 December 2019, explained primarily by a lower dividend payment.

The statement of cash flows, reclassified on the basis of net financial position, is summarized as follows:

(€/million)	2019	2018
Cash flow by current operations	(16.2)	(16.2)
Cash flow by other changes in working capital	14.1	4.6
Cash flow by investment activities	135.6	190.3
Net operating cash flow before application of IFRS 16 Leases	133.5	178.8
Cash flow absorbed by leases under IFRS 16	(1.3)	-
Cash flow by operating activities	132.2	178.8
Dividends paid	(55.3)	(149.5)
Cash flow by changes in cash flow hedge reserves	0.8	(0.3)
Cash flow by changes in net equity	(54.5)	(149.8)
Cash flow for the period	77.7	29.0
Opening net financial position	(85.9)	(114.8)
Closing net financial position	(8.2)	(85.9)

Net operating cash flow amounted to €132.2 million in 2019 (€178.8 million in 2018), a decrease of €46.6 million compared to the prior year.

Cash flow to net equity reached a negative €54.5 million (negative €149.8 million in 2018), 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:

(€/thousands)	Net equity 31.12.2019	Profit for 2019	Net equity 31.12.2018	Profit for 2018
De' Longhi S.p.A. financial statements	551,146	119,094	484,643	172,265
Share of subsidiaries' equity and results for period attributable to the Group, after deducting carrying value of the investments	655,966	32,776	607,129	22,380
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	15,765	(1,875)	17,660	(2,408)
Elimination of intercompany profits	(32,180)	10,364	(42,612)	(8,280)
Other adjustments	(243)	646	(895)	745
Consolidated financial statements	1,190,454	161,005	1,065,925	184,702
Minority interests	-	-	-	-
Group portion	1,190,454	161,005	1,065,925	184,702

Annual remuneration report

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

Human resources and organization

The company had 51 employees at 31 December 2019 (50 at 31 December 2018).

The following table summarizes the average number of employees during 2019 compared with 2018:

	2019	%	2018	%	Change
White collars	34	68%	31	66%	3
Managers	16	32%	16	34%	-
Total	50	100%	47	100%	3

Research and development

As a holding company, the Company does not carry out any research and development directly. These activities are carried out by employees of the individual subsidiaries. More details can be found in the paragraph on “*Research and Development – quality control*” found 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 (section “*Investor relations*” – “*Governance*” – “*Annual Shareholders’ Meeting*” – “*2020*”).

Pursuant to art. 16.4 of the Market Regulations please note that the Company is not subject to the direction and control of the parent company De Longhi Industrial S.A., or of any other party, pursuant to and in accordance with articles 2497 *et seq* of the Italian Civil Code, insofar as (i) the Group’s business, strategic and financial plans, as well as the budget, are approved independently by the Company’s Board of Directors; (ii) the financial and funding policies are defined by the Company; (iii) the Company conducts its relationships with clients and suppliers in full autonomy; and (iv) in accordance with the principles of the Corporate Governance Code, important strategic, economic, equity and financial transactions are examined by the board and approved exclusively by the Board of Directors.

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 Control and Risks, Corporate Governance and Sustainability 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 Control and Risks, Corporate Governance and Sustainability 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 Control and Risks, Corporate Governance and Sustainability 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, the Company controls, directly or indirectly, seven 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), the Issuer undertook a project for the development and monitoring of a structured ERM model in order to effectively manage the main risks to which the Issuer and the Company are exposed.

During 2019, activities for implementing this Enterprise Risk Management (ERM) project continued. ERM is aimed at strengthening the risk control and management system by mapping the main risks to which the Company is exposed on the basis of the Group value chain, identifying the inherent and of the related residual risk and assessing and implementing action plans for their elimination/mitigation. Furthermore, the Internal Audit Director and the Officer Responsible for Preparing the Company's Financial Reports continued the work for specifically and analytically governing the ERM risk management system, through some additional activities.

In 2019, the risk management model (ERM) has been further integrated and its scope has thus been extended through the evidence of the main strategic risks as identified by the Chief Executive Officer and an additional analysis carried out within the strategically important companies.

This analysis has been updated in 2019 on the basis of the recommendations coming from the CEO and the Financial Controllers of the companies involved. Moreover, with the purpose of further supporting the ERM project, with the help of the Internal Audit function, it is undertaken the initiative to map the risk perception, as perceived by the Managers of the audited companies. This initiative has been carried out also in 2019.

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 Control and Risks, Corporate Governance and Sustainability 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.

Global economic activity was moderate in 2019, but there were signs of stabilization toward the end of the year. Financial activities were strengthened by monetary policy and glimpses of a possible waning of the international trade disputes.

Preliminary estimates confirm that the global GDP slowed in the fourth quarter of 2019 due to the socio-political tensions in a number of countries.

At the beginning of 2020 the health crisis linked to the spread of the Coronavirus (Covid-19) exploded. Initially, the epicenter of the epidemic was the Chinese province of Hubei, but the virus spread rapidly first throughout China and then globally, despite the timely implementation of restrictions on movement. The interruption in Chinese manufacturing affected the rest of the world very quickly, given the key role that the country plays in the manufacture of goods and the supply of raw materials. Tourism and many other related sectors also suffered immediately from the repercussions of the restrictions on the free movement of people.

To date the prospects for growth, therefore, are uncertain.

The base-case scenario is based on the hypothesis that the peak of the Chinese epidemic will dissipate in the first quarter of 2020, with a gradual recovery in activity in the second quarter, and that contagion in the rest of the world will be sporadic and contained.

In this environment, global GDP is expected to drop by half a percentage point from +2.9% to +2.4% in 2020 to then rise in 2021 by +3.25%, albeit with performances that vary from country to country.

With regard to China, in 2020 the GDP is expected to grow by just below +5%, to then reach levels around +6.25%-6.5% in 2021, basically in line with the forecasts made prior to the emergency. A similar trend, though less pronounced, is expected for interconnected economies like China, Japan, Korea, Australia and Indonesia.

With regard to the economies that are less entwined with China, in particular the United States and China, the impact of the health crisis is expected to be less severe, though the drop in consumer confidence, supply chain issues and weakening external demand will slow growth.

Looking at Euro zone countries, taking into account the possibility of a trade agreement in favor of the free trade of goods with the United Kingdom, growth is expected to reach a yearly average of +1% in the period 2020/2021, considering the impact of the epidemic in the first half of 2020; growth in Italy is expected to be basically flat.

The emerging markets are expected to recover gradually in the period 2020/2021.

The growth could be even weaker (a drop of one and half points more than the initial estimates) in a domino scenario – broader contagion, namely a more widespread epidemic which lasts longer, prolonged international trade disputes, uncertainty in the relationship between Europe and the United Kingdom.

According to the OECD, the health emergency reinforces the need for political measures to contain the spread of the virus and strengthen healthcare systems by providing adequate resources, increase consumer confidence and demand, as well as limit supply chain damage.

It is indispensable for the countries which have been affected the most to create buffers for the most vulnerable social groups, allowing for and promoting flexibility in work and/or instituting temporary assistance programs.

In the short-term, guaranteeing an adequate level of liquidity is of fundamental importance; furthermore, temporary fiscal measures could support the sectors that are the most exposed.

Policies to reduce interest rates can have a positive effect on demand, but can also be less effective in supply chain recovery and the mandatory restrictions on the movement of people.

In this context, on 2 March 2020, the Chairman of the European Central Bank issued a press release in which she declared that the rapid expansion of the Coronavirus emergency puts the economic forecasts and the performance of the financial markets at risk. The Chairman also declared that the European Central Bank is continuously monitoring the evolution of the situation and implications for economic activity, medium-term inflation and aspects of monetary policy, in order to adopt adequate protective measures in a timely manner.

On 3 March 2020, the Federal Reserve cut interest rates by half a percentage point in order to mitigate the risks stemming from the spread of the virus, support employment and maintain price stability, albeit in what is still a strong economic environment.

(Source: OECD / European Central Bank / Federal Reserve).

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 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.

Furthermore, the Group is subject to the risks pertaining the occurrence of any outbreak or serious health issues in the main reference markets which might lead to the stop or the limitation of the business in these markets (with reference to both production, supply chain and the sales of products).

These phenomena are not predictable; nevertheless the Company, by leveraging on the experience acquired, is able to react and to put in place all the necessary measures in the attempt to limit the consequences of these phenomena.

Nevertheless, the persistence of these situations might lead to the interruption and/or to the limitation of the Group business with subsequent impact on economic and financial results.

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 2019 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 three 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 2019, 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.

On 30 June 2019 a change was made to the voting rights as a result of the increased voting rights matured on 97,311,515 ordinary shares of De' Longhi S.p.A., at two voting rights for each share; voting rights, consequently, went from 149,500,000 to 246,811,515.

Treasury shares

The Company does not possess nor did it possess treasury shares as at December 31, 2019, not even through a third party or trust company, and therefore, has not pursued purchase operations of such shares during the period.

Tax consolidation

The Company renewed, 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 2019-2021.

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 further information refer to the Consolidated Annual Report on Operations.

Subsequent events

Subsequent to 31 December 2019 through the approval date of this report, no significant events occurred which would have impacted the financial and economic results shown pursuant to IAS 10 *Events after the reporting period* § 8.

On January 20 2020, after having heard the favorable opinion of the Remuneration and Appointments Committee and the Board of Statutory Auditors, the Board of Directors unanimously approved the proposal presented by the Chairman Giuseppe de' Longhi and the Chief Executive Officer Fabio de' Longhi to include Massimo Garavaglia as a member of the Company's Board of Directors, grant him the powers as Chief Executive Officer and appoint him De' Longhi S.p.A.'s General Manager.

The purpose of this proposal is to strengthen the managerial structure at a time of constant expansion for the Group in order to continue along the highly successful path of the past years and face the new challenges of the rapidly changing global markets, seizing every favorable opportunity.

On 3 February 2020 the acquisition of another production plant in Romania was finalized. The plant comprises 2 buildings for a total of around total 25,000 square meters, with machines and facilities that are already operative which can be used by the Group for its production. This deal is meant to support the expected organic growth pursued by the Group in the main markets and is consistent with the strategy to reduce the time to market of our products, preserving quality and control. This new location will employ more than 500 workers and, backed by the successful experience achieved in the Romanian Cluji region, will strengthen the Group's presence in the region.

The emergency and the spread of the Coronavirus (Covid-19) which in the first weeks of 2020 initially impacted economic activity in China and, subsequently, spread to other countries, is not considered an adjusting event pursuant to IAS 10 § 21 – insofar as, while the phenomenon materialized toward the end of this reporting period, it wasn't until January 2020 that the World Health Organization declared an international health emergency and cases in other countries were found which called for the adoption of specific measures in China, as well as other countries.

With regard to China, the Group does not have manufacturing facilities in the Wuhan area, as the existing production plants in China are located in Dongguan and Zhongshan, in the southeast near Hong Kong. In addition, the Chinese commercial branch is based in Shanghai, while the company dedicated to sourcing and procurement for the Far East, as well as the headquarters for APA's commercial activity, is in Hong Kong. These places were all affected marginally by the epidemic which made it possible to reopen production facilities and offices as of mid-February 2020 and recommence with supply chain activities; this guaranteed supplies for production, in the hubs and the Group's commercial branches.

In February the health emergency spread in Europe, particularly in Italy, where the Group, faced with a constantly changing situation, implemented emergency plans aimed at, above all, protecting the health and safety of its employees and identifying potential problems for the production, the distribution of its products and the supply chain in the main markets.

Based on the current levels of inventory and the fact that production plants are fully operative, to date the Group does not foresee any problems with supply for the main products in the short-term; furthermore, a back-up strategy is currently being drafted in order to be prepared for potential long-term stoppages in the supply chain which could interrupt or limit activities. At the moment the methods for the management of risks connected to production, the costs of raw materials and the supply chain adopted by the Group and described in the Report on Operations are still sufficient.

With regard to the management of human resources, the Group has, since the beginning, rigorously applied the guidelines and conduct recommended for all employees working in China and Hong Kong or who travel for business to/from these countries. These guidelines are based on the recommendations of the World Health Organization (WHO), the Chinese government, the government of the Hong Kong Special Administrative Region, the Italian government and other authorities, as well as the recommendations given by health agencies worldwide to their citizens.

Furthermore, in light of the spread of Covid-19 contagion in Italy and the announcements made by the Italian Prime Minister, specific precautionary measures have also been adopted for the production and offices based in Italy.

With regard to the Group's financial assets, we believe that in the short-term their value will only be marginally impacted by market trends, also considering the type of financial assets held. Furthermore, the Group's financial position is particularly solid and able, not only to absorb the temporary loss in value of a few financial assets, but also to support any temporary periods of negative cash flow.

As for the overall trend in consumption and the possible impact on revenues, the sensitivity analyses conducted relative to the value of invested capital and, more specifically, the value of intangible assets, show there will be no loss in value. Toward this end, please refer to the single items reported on in the Explanatory Notes. Overall, based on information currently available, the factors of uncertainty seem to already be factored into the main valuations.

The current environment of uncertainty stemming from the health crisis does, however, call for precaution, also when making economic forecasts.

Even though the preliminary sales figures for the first months of the year are positive, thanks also to available inventories, and production at the plants and main suppliers in China is recovering, we cannot exclude that, if the contagion expands, there could be some logistics problems and generally critical market conditions.

A significant spread of the health crisis could also have a sizeable impact on future growth prospects given the repercussions for the general economy and the financial markets, including as a result of the containment measures adopted by government authorities.

With the exception of the above, no other significant events occurred after the close of the year.

Proposed resolutions for the Annual General Meeting

1) Proposed resolution relating to item 1.1 of the Agenda for the Annual General Meeting convened on 22 April 2020 (“Annual Report at 31 December 2019: presentation of the separate financial statements at 31 December 2019 together with the Director’ Report on Operations, the Board of Statutory Auditors’ Report, the External Auditors’ Report and the Certification of the Financial Reporting Officer. Related and consequent resolutions”).

Dear Shareholders,
in submitting the Annual Report at 31 December 2019 to you for approval during the Annual General Meeting, we propose that you approve the following resolution:

*“The Shareholders of De’ Longhi S.p.A.,
having examined the draft financial statements at 31 December 2019 of De’ Longhi S.p.A., the Board of Directors’ Report on Operations, the Board of Statutory Auditors’ Report and the other documentation called for under the law*

resolve

to approve the Board of Directors’ Report on Operations and the financial statements at 31 December 2019 of De’ Longhi S.p.A.”.

2) Proposed resolution relating to item 1.2 of the Agenda for the Annual General Meeting convened on 22 April 2020 (“Annual Report at 31 December 2019: proposed allocation of the net profit for the year and distribution of dividend. Related and consequent resolutions”).

Dear Shareholders,
with regard to the allocation of the net profit for the year closed on 31 December 2019, which amounted to €119,094,082, we propose that you approve the following resolution:

*“The Shareholders of De’ Longhi S.p.A.,
having acknowledged the net profit for the year shown in the Annual Report at 31 December 2019 and the Directors’ Report on Operations*

resolve

- 1. to allocate €2,276,869 of the net profit for the year to the legal reserve, in accordance with art. 2430 of the Italian Civil Code, which represents one fifth of the share capital subscribed at the date of this Annual General Meeting;*
- 2. to distribute a gross ordinary dividend of €0.54 for each of the shares outstanding (net of any treasury shares held) after the allocation referred to in item 1 above has been made;*
- 3. to allocate the remaining net profit for the year to the extraordinary reserve;*
- 4. to establish that the payment of the dividend, on each share entitled to receive a dividend, will take place on 20 May 2020, with shares going ex-div on 18 May 2020, in accordance with Borsa Italiana’s calendar, and a record date, pursuant to art. 83-terdecies of Legislative Decree n. 58/98, of 19 May 2020”.*

Treviso, 12 March 2020

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

Separate annual report and financial statements



Separate financial statements

Income statement
Statement of comprehensive income
Statement of financial position
Statement of cash flow
Statement of changes in net equity

Income Statement

(Amounts in Euro)	Notes	2019	of which non-recurring	2018	of which non-recurring
Revenues	1	9,413,730		24,620,744	
Total revenues		9,413,730		24,620,744	
Raw and ancillary materials, consumables and goods	2	(68,475)		(83,109)	
Materials consumed		(68,475)		(83,109)	
Payroll costs	3	(10,588,209)		(13,978,391)	(1,200,000)
Services and other operating expenses	4	(15,191,961)	(1,741,609)	(28,606,004)	(150,000)
Provisions	5	539,348		(259,698)	
Amortization	6	(839,455)		(597,063)	
EBIT		(16,735,022)		(18,903,521)	
Financial income (expenses)	7	132,790,237		187,802,025	
PROFIT (LOSS) BEFORE TAXES		116,055,215		168,898,504	
Income taxes	8	3,038,867		3,366,530	
NET PROFIT (LOSS)		119,094,082		172,265,034	

Statement of Comprehensive Income

(Amounts in Euro)	2019	2018
Net profit (loss)	119,094,082	172,265,034
- Change in fair value of cash flow hedges and financial assets available for sale	779,781	(302,388)
- Tax effect on change in fair value of cash flow hedges and financial assets available for sale	(187,147)	72,573
Total other comprehensive income will subsequently reclassified to profit (loss) for the year	592,634	(229,815)
- Actuarial valuation funds	(18,768)	12,322
- Tax effect of actuarial valuation funds	4,504	(2,957)
Total other comprehensive income will not subsequently reclassified to profit (loss) for the year	(14,264)	9,365
Other components of comprehensive income	578,370	(220,450)
Total comprehensive income	119,672,452	172,044,584

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	31.12.2019	31.12.2018
NON-CURRENT ASSETS			
INTANGIBLE ASSETS		696,807	1,176,709
- Other intangible assets	9	696,807	1,176,709
TANGIBLE ASSETS		1,297,157	87,473
- Land, property, plant and machinery	10	-	85,129
- Other tangible assets	11	3,429	2,344
- Right of use assets	12	1,293,728	-
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		568,299,584	567,676,370
- Equity investments	13	567,516,127	567,516,127
- Receivables	14	130,850	160,243
- Other non-current financial assets	15	652,607	-
TOTAL NON-CURRENT ASSETS		570,293,548	568,940,552
CURRENT ASSETS			
TRADE RECEIVABLES	16	2,989,370	30,746,514
CURRENT TAX ASSETS	17	2,642,499	4,028,584
OTHER RECEIVABLES	18	6,031,958	6,828,731
CURRENT FINANCIAL RECEIVABLES AND ASSETS	19	427,949,977	194,626,689
CASH AND CASH EQUIVALENTS	20	93,609	41,552
TOTAL CURRENT ASSETS		439,707,413	236,272,070
TOTAL ASSETS		1,010,000,961	805,212,622

Statement of Financial Position

Net Equity and Liabilities

(Amounts in Euro)	Notes	31.12.2019	31.12.2018
NET EQUITY			
NET EQUITY		551,145,963	484,642,618
- Share capital	21	224,250,000	224,250,000
- Reserves	22	207,801,881	88,127,584
- Net profit (loss)		119,094,082	172,265,034
TOTAL NET EQUITY		551,145,963	484,642,618
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES		370,502,277	235,633,010
- Bank loans and borrowings (long-term portion)	23	218,746,283	84,914,750
- Other financial payables (long-term portion)	24	150,704,751	150,718,260
- Lease liabilities (long-term portion)	12	1,051,243	-
DEFERRED TAX LIABILITIES	25	1,622,787	1,404,124
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		3,011,799	2,505,397
- Employee benefits	26	3,011,799	1,846,050
- Other provisions	27	-	659,347
TOTAL NON-CURRENT LIABILITIES		375,136,863	239,542,531
CURRENT LIABILITIES			
TRADE PAYABLES	28	6,353,805	21,004,201
FINANCIAL PAYABLES		66,522,514	45,053,747
- Bank loans and borrowings (short-term portion)	23	65,810,654	43,909,792
- Other financial payables (short-term portion)	24	465,144	1,143,955
- Lease liabilities (short-term portion)	12	246,716	-
OTHER PAYABLES	29	10,841,816	14,969,525
TOTAL CURRENT LIABILITIES		83,718,135	81,027,473
TOTAL NET EQUITY AND LIABILITIES		1,010,000,961	805,212,622

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	2019	2018
Net profit (loss)		119,094,082	172,265,034
Income taxes for the period		(3,038,867)	(3,366,530)
Income for dividends receipt		(135,632,507)	(191,106,394)
Amortization		839,455	597,063
Net cash flows from IFRS16 Leases application		(254,595)	-
Net change in provisions and other non-cash items		2,753,527	5,401,459
Cash flow absorbed by current operations (A)		(16,238,905)	(16,209,368)
Change in assets and liabilities for the period:			
Trade receivables		27,757,144	2,553,823
Trade payables		(14,650,396)	(3,331,110)
Other changes in net working capital		1,080,342	5,844,976
Payment of income taxes		(70,300)	(419,291)
Cash flow generated by changes in working capital (B)		14,116,790	4,648,398
Cash flow absorbed by current operations and changes in working capital (A+B)		(2,122,115)	(11,560,970)
Investment activities:			
Investments in intangible assets		(15,020)	(777,496)
Investments in tangible assets		(2,679)	(3,572)
Dividends receipt		135,632,507	206,006,394
Cash flow generated by investment activities (C)		135,614,808	205,225,326
Cash flow by operating activities (A+B+C)		133,492,693	193,664,356
Dividends paid		(55,315,000)	(149,500,000)
New loans		200,000,000	-
Payment of interests on loans		(2,688,466)	(2,771,230)
Repayment of loans and other net changes in source of finance		(275,437,170)	(41,377,454)
Cash flow absorbed by changes in net equity and by financing activities (D)		(133,440,636)	(193,648,684)
Increase in cash and cash equivalents (A+B+C+D)		52,057	15,672
Opening cash and cash equivalents	20	41,552	25,880
Increase in cash and cash equivalents (A+B+C+D)		52,057	15,672
Closing cash and cash equivalents	20	93,609	41,552

Appendix 2 presents the statement of cash flows at 31 December 2019 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 RESERVE	STOCK OPTION RESERVE	ACTUARIAL EVALUATION RESERVE	PROFIT (LOSS) CARRIED FORWARD	PROFIT (LOSS) FOR THE PERIOD	TOTAL
Balance at 31 December 2017	224,250,000	162,545	25,229,358	19,821,200	(239,342)	4,083,211	(109,822)	10,441,324	174,610,425	458,248,899
Allocation of 2017 result as per AGM resolution of 24 April 2018										
- distribution of dividends									(149,500,000)	(149,500,000)
- allocation to reserves			8,730,521	16,379,904					(25,110,425)	-
Fair value Stock Option						3,849,135				3,849,135
Movements from transactions with shareholders	-	-	8,730,521	16,379,904	-	3,849,135	-	-	(174,610,425)	(145,650,865)
Profit (loss) after taxes									172,265,034	172,265,034
Other components of comprehensive income					(229,815)		9,365			(220,450)
Comprehensive income (loss)	-	-	-	-	(229,815)	-	9,365	-	172,265,034	172,044,584
Balance at 31 December 2018	224,250,000	162,545	33,959,879	36,201,104	(469,157)	7,932,346	(100,457)	10,441,324	172,265,034	484,642,618
Balance at 31 December 2018	224,250,000	162,545	33,959,879	36,201,104	(469,157)	7,932,346	(100,457)	10,441,324	172,265,034	484,642,618
Allocation of 2018 result as per AGM resolution of 30 April 2019										
- distribution of dividends									(55,315,000)	(55,315,000)
- allocation to reserves			8,613,252	108,336,782					(116,950,034)	-
Fair value Stock Option						2,145,893				2,145,893
Movements from transactions with shareholders	-	-	8,613,252	108,336,782	-	2,145,893	-	-	(172,265,034)	(53,169,107)
Profit (loss) after taxes									119,094,082	119,094,082
Other components of comprehensive income					592,634		(14,264)			578,370
Comprehensive income (loss)	-	-	-	-	592,634	-	(14,264)	-	119,094,082	119,672,452
Balance at 31 December 2019	224,250,000	162,545	42,573,131	144,537,886	123,477	10,078,239	(114,721)	10,441,324	119,094,082	551,145,963

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 2019 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 2019), 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 2019 are the same as those used for preparing the financial statements at 31 December 2018, except for certain new amendments and accounting standards described below.

The financial statements at 31 December 2019 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.

International accounting standards adopted by the Company for the first time

IFRS 16 Leases was adopted by the EU in Regulation 2017/1986 on 31 October 2017. The new standard is applicable for reporting periods beginning on or after 1 January 2019.

The scope of the new principle is largely unchanged with respect to IAS 17 which it is substituting. The biggest change is the elimination for the lessee of the distinction between financial and operating leases, which was part of IAS 17, and establishes a single category and requires a uniform accounting treatment. Leasing includes those contracts which convey the right to control the use of an identified asset for a defined period of time in exchange for the consideration agreed upon. Based on the new standard, therefore, in addition to the identification of the leased asset, the contract must clearly state that the lessee is entitled to direct the identified asset's use and to obtain substantially all the economic benefits from that use. The asset may be identified explicitly or implicitly, or an asset can also be a portion of a larger asset if this portion is physically distinct; furthermore, the asset is identified if the supplier does not have substantive right of substitution throughout the contract term. With regard to obtaining all the economic benefits deriving from the use of the asset, the lessee's specific right-of-use contemplated in the contract must be considered (ex. use of the asset in a specific place, use of the asset for a certain number of hours). Control of the asset exists when the lessee can direct the use of the asset without changes being made by the supplier or if the way in which and the purpose for which the asset is to be used has been predetermined. The lessee's right to direct usage of the asset will not be forfeited in the event the supplier only maintains protective rights which make it possible to protect the asset and personnel, as well as comply with the law. Lastly, the new standard provides certain exemptions, as well as practical expedients which facilitate application. The lessee may decide to not apply IFRS 16 to leases of less than 12 months which do not provide for redemption options and to contracts relating to assets of marginal value like tablets, personal computers, small office furniture and telephones; in this instance the accounting of the contracts needs to comply with the part of IAS 17 relative to operating leases, meaning the consideration needs to be expensed across the life of the contract or using another systematic approach. Similar contracts may be grouped and accounted for together if application of the standard to each contract would not have a significantly different impact on the financial statements. The lessee must recognize the right-of-use asset and the lease liability as of the effective date. The right-of-use asset must be valued at cost comprehensive of the present value of future payments, the initial costs incurred directly by the lessee, any advance lease payments made and the estimate of the costs for elimination, removal and restoration; the asset value must be systematically depreciated in accordance with IAS 16. The liability must equal the present value of the payments payable over the term of the lease discounted at the interest rate implicit in the lease, if easily determined, or alternatively, at the incremental borrowing rate which is the rate that the lessee would pay on a loan with a similar duration and conditions. In the event the lease term, purchase options, the residual value guaranteed, or variable payments based on indices or rates, are redetermined, the lease liability must be restated.

With regard to transition, IFRS 16 provides two possible approaches: the full retrospective approach, based on which the new provisions are applied retroactively to each previous year in which IAS 8 was applied; and the modified retrospective approach, based on which the new standard is applied retroactively by recognizing the cumulative effect of initial application as an adjustment to the opening balance of retained earnings.

The Company has adopted the new standard beginning on 1 January 2019 using the modified retrospective approach based on which the recognized amount of the right-to-use asset should equal the lease liability, namely equal to the present value of the remaining payments discounted using the incremental borrowing rate at the date of initial application, without restating the comparative figures.

The Company has applied the provision which allows for the new definition of leasing not to be applied during the transition phase. The Company, therefore, has applied the standard only to contracts which were already identified as leases under IAS 17 and IFRIC 4.

Another expedient, which allows for the exclusion of initial direct costs stemming from the right-of-use measurement of assets upon first time application of IFRS 16, was also applied. In addition, the Group decided not to recognize leases whose terms ends within twelve months as at 1 January 2019 by using short-term lease accounting.

The incremental borrowing rate – IBR used at the time of initial application was based on the average cost of borrowing at 31 December 2018.

The Company also took into account cash outflows to which it is potentially exposed which are not taken into account when measuring lease liabilities linked to variable payments linked to current leases, extension and termination options, as well as guarantees on residual amounts.

Subsequent to IFRS 16 application, new assets (reported separately in the consolidated statement of financial position) and related financial liabilities (the lease obligations) are recognized in the net financial position as nonbanking items. The value of the right-of-use is depreciated and interest recognized, while costs represented by the lease payments made are eliminated.

For further information, please refer to note 12. *Leases*.

Furthermore, as from 1 January 2019, the amendments to IFRS 9 *Financial instruments - Prepayment Features with Negative Compensation* introduced by the European Commission with Regulation 2018/498 of 22 March 2018 were adopted in order to clarify the classification of certain prepayable financial assets when IFRS 9 is applied.

The interpretation IFRIC 23 *Uncertainty over Income Tax Treatments* (Regulation 2018/1595 of 23 October 2018) and the amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures* (Regulation 2019/237 of 8 February 2019) were applied for the first time in this financial year.

On 12 December 2017 IASB published *Annual Improvements to IFRSs 2015-2017 Cycle*, as part of a routine procedure to streamline and clarify international accounting standards in order to resolve questions that aren't urgent relating to inconsistencies or provide clarifications of certain terms, discussed within the IASB in the design phase. These annual improvements concerned IFRS 3 *Business combinations*, IFRS 11 *Joint Arrangements*, IAS 12 *Income taxes* and IAS 23 *Borrowing costs*.

On 7 February 2018 IASB published a few amendments to IAS 19 *Employee Benefits*. The document "*Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)*" as part of a routine procedure to streamline and clarify international accounting standards. The purpose of the amendments is to clarify how to redetermine net liabilities (assets) of a defined benefit plan for the period remaining after a defined benefit plan has been changed, reduced or terminated. These amendments were endorsed by the European Commission which adopted them in Regulation 402/2019 of 13 March 2019.

The Amendments to IAS 28 *Long-term interests in Associates and Joint Ventures*, endorsed by Regulation 237/2019 of 8 February 2019 and applicable from 1 January 2019, are intended to clarify the scope of application of IFRS 9 with regard to long-term interests in associates or joint ventures, including, for example, long-term loans whose payment is not planned for a certain future.

International financial reporting standards and/or not yet applicable

On 29 November 2019, the European Commission, through Regulation 2019/2075, approved some amendments to the IFRS standards that will be mandatory from 1 January 2020, whose title is Amendment to references to the conceptual framework in IFRS Standards.

These amendments aim to update the existing references to the previous frameworks in various accounting standards and interpretations, replacing them with references to the revised conceptual framework.

The *Amendments to IAS 1 and IAS 8 Definition of material and the Amendments to IFRS 9, IAS 39 and IFRS 17: Interest Rate Benchmark Reform* were endorsed and will be mandatory from 1 January 2020.

The amendments to IAS 1 and IAS 8 aim to clarify the definition of materiality and how it should be applied. Based on the amendments, information is deemed material if omitting it or misstating it could reasonably influence the decisions made by the primary users of the financial statements. In the new version reference to size and nature in the definition of material has been eliminated; furthermore, the scope of the users for which the information in the financial statements is intended has been narrowed from users to primary users, namely current and potential investors, lenders and other creditors.

The *Amendments to IFRS 9, IAS 39 and IFRS 17* belong to “phase 1” of a project which has the aim to consider what, if any, reliefs to give from the effects of IBOR reform. The key reliefs provided by the amendments relate to: (i) risk components, (ii) “highly probable” requirement, (iii) prospective assessments, (iv) retrospective effectiveness test and (v) recycling of the cash flow hedging reserve.

Furthermore, the amendments require disclosure of hedge accounting impacted by uncertainty.

The Company did not apply the aforesaid amendments 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.

One of the main changes made by the IASB, which, instead, have yet to be endorsed, includes the introduction of IFRS 17 *Insurance* contracts which will substitute 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 using an accounting model based on the discounted cash flow method, adjusted for risk, and a Contractual Service Margin (CSM). Initially, once endorsed the European Union, the new standard was to be applied to reporting periods beginning on or after 1 January 2021. The date of initial application was, subsequently, postponed a year, to 1 January 2022.

Once endorsed by the relevant authorities, the Amendments to IFRS 3 *Business combinations* will also take effect. The main amendments to IFRS 3 clarify how to define a business and introduces an optional fair value “concentration test”; additional guidelines, along with new examples, are also provided.

Lastly, the first application date for the *Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* has yet to be determined. The purpose of the amendments is to clarify how to account for the loss of control of business (governed by IFRS 10), as well as downstream transactions (governed by IAS 28) if the object of the transaction was or was not a business, as defined in IFRS 3.

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

Land, property, plant and machinery

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.

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 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

Right-of-use assets

In accordance with IFRS 16 the right-of-use asset is valued at cost plus the present value of future payments (discounted at the incremental borrowing rate, namely the interest rate that the lessee must pay over the term of the loan and similar guarantees), the initial costs incurred directly by the lessee, and any advance lease payments made. The asset value is systematically depreciated.

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.

Financial instruments

Financial assets

Upon initial recognition, financial assets are classified based on the measurement methods used in one of the three categories found in IFRS 9. The classification depends on the nature of the contractual cash flows and the business model the company uses to manage them.

The business model refers to the way in which the cash flows are generated which can be from the collection of contractual cash flows, the sale of assets or both.

A financial asset is classified among the assets valued at amortized cost if held as part of a business model where the objective is collecting contractual cash flows represented solely by payments to be made on certain dates, principal and interest. The valuation is made based on the effective interest rate.

A financial asset is classified among the assets valued at fair value with changes passing through the comprehensive income statement if held as part of a business model where the objective is collecting contractual cash flows and selling the assets and the cash flows contemplated under the contract refer solely to payments of principal and interest made on predetermined dates. For the assets included in this category, the interest receivable, the foreign exchange differences and losses in value are recognized in the income statement for the reporting period; other changes in fair value are recognized in the comprehensive income statement. Upon elimination, the cumulative change in fair value recognized as other comprehensive income is released to the income statement.

During the initial recognition phase, equity instruments may be included in the category of assets measured at fair value with changes recognized in the comprehensive income statement.

The category of assets valued at fair value with changes recognized in the income statement include assets held for trading, namely acquired to be sold in the short-term, and the assets designated as such.

Upon initial recognition, equity instruments not held for trading may be included in the category of financial instruments measured at fair value with changes recognized in the comprehensive income statement. This choice may be made for each asset and is irrevocable.

The trade receivables without a significant financing component are valued at the transaction price determined in accordance with IFRS 15.

Financial liabilities

Financial liabilities refer mainly to loans valued at amortized cost based on the effective interest rate. Financial liabilities are derecognized when the underlying obligation is extinguished, cancelled or fulfilled.

Lease liabilities

Lease liabilities equal the present value of the payments payable and not yet paid at the date of the financial statements discounted at the interest rate implicit in the lease, if easily determined, or alternatively, at the incremental borrowing rate which is the rate that the lessee would pay on a loan with a similar duration and conditions. In the event the lease term, purchase options, the residual value guaranteed, or variable payments based on indices or rates, are redetermined, the lease liability is restated.

Derivatives

Derivatives are used solely for hedging purposes, in order to reduce exposures to currency and interest rate risk. As allowed by IFRS 9, 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.

In accordance with IFRS 9, all derivatives are 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.

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 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.

Recognition of revenues

The item "Revenues" includes the consideration received for services rendered.

Revenues represent the consideration owed in exchange for the transfer of services to the customer, excluding amounts received on behalf of third parties. The Company recognizes the revenue when contractual obligations are fulfilled, namely when control of the service is transferred to the customer.

Based on the five-step model introduced in IFRS 15, the Company recognizes revenue after the following requirements have been met:

- a) the parties have approved the contract (in writing, orally or in accordance with other common commercial practices) and are committed to fulfilling the respective performance obligations; an agreement between the parties which creates rights and obligations regardless of the form of the agreement has, therefore, been created;
- b) the rights of each of the parties in relation to the services to be transferred can be identified;
- c) the payment terms for the goods or services to be transferred can be identified;
- d) the contract has commercial substance;
- e) it is probable that the Company will receive the consideration to which it is entitled in exchange for the services transferred to the customer.

If the consideration referred to in the contract has a variable component, the Company will estimate the amount of the consideration it will be entitled to in exchange for the services transferred to the customer.

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 Company is entitled to receive the payment.

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 carry forward 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.

Any uncertainty regarding tax treatments is considered in the tax calculation in accordance with the recommendations of IFRIC 23 *Uncertainty over Income Tax Treatments*.

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 carry forward 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:

	2019	2018	Change
Out-of-period gains	21	38	(17)
Damages reimbursed	2	20	(18)
Other income	9,391	24,563	(15,172)
Total	9,414	24,621	(15,207)

“Other income” include €9,347 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:

	2019	2018	Change
Other purchases	68	83	(15)
Total	68	83	(15)

3. Payroll costs

The figures relating to the provisions made by the Company relative to severance and long-term benefits are summarized in note 26. *Employee benefits*.

This item includes the fair value of the stock option plan which amounted to €2,146 thousand in the reporting period (€3,849 thousand at 31 December 2018).

4. Services and other operating expenses

These are analyzed as follows:

	2019	2018	Change
Consulting services	5,060	3,199	1,861
Incentives paid to clients – international commercial groups - global marketing costs	3,242	17,836	(14,594)
Insurance	2,603	2,420	183
Directors' emoluments	2,504	2,544	(40)
Travel and entertaining	618	681	(63)
Rentals and leasing	154	419	(265)
Statutory auditors' emoluments	146	146	-
Telecommunication costs	27	13	14
Advertising and promotional activities	25	37	(12)
Other sundry services	454	981	(527)
Total services	14,833	28,276	(13,443)
Sundry taxes	186	120	66
Other	173	210	(37)
Total other operating expenses	359	330	29
Total services and other operating expenses	15,192	28,606	(13,414)

"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.

"Costs for leased assets" includes the operating costs for contracts that are not or do not contain leases (€71 thousand), as well as the costs for leases of less than twelve months (€83 thousand); for more information please refer to note 12. *Leases*. The figure at 2018 included the costs relating to leases classified as operating leases under IAS 17. These two periods, therefore, are not completely comparable.

"Services and other operating expenses" include €2,535 thousand in costs from related parties, as reported in Appendix 4 and €1,742 thousand in non-recurring costs related to reorganization of the Group's structure (€150 thousand at 31 December 2018).

5. Provisions

This reflects the release of provisions for contingencies and charges stemming from disputes that were settled in the period (please refer to note 27. *Other provisions*).

6. Amortization

These are analyzed as follows:

	2019	2018	Change
Amortization of intangible assets	495	495	-
Depreciation of property, plant and equipment	87	102	(15)
Depreciation of Right of Use assets	258	-	258
Total	840	597	243

For further information on amortization and depreciation, please see the tables showing changes in intangible assets, property, plant and equipment, and leases.

7. Financial income (expenses)

Net financial income and expenses are broken down as follows:

	2019	2018	Change
Dividends	135,633	191,106	(55,473)
Financial income (expenses) from equity investments	135,633	191,106	(55,473)
Gains (losses) on currency hedging transactions	(217)	1	(218)
Exchange gains (losses)	153	1	152
Exchange gains (losses)	(64)	2	(66)
Interest income from loans	237	120	117
Bank interest income	8	10	(2)
Financial income	245	130	115
Interest expenses on long-term loans and borrowings	(934)	(931)	(3)
Interest expenses on bonds	(2,513)	(2,516)	3
Interest expenses on short-term loans and borrowings	(2)	(1)	(1)
Financial expenses	(3,449)	(3,448)	(1)
Interest for leasing	(18)	-	(18)
Other sundry income (expenses)	443	12	431
Other financial income (expenses)	425	12	413
Financial income (expenses)	132,790	187,802	(55,012)

"Financial income (expenses)" includes €135,681 thousand in income from related parties, as reported in Appendix 4.

Dividends relate primarily to amounts declared by the subsidiaries De' Longhi Appliances S.r.l., De Longhi Benelux S.A., De'Longhi Kenwood GmbH, E-Services S.r.l. e De' Longhi Capital Services S.r.l..

For more information on leases, please see note 12. *Leases*.

8. Income taxes

These are analyzed as follows:

	2019	2018	Change
Current tax assets	3,075	3,390	(315)
Advanced (deferred) taxes	(36)	(23)	(13)
Total	3,039	3,367	(328)

The Company renewed 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 2019-2021.

"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 25. *Deferred tax liabilities*.

The actual and theoretical tax charge are reconciled as follows:

	2019	%	2018	%
Profit before taxes	116,055	100.0%	168,899	100.0%
Theoretical taxes	(27,853)	(24.0%)	(40,536)	(24.0%)
Permanent tax differences (dividends, net of disallowable costs) and other effects	30,892	26.6%	43,903	26.0%
Actual taxes	3,039	2.6%	3,367	2.0%

Comments on the statement of financial position: assets

Non-current assets

9. Intangible assets

These are analyzed as follows:

	31 December 2019		31 December 2018		Change
	Gross	Net	Gross	Net	
Patents	2,109	697	2,094	1,177	(480)
Total	2,109	697	2,094	1,177	(480)

The following table reports movements during 2019:

	Patents
Net opening balance	1,177
Additions	15
Amortization	(495)
Net closing balance	697

The increases refer to the purchase of software during the year.

10. Land, property, plant and machinery

These are analyzed as follows:

	31 December 2019		31 December 2018		Change
	Gross	Net	Gross	Net	
Land and buildings	320	-	320	85	(85)
Total	320	-	320	85	(85)

The following table reports movements during 2019:

	Land and buildings
Net opening balance	85
Depreciation	(85)
Net closing balance	-

11. Property, plant and equipment

These are analyzed as follows:

	31 December 2019		31 December 2018		Change
	Gross	Net	Gross	Net	
Industrial and commercial equipment	19	-	19	-	-
Other	207	3	205	2	1
Total	226	3	224	2	1

The following table reports movements during 2019:

	Other
Net opening balance	2
Additions	3
Depreciation	(2)
Net closing balance	3

12. Leases

The Company's current leases refer primarily to property and automobiles leased for operational purposes.

The Company adopted IFRS 16 *Leases* effective 1 January 2019 using the modified retrospective approach based on which the recognized amount of the right-of-use asset should equal the lease liability, namely equal to the present value of the remaining payments discounted using the incremental borrowing rate at the date of initial application, without restating the comparative figures.

Right-of-use assets totaling €1,478 thousand, and the same amount of lease liabilities, were recognized at the transition date.

In 2019, subsequent to the application of the new IFRS 16 Leases, €258 thousand of depreciation were recognized in the income statement and €18 thousand of interest payable and while € 271 thousand of costs represented by the lease payments made were eliminated.

The right-of-use recognized for leased goods and the changes in 2019 are detailed below:

	Land and buildings	Other	Total
Net opening balance	-	-	-
Opening for IFRS 16 Application at 1 January 2019	1,330	148	1,478
Additions	-	109	109
Disposals	-	(35)	(35)
Depreciation	(180)	(78)	(258)
Net closing balance	1,150	144	1,294

Financial liabilities for leases amounting to €1,298 thousand (€1,051 thousand of which due beyond 1 year) were recognized at 31 December 2019.

The financial liabilities for leases include amounts owed associates of €1,138 thousand (€969 thousand due beyond 1 year) as shown in Appendix 4.

The maturities of the undiscounted lease liabilities are shown below:

	Undiscounted flows at 31.12.2019	Payable in one year	Payable in 1-5 years	Payable in more than five years
Lease payables	1,345	255	817	273

13. Equity investments

These are analyzed as follows:

	31 December 2019	31 December 2018	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	5,264	-
De'Longhi Romania S.r.l.	3,078	3,078	-
De'Longhi Kenwood GmbH	2,900	2,900	-
Clim.Re S.A.	54	54	-
De'Longhi Polska Sp.Zo.o.	-	-	-
Total	567,516	567,516	-

The list of equity investments and the related movements during 2019 can be found in Appendix 3.

Investments in subsidiaries are accounted for at cost.

The impairment test carried out has not revealed any significant evidence that equity investments are impaired.

14. Non-current receivables

This balance is analyzed as follows:

	31 December 2019	31 December 2018	Change
Receivables from subsidiary companies	130	160	(30)
Security deposits	1	-	1
Total	131	160	(29)

Appendix 4 contains details of "Receivables from subsidiary companies".

15. Other non-current financial assets

Details are as follows:

	31 December 2019	31 December 2018	Change
Fair value of derivatives	653	-	653
Total	653	-	653

More details on the fair value of derivatives can be found in note 33.*Risk management*.

Current assets

16. Trade receivables

These are analyzed as follows:

	31 December 2019	31 December 2018	Change
Trade receivables due within 12 months	2,989	30,747	(27,758)
Allowance for bad debts	-	-	-
Total	2,989	30,747	(27,758)

"Trade receivables" include €1,418 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.

17. Current tax assets

These are detailed as follows:

	31 December 2019	31 December 2018	Change
Direct taxes	2,642	4,029	(1,387)
Total	2,642	4,029	(1,387)

In 2019, 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 mainly refers to the IRES credits for which a refund has been requested, matured as part of the previous "Domestic Tax Consolidation" for which the Company acted as consolidator. Part of these credits were refunded during the year.

18. Other receivables

These are analyzed as follows:

	31 December 2019	31 December 2018	Change
VAT receivables	1,089	1,476	(387)
Prepaid costs	40	-	40
Employees	31	4	27
Advances to suppliers	21	10	11
Tax refunds requested	2	-	2
Other	4,849	5,339	(490)
Total	6,032	6,829	(797)

Other receivables include €3,377 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.

19. Current financial receivables and assets

These are analyzed as follows:

	31 December 2019	31 December 2018	Change
Financial receivables	427,943	194,607	233,336
Fair value of derivatives	7	20	(13)
Total	427,950	194,627	233,323

“Financial receivables” refers to receivables to the subsidiary company De’ Longhi Capital Services S.r.l., relating to the cash pooling agreement.

More details on the fair value of derivatives can be found in note 33.*Risk management*.

This item only includes receivables from related parties, as reported in Appendix 4.

None of the current financial receivables is due beyond 12 months.

20. Cash and cash equivalents

This balance consists of surplus liquidity on bank current accounts.

Comments on the statement of financial position: net equity and liabilities

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.

Changes in net equity are reported as 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 30 April 2019 declared a dividend totalling €55,315 thousand.

21. 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.

On 30 June 2019 a change was made to the voting rights as a result of the increased voting rights matured on 97,311,515 ordinary shares of De' Longhi S.p.A., at two voting rights for each share; voting rights, consequently, went from 149,500,000 to 246,811,515.

22. Reserves

These are analyzed as follows:

	31 December 2019	31 December 2018	Change
Share premium reserve	163	163	-
Legal reserve	42,573	33,960	8,613
Other reserves:			
- Extraordinary reserve	144,538	36,201	108,337
- Stock option reserve	10,078	7,932	2,146
- Fair value and cash flow hedge reserve	124	(469)	593
- Actuarial valuation reserve	(115)	(100)	(15)
- Profit (loss) carried forward	10,441	10,441	-
Total	207,802	88,128	119,674

After the Initial Public Offering, held on 23 July 2001 and the listing of the company's stock on the Milan Stock Exchange, a share premium reserve was formed which was reduced following the spin-off of DeLclima S.p.A.. The residual value amounts to €163 thousand.

The "Legal reserve" has a balance of €42,573 thousand at 31 December 2019. The increase of €8,613 thousand with respect to 31 December 2018 follows the allocation of profit for 2018, as approved by the AGM on 30 April 2019.

The "Extraordinary reserve" has a balance of €144,538 thousand at 31 December 2019. The increase of €108,337 thousand with respect to 31 December 2018 follows the allocation of profit for 2018, as approved by the AGM on 30 April 2019.

The "Stock option" reserve amounted to €10,078 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 yearly "Report on Remuneration" for more information on 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 positive balance of €124 thousand, net of €39 thousand in tax. This amount reflects the 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	(1)		
Capital reserves:				
- Share premium reserve	163	(2)	A, B	
Earnings reserves:				
- Stock option reserve	10,078			
- Legal reserve	42,573		B	
- Extraordinary reserve	144,538		A, B, C	144,538
- Fair value and cash flow hedge reserve	124			
- Actuarial valuation reserve	(115)			
- Profit (loss) carried forward	10,441		A, B, C	1,866
Total	432,052	(3)		146,404

(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 2019 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 2019 tax return.

Key:

A to increase share capital

B to cover losses

C distribution to shareholders

Liabilities

23. Bank loans and borrowings

Bank loans and borrowings are analyzed as follows:

	Within one year	One to five years	Beyond five years	Balance 31.12.2019	Within one year	One to five years	Beyond five years	Balance 31.12.2018	Change
Overdrafts	1	-	-	1	1	-	-	1	-
Long-term loans (current portion)	65,810	-	-	65,810	43,909	-	-	43,909	21,901
Total short-term bank loans and borrowings	65,811	-	-	65,811	43,910	-	-	43,910	21,901
Long-term loans	-	218,746	-	218,746	-	84,915	-	84,915	133,831
Total bank loans and borrowings	65,811	218,746	-	284,557	43,910	84,915	-	128,825	155,732

Bank loans can be broken down as follows:

Loans (including short-term portion)	31.12.2019	31.12.2018	Change
Intesa Sanpaolo S.p.A.	199,671	-	199,671
Intesa Sanpaolo S.p.A.	47,425	66,393	(18,968)
Unicredit S.p.A.	37,460	62,431	(24,971)
Total long-term loans	284,556	128,824	155,732

On 1 October 2019 a new 5-year floating rate €200,000 thousand loan was granted by Intesa Sanpaolo S.p.A.. The loan calls for compliance with financial covenants, which will be verified every year effective 31 December 2019, and is repayable in 6-month instalments beginning on 31 March 2020. Interest rate risk was hedged with a €100,000 thousand IRS - Interest Rate Swap + Floor which allowed for the hedged portion of the loan to be swapped from floating rate to fixed rate.

None of the financial covenants in current loan agreements, based on the net financial debt/net equity and net financial debt/EBITDA before non-recurring/stock option costs ratios (based on the consolidated financial statements), had been breached at 31 December 2019.

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.

24. Other financial payables

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

	31 December 2019	31 December 2018	Change
Negative fair value of derivatives (short-term portion)	380	434	(54)
Private placement (short term portion)	-	-	-
Other short-term financial payables	85	710	(625)
Total short-term payables	465	1,144	(679)
Negative fair value of derivatives (one to five years)	140	188	(48)
Private placement (one to five years)	85,621	64,168	21,453
Other financial payables (one to five years)	636	636	-
Total long-term payables (one to five years)	86,397	64,992	21,405
Private placement (beyond five years)	64,308	85,726	(21,418)
Total long-term payables (beyond five years)	64,308	85,726	(21,418)
Total	151,170	151,862	(692)

The bond loan refers to the issue and placement of €150 million in unsecured, non-convertible notes with US institutional investors (the “US Private Placement”) completed in 2017.

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 2019 the covenants (ratio of consolidated net financial debt on consolidated net equity, ratio of consolidated net financial debt on EBITDA before non-recurring/stock option costs and ratio of EBITDA before non-recurring/stock option costs on net financial charges, with reference to consolidated financial statements figures) 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.

“Other financial payables (payable in one to five years)” includes the variable consideration paid for the purchase of minority interests.

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 €102 thousand in payables from related parties, as reported in Appendix 4.

Net financial position

Details of the net financial position are as follows:

	31 December 2019	31 December 2018	Change
A. Cash	16	17	(1)
B. Cash equivalents	78	25	53
C. Securities	-	-	-
D. Total liquidity (A+B+C)	94	42	52
E. Current financial receivables and other securities	427,950	194,627	233,323
<i>of which:</i>			
<i>Fair value of derivatives</i>	7	20	(13)
F. Current bank loans and borrowings	(1)	(1)	-
G. Current portion of non-current debt	(65,810)	(43,909)	(21,901)
H. Other current financial payables	(712)	(1,144)	432
<i>of which:</i>			
<i>Fair value of derivatives, financial payables for the purchase of equity investments and lease payables</i>	(627)	(1,070)	443
I. Current financial debt (F+G+H)	(66,523)	(45,054)	(21,469)
J. Net current financial debt (D+E+I)	361,521	149,615	211,906
Non-current financial receivables and other securities	782	160	622
<i>of which:</i>			
<i>Fair value of derivatives</i>	653	-	653
K. Non-current bank loans and borrowings	(218,746)	(84,915)	(133,831)
L. Bonds	(149,929)	(149,894)	(35)
M. Other non-current payables	(1,827)	(824)	(1,003)
<i>of which:</i>			
<i>Fair value of derivatives, financial payables for the purchase of equity investments and lease payables</i>	(1,827)	(824)	(1,003)
N. Non-current financial debt (K+L+M)	(369,720)	(235,473)	(134,247)
Total (J+N)	(8,199)	(85,858)	77,659

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.

25. 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 2019			31 December 2018			Effect on income statement
	Taxable amount	Tax rate	Total tax	Taxable amount	Tax rate	Total tax	
Provisions for contingencies and other charges	17	24.0%	4	(643)	24.0%	(154)	158
Other temporary differences	(2,955)	24.0%	(709)	(1,650)	24.0%	(396)	(313)
Total deferred tax assets recognized in the income statement	(2,938)		(705)	(2,293)		(550)	(155)
Reserves distributable by subsidiaries	9,688	24.0%	2,325	8,893	24.0%	2,134	191
Total deferred tax assets/advance tax recognized in the income statement	6,750		1,620	6,600		1,584	36
Fair value of cash flow hedge derivatives	163	24.0%	39	(617)	24.0%	(148)	187
Actuarial valuation of provision according to IAS 19	(151)	24.0%	(36)	(132)	24.0%	(32)	(4)
Total temporary differences recognized in net equity	12		3	(749)		(180)	183
Net total	6,762		1,623	5,851		1,404	219

"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 carry forward tax losses for which deferred tax assets have not been recognized.

26. Employee benefits

These are analyzed as follows:

	31 December 2019	31 December 2018	Change
Provision for severance indemnities	486	461	25
Long term benefits	2,526	1,385	1,141
Total	3,012	1,846	1,166

The composition of the company's workforce is analyzed in the following table:

	31 December 2019	Average 2019	31 December 2018	Average 2018
White collars	35	34	32	31
Managers	16	16	18	16
Total	51	50	50	47

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:

Severance indemnity obligations	31 December 2019	31 December 2018	Change
Defined benefit obligations	486	461	25

Net cost charged to income statement	31 December 2019	31 December 2018	Change
Current service cost	-	-	-
Interest cost on obligations	7	6	1
Total	7	6	1

Change in present value of obligations	31 December 2019	31 December 2018	Change
Present value at 1 January	461	539	(78)
Current service cost	-	-	-
Utilization of provision	(1)	(72)	71
Interest cost on obligations	7	6	1
Actuarial gain losses booked in the statement of comprehensive income	19	(12)	31
Other changes	-	-	-
Present value at reporting date	486	461	25

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

Assumptions used	Severance indemnity 2019	Severance indemnity 2018
Discount rate	0.8%	1.6%
Future salary increases	1.3% – 2.3%	1.3% – 2.3%
Inflation rate	0.8%	1.3%

“Long-term benefits” refers to the amount accrued for the incentive plan 2018-2020 in the reporting period. This plan was approved by the Board of Directors on 31 July 2018 for the Chief Executive Officer of De’ Longhi S.p.A. and a limited number of Group executives and key resources. For further details please refer to the Report on Remuneration.

27. Other provisions

Movements are as follows:

	31 December 2018	Decreases	31 December 2019
Other provisions for contingencies	659	(659)	-
Total	659	(659)	-

“Other provisions for contingencies” includes the provision for legal disputes.

The settlement of a few disputes led to the decrease of €659 thousand recorded in the year.

Following the settlement of a dispute, €120 thousand was reclassified under *Other payables*. Please refer to note 29. *Other payables*.

28. Trade payables

This balance of €6,354 thousand represents the amount owed by the company to third parties and related companies for the supply of services. Details of amounts owed to related companies are reported in Appendix 4.

Trade payables do not include any amounts due beyond 12 months.

29. Other payables

These are analyzed as follows:

	31 December 2019	31 December 2018	Change
Payables towards related parties	4,495	6,133	(1,638)
Employees	1,848	2,960	(1,112)
Withholdings payable	1,298	2,158	(860)
Social security institutions	484	1,110	(626)
Other	2,717	2,609	108
Total	10,842	14,970	(4,128)

The "Payables towards related parties" mostly refer to amounts owed as a result of the Company's decision to pay VAT on a group basis, under the Ministerial Decree dated 13 December 1979, as described in note 17. *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 €324 thousand in payables to Italy's principal social security agency (INPS), and €160 thousand in payables to pension funds.

As a result of a settlement agreement based on which €120 thousand was paid to the other party, the amount previously recognized under "Other provisions for contingencies and charges" (note 27. *Other provisions*), was reclassified under "Other".

Details of payables with related parties are reported in Appendix 4.

There are no other payables due beyond 12 months.

30. Commitments

These are detailed as follows:

	31 December 2019	31 December 2018	Change
Guarantees given for the benefit of:			
De' Longhi Capital Services S.r.l.	329,250	335,697	(6,447)
De'Longhi Kenwood A.P.A. Ltd.	70,726	97,185	(26,459)
De'Longhi Australia PTY Ltd.	20,268	19,939	329
Dong Guan De'Longhi Kenwood Appliances Co. Ltd.	8,902	8,734	168
De'Longhi LLC	7,298	7,156	142
De'Longhi Romania S.r.l.	5,849	5,741	108
De'Longhi Brasil Ltda.	5,848	5,955	(107)
De' Longhi Appliances S.r.l.	5,306	5,320	(14)
NPE S.r.l. (1)	5,000	23,240	(18,240)
De'Longhi Kenwood Korea Ltd.	1,669	1,695	(26)
De'Longhi Mexico S.a.	1,335	1,310	25
Kenwood Limited Ltd.	1,058	1,006	52
Elle S.r.l.	446	446	-
DeLonghi South Africa Pty Ltd.	429	409	20
De'Longhi Kenwood MEIA FZE	363	357	6
De'Longhi Japan Corp.	246	11,922	(11,676)
De'Longhi America Inc.	214	-	214
De'Longhi Ukraine LLC	89	87	2
De'Longhi Scandinavia A.B.	78	80	(2)
De'Longhi Canada Inc.	69	-	69
De'Longhi Polska Sp.Zo.o.	29	29	-
E-Services S.r.l.	11	13	(2)
DL Chile S.A.	7	13	(6)
Kenwood Appliances Malaysia Sdn. Bhd.	-	4	(4)
Total De' Longhi Group companies and related parties	464,490	526,338	(61,848)

⁽¹⁾ This investment became a related party investment following the sale of 55% of NPE S.r.l.'s share capital by De' Longhi Appliances S.r.l. to H&T Group.

The guarantees given in the interest of Group companies and related parties 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 €152,760 at 31 December 2019 (€155,268 at 31 December 2018), the Company issued a surety and a credit mandate in the interest of its subsidiaries and related parties involved;
- the Company also issued a guarantee in the interest of subsidiaries and related parties relative to currency hedging, the negative fair value of which amounted to €1,749 thousand at 31 December 2019 (positive for €4,475 at 31 December 2018);
- 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 IFRS 9.

31/12/2019		Assets		
	Total value	Amortized cost	Fair value in Profit&Loss	Fair value in OCI
Non-current assets				
- Equity investments(*)	-			
- Receivables	131	131		
- Other non-current financial assets	653			653
Current assets				
- Trade receivables	2,989	2,989		
- Current tax assets	2,642	2,642		
- Other receivables	6,032	6,032		
- Current financial receivables and assets	427,950	427,943	7	
- Cash and cash equivalents	94	94		
31/12/2019		Liabilities		
	Total value	Amortized cost	Fair value in Profit&Loss	Fair value in OCI
Non-current liabilities				
- Bank loans and borrowings (long-term portion)	(218,746)	(218,746)		
- Other financial payables (long-term portion)**)	(150,069)	(149,929)		(140)
Current liabilities				
- Trade payables	(6,354)	(6,354)		
- Bank loans and borrowings (short-term portion)	(65,811)	(65,811)		
- Other financial payables (short-term portion)**)	(465)	(85)	(17)	(363)
- Current tax liabilities	-			
- Other payables	(10,842)	(10,842)		

(*) Interests in subsidiaries, associates and joint ventures are not included (IFRS 9 - 2.1 a).

(**) Rights and obligations under leases to which IAS 17/IFRS 16 *Leases* applies (IFRS 9 - 2.1 b) and forward contracts that will result in an acquisition to be considered as a business combination within the scope of IFRS 3 *Business combination* (IFRS 9 – 2.1 f) are not included.

31/12/2018		Assets		
	Total value	Amortized cost	Fair value in Profit&Loss	Fair value in OCI
Non-current assets				
- Equity investments(*)	-			
- Receivables	160	160		
- Other non-current financial assets	-			
Current assets				
- Trade receivables	30,747	30,747		
- Current tax assets	4,029	4,029		
- Other receivables	6,829	6,829		
- Current financial receivables and assets	194,627	194,607	20	
- Cash and cash equivalents	42	42		

31/12/2018		Liabilities		
	Total value	Amortized cost	Fair value in Profit&Loss	Fair value in OCI
Non-current liabilities				
- Bank loans and borrowings (long-term portion)	(84,915)	(84,915)		
- Other financial payables (long-term portion)**)	(150,082)	(149,894)		(188)
Current liabilities				
- Trade payables	(21,004)	(21,004)		
- Bank loans and borrowings (short-term portion)	(43,910)	(43,910)		
- Other financial payables (short-term portion)***)	(508)	(74)		(434)
- Current tax liabilities	-			
- Other payables	(14,970)	(14,970)		

(*) Interests in subsidiaries, associates and joint ventures are not included (IFRS 9 - 2.1 a).

***) Forward contracts that will result in an acquisition to be considered as a business combination within the scope of IFRS 3 *Business combination* are not included (IFRS 9 – 2.1 f).

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 2019. As required by IFRS 13, 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		660	
- derivatives with negative fair value		(520)	

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 IFRS 9.

The following table summarizes the due dates of financial liabilities at 31 December 2019 and at 31 December 2018 on the basis of undiscounted contractual payments.

	Undiscounted cash flows at 31.12.2019	Within one year	One to five years	Beyond five year	Undiscounted cash flows at 31.12.2018	Within one year	One to five years	Beyond five year
Bank loans and borrowings (*)	(287,230)	(66,635)	(220,594)	-	(129,490)	(44,255)	(85,235)	-
Other financial payables (**)	(161,223)	(2,560)	(92,786)	(65,877)	(163,687)	(2,549)	(72,595)	(88,543)
Trade payables	(6,354)	(6,354)	-	-	(21,004)	(21,004)	-	-
Current tax liabilities and other payables	(10,842)	(10,842)	-	-	(14,970)	(14,970)	-	-
Total	(465,649)	(86,391)	(313,380)	(65,877)	(329,151)	(82,778)	(157,830)	(88,543)

(*) The corresponding balance reported in the financial statements is €284,557 thousand at 31 December 2019 and €128,825 thousand at 31 December 2018. See note 23. *Bank loans and borrowings*.

(**) The corresponding balance reported in the financial statements amounted to €150,014 thousand at 31 December 2019 (net of the fair value of derivatives of €520 thousand and the variable consideration paid for the purchase of a minority interest of €636 thousand) and €149,968 thousand at 31 December 2018 (net of the fair value of derivatives of €622 thousand and the variable consideration paid for the purchase of a minority interest of €1,272 thousand). For further details refer to note 24. *Other financial payables*.

More information about the maturity of the Company's financial assets and liabilities can be found in the relative sections of the explanatory notes.

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 +/- €0.04 million (+/- €0.1 million at 31 December 2018). 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 2019 are described in the paragraph *“Interest rate and currency exchange hedges at 31 December 2019”*.

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.

At 31 December 2019 as a result of the Interest Rate Swaps used to hedge the interest rate risk related to the outstanding loans, 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 €328.2 million on a total of €8.2 million in net debt at 31 December 2019 and total net assets of €194.6 million on a total of €85.9 million in net debt in 2018). In the absence of hedges, any change in interest rates would directly impact the cost of that portion of debt resulting in an increase/decrease in financial expenses.

A +/-1% change in interest rates would have an impact of +/- €3.3 million before tax at 31 December 2019 recognized entirely in the income statement (+/- €1.9 million before tax at 31 December 2018).

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 2019 a change of +/- 1% in rates would cause a change in the cash flow hedge of +/- €2.5 million before tax (+/- € 0.3 million before tax at 31 December 2018).

Please refer to the paragraph *“Interest rate and currency exchange hedges at 31 December 2019”* for more information.

Interest rate and currency exchange hedges at 31 December 2019

The Company had a number of derivatives at 31 December 2019, 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 IFRS 9.

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 2019 is provided below:

31 December 2019	
	Fair value
FX forward agreements	(10)
Derivatives hedging foreign currency receivables/payables	(10)
Derivatives hedging interest rate risk (IRS)	150
Derivatives covering expected cash flows	150
Total fair value of the derivatives	140

Hedges against foreign currency receivables and payables:

Currency	Notional amount (in thousands)						Fair value with Group (in €/000)	
	Group			Third parties			Asset	Liability
	Purchases	Sales	Total	Purchases	Sales	Total		
HKD/EUR	(12,900)	12,900	-	-	-	-	7	(10)
USD/EUR	(600)	-	(600)	-	-	-	-	(7)
RON/EUR	(453)	453	-	-	-	-	-	-
Total Fair Value							7	(17)

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 2019 the fair value of the derivatives, which also takes into account counterparty risk in accordance with IFRS 13 *Fair Value measurement*, came to a positive €150 thousand which is recognized under financial receivables for €653 thousand and under other financial payables for €503 thousand.

As the hedge on future interest flows qualifies as an effective hedge, at 31 December 2019 a positive cash flow hedge reserve of €163 thousand was reported in net equity, net of the related tax effect of €39 thousand.

Details are as follows (the figures are shown before tax):

	31 December 2019	
	Notional amount (in €/'000)	Fair value (in €/'000)
Interest Rate Swap (IRS) connected to the loan Intesa Sanpaolo S.p.A	100,000	628
Interest Rate Swap (IRS) connected to the loan Intesa Sanpaolo S.p.A	47,500	(333)
Interest Rate Swap (IRS) connected to the loan Unicredit S.p.A	37,500	(145)
Total fair value of the derivatives		150
<i>of which:</i>		
	<i>positive medium/long-term fair value</i>	653
	<i>negative short-term fair value</i>	(363)
	<i>negative medium/long-term fair value</i>	(140)

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

Subsequent to 31 December 2019 through the approval date of this report, no significant events occurred which would have impacted the financial and economic results shown pursuant to IAS 10 *Events after the reporting period* § 8.

On January 20 2020, after having heard the favorable opinion of the Remuneration and Appointments Committee and the Board of Statutory Auditors, the Board of Directors unanimously approved the proposal presented by the Chairman Giuseppe de' Longhi and the Chief Executive Officer Fabio de' Longhi to include Massimo Garavaglia as a member of the Company's Board of Directors, grant him the powers as Chief Executive Officer and appoint him De' Longhi S.p.A.'s General Manager.

The purpose of this proposal is to strengthen the managerial structure at a time of constant expansion for the Group in order to continue along the highly successful path of the past years and face the new challenges of the rapidly changing global markets, seizing every favorable opportunity.

On 3 February 2020 the acquisition of another production plant in Romania was finalized. The plant comprises 2 buildings for a total of around total 25,000 square meters, with machines and facilities that are already operative which can be used by the Group for its production. This deal is meant to support the expected organic growth pursued by the Group in the main markets and is consistent with the strategy to reduce the time to market of our products, preserving quality and control. This new location will employ more than 500 workers and, backed by the successful experience achieved in the Romanian Cluj region, will strengthen the Group's presence in the region.

The emergency and the spread of the Coronavirus (Covid-19) which in the first weeks of 2020 initially impacted economic activity in China and, subsequently, spread to other countries, is not considered an adjusting event pursuant to IAS 10 § 21 – insofar as, while the phenomenon materialized toward the end of the this reporting period, it wasn't until January 2020 that the World Health Organization declared an international health emergency and cases in other countries were found which called for the adoption of specific measures in China, as well as other countries.

With regard to China, the Group does not have manufacturing facilities in the Wuhan area, as the existing production plants in China are located in Dongguan and Zhongshan, in the southeast near Hong Kong. In addition, the Chinese commercial branch is based in Shanghai, while the company dedicated to sourcing and procurement for the Far East, as well as the headquarters for APA's commercial activity, is in Hong Kong. These places were all affected marginally by the epidemic which made it possible to reopen production facilities and offices as of mid-February 2020 and recommence with supply chain activities; this guaranteed supplies for production, in the hubs and the Group's commercial branches.

In February the health emergency spread in Europe, particularly in Italy, where the Group, faced with a constantly changing situation, implemented emergency plans aimed at, above all, protecting the health and safety of its employees and identifying potential problems for the production, the distribution of its products and the supply chain in the main markets.

Based on the current levels of inventory and the fact that production plants are fully operative, to date the Group does not foresee any problems with supply for the main products in the short-term; furthermore, a back-up strategy is currently being drafted in order to be prepared for potential long-term stoppages in the supply chain which could interrupt or limit activities. At the moment the methods for the management of risks connected to production, the costs of raw materials and the supply chain adopted by the Group and described in the Report on Operations are still sufficient.

With regard to the management of human resources, the Group has, since the beginning, rigorously applied the guidelines and conduct recommended for all employees working in China and Hong Kong or who travel for business to/from these countries. These guidelines are based on the recommendations of the World Health Organization (WHO), the Chinese government, the government of the Hong Kong Special Administrative Region, the Italian government and other authorities, as well as the recommendations given by health agencies worldwide to their citizens.

Furthermore, in light of the spread of Covid-19 contagion in Italy and the announcements made by the Italian Prime Minister, specific precautionary measures have also been adopted for the production and offices based in Italy.

With regard to the Group's financial assets, we believe that in the short-term their value will only be marginally impacted by market trends, also considering the type of financial assets held. Furthermore, the Group's financial position is particularly solid and able, not only to absorb the temporary loss in value of a few financial assets, but also to support any temporary periods of negative cash flow.

As for the overall trend in consumption and the possible impact on revenues, the sensitivity analyses conducted relative to the value of invested capital and, more specifically, the value of intangible assets, show there will be no loss in value. Toward this end, please refer to the single items reported on in the Explanatory Notes. Overall, based on information currently available, the factors of uncertainty seem to already be factored into the main valuations.

The current environment of uncertainty stemming from the health crisis does, however, call for precaution, also when making economic forecasts.

Even though the preliminary sales figures for the first months of the year are positive, thanks also to available inventories, and production at the plants and main suppliers in China is recovering, we cannot exclude that, if the contagion expands, there could be some logistics problems and generally critical market conditions.

A significant spread of the health crisis could also have a sizeable impact on future growth prospects given the repercussions for the general economy and the financial markets, including as a result of the containment measures adopted by government authorities.

With the exception of the above, no other significant events occurred after the close of the year.

36. Proposed resolutions for the annual general meeting

1) Proposed resolution relating to item 1.1 of the Agenda for the Annual General Meeting convened on 22 April 2020 (“Annual Report at 31 December 2019: presentation of the separate financial statements at 31 December 2019 together with the Director’ Report on Operations, the Board of Statutory Auditors’ Report, the External Auditors’ Report and the Certification of the Financial Reporting Officer. Related and consequent resolutions”).

Dear Shareholders,
in submitting the Annual Report at 31 December 2019 to you for approval during the Annual General Meeting, we propose that you approve the following resolution:

*“The Shareholders of De’ Longhi S.p.A.,
having examined the draft financial statements at 31 December 2019 of De’ Longhi S.p.A., the Board of Directors’ Report on Operations, the Board of Statutory Auditors’ Report and the other documentation called for under the law*

resolve

to approve the Board of Directors’ Report on Operations and the financial statements at 31 December 2019 of De’ Longhi S.p.A.”.

2) Proposed resolution relating to item 1.2 of the Agenda for the Annual General Meeting convened on 22 April 2020 (“Annual Report at 31 December 2019: proposed allocation of the net profit for the year and distribution of dividend. Related and consequent resolutions”).

Dear Shareholders,
with regard to the allocation of the net profit for the year closed on 31 December 2019, which amounted to €119,094,082, we propose that you approve the following resolution:

*“The Shareholders of De’ Longhi S.p.A.,
having acknowledged the net profit for the year shown in the Annual Report at 31 December 2019 and the Directors’ Report on Operations*

resolve

- 1. to allocate €2,276,869 of the net profit for the year to the legal reserve, in accordance with art. 2430 of the Italian Civil Code, which represents one fifth of the share capital subscribed at the date of this Annual General Meeting;*
- 2. to distribute a gross ordinary dividend of €0.54 for each of the shares outstanding (net of any treasury shares held) after the allocation referred to in item 1 above has been made;*
- 3. to allocate the remaining net profit for the year to the extraordinary reserve;*
- 4. to establish that the payment of the dividend, on each share entitled to receive a dividend, will take place on 20 May 2020, with shares going ex-div on 18 May 2020, in accordance with Borsa Italiana’s calendar, and a record date, pursuant to art. 83-terdecies of Legislative Decree n. 58/98, of 19 May 2020”.*

Treviso, 12 March 2020

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 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 financial statements during 2019:

- 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 2019:

- 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.

The report on operations contains a reliable account of performance and of the results of operations and of the situation of the issuer, together with a description of the principal risks and uncertainties to which they are exposed.

Fabio de' Longhi
Vice Chairman and 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 thousands of Euro)	2019	2018
Net profit (loss)	119,094	172,265
Income taxes for the period	(3,039)	(3,367)
Income for dividends receipt	(135,633)	(191,106)
Amortization	839	597
Net cash flows from IFRS16 Leases application	(255)	-
Net change in provisions and other non-cash items	2,754	5,401
Cash flow absorbed by current operations (A)	(16,240)	(16,210)
Change in assets and liabilities for the period:		
Trade receivables	27,757	2,554
Trade payables	(14,650)	(3,331)
Other changes in net working capital	1,080	5,845
Payment of income taxes	(70)	(419)
Cash flow generated by changes in working capital (B)	14,117	4,649
Cash flow absorbed by current operations and changes in working capital (A+B)	(2,123)	(11,561)
Investment activities:		
Investments in intangible assets	(15)	(777)
Investments in tangible assets	(3)	(4)
Dividends receipt	135,633	191,106
Cash flow generated by investment activities (C)	135,615	190,325
Cash flow by operating activities before IFRS 16 application (A+B+C)	133,492	178,764
Cash flows absorbed by leases accounted for in accordance with IFRS 16 (D)	(1,298)	-
Cash flow by operating activities (A+B+C+D)	132,194	178,764
Dividends paid	(55,315)	(149,500)
Cash flow hedge and IAS 19 reserve related to actuarial evaluation of provisions	780	(302)
Cash flow absorbed by changes in net equity (E)	(54,535)	(149,802)
Cash flow for the period (A+B+C+D+E)	77,659	28,962
Opening net financial position	(85,858)	(114,820)
Cash flow for the period (A+B+C+D+E)	77,659	28,962
Closing net financial position	(8,199)	(85,858)

List of equity investments in subsidiary companies (art. 2427 of the Italian Civil Code)

(Appendix 3 to the Explanatory Notes)^(*)

Company name	Registered office		Share capital		Net equity		Latest reported profit or (loss)	Interest held (directly)	Book value
Subsidiary companies									thousands
De Longhi Benelux S.A. ⁽¹⁾	Luxembourg	Eur	181,730,990	Eur	296,815,883	Eur	102,727,262	100%	266,737
De' Longhi Appliances S.r.l.	Treviso	Eur	200,000,000	Eur	325,683,426	Eur	68,013,389	100%	242,678
De'Longhi Deutschland GmbH ⁽²⁾	Neu Isenburg	Eur	2,100,000	Eur	31,271,257	Eur	3,324,616	100%	40,800
De' Longhi Capital Services S.r.l. ^{(3) (4)}	Treviso	Eur	53,000,000	Eur	58,527,707	Eur	3,164,646	11,32%	6,005
E-Services S.r.l.	Treviso	Eur	50,000	Eur	2,232,733	Eur	1,798,277	100%	5,264
De'Longhi Romania S.r.l. ^{(2) (4)}	Cluj-Napoca	Ron	140,000,000	Ron	367,541,828	Ron	67,645,223	10%	3,078
De'Longhi Kenwood GmbH ⁽²⁾	Wr. Neudorf	Eur	36,336	Eur	4,449,281	Eur	1,438,091	100%	2,900
Clim.Re S.A. ^{(1) (4)}	Luxembourg	Eur	1,239,468	Eur	1,668,625	Eur	-	4%	54
De'Longhi Polska Sp.Zoo ^{(2) (4)}	Warszawa	Pln	50,000	Pln	54,776,537	Pln	21,208,248	0,1%	-
Total									567,516

^(*) Statutory figures at 31 December 2019, unless otherwise specified.

⁽¹⁾ Statutory figures at 31 December 2018.

⁽²⁾ Figures used for the purposes of consolidation at 31 December 2019.

⁽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 2018	Acquisitions, subscriptions and recapitalizations	Demerger	Net impairment losses and reversals	Book value at 31 December 2019
Subsidiaries					
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	-	-	-	5,264
De'Longhi Romania S.r.l.	3,078	-	-	-	3,078
De'Longhi Kenwood GmbH	2,900	-	-	-	2,900
Clim.Re S.A.	54	-	-	-	54
De'Longhi Polka Sp.Zo.o.	-	-	-	-	-
Total equity investments	567,516	-	-	-	567,516

Transactions and balances with related parties

(Appendix 4 to the Explanatory Notes)

Income Statement

pursuant to Consob resolution 15519 of 27 July 2006

(Amounts in thousands of Euro)	Notes	2019	of which related parties	2018	of which related parties
Revenues	1	9,414	9,347	24,621	24,368
Total revenues		9,414		24,621	
Raw and ancillary materials, consumables and goods	2	(69)		(83)	
Materials consumed		(69)		(83)	
Payroll costs	3	(10,588)		(13,978)	
Services and other operating expenses	4	(15,192)	(2,535)	(28,606)	(6,977)
Provisions	5	539		(260)	
Amortization	6	(839)		(597)	
EBIT		(16,735)		(18,903)	
Financial income (expenses)	7	132,790	135,681	187,802	191,307
PROFIT (LOSS) BEFORE TAXES		116,055		168,899	
Income taxes	8	3,039		3,366	
NET PROFIT (LOSS)		119,094		172,265	

Transactions and balances with related parties

(Appendix 4 to the Explanatory Notes – cont'd)

Statement of Financial Position

pursuant to Consob resolution 15519 of 27 July 2006

Assets

(Amounts in thousands of Euro)	Notes	31.12.2019	of which related parties	31.12.2018	of which related parties
NON-CURRENT ASSETS					
INTANGIBLE ASSETS		697		1,177	
- Other intangible assets	9	697		1,177	
TANGIBLE ASSETS		1,297		87	
- Land, property, plant and machinery	10	-		85	
- Other tangible assets	11	3		2	
- Right of use assets	12	1,294		-	
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		568,300		567,676	
- Equity investments	13	567,516		567,516	
- Receivables	14	131	130	160	160
- Other non-current financial assets	15	653		-	
TOTAL NON-CURRENT ASSETS		570,294		568,940	
CURRENT ASSETS					
TRADE RECEIVABLES	16	2,989	1,418	30,746	28,987
CURRENT TAX ASSETS	17	2,642		4,029	
OTHER RECEIVABLES	18	6,032	3,377	6,829	3,487
CURRENT FINANCIAL RECEIVABLES AND ASSETS	19	427,950	427,950	194,627	194,627
CASH AND CASH EQUIVALENTS	20	94		42	
TOTAL CURRENT ASSETS		439,707		236,273	
TOTAL ASSETS		1,010,001		805,213	

Transactions and balances with related parties

(Appendix 4 to the Explanatory Notes – cont'd)

Statement of Financial Position

pursuant to Consob resolution 15519 of 27 July 2006

Net equity and liabilities

(Amounts in thousands of Euro)	Notes	31.12.2019	of which related parties	31.12.2018	of which related parties
NET EQUITY					
NET EQUITY		551,146		484,643	
- Share capital	21	224,250		224,250	
- Reserves	22	207,802		88,128	
- Net profit (loss)		119,094		172,265	
TOTAL NET EQUITY		551,146		484,643	
NON-CURRENT LIABILITIES					
FINANCIAL PAYABLES		370,502		235,633	
- Bank loans and borrowings (long-term portion)	23	218,746		84,915	
- Other financial payables (long-term portion)	24	150,705		150,718	
- Lease liabilities (long-term portion)	12	1,051	969	-	
DEFERRED TAX LIABILITIES	25	1,623		1,404	
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		3,012		2,505	
- Employee benefits	26	3,012		1,846	
- Other provisions	27	-		659	
TOTAL NON-CURRENT LIABILITIES		375,137		239,542	
CURRENT LIABILITIES					
TRADE PAYABLES	28	6,354	1,414	21,004	6,355
FINANCIAL PAYABLES		66,522		45,054	
- Bank loans and borrowings (short-term portion)	23	65,811		43,910	
- Other financial payables (short-term portion)	24	465	102	1,144	79
- Lease liabilities (short-term portion)	12	246	169	-	
OTHER PAYABLES	29	10,842	4,495	14,970	6,133
TOTAL CURRENT LIABILITIES		83,718		81,028	
TOTAL NET EQUITY AND LIABILITIES		1,010,001		805,213	

Transactions and balances with related parties

Summary by company

(Appendix 4 to the Explanatory Notes - cont'd)

Amounts in €/million	Revenues ⁽¹⁾	Materials consumed and cost for services ⁽¹⁾	Financial income (expenses)	Non-current financial receivables	Current financial receivables	Other receivables ⁽²⁾	Non-current financial payables	Current financial payables ⁽³⁾	Other payables ⁽⁴⁾
Ultimate parent companies:									
DE LONGHI INDUSTRIAL S.A.	-	-	-	-	-	3.3	-	-	-
Total ultimate parent companies (a)	0.0	0.0	0.0	0.0	0.0	3.3	0.0	0.0	0.0
Subsidiary companies:									
DE' LONGHI APPLIANCES S.R.L.	7.1	(0.3)	81.6	-	-	1.1	(1.0)	(0.2)	(3.8)
DE'LONGHI KENWOOD A.P.A. LTD	1.6	-	0.1	0.1	-	0.1	-	-	-
E-SERVICES S.R.L.	0.5	(0.2)	0.8	-	-	-	-	-	(0.1)
DE'LONGHI HOUSEHOLD GMBH	0.2	-	-	-	-	-	-	-	-
DE'LONGHI S.R.L. - ROMANIA	0.1	-	-	-	-	0.1	-	-	-
DE'LONGHI KENWOOD MEIA FZE	(0.1)	-	-	-	-	-	-	-	-
KENWOOD LIMITED	(0.3)	(1.0)	-	-	-	-	-	-	(1.0)
DE'LONGHI AMERICA INC.	-	(1.0)	-	-	-	-	-	-	(0.5)
DE LONGHI BENELUX S.A.	-	-	50.0	-	-	-	-	-	-
DE'LONGHI-KENWOOD GMBH - AUSTRIA	-	-	3.2	-	-	-	-	-	-
DE'LONGHI CAPITAL SERVICES S.R.L.	-	-	-	-	427.9	-	-	(0.1)	-
ELLE SRL	-	-	-	-	-	0.1	-	-	-
EVERSYS S.A.	-	-	-	-	-	0.1	-	-	-
Total subsidiary companies (b)	9.1	(2.5)	135.7	0.1	427.9	1.5	(1.0)	(0.3)	(5.4)
Related companies:									
GAMMA S.R.L.	0.1	-	-	-	-	-	-	-	-
DL RADIATORS S.R.L.	0.1	-	-	-	-	-	-	-	(0.5)
Total related companies (c)	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.5)
Total ultimate parent, subsidiary and related companies (a+b+c)	9.3	(2.5)	135.7	0.1	427.9	4.8	(1.0)	(0.3)	(5.9)

⁽¹⁾ These mostly refer to dealings of a commercial nature and the supply of administrative services by company employees.

⁽²⁾ These consist of €1.4 million in "Trade receivables" and €3.4 million in "Other receivables".

⁽³⁾ This item includes €0.1 million in "Other financial payables" and €0.2 million in "Lease payables".

⁽⁴⁾ This item includes €1.4 million in "Trade payables" and €4.5 million in "Other payables".

Please refer to the yearly "Report on Remuneration" for information relating to the compensation of directors and statutory auditors.

External auditors' report on the separated financial statements





Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the shareholders of
De'Longhi SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of De'Longhi SpA (the Company), which comprise the statement of financial position as of 31 December 2019, the income statement, the statement of comprehensive income and the statement of changes in net equity, the statement of cash flows for the year then ended and explanatory 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 of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

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 this report. We are independent of the Company pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

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Key audit Matters

Auditing procedures performed in response to key audit matters

Recoverability of the value of equity investments

Note 13 to the financial statements

The financial statements of De'Longhi SpA include equity investments in subsidiaries for Euro 567,516 thousand, accounting for 56% of total assets, which are carried at acquisition or start-up costs and tested for impairment whenever indicators of impairment are identified.

In the course of our audit of the financial statements as of 31 December 2019, we focused on this financial statements area as a key audit matter in consideration of the magnitude of the balances, also relative to total assets, and of the elements of estimation intrinsic to the measurement of equity investments.

As part of our audit of the financial statements as of 31 December 2019, we performed the procedures illustrated below.

We understood the procedure applied by the Company to identify impairment indicators, examining the tests of the absence of indicators of impairment performed by management in accordance with paragraph 12 of IAS 36 as adopted by the European Union.

In detail, we analysed the results of operations of investees for the year 2019 and compared the carrying amounts with the respective carrying amounts in the consolidated financial statements.

Other aspects

The financial statements of De'Longhi SpA for the year ended 31 December 2018 have been audited by other auditors who, on 8 April 2019, expressed an unqualified opinion on the financial statements.

Responsibilities of the Directors and the Board of Statutory Auditors for the Financial Statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by 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.

The directors are responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.



The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, 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 the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we 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 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 evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the 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 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 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 identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated



with them all relationships and other 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 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 described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

On 19 April 2018, the shareholders of De'Longhi SpA in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statements for the years ending 31 December 2019 to 31 December 2027.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of De'Longhi SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Company as of 31 December 2019, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of De'Longhi SpA as of 31 December 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of De'Longhi SpA as of 31 December 2019 and are prepared in compliance with the law.



With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/ 10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Treviso, 30 March 2020

PricewaterhouseCoopers SpA

Signed by

Filippo Zagagnin
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

This report is available on the corporate website:
www.delonghigroup.com

De' Longhi S.p.A.

Registered office: Via L. Seitz, 47 – 31100 Treviso
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Tax ID and Company Register no.: 11570840154
Treviso Chamber of Commerce no.: 224758
VAT no.: 03162730265



DeLonghi

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