ANNUAL REPORT AT 31 DECEMBER 2018

DēLonghi Group

Annual report at 31 December 2018

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Company officers

Board of Directors

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

Board of Statutory Auditors

Cesare Conti	Chairman
Paola Mignani	Standing member
Piera Tula	Standing member
Alberta Gervasio	Alternate auditor

External Auditors

EY S.p.A. **

Internal Auditing and Corporate Governance Committee

Renato Corrada *
Silvio Sartori
Stefania Petruccioli*

Compensation Committee

Alberto Clò *
Carlo Garavaglia
Cristina Pagni *

The company officers were elected at the shareholders' meeting of 14 April 2016 for the period 2016-2018; the number of the members of the Board of Directors was increased with the appointment by the Shareholders' meeting of 19 April 2018 of Mr. Massimiliano Benedetti who will be in office until the expiry of the Board.
Effective 1st June 2018, Piera Tula has substituted Gianluca Ponzellini as Standing Auditor.
* Independent directors.
** The assignment for the financial audit of the financial statements granted by shareholders during the Annual General Meeting held on 21 April 2010 for the period 2010-2018 will expire upon issue of the external auditors' report on this annual report. During the meeting held on 24 April 2018 shareholders granted the financial audit assignment for the period 2019-2027 to PriceWaterhouseCoopers S.p.A..

Letter from the Chairman

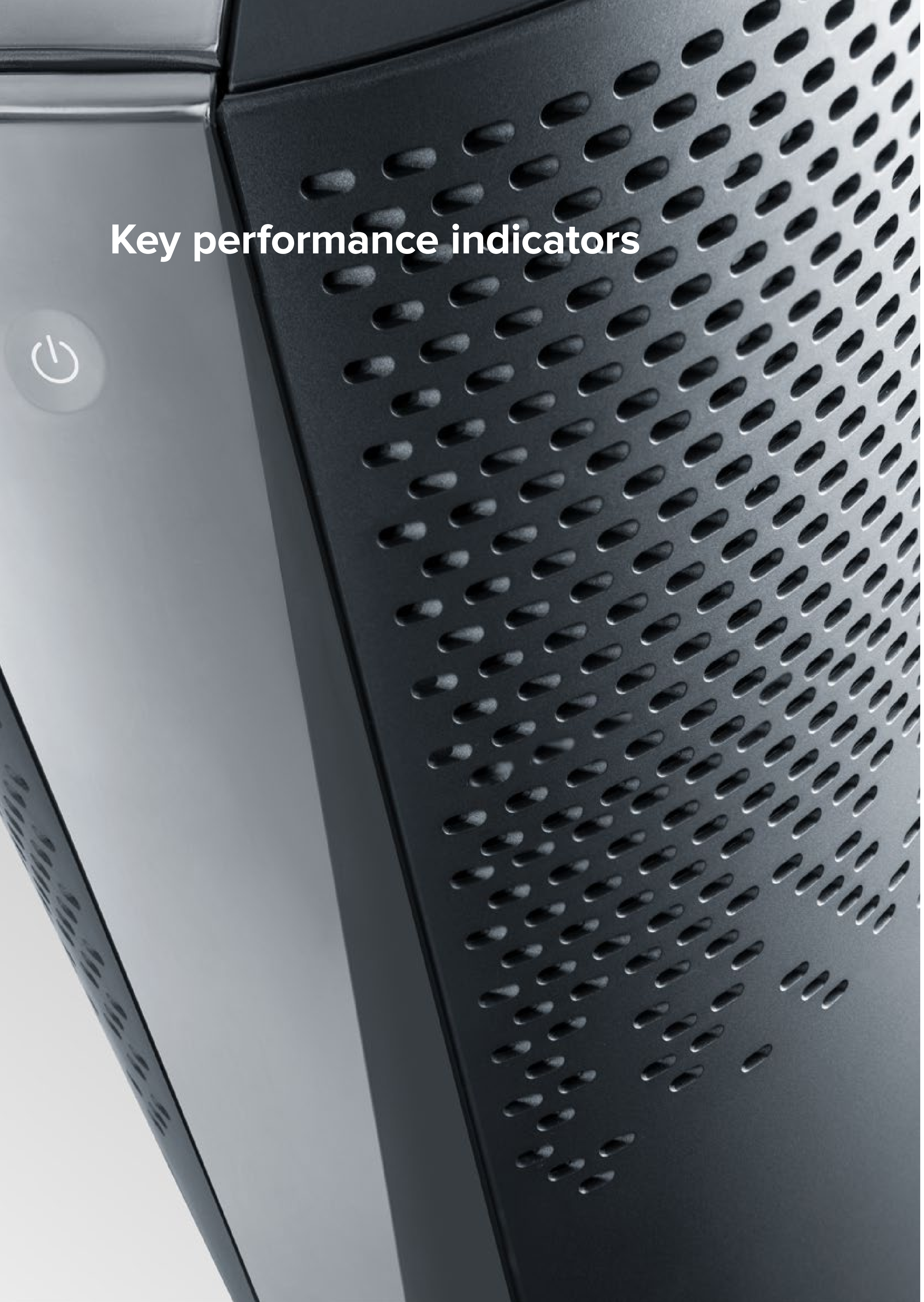
In 2018 revenues continued to grow, in line with management's expectations, in a complex and increasingly competitive environment in terms of both markets and the global macroeconomic scenario. In this environment the Group worked to protect market share and focused on product lines with the greatest potential for growth and profitability.

The increasing contribution of coffee products, in which the Group confirmed its leadership position, drove the growth in revenues which made it possible to offset the negative foreign exchange effect. The other segments also posted good organic growth.

In a few instances it became necessary to increase investments in both commercial initiatives, to support product marketing, and in manufacturing, to support production and quality.
Nonetheless, the Group posted a net profit which was higher than in the prior year.

In light of the results achieved in the year, management is confident that revenues and profitability will continue to grow; we will continue to invest in communication and marketing with a view to strengthening the production platform, as well as developing and launching new products.

Key performance indicators



Results

(€/million)	2018	% revenues	2017	% revenues	Change	Change %
Revenues	2,078.4	100.0%	1,972.8	100.0%	105.6	5.4%
Revenues at constant exchange rates	*2,131.2*	*100.0%*	*1,966.7*	*100.0%*	*164.5*	*8.4%*
Net industrial margin	990.7	47.7%	967.3	49.0%	23.4	2.4%
EBITDA before non-recurring / stock option costs	312.8	15.1%	309.5	15.7%	3.3	1.1%
EBITDA before non-recurring / stock option costs at constant exchange rates	*323.2*	*15.2%*	*299.6*	*15.2%*	*23.6*	*7.9%*
EBIT	242.9	11.7%	245.4	12.4%	(2.5)	(1.0%)
Profit (loss) pertaining to *Continuing Operations*	183.9	8.8%	179.7	9.1%	4.2	2.3%
Profit (loss) pertaining to Continuing Operations adjusted (*)	*190.3*	*9.2%*	*173.2*	*8.8%*	*17.1*	*9.9%*
Profit (loss) pertaining to the Group	184.7	8.9%	178.3	9.0%	6.4	3.6%

(*) It corresponds to the profit pertaining to the Group net of non recurring operating, financial and fiscal items.

Statement of financial position

(€/million)	31.12.2018	31.12.2017
Net working capital	322.5	257.8
Net operating working capital	414.3	365.2
Net capital employed	837.8	772.7
Net financial assets	228.1	250.6
of which:		
- Net bank financial position	*229.0*	*271.1*
- Other financial receivables (payables)	*(0.9)*	*(20.5)*
Net Equity	1,065.9	1,021.7
Net working capital/Net revenues	15.5%	13.1%
Net operating working capital /Net revenues	19.9%	18.5%
Cash flow by operating activities	111.8	87.2

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

Report on operations

Performance review

The De'Longhi Group closed 2018 with good growth in revenues, higher profitability in absolute terms and good generation of operating cash flow, in a market environment characterized by a slowing world economy and iwncreasing complexity.

Revenues amounted to €2,078.4 million in the twelve months, an increase of 5.4% compared to the prior year (€1,972.8 million); the performance benefitted from higher sales volumes driven, above all, by coffee and comfort, but was impacted by the negative exchange effect of a few main currencies (primarily the US dollar, the ruble and the Australian dollar) that slowed growth which, in organic terms, would have reached 8.4% in the year (+7.4% in the fourth quarter).

All the commercial areas, which reported positive trends in both the twelve month period and the fourth quarter, contributed to the growth.
Revenues in Europe amounted to €1,376.4 million in 2018, showing an increase of 3.9% against the prior year (+6.3% in organic terms). The North East countries, above all Russia, Ukraine and other CIS countries together with Poland and the Czech Republic, were confirmed as the growth drivers despite the significant negative exchange effect which lowered the area's overall growth to 7.5%. In organic terms, growth would have reached 12.4%. In the latter part of the year the UK market recovered (in organic terms growth reached +6.5% in the fourth quarter) with revenues for the year basically in line with the prior twelve months. The South West benefitted from the solid sales performance reported in Austria and Switzerland which benefitted from the expanded Nespresso business.
In APA revenues rose 13.0% in organic terms (+8.7% at current exchange rates) to €566.0 million in the year thanks to the good sales performance reported in the United States and Canada which have become the Group's second largest market, after Germany.
In MEIA revenues amounted to €136.0 million in the twelve months, showing an increase of 6.3% (+10.9% at constant exchange rates) compared to prior year after a few years in which results were affected by commercial reorganization.

Looking at product segments, coffee machines, which accounted for around 47% of total sales, were confirmed as the main growth driver of sales and overall were up +11.3% against 2017. More in detail, revenues generated by fully automatic machines increased significantly with market share on the rise in the main markets. Sales for Nespresso brand machines were, overall, good thanks also to the good performance of the lines manufactured internally. Sales dropped for the DolceGusto line due to the interruption of distribution in a few markets.
Comfort posted positive results (+13.5% compared to 2017) with a good performance of both heating products, thanks to a good winter, and portable air conditioners, above all in the United States thanks also to the advance sale of summer 2019 products.
Sales for cooking products were down due mainly to the negative foreign exchange effect; in organic terms, the segment would have been basically in line with 2017, albeit in an environment characterized by a weak cooking and food preparation market.
Cleaning and ironing products benefitted from the good results of the Braun brand ironing systems and revenues were up slightly.

The net industrial margin amounted to €990.7 million, an increase of +2.4% against 2017 (€967.3 million) and went from 49.0% of revenue to 47.7%. This change is due mainly, in addition to the impact of the above mentioned commercial policies in place in a few markets and the foreign exchange differences, to increased production costs in 2018 linked to a competitive market for a few key raw materials and for the difficulty in procuring electronic components.

EBITDA before non-recurring/stock option costs amounted to €312.8 million, a slight increase (+€3.3 million or +1.1%) with respect to the prior year (€309.5 million) despite a particularly adverse foreign exchange effect (around €20 million). In some cases, different policies in hedge accounting generated a negative effect on EBITDA which was offset by a positive impact on financial items. Net of the foreign exchange effect, the increase in EBITDA before non-recurring/stock option costs would have reached +7.9% and the EBITDA margin would have been basically unchanged with respect to 2017, coming in at 15.2%. Total non-manufacturing costs showed a less than proportional increase against the organic increase in sales. Costs for promotional initiatives increased, while advertising costs were down due to a different mix of commercial initiatives supporting sales. Supply chain costs also increased due to the transport of higher sales volumes and duties paid, which reflects the increase in imports in a few markets connected, in part, to the advance procurement made in preparation for the increase in import duties that was announced.

EBITDA was affected by the costs connected to stock option plans (which amounted to €3.8 million in the twelve month period) and the non-recurring costs connected mainly to commercial reorganization.

EBIT amounted to €242.9 million in 2018 (€245.4 million in 2017), or 11.7% of revenues, after amortization and depreciation of €61.6 million, an increase for €3.3 million explained by the recent investments made in production, which are now operating at capacity, and by the write-downs of a few assets (totaling €5.1 million).

Financial expenses amounted to €19.0 million, down by €11.8 million against 2017 (€30.8 million) due primarily to more effective financial and currency management. More in detail, on the one hand the latter benefitted from more efficient management of hedges focused on reducing hedging costs and limiting the overall exposure and, on the other, the positive impact of anticipatory hedges: in a particularly turbulent FX market, the Group chose to increase the volumes hedged, sometimes to the detriment of operating margins that were impacted by the foreign exchange differences, but to the benefit of currency management which recorded a positive carry (mainly CNY and USD).

In 2017 "Net non-recurring financial income" included the gain recorded as a result of the change in the fair value of the earn-out payable for the Braun Household acquisition, net the impact of the early termination of the previous USD bond loan.

Profit generated by continuing operations amounted to €183.9 million, an increase of €4.2 million compared to 2017 (€179.7 million) after tax of €40.0 million (€49.5 million in 2017) and despite the above mentioned non-recurring financial income.
Tax benefitted from the patent box incentives recognized as a result of an agreement signed with the tax authorities relating to the determination of grant for the period 2015-2019 and tax credits for research and development pursuant to Law 190/2014 linked to estimates for the current year and, in part, to prior years.
Net of these non-recurring items (relating to finance and operations net of their fiscal impact), the net profit for the year would have reached €190.3 million, an increase of +17.1 million against the normalized net profit of €173.2 million posted in 2017.

The net financial position came to a positive €228.1 million at 31 December 2018 (versus €250.6 million at 31 December 2017), €229.0 million of which relating to the net position with banks (€271.1 million at 31 December 2017). The twelve month comparison of the net position with banks shows a decrease of €42.1 million (-€43.0 million in the twelve month period 2017) explained by the payment of higher dividends, which amounted to €149.5 million, and investments; net of the non-recurring items the balance would have been positive for €72.7 million.

Net working capital came to €322.5 million at 31 December 2018, an increase of €64.7 million compared to 31 December 2017, explained by the acceleration in sales recorded in the fourth quarter and the one-off increase of inventory stemming largely from the advance purchases made in light of the increases in import duties announced in the United States and the stock accumulated at commercial branches in preparation for the coffee sales forecast for the first few months of 2019.

Cash flow by operating activities increased compared to 2017 (+€87.2 million) up to €111.8 million.

Significant events

In 2018 the Group was active on many fronts in order to support growth and ensure protection of margins. During the year further investments were made in enhancing the production platform, improving commercial structures and developing new products.

From a manufacturing standpoint, a few important projects begun in prior years at European plants were completed in 2018. More in detail, an investment program needed to sustain growth in the sales volumes for fully automatic coffee machines was completed, and further work was done on improving customer/market service thanks to a more flexible management of production achieved by integrating a make to stock system with a make to order approach program and optimizing portfolio of finished products.

In Asia the Group invested mainly in the automation of a few production phases in order to reduce production time and increase productivity. The collaboration between operations and Group planning resulted in the first significant reduction in total manufacturing lead time, above all for the coffee segment but also, albeit to a smaller degree, for kitchen machines, which will be followed by further improvement in the project's second phase. The Group also implemented solutions designed to improve management of the chemical agents used and emissions in compliance with the local government's request for Green environment initiatives.

In terms of procurement, 2018 was challenging due to the higher prices of a few key raw materials and electronic components, as well as the price pressure on Asian finished products due to higher labor costs in China; toward this end the Group addressed the need to ensure the supply of a number of key components.

As for the supply chain, in 2018 a second distribution hub was activated where the distribution for Benelux, France and Germany is now centralized in a single warehouse with a view to creating synergies in the management of stock with shared codes and increasing efficiency in logistics operations.

With regard to the commercial structure, revision of the business model in a few markets continued, as did commercial reorganization.
In 2018 a new commercial reorganization was announced which resulted in a new breakdown of the Group's mature and emerging markets which substituted the traditional geographical areas (Europe, APA and MEIA).
Even if the context is still uncertain, with a view to mitigating the negative effects connected to the exit of Great Britain from the European Union and consistent with the new breakdown of commercial responsibilities, a project was started which will simplify European commercial flows starting 1 January 2019 with centralization of the activities at the dedicated Italian commercial structure.

Further important investments were made in the development and launch of new products in all segments.
In the coffee segment the projects begun in prior years culminated in the manufacture and distribution of the fully automatic Maestosa machine which is equipped with new Adaptive Grinding Technology that guarantees optimal grinding of coffee thanks to electronic controls. In October a new DinamicaPlus model was launched on the market which features an intuitive control panel, with LCD and soft touch display that allows for simple and fast programming. During the IFA 2018 held in Berlin in September the Group presented the new LaSpecialista, the first semi-professional machine, which will be distributed beginning in first quarter 2019.
With regard to the food preparation, the new Chef Elite Special Edition was launched, as was Kenwood's first connected product, the KCook Multi Smart, which can be operated using a smartphone and guides the user through preparation by following the recipe step by step. The range of air fryers was expanded with the introduction of the new De'Longhi brand Idealfry, which is more compact than previous models. In September the new Braun brand handblender, MultiQuick MQ5v Fit, was also launched. This handblender is equipped with a spiralizer and designed for active consumers focused on wellbeing and health.
In the comfort segment, the use of the synthetic refrigerant R410 was eliminated from portable air conditioners and dehumidifiers made for the European market and substituted with low GWP (Global Warming Potential) propane. A connected radiator which, through a smartphone application, monitors parameters based on stages of sleep and adjusts functions, was launched in Japan. A new multifunctional device which manages air cooling and heating was introduced in Japan and Australia.
The family of products for ironing was expanded in 2018 with the introduction of a new Braun brand ironing system, CarestyleCompact, which thanks to its design (which won the RedDot 2018 award in the Product Design category) is more practical and easier to use. During the year the TexStyle3 iron and the Carestyle 7 ironing system were launched which, thanks to the cleaning and descaling system, the iCare technology and the 3D soleplate, now represent Braun's top of the line for this category.

In 2018 the Group, as part of its development plan, continued with the expansion of its headquarters and started construction of the new office building that will also be used to increase the space used for R&D.

On 22 February 2018 an industrial partnership agreement was signed with the H&T Group, a premiere Chinese electronics group listed on the Shenzhen stock exchange for the sale of 55% of NPE S.r.l.'s share capital. Based on the agreement the shareholders also made an equity contribution totaling €7.7 million to support development of the company and another 25% may be sold in the first half of 2020 at a price to be determined based on the extent to which certain economic targets have been achieved.
The agreement was finalized in December 2018 after having received all the relative antitrust clearances.

Global market conditions

Even though the world economy showed continuous and resilient growth in 2018, there was a growing lack of consistency between countries and a gradual weakening of the prospects for world trade. The expansion of the world economy was slowed, in particular, by concern over the repercussions of failed trade negotiations between China and the United States, the rekindling of financial tensions in emerging markets and the methods that will be used to finalize the United Kingdom's exit from the European Union (Brexit).
In the latter part of the year growth continued to be robust in the United States and returned positive in Japan, after the marked contraction recorded in the third quarter linked to the natural disasters that struck the country.
As for the main emerging markets, the slowdown in the Chinese economy begun at the beginning of 2018 also continued in the last few months of the year, despite the fiscal stimulus introduced by the government; in Brazil the scenario continued to show signs of weakness.
Growth in the Euro zone slowed due, in part, to temporary factors, but also to a deterioration in business sentiment and weak foreign demand; activity increased in France, but fell in Germany and Italy.
With the increased uncertainty about the prospects for world economic growth, long-term interest rates in the principle developed markets began to fall again after the increases recorded in October; the drop in stock prices accelerated in very volatile markets. Risk premiums increased slightly in the Euro zone.

(Source: Bank of Italy/ European Central Bank)

Group results

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

(€/million)	2018	% revenues	2017	% revenues
CONTINUING OPERATIONS				
Revenues	2,078.4	100.0%	1,972.8	100.0%
Change 2018/2017	*105.6*	*5.4%*		
Materials consumed & other production costs (production services and payroll costs)	(1,087.8)	(52.3%)	(1,005.5)	(51.0%)
Net industrial margin	**990.7**	**47.7%**	**967.3**	**49.0%**
Costs for services and other expenses	(503.7)	(24.2%)	(481.5)	(24.4%)
Payroll (non-production)	(174.1)	(8.4%)	(176.3)	(8.9%)
EBITDA before non-recurring expenses / stock option costs	**312.8**	**15.1%**	**309.5**	**15.7%**
Change 2018/2017	*3.3*	*1.1%*		
Other non-recurring expenses / stock option costs	(8.3)	(0.4%)	(5.8)	(0.3%)
EBITDA	**304,5**	**14.7%**	**303.7**	**15.4%**
Amortization	(61.6)	(3.0%)	(58.2)	(3.0%)
EBIT	**242.9**	**11.7%**	**245.4**	**12.4%**
Change 2018/2017	*(2.5)*	*(1.0%)*		
Net financial income (expenses)	(19.0)	(0.9%)	(30.8)	(1.6%)
Non-recurring financial income (expenses)	-	0.0%	14.6	0.7%
Profit (loss) before taxes	**223.9**	**10.8%**	**229.2**	**11.6%**
Income taxes	(40.0)	(1.9%)	(49.5)	(2.5%)
Net profit of continuing operations	**183.9**	**8.8%**	**179.7**	**9.1%**
DISCONTINUED OPERATIONS				
Net profit / (loss) of discontinued operations	0.8	0.0%	(1.5)	(0.1%)
Profit (loss) pertaining to the Group	**184.7**	**8.9%**	**178.3**	**9.0%**

The Continuing Operations net industrial margin reported in the reclassified income statement differs by Euro 171.7 million in 2018 (Euro 158.8 million in 2017) from the consolidated income statement; this is because, in order to represent period performance better, production-related payroll and service costs have been reclassified from payroll and services respectively.

Revenues

The De'Longhi Group's revenues amounted to €2,078.4 million in 2018, an increase compared to the prior twelve-month period of €105.6 million or 5.4% (revenues amounted to €1,972.8 million in 2017).
The growth was spread across all markets thanks to the good performance of coffee machines, above all the manual and fully automatic espresso machines which posted very positive results also in what are less traditional markets for the Group.
2018 was characterized by strong price pressure countered by specific commercial initiatives and promotional activities; the pressure stemmed from, on the one hand, expectations of the end consumer who is able to compare global market prices online and, on the other hand, increased requests from retailers for contributions.
Revenues were also impacted by fluctuations in a few core currencies, particularly the US dollar, the ruble and the Australian dollar; net of the foreign exchange effect revenues would have increased 8.4% (+7.4% in the fourth quarter).

Markets

The overall growth in sales reflects the positive contribution made by all the commercial areas which posted good results, albeit with different trends. In general, sales held well in the Group's historic markets with a good dynamic in countries viewed as less traditional.
The breakdown is summarized below:

(€/million)	2018	% revenues	2017	% revenues	Change	Change %
North East Europe	552.3	26.6%	513.6	26.0%	38.7	7.5%
South West Europe	824.1	39.7%	810.7	41.1%	13.5	1.7%
EUROPE	**1,376.4**	**66.2%**	**1,324.2**	**67.1%**	**52.2**	**3.9%**
United States and Canada	226.4	10.9%	189.5	9.6%	36.9	19.5%
Australia and New Zealand	100.8	4.9%	109.0	5.5%	(8.2)	(7.5%)
Japan	84.8	4.1%	80.1	4.1%	4.7	5.9%
Other countries area APA	154.0	7.4%	142.0	7.2%	11.9	8.4%
APA (Asia/Pacific/Americas)	**566.0**	**27.2%**	**520.6**	**26.4%**	**45.4**	**8.7%**
MEIA (Middle East/India/Africa)	**136.0**	**6.5%**	**128.0**	**6.5%**	**8.0**	**6.3%**
Total revenues	**2,078.4**	**100.0%**	**1,972.8**	**100.0%**	**105.6**	**5.4%**

Revenues in Europe came to €1,376.4 million in 2018, an increase of 3.9% compared to the twelve month period in 2017 (+6.3% in organic terms), with different dynamics in the single markets.
Growth was driven by the De'Longhi products which progressed in the main coffee and comfort categories. With regard to coffee, the results for the fully automatic machines were good with increased market share in the main markets; the single serve machines, which benefitted from the Lattissima products, maintained a positive performance overall, albeit with diverse market trends.
Sales for Kenwood brand products were affected by the general decline of the food preparation market. As for kitchen machines, in 2018 the Group maintained its market share in France, Italy and Benelux; positive signals were recorded in Germany and Austria thanks to the sizeable investments made in promotional activities.
The sale of Braun products benefitted from the expanded range of ironing products, both traditional and ironing systems.

North East Europe posted revenues of €552.3 million, showing decided growth against the prior year (+7.5%) despite the adverse exchange effect; in organic terms, the increase would have reached +12.4%. A positive performance was recorded in all the main countries, particularly in Russia, Ukraine and CIS countries where, in addition to higher volumes, prices were increased in order to offset the volatility of the main currencies; sales for coffee machines were good in these markets, particularly the fully automatic machines, as were sales for ironing products and Kenwood brand kitchen machines. The good progression in revenues continued in Poland and the Czech Republic. The UK market recovered in the latter part of the year against prior periods and closed the year basically in line with 2017, despite the uncertainty about future scenarios once Brexit is completed.
The South West, where revenues totaled €824.1 million, was impacted by a few commercial initiatives that slowed growth which reached 1.7%.
Sales were positive in Austria and Switzerland thanks to the expanded Nespresso business. Germany, despite a difficult competitive environment, was confirmed as the biggest market with a performance basically in line with the rest of the area thanks to the results posted by coffee, kitchen machines and comfort products. These results were obtained also by increasing the contributions made to clients, both traditional and online retailers, for promotional activities that made it possible to maintain a good level of sales, but which also put strong pressure on margins. The market was weak in Italy, characterized by significant changes in distribution, and in the Iberian peninsula, despite the recovery posted in the fourth quarter.

In APA revenues rose 8.7% against 2017 to €566.0 million (+13.0% in organic terms).
Sales for De'Longhi brand products increased, particularly coffee machines, a segment in which the Group has established a strong position, thanks also to the new market share gained in China, Hong Kong and Taiwan which strengthened the leadership in these countries.
Thanks to kitchen machines, the Kenwood brand gained new market share in China and Hong Kong, where promotional activities included collaborations with professional chefs.
The performance of the Braun brand products was relatively stable in the area.
The United States and Canada drove growth thanks, above all, to the good sales performance of coffee products and comfort which was boosted, on the one hand, by a particularly cold winter which benefitted heating category and, on the other, by a good season for air conditioners, linked also to the advance sale of summer 2019 products. Satisfying results were achieved in Japan with respect to both the traditional comfort segment and coffee machines which benefitted from commercial measures aimed at supporting sales.
Australia/New Zealand recorded sales that were basically in line with 2017 in organic terms, but down at current exchange rates due to the fluctuation of the Australian dollar.

MEIA reported revenues of €136.0 million, an increase of 6.3% compared to 2017 (+10.9% in organic terms), which accelerated in the fourth quarter. Sales for coffee machines were good which reinforced the leadership of the De'Longhi brand in espresso and fully automatic machines. Despite a weak food preparation market, thanks to the Kenwood and Braun brand, the Group maintained its market share for handblenders.

Business lines

Sales performances varied from business line to business line.

In 2018 the gradual increase of coffee machines as a percentage of total revenues was confirmed and went from 45% to 47%; growth reached 11.3% thanks, in particular, to the good sales performance of fully automatic machines which, overall, was higher in the core markets. Sales for Nespresso brand machines were generally positive thanks also to the good performance of the lines manufactured internally. Sales for the DolceGusto line were down explained by the interrupted distribution in a few markets where, however, profitability is low.
Comfort posted positive results (+13.5% compared to 2017) with a good performance of both heating products, thanks to a good winter, and portable air conditioners, above all in the United States thanks also to the advance sale of summer 2019 products.
Sales for cooking products were down due mainly to the negative foreign exchange effect; in organic terms, the segment would have been basically in line with 2017. In a market that was down slightly, kitchen machines succeeded in posting organic growth of 2.0% thanks to a complete product range which includes a number of models (Chef, Sense/Elite, Titanium and the Cooking Chef). Fryers were in line with 2017 although with a marked slowdown in the sale of traditional models versus a decided uptick for new air fryers, in particular Multifry, which benefitted from the successful introduction of the new compact Idealfry.
Revenues for cleaning and ironing products grew slightly thanks also to the good results of the Braun brand ironing systems

Profitability

The net industrial margin amounted to €990.7 million, an increase of +2.4% against 2017 (€967.3 million) and went from 49.0% of revenue to 47.7%. The performance was affected by the commercial policies in place in a few markets, the foreign exchange differences and an increase in production costs.

EBITDA before non-recurring/stock option costs amounted to €312.8 million, a slight increase (+ €3.3 million or +1.1%) with respect to the prior year (€309.5 million) despite a particularly adverse foreign exchange effect (around €20 million). In some cases, different policies in hedge accounting generated a negative effect on EBITDA which was offset by a positive impact on financial items. Net of the foreign exchange effect, EBITDA before non-recurring costs would have increased by +7.9% and the EBITDA margin would have been basically unchanged with respect to 2017, coming in at 15.2%. Operating costs showed a less than proportional increase against the organic increase in sales. Costs for promotional initiatives increased while advertising costs were down due to a different mix of commercial initiatives supporting sales. Supply chain costs were also higher due to the increased sales volumes transported and duties paid on imports.

EBITDA was affected by the costs connected to stock option plans (which amounted to €3.8 million in the twelve month period) and the non-recurring costs connected mainly to commercial reorganization which resulted in a redefinition of the geographical areas and, even if the scenario is still uncertain, a revision of the business organization in the UK and Ireland with a view to simplifying commercial flows in light of Brexit as of 1 January 2019.

EBIT amounted to €242.9 million in 2018 or 11.7% of revenues (€245.4 million and 12.4% of revenues in 2017), after amortization and depreciation of €61.6 million, an increase for €3.3 million explained by the recent investments made in prior years, which are now running at capacity, and by the write-downs of a few assets no longer in use.

Financial expenses amounted to €19.0 million, down by €11.8 million against 2017 (€30.8 million) due primarily to more effective financial and currency management. More in detail, on the one hand the latter benefitted from more efficient management of hedges focused on reducing hedging costs and limiting the overall exposure and, on the other, the positive impact of anticipatory hedges: in a particularly turbulent FX market, the Group chose to increase the volumes hedged, sometimes to the detriment of operating margins that were impacted by the foreign exchange differences, but to the benefit of currency management which recorded a positive carry (mainly CNY and USD).

In 2017 “Net non-recurring financial income” included the gain recorded as a result of the change in the fair value of the earn-out payable for the Braun Household acquisition, net of the impact of the early termination of the USD bond loan.
Profit generated by continuing operations amounted to €183.9 million, an increase of €4.2 million compared to 2017 (€179.7 million) after tax of €40.0 million (€49.5 million in 2017) and despite the above mentioned non-recurring financial income.
Tax benefitted from the patent box incentives as a result of an agreement signed with the tax authorities relating to the determination of grant for the period 2015-2019 and tax credits for research and development pursuant to Law 190/2014 linked to estimates for the current year and, for a portion, to prior years.
Net of these non-recurring items (relating to finance and operations net of their fiscal impact), the net profit for the year would have reached €190.3 million, an increase of +17.1 million against the normalized net profit of €173.2 million posted in 2017.

Operating segment disclosures

The De’Longhi Group has identified three operating segments which coincide with the Group’s three main business regions: Europe (North East and South West), MEIA (Middle East, India and Africa) and APA (Asia, Pacific, America).
Each segment is responsible for all aspects of the Group’s brands and 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)	31.12.2018	31.12.2017	Change
- Intangible assets	316.9	320.9	(4.1)
- Property, plant and equipment	237.2	233.1	4.1
- Financial assets	29.6	26.1	3.5
- Deferred tax assets	36.1	32.3	3.8
Non-current assets	**619.8**	**612.4**	**7.3**
- Inventories	404.8	329.7	75.1
- Trade receivables	429.3	401.5	27.7
- Trade payables	(419.8)	(366.1)	(53.7)
- Other payables (net of receivables)	(91.8)	(107.4)	15.6
Net working capital	**322.5**	**257.8**	**64.7**
Total non-current liabilities and provisions	**(104.4)**	**(97.5)**	**(7.0)**
Net capital employed	**837.8**	**772.7**	**65.1**
Net financial assets (*)	**(228.1)**	**(250.6)**	**22.5**
Total net equity	**1,065.9**	**1,021.7**	**44.2**
Net liabilities pertaining to *Discontinued operations*	**-**	**1.6**	**(1.6)**
Total net debt and equity	**837.8**	**772.7**	**65.1**

(*) Net financial position as at 31 December 2018 includes € 0.9 million in net financial liabilities (€ 20.5 million at 31 December 2017 in net financial assets) relating to the fair value of derivatives and the financial debt connected to business combinations and pension fund.

Capital expenditures amounted to €66.4 million in the twelve month period, €50.3 million of which in plant, property and equipment, namely equipment and moulds, as well as production lines and one-off investments relating to the start-up of construction of the real estate complex in Treviso and the final stage of production plant enhancements in Romania.

Consolidated net working capital came to €322.5 million at 31 December 2018 (€257.8 million at 31 December 2017) and rose as a percentage of rolling revenues from 13.1% to 15.5%.
Inventories increased as a result mainly of the advance purchases made in light of the increases in import duties announced in the United States and the stock accumulated at commercial branches in preparation for the coffee sales forecast for the first few months of 2019.
Trade receivables increased due to the sales growth reported in the last few months of the year, particularly in countries where payment terms are more longer.

The net financial position came to a positive €228.1 million at 31 December 2018 (versus €250.6 million at 31 December 2017), €229.0 million of which relating to the net position with banks (€271.1 million at 31 December 2017).

The net financial position is detailed below:

(€/million)	31.12.2018	31.12.2017	Change
Cash and cash equivalents	569.3	664.7	(95.4)
Other financial receivables	54.2	8.3	46.0
Current financial debt	(156.1)	(138.3)	(17.7)
Net current financial position	**467.5**	**534.7**	**(67.2)**
Non-current financial debt	**(239.4)**	**(284.1)**	**44.7**
Total net financial position	**228.1**	**250.6**	**(22.5)**
of which:			
- Position with banks and other financial payables	*229.0*	*271.1*	*(42.1)*
- Financial assets/(liabilities) other than bank debt (fair value of derivatives, financial debt related to business combinations and pension funds)	*(0.9)*	*(20.5)*	*19.6*

The net financial position reflects a few specific financial items, including primarily the fair value measurement of derivatives and the residual debt owed on business combinations which show a negative balance of €0.9 million at 31 December 2018 (negative for €20.5 million at 31 December 2017).
Net of these items, the net position with banks reached €229.0 million at 31 December 2018, with cash flow reaching a negative €42.1 million in the twelve month period explained primarily by the payment of higher dividends and the increase in working capital described above.

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

	Continuing Operations		Consolidated figures	
(€/million)	2018	2017	2018	2017
Cash flow by current operations	289.5	277.6	289.8	277.3
Cash flow by changes in working capital	(111.3)	(67.5)	(101.2)	(73.4)
Cash flow by current operations and changes in working capital	**178.1**	**210.1**	**188.6**	**204.0**
Cash flow by investment activities	(66.4)	(122.7)	(59.9)	(124.1)
Cash flow by operating activities	**111.8**	**87.4**	**128.7**	**79.9**
Dividends paid	(149.5)	(119.6)	(149.5)	(119.6)
Cash flow by changes in cash flow hedge reserves	5.0	(14.5)	5.0	(14.6)
Cash flow by other changes in net equity	10.3	(19.0)	10.4	(18.8)
Cash flow absorbed by changes in net equity	**(134.3)**	**(153.0)**	**(134.2)**	**(152.9)**
Cash flow for the period	**(22.5)**	**(65.6)**	**(5.4)**	**(73.1)**
Opening net financial position	250.6	316.2	233.5	306.6
Closing net financial position	**228.1**	**250.6**	**228.1**	**233.5**

Net operating cash flow, which amounted to €111.8 million in 2018 (€87.2 million in 2017), benefitted from the cash flow of €178.1 million generated by current operations (€210.1 million in 2017) and the decrease in cash flow absorbed by investment activities which amounted to €66.4 million, lower than in 2017 which included €68.5 million in non-recurring investments.

Cash flow absorption, which reached €22.5 million in the period (€65.6 million in 2017), was also impacted by changes in net equity, namely the payment of €149.5 million in dividends, the change in the cash flow hedge reserve which was positive for €5.0 million and other changes such as the €10.3 million change in the translation reserve.

Research and development – quality control

In 2018 the Group invested a total of around €51 million in research and development, basically in line with 2017, €12.2 million of which capitalized as intangible assets.

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

With a view to process optimization, the integration of all the phases of a product's life cycle, from planning to production, continued using a CAD design platform (Siemens NX) shared by all the teams dedicated to new product development and the production facilities. In this way all the information and the company's best practices were shared, including in different geographies.
The foundation was also laid for a second phase of the Group's PLM (Product Lifecycle Management) project which in 2019 and going forward will result in the creation of a platform which will allow for the PLM Siemens Teamcenter software to interface with the operational SAP/ERP software. The idea is that the company will benefit from the ability to manage all the product related data, information and documentation through a data base that the entire organization may access.

Looking at coffee, the main projects were focused on connectivity and the development of new interfaces in order to optimize the user experience. The design of new products which allow for a greater selection of milk based drinks was also focused on, in order to satisfy the consumers' tastes as much as possible. Studies were also conducted as to how to facilitate cleaning of the machines which is viewed as an issue that can influence purchase decisions.

Connectivity and the development of new interfaces were also the focus for comfort; commercialization of a radiator, connected to the user's smartphone through a dedicated application, was launched in Japan, while new easy-to-use interfaces were developed for the Radia and Vento radiators in order to facilitate operation, particularly by the elderly. Another important development in the planning of new comfort products was the work down to reduce the environmental impact, more specifically the use of the synthetic refrigerant R410 was eliminated from portable air conditioners and dehumidifiers and was substituted with low GWP (Global Warming Potential) propane. Commercialization of a new multifunctional device which guarantees air cooling and heating was begun in Japan and Australia.

In the iron segment, particular attention was paid to reducing heating times and optimizing steam which made it possible to increase the steam output and improve the ironing quality. Ergonometric and functional designs which guarantee easier handling were also analyzed.

Connectivity was also the focus of work done on kitchen products; 2018 saw the launch of the kCook Multi Smart, a kitchen robot controlled through an app with a connected scale that simplifies food preparation. In terms of sustainability, new packaging without EPS was developed for handblenders going to the American market.

Looking at quality control, in 2018 the process to obtain ISO 9001:2015 certification was completed, resulting in the implementation of a risk-assessment model which introduced an integrated approach that is more focused on sustainability. As part of the project begun in prior years, the Group also began to use the SAP PLM platform for the standardization and sharing of documents across geographical areas relating to quality control.

Communication activities

In 2018 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, one of the objectives was to strengthen the brand's authority in the espresso coffee market through dedicated advertising campaigns, differentiating the in-store presence and enhancing online content on both the Group's and the retailers' websites. Particular attention was paid to the top of the line PrimaDonna Elite model for which, in what is a mature market at this point, existing advertising campaigns were maximized. Dedicated campaigns were also developed to support the introduction of the DinamicaPlus, one of 2018's key launches.
In the comfort and food preparation segments, investments were made in the production of information videos, material for the points of sale and preparation of specific web pages. With a view to strengthening the online presence, videos were created expressly for e-retailers dedicated to shopping on line.

In 2018 the Group worked to create a new perception of the Kenwood brand with activities geared to engaging a new generation of consumers beginning with the brand's heritage and the leadership in food preparation. Clarity and consistency in the messages was made possible thanks to a series of operating guidelines. "Feed your imagination" was the slogan selected for a campaign targeting an actively involved audience.
Traditional advertising on TV, in cinemas and on-demand channels helped to increase brand awareness, as well as increase web traffic. The TV sponsorships, particularly as part of cooking shows, proved once again in 2018 to be effective above all in markets considered to be less traditional for the Group.

With regard to the Braun brand, in 2018 the most representative product was the handblender MQ9 supported, as was the entire category, by an extensive advertising campaign which was intensified on television in a few countries around Christmas. To support the launch of the MultiQuick MQ5v Fit material was developed for both online and offline communication thanks also to the collaboration with nutrition and fitness experts which improved the ability to reach the market target. Irons benefitted, although the timing differed in the various countries, from an advertising campaign which focused mainly on giving visibility to and improving awareness of the brand in the sector.

As for the digital strategy, one of the key objectives for 2018 was to optimize the institutional websites in terms of both the user experience (UX) and the user interface (UI) in order to improve the consumer's approach to the Group's brands. Toward this end, among other things, a PIM (Product Information Management) solution was implemented which makes it possible to systematically group and organize all the useful information (product information, translated texts, images and videos) and distribute them 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. The Group also worked on expanding the e-commerce platform which allows the end consumer to purchase accessories and attachments directly, as well as access promotional sales of exclusive collections. Lastly, after a trial period in Australia, a system was implemented in the main European markets which makes it possible to channel content to the retailers' websites directly in order to provide information and promote products.

Human resources

Here follows a detail of the average workforce in 2018:

	2018	2017
Blue collars	5,426	5,044
White collars	2,885	2,822
Managers	264	269
Total	**8,575**	**8,135**

The Group had an average of 8,575 employees in 2018, an increase of 440 employees attributable primarily to increased staffing at the production plants.

In 2018 the Group continued along a path of which training is an integral part.
As part of the HR Transformation project launched year-end 2016, a new web platform, Learning and Development, was implemented which made it possible to create group-wide or personalized (by market or division) training.
Underlying the project is the idea of creating a culture that encourages continuous learning, while standardizing the global processes and strengthening the Group's identity through transversal learning experiences.
The platform made it possible to manage the entire training process, from understanding training needs to delivery, supplementing the traditional classroom courses with e-learning methods.

In Italy, in addition to the traditional specialized technical training, initiatives were launched which consisted in four hour training sessions (referred to as Pillole formative) on topics linked to delegating, managing feedback, motivation, the drafting of a development plan and time management.
As a result, furthermore, of the contractual obligation introduced for metalworking companies based on which all full-time employees are entitled to at least 24 hours of training over a 3-year period, the project 24 ore per De'Longhi was launched. The project consists in the organization of open-enrollment seminars relating to topics in four different areas (family, health, sports and business) which all employees may attend for up to a total of twenty-four hours.

In 2018 a web platform, referred to as Salary Review, was also activated with a view to managing, through a shared process, salary reviews and merit based policies.

Consistent with prior years, projects for improvement based on the results of the survey conducted first in 2015 and then again in 2017 continued. The idea was to focus on two areas: firstly, the improvement of My manager through the launch of a second phase of the development program U-Connect, focused specifically on team work; secondly, the sharing of company values.

Two editions of Welcome on board, the induction event which aims to facilitate the integration of new hires, were also organized and the Global Performance Appraisal was conducted.

In 2018 an agreement was reached with labor unions in Italy relating to the renewal of the supplemental labor contract which provided an opportunity to establish new understandings relating to topics like working hours, part-time, working remotely and limits on overtime.

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 "Investor relations" – "Governance" – "Annual Shareholders' Meeting" – "2019").

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 Risk and Control and Corporate Governance Committee, Director in Charge of the Internal Control and Risk Management System), the Board of Statutory Auditors, the Director of Internal Audit, the Supervisory Board, the Chief Financial Officer/Financial Reporting Officer and all De'Longhi personnel, as well as the Directors and Statutory Auditors of the Issuer's subsidiaries, are involved in the controls, with different roles and in function of their expertise and adhere to the recommendations and principles found in the guidelines.
The Internal Control System that is subject to examination and periodic audits, taking into account changes in the company's operations and reference context, makes it possible to address the main risks to which the Issuer and the Group are exposed to over time, in a timely manner, as well as to identify, assess and control the degree of the exposure of the Issuer and all the other companies of the De'Longhi Group – particularly the strategically important subsidiaries – to the different types of risk, and also makes it possible to manage the overall exposure taking into account:

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

The internal control and risk management system relating to the financial reporting process (administrative and accounting procedures used to draft the separate and consolidated annual financial statements and the other economic and/or financial reports and disclosures prepared in accordance with the law and/or regulations, as well as ensuring correct implementation) coordinated by the Chief Financial Officer/Financial Reporting Officer, is an integral and essential part of the De'Longhi Group's Internal Control and Risk Management System.
The Director of Internal Audit – who is in charge of verifying that the internal control and risk management system works efficiently and effectively – prepares a work plan each year that is presented to the Board of Directors for approval, subject to the positive opinion of the Risk and Control and Corporate Governance Committee and after having consulted with the Board of Statutory Auditors and the Director in Charge of the Internal Control and Risk Management System, based also on the comments made by the Chief Financial Officer/Financial Reporting Officer, as well as pursuant to Legislative Decree 262/05.
Discusses the steps taken to resolve any problems, to make the improvements agreed upon, as well as the results of the testing activities with the Risk and Control and Corporate Governance Committee.
Provides the Chief Financial Officer/Financial Reporting Officer, as well as the administrative body assigned, with a summary report based on which they can assess the adequacy and application of administrative procedures to be used to prepare the consolidated financial statements.

Description of main characteristics

The De'Longhi Group uses a system of risk management and internal control for the financial reporting process that is part of the wider system of internal controls as required under art. 123-bis par. 2.(b) of TUF.
For the purposes of ensuring reliable internal controls over its financial reporting, the Group has implemented a system of administrative and accounting procedures and operations that include an accounting policies manual, updating in order to comply with the law and changing accounting standard, rules for consolidation and interim financial reporting, as well as coordination with subsidiaries as needed.
The Group's central corporate functions are responsible for managing and communicating these procedures to other Group companies.
The assessment, monitoring and continuous updating of the internal control system relating specifically to financial reporting is carried out in accordance with the COSO model and, where applicable, Law 262/2005. Critical processes and sub-processes relating to the principal risks have been identified in order to establish the principal controls needed to reduce such risks. This has involved identifying the strategically important companies, based on quantitative and qualitative financial parameters (i.e. companies that are relevant in terms of size and companies that are relevant just in terms of certain processes and specific risks).
Having identified these companies, the risks have been mapped and assessed and the key manual and automatic controls have been identified and rated as high/medium/low priority accordingly; these controls have then been tested.
The perimeter of the companies included in the mapping for the purposes of Law 262/2005 has changed over the years to reflect the changes in the Group, both quantitative and qualitative, and this perimeter was also considered for the definition of companies viewed as strategic.
The general managers and administrative heads of each Group company are responsible for maintaining an adequate internal control system and, given their roles, must certify that the internal control system works properly.
Internal Audit must also include verification of the internal controls through the use of a self-assessment check list in its Audit Plan.

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

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

- in the issuer's opinion, these companies have suitable accounting and reporting systems for regularly providing management and the auditors of De'Longhi S.p.A. with all the financial information needed to prepare the consolidated financial statements and perform the audit of the accounts;
- these companies provide the auditors of De'Longhi S.p.A. with the information needed to audit the parent company's interim and annual financial statements;
- the issuer keeps the articles of association of the aforementioned companies and details of their company officers and related powers, which are constantly updated for any changes in the same;
- the financial statements of such companies, prepared for the purposes of the De'Longhi Group's consolidated financial statements, have been made available in the manner and terms established by existing law. Please note that the identification and analysis of the risk factors contained in this report were carried out including in light of the change in strategic companies as resolved by the Board of Directors.

In order to identify and manage the Company's main risks, with regard particularly to corporate governance and compliance with the law and regulatory standards (including the Corporate Governance Code for Listed Companies), 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. It was possible, therefore, to map the main business risks based on the Group's value chain, identify inherent and residual risk with particular emphasis on what are potentially the biggest risks and proposing solutions; during following years a plan of activities to define the risk management strategy has been arranged, with the proposal of focusing on considered high risk level and actions to go on monitoring and managing the aforementioned risks, also through follow-up and meetings with the the Risk and Control Committee, the Board of Statutory Auditors and Director in Charge of Internal Control and Risk Management.

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

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

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

In 2018 a follow-up of the "risk assessment activities", carried out in 2017, was completed by updating the mapping carried out in the relevant Group companies.
The internal audit division also conducted a survey as to the risks perceived by the company's CEO and the top management subject to internal audit in 2018.

Risk factors for the De'Longhi Group

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

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

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

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

The economic environment and the difficulties in preventing economic cycles, the prices of raw materials (steel, plastic and copper) and energy (especially oil), the crises in a few markets linked to ongoing conflicts (first of all the situation in North Korea and in the Middle East) and political and economic changes in the United States and in Great Britain (Brexit), along with the other factors 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.
Even if the context is still uncertain, with a view to mitigating the negative effects connected to the exit of Great Britain from the European Union and consistent with the new breakdown of commercial responsibilities, a project was started which will simplify European commercial flows starting 1 January 2019 with centralization of the activities, which were managed in UK, at the dedicated Italian commercial structure.

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 polices 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 Group competes with other major international industrial groups. The target markets are highly competitive in terms of product quality, innovation, price, energy saving, reliability, safety and assistance. The trade, furthermore, is gradually becoming more and more concentrated in a few international players in some of the main markets, also due to the exponential growth of e-commerce business and its main players; in order to counteract this concentration, the strength of the Group's brands, as well as the ability to propose a compelling commercial offering, which is proving to be very important.
If the Group were unable to adapt effectively to the external context, this could have an adverse impact on the Group's business prospects, as well as on its economic performance and/or financial position.

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

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

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

In this respect, the Group has proved in the past to be a leader in technological innovation and in creating new 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.

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. Cash and cash equivalent of the Group are, mainly, in Eur or US dollar.
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.

In addition, with reference to steel, one of its principal raw materials, the Group has dealt for a long time with the same suppliers, selected for their reliability; up until now, these suppliers have always guaranteed the results of production expected.
Lastly, the Group defends its reputation with suppliers in their dealings with employees. Such caution is duly reflected in contractual dealings and furthermore, every supplier is given a copy of the De'Longhi Ethical Code governing all its activities.
Nevertheless, it is conceivable that a breach of contract by one or more suppliers to Group companies could have adverse effects on the Group's operations, economic performance, assets and liabilities and financial position.
The price of these raw materials and parts can fluctuate significantly, depending on several factors, including the cyclical nature of the markets concerned, supply conditions and other factors beyond the Group's control and difficult to predict. The trend in the price of these raw materials and parts is constantly monitored in order to take necessary action to keep the Group competitive.
At the date of the present report, the Group does not have any contracts to hedge the risk of fluctuations in commodity prices. There is also a possible risk linked to the dependence on one supplier for a few types of components of strategic production; in order to address this risk the Group has begun searching for secondary suppliers and to define an alternative strategy for purchasing/production.

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

The principal risks relating to human resources are linked to the Group's ability to attract, develop, motivate, retain and empower staff who have the necessary talent, values, and specialist and/or managerial skills to satisfy the Group's changing needs.
The loss of such individuals or other key employees without adequate replacement, or the failure to attract and retain new qualified resources could therefore adversely affect the Group's business prospects, as well as its economic performance and/or financial position.
In terms of being able to attract quality resources, the Group's principal companies not only have specialist qualified professional human resources teams, but they also plan actions to improve the quality of working environment for its employees and staff as well as the Group's external image (communication, contact with schools and universities, testimonials, internships, etc.), in some cases using the services of specialist professional firms with a proven track record.
In terms of motivating and developing personnel, actions taken include the strengthening of managerial, specialist, business and regulative competencies, with initiatives that involve managers and staff from different areas of the business.
The salary review process also includes reward systems for employees at various levels in the organization - from the plant worker through to top management and key people - which are linked to the achievement of short-term and/or medium/long term targets.
As far as plant personnel is concerned, the Group operates in China and Italy and in Romania. Having a production facility in Eastern Europe 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 12% of the total revenues (11% in 2017), 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 2018 the Group's net financial position is positive and financial debt is mainly medium-long term, in order to take advantage of the favourable market conditions characterized by very low interest rates. This risk is managed centrally by the same team that manages currency risks. Nevertheless, sudden fluctuations in interest rates could have an adverse impact on the Group's business prospects, as well as on its economic performance and/or financial position.
At the date of this report, the Group has two hedging contracts to protect two medium/long term loans from the interest rates fluctuation risk.

18 - Compliance and corporate reporting risks:

A. Financial reporting: Risks associated with the reliability of financial reporting, particularly that the information contained in the annual and interim financial reports might not be correct, warrant particular attention, especially for a listed company.
In 2018, 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 31.12.2018	Profit for 2018	Net equity 31.12.2017	Profit for 2017
De'Longhi S.p.A. financial statements	**484,643**	**172,265**	**458,249**	**174,610**
Share of subsidiaries' equity and results for period attributable to the Group, after deducting carrying value of the investments	607,129	22,380	579,424	121
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	17,660	(2,408)	20,086	(2,411)
Elimination of intercompany profits	(42,612)	(8,280)	(34,395)	5,347
Other adjustments	(895)	745	(1,635)	596
Consolidated financial statements	**1,065,925**	**184,702**	**1,021,729**	**178,263**
Minority interests	-	-	-	-
Group portion	**1,065,925**	**184,702**	**1,021,729**	**178,263**

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 2016-2018. At the end of the period the option will be tacitly renewed.

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 254/2016 calls for non-financial reporting on topics relating to five areas: environmental protection, social responsibility, treatment of employees, protection of human rights, as well as anti-corruption and fraud issues. A description of the main risks, the entity's policies, the relative performance indicators, as well as the business and organizational models used must be provided.
Paragraph 1073 of the Budget Law n.145/2018, which took effect as of 30 December 2018, also amended Legislative Decree 254/2016 and in addition to disclosing the main risks, entities are also required to describing how the risks are managed.
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 small domestic appliances including coffee makers, food preparation and cooking machines, air conditioners and heaters, as well as household cleaning devices.
More in detail, the Group operates in international markets through 4 main brands (De'Longhi, Kenwood, Braun and Ariete) and regional commercial structures.

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 mainly in a transversal way (namely by product line) and not by brand. 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".

Based on the Group's local for global approach, manufacture of products is plant specific. More in detail, the Nespresso Lattissima capsules coffee machines and De'Longhi brand fully automatic coffee machines are manufactured at the plant in Mignagola, Treviso, in Italy, as well as the built-in fully automatic coffe machines; at the plant in Cluj, Romania in addition to the production of fully automatic and Nescafe Dolce Gusto capsules coffee machines, the production of Braun brand kitchen products is concentrated. The manufacture of cooking and comfort products is done in the Chinese plant found in Zhongshan, while Kenwood brand food preparation appliances, De'Longhi brand cooking machines, Braun brand household products, traditional pump coffee machines are manufactured in the Dongguan plant.

Once production is completed, the machines manufactured are tested. The main purpose of this activity, managed at each plant by a dedicated team, is to verify product safety. Specific audits are conducted by the Quality Division in order to verify the quality of the OEM products.
Subsequently, the new products manufactured in-house by the Group and purchased from third parties are delivered to the sourcing centers and logistics hubs, namely to the warehouses from which goods are distributed through the Group's commercial network by providers of logistics services.

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 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.

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 clients	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 houseorgan, 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
Non profit 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).
With regards to the mitigation measures and the risk management methods related to ethics and compliance issues, reference should also be made to the table in the "Main risks associated with non-financial issues and management methods" in the Methodological Note.

Business and organizational model

Compliance is overseen by the Legal and Internal Audit Divisions, the Group's Financial Reporting Officer, 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. 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 Financial Reporting Officer and the Risk, Control and Corporate Governance Committee.
Overall, **risk assessment and management** is done in accordance with a corporate ERM project under the supervision of Internal Audit which, in 2018 continued to monitor and update risks. Furthermore, in the prior reporting period a section focused on defining and mapping risks identified by the local management based on specific areas of expertise and the country in of operation was added to the audit procedure.
Even though the Group does not have commercial relationships with public administrations, in order to increase control of compliance with internal regulations and laws of the different Countries in which it operates, beginning in 2015 the Group also conducts other controls to verify any episodes of abuse of office and corruption.

The Group also ensures that, in addition to regulatory compliance, **models of conduct** have been defined and implemented with a view to minimizing the risk of acts which are subject to sanctions under the law.
In 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, internal policies governing compliance with anti-money laundering and anti-corruption laws. The project, begun in 2017, calls for the assessment of a sample of Group companies, selected based on criteria including economic importance and regulatory similarities, which made it possible to identify the main areas in need of improvement and the importance of the latter with respect to the efficacy of the Compliance program.
In order to standardize the Governance policies across the Group, during the year "**Corporate Governance Guidelines**" were prepared and 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. In 2018 the Model was updated and amended, as was the entire system which aims to prevent the crimes contemplated under Legislative Decree 231/2001. As a result the information flows and the responsibilities for the processes defined in the Model were also redefined.
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 related party transactions subject to specific rules and approval based on the degree of materiality.

Policies and objectives

The De'Longhi Group's new code of Code of Ethics was published on 31 July 2018. This Code 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 must 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 2018 the Group focused on the areas in need of improvement that emerged last year and specific topics like conflict of interest and advances given to suppliers.
In 2019 the Group will continue with the compliance audit of other companies in order to define a flexible standard that can be adapted based on the specifics of each single reality in the De'Longhi world.

Key figures

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

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 2016-2018, is shown below.

Item	Europe			APA*			MEIA			De'Longhi Group		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Persons apprised of the company anti-corruption procedures and policies												
Manager	46	52	93	33	33	26	-	-	5	79	85	124
White collar workers	121	159	424	169	164	220	-	-	23	290	323	667
Blue collar workers	1	4	3	68	59	282	-	-	3	69	63	288
Total employees	**168**	**215**	**520**	**270**	**256**	**528**	**-**	**-**	**31**	**438**	**471**	**1,079**
Commercial partners	**3**	**1**	**2**	**2**	**4**	**7**	**-**	**-**	**-**	**5**	**5**	**9**
Employees who received anti-corruption training												
Manager	46	43	19	5	7	5	-	-	5	51	50	29
White collar workers	110	119	174	30	57	103	-	-	23	140	176	300
Blue collar workers	-	2	1	2,576	3,439	5,416	-	-	3	2,576	3,441	5,420
Total employees	**156**	**164**	**194**	**2,611**	**3,503**	**5,524**	**-**	**-**	**31**	**2,767**	**3,667**	**5,749**

* As far as the APA area is concerned, the hours associated with training courses for new hires that include aspects of business ethics or anticorruption were considered. The data shown are not available for offices and plants based in the USA, Canada and Romania.

No legal complaints relating to anti-competitive, anti-trust and monopolistic practices were filed in the two-year period 2017-2018. In 2016 the proceeding begun in 2015 by the Austrian anti-trust authorities relative to monopolistic behavior was settled and resulted in the payment of a fine of €650,000.

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 occupational health and safety.
Key to retaining and attracting resources and talent, as well as business continuity and its sustainability in the long-term, is the Group's ability to promote the professional growth of its people and a safe, healthy workplace, founded on values like ambition, courage, passion, expertise, heritage, teamwork and mutual respect which leverage on the importance of diversity, eliminating any form of discrimination. 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).
With regards to the mitigation measures and the risk management methods linked to the issues of human resource management, reference should also be made to the contents of the table "The main risks associated with non-financial issues and management methods" in the Methodological Note.

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 and supervised locally by a regional HR Manager, as well as directors of administration and operations at a few companies.
In September 2017 the corporate Human Resources Division used a specific questionnaire to conduct a survey – the second since the 2015 edition – of the Group's entire workforce, including the production personnel. In 2018 the results of the survey were presented after which plans of action were defined, together with both local and corporate employees. As a result of the work done at the Italian branches three areas in need of improvement were identified: services, policies and work-life balance.

With a view to ensuring consistency and fairness in the management of human resources on an international level, another module of the new management system, SAP's SuccessFactors (in place since 2017), PULSE was introduced which is dedicated to employee training and development. The new platform allows Group employees to create personalized learning plans based on specific needs and access a catalogue of on-line courses available through e-learning mechanisms. It is also possible to track the training in order to analyze results and identify training priorities.

Lastly, the pilot project conducted in the UK in 2017, which involved the implementation of a travel management system that was integrated with the SuccessFactors portal, was also replicated as of first-half 2018 at the Italian branches and 4 other Group companies. Currently, the cost benefit analysis of extending the project to all Group companies is 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, mapping the profiles based on a continuous assessment approach. In 2018 a new MBO management system was also adopted, which monitors the variable compensation paid employees of Group companies, with a view to also integrating the salary review process using methods which are more formalized and standardized across the Group.

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 and in China and Romania. These individuals are responsible for assessing risks related to the activities and implementing any improvements needed including with a particular attention to ergonomics of the work stations in the plants and offices. At Group level 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.

In 2018, the Group moved forward with several initiatives dedicated to the health and safety of its people: the human resources departments inside the plants and branches focused on improving the quality of the work environment by making several improvements along the production chain in order to increase the wellbeing of its employees. The different initiatives included increasing the average break time during the workday, the substitution of a few obsolete instruments in order to improve the ergonomics of the work station, reducing the physical exertion needed through innovations implemented along the production lines, the installation of new 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, implementation of a system of traffic lights aimed at improving the viability inside pedestrian areas was completed during the year, while at the Chinese plants the Group promoted yearly medical check-ups for all employees who perform tasks deemed "at risk". These are two examples of the further steps taken by the De'Longhi Group to create an optimal working environment which are in addition to compliance with local regulations.

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 new Code of Ethics, updated at 31 July 2018, 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 and any and all forms of forced labor. 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. A health and safety policy was formalized for the Mignagola plant in Treviso, Italy and Cluj, Romania after having adopted an operating system which complies with the international standard, OHSAS 18001.

The Group defined a formal policy relating to the compensation of the Board of Directors and the Executives with Strategic Responsibilities which is shared each year with all Group companies.

Furthermore, consistent with the process of standardizing processes across the Group, in 2018 a policy governing the MBO process was defined which will be applied as of 2019.

In 2019 the Group will continue with the activities tied to the engagement survey "Your Voice: to Make the Difference", conducted in the past, through a plan of action defined based on the feedback received which will result in the organization of workshops for all the companies' white collar workers. At the Italian branches several initiatives will be launched relating to the areas in need of improvement that emerged when the Survey was presented: services, work-life balance and policies. More in detail, with respect to the latter, in 2019 a specific pricing policy for the sale of the products to employees will be introduced. Lastly, the voluntary work groups will continue with their follow-up activities and seek to stimulate the active involvement of all employees in order to promote continuous improvement.

After the first workshop organized for the human resources department in 2018 for the Asia-Pacific region, additional workshops will be organized with department personnel in 2019 in order to complete the integration of the new human resources management system and further strengthen expertise. Further investments will also be made in 2019 to promote e-learning with the Group employees.

With regard to safety and health measures, the plan to redesign some production lines in Italy and the initiatives to gradually improve the workplace at plants in China and Romania will continue in coming years with new investments. 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 8,409 employees at 31 December 2018, an increase of 2.6% compared to the prior year. Women represent 49% of the De'Longhi Group's workforce. 90% of the employees have permanent contracts, basically in line with the prior year (91%).

Employees by contract type	Italy			Europe			APA			MEIA			De'Longhi Group		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
Employees by contract type															
Permanent positions	1,471	1,469	1,551	2,255	3,203	3,270	2,663	2,692	2,712	74	67	62	6,463	7,431	7,595
of which women	554	554	602	1,181	1,781	1,860	1,237	1,225	1,270	38	27	23	3,010	3,587	3,755
of which men	917	915	949	1,074	1,422	1,410	1,426	1,467	1,442	36	40	39	3,453	3,844	3,840
Temporary positions	29	140	84	47	52	33	493	574	697	-	-	-	569	766	814
of which women	12	78	48	28	30	21	211	247	302	-	-	-	251	355	371
of which men	17	62	36	19	22	12	282	327	395	-	-	-	318	411	443
Total	**1,500**	**1,609**	**1,635**	**2,302**	**3,255**	**3,303**	**3,156**	**3,266**	**3,409**	**74**	**67**	**62**	**7,032**	**8,197**	**8,409**
Employees by contract type															
Full-time	1,388	1,493	1,519	2,212	3,167	3,220	3,143	3,248	3,397	74	67	62	6,817	7,975	8,198
of which women	457	520	537	1,133	1,736	1,811	1,437	1,456	1,562	38	27	23	3,065	3,739	3,933
of which men	931	973	982	1,,079	1,431	1,409	1,706	1,792	1,835	36	40	39	3,752	4,236	4,265
Part-time	112	116	116	90	88	83	13	18	12	-	-	-	215	222	211
of which women	109	112	113	76	75	70	11	16	10	-	-	-	196	203	193
of which men	3	4	3	14	13	13	2	2	2	-	-	-	19	19	18
Total	**1,500**	**1,609**	**1,635**	**2,302**	**3,255**	**3,303**	**3,156**	**3,266**	**3,409**	**74**	**67**	**62**	**7,032**	**8,197**	**8,409**
Employees by gender															
Women total	**566**	**632**	**650**	**1,209**	**1,811**	**1,881**	**1,448**	**1,472**	**1,572**	**38**	**27**	**23**	**3,261**	**3,942**	**4,126**
Men total	**934**	**977**	**985**	**1,093**	**1,444**	**1,422**	**1,708**	**1,794**	**1,837**	**36**	**40**	**39**	**3,771**	**4,255**	**4,283**

During the year the Group availed itself of the collaboration of approximately 550 contractors working at the production plants.

Personnel composition – 2018 detail		Unit of measure	De'Longhi Group
Manager			
Men	< 30 years	%	-
	> 30 < 50 years	%	2.1%
	> 50 years	%	1%
Men Total		**%**	**3.1%**
Women	< 30 years	%	-
	> 30 < 50 years	%	0.8%
	> 50 years	%	0.1%
Women total		**%**	**0.9%**
TOTAL		**%**	**4%**
White collar workers			
Men	< 30 years	%	2.4%
	> 30 < 50 years	%	12.9%
	> 50 years	%	3.1%
Men Total		**%**	**18.4%**
Women	< 30 years	%	2.9%
	> 30 < 50 years	%	10%
	> 50 years	%	1.6%
Women total		**%**	**14.5%**
TOTAL		**%**	**32.9%**
Blue collar workers			
Men	< 30 years	%	8.9%
	> 30 < 50 years	%	16.2%
	> 50 years	%	4.4%
Men Total		**%**	**29.5%**
Women	< 30 years	%	7.3%
	> 30 < 50 years	%	22.7%
	> 50 years	%	3.6%
Women total		**%**	**33.6%**
TOTAL		**%**	**63.1%**

Note: The data for the years 2016 and 2017 are not available with the same detail shown in the table.

In 2018, the De'Longhi Group's BoD comprised 8 men and 4 women; of which 58% over the age of 50.

Configuration of De'Longhi Group S.p.A.'s Board		Unit of measure	Italiy		
			2016	2017	2018
Men	< 30 years	n	-	-	-
	> 30 < 50 years	n	1	1	1
	> 50 years	n	6	6	7
Men total		**n**	**7**	**7**	**8**
Women	< 30 years	n	-	-	-
	> 30 < 50 years	n	3	3	2
	> 50 years	n	1	1	2
Women total		**n**	**4**	**4**	**4**
TOTAL		**n**	**11**	**11**	**12**

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 2018 the De'Longhi Group provided an average of 18.2 hours of training to each employee (+12% compared to 2017) for a total of approximately 153, 100 hours, about 15% higher than in the prior year.

Training	Unit of measurement	De'Longhi Group		
		2016	2017	2018
Average training hour by employee	h	16.6	16.3	18.2

Note: Data relating to training provided for the 2016-17 two-year period are not available for offices based in the Czech Republic, USA, Scandinavia, Canada.

Training	Unit of measurement	De'Longhi Group
		2018
Training by category		
Average hours for manager	h	14.8
Average hours for white collars	h	17.7
Average hours for blue collars	h	18.6
Training by gender		
Average hours for women	h	13.3
Average hours for men	h	23.0

The overall rate of injuries fell 10%, coming in at 4.16% in 2018 versus 4.64 in 2017, which means that the risk of injury for like number of hours worked decreased. The number of serious injuries in 2018 on the other hand, is slightly up, both for men and women, reaching 0.13% overall (+18% compared to 0.11 recorded in 2017 for the whole Group).

Types of Injuries and injuries rates		De Longhi Group 2016		2017		2018	
		Men	Women	Men	Women	Men	Women
Total number of injuries	n.	70	31	67	31	59	31
of which commuting injuries	n.	12	7	4	7	5	5
Fatal injuries	n.	1	-	-	-	-	-
Injury rate	-	6.4	3.2	6.3	2.8	5.3	2.9
Occupational disease rate	**-**	**0.2**	**0.3**	**0.1**	**0.3**	**-**	**0.3**
Index of gravity	**-**	**0.1**	**0.04**	**0.17**	**0.05**	**0.18**	**0.08**
Absentee rate	**%**	**1.7**	**2.4**	**1.6**	**2.5**	**2.3**	**3.9**

Types of injury and rates of injury		2018 – Detail by geographical area Italy		Europe		APA		MEIA	
		Men	Women	Men	Women	Men	Women	Men	Women
Injuries	n.	19	11	8	11	31	9	1	-
of which commuting injuries	n.	5	5	-	-	-	-	-	-
Fatal injuries	n.	-	-	-	-	-	-	-	-
Injury rate	-	8.3	6	3.3	3.6	5.1	1.8	26.2	-
Occupational disease rate	**-**	**-**	**2**	**-**	**0.3**	**-**	**-**	**-**	**-**
Index of gravity	**-**	**0.3**	**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**

Injuires and incurie rates of contractors		De'Longhi Group 2016		2017		2018	
		Men	Women	Men	Women	Men	Women
Injuries	n.	10	2	5	1	3	1
of which commuting injuries	n.	-	-	-	-	-	-
Fatal injuries	n.	-	-	-	-	-	-
Injury rate	**-**	**6.2**	**1.3**	**2.0**	**0.4**	**0.9**	**0.3**

No complaints alleging discrimination were received in 2018.
In 2017 a complaint was received in at the UK branch alleging discrimination based on the sexual orientation of an employee, while in 2016 a complaint was received alleging discrimination tied to a handicap.
These complaints, which were unfounded, were managed based on internal rules which call for an investigation to be carried out by heads of other divisions and for a report on the outcomes to be issued.

If the employee is not satisfied with the outcome, another investigation will be made. Furthermore, during 2018, at the OnShiu plant in China, there was a case of child labor, which emerged following an audit carried out by a customer. In particular, the case was linked to the presence of a worker, the son of employees, who, during the recruitment phase, had presented forged documents showing to be of age. Following this report, the Group promptly proceeded to terminate the employment relationship with the minor in question and with both parents and, with the aim of ascertaining the absence of other cases attributable to child labor, appointed a third party company to conduct a specific audit at the plant whose results have shown the absence of further case studies.
A series of initiatives and verifications have also been implemented during the recruitment phase, in agreement also with the local authorities, to avoid the repetition of these facts.

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. Product quality focuses on two specific arenas; safety and accurate, as well as adequate, disclosure.
The complexity of the regulatory environment requires that particular attention be paid to compliance with the product quality standards applied in the different jurisdictions referred to above as, based on the local for global approach adopted by the De'Longhi Group, the products are to be developed in accordance with the most stringent standards applicable in the more than one hundred countries where they are distributed. Examples include EU Regulation n. 1907/2007 or REACH (Registration, Evaluation, Authorisation and Restrictions of Chemicals) and the RoHS (Restrictions of Hazardous Substances) directive 2002/95/EC, both of which the Group's companies comply with even though the scope of application is strictly European.
Lastly, typical of manufacturers, the Group assumes the responsibilities for damages caused by defective products. In these instances the laws and regulations can be particularly severe in some jurisdictions, like the United States. In 2018 further steps were taken 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).
With regards to the mitigation measures and the risk management methods relating to product quality and innovation issues, reference should also be made to what is reported in the table "The main risks associated with non-financial parameters and management methods" in the Methodological Note.

Business and organizational model

The Quality Division, comprised of more than 500 people Group-wide, together with the Regulatory Affairs team, supervises all the legal aspects of the current laws and regulations relating to product safety, including food, defining guidelines and criteria for control at all companies. Compliance with the corporate provisions is assured thanks to 2 groups of teams: teams at plants dedicated to quality control of products made by the Group and suppliers of finished goods, as well as other teams responsible for quality control during the product development phase and when any feedback is received from the market. Paying careful attention to product quality beginning with the initial planning phases helps to keep any breakage or product malfunctions to a minimum.
Product quality is also monitored as part of the **ISO 9001** certified organizational model in place at the European plants and 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.
Lastly, with a view to guaranteeing **electrical and food safety**, during the pre-production phase compliance with electrical safety and food contact standards of all the De'Longhi Group products is certified by third parties. Subsequently, once production has begun, the electrical safety of all products is tested while a sample group of products is tested periodically for food safety compliance .
In order to ensure the quality of the finished products, the Quality Division also supervises the production quality of its suppliers through specific audits (§ Supply chain management).
Lastly, with regard to **product information**, the Regulatory Affairs team of the Quality Division assists Research and Development and Marketing with the creation of labels and booklets which comply with the regulations specific to each country. In order to comply with laws relating to product information and labeling, the country of origin and the presence of any refrigerants is reported for each appliance distributed by the Group. Instructions relating to how to safely use and dispose of the product at the end of its life cycle are also provided in the product manuals.

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 increasing digitalization of both consumers and markets 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 in Italy, Germany, UK and at the Dongguan plant in China.. These offices, together with the Quality Division's Regulatory team, develop solutions and find materials which comply with applicable laws. The Group's local for global approach calls for the development of products which comply with the most stringent standards applicable in the more than one hundred countries where the Group's solutions are distributed.

The development of innovative products is also promoted and supported by the partnerships that Operations and Technology have with a few commercial partners, for 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. 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 values underlying the Company's ethics is the importance of making excellent products, conceived and continually innovated through research in order to guarantee, in addition to other things, the safety and wellbeing of the consumer. 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 supports the commitment to the development and distribution of safe products which comply with all laws and regulations and meet the needs of end consumers.

Key figures

The qualitative efficiency of this process is assessed based on the First Time Quality Indicator (FTQ) which looks at the type of defects, functional or esthetic, linked to the single products. More in detail, the indicator expresses the number of perfect products as a percentage of total production. In the three-year period 2016–2018, 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 2018 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 2018 there was one instance of noncompliance with the European Directive 2014/35/EU, the "Low Tension Directive". During the year one complaint was received from the Customs Department in Hong Kong relating to the "Commercial Ordinance" and the labeling of a dehumidifier. In 2016 two incidents occurred linked to an incorrect specification of the product power frequency ("60Hz" rather than "50/60Hz") and the failure to include instructions in the language of the country where four products were distributed.
In 2016 there was one instance of noncompliance with the European Directive 2014/35/EU, the "Low Tension Directive".

In 2018, in order to enhance its capacity for innovation, the Group continued with its investments plans and research and development (please refer to the section "Research and development – quality control" for more information).

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

Connected products

During the year the Group continued to invest in the development of products that are connected through networks and other systems like Wi-Fi, given the potential these technologies have for increasing personalization, as well as preventing malfunctions and, consequently, improving efficiency and customer care.
Currently a line of coffee machines that can be connected via Wi-Fi as well as Bluetooth, which is already available for the De'Longhi fully automatic machines which have been on the market since 2015, is being developed. 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, during the year a dehumidifier for the European market was also developed which can be connected via Wi-Fi.
Lastly, an integrated solution, for the Japanese market was launched which allows for better quality sleep thanks to the device's temperature settings which adjust to the different stages of sleep based on the measurement of biometric parameters.
In the last few years the first connected Kenwood products have also been launched. These products were developed together with the International Design and Research Center at Cardiff Metropolitan University which has been working with the Group for the past six years on the impact of connectivity on kitchen appliances.

Durable and detachable products

During the development phase, coffee machines are subject to numerous tests relating to sub-categories and finished products. More in detail, thousands of drinks are made under standard conditions in order to verify product reliability. Toward this end, for the Maestosa and La Specialista an initiative focused on increasing durability is currently being developed which would include the possibility to separate and replace the grinder. The new "double wall" filter for the coffee machines makes it possible to disassemble and substitute part of the water filter mechanism which is comprised of two walls – which if broken may be replaced entirely – which enhances product repairability and durability .
A standardization initiative focused on motor gear reduction is also being developed for the Kenwood Chef which would, in addition to making production, purchasing, stocking and shipping more efficient, improve repairability and after sales service.
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 is subject to EU regulation n. 666/2013.
In addition to the ability to provide a significant number of cycles, the Group's design process is driven by the development of products that may be taken apart in order to ensure the highest degree of repairability possible. The ability to easily disassemble fully automatic coffee machines and Braun brand handblenders, together with the "dishwasher safe" characteristic, help to reduce water consumption and the use of polluting cleaning products.

The fully automatic coffee machines are also equipped with patented systems that make it possible to reduce maintenance and cleaning with detergents; more in detail, the coffee machines may be taken apart and washed 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. The milk pitcher can be completely detached and washed in the dishwasher.

Energy efficient products

The quest for increasingly energy efficient products, a topic that is widely discussed by regulators, is one of the drivers of the Group's planning in all areas of development.
With regard to coffee, all fully automatic De'Longhi coffee machines are at least class A[1], as are all the Lattissima and manual machines with electronic controls like the Dedica machine. Also, during the year the "Eco-mode" was introduced which makes it possible to save energy during the warm-up phase of the fully automatic machines and a stand-by function was introduced for all product families which results in energy consumption that is lower than regulatory limits.
All the manual coffee machines, that consume more energy than the fully automatic machines as energy consumption is optimized during use which already lowers energy costs, are equipped with a patented 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 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 recent spread of health trends and increasingly healthy eating habits has shifted the attention of a growing number of consumers to types of kitchen machines capable, for example, 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 a coffee machine that can make drinks using vegetable milk in order to meet consumers' new food needs.
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. This work made it possible to better understand the effects of heat, oxygen, speed of the blades and blender mixing actions on the foods nutritional properties.

[1] Starting from 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 marketing 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 +++.

The new range of Multifry fryers are also in this vein. These fryers cook food using hot air which reduces the fat content considerably and eliminates the problem of eliminating the vegetable oils, lowering the environmental impact of cooking oils and limiting domestic waste management.
As for comfort, during the year a “Certification Mark of Allergy Standard Ltd” dehumidifier “Asthma & Allergy FriendlyTM” was launched, as was a fan heater and air purifier whose design allows uniform heating by means of an air flow whose characteristics have been developed in collaboration with Politecnico in Turin.

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.
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, management of defective products, minimum warranty periods, recyclable elements and environmental friendliness.
Data protection is largely a function of obsolescence in telecommunications technologies and the way in which data is processed.
With regards to the mitigation measures and the risk management methods relating to consumer relations issues, reference should also be made to the information in the table “The main risks associated with non-financial issues and management methods” in the Methodological Note.

Business and organization model

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

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

The support service network is made of around 1,800 service centers owned by the Group, 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, Japan and South Africa. 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, After Sales constantly monitors the quality of the support service teams and contact centers through inspections, as well as the use of specific indicators, and periodically provides training. The training of employees and specialized external support service providers takes place during the year in classrooms, through web training and the e-learning platform, with a final exam at the end. When new products are launched specialized training courses are also organized. In 2017 training was provided to around 500 people through 51 courses for a total of 5,000 hours of training and an international event for employees and distributors. In addition, together with Marketing, each year After Sales offers a dedicated training course to contact center operators.
In 2018, a new CRM management system (an extension of SAP) was installed at all Group companies which allows for integrated and efficient management of consumer information. This new system covers consumers representing around 80% of the Group’s sales, generates feedback and analyzes the information gathered.

The information provided by consumers on the institutional websites is stored on Google Cloud Platform webservers. 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). Toward this end, in order to comply with the new European regulation governing the protection of personal data (the GDPR), in effect as of May 2018, changes were made to the way After Sales gathers information.

Policies and objectives

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

As for internal and external communications, the Code of Ethics pays close attention to 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 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 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 clients 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 2018 there was one instance in which data was lost which only affected three consumers. In the two-year 2016-2017 period, no violations of laws governing privacy were reported.

Looking at the service provided to end consumers, in 2018 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 2018 the FTF was above 95%, an increase of a couple of decimal places, which indicates that almost all products received adequate, quality repairs.
In 2018 four complaints were received, which were resolved, relative to marketing and communications; more specifically, two of these complaints were related to brand information and the remainder to promotional disclosures.
At the end of 2017 two complaints had been received relating to promotional statements which caused the message to be changed or removed. No complaints of this sort were recorded in 2016.

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. The suppliers are, in fact, key to the De'Longhi Group's activities and, therefore, the focus of supply chain management is on promoting the best practices for product quality, working conditions, human rights, health, safety and environmental responsibility.
The De'Longhi Group's manufacturing and assembly are done at four plants located in Italy, Romania and China which cover 60% of sales, and by a group of qualified partners or "Original Equipment Manufacturers" which develop, manufacture and distribute products, above all coffee machines. Failure by the Group to maintain or renew the agreements with these partners could impact the 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).
With regard to the mitigation measures and the risk management methods relating to supply chain management issues, reference should also be made to the table in the "Main risks associated with non-financial issues and management methods" in the Methodological Note .

Business and organizational model

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

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

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

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

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, as of March 2019 the checklist for this type of audit will include 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 are used to classify partners as preferred, approved, probation and exit plan, as well as evaluate the structure and intensity of partnerships in the future.

Lastly, with regard to logistics optimization, in 2017 a hub in the Netherlands was created which completed the project to centralize logistics begun in 2016 when the first hub was created in Italy. The Dutch hub currently services Benelux, France and Scandinavia and, beginning in 2018, Germany. In 2018 the Group's logistics was reorganized at a few hubs due to exogenous emergency conditions: following the construction of a new warehouse, volumes were doubled at the US hub as imports were increased in light of the new tariffs to be applied to Chinese imports.

Policies and objectives

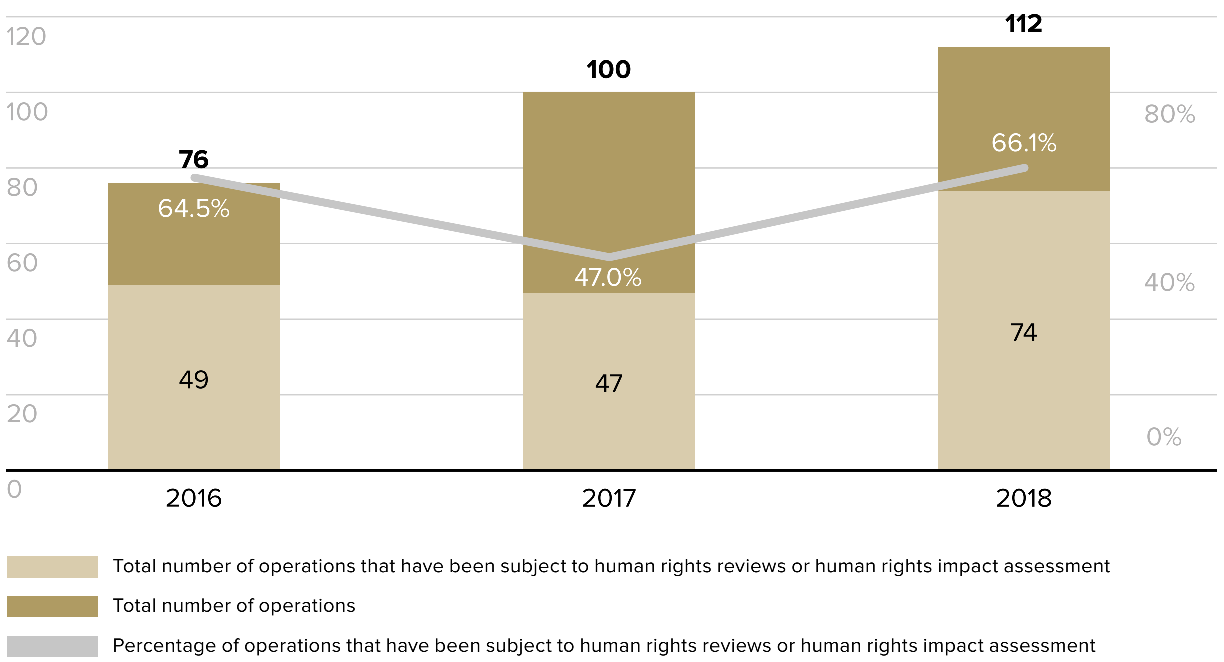
While there is no formal Group policy, the Code of Ethics governs the relationships with suppliers which should be conducted in accordance with the law and applicable regulations, as well as the general principles defined in the Code. The selection process, furthermore, should be done based on an objective 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.

Supply Chain and Quality are committed to developing enduring relationships with suppliers in order to ensure quick responses to production needs. As for logistics, the Group intends to build a direct and simplified network favoring direct deliveries.
Beginning in March 2019, the environmental footprint of suppliers will also be assessed based on a checklist which will be included in the supplier quality and process audit which focuses on environmental compliance, management systems used and any environmental requirements linked to the type of business and the impact of the same.

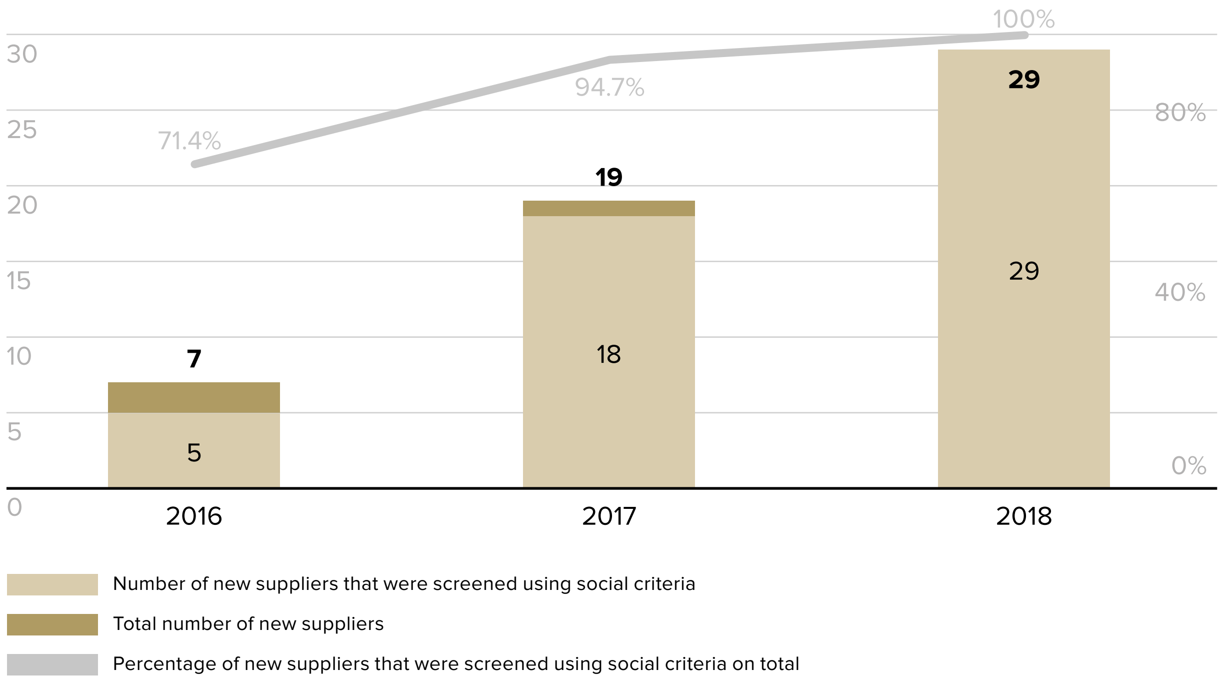
Key figures

In 2018 all new suppliers were subject to assessments based on social criteria, consistent with standard SA 8000. To date no SCOC (Social Accountability Code of Conduct) audit resulted in a "zero tolerance" rating and, consequently, termination of the supplier relationship in question.
In 2017 a total of 74 audits were carried out in order to verify that no human rights violations had occurred at 73 supplier sites and 1 Group site, which covered about 66% of the Group's operations, an improvement over the prior year.

Number and percentage of operations subject to human rights assessments



New suppliers assessed based on social criteria



Reducing environmental impact

Scenario and risks

Climate change and its consequences require that businesses manage the emission of greenhouse gases carefully and responsibly. The Group's main emissions are generated by manufacturing activities. Environmental regulations, which are subject to constant change, are also a factor which should not be under estimated 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, particularly concerning environmental protection) and 16 (Risks relating to environmental harm).
With regards to the mitigation measures and the risk management methods relating to environmental issues, reference should also be made to the contents of the table "The main risks associated with non-financial issues and management methods" in the Methodological Note.

Business and organizational model

At a Group level, the environmental aspects are managed by the Operations & Technology and Quality Divisions. More in detail, an ISO14001 certified environmental management system is in place at the production facilities in Mignagola and Cluj. The Group carried out an environmental analysis of these plants which made it possible to define the steps needed to reduce the environmental impact of the entire production chain.
More in detail, at the Mignagola plant solar panels are currently functioningwhich allow for the self-production of 7% of the electricity consumed; all lighting fixtures were replaced with LED systems which made it possible to reduce consumption. Substitution of the lighting fixtures is also underway at the Cluj plant, where production lines are equipped with electric plastic stamp machines which consume far less energy than traditional machines.

This technology was also adopted at the Group's Chinese plants where about ¼ of the plastic stamp machinery has been substituted with the electric models which consume about 25% less energy than the traditional ones; at both Chinese plants the lighting fixtures along the assembly lines, in the warehouses and in outdoor areas have also been substituted with LED systems.

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. The plan, 100% operative in 2019, will make it possible to map the consumption of the different areas and make any improvements that might be needed.

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 targeted energy efficiency and product durability, in particular, along with easier cleaning of the different components (please refer to the section "Product innovation and quality").

Lastly, over the last few years several projects were begun which focus on the **recovery of production by products**, which favors a circular economy. For example, at the Mignagola and Dongguan plants, a part of plastic scraps are reused in the manufacturing cycle which reduces initial raw material costs and the amount of waste to dispose of. Metal scraps are sold as raw materials, while those related to materials such as paper, cardboard and nylon are sent for recovery activities.
In 2018 the Group continued with and began 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. With regard to the cardboard boxes used for kitchen robots and planetary mixers, for example, packaging was resized which made it possible to reduce the size of some product packages by around 8%. Currently studies are being conducted which focus on reducing the plastic used for finished products, coffee machines and Braun brand products.

At the Chinese plants, packaging material made entirely from manufacturing scraps is used to move merchandise internally. A software program that makes it possible to optimize container loads, which lowers environmental and transportation costs, has also been installed at the Chinese plants.

At the plant in Romania, where the Packaging Engineering function has been operating for several years, new packaging designs have been developed that have made it possible to optimize finished product packaging and logistic costs. For example, for some product categories these improvements were particularly significant, bringing the number of boxes per pallet from 24 to 60 with consequent benefit in terms of reduction of transport costs per product, and had a positive economic and environmental impact. During the year, a project to standardize cardboard packaging at production sites in order to reduce consumption of materials was also launched.

Policies and objectives

The environmental policy, applied at the production facilities in Mignagola and Cluj and the Kenwood site supports compliance with all current legislation and the commitment to the steady improvement of environmental performances, optimization of the consumption of resources and energy, the reduction and, if possible, elimination of any form of pollution, as well as the deployment of technologies and processes which minimize environmental risks.

A similar policy has yet to be formalized for the entire Group, although one of the founding principles of the Code of Ethics is the protection of the environment in accordance with specific legislation. 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.

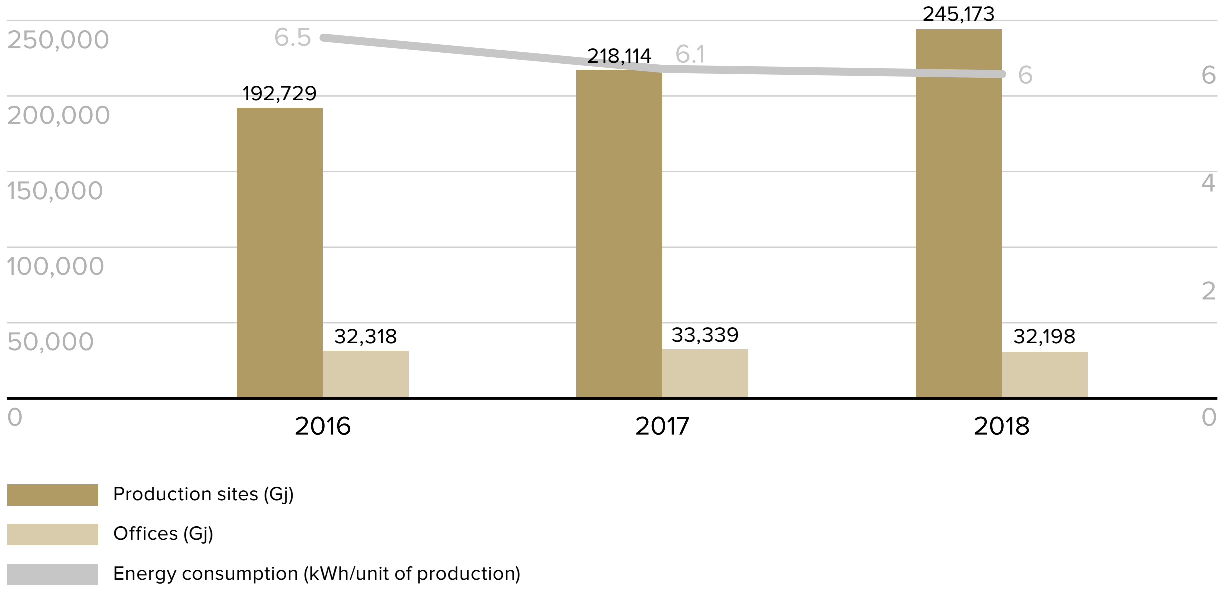
Key figures

In 2018, the higher volumes produced led to a 9.4% increase in energy consumption compared to the prior year in line with the organic performance of the business (380,431 GJ in 2018 compared to 346,834 GJ in 2017). 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 by type	um	Production facilities			Offices			De'Longhi Group		
		2016	2017	2018	2016	2017	2018	2016	2017	2018
Direct Energy consumption from non-renewable sources										
Gas	GJ	2,550	2,385	2,801	14,521	14,392	14,664	17,072	16,776	17,465
Diesel	GJ	6,506	6,121	6,885	26,509	23,598	23,374	33,015	29,719	30,259
Natural gas	GJ	29,001	39,846	45,230	5,171	4,281	5,498	34,172	44,126	50,728
LPG	GJ	394	585	523	66	113	133	461	698	657
Fuel oil	GJ	-	-	-	204	205	205	204	205	205
Total	**GJ**	**38,451**	**48,936**	**55,440**	**46,473**	**42,588**	**43,875**	**84,924**	**91,524**	**99,314**
Direct Energy consumption from renewable sources										
Energy produced from renewable sources and consumed	GJ	3,482	3,811	3,709	38	45	37	3,521	3,856	3,746
Total direct Energy consumption	**GJ**	**41,934**	**52,747**	**59,148**	**46,511**	**42,633**	**43,911**	**88,445**	**95,381**	**103,060**
Indirect energy consumption										
Electricity	GJ	192,729	218,114	245,173	28,350	29,087	29,082	221,079	247,202	274,256
District heating	GJ	-	-	-	3,427	3,698	2,718	3,427	3,698	2,718
Cooling	GJ	-	-	-	540	554	398	540	554	398
Total indirect energy consumption	**GJ**	**192,729**	**218,114**	**245,173**	**32,318**	**33,339**	**32,198**	**225,047**	**251,453**	**277,372**
Total energy consumption	**GJ**	**234,663**	**270,862**	**304,322**	**78,829**	**75,972**	**76,110**	**313,492**	**346,834**	**380,431**

During the three-year period 2016 - 2018, 11.6, 12.3 and 5.5 GJ of electricity produced from renewable sources were produced at the Group's sites, which were then transferred to the national network. It should be noted that in relation to the electricity consumption of the Ariete offices, a measurement methodology change took place during the year.

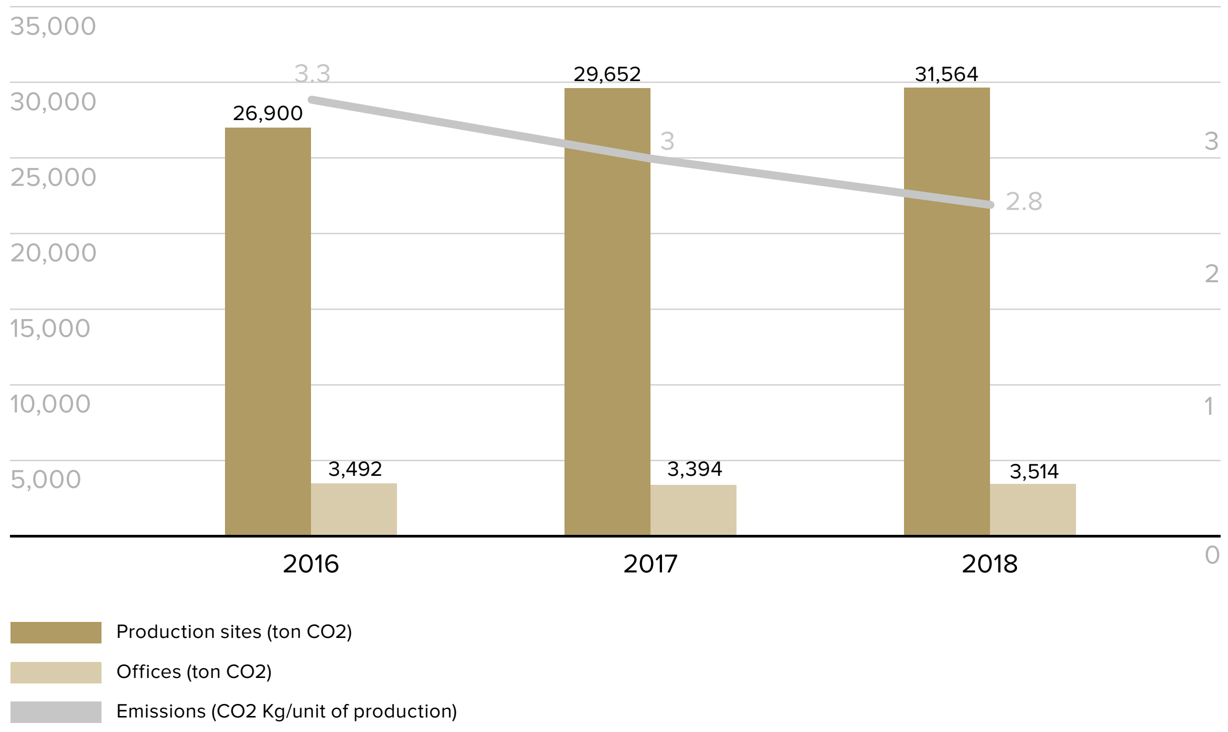
The indirect electricity consumption per unit of production fell from 6.1 kWh in 2017 to 6.0 kWh in 2018 (about -1.7%), which confirms the effectiveness of the steps taken by the Group to improve energy efficiency over the last few years.



In 2018 total CO2 emissions reached 41,397 tons, an increase of +6.2% against the 38,991 tons recorded in 2017, (based on CO2 emissions calculated using the "Location Based" method). Consistent with energy consumption, the level of CO2 emissions is mainly attributable to the consumption of electricity (about 85% of the Group's total CO2 emissions).

Emissions [ton CO2]	Production sites			Offices			De'Longhi Group		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
Direct	2,311	2,891	3,276	3,324	3,054	3,127	5,635	5,944	6,403
Indirect – Location Based	26,900	29,652	31,564	3,492	3,394	3,514	30,392	33,045	35,078
Indirect – Market Based	28,888	32,833	36,057	4,423	4,301	4,322	33,311	37,134	40,379
TOT (Direct + Indirect – Location Based)	**29,211**	**32,543**	**34,840**	**6,816**	**6,448**	**6,642**	**36,027**	**38,990**	**41,482**
TOT (Direct + Indirect – Market Based)	**31,199**	**35,724**	**39,333**	**7,747**	**7,355**	**7,449**	**38,947**	**43,079**	**46,783**

In 2018 the Scope 2 CO2 emissions per unit produced dropped by around 6.6% from the 3.0 kg recorded in 2017 to 2.8 kg per unit produced.



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 2018.
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.

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 2018.

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 254/2016 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 Standards [2]

Decree 254	Macro areas	Material topics	GRI standard	Topic perimeter		Boundaries of the report's perimeter	
				Internal	External	Internal	External
Fight against corruption	**Ethics and compliance**	Compliance	GRI 205 – Anti-corruption	Group	-	-	-
			GRI 206 – Anti-competitive behavior	Group	-	-	-
Human resources management Human rights	Personnel managment	Recruiting and retaining talents	GRI 102-8 – Information on employees and other workers	Group	-	-	-
			GRI 404 – Training and education	Group	-	-	-
			GRI 405 – Diversity a nd equal opportunity	Group	-	-	-
		Health and safety of workers	GRI 403 – Occupational health and safety	Group	Suppliers, Contact Centers	-	Contact Centers not reported on
		Human rights	GRI 406 - Non discrimination	Group	Suppliers	-	Suppliers not reported on
Social aspects **Environmental aspects**	**Product quality and innovation**	Product safety	GRI 416 – Consumer health and safety	Group	OEM suppliers	-	-
		Product labeling	GRI 417 – Product marketing and labeling	Group	OEM suppliers	-	-
		Product innovation	-	Group	-	-	-
		Eco - friendly design	-	Group	-	-	-
Social aspects	Consumer relations	Use of consumer data	GRI 418 – Customer privacy	Group	Contact Centers	-	-
		Efficiency of the distribution network	-	Group	-	-	-
		After sales services	-	Group	Contact Centers	-	-
Social aspects **Human rights**	**Supply chain management**	Risk management along the supply chain	GRI 412 – Human rights assessment	Group	Suppliers	-	-
			GRI 414 – Supplier socal assessment	Group	Suppliers	-	-
Environmental aspects	Lowering the environmental impact	Emissions management and fight against climate change	GRI 302 – Energy	Group	-	-	-
			GRI 305 - Emissions	Group	Suppliers, Contact Centers	-	Suppliers and Contact Centers not reported on

[2] 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, Management of waste, Welfare, Training and development of soft skills, Promotion of sustainable lifestyles, Product recyclability and end-of-life management, Product durability, Packaging.

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.

The main risks related to non-financial issues and management methods

With reference to the possible risks, suffered and generated, connected to the issues that the De'Longhi Group has identified as "materials", the table shows, for each area of Legislative Decree 254, the main associated risks and the related methods of management.

Areas of the Italian Legislative Decree 254/2016	Main Risks	Tools of risk management
Fight against corruption	• 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 • Risks relating to the transactions of a commercial nature that the Group has had and continues to have with related parties. Reputational risks	• Group's Code of Ethics • Model of organization, management and control in accordance with art. 6 of the Italian Decree 231/2001 • Group's internal control system to ensure regulatory compliance • Corporate Governance Guidelines • Set of procedures to govern the Group's transactions with related parties
Human resources management **Human rights**	• Risks relating to human resources management, in particular in relation 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. • As regards the Chinese facility, moreover, certain risks associated with high staff turnover within the Chinese manufacturing workforce exist. • Risks relating to possible discrimination cases	• Group's Code of Ethics • Model of organization, management and control in accordance with art. 6 of the Italian Decree 231/2001 • Group's internal control system to ensure regulatory compliance • Organizational model which in line with the OHSAS 18001 • Regarding the European sites: Health and Safety Policy • Policy relating the compensation of the • Group's Board and of Directors having strategic responsibilities. • Performance assessment process • Procedure regarding MBO management • Employee Engagement Survey • Regarding Chinese sites: incentive systems to foster staff retention, investment in training and developing more qualified internal resources, improvements in living and working conditions within the various factories
Social aspects **Environmental aspects**	**Product quality and innovation** • Risks relating to the De'Longhi Group's ability to achieve continuous product innovation • Risks relating to patents and trademarks • Risks relating to product quality and product liability, in particular the Group's products have to meet different quality standards according to the different jurisdictions in which they are marketed. • Risks relating to changes in the regulatory framework, particularly concerning environmental protection and in particular regarding safety and energy consumption standards for domestic electrical appliances and regulations on consumer contracts, defective products, minimum warranty periods, recyclability and environmental compatibility.	• Group's Code of Ethics • Organizational model certified in accordance with the standard UNI EN ISO 9001:2015 • Organizational model to manage food safety • Quality Policy • NPD procedures • System of quality audit • Constant monitoring of regulatory developments • Product's patents and trademarks registration

Areas of the Italian Legislative Decree 254/2016	Main Risks	Tools of risk management
Social aspects	**Consumer relations** • Risks relating to inventory levels and delivery punctuality 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. Another risk is the efficient management of the supply chain that could affect the adequacy of customer service. • Risks relating to IT systems: in particular, in relation to events that could jeopardise the ability to provide continuous service and the safekeeping of data.	• Group's Code of Ethics • Model of organization, management and control in accordance with art. 6 of the Italian Decree 231/2001 • Group's internal control system to ensure regulatory compliance • Policy GDPR (includes data retention policy and data breach management procedure) • Employees Training concerning IT security and privacy • Presence of structures dedicated to the continuous monitoring of the level of customer satisfaction
Social aspects **Human rights**	**Supply chain management** • Risks relating to supplier relationships, in particular regarding their reliability in terms of quality of the products supplied, logistics services provided and timeliness of deliveries and in relation to their dealings with employees. • Risk linked to the dependence on one supplier for a few types of components of strategic production.	• Group's Code of Ethics • Model of organization, management and control in accordance with art. 6 of the Italian Decree 231/2001 • Set of procedures to govern the Group's transactions with related parties • System of social audit
Environmental aspects	• 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.	• Group's Code of Ethics • Regarding the European sites: Environmental management organizational model certified in accordance with the standard UNI EN ISO 14001:2015 • Group's internal control system to ensure regulatory compliance • Environmental Policy applied at the production facilities in Mignagola and Cluj and the Kenwood headquarters

The reporting process and the methods of calculation used

The content used in the NFS 2018 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 2016, 2017 and 2018.
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 (2016) used to calculated Scope 2 emissions in 2018. The factors used to calculate indirect emissions linked to energy consumption in 2017 – 2016, were taken from the 2015 version of Table 49 – Primary socio-economic and energy indicators which was the most updated version at that time (2017 reporting cycle). 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 2016-2017, 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 2016-2017-2018. 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 DEFRA table for the three-year period 2016-2017-2018.

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GRI Standard	Disclosure	Page	Note	Omission
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GRI Standard	Disclosure	Page	Omission
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Subsequent events

There are no significant events occurred after the end of the year.

Outlook

2018 proved to be a year of solid performance, albeit in a context of great complexity both in terms of markets and global macroeconomic scenario. The resulting challenges have forced the company to adopt, in a flexible way, all measures necessary to preserve its leadership positions and to ensure maximum reach to those business segments that enjoy a favourable momentum, also with a view to a medium term development.
In continuity with the year just ended, the management is confident to be able to achieve organic growth in the current year at a mid-single-digit rate and an improvement in adjusted EBITDA in absolute value.

Treviso, 14 March 2019

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	2018	*of which non-recurring*	2017	*of which non-recurring*
CONTINUING OPERATIONS					
Revenues from contracts with customers	*1-8*	2,056,634	*(307)*	1,947,366	
Other revenues	*1*	21,498		25,427	
Total consolidated revenues		**2,078,132**	*(307)*	**1,972,793**	
Raw and ancillary materials, consumables and goods	*2*	(990,096)		(877,742)	
Change in inventories of finished products and work in progress	*3-8*	78,562	*230*	16,424	
Change in inventories of raw and ancillary materials, consumables and goods	*3*	(4,201)		14,570	
Materials consumed		**(915,735)**	***230***	**(846,748)**	
Payroll costs	*4-8*	(268,684)	*(2,878)*	(254,030)	*(422)*
Services and other operating expenses	*5-8*	(575,652)	*(1,530)*	(559,177)	*(1,603)*
Provisions	*6*	(13,563)		(9,159)	*(90)*
Amortization	*7*	(61,581)		(58,236)	
EBIT		**242,917**	***(4,485)***	**245,443**	***(2,115)***
Net financial income (expenses)	*9*	(19,026)		(30,848)	
Net non recurring financial income (expenses)	*10*	-		14,627	*14,627*
PROFIT (LOSS) BEFORE TAXES		**223,891**		**229,222**	
Income taxes	*11*	(39,999)		(49,493)	
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS		**183,892**		**179,729**	
DISCONTINUED OPERATIONS					
Net profit (loss) from *discontinued operation*		810		(1,466)	
CONSOLIDATED PROFIT (LOSS) AFTER TAXES		**184,702**		**178,263**	
EARNINGS PER SHARE (in Euro)	*27*				
- basic		€ 1.24		€ 1.19	
- diluted		€ 1.22		€ 1.18	

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

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

Consolidated statement of comprehensive income

(€/000)	2018	2017
Consolidated profit (loss)	**184,702**	**178,263**
Other components of comprehensive income from Continuing Operations:		
- Change in fair value of cash flow hedges and financial assets available for sale	4,960	(14,486)
- Tax effect on change in fair value of cash flow hedges and financial assets available for sale	(1,336)	2,955
- Differences from translating foreign companies' financial statements into Euro	964	(38,166)
Total other comprehensive income will subsequently be reclassified to profit (loss) for the year	**4,588**	**(49,697)**
- Actuarial valuation funds	652	391
- Tax effect of actuarial valuation funds	(177)	(72)
Total other comprehensive income will not subsequently be reclassified to profit (loss) for the year	**475**	**319**
Total components of comprehensive income from Continuing Operations	**5,063**	**(49,378)**
Total components of comprehensive income from Discontinued Operations	**82**	**(82)**
Other components of comprehensive income	**5,145**	**(49,460)**
Total comprehensive income	**189,847**	**128,803**

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

Consolidated statement of financial position

Assets

(€/000)	Notes	31.12.2018	31.12.2017
NON-CURRENT ASSETS			
INTANGIBLE ASSETS		316,855	320,910
- Goodwill	*12*	92,400	92,400
- Other intangible assets	*13*	224,455	228,510
PROPERTY, PLANT AND EQUIPMENT		236,099	231,850
- Land, property, plant and machinery	*14*	141,733	129,476
- Other tangible assets	*15*	94,366	102,374
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		29,597	26,119
- Equity investments	*16*	26,169	22,957
- Receivables	*17*	3,428	3,083
- Other non-current financial assets	*18*	-	79
DEFERRED TAX ASSETS	*19*	36,087	32,322
TOTAL NON-CURRENT ASSETS		**618,638**	**611,201**
CURRENT ASSETS			
INVENTORIES	*20*	404,829	329,710
TRADE RECEIVABLES	*21*	429,294	401,545
CURRENT TAX ASSETS	*22*	18,234	13,551
OTHER RECEIVABLES	*23*	26,607	28,023
CURRENT FINANCIAL RECEIVABLES AND ASSETS	*24*	54,242	8,277
CASH AND CASH EQUIVALENTS	*25*	569,327	664,724
TOTAL CURRENT ASSETS		**1,502,533**	**1,445,830**
ASSETS RELATED TO DISCONTINUED OPERATIONS		-	37,186
Elimination of financial receivables from DISCONTINUED OPERATIONS		-	(7,958)
Non-current assets held for sales	*26*	1,121	1,287
TOTAL ASSETS		**2,122,292**	**2,087,546**

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

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

Consolidated statement of financial position

Net equity and liabilities

(€/000)	Notes	31.12.2018	31.12.2017
NET EQUITY			
GROUP PORTION OF NET EQUITY		1,065,925	1,021,729
- Share capital	*27*	224,250	224,250
- Reserves	*28*	656,973	619,216
- Profit (loss) pertaining to the Group		184,702	178,263
TOTAL NET EQUITY		**1,065,925**	**1,021,729**
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES		239,361	284,135
- Bank loans and borrowings (long-term portion)	*29*	84,915	128,792
- Other financial payables (long-term portion)	*30*	154,446	155,343
DEFERRED TAX LIABILITIES	*19*	33,966	27,288
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		70,468	70,167
- Employee benefits	*31*	33,968	29,936
- Other provisions	*32*	36,500	40,231
TOTAL NON-CURRENT LIABILITIES		**343,795**	**381,590**
CURRENT LIABILITIES			
TRADE PAYABLES	*33*	419,795	366,061
FINANCIAL PAYABLES		156,087	138,345
- Bank loans and borrowings (short-term portion)	*29*	101,765	67,477
- Other financial payables (short-term portion)	*30*	54,322	70,868
CURRENT TAX LIABILITIES	*34*	38,506	37,133
OTHER PAYABLES	*35*	98,184	111,882
TOTAL CURRENT LIABILITIES		**712,572**	**653,421**
LIABILITIES RELATED TO DISCONTINUED OPERATIONS		-	38,764
Elimination of financial debt/payable from DISCONTINUED OPERATIONS		-	(7,958)
TOTAL NET EQUITY AND LIABILITIES		**2,122,292**	**2,087,546**

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

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

Consolidated statement of cash flow

	Notes	2018	2017
Profit (loss) pertaining to the group from Continuing Operations		183,892	179,729
Income taxes for the period		39,999	49,493
Amortization		61,581	56,444
Net change in provisions and other non-cash items		3,997	(8,028)
Cash flow generated (absorbed) by current operations from Discontinued Operations		313	(314)
Cash flow generated by current operations (A)		**289,782**	**277,324**
Change in assets and liabilities for the period:			
Trade receivables		(32,414)	(45,825)
Inventories		(74,361)	(30,992)
Trade payables		50,263	27,679
Other changes in net working capital		(18,597)	16,974
Payment of income taxes		(36,231)	(35,327)
Cash flow generated (absorbed) by movements in working capital from Discontinued Operations		10,179	(5,861)
Cash flow absorbed by movements in working capital (B)		**(101,161)**	**(73,352)**
Cash flow generated by current operations and movements in working capital (A+B)		**188,621**	**203,972**
Investment activities:			
Investments in intangible assets		(14,180)	(14,249)
Other cash flows for intangible assets		530	28
Investments in property, plant and equipment		(50,312)	(85,065)
Other cash flows for property, plant and equipment		966	387
Net investments in financial assets and in minority interest		14	(20,097)
Cash flow generated (absorbed) by investment activities from Discontinued Operations		3,110	(1,354)
Cash flow absorbed by ordinary investment activities (C)		**(59,872)**	**(120,350)**
Cash flow by operating activities (A+B+C)		**128,749**	**83,622**
Dividends paid		(149,500)	(119,600)
Change in currency translation reserve on cash and cash equivalents		11,161	(22,316)
Other changes in Net Equity		-	(200)
New loans		-	345,000
Payment of interests on loans		(2,775)	(3,797)
Repayment of loans and other net changes in sources of finance		(66,061)	(83,490)
Cash flow generated (absorbed) by changes in net equity and by financing activities from Discontinued Operations		(20,245)	7,349
Cash flow generated (absorbed) by changes in net equity and by financing activities (D)		**(227,420)**	**122,946**
Cash flow for the period (A+B+C+D)		**(98,671)**	**206,568**
Opening cash and cash equivalents	*25*	**667,998**	**461,430**
Increase in cash and cash equivalents (A+B+C+D)		(98,671)	206,568
Closing cash and cash equivalents	*25*	**569,327**	**667,998**
Of which:			
Cash and cash equivalents included as Discontinued Operations		-	3,274
Cash and cash equivalents as reported in the statement of financial position from Continuing Operations		**569,327**	**664,724**

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

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

Consolidated statement of changes in net equity

(€/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 2016	**224,250**	**162**	**18,941**	**19,942**	**8,642**	**366**	**48,798**	**522,115**	**167,411**	**1,010,627**	**3,420**	**1,014,047**
Allocation of 2016 result as per AGM resolution of 11 April 2017												
- distribution of dividends				(121)				(119,479)		(119,600)		(119,600)
- allocation to reserves			6,288					161,123	(167,411)	-		-
Fair value Stock Option						3,717				3,717		3,717
Other changes in minority interests								(1,818)		(1,818)	(3,420)	(5,238)
Movements from transactions with shareholders	**-**	**-**	**6,288**	**(121)**	**-**	**3,717**	**-**	**39,826**	**(167,411)**	**(117,701)**	**(3,420)**	**(121,121)**
Profit (loss) after taxes									178,263	178,263		178,263
Other components of comprehensive income					(11,611)		(38,166)	317		(49,460)		(49,460)
Comprehensive income (loss)	**-**	**-**	**-**	**-**	**(11,611)**	**-**	**(38,166)**	**317**	**178,263**	**128,803**	**-**	**128,803**
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**
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**

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 2018 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 2018), 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 2018 are the same as those used for preparing the consolidated financial statements at 31 December 2017, except for certain new amendments and accounting standards described below.

The consolidated financial statements at 31 December 2018 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 14 March 2019. The financial statements used for consolidation purposes are the separate ones for the year ended 31 December 2018 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:

		31.12.2018		31.12.2017		% 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	1.1450	1.18149	1.1993	1.1293	(4.53%)	4.62%
British pound	GBP	0.89453	0.88475	0.88723	0.87615	0.82%	0.98%
Hong Kong dollar	HKD	8.9675	9.25987	9.372	8.8012	(4.32%)	5.21%
Chinese renminbi (Yuan)	CNY	7.8751	7.80736	7.8044	7.6264	0.91%	2.37%
Australian dollar	AUD	1.6220	1.57992	1.5346	1.4729	5.70%	7.27%
Canadian dollar	CAD	1.5605	1.53019	1.5039	1.4644	3.76%	4.49%
Japanese yen	JPY	125.85	130.40955	135.01	126.6545	(6.78%)	2.96%
Malaysian ringgit	MYR	4.7317	4.76418	4.8536	4.8501	(2.51%)	(1.77%)
New Zealand dollar	NZD	1.7056	1.70585	1.685	1.5895	1.22%	7.32%
Polish zloty	PLN	4.3014	4.26058	4.177	4.2563	2.98%	0.10%
South African rand	ZAR	16.4594	15.61336	14.8054	15.0434	11.17%	3.79%
Singapore dollar	SGD	1.5591	1.59284	1.6024	1.5582	(2.70%)	2.22%
Russian rouble	RUB	79.7153	74.05508	69.392	65.8877	14.88%	12.40%
Turkish lira	TRY	6.0588	5.69857	4.5464	4.1214	33.27%	38.27%
Czech koruna	CZK	25.724	25.64316	25.535	26.3272	0.74%	(2.60%)
Swiss franc	CHF	1.1269	1.15488	1.1702	1.1115	(3.70%)	3.90%
Brazilian real	BRL	4.4440	4.30874	3.9729	3.6041	11.86%	19.55%
Croatian kuna	HRK	7.4125	7.41815	7.44	7.4644	(0.37%)	(0.62%)
Ukrainian hryvnia	UAH	31.7362	32.11569	33.7318	30.0276	(5.92%)	6.95%
Romanian leu	RON	4.6635	4.65405	4.6585	4.5687	0.11%	1.87%
South Korean won	KRW	1,277.93	1,299.2533	1,279.61	1,275.83	(0.13%)	1.84%
Chilean peso	CLP	794.37	756.9625	737.29	732.19	7.74%	3.38%
Swedish krona	SEK	10.2548	10.25674	9.8438	9.6369	4.18%	6.43%
Mexican peso	MXN	22.4921	22.71603	23.6612	21.3278	(4.94%)	6.51%

(*) Source: Bank of Italy

International accounting standards adopted by the Group for the first time

With Regulation 2016/2067 of 22 November 2016 the European Commission adopted IFRS 9 – *Financial Instruments* which substitutes IAS 39 *Financial Instruments: Recognition and Measurement.* IFRS 9 addresses all the issues relating to accounting of financial instruments: classification and measurement, loss in value and hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018. With the exception of hedge accounting (which is applied, with a few exceptions, as of the effective date) the standard is to be applied retroactively, but it is not mandatory to provide comparative figures. The Group adopted the new standard when it took effect.
Application of the classification and measurement called for in IFRS 9 did not have any impact on the Group's financial statements. Loans, as well as trade receivables, are held for collection upon expiration of the contract and are expected to generate cash flows stemming solely from the collection of principle and interest. The Group will continue, therefore, to measure them at amortized cost in accordance with IFRS 9.
Based on IFRS 9 impairment of financial assets recognized in the financial statements at amortized cost must be calculated based on an expected loss approach which substitutes the IAS 39 framework based typically on an incurred loss approach. The Group, due to the prudent approach used to estimate losses on receivables under the prior standard, as well as the limited exposure to credit risk, thanks also to the widespread use of insurance, did not have to adjust the measurements made relative to the recovery of trade receivables and other financial assets.
IFRS 9 introduces a revision in the requisites and rules for the application of hedge accounting, simplifying in part the IAS 39 rules and expanding the instances in which hedge accounting may be used. The application of the standard did not impact the Group significantly.

With Regulation 2016/1905 of 22 September 2016 the European Commission adopted IFRS 15 *Revenues from contracts with customers* which introduces a new five-step model to be applied to contracts with customers. IFRS 15 calls for revenues to be recognized for an amount that reflects the consideration to which the entity will be entitled to when the control of the merchandise or services is transferred to the customer. The new standard, which substituted all the other requirements in the IFRS relating to revenue recognition, was applied retroactively by the Group as of 1 January 2018.
Revenues from sales are recognized by the Group when the good is transferred to the customer, namely when the customer acquires control of the good. With respect to revenue recognition, application of IFRS 15 is not significantly different from the prior standard. Revenues are recognized net of discounts, rebates and returns. Consistent with the prior standard, revenues from assets sold with a right to return will not be recognized but a refund liability will and an asset will be recognized in inventory net of any loss in value of the returned product. Application of IFRS 15 did not impact the way in which the Group accounts for revenues.

As part of the process designed to improve international accounting standards, the European Commission adopted amendments of a few standards, effective 1 January 2018, in order to resolve questions that aren't urgent relating to inconsistencies or provide clarifications of certain terms.
With Regulation 2018/182 of 7 February 2018 Annual Improvements to IFRS 2014-2016 cycle were adopted which resulted in changes being made to IAS 28 *Investments in Associates and Joint Ventures*, to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IFRS 12 *Disclosure of Interests in Other Entities*.

Regulation 2018/289 was approved on 26 February 2018 which adopted amendments to IFRS 2 *Share Based Payments* in order to clarify how the standard should be applied in a few specific cases; the main changes relate to cash-settled share-based payments, accounting treatment of cash-settled share-based payments with and without performance conditions and share-based payment awards settled net of tax withholdings.

Regulation 2018/400 of 14 March 2018 adopted amendments to IAS 40 *Investment Property – Transfers of Investment Property* in order to clarify when a property may be transferred to or from investment property.

On 28 March 2018 Regulation 2018/519 was approved which adopts IFRIC 22 *Foreign Currency Transactions and Advance Consideration* in order to clarify the accounting for transactions that include the receipt or payment of advance consideration in foreign currency.

These amendments did not have a material impact on the Group.

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

IFRS 16 *Leases* was adopted by the EU in Regulation 2017/1986 on 31 October 2017. This standard aims to improve the financial reporting of leases. The scope of the new principle is largely unchanged with respect to IAS 17 which it is substituting. 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 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 measures which facilitate application. The lessee may decide to not apply IFRS 16 to leases of less than 12 months which do not provide for renewal 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 new standard will be applicable for reporting periods beginning on or after 1 January 2019.

Though the Group did not opt for early application, it has undertaken to analyze the possible impact that transitioning to application of the standard could have 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 will apply the provision which allows for the new definition of leasing not to be applied during the transition phase. The Group, therefore, will not apply the standard to contracts which were not already identified as leases under IAS 17 and IFRIC 4.

The Group completed a first assessment as to the impact that first-time application of IFRS 16 would have on its financial statements; the initial estimate of the actual impact that adoption of the standard could have is subject to change as further verification and controls are underway, particularly with regard to IT systems put into place to support management of the leases.

Subsequent to IFRS 16 application, new assets (relating mainly to leases for properties and automobiles) and financial liabilities (the lease obligations) will be recognized in the net financial position as non-banking items. The value of the right-of-use will be depreciated and interest recognized, while costs represented by the lease payments made will be eliminated.

Based on the information currently available, the Group estimates that at 1 January 2019 it will recognize right-of-use assets and lease payables totaling an estimated amount of around €80 million.

We estimate that over time, taking into account the average duration of the principle leasing agreements, the impact on the result for the year will not be very significant overall; however, there may be a temporary effect stemming from the recognition of interest and depreciation that replace the lease payments totaling an estimated amount of around €20 million per year, based on contracts at transiction date.

Other leases in which the Group is lessor should not have a material impact.

With Regulation 2018/498 of 22 March 2018 the European Commission also adopted amendments to IFRS 9 *Financial Instruments – Prepayment Features with Negative Compensation* in order to clarify the classification of certain prepayable financial assets when IFRS 9 is applied.

On 23 October 2018 Regulation 2018/1595 adopted IFRIC 23 *Uncertainty over income tax treatments* which clarifies the accounting for uncertainties in income taxes in certain situations.

On 8 February 2019 Regulation 2019/237 was approved which amends IAS 28: *Interests in Associates and Joint Ventures.* The amendments aim to clarify the application of IFRS 9 when accounting for long-term interests in associates or joint ventures that form part of the net investment in the associate or joint venture.

The three regulations will take effect as of 1 January 2019.

On 12 December 2017 IASB published *Annual Improvements to IFRSs 2015-2017 Cycle*, which includes amendments to IAS 12 *Income Taxes*, IAS 23 *Borrowing Costs*, IFRS 3 *Business Combination* and IFRS 11 *Joint Arrangements*. The amendments will take effect as of 1 January 2019. Early adoption is allowed.

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)*" clarifies how to determine pension costs when a change in a defined benefit plan occurs. The amendments will apply to reporting periods beginning on or after 1 January 2019.

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

In May 2017, IASB issued a new international accounting standard, IFRS 17 *Insurance contracts* which substitutes 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). In November 2018 IASB decided to delay the effective date of IFRS 17 one year, therefore, once the standard is endorsed by the European Union, the new standard will be applicable for reporting periods beginning on or after 1 January 2022.

In October 2018 IASB published *Definition of a Business (Amendments to IFRS3)* which aims to clarify if an entity acquired a business or a group of assets; the amendments will be applied to acquisitions made after 1 January 2020.

Consolidation procedures

The scope of consolidation includes the parent company, De'Longhi S.p.A., and its subsidiaries at 31 December 2018, meaning those companies in which the parent directly or indirectly owns the majority of share capital or shares with voting rights, or over which the parent has the power, including through contractual agreements, to govern their financial and operating policies.

Subsidiary companies

These are companies over which the Group exercises control. Such control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are consolidated starting from the date that control is assumed.
Minority interests represent the portion of profit or loss and of net equity not held by the Group and are reported separately in the income statement and in the statement of financial position, where they are presented as part of equity but separately from the Group portion.
Subsidiary companies are consolidated on a line-by-line basis; all of the assets and liabilities, income and expenses of consolidated companies are combined on a line-by-line basis with those of the parent.
The book value of the related equity investments is eliminated against the parent's share of the subsidiary's net equity, with all assets, liabilities and contingent liabilities recognized at their acquisition date fair values. Any positive difference is recognized as "Goodwill" in non-current assets.
The portion of equity and results attributable to minority shareholders is shown separately in the consolidated statement of financial position and income statement respectively.
Any gains arising on the disposal of interests in consolidated companies, which do not result in a loss of control, are recognized in the income statement as the difference between the sale price and corresponding portion of equity sold (under the parent entity extension method).

Associated companies

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

Joint ventures

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

Consolidation of foreign companies

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

Transactions eliminated upon consolidation

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

Transactions in foreign currency

Transactions in foreign currency are recorded at the exchange rate in force on the transaction date. Monetary assets and liabilities in foreign currency are translated using the exchange rate ruling on the reporting date. Exchange differences arising on the extinguishment of monetary items or their translation at different rates to those used for their translation upon initial recognition or in previous financial statements are recorded in the income statement.
Exchange differences arising on monetary items that are effectively part of the Group's net investment in foreign operations are classified in net equity until the investment's disposal, at which time such differences are recognized in the income statement as income or expenses.

Discontinued operations

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

In 2017 discussions relating to a possible industrial partnership were begun with an industry player (the H&T Group, premiere Chinese electronics group listed on the Shenzhen stock exchange).
On 22 February 2018 the industrial partnership agreement for the sale of 55% of NPE S.r.l.'s share capital was signed. Based on the agreement the shareholders will also make an equity contribution totaling €7.7 million to support development of the company and another 25% may be sold in the first half of 2020 at a price to be determined based on the extent to which certain economic targets have been achieved.
The agreement was finalized and title passed in a notarized deed dated 19 December 2018 after having received all the preliminary antitrust clearances.

With regard to the period ending 31 December 2018, in accordance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*, the results for NPE S.r.l. and the net gain recognized upon exit of NPE from the scope of consolidation were included in *Discontinued Operations*; the statement of financial position does not, however, include any balances linked to NPE S.r.l. which was deconsolidated when the sale of the controlling interest was completed.
In the period ending 31 December 2017, the period results for NPE S.r.l were recognized under *Discontinued Operations*, and the assets and liabilities were recognized in the statement of financial position.

In terms of methodology, please note that discontinued operations are included in the De'Longhi Group's scope of consolidation through year-end 2018 in accordance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations* and, therefore, the balances shown for the entire Group were determined after eliminating the intragroup transactions between Continuing and Discontinued Operations.

More in detail:
- the single lines of the income statement relating to Continuing Operations and the single items comprising the net result for Discontinued Operations shown in this report are shown without taking into account elisions of intercompany transactions between the two Operations;
- at the financial level, the single items relating to Continuing Operations and the single items relating to Discontinued Operations' assets/liabilities at 31 December 2017 shown in this report are shown without taking into account elisions of intercompany transactions between the two Operations;
- in the consolidated statement of financial position at 31 December 2017, therefore, the total amount of the financial transactions subject to elisions are shown in a separate line "Elimination of balance sheet items relating to Discontinued Operations";
- as for the statement of cash flows, all the cash flows generated by Discontinued Operations are shown in specific lines relating to current operations, movements in net working capital, investing activities and financing activities. These items are shown net of the impact of any transactions carried out between the Operations.

The net profit for *Discontinued Operations* came to €810 thousand (versus a loss of €1,466 thousand in 2017) as a result of €53,175 thousand in revenues (€53,746 thousand in 2017), €53,587 thousand in costs for consumables, services and other operating costs (€55,476 thousand in 2017), financial components by €1,081 thousand including the net gain generated by the sale of the majority interest (versus costs of €176 thousand in 2017) net of €141 thousand in tax (€440 thousand in 2017).

Changes in the scope of consolidation

In 2018 there were no changes in the scope of consolidation, other than what was already described above.

Disclosure by operating segments

Please refer to Note *42. Operating segments*.
The report on operations contains comments on the economic results by geographical area.

Principal accounting policies

Intangible assets

Goodwill

Business combinations, whereby control of a company/entity is acquired, are accounted for in accordance with the purchase method, meaning that the assets and liabilities acquired are initially measured at their market value on the acquisition date. The difference between the cost of acquisition and the Group's share of net assets acquired is attributed to specific assets and liabilities to the extent of their acquisition date fair value; any remaining difference is allocated to goodwill, if positive, and to the income statement if negative. The cost of acquisition is determined on the basis of the acquisition date fair value of the assets transferred, the liabilities assumed, the equity instruments issued and any other related amount. Goodwill is not amortized but tested for impairment once a year or more often if specific events or changed circumstances indicate that its value may have been impaired. This procedure is in accordance with IAS 36 - *Impairment of assets*. After initial recognition, goodwill is carried at cost less any accumulated impairment losses.

Research and development costs

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

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

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

Trademarks

These are costs of long-term benefit incurred for the protection and dissemination of the Group's trademarks. Such costs are recognized as an asset when, in accordance with IAS 38 - *Intangible assets*, it is probable that the future economic benefits attributable to the asset's use will flow to the Group and when its cost can be reliably measured.
These assets are valued at purchase or production cost and amortized, if they have a finite life, on a straight-line basis over their estimated useful life, generally between 10 and 20 years.
Trademarks with an indefinite useful life are not amortized but tested for impairment once a year or more often, any time there are signs that their value might be impaired.

Other intangible assets

Other intangible assets purchased or internally generated are recognized as assets in accordance with IAS 38 - *Intangible assets*, when it is probable that the future economic benefits attributable to their use will flow to the Group and when the cost of the asset can be reliably measured.
These assets are valued at purchase or production cost and amortized, if they have a finite life, on a straight-line basis over their estimated useful life, generally between 10 and 20 years.

Property, plant and equipment

Land, property, plant and machinery

Buildings, plant and equipment owned by the Group are recorded at purchase or production cost and systematically depreciated over their residual useful lives. The land pertaining to buildings is not depreciated. The cost of assets qualifying for capitalization also includes the borrowing costs directly attributable to the acquisition, construction or production of the asset itself.
Subsequent expenditure is capitalized only if it increases the future economic benefits flowing to the enterprise.
Ordinary and/or routine maintenance and repair costs are directly expensed to the income statement when incurred. Costs relating to the expansion, modernization or improvement of owned or leased assets are capitalized to the extent that they qualify for separate classification as an asset or part of an asset under the component approach, whereby every component whose useful life and related value can be autonomously assessed must be treated individually.
All other costs are expensed to income as incurred.

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

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

Property, plant and equipment under finance lease

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

Impairment of non-financial assets

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

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.

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.

Factoring of trade receivables

The Group factors some of its trade receivables. Trade receivables factored without recourse, resulting in the substantial transfer of the related risks and rewards, are derecognized from the financial statements at the time of their transfer. Receivables whose factoring does not result in the substantial transfer of the related risks and rewards, are retained in the statement of financial position.
The Group has entered a five-year agreement for the factoring of trade receivables, involving the revolving monthly transfer of a portfolio of trade receivables without recourse.
The receivables are assigned without recourse to a bank, which then transfers them to a special purpose entity which finances the purchase of the receivables by issuing asset-backed securities; the repayment of these securities, placed on the market and all subscribed by institutional investors, as well as the related interest, depends on the cash flow generated by the portfolio of securitized receivables. Receivables are sold at their face value, less a discount that reflects credit risk and the transaction's financial costs. The Group acts as servicer for the special purpose entity.
The contractual terms of this operation involve the substantial transfer of the risks and rewards relating to the securitized receivables and their consequent derecognition from the financial statements.

Employee benefits

Pension and other incentive plans

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

Equity based compensation

The Group grants additional benefits to the Chief Executive Officer, a limited number of executives and key resources under the form of stock options. Based on IFRS 2 *Share-based payment*, the current value of the stock option determined on the grant date is recognized on a straight-line basis in the income statement as a payroll cost in the period between the grant date and the date on which the rights granted to employees, executives and others who routinely provide services to one or more Group companies parties fully vest, with a corresponding increase in equity.
At each reporting date the Group will revise estimates based on the number of options that are expected to vest, independent of the fair value of the options. Any differences with respect to the original estimates will be recognized in the consolidated income statement with a corresponding increase in equity.
Once the stock option is exercised, the amounts received by the employee, net of transactions costs, will be added to the share capital in the amount of the nominal value of the shares issues. The remainder will be recognized in the share premium reserve.

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

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

Provisions for contingencies and other charges

The Group recognizes provisions for contingencies and charges when (i) it has a present obligation (legal or constructive) to third parties (ii) it is probable that the Group will need to employ resources to settle the obligation and (iii) a reliable estimate can be made of the amount of the obligation. Changes in these estimates are reflected in the income statement in the period in which they occur (also see the comments in the paragraph on "Estimates and assumptions").
Where the effect of the time value of money is material and the date of extinguishing the liability can be reasonably estimated, provisions are stated at the present value of the expected expenditure, using a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. An increase in the amount of the provision for the time value of money is accounted for in interest expense. Contingencies for which the probability of a liability is 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.

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 2018 revenues amounted to €2,078,132 thousand, including one-offs of €307 thousand.
Net of the non-recurring expenses, revenues, including revenues from contracts with customers and other income, amounted €2,078,439 thousand and are broken down by geographical area as follows:

	2018	% revenues	2017	% revenues	Change	Change %
North East Europe	552,275	26.6%	513,551	26.0%	38,724	7.5%
South West Europe	824,142	39.7%	810,664	41.1%	13,478	1.7%
EUROPE	**1,376,417**	**66.2%**	**1,324,215**	**67.1%**	**52,202**	**3.9%**
MEIA (Middle East/India/Africa)	**136,050**	**6.5%**	**128,008**	**6.5%**	**8,042**	**6.3%**
United States and Canada	226,361	10.9%	189,454	9.6%	36,907	19.5%
Australia and New Zealand	100,830	4.9%	109,026	5.5%	(8,196)	(7.5%)
Japan	84,818	4.1%	80,068	4.1%	4,750	5.9%
Other countries area APA	153,963	7.4%	142,022	7.2%	11,941	8.4%
APA (Asia/Pacific/Americas)	**565,972**	**27.2%**	**520,570**	**26.4%**	**45,402**	**8.7%**
Total revenues	**2,078,439**	**100.0%**	**1,972,793**	**100.0%**	**105,646**	**5.4%**

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:

	2018	2017	Change
Freight reimbursement	4,250	5,326	(1,076)
Commercial rights	1,905	2,990	(1,085)
Damages reimbursed	1,347	522	825
Out-of-period gains	257	236	21
Grants and contributions	1,417	1,502	(85)
Other income	12,322	14,851	(2,529)
Total	**21,498**	**25,427**	**(3,929)**

With regard to Law n. 124 of 4 August 2017, which regulates transparency in public funding, the item “Grants and contributions” includes income of €339 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:

	2018	2017	Change
Parts	467,854	399,729	68,125
Finished products	425,265	394,868	30,397
Raw materials	79,684	66,288	13,396
Other purchases	17,293	16,857	436
Total	**990,096**	**877,742**	**112,354**

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 €87,843 thousand in production-related payroll (€73,636 thousand at 31 December 2017).

	2018	2017	Change
Employee wages and salaries	250,239	242,277	7,962
Temporary workers	18,445	11,753	6,692
Total	**268,684**	**254,030**	**14,654**

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 2018 payroll costs included non-recurring expenses of €2,878 thousand incurred for structural reorganization of the Group and to revise the business model in a few markets (€422 thousand at 31 December 2017) and of €3,849 thousand relating to the notional cost (fair value) of the stock option plan for the year (€3,717 thousand at 31 December 2017).

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

	2018	2017
Blue collars	5,426	5,044
White collars	2,885	2,822
Managers	264	269
Total	**8,575**	**8,135**

5. Services and other operating expenses

These are detailed as follows:

	2018	2017	Change
Advertising and promotional expenses	227,165	220,580	6,585
Transport (for purchases and sales)	84,714	83,551	1,163
Subcontracted work	47,326	44,944	2,382
Rentals and leasing	33,585	32,476	1,109
Consulting services	21,175	21,745	(570)
Storage and warehousing	15,419	17,460	(2,041)
Technical support	14,904	13,486	1,418
Travel	14,585	17,718	(3,133)
Power	8,907	7,919	988
Commissions	7,415	7,707	(292)
Product certification and product inspection fees	6,330	5,368	962
Insurance	4,999	5,449	(450)
Maintenance	4,393	4,162	231
Postage, telegraph and telephones	3,697	3,913	(216)
Credit insurance fees	3,629	3,133	496
Other utilities and cleaning fees, security, waste collection	3,170	2,676	494
Directors' emoluments	3,104	3,052	52
Statutory auditors' emoluments	337	264	73
Other sundry services	26,768	26,283	485
Total services	**531,622**	**521,886**	**9,736**
Sundry taxes	38,166	33,097	5,069
Out-of-period losses	224	85	139
Bad debts	64	2	62
Other	5,576	4,107	1,469
Total other operating expenses	**44,030**	**37,291**	**6,739**
Total services and other operating expenses	**575,652**	**559,177**	**16,475**

In 2018 the item includes non-recurring expenses €1,530 thousand (€1,603 thousand at 31 December 2017).

6. Provisions

These include €13,631 thousand in provisions for contingencies and other charges net of the release of provisions for doubtful accounts of €68 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:

	2018	2017	Change
Amortization of intangible assets	17,689	14,637	3,052
Depreciation of property, plant and equipment	43,892	43,599	293
Total	**61,581**	**58,236**	**3,345**

More details about amortization and depreciation can be found in the tables reporting movements in intangible assets and property, plant and equipment.
The item also includes non-recurring write-downs of fixed assets for €5,133 thousand (€4,694 at 31 December 2017).

8. Non-recurring income/(expenses)

The non-recurring items of €4,485 thousand recorded at 31 December 2018 were recognized directly in the relative lines of the income statement (€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 reflects 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:

	2018	2017	Change
Exchange differences and gains (losses) on currency hedges	**2,553**	**(7,515)**	**10,068**
Share of profit of equity investments consolidated by the equity method	**1,063**	**238**	**825**
Net interest expense	(4,084)	(5,634)	1,550
Financial discounts	(15,777)	(15,662)	(115)
Other financial income (expenses)	(2,781)	(2,275)	(506)
Other net financial income (expenses)	**(22,642)**	**(23,571)**	**929**
Net financial income (expenses)	**(19,026)**	**(30,848)**	**11,822**

"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 using the equity method" includes income from the joint venture TCL/DL, dedicated to the manufacture of portable air conditioners, and the interest held in the Eversys Group which is active in the professional espresso coffee machine sector.

“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.

10. Net non-recurring financial income (losses)

“Net non-recurring financial income” at 31 December 2017 included mainly the income of €22,276 thousand deriving from the accounting of the earn-out payable on the Braun Household acquisition, net of the impact of the termination of the USPP (in particular, of the relative hedge) which came to €7,026 thousand.

11. Income taxes

These are analyzed as follows:

	2018	2017	Change
Current income taxes:			
- Income taxes	35,811	38,515	(2,704)
- IRAP (Italian regional business tax)	3,096	3,297	(201)
Deferred (advanced) taxes	1,092	7,681	(6,589)
Total	**39,999**	**49,493**	**(9,494)**

This item includes the patent box incentives for € 9.5 million (tax incentives on income from patents, trademarks and inventions), including an amount related to prior years, 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 € 3.3 million for the current and prior years.

"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:

	2018	%	2017	%
Profit before taxes	223,891	100.0%	229,222	100.0%
Theoretical taxes	53,734	24.0%	55,013	24.0%
Other (*)	(16,831)	(7.5%)	(8,817)	(3.8%)
Total income taxes	**36,903**	**16.5%**	**46,196**	**20.2%**
IRAP (Italian regional business tax)	3,096	1.4%	3,297	1.4%
Actual taxes	**39,999**	**17.9%**	**49,493**	**21.6%**

(*) 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

12. Goodwill

	31.12.2018		31.12.2017	
	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	31.12.2018
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 three-year plans approved by management. These plans have been prepared assuming realistic scenarios based on the information available at the reporting date, also including the budget for 2019 and the business plan for the period 2018-2020 which have already been approved by the Board of Directors respectively on 26 february 2019 and 22 February 2018.

Plan data was projected beyond the explicit planning period using a perpetuity growth rate that was no higher than those expected for the markets in which the individual CGUs operate. The growth rate in terminal values used for projecting beyond the planning period was therefore 2% for all the CGUs.
The cash flows and discount rate were determined net of tax.
The discount rate was calculated using the weighted average cost of capital (WACC) for a group of peers.
The discount rate of 7.7%, 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 2018 have not revealed any other significant evidence of goodwill impairment.
The results obtained using the discounted cash flow method have been tested for their sensitivity to changes in certain key variables, within reasonable ranges and on the basis of mutually consistent assumptions. The variables altered were the discount rate (between 7.5% and 7.9%) and the growth rate in terminal value (in the range 1.8%-2.2%).

With regard to the CGUs De'Longhi and Kenwood, which represent the Group's traditional business, the impairment tests and sensitivity analyses showed that the estimated recoverable amounts were significantly higher than book value.
For the CGU Braun, the recoverable value determined by the test is vastly higher than book value, even though the brand, which was acquired recently, is still in need of strong investments in promotional activities, as well as advertising, and the earning potential has yet to be fully expressed. Based on the above mentioned Group business plan, revenues will accelerate further in coming years (after rising already in the last years).

The estimated recoverable amounts for all the CGUs, however, were higher than book value and the sensitivity analyses point to relatively stable results; in fact, the minimum and maximum amounts diverged by around 10% from the central point when both variables were altered, while the divergence was considerably smaller when more reasonable assumptions regarding the change in variables were adopted.
No events of significance have occurred in the first few months of 2019 such as might indicate any further impairment in the carrying amount of goodwill.
However, estimating CGU recoverable amount requires management to make discretionary judgements and estimates. In fact, several factors also associated with developments in the difficult market context could make it necessary to reassess the value of goodwill. The Group will be constantly monitoring those events and circumstances that might make it necessary to perform new impairment tests.

13. Other intangible assets

These are analyzed as follows:

	31.12.2018		31.12.2017	
	Gross	Net	Gross	Net
New product development costs	95,340	16,995	83,300	12,448
Patents	39,745	4,514	38,414	5,010
Trademarks and similar rights	281,291	181,893	281,103	185,050
Work in progress and advances	21,601	15,244	21,596	19,098
Other	22,557	5,809	22,487	6,904
Total	**460,534**	**224,455**	**446,900**	**228,510**

The following table reports movements in the main asset categories during 2018:

	New product development costs	Patents	Trademarks and similar rights	Work in progress and advances	Other	Total
Net opening balance	**12,448**	**5,010**	**185,050**	**19,098**	**6,904**	**228,510**
Additions	2,945	1,452	194	9,400	189	14,180
Amortization	(7,493)	(1,827)	(3,345)	(3,859)	(1,165)	(17,689)
Translation differences and other movements (*)	9,095	(121)	(6)	(9,395)	(119)	(546)
Net closing balance	**16,995**	**4,514**	**181,893**	**15,244**	**5,809**	**224,455**

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

The principal additions refer to the capitalization of new product development projects, based on detailed reporting and analysis of the costs incurred and the estimated future utility of such projects.
The Group has capitalized a total of €12,249 thousand in development costs as intangible assets in 2018, of which €2,945 thousand in "New product development costs" for projects already completed at the reporting date and €9,304 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 2018 for both brands based on an indefinite useful life, did not reveal any evidence that these assets might have suffered an impairment loss.
No events of significance have occurred in the first few months of 2019 such as might suggest that the carrying amount of trademarks could have suffered any impairment loss.

The method used to test impairment involves discounting to present value the royalties that the Group would be able to earn from permanently granting third parties the right to use the trademarks in question. This method, which is based on royalty 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 (8.7% net of tax) reflects current market assessments and the time value of money. The cash flows discounted to present value are stated net of tax (in keeping with the discount rate).

The results of the impairment test have been tested for their sensitivity to changes in certain key variables, within reasonable ranges and on the basis of mutually consistent assumptions. The variables altered were the discount rate (between 8.5% and 8.9%) and the growth rate in terminal value (in the range 1.8%-2.2%).
The sensitivity analysis has revealed relatively stable results; in fact, the minimum and maximum amounts diverged by around 10% from the central point when both variables were changed, while the divergence was considerably smaller when more reasonable assumptions regarding the change in variables were adopted.

14. Land, property, plant and machinery

These are analyzed as follows:

	31.12.2018		31.12.2017	
	Gross	Net	Gross	Net
Land and buildings	116,101	84,934	100,555	74,144
Plant and machinery	137,790	56,799	127,501	55,332
Total	**253,891**	**141,733**	**228,056**	**129,476**

The following table reports movents during 2018:

	Land and buildings	Plant and machinery	Total
Net opening balance	**74,144**	**55,332**	**129,476**
Additions	1,423	4,740	6,163
Disposals	-	(67)	(67)
Depreciation	(4,749)	(9,121)	(13,870)
Translation differences and other movements	14,116	5,915	20,031
Net closing balance	**84,934**	**56,799**	**141,733**

The increase in "Land and buildings" is explained primarily by investments made in Italian properties, while the other movements refer, above all, to the reclassification of investments made in 2017 in the Romanian plant which were previously classified as work in progress.

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

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

	31.12.2018	31.12.2017
Plant and equipment	3,334	3,740
Total	**3,334**	**3,740**

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

15. Other tangible assets

Other tangible assets are analyzed as follows:

	31.12.2018		31.12.2017	
	Gross	Net	Gross	Net
Industrial and commercial equipment	300,198	53,908	275,531	49,486
Other	82,816	23,323	76,528	22,161
Work in progress and advances	17,135	17,135	30,727	30,727
Total	**400,149**	**94,366**	**382,786**	**102,374**

The following table reports movements during 2018:

	Industrial and commercial equipment	Other	Work in progress and advances	Total
Net opening balance	**49,486**	**22,161**	**30,727**	**102,374**
Additions	19,072	6,875	18,202	44,149
Disposals	(6)	(268)	(305)	(579)
Depreciation	(22,517)	(7,505)	-	(30,022)
Translation differences and other movements	7,873	2,060	(31,489)	(21,556)
Net closing balance	**53,908**	**23,323**	**17,135**	**94,366**

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

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

16. Equity investments

Details of equity investments are as follows:

	31.12.2018	31.12.2017
Equity investments consolidated using the equity method	26,115	22,906
Investment measured at fair value	54	51
Total	**26,169**	**22,957**

“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 2018 are shown below:

	31.12.2018
Opening net balance	**22,906**
Interest in net profit	1,063
Exchange differences	(94)
Payment of dividends	(443)
Investment in NPE S.r.l.	2,683
Closing net balance	**26,115**

The amount relating to NPE S.r.l. refers mainly to the remaining 45% held by the Group following the sale of the controlling interest already discussed in the section on *Discontinued operations*.

17. Non-current receivables

The balance at 31 December 2018 comprises €3,428 thousand in security deposits (€3,083 thousand at 31 December 2017).

18. Other non-current financial assets

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

19. Deferred tax assets and deferred tax liabilities

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

	31.12.2018	31.12.2017
Deferred tax assets	36,087	32,322
Deferred tax liabilities	(33,966)	(27,288)
Net asset balance	**2,121**	**5,034**

"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:

	31.12.2018	31.12.2017
Temporary differences	(1,000)	1,565
Tax losses	3,121	3,469
Net asset balance	**2,121**	**5,034**

The change in the net asset balance also reflects a decrease of €1,336 thousand relating to the "Fair value and cash flow hedge reserve" recognized in net equity and a drop in "Profit (loss) carried forward" of €177 thousand 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:

	31.12.2018	31.12.2017
Finished products and goods	344,297	267,560
Raw, ancillary and consumable materials	65,758	69,626
Work in progress and semi-finished products	26,514	24,338
Inventory writedown allowance	(31,740)	(31,814)
Total	**404,829**	**329,710**

The value of inventories is stated after deducting an allowance for obsolete or slow-moving goods totaling €31,740 thousand (€31,814 thousand at 31 December 2017) in relation to products and raw materials that are no longer of strategic interest to the Group.

21. Trade receivables

These are analyzed as follows:

	31.12.2018	31.12.2017
Trade receivables		
- due within 12 months	439,056	411,623
- due beyond 12 months	10	33
Allowance for doubtful accounts	(9,772)	(10,111)
Total	**429,294**	**401,545**

Trade receivables are stated net of an allowance for doubtful accounts of €9,772 thousand, representing a reasonable estimate of the expected risk at the reporting date. The allowance refers to a number of disputed receivables or those whose collection is otherwise in doubt and takes account of the fact that a significant portion of the receivables are covered by insurance policies with major insurers.

In accordance with the disclosure required by Consob Circular 3369 of 9 April 1997, we report that the total amount of receivables factored without recourse and outstanding at 31 December 2018 is €164,312 thousand. The total amount of receivables factored by the Group (turnover) during 2018 (under Law 52/1991 known as the Factoring Law) was €713,479 thousand.

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

	31.12.2017	Accrual / Net release	Utilization	Translation differences and other movements	31.12.2018
Allowance for doubtful accounts	10,111	(68)	(204)	(67)	9,772

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:

	31.12.2018	31.12.2017
Direct tax receivables	13,263	7,532
Tax payments on account	3,335	3,887
Tax refunds requested	1,636	2,132
Total	**18,234**	**13,551**

There are no current tax assets due beyond 12 months.

23. Other receivables

"Other receivables" are analyzed as follows:

	31.12.2018	31.12.2017
VAT	10,333	9,950
Other tax receivables	3,820	4,078
Advances to suppliers	3,028	5,397
Prepaid insurance costs	1,690	1,106
Employees	219	214
Other	7,517	7,278
Total	**26,607**	**28,023**

There are no other receivables due beyond 12 months.

24. Current financial receivables and assets

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

	31.12.2018	31.12.2017
Fair value of derivatives	10,307	4,755
Other current financial assets	43,935	3,522
Total	**54,242**	**8,277**

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

Other current financial assets mainly refer to an insurance policy and to other investments with guaranteed capital held with the aim of managing liquidity.

25. Cash and cash equivalents

This balance consists of surplus liquidity on bank current accounts, mostly relating to customer payments received at period end and temporary cash surpluses.
Some of the Group's foreign companies have a total of €336.3 million in cash on current accounts held at the same bank. These cash balances form part of the international cash pooling system and are partially offset by €313.3 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 2018 include €709 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.

	31.12.2017	Translation differences	31.12.2018
Non-current assets held for sale	1,287	(166)	1,121

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 19 April 2018 approved a dividend totalling €149,500 thousand, which was paid in full during the year.

27. Share capital

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

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

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.

	31.12.2018
Weighted average number of shares outstanding	149,500,000
Weighted average number of diluted shares outstanding	151,500,000

The dilutive impact of the stock option plan was not significant at 31 December 2018, therefore the difference between the diluted earnings per share (€1.22) and the basic earnings per share (€1.24) is not material.

28. Reserves

These are analized as follow:

	31.12.2018	31.12.2017	Change
Share premium reserve	162	162	-
Legal reserve	33,960	25,229	8,731
Other reserves:			
- Extraordinary reserve	36,201	19,821	16,380
- Fair value and cash flow hedge reserve	735	(2,969)	3,704
- Stock option reserve	7,932	4,083	3,849
- Currency translation reserve	11,596	10,632	964
- Profit (loss) carried forward	566,387	562,258	4,129
Total	**656,973**	**619,216**	**37,757**

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 €25,229 thousand at 31 December 2017. The increase of €8,731 thousand is explained by the allocation of profit for the year approved by shareholders during De'Longhi S.p.A.'s AGM held on 19 April 2018.

The "Extraordinary reserve" increased by €16,380 thousand due to the allocation of the profit for the year, as approved by shareholders of De'Longhi S.p.A. during the above AGM.

The "Fair value and cash flow hedge reserve" reports a positive balance of €735 thousand, net of €272 thousand in tax.
The change in the "Fair value and cash flow hedge" reserve in 2018, recognized in the statement of comprehensive income for the year, is attributable to the positive fair value of the cash flow hedge and available-for-sale securities of €5,065 thousand net of €1,361 thousand in tax.

The "Stock option" reserve amounted to positive €7,932 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 Report on Remuneration for more detailed information about the Plan.

For the purposes of valuation under IFRS 2 - *Share-based payments*, two different tranches were defined for each award which contain the same number of options broken down equally into the plan's two exercise periods. The fair value per share of the options assigned in 2016 amounted to € 5.3072 for the first tranche and to €5.2488 for the second. The fair value per share of the options assigned in 2017 amounted to €7.6608 for the first tranche and to €7.4442 for the second.
The fair value of the stock options is determined using the Black-Scholes model which takes into account the conditions for the exercise of the right, the current share price, expected volatility, a risk free interest rate, as well as the non-vesting conditions.

Volatility is estimated based on the data of a market provider and corresponds to the estimated volatility of the stock over the life of the plan.

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

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

"Profit (loss) carried forward" includes the retained earnings of the consolidated companies and the effects of consolidation adjustments and adjustments to comply with Group accounting policies. The net increase posted in the year reflects the profit carried forward from the previous year of €153,152 thousand, net of dividends paid for €149,500 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 31.12.2018	Profit for 2018	Net equity 31.12.2017	Profit for 2017
De'Longhi S.p.A. financial statement	**484,643**	**172,265**	**458,249**	**174,610**
Share of subsidiaries' equity and results for period attributable to the Group, after deducting carrying value of the investments	607,129	22,380	579,424	121
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	17,660	(2,408)	20,086	(2,411)
Elimination of intercompany profits	(42,612)	(8,280)	(34,395)	5,347
Other adjustments	(895)	745	(1,635)	596
Consolidated financial statements-Group portion	**1,065,925**	**184,702**	**1,021,729**	**178,263**

Liabilities

29. Bank loans and borrowings

"Bank loans and borrowings" are analyzed as follows:

	31.12.2018	31.12.2017
Overdrafts	2,949	185
Current bank loans and borrowings	54,907	23,438
Loans (short term portion)	43,909	43,854
Loans (one to five years)	84,915	128,792
Total bank loans and borrowings	**186,680**	**196,269**

No new loans were taken out in 2018.
None of the financial covenants in the agreements for the two loans taken out in 2017 (already described in the 2017 Annual Report), based on the net financial debt/net equity and net financial debt/EBITDA before non-recurring/stock option costs ratios, had been breached at 31 December 2018.

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

30. Other financial payables

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

	31.12.2018	31.12.2017
Private placement (short-term portion)	-	16
Negative fair value of derivatives	6,242	12,887
Payables to lease companies (short-term portion)	4	365
Other short term financial payables	48,076	57,600
Total short-term payables	**54,322**	**70,868**
Private placement (one to five years)	64,168	42,736
Payables to lease companies (one to five years)	-	5
Negative fair value of derivatives	188	224
Other financial payables (one to five years)	4,364	5,116
Total long-term payables (one to five years)	**68,720**	**48,081**
Private placement (beyond five years)	85,726	107,147
Other financial payables (beyond five years)	-	115
Total long-term payables (beyond five years)	**85,726**	**107,262**
Total other financial payables	**208,768**	**226,211**

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 2018 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) 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 2018.

"Other short term financial payables" refers mainly to factoring without recourse, the remaining short-term portion of the pension fund liabilities pertaining to a subsidiary which were transferred to third parties and a portion of a loan granted to an Italian subsidiary (MIUR), as well as the short-term portion (payable within 12 months) of variable consideration payable for the purchase of minority interests.

"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, a portion of a loan granted to an Italian subsidiary (MIUR) and the remaining long-term portion of the pension fund liabilities of a foreign subsidiary.

Net financial position

Details of the net financial position are as follows:

	31.12.2018	31.12.2017
A. Cash	133	143
B. Cash equivalents	569,194	664,581
C. Securities	-	-
D. Total liquidity (A+B+C)	**569,327**	**664,724**
E. Current financial receivables and other securities	**54,242**	**8,277**
of which:		
Fair value of derivatives	*10,307*	*4,755*
F. Current bank loans and borrowings	(57,856)	(23,623)
G. Current portion of non-current debt	(43,909)	(43,854)
H. Other current financial payables	(54,322)	(70,868)
of which:		
Fair value measurement of derivatives, financial payables linked to business combinations and pension fund transactions	*(6,977)*	*(20,612)*
I. Current financial debt (F+G+H)	**(156,087)**	**(138,345)**
J. Net current financial receivables (payables) (D+E+I)	**467,482**	**534,656**
Non-current financial receivables	-	79
of which:		
Fair value of derivatives	*-*	*79*
K. Non-current bank loans and borrowings	(84,915)	(128,792)
L. Bonds	(149,894)	(149,883)
M. Other non-current payables	(4,552)	(5,460)
of which:		
Fair value measurement of derivatives, financial payables linked to business combinations and pension fund transactions	*(4,254)*	*(4,753)*
N. Non-current financial debt (K+L+M)	**(239,361)**	**(284,056)**
Total	**228,121**	**250,600**

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:

	31.12.2018	31.12.2017
Provision for severance indemnities	10,086	10,966
Other defined benefit plans	20,005	18,970
Long term benefits (*)	3,877	-
Total	**33,968**	**29,936**

(*) The amount accrued for the incentive plan 2015-2017 at 31 December 2017 was classified under “Other payables” at the end of the vesting period.

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	2018	2017	Change
Current service cost	131	186	(55)
Interest cost on defined benefit obligation	139	153	(14)
Total	**270**	**339**	**(69)**

Change in present value of obligations	31.12.2018	31.12.2017	Change
Present value at 1 January	**10,966**	**14,103**	**(3,137)**
Reclassification to Discontinued Operations	-	(2,873)	2,873
Current service cost	131	186	(55)
Utilization of provision	(831)	(562)	(269)
Interest cost on obligation	139	153	(14)
Actuarial gains & losses recognized in the comprehensive income statement	(319)	(41)	(278)
Present value at reporting date	**10,086**	**10,966**	**(880)**

Other defined benefit plans:
Movements in the year are as follows:

Net cost charged to income	2018	2017	Change
Current service cost	1,122	1,210	(88)
Return on plan assets	(4)	(4)	-
Interest cost on obligations	313	292	21
Total	**1,431**	**1,498**	**(67)**

Change in present value of obligations	31.12.2018	31.12.2017	Change
Present value at 1 January	**18,970**	**18,055**	**915**
Net cost charged to income	1,431	1,498	(67)
Benefits paid	(170)	(341)	171
Translation difference	107	(167)	274
Actuarial gains & losses recognized in the comprehensive income statement	(333)	(286)	(47)
Other movements	-	211	(211)
Present value at reporting date	**20,005**	**18,970**	**1,035**

The outstanding liability at 31 December 2018 of €20,005 thousand (€18,970 thousand at 31 December 2017) 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 2018	Severance indemnity 2017	Other plans 2018	Other plans 2017
Discount rate	1.60%	1.30%	0.5% - 1.95%	0.5%-1.85%
Future salary increases	1.3%-2.3%	1.3%-2.3%	0.0% - 3%	0%-3%
Inflation rate	1.30%	1.30%	0.0% - 2.0%	2%

“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.
The amount accrued for the incentive plan 2015-2017 at 31 December 2017 was classified under “Other payables” at the end of the vesting period.
For more information please refer to the Annual Report on Remuneration.

32. Other provisions for non-current contingencies and charges

These are analyzed as follows:

	31.12.2018	31.12.2017
Agents’ leaving indemnity provision	1,599	1,904
Product warranty provision	27,732	30,491
Provision for contingencies and other charges	7,169	7,836
Total	**36,500**	**40,231**

Movements are as follows:

	31.12.2017	Utilization	Net accrual	Translation difference and other movements	31.12.2018
Agents’ leaving indemnity provision	1,904	(345)	40		1,599
Product warranty provision	30,491	(16,122)	13,576	(213)	27,732
Provision for contingencies and other charges	7,836	(632)	15	(50)	7,169
Total	**40,231**	**(17,099)**	**13,631**	**(263)**	**36,500**

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 2018. It takes account of the provisions of Decree 24/2002 and of European Community law.

The "Provision for contingencies and other charges" includes the provision of €4,410 thousand (€4,782 thousand at 31 December 2017) for legal disputes and product complaint liabilities (limited to the Group’s insurance deductible), the provision of €454 thousand (€745 thousand at 31 December 2017) 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 amount owed the parent company De Longhi Industrial S.A.; for additional information please refer to Annex n.3.
The item does not include tax due beyond 12 months.

35. Other payables

These are analyzed as follows:

	31.12.2018	31.12.2017
Employees	37,709	49,884
Indirect taxes	24,876	28,914
Social security institutions	9,305	7,199
Withholdings payables	7,579	6,057
Other taxes	1,371	714
Advances	928	660
Other	16,416	18,454
Total	**98,184**	**111,882**

The amounts due beyond twelve months at 31 December 2018 include €6.4 thousand in "Other taxes" (€1 thousand at 31 December 2017).
"Employee payables" includes the amounts payable to the Chief Executive Officer and a few Group executives under the 2015–2017 incentive plan. This amount, previously recognized under "Other medium/long term benefits" was reclassified at the end of the vesting period.

36. Commitments

These are detailed as follows:

	31.12.2018	31.12.2017
Guarantees given to third parties	2,211	2,140
Other commitments	3,194	5,323
Total	**5,405**	**7,463**

"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 loan, of €25,190 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. 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. The figures at 31 December 2017 were restated based on the provisions of the new standard.

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)*.
(***) Rights and obligations under leases to wich 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.

at 31 December 2017			Assets	
	Total value	Amortized cost	Fair value in Profit&Loss	Fair value in OCI
Non-current assets				
Equity investments (*)	51	-	51	-
Receivables	3,083	3,083	-	-
Other non-current financial assets	79	-	-	79
Current assets				
Trade receivables	401,545	401,545	-	-
Current tax assets	13,551	13,551	-	-
Other receivables	28,023	28,023	-	-
Current financial receivables and assets	8,277	3,522	1,454	3,301
Cash and cash equivalents	664,724	664,724	-	-

at 31 December 2017			Liabilities	
	Total value	Amortized cost	Fair value in Profit&Loss	Fair value in OCI
Non-current liabilities				
Bank loans and borrowings (long-term portion)	128,792	128,792	-	-
Other financial payables (long-term portion) (**)	151,386	151,161	-	225
Current liabilities				
Trade payables	366,061	366,061	-	-
Bank loans and borrowings (short-term portion)	67,477	67,477	-	-
Other financial payables (short-term portion) (**)	62,894	50,008	4,313	8,573
Current tax liabilities	37,133	37,133	-	-
Other payables	111,882	111,882		

(*) Interests in subsidiaries, associates and joint ventures are not included *(IFRS 9 - 2.1 a)*.
(**) Rights and obligations under leases to wich 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 2018. As required by IFRS 7, the hierarchy comprises the following levels:
- level 1: quoted prices in active markets for identical assets or liabilities;
- level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- level 3: inputs for the asset or liability that are not based on observable market data.

Financial instruments measured at fair value	Level 1	Level 2	Level 3
Derivatives with positive fair value	-	10,307	-
Derivatives with negative fair value	-	(6,430)	-
Other financial assets	54	30,061	-

There were no transfers between the levels during the year.

39. Risk management

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

Credit risk

Credit risk consists of the Group's exposure to potential losses arising from failure by a counterparty to fulfill its obligations.
Trade credit risk is associated with the normal conduct of trade and is monitored using formal procedures for selecting and assessing customers, for defining credit limits, for monitoring expected receipts and for their recovery if necessary.
Credit risk is partly mitigated by insurance policies with major insurers, with the aim of insuring against the risk of default by a portfolio of customers selected together with the insurer, who then undertakes to pay an indemnity in the event of default.
Although there is a certain concentration of risk associated with the size of some of the principal buying groups, this is counterbalanced by the fact that the exposure is spread across counterparties operating in different geographical areas.

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

The Group's maximum exposure to credit risk is equal to the book value of trade receivables before the allowance for doubtful accounts, and amounts to €439,066 thousand at 31 December 2018 and €416,692 thousand at 31 December 2017 (including NPE S.r.l.'s balances, classified under *discontinued operations*).
This amount corresponds to the gross balance of trade receivables of €473,648 thousand at 31 December 2018 (€453,170 thousand at 31 December 2017, including NPE S.r.l.'s balances, classified under *discontinued operations*), net of deductions and accounting offsets, which reduce the overall credit risk, mainly in the form of credit notes and other documents not yet issued to customers.
The following analysis of credit risk, carried out on the basis of receivables ageing and the reports used for credit management, refers to the trade balances before these deductions because the documents awaiting issue cannot be specifically allocated to the ageing categories.

Trade receivables of €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.

Trade receivables of €453,170 thousand at 31 December 2017 (including NPE S.r.l.'s balances, classified under *discontinued operations*) comprise €414,597 thousand in current balances and €38,573 thousand in past due amounts, of which €32,866 thousand past due within 90 days and €5,707 thousand past due by more than 90 days.
The amount of insured or guaranteed receivables at 31 December 2017 is €324,396 thousand.
The Group has recognized €10,372 thousand in allowances for doubtful accounts against unguaranteed receivables of €128,774 thousand.

As far as financial risk is concerned, it is the Group's policy to maintain a sufficiently large portfolio of counterparties of high international repute for the purposes of temporary investment of surplus resources or for the negotiation of derivatives.
The maximum credit risk in the event of counterparty default relating to the Group's other financial assets, whose classification is presented in note 37. *IFRS 7 classification of financial assets and liabilities*, is equal to the book value of these assets.

Liquidity risk

Liquidity risk is the risk of not having the fund needed to fulfil payment obligations arising from operating and investment activities and from the maturity of financial instruments.
The Group uses specific policies and procedures for the purposes of monitoring and managing this risk, including:

- centralized management of financial payables and cash, supported by reporting and information • systems and, where possible, cash pooling arrangements;
- raising of medium and long-term finance on capital markets;
- diversification of the type of financing instruments used;
- obtaining of short-term credit lines so as to ensure wide room for manoeuvre for the purposes of managing working capital and cash flows;
- monitoring of current and forecast financing needs and distribution within the Group.

The Group has both medium-term bank credit lines and short-term credit lines (typically renewed on an annual basis), for financing working capital and other operating needs (issue of guarantees, currency transactions etc.).
These credit lines, along with cash flow generated by operations, are considered sufficient to satisfy the Group's annual funding requirements for working capital, investments and settlement of payables on their natural due dates.

Note 37. *IFRS 7 classification of financial assets and liabilities* presents the book value of financial assets and liabilities, in accordance with the categories identified by IFRS 9.

The following table summarizes the due dates of the Group's financial liabilities at 31 December 2018 and 31 December 2017 (including the liabilities of NPE S.r.l., classified under *discontinued operations*) on the basis of contractual payments which have not been discounted.

	Undiscounted cash flows at 31.12.2018	Within one year	One to five years	Beyond five years	Undiscounted cash flows at 31.12.2017	Within one year	One to five years	Beyond five years
Bank loans and borrowings (*)	187,345	102,110	85,235	-	217,333	79,922	137,411	-
Other financial payables (**)	222,488	56,798	77,147	88,543	242,707	73,571	57,458	111,678
Trade payables	419,795	419,795	-	-	371,413	371,413	-	-
Current tax payables and other payables	136,690	136,681	8	1	151,676	151,655	21	-

(*) The corresponding balance reported in the financial statements was €186,680 thousand at 31 December 2018 vs. 216,272 thousand at 31 December 2017 and refers to medium/long and short term bank debt.
(**) The corresponding balance in the accounts is €208,768 thousand at 31 December 2018 and €226,450 at 31 December 2017 refers to long-term leases comprehensive of their short-term portion, the loans from the Ministry of Industry and the private placement.

Exchange rate risk

The Group is exposed to the risk of fluctuations in currencies (other than its functional one) in which ordinary trade and financial transactions are denominated. For the purposes of protecting its income statement and statement of financial position from such fluctuations, the Group adopts a suitable hedging policy that eschews speculative ends.

Hedging policies

Hedging is carried out centrally by a special team on the basis of information obtained from a detailed reporting system, using instruments and policies that comply with international accounting standards.
The purpose of hedging is to protect - at individual company level - the future revenues/costs contained in budgets and/or long-term plans, trade and financial receivables/payables and net investments in foreign operations.

Purpose of hedging

Hedging is carried out with three goals:
a) to hedge cash flows of budgeted or planned amounts up until the time of invoicing, with a time horizon that don'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 Ruble (RUB/GBP), for sales on the Russian market;
- the British Pound (EUR/GBP and GBP/EUR), for sales and purchase costs relative to the UK company;
- the Renminbi (CNY/HKD) for the cost of raw materials, parts and finished products.

Instruments used

Highly liquid instruments of a non-speculative nature are used, mostly forward purchase/sale agreements. The transactions are entered into with primary, well known counterparties of international standing.

Operating structure

Hedging activity is centralized (except for isolated, negligible cases) under De'Longhi Capital Services S.r.l., a Group company, which intervenes on the markets on the basis of information received from the individual operating companies. The terms and conditions thus negotiated are passed down in full to Group companies so that De'Longhi Capital Services S.r.l. does not directly carry derivatives for risks that are not its own.

Sensitivity analysis

When assessing the potential impact, in terms of change in fair value, of a hypothetical, sudden +/-5% change in year-end exchange rates, it is necessary to distinguish between the risk associated with expected future revenues/costs and the risk associated with foreign currency assets and liabilities at 31 December 2018:
(a) with regard to the risk connected to future flows (revenues/costs forecast in the budget and/or multi-year plans), at 31 December 2018 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 +/ - €6.0 million before tax (+/- €2.5 million before tax at 31 December 2017). 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 +/- €1.1 million before tax (+/- €0.6 million before tax at 31 December 2017).

The hedging transactions at 31 December 2018 are described in the paragraph "*Interest rate and currency exchange hedges at 31 December 2018*".

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 2018 is floating rate with the exception of two bilateral loans granted during 2017.
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 2018 there were two IRS (interest rate swaps), hedging the loans taken out by the Parent company.

Sensitivity analysis

When estimating the potential impact of a hypothetical, sudden material change in interest rates (+/- 1% in market rates) on the cost of the Group's debt, only those items forming part of net financial position which earn/incur interest at floating rates have been considered and not any others (meaning total net assets of €544.2 million on a total of €228.1 million in net debt at 31 December 2018 and total net assets of €620.3 million on a total of €233.5 million in net debt in 2017, including NPE S.r.l.'s balances, classified under *discontinued operations*).
The Group's debt is currently all at floating rates and, with the exception of the two long-terms loans completed by the parent company, therefore unhedged, so any change in market rates has a direct impact on its total cost, in terms of higher/lower interest payments.
A +/- 1% change in interest rates would have an impact of +/- €5.4 million before tax at 31 December 2018 recognized entirely in the income statement (+/- €6.2 million before tax at 31 December 2017).

Interest rate and currency exchange hedges at 31 December 2018

At 31 December 2018 the Group has a number of derivatives, hedging both the fair value of underlying instruments and exposure to changes in cash flow.
For accounting purposes, derivatives that hedge changes in cash flow are treated in accordance with hedge accounting as called for in 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 2018 is provided below:

	Fair Value at 31/12/2018
FX forward agreements	996
Derivatives hedging foreign currency receivables/payables	**996**
FX forward agreements	3,498
Derivatives hedging interest rate risk (IRS)	(617)
Derivatives covering expected cash flows	**2,881**
Total fair value of the derivatives	**3,877**

Forward agreements to hedge against a change in 2019 trade flows:

A list of the forward agreements hedging a change in 2019 trade flows at 31 December 2018:

	Notional amount (in thousands)			Fair value (in €/000)	
Currency	**Purchases**	**Sales**	**Total**	**Current Assets**	**Current Liabilities**
AUD/HKD	(137,937)	-	(137,937)	290	-
EUR/CHF	-	21,600	21,600	-	(77)
EUR/GBP	-	17,000	17,000	326	-
EUR/USD	(109,236)	30,000	(79,236)	4,852	(2,563)
HKD/CNH	(1,050,000)	-	(1,050,000)	378	(135)
HKD/JPY	-	1,950,000	1,950,000	-	(108)
USD/CAD	-	15,800	15,800	535	-
				6,381	**(2,883)**

A positive cash flow hedge reserve of €1,204 thousand has been recorded in net equity at 31 December 2018 in relation to these hedges, after €420 thousand in related tax (at 31 December 2017 this same reserve was a negative €2,654 thousand, after the related tax of €1,013 thousand).

During 2018 the Group reversed to the income statement a net amount of €2,729 thousand from the cash flow hedge reserve at 31 December 2017.
This amount was reported in the following lines of the income statement:

	2018	2017
Increase (reduction) in revenues	(1,351)	6,990
(Increase) reduction in materials consumed	(917)	10,228
Net financial income (expenses)	(1,474)	1,680
Taxes	1,013	(3,750)
Total recognized in income statement	**(2,729)**	**15,148**

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	(238,726)	51,922	(186,804)	485	-
AUD/NZD	-	4,250	4,250	2	(146)
BRL/HKD	(48,412)	-	(48,412)	-	(49)
EUR/AUD	-	824	824	13	-
EUR/CHF	-	7,407	7,407	9	-
EUR/CZK	(6,044)	200,000	193,956	-	(66)
EUR/GBP	(19,634)	90,908	71,274	194	(705)
EUR/HKD	(95,666)	164,032	68,366	85	(56)
EUR/HUF	(107,522)	1,804,214	1,696,692	-	(44)
EUR/JPY	(11,000)	21,989	10,989	1	(3)
EUR/PLN	-	2,387	2,387	2	-
EUR/RON	(21,147)	102,837	81,690	16	(12)
EUR/TRY	(5,921)	20,195	14,274	-	(67)
EUR/USD	(91,100)	10,309	(80,791)	34	(340)
GBP/CZK	(96,192)	370,400	274,208	54	(20)
GBP/DKK	(700)	20,809	20,109	25	(1)
GBP/PLN	(14,000)	123,900	109,900	240	(39)
GBP/RON	(53,928)	22,114	(31,814)	40	(136)
GBP/RUB	(304,900)	2,522,201	2,217,301	2,063	(145)
GBP/SEK	(1,430)	23,609	22,179	11	(1)
GBP/USD	(9,101)	6,645	(2,456)	77	(108)
HKD/CLP	(667,863)	5,431,951	4,764,088	114	(6)
HKD/CNH	(136,011)	12,000	(124,011)	95	(6)
HKD/JPY	(1,214,000)	3,337,439	2,123,439	90	(711)
HKD/KRW	(1,490,343)	6,258,120	4,767,777	6	(70)
HKD/MXN	-	38,132	38,132	-	(67)
SGD/HKD	(5,766)	-	(5,766)	-	(6)
USD/CAD	(4,524)	20,025	15,501	240	(45)
USD/CLP	(180,638)	89,158	(91,480)	-	(5)
USD/RON	(13,995)	39,565	25,570	30	(51)
USD/ZAR	(17,417)	20,325	2,908	-	(25)
				3,926	**(2,930)**

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 2018 the fair value of the derivatives, which also takes into account counterparty risk in accordance with IFRS 13 – *Fair Value measurement*, came to a negative €617 thousand which is recognized under other financial payables.
As the hedge on future interest flows qualifies as an effective hedge, at 31 December 2018 a negative cash flow hedge reserve of €617 thousand was reported in net equity, net of the related tax effect of €148 thousand.

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

	31/12/2018
Fair value (in €/000)	
Interest Rate Swap (IRS) connected to the loan Intesa Sanpaolo S.p.A.	(386)
Interest Rate Swap (IRS) connected to the loan Unicredit S.p.A.	(231)
Total fair value of the derivatives	**(617)**
of which:	
negative short-term fair value	*(429)*
negative medium/long-term fair value	*(188)*

40. Tax position

There is nothing relevant to observe with respect to the tax position at 31 December 2018.

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 serves different markets; the revenues and the margins, therefore, generated by each operating segment (based on business region) may not coincide with the revenues and margins of the relative markets (based on geographic area) given the sales made by a few Group companies outside of their respective geographical areas and the intragroup transactions not allocated based on destination.
Information relating to operating segments is presented below:

Income Statement data - Continuing Operations

					2018
	Europe	APA	MEIA	Intersegment eliminations (**)	Total
Total revenues (*)	**1,586,915**	**1,058,037**	**111,446**	**(677,959)**	**2,078,439**
EBITDA	**204,575**	**84,544**	**15,443**	**(64)**	**304,498**
Amortization	(47,217)	(14,200)	(164)	-	(61,581)
EBIT	**157,358**	**70,344**	**15,279**	**(64)**	**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.
(**) 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	1,567,863	671,376	43,782	(160,729)	2,122,292
Total liabilities	(896,603)	(307,334)	(13,157)	160,727	(1,056,367)

Income Statement data - Continuing Operations

					2017
	Europe	APA	MEIA	Intersegment eliminations (**)	Total
Total revenues (*)	**1,500,418**	**979,180**	**107,847**	**(614,652)**	**1,972,793**
EBITDA	**200,264**	**89,251**	**12,742**	**1,422**	**303,679**
Amortization	(43,485)	(14,667)	(84)	-	(58,236)
EBIT	**156,779**	**74,584**	**12,658**	**1,422**	**245,443**
Net financial income (expenses)					(16,221)
Profit (loss) before taxes					**229,222**
Income taxes					(49,493)
Profit (loss) for the year					**179,729**

(*) The revenues for each segment include revenues generated by both third parties and other Group operating segments.
(**) Eliminations refer to intersegment revenues generated and eliminated on a consolidated basis.

Data from statement of financial position - Continuing Operations

					31 December 2017
	Europe	APA	MEIA	Intersegment eliminations	Total
Total assets	1,480,074	635,724	35,598	(93,078)	2,058,318
Total liabilities	(870,350)	(248,631)	(9,108)	93,078	(1,035,011)

43. Subsequent events

There are no significant events occurred after the end of the year.

Treviso, 14 March 2019

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)

Investments consolidated in accordance with the line-by-line method

Company name	Registered office	Currency	Share capital (1)	Interest held at 31/12/2018	
				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%	
DELONGHI SOUTH AFRICA PTY.LTD.	Constantia Kloof	ZAR	100,332,501		100%
DE'LONGHI KENWOOD HELLAS S.A.	Atene	EUR	452,520		100%
DE'LONGHI PORTUGAL UNIPESSOAL LDA	Matosinhos	EUR	5,000		100%
ARIETE DEUTSCHLAND GMBH	Dusseldorf	EUR	25,000		100%
CLIM.RE. S.A.	Luxembourg	EUR	1,239,468	4%	96%
ELLE S.R.L.	Treviso	EUR	10,000		100%
DE'LONGHI BOSPHORUS EV ALETLERI TICARET ANONIM SIRKETI	Istanbul	TRY	3.500.000		100%

Company name	Registered office	Currency	Share capital (1)	Interest held at 31/12/2018	
				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	HRD	20,000		100%
DE'LONGHI BRASIL - COMÉRCIO E IMPORTAÇÃO Ltda	São Paulo	BRL	43,857,581		100%
DE'LONGHI POLSKA SP. Z.O.O.	Varsavia	PLN	50,000	0.1%	99.9%
DE'LONGHI APPLIANCES TECHNOLOGY SERVICES (Shenzen) Co. Ltd	Shenzen	CNY	USD 175,000		100%
DE'LONGHI UKRAINE LLC	Kiev	UAH	549,843		100%
DE'LONGHI TRADING (SHANGHAI) CO. LTD	Shanghai	CNY	USD 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 KENWOOD KOREA LTD	Seoul	KRW	900,000,000		100%
DL CHILE S.A.	Santiago del Cile	CLP	3,079,065,844		100%
DE'LONGHI SCANDINAVIA AB	Stockholm	SEK	5,000,000		100%
DELONGHI MEXICO SA DE CV	Bosques de las Lomas	MXN	11,576,000		100%
TWIST LLC	Mosca	RUB	10,000		100%

Investments valued in accordance with the equity method

Company name	Registered office	Currency	Share capital (1)	Interest held at 31/12/2018	
				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%
NPE S.R.L.(3)	Treviso	EUR	1,000,000		45%

Other subsidiaries (in liquidation or dormant)

Company name	Registered office	Currency	Share capital
Controlled companies: (4)			
DE'LONGHI LTD.	London	GBP	4,000,000

(1) Figures at 31 December 2018, unless otherwise specified.
(2) The articles of association, approved by the extraordinary shareholders' meeting held on 29 December 2004, give special rights to De'Longhi S.p.A. (holding 89% of the voting rights) for ordinary resolutions (approval of financial statements, declaration of dividends, nomination of directors and statutory auditors, purchase and sale of companies, grant of loans to third parties); voting rights are proportional as far as other resolutions are concerned, except for the preferential right to receive dividends held by the shareholder Kenwood Appliances Ltd.
(3) Refers to the equity investment in NPE S.r.l. recognized after the industrial partnership agreement described in the section on *Discontinued operations* was completed.
(4) Dormant company, whose financial statement is unavailable.

Statement of consolidated cash flows in terms of net financial position

(Appendix 2 to the Explanatory notes)

(€/000)	2018	2017
Profit (loss) pertaining to the group from Continuing Operations	183,892	179,729
Income taxes for the period	39,999	49,493
Amortization	61,581	56,444
Net change in provisions and other non-cash items	3,997	(8,028)
Cash flow generated (absorbed) by current operations from Discontinued Operations	313	(314)
Cash flow generated by current operations (A)	**289,782**	**277,324**
Change in assets and liabilities for the period:		
Trade receivables	(32,414)	(45,825)
Inventories	(74,361)	(30,992)
Trade payables	50,263	27,679
Other changes in net working capital	(18,597)	16,974
Payment of income taxes	(36,231)	(35,327)
Cash flow generated (absorbed) by movements in working capital from Discontinued Operations	10,179	(5,861)
Cash flow absorbed by movements in working capital (B)	**(101,161)**	**(73,352)**
Cash flow generated by current operations and movements in working capital (A+B)	**188,621**	**203,972**
Investment activities:		
Investments in intangible assets	(14,180)	(14,249)
Other cash flows for intangible assets	530	28
Investments in property, plant and equipment	(50,312)	(85,065)
Other cash flows for property, plant and equipment	966	387
Net investments in financial assets and in minority interest	14	(23,835)
Cash flow generated (absorbed) by investment activities from Discontinued Operations	3,110	(1,354)
Cash flow absorbed by ordinary investment activities (C)	**(59,872)**	**(124,088)**
Cash flow by operating activities (A+B+C)	**128,749**	**79,884**
Dividends paid	(149,500)	(119,600)
Fair value and cash flow reserves	4,960	(14,486)
Other changes in Net Equity	-	(200)
Change in currency translation reserve	10,283	(18,755)
Cash flow generated by changes in net equity and by financing activities from Discontinued Operations	107	95
Cash flow absorbed by changes in net equity and by financing activities (D)	**(134,150)**	**(152,946)**
Cash flow for the period (A+B+C+D)	**(5,401)**	**(73,062)**
Opening net financial position	**233,522**	**306,584**
Cash flow for the period (A+B+C+D)	(5,401)	(73,062)
Consolidated closing net financial position	**228,121**	**233,522**
Of which:		
Net financial position of Discontinued Operations	-	(17,078)
Closing net financial position from Continuing Operations	**228,121**	**250,600**

Transactions and balances with related parties

(Appendix 3 to the Explanatory notes)

Income statement
pursuant to Consob resolution 15519 of 27 July 2006

(€/000)	2018	*of which with related parties*	2017	*of which with related parties*
CONTINUING OPERATIONS				
Revenues from contracts with customers	2,056,634	*3,507*	1,947,366	*1,124*
Other revenues	21,498	*2,045*	25,427	*1,085*
Total consolidated revenues	**2,078,132**		**1,972,793**	
Raw and ancillary materials, consumables and goods	(990,096)	*(42,591)*	(877,742)	*(19,428)*
Change in inventories of finished products and work in progress	78,562		16,424	
Change in inventories of raw and ancillary materials, consumables and goods	(4,201)		14,570	
Materials consumed	**(915,735)**		**(846,748)**	
Payroll costs	(268,684)		(254,030)	
Services and other operating expenses	(575,652)	*(4,630)*	(559,177)	*(4,878)*
Provisions	(13,563)		(9,159)	
Amortization	(61,581)		(58,236)	
EBIT	**242,917**		**245,443**	
Net financial income (expenses)	(19,026)	*(730)*	(30,848)	*26*
Net non recurring financial income (expenses)	-		14,627	
PROFIT (LOSS) BEFORE TAXES	**223,891**		**229,222**	
Income taxes	(39,999)		(49,493)	
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS	**183,892**		**179,729**	
DISCONTINUED OPERATIONS				
Net profit (loss) from Discontinued Operation	810		(1,466)	-
CONSOLIDATED PROFIT (LOSS) AFTER TAXES	**184,702**		**178,263**	
Profit (loss) pertaining to minority interests	-		-	
PROFIT (LOSS) PERTAINING TO THE GROUP	**184,702**		**178,263**	

Statement of financial position
pursuant to Consob resolution 15519 of 27 July 2006

Assets

(€/000)	Notes	31.12.2018	*of which with related parties*	31.12.2017	*of which with related parties*
NON-CURRENT ASSETS					
INTANGIBLE ASSETS		316,855		320,910	
- Goodwill	*12*	92,400		92,400	
- Other intangible assets	*13*	224,455		228,510	
PROPERTY, PLANT AND EQUIPMENT		236,099		231,850	
- Land, property, plant and machinery	*14*	141,733		129,476	
- Other tangible assets	*15*	94,366		102,374	
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		29,597		26,119	
- Equity investments	*16*	26,169		22,957	
- Receivables	*17*	3,428		3,083	
- Other non-current financial assets	*18*	-		79	
DEFERRED TAX ASSETS	*19*	36,087		32,322	
TOTAL NON-CURRENT ASSETS		**618,638**		**611,201**	
CURRENT ASSETS					
INVENTORIES	*20*	404,829		329,710	
TRADE RECEIVABLES	*21*	429,294	*4,057*	401,545	*1,242*
CURRENT TAX ASSETS	*22*	18,234		13,551	
OTHER RECEIVABLES	*23*	26,607	*199*	28,023	*267*
CURRENT FINANCIAL RECEIVABLES AND ASSETS	*24*	54,242	*3,666*	8,277	*3,088*
CASH AND CASH EQUIVALENTS	*25*	569,327		664,724	
TOTAL CURRENT ASSETS		**1,502,533**		**1,445,830**	
ASSETS RELATED TO *DISCONTINUED OPERATIONS*		-		37,186	
Elimination of financial receivables from *DISCONTINUED OPERATIONS*		-		(7,958)	
Non-current assets held for sales	*26*	1,121		1,287	
TOTAL ASSETS		**2,122,292**		**2,087,546**	

Statement of financial position
pursuant to Consob resolution 15519 of 27 July 2006

Net equity and liabilities

(€/000)	Notes	31.12.2018	*of which with related parties*	31.12.2017	*of which with related parties*
NET EQUITY					
GROUP PORTION OF NET EQUITY		1,065,925		1,021,729	
- Share capital	*27*	224,250		224,250	
- Reserves	*28*	656,973		619,216	
- Profit (loss) pertaining to the Group		184,702		178,263	
MINORITY INTERESTS	*28*	-		-	
TOTAL NET EQUITY		**1,065,925**		**1,021,729**	
NON-CURRENT LIABILITIES					
FINANCIAL PAYABLES		239,361		284,135	
- Bank loans and borrowings (long-term portion)	*29*	84,915		128,792	
- Other financial payables (long-term portion)	*30*	154,446		155,343	
DEFERRED TAX LIABILITIES	*19*	33,966		27,288	
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		70,468		70,167	
- Employee benefits	*31*	33,968		29,936	
- Other provisions	*32*	36,500		40,231	
TOTAL NON-CURRENT LIABILITIES		**343,795**		**381,590**	
CURRENT LIABILITIES					
TRADE PAYABLES	*33*	419,795	*14,798*	366,061	*994*
FINANCIAL PAYABLES		156,087		138,345	
- Bank loans and borrowings (short-term portion)	*29*	101,765		67,477	
- Other financial payables (short-term portion)	*30*	54,322		70,868	
CURRENT TAX LIABILITIES	*34*	38,506	*22,706*	37,133	*21,819*
OTHER PAYABLES	*35*	98,184	*8*	111,882	*508*
TOTAL CURRENT LIABILITIES		**712,572**		**653,421**	
LIABILITIES RELATED TO *DISCONTINUED OPERATIONS*		-		38,764	*(259)*
Elimination of financial debt/payable from *DISCONTINUED OPERATIONS*		-		(7,958)	
TOTAL NET EQUITY AND LIABILITIES		**2,122,292**		**2,087,546**	

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 2018 and related balances with mainly commercial nature at 31 December 2018:

(€/million)	Revenues	Costs	Trade and other receivables	Financial receivables	Trade and other payables
Related companies:					
DL Radiators S.r.l.	1.4	-	1.1	-	0.5
TCL-De'Longhi Home Appliances (Zhongshan) Co.Ltd.	2.5	30.1	2.8	-	9.0
Gamma S.r.l.	0.1	4.4	0.1	-	1.1
De Longhi Industrial S.A.	-	-	-	-	22.2
Eversys Holding S.A.	0.2	0.1	0.1	3.2	-
DL-TCL Holdings (HK) Ltd	-	-	-	0.5	-
NPE S.r.l.	1.3	13.4	0.1	-	4.7
TOTAL RELATED PARTIES - CONTINUING OPERATIONS	**5.5**	**48.0**	**4.2**	**3.7**	**37.5**

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

The 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 2016-2018 and may be renewed. The €22.7 million included in tax payables is comprised of the taxes payable by the members of the tax group through De Longhi Industrial S.A..

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

As a result of the industrial partnership agreement, finalized on 19 December 2018, based on which the control of company was sold, NPE S.r.l. was included in the list of related parties as of 31 December 2018. The above refer to commercial balances.

Please refer to the "Report on Remuneration" for information relating to the compensation of directors and statutory auditors.

Fees paid to the external auditors Disclosure pursuant to art. 149 *duodecies* of the Consob Issuer Regulations

(Appendix 4 to the Explanatory notes - €/000)

Type of service	Party performing the service	Recipient	Fees earned in 2018
Auditing	EY S.p.A.	De'Longhi S.p.A. (parent company)	173
	EY S.p.A.	Italian subsidiaries	287
	Network of parent company auditor	Foreign subsidiaries	885
	Other auditors	Foreign subsidiaries	42
Other services	EY S.p.A.	De'Longhi S.p.A. (parent company)	63
	EY S.p.A.	Italian subsidiaries	21

Certification of the consolidated financial statements pursuant to art. 81-ter of CONSOB Regulation 11971 dated 14 May 1999 and subsequent amendments and additions.

(Appendix 5 to the Explanatory notes)

The undersigned Fabio de' Longhi, Chief Executive Officer, and Stefano Biella, Financial Reporting Officer of De'Longhi S.p.A., attest, also taking account of the provisions of paragraphs 2, 3 and 4, art. 154-bis of Decree 58 dated 24 February 1998:
that the accounting and administrative processes for preparing the consolidated financial statements during 2018:
- have been adequate in relation to the company's characteristics and
- have been effectively applied.

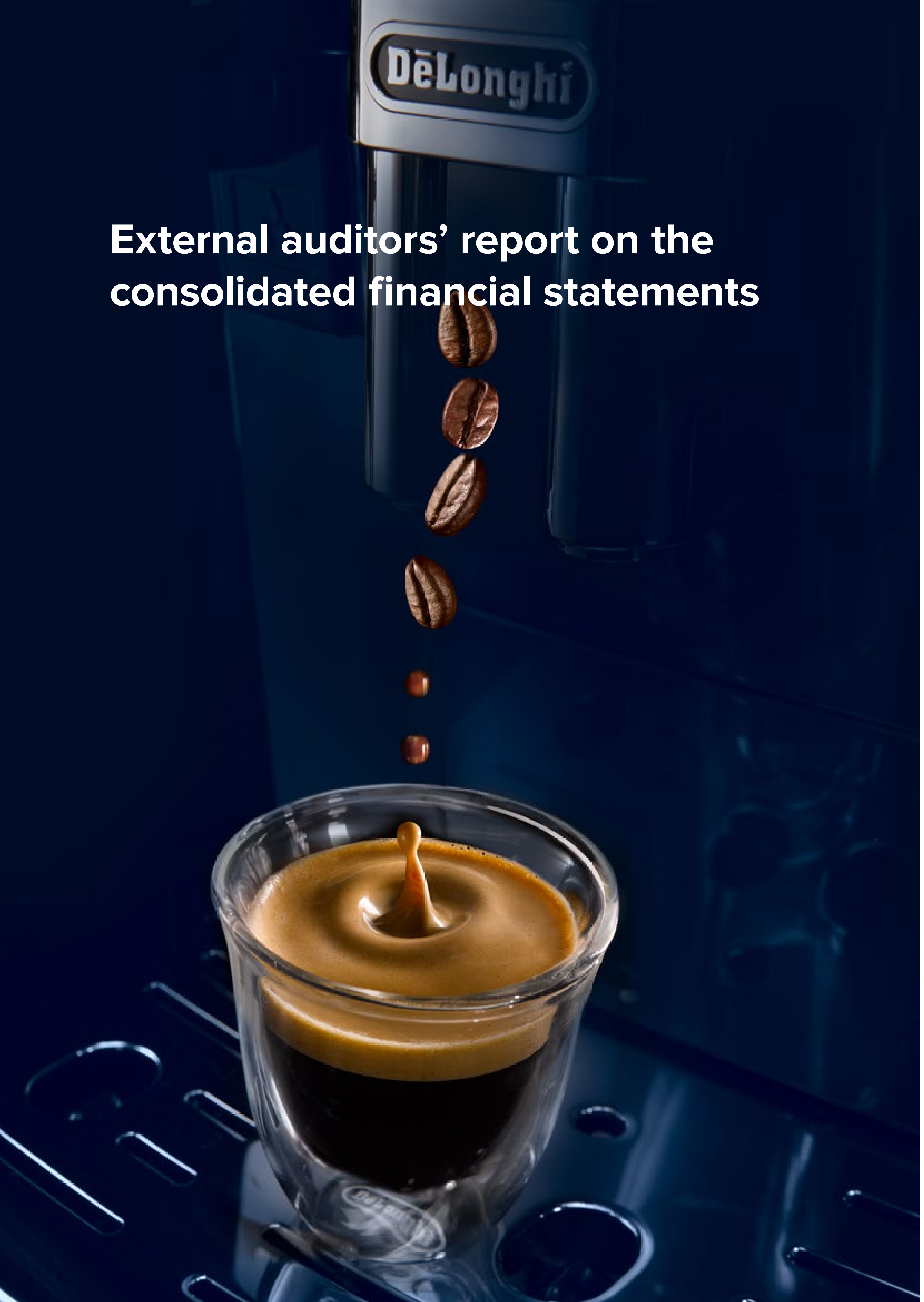
It is also certified that the consolidated financial statements at 31 December 2018:
- have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union under Regulation (EC) 1606/2002 of the European Parliament and Council dated 19 July 2002 and with the measures implementing art. 9 of Decree 38/2005;
- correspond to the underlying accounting records and books of account;
- are able to provide a true and fair view of the issuer's statement of financial position and results of operations and of the Group of companies included in the consolidation.

The report on operations contains a reliable account of performance and of the results of operations and of the situation of the issuer and the Group of companies included in the consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

Fabio de' Longhi
Chief Executive Officer

Stefano Biella
Financial Reporting Officer

External auditors' report on the consolidated financial statements



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ey.com

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
De'Longhi S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of De'Longhi Group (the Group), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of De'Longhi S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matter:

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

Key Audit Matter	Audit Response
Evaluation of goodwill and intangible assets with indefinite useful life At December 31, 2018 the carrying amount of goodwill and intangible assets with indefinite useful life relating to brands was Euro 92.4 million and Euro 174.8 million respectively, and referred to goodwill and to a brand allocated to the Braun Household Cash Generating Unit (CGU) for Euro 48.8 million and Euro 95.0 million respectively. Management tests brands for impairment at the CGU level and then at the single asset level, determining their recoverable amount with the "relief from royalties" method. The processes and methods to evaluate and determine the recoverable amount, in terms of value in use, of brands with indefinite useful life and of each CGU, are based on assumptions that are in some cases complex and that, due to their nature, imply the use of judgement by Management, in particular with reference to cash flow forecasts for the period covered by explicit business forecasts, to normalized cash flows used to estimate terminal value and to discount and long term growth rates applied. Considering the level of judgement and complexity of the assumptions applied in estimating the recoverable amount of goodwill and brands we have determined that this area constitutes a key audit matter. The disclosures relating to goodwill, brands with indefinite useful lives and methods and main assumptions used for impairment, test are included in explanatory notes 12. "Goodwill". 13. "Other intangible assets" and in the section "Estimates and assumptions".	Our audit procedures relating to this key audit matter included, inter alia: - Understanding and evaluating the process and key controls implemented by the Group to test for impairment goodwill and brands with indefinite useful life; - Validating the CGUs perimeter and the allocation of the carrying value of asset and liabilities to each CGU; - Analysis of cash flow forecasts; - Reconciling cash flow forecasts of each CGU with updated business forecasts approved by management, also based on the 2019 budget and the 2018-2020 business plan; - Evaluating the use of these forecasts in light of the historical accuracy of the Group's forecasts; - Assessing discount and long term growth rates. We involved EY valuation specialists who independently performed their own calculations and also performed sensitivity analyses of key assumptions to determine which changes could materially impact the valuation of recoverable amount. Finally, we reviewed the adequacy of the disclosures made in the explanatory notes and relating to evaluation of goodwill and intangible assets with indefinite useful lives.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company De'Longhi S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.

However, future events or conditions may cause the Group to cease to continue as a going concern;

- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The Shareholders of De'Longhi S.p.A., in the general meeting held on April 21, 2010, engaged us to perform the audits of the consolidated financial statements for each of the years ending December 31, 2010 to December 31, 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of De'Longhi S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of De'Longhi Group as at December 31, 2018, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of De'Longhi Group as at December 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of De'Longhi Group as at December 31, 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of De'Longhi S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by another auditor.

Verona, April 8, 2019

EY S.p.A.
Signed by: Daniele Tosi, partner

This report has been translated into the English language solely for the convenience of international readers.

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

To the Board of Directors of De'Longhi SpA

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016 (the "Decree") and article 5 of CONSOB Regulation No. 20267, we have performed a limited assurance engagement on the consolidated non-financial statement of De'Longhi SpA and its subsidiaries (hereafter the "Group" or "De'Longhi Group") for the year ended 31 December 2018 prepared in accordance with article 4 of the Decree and approved by the Board of Directors on March the 14th, 2019 (hereafter the "NFS").

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

Directors are responsible for the preparation of the NFS in accordance with article 3 and 4 of the Decree and with the "Global Reporting Initiative Sustainability Reporting Standards" defined in 2016 by the GRI - Global Reporting Initiative ("GRI Standards"), with reference to selected GRI Standards, as laid down in the "Note on Methodology" to the NFS, identified by them as the reporting standard.

Directors are responsible, in the terms prescribed by law, for such internal control they deem to be necessary to enable the preparation of a NFS that is free from material misstatement, whether due to fraud or error.

Moreover, Directors are responsible for identifying the content of the NFS, within the matters mentioned in article 3, paragraph 1, of the Decree, considering the activities and characteristics of the Group and to the extent necessary to ensure an understanding of the Group's activities, performance, results and related impacts.

Finally, 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.

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 Italia 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 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information (hereafter "ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. The standard requires that we plan and apply procedures in order to obtain limited assurance that the NFS is free of material misstatement. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not provide us with a sufficient level of assurance that we have become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.
The procedures performed on the NFS were based on our professional judgement and consisted in interviews, primarily of company personnel responsible for the preparation of the information presented in the NFS, analyses of documents, recalculations and other procedures designed to obtain evidence considered useful.

In particular, we performed the following procedures:

1. analysis of the relevant matters reported in the NFS relating to the activities and characteristics of the Group, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree and the with the reporting standard adopted;

2. analysis and assessment of the criteria used to identify the consolidation area, in order to assess their compliance with the Decree;

3. 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 detail, we held meetings and interviews with the management of De'Longhi SpA and the personnel of De'Longhi Romania Srl, and we performed limited analyses of documentary evidence, to gather information about the processes and procedures for the collection, consolidation, processing and submission of the non-financial information to the function responsible for the preparation of the NFS.

   Moreover, for material information, considering the activities and characteristics of the Group:

   - at a group level,
     a) with reference to the qualitative information included in the NFS, and in particular to the business model, the policies adopted and the main risks, we carried out interviews and acquired supporting documentation to verify their consistency with available evidence;
     b) with reference to quantitative information, we performed analytical procedures as well as limited tests, in order to assess, on a sample basis, the accuracy of consolidation of the information;

   - for the following companies / sites: De'Longhi SpA's head office and site at Treviso (Italy) and De'Longhi Romania Srl's site at Cluj Napoca (Romania), 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 2018 has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with GRI Standards, with reference to selected GRI Standards, as laid down in the "Note on Methodology" to the NFS.

Udine, 8 April 2019

PricewaterhouseCoopers SpA

Signed by

Maria Cristina Landro
(Partner)

Paolo Bersani
(Authorised signatory)

This report has been translated from the original, which was issued in Italian, solely for the convenience of international readers. We have not performed any verification procedures on the English translation of the NFS of De'Longhi Group as of 31 December 2018.

Report on operations on separate financial statements

Review of the income statement

(€/million)	2018	% revenues	2017	% revenues
Revenues	**24.6**	**100.0%**	**28.3**	**100.0%**
Changes 2018/2017	*(3.7)*	*(13.1%)*		
Materials consumed	(0.1)	(0.3%)	(0.1)	(0.2%)
Other services and expenses	(28.7)	(116.6%)	(35.0)	(123.7%)
Payroll	(8.9)	(36.3%)	(7.7)	(27.1%)
EBITDA before non-recurring expenses / stock option	**(13.1)**	**(53.2%)**	**(14.4)**	**(50.9%)**
Changes 2018/2017	*1.3*	*(9.1%)*		
Non-recurring expenses / stock option	(5.2)	(21.1%)	(4.8)	(17.0%)
EBITDA	**(18.3)**	**(74.4%)**	**(19.2)**	**(68.0%)**
Amortization	(0.6)	(2.4%)	(0.4)	(1.5%)
EBIT	**(18.9)**	**(76.8%)**	**(19.7)**	**(69.5%)**
Changes 2018/2017	*0.8*	*(3.9%)*		
Dividends	191.1	776.2%	198.3	700.2%
Financial income (expenses)	(3.3)	(13.4%)	(10.5)	(36.9%)
Profit (loss) before taxes	**168.9**	**686.0%**	**168.2**	**593.8%**
Income taxes	3.4	13.7%	6.4	22.6%
Profit (loss) after taxes	**172.3**	**699.7%**	**174.6**	**616.5%**

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 €18 million (€20 million in 2017).

In 2018 dividends amounted to €191.1 million (€198.3 million in 2017) while net operating expenses came to €3.3 million (€10.5 million in 2017).
In 2017 "Financial income (expenses)" included the impact of the early termination of the USD bond loan and the relative hedge.

Net profit came to €172.3 million (€174.6 million in 2017).

Review of the statement of financial position

The reclassified statement of financial position is presented below:

(€/million)	31 December 2018	31 December 2017	Change	% change
- Tangible and intangibile assets	1.3	1.1	0.2	17.0%
- Financial assets	567.5	567.5	-	-
Non-current assets	**568.8**	**568.6**	**0.2**	**-**
- Trade receivables	30.7	33.3	(2.5)	(7.6%)
- Trade payables	(21.0)	(24.3)	3.3	(13.7%)
- Other current payables (net of other receivables)	(4.1)	(2.1)	(2.0)	98.0%
Net working capital	**5.6**	**6.9**	**(1.2)**	**(18.0%)**
Total non-current liabilities and provisions	**(3.9)**	**(2.4)**	**(1.5)**	**63.6%**
Net capital employed	**570.5**	**573.1**	**(2.6)**	**(0.4%)**
Net debt	**85.9**	**114.8**	**(29.0)**	**(25.2%)**
Total net equity	**484.6**	**458.2**	**26.4**	**5.8%**
Total net debt and equity	**570.5**	**573.1**	**(2.6)**	**(0.4%)**

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

(€/million)	2018	2017
Cash flow by current operations	(16.2)	(26.0)
Cash flow by other changes in working capital	4.6	1.1
Cash flow by current operations and changes in working capital	**(11.6)**	**(24.9)**
Cash flow by investment activities	190.3	189.8
Cash flow by operating activities	**178.8**	**164.9**
Cash flow by changes in net equity	(149.8)	(112.1)
Cash flow for the period	**29.0**	**52.8**
Opening net financial position	(114.8)	(167.6)
Closing net financial position	**(85.9)**	**(114.8)**

Net cash flow from operating activities amounted to €178.8 million (€164.9 million in 2017), a drop of €13.9 million with respect to the prior year.

Cash flow to net equity reached a negative €149.8 million (negative €112.1 million in 2017), 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 31.12.2018	Profit for 2018	Net equity 31.12.2017	Profit for 2017
De'Longhi S.p.A. financial statements	**484,643**	**172,265**	**458,249**	**174,610**
Share of subsidiaries' equity and results for period attributable to the Group, after deducting carrying value of the investments	607,129	22,380	579,424	121
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	17,660	(2,408)	20,086	(2,411)
Elimination of intercompany profits	(42,612)	(8,280)	(34,395)	5,347
Other adjustments	(895)	745	(1,635)	596
Consolidated financial statements	**1,065,925**	**184,702**	**1,021,729**	**178,263**
Minority interests	-	-	-	-
Group portion	**1,065,925**	**184,702**	**1,021,729**	**178,263**

Annual remuneration report

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

Human resources and organization

The company had 50 employees at 31 December 2018 (44 at 31 December 2017).

The following table summarizes the average number of employees during 2018 compared with 2017:

	2018	%	2017	%	Change
White collar	31	66%	29	66%	2
Managers	16	34%	15	34%	1
Total	**47**	**100%**	**44**	**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" – "2019").

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 Risk and Control and Corporate Governance Committee, Director in Charge of the Internal Control and Risk Management System), the Board of Statutory Auditors, the Director of Internal Audit, the Supervisory Board, the Chief financial officer/Financial Reporting Officer and all De'Longhi personnel, as well as the Directors and Statutory Auditors of the Issuer's subsidiaries, are involved in the controls, with different roles and in function of their expertise and adhere to the recommendations and principles found in the guidelines.

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

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

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

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

Description of main characteristics

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

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

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

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

Having identified these companies, the risks have been mapped and assessed and the key manual and automatic controls have been identified and rated as high/medium/low priority accordingly; these controls have then been tested.

The perimeter of the companies included in the mapping for the purposes of Law 262/2005 has changed over the years to reflect the changes in the Group, both quantitative and qualitative, and this perimeter was also considered for the definition of companies viewed as strategic.

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

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

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

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

- in the issuer's opinion, these companies have suitable accounting and reporting systems for regularly providing management and the auditors of De'Longhi S.p.A. with all the financial information needed to prepare the consolidated financial statements and perform the audit of the accounts;
- these companies provide the auditors of De'Longhi S.p.A. with the information needed to audit the parent company's interim and annual financial statements;
- the issuer keeps the articles of association of the aforementioned companies and details of their company officers and related powers, which are constantly updated for any changes in the same;
- the financial statements of such companies, prepared for the purposes of the De'Longhi Group's consolidated financial statements, have been made available in the manner and terms established by existing law. Please note that the identification and analysis of the risk factors contained in this report were carried out including in light of the change in strategic companies as resolved by the Board of Directors.

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

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

In 2017, it was decided to integrate this activity with a recognition of the main risks of the Group's foreign companies considered “strategically important companies” for corporate governance purposes.
The risk plan also calls for guidelines to be established for the control and risk management system using a top down approach, as well as the identification of the duties and responsibilities of the various individuals involved in the different levels of control:
(i) the recognition and identification by operations of the main risks and subsequent treatment;
(ii) control by the risk control department of the risks and definition of the instruments and methods to be used to managed the risks.
In 2018 a follow-up of the “risk assessment activities”, carried out in 2017, was completed by updating the mapping carried out in the relevant Group companies.
The internal audit division also conducted a survey as to the risks perceived by the company’s CEO and the top management subject to internal audit in 2018.

Risk factors

The risk factors and uncertainties that could materially affect the Company's business are discussed below.
These risk factors also take in to account the above mentioned ERM project and the assessments carried out in prior years including through more in depth analysis shared with the Risk and Control Committee and Company’s Board of Statutory Auditors.
With reference to the main risks, highlighted below, the Company monitors and places continuous attention to any situations and developments in the macroeconomic, market and demand trends in order to be able to implement any necessary and timely strategic actions.
It should also be noted that in addition to the risk factors and uncertainties identified in this report, other risks and uncertain events not currently foreseeable, or which are currently thought unlikely, could also influence the business, the economic and financial conditions and prospects of the Company.

1 - Risks relating to macroeconomic trends: the Company's economic performance and financial position are also affected by macroeconomic trends.

Even though the world economy showed continuous and resilient growth in 2018, there was a growing lack of consistency between countries and a gradual weakening of the prospects for world trade. The expansion of the world economy was slowed, in particular, by concern over the repercussions of failed trade negotiations between China and the United States, the rekindling of financial tensions in emerging markets and the methods that will be used to finalize the United Kingdom’s exit from the European Union (Brexit). In the latter part of the year growth continued to be robust in the United States and returned positive in Japan, after the marked contraction recorded in the third quarter linked to the natural disasters that struck the country. As for the main emerging markets, the slowdown in the Chinese economy begun at the beginning of 2018 also continued in the last few months of the year, despite the fiscal stimulus introduced by the government; in Brazil the scenario continued to show signs of weakness. Growth in the Euro zone slowed due, in part, to temporary factors, but also to a deterioration in business sentiment and weak foreign demand; activity increased in France, but fell in Germany and Italy. With the increased uncertainty about the prospects for world economic growth, long-term interest rates in the principle developed markets began to fall again after the increases recorded in October; the drop in stock prices accelerated in very volatile markets. Risk premiums increased slightly in the Euro zone. (*Source: Bank of Italy/ European Central Bank*).

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

2 - Exchange rate fluctuation risks: the Company does business in many foreign markets and is exposed to the risk of fluctuations in currencies.

For the purposes of protecting its income statement and statement of financial position from such fluctuations, the Company adopts a suitable hedging policy and tools, free from speculative connotations. Hedging is carried out centrally by a special team on the basis of information obtained from a detailed reporting system, using instruments and policies that comply with international accounting standards.
The main currencies to which the Company is exposed are the US dollar, the HK dollar and the British pound.
Despite the Company’s effort to minimize the abovementioned risk, sudden currency fluctuations could have an adverse impact on the Company’s results and business prospects.

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

The principal risks relating to human resources are linked to the Company's ability to attract, develop, motivate, retain and empower staff who have the necessary talent, values, and specialist and/or managerial skills to satisfy the Company's changing needs.
The loss of such individuals or other key employees without adequate replacement, or the failure to attract and retain new qualified resources could therefore adversely affect the Company's business prospects, as well as its economic performance and/or financial position.
In terms of being able to attract quality resources, the Company not only have specialist qualified professional human resources teams, but they also plan actions to improve the quality of working environment for its employees and staff as well as the Company's external image (communication, contact with schools and universities, testimonials, internships, etc.), in some cases using the services of specialist professional firms with a proven track record.
In terms of motivating and developing personnel, actions taken include the strengthening of managerial, specialist, business and regulative competencies, with initiatives that involve managers and staff from different areas of the business.
The salary review process also includes reward systems for employees at various levels in the organization - from the staff through to top management and key people - which are linked to the achievement of short-term and/or medium/long term targets.

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

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

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

It is the Company's policy to maintain a sufficiently large portfolio of counterparties of international repute for the purposes of satisfying its financing and hedging needs.
The Company uses specific policies and procedures for the purposes of monitoring and managing this risk, including the centralized cash management (financial debt and cash management, the raising of medium and long-term finance on capital markets and the obtaining of short-term credit lines that allow wide room for manoeuvre when managing working capital and cash flows).
The Company has short-term bank credit lines (typically renewed on an annual basis), which are used to finance working capital and other operating needs.
About the interest rate risk, at 31 December 2018 the Company's net financial position is negative and financial debt is medium-long term, in order to take advantage of the favourable market conditions characterized by very low interest rates.
This risk is managed centrally by the same team that manages currency risks. Nevertheless, sudden fluctuations in interest rates could have an adverse impact on the Company's business prospects, as well as on its economic performance and/or financial position.
At the date of this report, the Company has two hedging contracts to protect two medium/long term loans from the interest rates fluctuation risk.

6 - Compliance and corporate reporting risks:

A. Financial reporting: risks associated with the reliability of financial reporting, particularly that the information contained in the annual and interim financial reports might not be correct, warrant particular attention, especially for a listed company.
In 2018, effective implementation of the system of managing financial reporting risks was monitored on a continuous basis and periodically evaluated under the guidance of the functions in charge.
For the purposes of ensuring reliable internal controls over its financial reporting, the Group has implemented a system of administrative and accounting procedures and operations that include:
- an accounting policies manual;
- accounting policy instructions and updates;
- other procedures for preparing the consolidated financial statements and periodic financial reports.

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

B. Risks relating to the administrative liability of legal: in compliance with EU directives, Decree 231/2001 has introduced into Italian law special rules applying to the liability of entities for certain offences, where "entities" mean limited liability business enterprises, partnerships or associations, including those without legal status.
Under this legislation and amendments and additions thereto, the Company has adopted, in accordance with art. 6 of Decree 231/2001, the "Model of organization, management and control" suitable for avoiding the occurrence of such liability at their own expense and the related "Ethical code", intended to apply not only to the Group's Italian companies but also, as far as applicable, to its foreign subsidiaries, since the Company is also answerable, under art. 4 of Decree 231/2001, for offences committed abroad.
Therefore, the company's administrative liability under Decree 231/2001 could exist when this is effectively established as a result of an action brought against one of the Group companies, including the foreign subsidiaries; in such a case, it is not possible to exclude, in addition to the resulting application of penalties, adverse consequences for the Company's operations, economic performance, assets and liabilities and financial position.

7 - Related parties: the Company has had and continues to have transactions of a commercial nature with related parties. Such transactions carry conditions that are in line with market ones.

The Company adopted a new set of procedures to govern transactions with related parties, in compliance with the standards set by the supervisory authorities in CONSOB Regulation 17221 dated 12 March 2010. The procedures identify those related party transactions subject to specific examination and approval rules, which change according to whether such transactions are above or below defined thresholds. The procedures place particular importance on the role of the independent directors, who must always issue a prior opinion on the proposed transaction (if the transaction qualifies as material, this opinion is binding on the Board of Directors); the independent directors must also be involved in the preliminary examination of material transactions prior to their approval.
These procedures are considered to represent an additional guarantee of the transparency of the Company's operations.
Information on related party transactions is summarized in Appendix 4 to the Explanatory Notes.

The present annual report and financial statements have been prepared on a going concern basis. The uncertainties associated with the current macroeconomic context and the problems relating to the risks described above have been judged not significant and in any case not such as to cast significant doubt on the business's ability to continue as a going concern.

More information about the company's risk management can be found in the Explanatory notes.

Number and value of shares

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

Tax consolidation

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

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

No significant events took place 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 30 April 2019 *("Annual Report at 31 December 2018: presentation of the separate financial statements at 31 December 2018 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 2018 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 2018 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 2018 of De'Longhi S.p.A.".

2) Proposed resolution relating to item 1.2 of the Agenda for the Annual General Meeting convened on 30 April 2019 *("Annual Report at 31 December 2018: proposed allocation of the net profit for the year. Related and consequent resolutions").*

Dear Shareholders,
with regard to the allocation of the net profit for the year closed on 31 December 2018, which amounted to €172,265,034, 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 2018 and the Directors' Report on Operations

resolve

1. *to allocate €8,613,252.00 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 €0.37 for each of the 149,500,000 shares outstanding, once the allocation referred to in point 1 above has been made;*
3. *to allocate the remaining net profit for the year of €108,336,782.00 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 22 May 2019, with shares going ex-div on 20 May, in accordance with Borsa Italiana's calendar, and a record date, pursuant to art. 83-terdecies of Legislative Decree n. 58/98, of 21 May 2019".*

Treviso, 14 March 2019

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	2018	*of which non-recurring*	2017	*of which non-recurring*
Revenues	*1*	24,620,744		28,325,076	
Total revenues		**24,620,744**		**28,325,076**	
Raw and ancillary materials, consumables and goods	*2*	(83,109)		(50,528)	
Materials consumed		**(83,109)**		**(50,528)**	
Payroll costs	*3*	(13,978,391)	*(1,200,000)*	(11,381,512)	
Services and other operating expenses	*4*	(28,606,004)	*(150,000)*	(36,240,396)	*(1,105,500)*
Provisions	*5*	(259,698)		100,000	
Amortization	*6*	(597,063)		(424,568)	
EBIT		**(18,903,521)**		**(19,671,928)**	
Financial income (expenses)	*7*	187,802,025		187,877,061	
PROFIT (LOSS) BEFORE TAXES		**168,898,504**		**168,205,133**	
Income taxes	*8*	3,366,530		6,405,292	
NET PROFIT (LOSS)		**172,265,034**		**174,610,425**	

Statement of Comprehensive Income

(Amounts in Euro)	2018	2017
Net profit (loss)	**172,265,034**	**174,610,425**
- Change in fair value of cash flow hedges and financial assets available for sale	(302,388)	7,429,022
- Tax effect on change in fair value of cash flow hedges and financial assets available for sale	72,573	(1,782,966)
Total other comprehensive income will subsequently reclassified to profit (loss) for the year	**(229,815)**	**5,646,056**
- Actuarial valuation funds	12,322	(3,048)
- Tax effect of actuarial valuation funds	(2,957)	732
Total other comprehensive income will not subsequently reclassified to profit (loss) for the year	**9,365**	**(2,316)**
Other components of comprehensive income	**(220,450)**	**5,643,740**
Total comprehensive income	**172,044,584**	**180,254,165**

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	31.12.2018	31.12.2017
NON-CURRENT ASSETS			
INTANGIBLE ASSETS		1,176,709	894,131
- Other intangible assets	*9*	1,176,709	894,131
TANGIBLE ASSETS		87,473	186,046
- Land, property, plant and machinery	*10*	85,129	170,432
- Other tangible assets	*11*	2,344	15,614
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		567,676,370	567,744,129
- Equity investments	*12*	567,516,127	567,516,127
- Receivables	*13*	160,243	148,960
- Other non-current financial assets	*14*	-	79,042
TOTAL NON-CURRENT ASSETS		**568,940,552**	**568,824,306**
CURRENT ASSETS			
TRADE RECEIVABLES	*15*	30,746,514	33,274,059
CURRENT TAX ASSETS	*16*	4,028,584	4,436,106
OTHER RECEIVABLES	*17*	6,828,731	8,007,778
CURRENT FINANCIAL RECEIVABLES AND ASSETS	*18*	194,626,689	209,210,972
CASH AND CASH EQUIVALENTS	*19*	41,552	25,880
TOTAL CURRENT ASSETS		**236,272,070**	**254,954,795**
TOTAL ASSETS		**805,212,622**	**823,779,101**

Statement of Financial Position

Net Equity and Liabilities

(Amounts in Euro)	Notes	31.12.2018	31.12.2017
NET EQUITY			
NET EQUITY		484,642,618	458,248,899
- Share capital	*20*	224,250,000	224,250,000
- Reserves	*21*	88,127,584	59,388,474
- Net profit (loss)		172,265,034	174,610,425
TOTAL NET EQUITY		**484,642,618**	**458,248,899**
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES		235,633,010	280,151,967
- Bank loans and borrowings (long-term portion)	*22*	84,914,750	128,791,914
- Other financial payables (long-term portion)	*23*	150,718,260	151,360,053
DEFERRED TAX LIABILITIES	*24*	1,404,124	1,450,433
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		2,505,397	939,116
- Employee benefits	*25*	1,846,050	539,466
- Other provisions	*26*	659,347	399,650
TOTAL NON-CURRENT LIABILITIES		**239,542,531**	**282,541,516**
CURRENT LIABILITIES			
TRADE PAYABLES	*27*	21,004,201	24,335,312
FINANCIAL PAYABLES		45,053,747	44,133,127
- Bank loans and borrowings (short-term portion)	*22*	43,909,792	43,855,246
- Other financial payables (short-term portion)	*23*	1,143,955	277,881
CURRENT TAX LIABILITIES	*28*	-	266,416
OTHER PAYABLES	*29*	14,969,525	14,253,831
TOTAL CURRENT LIABILITIES		**81,027,473**	**82,988,686**
TOTAL NET EQUITY AND LIABILITIES		**805,212,622**	**823,779,101**

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*	2018	2017
Net profit (loss)		172,265,034	174,610,425
Income taxes for the period		(3,366,530)	(6,405,292)
Income for dividends receipt		(191,106,394)	(198,334,233)
Amortization		597,063	424,568
Net change in provisions and other non-cash items		5,401,459	3,691,243
Cash flow absorbed by current operations (A)		**(16,209,368)**	**(26,013,289)**
Change in assets and liabilities for the period:			
Trade receivables		2,553,823	(4,217,703)
Trade payables		(3,331,110)	3,877,195
Other current assets and liabilities		5,844,976	1,475,308
Payment of income taxes		(419,291)	(15,000)
Cash flow generated by changes in working capital (B)		**4,648,398**	**1,119,800**
Cash flow absorbed by current operations and changes in working capital (A+B)		**(11,560,970)**	**(24,893,489)**
Investment activities:			
Investments in intangible assets		(777,496)	(1,187,175)
Investments in tangible assets		(3,572)	(63,190)
Net investments in equity investments		-	(7,250,707)
Dividends receipt		206,006,394	183,434,233
Cash flow generated by investment activities (C)		**205,225,326**	**174,933,161**
Dividends paid		(149,500,000)	(119,600,000)
New loans		-	345,000,000
Payment of interests on loans		(2,771,230)	(3,792,394)
Repayment of loans and other net changes in source of finance		(41,377,454)	(371,645,901)
Cash flow absorbed by changes in net equity and by financing activities (D)		**(193,648,684)**	**(150,038,295)**
Increase in cash and cash equivalents (A+B+C+D)		**15,672**	**1,377**
Opening cash and cash equivalents	*19*	**25,880**	**24,503**
Increase in cash and cash equivalents (A+B+C+D)		15,672	1,377
Closing cash and cash equivalents	*19*	**41,552**	**25,880**

Appendix 2 presents the statement of cash flows at 31 December 2018 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	EXTAORDINARY 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 2016	**224,250,000**	**162,545**	**18,940,988**	**19,942,161**	**(5,885,398)**	**365,779**	**(107,506)**	**10,441,324**	**125,767,409**	**393,877,302**
Allocation of 2016 result as per AGM resolution of 11 April 2017										
- distribution of dividends				(120,961)					(119,479,039)	(119,600,000)
- allocation to reserves			6,288,370						(6,288,370)	-
Fair value Stock Option						3,717,432				3,717,432
Movements from transactions with shareholders	**-**	**-**	**6,288,370**	**(120,961)**	**-**	**3,717,432**	**-**	**-**	**(125,767,409)**	**(115,882,568)**
Profit (loss) after taxes									174,610,425	174,610,425
Other components of comprehensive income					5,646,056		(2,316)			5,643,740
Comprehensive income (loss)	**-**	**-**	**-**	**-**	**5,646,056**	**-**	**(2,316)**	**-**	**174,610,425**	**180,254,165**
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**
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**

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 2018 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 2018), 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 2018 are the same as those used for preparing the financial statements at 31 December 2017, except for certain new amendments and accounting standards described below.

The financial statements at 31 December 2018 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 Group for the first time

With Regulation 2016/2067 of 22 November 2016 the European Commission adopted IFRS 9 *Financial Instruments* which substitutes IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 addresses all the issues relating to accounting of financial instruments: classification and measurement, loss in value and hedge accounting. The standard is effective for annual periods beginning on or after January 1, 2018 with the exception of hedge accounting (which is applied, with a few exceptions, as of the effective date) the standard is to be applied retroactively, but it is not mandatory to provide comparative figures. The Company adopted the new standard when it took effect.
Application of the classification and measurement called for in IFRS 9 did not have any impact on the Company's financial statements. Loans, as well as trade receivables, are held for collection upon expiration of the contract and are expected to generate cash flows stemming solely from the collection of principle and interest. The Company will continue, therefore, to measure them at amortized cost in accordance with IFRS 9.
Based on IFRS 9 impairment of financial assets recognized in the financial statements at amortized cost must be calculated based on an expected loss approach which substitutes the IAS 39 framework based typically on an incurred loss approach. The Company, due to the prudent approach used to estimate losses on receivables under the prior standard, as well as the limited exposure to credit risk, thanks also to the widespread use of insurance, did not have to adjust the measurements made relative to the recovery of trade receivables and other financial assets.
IFRS 9 introduces a revision in the requisites and rules for the application of hedge accounting, simplifying in part the IAS 39 rules and expanding the instances in which hedge accounting may be used. The application of the standard did not impact the Company significantly.

With Regulation 2016/1905 of 22 September 2016 the European Commission adopted IFRS 15 *Revenues from contracts with customers* which introduces a new five-step model to be applied to contracts with customers. IFRS 15 calls for revenues to be recognized for an amount that reflects the consideration to which the entity will be entitled to when the control of the merchandise or services is transferred to the customer. The new standard, which substituted all the other requirements in the IFRS relating to revenue recognition, was applied retroactively by the Company as of 1 January 2018.
Revenues from sales are recognized by the Company when the good is transferred to the customer, namely when the customer acquires control of the good. With respect to revenue recognition, application of IFRS 15 is not significantly different from the prior standard. Revenues are recognized net of discounts, rebates and returns. Consistent with the prior standard, revenues from assets sold with a right to return will not be recognized but a refund liability will and an asset will be recognized in inventory net of any loss in value of the returned product. Application of IFRS 15 did not impact the way in which the Company accounts for revenues.

As part of the process designed to improve international accounting standards, the European Commission adopted amendments of a few standards, effective 1 January 2018, in order to resolve questions that aren't urgent relating to inconsistencies or provide clarifications of certain terms.
With Regulation 2018/182 of 7 February 2018 Annual Improvements to IFRS 2014-2016 cycle were adopted which resulted in changes being made to IAS 28 *Investments in Associates and Joint Ventures,* to IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IFRS 12 *Disclosure of Interests in Other Entities.*

Regulation 2018/289 was approved on 26 February 2018 which adopted amendments to IFRS 2 *Share Based Payments* in order to clarify how the standard should be applied in a few specific cases; the main changes relate to cash-settled share-based payments, accounting treatment of cash-settled share-based payments with and without performance conditions and share-based payment awards settled net of tax withholdings.

Regulation 2018/400 of 14 March 2018 adopted amendments to IAS 40 *Investment Property – Transfers of Investment Property* in order to clarify when a property may be transferred to or from investment property.

On 28 March 2018 Regulation 2018/519 was approved which adopts IFRIC 22 *Foreign Currency Transactions and Advance Consideration* in order to clarify the accounting for transactions that include the receipt or payment of advance consideration in foreign currency.

These amendments did not have a material impact on the Company.

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

IFRS 16 *Leasing* was adopted by the EU in Regulation 2017/1986 on 31 October 2017. This standard aims to improve the financial reporting of leases. The scope of the new principle is largely unchanged with respect to IAS 17 which it is substituting. 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. Leasing includes those contracts which convey the right to control the use of an identified asset for a 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 measures which facilitate application. The lessee may decide to not apply IFRS 16 to leases of less than 12 months which do not provide for renewal 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 plus 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 new standard will be applicable for reporting periods beginning on or after 1 January 2019.
Though the Company did not opt for early application, it has undertaken to analyze the possible impact that transitioning to application of the standard could have 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 will apply the provision which allows for the new definition of leasing not to be applied during the transition phase. The Company, therefore, will not apply the standard to contracts which were not already identified as leases under IAS 17 and IFRIC 4.

The Company completed a first assessment as to the impact that first-time application of IFRS 16 would have on its financial statements; the initial estimate of the actual impact that adoption of the standard could have is subject to change as further verification and controls are underway, particularly with regard to IT systems put into place to support management of the leases.
Subsequent to IFRS 16 application, new assets (relating mainly to leases for properties and automobiles) and financial liabilities (the lease obligations) will be recognized in the financial statements as non-banking items. The value of the right-of-use will be depreciated and interest recognized, while costs represented by the lease payments made will be eliminated.
Based on the information currently available, the Company estimates that at 1 January 2019 it will recognize right-of-use assets and lease payables totaling an estimated amount of €1,5 million.
We estimate that over time, taking into account the average duration of the principle leasing agreements, the impact on the result for the year will not be very significant overall; however, there may be a temporary effect stemming from replacement of lease payments with the recognition of interest and depreciation.

With Regulation 2018/498 of 22 March 2018 the European Commission also adopted amendments to IFRS 9 *Financial Instruments – Prepayment Features with Negative Compensation* in order to clarify the classification of certain prepayable financial assets when IFRS 9 is applied.

On 23 October 2018 Regulation 2018/1595 adopted IFRIC 23 *Uncertainty over income tax treatments* which clarifies the accounting for uncertainties in income taxes in certain situations.

On 8 February 2019 Regulation 2019/237 was approved which amends IAS 28: *Interests in Associates and Joint Ventures*. The amendments aim to clarify the application of IFRS 9 when accounting for long-term interests in associates or joint ventures that form part of the net investment in the associate or joint venture.

The three regulations will take effect as of 1 January 2019.

On 12 December 2017 IASB published *Annual Improvements to IFRSs 2015-2017 Cycle*, which includes amendments to IAS 12 *Income Taxes*, IAS 23 *Borrowing Costs*, IFRS 3 *Business Combination* and IFRS 11 *Joint Arrangements*. The amendments will take effect as of 1 January 2019. Early application is allowed.

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)*" clarifies how to determine pension costs when a change in a defined benefit plan occurs. The amendments will apply to reporting periods beginning on or after 1 January 2019.

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

In May 2017, IASB issued a new international accounting standard, IFRS 17 *Insurance contracts* which substitutes 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). In November 2018 IASB decided to delay the effective date of IFRS 17 one year, therefore, once the standard is endorsed by the European Union, the new standard will be applicable for reporting periods beginning on or after 1 January 2022.

In October 2018 IASB published *Definition of a Business (Amendments to IFRS 3)* which aims to clarify if an entity acquired a business or a group of assets; the amendments will be applied to acquisitions made after 1 January 2020.

Disclosure by operating segments

Segment information is reported only with reference to the consolidated financial statements, as allowed by IFRS 8.

Principal accounting policies

Intangible assets

Other intangible assets

Other intangible assets purchased or internally generated are recognized as assets in accordance with IAS 38 - *Intangible assets*, when it is probable that the future economic benefits attributable to their use will flow to the company and when the cost of the asset can be reliably measured.
These assets are valued at purchase or production cost and amortized, if they have a finite life, on a straight-line basis over their useful life, generally estimated in 4 years.

Property, plant and equipment

Property, plant and equipment owned by the Company are recorded at purchase or production cost and systematically depreciated over their residual useful lives.
The cost of assets qualifying for capitalization also includes the borrowing costs directly attributable to the acquisition, construction or production of the asset itself.
Subsequent expenditure is capitalized only if it increases the future economic benefits flowing to the enterprise. All other costs are expensed to income as incurred.

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

Industrial buildings	6 years
Industrial and commercial equipment	1 year
Other	4 - 8 years

Impairment of non-financial assets

The Company tests, at least once a year, whether the book value of intangible assets and property, plant and equipment reported in the financial statements has suffered any impairment loss. If there is evidence of impairment, book value is written down to the related recoverable amount.
If it is not possible to estimate the recoverable amount of an individual asset, the Company assesses whether the cash-generating unit to which it belongs is impaired.

Net assets held for sale and Discontinued Operations

Non-current assets and disposal groups are classified as held for sale or Discontinued operations if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition.
When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.
Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amounts and fair value less costs to sell.

Financial instruments

Financial assets

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.

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 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 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 Company 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 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 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 Company will estimate the amount of the consideration it will be entitled to in exchange for the goods or 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.

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:

	2018	2017	Change
Out-of-period gains	38	75	(37)
Damages reimbursed	20	6	14
Other income	24,563	28,244	(3,681)
Total	**24,621**	**28,325**	**(3,704)**

“Other income” include €24,368 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:

	2018	2017	Change
Other purchases	83	51	32
Total	**83**	**51**	**32**

3. Payroll costs

The figures relating to the provisions made by the Company relative to severance and long-term benefits are summarized in note *25. Employee benefits*.
This item included non-recurring expenses of €1,200 thousand incurred for structural reorganization of the Group and €3,849 thousand relating to the notional cost (fair value) of the stock option plan for the year (€3,717 thousand at 31 December 2017).

4. Services and other operating expenses

These are analyzed as follows:

	2018	2017	Change
Incentives paid to clients - international commercial groups - global marketing costs	17,836	20,674	(2,838)
Consulting services	3,199	5,023	(1,824)
Directors' emoluments	2,544	2,493	51
Insurance	2,420	2,810	(390)
Travel and entertaining	681	3,566	(2,885)
Rentals and leasing	419	348	71
Statutory auditors' emoluments	146	146	-
Advertising and promotional activities	37	24	13
Telecommunication costs	13	24	(11)
Other sundry services	981	804	177
Total services	**28,276**	**35,912**	**(7,636)**
Sundry taxes	120	203	(83)
Other	210	125	85
Total other operating expenses	**330**	**328**	**2**
Total services and other operating expenses	**28,606**	**36,240**	**(7,634)**

“Cost of services” includes the costs incurred by the Company to carry out its activities as a holding company and a few centralized costs shared by several Group companies (payment of international commercial Groups and global marketing costs) that are subsequently charged back to the subsidiaries.

"Services and other operating expenses" include €6,977 thousand in costs from related parties, as reported in Appendix 4 and €150 thousand in non-recurring costs related to reorganization of the Group’s structure (€1,106 thousand at 31 December 2017).

5. Provisions

These include €269 thousand in other provisions for contingencies net of the release of provisions for uninsured liabilities of €10 thousand (please refer to note *26. Other provisions for further comments*).

6. Amortization

These are analyzed as follows:

	2018	2017	Change
Amortization of intangible assets	495	307	188
Depreciation of property, plant and equipment	102	118	(16)
Total	**597**	**425**	**172**

7. Financial income (expenses)

Net financial income and expenses are broken down as follows:

	2018	2017	Change
Dividends	191,106	198,334	(7,228)
Financial income (expenses) from equity investments	**191,106**	**198,334**	**(7,228)**
Gains (losses) on currency hedging transactions	1	(10,864)	10,865
Exchange gains (losses)	1	4,519	(4,518)
Exchange gains (losses)	**2**	**(6,345)**	**6,347**
Interest income from loans	120	48	72
Bank interest income	10	3	7
Financial income	**130**	**51**	**79**
Interest expense on long-term loans and borrowings	(931)	(441)	(490)
Interest expenses on bonds	(2,516)	(3,233)	717
Interest expense on short-term loans and borrowings	(1)	(355)	354
Financial expenses	**(3,448)**	**(4,029)**	**581**
Other sundry income (expenses)	12	(134)	146
Other financial income (expenses)	**12**	**(134)**	**146**
Financial income (expenses)	**187,802**	**187,877**	**(75)**

"Financial income (expenses)" includes €191,307 thousand in income from related parties, as reported in Appendix 4.

Dividends relate primarily to amounts declared by the subsidiaries De Longhi Benelux S.A., De'Longhi Appliances S.r.l., De'Longhi Deutschland Gmbh, De'Longhi Kenwood Gmbh, E-Services S.r.l., De'Longhi Capital Services S.r.l. e De'Longhi Polska Sp. Z.o.o..

8. Income taxes

These are analyzed as follows:

	2018	2017	Change
Current tax assets	3,390	5,623	(2,233)
Advanced (deferred) taxes	(23)	782	(805)
Total	**3,367**	**6,405**	**(3,038)**

The Company has made an election to file for income tax on a group basis for companies based in Italy, as allowed by art. 117 *et seq* of the Income Tax Consolidation Act (Presidential Decree 917/86), as part of the tax group formed by the Parent Company De Longhi Industrial S.A. for the three-year period 2016-2018.

"Deferred income tax liabilities (assets)" report the taxes calculated on the temporary differences arising between the carrying amount of assets and liabilities and the corresponding tax base, and the distributable earnings of subsidiaries.
More information on deferred taxes can be found in note *24. Deferred tax liabilities*.

The actual and theoretical tax charge are reconciled as follows:

	2018	%	2017	%
Profit before taxes	168,899	100.0%	168,205	100.0%
Theoretical taxes	(40,536)	(24.0%)	(40,369)	(24.0%)
Permanent tax differences (dividends, net of disallowable costs) and other effects	43,903	26.0%	46,774	27.8%
Actual taxes	**3,367**	**2.0%**	**6,405**	**3.8%**

Comments on the statement of financial position: assets

Non-current assets

9. Intangible assets

These are analyzed as follows:

	31 December 2018		31 December 2017		
	Gross	Net	Gross	Net	Change
Patents	2,094	1,177	1,317	894	283
Total	**2,094**	**1,177**	**1,317**	**894**	**283**

The following table reports movements during 2018:

	Patents
Net opening balance	**894**
Additions	778
Amortization	(495)
Net closing balance	**1,177**

The increases refer to the purchase of software during the year.

10. Land, property, plant and machinery

These are analyzed as follows:

	31 December 2018		31 December 2017		
	Gross	Net	Gross	Net	Change
Land and buildings	320	85	320	170	(85)
Total	**320**	**85**	**320**	**170**	**(85)**

The following table reports movements during 2018:

	Land and buildings
Net opening balance	**170**
Amortization	(85)
Net closing balance	**85**

11. Property, plant and equipment

These are analyzed as follows:

	31 December 2018		31 December 2017		
	Gross	Net	Gross	Net	Change
Industrial and commercial equipment	19	-	17	-	-
Other	205	2	203	15	(13)
Total	**224**	**2**	**220**	**15**	**(13)**

The following table reports movements during 2018:

	Other
Net opening balance	15
Additions	4
Amortization	(17)
Net closing balance	**2**

12. Equity investments

These are analyzed as follows:

	31 December 2018	31 December 2017	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 2018 can be found in Appendix 3.

The impairment test carried out has not revealed any significant evidence that equity investments are impaired.

13. Non-current receivables

This balance is analyzed as follows:

	31 December 2018	31 December 2017	Change
Receivables from subsidiary companies	160	149	11
Total	**160**	**149**	**11**

Appendix 4 contains details of "Receivables from subsidiary companies".

14. Other non-current financial assets

Details are as follows:

	31 December 2018	31 December 2017	Change
Fair value of derivatives	-	79	(79)
Total	**-**	**79**	**(79)**

Current assets

15. Trade receivables

These are analyzed as follows:

	31 December 2018	31 December 2017	Change
Trade receivables due within 12 months	30,747	33,300	(2,553)
Allowance for bad debts	-	(26)	26
Total	**30,747**	**33,274**	**(2,527)**

"Trade receivables" include €28,987 thousand in receivables from related parties, as reported in Appendix 4.

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

	31 December 2017	Utilization	31 December 2018
Allowance for bad debts	26	(26)	-
Total	**26**	**(26)**	**-**

Trade receivables do not include any amounts due beyond 12 months.

16. Current tax assets

These are detailed as follows:

	31 December 2018	31 December 2017	Change
Direct taxes	4,029	4,436	(407)
Total	**4,029**	**4,436**	**(407)**

In 2018, 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.

17. Other receivables

These are analyzed as follows:

	31 December 2018	31 December 2017	Change
VAT receivables	1,476	908	568
Advances to suppliers	10	5	5
Employees	4	10	(6)
Prepaid costs	-	18	(18)
Other	5,339	7,067	(1,728)
Total	**6,829**	**8,008**	**(1,179)**

Other receivables include €3,487 thousand in amounts due from related parties, as reported in Appendix 4, relating primarily to the "Domestic Tax Consolidation".

None of the other receivables is due beyond 12 months.

18. Current financial receivables and assets

These are analyzed as follows:

	31 December 2018	31 December 2017	Change
Financial receivables	194,607	209,211	(14,604)
Fair value of derivatives	20	-	20
Total	**194,627**	**209,211**	**(14,584)**

"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.

19. Cash and cash equivalents

This balance consists of surplus liquidity on bank current accounts.

Comments on the statement of financial position: net equity

Net equity

The primary objective of the company's capital management is to maintain a solid credit rating and adequate capital ratios in order to support its business and maximize value for shareholders.

The annual general meeting (AGM) of De'Longhi S.p.A. held on 24 April 2018 declared a dividend totalling €149,500 thousand.

Changes in net equity are reported as part of the financial statements; comments on the main components and their changes are provided below.

20. Share capital

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

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

21. Reserves

These are analyzed as follows:

	31 December 2018	31 December 2017	Change
Share premium reserve	163	163	-
Legal reserve	33,960	25,229	8,731
Other reserves:			
- Extraordinary reserve	36,201	19,821	16,380
- Stock option reserve	7,932	4,083	3,849
- Fair value and cash flow hedge reserve	(469)	(239)	(230)
- Actuarial valuation reserve	(100)	(110)	10
- Profit (loss) carried forward	10,441	10,441	-
Total	**88,128**	**59,388**	**28,740**

The "Share premium reserve" was set up following the public offering at the time of the parent company's flotation on the Milan stock exchange on 23 July 2001. The residual amount of this reserve was €325 thousand at 31 December 2011; following the demerger transaction in favour of DeLclima S.p.A. the share premium reserve was reduced to €163 thousand.

The "Legal reserve" has a balance of €33,960 thousand at 31 December 2018. The increase of €8,731 thousand with respect to 31 December 2017 follows the allocation of profit for 2017, as approved by the AGM on 24 April 2018.

The "Extraordinary reserve" has a balance of €36,201 thousand at 31 December 2018. The increase of €16,380 thousand with respect to 31 December 2017 follows the allocation of profit for 2017, as approved by the AGM on 24 April 2018.

The “Stock option” reserve amounted to €7,932 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 Report on Remuneration for more detailed information about the Plan.

For the purposes of valuation under IFRS 2 - *Share-based payments*, two different tranches were defined for each award which contain the same number of options broken down equally into the plan’s two exercise periods. The fair value per share of the options assigned in 2016 amounted to € 5.3072 for the first tranche and to €5.2488 for the second. The fair value per share of the options assigned in 2017 amounted to €7.6608 for the first tranche and to €7.4442 for the second.
The fair value of the stock options is determined using the Black-Scholes model which takes into account the conditions for the exercise of the right, the current share price, expected volatility, a risk free interest rate, as well as the non-vesting conditions.
Volatility is estimated based on the data of a market provider and corresponds to the estimated volatility of the stock over the life of the plan.

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

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

The "Fair value and cash flow hedge reserve" reports a negative balance of €469 thousand, net of €148 thousand in tax. This amount reflects the negative fair value of the cash flow hedge derivatives.

More details on the fair value of derivatives can be found in note *33. Risk management*.

The following table provides information on the permitted distribution of reserves:

Nature / Description:	Amount		Permitted use	Available amount
Share capital	224,250	(1)		
Capital reserves:				
- Share premium reserve	163	(2)	A, B	
Earnings reserves:				
- Stock option reserve	7,932			
- Legal reserve	33,960		B	
- Extraordinary reserve	36,201		A, B, C	36,201
- Fair value and cash flow hedge reserve	(469)			
- Actuarial valuation reserve	(100)			
- Profit (loss) carried forward	10,441		A, B, C	1,866
Total	**312,378**	(3)		**38,067**
Undistributable amount				569
Distributable amount				**37,498**

(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 2018 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 2018 tax return.

Key:
A: to increase share capital
B: to cover losses
C: distribution to shareholders

Comments on the statement of financial position

Liabilities

22. Bank loans and borrowings

Bank loans and borrowings are analyzed as follows:

	Within one year	One to five years	Beyond five years	Balance 31.12.2018	Within one year	One to five years	Beyond five years	Balance 31.12.2017	Change
Overdrafts	1	-	-	1	1	-	-	1	-
Long-term loans (current portion)	43,909	-	-	43,909	43,854	-	-	43,854	55
Total short-term bank loans and borrowings	**43,910**	**-**	**-**	**43,910**	**43,855**	**-**	**-**	**43,855**	**55**
Long-term loans	-	84,915	-	84,915	-	128,792	-	128,792	(43,877)
Total bank loans and borrowings	**43,910**	**84,915**	**-**	**128,825**	**43,855**	**128,792**	**-**	**172,647**	**(43,822)**

Bank loans can be broken down as follows:

Loans (including short-term portion)	31.12.2018	31.12.2017	Change
Intesa Sanpaolo S.p.A.	66,393	85,301	(18,908)
Unicredit S.p.A.	62,431	87,345	(24,914)
Total long-term loans	**128,824**	**172,646**	**(43,822)**

No new loans were taken out in 2018.
None of the financial covenants in the agreements for the two loans taken out in 2017 (already described in the 2017 Annual Report), based on the net financial debt/net equity and net financial debt/ EBITDA before non-recurring/stock option costs ratios (with reference to consolidated statements figures), had been breached at 31 December 2018.

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

23. Other financial payables

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

	31 December 2018	31 December 2017	Change
Negative fair value of derivatives (short-term portion)	434	178	256
Private placement (short-term portion)	-	16	(16)
Other short-term financial payables	710	84	626
Total short-term payables	**1,144**	**278**	**866**
Negative fair value of derivatives (one to five years)	188	225	(37)
Private placement (one to five years)	64,168	42,736	21,432
Other financial payables (one to five years)	636	1,252	(616)
Total long-term payables (one to five years)	**64,992**	**44,213**	**20,779**
Private placement (beyond five years)	85,726	107,147	(21,421)
Total long-term payables (beyond five years)	**85,726**	**107,147**	**(21,421)**
Total	**151,862**	**151,638**	**224**

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 2018 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 as well as the short-term portion (payable within 12 months) of variable consideration payable for the purchase of minority interests (the following 12 months portion of payable is included into "Other financial payables (One to five years)".

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 €79 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 2018	31 December 2017	Change
A. Cash	17	17	-
B. Cash equivalents	25	9	16
C. Securities	-	-	-
D. Total liquidity (A+B+C)	**42**	**26**	**16**
E. Current financial receivables and other securities	**194,627**	**209,211**	**(14,584)**
of which:			
Fair value of derivatives	*20*	*-*	*20*
F. Current bank loans and borrowings	(1)	(1)	-
G. Current portion of non-current debt	(43,909)	(43,854)	(55)
H. Other current financial payables	(1,144)	(278)	(866)
of which:			
Fair value measurement of derivatives and financial payables linked to business combinations	*(1,070)*	*(178)*	*(892)*
I. Current financial debt (F+G+H)	**(45,054)**	**(44,133)**	**(921)**
J. Net current financial debt (D+E+I)	**149,615**	**165,104**	**(15,489)**
Non-current financial receivables and other securities	160	228	(68)
of which:			
Fair value of derivatives	*-*	*79*	*(79)*
K. Non-current bank loans and borrowings	(84,915)	(128,792)	43,877
L. Bonds	(149,894)	(149,883)	(11)
M. Other non-current payables	(824)	(1,477)	653
of which:			
Fair value measurement of derivatives and financial payables linked to business combinations	*(824)*	*(1,477)*	*653*
N. Non-current financial debt (K+L+M)	**(235,473)**	**(279,924)**	**44,451**
Total (J+N)	**(85,858)**	**(114,820)**	**28,962**

Details of financial receivables and payables with related parties are reported in Appendix 4.

For a better understanding of changes in the company's net financial position, reference should be made to the full statement of cash flows and the reclassified table in the report on operations.

24. Deffered 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 2018			31 December 2017			Effect on income statement
	Taxable amount	Tax rate	Total tax	Taxable amount	Tax rate	Total tax	
Provisions for contingencies and other charges	(643)	24.0%	(154)	(397)	24.0%	(95)	(59)
Other temporary differences	(1,650)	24.0%	(396)	(3,575)	24.0%	(858)	462
Total deferred tax assets recognized in the income statement	**(2,293)**		**(550)**	**(3,972)**		**(953)**	**403**
Reserves distributable by subsidiaries	**8,893**	**24.0%**	**2,134**	**10,476**	**24.0%**	**2,514**	**(380)**
Total deferred tax assets/advance tax recognized in the income statement	**6,600**		**1,584**	**6,504**		**1,561**	**23**
Fair value of cash flow hedge derivatives	(617)	24.0%	(148)	(315)	24.0%	(76)	(72)
Actuarial valuation of provision according to IAS 19	(132)	24.0%	(32)	(145)	24.0%	(35)	3
Total temporary differences recognized in net equity	**(749)**		**(180)**	**(460)**		**(111)**	**(69)**
Net total	**5,851**		**1,404**	**6,044**		**1,450**	**(46)**

“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.

25. Employee benefits

These are analyzed as follows:

	31 December 2018	31 December 2017	Change
Provision for severance indemnities	461	539	(78)
Long term benefits	1,385	-	1,385
Total	**1,846**	**539**	**1,307**

The composition of the company's workforce is analyzed in the following table:

	31 December 2018	Average 2018	31 December 2017	Average 2017
White collar	32	31	29	29
Managers	18	16	15	15
Total	**50**	**47**	**44**	**44**

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 2018	31 December 2017	Change
Defined benefit obligations	461	539	(78)

Net cost charged to income statement	31 December 2018	31 December 2017	Change
Current service cost	-	-	-
Interest cost on obligations	6	6	-
Total	**6**	**6**	**-**

Change in present value of obligations	31 December 2018	31 December 2017	Change
Present value at 1 January	**539**	**463**	**76**
Current service cost	-	-	-
Utilization of provision	(72)	(2)	(70)
Interest cost on obligations	6	6	-
Actuarial gain losses booked in the statement of comprehensive income	(12)	3	(15)
Other changes	-	69	(69)
Present value at reporting date	**461**	**539**	**(78)**

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

Assumptions used	Severance indemnity 2018	Severance indemnity 2017
Discount rate	1.6%	1.3%
Future salary increases	1.3% – 2.3%	1.3% – 2.3%
Inflation rate	1.3%	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.

26. Other provisions

Movements are as follows:

	31 December 2017	Utilization	Accrual	31 December 2018
Provision for uninsured liabilities	10	(10)	-	-
Other provisions for contingencies	390	-	269	659
Total	**400**	**(10)**	**269**	**659**

"Provisions for uninsured liabilities" include provisions made for potential liabilities referred to insurance deductibles payable relating to submitted claims. The settlement of a few disputes led to the decrease of €10 thousand recorded in the year.

"Other provisions for contingencies" includes the provision for legal disputes.

27. Trade payables

This balance of €21,004 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.

28. Current tax liabilities

These are analyzed as follows:

	31 December 2018	31 December 2017	Change
Direct taxes	-	266	(266)
Total	**-**	**266**	**(266)**

29. Other payables

These are analyzed as follows:

	31 December 2018	31 December 2017	Change
Payables towards related parties	6,133	4,314	1,819
Employees	2,960	5,604	(2,644)
Withholdings payable	2,158	1,294	864
Social security institutions	1,110	434	676
Other	2,609	2,608	1
Total	**14,970**	**14,254**	**716**

The "Payables towards related parties" mostly refer to amounts owed as a result of the Company's decision to adopt a group tax election, under Chapter II Section II of Presidential Decree 917/86, and to pay VAT on a group basis, under the Ministerial Decree dated 13 December 1979, as described in note *16. Current tax assets*.

Employee payables at 31 December 2017 included the payable under the 2015–2017 incentive plan.

"Withholdings payable" relate to withholdings made by the company and payable to the tax authorities after the reporting date.

"Social security institutions" include €946 thousand in payables to Italy's principal social security agency (INPS), and €164 thousand in payables to pension funds.

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 2018	31 December 2017	Change
Guarantees given for the benefit of:			
De'Longhi Capital Services S.r.l.	335,697	305,697	30,000
De'Longhi Kenwood A.P.A. Ltd.	97,185	96,464	721
NPE S.r.l. [1]	23,240	27,790	(4,550)
De'Longhi Australia PTY Ltd.	19,939	20,623	(684)
De'Longhi Japan Corp.	11,922	10,369	1,553
Dong Guan De'Longhi Kenwood Appliances Co. Ltd.	8,734	8,338	396
De'Longhi LLC	7,156	6,839	317
De'Longhi Brasil Ltda.	5,955	6,662	(707)
De'Longhi Romania S.r.l.	5,741	5,467	274
De'Longhi Appliances S.r.l.	5,320	4,984	336
De'Longhi Kenwood Korea Ltd.	1,695	1,683	12
De'Longhi Mexico S.a.	1,310	1,251	59
Kenwood Limited Ltd.	1,006	845	161
Elle S.r.l.	446	446	-
DeLonghi South Africa Pty Ltd.	409	453	(44)
De'Longhi Kenwood MEIA FZE	357	341	16
De'Longhi Ukraine LLC	87	83	4
De'Longhi Scandinavia A.B.	80	83	(3)
De'Longhi Polska Sp.Zo.o.	29	30	(1)
DL Chile S.A.	13	13	-
E-Services S.r.l.	13	11	2
Kenwood Appliances Malaysia Sdn. Bhd.	4	4	-
Total De'Longhi Group companies and related parties	**526,338**	**498,476**	**27,862**

[1] This investment became a related party investment following the notorized deed dated 19 December 2018 for the sale of 55% of NPE S.r.l.'s share capital by De'Longhi Appliances S.r.l. to H&T Group. The issued guarantees mainly refer to a surety to secure a loan which, in accordance with the agreement, will be substituted with guarantees that are commensurate with the commitments of each of the parties.

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 €155,268 at 31 December 2018 (€135,561 at 31 December 2017), 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 positive fair value of which amounted to €4,475 thousand at 31 December 2018 (€7,963 at 31 December 2017);
- 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 The figures at 31 December 2017 were restated based on the provisions of the new standard.

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)*.

31/12/2017	Assets			
	Total value	Amortized cost	Fair value in Profit&Loss	Fair value in Profit&Loss
Non-current assets				
- Equity investments(*)	-			
- Receivables	149	*149*		
- Other non-current financial assets	79			*79*
Current assets				
- Trade receivables	33,274	*33,274*		
- Current tax assets	4,436	*4,436*		
- Other receivables	8,008	*8,008*		
- Current financial receivables and assets	209,211	*209,211*		
- Cash and cash equivalents	26	*26*		

31/12/2017	Liabilities			
	Total value	Amortized cost	Fair value in Profit&Loss	Fair value in OCI
Non-current liabilities				
- Bank loans and borrowings (long-term portion)	(128,792)	*(128,792)*		
- Other financial payables (long-term portion)(**)	(150,108)	*(149,883)*		*(225)*
Current liabilities				
- Trade payables	(24,335)	*(24,335)*		
- Bank loans and borrowings (short-term portion)	(43,855)	*(43,855)*		
- Other financial payables (short-term portion)(**)	(278)	*(100)*		*(178)*
- Current tax liabilities	(266)	*(266)*		
- Other payables	(14,254)	*(14,254)*		

(*) 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 2018. As required by IFRS 7, the hierarchy comprises the following levels:
- level 1: quoted prices in active markets for identical assets or liabilities;
- level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- level 3: inputs for the asset or liability that are not based on observable market data.

Financial instruments measured at fair value	Level 1	Level 2	Level 3
Derivatives: - derivatives with positive fair value		20	
- derivatives with negative fair value		(622)	

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 2018 and at 31 December 2017 on the basis of undiscounted contractual payments.

	Undiscounted cash flows at 31.12.2018	Within one year	One to five years	Beyond five years	Undiscounted cash flows at 31.12.2017	Within one year	One to five years	Beyond five year
Bank loans and borrowings (*)	(129,490)	(44,255)	(85,235)	-	(173,708)	(44,297)	(129,411)	-
Other financial payables (**)	(164,987)	(3,199)	(73,245)	(88,543)	(167,471)	(2,559)	(53,350)	(111,562)
Trade payables	(21,004)	(21,004)	-	-	(24,335)	(24,335)	-	-
Current tax liabilities and other payables	(14,970)	(14,970)	-	-	(14,520)	(14,520)	-	-
Total	**(330,451)**	**(83,428)**	**(158,480)**	**(88,543)**	**(380,034)**	**(85,711)**	**(182,761)**	**(111,562)**

(*) The corresponding balance reported in the financial statements is €128,825 thousand at 31 December 2018 and €172,647 thousand at 31 December 2017. See note *22. Bank loans and borrowings*.
(**) The corresponding balance reported in the financial statements is €151,240 thousand at 31 December 2018 (net of the fair value of financial derivative instruments for €622 thousand) and €151,235 thousand at 31 December 2017 (net of the fair value of financial derivative instruments for €403 thousand). See note *23. Other financial payables*.

More details about the maturity of the company's financial assets and liabilities can be found in notes *13. Other non-current receivables, 15. Trade receivables, 18. Current financial receivables and assets, 22. Bank loans and borrowings, 23. Other financial payables and 27. Trade payables.*

Exchange rate risk

The Company is exposed to the risk of fluctuations in currencies (other than its functional one) in which ordinary trade and financial transactions are denominated. For the purposes of protecting its income statement and statement of financial position from such fluctuations, the Company adopts a suitable hedging policy that eschews speculative ends.
Details of the policies, instruments and purpose of hedging at group level can be found in the notes to the consolidated financial statements.

Sensitivity analysis:

The potential impact, in terms of change in fair value, of a hypothetical, sudden +/-5% change in year-end exchange rates was estimated in light solely of receivables/payables in unhedged currencies insofar as the impact on the income statement of the receivables/payables in hedged currencies is mitigated or offset by the respective hedges. A +/- 5% change in year-end exchange rates of the principal exposed currencies (USD, HKD and GBP) is estimated to produce a change in fair value of around +/- €0.1 million (+/- €0.3 million at 31 December 2017). 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 2018 are described in the paragraph "*Interest rate and currency exchange hedges at 31 December 2018*".

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 2018 as a result of the hedging on interest rate, mainly of the Interest Rate Swaps used to hedge the loans taken out in 2017, the Company's financial debt is primarily fixed rate.

Sensitivity analysis:

When estimating the potential impact of a hypothetical, sudden material change in interest rates (+/- 1% in market rates) on the cost of the Company's debt, only those items forming part of net financial position which earn/incur interest have been considered and not any others (meaning total net assets of €194.6 million on a total of €85.9 million in net debt at 31 December 2018 and total net liabilities of €194.3 million on a total of €114.8 million in net debt in 2017). 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 +/- €1.9 million before tax at 31 December 2018 recognized entirely in the income statement (+/- €1.9 million before tax at 31 December 2017).
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 2018 a change of +/- 1% in rates would cause a change in the cash flow hedge of +/- €0.3 million before tax (+/- € 0.5 million before tax at 31 December 2017).

Please refer to the paragraph "I*nterest rate and currency exchange hedges at 31 December 2018*" for more information.

Interest rate and currency exchange hedges at 31 December 2018

The Company had a number of derivatives at 31 December 2018, 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 2018 is provided below:

	31/12/2018 Fair value
FX forward agreements	15
Derivatives hedging foreign currency receivables/payables	15
Derivatives hedging interest rate risk (IRS)	(617)
Derivatives covering expected cash flows	(617)
Total fair value of the derivatives	**(602)**

Hedges against foreign currency receivables and payables:

	Notional amount						Fair value with Group	
Currency	Group			Third parties			Asset	Liability
	Purchases	Sales	Total	Purchases	Sales	Total		
USD/EUR	(787)	1,809	1,022	-	-	-	6	(5)
HKD/EUR	-	32,520	32,520	-	-	-	14	-
				Total Fair Value			**20**	**(5)**

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 2018 the fair value of the derivatives, which also takes into account counterparty risk in accordance with IFRS 13 - *Fair Value measurement*, came to a negative €617 thousand which is recognized under financial payables.
Given that the hedge on future interest flows qualifies as an effective hedge, at 31 December 2018 a negative cash flow hedge reserve of €617 thousand was reported in net equity, net of the related tax effect of €148 thousand.

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

		31/12/2018 Fair value
Interest Rate Swap (IRS) connected to the loan Intesa Sanpaolo S.p.A		(386)
Interest Rate Swap (IRS) connected to the loan Unicredit S.p.A		(231)
Total fair value of the derivatives		**(617)**
	of which:	
	negative short-term fair value	*(429)*
	negative medium/long-term fair value	*(188)*

34. Transactions and balances with related parties

Appendix 4 contains the information concerning transactions and balances with group companies and related parties required by CONSOB Regulations 97001574 dated 20 February 1997, 98015375 dated 27 February 1998 and DEM/2064231 dated 30 September 2002; all such transactions have fallen within the Group's normal operations, except as otherwise stated in these notes, and have been settled under arm's-length terms and conditions.

35. Subsequent events

No significant events took place after the close of the year.

36. Proposed resolutions for the annual general meeting

1) Proposed resolution relating to item 1.1 of the Agenda for the Annual General Meeting convened on 30 April 2019 *("Annual Report at 31 December 2018: presentation of the separate financial statements at 31 December 2018 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 2018 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 2018 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 2018 of De'Longhi S.p.A.".

2) Proposed resolution relating to item 1.2 of the Agenda for the Annual General Meeting convened on 30 April 2019 *("Annual Report at 31 December 2018: proposed allocation of the net profit for the year. Related and consequent resolutions").*

Dear Shareholders,
with regard to the allocation of the net profit for the year closed on 31 December 2018, which amounted to €172,265,034, 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 2018 and the Directors' Report on Operations

resolve

1. *to allocate €8,613,252.00 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 €0.37 for each of the 149,500,000 shares outstanding, once the allocation referred to in point 1 above has been made;*
3. *to allocate the remaining net profit for the year of €108,336,782.00 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 22 May 2019, with shares going ex-div on 20 May, in accordance with Borsa Italiana's calendar, and a record date, pursuant to art. 83-terdecies of Legislative Decree n. 58/98, of 21 May 2019".*

Treviso, 14 March 2019

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 2018:
- 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 2018:

- 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)	2018	2017
Net profit (loss)	172,265	174,610
Income taxes for the period	(3,367)	(6,405)
Income for dividends receipt	(191,106)	(198,334)
Amortization	597	425
Net change in provisions and other non-cash items	5,401	3,691
Cash flow absorbed by current operations (A)	**(16,210)**	**(26,013)**
Change in assets and liabilities for the period:		
Trade receivables	2,554	(4,218)
Trade payables	(3,331)	3,877
Other current assets and liabilities	5,845	1,476
Payment of income taxes	(419)	(15)
Cash flow generated by changes in working capital (B)	**4,649**	**1,120**
Cash flow absorbed by current operations and changes in working capital (A+B)	**(11,561)**	**(24,893)**
Investment activities:		
Investments in intangible assets	(777)	(1,187)
Investments in tangible assets	(4)	(63)
Net investments in equity investments	-	(7,251)
Dividends receipt	191,106	198,334
Cash flow generated by investment activities (C)	**190,325**	**189,833**
Cash flow hedge and IAS 19 reserve related to actuarial evaluation of provisions	(302)	7,429
Dividends paid	(149,500)	(119,600)
Cash flow absorbed by changes in net equity (D)	**(149,802)**	**(112,171)**
Cash flow for the period (A+B+C+D)	**28,962**	**52,769**
Opening net financial position	**(114,820)**	**(167,589)**
Cash flow for the period (A+B+C+D)	28,962	52,769
Closing net financial position	**(85,858)**	**(114,820)**

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	299,088,621	Eur	125,584,249	100%	266,737
De'Longhi Appliances S.r.l.	Treviso	Eur	200,000,000	Eur	341,474,180	Eur	85,869,135	100%	242,678
De'Longhi Deutschland GmbH [2]	Neu Isenburg	Eur	2,100,000	Eur	28,026,641	Eur	2,721,946	100%	40,800
De'Longhi Capital Services S.r.l.[3][4]	Treviso	Eur	53,000,000	Eur	57,658,842	Eur	2,414,075	11.32%	6,005
E-Services S.r.l.	Treviso	Eur	50,000	Eur	1,300,544	Eur	817,885	100%	5,264
De'Longhi Romania S.r.l.[2][4]	Cluj-Napoca	Ron	140,000,000	Ron	300,974,754	Ron	73,822,496	10%	3,078
De'Longhi Kenwood GmbH [2]	Wr. Neudorf	Eur	36,336	Eur	6,211,189	Eur	3,201,524	100%	2,900
Clim.Re S.A.[1][4]	Luxembourg	Eur	1,239,468	Eur	1,668,625	Eur	64,217	4%	54
De'Longhi Polska Sp.Zoo [2][4]	Warszawa	Pln	50,000	Pln	33,568,288	Pln	18,169,313	0.1%	-
Total									**567,516**

(*) Statutory figures at 31 December 2018, unless otherwise specified.
(1) Statutory figures at 31 December 2017.
(2) Figures used for the purposes of consolidation at 31 December 2018.
(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 2017**	**Acquisitions, subscriptions and recapitalizations**	**Demerger**	**Net impairment losses and reversals**	**Book value at 31 December 2018**
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	2018	of which related parties	2017	of which related parties
Revenues	1	24,621	24,368	28,325	26,469
Total revenues		**24,621**		**28,325**	
Raw and ancillary materials, consumables and goods	2	(83)		(51)	
Materials consumed		**(83)**		**(51)**	
Payroll costs	3	(13,978)		(11,381)	
Services and other operating expenses	4	(28,606)	(6,977)	(36,240)	(8,132)
Provisions	5	(260)		100	
Amortization	6	(597)		(425)	
EBIT		**(18,903)**		**(19,672)**	
Financial income (expenses)	7	187,802	191,307	187,877	198,074
PROFIT (LOSS) BEFORE TAXES		**168,899**		**168,205**	
Income taxes	8	3,366		6,405	
NET PROFIT (LOSS)		**172,265**		**174,610**	

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	31.12.2018	of which related parties	31.12.2017	of which related parties
NON-CURRENT ASSETS					
INTANGIBLE ASSETS		1,177		894	
- Other intangible assets	9	1,177		894	
TANGIBLE ASSETS		87		186	
- Land, property, plant and machinery	10	85		170	
- Other tangible assets	11	2		16	
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		567,676		567,744	
- Equity investments	12	567,516		567,516	
- Receivables	13	160	160	149	149
- Other non-current financial assets	14	-		79	
TOTAL NON-CURRENT ASSETS		**568,940**		**568,824**	
CURRENT ASSETS					
TRADE RECEIVABLES	15	30,746	28,987	33,274	31,532
CURRENT TAX ASSETS	16	4,029		4,436	
OTHER RECEIVABLES	17	6,829	3,487	8,008	5,014
CURRENT FINANCIAL RECEIVABLES AND ASSETS	18	194,627	194,627	209,211	209,211
CASH AND CASH EQUIVALENTS	19	42		26	
TOTAL CURRENT ASSETS		**236,273**		**254,955**	
TOTAL ASSETS		**805,213**		**823,779**	

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*	31.12.2018	*of which related parties*	31.12.2017	*of which related parties*
NET EQUITY					
NET EQUITY		484,643		458,249	
- Share capital	*20*	224,250		224,250	
'- Reserves	*21*	88,128		59,389	
- Net profit (loss)		172,265		174,610	
TOTAL NET EQUITY		**484,643**		**458,249**	
NON-CURRENT LIABILITIES					
FINANCIAL PAYABLES		235,633		280,152	
- Bank loans and borrowings (long-term portion)	*22*	84,915		128,792	
- Other financial payables (long-term portion)	*23*	150,718		151,360	
DEFERRED TAX LIABILITIES	*24*	1,404		1,451	
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		2,505		939	
- Employee benefits	*25*	1,846		539	
- Other provisions	*26*	659		400	
TOTAL NON-CURRENT LIABILITIES		**239,542**		**282,542**	
CURRENT LIABILITIES					
TRADE PAYABLES	*27*	21,004	*6,355*	24,335	*7,705*
FINANCIAL PAYABLES		45,054		44,133	
- Bank loans and borrowings (short-term portion)	*22*	43,910		43,855	
- Other financial payables (short-term portion)	*23*	1,144	*79*	278	*93*
CURRENT TAX LIABILITIES	*28*	-		266	
OTHER PAYABLES	*29*	14,970	*6,133*	14,254	*4,314*
TOTAL CURRENT LIABILITIES		**81,028**		**82,988**	
TOTAL NET EQUITY AND LIABILITIES		**805,213**		**823,779**	

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]	Current financial payables	Other payables [3]
Ultimate parent companies:								
DE LONGHI INDUSTRIAL S.A.	-	-	-	-	-	3.4	-	-
Total ultimate parent companies (a)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**3.4**	**0.0**	**0.0**
Subsidiary companies:								
DE'LONGHI APPLIANCES S.R.L.	13.5	(2.0)	77.7	-	-	16.6	-	(7.5)
DE'LONGHI KENWOOD A.P.A. LTD	4.0	-	0.1	0.2	-	3.9	-	-
KENWOOD LIMITED	3.9	(3.7)	-	-	-	5.2	-	(3.7)
DE'LONGHI KENWOOD MEIA FZE	1.4	-	-	-	-	1.4	-	-
E-SERVICES S.R.L.	0.9	(0.2)	1.4	-	-	1.1	-	(0.3)
DE'LONGHI FRANCE S.A.R.L.	0.3	-	-	-	-	0.3	-	-
DE'LONGHI S.R.L. - ROMANIA	0.1	-	-	-	-	0.1	-	-
DE'LONGHI HOUSEHOLD GMBH	0.1	-	-	-	-	0.1	-	-
DE'LONGHI AMERICA INC.	-	(1.1)	-	-	-	-	-	(0.5)
DE LONGHI BENELUX S.A. (LUXEMBOURG BRANCH)	-	-	105.0	-	-	-	-	-
DE'LONGHI DEUTSCHLAND GMBH	-	-	4.5	-	-	-	-	-
DE'LONGHI-KENWOOD GMBH - AUSTRIA	-	-	2.5	-	-	-	-	-
DE'LONGHI CAPITAL SERVICES S.R.L.	-	-	0.1	-	194.6	-	(0.1)	-
ELLE SRL	-	-	-	-	-	0.1	-	-
DE'LONGHIELECTRODOMESTICOS ESPANA S.L.	-	-	-	-	-	0.1	-	-
Total subsidiary companies (b)	**24.2**	**(7.0)**	**191.3**	**0.2**	**194.6**	**28.9**	**(0.1)**	**(12.0)**
Related companies:								
GAMMA S.R.L.	0.1	-	-	-	-	0.1	-	-
DL RADIATORS S.P.A.	0.1	-	-	-	-	0.1	-	(0.5)
Total related companies (c)	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.2**	**0.0**	**(0.5)**
Total ultimate parent, subsidiary and related companies (a+b+c)	**24.4**	**(7.0)**	**191.3**	**0.2**	**194.6**	**32.5**	**(0.1)**	**(12.5)**

(1) These mostly refer to dealings of a commercial nature and the supply of administrative services by company employees
(2) These consist of €29.0 million in "Trade receivables" and €3.5 million in "Other receivables".
(3) These consist of €6.4 million in "Trade payables" and €6.1 million in "Other payables".

Please refer to the "Report on Remuneration" for information relating to the compensation of directors and statutory auditors.

External auditors’ report on the separated financial statements

Building a better working world

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Independent auditor’s report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
De’Longhi S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of De’Longhi S.p.A. (the Company), which comprise the statement of financial position as at December 31, 2018, and the statement of income, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at December 31, 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

We did not identify any key audit matters to report.

Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all’Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:

- we have identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to consider this matter in forming our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The Shareholders of De'Longhi S.p.A., in the general meeting held on April 21, 2010, engaged us to perform the audits of the financial statements for each of the years ending December 31, 2010 to December 31, 2018.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of De'Longhi S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of De'Longhi S.p.A. as at December 31, 2018, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of De'Longhi S.p.A. as at December 31, 2018 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of De'Longhi S.p.A. as at December 31, 2018 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of the entity and its environment obtained through our audit, we have no matters to report.

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of De'Longhi S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by another auditor.

Verona, April 8, 2019

EY S.p.A.
Signed by: Daniele Tosi, partner

This report has been translated into the English language solely for the convenience of international readers.

This report is available on the corporate website:
www.delonghigroup.com

De'Longhi S.p.A.
Registered office: Via L. Seitz, 47 – 31100 Treviso
Share capital: EUR 224,250,000 (subscribed and paid-in)
Tax ID and Company Register no.: 11570840154
Treviso Chamber of Commerce no.: 224758
VAT no.: 03162730265