

# 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 coffee 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
<b>Persons apprised of the company anti-corruption procedures and policies</b>												
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
<b>Total employees</b>	<b>168</b>	<b>215</b>	<b>520</b>	<b>270</b>	<b>256</b>	<b>528</b>	-	-	<b>31</b>	<b>438</b>	<b>471</b>	<b>1,079</b>
<b>Commercial partners</b>	<b>3</b>	<b>1</b>	<b>2</b>	<b>2</b>	<b>4</b>	<b>7</b>	-	-	-	<b>5</b>	<b>5</b>	<b>9</b>
<b>Employees who received anti-corruption training</b>												
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
<b>Total employees</b>	<b>156</b>	<b>164</b>	<b>194</b>	<b>2,611</b>	<b>3,503</b>	<b>5,524</b>	-	-	<b>31</b>	<b>2,767</b>	<b>3,667</b>	<b>5,749</b>

\* 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
<b>Employees by contract type</b>															
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
<i>of which women</i>	554	554	602	1,181	1,781	1,860	1,237	1,225	1,270	38	27	23	3,010	3,587	3,755
<i>of which men</i>	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
<i>of which women</i>	12	78	48	28	30	21	211	247	302	-	-	-	251	355	371
<i>of which men</i>	17	62	36	19	22	12	282	327	395	-	-	-	318	411	443
<b>Total</b>	<b>1,500</b>	<b>1,609</b>	<b>1,635</b>	<b>2,302</b>	<b>3,255</b>	<b>3,303</b>	<b>3,156</b>	<b>3,266</b>	<b>3,409</b>	<b>74</b>	<b>67</b>	<b>62</b>	<b>7,032</b>	<b>8,197</b>	<b>8,409</b>

<b>Employees by contract type</b>															
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
<i>of which women</i>	457	520	537	1,133	1,736	1,811	1,437	1,456	1,562	38	27	23	3,065	3,739	3,933
<i>of which men</i>	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
<i>of which women</i>	109	112	113	76	75	70	11	16	10	-	-	-	196	203	193
<i>of which men</i>	3	4	3	14	13	13	2	2	2	-	-	-	19	19	18
<b>Total</b>	<b>1,500</b>	<b>1,609</b>	<b>1,635</b>	<b>2,302</b>	<b>3,255</b>	<b>3,303</b>	<b>3,156</b>	<b>3,266</b>	<b>3,409</b>	<b>74</b>	<b>67</b>	<b>62</b>	<b>7,032</b>	<b>8,197</b>	<b>8,409</b>

<b>Employees by gender</b>															
<b>Women total</b>	<b>566</b>	<b>632</b>	<b>650</b>	<b>1,209</b>	<b>1,811</b>	<b>1,881</b>	<b>1,448</b>	<b>1,472</b>	<b>1,572</b>	<b>38</b>	<b>27</b>	<b>23</b>	<b>3,261</b>	<b>3,942</b>	<b>4,126</b>
<b>Men total</b>	<b>934</b>	<b>977</b>	<b>985</b>	<b>1,093</b>	<b>1,444</b>	<b>1,422</b>	<b>1,708</b>	<b>1,794</b>	<b>1,837</b>	<b>36</b>	<b>40</b>	<b>39</b>	<b>3,771</b>	<b>4,255</b>	<b>4,283</b>

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
<b>Manager</b>			
Men	< 30 years	%	-
	> 30 < 50 years	%	2.1%
	> 50 years	%	1%
<b>Men Total</b>		<b>%</b>	<b>3.1%</b>
Women	< 30 years	%	-
	> 30 < 50 years	%	0.8%
	> 50 years	%	0.1%
<b>Women total</b>		<b>%</b>	<b>0.9%</b>
<b>TOTAL</b>		<b>%</b>	<b>4%</b>
<b>White collar workers</b>			
Men	< 30 years	%	2.4%
	> 30 < 50 years	%	12.9%
	> 50 years	%	3.1%
<b>Men Total</b>		<b>%</b>	<b>18.4%</b>
Women	< 30 years	%	2.9%
	> 30 < 50 years	%	10%
	> 50 years	%	1.6%
<b>Women total</b>		<b>%</b>	<b>14.5%</b>
<b>TOTAL</b>		<b>%</b>	<b>32.9%</b>
<b>Blue collar workers</b>			
Men	< 30 years	%	8.9%
	> 30 < 50 years	%	16.2%
	> 50 years	%	4.4%
<b>Men Total</b>		<b>%</b>	<b>29.5%</b>
Women	< 30 years	%	7.3%
	> 30 < 50 years	%	22.7%
	> 50 years	%	3.6%
<b>Women total</b>		<b>%</b>	<b>33.6%</b>
<b>TOTAL</b>		<b>%</b>	<b>63.1%</b>

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	Italy		
			2016	2017	2018
Men	< 30 years	n	-	-	-
	> 30 < 50 years	n	1	1	1
	> 50 years	n	6	6	7
<b>Men total</b>		<b>n</b>	<b>7</b>	<b>7</b>	<b>8</b>
Women	< 30 years	n	-	-	-
	> 30 < 50 years	n	3	3	2
	> 50 years	n	1	1	2
<b>Women total</b>		<b>n</b>	<b>4</b>	<b>4</b>	<b>4</b>
<b>TOTAL</b>		<b>n</b>	<b>11</b>	<b>11</b>	<b>12</b>

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	
		2017	2018
<b>Training by category</b>			
Average hours for manager	h		14.8
Average hours for white collars	h		17.7
Average hours for blue collars	h		18.6
<b>Training by gender</b>			
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
<i>of which commuting injuries</i>	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
<b>Occupational disease rate</b>	-	<b>0.2</b>	<b>0.3</b>	<b>0.1</b>	<b>0.3</b>	-	<b>0.3</b>
<b>Index of gravity</b>	-	<b>0.1</b>	<b>0.04</b>	<b>0.17</b>	<b>0.05</b>	<b>0.18</b>	<b>0.08</b>
<b>Absentee rate</b>	%	<b>1.7</b>	<b>2.4</b>	<b>1.6</b>	<b>2.5</b>	<b>2.3</b>	<b>3.9</b>

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	-
<i>of which commuting injuries</i>	n.	5	5	-	-	-	-	-	-
Fatal injuries	n.	-	-	-	-	-	-	-	-
Injury rate	-	8.3	6	3.3	3.6	5.1	1.8	26.2	-
<b>Occupational disease rate</b>	-	-	<b>2</b>	-	<b>0.3</b>	-	-	-	-
<b>Index of gravity</b>	-	<b>0.3</b>	<b>0.17</b>	<b>0.03</b>	<b>0.03</b>	<b>0.22</b>	<b>0.11</b>	-	-
<b>Absentee rate</b>	%	<b>2.8</b>	<b>3.9</b>	<b>4.8</b>	<b>7.5</b>	<b>0.6</b>	<b>0.4</b>	<b>0.3</b>	<b>0.3</b>

Injuries and injury rates of contractors		De'Longhi Group					
		2016		2017		2018	
		Men	Women	Men	Women	Men	Women
Injuries	n.	10	2	5	1	3	1
<i>of which commuting injuries</i>	n.	-	-	-	-	-	-
Fatal injuries	n.	-	-	-	-	-	-
<b>Injury rate</b>	-	<b>6.2</b>	<b>1.3</b>	<b>2.0</b>	<b>0.4</b>	<b>0.9</b>	<b>0.3</b>

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 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<sup>1</sup>, as are all the Lattissima and manual machines with electronic controls like the Dedicca 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.

<sup>1</sup> 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 Friendly™” 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 web servers. The security of this platform is guaranteed by Google's modern service technologies, as well as Google's commitment to compliance with data protection laws and the main international standards for information security (ISO 27001) and cloud services (ISO 27017 and ISO 27018). 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.

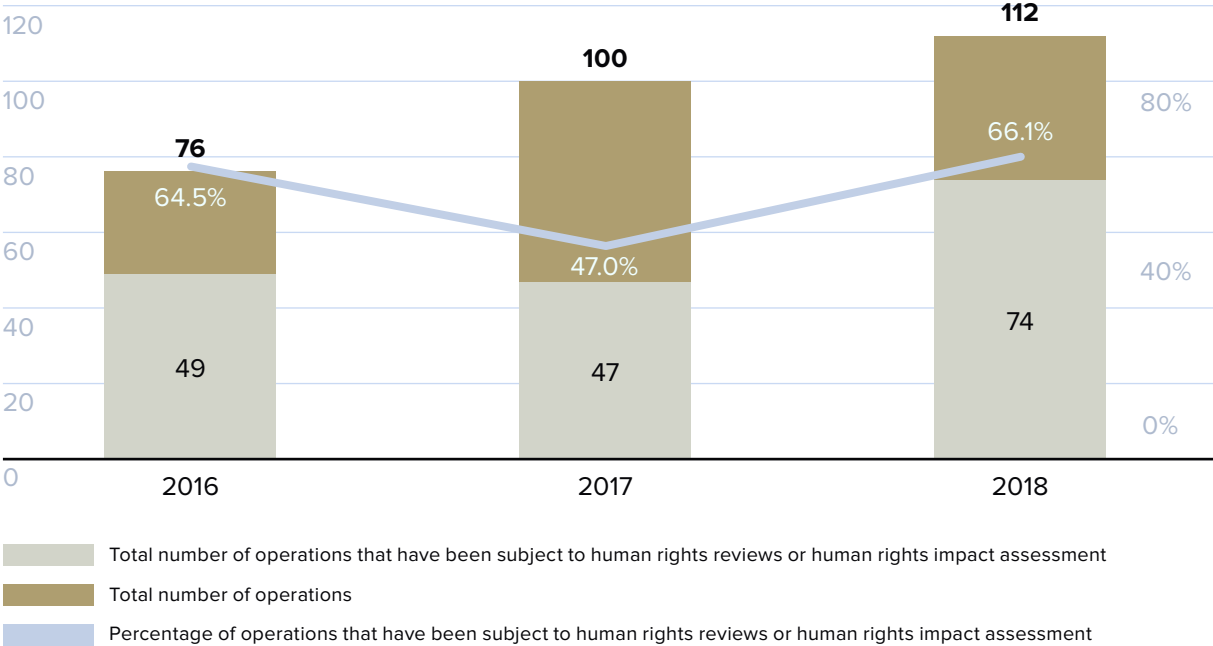
Beginning in March 2019, the environmental footprint of suppliers will also be assessed based on a checklist which will be included in the supplier quality and process audit which focuses on environmental compliance, management systems used and any environmental requirements linked to the type of business and the impact of the same.

**Key figures**

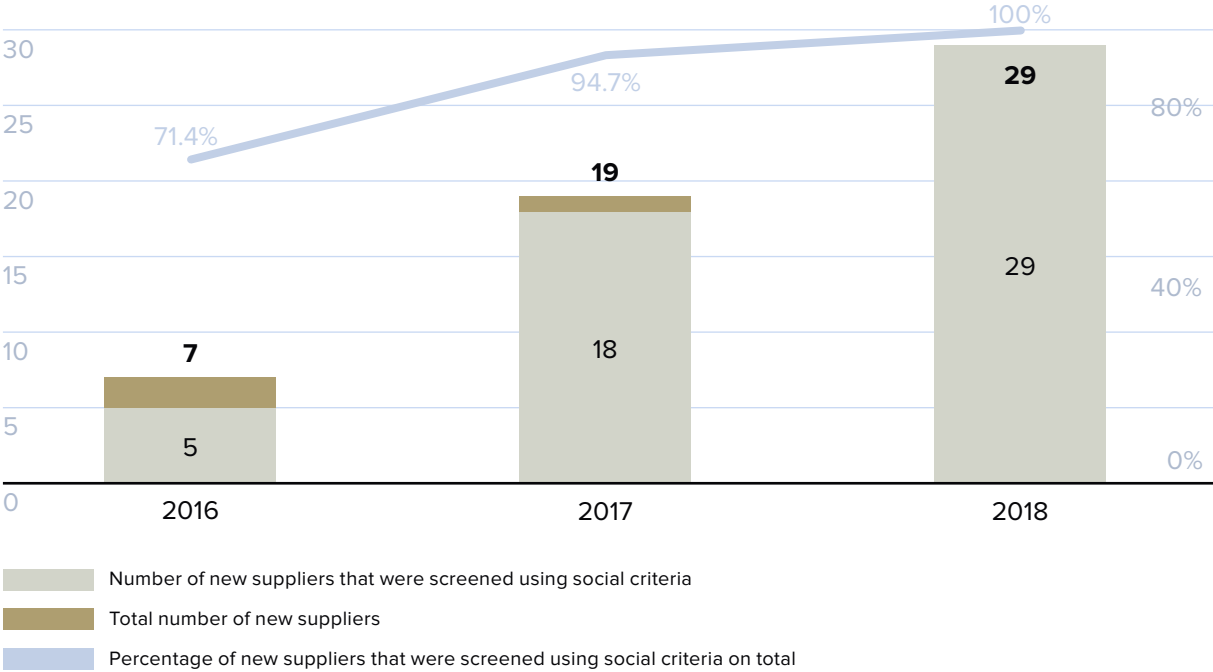
In 2018 all new suppliers were subject to assessments based on social criteria, consistent with standard SA 8000. To date no SCOC (Social Accountability Code of Conduct) audit resulted in a “zero tolerance” rating and, consequently, termination of the supplier relationship in question.

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 underestimated in terms of business management and the impact they could have on the company. For more information about environmental risks, as well as risk management, please refer to the section “Risk factors for the De’Longhi Group”, specifically paragraphs 15 (Risks relating to changes in the regulatory framework, 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 functioning which 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.

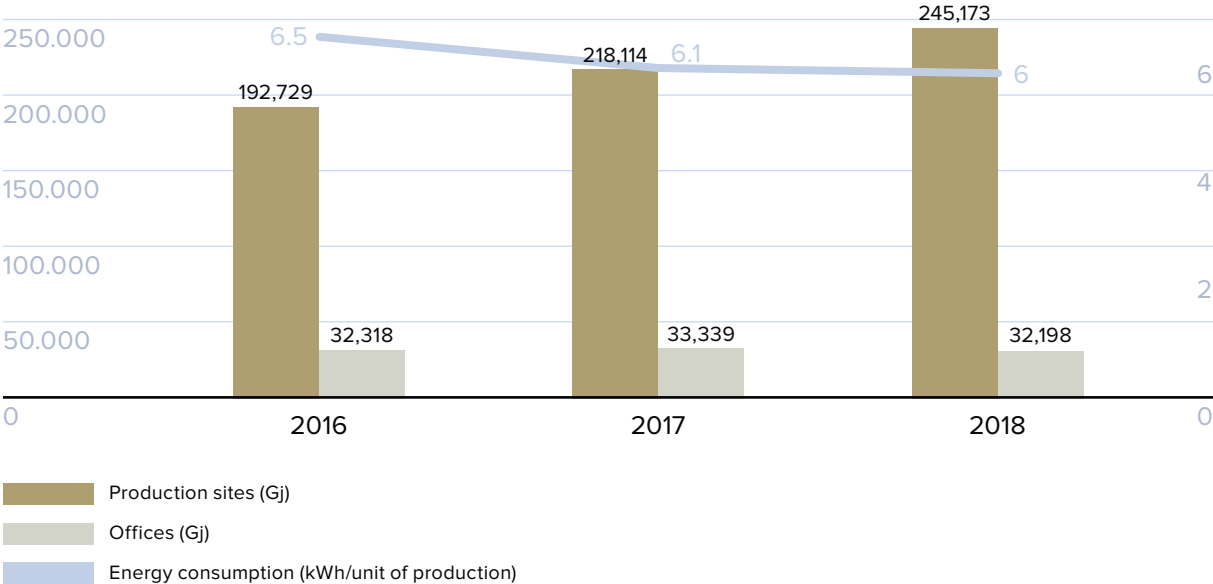
## Key figures

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
<b>Direct Energy consumption from non-renewable sources</b>										
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
<b>Total</b>	<b>GJ</b>	<b>38,451</b>	<b>48,936</b>	<b>55,440</b>	<b>46,473</b>	<b>42,588</b>	<b>43,875</b>	<b>84,924</b>	<b>91,524</b>	<b>99,314</b>
<b>Direct Energy consumption from renewable sources</b>										
Energy produced from renewable sources and consumed	GJ	3,482	3,811	3,709	38	45	37	3,521	3,856	3,746
<b>Total direct Energy consumption</b>	<b>GJ</b>	<b>41,934</b>	<b>52,747</b>	<b>59,148</b>	<b>46,511</b>	<b>42,633</b>	<b>43,911</b>	<b>88,445</b>	<b>95,381</b>	<b>103,060</b>
<b>Indirect energy consumption</b>										
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
<b>Total indirect energy consumption</b>	<b>GJ</b>	<b>192,729</b>	<b>218,114</b>	<b>245,173</b>	<b>32,318</b>	<b>33,339</b>	<b>32,198</b>	<b>225,047</b>	<b>251,453</b>	<b>277,372</b>
<b>Total energy consumption</b>	<b>GJ</b>	<b>234,663</b>	<b>270,862</b>	<b>304,322</b>	<b>78,829</b>	<b>75,972</b>	<b>76,110</b>	<b>313,492</b>	<b>346,834</b>	<b>380,431</b>

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.

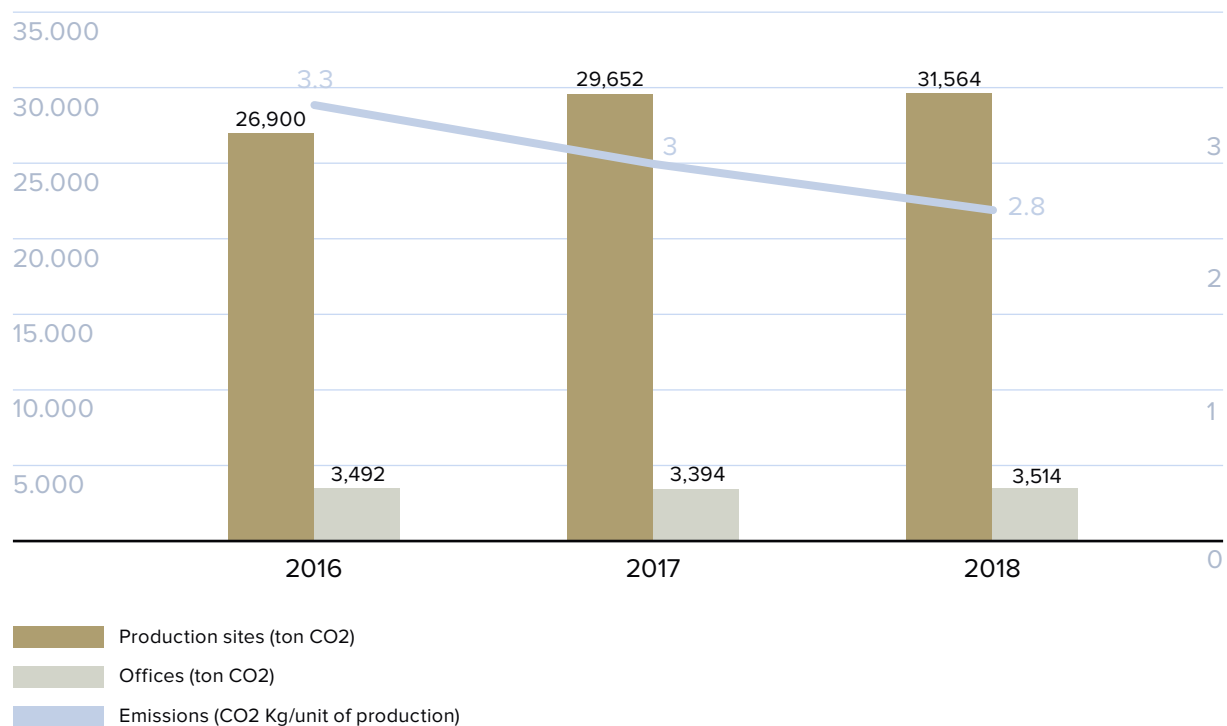
The indirect electricity consumption per unit of production fell from 6.1 kWh in 2017 to 6.0 kWh in 2018 (about -1.7%), which confirms the effectiveness of the steps taken by the Group to improve energy efficiency over the last few years.



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
<b>TOT (Direct + Indirect – Location Based)</b>	<b>29,211</b>	<b>32,543</b>	<b>34,840</b>	<b>6,816</b>	<b>6,448</b>	<b>6,642</b>	<b>36,027</b>	<b>38,990</b>	<b>41,482</b>
<b>TOT (Direct + Indirect – Market Based)</b>	<b>31,199</b>	<b>35,724</b>	<b>39,333</b>	<b>7,747</b>	<b>7,355</b>	<b>7,449</b>	<b>38,947</b>	<b>43,079</b>	<b>46,783</b>

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 <sup>2</sup>

Decree 254	Macro areas	Material topics	GRI standard	Topic perimeter		Boundaries of the report's perimeter	
				Internal	External	Internal	External
<b>Fight against corruption</b>	<b>Ethics and compliance</b>	Compliance	GRI 205 – Anti-corruption	Group	-	-	-
			GRI 206 – Anti-competitive behavior	Group	-	-	-
Human resources management Human rights	Personnel management	Recruiting and retaining talents	GRI 102-8 – Information on employees and other workers	Group	-	-	-
			GRI 404 – Training and education	Group	-	-	-
			GRI 405 – Diversity and 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
<b>Social aspects</b> <b>Environmental aspects</b>	<b>Product quality and innovation</b>	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	-	-
<b>Social aspects</b> <b>Human rights</b>	<b>Supply chain management</b>	Risk management along the supply chain	GRI 412 – Human rights assessment	Group	Suppliers	-	-
			GRI 414 – Supplier social 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

<sup>2</sup> 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
<b>Fight against corruption</b>	<ul style="list-style-type: none"> <li>• 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</li> <li>• Risks relating to the transactions of a commercial nature that the Group has had and continues to have with related parties.</li> <li>• Reputational risks</li> </ul>	<ul style="list-style-type: none"> <li>• Group's Code of Ethics</li> <li>• Model of organization, management and control in accordance with art. 6 of the Italian Decree 231/2001</li> <li>• Group's internal control system to ensure regulatory compliance</li> <li>• Corporate Governance Guidelines</li> <li>• Set of procedures to govern the Group's transactions with related parties</li> </ul>
<b>Human resources management</b>  <b>Human rights</b>	<ul style="list-style-type: none"> <li>• 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.</li> <li>• As regards the Chinese facility, moreover, certain risks associated with high staff turnover within the Chinese manufacturing workforce exist.</li> <li>• Risks relating to possible discrimination cases</li> </ul>	<ul style="list-style-type: none"> <li>• Group's Code of Ethics</li> <li>• Model of organization, management and control in accordance with art. 6 of the Italian Decree 231/2001</li> <li>• Group's internal control system to ensure regulatory compliance</li> <li>• Organizational model which in line with the OHSAS 18001</li> <li>• Regarding the European sites: Health and Safety Policy</li> <li>• Policy relating the compensation of the • Group's Board and of Directors having strategic responsibilities.</li> <li>• Performance assessment process</li> <li>• Procedure regarding MBO management</li> <li>• Employee Engagement Survey</li> <li>• 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</li> </ul>
<b>Social aspects</b>  <b>Environmental aspects</b>	<b>Product quality and innovation</b> <ul style="list-style-type: none"> <li>• Risks relating to the De'Longhi Group's ability to achieve continuous product innovation</li> <li>• Risks relating to patents and trademarks</li> <li>• 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.</li> <li>• 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.</li> </ul>	<ul style="list-style-type: none"> <li>• Group's Code of Ethics</li> <li>• Organizational model certified in accordance with the standard UNI EN ISO 9001:2015</li> <li>• Organizational model to manage food safety</li> <li>• Quality Policy</li> <li>• NPD procedures</li> <li>• System of quality audit</li> <li>• Constant monitoring of regulatory developments</li> <li>• Product's patents and trademarks registration</li> </ul>

Areas of the Italian Legislative Decree 254/2016	Main Risks	Tools of risk management
<b>Social aspects</b>	<p><b>Consumer relations</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>Another risk is the efficient management of the supply chain that could affect the adequacy of customer service.</li> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>Group's Code of Ethics</li> <li>Model of organization, management and control in accordance with art. 6 of the Italian Decree 231/2001</li> <li>Group's internal control system to ensure regulatory compliance</li> <li>Policy GDPR (includes data retention policy and data breach management procedure)</li> <li>Employees Training concerning IT security and privacy</li> <li>Presence of structures dedicated to the continuous monitoring of the level of customer satisfaction</li> </ul>
<b>Social aspects</b>  <b>Human rights</b>	<p><b>Supply chain management</b></p> <ul style="list-style-type: none"> <li>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.</li> <li>Risk linked to the dependence on one supplier for a few types of components of strategic production.</li> </ul>	<ul style="list-style-type: none"> <li>Group's Code of Ethics</li> <li>Model of organization, management and control in accordance with art. 6 of the Italian Decree 231/2001</li> <li>Set of procedures to govern the Group's transactions with related parties</li> <li>System of social audit</li> </ul>
<b>Environmental aspects</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>Group's Code of Ethics</li> <li>Regarding the European sites: Environmental management organizational model certified in accordance with the standard UNI EN ISO 14001:2015</li> <li>Group's internal control system to ensure regulatory compliance</li> <li>Environmental Policy applied at the production facilities in Mignagola and Cluj and the Kenwood headquarters</li> </ul>

### 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 (CO<sub>2</sub>). 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 calculate 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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