1INFO
DIGITAL SIGN

ANNUAL REPORT AT 31 DECEMBER 2020

DēLonghi Group

Intentionally blank page

Annual report at 31 December 2020

Intentionally blank page

Contents

Letter from the CEO	4
De' Longhi Group	6
Report on operations	22
Group annual report and financial statements	
Consolidated financial statements:	107
— Consolidated income statement	108
— Consolidated statement of comprehensive income	109
— Consolidated statement of financial position	110
— Consolidated statement of cash flows	112
— Consolidated statement of changes in net equity	113
Explanatory notes	114
External auditors' report on the consolidated financial statements	192
Indipendent auditors' report on consolidated Non-Financial Statement	200
Report on operations on separate financial statements	206
Separate annual report and financial statements	
De' Longhi S.p.A. – Separate financial statements:	222
— Income statement	224
— Statement of comprehensive income	225
— Statement of financial position	226
— Statement of cash flow	228
— Statement of changes in net equity	229
Explanatory notes	230
External auditors' report on the separate financial statements	282

Letter from the CEO

The De'Longhi Group closed 2020 with significant results, despite the complexity of the challenges stemming from the global health crisis, which required an extraordinary effort from all the Group's employees and, in general, all the stakeholders involved in business development.

The results achieved by the Group are, above all, fruit of the profuse commitment of our employees, whom I would like to thank for the dedication and commitment shown in managing a particularly critical phase, from both a professional and personal standpoint, demonstrating flexibility, resilience and dedication.

The De' Longhi Group was able to respond very quickly to the changes in the market, on the production, as well as, the commercial side, thanks to the strength of our brands, investments in the digital world and the continuous innovation that has always characterized our Group.

With regard to manufacturing, the flexibility mentioned above allowed workers to operate in safety, and production and supply-chain to provide clients with uninterrupted service. Toward this end, investments in ramping up the production capacity of both the Chinese and European platforms continued. As for commercial activities, the continuous investment in communication and the launch of new products contributed noticeably to growth; the restrictions imposed by the pandemic inevitably changed distribution, triggering an acceleration in the development of online sales and communications.

Overall, the actions taken allowed the Group to capture market trends, including the increased focus on the domestic sphere which benefitted the sale of “home experience” products, particularly coffee and food preparation.

In this context, the recent acquisition of Capital Brands, an American company leader worldwide in the personal blenders segment with the Nutribullet and Magic Bullet brands, allowed the Group to further strengthen its leadership in the food preparation sector, enriching its existing portfolio with a young, dynamic brand, while also expanding its product range and increasing penetration of a growing and strategically important market like the United States.

The strategy to invest in marketing and brand communication, the activities to support product innovation and the strengthening of the digital strategy, along with strong financial solidity and agile manufacturing, lay the foundation for sustainable development, as well as the continuous growth of our Group in the coming years.

De' Longhi Group

Our vision, our mission, our values

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

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

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

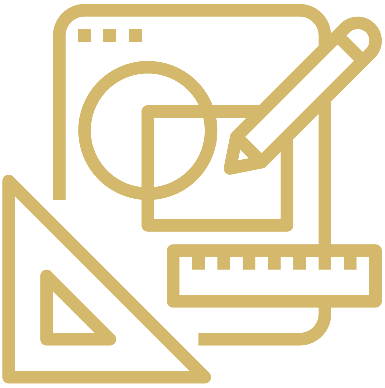
Today, the Group offers a range of small domestic appliances for the preparation of coffee, food preparation and cooking, comfort (air conditioning and heating), as well as home care, and operates mainly through the De' Longhi, Kenwood and Braun brands.
Recently, the product range was increased thanks to the acquisition of Capital Brands Holding Inc., an American company active in the personal blenders segment with the Nutribullet and Magic Bullet brands.

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

The Group aims to strengthen its global leadership, reaching consumers worldwide with superior solutions for design, quality and technology.
The strong points that the Group can count on to achieve these goals include a portfolio comprised of strong, unique and diversified brands, the ability to see the new market trends, an extensive global reach, as well as the diversity and talent of its people.

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

The business model

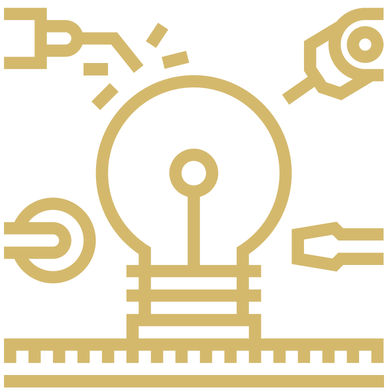


We design products and experiences

Each product is born out of research, development, and engineering involving our technical units as well as the Marketing and Design divisions.
After defining the solution, the Group purchases the required raw materials and components.

From raw materials to products

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



Test after test, quality and safety

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

Reaching customers and consumers

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

Sustainability

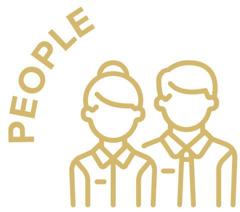
In the past few years, ethical and environmental factors have increasingly influenced the choices of consumers and people, in general, above all in the younger segment. Today sustainability has become a crucial competitive factor for companies: sustainability means thinking of the future, having a company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

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

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

In order to better integrate sustainability in its strategy, the Group instituted a Board committee referred to as the Control, Risk, Corporate Governance and Sustainability Committee which testifies to the company's commitment to including sustainability in its business and governance models.
The Sustainability Steering Committee, which refers to this Committee, is comprised of top management and strives to define the Group's strategic guidelines in relation to sustainability. Lastly, during the year, Sustainability Ambassadors, charged with the task of implementing the strategy and following the guidelines, were selected. They report directly to the members of the Sustainability Steering Committee.

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

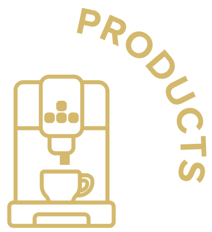


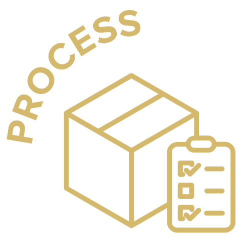
Valuing our people, the Everyday Makers

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

Integrating sustainability in product design and innovation

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





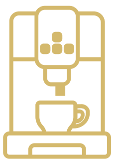
Running sustainable supply chain and operation

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

The main achievements

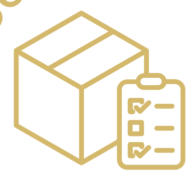
- Continuous reduction in injuries (injury rate -29% compared to 2019, -40% compared to 2018).
- Constant increase in the average hours of training provided to each employee (+15% against 2019, +30% against 2018).
- 19% increase in Group personnel compared to 2019 and women account for 52% of the entire workforce.
- Payment of a cash bonus at the end of the year to employees for the extraordinary results achieved by the Group in a particularly challenging year.
- Introduction of the internal communication campaign “Stay Safe, Stay Active, Stay Together”, aimed to keep people updated on changes in the pandemic, and activation of a psychological support desk to address the difficulties encountered as a result of the new working environment.
- Implementation of a number of initiatives to protect the health and safety of employees in light of the spread of the pandemic, both in the offices and the production facilities, like the distribution of PPE, the installation of hand sanitizer dispensers and plexiglass dividers to separate workstations in the production facilities.

PRODUCTS



- Constant improvement in the SCR (Service Call Rate), which measures product defects.
- Obtained the new edition of the ISO 9001:2015 certification at all production sites.
- Continued collaboration with the main Italian universities, including the organization of an innovation management conference held at LIUC University and a prize award by the University of Padua as recognition for open innovation partnerships.

PROCESS



- CO_2 Scope 2 emissions per unit produced 7% lower than in 2019 (2.8 kg of CO_2 per unit produced in 2020 compared to 3.0 in 2019).
- Prepared the Supplier Code of Conduct signed in 2019 by OEM suppliers in China.
- In 2020 all new suppliers were selected based on environmental and social accountability criteria.
- High degree of control and guarantee of operating efficiency and logistics, thanks to the local for global management of the logistics HUBs found in centralized locations in the countries where the Groups goods are distributed.

Company officers *

Board of Directors

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

Board of Statutory Auditors

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

External Auditors

PriceWaterhouseCoopers S.p.A. ***

Control and Risks, Corporate Governance and Sustainability Committee

Stefania Petruccioli**

Maria Cristina Pagni **

Renato Corrada

Remuneration and Appointments Committee

Maria Cristina Pagni**

Stefania Petruccioli**

Carlo Garavaglia

Indipendent Committee

Maria Cristina Pagni**

Massimiliano Benedetti**

Ferruccio Borsani**

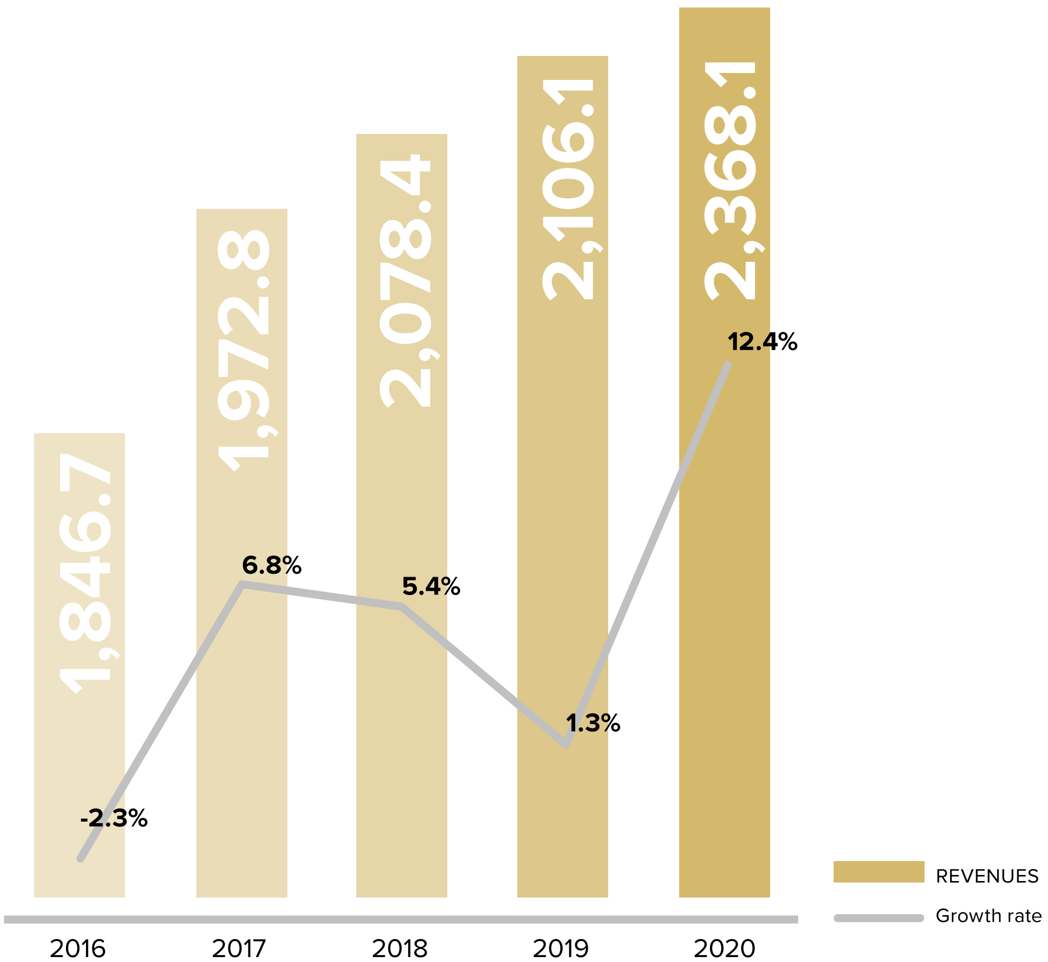
Luisa Maria Virginia Collina**

Stefania Petruccioli**

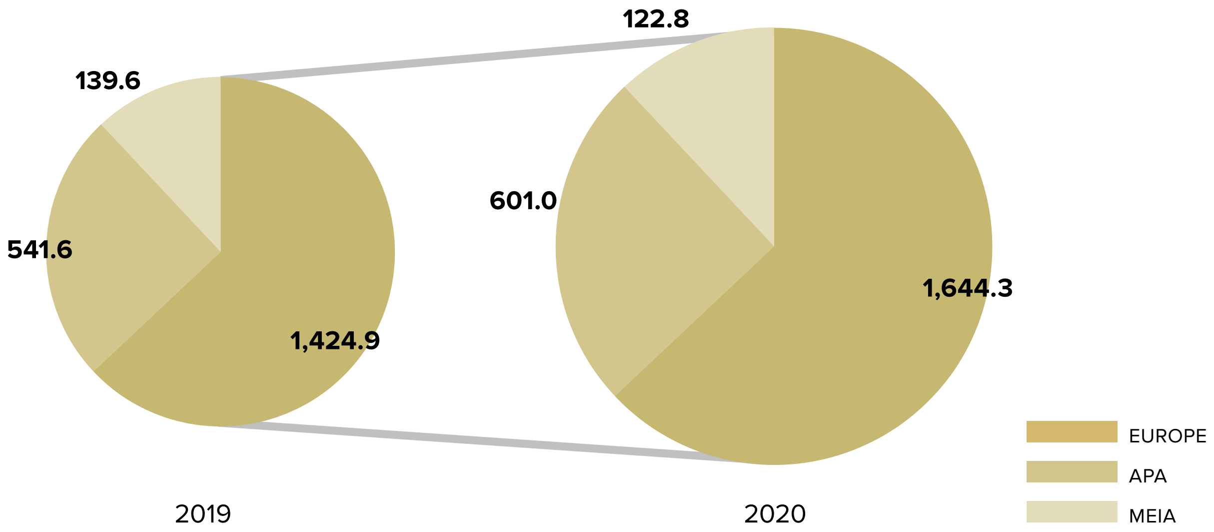
* The company officers were elected at the shareholders' meeting of 30 April 2019 for the period 2019-2021. The number of Board of Directors members was increased to 12 following the appointment by the Shareholders' Meeting on 22 April 2020 of Massimo Garavaglia as a member of the Board of Directors, granted powers as Chief Executive Officer, through the end of the Board's term.
** Independent directors.
*** Assigned by the shareholders' meeting of 24 April 2018 for the financial years 2019-2027.

Key performance indicators

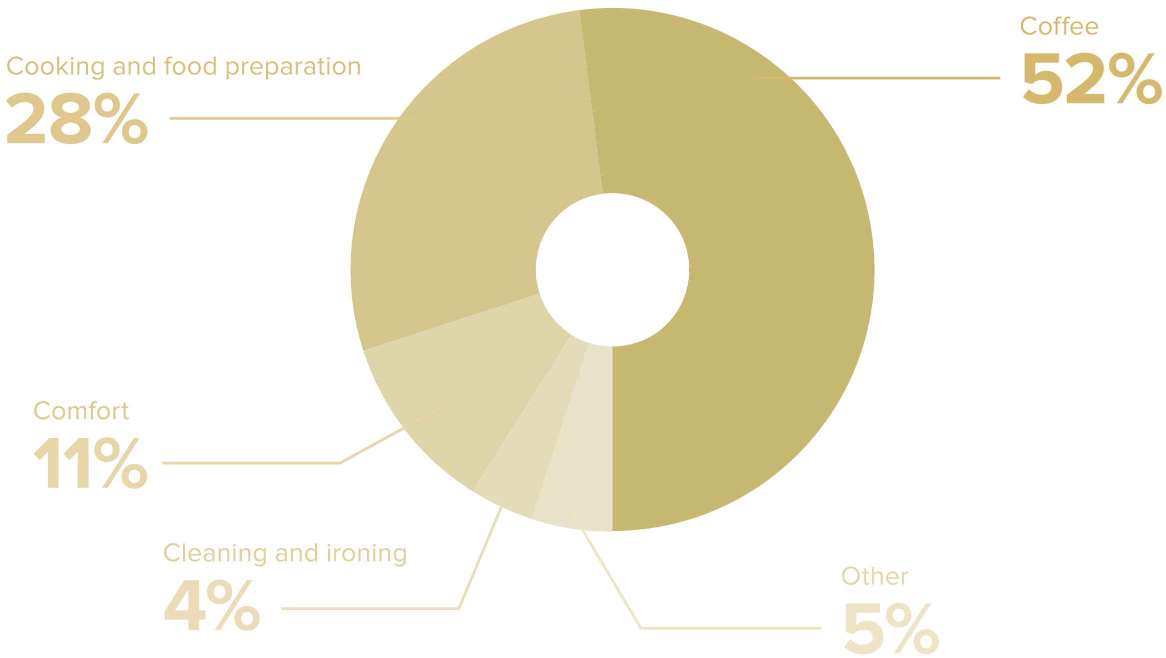
Normalized consolidated revenues
amount to €2,368.1 million, an increase of 12.4% (+14.3% in organic terms).



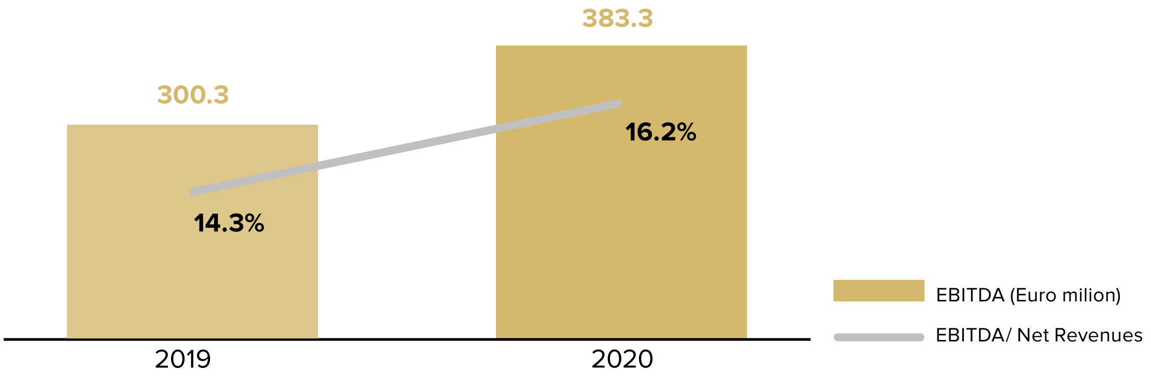
Consolidated revenues by geographical area



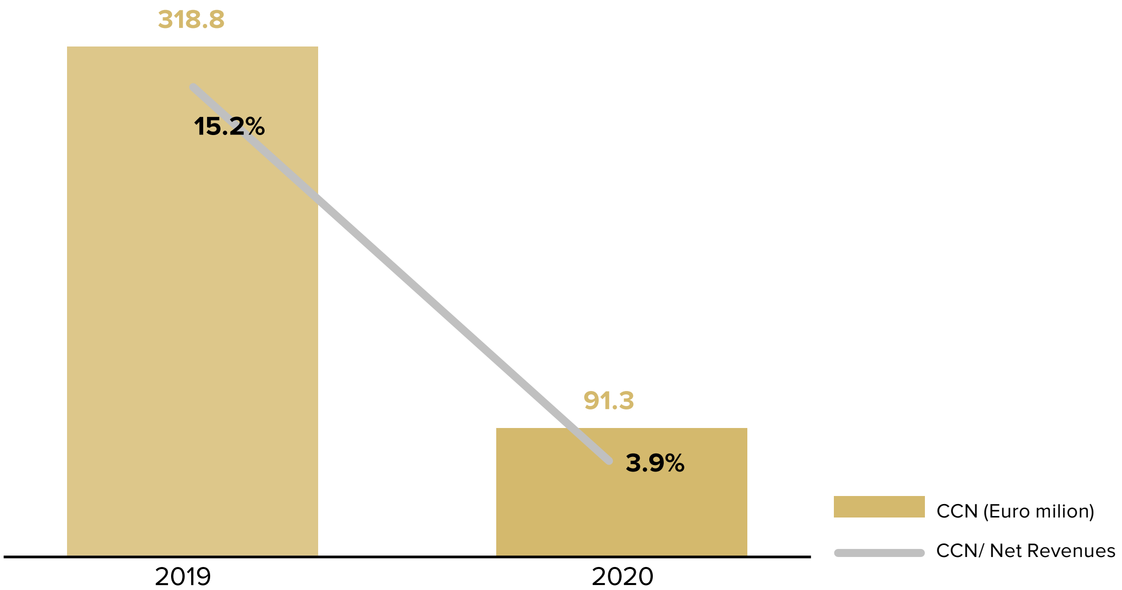
Consolidated revenues by product category



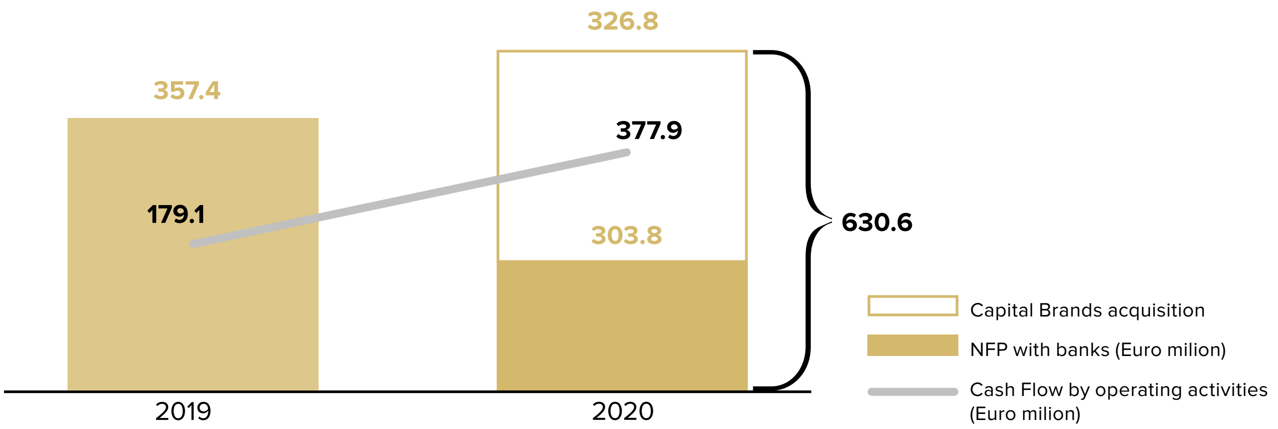
Normalized EBITDA before non-recurring/stock option cost comes to €383.3 million.



CCN on a like-for-like basis of €91.3 million.



Positive **NFP with banks** of €630.6 million before Capital Brands acquisition (€303.8 million after the closing). Operating cash flow reaches €377.9 million.



Results

(€/million)	31.12.2020	%	31.12.2019	%	Change	Change %
Revenues	2,351.3	100.0%	2,101.1	100.0%	250.1	11.9%
Revenues at constant exchange rates	*2,391.6*	*100.0%*	*2,101.5*	*100.0%*	*290.1*	*13.8%*
Net industrial margin	1,157.1	49.2%	990.2	47.1%	166.8	16.8%
EBITDA before non-recurring/ stock option costs	366.5	15.6%	295.3	14.1%	71.2	24.1%
EBITDA	343.0	14.6%	289.2	13.8%	53.8	18.6%
EBIT	262.0	11.1%	210.9	10.0%	51.1	24.2%
Profit (loss) pertaining to the Group	200.1	8.5%	161.0	7.7%	39.1	24.3%
Profit (loss) adjusted	218.0	9.3%	165.7	7.9%	52.3	31.6%

(€/million)	31.12.2020 normalized	%	31.12.2019 normalized	%	Change normalized	Change normalized %
Revenues	2,368.1	100.0%	2,106.1	100.0%	261.9	12.4%
Revenues at constant exchange rates	*2,408.4*	*100.0%*	*2,106.5*	*100.0%*	*301.9*	*14.3%*
Net industrial margin	1,173.9	49.6%	995.2	47.3%	178.7	18.0%
EBITDA before non-recurring/ stock option costs	383.3	16.2%	300.3	14.3%	83.0	27.6%
EBITDA	359.8	15.2%	294.2	14.0%	65.6	22.3%
EBIT	278.8	11.8%	215.9	10.3%	62.9	29.1%
Profit (loss) pertaining to the Group	200.1	8.5%	161.0	7.6%	39.1	24.3%
Profit (loss) adjusted	218.0	9.2%	165.7	7.9%	52.3	31.6%

Statement of financial position

(€/million)	31.12.2020	31.12.2020 on like-for-like basis	31.12.2019
Net working capital	96.2	91.3	318.8
Net working capital/Revenues	4.1%	3.9%	15.2%
Net capital employed	1,035.4	706.1	912.6
Net financial assets	232.0	561.3	277.8
of which:			
— net bank financial position	*303.8*	*630.6*	*357.4*
— other financial receivables/(payables)	*(71.8)*	*(69.2)*	*(79.6)*
Net equity	1,267.4	1,267.4	1,190.5

Definitions

"Normalized" refers to P&L figures net of the impact the reclassification of a few categories of commercial contributions following the implementation in the fourth quarter of 2019 of a new Commercial Policy.

The Net Profit pertaining to the Group is also presented in the adjusted form, namely net of the notional cost of the stock options, the non-recurring costs of the period and the relative tax effects.

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

The Group balance sheet as at 31 December 2020 is also presented on "like-for-like basis", thus excluding the effects of the acquisition of *Capital Brands*.

Report on operations

Introduction

In 2020 the spread worldwide of the coronavirus epidemic caused an unprecedented global crisis with serious consequences from a health, social, economic and financial standpoint.

In order to limit contagion, most governments, albeit at different times and with different methods, imposed strict containment measures during the year which called for limited mobility and the interruption of activities in many sectors.
The economy was, therefore, impacted by the different phases of the health crisis and recorded sharp drops, followed by cautious recovery, consistent with the tightening or easing of the measures implemented to control the pandemic. The prolonged crisis has weighed on economic activities, particularly those related to services which experienced a significant downturn.
The beginning of the vaccine roll-out marked an important step in the mitigation and resolution of the crisis, but the pandemic still poses a serious risk for public health and the global economy.

In the face of a situation undergoing constant change, the De' Longhi Group implemented plans aiming to protect the health and safety of its employees based on an internal policy and in accordance with local laws, maximizing the use of remote working solutions. Furthermore, during the year, the social safety nets made available by the government were used when possible in Italy and the countries where the Group is present.
In order to guarantee business continuity, steps were also taken to assess and quickly resolve any critical issues relating to product availability and the supply chain in the main markets that might affect the production and distribution of its products.
Given its presence in Italy, the Group also made a donation of €3.1 million to support initiatives aiming to contain the spread of the pandemic.
The good results achieved in 2020 demonstrated that De' Longhi knew how to manage this unprecedented crisis thanks to its strategic and managerial approach, flexibility, ability to react quickly, as well as the dedication and determination of all its employees who, at the end of the year, were awarded a special bonus for the commitment shown in this unprecedented period for a total of €9.5 million.

This report, therefore, is presented during what continue to be highly uncertain times which call for caution including when making economic forecasts.
Despite this, and even taking into account the unpredictability of the pandemic's potential impact, given its financial solidity, the actions taken to limit risks and its business model, as well as the good results obtained in 2020 which confirmed the effectiveness of the strategy implemented to address the health crisis, the Group believes that there are no elements which could compromise the business as a going concern.

Performance review

2020 was a complex year in many ways, characterized by the uncertainty stemming from the global health crisis, which required an extraordinary effort from the Group's management, employees and business partners.
Despite the difficult economic situation, very positive results were recorded in 2020 with double-digit growth in revenues and strong improvement in both margins and cash generation. The good results allowed De' Longhi to reaffirm its leadership in the main markets and product segments, paving the way for further expansion also in the coming year.

In this backdrop, the Group showed that it knew how to respond to the difficulties, leveraging on the strength of its brands, its products and global presence, which was augmented by the quick reaction time of the Group's people. The position as an international player, with revenues distributed across many markets, and the focus on home experience products, as well as the ability to quickly adjust the commercial strategy, the continuous investments in communication and the launch of new products, also contributed noticeably to growth.

During the year there was an acceleration in a few processes that will drive structural changes in both the distribution model, which will be increasingly more digital in the future, as well as consumer habits and lifestyle.

Fourth quarter 2020 closed with revenues of €878.0 million, or €883.4 million normalized, an increase of +10.1% compared to the same period of 2019 (+13.6% in organic terms).
Confirming the positive trend seen in previous reporting periods, the good results posted in the fourth quarter made it possible for revenues to reach €2,351.3 million or €2,368.1 million normalized (+12.4% at current exchange rates, +14.3% in organic terms) in the year.

In 2020 revenues benefitted from changes in the markets in favor of home experience products; at the same time, however, the pandemic caused changes in spending habits which actually accelerated the transition to a multi-channel model.
Key to the Group's growth, therefore, was the ability to quickly pivot its business model toward sales made online or through mixed channels, like the Brick&Click stores. This allowed for operational continuity even during the lockdown periods which made it possible to gain market share.
As confirmation of the growing importance worldwide of the digital world, the Group accelerated investments in the launch of e-commerce platforms in the main European markets (Germany, Poland, Spain, France and Belgium), which will be added to the existing platforms in other countries, particularly in APA.

All the main markets posted a positive performance, with the sole exception of MEIA which, however, showed signs of organic growth beginning in the third quarter.

Normalized revenues reached €1,644.3 million in **Europe**, 15.4% higher than in 2019 (+17.0% in organic terms).
In this area the countries were impacted differently by the health crisis, depending on the severity of the containment measures enacted by the different governments, but overall, the performance was positive. Beginning in the second half of 2020 retail gained momentum which benefitted the main product categories; more in detail, the sales of fully automatic coffee machines and kitchen machines were particularly strong, above all in Germany and France.

The German market, currently the Group's largest market, posted growth of 25.5%, while in France further acceleration was recorded in the fourth quarter (more than 43%) which permitted growth of 37.7% against 2019.
The Scandinavian countries, which were not subject to particular restrictions due to the health crisis, posted sales growth of more than 40% both at current exchange rates and in organic terms thanks to the highly successful sales of coffee and kitchen machines.
Poland recorded organic growth of 23.1% in 2020, thanks to the positive performance posted in the third and fourth quarters which helped to offset the weakness seen in the first part of the year.
Online sales were particularly strong in the United Kingdom where fourth quarter sales confirmed the positive growth trend begun in the third quarter and the year closed with organic growth of 15.6%, In addition to coffee products, the good results were also fueled by growth in the sale of kitchen machines.
Sales in Russia, Ukraine and the other CIS countries were impacted by a negative exchange effect which reduced growth against 2019 to 4.0%. In organic terms growth would have reached +14.6%; the market benefitted from the good performance of coffee machines and home care products.
Benelux, Switzerland, the Iberian countries and Austria all posted double-digit growth in sales.
In Italy sales rose 2.7% thanks to a positive second half which offset the decline recorded in the first few months of the year which were impacted noticeably by the health crisis.

In **APA** revenues reached €601.0 million, an increase of 11% against 2019, despite the negative exchange effect; in organic terms growth came to 13.5%.
In Australia and New Zealand, sales rose 23.2% at constant exchange rates thanks to the positive contribution of coffee machines, which benefitted from the launch of the *La Specialista Maestro* model, Kenwood brand kitchen machines, comfort and cooking products.
Greater China reported organic sales growth of 25.1%; the good results were fueled by coffee products with a positive performance across all categories, particularly fully automatic and traditional machines. The sales trend for Braun brand handblenders was also positive.
The United States and Canada closed the year with organic growth in revenues of 9.1% attributable to the sale of coffee machines, particularly Nespresso and pump models, and portable air conditioners.
The good sales performance of coffee products and handblenders in Japan compensated for the sluggish performance of heating products, attributable to unfavorable weather conditions, and brought organic growth to 8.3%.

MEIA closed the year with revenues of €122.8 million, a decrease of 12.0% (-9.4% in organic terms). There were positive signs of recovery in the third and fourth quarters when sales rose in organic terms due to the reorganization implemented.

Looking at the different segments, 2020 confirmed the importance of coffee products, which generated more than half of the Group's total revenues, posting organic growth of 18.3%. All of the segment's product families reported a positive performance. Fully automatic machines, in particular, posted strong growth thanks to the good performance of the medium/high end models. Strong sales growth was also recorded by the traditional machines which benefitted from the success of *La Specialista*, on the market since 2019. In 2020 this product family was expanded further with the launch of the new *La Specialista Maestro* model, which was very well received by the market.

Revenues for cooking and food preparation products were up 10.2% in organic terms.
The Kenwood brand kitchen machines closed the year with a strong increase in sales, fueled by the increasing interest in cooking and healthy eating.

Looking at comfort, which posted a total increase in revenues of 13.6% at constant exchange rates, there was a positive sales trend for portable air conditioners, particularly in Central Europe, while sales for heating products fell due to unfavorable weather conditions. As for the US market, the comparison reflects the tariffs imposed which impacted the Group's sales.

Home care recorded organic growth in sales of 9.5%, despite the negative impact that the pandemic had on this sector.

Looking at margins, in 2020 profitability benefitted from higher sales volumes, a favorable mix, a positive price effect, as well as cost containment linked to the timely action taken by the Group in reaction to the health crisis, as well as the use of available social safety nets.

The net industrial margin amounted to €1,157.1 million or 49.2% of revenues; the normalized net industrial margin came to €1,173.9 million, rising against 2019 both numerically (+€178.7 million) and as a percentage of revenues (from 47.3% in 2019 to 49.6% in 2020). At constant exchange rates, the net industrial margin would have been 20.4% higher.

Despite the difficult environment, the Group continued making substantial investments in communication campaigns and promotions, to support its products and brands, In 2020 investments in advertising and promotional activities amounted to €292.8 million, about €47.4 million higher than in 2019.

EBITDA before non-recurring/stock option costs amounted to €366.5 million or 15.6% of revenues.
In normalized terms, EBITDA before non-recurring/stock option costs rose 27.6% against the prior year to €383.3 million.
This result reflects the negative exchange effect of around €15 million, net of which EBITDA before non-recurring/stock option costs would have been 32.6% higher than in 2019, coming in at €397.1 million.

In 2020 the Group recognized €2.5 million in notional stock option costs and non-recurring costs of €21.0 million, which includes the costs incurred due to the health crisis and the donation of €3.1 million made by the Group to support domestic containment measures, the special bonus of €9.5 million paid to employees and business partners for the commitment demonstrated during an unprecedented period of crisis, as well as expenses stemming from the Capital Brands acquisition and the restructuring of a few foreign branches.

After amortization and depreciation of €81.0 million, EBIT came to €262.0 million or 11.1% of revenues.
Normalized EBIT came to €278.8 million (€215.9 million in 2019) or 11.8% of revenues.

Financial expenses, €22.5 million in normalized terms, were higher with respect to the same period of 2019 (€20.1 million) as a result of larger financial discounts classified, as per the new commercial policy, as a reduction in as reported revenues; the decrease in investment income was offset by gains stemming from the valuation of a few investments using the equity method.

Taxes amounted to €56.2 million in 2020 and include some non-recurring items.

Profit pertaining to the Group amounted to €200.1 million after non-recurring operating expenses of €17.9 million, net of tax.
Net of the notional cost of stock options, the non-recurring operating expenses and the relative tax effect, the adjusted net profit was €52 million higher than in 2019, coming in at €218.0 million.

The net financial position came to a positive €232.0 million at 31 December 2020, despite the negative impact of €329.3 million stemming from the Capital Brands acquisition, completed year-end. Only Capital Brands' balance sheet was included in the scope of consolidation.
Net this acquisition, the net financial position would have reached €561.3 million with cash generation of €283.5 million which reflects the payment of €80.8 million in dividends, higher than the €53.3 million distributed in 2019.

Net operating cash flow, excluding the Capital Brands acquisition, reached a positive €377.9 million, higher than in 2019 (€179.1 million) due to the increased profitability and better management of working capital.
Net working capital amounted to €96.2 million at 31 December 2020 (€318.8 million at 31 December 2019), or €91.3 million like-for-like, with noticeable improvement both numerically and as a percentage of rolling revenues (3.9% at 31 December 2020 versus 15.2% at the end of 2019).
The careful credit management, along with positive trend in aggregate trade payables stemming, above all, from the timing and acceleration in purchasing during the last quarter of the year, more than offset the increase in inventory.

Net of a few non-banking items, the net financial position was positive for €303.8 million (€357.4 million at 31 December 2019).
Given the situation of economic uncertainty, despite its solid financial situation, during the initial phases of the health crisis the Group decided to increase its available liquidity in order to have access to additional financial resources to support the business and growth, as well as extend the average life of its debt, by taking out €200 million in new medium/long-term loans and issuing another €150 million tranche, maturing in 2041, of the "Private Shelf Facility" which will be underwritten by a leading US financial group in 2021.

Significant events

As resolved during the Shareholders' Meeting held on 22 April 2020, the Board of Directors appointed the new director Massimo Garavaglia, Chief Executive Officer and General manager of De' Longhi S.p.A. and granted him the relative delegated powers. Beginning on 1 May 2020 Massimo Garavaglia took over the role of Chief Executive Officer from Fabio de' Longhi, who will remain Vice Chairman with the same powers previously held in order to fully support the new CEO's operations during this important organizational transition and continue to use his extensive experience to provide guidance in the development of the Group's strategies.
Over the years the foundation for a sustainable evolution of the Group was laid, accelerating the investments in advertising to strengthen market leadership. The shared ambition to reach sales targets remains intact and the ability to achieve these results will be made possible by further internationalization, the development of new product categories, the strengthening of the organizational structure and external growth.
The appointment of Mr. Garavaglia reflects this push for the constant expansion of the De' Longhi Group's activities and the desire to reinforce its managerial structure in order to continue along the very successful path followed in the past and face the new challenges of a rapidly changing global market, seizing each favorable opportunity.

During the Shareholders' Meeting held on 22 April, shareholders also voted against the Board of Directors proposal to distribute a gross dividend of €0.54 per outstanding share (net of any treasury shares held) in order to provide the Group with the financial support and means needed to face the potentially negative aftermath of the current global crisis, the evolution and impact of which were still unclear.
Subsequently, in light of the good results recorded during the year and as the reasons for the caution driving the previous decision no longer existed, on 15 December 2020 the Shareholders Meeting resolved to distribute a gross dividend of €0.54 per outstanding share for a total of €80.8 million.

Lastly, the Shareholders' Meeting held on 22 April also approved the Board of Directors' proposal to adopt the "2020-2027 Stock Option Plan" reserved for the Chief Executive Officer and a limited number of the Group's top managers.
Based on the Plan beneficiaries may be assigned up to a maximum of 3,000,000 options for the purchase or subscription of an equal number of shares taken from: (i) the treasury shares purchased by the Parent Company De' Longhi S.p.A. on the market to service the Plan as authorized by the shareholders in the event sufficient treasury shares are not available on the date the beneficiary exercises the options, (ii) a cash capital increase to be carried out on one or more occasions, excluding option rights, approved by the Shareholders' Meeting to service the Plan. Each option will grant the beneficiary the right to subscribe one De' Longhi share as per the conditions set forth in the Plan regulations approved by the Shareholders' Meeting.
In order to service the Plan, the Shareholders' Meeting authorized the purchase of treasury shares for up to a maximum of 14.5 million shares and, at any rate, of not more than one fifth of the share capital, also taking into account any treasury shares held by the parent company De' Longhi S.p.A. and its subsidiaries.
Between 16 March and 16 December 2020, the Group purchased 895,350 treasury shares through an authorized intermediary.

On 23 November 2020, De' Longhi finalized the preliminary agreement for the purchase of Capital Brands Holding Inc., an American company leader worldwide in the personal blenders segment with the Nutribullet and Magic Bullet brands. Once the competent bodies, the anti-trust authorities, in particular, had completed the authorization process and the conditions precedent had been fulfilled, the final sales agreement was signed on 29 December 2020 in execution of the preliminary agreements. The Capital Brands acquisition is consistent with the Group's objectives calling for geographical expansion, as well as external growth, and is of great strategic value for several reasons: a young, dynamic brand was added to the existing portfolio, the product range was expanded with an important presence in the blender segment, penetration in an expanding and strategically important market like the United States was increased and the Group's leadership in the food preparation sector was strengthened.
The initial net consideration was paid entirely at the closing date based on the pro-forma financial statements of Capital Brands. The price payable is the Enterprise Value on a "cash-free, debt-free" basis which amounted to $421 million. The acquisition had an impact on the Group's net financial position of €329.3 million.
Based on the agreement the consideration will be revised based on the definitive financial statements and is to be agreed upon within 90 days of the acquisition; at the date of this report, therefore, the final balance has yet to be determined.
Consequently, at the date of this report, the consideration was temporarily allocated to the assets and liabilities acquired until the definitive price is determined.
Only Capital Brands' balance sheet was included in the scope of consolidation.

Group results

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

(€/million)	31.12.2020	% revenues	31.12.2019	% revenues	31.12.2020 normalized	% revenues	31.12.2019 normalized	% revenues
Revenues	**2,351.3**	**100.0%**	**2,101.1**	**100.0%**	**2,368.1**	**100.0%**	**2,106.1**	**100.0%**
Change 2020/2019	*250.1*	*11.9%*			*261.9*	*12.4%*		
Materials consumed & other production costs (production services and payroll costs)	(1,194.2)	(50.8%)	(1,110.9)	(52.9%)	(1,194.2)	(50.4%)	(1,110.9)	(52.7%)
Net industrial margin	**1,157.1**	**49.2%**	**990.2**	**47.1%**	**1,173.9**	**49.6%**	**995.2**	**47.3%**
Services and other operating expenses	(597.2)	(25.4%)	(513.0)	(513.0)	(597.2)	(25.2%)	(513.0)	(513.0)
Payroll (non-production)	(193.4)	(8.2%)	(181.9)	(8.7%)	(193.4)	(8.2%)	(181.9)	(8.6%)
EBITDA before non-recurring/ stock option costs	**366.5**	**15.6%**	**295.3**	**14.1%**	**383.3**	**16.2%**	**300.3**	**14.3%**
Change 2020/2019	*71.2*	*24.1%*			*83.0*	*27.6%*		
Non-recurring expenses/ stock option costs	(23.5)	(1.0%)	(6.1)	(0.3%)	(23.5)	(1.0%)	(6.1)	(0.3%)
EBITDA	**343.0**	**14.6%**	**289.2**	**13.8%**	**359.8**	**15.2%**	**294.2**	**14.0%**
Amortization	(81.0)	(3.4%)	(78.3)	(3.7%)	(81.0)	(3.4%)	(78.3)	(3.7%)
EBIT	**262.0**	**11.1%**	**210.9**	**10.0%**	**278.8**	**11.8%**	**215.9**	**10.3%**
Change 2020/2019	*51.1*	*24.2%*			*62.9*	*29.1%*		
Net financial income (expenses)	(5.7)	(0.2%)	(15.1)	(0.7%)	(22.5)	(1.0%)	(20.1)	(1.0%)
Profit (loss) before taxes	**256.3**	**10.9%**	**195.8**	**9.3%**	**256.3**	**10.8%**	**195.8**	**9.3%**
Taxes	(56.2)	(2.4%)	(34.8)	(1.7%)	(56.2)	(2.4%)	(34.8)	(1.7%)
Profit (loss) pertaining to the Group	**200.1**	**8.5%**	**161.0**	**7.7%**	**200.1**	**8.5%**	**161.0**	**7.6%**

The net industrial margin reported in the reclassified income statement differs by €183.2 million in 2020 (€163.5 million in 2019) from the consolidated income statement as, in order to better represent the period performance, production-related payroll and service costs have been reclassified from payroll and services, respectively, and non recurring expenses have been separately reported.

"Normalized" refers to P&L figures net of the impact the reclassification of a few categories of commercial contributions following the implementation in the fourth quarter of 2019 of a new Commercial Policy.

Revenues

Even in the difficult environment created by the health crisis, in 2020 the De' Longhi Group recorded revenues of €2,351.3 million or €2,368.1 million normalized, a 12.4% increase in normalized terms; +14.3% in organic terms.
The fourth quarter confirmed the positive trend seen in previous reporting periods, posting revenues of €878.0 million or €883.4 million normalized (+10.1% against the same period of the prior year, +13.6% in organic terms).

The good results demonstrate the effectiveness of the actions taken by the Group in the face of the crisis that characterized 2020.
The strengthening of sales through online channels, the boost in sales once stores reopened after the lockdown, along with the ability of the traditional networks to expand the offer using a multichannel model, laid the foundation for a business model based on hybrid distribution techniques in order to better serve the end customer, including in the future.

The Group also benefitted from the increased focus on home experience products.

The decision to continue making investments in promotional activities and advertising also helped to drive sales and give a boost to the markets.

Markets

The sales performance of the Group's business regions (Europe, APA and MEIA) is summarized in the following table in which, for the sake of comparison, normalized revenues are shown:

(€/million)	2020	%	2019	%	Change	Change %	Organic change %
EUROPE	1,644.3	69.4%	1,424.9	67.7%	219.4	15.4%	17.0%
APA (Asia/Pacific/ Americas)	601.0	25.4%	541.6	25.7%	59.4	11.0%	13.5%
MEIA (Middle East/India/ Africa)	122.8	5.2%	139.6	6.6%	(16.8)	(12.0%)	(9.4%)
Total revenues	**2,368.1**	**100.0%**	**2,106.1**	**100.0%**	**261.9**	**12.4%**	**14.3%**

(€/million)	4th Quarter 2020	%	4th Quarter 2019	%	Change	Change %	Organic change %
EUROPE	623.1	70.5%	554.4	69.1%	68.8	12.4%	15.3%
APA (Asia/Pacific/ Americas)	216.0	24.5%	202.1	25.2%	13.9	6.9%	11.3%
MEIA (Middle East/India/ Africa)	44.3	5.0%	46.0	5.7%	(1.7)	(3.6%)	2.0%
Total revenues	**883.4**	**100.0%**	**802.4**	**100.0%**	**81.0**	**10.1%**	**13.6%**

In **Europe** revenues amounted to €1,644.3 million, an increase of 15.4% (+17.0% in organic terms) against 2019.
The area's markets were affected to varying degrees by the health crisis, but the performances were generally positive.
The German market, currently the Group's largest market, posted growth of 25.5% thanks to the good performance of all product categories, particularly coffee machines, kitchen machines and portable air conditioners. Online sales made a significant contribution to this growth.
In France, the positive sales trend seen in prior reporting periods continued with further acceleration in the fourth quarter (more than 43%) which permitted growth of 37.7% against 2019.
The Scandinavian countries, which were not impacted by restrictive measures, posted sales growth of more than 40% both at current exchange rates and in organic terms thanks to the good results of coffee products (fully automatic and DolceGusto/Nespresso machines) and Kenwood brand kitchen machines.
Poland recorded organic growth of 23.1% in 2020, thanks to the positive performance posted in the third and fourth quarters which helped to offset the weakness seen in the first part of the year.
In the United Kingdom fourth quarter sales confirmed the positive growth trend begun in the third quarter and the year closed with organic growth of 15.6%, thanks also to the positive contribution of online sales. In addition to coffee products, the good results were also fueled by growth in the sale of kitchen machines.
Sales in Russia, Ukraine and the other CIS countries were impacted by a negative exchange effect which reduced growth against 2019 to 4.0%. In organic terms growth would have reached +14.6%; the market benefitted from the good performance of coffee machines and home care products.
Benelux, Switzerland, the Iberian countries and Austria all posted double-digit growth in sales.
In Italy sales were basically in line with the prior year thanks to a positive second half which compensated for the decline recorded in the first few months of the year which were impacted noticeably by the health crisis.

In **APA** revenues reached €601.0 million, an increase of 11.0% against 2019, despite the negative exchange effect; in organic terms growth came to 13.5%.
In Australia and New Zealand, sales rose 23.2% at constant exchange rates thanks to the positive contribution of coffee machines, which benefitted from the launch of the *La Specialista Maestro* model, Kenwood brand kitchen machines, as well as comfort and cooking products.
Greater China reported organic sales growth of 25.1%; the good results were fueled by coffee products with a positive performance across all categories, particularly fully automatic and pump machines. The sales trend for Braun brand handblenders was also positive. Comfort was down slightly.
The United States and Canada closed the year with organic growth in revenues of 9.1% attributable to the sale of coffee machines, particularly Nespresso and traditional models, and portable air conditioners.
The good sales performance of coffee products and handblenders in Japan compensated for the sluggish performance of heating products, attributable to unfavorable weather conditions, and brought organic growth to 8.3%.

MEIA closed the year with revenues of €122.8 million, a decrease of 12.0% (-9.4% in organic terms). There were positive signs of recovery in the third and fourth quarters when sales rose in organic terms, by 7.7% and 2.0% respectively, due to the effective reorganization implemented.

Business lines

2020 was a positive year for all the business lines.

Coffee, which confirmed its role as the core business with sales reaching 51.7% of the total, reported organic growth of 18.3% thanks to the positive contribution of all the product lines.
Fully automatic machines recorded strong growth attributable to the good performance of the medium/high-end models. This positive performance was fueled by, in their respective market segments, the Dinamica platform products, the *Magnifica S* and the *Magnifica S Smart*, which was launched in 2019, and premium *Primadonna Class* model. With the aim of further enriching the range of products, in 2020, new *Perfecta EVO* and the premium model *Maestosa* were introduced.
Good results were also recorded by traditional coffee machines which benefitted from the success of the high-end model, *La Specialista*, on the market since March 2019, along with the new machine, *La Specialista Maestro*, launched in 2020.
Nespresso/DolceGusto products also reported good results, particularly in North America and Scandinavia, thanks also to the launch of a new *Vertuo Next* model.

Food preparation products reported an increase in sales of 10.2% in organic terms.
Kitchen machines closed the year with a strong increase in sales thanks to the increasing interest in cooking and healthy eating. The good results confirmed the leadership of the Kenwood brand, which further increased its market share in the sector markets. Two new models were introduced during the year: the *Cooking Chef XL* and the *Titanium Chef Patissier XL*.
The range of Braun brand handblenders was strengthened thanks to the *MultiQuick 5 Vario* model and the new *MultiQuick 9 System*, which was launched in September in Europe where it was well received. A new model of blender *PowerBlend 3* was launched, as was the food processor *PureEase*, developed for APA and MEIA markets.

Looking at comfort, which posted a total increase in revenues of 13.6% at constant exchange rates, there was a positive sales trend for portable air conditioners, particularly in Central Europe, while sales for heating products fell due to unfavorable weather conditions. As for the US market, the comparison reflects the tariffs imposed which impacted the Group's sales.

Home care recorded organic growth in sales of 9.5%. The Group launched the *CareStyle 1* model, geared for the entry level segment, and in October the new *TexStyle 5* was launched in Europe.

Profitability

In 2020 margins benefitted from higher sales volumes, a favorable mix and a positive price effect; profitability was also supported by the containment of some manufacturing costs and savings on other types of costs as result of the timely action taken by the Group in reaction to the health crisis, as well as the use of available social safety nets. The exchange effect had a negative impact due to fluctuations in the main currencies.

The net industrial margin amounted to €1,157.1 million or 49.2% of revenues; the normalized net industrial margin came to €1,173.9 million, rising against 2019 both numerically (+€178.7 million, +18.0%) and as a percentage of revenues (from 47.3% in 2019 to 49.6% in 2020). At constant exchange rates, the net industrial margin would have been 20.4% higher.

Despite the difficult environment, the Group continued making substantial investments in communication campaigns and promotions, to support its products and brands. In 2020 investments in advertising and promotional activities reached €292.8 million, €47.4 million higher than in the prior year.

EBITDA before non-recurring/stock option costs amounted to €366.5 million or 15.6% of revenues.
In normalized terms, EBITDA before non-recurring/stock option costs rose 27.6% against the prior year to €383.3 million.
This result reflects the negative exchange effect of around €15 million, net of which EBITDA before non-recurring/stock option costs would have been 32.6% higher than in 2019, coming in at €397.1 million.

In 2020 the Group recognized €2.5 million in notional stock option costs and non-recurring costs of €21.0 million, which includes the costs incurred due to the health crisis and the donation of €3.1 million made by the Group to support domestic containment measures, the special bonus paid to employees and partners for the commitment demonstrated during an unprecedented period of crisis, as well as expenses stemming from the Capital Brands acquisition and the restructuring of a few foreign branches.

After amortization and depreciation of €81.0 million, EBIT came to €262.0 million or 11.1% of revenues.
Normalized EBIT came to €278.8 million (€215.9 million in 2019) or 11.8% of revenues.

Financial expenses, €22.5 million in normalized terms, were higher with respect to the same period of 2019 (€20.1 million) as a result of larger financial discounts classified, as per the new commercial policy, as a reduction in as reported revenues; the decrease in investment income was offset by gains stemming from the valuation of a few investments using the equity method.

Taxes amounted to €56.2 million in 2020 and included some non-recurring items.

Profit pertaining to the Group amounted to €200.1 million after non-recurring operating expenses of €17.9 million, net of tax.
Net of the notional cost of stock options, the non-recurring operating expenses and the relative tax effect, the adjusted net profit was €52 million higher than in 2019, coming in at €218.0 million.

Operating segment disclosures

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

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

Review of the statement of financial position

The reclassified consolidated statement of financial position is presented below:

(€/million)	31.12.2020	31.12.2020 on like-for-like basis	31.12.2019
- Intangible assets	631.9	312.7	314.8
- Property, plant and equipment	324.6	318.2	315.1
- Financial assets	34.6	33.7	30.2
- Deferred tax assets	57.0	52.9	47.3
Non-current assets	**1,048.1**	**717.6**	**707.4**
- Inventories	424.0	398.3	343.5
- Trade receivables	398.1	362.4	437.4
- Trade payables	(581.9)	(534.8)	(365.8)
- Other payables (net of receivables)	(144.0)	(134.6)	(96.3)
Net working capital	**96.2**	**91.3**	**318.8**
Total non-current liabilities and provisions	**(108.9)**	**(102.8)**	**(113.5)**
Net capital employed	**1,035.4**	**706.1**	**912.6**
(Net financial assets)	**(232.0)**	**(561.3)**	**(277.8)**
Total net equity	**1,267.4**	**1,267.4**	**1,190.5**
Total net debt and equity	**1,035.4**	**706.1**	**912.6**

Net financial position as at 31 December 2020 includes € 71.8 million in net financial liabilities (net financial liabilities equal to € 79.6 million at 31 December 2019) relating to the fair value of derivatives and the financial debt connected to business combinations, pension fund and financial liabilities for leasing. On like-for-like basis bank components amount to € 69.3 million.

Investments amounted to €89.5 million in 2020, of which €10.3 million relative to new leases and €66.6 million to property, plant and equipment which includes the purchase of a new plant in Romania.

Like-for-like net working capital amounted to €91.3 million (3.9% of rolling revenues), showing noticeable improvement both numerically and as a percentage of rolling revenues against 2019 (€318.8 million or 15.2% of rolling revenues) due mainly to careful credit management, a good trend in aggregate trade payables stemming, above all, from the timing and acceleration in purchasing during the last quarter of the year which more than offset the increase in inventory, consistent with the business trend.

Details of the net financial position are shown below:

(€/million)	31.12.2020	31.12.2020 on like-for-like basis	31.12.2019
Cash and cash equivalents	662.9	930.3	731.5
Other financial receivables	243.0	302.5	102.4
Current financial debt	(236.6)	(235.7)	(138.2)
Net current financial position	**669.3**	**997.1**	**695.7**
Non-current financial receivables and assets	70.0	70.0	10.7
Non-current financial debt	(507.3)	(505.8)	(428.6)
Non-current net financial debt	**(437.3)**	**(435.8)**	**(417.9)**
Total net financial position	**232.0**	**561.3**	**277.8**
of which:			
- positions with banks and other financial payables	*303.8*	*630.6*	*357.4*
- lease liabilities	*(65.8)*	*(63.2)*	*(74.0)*
- other financial non-bank assets/liabilities (fair value of derivatives, financial debt connected to business combinations and pension fund)	*(6.0)*	*(6.0)*	*(5.5)*

The net financial position came to a positive €232.0 million at 31 December 2020 (€277.8 million at 31 December 2019) after the acquisition and the consolidation, limited to the balance sheet, of Capital Brands. The net financial position includes a few specific financial items, including primarily the fair value measurement of derivatives, the residual debt owed on business combinations and pension plan transactions, which had a negative balance of €6.0 million at 31 December 2020 (negative for €5.5 million at 31 December 2019).
It also includes lease liabilities recognized in accordance with IFRS 16 which amounted to €65.8 million at 31 December 2020 (€74.0 million at 31 December 2019).
Net of these items, the net position with banks reached €303.8 million (€357.4 million at 31 December 2019).
Given the situation of economic uncertainty, despite its solid financial situation, during the initial phases of the health crisis the Group decided to increase its available liquidity in order to have access to additional financial resources to support the business and growth, to ensure available liquidity, as well as extend the average life of its debt, by taking out €200 million in new medium/long-term loans and issuing another €150 million tranche, maturing in 2041, of the “Private Shelf Facility” which will be underwritten by a leading US financial group in 2021.

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

(€/million)	2020	2019
Cash flow by current operations	352.9	277.3
Cash flow by changes in working capital	114.5	(22.3)
Cash flow by investment activities	(89.5)	(75.8)
Cash flow by operating activities	**377.9**	**179.1**
IFRS 16 first time adoption	**-**	**(77.0)**
Acquisition of Capital Brands	**(329.3)**	**-**
Dividends distributed	(80.8)	(55.3)
Cash flow by treasury shares purchase	(14.5)	-
Stock options exercise	21.5	-
Cash flow by other changes in net equity	(20.5)	2.8
Cash flow absorbed by changes in net equity	**(94.4)**	**(52.5)**
Cash flow for the period	**(45.8)**	**49.7**
Opening net financial position	277.8	228.1
Closing net financial position	**232.0**	**277.8**

Net operating cash flow, which amounted to €377.9 million in 2020 (€179.1 million in 2019), reflects the increased profitability, positive working capital management and investments totaling €89.5 million (€75.8 million in 2019).
Net the impact of the Capital Brands acquisition, net operating cash flow amounted to €48.6 million.
Cash flow was negative for €45.8 million in 2020 (positive for €49.7 million in 2019) which reflects the distribution of €80.8 million in dividends (as the reasons for caution driving the previous decision to suspend the payment no longer existed), the purchase of treasury shares for €14.5 million and the exercise of stock options for €21.5 million.

Operations and supply chain

In terms of manufacturing, 2020 was dominated by the management of the health crisis, first in China and then in Europe, which impacted not only the Group's production facilities, but also management of the entire supply chain.
The priorities were managed carefully by implementing extraordinary measures and making careful, timely investments to support production.
At the plants, the lockdown periods, during which production capacity was lower, were followed by periods of strong recovery. This difficult situation did not compromise the ability to record an overall increase in output despite the considerable loss in production capacity recorded in the first part of the year.

Despite the urgency of the pandemic and the work it took to manage it, the Group continued with the activities that were planned to support the important development and strengthening of its manufacturing footprint, begun with the acquisition of the second production plant in Romania (finalized in January 2020) and continued with expansion of the main Chinese plant which should be completed by 2022.
The availability of new space, along with an intensive program to invest in automation and expanding production units, will support growth of coffee products, particularly fully automatic, traditional and Nespresso machines and the core range of cooking and food preparation products, in both Europe and Asia.

With regard to the supply chain, the new context and the sudden change in consumer habits has boosted an important acceleration in online sales which requires an agile transformation of distribution in order to meet the needs of this new business model based on multichannelism.
At the same time, it was also necessary to expand and strengthen the Group's e-commerce platform for which a specific distribution flow was structured very quickly.

Looking further at distribution, the transfer of the new European North Distribution hub to a primary logistics provider was finalized which allowed for consolidation of the European logistics network.
In the last quarter an important *Supply Chain Excellence* program, which aims to improve customer service, was launched which will be developed over the two-year period 2021-22.

Research and development – quality control

The versatility and high performance, along with the digital interfaces and connectivity of the premium models, made it possible for the Group's products to respond even more effectively to the needs of consumers, including in light of recent lifestyle changes.

Digital technology was the common denominator of the new 2020 products, along with ergonomic design and product-user interaction.
The growing use of sensors not only allowed for better control, but also enriched the products with new functions.
The integration of interface technologies and controls is a key part of many of the product families currently being developed which allows for decided improvement in terms of specific functions and versatility.

All of the product innovations for fully automatic machines and the new high-end kitchen machines are based on connectivity.
Dehumidifiers with Wi-fi interfaces and remote-controlled portable air conditioners (equipped with *Cool Surround Technology*), which can regulate temperatures and humidity near user's workstation, were developed for comfort.

With regard to the premium, traditional product line, the *La Specialista* series was expanded with the introduction of a high-end *Maestro* model, which features both excellent coffee based and milk-based recipes.
The Braun brand range of handblenders was increased thanks to the development of the new *Serie 9*, geared for the high-end, while the new ironing systems *Carestyle 3* and *1* and the Series 1 *Breakfast* line were developed for the entry level segment.

As for quality control, the Group completed Corporate Quality Certification with the integration of the Chinese plants. In terms of sustainability, consistent with the Code of Conduct for Chinese suppliers of finished products, an audit plan was carried out.

Communication activities

Despite the difficult environment, in 2020 the Group continued to make substantial investments in communication to support its three main brands.

2020 was an important year for the De'Longhi brand as a number of initiatives were undertaken.
Firstly, as part of the path of change that will continue in 2021, its new visual identity was launched and, consequently, the brand's logo was revisited, as was the communication material used.
Furthermore, for the first time in the brand's history, three different campaigns targeting different types of consumers in different countries ran at the same time.
The first, *Unleash coffee beans pleasure*, based on the *Dinamica Plus* model, was designed to attract consumers in countries where the market penetration of the fully automatic machines is low. It was broadcast on television, through digital and in-store channels throughout Europe and a few select Asian markets, in the period September- December.
A second campaign, *Straight to the soul of coffee*, was conceived to support the launch of the new *PrimaDonna Soul* model, which has a new feature, namely the ability to automatically adjust the settings based on the type of coffee bean used. The campaign was broadcast in Germany, Austria, Belgium and Switzerland in order to boost the high-end market for fully automatic machines.
The third campaign, *Coffee symphony crafted in science*, was conceived for the launch of the traditional *La Specialista Maestro* machine in Australia.
The introduction of the DeLonghi *Coffee Lounge* in France was another important initiative used to promote the De'Longhi brand's coffee products. This is an online platform used by consumers to buy coffee, but which also provides information about the Group's machines.
Lastly, BTL campaigns, focused on the uniqueness of the Group's products, were used to support comfort and food preparation.

With regard to the Kenwood brand, the growing interest in food preparation was key to business development. In order to reach an even greater pool of customers, in 2020 a new advertising campaign was launched, *Kenwood CAN*, focused on the *Titanium Chef Patissier* model.
While using different methods than before given the new circumstances, the partnerships with opinion leaders and professional chefs continued with live demonstrations in order to maximize the engagement of consumers, increasingly more interested in cooking and healthy eating.
Lastly, in order to support the growing importance of online sales, a new range of digital materials was developed which was made available on the new website as of 2021.

Communication activities for the Braun brand were focused mainly on supporting the new products launched during the year by creating an extensive portfolio of key visuals, social media content and demonstration videos, as well as material for the points of sale.
Overall communication, transformed by the new environment, was shaped by the digital world and, in light of the new consumer behavior, was enriched with "*how to*" content relating to food preparation, quick pasta recipes for remote workers, as well as wellness and leisure time initiatives, including in the company of children.
The campaign *Back to school* was also created to support irons and handblenders, launched both online and in stores.

As for digital, 2020 was characterized by the transformation of the business model as a result of the health crisis. This accelerated a process already underway and led the Group to double its online presence in just a few months by activating the e-commerce corporate platform in new countries.
Investments in the creation of new, brand specific websites also continued and are expected to be completed by the end of 2021. These websites were conceived as a way to enhance the consumer's buying experience, similar to what was already accomplished with the French platform, *DeLonghi Coffee Lounge*.

The spread of the pandemic amplified the role of social media, uncovering the potential for different aspects of daily life, from the ability to connect people, to providing assistance with purchases or sales support. The Group picked-up on this trend and created a dedicated team, while also investing in specific projects.

Firstly, in order to strengthen its presence and make it more effective, taking into account the Group's objectives, a global partnership agreement was signed with *Facebook*.
De' Longhi also launched a new *Linkedin* page in order to share corporate content, as well as highlight and share news relating to the single brands, providing a unique image consistent with the characteristics of each country.

Significant investments were made in the development of corporate communication and included projects like the launch, at the end of February, of the new website www.delonghigroup.com which aims to convey the values shared by the Group.

Human resources

Here follows a detail of the average workforce in 2020:

	2020	2019
Blue collars	5,746	5,081
White collars	2,753	2,855
Managers	279	255
Total	**8,778**	**8,191**

The Group had an average of 8,778 employees in 2020, an increase of 587 employees compared to 2019. The change is attributable mainly to the acquisition of the new production facility in Romania which at year-end had more than 560 employees.

The health crisis was also a critical factor for human resources which determined the course of 2020.
In the face of the emergency begun in January in China that spread, subsequently, worldwide, the Group defined and implemented, in all its offices, an important series of actions which aimed to ensure maximum security and the safety of its employees, while, at the same time, guaranteeing business continuity.
All the preventive measures called for in the health protocols were implemented immediately including, for example, the mandatory use of masks and hand sanitizer, temperature readings of employees and visitors using termoscanners, social distancing of personnel during work hours, lunch and breaks, sanitization of company premises and the drastic reduction of domestic and international business travel.
Remote working was used when possible, but utilization varied over the months, reaching 100% during the lockdowns imposed by the authorities of the different Countries in which the Group operates.

With regard to production, the plants underwent a profound reorganization with changes in workhours and implementation of the actions needed to ensure social distancing and the safety of employees. In Italy, as a result of agreements with labor unions (RSU and OO.SS.LL.) it was possible to have production personnel work in double shifts which ensured that no more than 50% of the labor force would be present at one time.
With the help of qualified doctors, procedures for the management of positive cases within the company's facilities were defined with a contact tracing system aimed at reducing or eliminating the possibility of internal outbreaks. At the Treviso headquarters and the plant in Romania, the Group also equipped itself with the tools needed to complete rapid antigen testing in order to accelerate contact tracing of employees who tested positive.

In addition to the emergency measures, in 2020 the Group also worked on important projects relating, specifically, to the professional development of employees and talent acquisition.

When looking at the training activities already planned before the health crisis, in a context that suddenly changed, priority was given to the initiatives viewed as the most significant given the circumstances and that could be offered online.
The global development project *WEMAKE* was offered online beginning in September 2020 in all countries. The project leveraged on the potential and interactive tools that technology provides in order to make the sessions engaging and interactive with a view to supporting the Group's managers in light of new business challenges.
With regard to the talent acquisition initiatives, in 2020 the Group worked on the development of an Employer Branding strategy and the definition of a structured approach to the world of universities.

Report on corporate governance and ownership structure

De' Longhi S.p.A.'s Report on Corporate Governance and Ownership Structure drawn up in accordance with art.123 - *bis* of Legislative Decree n. 58/98 ("TUF") can be found in a report not included in the Report on Operations, published at the same time as the latter and available on the company's website www.delonghigroup.com (section *Home > Governance > Corporate bodies > Shareholders' Meeting 2021*).

Pursuant to art.16, par.4 of the Market Regulations please note that De' Longhi S.p.A. is not subject to the direction and control of the parent company De Longhi Industrial S.A., or of any other party, pursuant to and in accordance with articles 2497 et seq of the Italian Civil Code, insofar as (i) the Group's business, strategic and financial plans, as well as the budget, are approved independently by De' Longhi S.p.A.'s Board of Directors; (ii) the financial and funding policies are defined by De' Longhi S.p.A.; (iii) De' Longhi S.p.A. conducts its relationships with clients and suppliers in full autonomy; and (iv) in accordance with the principles of the Corporate Governance Code, important strategic, economic, equity and financial transactions are examined by the board and approved exclusively by the Board of Directors.

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

Introduction

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

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

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

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

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

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

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

Description of main characteristics

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

With regard to compliance with Consob Regulation 20249 of 28 December 2017 relating to market regulations ("Regolamento Mercati"), De' Longhi S.p.A. controls, directly or indirectly, seven companies formed and regulated by the law of countries that are not part of the European Union considered relevant pursuant to art. 151 of the issuer regulations ("Regolamento Emittenti").

With reference to the requirements of art. 15 of the Market Regulations, it is reported as follows:
- in the issuer's opinion, these companies have suitable accounting and reporting systems for regularly providing management and the auditors of De’ Longhi S.p.A. with all the financial information needed to prepare the consolidated financial statements and perform the audit of the accounts;
- these companies provide the auditors of De’ Longhi S.p.A. with the information needed to audit the parent company's interim and annual financial statements;
- the issuer keeps the articles of association of the aforementioned companies and details of their company officers and related powers, which are constantly updated for any changes in the same;
- the financial statements of such companies, prepared for the purposes of the De’ Longhi Group's consolidated financial statements, have been made available in the manner and terms established by existing law, Please note that the identification and analysis of the risk factors contained in this report were carried out including in light of the change in strategic companies as resolved by the Board of Directors.

In order to identify and manage the Company’s main risks, with regard particularly to corporate governance and compliance with the law and regulatory standards (including the Corporate Governance Code for Listed Companies), the Issuer undertook a project for the development and monitoring of a structured ERM model.
During 2020, activities for implementing this Enterprise Risk Management (ERM) project continued, ERM is aimed at streghtening the risk control and management system by mapping the main risks to which the Company is exposed on the basis of the Group value chain, identifying the inherent and of the related residual risk and assessing and implementing action plans for their elimination/mitigation. Furthermore, the Internal Audit Director and the Officer Responsible for Preparing the Company’s Financial Reportes continued the work for specifically and analytically governing the ERM risk management system, through some additional activities.
In 2020 this activity continued by updating existing risks, the main strategic risks identified by the Chief Executive Officer, the analysis of the perimeter of the Group’s strategically important foreign branches, as well as mapping the risks perceived by the Managers of audited branches.
Preparation for the roll out of the new ERM platform also continued. This platform will provide more structured and efficient ERM management in the coming years.

Risk factors for the De’ Longhi Group

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

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

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

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

The main factors refers to:
- trends in consumption;
- cost of raw materials;
- interest and exchange rates;
- any changes in policies introduced in some important markets (see recent and potential regulatory changes in the United States as regards trade, economic, environmental and tax agreements and the so-called "Brexit" in Great Britain);
- any disorder, tumult and strikes or any other kind of demonstration (see what happened in Hong Kong during 2019/2020);
- any outbreak and/or serious health issues (see the current situation with reference to the Coronavirus crisis).

The global health crisis, the global market conditions and difficulties in anticipating economic cycles, energy prices (oil, above all), the prices of raw materials (steel, plastics and copper), the ongoing political crises and conflicts (particularly in the Middle East), the political and economic changes in the United States and Great Britain (Brexit), along with other factors referred to in this section, could have a significant impact on the Group’s results and financial position.
De’ Longhi periodically monitors aforesaid economic trends in order to be able to implement any necessary and timely strategic actions.
The Group is also subject to the risks connected to the spread of epidemics or serious health issues in the main reference markets which could interrupt or limit activities in these markets (with reference to operations, production, the supply chain and/or product sales and all the back office activities).
The Group cannot predict these phenomena but, leveraging on past experience, it is able to react and implement all the measures needed to limit the consequences (as was the case in 2020 when, because of the global health crisis, the Group had to face an unprecedented level of market uncertainty).
The persistence of these situations, however, could interrupt and/or limit the Group’s activities which would have an impact on economic and financial results.

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

The Group has therefore long had the characteristics typical of a multinational company and this inevitably exposes it to a number of risks relating to economic conditions and policies of the individual countries in which it operates.
These risks not only affect consumption trends in the various markets concerned, but may also be relevant in terms of concentration of the Group's production sites in foreign markets if polices were introduced that limit or restrict foreign investment, imports and exports or capital repatriation.
These are systemic risks, common to all businesses, for whom the ability to generate value depends first on the dynamics and size of the market and only second, on their ability to compete and consolidate/acquire the largest possible market share.
The Group, in the persons of the Chief Executive Officer, and the division and market managers, constantly monitors market trends in order to promptly seize opportunities to increase business and to assess the likelihood of any risks (and their potential effects on the Group's results).
The occurrence of adverse political and economic events in the markets in which the De' Longhi Group operates (and particularly in emerging markets), could have adverse economic and financial consequences for it.

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

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

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

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

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

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

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

The Group's legal offices are responsible for the legal protection of industrial property rights (patents for inventions, utility models, designs and models as well as trademarks) and constantly monitor and control the situation around the world, using the services of specialist consultants in the various countries concerned.
Such actions cannot absolutely guarantee that the Group's products will not be imitated and furthermore, certain jurisdictions (such as China and the United Arab Emirates) do not protect property rights to the same extent as European law.
The Group's policy is nonetheless based on incurring the necessary costs to ensure that its property rights have the greatest possible global protection in the various markets where it operates.
Moreover, there is no guarantee that protection of the industrial property rights still in the registration process (and, in particular, patents for inventions and utility models) will be actually granted as filed, since the extent of protection may be reduced - even significantly – not only as a result of technical examination by the competent office but also as a result of opposition to the registration and licensing of the rights that might be presented by third parties.
Lastly, although the Group does not believe that its products infringe third-party property rights, it is not possible to exclude that third parties might successfully claim that such infringements exist, including through legal proceedings.

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

The unfavourable trend as well as the aforementioned exposure to the currency risk, might lead to unexpected loss in margins, especially in some specific markets where the subsidiaries of the Group operate.
For the purposes of protecting its income statement and statement of financial position from such fluctuations, the Group adopts a suitable hedging policy and tools, free from speculative connotations. Hedging is carried out centrally by a special team on the basis of information obtained from a detailed reporting system, using instruments and policies that comply with international accounting standards, Hedging activities are defined when the yearly budget is approved (or when the three-year plan is approved). The purpose of hedging is to protect - at individual company level - the future revenues/costs contained in budgets and/or long-term plans; furthermore also trade and financial receivables/payables are protected.
The level of coverage relative to revenues and costs is determined including based on market trends and cost/benefit analyses.
The principal currencies to which the Group is exposed are the US dollar (in which a part of the costs relative to raw materials, parts and finished products are denominated) the chinese renminbi and the currencies of the main export markets (the British pound, the US dollar, the Japanese yen, the Australian dollar, the Ruble, etc.).
Significant fluctuations of the main currencies might represent a risk of higher costs due to the Group foreign companies financial statements consolidation (so-called consolidation risk).
Despite the Company's effort to minimize the abovementioned risk, sudden currency fluctuations could have an adverse impact on the Company's results and business prospects.

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

Production is carried out at facilities in Italy, Romania and China and, therefore, balanced across three different geographic regions which reduces the risk that operations will be interrupted.
The Group's production costs are influenced by the prices and by the availability of the most important raw materials like steel, plastic and copper.
A significant portion of the purchases are made in China; the related risks are associated with production by Chinese subsidiaries that serve as suppliers to the Group, by the network of key third-party suppliers and by suppliers of parts to the Group's manufacturing subsidiaries (see point 2 for the strategic risks of manufacturing in China).
The Group manages these risks through:

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

Lastly, the Group defends its reputation with suppliers in their dealings with employees. Such caution is duly reflected in contractual dealings and furthermore, every supplier is given a copy of the De' Longhi Ethical Code governing all its activities.
Nevertheless, it is conceivable that a breach of contract by one or more suppliers to Group companies could have adverse effects on the Group's operations, economic performance, assets and liabilities and financial position.
The price of these raw materials and parts can fluctuate significantly, depending on several factors, including the cyclical nature of the markets concerned, supply conditions and other factors beyond the Group's control and difficult to predict. The trend in the price of these raw materials and parts is constantly monitored in order to take necessary action to keep the Group competitive.
At the date of the present report, the Group does not have any contracts to hedge the risk of fluctuations in commodity prices. There is also a possible risk linked to the dependence on one supplier for a few types of components of strategic production; in order to address this risk the Group has begun searching for secondary suppliers and to define an alternative strategy for purchasing/production.
Finally, there is a risk deriving from market situations characterized by anomalous trends in the supply of raw materials and components, against which the Group takes timely corrective actions in order to guarantee the supply chain and protect margins.

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

The principal risks relating to human resources are linked to the Group's ability to attract, develop, motivate, retain and empower staff who have the necessary talent, values, and specialist and/or managerial skills to satisfy the Group's changing needs.
The loss of such individuals or other key employees without adequate replacement, or the failure to attract and retain new qualified resources could therefore adversely affect the Group's business prospects, as well as its economic performance and/or financial position.
In terms of being able to attract quality resources, the Group's principal companies not only have specialist qualified professional human resources teams, but they also plan actions to improve the quality of working environment for its employees and staff as well as the Group's external image (communication, contact with schools and universities, testimonials, internships, etc.), in some cases using the services of specialist professional firms with a proven track record.
In terms of motivating and developing personnel, actions taken include the strengthening of managerial, specialist, business and regulative competencies, with initiatives that involve managers and staff from different areas of the business.
The salary review process also includes reward systems for employees at various levels in the organization - from the plant worker through to top management and key people - which are linked to the achievement of short-term and/or medium/long term targets.
As far as plant personnel is concerned, the Group operates in China and Italy and in Romania. Having a production facility in Eastern Europe has made it possible to diversify the Group's industrial platform, so as to partly restore the balance in production between the previously dominant China and Europe. With regards to the Chinese platform, certain risks exist associated with the high turnover of the Chinese manufacturing workforce, the difficulty in finding Chinese production personnel combined with higher payroll costs following the Chinese government's decision to raise the minimum wage significantly. These risks are managed through the development of incentive systems to foster staff retention (production bonuses and retention bonuses spread over time for workers, wage increases linked to length of service, and incentive schemes for management), policies for recruiting and managing production staff, investment in training and developing more qualified internal resources, improvements in living and working conditions within the various factories (canteens, recreational and leisure activities, internet access).
About Romanian facility, where the production has significantly increased during last years (currently there are two production plants operating in two distinct areas also to maximize the availability of personnel), we can see a sharp rise in the workforce demand and consequently in the labor costs; in view of such complexity, the De' Longhi Group has started to find and maintain work resources, in collaboration with external firms too.
Nevertheless, any problem in finding the necessary workforce might lead to a slowdown in production and have an adverse impact on the Group's business, economic performance, assets and liabilities and financial position. The health crisis was also a critical factor for human resources which determined the course of 2020.
In the face of a health crisis (similar to what happened with the current crisis, which started in January in China and then spread to the rest of the world), the Group defines and implements an important series of actions aimed at ensuring the maximum security and safety of its employees, while, at the same time, guaranteeing business continuity.

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

The main risk is that products do not meet the quality standards required by the different regulations in such jurisdictions. This could justify the return of such products, with increased costs of production and an impact on the Group's image that could harm its reputation.
The activities of the De’ Longhi Group involve it assuming typical producer liability for damage caused by defective products: part of its sales take place in jurisdictions (like the USA) where the rules governing liability for damage caused by products to people or things are particularly strict.
The Group therefore applies strict standards of control to its products: it has a protocol for managing quality risk that involves a series of activities and procedures in defence of product quality; there is also a special team that controls quality directly in manufacturing units and at supplier locations.
In addition, the Group has product liability insurance that is deemed adequate to cover these risks.
Nonetheless, it is conceivable that such insurance coverage could be inadequate for manufacturing defects in some of the Group's products or in other circumstances. The initiation of significant product liability claims, or the identification of defects in the Group's products, could harm the Group, with adverse consequences for the management and development of its business.

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

In particular, if the Group did not have an adequate quantity of products it could run the risk of failing to adequately and promptly meet customer demand; if, however, the quantity of such products exceeded orders, the Group might face the risk of unsold stock or higher stock than expected with subsequent related charges.
Another risk is the efficient management of the supply chain that could affect the adequacy of customer service.
The Group currently has a logistics centre that ensures careful and timely planning and management of every stage of the supply chain and implemented a program aimed to the improvement to the supply chain procedures.
As for the standard of customer service, the Group's procedures require that each customer's individual needs are taken into account.
If the Group is unable to predict and/or respond to issues that could give rise to these risks, there could be adverse consequences for the Group's business, economic performance, assets and liabilities and financial position.

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

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

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

The socio-political (or country) risks discussed earlier (see point 2) could also have an impact on credit risk; the same applies to the market risks in relation to the ongoing concentration in the retail business and to the strengthening of the e-commerce channel that may cause the crises of some retailers (see point 3).
Trade credit risk is monitored using formal procedures for selecting and assessing customers, for defining credit limits, for monitoring expected receipts and for their recovery, and involves taking out insurance policies with major insurers, and in some cases requesting additional guarantees from customers, principally in the form of sureties.
However, these procedures might not be sufficient to prevent losses related to the credit risk, that could affect the Group's result.

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

These products, which represent approximately 11% of the total revenues, are typically seasonal with their sales concentrated in a limited period of the year.
Seasonality of sales could adversely affect the Group's business prospects, as well as its economic performance and/or financial position.

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

Particularly important are safety and energy consumption standards for domestic electrical appliances and regulations on consumer contracts, defective products, minimum warranty periods, recyclability and environmental compatibility.
Although De' Longhi S.p.A. considers that the Group's organization and production comply with current regulations and that the Group has demonstrated over time its ability to anticipate regulatory changes when designing new products, the enactment of additional regulatory requirements applicable to the Group or its products or changes to the legislation currently in force in the sectors in which the Group operates, including at an international level, could require it to adopt stricter standards or affect its freedom of action or strategic decisions in various areas of business.
This could result in compliance costs for its production facilities or products or even limit the Group's operations, with a consequently adverse effect on its business, economic performance, assets and liabilities and financial position.
In particular, any changes in environmental regulatory standards or requirements currently in force and the occurrence of unforeseen or exceptional circumstances, could require the Group to incur unanticipated costs. Such costs could therefore have an adverse impact on the Group's business, economic performance, assets and liabilities and financial position.

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

Such accidents and damage could also occur in view of the structural characteristics of certain production facilities for which assessments and work are in progress to make them comply with current laws and regulations.
Although the Group has taken the necessary safety precautions and complies with the applicable regulations for preventing these types of risks, if there was an accident or damage to the environment, the Group could be held liable, including criminally, by the people harmed and by the competent authorities, and its production activity could be disrupted, with consequent adverse effects on the company's and/or Group's economic performance, assets and liabilities and financial position.
Although Group companies have taken out insurance policies against environmental damage, with the related coverage considered reasonable in relation to the estimated risk in question, it is nonetheless not possible to exclude the occurrence of damage, in which the compensation payable exceeds the maximum coverage provided by such policies.

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

It is the Group's policy to maintain a sufficiently large portfolio of counterparties of international repute for the purposes of satisfying its financing and hedging needs.
The Group uses specific policies and procedures for the purposes of monitoring and managing this risk, including the centralized cash management (financial debt and cash management, the raising of medium and long-term finance on capital markets and the obtaining of short-term credit lines that allow wide room for manoeuvre when managing working capital and cash flows).
Anyway, to this day, the Group has a widely positive net financial position and medium-term bank credit lines and short-term credit lines (typically renewed on an annual basis), which are optionally used to finance working capital and other operating needs.
The Group has also entered a revolving agreement for the factoring of trade receivables without recourse, thus granting an optimization of receipt cash flows.
About the interest rate risk, at 31 December 2020 the Group's net financial position is positive and financial debt is mainly medium-long term, in order to take advantage of the favourable market conditions characterized by very low interest rates. This risk is managed centrally by the same team that manages currency risks. Nevertheless, sudden fluctuations in interest rates could have an adverse impact on the Group's business prospects, as well as on its economic performance and/or financial position.
At the date of this report, the Group has five hedging contracts to protect five medium/long term loans from the interest rates fluctuation risk.

18 - Compliance and corporate reporting risks:

A. Financial reporting: Risks associated with the reliability of financial reporting, particularly that the information contained in the annual and interim financial reports might not be correct, warrant particular attention, especially for a listed company.
In 2020, effective implementation of the system of managing financial reporting risks was monitored on a continuous basis and periodically evaluated under the guidance of the functions in charge.
For the purposes of ensuring reliable internal controls over its financial reporting, the Group has implemented a system of administrative and accounting procedures and operations that include:
- an accounting policies manual;
- accounting policy instructions and updates;
- other procedures for preparing the consolidated financial statements and periodic financial reports.

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

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

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

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

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

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

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

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

Annual remuneration report

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

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

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

Figures in thousands of Euro	Net equity 31.12.2020	Profit for 2020	Net equity 31.12.2019	Profit for 2019
De' Longhi S.p.A. financial statements	**567,417**	**88,710**	**551,146**	**119,094**
Share of subsidiaries' equity and results for period attributable to the Group, after deducting carrying value of the investments	465,275	121,064	655,966	32,776
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	274,522	(1,948)	15,765	(1,875)
Elimination of intercompany profits	(40,128)	(8,227)	(32,180)	10,364
Other adjustments	268	534	(243)	646
Consolidated financial statements-Group portion	**1,267,354**	**200,133**	**1,190,454**	**161,005**

Treasury shares

On 13 March 2020 the Group announced the launch of a buyback program as per the terms and conditions authorized during the Annual General Meeting held on 30 April 2019 which provides for the buyback of up to a maximum of 3,000,000 shares in the period 16 March 2020 through 16 December 2020.
In the period 16 March – 16 December 2020 the Group purchased a total of 895,350 treasury shares through an authorized intermediary.
During the Annual General Meeting held on 22 April 2020 shareholders also resolved to renew – after revoking the approval granted by shareholders on 30 April 2019, for the unexecuted part – the authorization to buy and sell treasury shares for up to a maximum of 14.5 million ordinary shares and, at any rate, up to an amount which does not exceed 1/5 of the share capital, also taking into account any shares held by the parent company De' Longhi S.p.A. and its subsidiaries. The authorization was approved for a period of up to a maximum of 18 months (therefore, through 22 October 2021) in accordance with the law.

Tax consolidation

The Parent Company De' Longhi S.p.A. and a few of the Italian subsidiaries exercised, jointly with the consolidator De Longhi Industrial S.A., the option to adhere to group taxation, referred to as "Domestic Tax Consolidation", as permitted under articles 117 - 129 of the Consolidated Income Tax Act (TUIR) as per Presidential Decree n. 917 of 22 December 1986, and the Decree of the Ministry of Economy and Finance of 9 June 2004, for the three-year period 2019-2021.

Related party transactions

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

Alternative performance indicators

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

More in detail, the non-GAAP measures used include:
- Net industrial margin and EBITDA: the Group uses these measures as financial targets in internal presentations (business plans) and in external presentations (to analysts and investors), since they are a useful way of measuring operating performance by the Group and its individual divisions besides EBIT. Net industrial margin is calculated as total revenues minus the cost of materials consumed and of production-related services and payroll.
  EBITDA is an intermediate measure that derives from EBIT after adding back depreciation, amortization and impairment of property, plant and equipment and intangible assets, EBITDA is also presented net of non-recurring items, which are reported separately on the face of the income statement.
- Net working capital: this measure is the sum of inventories, trade receivables, current tax assets and other receivables, minus trade payables, tax liabilities and other payables.
- Net operating working capital: this measure is the sum of inventories and trade receivables, minus trade payables.
- Net capital employed: this measure is the sum of net working capital, intangible assets, property, plant and equipment, equity investments, other non-current receivables, and deferred tax assets, minus deferred tax liabilities, employee severance indemnity and provisions for contingencies and other charges.
- Net financial position: this measure represents financial liabilities less cash and cash equivalents and other financial receivables; the position with banks, net of non-banking items, is also reported. The individual line items in the statement of financial position used to determine this measure are analysed in the Explanatory Notes.

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

Consolidated Non-Financial Statement 2020

Introduction

Based on Legislative Decree n.254/2016, as amended, in implementation of the Directive 95/2014 or "Barnier Directive", large public interest undertakings are required to publish a Non-Financial Statement (NFS) as of FY 2017. This statement must provide information about a series of topics which help to understand the company's activities, performance, results and impact. More in detail, Legislative Decree 254 calls for non-financial reporting on topics relating to five areas: environmental protection, social responsibility, human resources, protection of human rights, as well as anti-corruption and fraud issues. A description of the main risks, generated and/or undertaken, the entity's policies, the relative performance indicators, as well as the business and organizational models used must be provided for each of these areas.
Paragraph 1073 of the Budget Law n.145/2018, which took effect as of 30 December 2018, also amended Legislative Decree 254 and in addition to disclosing the main risks, entities are also required to describing how the risks are managed.
In accordance with Decree 254, the Consolidated Non-Financial Statement 2020 provides a description of the non-financial qualitative/quantitative performances of the De' Longhi Group relative to a group of topics deemed material for the Group and its stakeholders.
Information on the material topics is included in this report: scenario and risks, policies and objectives, organizational and business models, performace indicators (for more information on the material topics and how they are defined please refer to the Note on Methodology).

Description of the business model

A brief description of the De' Longhi Group's business model is provided below with a view to a better understanding of the information provided on the material topics identified for each of the five areas included in the Decree.
De' Longhi S.p.A. (hereinafter also referred to as the "Company" or "Group"), listed on the screen based exchange (Mercato Telematico Azionario or MTA) managed by Borsa Italiana, is the holding company of a group of companies active in the manufacture and distribution of coffee making products, food preparation and cooking machines, air conditioners and heaters, as well as home care products.
More in detail, the Group operates in international markets through 4 main brands (De'Longhi, Kenwood, Braun and Ariete) and regional commercial structures.
At the end of December 2020, the product range was increased thanks to the acquisition of Capital Brands Holding Inc., an american company active in the personal blenders segment with the Nutribullet and Magic Bullet brands.

The impact of Covid-19 and management by the Group

2020 was undoubtedly characterized by the very unstable global market conditions caused by the economic and health crisis (still underway at the beginning of 2021), which influenced the way the Group's activities were managed.

In this uncertain environment, the De' Longhi Group always had two priorities; on the one hand, maximum protection of its people and, on the other, business continuity. With regard to the former, the experience acquired at the beginning of 2020 managing the pandemic at the Chinese plants, the first ones forced to face and implement preventive measures, as well as manage Covid-19, proved very useful; these measures, applied subsequently in the Group's other branches, allowed De'Longhi to react quickly to an unprecedented global scenario. The mandatory use of PPE, temperature readings, the installation of hand sanitizer dispensers and the sanitization of the workplace, social distancing, a continuous communication and surveillance, restrictions on travels and on access to the Group sites by external personnel, were a few of the measures introduced in both the offices and the production facilities. With regard to the latter, other steps were taken which will be described in other sections of this Report. When possible, work was done remotely.

All of these measures aimed at guaranteeing the safety and health of the employees created the foundation needed to guarantee the continuity of the Group's operations which, overall, did not experience significant shutdowns. The brief national lockdowns in a few European countries (including Italy) were offset by the lack of shutdowns in other parts of the world. The ability to react quickly to the difficulties allowed the Group to respond to the growing market demand, resulting in double-digit growth in revenues and confirming the Group's leadership in the core markets and product segments. In light of the results, at the end of the year the Group's people were awarded a special bonus in recognition of their commitment and dedication.

The Group also supported the community and donated €3.1 million to the anti-Covid 19 measures. Approximately €2 million of this amount was given to the Veneto Region in order to support its efforts, as well as the front-line structures dedicated to battling the coronavirus, and around €1 million went to the Ca' Foncello Hospital in Treviso.

The Group succeeded in reacting to this unprecedented year with agility, demonstrating that it has a resilient business model, capable of protecting the health and safety of its people, as well as guaranteeing business continuity: testimony to all of this is the limited number of cases recorded by the Group's personnel during the year, as well as the manufacturing and sales results achieved worldwide.

De' Longhi's sustainability path

The De' Longhi Group embarked on a path which, beginning with the first Consolidated Non-Financial Statement published in 2017, resulted in greater awareness as to its non-financial impact and the desire to define sustainability goals for the future.
Toward this end, the Group sought to determine concrete steps, consistent with the business strategy, to lessen and improve its impact and generate long-term value for the company and its stakeholders.
Beginning in 2019 the Control, Risk and Corporate Governance Committee added sustainability to its area of responsibility and changed the name to the **Control, Risk, Corporate Governance and Sustainability Committee**, the **Sustainability Steering Committee**, a corporate governance body comprised of top management, reports to this Committee. The Steering Committee is responsible for defining the Group's strategy for sustainability and provides guidance in this regard.
In 2019 "**Sustainability Ambassadors**", charged with the task of implementing the strategy and following the guidelines, were selected. They report directly to the members of the Sustainability Steering Committee. The result of this activity and the point of departure for future steps was the definition of three "pillars" of sustainability, based on which the sustainability strategy is defined. The three pillars are: "Valuing our people, the everyday makers", "Integrating sustainability in product design and innovation" and "Running sustainable supply chain and operations". For more information, please refer to the sustainability section found on De' Longhi's corporate website.

The value chain

The De'Longhi Group's work begins with research, development and product 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, R&D works transversely (namely by product line) and not only 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. In 2020 the Group acquired a fifth production facility in Salonta, Romania. The Group also counts on qualified partners, selected based on their quality, namely the "Original Equipment Manufacturers" (hereinafter also referred to as "OEM").

Based on the Group's local for global approach, manufacture of products is plant specific.

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 that the highest standards for product safety have been applied by the Group. The quality controls are done based on specific audits which also include a specific process for verifying the quality of the OEM products.
Once the quality control check has been passed, the new products are delivered and stored at the Group's logistics hubs, strategically located worldwide. The finished products are, then, distributed through the Group's commercial network by providers of logistics services.
Customer Care provides information and technical assistance to all end consumers during both the purchase and after sale phases.

The Group's stakeholders

Through the direct involvement of company management, the De' Longhi Group created a map of its stakeholders based on an analysis of the company structure, the value chain, businesses and those activities not strictly related to the latter, but which are an integral part of the Group's reality.
This mapping made it possible to identify 40 or so main stakeholders which were then grouped together based on the type of interests, needs and relationship with the Group.
The Group interfaces with each group of stakeholders using different methods of engagement and listening based on principles of transparency and fairness, as well as clear and complete information, shaped by the Group's Code of Ethics, in order to foster the ability to make informed decisions. The main topics related to business activities that emerged through the listening and communication channels used are reported below:

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

Ethics and compliance

Scenario and risks

For information on the ethics and compliance risks, as well as the relative risk management, please refer to the section “Risk factors for the De’ Longhi Group”, specifically paragraphs 18 (Compliance and corporate reporting risks) and 19 (Related parties).
For information on the management of the risks connected to ethics and compliance, please also refer to the table “The main risks associated with non-financial issues and management methods” in the Note on Methodology.

Business and organizational model

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

More in detail, every year Internal Audit and the Financial Reporting Officer check and assess the control system, and **audit the accounting processes and procedures**, as well as compliance with Law 262 relating to financial reporting processes with a view to ensuring reliable, complete, accurate and timely Group accounting and administrative procedures consistent with Group administrative and accounting policies. The audits are carried out with a view to gradually covering all the companies and, at the same time, focusing on the most relevant ones based on an audit plan coordinated with the Group’s Financial Reporting Officer and the Control, Risk, Corporate Governance and Sustainability Committee.

The Group, as in the past, continues to address risk assessment and management through the implementation of Enterprise Risk Management (ERM) under the supervision of Internal Audit and the Group’s Financial Reporting Officer. As part of this project, in 2020 a number of activities were carried out in order to integrate the ERM matrix with the risks perceived in each area by local and international management, and, more generally, the country of operation. In 2020 work also continued on the creation of a dynamic Risk Management platform which will be used by the Group’s legal entities. A roll-out plan has been finalized and approved for the platform which is scheduled to begin early 2021. This platform will allow the personnel involved to identify the risks in a timely and independent manner, under the strict supervision of Internal Audit and the Group's Officer Responsible for preparing the Company's Financial Report, as well as make changes to the risk map based on the user profile in order to guarantee the utmost control and separation of roles. The new risk platform was also integrated directly with SAP Success Factor for organizational purposes. A specific e-learning module was also created so that all individuals subject to assessments receive adequate training in advance.

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

The Group also ensures that, in addition to total transparency and compliance, **models of conduct** have been defined and implemented with a view to minimizing the risk of acts which are subject to sanctions under the law, In order to standardize the Governance policies across all the Group companies, in 2018 De' Longhi also adopted the "**Corporate Governance Guidelines**" which call for adhesion to the Group's Code of Ethics and define a system for the delegation of spending authority. 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.
Lastly, 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 which was last updated and revised in 2018. In 2019, the Group adopted an internal management system which automatically monitors the flow of information and the processes controlled by the system used to prevent the crimes indicated in Legislative Decree 231.
In order to monitor Group transactions with related parties and the relative risk, in accordance with CONSOB Regulation n. 17221 of 12 March 2010, the Parent Company has also defined a procedure for the related party transactions subject to specific rules and approval based on the degree of materiality.

Policies and objectives

The De' Longhi Group's **Code of Ethics**, updated on 31 July 2018, defines the ethical standards that must be adhered to by employees and in the course of all the relationships between the company and third parties, which aspire to legality, transparency, fairness, integrity and professionalism, as well as protection of privacy. In 2020 the training relating to the Code of Ethics and 231 Model slowed due to the spread of the pandemic, but during the year short induction sessions were held with new hires who received these documents. Currently, a project which would call for all Group employees to provide signed confirmation of having received and read the Code of Ethics is being considered.
As part of the **Anti-Fraud Program** defined based on the guidelines of the Association of Certified Fraud Examiners (ACFE), in 2019 the Group was already focusing on the areas in need of improvement that emerged in past years, with regard particularly to Group merchandising promotors through a survey of cross-company purchasing practices.
In 2020 the most important news in this regard is the adoption of an external platform dedicated to whistleblowing which was first tested in 2019. This platform was finalized and is officially operative. Each employee, supplier and customer may use it to send a report. In order to protect the identity of the whistleblower, the source of all the information provided remains anonymous; in order to do this, a dominion outside the company systems was created which sends the encrypted information directly to the Whistleblowing Committee, a body comprising four Group members charged with analyzing and carrying out any further investigations of the reports received. When the Whistleblowing system was implemented and published on the Group's Corporate website[1], the CEO notified all the employees. No significant reports have been received to date.
The other activities carried out in 2020 include the work done by the Supervisory Board relating to the implementation of health checks and the definition of a master policy on data protection prepared by the Legal Division.

[1] Use the following link to view De' Longhi's Whistleblowing page on the website: https://www.delonghigroup.com/it/governance/whistleblowing

Key figures

No violations of the anti-corruption laws were recorded in the three-year reporting period (2018-20.)

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 2018-2020, is shown below.

Category	Europe*			APA[2]**			MEIA[3]			De' Longhi Group		
	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
Number of people with whom the company's anti-corruption procedure and policies were shared												
Managers	93	56	187	26	31	75	5	4	8	124	91	270
White collars	424	229	1,805	220	259	821	23	26	51	667	514	2,677
Blue collars	3	-	4,034	282	1,768	3,819	3	-	-	288	1,768	7,853
Total employees	**520**	**285**	**6,026**	**528**	**2,058**	**4,715**	**31**	**30**	**59**	**1,079**	**2,373**	**10,800**
Commercial partners	2	1	-	7	8	-	-	-	-	9	8	-
Employees who received anti-corruption training												
Managers	19	51	35	5	6	8	5	-	-	29	57	43
White collars	174	209	282	103	76	26	23	-	-	300	285	308
Blue collars	1	-	-	5,416	5,280	7,560	3	-	-	5,420	5,280	7,560
Total employees	**194**	**260**	**317**	**5,524**	**5,362**	**7,594**	**31**	**-**	**-**	**5,749**	**5,622**	**7,911**

*The figures for Italy are included in Europe.
** The hours of training for new hires, which addresses business ethics and anti-corruption, are taken into consideration for APA. The statistics for the two-year period 2018-2019 are not available for offices located in Canada.

[2] APA refers to the countries located in Asia, Pacific, Americas.
[3] MEIA refers to the countries located in Middle East, India, Africa.

In 2020 the Board of Directors did not receive any anti-corruption training or information about policies and procedures in this regard.

No legal complaints relating to anti-competitive, anti-trust and monopolistic practices were filed in the three-year period 2018-20.

As in the two-year period 2018-19, no complaints relating to discrimination were field in 2020.

In 2018 one instance of child labor, found during an audit conducted by a client, at the OnShiu plant in China. More in detail, the under-age son of employees had submitted falsified documents in order to be hired. After further investigation, the minor and his parents were suspended and additional steps were taken to make sure all plant employees were hired legitimately. In light of this incident, various initiatives and verifications were instituted relating to the hiring process, agreed upon with local authorities, in order to prevent this from happening again. The steps taken proved effective as no complaints about Human Rights violations within the Group were reported in 2019 or in 2020.

Lastly, consistent with full disclosure in tax matters, the Group operates in full transparency and in accordance with local and international tax laws.

Human resources management

Scenario and risks

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

The core values guiding the Group's people include ambition, courage, passion, expertise, heritage, teamwork and mutual respect: all of these cornerstones contribute daily to encouraging employees to be loyal, to act fairly, with mutual trust, leveraging on the importance of diversity, eliminating any form of discrimination. The promotion and professional growth of its people are also shaped by these values, as is the need for a safe, healthy workplace, which is key to retaining and attracting resources and talent, as well as business continuity. All of this was seen clearly during the exceptional year that just ended when the measures implemented to protect the health of workers in response to the spread of COVID contributed to ensuring the continuity of the Group's business and made it possible to avoid significant company shutdowns due to the spread of the pandemic.

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 organization and human resources management).
With regard to the measures used to prevent and manage human resource risks please also refer to the table "The main risks associated with non-financial issues and management methods" in the Note on Methodology.

Business and organizational model

The Group management of human resources and related activities is assigned to a corporate Human Resources Management and Organization Division, which is coordinated by the Chief Corporate Services Officer; local supervision is carried out by HR Managers in both the main geographical areas and the Group's more structured branches. They have many duties which include, mainly, all administrative aspects of employee relationships, the management and development of internal resources, talent acquisition development and retention. Local HR departments are also responsible for internal communications, labor union relations, development of important initiatives tied to both employee engagement and the organization of workplace safety.

The corporate HR structure was defined based on the organizational changes made by the Group in the last few years. It calls for the breakdown of human resources management based on three macro-clusters, focused on the supervision of functional areas, as well as specific expertise:

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

The Group Human Resources Management and Organization Division is responsible for the supervision of the remaining commercial units.

An important Talent Acquisition and Employer Branding initiative introduced in 2019 became fully operational in 2020 which allowed the Group to structure a more integrated recruiting process. A number of initiatives were developed in association with the employer branding strategy focused on increasing the recognition of the Group globally: these include updating the *People and Careers* section of the corporate website and the introduction of a new corporate, global Linkedin page which substituted the previous pages dedicated to single countries. Toward this end, projects were developed in partnership with Italy's best universities, like Milano's Politecnico and Bocconi University, designed to increase research and training, as well as attract the best talents.

In 2020 the results of the third engagement survey "**Your voice: to make a difference**" carried out in 2019 to gauge the Group's level of employee satisfaction and engagement were shared with all De' Longhi Group employees. Participation in the survey was high with about 91% of the white collars and 85% of the blue collars and the level of engagement was found to be slightly higher than in the prior edition. The key factors that showed the most growth included "Giving Something Back", "My Team" and "Wellbeing", fueled by a number of initiatives offered related to these fields.

In 2020 more work was done on the digitalization of HR processes which, already in 2019, had resulted in the implementation of a variable pay module within the SAP management system SuccessFactors. The PULSE platform, active since 2018, also allows Group employees to create personalized learning plans based on specific needs and access a catalogue of on-line courses available through e-learning: this mode of learning proved particularly vital during a year in which in-person training was largely interrupted.
A digital version of the program weMake, launched in 2019 which was supposed to be rolled out in 2020, was also designed in order to move forward despite the prolonged closure of office spaces. In the latter part of 2020, in person activities, focused specifically on topics related to workplace health and safety, gradually recovered in Italy.

The Human Resources Division also guides the **global performance appraisal process** used to promote personal and professional growth (up to the middle management level), through the use of a dedicated system aimed at facilitating an open and constructive dialogue between the supervisor and the subordinate. The results of the performance assessment make it possible to assign an average score for each key competency and define training priorities, which are then managed locally. In the second half of the 2020, this process was redesigned and will become operative in 2021 when it will be managed using the SuccessFactors system. Similar to 2019, in 2020 the MBO management system was also used in order to monitor the variable compensation of Group employees which is expected to be updated in 2021.
The unprecedented events in 2020 drove the Group to introduce important internal global communication initiatives aimed, specifically, at keeping people up-to-date on the status of the pandemic and the company's decisions which included the "*Stay Safe, Stay Active, Stay Together*" campaign and the activation of a psychological support desk made available to all employees (initially in Italy and then in the other branches worldwide).

With regard to overall improvement of work-life balance, as well as protection of worker safety and wellbeing, the Human Resources Division is assisted by people charged with monitoring compliance with health and safety regulations like, for example, the head and staff of the Prevention, Protection and Environment Department in Italy, China and Romania. These individuals are responsible for assessing risks related to the activities carried out by the Group employees and implementing any improvements needed including with a view to improving the ergonomics of the work stations in the plants and offices. The responsibilities and procedures relating to health and safety are defined based on an organizational model which is in line with the international OHSAS 18001 "Occupational Health and Safety Assessment Series" standards for the entire Group.

As in 2019 during the renovation of the headquarter in Treviso, initiatives relating to the comfort of the workstations, focused on ergonomics, continued with the introduction of a new adjustable desk concept. Investments in the automation of the production lines continued at the Mignagola plant, which reduce the employees' use of force.

The security system was also audited in December 2020. Any incidents are managed locally by human resources and the legal division which, in certain instances, will also involve the Supervisory Board.

Focus Covid-19: the measures taken to protect the Group's personnel

The protection of health and safety in the workplace was crucial in 2020, and was more complex given the need to also guarantee business continuity. The presence of plants and offices in China, where the pandemic spread before it did in the rest of the world, allowed the Group to implement and test protective measures that were adopted in the other Countries in which it operates, often before the local governments.
With regard to the white collar workers, the biggest challenge was the migration of almost all office functions to remote working which meant that laptops had to be found quickly in order to allow people to work from the safety of their own homes for the 100% of the working time during lockdown periods and partially during the rest of the year. At the same time, a policy for this type of work during the months of the health crisis was implemented; remote working was activated globally based on the type of job held and continued for several months; even now, in most of the Group's offices remote working is alternated with on-site working.
As for the production facilities, the Chinese, Italian and Romanian plants experienced a brief shutdown as a result of national lockdowns and local restrictions. All the plants underwent a profound reorganization, with the installation of plexiglass dividers to separate workstations, the mandatory use of PPE (masks and, where mandatory, gloves), the installation of hand sanitizer dispensers, the institution (in agreement with the labor unions) of double shifts which ensured a greater staggering of presences during the day and the reorganization of the cafeteria, all of which was coupled with the need to guarantee operational continuity. If during the initial phases of the emergency, temperatures were taken by Group staff members, in the second phase automatic termoscanners were installed at the Italian sites and tools for rapid 3rd generation COVID tests were acquired in order to test employees. The tests were carried out by specialized personnel targeting symptomatic cases and people in contact with individuals who had tested positive. This made it possible to drastically reduce the time needed to verify infection, limiting the risk of exposure inside the plants and the offices. In 2020 there were no outbreaks inside the plants or the offices, testimony to the fact that the measures implemented by the Group were effective. The only exceptions, with limited transmission, occurred in France and in Romania.

In light of the unprecedented year that just closed and the excellent results achieved, all the employees were awarded a special bonus, which amounted to €9.5 million, in recognition of how much the Group appreciated their work and professionalism during such a complicated period.

With regard, again, to the protection of health and safety, in 2020 further investments were made in improving the comfort and ergonomics of all the offices in Italy, China and Romania. The spread of the pandemic also resulted in increased cleaning and sanitization activities (including the installation of hydrogen peroxide nebulizers in the Italian facilities).

Policies and objectives

The Code of Ethics dedicates an entire section to the management of human resources which testifies to the increased focus on people, considered to be of primary importance to the Group's ability to achieve its objectives. Particular attention is paid to the recruitment of personnel which should be done with a view to equal opportunities for all through the professional and personal contribution of its people as part of a relationship based on integrity, fairness and mutual trust. The Code of Ethics also condemns undocumented working relationships, the use of child labor and any and all forms of forced labor and to take advantages of any workers need. The Group also prohibits any form of discrimination in dealings with its employees and partners, 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 relating to a safe and healthy workplace. A health and safety policy was formalized for the Mignagola plant in Treviso, Italy and in Cluj and Salonta, Romania after having adopted an operating system which complies with the international standard, OHSAS 18001.

With a view to integrated management for all the companies of topics relating to human resources like for example, the compensation of the Board of Directors and the Executives with Strategic Responsibilities, the Group defined a formalized policy.
Furthermore, consistent with the process of standardizing processes across the Group, in 2019 a new Group MBO policy was adopted, which aims to further consolidate Group identity through dedicated measures. This policy, as mentioned above, will be revised in 2021.

Lastly, a policy for remote working, which will govern how the work of white-collars is to be carried out post-Covid, is being drafted and should be finalized in 2021.

Key figures

The Group had 9,378 employees at 31 December 2020, an increase of 19% compared to the prior year. This change is explained by several factors, including the opening of the new plant in Salonta, Romania and the fact that recruiting resumed in the second half of the year. If you consider the average number of employees in 2020, the difference with respect to 2019 is less pronounced. Women represent 52% of the De'Longhi Group's workforce. 92% of the employees have permanent contracts, slightly lower than in the prior year (93%).

Employees, by type of contract	Italy			Europe			APA			MEIA			De' Longhi Group		
	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020	2018	2019	2020
Number of employees by contract type															
Permanent positions	1,551	1,577	1,651	3,270	3,084	4,284	2,712	2,551	2,621	62	61	51	7,595	7,273	8,607
women	602	611	646	1,860	1,765	2,617	1,270	1,209	1,250	23	25	22	3,755	3,612	4,535
men	949	966	1,005	1,410	1,319	1,667	1,442	1,342	1,371	39	36	29	3,840	3,661	4,072
Temporary positions	84	14	34	33	26	131	697	536	605	-	1	1	814	577	771
women	48	11	17	21	16	76	302	241	273	-	1	1	371	269	367
men	36	3	17	12	10	55	395	295	332	-	-	-	443	308	404
Total	**1,635**	**1,591**	**1,685**	**3,303**	**3,110**	**4,415**	**3,409**	**3,087**	**3,226**	**62**	**62**	**52**	**8,409**	**7,850**	**9,378**
Number of employees by contract type															
Full-time	1,519	1,472	1,567	3,220	3,028	4,302	3,397	3,074	3,214	62	61	51	8,198	7,635	9,134
women	537	506	549	1,811	1,715	2,601	1,562	1,438	1,512	23	25	22	3,933	3,686	4,684
men	982	966	1,018	1,409	1,313	1,701	1,835	1,636	1,702	39	36	29	4,265	3,949	4,450
Part-time	116	119	118	83	82	113	12	13	12	-	1	1	211	215	244
women	113	116	114	70	66	92	10	12	11	-	1	1	193	195	218
men	3	3	4	13	16	21	2	1	1	-	-	-	18	20	26
Total	**1,635**	**1,591**	**1,685**	**3,303**	**3,110**	**4,415**	**3,409**	**3,087**	**3,226**	**62**	**62**	**52**	**8,409**	**7,850**	**9,378**
Number of employees by gender															
Total women	**650**	**622**	**663**	**1,881**	**1,781**	**2,693**	**1,572**	**1,450**	**1,523**	**23**	**26**	**23**	**4,126**	**3,879**	**4,902**
Total men	**985**	**969**	**1,022**	**1,422**	**1,329**	**1,722**	**1,837**	**1,637**	**1,703**	**39**	**36**	**29**	**4,283**	**3,971**	**4,476**

During the year the Group availed itself of approximately 1,523 contract workers at the production plants.

Breakdown of the workforce		Unit of measure	De' Longhi Group 2018	De' Longhi Group 2019	De' Longhi Group 2020
Manager					
Men	< 30 years	%	-	-	-
	> 30 < 50 years	%	2.1%	1.7%	1.4%
	> 50 years	%	1.0%	1.3%	1.1%
Total men		**%**	**3.1%**	**3.0%**	**2.5%**
Women	< 30 years	%	-	0.1%	-
	> 30 < 50 years	%	0.8%	0.7%	0.5%
	> 50 years	%	0.1%	0.2%	0.1%
Total women		**%**	**0.9%**	**0.9%**	**0.7%**
TOTAL		**%**	**4.2%**	**3.9%**	**3.2%**
White collars					
Men	< 30 years	%	2.4%	2.1%	1.5%
	> 30 < 50 years	%	12.9%	13.3%	10.8%
	> 50 years	%	3.1%	3.8%	3.4%
Total men		**%**	**18.4%**	**19.2%**	**15.8%**
Women	< 30 years	%	2.9%	2.6%	2.1%
	> 30 < 50 years	%	10.0%	10.8%	9.1%
	> 50 years	%	1.6%	2.3%	2.1%
Total women		**%**	**14.5%**	**15.6%**	**13.2%**
TOTAL		**%**	**32.9%**	**34.9%**	**29.0%**
Blue collars					
Men	< 30 years	%	8.9%	6.4%	7.4%
	> 30 < 50 years	%	16.2%	15.8%	15.5%
	> 50 years	%	4.4%	6.0%	6.5%
Total men		**%**	**29.5%**	**28.3%**	**29.5%**
Women	< 30 years	%	7.3%	5.7%	7.3%
	> 30 < 50 years	%	22.7%	21.9%	23.7%
	> 50 years	%	3.6%	5.3%	7.4%
Total women		**%**	**33.6%**	**32.9%**	**38.4%**
TOTAL		**%**	**63.1%**	**61.2%**	**67.8%**

In 2020, the De'Longhi Group's BoD comprised 8 men and 4 women, of which around 83% over the age of 50.

Composition of the Parent Company's BoD		Unit of measure	Italy		
			2018	2019	2020
Men	< 30 years	n	-	-	-
	> 30 < 50 years	n	1	1	1
	> 50 years	n	7	5	7
Total men		**n**	**8**	**6**	**8**
Women	< 30 years	n	-	-	-
	> 30 < 50 years	n	2	1	1
	> 50 years	n	2	3	3
Total women		**n**	**4**	**4**	**4**
TOTAL		**n**	**12**	**10**	**12**

The success of the De'Longhi Group's products lies with its people. In order to foster their knowledge and expertise, as well as ensure adequate training in terms of health and safety, in 2020 the De'Longhi Group provided an average of 23.7 hours of training to each employee (+ 15% compared to 2019) for a total of approximately 221,847 hours, about 36% higher than in the prior year. This increase is explained by the fact that for a few weeks it wasn't possible to provide in-class training because of the pandemic, so all employees were offered training online through an e-learning platform.

Training	Unit of measure	De' Longhi Group		
		2018	2019	2020
Average hours per employee	h	18.2	20.6	23.7

Training	Unit of measure	De' Longhi Group		
		2018	2019	2020
Training by job level				
Average hours for managers	h	14.8	19.9	15.2
Average hours for blue collars	h	17.7	23.2	10.3
Average hours for white collars	h	18.6	19.2	29.8
Training by gender				
Average hours for women	h	13.3	18.1	25.9
Average hours for men	h	23.0	23.1	21.2

With regard to health and safety, the Group recorded a total of 50 injuries over a total of more than 20 million hours worked. These include, 4 injuries sustained in transit, using means organized by the company, and 16 while commuting using the employee's own means.
The Group's rate of injuries fell noticeably, coming in at 2.5 in 2020 versus 3.5 in 2019.

Injuries and rate of injury by geographic area		Italy 2018	Italy 2019	Italy 2020	Europe 2018	Europe 2019	Europe 2020	APA 2018	APA 2019	APA 2020	MEIA 2018	MEIA 2019	MEIA 2020
Total hours worked	h.000	2,702	2,657	2,527	5,457	5,218	6,256	11,006	10,255	11,125	51	116	109
Injuries	n.	20	12	10	19	28	6	40	23	34	1	-	-
In transit using means organized by the Group	n.	-	-	-	-	15	4	-	2	-	-	-	-
Serious injuries	n.	-	-	-	-	-	-	-	-	-	-	-	-
Fatal injuries	n.	-	-	-	-	-	-	-	-	-	-	-	-
Occupational disease	n.	2	2	4	1	1	-	-	-	-	-	-	-
Accident rate	-	**7.4**	**4.5**	**4.0**	**3.5**	**5.4**	**1.0**	**3.6**	**2.2**	**3.1**	**19.5**	-	-
Rate of serious accidents	-	-	-	-	-	-	-	-	-	-	-	-	-
Rate of mortality	-	-	-	-	-	-	-	-	-	-	-	-	-
Rate of occupational disease	-	**0.7**	**0.8**	**1.6**	**0.2**	**0.2**	-	-	-	-	-	-	-

Group injuries and accident rates		De' Longhi Group 2018	De' Longhi Group 2019	De' Longhi Group 2020
Total hours worked	h.000	19,216	18,246	20,017
Accidents	n.	80	63	50
In transit using means organized by the Group	n.	-	17	4
Serious accidents	n.	-	-	-
Fatal accidents	n.	-	-	-
Occupational disease	n.	3	3	4
Accident rate	-	**4.2**	**3.5**	**2.5**
Rate of serious accidents	-	-	-	-
Rate of mortality	-	-	-	-
Rate of occupational disease	-	**0.2**	**0.2**	**0.2**

Accidents and accident rates for contract workers at the production facilities		De' Longhi Group 2018	De' Longhi Group 2019	De' Longhi Group 2020
Total hours worked	h.000	2,234	1,377	2,644
Accidents	n.	4	2	4
In transit using means organized by the Group	n.	-	-	-
Serious accidents	n.	-	-	-
Fatal accidents	n.	-	-	-
Accident rate	-	**1.8**	**1.5**	**1.5**
Rate of serious accidents	-	-	-	-
Rate of mortality	-	-	-	-

Product quality and innovation

Scenario and risks

In order to maintain consumer confidence and the brands' reputation in all of its markets the De' Longhi Group works constantly to guarantee the highest product quality. This is key to ensuring long-term profitability and business continuity. In a year severely impacted by the Covid-19 pandemic, business continuity was also a function of compliance with safety regulations and product disclosure. As the Group works in different realities worldwide, it must continuously address a complex and varied regulatory environment which requires that particular attention be paid to compliance with the product quality standards applied in the different jurisdictions. Toward this end, 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 numerous countries where they are distributed. Examples include EU Regulation n. 1907/2007 or REACH (Registration, Evaluation, Authorization and Restrictions of Chemicals) and the RoHS (Restrictions of Hazardous Substances) directive 2002/95/EC, both of which the Group's companies comply with even though the scope of application is strictly European.

The Group also assumes the manufacturers' responsibilities for damages caused by defective products. In these instances, the laws and regulations can be particularly severe in some jurisdictions, like the United States and Australia. For example, in one instance involving two of these Countries where, as a result of the new regulations introduced relating to energy efficiency of portable air conditioners, the entire range of products distributed by the Group in the two markets had to be adjusted in order to comply with the new level of energy efficiency.
The manufacturer is also responsible for providing correct product information which may vary from country to country. In the United States, for example, the De'Longhi Group is subject to "Proposition 65" based on which the presence of any hazardous substances must be indicated on the packaging and warning labels used.
For more information about the risks connected to quality and product innovation, as well as risk management, please refer to the section "Risk factors for the De'Longhi Group", specifically paragraphs 5 (Risks relating to the De'Longhi Group's ability to achieve continuous product innovation), 6 (Risks relating to patents and trademarks) and 10 (Risks relating to product quality and product liability).
For more information on the measures used to prevent and manage risks relating to product quality and innovation, please refer to the table "The main risks associated with non-financial issues and management methods" in the Note on Methodology.

Business and organizational model

Through its Regulatory Affairs team, the Quality Division, comprised of more than 500 people Group-wide, supervises all the legal aspects of the current laws and regulations relating to product and food safety, defining guidelines and criterion for control at all companies.
Compliance with the corporate provisions is assured thanks to 2 groups of teams: teams at plants dedicated to quality control of products made by the Group and suppliers of finished goods, as well as other teams responsible for quality control during the product development phase and when any feedback is received from the market. Paying careful attention to product quality beginning with the initial planning phases helps to keep any breakage or product malfunctions to a minimum.
Product quality is also monitored as part of the **ISO 9001** certified organizational model in place at the European plants and the Group's Chinese production facilities. In order to manage food safety, the Group adopted an organizational model based on the Good Hygienic Practices (GHP) and the ISO 22000 and ISO 1672–2 food safety standards which specify how to ensure hygienic and sanitary conditions for food and the products which it is in contact with. The 22000 standard is based on the HACCP principles and the Codex Alimentarius which makes it possible to identify and manage the possible risks, prevent incidents along the entire production chain and assess the compliance of products with laws and regulations. The organizational model was also developed in accordance with the **ISO 22005** product traceability standards and requirements in order to provide, for each component and finished product, information relating to the supplier and the client recipient of the product.
With a view to guaranteeing electrical and food safety, during the pre-production phase compliance with the highest **electrical and food safety standards** of all the De'Longhi Group products is certified by third parties. More in detail, once production has begun, the electrical safety of all products is tested while a sample group of products is tested periodically for food safety compliance. In order to ensure the quality of the finished products, the Quality Division also supervises the production quality of its suppliers through specific audits (§ Supply chain management).
Lastly, with regard to **product information**, the Regulatory Affairs team of the Quality Division assists Research and Development and Marketing with the creation of labels and booklets which comply with the regulations specific to each country. In order to comply with laws relating to product information and labeling, the country of origin and the presence of any refrigerants is reported for each appliance distributed by the Group. Instructions relating to how to safely use and dispose of the product at the end of its life cycle are also provided in the product manuals.

The Operations and Technology Division guides **innovation and product design** which is charged with developing well designed products that are easy to use, multifunctional and with a distinctive design. The designs should combine several elements, like the use of recycled materials, in order to provide ergonomic, silent, reliable, energy efficient products, made to last over time, based on technologies that encourage healthy food patterns. Moreover, the Group has always invested in the research and development of long lasting products, with easy to disassemble and clean components.
Toward this end, in 2020 the Kenwood brand launched a two-year project aimed at drastically reducing the number and complexity of the parts of its kitchen machines which will improve product maintenance and facilitate repair.
As for innovation, the recent market trends have driven a noticeable increase in product digitalization which led the Group to invest in innovative solutions (see the section "Connected products").
More in general, the guidelines for new product development are shared by the entire De'Longhi Group based on specific NPD (New Project Development) procedures monitored by both the technical departments, as well as Marketing and Design. The technical departments are comprised of more than 350 people located in offices in Italy, Germany, UK and at the Dongguan plant in China. These offices, together with the Quality Division's Regulatory team, develop solutions which comply with applicable laws. The Group's local for global approach calls for the development of products which comply with the most stringent standards applicable in the more than one hundred countries in which the Group's solutions are distributed.
The development of innovative products is also promoted and supported by the commercial partnerships developed by the Operations and Technology Division based on which the De'Longhi Group designs and manufactures a collection of coffee products, as well as with a few Italian and foreign universities which focus on product design and improving the user experience. Toward this end, despite the obvious limitations imposed by the unprecedented year that just ended, in 2020 the Group held an innovation management conference at LIUC - Cattaneo University and was awarded a prize by the University of Padua as recognition for open innovation partnerships.
The Group protects the design of new products and solutions through specific patents managed centrally by headquarters. There is an office in the Hong Kong branch which is in charge of research projects developed in partnership with local suppliers.

Policies and objectives

One of the Group's founding values is the importance of making excellent products, conceived and continually innovated through research in order to guarantee, in addition to other things, the safety and wellbeing of the consumer. In the Code of Ethics, approved by the BoD in 2018, the Group commits to guaranteeing that consumers and clients will be provided with high quality. More in detail, product design and production must take into account product efficiency and durability, as well as the maximum environmental compatibility. The Group wants to be a reliable and safe partner for its clients and intends to develop its markets based on this principle, providing top-tier quality products and services.

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

Key figures

The qualitative efficiency of this process is assessed based on the First Time Quality Indicator (FTQ) which looks at the type of defects, functional or esthetic, linked to the single products. More in detail, the indicator expresses the number of perfect products as a percentage of total production. In the three-year period 2018–2020, the overall FTQ was stable confirming the Group's excellent performance. A second indicator, used to monitor product quality is the Service Call Rate (SCR) which measures the machines repaired in the first two years under warranty as a percentage of total yearly sales. The overall decrease of SCR in 2020 and the constant improvement over the three-year period confirm the De'Longhi Group's commitment to designing and producing high quality products.

In 2020 (as was the case in 2018) no significant instances of noncompliance relating to health and product safety were reported. In 2019 there was an instance of noncompliance with the European Directive 2014/35/EU, the "Low Tension Directive" that resulted in an administrative sanction that was, however, not significant.
In 2020 in Italy there was one instance of noncompliance relating to product information and labeling stemming from an Ariete brand product that did not include the name and address of the manufacturer in the label. There were two instances of noncompliance in 2019 and only one in 2018 (relating in both instances to the above-mentioned European directive). In 2018 a complaint was filed by the Customs Department in Hong Kong relating to the "Commercial Ordinance" and the labeling of a dehumidifier.
In 2020, as in prior years, the Group continued with its investments plans and research and development in order to enhance its capacity for innovation (please refer to the section "Research and development – quality control" for more information).

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

Connected products

As in prior years, in 2020 the Group continued to invest in the development of solutions which guarantee connectivity and ease-of-use through digital technologies like Wi-Fi, Bluetooth and touch screens. Every year, these technologies make it possible to improve product personalization, as well as prevent malfunctions and, consequently, improve efficiency and customer care.
More in detail, in 2020 distribution of Primadonna Soul began. This is the first fully automatic machine that can be connected via Wi-Fi and managed through an application on the user's smartphone, similarly to a line of portable air conditioners that can be adjusted remotely thanks to Bluetooth technology.
Already in 2018, several food preparation and comfort product lines featured innovative user interfaces and connectivity including a series of Apple Homekit products for heaters distributed in Japan, as well as a dehumidifier which can be connected via Wi-Fi that is sold in Europe.

Durable and detachable products

During the development phase, coffee machines are subject to numerous tests relating to the durability of components and the finished products. More in detail, thousands of drinks are made under standard conditions in order to verify product reliability and durability. There are a few models like, for example, la Maestosa and La Specialista for which different initiatives are underway focused on further increasing durability which, already today, is optimal. For example, in 2020 a project focused on modifying the frame of the La Specialista coffee machine was begun with a view to making it easier to repair and substitute parts; generally, the ability to repair all of the Nespresso brand machines is already monitored during the design phase. Similar projects were also launched for the Kenwood brand kitchen machines as part of a larger project to standardize internal parts and drastically reduce the use of new parts in favor of simpler and more effective repairs, as well as simplify a few key product parts and increase the interchangeability of parts across different models. Similarly, in 2019 the number of whisks included in the *Kenwood Chef* sets was lowered from 13 to just 2, which helps repairability and promotes the use of materials that are more resistant over time.
In addition to quality and durability, it is clear that one of the De'Longhi Group's objectives is to make products that are easier to repair, by rendering them not only simple to take apart, but also by increasing the ability to interchange parts across products from the same family.
As already noted in previous years, the fully automatic coffee machines are equipped with patented systems which facilitate washing with water, without having to use detergents and lubricants, while the milk system is cleaned using steam and hot water at the end of each use so that any remaining milk can be stored in the refrigerator and used again.

Energy efficient products

The research and development of increasingly energy efficient products is not only a must for the De'Longhi Group, it is also a topic that is changing constantly and widely discussed by regulators.
With regard to coffee, in 2020, as was the case in 2019, almost all fully automatic De'Longhi coffee machines are at least class A[4], as are all the Lattissima and manual machines with electronic controls like the Dedica machine. The most important news of 2020 is the fact that Nespresso platform machines were also rated A+ thanks to a decrease in the use of aluminum which made it possible to make a lighter, more energy efficient boiler. Also, as of 2018 all the fully automatic machines are also available in "Eco-mode" which makes it possible to save energy during the warm-up phase of the fully automatic machines; this function, along with the stand-by function available for all product families, guarantees energy consumption that is lower than regulatory limits. In addition to what was already done in 2019, in 2020 further improvements were made to these functions while maintaining the same level of performance.
Moreover, all the manual coffee machines, which typically consume more energy than the fully automatic machines, are equipped with a patented De' Longhi system that makes it possible to cut off the power supply or turn off automatically after a period of inactivity, resulting in energy savings.
As for Comfort, in 2020 the migration of the whole range of European portable air conditioners to refrigerant propane gas was completed and stabilized. This refrigerant has significant environmental advantages as it is a natural gas which has a lower impact on global warming. This activity was the continuation of what was done already beginning in 2018 to substitute the refrigerant gas, which has high global warming potential, used in the refrigerant circuits of products for the European market with propane gas in accordance with EU regulation n. 517/2014 of the European Parliament and of the Council of 16 April 2014 on fluorinated greenhouse gases.

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

Healthy lifestyle products

The De' Longhi Group uses its products to promote healthy lifestyles, consistent with recent health trends and increasingly healthy eating habits. This has resulted in, for example, kitchen machines capable of maintaining the principle nutritional elements of food unchanged.
All the De'Longhi brand coffee machines, fully automatic and manual, 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. In the last few years, the Group has also started a partnership with the University of Padua which resulted in the development of different innovations, like two particularly important projects: a coffee machine that can make drinks using vegetable milk in order to meet consumers' new food needs and a structured "vibro-chemical" system which allows for an even flow of ground coffee which provides optimal flavor and aroma.
The quest for products that meet consumers' healthy food needs also drove the development of Kenwood brand products. Thanks to the Scrolling Technology, the Pure Juice line is able to reduce the overheating and oxidation of ingredients making it possible to extract juice from fruits and vegetables without compromising the nutritional properties. The developments in this sector were also possible thanks to the productive partnership entered into with the University of Reading which resulted in the Group financing nutritional research. A number of initiatives relating to health were already begun at the beginning of the three-year reporting period, including the Multifry fryers which cook food using hot air. This reduces the use of vegetable oils (and, therefore, fat) and the environmental impact related to the disposal of the cooking oils used.

Consumer relations

Scenario and risks

The De' Longhi Group's brand reputation is based on the loyalty of end consumers and the key requisite of quality products. Both of these aspects are managed and addressed in different ways which go from clear and honest communication before the purchase to post-sales assistance capable of understanding and quickly responding to the end consumers' needs, particularly with regard to the protection of the customer's information. Other aspects related to the ability to respond to the needs of end consumers include compliance with laws governing consumer rights relating to, for example, minimum warranty periods, handling of the warrants when products are defective, recyclable elements and environmental friendliness. Data protection is largely a function of obsolescence in telecommunications technologies and the way in which data is processed.
For more information about risk management and the risks related to consumer relations, please refer to the table "The main risks associated with non-financial issues and management methods" in the Note on Methodology.

Business and organization model

The De' Longhi Group's external communication is managed by the corporate Marketing and Communication Division and the marketing offices of each brand. In order to reflect the increasingly integrated customer service provided both during the purchase phase and after the sale, in 2019, After Sales, which was already responsible for managing the before and after sales care, was renamed the Customer Care division. The contact center and the service centers continue to be an essential part of the new division which defines the standards to be used by the whole Group.

The contact center network, managed in outsourcing and in place at almost all of the Group's branches, manages the requests for assistance received from the end consumers, provides product information and continuous support for an optimal customer journey.
Due to the Covid-19 epidemic and its implications for mobility and access to the workplace, with temporary closings of offices and the subsequent reorganization in order to comply with health regulations, 2020 was a challenging year for the contact centers which recorded a noticeable increase in the number of calls from consumers (sometimes 100% higher than in previous years). In light of this situation, during the year outsourcing of contact center personnel increased, as did the internal personnel dedicated to the pick and packing initiative.
In 2020, a CRM management system (an extension of SAP) which allows for integrated and efficient management of consumer information was used again. This system covers consumers representing around 80% of the Group's sales, generates feedback and analyzes the information gathered. This system was renewed in this reporting period; an important customer care and customer simplicity initiative was, in fact, completed in 2020, which today makes it possible for the CRM to provide an integrated pre- and post-sales service and a new cloud customer communication system.

During the year, VoC management (Voice of Customer) tools were also used through Wonderflow, a software which collects structured feedback from the websites of the main retailers selling the Group's products, in 14 countries worldwide, and makes it possible for the reviews to be unified with the clients' direct feedback collected using the internal CRM. The use of this tool, based on Big Data Analysis, allowed for futher improvement in listening strength; the function also provides "actionable feedback" on hundreds of thousands of communications relative to the Group's different product categories.

2020 also fueled new challenges for technical assistance services, comprised of approximately 1,800 service centers worldwide (of which 300 in Italy), the majority of which in outsourcing: as a result of the Covid-19 pandemic many of these centers were, in fact, closed temporarily (with the exception of Germany, where work continued uninterrupted) and operations were limited which caused an increase in the average response time, due also to the noticeable increase in the Group's sales in the same period. Despite this, the system demonstrated great resilience, relying on the German hub without ever interrupting the repair service, leveraging once again on its flexibility and ability to adapt to changing circumstances.

In addition to sharing joint guidelines and standards, Customer Care constantly monitors the quality of the support service teams and contact centers through inspections, as well as the use of specific indicators, and periodically provides training. In 2020 scheduled inspections were interrupted by the months of national lockdown, to then resume as soon as it was feasible. The training in classrooms of employees and specialized external support service providers was effectively substituted by e-learning and online training through a platform which was updated and modified in order to increase speed, access and reliability.

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

Policies and objectives

In accordance with the consumer codes developed in the different countries of operation, the De' Longhi Group is constantly striving to improve the services and customer support services provided.
While a specific policy has yet to be formalized, the Group has given itself a series of targets which aim to improve its analysis and understanding of the consumers' most common requests, paying particular attention to product information, as well as after sales assistance. In addition to big data analysis and the business intelligence already carried out in prior years, 2020 ended with an important project focused on analyzing customer feedback: the new internal data driven platform, in fact, allows for intuitive text analytics, text mining, sentiment analysis and rating breakdown, analyzing the online channels of the main retailers in Europe and worldwide, while also gathering information about Group products and the competition's products. In this way, the Group can investigate different competitive aspects, reaching a deep level of detail.

The Code of Ethics has an important role in internal and external communications, as it is particularly focused on consumers and clients, for listening to their needs is considered to be a driving force behind the ability to provide better solutions which both anticipate or even influence new market trends. The Group, therefore, strives to guarantee that relationships with consumers and clients are handled professionally, in a timely manner, carefully, openly, respectfully, collaboratively and with a passion that ensures the highest quality, as well as the best level of service possible.
As for external communications, based on the Code of Ethics the disclosures made both inside and outside the Group must comply with the law, regulations, and professional best practices and be clear, transparent, timely and accurate. Lastly, consistent with the principle of confidentiality found in its Code of Ethics, the Group is committed to protecting the confidentiality of the information and data in its possession, in compliance with current laws and regulations relating to customers and consumers. No specific policies have yet to be formalized for either of these areas.

Key figures

With regard to the processing and protection of data, there were no instance of noncompliance in 2020. In 2019 there was one instance of noncompliance involving a Group company in Germany due to a potential data breach. The authorities were informed of the issue immediately, in accordance with the law, and the issue was resolved. In 2018 there was a loss of data which affected the information relative to three consumers.

Looking at the service provided to end consumers, as mentioned above the average service time in 2020 was higher than in previous years, after falling consistently through 2019, due to the spread of the Covid-19 pandemic. 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 2020 the FTF was unchanged with respect to 2019, coming in at 95%; also because this indicator is not linked to the speed of repairs and, therefore, was not impacted by COVID, which indicates that almost all products received adequate, quality repairs.

Looking at the instances of noncompliance in marketing and communications, in 2020 no instances were reported, while in 2019 there were two, resolved incidents, which did not result in fines, only a warning. In 2018 there were four complaints: two related to brand information and the remainder to promotional disclosures. In 2017 two complaints were received relating to promotional statements which caused the message to be changed or removed.

Supply chain management

Scenario and risks

Preventing and managing the risks associated with the supply chain is essential to ensuring the continuity of the Group's business, particularly during a year like the one that just ended. The Group encourages its suppliers to adhere to the best practices for product quality, working conditions, human rights, health, safety and environmental responsibility.
The De'Longhi Group's value chain comprises five plants located in Italy, Romania and China where the manufacturing and assembly of finished products is done. This activity covers 60% of sales and supported by a group of qualified partners or "Original Equipment Manufacturers" which develop, manufacture and distribute products (above all coffee machines).
The Covid-19 crisis inevitably impacted the assessment and management of supply chain risks as the Group had to address logistic emergencies stemming from local restrictions and border closings which were managed in accordance with the law, while striving to guarantee operational continuity.
For more information about management of the risks linked to supply change management, please refer to the section "Risk factors for the De'Longhi Group", specifically paragraph 8 (Risks relating to manufacturing, commodity prices and supplier relationships).
For more information on the measures used to prevent and manage supply chain risks please also refer to the table "The main risks associated with non-financial issues and management methods" in the Note on Methodology.

Business and organizational model

Supply chain management is carried out by the Supply Chain Division, together with Quality and Purchasing, with a view to ensuring business continuity, compliance with the highest quality standards and certain environmental, as well as social, requirements.
Three offices are involved in monitoring and supporting the providers of finished products based on product category and proximity to production: the offices focused on coffee and irons are in Italy; motor-driven products are managed through the UK office, while in Hong Kong the focus is on comfort. This structure makes it possible to respond to the specific needs of the different markets in which the Group operates effectively and quickly.
Management of the materials for components (quantity and logistics) needed for production in Europe is entrusted to two teams of the Supply Chain Division, one in Italy and one in Romania. Management of materials in the Chinese plants is supervised directly by the plant directors with the support of three purchasing offices broken down by product category.
The Quality Division periodically audits and investigates the quality of the finished products and also conducts audits in order to ensure protection of human rights and compliance with the values and principles included in the Code of Ethics relating to labor practices and, beginning in 2019, the main environmental regulations. The social and environmental audits are done of the suppliers of the Chinese plants in accordance with the international standard SA 8000 (Social Accountability). More in detail, the audits make it possible to investigate a multitude of different social aspects including, for example, freedom of association and collective bargaining, work hours, work conditions, health and safety, child labor, forced labor, discrimination and training of personnel; the audits are typically carried out every two years. In addition to the social accountability audits already carried out, as of 2020 environmental audits are also performed. Environmental criteria were, therefore, added to the checklist of the Social Accountability audits which include: verification that the supplier has a system in line with the ISO 14001 standard, that identifies the supplier's best practices with regard, in particular, to issues like emissions, and waste management. In this way, every time a supplier is subject to a social accountability audit, an environmental audit will also be carried out.
The information gathered, any corrective measures and the relative follow-up are logged into a specific system which monitors supplier updates and obligations. This assessment process is formalized and monitored based on a specific process which, beginning in 2019, established officially that all new suppliers are subject to the SCOC (Social Accountability Code of Conduct).

Product quality is assessed based on a group of specific indicators:
1.***Technical Factory Audit (TFA)***: measures the effectiveness of the processes and evaluates the results of tests relating to product life. This type of audit is conducted every year and focuses on both initial quality, as well as subsequent periodic monitoring of suppliers. As mentioned below, in the checklist for this type of audit included a section dedicated to environmental issues.
2.***Quality Evaluation (QE)***: measures product quality based on statistical sampling of each single lot.
3.***On Time Delivery (OTD)***: measures the delivery time of the supplier and, more specifically, the difference between the delivery date agreed upon and the actual one.
4.***Order Fill Rate (OFR)***: measures the ability of the supplier to refill the entire quantity requested by the Group.

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

Policies and objectives

While there is no formal Group policy, the Code of Ethics governs the relationships with suppliers and, in a dedicated section, defines that all those relationships should be conducted in accordance with the law and applicable regulations, as well as the general principles defined in the Code. The supplier selection process, furthermore, should be done based on an objective comparison of quality, price, execution and assistance while avoiding any and all forms of favoritism or discrimination. Throughout any relationship with the Group, the suppliers are also required to comply fully with the law and the Code. The Group suppliers must ensure that the working conditions of its employees do not violate basic human rights, comply with international agreements and current law. The supplier must provide any of its sub-contractors with a copy of the updated Code of Ethics.
In order to further strengthen the Group's commitment to responsible supply chain management, as of 2019 the Chinese suppliers of finished products are required to also sign the Group Code of Conduct which is presented to them in English and Chinese.
Supply Chain and Quality are committed to developing enduring relationships with suppliers in order to ensure quick responses to market and production needs. As for logistics, the Group intends to build a direct and simplified network favoring direct deliveries, consistent with the Group's expectations.
Lastly, the Group is working on "Responsible sourcing guidelines" to be applied to its own supply chain.

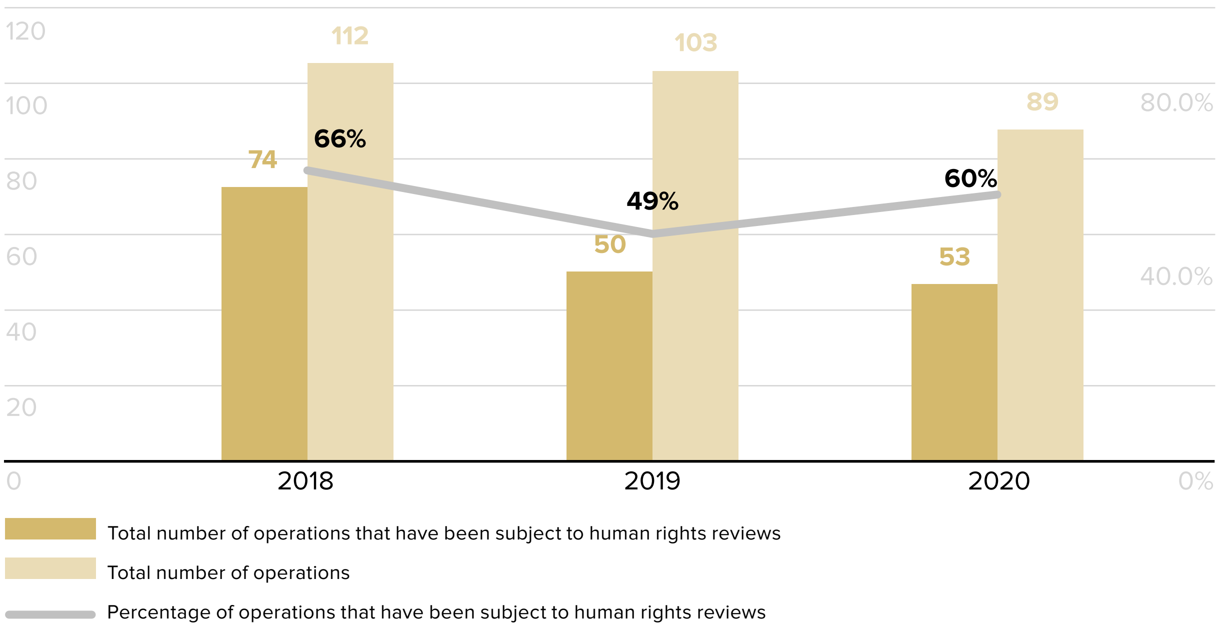
Actions taken to ensure continuity

In 2020 there was an acceleration in e-commerce activities, focused on delivery to the client, while skipping the transfer to the retailer's warehouse. In this way, the Group aims to further improve the efficiency of its deliveries by reducing the number of steps, which will also be beneficial in terms of environmental impact. In 2020 maintaining continuity in supply chain management was the top priority in the wake of the different measures implemented by national governments which limited mobility and, in a few instances, closed borders. Despite all of this, there were only a few slowdowns in distribution, which was almost never interrupted, thanks to the creation of a task force charged with planning the activities during the crisis and finding alternative sources for materials and parts.
The supplier audits were interrupted during the peak months of the crisis and each supplier was responsible for the inspection of finished products based on the checklists used for this type of self-assessment.

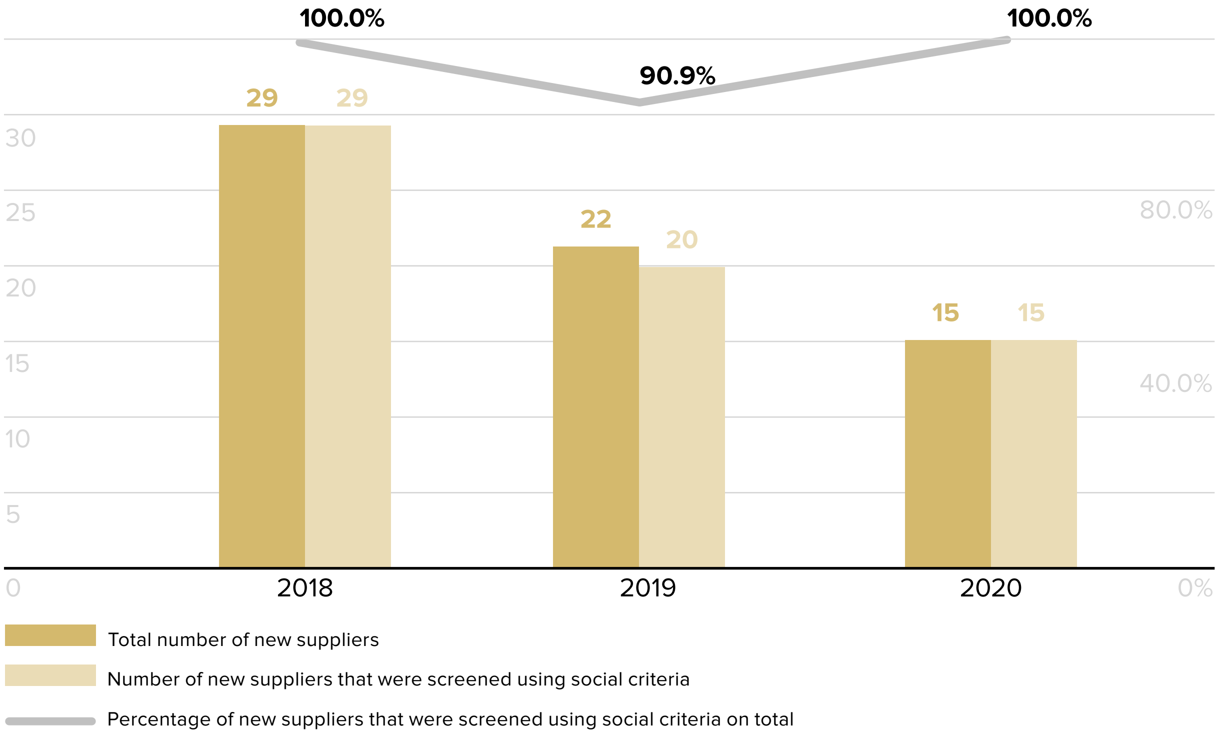
Key figures

In 2020, all the new suppliers of finished products were subject to a social accountability audit, in accordance with standard SA 8000 (100%). To date none of the SCOC (Social Accountability Code of Conduct) audits had a “zero tolerance” outcome and, therefore, resulted in the termination of the relationship with the supplier.
With regard to environmental aspects, in 2020 environmental audits of 15 or 100% of the new suppliers of finished products were carried out, higher than in 2019 (81.8%) also because the environmental audits only started in the second half of the year.
Lastly, in 2020 a total of 53 audits were carried out in order to verify that no human rights violations had occurred at 51 supplier plants and 2 Group plants, which covered almost 60%f of the Group’s operations, noticeably higher than in the previous year (49%).

Number and percentage of Operations subject to human rights assessments



New suppliers of finished products subject to social accountability audits



Reducing environmental impact

Scenario and risks

The De' Longhi Group, which operates daily in an international environment of continuous change, pays constant attention to the proper management of its manufacturing processes. Consistent with this constant change, the Group's environmental regulations are updated continuously, forming a crucial part of correct business management and the impact they could have on the latter.
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) and 16 (Risks relating to environmental harm) in the section", as well as the section "Risk factors for the De'Longhi Group".
For more information on the measures used to prevent and manage environmental risks please also refer to the table "The main risks associated with non-financial issues and management methods" in the Note on Methodology.

Business and organizational model

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

As of a few years ago solar panels had already been installed at the Mignagola plant. In 2020 these allow for the self-production of 990,794 kWh, about 7% of the electricity consumed which lowers the environmental impact linked to the production of electricity considerably. At the recently expanded Treviso headquarters, large glass panels were used for which the energy efficiency is still being gauged, but the initial findings suggest that heat loss is very limited. In 2020 the replacement of lighting fixtures with LED systems at the Italian plants, and the one in Cluj, continued. At the same level of performance, these lighting systems reduced annual energy consumption by around 288 MJ. Due to the unprecedented nature of the year that just ended, the installation of a cogenerator at the Mignagola plant was delayed. This is an important part of the Group's energy saving plan. In the same plant, toward the end of 2020 a new design for the system used to distribute compressed air was finalized which calls for the compressors to be replaced with better performing models that are also more energy efficient.
In 2019 a heating system for the warehouses was installed at the Cluj plant that uses the heat generated in the plant's drying facilities which reduces the use of natural gas for traditional heating.

In China, where over the past few years part of the plastic stamp machinery was renewed, in 2020 further work was done on improving the energy efficiency of manufacturing resulting in specific improvements to increase energy efficiency and productivity. The partnership with the local government relating to energy savings also continued: as part of the energy saving plan, meters were, in fact, installed which makes it possible to monitor the consumption of electricity and find the areas and functions which consume the most energy. Thanks to these meters, the Group has been able to periodically map the consumption in the different areas and, based on the results, find ways to reduce energy consumption and improve energy efficiency at the Chinese facilities.

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

In 2020 projects involving the **recovery of production by products**, which favor a circular economy, were expanded. For example, at the Mignagola and Dongguan plants, in 2018 plastic scraps were reused in the manufacturing cycle which reduces initial raw material costs and the amount of waste to dispose of. The results of this activity were excellent and the initiative in 2019 was also launched at the plant in Cluj. The metal scrapes, rather, are resold as raw materials. Paper, cardboard and nylon scraps are sent to be regenerated.

As in the past, in 2020 the Group continued to analyze efficiencies and ways to **reduce product packaging materials** which produced excellent results in both environmental and economic (thanks to lower raw materials costs) terms. For the Braun brand, in addition to the work done in 2019 work on finding ways to reduce the amount of plastic used in Braun brand handblenders, in 2020 a LCA (Life Cycle Assessment) was carried out relative to the different types of packaging used currently in order to find alternative solutions with a lower CO_2 footprint. Progress was also made on research related to: alternative materials coming from renewable sources to substitute plastic packaging, biodegradable adhesive tapes and alternative sources of energy for the production of EPS. Similar to past years, the packaging efficiency initiatives also involved the Group's internal logistics and operations which, however, slowed due to the spread of the pandemic. More in detail, at the Chinese plants and the one in Cluj the goal is to reuse the plastic and cardboard packaging of the components delivered which are otherwise disposed of upon arrival.
The pallets, used throughout the Group's operations, are worthy of a separate discussion. In Romania, instead of buying new ones, repaired pallets are used which in 2019 made it possible to reuse 5,500 pallets or approximately 1,300 trees[5]. At the Italian plant in Mignagola wooden pallets have substituted with pallets made out of recycled plastic.

Policies and objectives

A few of the Group's facilities, including in Mignagola and Cluj and the Kenwood headquarters, have adopted an Environmental Policy which has a number of objectives: these include, compliance with all current legislation in each Country where the Group operates, commitment to the steady improvement of environmental performances, optimization in the consumption of resources and energy, reduction or, if possible, elimination of any form of pollution, as well as the deployment of technologies and processes which minimize environmental risks.

A Group Environmental Policy has yet to be formalized, although the Code of Ethics states clearly that all activities are shaped by the need for environmental protection and public safety in accordance with the law. 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, above all, 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.

[5] The calculation used can be found at www.palletconsultants.com/blog/pallet-recycling-saves-trees

Key figures

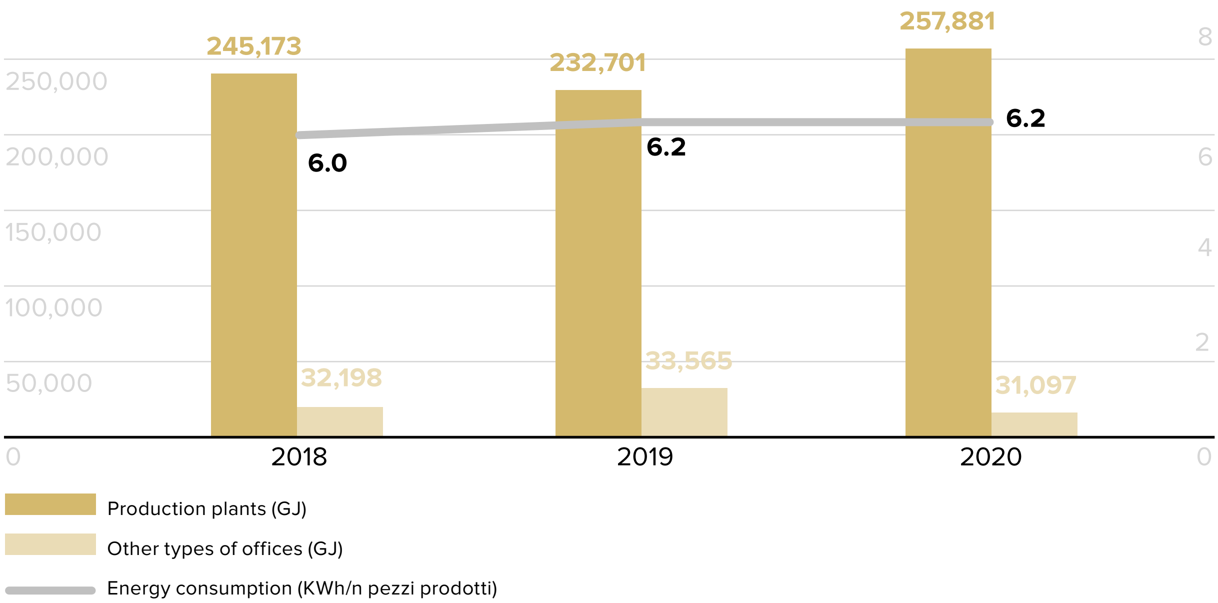
In 2020, consumption increased 6% with respect to the prior year (376,062 GJ in 2020 compared to 353,782 GJ in 2019). This increase is attributable to both the higher number of units manufactured compared to 2019 and the De' Longhi Group's acquisition of the Romanian plant in Salonta. The amount of direct 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	u.m.	Production facilities			Other types of offices[6]			De' Longhi Group		
		2018	2019	2020	2018	2019	2020	2018	2019	2020
Direct energy consumption from non-renewable sources										
Gas	GJ	2,801	3,017	2,824	14,664	9,605	6,646	17,465	12,623	9,470
Diesel	GJ	6,885	6,170	5,180	23,374	22,847	16,010	30,259	29,112	21,189
Natural gas	GJ	45,230	36,298	46,388	5,498	5,145	5,034	50,728	41,443	51,422
LPG	GJ	523	568	587	133	-	667	657	568	1,254[7]
Fuel oil	GJ	-	-	-	205	203	142	205	203	142
Total	**GJ**	**55,440**	**46,053**	**54,979**	**43,875**	**37,801**	**28,498**	**99,314**	**83,949**	**83,477**
Direct energy consumption from renewable sources										
Energy produced from renewable sources and consumed	GJ	3,709	3,548	3,567	37	39	40	3,746	3,587	3,607
Total direct energy consumption	**GJ**	**59,148**	**49,601**	**58,546**	**43,911**	**37,840**	**28,538**	**103,060**	**87,536**	**87,084**
Indirect energy consumption										
Electricity purchased	GJ	245,173	232,701	257,881	29,082	31,206	28,984	274,256	263,887	286,865
District heating	GJ	-	-	-	2,718	2,359	2,113	2,718	2,359	2,113
Cooling	GJ	-	-	-	398	-	-	398	-	-
Total indirect consumption	**GJ**	**245,173**	**232,701**	**257,881**	**32,198**	**33,565**	**31,097**	**277,372**	**266,246**	**288,978**
Total consumption	**GJ**	**304,322**	**282,301**	**316,427**	**76,110**	**71,405**	**59,635**	**380,431**	**353,782**	**376,062**

In the three-year period 2018- 2020, 5.5, 6.5 and 57.6 GJ of electricity produced from renewable sources were produced at sites, which were then transferred to the national grid. In 2018 the method used to measure the electricity consumed at the Campi Bisenzio offices was changed.

[6] "Other types of offices" includes the offices, distribution branches, warehouses and, in general, all of the De' Longhi Group's structures not related to production.
[7] The 2020 figure relative to LPG consumption includes the consumption of a De' Longhi Group asset for which this information was not available in 2019.

The indirect electricity consumption per unit of production was unchanged (6.2 kWh in both 2020 and 2019).

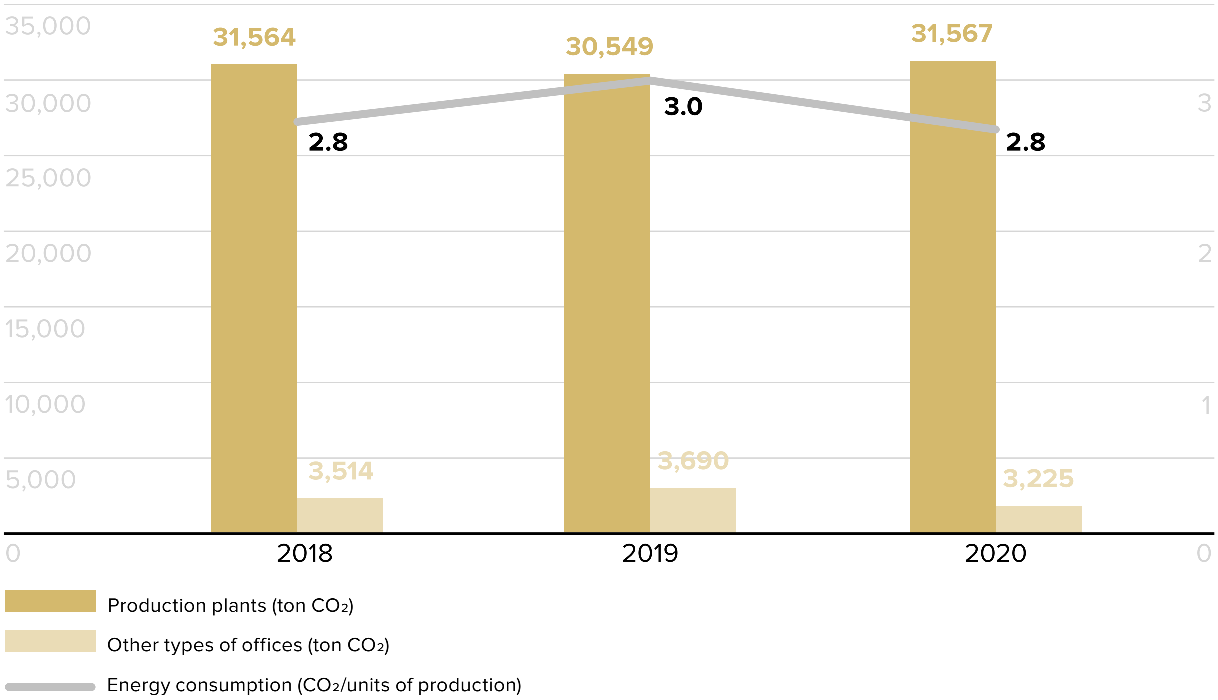


In 2020 total CO_2 emissions reached 40,030 tons, a slight increase (1%) against the 39,679 tons recorded in 2019 (based on CO_2 emissions calculated using the “Location Based” method). The amount of CO_2 emissions is explained primarily by the consumption of electricity (about 86% of the Group’s total CO_2 emissions).

Emissions [ton CO_2]	Production facilities			Other types of offices[8]			De’ Longhi Group		
	2018	2019	2020	2018	2019	2020	2018	2019	2020
Direct	3,276	2,743	3,235	3,127	2,689	2,003	6,403	5,439	5,238
Indirect – Location Based	31,564	30,549	31,567	3,514	3,692	3,225	35,078	34,240	34,792
Indirect – Market Based	36,057	33,852	33,854	4,322	4,616	3,980	40,379	38,465	37,833
TOT (Direct + Indirect – Location Based)	**34,840**	**33,293**	**34,802**	**6,642**	**6,381**	**5,228**	**41,482**	**39,679**	**40,030**
TOT (Direct + Indirect – Market Based)	**39,333**	**36,596**	**37,089**	**7,449**	**7,305**	**5,983**	**46,783**	**43,905**	**43,072**

[8] “Other types of offices” includes the offices, distribution branches, warehouses and, in general, all of the De’ Longhi Group’s structures not related to production.

The comparison of Scope 2 CO_2 emission per unit manufactured shows a largely stable trend in the three-year period, characterized by a slight decrease of around 7% against the prior year, falling from 3.0 kg of CO_2 per unit produced in 2019 to 2.8 kg of CO_2 per unit produced in 2020.



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. In 2020 the following exceptions to the reporting scope were recorded:

- the Capital Brands Group companies were not included as the acquisition was finalized at the end of 2020;
- the company De'Longhi Brasil - Comércio e Importação Ltda was excluded as it is currently being liquidated and had no employees at 31.12;
- for the company De'Longhi Bosphorus Ev Aletleri Ticaret Anonim Sirketi only the statistics relating to human resources, health and safety were included as the company is currently being liquidated.

The information and figures used in this section refer to 2020.
The De'Longhi Group used the GRI Sustainability Reporting Standards (hereinafter the GRI Standards), published in 2016 by GRI – Global Reporting Initiative, to prepare its NFS. More in detail, as called for in paragraph 3, Standard GRI 101: Foundation, the "Reconciliation of De'Longhi's material topics and the GRI Standards", shown below ("GRI-referenced" claim), shows the reporting standards used. In addition to what is shown in this table, the following standards were also used in this NFS: **GRI 102 - General Disclosures 2016** (102-1, 102-2, 102-3, 102-4, 102-5, 102-6, 102-7, 102-8, 102-9, 102-10, 102-11, 102-13, 102-18, 102-40, 102-42, 102-43, 102-44, 102-45, 102-46, 102-47, 102-48, 102-49, 102-50, 102-52, 102-53, 102-56) and **GRI 103 - Management Approach 2016** (103-1, 103-2).

Definition of the material topics

In accordance with Legislative Decree 254/2016, as amended, this statement provides a description of the De'Longhi Group qualitative/quantitative performances with respect to the topics deemed material for the Group and its stakeholders.
In 2017 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 2020. This process was not changed in 2020.

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

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

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

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

Reconciliation of De'Longhi's material topics with the GRI Standards [9]

Decree 254	Macro areas	Material topics	GRI standards	Topic-Specific GRI disclosure	Topic perimeter		Boundaries of the reporting perimeter	
					Internal	External	Internal	External
Fight against corruption	Ethics and compliance	Compliance	GRI 205 – Anti-corruption (2016)	GRI 205-2 (points b.c.e); GRI 205-3	Group	Commercial partners	-	-
			GRI 206 – Anti-competitive behavior (2016)	GRI 206-1	Group	-	-	-
Human resources management Human rights	Personnel management	Talent acquisition and retention			Group	-	-	-
			GRI 404 – Training and education (2016)	GRI 404-1	Group	-	-	-
			GRI 405 – Diversity and equal opportunities (2016)	GRI 405-1	Group	-	-	-
		Health and safety of workers	GRI 403 – Workplace health and safety (2016)	GRI 403-2	Group	Suppliers Contact Center	-	Reporting does not involve the Contact Centers
		Human rights	GRI 406 – Non-discrimination (2016)	GRI 406-1	Group	Suppliers	-	Reporting does not involve suppliers
Social aspects Environmental aspects	**Quality and product innovation**	Product safety	GRI 416 – Customer health and safety (2016)	GRI 416-1	Group	OEM suppliers	-	-
		Product labeling	GRI 417 – Marketing and product labeling (2016)	GRI 412-1; GRI 417-2; GRI 417-3	Group	OEM suppliers	-	-
		Product innovation	-		Group	-	-	-
		Eco – friendly design	-		Group	-	-	-

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

Decree 254	Macro areas	Material topics	GRI standards	Topic-Specific GRI disclosure	Topic perimeter		Boundaries of the reporting perimeter	
					Internal	External	Internal	External
Social aspects	Consumer relations	Use of consumer data	GRI 418 – Customer privacy (2016)	GRI 418-1	Group	Contact Center	-	-
		Efficiency of network distribution	-		Group	-	-	-
		After sales services	-	[NON GRI INDICATOR] First time fix (FTF) indicator Average time of technical assistance	Group	Contact Center	-	-
Social aspects Human rights	Supply chain management	Management supply chain risks	GRI 412 – Human rights assessments (2016)	GRI 412-1	Group	Suppliers	-	-
			GRI 414 – Supplier social assessment (2016)	GRI 414-1	Group	Suppliers	-	-
			GRI 308 – Supplier environmental assessment (2016)	GRI 308-1	Group	Suppliers		
Environmental aspects	Reduction of environmental impact	Management of emissions and the fight against climate change	GRI 302 – Energy (2016)	GRI 302-1; GRI 302-3	Group	-	-	-
			GRI 305 - Emissions (2016)	GRI 305-1; GRI 305-2; GRI 305-4	Group	Suppliers. Contact Center	-	Reporting does not involve suppliers or Contact Centers

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

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

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

Legislative Decree 254	Main risks	Risk management tools
Fight against corruption	• Risks connected to administrative liability of legal entities, particularly with regard to Legislative Decree 231/2001 which introduced specific rules relating to liability for a few types of crimes to the Italian legal system • Risks tied to the Group's current or past commercial relationships with related parties • Reputational risk	• Group Code of Ethics • Model of organization, management and control pursuant to Legislative Decree 231/2001 • Group's internal control and compliance system • Procedure for Related Party Transactions
Human resources management Human rights	• Risks connected to human resources management, particularly with regard to the Group's ability to recruit, develop, motivate, retain and promote personnel with the attitudes, values, specialized professional and/or managerial skills needed to meet the Group's changing needs. • With regard to the Chinese platform, there are also a few risks related to high turnover of Chinese blue-collar workers • Risks tied to possible instances of discrimination	• Group Code of Ethics • Model of organization, management and control pursuant to Legislative Decree 231/2001 • Group's internal control and compliance system • OHSAS 18001 compliant organizational model • Worker safety and health policy in place at European plants • Compensation policy for the BoD and executives with strategic responsibilities • Performance review process • MBO procedure • Employee surveys • For the Chinese plants: incentive schemes to foster staff retention, investment in training and the development of more qualified internal resources, improvements in living and working conditions inside the different plants
Social aspects Environmental aspects	**Product quality and innovation** • Risks connected to the De' Longhi Group's to continue with product innovation • Risks associated with patents and trademarks • Risks connected to product quality and liability for violations of the quality standards applied in the different jurisdictions where the Group • Risks connected with regulatory changes, relating in particular to environmental protection, especially the regulations relating to the safety and energy efficiency of electric household appliances, recyclability and environmental friendliness.	• Group Code of Ethics • UNI EN ISO 9001:2015 certified Quality System • Food safety management model • Quality policy • NPD procedures • Quality audits • Constant monitoring of regulatory changes • Registration of product patents and trademarks

<table>
<tr><th>Legislative Decree 254</th><th>Main risks</th><th>Risk management tools</th></tr>
<tr><td>Social aspects</td><td>Consumer relations

• Risks associated with warehouse size and the timeliness of deliveries; more in detail, in the event the Group doesn’t have an adequate quantity of products it could run the risk of not being able to meet customer demand in a timely manner. Another risk stems from potential supply chain issues which could impact the adequacy of the service provided
• Risks relating to IT systems: in relation to events which could compromise service continuity and integrity of the data</td><td>• Group Code of Ethics
• Model of organization, management and control pursuant to Legislative Decree 231/2001
• Group’s internal control and compliance system
• GDPR policy (includes policy for the storage of data and procedure for the management of data breaches)
• Training of employees in IT safety and privacy
• Presence of structures dedicated to monitoring the level of customer satisfaction</td></tr>
<tr><td>Social aspects Human rights</td><td>Supply chain management

• Risks connected to supplier relationships with regard, in particular, to reliable product quality, logistics and timely deliveries, as well as relationships with company employees
• Risk of being dependent on a single supplier for certain types of components for strategic products</td><td>• Group Code of Ethics
• Model of organization, management and control pursuant to Legislative Decree 231/2001
• Procedure for Related Party Transactions
• Social accountability audits</td></tr>
<tr><td>Environmental aspects</td><td>• Risks relating to environmental harm: the manufacturing done by the Group at its plants and facilities could harm third parties, cause accidents or environmental harm if serious breakdown or malfunctions were to occur</td><td>• Group Code of Ethics
• UNI EN ISO 14001:2015 certified environmental management system for the European plants
• Group’s internal control and compliance system
• Environmental policy applicable also the production facilities in Mignagola and Cluj, as well as the Kenwood plant.</td></tr>
</table>

The reporting process and the methods of calculation used

The content used in the NFS 2020 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, and the relative updates, are listed below:

- In comparison to what was reported in previous years (2017, 2018 and 2019), in terms of GRI Disclosure 403 (Occupational Health and Safety), the Group used the more updated version issued by the GRI in 2018 and, consequently, the historic figures for 2018 and 2019 were aligned with the new method of calculation. More specifically, as required by the GRI Standards, the number of injuries recorded includes travel on transportation organized by De'Longhi and excludes the other instances.
  The historical data also reflect an update of the calculation used to estimate the hours worked at one of the Group's production plants and the inclusion of a few injuries suffered at year-end 2019 which were not included as investigations were still ongoing when the DNF 2019 was published.
- **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 serious accidents expressed as a percentage of the total number of labor hours multiplied by 1,000;
- the **first-time quality (FTQ) indicator** is the number of products without defects 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_2). The self-produced energy from renewable sources was excluded from the calculation of greenhouse gas emissions.

  Emission factors used to calculate CO_2 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 2018, 2019 and 2020.
  Indirect emissions (Scope 2): indirect emissions are linked to the consumption of electricity and district heating; the emissions linked to electricity were calculated based on a location and market based approach. Location based emissions were calculated by taking into account, for each country, the factors referred to in the most recent version of Table 49 – Primary socio-economic and energy indicators published by Terna (Italian grid operator), in the International Comparison section, based on the most recent Enerdata data used to calculate Scope 2 emissions, 2018 version for 2020, 2017 version for 2019, 2016 version for 2018. 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 2017-2019, 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 for the year 2018, were used for the United States for the years 2018-2019, while for 2020 an average residual mix per eGrid Subregion calculated based on the residual mixes shown in the document 2020 Green-e Energy Residual Mix Emissions Rates was 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 for the year 2018 was used for Canada. As for the countries for which no residual mix figures were available, location based emissions factors found in the above mentioned Terna table were used.

District heating emissions were calculated using the emissions factors found in the document "UK Government GHG Conversion Factors for Company Reporting" published by the Department for Environment Food & Rural Affairs (DEFRA) table for the three-year period 2018-2020.

Subsequent events

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

Outlook

In light of the sales trend of the first weeks of 2021, which suggests growth for the first quarter, the management estimates for the current year revenues growing double digit organically. Furthermore, as regards the margins, the Group will continue its strategy of reinvesting a portion of the operating margin in support plans for product innovation, brand communication and the strenghtening of the digital strategy aimed at a sustainable growth, while achieving an EBITDA before non-recurring/stock option costs for the new perimeter substantially in line with 2020 in percentage terms of revenues.

Treviso, 11 March 2021

For the Board of Directors
Chief Executive Officer
Massimo Garavaglia

Intentionally blank page

Group annual report and financial statements

Consolidated financial statements

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

Consolidated income statement

(€/000)	Notes	2020	of which non-recurring	2019	of which non-recurring
Revenue from contracts with customers	*1*	2,332,567		2,081,150	
Other revenues	*1*	18,690		19,988	
Total consolidated revenues		**2,351,257**		**2,101,138**	
Raw and ancillary materials, consumables and goods	*2-8*	(1,078,397)	*(713)*	(880,629)	
Change in inventories of finished products and work in progress	*3*	41,191		(61,371)	*(209)*
Change in inventories of raw and ancillary materials, consumables and goods	*3*	26,180		(5,382)	
Materials consumed		**(1,011,026)**		**(947,382)**	
Payroll costs	*4-8*	(301,042)	*(8,529)*	(268,018)	*(1,630)*
Services and other operating expenses	*5-8-15*	(674,140)	*(11,758)*	(582,590)	*(1,790)*
Provisions	*6*	(22,050)		(13,968)	*(362)*
Amortization	*7-15*	(80,993)		(78,257)	
EBIT		**262,006**		**210,923**	
Net financial income (expenses)	*9-15*	(5,692)		(15,132)	
PROFIT (LOSS) BEFORE TAXES		**256,314**		**195,791**	
Taxes	*10*	(56,181)		(34,786)	
CONSOLIDATED PROFIT (LOSS) AFTER TAXES		**200,133**		**161,005**	

EARNINGS PER SHARE (in Euro)	***31***				
- basic		€ 1.34		€ 1.08	
- diluted		€ 1.31		€ 1.06	

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

Consolidated statement of comprehensive income

(€/000)	2020	2019
Consolidated profit (loss)	**200,133**	**161,005**
Other components of the comprehensive income:		
- Change in fair value of cash flow hedges and financial assets available for sale	(4,031)	(1,657)
- Tax effect on change in fair value of cash flow hedges and financial assets available for sale	1,054	437
- Differences from translating foreign companies' financial statements into Euro	(47,491)	20,837
Total other comprehensive income will subsequently be reclassified to profit (loss) for the year	**(50,468)**	**19,617**
- Actuarial valuation funds	(1,911)	(4,050)
- Tax effect of actuarial valuation funds	538	1,126
Total other comprehensive income will not subsequently be reclassified to profit (loss) for the year	**(1,373)**	**(2,924)**
Total components of comprehensive income	**(51,841)**	**16,693**
Total comprehensive income	**148,292**	**177,698**

Consolidated statement of financial position

Assets

(€/000)	*Notes*	31.12.2020	31.12.2019
NON-CURRENT ASSETS			
INTANGIBLE ASSETS		631,866	314,829
- Goodwill	*11*	398,514	92,400
- Other intangible assets	*12*	233,352	222,429
PROPERTY, PLANT AND EQUIPMENT		323,658	313,807
- Land, property, plant and machinery	*13*	138,517	134,247
- Other tangible assets	*14*	121,539	107,169
- Right of use assets	*15*	63,602	72,391
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		104,539	40,873
- Equity investments	*16*	30,073	26,724
- Receivables	*17*	4,480	3,486
- Other non-current financial assets	*18*	69,986	10,663
DEFERRED TAX ASSETS	*19*	57,032	47,253
TOTAL NON-CURRENT ASSETS		**1,117,095**	**716,762**
CURRENT ASSETS			
INVENTORIES	*20*	423,977	343,535
TRADE RECEIVABLES	*21*	398,054	437,360
CURRENT TAX ASSETS	*22*	6,541	8,872
OTHER RECEIVABLES	*23*	30,155	23,212
CURRENT FINANCIAL RECEIVABLES AND ASSETS	*24-15*	243,005	102,419
CASH AND CASH EQUIVALENTS	*25*	662,947	731,491
TOTAL CURRENT ASSETS		**1,764,679**	**1,646,889**
Non-current assets held for sale	*26*	977	1,277
TOTAL ASSETS		**2,882,751**	**2,364,928**

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

Consolidated statement of financial position

Net equity and liabilities

(€/000)	Notes	31.12.2020	31.12.2019
NET EQUITY			
GROUP PORTION OF NET EQUITY		1,267,354	1,190,454
- Share Capital	*29*	225,823	224,250
- Reserves	*30*	841,398	805,199
- Profit (loss) pertaining to the Group		200,133	161,005
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES		507,335	428,562
- Banks loans and borrowings (long-term portion)	*32*	330,012	218,746
- Other financial payables (long-term portion)	*33*	129,330	153,976
- Lease liabilities (long-term portion)	*15*	47,993	55,840
DEFERRED TAX LIABILITIES	*19*	9,235	35,838
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		99,646	77,689
- Employee benefits	*34*	51,288	41,114
- Other provisions	*35*	48,358	36,575
TOTAL NON-CURRENT LIABILITIES		**616,216**	**542,089**
CURRENT LIABILITIES			
TRADE PAYABLES	*36*	581,860	365,778
FINANCIAL PAYABLES		236,612	138,200
- Banks loans and borrowings (short-term portion)	*32*	132,867	66,651
- Other financial payables (short-term portion)	*33*	85,567	53,093
- Lease liabilities (short-term portion)	*15*	18,178	18,456
CURRENT TAX LIABILITIES	*37*	66,498	35,567
OTHER PAYABLES	*38*	114,211	92,840
TOTAL CURRENT LIABILITIES		**999,181**	**632,385**
TOTAL NET EQUITY AND LIABILITIES		2,882,751	2,364,928

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

Consolidated statement of cash flow

(€/000)	Notes	2020	2019
Profit (loss) pertaining to the Group		200,133	161,005
Income taxes for the period		56,181	34,786
Amortization		80,992	78,257
Net change in provisions and other non-cash items		15,603	3,211
Cash flow generated by current operations (A)		**352,909**	**277,259**
Change in assets and liabilities for the period:			
Trade receivables		45,087	5,864
Inventories		(67,370)	66,752
Trade payables		184,877	(57,170)
Other changes in net working capital		(6,785)	(7,207)
Payment of income taxes		(41,290)	(30,573)
Cash flow generated (absorbed) by movements in working capital (B)		**114,519**	**(22,334)**
Cash flow generated by current operations and movements in working capital (A+B)		**467,428**	**254,925**
Investment activities:			
Investments in intangible assets		(14,652)	(12,265)
Other cash flows for intangible assets		793	202
Investments in property, plant and equipment		(66,609)	(50,552)
Other cash flows for property, plant and equipment		15	535
Investments in leased assets		(10,347)	(15,017)
Other cash flows for leased assets		1,548	1,255
Net investments in financial assets and in minority interest		(264)	29
Cash flow absorbed by ordinary investment activities (C)		**(89,516)**	**(75,813)**
Cash flow by operating activities (A+B+C)		**377,912**	**179,112**
Cash flows absorbed by the acquisition of Capital Brands (D)		**(329,303)**	**-**
Change in currency translation reserve on cash and cash equivalents		(18,066)	6,712
Purchase of treasury shares		(14,534)	-
Exercise of stock option		21,452	-
Dividends paid		(80,477)	(55,315)
New loans		200,000	200,000
Payment of interests on loans		(3,750)	(2,690)
Repayment of loans and other net changes in sources of finance		(221,778)	(165,655)
Cash flow generated (absorbed) by changes in net equity and by financing activities (E)		**(117,153)**	**(16,948)**
Cash flow for the period (A+B+C+D+E)		**(68,544)**	**162,164**
Opening cash and cash equivalents	*25*	**731,491**	**569,327**
Cash flow for the period (A+B+C+D+E)		(68,544)	162,164
Closing cash and cash equivalents	*25*	**662,947**	**731,491**

For sake of comparison, the Consolildated statement of cash flow for 2019 was restated by reclassifying the effects of the adoption of IFRS 16.
Appendix 2 reports the statement of cash flows in terms of net financial position.

Consolidated statement of changes in net equity

(€/000)	SHARE CAPITAL	SHARE PREMIUM RESERVE	LEGAL RESERVE	EXTRAORDINARY RESERVE	TREASURY SHARES RESERVES	FAIR VALUE AND CASH FLOW HEDGE RESERVES	STOCK OPTION RESERVE	CURRENCY TRANSLATION RESERVE	PROFIT (LOSS) CARRIED FORWARD	PROFIT (LOSS) PERTAINING TO GROUP	GROUP PORTION OF NET EQUITY
Balance at 31 December 2018	**224,250**	**162**	**33,960**	**36,201**	**-**	**735**	**7,932**	**11,596**	**566,387**	**184,702**	**1,065,925**
Allocation of 2018 result as per AGM resolution of 30 April 2019											
- distribution of dividends									(55,315)		(55,315)
- allocation to reserves			8,613	108,337					67,752	(184,702)	-
Fair value stock option							2,146				2,146
Other changes in minority interests											-
Movements from transactions with shareholders	**-**	**-**	**8,613**	**108,337**	**-**	**-**	**2,146**	**-**	**12,437**	**(184,702)**	**(53,169)**
Profit (loss) after taxes										161,005	161,005
Other components of comprehensive income						(1,220)		20,837	(2,924)		16,693
Comprehensive income (loss)	**-**	**-**	**-**	**-**	**-**	**(1,220)**	**-**	**20,837**	**(2,924)**	**161,005**	**177,698**
Balance at 31 December 2019	**224,250**	**162**	**42,573**	**144,538**	**-**	**(485)**	**10,078**	**32,433**	**575,900**	**161,005**	**1,190,454**
Balance at 31 December 2019	**224,250**	**162**	**42,573**	**144,538**	**-**	**(485)**	**10,078**	**32,433**	**575,900**	**161,005**	**1,190,454**
Allocation of 2019 result as per AGM resolution of 22 April 2020 and AGM resolution of 15 December 2020											
- distribution of dividends				(80,813)							(80,813)
- allocation to reserves			2,277	116,817					41,911	(161,005)	-
Fair value stock option							2,502				2,502
Exercise of stock option	1,573	25,676					(5,796)				21,453
Treasury shares purchase					(14,534)						(14,534)
Movements from transactions with shareholders	**1,573**	**25,676**	**2,277**	**36,004**	**(14,534)**	**-**	**(3,294)**	**-**	**41,911**	**(161,005)**	**(71,392)**
Profit (loss) after taxes										200,133	200,133
Other components of comprehensive income						(2,977)		(47,491)	(1,373)		(51,841)
Comprehensive income (loss)	**-**	**-**	**-**	**-**	**-**	**(2,977)**	**-**	**(47,491)**	**(1,373)**	**200,133**	**148,292**
Balance at 31 December 2020	**225,823**	**25,838**	**44,850**	**180,542**	**(14,534)**	**(3,462)**	**6,784**	**(15,058)**	**616,438**	**200,133**	**1,267,354**

Explanatory notes

Explanatory notes

Group business

The De' Longhi Group is headed up by the parent De' Longhi S.p.A., a company with its registered office in Treviso whose shares are listed on the Italian stock exchange run by Borsa Italiana.
The Group is active in the production and distribution of coffee machines, small appliances for food preparation and cooking, domestic cleaning and ironing, air conditioning and portable heaters; the companies included in the scope of consolidation are listed in Appendix 1 to the Explanatory notes.

Introduction

FY 2020 was characterized by the spread of the Coronavirus epidemic.
In a backdrop of uncertainty and concern, the De' Longhi Group implemented plans to protect the health and safety of its people and, at the same time, worked to guarantee business continuity. The actions taken made it possible to achieve good results in terms of revenue growth, margins and cash generation; there are, therefore, no elements worthy of mention that had a direct or significant impact on the financial statements.

Accounting standards

The De'Longhi Group's consolidated financial statements at 31 December 2020 have been prepared on the basis of the international accounting and financial reporting standards issued by the International Accounting Standards Board (IASB), including the SIC and IFRIC interpretations, as endorsed by the European Commission (at the date of 31 December 2020), pursuant to EC Regulation 1606 of 19 July 2002.
The following documents have been used for interpretation and application purposes even though not endorsed by the European Commission:
- Framework for the Preparation and Presentation of Financial Statements of the International Accounting Standards Board (issued by the IASB in 2001);
- Implementation Guidance, Basis for Conclusions, IFRIC and other documents issued by the IASB or IFRIC to complement the accounting standards;
- Interpretations published by the Italian Accounting Board relating to how to apply IAS/IFRS in Italy.

The accounting policies and measurement bases used for preparing the financial statements at 31 December 2020 are the same as those used for preparing the consolidated financial statements at 31 December 2019. The new amendments and accounting standards, described below, had no significant impacts on the present financial statements.

The consolidated financial statements at 31 December 2020 comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in net equity and these explanatory notes.
The statement of financial position has been prepared on a basis that distinguishes between current and non-current items.
The income statement has been presented on the basis of the nature of expense, being a suitable structure for faithfully representing the Group's performance.
The statement of cash flows has been prepared using the "indirect method" allowed by IAS 7.

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

The present annual financial report was approved and authorized for publication by the Board of Directors on 11 March 2021. The financial statements used for consolidation purposes are the separate ones for the year ended 31 December 2020 prepared by the Boards of Directors of the individual companies, as adjusted if necessary for the Group's accounting policies and measurement bases.

The financial statements have been prepared on the historical cost basis, adjusted as required for the valuation of certain financial instruments, and under the assumption of going concern. Even though the unpredictability of the epidemic's potential impact is the source of considerable uncertainty, the Group, in light of the actions taken to limit risks and its business model, as well as the good results obtained in 2020 which confirmed the effectiveness of the strategy implemented to address the health crisis, believes that there are no elements which could compromise the business as a going concern as per paragraph 25 of IAS 1.
The risks and uncertainties relating to the business are described in a specific section of the Report on operations. The methods used by the Group to manage financial risks are described in note 42. *Risk management* of the present Explanatory notes.

Translation of balances in foreign currencies

The following exchange rates have been used:

		31.12.2020		31.12.2019		% Change	
		Period-end exchange rate (*)	Average exchange rate (*)	Period-end exchange rate (*)	Average exchange rate (*)	Period-end exchange rate (*)	Average exchange rate (*)
US dollar	USD	1.2271	1.1422	1.1234	1.1195	9.23%	2.03%
British pound	GBP	0.8990	0.8897	0.8508	0.8778	5.67%	1.36%
Hong Kong dollar	HKD	9.5142	8.8587	8.7473	8.7715	8.77%	0.99%
Chinese renminbi (Yuan)	CNY	8.0225	7.8747	7.8205	7.7355	2.58%	1.80%
Australian dollar	AUD	1.5896	1.6549	1.5995	1.6109	(0.62%)	2.73%
Canadian dollar	CAD	1.5633	1.5300	1.4598	1.4855	7.09%	3.00%
Japanese yen	JPY	126.4900	121.8458	121.9400	122.0058	3.73%	(0.13%)
Malaysian ringgit	MYR	4.9340	4.7959	4.5953	4.6374	7.37%	3.42%
New Zealand dollar	NZD	1.6984	1.7561	1.6653	1.6998	1.99%	3.31%
Polish zloty	PLN	4.5597	4.4430	4.2568	4.2976	7.12%	3.38%
South African rand	ZAR	18.0219	18.7655	15.7773	16.1757	14.23%	16.01%
Singapore dollar	SGD	1.6218	1.5742	1.5111	1.5273	7.33%	3.07%
Russian rouble	RUB	91.4671	82.7248	69.9563	72.4553	30.75%	14.17%
Turkish lira	TRY	9.1131	8.0547	6.6843	6.3578	36.34%	26.69%
Czech koruna	CZK	26.2420	26.4551	25.4080	25.6705	3.28%	3.06%
Swiss franc	CHF	1.0802	1.0705	1.0854	1.1124	(0.48%)	(3.77%)
Brazilian real	BRL	6.3735	5.8943	4.5157	4.4134	41.14%	33.55%
Croatian kuna	HRK	7.5519	7.5384	7.4395	7.4180	1.51%	1.62%
Ukrainian hryvnia	UAH	34.7689	30.8506	26.7195	28.9220	30.13%	6.67%
Romanian leu	RON	4.8683	4.8383	4.7830	4.7453	1.78%	1.96%
South Korean won	KRW	1,336.0000	1,345.5800	1,296.2800	1,305.3200	3.06%	3.08%
Chilean peso	CLP	872.5200	903.1400	844.8600	786.8900	3.27%	14.77%
Hungarian forint	HUF	363.8900	351.2494	330.5300	325.2967	10.09%	7.98%
Swedish krona	SEK	10.0343	10.4848	10.4468	10.5891	(3.95%)	(0.98%)
Mexican peso	MXN	24.4160	24.5194	21.2202	21.5565	15.06%	13.74%

(*) Source: Bank of Italy

International accounting standards adopted by the Group for the first time

The Amendments to references to the conceptual framework in IFRS Standards endorsed by the European Commission on 29 November 2019 in Regulation 2019/2075 took effect 1 January 2020; these amendments update the references to previous framework standards in different accounting standards and different interpretations, substituting them with the revised conceptual framework.

The Amendments to *IAS 1 and IAS 8 - Definition of material* were also endorsed in Regulation 2019/2075. These amendments aim to clarify the definition of material and how it should be applied. Based on the amendments, information is deemed material if omitting it or misstating it could reasonably influence the decisions made by the primary users of the financial statements. In the new version reference to size and nature in the definition of material has been eliminated; furthermore, the scope of the users for which the information in the financial statements is intended has been narrowed from users to primary users, namely current and potential investors, lenders and other creditors.

On 15 January 2020 the endorsement of the *Amendments to IFRS 9, IAS 39 and IFRS 17 - Interest Rate Benchmark Reform* was finalized. These amendments are part of the "phase 1" of a larger project focused on providing temporary relief from the impact that the uncertainty surrounding *Interest Rate Benchmark Reform* could have on financial statements. More in detail, the amendments relate to aspects connected to the (i) risk components, (ii) 'Highly probable' requirement, (iii) prospective assessments, (iv) effectiveness test and (v) recycling of the cash flow hedging reserve. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.

The European Commission endorsed Amendments to *IFRS 3 - Business combinations* in Regulation 2020/551 of 21 April 2020. The main amendments to the standard refer to an updated definition of business in order to determine whether an acquisition is of a business or a group of assets. An optional fair value "concentration test" was also introduced, along with additional guidelines and new examples. The new definition must be applied to acquisitions made on or after 1 January 2020.

Lastly, with Regulation 1424/2020 of 9 October 2020 the European Commission endorsed an amendment to IFRS 16 issued by IASB on 28 May 2020 in response to the spread of the health crisis. The amendment introduced a practical expedient which simplifies the accounting of any concessions on leases, like the temporary discounts or exemptions from payments, received by tenants during the pandemic.
The authorities established that if the concessions are a direct consequence of the health crisis, if the change in lease payments is substantially the same as, or less than, the consideration for the lease immediately preceding the change, and if any reduction in lease payments affects only payments originally due on or before 30 June 2021 and there are no substantive changes to other terms and conditions of the lease, the lessee may opt to recognize the lower rents as variable components of the leases and not as lease modifications
The De' Longhi Group exercised the right to apply this expedient when allowed.

Application of the amendments described above did not have a material impact on the Group's economic and financial results.

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

On 14 May 2020 IASB published amendments, effective as of 1 January 2022, relating to several standards, namely *Amendments to IFRS 3 Business Combinations, Amendments to IAS 16 Property, Plant and Equipment, Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets.* As part of the annual improvements changes were also made to *IFRS 1 - First-time Adoption of International Financial Reporting Standards, IFRS 9 - Financial Instruments, IAS 41 - Agriculture and the IFRS 16 - Leases.*
On 15 December 2020 the endorsement process for *Amendments to IFRS 4 - Insurance contracts - deferral of IFRS 9* was finalized; these amendments, applicable as of 1 January 2021, grant insurance companies the option to defer application of IFRS 9.

Similarly, on 13 January 2021 the *Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2* were approved; these amendments, in effect as of 1 January 2021 without prejudice to early application, address issues that might affect financial reporting after the benchmark reform takes effect, including the replacement of the interest rate benchmark with an alternative benchmark interest rate.

One of the main changes made by the IASB, which has yet to be endorsed, includes the introduction of *IFRS 17 - Insurance contracts* which will substitute IFRS 4. The new standard establishes rules for the recognition, measurement, presentation and disclosure of insurance contracts; it will be applied to all insurance contracts using an accounting model based on the discounted cash flow method, adjusted for risk, and a Contractual Service Margin (CSM). Initially, once endorsed by the European Union, the new standard was to be applied to reporting periods beginning on or after 1 January 2021, but the date of first-time application was, subsequently, postponed a year, to 1 January 2022.

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

Consolidation procedures

The scope of consolidation includes the parent company, De' Longhi S.p.A., and its subsidiaries at 31 December 2020, meaning those companies in which the parent directly or indirectly owns the majority of share capital or shares with voting rights, or over which the parent has the power, including through contractual agreements, to govern their financial and operating policies.

Subsidiary companies

These are companies over which the Group exercises control. Such control exists when the Group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are consolidated starting from the date that control is assumed with the line-by-line method.
The portion of equity and results attributable to minority shareholders is shown separately in the consolidated statement of financial position and income statement respectively.
The Group established that a transaction is to be considered a business combination if the assets acquired and the liabilities assumed constitute a business, namely an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing goods or services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. A business must include at least one input and a substantive process that together significantly contribute to the ability to create output.
In accordance with IFRS 3, business combinations are accounted for using the purchase method. Under this method, the consideration transferred for the acquisition is measured at fair value except for the following items which are measured in accordance with the applicable standard: i) deferred tax assets and liabilities, ii) assets and liabilities for employee benefits and iii) assets held for sale. In the case in which it is only possible to estimate provisionally the fair value of assets, liabilities and potential liabilities, the business combination is accounted for on the basis of provisional estimated values. Any subsequent corrections required following completion of the valuation process are accounted for within 12 months of the acquisition date.
If an element of the consideration depends on the outcome of future events, such element is included in the estimate of fair value at the time of the business combination.
The acquisition of further shares in subsidiaries and any sale of shares which do not lead to loss of control are accounted for as transactions between shareholders; as such, the accounting effects of such operations are reflected directly in the Group equity.

Associated companies

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

Joint ventures

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

Consolidation of foreign companies

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

Transactions eliminated upon consolidation

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

Transactions in foreign currency

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

Change in the scope of consolidation - business combinations

On 23 November 2020, De' Longhi announced that it had signed an agreement for the purchase of Capital Brands Holding Inc., an American company leader worldwide in the personal blenders segment with the Nutribullet and Magic Bullet brands.
The sales agreement was finalized on 29 December 2020, once the competent bodies, the anti-trust authorities, in particular, had completed the authorization process and the conditions precedent had been fulfilled.
The transaction is consistent with the Group's objectives calling for geographical expansion, as well as external growth, and is of great strategic value for several reasons. A young, dynamic brand was added to the existing portfolio, the range of iconic products was expanded with an important presence in the blender segment, penetration in an expanding and strategically important market like the United States was increased and the Group's leadership in the food preparation sector was strengthened.

As the assets acquired and the liabilities assumed constitute the acquisition of a business, the transaction is considered a business combination pursuant to IFRS 3.
The initial net consideration was paid entirely at the closing date based on the pro-forma financial statements of Capital Brands. The price payable is the Enterprise Value on a "cash-free, debt-free" basis which amounted to $421 million. The acquisition had an impact on the Group's net financial position of €329.3 million.

Based on the agreement the consideration will be revised based on the definitive financial statements and is to be agreed upon within 90 days of the acquisition; at the date of this Annual Report, therefore, the final balance had yet to be determined.
Consequently, the consideration was temporarily allocated to the assets and liabilities acquired until the definitive information needed to determine the final price is received. The definitive purchase price allocation will be made within twelve months of the acquisition.
The Capital Brands Group includes the holding, Capital Brands Holding Inc., and a few subsidiaries located primarily in the United States.
Only Capital Brands' balance sheet was included in the scope of consolidation.

Total value of the transaction	285,399
Preliminary fair value of assets and (liabilities) acquired	(20,715)
Goodwill	**306,114**

The temporary allocation of the purchase price to the assets and liabilities acquired as a result of the transaction is summarized below.
This allocation is temporary, pending final information that will allow the amounts to be finalised.

	Preliminary fair value at the acquisition date
Intangible assets	13,028
Property, plant and equipment	6,432
Financial assets	818
Deferred tax assets	4,102
Trade receivables	35,629
Inventories	25,665
Other current assets	871
Cash and cash equivalents	18,082
Total assets	**104,627**
Trade payables	(47,066)
Other current liabilities	(10,242)
Financinal payables	(61,986)
Non current provisions for contingencies	(6,048)
Total liabilities	**(125,342)**
Net assets (liabilities)	**(20,715)**
Portion acquired by the Group (100%)	**(20,715)**

Disclosure by operating segments

Please refer to Note *45. Operating segments*.
The report on operations contains comments on the economic results by geographical area.

Main accounting policies

Intangible assets

Goodwill

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

Research and development costs

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

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

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

Trademarks

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

These assets are valued at purchase or production cost and amortized, if they have a finite life, on a straight-line basis over their estimated useful life, generally between 10 and 20 years.
Trademarks with an indefinite useful life are not amortized but tested for impairment once a year or more often, any time there are signs that their value might be impaired.

Other intangible assets

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

Property, plant and equipment

Land, property, plant and machinery

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

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

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

Right-of-use assets

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

Impairment of non-financial assets

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

Net assets held for sale and Discontinued Operations

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

Inventories

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

Financial instruments

Financial assets

Upon initial recognition, financial assets are classified based on the measurement methods used in one of the three categories found in IFRS 9. The classification depends on the nature of the contractual cash flows and the business model the company uses to manage them.
The business model refers to the way in which the cash flows are generated which can be from the collection of contractual cash flows, the sale of assets or both.

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

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

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

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

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

Financial liabilities

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

Lease liabilities

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

Derivatives

Derivatives are used solely for hedging purposes, in order to reduce exposures to currency and interest rate risk. As allowed by IFRS 9, derivatives may qualify for special hedge accounting only when, at the inception of the hedge, the following conditions are satisfied:

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

In accordance with IFRS 9, all derivatives are measured at fair value.
If financial instruments qualify for hedge accounting, the following treatment applies:

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

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

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

Factoring of trade receivables

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

Employee benefits

Pension and other incentive plans

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

Equity based compensation

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

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

Provisions for contingencies and other charges

The Group recognizes provisions for contingencies and charges when (i) it has a present obligation (legal or constructive) to third parties (ii) it is probable that the Group will need to employ resources to settle the obligation and (iii) a reliable estimate can be made of the amount of the obligation. Changes in these estimates are reflected in the income statement in the period in which they occur (also see the comments in the paragraph on "Estimates and assumptions").
Where the effect of the time value of money is material and the date of extinguishing the liability can be reasonably estimated, provisions are stated at the present value of the expected expenditure, using a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. An increase in the amount of the provision for the time value of money is accounted for in interest expense. Contingencies for which the probability of a liability is not probable but neither remote are disclosed in the notes but no provision is recognized.

Recognition of revenues

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

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

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

If the consideration referred to in the contract has a variable component, the Group will estimate the amount of the consideration it will be entitled to in exchange for the goods or services transferred to the customer.
The Group typically provides warranties for the repair of defects existing at the time of the sale, in accordance with the law. These warranties, which are standard warranties on quality, are accounted for in accordance with *IAS 37 - Provisions, Contingent Liabilities and Contingent Assets.*

Costs and expenses

Costs and expenses are accounted for on an accrual basis.

Dividends

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

Income taxes

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

Deferred taxes are provided on the basis of global provision for the liability. They are calculated on all the temporary differences emerging between the tax base of an asset or liability and their book value in the consolidated financial statements, except for goodwill whose amortization cannot be deducted for tax purposes and those differences arising from investments in subsidiaries which are not expected to reverse in the foreseeable future. Deferred tax assets on the carryforward of unused tax losses and tax credits are recognized to the extent that it is probable that future taxable profit will be available against which these can be recovered. Current and deferred tax assets and liabilities may be offset when the income taxes are charged by the same tax authority and when there is a legal right of set-off. Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability settled, based on tax rates and laws applying in the countries where the Group operates.
Deferred taxes on reserves of distributable earnings in subsidiaries are recognized only if it is probable that such reserves will be distributed.
Any uncertaintiy regarding tax treatments is considered in the tax calculation in accordance with the recommendations of *IFRIC 23 Uncertainty over Income Tax Treatments.*

Earnings per share

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

Estimates and assumptions

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

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

Allowance for doubtful accounts

The allowance for doubtful accounts reflects estimated losses on trade receivables recognized in the financial statements and not covered by insurance. The losses equal the difference between the amounts the Group is entitled to receive based on contracts with customers and the estimated inflows. Changes in the economic environment could cause the performance of some of the Group's customers to deteriorate, with an impact on the recoverability of the uninsured portion of trade receivables.

Recoverable amount of non-current assets

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

Employee benefits

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

Deferred tax assets recoverability

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

Provisions for contingencies

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

Product warranty provisions

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

Comments on the income statement

1. Revenues

In 2020 revenues, including revenues from sales and services and other revenues, amount to 2,351,257 thousand (€2,101,138 thousand in 2019).
Revenues are broken down by geographical area as follows:

	2020	% revenues	2019	% revenues	Change	Change %
Europe	1,628,449	69.3%	1,419,944	67.6%	208,505	14.7%
APA (Asia/Pacific/Americas)	600,340	25.5%	541,627	25.8%	58,713	10.8%
MEIA (Middle East/India/Africa)	122,468	5.2%	139,567	6.6%	(17,099)	(12.3%)
Total	**2,351,257**	**100.0%**	**2,101,138**	**100.0%**	**250,119**	**11.9%**

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

"Other revenues" is broken down as follows:

	2020	2019	Change
Freight reimbursement	3,335	3,602	(267)
Commercial rights	1,534	2,372	(838)
Grants and contributions	1,312	1,308	4
Damages reimbursed	472	764	(292)
Out-of-period gains	99	56	43
Other income	11,938	11,886	52
Total	**18,690**	**19,988**	**(1,298)**

With regard to Law n. 124 of 4 August 2017, which regulates transparency in public funding, the item “Grants and contributions” includes income of €349 thousand stemming from the incentives granted by Gestore dei Servizi Energetici GSE S.p.A. for the production of energy at the Mignagola (TV) plant through photovoltaic systems connected to the grid.

2. Raw and ancillary materials, consumables and goods

The breakdown is as follows:

	2020	2019	Change
Parts	535,213	424,482	110,731
Finished products	439,474	365,958	73,516
Raw materials	85,765	71,239	14,526
Other purchases	17,945	18,950	(1,005)
Total	**1,078,397**	**880,629**	**197,768**

In 2020, the item includes non-recurring expenses of €713 thousand.

3. Change in inventories

The difference between the overall change in inventories reported in the income statement and the change in balances reported in the statement of financial position is mainly due to differences arising on the translation of foreign subsidiaries financial statements and on the changes in the consolidation area after the acquisition of Capital Brands.

4. Payroll costs

These costs include €98,909 thousand in production-related payroll (€82,349 thousand at 31 December 2019).

	2020	2019	Change
Employee wages and salaries	276,337	252,665	23,672
Temporary workers	24,705	15,353	9,352
Total	**301,042**	**268,018**	**33,024**

The figures relating to the cost of employee benefits provided by certain Group companies in Italy and abroad are reported in note 34. *Employee Benefits*.

In 2020 payroll costs included non-recurring expenses of €8,529 thousand. This amount includes a special bonus of €9,479 thousand awarded to all employees and business partners approved by the parent company De'Longhi S.p.A.'s Board of Directors which, in light of the excellent performance achieved by the Group during a period of unprecedented crisis, was given as recognition for the employees' commitment and dedication to achieving such significant results.
In 2020 non-recurring expenses of €689 thousand were also incurred for the commercial reorganization underway at a few foreign subsidiaries and net income of €1,639 thousand derived from the contributions received to support employment during the health crisis was recorded.

The item includes €2,502 thousand relating to the notional cost (fair value) of the two stock option plans (€2,146 thousand at 31 December 2019); please refer to note 28. *Stock option plans* for more information.

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

	2020	2019
Blue collars	5,746	5,081
White collars	2,753	2,855
Managers	279	255
Total	**8,778**	**8,191**

5. Services and other operating expenses

These are detailed as follows:

	2020	2019	Change
Promotional expenses	208,164	179,719	28,445
Advertising	84,608	65,647	18,961
Transport (for purchases and sales)	103,486	84,001	19,485
Subcontracted work	46,939	44,108	2,831
Consulting services	27,457	22,581	4,876
Technical support	20,110	16,230	3,880
Storage and warehousing	19,564	16,079	3,485
Rentals and leasing	13,519	15,907	(2,388)
Power	9,613	8,815	798
Commissions	9,184	7,172	2,012
Insurance	6,672	5,395	1,277
Product certification and product inspection fees	6,108	6,094	14
Travel	5,690	13,688	(7,998)
Directors' emoluments	4,847	3,064	1,783
Statutory auditors' emoluments	235	310	(75)
Maintenance	4,099	4,310	(211)
Credit insurance fees	4,037	3,271	766
Postage, telegraph and telephones	3,638	3,706	(68)
Other utilities and cleaning fees, security, waste collection	3,465	3,212	253
Other sundry services	30,683	29,931	752
Total services	**612,118**	**533,240**	**78,878**
Sundry taxes	48,468	42,309	6,159
Bad debts	148	88	60
Out-of-period losses	62	532	(470)
Other	13,344	6,421	6,923
Total other operating expenses	**62,022**	**49,350**	**12,672**
Total	**674,140**	**582,590**	**91,550**

In 2020, this item includes non-recurring costs totaling €11,758 thousand (€1,790 thousand at 31 December 2019), of which €4,451 thousand, including the donation made to support domestic containment measures and expenses incurred for restructuring underway, classified as "Other", €4,258 thousand and €1,276 thousand relative to consultancies and insurance, respectively, incurred for the Capital Brands acquisition, €1,080 thousand for transportation costs and €693 thousand in various costs relating primarily to the actions taken to limit the impact of the health crisis.

In 2020 the item "Rentals and leasing" includes, in addition to €825 thousand in commercial rights (€846 thousand in 2019), operating costs relating to contracts that are not or do not contain a lease (€10,810 thousand, €12,404 thousand in 2019), as well as costs relating to leases of less than twelve months' duration (€1,832 thousand, €2,540 thousand in 2019) or relating to low-value assets (€52 thousand, €117 thousand in 2019); for further information, please refer to note 15. *Leases*.

6. Provisions

These include €18,720 thousand in provisions for contingencies and other charges and €3,330 thousand in provisions for doubtful accounts. The main changes in this item are discussed in note 35. *Other provisions for non-current contingencies and charges*.

7. Amortization

The breakdown is as follows:

	2020	2019	Change
Amortization of intangible assets	15,650	14,300	1,350
Depreciation of property, plant and equipment	46,226	44,935	1,291
Depreciation of Right of Use assets	19,117	19,022	95
Total	**80,993**	**78,257**	**2,736**

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

8. Non-recurring income/(expenses)

The non-recurring items amounted to €21,000 thousand in 2020 and are detailed in the respective lines of the income statement (€11,758 thousand in costs for services, €8,529 thousand in payroll costs, €713 thousand in costs for raw and ancillary materials, consumables and goods).
The amount includes the special bonus of €9,479 thousand paid to the Group's employees and business partners for the commitment to achieving business targets in the difficult context created by the current health crisis.
This item also includes €4,189 thousand in costs stemming from the pandemic, including the donation of €3,100 thousand made by the Group to support domestic containment measures, net the contributions received to support employment received from a few foreign branches.
Lastly, the non-recurring items also include expenses stemming from the Capital Brands acquisition of €5,534 thousand and the commercial reorganization of a few foreign branches of €1,798 thousand.

9. Net financial income (expenses)

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

	2020	2019	Change
Exchange differences and gains (losses) on currency hedges (*)	**(1,437)**	**(848)**	**(589)**
Share of profit of equity investments consolidated by the equity method	**3,465**	**922**	**2,543**
Net interest expense	(3,699)	(2,309)	(1,390)
Interest for leasing	(1,550)	(1,809)	259
Financial discounts and other financial income (expenses)	(2,471)	(11,088)	8,617
Other net financial income (expenses)	**(7,720)**	**(15,206)**	**7,486**
Net financial income (expenses)	**(5,692)**	**(15,132)**	**9,440**

(*) The item includes €7 thousand relating to exchange rate losses on leases accounted for in accordance with IFRS 16 *Leases*.

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

"Share of profit of equity investments consolidated by the equity method" includes income from the joint venture TCL/DL, dedicated to the manufacture of portable air conditioners, the interest held in the Eversys Group, which is active in the professional espresso coffee machine sector, and the investment in NPE S.r.l., a supplier of electronic components.

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

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

10. Income taxes

These are analyzed as follows:

	2020	2019	Change
Current income taxes:			
- Income taxes	83,401	39,195	44,206
- IRAP (Italian regional business tax)	5,118	2,625	2,493
Deferred (advanced) taxes	(32,338)	(7,034)	(25,304)
Total	**56,181**	**34,786**	**21,395**

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

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

The actual and theoretical tax charge are reconciled as follows:

	2020	%	2019	%
Profit before taxes	256,314	100.0%	195,791	100.0%
Theoretical taxes	61,515	24.0%	46,990	24.0%
Other (*)	(10,452)	(4.1%)	(14,829)	(7.6%)
Total income taxes	**51,063**	**19.9%**	**32,161**	**16.4%**
IRAP (Italian regional business tax)	5,118	2.0%	2,625	1.3%
Actual taxes	**56,181**	**21.9%**	**34,786**	**17.8%**

(*) Mostly refers to the net tax effect of permanent differences, of different tax rates applied abroad relative to the theoretical ones applied in Italy, of adjustments on prior years taxes and of non recurring items. Moreover, in 2019, the item includes the benefit of the patent box incentives.

Comments on the statement of financial position: assets

Non-current assets

11. Goodwill

	31.12.2020		31.12.2019	
	Gross	**Net**	**Gross**	**Net**
Goodwill	405,261	398,514	99,147	92,400

The change in “Goodwill” of €306,114 thousand is explained entirely by the recent Capital Brands acquisition and the temporary allocation of the consideration paid to assets and liabilities until the definitive information needed to determine the final price is received (for more information refer to the section “*Changes in the scope of consolidation - Business combinations*”).

Goodwill is not amortized because it is considered to have an indefinite useful life. Instead, it is tested for impairment at least once a year to identify any evidence of loss in value.
For the purposes of impairment testing, goodwill is allocated by CGU (cash generating unit), namely De’ Longhi, Kenwood and Braun, as follows:

Cash-generating unit	31.12.2020
De'Longhi	26,444
Kenwood	17,120
Braun	48,836
Total	**92,400**
Temporary allocation (Capital Brands)	306,114
Total	**398,514**

The objective of the impairment test is to determine the value in use of the CGU to which the goodwill refers, meaning the present value of the future cash flows expected to be derived from continuous use of the assets; any cash flows arising from extraordinary events are therefore ignored.
In particular, value in use is determined by applying the discounted cash flow method to forecast cash flows contained in plans prepared assuming realistic scenarios on the information available at the reporting date, also including the 3-years plan and the 2021 budget proposal submitted to the Board of Directors.
Plan data was projected beyond the explicit planning period using a perpetuity growth rate that was no higher than those expected for the markets in which the individual CGUs operate. The growth rate in terminal values used for projecting beyond the planning period was therefore 2% for all the CGUs, deemed representative of a precautionary growth rate in terminal values.
The cash flows and discount rate were determined net of tax.
The discount rate was calculated using the weighted average cost of capital (WACC) for a group of peers. The discount rate of 5.8%, used for all the CGUs, reflects therefore current market assessments and the time value of money and takes account of the risks specific to the sector.
The impairment tests carried out at the end of 2020 have not revealed any other significant evidence of goodwill impairment.

With regard to the CGUs De' Longhi and Kenwood, which comprise the Group's traditional business, the recoverable amounts shown in the impairment tests and the sensitivity analysis are much higher than book value.
For the CGU Braun, the recoverable amount determined by the test was higher than book value, even though the brand was acquired more recently.
The Capital Brands acquisition was not subject to impairment testing as the acquisition was made at the end of December 2020 and there were no significant changes in the fair value of acquired assets/ liabilities in the period between the acquisition and the balance closing date. For the purposes of the 2020 financial statements, which consolidate only the balance sheet of the acquired company, the net assets and liabilities were recognized, allocating, temporarily as allowed under the IFRS, the difference between the purchase price to consolidation differences (for €306,114 thousand).
The definitive allocation of the purchase price based on the fair value of the assets and liabilities acquired will be made within 12 months of the acquisition, namely during 2021. An impairment test will be conducted at that time.

The results obtained using the discounted cash flow method have been tested for their sensitivity to changes in certain key variables, within reasonable ranges and on the basis of mutually consistent assumptions. The variables altered were the discount rate (between 5.6% and 6.0%) and the growth rate in terminal value (in the range 1.8%-2.2%).
The estimated recoverable amounts for all the CGUs, however, were higher than book value and the sensitivity analyses point to relatively stable results; in fact, the minimum and maximum amounts diverged by around 10% from the central point when both variables were altered.

Group Board of Directors approved the assumptions and the criteria used to perform the impairment tests.
The current environment of uncertainty stemming from the coronavirus health crisis does, however, call for precaution, also when making economic forecasts.
However, estimating CGU recoverable amount requires management to make discretionary judgements and estimates. In fact, several factors also associated with developments in the difficult market context could make it necessary to reassess the value of goodwill. The Group will be constantly monitoring those events and circumstances that might make it necessary to perform new impairment tests.

12. Other intangible assets

These are analyzed as follows:

	31.12.2020		31.12.2019	
	Gross	**Net**	**Gross**	**Net**
New product development costs	117,711	21,780	103,900	17,490
Patents	41,433	3,082	40,106	3,217
Trademarks and similar rights	293,384	187,222	281,617	178,834
Work in progress and advances	23,062	16,085	24,307	17,810
Other	23,791	5,183	22,878	5,078
Total	**499,381**	**233,352**	**472,808**	**222,429**

The following table reports movements in the main asset categories during 2020:

	New product development costs	Patents	Trademarks and similar rights	Work in progress and advances	Other	Total
Net opening balance	**17,490**	**3,217**	**178,834**	**17,810**	**5,078**	**222,429**
Additions	1,101	1,343	160	10,949	321	13,874
Amortization	(9,521)	(1,462)	(3,379)	(480)	(808)	(15,650)
Acquisition of Capital Brands	802	-	11,609	-	617	13,028
Translation differences and other movements (*)	11,908	(16)	(2)	(12,194)	(25)	(329)
Net closing balance	**21,780**	**3,082**	**187,222**	**16,085**	**5,183**	**233,352**

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

The principal additions refer to the capitalization of new product development projects, based on detailed reporting and analysis of the costs incurred and the estimated future usefulness of such projects.
The Group has capitalized a total of €12,050 thousand in development costs as intangible assets in 2020, of which €1,101 thousand in "New product development costs" for projects already completed at the reporting date and €10,949 thousand in "Work in progress and advances" for projects still in progress.

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

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

The impairment test carried out at the end of 2020 for both brands based on an indefinite useful life, did not reveal any evidence that these assets might have suffered an impairment loss.
The method used to test impairment involves discounting to present value the royalties that the Group would be able to earn from permanently granting third parties the right to use the trademarks in question. This method, which is based on royalty cash flows and reasonably estimated sales volumes, is the most commonly used for company valuation purposes since it is able to provide a suitable expression of the relationship between the strength of the trademark and business profitability.
The discount rate (6.8% net of tax) reflects current market assessments and the time value of money. The growth rate in terminal values used for projecting beyond the planning period was therefore 2% for all the CGUs, deemed representative of a precautionary growth rate in terminal values.
The cash flows discounted to present value are stated net of tax (in keeping with the discount rate).

The results of the impairment test have been tested for their sensitivity to changes in certain key variables, within reasonable ranges and on the basis of mutually consistent assumptions. The variables altered were the discount rate (between 6.6% and 7.0%) and the growth rate in terminal value (in the range 1.8%-2.2%).
The sensitivity analysis has revealed relatively stable results; in fact, the minimum and maximum amounts diverged by around 10% from the central point when both variables were changed.

13. Land, property, plant and machinery

These are analyzed as follows:

	31.12.2020		31.12.2019	
	Gross	Net	Gross	Net
Land and buildings	129,262	88,153	118,344	82,316
Plant and machinery	152,121	50,364	151,306	51,931
Total	**281,383**	**138,517**	**269,650**	**134,247**

The following table reports movements during 2020:

	Land and buildings	Plant and machinery	Total
Net opening balance	**82,316**	**51,931**	**134,247**
Additions	12,182	4,793	16,975
Disposals	-	(115)	(115)
Amortization	(5,438)	(9,725)	(15,163)
Acquisition of Capital Brands	1,245	1,621	2,866
Translation differences and other movements	(2,152)	1,859	(293)
Net closing balance	**88,153**	**50,364**	**138,517**

The investments in "Land and buildings" refer mainly to the purchase of the new plant in Romania and to the development of the new headquarters in Treviso.

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

14. Other tangible assets

Other tangible assets are analyzed as follows:

	31.12.2020		31.12.2019	
	Gross	**Net**	**Gross**	**Net**
Industrial and commercial equipment	320,600	49,881	318,088	55,564
Other	90,028	23,012	88,471	23,149
Work in progress and advances	48,647	48,646	28,456	28,456
Total	**459,275**	**121,539**	**435,015**	**107,169**

The following table reports movements during 2020:

	Industrial and commercial equipment	Other	Work in progress and advances	Total
Net opening balance	**55,564**	**23,149**	**28,456**	**107,169**
Additions	14,795	6,867	27,686	49,348
Disposals	(56)	(650)	-	(706)
Amortization	(23,644)	(7,419)	-	(31,063)
Acquisition of Capital Brands	20	1,040	-	1,060
Translation differences and other movements	3,202	25	(7,496)	(4,269)
Net closing balance	**49,881**	**23,012**	**48,646**	**121,539**

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

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

15. Leases

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

Movements in the leased right of use assets in 2020 are shown below:

	Land and buildings	Industrial and commercial equipment	Other	Total
Net opening balance	**66,768**	**1,254**	**4,369**	**72,391**
Additions	6,849	1,504	2,082	10,435
Disposals	(1,328)	(137)	(53)	(1,518)
Amortization	(16,352)	(372)	(2,393)	(19,117)
Acquisition of Capital Brands	2,506	-	-	2,506
Translation differences and other movements	(972)	-	(123)	(1,095)
Net closing balance	**57,471**	**2,249**	**3,882**	**63,602**

In 2020, the result for the period includes depreciation and amortization for €19,117 thousand, interest payable for €1,550 thousand and exchange losses for €7 thousand, while €20,230 thousand of rental costs were reversed.

At 31 December 2020 financial liabilities for leases of €66,171 thousand (of which €47,993 thousand expiring beyond 12 months) including also €2,532 thousand pertaining to the newly acquired Capital Brands (of which €1,583 thousand expiring beyond 12 months) and financial assets for advanced payments of €391 thousand, included in "Current financial receivables and assets", were recognized in the financial statements (please refer to note 24).

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

	Undiscounted flows at 31.12.2020	Payable in one year	Payable in 1-5 years	Payable in more than five years
Lease liabilities	69,351	19,322	36,551	13,478

The adoption of IFRS 16 *Lease* impacted on Group net equity at 31 December 2020 for €1,011 thousand.

16. Equity investments

Details of equity investments are as follows:

	31.12.2020	31.12.2019
Equity investments consolidated using the equity method	30,022	26,672
Investment measured at fair value	51	52
Total	**30,073**	**26,724**

The consolidation of Capital Brands had no impact on the above item.

"Equity investments consolidated using the equity method" refers to the equity investments subject to joint control as per contractual agreements and associated companies, accounted for using the equity method in accordance with *IAS 28 - Investments in associates and joint venture*.
The changes in 2020 are shown below:

	31.12.2020
Net opening balance	**26,672**
Interest in net profit	3,465
Exchange rate differences	(115)
Payment of dividends	-
Net closing balance	**30,022**

17. Non-current receivables

The balance at 31 December 2020 comprises €4,478 thousand in security deposits (€3,482 thousand at 31 December 2019) and €2 thousand in other non-current financial receivables.

18. Other non-current financial assets

This item includes investments made as part of the Group’s liquidity management with primary counterparts, namely financial assets that will be held until maturity consistent with the business model objective to receive contractual cash flows (principal and interest) at specific maturities which were, therefore, accounted for using the amortized cost method. The item includes €20,014 thousand relating to two bonds with a total nominal value of €20,000 thousand, expiring in 2026 and 2027, respectively, and €49,972 thousand relating to two securities (par value of €50,000 thousand), with a semi-annual coupon, expiring in 2022.
No signs of impairment emerged about the balances recognized in the financial statements.

19. Deferred tax assets and deferred tax liabilities

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

	31.12.2020	31.12.2020 on like-for-like basis	31.12.2019
Deferred tax assets	57,032	52,930	47,253
Deferred tax liabilities	(9,235)	(9,235)	(35,838)
Net closing balance	**47,797**	**43,695**	**11,415**

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

The net balance is analyzed as follows:

	31.12.2020	31.12.2020 on like-for-like basis	31.12.2019
Temporary differences	44,834	40,732	8,507
Tax losses	2,963	2,963	2,908
Net closing balance	**47,797**	**43,695**	**11,415**

The change in the net asset balance also reflects the effects of the fiscal ri-alignment (please refer to note *43. Tax position*) and an increase of €1,054 thousand relating to the “Fair value and cash flow hedge reserve” recognized in net equity with reference to the fair value evaluation of investments and cash flow hedge derivatives and of €538 thousand in "Profit (loss) carried forward" and relating to the actuarial gains/(losses) recognized in the comprehensive income statement pursuant to the IAS 19 - *Employee Benefits*.

Current assets

20. Inventories

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

	31.12.2020	31.12.2020 on like-for-like basis	31.12.2019
Finished products and goods	343,605	317,675	288,603
Raw, ancillary and consumable materials	87,538	87,538	59,700
Work in progress and semi-finished products	32,098	32,098	24,162
Inventory writedown allowance	(39,264)	(38,999)	(28,930)
Total	**423,977**	**398,312**	**343,535**

The value of inventories is stated after deducting an allowance for obsolete or slow-moving goods totaling €39,264 thousand, €38,999 on like-for-like basis, (€28,930 thousand at 31 December 2019) in relation to products and raw materials that are obsolete and slow-moving or are no longer of strategic interest to the Group.

21. Trade receivables

These are analyzed as follows:

	31.12.2020	31.12.2020 on like-for-like basis	31.12.2019
Trade receivables:			
- due within 12 months	408,601	372,696	446,048
- due beyond 12 months	14	14	142
Allowance for doubtful accounts	(10,561)	(10,285)	(8,830)
Total	**398,054**	**362,425**	**437,360**

Trade receivables are stated net of an allowance for doubtful accounts of €10,561 thousand, representing a reasonable estimate of the expected losses during the entire life of the receivables. The allowance takes account of the fact that a significant portion of the receivables are covered by insurance policies with major insurers.

In accordance with the disclosure required by Consob Circular 3369 of 9 April 1997, we report that the total amount of receivables factored without recourse and outstanding at 31 December 2020 is €165,250 thousand (€163,354 thousand at 31 December 2019). The total amount of receivables factored by the Group (turnover) during 2020 (under Law 52/1991 known as the Factoring Law) was €924,029 thousand (€791,632 thousand during 2019).

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

	31.12.2019	Accrual	Utilization	Translation differences and other movements	Changes in consolidation area	31.12.2020
Allowance for doubtful accounts	8,830	3,330	(1,235)	(640)	276	10,561

The change in the allowance is explained, in addition to translation differences and changes in the consolidation area, to provisions for expected losses and to utilization during the year to cover bad debt for which provisions had already been made.

The Group has received guarantees from customers as collateral against trade balances; in addition, a significant portion of the receivables are covered by insurance policies with major insurers. More details can be found in note 42. *Risk management*.

22. Current tax assets

These are analyzed as follows:

	31.12.2020	31.12.2019
Direct tax receivables	2,175	5,512
Tax payments on account	3,460	2,182
Tax refunds requested	906	1,178
Total	**6,541**	**8,872**

The consolidation of Capital Brands had no impact on the above item.

There are no current tax assets due beyond 12 months.

23. Other receivables

"Other receivables" are analyzed as follows:

	31.12.2020	31.12.2020 on like-for-like basis	31.12.2019
VAT	14,207	14,176	8,464
Advances to suppliers	3,047	2,847	2,915
Prepaid insurance costs	1,649	1,649	1,765
Other tax receivables	1,468	1,468	2,204
Employees	132	132	358
Other	9,652	9,012	7,506
Total	**30,155**	**29,284**	**23,212**

There are no other receivables due beyond 12 months.

24. Current financial receivables and assets

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

	31.12.2020	31.12.2019
Fair value of derivatives	10,847	3,563
Advances for leasing contracts	391	267
Fair value of other current financial assets	39,766	55,272
Other current financial assets	192,001	43,317
Total	**243,005**	**102,419**

More details on the fair value of derivatives can be found in note *42. Risk management.*

"Other current financial assets" includes the amounts relating to the so called *ramo primo* of insurance policies, a security (par value of €50,000 thousand), with a semi-annual coupon and capital guarantee funds which pay interest, held as part of liquidity management, as well as a loan made to related parties (please see Appendix.3 for more details) valued at amortized cost.

"Fair value of other current financial assets" refers to the unit linked to the investments of the so called *ramo terzo* of the insurance policies referred to above.

25. Cash and cash equivalents

This balance consists of surplus liquidity on bank current accounts and other cash equivalents, mostly relating to customer payments received at period end and temporary cash surpluses.
Some of the Group's foreign companies have a total of €648.5 million in cash on bank accounts held at the same bank. These cash balances form part of the international cash pooling system and are partially offset by €633.6 million in overdrafts held at the same bank by other foreign companies. This bank therefore acts as a "clearing house" for the Group's positive and negative cash balances. Considering the substance of the transactions and technical workings of the international cash pooling system, the positive and negative cash balances have been netted against one another in the consolidated statement of financial position, as permitted by IAS 32. The bank in question has been given a lien over all the cash balances within the international cash pooling system in respect of this service.

The cash balances at 31 December 2020 include €79 thousand in current accounts of certain subsidiaries, that are restricted, having been given as collateral.

26. Non-current assets held for sale

The item refers to the value of a freehold property of a subsidiary that was classified under non-current assets held for sale, as required under IFRS 5 - *Non-current assets held for sale and discontinued operations*, insofar as the Group initiated a program to locate a buyer and complete the disposal.
The amount corresponds to the net carrying amount, insofar as it is not less than the fair value of the assets held for sale, net of the selling costs.

	31.12.2019	Translation differences	31.12.2020
Non-current assets held for sale	1,277	(300)	977

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

Net equity

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

During the Shareholders’ Meeting held on 22 April 2020, shareholders voted against the Board of Directors’ proposal to distribute a dividend in order to provide the Group with the financial support and means needed to face the potentially negative aftermath of the global health crisis.
Subsequently, in light of the Group’s good performance and as the reasons for caution no longer existed, on 15 December 2020 the Shareholders Meeting unanimously (89.46% of the total voting rights) approved the payment of the same dividend proposed when the financial statements at 31 December 2019 were approved (€0.54 per outstanding share with dividend rights).
A total of €80,813 thousand in dividends was distributed, of which €80,477 paid in the year.

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

27. Treasury shares

On 13 March 2020 the Group announced the launch of a buyback program as per the terms and conditions authorized during the Annual General Meeting held on 30 April 2019 which provides for the buyback of up to a maximum of 3,000,000 shares in the period 16 March 2020 through 16 December 2020.
In the period 16 March - 16 December 2020 the Group purchased a total of 895,350 treasury shares through an authorized intermediary.
During the Annual General Meeting shareholders also resolved to renew - after revoking the approval granted by shareholders on 30 April 2019, for the unexecuted part - the authorization to buy and sell treasury shares for up to a maximum of 14.5 million ordinary shares and, at any rate, up to an amount which does not exceed 1/5 of the share capital, also taking into account any shares held by the parent company De’ Longhi S.p.A. and its subsidiaries. The authorization was approved for a period of up to a maximum of 18 months (therefore, through 22 October 2021) in accordance with the law.

28. Stock option plans

During the Annual General Meeting held on 14 April 2016 shareholders approved the share-based incentive plan “Stock Options plan 2016-2022”.
In order to service the plan, during the AGM shareholders resolved to increase share capital against payment by up to a maximum nominal amount of €3,000,000 by 31 December 2022 through the issue, including on one or more occasions, of a maximum of 2,000,000 ordinary shares at a par value of €1.5 each pari passu with all shares outstanding at the issue date and with dividend rights.
The purpose of the plan is to maintain the loyalty of the beneficiaries by recognizing the contribution that they make to increasing the value of the Group.
The plan has a duration of seven years and will, at any rate, expire on 31 December 2022.
The beneficiaries will be identified by the Board of Directors based on the proposal of the Remuneration and Appointments Committee or the Chief Executive Officer of the Parent Company De’ Longhi S.p.A., after having consulted with the Board of Statutory Auditors.
The options will be granted free of charge: the beneficiaries, therefore, will not be expected to pay any sort of consideration upon assignment. Conversely, exercise of the option and the resulting subscription of the shares will be subject to payment of the exercise price.
Each option will grant the right to subscribe one share at the conditions set out in the relative regulations.
The exercise price shall be equal to the arithmetic average of the official market price of the Company’s shares recorded on the “*Mercato Telematico Azionario*” managed by Borsa Italiana S.p.A. 60 calendar days prior to the date on which the Plan and the relative regulations were approved by shareholders during the Annual General Meeting.

The options may be exercised by the Beneficiaries - on one or more occasions - solely and exclusively during the exercise period, namely during the following timeframes:
1) between 15 May 2019 and 31 December 2022 (more specifically, between either 15 May - 15 July; 1 September-15 October; 15 November - 15 January), for up to a total maximum amount equal to 50% of the total options assigned each beneficiary;
2) between 15 May 2020 and 31 December 2022 (more specifically, between either 15 May - 15 July; 1 September-15 October; 15 November - 15 January) for the remaining 50% of the total options assigned each beneficiary.

Any option not exercised by the end of the exercise period will be automatically expire and the beneficiary will have no right to any compensation or indemnity.
All shares will have regular dividend rights and, therefore, will be the same as all other shares outstanding at their issue date, and will be freely transferrable by the beneficiary.
Please refer to the *Annual Report on the Remuneration Policy and Compensation Paid* for more information on the Plan.

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

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

	2017 award	2016 award
First tranche fair value	7.6608	5.3072
Second tranche fair value	7.4442	5.2488
Expected dividends (Euro)	0.8	0.43
Estimated volatility (%)	28.09%	33.23%
Historic volatility (%)	31.12%	36.07%
Market interest rate	Euribor 6M	Euribor 6M
Expected life of the options (years)	2.142/3.158	2.51 / 3.53
Exercise price (Euro)	20.4588	20.4588

In 2020 a total of 1,048,564 options were exercised.

During the Annual General Meeting held on 22 April 2020, shareholders approved the stock-based incentive plan “Stock Options plan 2020-2027”.
In order to service the plan, during the AGM shareholders resolved to further increase share capital against payment by up to a maximum nominal amount of €4,500,000 through the issue, including on one or more occasions, of a maximum of 3,000,000 ordinary shares at a par value of €1.5 each pari passu with all shares outstanding at the issue date and with dividend rights
The purpose of the plan is to foster the loyalty of the beneficiaries, incentivizing them to stay with the Group by linking their compensation to the achievement of the company’s medium/long-term goals.
The plan has a duration of around eight years and will, at any rate, expire on 31 December 2027.

The beneficiaries will be identified by the Board of Directors based on the proposal of the Remuneration and Appointments Committee or the Chief Executive Officer of the Parent Company De’ Longhi S.p.A., after having consulted with the Board of Statutory Auditors.
The options will be granted free of charge: the beneficiaries, therefore, will not be expected to pay any sort of consideration upon assignment. Conversely, exercise of the option and the resulting subscription of the shares will be subject to payment of the exercise price.
Each option will grant the right to subscribe one share at the conditions set out in the relative regulations.
The exercise price shall be equal to the arithmetic average of the official market price of the Company’s shares recorded on the “*Mercato Telematico Azionario*” managed by Borsa Italiana S.p.A. 180 calendar days prior to the date on which the 2020-2027 Plan and the relative regulations were approved by shareholders during the Annual General Meeting. This period of time is sufficient to limit the impact that any volatility caused by the Coronavirus crisis could have on the stock price.
The options may be exercised by the Beneficiaries - on one or more occasions - solely and exclusively during the exercise period, namely during the following timeframes:
- between 15 May 2023 and 31 December 2027 for up to a total maximum amount equal to 50% of the total options assigned each beneficiary, without prejudice to the black-out periods referred to in Art. 12 of the Regulations;
- between 15 May 2024 and 31 December 2027 for the remaining 50% of the total options assigned each beneficiary, without prejudice to the black-out periods referred to in Art. 12 of the Regulations.

Any option not exercised by the end of the exercise period will be automatically expire and the beneficiary will have no right to any compensation or indemnity.
All shares will have regular dividend rights and, therefore, will be the same as all other shares outstanding at their issue date, and will be freely transferrable by the beneficiary.
Please refer to the *Annual Report on the Remuneration Policy and Compensation Paid* for more information on the Plan.
In 2020 2,360,000 stock options were assigned.

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

The fair value of the options assigned on the date of this Report and the assumptions made for its evaluation are as follows:

	Award (4 May 2020)	Award (14 May 2020)	Award (15 May 2020)	Award (20 May 2020)	Award (05 Nov 2020)
First tranche fair value	4.4283	4.591	4.4598	4.4637	12.402
Second tranche fair value	4.3798	4.536	4.4034	4.4049	12.0305
Expected dividends (Euro)	2.80%	2.80%	2.80%	2.80%	2.80%
Estimated volatility (%)	35.00%	34.00%	33.00%	32.00%	28.00%
Historic volatility (%)	37.00%	37.00%	37.00%	37.00%	37.00%
Market interest rate	(0.2%)	(0.2%)	(0.2%)	(0.2%)	(0.2%)
Expected life of the options (years)	7.7	7.7	7.7	7.7	7.7
Exercise price (Euro)	16.982	16.982	16.982	16.982	16.982

29. Share capital

At 31 December 2019 share capital comprised 149,500,000 ordinary shares with a par value €1.5 each, for a total of €224,250 thousand.
In 2020, 1,048,564 options assigned under the "Stock Options plan 2016-2022" were exercised at an exercise price of €20.4588, and consequently, the same number of shares were subscribed. The share capital at 31 December 2020, therefore, comprised 150,548,564 ordinary shares with a par value of €1.5 for a total of €225,823 thousand.

In the period 1-15 January 2021 another 10,000 options assigned under the "Stock Options plan 2016-2022" were exercised at an exercise price of €20.4588, and consequently, the same number of ordinary shares were subscribed at a par value of €1.5.
In accordance with current regulations and the law, the declaration attesting to the change in share capital was lodged with the Treviso-Belluno Corporate Registry on 1 February 2021.

The share capital amounted to €225,838 thousand at the date on which this Report was approved.

30. Reserves

The details are as follows:

	31.12.2020	31.12.2019	Change
Share premium reserve	25,838	162	25,676
Legal reserve	44,850	42,573	2,277
Other reserves:			
- Extraordinary reserve	180,542	144,538	36,004
- Fair value and cash flow hedge reserve	(3,462)	(485)	(2,977)
- Stock option reserve	6,784	10,078	(3,294)
- Reserve for treasury shares	(14,534)	-	(14,534)
- Currency translation reserve	(15,058)	32,433	(47,491)
- Profit (loss) carried forward	616,438	575,900	40,538
Total	**841,398**	**805,199**	**36,199**

The "Share premium reserve" was set up following the public offering at the time of the parent company's listing on the Milan stock exchange on 23 July 2001 which was subsequently reduced following the demerger transaction in favour of DeLclima S.p.A. to €162 thousand at 31 December 2019. The change recorded in 2020 reflects the exercise of options assigned pursuant to the “Stock Options plan 2016-2022”.

The “Legal Reserve” amounted to €42,573 thousand at 31 December 2019. The increase of €2,277 thousand is attributable to the allocation of profit for 2019 approved by shareholders during De’ Longhi S.p.A.’s AGM held on 22 April 2020.

The "Extraordinary reserve" increased by €36,004 thousand due to the allocation of the profit for the year, as approved by shareholders of De’ Longhi S.p.A. during the above mentioned AGM, net of the dividend distribution resolved by the shareholders' meeting on 15 December 2020.

The "Fair value and cash flow hedge reserve" reports a negative balance of €3,462 thousand, net of €1,222 thousand in tax.
The change in the “Fair value and cash flow hedge” reserve in 2020, recognized in the statement of comprehensive income for the year, is attributable to the negative fair value of the cash flow hedge and available-for-sale securities of €2,977 thousand net of €1,054 thousand in tax.

The "Stock option reserve" refers to the two share incentive plans already described in paragraph 28. *Stock option plans*.
At 31 December 2020, the “Stock option” reserve amounted to positive €6,784 thousand which corresponds to the fair value of the options at the assignment date, recognized on a straight-line basis from the grant date through vesting.
With regard to the "Stock Options plan 2016-2022", the reserve is recognised at a positive value of €4,857 thousand; the change with respect to the balance at 31 December 2019 is due to the accrual of the notional cost of the plan of €575 thousand, net of the value relating to the exercise of 1,048,564 options for a total of €5,796 thousand.
For the "Stock Options plan 2020-2027", the value of the reserve is €1,927 thousand, entirely accrued during the year.

The "Reserve for treasury shares" was negative for €14,534 thousand and corresponds to the amount of treasury shares purchased pursuant to the buyback program.

"Profit (loss) carried forward" includes the retained earnings of the consolidated companies and the effects of consolidation adjustments and adjustments to comply with Group accounting policies.
Below is a reconciliation between the net equity and profit reported by the parent company, De' Longhi S.p.A., and the figures shown in the consolidated financial statements:

	Net equity 31.12.2020	Profit for 2020	Net equity 31.12.2019	Profit for 2019
De' Longhi S.p.A. financial statements	**567,417**	**88,710**	**551,146**	**119,094**
Share of subsidiaries' equity and results for period attributable to the Group, after deducting carrying value of the investments	465,275	121,064	655,966	32,776
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	274,522	(1,948)	15,765	(1,875)
Elimination of intercompany profits	(40,128)	(8,227)	(32,180)	10,364
Other adjustments	268	534	(243)	646
Consolidated financial statements-Group portion	**1,267,354**	**200,133**	**1,190,454**	**161,005**

31. Earnings per share

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

	31.12.2020
Weighted average number of shares outstanding	149,211,849
Weighted average number of diluted shares outstanding	152,230,678

The dilutive impact was not significant at 31 December 2020, therefore the difference between the diluted earnings per share (€1.31) and the basic earnings per share (€1.34) is not material.

Liabilities

32. Bank loans and borrowings

"Bank loans and borrowings" are analyzed as follows:

	31.12.2020	31.12.2019
Overdrafts	1,311	581
Current bank loans and borrowings	45,003	260
Loans (short term portion)	86,553	65,810
Loans (one to five years)	330,012	218,746
Total bank loans and borrowings	**462,879**	**285,397**

The consolidation of Capital Brands had no impact on the above item.

Despite its sound, solid financial situation, in 2020 the Group decided to increase its available liquidity in order to have access to additional financial resources to support the business given the situation of extreme uncertainty during the first half of the year as to how the crisis will unfold, by taking out three new medium/long term loans.
In April 2020 a 4-year €50,000 thousand loan was taken out repayable in full upon maturity.
In May 2020 two loans were taken out: a 2-year €100,000 thousand loan repayable in two installments (the first, €25,000 thousand, in November 2021 and the second at the loan's expiration); a 4-year €50,000 thousand loan repayable in quarterly installments as of September 2020.

With regard to the loans taken out, none of the financial covenants included in the loan agreements, based on net debt/equity and net debt/ EBITDA had been breached at 31 December 2020.

The main loans are floating rate; the hedges on both of the main medium/long term loans made it possible to exchange floating rate debt for fixed rate debt. The fair value of the loans, calculated by discounting expected future interest flows at current market rates, does not differ significantly from the amount of debt recognized in the financial statements.

33. Other financial payables

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

	31.12.2020	31.12.2019
Private placement (short-term portion)	21,430	-
Negative fair value of derivatives	12,347	5,615
Other short term financial payables	51,790	47,478
Total short-term payables	**85,567**	**53,093**
Private placement (one to five years)	85,672	85,621
Negative fair value of derivatives	611	140
Other financial payables (one to five years)	170	3,907
Total long-term payables (one to five years)	**86,453**	**89,668**
Private placement (beyond five years)	42,877	64,308
Other financial payables (beyond five years)	-	-
Total long-term payables (beyond five years)	**42,877**	**64,308**
Total other financial payables	**214,897**	**207,069**

The consolidation of Capital Brands had no impact on the above item.

The bond loan refers to the issue and placement of €150 million in unsecured, non-convertible notes with US institutional investors (the "US Private Placement") completed in 2017.
The securities were issued by De' Longhi S.p.A. in a single tranche, mature in 10 years in June 2027 and have an average life of 7 years. The notes will accrue interest from the subscription date at a fixed rate of 1.65% per annum. The notes will be repaid yearly in equal instalments beginning June 2021 and ending June 2027, without prejudice to the Company's ability to repay the entire amount in advance.
The securities are unrated and are not intended to be listed on any regulated markets.
The notes are subject to half-yearly financial covenants in line with those contemplated in other existing loan transactions. At 31 December 2020 the covenants (ratio of consolidated net financial position on consolidated net equity, ratio of consolidated net financial position on EBITDA before non-recurring/stock option costs and ratio of EBITDA before non-recurring/stock option costs on net financial charges) had not been breached. The issue is not secured by collateral of any kind.

"Negative fair value of derivatives" refers to hedges on interest rates and currencies, foreign currency receivables and payables, as well as on future revenue streams (anticipatory hedges). Please refer to note 42. *Risk management* for information on the fair value of hedges in place at 31 December 2020.

"Other short term financial payables" refers mainly to factoring without recours related payables. It also includes the remaining short-term portion of the pension fund liabilities pertaining to a foreign subsidiary, the fair value of the put & call options on the Eversys acquisition, the variable consideration for the purchase of non-controlling interests and the payable to shareholders for the residual portion of dividends distributed but not yet paid.

"Other financial payables (one to five years)" refers mainly to the remaining long-term portion of the pension fund related liabilities of a foreign subsidiary.

Net financial position

Details of the net financial position are as follows:

	31.12.2020	31.12.2019
A. Cash	87	98
B. Cash equivalents	662,860	731,393
C. Securities	-	-
D. Total liquidity (A+B+C)	**662,947**	**731,491**
E. Current financial receivables and other securities	**243,005**	**102,419**
Of which: *Fair value of derivatives and advances for leasing*	*11,238*	*3,830*
F. Current bank loans and borrowings	(46,314)	(841)
G. Current portion of non-current debt	(86,553)	(65,810)
G1. Bonds (short-term portion)	(21,430)	-
H. Other current financial payables	(82,315)	(71,549)
Of which: *Fair value measurement of derivatives, lease liabilities and financial payables linked to pension fund transactions*	*(34,257)*	*(24,162)*
I. Current financial debt (F+G+G1+H)	**(236,612)**	**(138,200)**
J. Net current financial receivables (payables) (D+E+I)	**669,340**	**695,710**
K1. Non-current financial receivables	69,988	10,667
Of which: *Fair value of derivatives*	-	*653*
K2. Non-current bank loans and borrowings	(330,012)	(218,746)
L. Bonds	(128,549)	(149,929)
M. Other non-current payables	(48,774)	(59,887)
Of which: *Fair value measurement of derivatives, financial payables linked to business combinations, lease liabilities and financial payables linked to pension fund transactions*	*(48,774)*	*(59,887)*
N. Non-current financial debt (K1+K2+L+M)	**(437,347)**	**(417,895)**
Total	**231,993**	**277,815**

Details of the net financial position are shown in accordance with CONSOB Bulletin DEM/6064293 of 28.07.2006; in order to provide a better representation, the short-term portion of bonds (item G1) and other non-current financial assets (item K1) are shown separately.

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

The Group signed an agreement to issue another €150 million tranche of the USPP, maturing April 2041, which will be issued and underwritten by a leading US financial group in the first few months of 2021.

More details on the fair value of derivatives can be found in note 42. *Risk management*.

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

34. Employee benefits

These are made up as follows:

	31.12.2020	31.12.2019
Provision for severance indemnities	9,761	10,108
Defined benefit plans	28,125	25,004
Other long term benefits	13,402	6,002
Total	**51,288**	**41,114**

The consolidation of Capital Brands had no impact on the above item.

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

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

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

Provision for severance indemnities:
Movements in the year are summarized below:

Net cost charged to income	2020	2019	Change
Current service cost	164	156	8
Interest cost on defined benefit obligation	79	157	(78)
Total	**243**	**313**	**(70)**

Change in present value of obligations	31.12.2020	31.12.2019	Change
Present value at 1 January	**10,108**	**10,086**	**22**
Current service cost	164	156	8
Utilization of provision	(436)	(676)	240
Interest cost on obligation	79	157	(78)
Actuarial gains & losses recognized in the comprehensive income statement	(154)	385	(539)
Present value at reporting date	**9,761**	**10,108**	**(347)**

Defined benefit plans:
Movements in the year are as follows:

Net cost charged to income	2020	2019	Change
Current service cost	1,177	1,158	19
Return on plan assets	6	8	(2)
Interest cost on obligation	236	332	(96)
Total	**1,419**	**1,498**	**(79)**

Change in present value of obligations	31.12.2020	31.12.2019	Change
Present value at 1 January	**25,004**	**20,005**	**4,999**
Net cost charged to income	1,419	1,498	(79)
Benefits paid	(242)	(208)	(34)
Translation differences	(121)	44	(165)
Actuarial gains & losses recognized in the comprehensive income statement	2,065	3,665	(1,600)
Present value at reporting date	**28,125**	**25,004**	**3,121**

The outstanding liability at 31 December 2020 of €28,125 thousand (€25,004 thousand at 31 December 2019) refers to a few subsidiaries (mainly in Germany and Japan).

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

Assumptions used	Severance indemnity 2020	Severance indemnity 2019	Other plans 2020	Other plans 2019
Discount rate	0.50%	0.80%	0.6% -0.75%	0.5% - 1.15%
Future salary increases	0.5%-1.5%	1.3%-2.3%	0.0% - 3%	0.0% - 3%
Inflation rate	0.50%	0.80%	0.0% - 1.5%	0.0% - 1.5%

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

35. Other provisions for non-current contingencies and charges

These are analyzed as follows:

	31.12.2020	31.12.2020 on like-for-like basis	31.12.2019
Agents’ leaving indemnity provision	1,577	1,577	1,657
Product warranty provision	33,916	33,798	29,255
Provision for contingencies and other charges	12,865	6,936	5,663
Total	**48,358**	**42,311**	**36,575**

Movements are as follows:

	31.12.2019	Utilization	Net accrual	Translation difference and other movements	Changes in consolidation area	31.12.2020
Agents’ leaving indemnity provision	1,657	(115)	35	-	-	1,577
Product warranty provision	29,255	(11,863)	17,054	(648)	118	33,916
Provision for contingencies and other charges	5,663	(466)	1,631	108	5,929	12,865
Total	**36,575**	**(12,444)**	**18,720**	**(540)**	**6,047**	**48,358**

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

The product warranty provision has been established for certain consolidated companies, on the basis of estimated under-warranty repair and replacement costs for sales taking place by 31 December 2020. It takes account of the provisions of Decree 24/2002 and of European Community law.

The "Provision for contingencies and other charges" includes the provision of €6,851 thousand (€3,260 thousand at 31 December 2019) for legal disputes and product compliance liabilities (limited to the Group’s insurance deductible), the provision of €1,646 thousand (€382 thousand at 31 December 2019) for restructuring and reorganization and the provisions made by a few subsidiaries relating to commercial risks and other charges.

36. Trade payables

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

37. Current tax liabilities

"Current tax liabilities" refers to the Group's direct tax and, with respect to the Italian subsidiaries who adhered to the Domestic Tax Consolidation regime, the net amount owed the parent company De Longhi Industrial S.A..
The Parent Company De' Longhi S.p.A. and a few of the Italian subsidiaries renewed, jointly with the consolidator De Longhi Industrial S.A., the option to adhere to group taxation, referred to as "Domestic Tax Consolidation", as permitted under articles 117-129 of the Consolidated Income Tax Act (TUIR) as per Presidential Decree n. 917 of 22 December 1986 and Decree of the Ministry and Finance of 9 June 2004, for the three-year period 2019 - 2021.
For additional information please refer to Appendix.3.
The item does not include tax due beyond 12 months.

38. Other payables

These are analyzed as follows:

	31.12.2020	31.12.2020 on like-for-like basis	31.12.2019
Employees	50,307	43,811	35,662
Indirect taxes	29,692	29,106	28,121
Social security institutions	9,761	9,761	8,193
Withholdings payables	7,733	7,733	5,916
Advances	4,143	3,000	1,840
Other taxes	946	946	246
Other	11,629	11,395	12,862
Total	**114,211**	**105,752**	**92,840**

On like-for-like basis, the amounts due beyond twelve months at 31 December 2020 include €9 thousand in "Other taxes" (€7 thousand at 31 December 2019) and €1 thousand in "Other" (€1 thousand at 31 December 2019).

39. Commitments

These are detailed as follows:

	31.12.2020	31.12.2019
Guarantees given to third parties	1,670	1,724
Other commitments	4,229	2,873
Total	**5,899**	**4,597**

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

In addition to the above, the Group issued guarantees, for a total amount of €12 million, in favor of the affiliate NPE S.r.l. commensurated with the commitments of each of the parties.

40. IFRS 7 classification of financial assets and liabilities

Financial assets and liabilities are classified below in accordance with IFRS 7 using the categories identified in IFRS 9.

at 31 December 2020		Assets		
	Total Value	Amortized cost	Fair value in Profit&Loss	Fair value in OCI
Non-current assets (*)				
Equity investments	51	-	51	-
Receivables	4,480	4,480	-	-
Other non-current financial assets	69,986	69,986	-	-
Current assets				
Trade receivables	398,054	398,054		
Current tax assets	6,541	6,541		
Other receivables	30,155	30,155		
Current financial receivables and assets	242,614	192,001	44,463	6,150
Cash and cash equivalents	662,947	662,947		

at 31 December 2020		Liabilities		
	Total Value	Amortized cost	Fair value in Profit&Loss	Fair value in OCI
Non-current liabilities (**)				
Bank loans and borrowings (long-term portion)	330,012	330,012	-	-
Other financial payables (long-term portion)	129,330	128,719	-	611
Current liabilities (***)				
Trade payables	581,860	581,860		
Bank loans and borrowings (short-term portion)	132,867	132,867		
Other financial payables (short-term portion)	81,921	69,573	3,755	8,593
Current tax liabilities	66,498	66,498	-	-
Other payables	114,211	114,211	-	-

(*) Interests in subsidiaries, associates and joint ventures are not included (*IFRS 9 - 2.1 a*).
(**) Lease liabilities under IFRS 16 *Leases* (*IFRS 9.-2.1b*) and forward contracts that will result in an acquisition to be considered as a business combination within the scope of IFRS 3 *Business combination* are not included (*IFRS 9 - 2.1 f*).
(***) Lease liabilities to which IFRS 16 *Leases* is applied (*IFRS 9 - 2.1 b*) are not included.

at 31 December 2019		Assets		
	Total Value	Amortized cost	Fair value in Profit&Loss	Fair value in OCI
Non-current assets (*)				
Equity investments	52	-	52	-
Receivables	3,486	3,486	-	-
Other non-current financial assets	10,663	10,010	653	-
Current assets				
Trade receivables	437,360	437,360	-	-
Current tax assets	8,872	8,872	-	-
Other receivables	23,212	23,212	-	-
Current financial receivables and assets	102,152	43,317	56,590	2,245
Cash and cash equivalents	731,491	731,491		

at 31 December 2019		Liabilities		
	Total Value	Amortized cost	Fair value in Profit&Loss	Fair value in OCI
Non-current liabilities (**)				
Bank loans and borrowings (long-term portion)	218,746	218,746	-	-
Other financial payables (long-term portion)	150,340	150,200	-	140
Current liabilities (***)				
Trade payables	365,778	365,778	-	-
Bank loans and borrowings (short-term portion)	66,651	66,651	-	-
Other financial payables (short-term portion)	53,093	47,478	2,971	2,644
Current tax liabilities	35,567	35,567	-	-
Other payables	92,840	92,840	-	-

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

41. Hierarchical levels of financial instruments measured at fair value

The following table presents the hierarchical levels in which the fair value measurements of financial instruments have been classified at 31 December 2020. As required by IFRS 13, the hierarchy comprises the following levels:
- level 1: quoted prices in active markets for identical assets or liabilities;
- level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- level 3: inputs for the asset or liability that are not based on observable market data.

Financial instruments measured at fair value	Level 1	Level 2	Level 3
Derivatives with positive fair value	-	10,847	-
Derivatives with negative fair value	-	(12,958)	-
Other financial assets	51	39,766	-

There were no transfers between the levels during the year.

42. Risk management

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

Credit risk

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

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

The Group's maximum exposure to credit risk is equal to the book value of trade receivables before the allowance for doubtful accounts, and amounts to €408,615 thousand at 31 December 2020 and €446,190 thousand at 31 December 2019.
This amount corresponds to the gross balance of trade receivables of €461,960 thousand at 31 December 2020 (€495,477 thousand at 31 December 2019), net of deductions and accounting offsets, which reduce the overall credit risk, mainly in the form of credit notes and other documents not yet issued to customers.
The following analysis of credit risk, carried out on the basis of receivables ageing and the reports used for credit management, refers to the trade balances before these deductions because the documents still to be issued cannot be specifically allocated to the ageing categories.

Trade receivables of €461,960 thousand at 31 December 2020 comprise €429,700 thousand in current balances and €32,260 thousand in past due amounts, of which €31,873 thousand past due within 90 days and €387 thousand past due by more than 90 days.
The amount of insured or guaranteed receivables at 31 December 2020 is €317,994 thousand.
The Group has recognized €10,561 thousand in allowances for doubtful accounts against unguaranteed receivables of €143,966 thousand.

Trade receivables of €495,477 thousand at 31 December 2019 comprise €461,065 thousand in current balances and €34,412 thousand in past due amounts, of which €29,035 thousand past due within 90 days and €5,377 thousand past due by more than 90 days.
The amount of insured or guaranteed receivables at 31 December 2019 is €378,501 thousand.
The Group has recognized €8,830 thousand in allowances for doubtful accounts against unguaranteed receivables of €116,976 thousand.

As far as financial risk is concerned, it is the Group's policy to maintain a sufficiently large portfolio of counterparties of high international repute for the purposes of temporary investment of surplus resources or for the negotiation of derivatives.
The maximum credit risk in the event of counterparty default relating to the Group's other financial assets, whose classification is presented in note *40. IFRS 7 classification of financial assets and liabilities*, is equal to the book value of these assets.

Liquidity risk

Liquidity risk is the risk of not having the fund needed to fulfil payment obligations arising from operating and investment activities and from the maturity of financial instruments.
The Group uses specific policies and procedures for the purposes of monitoring and managing this risk, including:
- centralized management of financial payables and cash, supported by reporting and information systems and, where possible, cash pooling arrangements;
- raising of medium and long-term finance on capital markets;
- diversification of the type of financing instruments used;
- obtaining of short-term credit lines so as to ensure wide room for manoeuvre for the purposes of managing working capital and cash flows;
- monitoring of current and forecast financing needs and distribution within the Group.

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

Note *40. IFRS 7 - Classification of financial assets and liabilities* presents the book value of financial assets and liabilities, in accordance with the categories identified by IFRS 9.

The following table summarizes the due dates of the Group's financial liabilities at 31 December 2020 and 31 December 2019 on the basis of contractual payments which have not been discounted.

	Undiscounted cash flows at 31.12.2020	Payable within one year	Payable in 1-5 years	Payable in more than five years	Undiscounted cash flows at 31.12.2019	Payable within one year	Payable in 1-5 years	Payable in more than five years
Bank loans and borrowings (*)	466,523	134,092	332,431	-	288,069	67,475	220,594	-
Other financial payables (**)	219,934	84,218	92,153	43,563	215,485	56,411	93,197	65,877
Trade payables	581,860	581,860	-	-	365,778	365,778	-	-
Current tax payables and other payables	180,709	180,465	244	-	128,407	128,399	8	-

(*) The corresponding balance reported in the financial statements was €462,879 thousand at 31 December 2020 vs. €285,397 thousand at 31 December 2019 and refers to medium/long and short term bank debt.
(**) The corresponding balance in the accounts is €211,251 thousand at 31 December 2020 and €203,433 thousand at 31 December 2019 and refers to long-term payables comprehensive of their short-term portion of the private placement and, with reference to 31 December 2019 only, the loans from the Ministry of Industry.

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

Exchange rate risk

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

Hedging policies

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

Purpose of hedging

Hedging is carried out with three goals:

a) to hedge cash flows of budgeted or planned amounts up until the time of invoicing, with a time horizon that doesn't go beyond 24 months;
b) to hedge the monetary amounts of receivables and payables originating from invoicing and financing transactions;
c) to hedge exchange rate risk relating to net investments in foreign operations.

The principal currencies to which the Group is exposed are:

- the US dollar (mainly the EUR/USD and GBP/USD), being the currency in which a significant part - of the cost of raw materials, parts and finished products is expressed;
- the Japanese yen (JPY/HKD), for sales on the Japanese market;
- the Australian dollar (AUD/HKD) for sales on the Australian market;
- the Russian Ruble, the Czech koruna and the Polish Zloty, for sales on the East Europe market;
- the British Pound (EUR/GBP), for sales on the UK market;
- the Renminbi (CNY/HKD) for the cost of raw materials, parts and finished products.

Instruments used

Highly liquid instruments of a non-speculative nature are used, mostly forward purchase/sale agreements. The transactions are entered into with primary, well known counterparties of international standing and using methods which allow for best practice execution for each transaction.

Operating structure

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

Sensitivity analysis

When assessing the potential impact, in terms of change in fair value, of a hypothetical, sudden +/-5% change in year-end exchange rates, it is necessary to distinguish between the risk associated with expected future revenues/costs and the risk associated with foreign currency assets and liabilities at 31 December 2020:

(a) with regard to the risk connected to future flows (revenues/costs forecast in the budget and/or multi-year plans), at 31 December 2020 the fair value of the relative hedges were recognized in net equity in accordance with IAS standards as described in the section Accounting standards - Financial instruments found in these Explanatory Notes; a change of +/- 5% in the year-end exchange rates of the exposed currency is estimated to produce a change of +/ - €2.8 million before tax (+/- €5.6 million before tax at 31 December 2019). This figure would impact the income statement solely in the year in which the hedged revenues/costs materialize;

(b) as for the risk associated with foreign currency assets and liabilities. the analysis considers only unhedged receivables/payables in currencies other than the functional currency of the individual companies. since the impact of any hedges is assumed to be equal and opposite to that of the hedged items. A +/- 5% change in year-end exchange rates of the principal exposed currencies (mainly the USD and the Renminbi) against the principal functional currencies would produce a change in fair value of around +/- €1.1 million before tax (+/- €0.7 million before tax at 31 December 2019).

The hedging transactions at 31 December 2020 are described in the paragraph “Interest rate and currency exchange hedges at 31 December 2020”.

Interest rate risk

The Group is exposed to interest rate risk on floating rate loans and borrowings. This risk is managed centrally by the same team that manages currency risks.
All of the Group’s debt at 31 December 2020 is fixed rate with the exception of a part of the two-sided loan granted during 2019 and the two-sided loan granted during 2020.
The purpose of interest rate risk management is to fix in advance the maximum cost (in terms of the interbank rate, which represents the benchmark for these borrowings) for a part of the financial debt.

At 31 December 2020 there were five IRS (interest rate swaps), hedging the loans taken out by the Parent company.

Sensitivity analysis

When estimating the potential impact of a hypothetical, sudden material change in interest rates (+/- 1% in market rates) on the cost of the Group's debt, only those items forming part of net financial position which earn/incur interest at floating rates have been considered and not any others (meaning total net assets of €279.2 million on a total of €232.0 million in net debt at 31 December 2020 and total net assets of €479.8 million on a total of €277.8 million in net debt in 2019).
It is estimated that a +/- 1% change in interest rates would have an impact of +/- €2.8 million before tax at 31 December 2020 recognized entirely in the income statement (+/- €4.8 million before tax at 31 December 2019).

Interest rate and currency exchange hedges at 31 December 2020

At 31 December 2020 the Group has a number of derivatives, hedging both the fair value of underlying instruments and exposure to changes in cash flow.
For accounting purposes, derivatives that hedge expected future cash flow are treated in accordance with hedge accounting as called for in IFRS 9.
Derivatives that hedge foreign currency payables and receivables are reported with changes in their fair value reported in the income statement. These instruments offset the risk on the hedged item (which is a recognized asset or liability).

The fair value of the outstanding derivatives at 31 December 2020 is provided below:

	Fair Value at 31/12/2020
FX forward agreements	943
Derivatives hedging foreign currency receivables/payables	**943**
FX forward agreements	(1,738)
IRS hedging Parent Company's loans	(1,316)
Derivatives covering expected cash flows	**(3,054)**
Total fair value of the derivatives	**(2,111)**

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

A list of the forward agreements hedging a change in 2021 trade flows at 31 December 2020:

	Notional amount (in thousands)			Fair value (in €/000)	
Currency	**Purchases**	**Sales**	**Total**	**Current assets**	**Current Liabilities**
EUR/CHF*	-	19,500	19,500	167	(20)
EUR*/RON	-	69,800	69,800	743	-
EUR/USD*	(112,241)	-	(112,241)	-	(4,913)
EUR/CZK*	-	111,000	111,000	15	-
EUR/PLN*	-	34,000	34,000	197	-
GBP/USD*	(25,500)	-	(25,500)	-	(844)
USD/CAD*	-	19,500	19,500	3	(144)
HKD/CNY*	(910,000)	-	(910,000)	5,025	(107)
AUD*/HKD	-	51,000	51,000	-	(1,494)
HKD/JPY*	-	2,930,000	2,930,000	-	(366)
				6,150	(7,888)

* Risk currency

A negative cash flow hedge reserve of €2,537 thousand has been recorded in net equity at 31 December 2020 in relation to these hedges, after €930 thousand in related tax (at 31 December 2019 this same reserve was a negative €609 thousand, after the related tax of €207 thousand).

During 2020 the Group reversed to the income statement a net amount of €609 thousand from the positive cash flow hedge reserve at 31 December 2019.
This amount was reported in the following lines of the income statement:

	2020	2019
Increase (reduction) in revenues	(725)	968
(Increase) reduction in materials consumed	(82)	727
Net financial income (expenses)	(9)	(74)
Taxes	207	(417)
Total recognized in income statement	**(609)**	**1,204**

Hedges against foreign currency receivables and payables:

	Notional amount (in thousands)			Fair value (in €/000)	
Currency	**Purchases**	**Sales**	**Total**	**Current assets**	**Current Liabilities**
AUD*/HKD	(25,000)	57,000	32,000	469	(1,087)
AUD/NZD*	-	7,561	7,561	23	(10)
BRL*/HKD	-	5,000	5,000	13	-
EUR/AUD*	-	1,960	1,960	-	(17)
EUR*/AUD	(3)	-	(3)	-	0
EUR/CHF*	(1,545)	20,992	19,447	237	(4)
EUR/CZK*	-	376,300	376,300	21	(3)
EUR/DKK*	-	31,300	31,300	-	(1)
EUR/GBP*	(10,300)	7,700	(2,600)	130	(55)
EUR*/GBP	(500)	4,550	4,050	21	(4)
EUR/HKD*	(22,700)	185,000	162,300	141	(16)
EUR*/HKD	(2,100)	5,200	3,100	12	(55)
EUR/HUF*	(832,200)	2,616,775	1,784,575	98	(22)
EUR/JPY*	-	15,500	15,500	0	-
EUR/PLN*	(16,200)	112,600	96,400	677	(58)
EUR/RON*	-	26,900	26,900	-	(9)
EUR*/RON	(8,779)	4,986	(3,793)	-	(21)
EUR/RUB*	(931,000)	3,272,760	2,341,760	614	(126)
EUR/SEK*	(1,800)	31,600	29,800	2	(41)
EUR/USD*	(327,857)	3,250	(324,607)	9	(1,083)
EUR*/USD	(338,035)	17,050	(320,985)	1,483	-
GBP/USD*	(16,500)	17,000	500	328	(205)
HKD/CLP*	-	4,364,000	4,364,000	-	(191)
HKD/CNH*	(617,380)	12,000	(605,380)	9	(212)
HKD/JPY*	(2,050,000)	3,088,000	1,038,000	209	(212)
HKD/KRW*	(1,400,000)	6,060,000	4,660,000	18	(5)
HKD/MXN*	-	74,600	74,600	22	-
USD/MXN*	-	72,900	72,900	22	-
SGD*/HKD	(290)	910	620	2	(6)
USD/CAD*	(1,400)	28,080	26,680	3	(54)
USD*/RON	(21,889)	14,100	(7,789)	130	(240)
USD/ZAR*	(5,400)	27,270	21,870	4	(17)
				4,697	**(3,754)**

* Risk currency

IRS (Interest Rate Swap) hedging interest rate risk on loans:

The fair value of the derivatives is calculated using the discounted cash flow method based on the swap curve, not including the spread; at 31 December 2020 the fair value of the derivatives, which also takes into account counterparty risk in accordance with *IFRS 13 - Fair Value measurement*, came to a negative €1,316 thousand which is recognized under other financial payables.

As the hedge on future interest flows qualifies as an effective hedge, at 31 December 2020 a negative cash flow hedge reserve of €1,217 thousand was reported in net equity, net of the related tax effect of €292 thousand.

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

	31/12/2020
	Fair value (in €/000)
IRS on loan with notional amount equal to € 100,000 thousand	(294)
IRS on loan with notional amount equal to € 89,000 thousand	(335)
IRS on loan with notional amount equal to € 50,000 thousand	(477)
IRS on loan with notional amount equal to € 28,500 thousand	(177)
IRS on loan with notional amount equal to € 12,500 thousand	(33)
Total fair value of the derivatives	**(1,316)**
of which:	
negative short-term fair value	*(705)*
negative medium/long-term fair value	*(611)*

43. Tax position

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

De' Longhi Appliances S.r.l.
In 2019 a target audit was carried out by the Veneto Regional Office of the Revenue Service relating to the main changes made for the purposes of IRES and IRAP, as well as intercompany transactions, for the tax year 2016. The audit was then expanded to include the tax years 2014 and 2015, but only with respect to intercompany transactions.

A preliminary notice of findings relating to tax year 2014 was issued on 28 October 2019 and on 30 December 2019 the Veneto Regional Office of the Revenue Service sent a notice of assessment relating to IRES and IRAP. A tax settlement proposal was submitted and a few meetings were held with the tax authorities but, as an agreement was not reached, the Company appealed these findings.
In the meantime, on 13 February 2020 a preliminary notice of findings relating to tax years 2015 and 2016 was also issued. In relation to the latter, on 23 December 2020 the Veneto Regional Office of the Revenue Service sent a notice of assessment relating to IRES and IRAP.
On 16 February 2021 the Company submitted another tax settlement proposal for the notices relative to 2015 and 2016.

When preparing the consolidated annual report at 31 December 2020, the Group evaluated, with the assistance of its tax advisors, the possible outcomes of the above proceedings which, also because of the complexity, are still uncertain.

The subsidiary De' Longhi Appliances S.r.l. decided to exercise the option granted by Art. 110 of Law Decree 104 and Law 178/2020 to realign the carry amount of a few assets held at 31 December 2019 with the amounts valid for tax purposes by paying substitute income and regional tax equal to 3% of the revalued amounts.
This resulted in the release of deferred tax liabilities recognized on the realigned assets and recognition of substitute tax payable.

44. Transactions and balances with related parties

Appendix 3 contains the information concerning transactions and balances with related parties required by CONSOB Circulars 97001574 dated 20 February 1997, 98015375 dated 27 February 1998 and DEM/2064231 dated 30 September 2002 relating to related party transactions; all transactions fell within the Group's normal scope of operations and were settled under arm's-length terms and conditions.

Transactions and balances between the parent company and subsidiaries are not reported since these have been eliminated upon consolidation.

45. Operating segments

As required under IFRS 8, following the demerger transaction the Group's activities were broken down into three operating segments (Europe, APA, MEIA) based on business region.
Each segment is responsible for all aspects of the Group's brands and serves different markets; the revenues and the margins, therefore, generated by each operating segment (based on business region) may not coincide with the revenues and margins of the relative markets (based on geographic area) given the sales made by a few Group companies outside of their respective geographical areas and the intragroup transactions not allocated based on destination.

Information relating to operating segments is presented below:

Income Statement data

					2020
	Europe	**APA**	**MEIA**	**Intersegment eliminations (**)**	**Total**
Total revenues (*)	1,847,472	1,167,225	102,788	(766,228)	2,351,257
EBITDA	**232,834**	**101,397**	**8,227**	**541**	**342,999**
Amortization	(60,381)	(20,237)	(375)	-	(80,993)
EBIT	**172,453**	**81,160**	**7,852**	**541**	**262,006**
Net financial income (expenses)					(5,692)
Profit (loss) before taxes					**256,314**
Taxes					(56,181)
Profit (loss) for the year					**200,133**

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

Data from statement of financial position

					31 December 2020
	Europe	**APA**	**MEIA**	**Intersegment eliminations**	**Total**
Total assets	2,086,853	1,248,655	49,005	(501,762)	2,882,751
Total liabilities	(1,352,737)	(754,330)	(10,090)	501,760	(1,615,397)

Income Statement data

					2019
	Europe	**APA**	**MEIA**	**Intersegment eliminations (**)**	**Total**
Total revenues (*)	1,622,292	1,019,233	117,208	(657,595)	2,101,138
EBITDA	**211,966**	**64,961**	**12,360**	**(107)**	**289,180**
Amortization	(57,241)	(20,523)	(493)	-	(78,257)
EBIT	**154,725**	**44,438**	**11,867**	**(107)**	**210,923**
Net financial income (expenses)					(15,132)
Profit (loss) before taxes					**195,791**
Taxes					(34,786)
Profit (loss) for the year					**161,005**

(*) The revenues for each segment include revenues generated by both third parties and other Group operating segments; the figure is net of other non-recurring items.
(**) Eliminations refer to intersegment revenues generated and eliminated on a consolidated basis.

Data from statement of financial position

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

46. Subsequent events

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

Treviso 11 March 2021

De' Longhi S.p.A.
Chief Executive Officer
Massimo Garavaglia

Appendices

These appendices contain additional information to that reported in the explanatory notes, of which they form an integral part.

This information is contained in the following appendices:

1. List of consolidated companies
2. Statement of consolidated cash flows in terms of net financial position
3. Transactions and balances with related parties:
   a) Income statement and statement of financial position
   b) Summary by company
4. Fees paid to the external auditors
5. Certification of the consolidated financial statements pursuant to art. 81-ter of CONSOB Regulation 11971 dated 14 May 1999 and subsequent amendments and additions.

List of consolidated companies

(Appendix 1 to the Explanatory notes)

List of consolidated companies using line-by-line method

Company name	Registered office	Currency	Share capital (1)	Interest held at 31/12/2020	
				Directly	Indirectly
DE'LONGHI APPLIANCES S.R.L.	Treviso	EUR	200,000,000	100%	
DE'LONGHI AMERICA INC.	Upper Saddle River	USD	600,000		100%
DE'LONGHI FRANCE	Clichy	EUR	2,737,500		100%
DE'LONGHI CANADA INC.	Brampton	CAD	1		100%
DE'LONGHI DEUTSCHLAND GMBH	Neu-Isenburg	EUR	2,100,000	100%	
DE'LONGHI BRAUN HOUSEHOLD GMBH	Neu-Isenburg	EUR	100,000		100%
DE'LONGHI ELECTRODOMESTICOS ESPANA S.L.	Barcellona	EUR	3,066		100%
DE'LONGHI CAPITAL SERVICES S.R.L. (2)	Treviso	EUR	53,000,000	11%	89%
E- SERVICES S.R.L.	Treviso	EUR	50,000	100%	
DE'LONGHI KENWOOD A.P.A. LTD	Hong Kong	HKD	73,010,000		100%
TRICOM INDUSTRIAL COMPANY LIMITED	Hong Kong	HKD	171,500,000		100%
PROMISED SUCCESS LIMITED	Hong Kong	HKD	28,000,000		100%
ON SHIU (ZHONGSHAN) ELECTRICAL APPLIANCE CO. LTD.	Zhongshan City	CNY	USD 21,200,000		100%
DE'LONGHI-KENWOOD APPLIANCES (DONG GUAN) CO.LTD.	Qing Xi Town	CNY	HKD 285,000,000		100%
DE LONGHI BENELUX S.A.	Luxembourg	EUR	181,730,990	100%	
DE'LONGHI JAPAN CORPORATION	Tokyo	JPY	450,000,000		100%
DE'LONGHI AUSTRALIA PTY LTD.	Prestons	AUD	28,800,001		100%
DE'LONGHI NEW ZEALAND LTD.	Auckland	NZD	16,007,143		100%
ZASS ALABUGA LLC	Elabuga	RUB	95,242,767		100%
DE'LONGHI LLC	Mosca	RUB	3,944,820,000		100%
KENWOOD APPLIANCES LTD.	Havant	GBP	30,586,001		100%
KENWOOD LIMITED	Havant	GBP	26,550,000		100%
KENWOOD INTERNATIONAL LTD.	Havant	GBP	20,000,000		100%
KENWOOD APPL. (SINGAPORE) PTE LTD.	Singapore	SGD	500,000		100%
KENWOOD APPL. (MALAYSIA) SDN.BHD.	Subang Jaya	MYR	1,000,000		100%
DE'LONGHI-KENWOOD GMBH	Wr Neudorf	EUR	36,336	100%	
DELONGHI SOUTH AFRICA PTY.LTD.	Constantia Kloof	ZAR	100,332,501		100%
DE'LONGHI KENWOOD HELLAS SINGLE MEMBER S.A.	Atene	EUR	452,520		100%
DE'LONGHI PORTUGAL UNIPESSOAL LDA	Matosinhos	EUR	5,000		100%
ARIETE DEUTSCHLAND GMBH	Dusseldorf	EUR	25,000		100%
CLIM.RE. S.A.	Luxembourg	EUR	1,239,468	4%	96%
ELLE S.R.L.	Treviso	EUR	10,000		100%
DE'LONGHI BOSPHORUS EV ALETLERI TICARET ANONIM SIRKETI	Istanbul	TRY	3,500,000		100%
DE'LONGHI PRAGA S.R.O.	Praga	CZK	200,000		100%

Company name	Registered office	Currency	Share capital (1)	Interest held at 31/12/2020	
				Directly	Indirectly
KENWOOD SWISS AG	Baar	CHF	1,000,000		100%
DL HRVATSKA D.O.O.	Zagabria	HRK	20,000		100%
DE'LONGHI BRASIL - COMÉRCIO E IMPORTAÇÃO Ltda	São Paulo	BRL	43,857,581		100%
DE'LONGHI POLSKA SP. Z.O.O.	Varsavia	PLN	50,000	0.1%	99.9%
DE'LONGHI APPLIANCES TECHNOLOGY SERVICES (Shenzen) Co. Ltd	Shenzen	CNY	USD 175,000		100%
DE'LONGHI UKRAINE LLC	Kiev	UAH	549,843		100%
DE'LONGHI KENWOOD MEIA F.ZE	Dubai	USD	AED 2,000,000		100%
DE'LONGHI ROMANIA S.R.L.	Cluj-Napoca	RON	140,000,000	10%	90%
DE'LONGHI KOREA LTD	Seoul	KRW	900,000,000		100%
DL CHILE S.A.	Santiago del Cile	CLP	3,079,065,844		100%
DE'LONGHI SCANDINAVIA AB	Stockholm	SEK	5,000,000		100%
DELONGHI MEXICO SA DE CV	Bosques de las Lomas	MXN	53,076,000		100%
TWIST LLC	Mosca	RUB	10,000		100%
DE'LONGHI APPLIANCES (SHANGHAI) CO. LTD	Shanghai	CNY	USD 200,000		100%
DE' LONGHI MAGYARORSZÁG KFT.	Budapest	HUF	34,615,000		100%
DE' LONGHI US HOLDING LLC	Wilmington	USD	50,100,000		100%

The list of the companies belonging to Capital Brands Group acquired on 29 December 2020 is reported below; the companies are 100% indirectly held by De' Longhi S.p.a.:

Company name	Registered office	Currency
CAPITAL BRANDS HOLDINGS, INC.	Wilmington	USD
CAPITAL BAY, LIMITED	Hong Kong	USD
CAPBRAN HOLDINGS, LLC	Los Angeles	USD
CAPITAL BRANDS, LLC	Los Angeles	USD
CAPITAL BRANDS DISTRIBUTION, LLC	Los Angeles	USD
BULLET BRANDS, LLC	Los Angeles	USD
HOMELAND HOUSEWARES, LLC	Los Angeles	USD
BACK IN FIVE, LLC	Los Angeles	USD
BULLET EXPRESS, LLC	Los Angeles	USD
YOUTHOLOGY RESEARCH INSTITUTE, LLC	Los Angeles	USD
BABY BULLET, LLC	Los Angeles	USD
NUTRIBULLET, LLC	Los Angeles	USD
NUTRILIVING, LLC	Los Angeles	USD
DESSERT BULLET, LLC	Los Angeles	USD
VEGGIE BULLET, LLC	Los Angeles	USD
NUTRIBULLET LEAN, LLC	Los Angeles	USD
NUTRIBLAST, LLC	Los Angeles	USD

Investments valued in accordance with the equity method

Company name	Registered office	Currency	Share capital (1)	Interest held at 31/12/2020	
				Directly	Indirectly
DL-TCL HOLDINGS (HK) LTD.	Hong Kong	HKD	USD 5,000,000		50%
TCL-DE'LONGHI HOME APPLIANCES (ZHONGSHAN) CO.LTD.	Zhongshan City	CNY	USD 5,000,000		50%
EVERSYS HOLDING S.A.	Ardon	CHF	4,100,000		40%
EVERSYS S.A.	Ardon	CHF	2,500,000		40%
EVERSYS INC	Toronto	CAD	100		40%
EVERSYS INC DELAWARE	Wilmington	USD	200,000		40%
EVERSYS UK LIMITED	Wallington	GBP	70,000		20.40%
EVERSYS IRELAND LIMITED	Dublin	EUR	100		20.40%
DELISYS AG	Münsingen	CHF	100,000		40.00%
NPE S.R.L.	Treviso	EUR	1,000,000		45%

(1) Figures at 31 December 2020, unless otherwise specified.
(2) The articles of association, approved by the extraordinary shareholders' meeting held on 29 December 2004, give special rights to De'Longhi S.p.A. (holding 89% of the voting rights) for ordinary resolutions (approval of financial statements, declaration of dividends, nomination of directors and statutory auditors, purchase and sale of companies, grant of loans to third parties); voting rights are proportional as far as other resolutions are concerned, except for the preferential right to receive dividends held by the shareholder Kenwood Appliances Ltd.

Statement of consolidated cash flows in terms of net financial position

(Appendix 2 to the Explanatory notes)

(€/000)	2020	2019
Profit (loss) pertaining to the Group	200,133	161,005
Income taxes for the period	56,181	34,786
Amortization	80,992	78,257
Net change in provisions and other non-cash items	15,603	3,211
Cash flow generated by current operations (A)	**352,909**	**277,259**
Change in assets and liabilities for the period:		
Trade receivables	45,087	5,864
Inventories	(67,370)	66,752
Trade payables	184,877	(57,170)
Other changes in net working capital	(6,785)	(7,207)
Payment of income taxes	(41,290)	(30,573)
Cash flow generated (absorbed) by movements in working capital (B)	**114,519**	**(22,334)**
Cash flow generated by current operations and movements in working capital (A+B)	**467,428**	**254,925**
Investment activities:		
Investments in intangible assets	(14,652)	(12,265)
Other cash flows for intangible assets	793	202
Investments in property, plant and equipment	(66,609)	(50,552)
Other cash flows for property, plant and equipment	15	535
Investments in leased assets	(10,347)	(15,017)
Other cash flows for leased assets	1,548	1,255
Net investments in financial assets and in minority interest	(264)	29
Cash flow absorbed by ordinary investment activities (C)	**(89,516)**	**(75,813)**
Cash flow by operating activities (A+B+C)	**377,912**	**179,112**
Cash flows absorbed by the acquisition of Capital Brands (D)	**(329,303)**	**-**
Cash flow absorbed by leasing accounted under IFRS 16 (E)	**-**	**(76,952)**
Fair value and cash flow reserves	(4,032)	(1,656)
Change in currency translation reserve	(16,505)	4,505
Purchase of treasury shares	(14,534)	-
Exercise of stock option	21,452	-
Dividends paid	(80,812)	(55,315)
Cash flows absorbed by changes net equity (F)	**(94,431)**	**(52,466)**
Cash flow for the period (A+B+C+D+E+F)	**(45,822)**	**49,694**
Opening net financial position	**277,815**	**228,121**
Cash flow for the period (A+B+C+D+E+F)	(45,822)	49,694
Consolidated closing net financial position	**231,993**	**277,815**

Transactions and balances with related parties

(Appendix 3 to the Explanatory notes)

Consolidated income statement
pursuant to Consob resolution 15519 of 27 July 2006

(€/000)	2020	*of which with related parties*	2019	*of which with related parties*
Revenue from contracts with customers	2,332,567	*2,310*	2,081,150	*1,588*
Other revenues	18,690	*2,444*	19,988	*2,566*
Total consolidated revenues	**2,351,257**		**2,101,138**	
Raw and ancillary materials, consumables and goods	(1,078,397)	*(35,514)*	(880,629)	*(26,748)*
Change in inventories of finished products and work in progress	41,191		(61,371)	
Change in inventories of raw and ancillary materials, consumables and goods	26,180		(5,382)	-
Materials consumed	**(1,011,026)**		**(947,382)**	
Payroll costs	(301,042)		(268,018)	
Services and other operating expenses	(674,140)	*(941)*	(582,590)	*(777)*
Provisions	(22,050)		(13,968)	
Amortization	(80,993)		(78,257)	-
EBIT	**262,006**		**210,923**	
Net financial income (expenses)	(5,692)	*(178)*	(15,132)	*(265)*
PROFIT (LOSS) BEFORE TAXES	**256,314**		**195,791**	
Taxes	(56,181)		(34,786)	
CONSOLIDATED PROFIT (LOSS) AFTER TAXES	**200,133**		**161,005**	

Statement of financial position

pursuant to Consob resolution 15519 of 27 July 2006

Assets

(€/000)	31.12.2020	*of which with related parties*	31.12.2019	*of which with related parties*
NON-CURRENT ASSETS				
INTANGIBLE ASSETS	631,866		314,829	
- Goodwill	398,514		92,400	
- Other intangible assets	233,352		222,429	
PROPERTY, PLANT AND EQUIPMENT	323,658		313,807	
- Land, property, plant and machinery	138,517		134,247	
- Other tangible assets	121,539		107,169	
- Right of use assets	63,602		72,391	
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS	104,539		40,873	
- Equity investments	30,073		26,724	
- Receivables	4,480		3,486	
- Other non-current financial assets	69,986		10,663	
DEFERRED TAX ASSETS	57,032		47,253	
TOTAL NON-CURRENT ASSETS	**1,117,095**		**716,762**	
CURRENT ASSETS				
INVENTORIES	423,977		343,535	
TRADE RECEIVABLES	398,054	*2,458*	437,360	*2,785*
CURRENT TAX ASSETS	6,541		8,872	
OTHER RECEIVABLES	30,155	*281*	23,212	*228*
CURRENT FINANCIAL RECEIVABLES AND ASSETS	243,005	*15,814*	102,419	*8,123*
CASH AND CASH EQUIVALENTS	662,947		731,491	
TOTAL CURRENT ASSETS	**1,764,679**		**1,646,889**	
Non-current assets held for sale	977		1,277	
TOTAL ASSETS	**2,882,751**		**2,364,928**	

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

Net equity and liabilities

(€/000)	31.12.2020	*of which with related parties*	31.12.2019	*of which with related parties*
NET EQUITY				
GROUP PORTION OF NET EQUITY	1,267,354		1,190,454	
- Share Capital	225,823		224,250	
- Reserves	841,398		805,199	
- Profit (loss) pertaining to the Group	200,133		161,005	
TOTAL NET EQUITY	**1,267,354**		**1,190,454**	
NON-CURRENT LIABILITIES				
FINANCIAL PAYABLES	507,335		428,562	
- Banks loans and borrowings (long-term portion)	330,012		218,746	
- Other financial payables (long-term portion)	129,330		153,976	
- Lease liabilities (long-term portion)	47,993	*23,938*	55,840	*27,493*
DEFERRED TAX LIABILITIES	9,235		35,838	
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES	99,646		77,689	
- Employee benefits	51,288		41,114	
- Other provisions	48,358		36,575	
TOTAL NON-CURRENT LIABILITIES	**616,216**		**542,089**	
CURRENT LIABILITIES				
TRADE PAYABLES	581,860	*8,408*	365,778	*7,500*
FINANCIAL PAYABLES	236,612		138,200	
- Banks loans and borrowings (short-term portion)	132,867		66,651	
- Other financial payables (short-term portion)	85,567		53,093	
- Lease liabilities (short-term portion)	18,178	*3,555*	18,456	*3,509*
CURRENT TAX LIABILITIES	66,498	*24,850*	35,567	*17,119*
OTHER PAYABLES	114,211		92,840	
TOTAL CURRENT LIABILITIES	**999,181**		**632,385**	
TOTAL NET EQUITY AND LIABILITIES	**2,882,751**		**2,364,928**	

Transactions and balances with related parties

Summary by company

In compliance with the guidelines and methods for identifying significant transactions, especially those with related parties covered by the De' Longhi S.p.A. rules on corporate governance, we shall now present the following information concerning related party transactions during 2020 and related balances with mainly commercial nature at 31 December 2020:

(€/million)	Revenues	Costs	Financial Income (Expense)	Trade and other receivables	Financial receivables	Trade and other payables	Financial payables - IFRS 16
Related companies:							
DL Radiators S.r.l.	3.0	-	(0.1)	1.4	-	0.1	-
TCL-De'Longhi Home Appliances (Zhongshan) Co.Ltd.	-	15.4	-	-	-	0.5	-
NPE S.r.l.	0.8	20.4	-	0.7	-	6.7	-
Gamma S.r.l.	0.5	0.5	(0.4)	0.5	-	1.1	27.5
Eversys Holding S.A.	-	-	0.2	-	8.1	-	-
Eversys S.A.	0.5	0.2	0.1	0.1	7.7	-	-
De Longhi Industrial S.A.	-	-	-	-	-	24.9	-
TOTAL RELATED PARTIES	**4.8**	**36.5**	**(0.2)**	**2.7**	**15.8**	**33.3**	**27.5**

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

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

The Parent Company De' Longhi S.p.A. and a few Italian subsidiaries adhered to the national tax consolidation regime (Presidential Decree. n. 917/1986 - "TUIR"- articles 117 through 129, and Decree of 9.6.2004), as part of a tax group formed by De Longhi Industrial S.A.; the agreement entered into covers the three-year period 2019-2021 and may be renewed. The €24.9 million included in tax payables is comprised of the taxes payable by the members of the tax group through De Longhi Industrial S.A..

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

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

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

Type of service	Party performing the service	Recipient	Fees earned in 2020
Auditing	PwC S.p.A.	De' Longhi S.p.A. (parent company)	159
	PwC S.p.A.	Italian subsidiaries	212
	Network of parent company auditor	Foreign subsidiaries	921
	Other auditors	Foreign subsidiaries	52
Other services	PwC S.p.A.	De' Longhi S.p.A. (parent company)	86
	Network of parent company auditor	De' Longhi S.p.A. (parent company)	17
	PwC S.p.A.	Italian subsidiaries	37
	Network of parent company auditor	Foreign subsidiaries	306

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

(Appendix 5 to the Explanatory notes)

The undersigned Massimo Garavaglia, Chief Executive Officer, and Stefano Biella, as Officer Responsible for Preparing the Company’s Financial Report of De’ Longhi S.p.A., attest, also taking account of the provisions of paragraphs 2, 3 and 4, art. 154-bis of Decree 58 dated 24 February 1998:
that the accounting and administrative processes for preparing the consolidated financial statements during 2020:

- have been adequate in relation to the company's characteristics and
- have been effectively applied.

It is also certified that the consolidated financial statements at 31 December 2020:

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

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

Massimo Garavaglia
Chief Executive Officer

Stefano Biella
Officer Responsible for Preparing the Company’s Financial Report

External auditors’ report on the consolidated financial statements

pwc

Independent auditor's report

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

To the shareholders of De'Longhi SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of De'Longhi Group (the Group), which comprise the statement of financial position as of 31 December 2020, the income statement, the statement of comprehensive income, the statement of changes in net equity, the statement of cash flows for the year then ended and the explanatory notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2020, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

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

Key Audit Matters

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

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Recoverability of the value of indefinite-lived intangible assets *Notes 11 and 12 to the consolidated financial statements*	
The consolidated financial statements of De'Longhi SpA include indefinite-lived intangible assets, which are not amortised but tested for impairment at least annually. Indefinite-lived intangible assets comprise goodwill for Euro 398.5 million and trademarks for Euro 174.8 million. Goodwill includes Euro 306.1 million attributable to the provisional allocation of goodwill related to the acquisition of the Capital Brands Group. With regard to the acquisition of Capital Brands, since it took place in late December 2020, the directors considered that there were no significant changes in the overall fair value of the items acquired between the acquisition date and the reporting date. The impairment test shall be conducted in connection with the first closing subsequent to the final allocation of the purchase price to the fair values of the assets acquired and liabilities assumed, which will be carried out, as allowed by IFRS 3, within 12 months of the acquisition. For the purpose of verifying the recoverability of goodwill not related to the Capital Brands acquisition, the Group's assets were allocated to the following cash-generating units ("CGUs"): De'Longhi, Kenwood and Braun. Within 'Other intangible assets', the item 'Trademarks and similar rights' includes, among other items, the 'De'Longhi' trademark for Euro 79.8 million and a perpetual licence on the 'Braun' trademark for Euro 95.0 million, which are considered to have an indefinite useful life To determine the recoverable amount of the individual CGUs to which goodwill has been allocated, management determined value in use using the discounted cash flow method, where value in use is calculated as the sum of the present	As part of our audit of the consolidated financial statements as of 31 December 2020, we performed the procedures illustrated below. We obtained the impairment tests prepared by management to determine the recoverable amounts of CGUs identified and trademarks. The assumptions and criteria used in those tests were approved by the board of directors on 11 March 2021. We understood and evaluated the Group's internal control over the process of testing the recoverability of goodwill and trademarks Our audit approach was based on analysing the method used by the directors to prepare the test. We analysed the reasonableness of Group management's considerations about the identification of the CGUs and the process of allocation of goodwill to the individual CGUs. We analysed the estimated future cash flows and the royalty flows used in the impairment testing models prepared on the basis of the three-year business plan and budget approved by the board of directors; in detail, we verified the reasonableness of the assumptions used in light of the past results of individual CGUs, individual trademarks and the whole Group, comparing the growth rates used by management with external sources and other information commonly available to market analysts. With the support of business valuation experts from the PwC network, we verified that the valuation methods used were consistent with prevailing practice, and specifically with International Financial

value of the future cash flows over the explicit forecast horizon and a terminal value obtained applying a long-term growth rate to the last year of the business plan. The recoverable amount of each CGU to which goodwill has been allocated was compared with the net invested capital of the individual CGUs.

The method adopted for testing trademarks for impairment consisted in discounting to present value the royalties that the Group would be able to earn by transferring the right to use the trademark in question to a third party on a permanent basis.
This method involves estimating the sales volumes that can reasonably be expected from the trademarks being tested, the royalty flows and the discount rate. The recoverable amounts thus obtained were compared with the carrying amounts of the trademarks.

In the course of our audit of the consolidated financial statements as of 31 December 2020, we focused on these areas as a key audit matter in consideration of the magnitude of the balances and the fact that their recoverability was verified by management based on assumptions that are sometime complex, and that by nature involve the use of judgement, specifically with reference to the estimation of the future cash flows expected to be generated from each CGU and of royalties from trademarks, and the determination of the long-term growth rates and discount rates applied.

Reporting Standards as adopted by the European Union. Moreover, the key valuation parameters adopted were analysed in terms of reasonableness. With specific reference to the method of calculation of discount rates and royalty rates, we verified that these had been determined in accordance with prevailing practice and based on market figures.
Similarly, for the determination of the medium/long-term growth rates we verified their consistency with the provisions of International Financial Reporting Standards as adopted by the European Union

We verified the mathematical accuracy of the calculations underlying the test and the values of net invested capital of the CGUs identified, including goodwill, as of 31 December 2020 used for comparison with values in use.

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

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

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

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

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

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

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

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

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

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

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

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

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

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

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of De'Longhi SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the De'Longhi Group as of 31 December 2020, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the De'Longhi Group as of 31 December 2020 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the De'Longhi Group as of 31 December 2020 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

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

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

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

Treviso, 29 March 2021

PricewaterhouseCoopers SpA

Signed by

Filippo Zagagnin
(Partner)

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

Intentionally blank page

Indipendent auditors’ report on consolidated Non-Financial Statement

DE'LONGHI SPA

INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ARTICLE 3, PARAGRAPH 10, OF LEGISLATIVE DECREE NO. 254/2016 AND ARTICLE 5 OF CONSOB REGULATION NO. 20267 OF JANUARY 2018

YEAR ENDED 31 DECEMBER 2020

pwc

Independent auditor's report on the consolidated non-financial statement

pursuant to article 3, paragraph 10, of Legislative Decree No. 254/2016 and article 5 of CONSOB Regulation No. 20267 of January 2018

To the board of directors of De'Longhi SpA

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016 (the "Decree") and article 5 of CONSOB Regulation No. 20267/2018, we have undertaken a limited assurance engagement on the consolidated non-financial statement of De'Longhi SpA and its subsidiaries (hereafter the "Group") for the year ended 31 December 2020 prepared in accordance with article 4 of the Decree and approved by the Board of Directors on 11 March 2021 (hereafter the "NFS").

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

The directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and with the "GRI-Sustainability Reporting Standards" defined in 2016 and updated to 2019 (hereafter the "GRI Standards"), with reference to a selection of GRI Standards.

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

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

Finally, the directors are responsible for defining the business and organisational model of the Group and, with reference to the matters identified and reported in the NFS, for the policies adopted by the Group and for the identification and management of risks generated or faced by the Group.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, compliance with the Decree.

Auditor's Independence and Quality Control

We are independent in accordance with the principles of ethics and independence set out in the Code of Ethics for Professional Accountants published by the International Ethics Standards Board for Accountants, which are based on the fundamental principles of integrity, objectivity, competence and professional diligence, confidentiality and professional behaviour. Our audit firm adopts International Standard on Quality Control 1 (ISQC Italia 1) and, accordingly, maintains an overall quality control system which includes processes and procedures for compliance with ethical and professional principles and with applicable laws and regulations.

Auditor's responsibilities

We are responsible for expressing a conclusion, on the basis of the work performed, regarding the compliance of the NFS with the Decree and with the GRI Standards. We conducted our work in accordance with International Standard on Assurance Engagements 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information ("ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. The standard requires that we plan and apply procedures in order to obtain limited assurance that the NFS is free of material misstatement. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not provide us with a sufficient level of assurance that we have become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

The procedures performed on the NFS were based on our professional judgement and consisted in interviews, primarily of company personnel responsible for the preparation of the information presented in the NFS, analyses of documents, recalculations and other procedures designed to obtain evidence considered useful.

In detail, we performed the following procedures:

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

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

3 understanding of the following matters:
- business and organisational model of the Group with reference to the management of the matters specified by article 3 of the Decree;
- policies adopted by the Group with reference to the matters specified in article 3 of the Decree, actual results and related key performance indicators;
- key risks generated and/or faced by the Group with reference to the matters specified in article 3 of the Decree.

With reference to those matters, we compared the information obtained with the information presented in the NFS and carried out the procedures described under point 4 a) below;

4 understanding of the processes underlying the preparation, collection and management of the significant qualitative and quantitative information included in the NFS.

In detail, we held meetings and interviews with the management De'Longhi SpA and the personnel of the german companies De'Longhi Deutschland GmbH and De'Longhi Braun Household GmbH and the American company De'Longhi America Inc and we performed limited analyses of documentary evidence, to gather information about the processes and procedures for the collection, consolidation, processing and submission of the non-financial information to the function responsible for the preparation of the NFS.

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

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

- for the Italian perimeter (composed of the office of Treviso and the plants of Mignagola, Gorgo al Monticano and Campi Bisenzio), German perimeter (composed by De'Longhi Deutschland GmbH and De'Longhi Braun Household GmbH), and US perimeter (composed by De' Longhi America Inc) which were selected on the basis of their activities, their contribution to the performance indicators at a consolidated level and their location, we carried out site visits during which we met local management and gathered supporting documentation regarding the correct application of the procedures and calculation methods used for the key performance indicators.

Conclusion

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of De' Longhi Group as of 31 December 2020 has not prepared, in all material respects, in accordance with articles 3 and 4 of the Decree and with the GRI Standards, with reference to the selection of GRI Standards included in the NFS.

Treviso, 29 March 2021

PricewaterhouseCoopers SpA

Signed by

Filippo Zagagnin
(Statutory auditor)

Signed by

Paolo Bersani
(Authorised signatory)

This report has been translated from the Italian original solely for the convenience of international readers. We have not performed any controls on the NFS 2020 translation.

Intentionally blank page

Report on operations on separate financial statements

Introduction

In 2020 the spread worldwide of the coronavirus epidemic caused an unprecedented global crisis with serious consequences from a health, social, economic and financial standpoint.

In the face of a situation undergoing constant change, the Company implemented plans aiming to protect the health and safety of its employees based on an internal policy and in accordance with local laws, maximizing the use of remote working solutions.
At the same time, in order to guarantee business continuity, steps were also taken to assess and quickly resolve any critical issues.
The good results achieved in 2020 demonstrated that the Company knew how to manage this unprecedented crisis thanks to its strategic and managerial approach, flexibility, ability to react quickly, as well as the dedication and determination of all its employees who, at the end of the year, were awarded a special bonus for the commitment shown in this unprecedented period.

This report, therefore, is presented during what continue to be highly uncertain times which call for caution including when making economic forecasts.
Despite this, and even taking into account the unpredictability of the pandemic's potential impact, given its financial solidity, the actions taken to limit risks and its business model, as well as the good results obtained in 2020 which confirmed the effectiveness of the strategy implemented to address the health crisis, the Company believes that there are no elements which could compromise the business as a going concern.

Review of the income statement

(€/million)	2020	% revenues	2019	% revenues
Revenues	**8.8**	**100.0%**	**9.4**	**100.0%**
Changes 2020/2019	*(0.6)*	*(6.0%)*		
Materials consumed	(0.1)	(0.5%)	(0.1)	(0.7%)
Other services and expenses	(16.0)	(180.9%)	(12.9)	(137.2%)
Payroll	(11.9)	(134.6%)	(8.4)	(89.7%)
EBITDA before non-recurring expenses / stock option	**(19.1)**	**(216.1%)**	**(12.0)**	**(127.6%)**
Changes 2020/2019	*(7.1)*	*59.2%*		
Non-recurring expenses / stock option	(2.8)	(31.3%)	(3.9)	(41.3%)
EBITDA	**(21.9)**	**(247.3%)**	**(15.9)**	**(168.9%)**
Amortization	(0.8)	(8.8%)	(0.8)	(8.9%)
EBIT	**(22.7)**	**(256.1%)**	**(16.7)**	**(177.8%)**
Changes 2020/2019	*(5.9)*	*35.4%*		
Dividends	110.9	1,254.1%	135.6	1,440.8%
Net financial income (expenses)	(4.2)	(47.9%)	(2.8)	(30.2%)
Profit (loss) before taxes	**84.1**	**950.1%**	**116.1**	**1,232.8%**
Income taxes	4.7	52.6%	3.0	32.3%
Profit (loss) after taxes	**88.7**	**1,002.7%**	**119.1**	**1,265.1%**

De' Longhi S.p.A, the parent of the De' Longhi Group, performs holding company activities involving the management and supply of centralized services to its subsidiaries. The income statement, therefore, reflects the dividends received from the subsidiaries, other chargebacks for services provided, as well as operating (payroll costs and the cost of services) and financial expenses.
De' Longhi S.p.A., in its capacity as a holding company, carries out the centralized management of a few costs (mainly the global marketing costs relative to the Group's brands) shared by several Group companies which are allocated and charged back accordingly. This had an impact on both net revenues and operating costs of €2.6 million in 2020 (€ 3.2 million in 2019).

In 2020 dividends amounted to €110.9 million (€135.6 million in 2019) while net financial expenses came to €4.2 million (€2.8 million in 2019).

Net profit came to €88.7 million (€119.1 million in 2019).

Review of the statement of financial position

The reclassified statement of financial position is presented below:

(€/million)	31 December 2020	31 December 2019	Change	% change
- Tangible and intangible assets	1.5	2.0	(0.5)	(25.1%)
- Financial assets	567.5	567.5	-	-
Non-current assets	**569.0**	**569.5**	**(0.5)**	**(0.1%)**
- Trade receivables	3.4	3.0	0.4	14.3%
- Trade payables	(4.3)	(6.4)	2.0	(31.6%)
- Other current payables (net of other receivables)	(1.2)	(2.2)	1.0	(45.5%)
Net working capital	**(2.1)**	**(5.5)**	**3.4**	**(61.9%)**
Total non-current liabilities and provisions	**(7.1)**	**(4.6)**	**(2.4)**	**52.4%**
Net capital employed	**559.8**	**559.3**	**0.5**	**0.1%**
Net financial debt (positive net financial position)	**(7.6)**	**8.2**	**(15.8)**	**(192.4%)**
Total net equity	**567.4**	**551.1**	**16.3**	**3.0%**
Total net debt and equity	**559.8**	**559.3**	**0.5**	**0.1%**

The positive net financial position amounted to €7.6 million at 31 December 2020 (€8.2 million at 31 December 2019), broken down as follows:

(€/million)	31 December 2020	31 December 2019	Change
Cash and cash equivalents	-	0.1	(0.1)
Other financial receivables	577.6	427.9	149.7
Current financial debt	(110.0)	(66.5)	(43.5)
Positive current net financial position	**467.6**	**361.5**	**106.1**
Non-current net financial debt	**(460.0)**	**(369.7)**	**(90.3)**
Total positive net financial position (net financial debt)	**7.6**	**(8.2)**	**15.8**
Of which:			
- Net position with banks and other lenders	10.8	(6.4)	17.2
- Lease payables	(1.2)	(1.3)	0.1
- Other net assets/(liabilities) (fair value of derivatives, financial payables linked to the purchase of equity investments)	(2.0)	(0.5)	(1.5)

The net financial position includes a few specific financial items, including the fair value measurement of derivatives and the residual debt owed for the purchase of equity investments which shows a negative balance of €2.0 million at 31 December 2020 (negative for €0.5 million at 31 December 2019).
The net financial position at 31 December 2020 also inlcudes the impact of IFRS 16 adoption with resulted in the recognition of €1.2 million in "Lease payables" (€1.3 million at 31 December 2019).
Net of these items, the net financial position with banks was €10.8 million at 31 December 2020, with cash flow reaching a positive €17.2 million in the twelve-month period.

Given the situation of economic uncertainty, despite its solid financial situation, during the initial phases of the health crisis the Company decided to increase its available liquidity in order to have access to additional financial resources to support the business and growth, as well as extend the average life of its debt, by taking out €200 million in new medium/long-term loans and issuing another €150 million tranche, maturing in 2041, of the "Private Shelf Facility" which will be underwritten by a leading US financial group in the first few months of 2021.

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

(€/million)	2020	2019
Cash flow by current operations	(20.3)	(16.0)
Cash flow by other changes in working capital	0.7	14.1
Cash flow by investment activities	110.7	135.6
Cash flow by operating activities	**91.1**	**133.7**
IFRS 16 first application effect	**-**	**(1.5)**
Dividends paid	(80.8)	(55.3)
Cash flow by changes in cash flow hedge reserves	(1.4)	0.8
Cash flow by treasury shares purchase	(14.5)	-
Stock options exercise	21.4	-
Cash flow by changes in net equity	**(75.3)**	**(54.5)**
Cash flow for the period	**15.8**	**77.7**
Opening net financial debt	(8.2)	(85.9)
Closing positive net financial position (net financial debt)	**7.6**	**(8.2)**

Net operating cash flow amounted to €91.1 million (€133.7 million in 2019), a decrease of €41.1 million compared to the prior year. This change is explained primarily by a reduction in the dividends received from subsidiaries.

Cash flow to net equity reached a negative €75.3 million (negative €54.5 million in 2019), explained primarily by dividend payments of €80.8 million, as the reasons for caution which initially drove the decision to suspend payment no longer existed, the purchase of €14.5 million in treasury shares, the exercise of stock options for €21.4 million and the change in the cash flow hedge reserve relating to the fair value of derivatives of €1.4 million.

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

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

(€/thousands)	Net equity 31.12.2020	Profit for 2020	Net equity 31.12.2019	Profit for 2019
De' Longhi S.p.A. financial statements	**567,417**	**88,710**	**551,146**	**119,094**
Share of subsidiaries' equity and results for period attributable to the Group, after deducting carrying value of the investments	465,275	121,064	655,966	32,776
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	274,522	(1,948)	15,765	(1,875)
Elimination of intercompany profits	(40,128)	(8,227)	(32,180)	10,364
Other adjustments	268	534	(243)	646
Consolidated financial statements	**1,267,354**	**200,133**	**1,190,454**	**161,005**

Annual remuneration report

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

Human resources and organization

The company had 52 employees at 31 December 2020 (51 at 31 December 2019).

The following table summarizes the average number of employees during 2020 compared with 2019:

	2020	%	2019	%	Change
White collars	33	65%	34	68%	(1)
Managers	18	35%	16	32%	2
Total	**51**	**100%**	**50**	**100%**	**1**

Research and development

As a holding company, the Company does not carry out any research and development directly. These activities are carried out by employees of the individual subsidiaries. More details can be found in the paragraph on "*Research and Development - quality control*" found in the Report on Operations accompanying the consolidated financial statements.

Report on corporate governance and ownership structure

Company's Report on Corporate Governance and Ownership Structure drawn up in accordance with art. 123 - *bis* of the Uniform Finance Act can be found in a report not included in the Report on Operations, published at the same time as the latter and available on the company's website www.delonghigroup.com (section *Home* > *Governance* > *Corporate bodies* >*Shareholders' Meeting 2021*).

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

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

Introduction

The Company's Internal Control System consists in the set of rules, procedures and organizational structures set in place to ensure that company strategies are adhered to and, based on the corporate governance standards and model included in the COSO report (Committee of Sponsoring Organizations of the Treadway Commission), to guarantee:
a) efficient and effective company operations (administration, production, distribution, etc.);
b) reliable, accurate, trustworthy and timely economic and financial information;
c) compliance with laws and regulations, as well as the corporate articles of associations, rules and company procedures;
d) safeguarding of the company's assets and protection, to the extent possible, from losses;
e) identification, assessment, management and monitoring of the main risks.

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

The Internal Control System that is subject to examination and periodic audits, taking into account changes in the company's operations and reference context, makes it possible to address the main risks to which the Issuer and the Group are exposed to over time, in a timely manner, as well as to identify, assess and control the degree of the exposure of the Issuer and all the other companies of the Group - particularly the strategically important subsidiaries - to the different types of risk, and also makes it possible to manage the overall exposure taking into account:
(I) the possible correlations between the different risk factors;
(II) the probability that the risk materializes;
(II) the impact of the risk on the company's operations;
(IV) the overall impact of the risk.

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

Description of main characteristics

The Company uses a system of risk management and internal control for the financial reporting process that is part of the wider system of internal controls as required under art. 123-*bis* par. 2 (b) of TUF.
For the purposes of ensuring reliable internal controls over its financial reporting, the Company has implemented a system of administrative and accounting procedures and operations that include an accounting policies manual, updating in order to comply with the law and changing accounting standard, rules for consolidation and interim financial reporting, as well as coordination with subsidiaries as needed.
The central corporate functions are responsible for managing and communicating these procedures to other Group companies.
The assessment, monitoring and continuous updating of the internal control system relating specifically to financial reporting is carried out in accordance with the COSO model and, where applicable, Law 262/2005. Critical processes and sub-processes relating to the principal risks have been identified in order to establish the principal controls needed to reduce such risks. This has involved identifying the strategically important companies, based on quantitative and qualitative financial parameters (i.e. companies that are relevant in terms of size and companies that are relevant just in terms of certain processes and specific risks).
Having identified these companies, the risks have been mapped and assessed and the key manual and automatic controls have been identified and rated as high/medium/low priority accordingly; these controls have then been tested.

The perimeter of the companies included in the mapping for the purposes of Law 262/2005 has changed over the years to reflect the changes in the Group, both quantitative and qualitative, and this perimeter was also considered for the definition of companies viewed as strategic.
The general managers and administrative heads of each Group company are responsible for maintaining an adequate internal control system and, given their roles, must certify that the internal control system works properly.
Internal Audit must also include verification of the internal controls through the use of a self-assessment check list in its Audit Plan.
With regard to compliance with Consob Regulation 20249 of 28 December 2017 relating to market regulations ("Regolamento Mercati"), De' Longhi S.p.A. controls, directly or indirectly, seven companies formed and regulated by the law of countries that are not part of the European Union considered relevant pursuant to art. 151 of the issuer regulations ("Regolamento Emittenti").
With reference to the requirements of art. 15 of the Market Regulations, it is reported as follows:

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

In order to identify and manage the Company's main risks, with regard particularly to corporate governance and compliance with the law and regulatory standards (including the Corporate Governance Code for Listed Companies), the Issuer undertook a project for the development and monitoring of a structured ERM model in order to effectively manage the main risks to which the Issuer and the Company are exposed.
During 2020, activities for implementing this Enterprise Risk Management (ERM) project continued. ERM is aimed at streghtening the risk control and management system by mapping the main risks to which the Company is exposed on the basis of the Group value chain, identifying the inherent and of the related residual risk and assessing and implementing action plans for their elimination/mitigation. Furthermore, the Internal Audit Director and the Officer Responsible for Preparing the Company's Financial Reportes continued the work for specifically and analytically governing the ERM risk management system, through some additional activities.
In 2020 this activity continued by updating existing risks, the main strategic risks identified by the Chief Executive Officer, the analysis of the perimeter of the Group's strategically important foreign branches, as well as mapping the risks perceived by the Managers of audited branches.
Preparation for the roll out of the new ERM platform also continued. This platform will provide more structured and efficient ERM management in the coming years.

Risk factors

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

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

The global market conditions and difficulties in anticipating economic cycles, energy prices (oil, above all), the prices of raw materials (steel, plastics and copper), the ongoing political crises and conflicts (particularly in the Middle East), the political and economic changes in the United States and Great Britain (Brexit), along with other factors referred to in this section, could have a significant impact on the Company's results and financial position.
The Company periodically monitors these economic trends in order to quickly take strategic action as needed.
The Group is also subject to the risks connected to the spread of epidemics or serious health issues in the main reference markets which could interrupt or limit activities in these markets (production, the supply chain and/or product sales).
The Company cannot predict these phenomena but, leveraging on past experience, it is able to react and implement all the measures needed to limit the consequences (as was the case in 2020 when, because of the global health crisis, the Company had to face an unprecedented level of market uncertainty).
The persistence of these situations, however, could interrupt and/or limit the Group's activities which would have an impact on economic and financial results.

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

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

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

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

The salary review process also includes reward systems for employees at various levels in the organization - from the staff through to top management and key people - which are linked to the achievement of short-term and/or medium/long term targets. The health crisis was also a critical factor for human resources which determined the course of 2020.
In the face of a health crisis (similar to what happened with the current crisis, which started in January in China and then spread to the rest of the world), the Company defines and implements an important series of actions aimed at ensuring the maximum security and safety of its employees, while, at the same time, guaranteeing business continuity.

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

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

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

It is the Company's policy to maintain a sufficiently large portfolio of counterparties of international repute for the purposes of satisfying its financing and hedging needs.
The Company uses specific policies and procedures for the purposes of monitoring and managing this risk, including the centralized cash management (financial debt and cash management, the raising of medium and long-term finance on capital markets and the obtaining of short-term credit lines that allow wide room for manoeuvre when managing working capital and cash flows).
The Company has short-term bank credit lines (typically renewed on an annual basis), which are used to finance working capital and other operating needs.
About the interest rate risk, at 31 December 2020 the Company's net financial position is positive and financial debt is medium-long term, in order to take advantage of the favourable market conditions characterized by very low interest rates.
This risk is managed centrally by the same team that manages currency risks. Nevertheless, sudden fluctuations in interest rates could have an adverse impact on the Company's business prospects, as well as on its economic performance and/or financial position.
At the date of this report, the Company has five hedging contracts to protect two medium/long term loans from the interest rates fluctuation risk.

6 - Compliance and corporate reporting risks:

A. Financial reporting: risks associated with the reliability of financial reporting, particularly that the information contained in the annual and interim financial reports might not be correct, warrant particular attention, especially for a listed company.
In 2020, effective implementation of the system of managing financial reporting risks was monitored on a continuous basis and periodically evaluated under the guidance of the functions in charge.
For the purposes of ensuring reliable internal controls over its financial reporting, the Group has implemented a system of administrative and accounting procedures and operations that include:
- an accounting policies manual;
- accounting policy instructions and updates;
- other procedures for preparing the consolidated financial statements and periodic financial reports.

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

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

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

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

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

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

Number and value of shares

At 31 December 2019 share capital comprised 149,500,000 ordinary shares with a par value €1.5 each, for a total of €224,250 thousand.
In 2020, 1,048,564 options assigned under the "Stock Option Plan 2016-2022" were exercised at an exercise price of €20.4588, and consequently, the same number of shares were subscribed.
The share capital at 31 December 2020, therefore, comprised 150,548,564 ordinary shares with a par value of €1.5 for a total of €225,823 thousand.
In the period 1-15 January 2021 another 10,000 options assigned under the "Stock Option Plan 2016-2022" were exercised at an exercise price of €20.4588, and consequently, the same number of ordinary shares were subscribed at a par value of €1.5.
In accordance with current regulations and the law, the declaration attesting to the change in share capital was lodged with the Treviso-Belluno Corporate Registry on 1 February 2021.
The share capital amounted to €225,838 thousand at the date on which this Report was approved.

Treasury shares

On 13 March 2020 the Company announced the launch of a buyback program as per the terms and conditions authorized during the Annual General Meeting held on 30 April 2019 which provides for the buyback of up to a maximum of 3,000,000 shares in the period 16 March 2020 through 16 December 2020.
In the period 16 March - 16 December 2020 the Company purchased a total of 895,350 treasury shares through an authorized intermediary.
During the Annual General Meeting shareholders also resolved to renew - after revoking the approval granted by shareholders on 30 April 2019, for the unexecuted part - the authorization to buy and sell treasury shares for up to a maximum of 14.5 million ordinary shares and, at any rate, up to an amount which does not exceed 1/5 of the share capital, also taking into account any shares held by the Company and its subsidiaries. The authorization was approved for a period of up to a maximum of 18 months (therefore, through 22 October 2021) in accordance with the law.

Tax consolidation

The Company exercised, jointly with the consolidator De Longhi Industrial S.A., the option to adhere to group taxation, referred to as "Domestic Tax Consolidation", as permitted under articles 117 - 129 of the Consolidated Income Tax Act (TUIR) as per Presidential Decree n. 917 of 22 December 1986, and the Decree of the Ministry of Economy and Finance of 9 June 2014, for the three-year period 2019-2021.

Related party transactions

Related party transactions fall within the normal course of the company business.
Information on related party transactions is summarized in Appendix 4 to the Explanatory notes.

Alternative performance indicators

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

More in detail, the non-GAAP measures used include:
- EBITDA: the Company uses these measure as financial targets in internal presentations (business plans) and in external presentations (to analysts and investors), since it is a useful way of measuring operating performance besides EBIT.
  EBITDA is an intermediate measure that derives from EBIT after adding back depreciation, amortization and impairment of property, plant and equipment and intangible assets. EBITDA is also presented net of non-recurring items, which are reported separately on the face of the income statement.
- Net working capital: this measure is the sum of inventories, trade receivables, current tax assets and other receivables, minus trade payables, current tax liabilities and other payables.
- Net capital employed: this measure is the sum of net working capital, intangible assets, property, plant and equipment, equity investments, other non-current receivables, and deferred tax assets, minus deferred tax liabilities, employee severance indemnity and provisions for contingencies and other charges.
- Net financial debt/(Positive net financial position): this measure represents gross financial liabilities less cash and cash equivalents and other financial receivables; the net financial position with banks, net non-banking items, is also reported. The individual line items in the statement of financial position used to determine this measure are analysed later in this report.

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

Non-financial statement

Based on Legislative Decree n.254/2016, in implementation of the Directive 95/2014 or “Barnier Directive”, large public interest undertakings are required to publish a Non-Financial Statement (NFS) as of FY 2017.
For further information refer to the Consolidated Annual Report on Operations.

Subsequent events

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

Proposed resolutions for the Annual General Meeting

1) Proposed resolution relating to item 1.1 of the Agenda for the Annual General Meeting convened on 21 April 2021 ("*Annual Report at 31 December 2020: presentation of the separate financial statements at 31 December 2020, together with the Directors' Report on Operations, the Board of Statutory Auditors' Report, the External Auditors' Report and the Certification of the Financial Reporting Officer. Related and consequent resolutions*").

Dear Shareholders,
in submitting the De' Longhi S.p.A.'s Annual Report at 31 December 2020 to you for approval during the Annual General Meeting, we propose that you approve the following resolution:

"*The Shareholders of De' Longhi S.p.A.,*
having examined the draft financial statements at 31 December 2020 of De' Longhi S.p.A., the Board of Directors' Report on Operations, the Board of Statutory Auditors' Report and the other documentation called for under the law

resolve

to approve the Board of Directors' Report on Operations and the financial statements at 31 December 2020 of De' Longhi S.p.A.".

2) Proposed resolution relating to item 1.2 of the Agenda for the Annual General Meeting convened on 21 April 2021 ("*Annual Report at 31 December 2020: proposed allocation of the net profit for the year and distribution of the dividend. Related and consequent resolutions*").

Dear Shareholders,
with regard to the allocation of the net profit for the year closed on 31 December 2020, which amounted to €88,710,388, we propose that you approve the following resolution:

"*The Shareholders of De' Longhi S.p.A.,*
having acknowledged the net profit for the year shown in the Annual Report at 31 December 2020 and the Directors' Report on Operations

resolve

1. *to allocate €317,569 of the net profit for the year to the legal reserve, in accordance with art. 2430 of the Italian Civil Code, which represents one fifth of the share capital subscribed at the date of this Annual General Meeting;*
2. *to distribute a gross ordinary dividend of €0.54 for each of the shares outstanding with dividend rights at the record date, as per art. 83-terdecies of Legislative Decree 58/98, after the allocation referred to in item 1 above has been made;*
3. *to allocate the remaining net profit for the year to the extraordinary reserve;*
4. *to establish that the payment of the dividend, on each share entitled to receive a dividend, will take place on 26 May 2021, with shares going ex-div on 24 May 2021, in accordance with Borsa Italiana's calendar, and a record date in accordance with art. 83-terdecies of Legislative Decree n. 58/98 of 25 May 2021*".

Treviso, 11 March 2021

On behalf of the Board of Directors
The Chief Executive Officer
Massimo Garavaglia

Separate annual report and financial statements

Separate financial statements

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

Income Statement

(Amounts in Euro)	*Notes*	2020	*of which non-recurring*	2019	*of which non-recurring*
Revenues	*1*	8,846,877		9,413,730	
Total revenues		**8,846,877**		**9,413,730**	
Raw and ancillary materials, consumables and goods	*2*	(52,143)	*(7,600)*	(68,475)	
Materials consumed		**(52,143)**		**(68,475)**	
Payroll costs	*3*	(14,482,499)	*(71,588)*	(10,588,209)	
Services and other operating expenses	*4*	(16,194,925)	*(187,246)*	(15,191,961)	*(1,741,609)*
Provisions	*5*	-		539,348	
Amortization	*6*	(776,980)		(839,455)	
EBIT		**(22,659,670)**		**(16,735,022)**	
Net financial income (expenses)	*7*	106,713,731		132,790,237	
PROFIT (LOSS) BEFORE TAXES		**84,054,061**		**116,055,215**	
Income taxes	*8*	4,656,327		3,038,867	
NET PROFIT (LOSS)		**88,710,388**		**119,094,082**	

Appendix 4 reports the effect of related-party transactions on the income statement, as required by CONSOB resolution 15519 of 27 July 2006.

Statement of Comprehensive Income

(Amounts in Euro)	2020	2019
Net profit (loss)	**88,710,388**	**119,094,082**
Other components of the comprehensive income:		
- Change in fair value of cash flow hedges and financial assets available for sale	(1,379,568)	779,781
- Tax effect on change in fair value of cash flow hedges and financial assets available for sale	331,096	(187,147)
Total other comprehensive income will subsequently reclassified to profit (loss) for the year	**(1,048,472)**	**592,634**
- Actuarial valuation funds	1,856	(18,768)
- Tax effect of actuarial valuation funds	(445)	4,504
Total other comprehensive income will not subsequently reclassified to profit (loss) for the year	**1,411**	**(14,264)**
Other components of comprehensive income	**(1,047,061)**	**578,370**
Total comprehensive income	**87,663,327**	**119,672,452**

Statement of Financial Position

Assets

(Amounts in Euro)	*Notes*	31.12.2020	31.12.2019
NON-CURRENT ASSETS			
INTANGIBLE ASSETS		209,500	696,807
- Other intangible assets	*9*	209,500	696,807
TANGIBLE ASSETS		1,284,781	1,297,157
- Other tangible assets	*10*	59,579	3,429
- Right of use assets	*11*	1,225,202	1,293,728
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		567,635,133	568,299,584
- Equity investments	*12*	567,516,127	567,516,127
- Receivables	*13*	119,006	130,850
- Other non-current financial assets	*14*	-	652,607
TOTAL NON-CURRENT ASSETS		**569,129,414**	**570,293,548**
CURRENT ASSETS			
TRADE RECEIVABLES	*15*	3,418,293	2,989,370
CURRENT TAX ASSETS	*16*	-	2,642,499
OTHER RECEIVABLES	*17*	11,587,406	6,031,958
CURRENT FINANCIAL RECEIVABLES AND ASSETS	*18*	577,570,404	427,949,977
CASH AND CASH EQUIVALENTS	*19*	43,511	93,609
TOTAL CURRENT ASSETS		**592,619,614**	**439,707,413**
TOTAL ASSETS		**1,161,749,028**	**1,010,000,961**

Appendix 4 reports the effect of related-party transactions on the statement of financial position, as required by CONSOB resolution 15519 of 27 July 2006.

Statement of Financial Position

Net Equity and Liabilities

(Amounts in Euro)	*Notes*	31.12.2020	31.12.2019
NET EQUITY			
NET EQUITY		567,416,687	551,145,963
- Share capital	*22*	225,822,846	224,250,000
- Reserves	*23*	252,883,453	207,801,881
- Net profit (loss)		88,710,388	119,094,082
TOTAL NET EQUITY		**567,416,687**	**551,145,963**
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES		460,126,144	370,502,277
- Bank loans and borrowings (long-term portion)	*24*	330,012,179	218,746,283
- Other financial payables (long-term portion)	*25*	129,160,366	150,704,751
- Lease liabilities (long-term portion)	*11*	953,599	1,051,243
DEFERRED TAX LIABILITIES	*26*	713,187	1,622,787
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		6,348,036	3,011,799
- Employee benefits	*27*	6,348,036	3,011,799
TOTAL NON-CURRENT LIABILITIES		**467,187,367**	**375,136,863**
CURRENT LIABILITIES			
TRADE PAYABLES	*28*	4,344,718	6,353,805
FINANCIAL PAYABLES		110,030,772	66,522,514
- Bank loans and borrowings (short-term portion)	*24*	86,554,815	65,810,654
- Other financial payables (short-term portion)	*25*	23,198,691	465,144
- Lease liabilities (short-term portion)	*11*	277,266	246,716
CURRENT TAX LIABILITIES	*29*	122,019	-
OTHER PAYABLES	*30*	12,647,465	10,841,816
TOTAL CURRENT LIABILITIES		**127,144,974**	**83,718,135**
TOTAL NET EQUITY AND LIABILITIES		**1,161,749,028**	**1,010,000,961**

Appendix 4 reports the effect of related-party transactions on the statement of financial position, as required by CONSOB resolution 15519 of 27 July 2006.

Statement of Cash Flow

(Amounts in Euro)	Notes	2020	2019
Net profit (loss)		88,710,388	119,094,082
Income taxes for the period		(4,656,327)	(3,038,867)
Income for dividends receipt		(110,949,329)	(135,632,507)
Amortization		776,980	839,455
Net change in provisions and other non-cash items		5,839,720	2,753,527
Cash flow absorbed by current operations (A)		**(20,278,568)**	**(15,984,310)**
Change in assets and liabilities for the period:			
Trade receivables		(428,924)	27,757,144
Trade payables		(2,009,087)	(14,650,396)
Other changes in net working capital		3,410,174	1,079,327
Payment of income taxes		(319,921)	(70,300)
Cash flow generated by changes in working capital (B)		**652,242**	**14,115,775**
Cash flow absorbed by current operations and changes in working capital (A+B)		**(19,626,326)**	**(1,868,535)**
Investment activities:			
Investments in intangible assets		(10,155)	(15,020)
Investments in tangible assets		(64,926)	(2,679)
Investments in leased assets		(202,216)	(73,151)
Dividends receipt		104,549,329	135,632,507
Cash flow generated by investment activities (C)		**104,272,032**	**135,541,657**
Cash flow by operating activities (A+B+C)		**84,645,706**	**133,673,122**
Purchase of treasury shares		(14,533,855)	-
Exercise of stock option		21,452,361	-
Dividends paid		(80,476,578)	(55,315,000)
New loans		200,000,000	200,000,000
Payment of interests on loans		(3,749,587)	(2,688,466)
Repayment of loans and other net changes in source of finance		(207,388,145)	(275,617,599)
Cash flow absorbed by changes in net equity and by financing activities (D)		**(84,695,804)**	**(133,621,065)**
Cash flow for the period (A+B+C+D)		**(50,098)**	**52,057**
Opening cash and cash equivalents	*19*	**93,609**	**41,552**
Increase in cash and cash equivalents (A+B+C+D)		(50,098)	52,057
Closing cash and cash equivalents	*19*	**43,511**	**93,609**

For sake of comparison, the statement of cash flow for 2019 was restated by reclassifying the effects of the adoption of IFRS 16.

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

Statement of changes in net equity

(Amounts in Euro)	SHARE CAPITAL	SHARE PREMIUM RESERVE	LEGAL RESERVE	EXTARORDINARY RESERVE	RISERVA AZIONI PROPRIE	FAIR VALUE AND CASH FLOW HEDGE RESERVE	STOCK OPTION RESERVE	ACTUARIAL EVALUATION RESERVE	PROFIT (LOSS) CARRIED FORWARD	PROFIT (LOSS) FOR THE PERIOD	TOTAL
Balance at 31 December 2018	**224,250,000**	**162,545**	**33,959,879**	**36,201,104**	**-**	**(469,157)**	**7,932,346**	**(100,457)**	**10,441,324**	**172,265,034**	**484,642,618**
Allocation of 2018 result as per AGM resolution of 30 April 2019											
- distribution of dividends										(55,315,000)	(55,315,000)
- allocation to reserves			8,613,252	108,336,782						(116,950,034)	-
Fair value stock option							2,145,893				2,145,893
Movements from transactions with shareholders	**-**	**-**	**8,613,252**	**108,336,782**	**-**	**-**	**2,145,893**	**-**	**-**	**(172,265,034)**	**(53,169,107)**
Profit (loss) after taxes										119,094,082	119,094,082
Other components of comprehensive income						592,634		(14,264)			578,370
Comprehensive income (loss)	**-**	**-**	**-**	**-**	**-**	**592,634**	**-**	**(14,264)**	**-**	**119,094,082**	**119,672,452**
Balance at 31 December 2019	**224,250,000**	**162,545**	**42,573,131**	**144,537,886**	**-**	**123,477**	**10,078,239**	**(114,721)**	**10,441,324**	**119,094,082**	**551,145,963**
Balance at 31 December 2019	**224,250,000**	**162,545**	**42,573,131**	**144,537,886**	**-**	**123,477**	**10,078,239**	**(114,721)**	**10,441,324**	**119,094,082**	**551,145,963**
Allocation of 2019 result as per AGM resolution of 22 April 2020 and AGM resolution of 15 December 2020											
- distribution of dividends				(80,812,736)							(80,812,736)
- allocation to reserves			2,276,869	116,817,213						(119,094,082)	-
Fair value stock option							2,501,627				2,501,627
Exercise of stock otion	1,572,846	25,674,980					(5,795,465)				21,452,361
Treasury shares purchase					(14,533,855)						(14,533,855)
Movements from transactions with shareholders	**1,572,846**	**25,674,980**	**2,276,869**	**36,004,477**	**(14,533,855)**	**-**	**(3,293,838)**	**-**	**-**	**(119,094,082)**	**(71,392,603)**
Profit (loss) after taxes										88,710,388	88,710,388
Other components of comprehensive income						(1,048,472)		1,411			(1,047,061)
Comprehensive income (loss)	**-**	**-**	**-**	**-**	**-**	**(1,048,472)**	**-**	**1,411**	**-**	**88,710,388**	**87,663,327**
Balance at 31 December 2020	**225,822,846**	**25,837,525**	**44,850,000**	**180,542,363**	**(14,533,855)**	**(924,995)**	**6,784,401**	**(113,310)**	**10,441,324**	**88,710,388**	**567,416,687**

Explanatory Notes

Company business

De' Longhi S.p.A., a company with its registered office in Treviso whose shares are listed on the Italian stock exchange run by Borsa Italiana, is the parent company of the De' Longhi Group and performs holding company activities involving the management and supply of centralized services to its subsidiaries and the management of subsidiary undertakings.

Introduction

FY 2020 was characterized by the spread of the Coronavirus epidemic.
In a backdrop of uncertainty and caution, the Company implemented plans to protect the health and safety of its people and, at the same time, worked to guarantee business continuity. The actions taken made it possible to achieve good results; there are, therefore, no elements worthy of mention that had a direct or significant impact on the financial statements.

Accounting standards

The financial statements of De' Longhi S.p.A. at 31 December 2020 have been prepared on the basis of the international accounting and financial reporting standards issued by the International Accounting Standards Board (IASB), including the SIC and IFRIC interpretations, as endorsed by the European Commission (at the date of 31 December 2020), pursuant to EC Regulation 1606 of 19 July 2002. The following documents have been used for interpretation and application purposes even though not endorsed by the European Commission:

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

The accounting policies and measurement bases used for preparing the financial statements at 31 December 2020 are the same as those used for preparing the financial statements at 31 December 2019; the new amendments and accounting standards, described below, had no significant impacts on the present financial statements.

The financial statements at 31 December 2020 comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in net equity and these explanatory notes.
The statement of financial position has been prepared on a basis that distinguishes between current and non-current items.
The income statement has been presented on the basis of the nature of expense, being a suitable structure for faithfully representing the company's performance.
The statement of cash flows has been prepared using the "indirect method" allowed by IAS 7.

The present financial statements and notes are presented in Euro (the company's functional currency) with all amounts in financial statements presented in Euro, as required by the Italian Civil Code, while amounts in explanatory notes are rounded to thousands of Euro, unless otherwise indicated.

The financial statements have been prepared on the historical cost basis, adjusted as required for the valuation of certain financial instruments, and under the assumption of going concern. Even though the unpredictability of the epidemic's potential impact is the source of considerable uncertainty, the Company, in light of the actions taken to limit risks and its business model, as well as the good results obtained in 2020 which confirmed the effectiveness of the strategy implemented to address the health crisis, believes that there are no elements which could compromise the business as a going concern as per paragraph 25 of IAS 1.

The risks and uncertainties relating to the business are described in a specific section of the Report on operations. The methods used by the company to manage financial risks are described in note *34. Risk management* of the present Explanatory notes.

International accounting standards adopted by the Company for the first time

The *Amendments to references to the conceptual framework in IFRS Standards* endorsed by the European Commission on 29 November 2019 in Regulation 2019/2075 took effect 1 January 2020; these amendments update the references to previous framework standards in different accounting standards and different interpretations, substituting them with the revised conceptual framework.
The *Amendments to IAS 1 and IAS 8 - Definition of material* were also endorsed in Regulation 2019/2075. These amendments aim to clarify the definition of material and how it should be applied. Based on the amendments, information is deemed material if omitting it or misstating it could reasonably influence the decisions made by the primary users of the financial statements. In the new version reference to size and nature in the definition of material has been eliminated; furthermore, the scope of the users for which the information in the financial statements is intended has been narrowed from users to primary users, namely current and potential investors, lenders and other creditors.
On 15 January 2020 the endorsement of the amendments to IFRS 9 and IAS 39 was finalized. These amendments are part of the "Phase 1" of a larger project focused on providing temporary relief from the impact that the uncertainty surrounding Interest Rate Benchmark Reform could have on financial statements. More in detail, the amendments relate to aspects connected to the (i) risk components, (ii) 'Highly probable' requirement, (iii) prospective assessments, (iv) effectiveness test and (v) recycling of the cash flow hedging reserve. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties.
The European Commission endorsed Amendments to *IFRS 3 - Business combinations* in Regulation 2020/551 of 21 April 2020. The main amendments to the standard refer to an updated definition of business in order to determine whether an acquisition is of a business or a group of assets. An optional fair value "concentration test" was also introduced, along with additional guidelines and new examples. The new definition must be applied to acquisitions made on or after 1 January 2020.
Lastly, with Regulation 1424/2020 of 9 October 2020 the European Commission endorsed an amendment to IFRS 16 issued by IASB on 28 May 2020 in response to the spread of the health crisis. The amendment introduced a practical expedient which simplifies the accounting of any concessions on leases, like the temporary discounts or exemptions from payments, received by tenants during the pandemic.

The authorities established that if the concessions are a direct consequence of the health crisis, if the change in lease payments is substantially the same as, or less than, the consideration for the lease immediately preceding the change, and if any reduction in lease payments affects only payments originally due on or before 30 June 2021 and there are no substantive changes to other terms and conditions of the lease, the lessee may opt to recognize the lower rents as variable components of the leases and not as lease modifications.
The Company exercised the right to apply this expedient when allowed.

Application of the amendments described above did not have a material impact on the Company's economic and financial results.

International financial reporting standards and/or not yet applicable

On 14 May 2020 IASB published amendments, effective as of 1 January 2022, relating to several standards, namely *Amendments to IFRS 3 Business Combinations, Amendments to IAS 16 Property, Plant and Equipment, Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets.* As part of the annual *improvements changes were also made to IFRS 1 - First-time Adoption of International Financial Reporting Standards, IFRS 9 - Financial Instruments, IAS 41 - Agriculture and the IFRS 16 - Leases* illustrative examples.
On 15 December 2020 the endorsement process for *Amendments to IFRS 4 - Insurance contracts - deferral of IFRS 9* was finalized; these amendments, applicable as of 1 January 2021, grant insurance companies the option to defer application of IFRS 9.
Similarly, on 13 January 2021 the *Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform - Phase 2* were approved; these amendments, in effect as of 1 January 2021 without prejudice to early application, address issues that might affect financial reporting after the benchmark reform takes effect, including the replacement of the interest rate benchmark with an alternative benchmark interest rate.
One of the main changes made by the IASB, which has yet to be endorsed, includes the introduction of *IFRS 17 Insurance contracts* which will substitute IFRS 4. The new standard establishes rules for the recognition, measurement, presentation and disclosure of insurance contracts; it will be applied to all insurance contracts using an accounting model based on the discounted cash flow method, adjusted for risk, and a Contractual Service Margin (CSM). Initially, once endorsed by the European Union, the new standard was to be applied to reporting periods beginning on or after 1 January 2021, but the date of first-time application was, subsequently, postponed a year, to 1 January 2022.
The date for first time application of the *Amendments to IFRS 10 and IAS 28 - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* has yet to be determined. The purpose of the amendments is to clarify how to account for the loss of control of a business (governed by IFRS 10), as well as downstream transactions (governed by IAS 28) if the object of the transaction was or was not a business, as defined in IFRS 3.

Disclosure by operating segments

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

Principal accounting policies

Intangible assets

Other intangible assets

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

Property, plant and equipment

Land, property, plant and machinery

Property, plant and equipment owned by the Company are recorded at purchase or production cost and systematically depreciated over their residual useful lives.
The cost of assets qualifying for capitalization also includes the borrowing costs directly attributable to the acquisition, construction or production of the asset itself.
Subsequent expenditure is capitalized only if it increases the future economic benefits flowing to the enterprise.
Ordinary and/or routine maintenance and repair costs are directly expensed to the income statement when incurred. Costs relating to the expansion, modernization or improvement of owned or leased assets are capitalized to the extent that they qualify for separate classification as an asset or part of an asset under the component approach, whereby every component whose useful life and related value can be autonomously assessed must be treated individually.
All other costs are expensed to income as incurred.

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

Industrial and commercial equipment	1 year
Other	4 - 8 years

Right-of-use assets

In accordance with IFRS 16 the right-of-use asset is valued at cost plus the present value of future payments (discounted at the incremental borrowing rate, namely the interest rate that the lessee must pay over the term of the loan and similar guarantees), the initial costs incurred directly by the lessee, and any advance lease payments made. The asset value is systematically depreciated.

Impairment of non-financial assets

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

Financial instruments

Financial assets

Upon initial recognition, financial assets are classified based on the measurement methods used in one of the three categories found in IFRS 9. The classification depends on the nature of the contractual cash flows and the business model the company uses to manage them.
The business model refers to the way in which the cash flows are generated which can be from the collection of contractual cash flows, the sale of assets or both.
A financial asset is classified among the assets valued at amortized cost if held as part of a business model where the objective is collecting contractual cash flows represented solely by payments to be made on certain dates, principal and interest. The valuation is made based on the effective interest rate.
A financial asset is classified among the assets valued at fair value with changes passing through the comprehensive income statement if held as part of a business model where the objective is collecting contractual cash flows and selling the assets and the cash flows contemplated under the contract refer solely to payments of principal and interest made on predetermined dates. For the assets included in this category, the interest receivable, the foreign exchange differences and losses in value are recognized in the income statement for the reporting period; other changes in fair value are recognized in the comprehensive income statement. Upon elimination, the cumulative change in fair value recognized as other comprehensive income is released to the income statement.
During the initial recognition phase, equity instruments may be included in the category of assets measured at fair value with changes recognized in the comprehensive income statement.
The category of assets valued at fair value with changes recognized in the income statement include assets held for trading, namely acquired to be sold in the short-term, and the assets designated as such.
Upon initial recognition, equity instruments not held for trading may be included in the category of financial instruments measured at fair value with changes recognized in the comprehensive income statement. This choice may be made for each asset and is irrevocable.
The trade receivables without a significant financing component are valued at the transaction price determined in accordance with IFRS 15.

Financial liabilities

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

Lease liabilities

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

Derivatives

Derivatives are used solely for hedging purposes, in order to reduce exposures to currency and interest rate risk. As allowed by IFRS 9, derivatives may qualify for special hedge accounting only when, at the inception of the hedge, the following conditions are satisfied:
- there is a formal designation that the instrument is a hedging one;
- there is formal documentation of the hedging relationship, which is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is highly effective throughout the different financial reporting periods for which it was designated.

In accordance with IFRS 9, all derivatives are measured at fair value.

If financial instruments qualify for hedge accounting, the following treatment applies:

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

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

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

Employee benefits

Pension and other incentive plans

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

Equity based compensation

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

Provisions for contingencies and other charges

The Company recognizes provisions for contingencies and charges when (i) it has a present obligation (legal or constructive) to third parties (ii) it is probable that the company will need to employ resources to settle the obligation and (iii) a reliable estimate can be made of the amount of the obligation. Changes in these estimates are reflected in the income statement in the period in which they occur (also see the comments in the paragraph on "Estimates and assumptions").
Where the effect of the time value of money is material and the date of extinguishing the liability can be reasonably estimated, provisions are stated at the present value of the expected expenditure, using a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.
An increase in the amount of the provision for the time value of money is accounted for in interest expense. Contingencies for which the probability of a liability is remote are disclosed in the notes but no provision is recognized.

Recognition of revenues

The item “Revenues” includes the consideration received for services rendered.
Revenues represent the consideration owed in exchange for the transfer of services to the customer, excluding amounts received on behalf of third parties. The Company recognizes the revenue when contractual obligations are fulfilled, namely when control of the service is transferred to the customer.

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

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

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

Costs and expenses

Costs and expenses are accounted for on an accrual basis.

Dividends

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

Income taxes

Income taxes include all the taxes calculated on the Company's taxable income. Income taxes are recorded in the income statement, except for those relating to items directly debited or credited to net equity, in which case the associated tax is recognized directly in net equity.
Deferred taxes are provided on the basis of global provision for the liability. They are calculated on all the temporary differences emerging between the tax base of an asset or liability and their book value, except for differences arising from investments in subsidiaries which are not expected to reverse in the foreseeable future. Deferred tax assets on the carry forward of unused tax losses and tax credits are recognized to the extent that it is probable that future taxable profit will be available against which these can be recovered. Current and deferred tax assets and liabilities may be offset when the income taxes are charged by the same tax authority and when there is a legal right of set-off.
Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability settled.
Deferred taxes on reserves of distributable earnings in subsidiaries are recognized only if it is probable that such reserves will be distributed.
Any uncertainty regarding tax treatments is considered in the tax calculation in accordance with the recommendations of *IFRIC 23 Uncertainty over Income Tax Treatments*.
Eventuali incertezze relativamente ai trattamenti fiscali sono considerate nel calcolo delle imposte coerentemente con le predisposizioni dell'*IFRIC 23 Uncertainty over Income Tax Treatments*.

Estimates and assumptions

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

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

Employee benefits

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

Recoverability of deferred tax assets

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

Provisions for contingencies

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

Comments on the income statement

1. Revenues

These are analyzed as follows:

	2020	2019	Change
Damages reimbursed	30	2	28
Out-of-period gains	23	21	2
Other income	8,794	9,391	(597)
Total	**8,847**	**9,414**	**(567)**

“Other income” includes €8,723 thousand in revenue from related parties, as reported in Appendix 4. These revenues refer primarily to costs charged back to subsidiaries for services rendered.

2. Raw and ancillary materials, consumables and goods

These are analyzed as follows:

	2020	2019	Change
Other purchases	52	68	(16)
Total	**52**	**68**	**(16)**

“Other purchases” includes non-recurring expenses of €8 thousand in costs incurred as result of the ongoing health crisis.

3. Payroll costs

The figures relating to the provisions made by the Company relative to severance and long-term benefits are summarized in note *27. Employee benefits*.

This item includes the fair value of the two stock option plans which amounted to €2,502 thousand in the reporting period (€2,146 thousand at 31 December 2019); please refer to nota 23. *Reserves* for more information.

In 2020 this item also includes non-recurring costs of €72 thousand relative to the special bonus paid to employees in recognition of the commitment to reaching company objectives in the difficult contest created by the ongoing health crisis.

4. Services and other operating expenses

These are analyzed as follows:

	2020	2019	Change
Directors' emoluments	4,290	2,504	1,786
Consulting services	3,919	5,060	(1,141)
Global marketing costs	2,643	3,242	(599)
Insurance	2,524	2,603	(79)
Travel and entertaining	158	618	(460)
Statutory auditors' emoluments	146	146	-
Rentals and leasing	117	154	(37)
Telecommunication costs	31	27	4
Advertising and promotional activities	7	25	(18)
Other sundry services	1,970	454	1,516
Total services	**15,805**	**14,833**	**972**
Sundry taxes	225	186	39
Other	165	173	(8)
Total other operating expenses	**390**	**359**	**31**
Total services and other operating expenses	**16,195**	**15,192**	**1,003**

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

"Costs for the use of third-party assets" includes the operating costs for contracts that are not or do not contain leases (€97 thousand; €71 thousand at 31 December 2019), as well as the costs for leases of less than twelve months (€20 thousand; €83 thousand at 31 December 2019); for more information, please refer to note *11. Leases*.

"Services and other operating expenses" include €2,030 thousand in costs from related parties, as reported in Appendix 4 and €187 thousand in non-recurring costs related to reorganization of the Group's structure (€1,742 thousand at 31 December 2019).

5. Provisions

In 2019 this item reflected the release of provisions for contingencies and charges stemming from disputes that were settled in the year.

6. Amortization

These are analyzed as follows:

	2020	2019	Change
Amortization of intangible assets	497	495	2
Depreciation of property, plant and equipment	9	87	(78)
Depreciation of Right of Use assets	271	258	13
Total	**777**	**840**	**(63)**

For further information on amortization and depreciation, please see the tables showing changes in intangible assets, property, plant and equipment, and leases.

7. Financial income (expenses)

Net financial income and expenses are broken down as follows:

	2020	2019	Change
Dividends	110,949	135,633	(24,684)
Financial income (expenses) from equity investments	**110,949**	**135,633**	**(24,684)**
Gains (losses) on currency hedging transactions	(73)	(217)	144
Exchange gains (losses)	74	153	(79)
Exchange gains (losses)	**1**	**(64)**	**65**
Interest income from loans	514	237	277
Bank interest income	3	8	(5)
Financial income	**517**	**245**	**272**
Interest expenses on long-term loans and borrowings	(1,562)	(934)	(628)
Interest expenses on bonds	(2,527)	(2,513)	(14)
Interest expenses on short-term loans and borrowings	(1)	(2)	1
Financial expenses	**(4,090)**	**(3,449)**	**(641)**
Interest for leasing	(15)	(18)	3
Other sundry income (expenses)	(648)	443	(1,091)
Other financial income (expenses)	**(663)**	**425**	**(1,088)**
Financial income (expenses)	**106,714**	**132,790**	**(26,076)**

"Financial income (expenses)" includes €111,091 thousand in income from related parties, as reported in Appendix 4.

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

For more information on leases, please see note *11. Leases*.

8. Income taxes

These are analyzed as follows:

	2020	2019	Change
Current tax assets	4,077	3,075	1,002
Advanced (deferred) taxes	579	(36)	615
Total	**4,656**	**3,039**	**1,617**

The Company exercised, jointly with the consolidator De Longhi Industrial S.A., the option to adhere to "Domestic Tax Consolidation", as permitted under articles 117 *et seq* of Presidential Decree n. 917/86 for the three-year period 2019-2021.

"Deferred income tax liabilities (assets)" report the taxes calculated on the temporary differences arising between the carrying amount of assets and liabilities and the corresponding tax base, and the distributable earnings of subsidiaries.
More information on deferred taxes can be found in note *26. Deferred tax liabilities*.

The actual and theoretical tax charge are reconciled as follows:

	2020	%	2019	%
Profit before taxes	**84,054**	**100.0%**	**116,055**	**100.0%**
Theoretical taxes	(20,173)	(24.0%)	(27,853)	(24.0%)
Permanent tax differences (dividends, net of disallowable costs) and other effects	24,829	29.5%	30,892	26.6%
Actual taxes	**4,656**	**5.5%**	**3,039**	**2.6%**

Comments on the statement of financial position: assets

Non-current assets

9. Intangible assets

These are analyzed as follows:

	31 December 2020		31 December 2019		
	Gross	Net	Gross	Net	Change
Patents	2,119	210	2,109	697	(487)
Total	**2,119**	**210**	**2,109**	**697**	**(487)**

The following table reports movements during 2020:

	Patents
Net opening balance	**697**
Additions	10
Amortization	(497)
Net closing balance	**210**

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

10. Other tangible assets

These are analyzed as follows:

	31 December 2020		31 December 2019		
	Gross	Net	Gross	Net	Change
Industrial and commercial equipment	19	-	19	-	-
Other	220	60	207	3	57
Total	**239**	**60**	**226**	**3**	**57**

The following table reports movements during 2020:

	Other
Net opening balance	**3**
Additions	66
Depreciation	(9)
Net closing balance	**60**

11. Leases

The Company's current leases refer primarily to property and automobiles leased for operational purposes.

The right-of-use recognized for leased goods and the changes in 2020 are detailed below:

	Land and buildings	Other	Total
Net opening balance	**1,150**	**144**	**1,294**
Additions	98	110	208
Disposals	-	(6)	(6)
Depreciation	(187)	(84)	(271)
Net closing balance	**1,061**	**164**	**1,225**

In 2020, subsequent to the application of the new *IFRS 16 Leases*, €271 thousand of depreciation were recognized in the income statement and €15 thousand of interest payable and while € 285 thousand of costs represented by the lease payments made were eliminated.

Financial liabilities for leases amounting to €1,231 thousand (€954 thousand of which due beyond 1 year) were recognized at 31 December 2020.
The financial liabilities for leases include amounts owed associates of €974 thousand (€802 thousand due beyond 1 year) as shown in Appendix 4.

The maturities of the undiscounted lease liabilities are shown below:

	Undiscounted flows at 31.12.2020	Payable in one year	Payable in 1-5 years	Payable in more than five years
Lease payables	1,266	290	885	91

12. Equity investments

These are analyzed as follows:

	31 December 2020	31 December 2019	Change
De Longhi Benelux S.A.	266,737	266,737	-
De' Longhi Appliances S.r.l.	242,678	242,678	-
De'Longhi Deutschland GmbH	40,800	40,800	-
De' Longhi Capital Services S.r.l.	6,005	6,005	-
E-Services S.r.l.	5,264	5,264	-
De'Longhi Romania S.r.l.	3,078	3,078	-
De'Longhi Kenwood GmbH	2,900	2,900	-
Clim.Re S.A.	54	54	-
De'Longhi Polska Sp.Zo.o.	-	-	-
Total	**567,516**	**567,516**	**-**

The list of equity investments and the related movements during 2020 can be found in Appendix 3.

Investments in subsidiaries are accounted for at cost.

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

13. Non-current receivables

This balance is analyzed as follows:

	31 December 2020	31 December 2019	Change
Receivables from subsidiary companies	116	130	(14)
Security deposits	3	1	2
Total	**119**	**131**	**(12)**

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

14. Other non-current financial assets

Details are as follows:

	31 December 2020	31 December 2019	Change
Fair value of derivatives	-	653	(653)
Total	**-**	**653**	**(653)**

More details on the fair value of derivatives can be found in note *34. Risk management.*

Current assets

15. Trade receivables

These are analyzed as follows:

	31 December 2020	31 December 2019	Change
Trade receivables due within 12 months	3,418	2,989	429
Allowance for bad debts	-	-	-
Total	**3,418**	**2,989**	**429**

"Trade receivables" include €1,847 thousand in receivables from related parties, as reported in Appendix 4.

There were no changes in the allowance for doubtful accounts in the year.

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

16. Current tax assets

These are detailed as follows:

	31 December 2020	31 December 2019	Change
Direct taxes	-	2,642	(2,642)
Total	**-**	**2,642**	**(2,642)**

In 2020, in order to optimize the financial management of its tax affairs, the Company availed itself of both the VAT Group settlement permitted under Ministerial Decree n. 13/12/1979 and the “Domestic Tax Consolidation” governed by Title II, Section II of Presidential Decree n. 917/86.

The credit recognized in 2019, that referred mainly to the IRES credits for which a refund was requested, matured as part of the previous “Domestic Tax Consolidation” for which the Company acted as consolidator, was refunded in 2020.

17. Other receivables

These are analyzed as follows:

	31 December 2020	31 December 2019	Change
VAT receivables	6,119	1,089	5,030
Advances to suppliers	151	21	130
Prepaid costs	37	40	(3)
Employees	2	31	(29)
Tax refunds requested	2	2	-
Other	5,276	4,849	427
Total	**11,587**	**6,032**	**5,555**

"Other receivables" includes €4,583 thousand in amounts due from related parties, as reported in Appendix 4, relating primarily to "Domestic Tax Consolidation".

None of the other receivables is due beyond 12 months.

18. Current financial receivables and assets

These are analyzed as follows:

	31 December 2020	31 December 2019	Change
Financial receivables	577,570	427,943	149,627
Fair value of derivatives	-	7	(7)
Total	**577,570**	**427,950**	**149,620**

"Financial receivables" refers to receivables to the subsidiary company De' Longhi Capital Services S.r.l., relating to the cash pooling agreement.

More details on the fair value of derivatives can be found in note *34. Risk management*.

This item only includes receivables from related parties, as reported in Appendix 4.

None of the current financial receivables is due beyond 12 months.

19. Cash and cash equivalents

This balance consists of surplus liquidity on bank current accounts.

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

Net equity

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

During the Shareholders' Meeting held on 22 April 2020, shareholders voted against the Board of Directors' proposal to distribute a dividend in order to provide the Group with the financial support and means needed to face the potentially negative aftermath of the global health crisis.
Subsequently, in light of the Group's good performance and as the reasons for caution no longer existed, on 15 December 2020 the Shareholders Meeting unanimously (89.46% of the total voting rights) approved the payment of the same dividend proposed when the financial statements at 31 December 2019 were approved (€0.54 per outstanding share with dividend rights).
A total of €80,813 thousand in dividends was distributed, of which €80,477 paid in the year.

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

20. Treasury shares

On 13 March 2020 the Company announced the launch of a buyback program as per the terms and conditions authorized during the Annual General Meeting held on 30 April 2019 which provides for the buyback of up to a maximum of 3,000,000 shares in the period 16 March 2020 through 16 December 2020.
In the period 16 March - 16 December 2020 the Company purchased a total of 895,350 treasury shares through an authorized intermediary.
During the Annual General Meeting shareholders also resolved to renew - after revoking the approval granted by shareholders on 30 April 2019, for the unexecuted part - the authorization to buy and sell treasury shares for up to a maximum of 14.5 million ordinary shares and, at any rate, up to an amount which does not exceed 1/5 of the share capital, also taking into account any shares held by the Company and its subsidiaries. The authorization was approved for a period of up to a maximum of 18 months (therefore, through 22 October 2021) in accordance with the law.

21. Stock option plans

During the Annual General Meeting held on 14 April 2016 shareholders approved the share-based incentive plan "Stock Option Plan 2016-2022".
In order to service the plan, during the AGM shareholders resolved to increase share capital against payment by up to a maximum nominal amount of €3,000,000 by 31 December 2022 through the issue, including on one or more occasions, of a maximum of 2,000,000 ordinary shares at a par value of €1.5 each pari passu with all shares outstanding at the issue date and with dividend rights.
The purpose of the plan is to maintain the loyalty of the beneficiaries by recognizing the contribution that they make to increasing the value of the Group.
The plan has a duration of seven years and will, at any rate, expire on 31 December 2022.
The beneficiaries will be identified by the Board of Directors based on the proposal of the Remuneration and Appointments Committee or the Chief Executive Officer of the Parent Company De' Longhi S.p.A., after having consulted with the Board of Statutory Auditors.
The options will be granted free of charge: the beneficiaries, therefore, will not be expected to pay any sort of consideration upon assignment. Conversely, exercise of the option and the resulting subscription of the shares will be subject to payment of the exercise price.
Each option will grant the right to subscribe one share at the conditions set out in the relative regulations.
The exercise price shall be equal to the arithmetic average of the official market price of the Company's shares recorded on the "Mercato Telematico Azionario" managed by Borsa Italiana S.p.A. 60 calendar days prior to the date on which the Plan and the relative regulations were approved by shareholders during the Annual General Meeting.

The options may be exercised by the Beneficiaries - on one or more occasions - solely and exclusively during the exercise period, namely during the following timeframes:
1) between 15 May 2019 and 31 December 2022 (more specifically, between either 15 May - 15 July; 1 September-15 October; 15 November - 15 January), for up to a total maximum amount equal to 50% of the total options assigned each beneficiary;
2) between 15 May 2020 and 31 December 2022 (more specifically, between either 15 May - 15 July; 1 September-15 October; 15 November - 15 January) for the remaining 50% of the total options assigned each beneficiary.

Any option not exercised by the end of the exercise period will be automatically expire and the beneficiary will have no right to any compensation or indemnity.
All shares will have regular dividend rights and, therefore, will be the same as all other shares outstanding at their issue date, and will be freely transferrable by the beneficiary.
Please refer to the Annual Report on the Remuneration Policy and Compensation Paid for more information on the Plan.

For the purposes of valuation under *IFRS 2 - Share-based payments*, two different tranches were defined for each award which contain the same number of options broken down equally into the plan's two exercise periods.
The fair value of the stock options at the assignment date is determined using the Black-Scholes model which takes into account the conditions for the exercise of the right, the current share price, expected volatility, a risk-free interest rate, as well as the non-vesting conditions.
Volatility is estimated based on the data of a market information provider and corresponds to the estimated volatility of the stock over the life of the plan.

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

	2017 award	2016 award
First tranche fair value	7.6608	5.3072
Second tranche fair value	7.4442	5.2488
Expected dividends (Euro)	0.8	0.43
Estimated volatility (%)	28.09%	33.23%
Historic volatility (%)	31.12%	36.07%
Market interest rate	Euribor 6M	Euribor 6M
Expected life of the options (years)	2.142/3.158	2.51 / 3.53
Exercise price (Euro)	20.4588	20.4588

In 2020 a total of 1,048,564 options were exercised.

During the Annual General Meeting held on 22 April 2020, shareholders approved the stock-based incentive plan “Stock Option Plan 2020-2027”.
In order to service the plan, during the AGM shareholders resolved to further increase share capital against payment by up to a maximum nominal amount of €4,500,000 through the issue, including on one or more occasions, of a maximum of 3,000,000 ordinary shares at a par value of €1.5 each pari passu with all shares outstanding at the issue date and with dividend rights.
The purpose of the plan is to foster the loyalty of the beneficiaries, incentivizing them to stay with the Group by linking their compensation to the achievement of the company’s medium/long-term goals.
The plan has a duration of around eight years and will, at any rate, expire on 31 December 2027.

The beneficiaries will be identified by the Board of Directors based on the proposal of the Remuneration and Appointments Committee or the Chief Executive Officer of the Parent Company De’ Longhi S.p.A., after having consulted with the Board of Statutory Auditors.
The options will be granted free of charge: the beneficiaries, therefore, will not be expected to pay any sort of consideration upon assignment. Conversely, exercise of the option and the resulting subscription of the shares will be subject to payment of the exercise price.
Each option will grant the right to subscribe one share at the conditions set out in the relative regulations.
The exercise price shall be equal to the arithmetic average of the official market price of the Company’s shares recorded on the “Mercato Telematico Azionario” managed by Borsa Italiana S.p.A. 180 calendar days prior to the date on which the 2020-2027 Plan and the relative regulations were approved by shareholders during the Annual General Meeting. This period of time is sufficient to limit the impact that any volatility caused by the Coronavirus crisis could have on the stock price.
The options may be exercised by the Beneficiaries - on one or more occasions - solely and exclusively during the exercise period, namely during the following timeframes:

- between 15 May 2023 and 31 December 2027 for up to a total maximum amount equal to 50% of the total options assigned each beneficiary, without prejudice to the black-out periods referred to in art. 12 of the Regulations;
- between 15 May 2024 and 31 December 2027 for the remaining 50% of the total options assigned each beneficiary, without prejudice to the black-out periods referred to in Art. 12 of the Regulations.

Any option not exercised by the end of the exercise period will be automatically expire and the beneficiary will have no right to any compensation or indemnity.
All shares will have regular dividend rights and, therefore, will be the same as all other shares outstanding at their issue date, and will be freely transferrable by the beneficiary.
Please refer to the Annual Report on the Remuneration Policy and Compensation Paid for more information on the Plan.
In 2020 2,360,000 stock options were assigned.

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

The fair value of the options assigned on the date of this Report and the assumptions made for its evaluation are as follows:

	Award (05.04.2020)	Award (05.14.2020)	Award (05.15.2020)	Award (05.20.2020)	Award (11.05.2020)
First tranche fair value	4.4283	4.591	4.4598	4.4637	12.402
Second tranche fair value	4.3798	4.536	4.4034	4.4049	12.0305
Expected dividends (Euro)	2.80%	2.80%	2.80%	2.80%	2.80%
Estimated volatility (%)	35.00%	34.00%	33.00%	32.00%	28.00%
Historic volatility (%)	37.00%	37.00%	37.00%	37.00%	37.00%
Market interest rate	(0.2%)	(0.2%)	(0.2%)	(0.2%)	(0.2%)
Expected life of the options (years)	7.7	7.7	7.7	7.7	7.7
Exercise price (Euro)	16.982	16.982	16.982	16.982	16.982

22. Share capital

At 31 December 2019 share capital comprised 149,500,000 ordinary shares with a par value €1.5 each, for a total of €224,250 thousand.
In 2020, 1,048,564 options assigned under the "Stock Option Plan 2016-2022" were exercised at an exercise price of €20.4588, and consequently, the same number of shares were subscribed.
The share capital at 31 December 2020, therefore, comprised 150,548,564 ordinary shares with a par value of €1.5 for a total of €225,823 thousand.
In the period 1-15 January 2021 another 10,000 options assigned under the "Stock Option Plan 2016-2022" were exercised at an exercise price of €20.4588, and consequently, the same number of ordinary shares were subscribed at a par value of €1.5.
In accordance with current regulations and the law, the declaration attesting to the change in share capital was lodged with the Treviso-Belluno Corporate Registry on 1 February 2021.
The share capital amounted to €225,838 thousand at the date on which this Report was approved.

23. Reserves

These are analyzed as follows:

	31 December 2020	31 December 2019	Change
Share premium reserve	25,838	163	25,675
Legal reserve	44,850	42,573	2,277
Other reserves:			
- Extraordinary reserve	180,542	144,538	36,004
- Fair value and cash flow hedge reserve	(925)	124	(1,049)
- Stock option reserve	6,784	10,078	(3,294)
- Reserve for treasury shares	(14,534)	-	(14,534)
- Actuarial valuation reserve	(113)	(115)	2
- Profit (loss) carried forward	10,441	10,441	-
Total	**252,883**	**207,802**	**45,081**

After the Initial Public Offering, held on 23 July 2001 and the listing of the company's stock on the Milan Stock Exchange, a share premium reserve was formed which was reduced following the spin-off of DeLclima S.p.A.. The residual value amounts to €163 thousand.
The change recorded in 2020 reflects the exercise of options under the "Stock Option Plan 2016-2022".

The "Legal reserve" has a balance of €44,850 thousand at 31 December 2020. The increase of €2,277 thousand with respect to 31 December 2019 follows the allocation of profit for 2019, as approved by the AGM on 22 April 2020.

The "Extraordinary reserve" has a balance of €180,542 thousand. The increase of €36,004 thousand with respect to 31 December 2019 is explained by the allocation of the net profit for 2019, approved by during the AGM held on 22 April 2020, net the payment of dividends approved during the Shareholders Meeting held on 15 December 2020.

The "Fair value and cash flow hedge reserve" reports a negative balance of €925 thousand, net of €292 thousand in tax. This amount reflects the fair value of the cash flow hedge derivatives.
More details on the fair value of derivatives can be found in note *34. Risk management*.

The "Stock option reserve" refers to the two share-based incentive plans described in section *21. Stock option* plans and at 31 December 2020 amounted to €6,784 thousand which corresponds to the fair value of the options at the assignment date, recognized on a straight-line basis from the grant date through vesting.
A reserve of €4,857 thousand was allocated for the "Stock option plan 2016-2022"; the change with respect to 31 December 2019 is explained by the recognition of €574 thousand in notional stock option costs incurred in the year, net the value of the 1,048,564 options exercised of €5,795 thousand.
A reserve of €1,927 thousand was allocated for the "Stock option plan 2020-2027" which was recognized entirely during the year.

The "Treasury share reserve", negative for €14,534 thousand, refers to the treasury shares purchased under the buyback program.

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

Nature / Description:	Amount		Permitted use	Available amount
Share capital	225,823	[1]		
Capital reserves:				
- Share premium reserve	25,838	[2]	A, B	
- Treasury share reserve	(14,534)			
Earnings reserves:				
- Legal reserve	44,850		B	
- Extraordinary reserve	180,542		A, B, C	164,970
- Fair value and cash flow hedge reserve	(925)			
- Stock option reserve	6,784			
- Actuarial valuation reserve	(113)			
- Profit (loss) carried forward	10,441		A, B, C	1,866
Total	**478,706**	[3]		**166,836**

[1] There is a tax restriction over €2,853 thousand following a bonus increase in capital in 1997 using tax-suspended reserves. The restriction was updated based on the figures from the 2020 tax return.

[2] As allowed by art. 2431 of the Italian Civil Code, the full amount of this reserve may be distributed only if the legal reserve has reached the amount established by art. 2430 of the Italian Civil Code.

[3] There are tax restrictions relating to the realignment of tax and accounting values carried out in 2000 and 2005 as follows: €54,031 thousand relating to share capital, €1,256 thousand relating to the legal reserve and €18,722 thousand relating to the extraordinary reserve. The restriction was updated based on the figures from the 2020 tax return.

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

Liabilities

24. Bank loans and borrowings

Bank loans and borrowings are analyzed as follows:

	Within one year	One to five years	Beyond five years	Balance 31.12.2020	Within one year	One to five years	Beyond five years	Balance 31.12.2019	Change
Overdrafts	2	-	-	2	1	-	-	1	1
Long-term loans (current portion)	86,553	-	-	86,553	65,810	-	-	65,810	20,743
Total short-term bank loans and borrowings	**86,555**	**-**	**-**	**86,555**	**65,811**	**-**	**-**	**65,811**	**20,744**
Long-term loans	-	330,012	-	330,012	-	218,746	-	218,746	111,266
Total bank loans and borrowings	**86,555**	**330,012**	**-**	**416,567**	**65,811**	**218,746**	**-**	**284,557**	**132,010**

Given the situation of uncertainty triggered by the health crisis, despite its solid financial situation, in 2020 the Company decided prudently to increase its available liquidity in order to ensure adequate financial resources, by obtaining three new medium/long-term loans.
In April 2020 an agreement for a 4-year €50,000 thousand loan, repayable entirely at maturity, was signed.
In May 2020 two new loans were obtained. The first is a €100,000 thousand two-year loan repayable in two installments, the first installment of €25,000 thousand is repayable in November 2021 and the second installment upon maturity; the second is a €50,000 thousand 4-year loan repayable in quarterly installments starting in September 2020.

None of the financial covenants in current loan agreements, based on the net financial debt/net equity and net financial debt/EBITDA before non-recurring/stock option costs ratios (based on the consolidated financial statements), had been breached at 31 December 2020.

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

25. Other financial payables

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

	31 December 2020	31 December 2019	Change
Negative fair value of derivatives (short-term portion)	707	380	327
Private placement (short-term portion)	21,430	-	21,430
Other short-term financial payables	1,062	85	977
Total short-term payables	**23,199**	**465**	**22,734**
Negative fair value of derivatives (one to five years)	611	140	471
Private placement (one to five years)	85,672	85,621	51
Other financial payables (one to five years)	-	636	(636)
Total long-term payables (one to five years)	**86,283**	**86,397**	**(114)**
Private placement (beyond five years)	42,877	64,308	(21,431)
Total long-term payables (beyond five years)	**42,877**	**64,308**	**(21,431)**
Total	**152,359**	**151,170**	**1,189**

The bond loan refers to the issue and placement of €150 million in unsecured, non-convertible notes with US institutional investors (the “US Private Placement”) completed in 2017.
The securities were issued in a single tranche, have a duration of 10 years, expire in June 2027, and an average life of 7 years. The notes will accrue interest from the subscription date at a fixed rate of 1.65% per annum.
The notes will be repaid yearly in equal installments beginning June 2021 and ending June 2027, without prejudice to the Company’s ability to repay the entire amount in advance.
The securities are unrated and are not intended to be listed on any regulated markets. The notes are subject to half-yearly financial covenants in line with those contemplated in other existing loan transactions. At 31 December 2020 the covenants (ratio of consolidated net financial debt on consolidated net equity, ratio of consolidated net financial debt on EBITDA before non-recurring/stock option costs and ratio of EBITDA before non-recurring/stock option costs on net financial charges, with reference to consolidated financial statements figures) had not been breached. The issue is not secured by collateral of any kind.

“Other short-term financial payables” refers to the €79 thousand owed the subsidiary De’ Longhi Capital Services S.r.l. for financial services rendered, the variable consideration for the purchase of non-controlling interests of €647 thousand and remaining portion of the dividends distributed, but not paid in the year, of €336 thousand.

More details on the fair value of derivatives, hedging both exchange rate and interest rate risk, can be found in note *34. Risk management*.

The balance includes €81 thousand in payables from related parties, as reported in Appendix 4.

Net financial position

Details of the net financial position are as follows:

	31 December 2020	31 December 2019	Change
A. Cash	14	16	(2)
B. Cash equivalents	30	78	(48)
C. Securities	-	-	-
D. Total liquidity (A+B+C)	**44**	**94**	**(50)**
E. Current financial receivables and other securities	**577,570**	**427,950**	**149,620**
of which: *Fair value of derivatives*	-	*7*	*(7)*
F. Current bank loans and borrowings	(2)	(1)	(1)
G. Current portion of non-current debt	(86,553)	(65,810)	(20,743)
G1. Bonds (short-term portion)	(21,430)	-	(21,430)
H. Other current financial payables	(2,046)	(712)	(1,334)
of which: *Fair value of derivatives, financial payables for the purchase of equity investments and lease payables*	*(1,631)*	*(627)*	*(1,004)*
I. Current financial debt (F+G+G1+H)	**(110,031)**	**(66,523)**	**(43,508)**
J. Net current financial receivables (payables) (D+E+I)	**467,583**	**361,521**	**106,062**
K1. Non-current financial receivables and other securities	116	782	(666)
of which *Fair value of derivatives*	-	*653*	*(653)*
K2. Non-current bank loans and borrowings	(330,012)	(218,746)	(111,266)
L. Bonds	(128,549)	(149,929)	(21,380)
M. Other non-current payables	(1,565)	(1,827)	262
of which: *Fair value of derivatives, financial payables for the purchase of equity investments and lease payables*	*(1,565)*	*(1,827)*	*262*
N. Non-current financial debt (K1+K2+L+M)	**(460,010)**	**(369,720)**	**(90,290)**
Total	**7,573**	**(8,199)**	**15,772**

Details of the net financial position are shown in accordance with CONSOB Bulletin DEM/6064293 of 28.07.2006; in order to provide a better representation, the short-term portion of bonds (item G1) and other non-current financial assets (item K1) are shown separately.

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

The Company signed an agreement to issue another €150 million tranche of the USPP, maturing April 2041, which will be issued and underwritten by a leading US financial group in the first few months of 2021.

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

26. Deffered tax liabilities

"Deferred tax liabilities" include the taxes calculated on temporary differences between the carrying amount of assets and liabilities and their corresponding tax base, and the distributable earnings of subsidiaries.

Details are as follows:

	31 December 2020			31 December 2019			Effect on income statement
	Taxable amount	Tax rate	Total tax	Taxable amount	Tax rate	Total tax	
Provisions for contingencies and other charges	19	24.0%	5	17	24.0%	4	1
Other temporary differences	(7,313)	24.0%	(1,755)	(2,955)	24.0%	(709)	(1,046)
Total deferred tax assets recognized in the income statement	**(7,294)**		**(1,750)**	**(2,938)**		**(705)**	**(1,045)**
Reserves distributable by subsidiaries	**11,631**	**24.0%**	**2,791**	**9,688**	**24.0%**	**2,325**	**466**
Total deferred tax assets/advance tax recognized in the income statement	**4,337**		**1,041**	**6,750**		**1,620**	**(579)**
Fair value of cash flow hedge derivatives	(1,217)	24.0%	(292)	163	24.0%	39	(331)
Actuarial valuation of provision according to IAS 19	(149)	24.0%	(36)	(151)	24.0%	(36)	-
Total temporary differences recognized in net equity	**(1,366)**		**(328)**	**12**		**3**	**(331)**
Net total	**2,971**		**713**	**6,762**		**1,623**	**(910)**

“Reserves distributable by subsidiaries” refer to the deferred tax calculated on the accumulated reserves of subsidiaries that are potentially distributable in the future.

There are no temporary differences or carry forward tax losses for which deferred tax assets have not been recognized.

27. Employee benefits

These are analyzed as follows:

	31 December 2020	31 December 2019	Change
Provision for severance indemnities	476	486	(10)
Long term benefits	5,872	2,526	3,346
Total	**6,348**	**3,012**	**3,336**

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

	31 December 2020	Average 2020	31 December 2019	Average 2019
White collars	34	33	35	34
Managers	18	18	16	16
Total	**52**	**51**	**51**	**50**

Provision for severance indemnities

The provision for severance indemnities includes amounts payable to the company's employees and not transferred to alternative pension schemes or the pension fund set up by INPS (Italy's national social security agency). This provision has been classified as a defined benefit plan, governed as such by *IAS 19 Employee benefits*. Severance indemnity, as an unfunded obligation, does not have any assets servicing it.
This plan is valued on an actuarial basis to express the present value of the benefit payable at the end of service that employees have accrued at the reporting date.

Movements in the year are summarized below:

Severance indemnity obligations	31 December 2020	31 December 2019	Change
Defined benefit obligations	476	486	(10)

Net cost charged to income statement	31 December 2020	31 December 2019	Change
Interest cost on obligations	3	7	(4)
Total	**3**	**7**	**(4)**

Change in present value of obligations	31 December 2020	31 December 2019	Change
Present value at 1 January	**486**	**461**	**25**
Utilization of provision	(11)	(1)	(10)
Interest cost on obligations	3	7	(4)
Actuarial gain losses booked in the statement of comprehensive income	(2)	19	(21)
Present value at reporting date	**476**	**486**	**(10)**

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

Assumptions used	Severance indemnity 2020	Severance indemnity 2019
Discount rate	0.5%	0.8%
Future salary increases	0.5% - 1.5%	1.3% - 2.3%
Inflation rate	0.5%	0.8%

"Long-term benefits" refers to the amount accrued for the incentive plan 2018-2020 in the reporting period. This plan was approved by the Board of Directors on 31 July 2018 for the Chief Executive Officer of De' Longhi S.p.A. and a limited number of Group executives and key resources. For further details please refer to the *Report on Remuneration*.

28. Trade payables

This balance of €4,345 thousand represents the amount owed by the Company for the supply of services.

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

29. Current tax liabilities

These are analyzed as follows:

	31 December 2020	31 December 2019	Change
Direct taxes	122	-	122
Total	**122**	**-**	**122**

This balance refers to substitute tax payables and do not include any amounts due beyond 12 months.

30. Other payables

These are analyzed as follows:

	31 December 2020	31 December 2019	Change
Payables towards related parties	5,396	4,495	901
Employees	2,747	1,848	899
Withholdings payable	1,592	1,298	294
Social security institutions	498	484	14
Other	2,414	2,717	(303)
Total	**12,647**	**10,842**	**1,805**

The “Payables towards related parties” mostly refer to amounts owed as a result of the Company's decision to pay VAT on a group basis, under the Ministerial Decree dated 13 December 1979, as described in note *16. Current tax assets*.

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

"Social security institutions" include €287 thousand in payables to Italy's principal social security agency (INPS), and €211 thousand in payables to pension funds.

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

There are no other payables due beyond 12 months.

31. Commitments

These are detailed as follows:

	31 December 2020	31 December 2019	Change
Guarantees given for the benefit of:			
De' Longhi Capital Services S.r.l.	339,250	329,250	10,000
De'Longhi Australia PTY Ltd.	19,891	20,268	(377)
De'Longhi Kenwood A.P.A. Ltd.	17,936	70,726	(52,790)
De'Longhi LLC	6,675	7,298	(623)
De'Longhi Romania S.r.l.	5,367	5,849	(482)
De' Longhi Appliances S.r.l.	5,238	5,306	(68)
NPE S.r.l. [1]	5,000	5,000	-
De'Longhi Brasil Ltda.	4,155	5,848	(1,693)
Kenwood Limited Ltd.	2,000	1,058	942
De'Longhi Kenwood Korea Ltd.	1,617	1,669	(52)
De'Longhi Mexico S.a.	1,222	1,335	(113)
Elle S.r.l.	446	446	-
DeLonghi South Africa Pty Ltd.	374	429	(55)
De'Longhi Kenwood MEIA FZE	333	363	(30)
De'Longhi Japan Corp.	237	246	(9)
De'Longhi America Inc.	196	214	(18)
De'Longhi Scandinavia A.B.	82	78	4
De'Longhi Ukraine LLC	81	89	(8)
De'Longhi Canada Inc.	64	69	(5)
De'Longhi Polska Sp.Zo.o.	27	29	(2)
E-Services S.r.l.	11	11	-
Dong Guan De'Longhi Kenwood Appliances Co. Ltd.	8	8,902	(8,894)
DL Chile S.A.	6	7	(1)
Total De' Longhi Group companies and related parties	**410,216**	**464,490**	**(54,274)**

[1] This investment became a related party investment following the sale of 55% of NPE S.r.l.'s share capital by De' Longhi Appliances S.r.l. to H&T Group.

The guarantees given in the interest of Group companies and related parties refer primarily to credit lines which have been partially drawn down and to short-term loans.

In addition to the above:
- as part of its factoring of trade receivables without recourse, the total exposure for which amounted to €152,754 at 31 December 2020 (€152,760 at 31 December 2019), the Company issued a surety and a credit mandate in the interest of its subsidiaries and related parties involved;
- the Company also issued a guarantee in the interest of subsidiaries and related parties relative to currency hedging, the negative fair value of which amounted to €1,278 thousand at 31 December 2020 (negative for €1,749 at 31 December 2019);
- the Company also issued third party guarantees totalling €31 thousand.

No elements of risk as defined by IAS 37 have been noted to date.

32. Classification of financial assets and liabilities

Financial assets and liabilities are classified below in accordance with IFRS 7 using the categories identified in IFRS 9.

31/12/2020		Assets		
	Total value	Amortized cost	Fair value in Profit&Loss	Fair value in OCI
Non-current assets				
- Equity investments(*)	-			
- Receivables	119	*119*		
- Other non-current financial assets	-			
Current assets				
- Trade receivables	3,418	*3,418*		
- Current tax assets	-			
- Other receivables	11,587	*11,587*		
- Current financial receivables and assets	577,570	*577,570*		
- Cash and cash equivalents	44	*44*		

31/12/2020		Liabilities		
	Total value	Amortized cost	Fair value in Profit&Loss	Fair value in OCI
Non-current liabilities				
- Bank loans and borrowings (long-term portion)	(330,012)	*(330,012)*		
- Other financial payables (long-term portion)(**)	(129,160)	*(128,549)*		*(611)*
Current liabilities				
- Trade payables	(4,345)	*(4,345)*		
- Bank loans and borrowings (short-term portion)	(86,555)	*(86,555)*		
- Other financial payables (short-term portion)(**)	(22,552)	*(21,845)*	*(2)*	*(705)*
- Current tax liabilities	(122)	*(122)*		
- Other payables	(12,647)	*(12,647)*		

(*) Interests in subsidiaries, associates and joint ventures are not included (*IFRS 9 - 2.1 a*).
(**) Rights and obligations under leases to which *IAS 17/IFRS 16 Leases* applies (*IFRS 9 - 2.1 b*) and forward contracts that will result in an acquisition to be considered as a business combination within the scope of *IFRS 3 Business combination* (*IFRS 9 - 2.1 f*) are not included.

31/12/2019		Assets		
	Total value	Amortized cost	Fair value in Profit&Loss	Fair value in OCI
Non-current assets				
- Equity investments(*)	-			
- Receivables	131	*131*		
- Other non-current financial assets	653			*653*
Current assets				
- Trade receivables	2,989	*2,989*		
- Current tax assets	2,642	*2,642*		
- Other receivables	6,032	*6,032*		
- Current financial receivables and assets	427,950	*427,943*	*7*	
- Cash and cash equivalents	94	*94*		

31/12/2019		Liabilities		
	Total value	Amortized cost	Fair value in Profit&Loss	Fair value in OCI
Non-current liabilities				
- Bank loans and borrowings (long-term portion)	(218,746)	*(218,746)*		
- Other financial payables (long-term portion)(**)	(150,069)	*(149,929)*		*(140)*
Current liabilities				
- Trade payables	(6,354)	*(6,354)*		
- Bank loans and borrowings (short-term portion)	(65,811)	*(65,811)*		
- Other financial payables (short-term portion)(**)	(465)	*(85)*	*(17)*	*(363)*
- Current tax liabilities	-			
- Other payables	(10,842)	*(10,842)*		

(*) Interests in subsidiaries, associates and joint ventures are not included (*IFRS 9 - 2.1 a*).
(**) Rights and obligations under leases to which *IAS 17/IFRS 16 Leases* applies (*IFRS 9 - 2.1 b*) and forward contracts that will result in an acquisition to be considered as a business combination within the scope of *IFRS 3 Business combination* (*IFRS 9 - 2.1 f*) are not included.

33. Hierarchical levels of financial instruments measured at fair value

The following table presents the hierarchical levels in which the fair value measurements of financial instruments have been classified at 31 December 2020. As required by IFRS 13, the hierarchy comprises the following levels:
- level 1: quoted prices in active markets for identical assets or liabilities;
- level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- level 3: inputs for the asset or liability that are not based on observable market data.

Financial instruments measured at fair value	Level 1	Level 2	Level 3
Derivatives: - derivatives with negative fair value		(1,318)	

There were no transfers between the levels during the year.

34. Risk management

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

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

Credit risk

Credit risk consists of the company's exposure to potential losses arising from failure by a counterparty to fulfil its obligations.

Trade credit risk is associated with the normal course of business and is monitored using formal procedures to assess customers and extend them credit, define credit limits, as well as monitor expected inflows, including with a view to credit collection.
Positions are written down when there is objective evidence that they will be partially or entirely uncollected, bearing in mind that a significant proportion of receivables are covered by insurance policies with major insurers.
This is not a material risk for the Company, whose principal credit exposures are to Group companies.

As far as financial credit risk is concerned, it is the company's policy to maintain a sufficiently large portfolio of counterparties of high international repute for the purposes of satisfying its financing and hedging needs.

Liquidity risk

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

The Company complies with specific group policies and procedures for the purposes of monitoring and managing this risk, including:

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

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

Note *32. Classification of financial assets and liabilities* presents the book value of financial assets and liabilities, in accordance with the categories identified by IFRS 9.

The following table summarizes the due dates of financial liabilities at 31 December 2020 and at 31 December 2019 on the basis of undiscounted contractual payments.

	Undiscounted cash flows at 31.12.2020	Within one year	One to five years	Beyond five year	Undiscounted cash flows at 31.12.2019	Within one year	One to five years	Beyond five year
Bank loans and borrowings (*)	(420,211)	(87,780)	(332,431)	-	(287,230)	(66,635)	(220,594)	-
Other financial payables (**)	(159,077)	(24,142)	(91,371)	(43,564)	(161,223)	(2,560)	(92,786)	(65,877)
Trade payables	(4,345)	(4,345)	-	-	(6,354)	(6,354)	-	-
Current tax liabilities and other payables	(12,769)	(12,769)	-	-	(10,842)	(10,842)	-	-
Total	**(596,402)**	**(129,036)**	**(423,802)**	**(43,564)**	**(465,649)**	**(86,391)**	**(313,380)**	**(65,877)**

(*) The corresponding balance reported in the financial statements is €416,567 thousand at 31 December 2020 and €284,557 thousand at 31 December 2019. See note *24. Bank loans and borrowings.*
(**) The corresponding balance reported in the financial statements amounted to €150,394 thousand at 31 December 2020 (net of the fair value of derivatives of €1,318 thousand and the variable consideration paid for the purchase of a minority interest of €647 thousand) and €150,014 thousand at 31 December 2019 (net of the fair value of derivatives of €520 thousand and the variable consideration paid for the purchase of a minority interest of €636 thousand). For further details refer to note *25. Other financial payables.*

With regard to lease liabilities in accordance with IFRS 16, please refer to Note *11. Leases*.

Exchange rate risk

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

Sensitivity analysis:

The potential impact, in terms of change in fair value, of a hypothetical, sudden +/-5% change in year-end exchange rates was estimated in light solely of receivables/payables in unhedged currencies insofar as the impact on the income statement of the receivables/payables in hedged currencies is mitigated or offset by the respective hedges. A +/- 5% change in year-end exchange rates of the principal exposed currencies (USD, HKD and GBP) is estimated to produce a change in fair value of around +/- €4 thousand (+/- €40 thousand at 31 December 2019). As most of the receivables/payables in question are due beyond twelve months the change in fair value would impact the income statement of the following year. The hedging transactions at 31 December 2020 are described in the paragraph "*Interest rate and currency exchange hedges at 31 December 2020*".

Interest rate risk

The Company is exposed to interest rate risk on floating rate loans and borrowings. This risk is managed centrally by the same team that manages currency risks.
The purpose of interest rate risk management is to fix in advance the maximum cost (in terms of the interbank rate, which represents the benchmark for these borrowings) for a part of the debt.
At 31 December 2020 as a result of the Interest Rate Swaps used to hedge the interest rate risk related to the outstanding loans, the Company's financial debt is primarily fixed rate.

Sensitivity analysis:

When estimating the potential impact of a hypothetical, sudden material change in interest rates (+/- 1% in market rates) on the cost of the Company's debt, only those items forming part of net financial position which earn/incur interest have been considered and not any others (meaning total net assets of €434.2 million on a total of €7.6 million in net debt at 31 December 2020 and total net assets of €328.2 million on a total of €8.2 million in net debt in 2019). In the absence of hedges, any change in interest rates would directly impact the cost of that portion of debt resulting in an increase/decrease in financial expenses.
A +/-1% change in interest rates would have an impact of +/- €4.3 million before tax at 31 December 2020 recognized entirely in the income statement (+/- €3.3 million before tax at 31 December 2019).
With regard to the loans, the interest rate swaps used to hedge interest rate risk made it possible to exchange floating rate debt for fixed rate debt. Any change, therefore, in interest rates would not impact the income statement. In light, however, of the fact that the hedges are measured at fair value and that the portion relating to future interest flows is recognized at net equity, at 31 December 2020 a change of +/- 1% in rates would cause a change in the cash flow hedge of +/- €1.4 million before tax (+/- € 2.5 million before tax at 31 December 2019).
Please refer to the paragraph "*Interest rate and currency exchange hedges at 31 December 2020*" for more information.

Interest rate and currency exchange hedges at 31 December 2020

The Company had a number of derivatives at 31 December 2020, hedging both the fair value of underlying instruments and exposure to changes in cash flow.
For accounting purposes, derivatives that hedge changes in cash flow are treated in accordance with hedge accounting as called for in IFRS 9.
Derivatives that hedge foreign currency payables and receivables are reported as financial assets and liabilities held for trading with changes in their fair value reported in the income statement. These instruments offset the risk on the hedged item (which is a recognized asset or liability).

The fair value of the outstanding derivatives at 31 December 2020 is provided below:

	31 December 2020 Fair value
FX forward agreements	(2)
Derivatives hedging foreign currency receivables/payables	**(2)**
Derivatives hedging interest rate risk (IRS)	(1,316)
Derivatives covering expected cash flows	**(1,316)**
Total fair value of the derivatives	**(1,318)**

Hedges against foreign currency receivables and payables:

Currency	Notional amount (in thousands)						Fair value with Group (in €/000)	
	Group			Third parties			Asset	Liability
	Purchases	**Sales**	**Total**	**Purchases**	**Sales**	**Total**		
USD/EUR	(600)	600	-	-	-	-	-	(2)
				Total Fair Value			**-**	**(2)**

IRS (Interest Rate Swap) hedging interest rate risk on loans:

The fair value of the derivatives is calculated using the discounted cash flow method based on the swap curve, not including the spread; at 31 December 2020 the fair value of the derivatives, which also takes into account counterparty risk in accordance with *IFRS 13 Fair Value measurement*, came to a negative €1,316 thousand which is recognized financial payables.
As the hedge on future interest flows qualifies as an effective hedge, at 31 December 2020 a negative cash flow hedge reserve of €1,217 thousand was reported in net equity, net of the related tax effect of €292 thousand.

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

	31/12/2020
	Fair value (in €/000)
IRS on loan with notional amount equal to € 100,000 thousand	(294)
IRS on loan with notional amount equal to € 89,000 thousand	(335)
IRS on loan with notional amount equal to € 50,000 thousand	(477)
IRS on loan with notional amount equal to € 28,500 thousand	(177)
IRS on loan with notional amount equal to € 12,500 thousand	(33)
Total fair value of the derivatives	**(1,316)**
of which:	
negative short-term fair value	*(705)*
negative medium/long-term fair value	*(611)*

35. Transactions and balances with related parties

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

36. Subsequent events

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

37. Proposed resolutions for the annual general meeting

1) Proposed resolution relating to item 1.1 of the Agenda for the Annual General Meeting convened on 21 April 2021 ("*Annual Report at 31 December 2020: presentation of the separate financial statements at 31 December 2020, together with the Directors' Report on Operations, the Board of Statutory Auditors' Report, the External Auditors' Report and the Certification of the Financial Reporting Officer. Related and consequent resolutions*").

Dear Shareholders,
in submitting the De' Longhi S.p.A.'s Annual Report at 31 December 2020 to you for approval during the Annual General Meeting, we propose that you approve the following resolution:

"*The Shareholders of De' Longhi S.p.A.,*
having examined the draft financial statements at 31 December 2020 of De' Longhi S.p.A., the Board of Directors' Report on Operations, the Board of Statutory Auditors' Report and the other documentation called for under the law

resolve

to approve the Board of Directors' Report on Operations and the financial statements at 31 December 2020 of De' Longhi S.p.A.".

2) Proposed resolution relating to item 1.2 of the Agenda for the Annual General Meeting convened on 21 April 2021 ("*Annual Report at 31 December 2020: proposed allocation of the net profit for the year and distribution of the dividend. Related and consequent resolutions*").

Dear Shareholders,
with regard to the allocation of the net profit for the year closed on 31 December 2020, which amounted to €88,710,388, we propose that you approve the following resolution:

"*The Shareholders of De' Longhi S.p.A.,*
having acknowledged the net profit for the year shown in the Annual Report at 31 December 2020 and the Directors' Report on Operations

resolve

1. *to allocate €317,569 of the net profit for the year to the legal reserve, in accordance with art. 2430 of the Italian Civil Code, which represents one fifth of the share capital subscribed at the date of this Annual General Meeting;*
2. *to distribute a gross ordinary dividend of €0.54 for each of the shares outstanding with dividend rights at the record date, as per art. 83-terdecies of Legislative Decree 58/98, after the allocation referred to in item 1 above has been made;*
3. *to allocate the remaining net profit for the year to the extraordinary reserve;*
4. *to establish that the payment of the dividend, on each share entitled to receive a dividend, will take place on 26 May 2021, with shares going ex-div on 24 May 2021, in accordance with Borsa Italiana's calendar, and a record date in accordance with art. 83-terdecies of Legislative Decree n. 58/98 of 25 May 2021".*

Treviso, 11 March 2021

De' Longhi S.p.A.
The Chief Executive Officer
Massimo Garavaglia

Appendices

These appendices contain additional information to that reported in the explanatory notes, of which they form an integral part.

This information is contained in the following appendices:

1. Certification of the financial statements pursuant to art. 81-*ter* of CONSOB Regulation 11971 dated 14 May 1999 and subsequent amendments and additions.
2. Statement of cash flows in terms of net financial position.
3. List of subsidiary companies and changes in equity investments.
4. Transactions and balances with related parties:
   a) Income statement and statement of financial position
   b) Summary by company

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

(Appendix 1 to the Explanatory Notes)

The undersigned Massimo Garavaglia, Chief Executive Officer, and Stefano Biella, Officer Responsible for Preparing the Company's Financial Report of De' Longhi S.p.A., attest, also taking account of the provisions of paragraphs 2, 3 and 4, art. 154-*bis* of Decree 58 dated 24 February 1998:
that the accounting and administrative processes for preparing the financial statements during 2020:
- have been adequate in relation to the company's characteristics and
- have been effectively applied.

- It is also certified that the financial statements at 31 December 2020:
- have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union under Regulation (EC) 1606/2002 of the European Parliament and Council dated 19 July 2002 and with the measures implementing art. 9 of Decree 38/2005;
- correspond to the underlying accounting records and books of account;
- are able to provide a true and fair view of the issuer's statement of financial position and results of operations.

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

Massimo Garavaglia
Chief Executive Officer

Stefano Biella
Officer Responsible for Preparing the Company's Financial Report

Statement of cash flows in terms of net financial position

(Appendix 2 to the Explanatory Notes)

(Amounts in thousands of Euro)	2020	2019
Net profit (loss)	88,710	119,094
Income taxes for the period	(4,656)	(3,039)
Income for dividends receipt	(110,949)	(135,633)
Amortization	777	839
Net change in provisions and other non-cash items	5,840	2,754
Cash flow absorbed by current operations (A)	**(20,278)**	**(15,985)**
Change in assets and liabilities for the period:		
Trade receivables	(429)	27,757
Trade payables	(2,009)	(14,650)
Other changes in net working capital	3,410	1,078
Payment of income taxes	(320)	(70)
Cash flow generated by changes in working capital (B)	**652**	**14,115**
Cash flow absorbed by current operations and changes in working capital (A+B)	**(19,626)**	**(1,870)**
Investment activities:		
Investments in intangible assets	(10)	(15)
Investments in tangible assets	(65)	(3)
Investment in leased assets	(202)	(73)
Dividends receipt	110,949	135,633
Cash flow generated by investment activities (C)	**110,672**	**135,542**
Cash flow by operating activities (A+B+C)	**91,046**	**133,672**
Cash flows absorbed by leasing accounted under IFRS 16 (D)	**-**	**(1,478)**
Purchase of treasury shares	(14,534)	-
Exercise of stock option	21,452	-
Dividends paid	(80,813)	(55,315)
Cash flow hedge reserve	(1,379)	780
Cash flow absorbed by changes in net equity (E)	**(75,274)**	**(54,535)**
Cash flow for the period (A+B+C+D+E)	**15,772**	**77,659**
Opening net financial debt	**(8,199)**	**(85,858)**
Cash flow for the period (A+B+C+D+E)	15,772	77,659
Closing positive net financial position	**7,573**	**(8,199)**

List of equity investments in subsidiary companies (art. 2427 of the Italian Civil Code)

(Appendix 3 to the Explanatory Notes)[*]

Company name	Registered office		Share capital		Net equity		Latest reported profit or (loss)	Interest held (directly)	Book value
Subsidiary companies									**thousands**
De Longhi Benelux S.A.[1]	Luxembourg	Eur	181,730,990	Eur	293,608,096	Eur	46,792,213	100%	266,737
De' Longhi Appliances S.r.l.	Treviso	Eur	200,000,000	Eur	336,401,491	Eur	78,325,468	100%	242,678
De'Longhi Deutschland GmbH [2]	Neu Isenburg	Eur	2,100,000	Eur	31,713,505	Eur	6,500,178	100%	40,800
De' Longhi Capital Services S.r.l.[3][4]	Treviso	Eur	53,000,000	Eur	59,148,945	Eur	3,626,490	11.32%	6,005
E-Services S.r.l.	Treviso	Eur	50,000	Eur	1,959,867	Eur	1,515,394	100%	5,264
De'Longhi Romania S.r.l.[2][4]	Cluj-Napoca	Ron	140,000,000	Ron	458,640,476	Ron	92,089,763	10%	3,078
De'Longhi Kenwood GmbH[2]	Wr. Neudorf	Eur	36,336	Eur	5,349,982	Eur	1,155,701	100%	2,900
Clim.Re S.A.[1][4]	Luxembourg	Eur	1,239,468	Eur	1,668,625	Eur	-	4%	54
De'Longhi Polska Sp.Zoo[2][4]	Warszawa	Pln	50,000	Pln	58,810,120	Pln	16,676,280	0.1%	-
Total									**567,516**

[*] Statutory figures at 31 December 2020, unless otherwise specified.
[1] Statutory figures at 31 December 2019.
[2] Figures used for the purposes of consolidation at 31 December 2020.
[3] The articles of association, approved by the extraordinary shareholders' meeting held on 29 December 2004, give special rights to De' Longhi S.p.A. (holding 89% of the voting rights) for ordinary resolutions (approval of financial statements, declaration of dividends, nomination of directors and statutory auditors, purchase and sale of companies, grant of loans to third parties); voting rights are proportional as far as other resolutions are concerned.
[4] The residual interest is held indirectly.

Changes in equity investments

(Appendix 3 to the Explanatory Notes - cont'd)

(Amounts in thousands of Euro) Equity investments	Book value at 31 December 2019	Acquisitions, subscriptions and recapitalizations	Demerger	Net impairment losses and reversals	Book value at 31 December 2020
Subsidiaries					
De Longhi Benelux S.A.	266,737	-	-	-	266,737
De' Longhi Appliances S.r.l.	242,678	-	-	-	242,678
De'Longhi Deutschland GmbH	40,800	-	-	-	40,800
De' Longhi Capital Services S.r.l.	6,005	-	-	-	6,005
E-Services S.r.l.	5,264	-	-	-	5,264
De'Longhi Romania S.r.l.	3,078	-	-	-	3,078
De'Longhi Kenwood GmbH	2,900	-	-		2,900
Clim.Re S.A.	54	-	-	-	54
De'Longhi Polka Sp.Zo.o.	-	-	-	-	-
Total equity investments	**567,516**	**-**	**-**	**-**	**567,516**

Transactions and balances with related parties

(Appendix 4 to the Explanatory Notes)

Income Statement

pursuant to Consob resolution 15519 of 27 july 2006

(Amounts in thousands of Euro)	*Notes*	2020	*of which related parties*	2019	*of which related parties*
Revenues	*1*	8,847	*8,723*	9,414	*9,347*
Total revenues		**8,847**		**9,414**	
Raw and ancillary materials, consumables and goods	*2*	(52)		(69)	
Materials consumed		**(52)**		**(69)**	
Payroll costs	*3*	(14,483)		(10,588)	
Services and other operating expenses	*4*	(16,195)	*(2,030)*	(15,192)	*(2,535)*
Provisions	*5*	-		539	
Amortization	*6*	(777)		(839)	
EBIT		**(22,660)**		**(16,735)**	
Net financial income (expenses)	*7*	106,714	*111,091*	132,790	*135,681*
PROFIT (LOSS) BEFORE TAXES		**84,054**		**116,055**	
Income taxes	*8*	4,656		3,039	
NET PROFIT (LOSS)		**88,710**		**119,094**	

Transactions and balances with related parties

(Appendix 4 to the Explanatory Notes - cont'd)

Statement of Financial Position
pursuant to Consob resolution 15519 of 27 July 2006

Assets

(Amounts in thousands of Euro)	*Notes*	31.12.2020	*of which related parties*	31.12.2019	*of which related parties*
NON-CURRENT ASSETS					
INTANGIBLE ASSETS		210		697	
- Other intangible assets	*9*	210		697	
TANGIBLE ASSETS		1,285		1,297	
- Other tangible assets	*10*	60		3	
- Right of use assets	*11*	1,225		1,294	
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		567,635		568,300	
- Equity investments	*12*	567,516		567,516	
- Receivables	*13*	119	*116*	131	*130*
- Other non-current financial assets	*14*	-		653	
TOTAL NON-CURRENT ASSETS		**569,130**		**570,294**	
CURRENT ASSETS					
TRADE RECEIVABLES	*15*	3,418	*1,847*	2,989	*1,418*
CURRENT TAX ASSETS	*16*	-		2,642	
OTHER RECEIVABLES	*17*	11,587	*4,583*	6,032	*3,377*
CURRENT FINANCIAL RECEIVABLES AND ASSETS	*18*	577,570	*577,570*	427,950	*427,950*
CASH AND CASH EQUIVALENTS	*19*	44		94	
TOTAL CURRENT ASSETS		**592,619**		**439,707**	
TOTAL ASSETS		**1,161,749**		**1,010,001**	

Transactions and balances with related parties

(Appendix 4 to the Explanatory Notes - cont'd)

Statement of Financial Position

pursuant to Consob resolution 15519 of 27 July 2006

Net equity and liabilities

(Amounts in thousands of Euro)	*Notes*	31.12.2020	*of which related parties*	31.12.2019	*of which related parties*
NET EQUITY					
NET EQUITY		567,416		551,146	
- Share capital	*22*	225,823		224,250	
- Reserves	*23*	252,883		207,802	
- Net profit (loss)		88,710		119,094	
TOTAL NET EQUITY		**567,416**		**551,146**	
NON-CURRENT LIABILITIES					
FINANCIAL PAYABLES		460,127		370,502	
- Bank loans and borrowings (long-term portion)	*24*	330,012		218,746	
- Other financial payables (long-term portion)	*25*	129,161		150,705	
- Lease liabilities (long-term portion)	*11*	954	*802*	1,051	*969*
DEFERRED TAX LIABILITIES	*26*	713		1,623	
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		6,348		3,012	
- Employee benefits	*27*	6,348		3,012	
TOTAL NON-CURRENT LIABILITIES		**467,188**		**375,137**	
CURRENT LIABILITIES					
TRADE PAYABLES	*28*	4,345		6,354	*1,414*
FINANCIAL PAYABLES		110,031		66,522	
- Bank loans and borrowings (short-term portion)	*24*	86,555		65,811	
- Other financial payables (short-term portion)	*25*	23,199	*81*	465	*102*
- Lease liabilities (short-term portion)	*11*	277	*172*	246	*169*
CURRENT TAX LIABILITIES	*29*	122		-	
OTHER PAYABLES	*30*	12,647	*5,396*	10,842	*4,495*
TOTAL CURRENT LIABILITIES		**127,145**		**83,718**	
TOTAL NET EQUITY AND LIABILITIES		**1,161,749**		**1,010,001**	

Transactions and balances with related parties

Summary by company

(Appendix 4 to the Explanatory Notes - cont'd)

Amounts in €/million	Revenues[1]	Materials consumed and cost for services[1]	Financial income (expenses)	Non-current financial receivables	Current financial receivables	Other receivables[2]	Non-current financial payables	Current financial payables[3]	Other payables
Ultimate parent companies:									
DE LONGHI INDUSTRIAL S.A.	-	-	-	-	-	4.4	-	-	-
Total ultimate parent companies (a)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**4.4**	**0.0**	**0.0**	**0.0**
Subsidiary companies:									
DE' LONGHI APPLIANCES S.R.L.	6.3	(0.3)	64.5	-	-	0.9	(0.8)	(0.2)	(5.2)
DE'LONGHI KENWOOD A.P.A. LTD	1.4	-	0.1	0.1	-	-	-	-	-
E-SERVICES S.R.L.	0.5	(0.3)	1.8	-	-	0.9	-	-	(0.2)
DE'LONGHI HOUSEHOLD GMBH	0.1	-	-	-	-	0.1	-	-	-
DE'LONGHI S.R.L. - ROMANIA	0.1	-	-	-	-	-	-	-	-
KENWOOD LIMITED	0.1	(0.4)	-	-	-	0.1	-	-	-
DE'LONGHI AMERICA INC.	-	(1.0)	-	-	-	-	-	-	-
DE LONGHI BENELUX S.A.	-	-	38.0	-	-	-	-	-	-
DE'LONGHI DEUTSCHLAND GMBH	-	-	6.4	-	6.4	-	-	-	-
DE' LONGHI CAPITAL SERVICES Srl	-	-	0.4	-	571.2	-	-	(0.1)	-
Total subsidiary companies (b)	**8.5**	**(2.0)**	**111.2**	**0.1**	**577.6**	**2.0**	**(0.8)**	**(0.3)**	**(5.4)**
Related companies:									
GAMMA S.R.L.	0.1	-	-	-	-	-	-	-	-
DL RADIATORS S.R.L.	0.1	-	(0.1)	-	-	-	-	-	-
Total related companies (c)	**0.2**	**0.0**	**(0.1)**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Total ultimate parent, subsidiary and related companies (a+b+c)	**8.7**	**(2.0)**	**111.1**	**0.1**	**577.6**	**6.4**	**(0.8)**	**(0.3)**	**(5.4)**

(1) These mostly refer to dealings of a commercial nature and the supply of administrative services by company employees.
(2) These consist of €1.8 million in "Trade receivables" and €4.6 million in "Other receivables".
(3) This item includes €0.1 million in "Other financial payables" and €0.2 million in "Lease payables".

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

External auditors’ report on the separate financial statements

Independent auditor's report

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

To the shareholders of De'Longhi SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of De'Longhi SpA (the Company), which comprise the statement of financial position as of 31 December 2020, the income statement, the statement of comprehensive income and the statement of changes in net equity, the statement of cash flows for the year then ended and explanatory notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

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

Key Audit Matters

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

PricewaterhouseCoopers SpA

Sede legale: **Milano** 20145 Piazza Tre Torri 2 Tel. 02 77851 Fax 02 7785240 Capitale Sociale Euro 6.890.000,00 i.v. C.F. e P.IVA e Reg. Imprese Milano Monza Brianza Lodi 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 071 2132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 080 5640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035 229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 051 6186211 - **Brescia** 25121 Viale Duca d'Aosta 28 Tel. 030 3697501 - **Catania** 95129 Corso Italia 302 Tel. 095 7532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 055 2482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 010 29041 - **Napoli** 80121 Via dei Mille 16 Tel. 081 36181 - **Padova** 35138 Via Vicenza 4 Tel. 049 873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091 349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521 275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 085 4545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06 570251 - **Torino** 10122 Corso Palestro 10 Tel. 011 556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461 237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422 696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 040 3480781 - **Udine** 33100 Via Poscolle 43 Tel. 0432 25789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332 285039 - **Verona** 37135 Via Francia 21/C Tel. 045 8263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444 393311

www.pwc.com/it

Key Audit Matters	*Auditing procedures performed in response to key audit matters*
Recoverability of the value of equity investments *Note 12 to the financial statements* The financial statements of De'Longhi SpA include equity investments in subsidiaries for Euro 567,516 thousand, accounting for 49% of total assets, which are carried at acquisition or start-up costs and tested for impairment whenever indicators of impairment are identified. In the course of our audit of the financial statements as of 31 December 2020, we focused on this financial statements area as a key audit matter in consideration of the magnitude of the balances, also relative to total assets, and of the elements of estimation intrinsic to the measurement of equity investments.	As part of our audit of the financial statements as of 31 December2020, we performed the procedures illustrated below. We understood the procedure applied by the Company to identify impairment indicators, examining the analyses performed by management to determine if any impairment indicators were present as required by paragraph 12 of IAS 36 as adopted by the European Union. In detail, we analysed the results of operations of investees for the year 2020, comparing them with past results, and we compared the carrying amounts of investees with the carrying amounts of the corresponding net assets in the consolidated financial statements.

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

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

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

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014

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

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

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the board of statutory auditors, in its capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

The directors of De'Longhi SpA are responsible for preparing a report on operations and a report on the corporate governance and ownership structure of De'Longhi SpA as of 31 December 2020, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of De'Longhi SpA as of 31 December 2020 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of De'Longhi SpA as of 31 December 2020 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Treviso, 29 March 2021

PricewaterhouseCoopers SpA

Signed by

Filippo Zagagnin
(Partner)

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

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

De’ Longhi S.p.A.
Registered office: Via L. Seitz, 47 - 31100 Treviso
Share capital: EURO 225,837,846 (subscribed and paid-in)
Tax ID and Company Register no.: 11570840154
Treviso Chamber of Commerce no.: 224758
VAT no.: 03162730265