DēLonghi Group

Annual report at 31 December 2016

KENWOOD BRAUN Ariete

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Company officers *

Board of Directors

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

Board of Statutory Auditors

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

External Auditors

EY S.P.A. ***

Internal Auditing and Corporate Governance Committee

RENATO CORRADA **
SILVIO SARTORI
STEFANIA PETRUCCIOLI**

Compensation Committee

ALBERTO CLÒ **
CARLO GARAVAGLIA
CRISTINA PAGNI **

* The company officers were elected at the shareholders' meeting of 14 April 2016 for the period 2016-2018.
** Independent directors.
*** The engagement to audit the financial statements for 2010-2018 was approved at the shareholders' meeting of 21 April 2010.

KEY PERFORMANCE INDICATORS

Consolidated results

(€/million)	**2016**	**% revenues**	**2015**	**% revenues**	**Change**	**% Change**
Revenues	1,845.4	100.0%	1,891.1	100.0%	(45.7)	(2.4%)
Constant currency revenues (*)	*1,880.4*	*100.0%*	*1,883.6*	*100.0%*	*(3.2)*	*(0.2%)*
Net industrial margin	905.8	49.1%	904.6	47.8%	1.2	0.1%
EBITDA before non-recurring income/expenses	295.4	16.0%	287.8	15.2%	7.6	2.7%
Constant currency EBITDA before non-recurring income/expenses (*)	*293.4*	*15.6%*	*252.6*	*13.4%*	*40.8*	*16.1%*
EBITDA	292.0	15.8%	285.2	15.1%	6.8	2.4%
EBIT	239.0	13.0%	232.7	12.3%	6.3	2.7%

(*) Figures at constant exchange rates are calculated excluding the effect of exchange rates fluctuations and of the hedging put in place by the Group in the current period and in the comparative period.

Statement of financial position

(€/million)	**31.12.2016**	**31.12.2015**
Net working capital	253.7	250.4
Net operating working capital	328.2	312.1
Net capital employed	706.4	717.0
Net financial assets	307.6	188.9
of which:		
- *Net bank financial position*	*307.5*	*210.1*
- *Other financial receivables (payables)*	*0.1*	*(21.2)*
Net Equity	1,014.0	905.9
Net working capital/Net revenues	13.8%	13.2%
Net operating working capital/Net revenues	17.8%	16.5%

REPORT ON OPERATIONS

Performance review

2016 was characterized by the Group's focus on protecting profitability in order to compensate for the negative exchange/hedging effect, as well as on the intensification of marketing activities to boost growth in new markets and support the launch of new products; the year also stands out for a few difficulties that materialized in a few important markets (namely the MEIA region, Russia, Brazil and Turkey, along with, unexpectedly, the United Kingdom) which were impacted by declining consumption, a negative exchange effect and a few inconsistencies in the business.
The Group, nevertheless, succeeded in maintaining revenues at constant exchange rates basically stable in the year, with growth in the fourth quarter, which allows us to be confident about a positive trend reversal in 2017.

The De'Longhi Group closed 2016 with good results in terms of profitability and cash flow generation. Net revenues amounted to €1,845.4 million, a slight drop against 2015 and basically unchanged at constant exchange rates (- €3.2 million or -0.2%). Revenues were up in the fourth quarter, coming in at €686.3 million (+ Euro 10.0 million or +1.5%) or +3.1% at constant exchange rates.

In 2016 revenues were affected by, in addition to the above mentioned weakness in a few markets and the adverse exchange effect, a few inconsistencies in the business and commercial reorganizations carried out in the year; more in detail, the drop in sales volumes is explained by a few specific commercial dynamics, including the reorganization of distribution in Turkey and Scandinavia, the inconsistencies with respect to the prior year (when the new *Lattissima Touch* and the new line of *Multifry* fryers were launched), as well as the disposal of businesses which did not meet the Group's standards for profitability.
In terms of markets, revenues rose in the APA region and in South West Europe, but were down in North East Europe, due mainly to the negative exchange effect, as well as in the MEIA region as a result of a persistently difficult political and financial environment in a few markets.
More in detail, in South West Europe revenues were basically in line with 2015 thanks to the good performance of sales in Germany and the Iberian Peninsula, notwithstanding the impact of the commercial reorganization in Turkey and the challenging comparison with 2015 when the new Nespresso *Lattissima Touch* model was launched.
In North East Europe overall sales were down slightly as a result of the drop recorded in the United Kingdom and in Russia, including as a result of the exchange effect, despite the positive performance posted in Poland and the Czech Republic.
Revenues increased in the APA region, due primarily to the positive results achieved in the United States in comfort and coffee, as well as the successful launch of the Braun brand products; a positive performance was also recorded in Greater China and South Korea, but offset by the decrease in revenues posted in Brazil as a result of the difficulties encountered in this market and the unfavorable weather conditions that impacted the air conditioning segment.
The drop in revenue recorded in the MEIA region is explained, above all, by the negative performances of a few countries as a result of market, political and financial difficulties, as well as the high level of inventory held by a few distributors.

The breakdown of revenues by product line shows good growth for coffee machines, linked mainly to the positive performance of fully automatic, internally manufactured *Dolcegusto* and traditional (manual and filter) machines, which offset the drop in the sale of Nespresso products compared to the exceptionally high sale volumes recorded in 2015 when *Lattissima Touch* was launched. Food preparation and cooking machines were impacted by weak performances in a few key markets and the comparison with 2015 during which the new range of *Multifry* fryers was launched; no new *Lattissima* line products were launched in 2016.
Revenues for comfort were positive thanks to the contribution of heating and the good performance of portable air conditioners, despite the drop in the sale of dehumidifiers due to strong price pressure in a few markets.
Revenues for home cleaning products and irons dropped due to the difficult conditions encountered in a few key markets.

The Braun brand, acquired from Procter & Gamble in 2012, posted good results, albeit lower than expectations, as a result of the above mentioned difficulties encountered in a few key markets in 2016.

Significant growth was reported in the APA region thanks, above all, to the successful launch of the Braun brand in the United State and Canada. The main product families were boosted by the introduction of new models; two new handblenders, the *MultiQuick 9* and the *MultiQuick 3* were, in fact, launched along with the *CareStyle 7* and *CareStyle 3* ironing systems.

As for margins, a positive performance was recorded for both the industrial margin and EBITDA. The net industrial margin amounted to €905.8 million in the year and rose as a percentage of revenues (49.1% in 2016 versus 47.8% in 2015), despite the negative exchange/hedging and volume effect, thanks to price increases, a better mix, as well as cost savings linked also to the optimization of a few production flows.

EBITDA before non-recurring costs came to €295.4 million in 2016 or 16.0% of revenues, an increase compared to the €287.8 million or 15.2% of revenues recorded in 2015 despite the particularly adverse exchange/hedging effect (2015 benefitted from a positive hedging effect of €35.2 million).

The increase in EBITDA before non-recurring costs, both in absolute terms and as a percentage of revenues, is linked to the good performance of the industrial margin and the effective management of non-industrial operating costs which dropped by a total of €6.5 million despite the noticeable increase (+€10.4 million) in advertising costs incurred to support the launch of the Braun brand in the United States and other Group brands.

EBIT amounted to €239.0 million 2016 or 13.0% of revenues (€232.7 million or 12.3% of revenues in 2015), after amortization and depreciation of €53.0 million, largely in line with 2015.

Financial expenses fell by €6.0 million in 2016 from the €33.6 million recorded in 2015 to €27.6 million thanks, above all, to lower currency management costs linked to the decreased currency exposure of a few foreign subsidiaries, the improved net financial position with banks and more efficient securitization of receivables following the renewal of the program completed in 2015.

Financial income from the fair value measurement of financial payables reflects the change in the fair value of the earn-out payable as a result of the Braun Household acquisition.

Profit pertaining to the Group amounted to €167.4 million in 2016 (€149.5 million in 2015), after tax of €59.2 million (€49.3 million in 2015).

The net financial position came to a positive €307.6 million in 2016 (versus €188.9 million at year-end 2015), €307.5 million of which relating to the net position with banks.
The change in the net position with banks over the last twelve months came to €97.5 million, after the payment of €65.8 million in dividends, thanks to the cash flow generated by operations in 2016 of €187.9 million (versus €123.1 million in 2015).

Significant events

In terms of organizational development 2016 was, undoubtedly, an important year for the Group. Following a careful analysis of the organization which, unchanged in the last ten years, delivered extraordinary results with continuous growth, and after an in depth assessment of the top management, with the assistance of international consultants, a new organizational structure for the Group was defined, beginning with the direct reports to the Group CEO. The purpose of the new model is to prepare the Group for future challenges in order to grow and expand. It is motivated by the desire to: create consistent and simplified reporting lines to the Group CEO; simplify the chain of command in order to foster a much quicker and more efficient decision making process; have a flexible organizational structure capable of balancing the short and long term visions; strengthen the development of new products and innovation, both core processes for the Group; create brand synergies.

The new organization took effect and is operative as from 1 September 2016 for the direct reports to the Group CEO. Subsequently, other reorganizations will become necessary in order to finalize the changes already announced relating to the first-level executives.

In 2016 the commercial network was also reorganized with called for the business model in Turkey to be changed, along with the operations in Brazil and South Africa.
In Turkey the transformation of the branch's organizational model (from a commercial structure to a company which supports the local distributor) was completed, ensuring the recovery of margins.
In Brazil, in light of the decline in business and in order to recover margins, reorganization with drastic downsizing of the local structure was carried out and a new Business Plan was prepared which is being monitored constantly.
Internal reorganization was carried out in South Africa and the business model was changed in order to face market difficulties and recover margins in an environment where consumption, particularly of imports, is declining due to the devaluation of the Rand.

In 2016 the European production facilities were also reorganized while the Supply Chain and the Asian production platforms were basically unchanged.

More in detail, the European production facilities were impacted by the creation of a single coordinator for the Italian and Romanian facilities in order, primarily, to define specific production goals and take better advantage of possible synergies. As part of this reorganization, the production specific to the Romanian facility was further developed which caused a rise in the volumes produced. Production of fully automatic coffee machines continued, basically unchanged, at the Italian plant which was impacted by a drop in the sale of *Nespresso Lattissima* single-serve machines.
At the same time, the External Supply Organization of Braun in Germany was changed resulting in the reallocation and integration of businesses within the Group's existing structures.

The production platforms in Asia were focused primarily on running at capacity and optimization of the important investments made in prior years; more in detail, work was done on improving internal and external logistics (involving both materials and finished products) and operating efficiency, made possible also thanks to the new warehouse completed at the main Chinese plant in 2015.

During the year steps were taken not only to improve production, but also quality control, with a decided strengthening of the team involved, along with internal and external initiatives. Specific steps were taken to intervene upstream rather than downstream, some of which were carried out directly in the plants of the main suppliers in order to improve the entire manufacturing value chain and, specifically, the product components.

As for the Supply Chain, in 2016 the "*Swim Lanes*" (Assembly to Order for the automatic coffee machines) project gained ground with the involvement of growing geographies and improvement in the service provided in line with expectations.

In 2016 another important project was begun which will become largely operational in 2017; a distribution hub for Northern Europe is going to be created which will call for the gradual concentration of merchandise leaving the warehouses of single country branches in a single centralized warehouse which will make it possible to better

allocate product, avoid the volatility of the single markets and, consequently, improve the level of service, while also guaranteeing cost synergies.

The Braun brand, acquired from Procter & Gamble in 2012, posted good results, albeit lower than expectations, as a result of the above mentioned difficulties encountered in a few key markets in 2016.
Significant growth was reported in the APA region thanks, above all, to the successful launch of the Braun brand in the United State and Canada. The main product families were boosted by the introduction of new models; two new handblenders, the *MultiQuick 9* and the *MultiQuick 3* were, in fact, launched along with the *CareStyle 7* and *CareStyle 3* ironing systems.

In September the Group signed an agreement to take over the manufacturing business of a strategic supplier of electronic components experiencing financial difficulties and involved in bankruptcy proceedings; as a result of this agreement the Group has a 36-month business lease and, subsequently, may purchase the company. By way of this agreement, the Group gained operating control of a strategic supplier of electronic components which paves the way for future benefits in terms of production.
The business, which is carried out through a manufacturing facility and R&D division with 261 employees and now part of the new company NPE S.r.l. (included in the scope of consolidation beginning in the 4th quarter), was supported by Group corporate divisions which made it possible to substitute the prior management.

During the year the stock-based incentive plan "Stock option plan 2016-2022" reserved for the Chief Executive Officer of the parent company De'Longhi S.p.A. and a limited number of top managers and key resources was approved with a view to maintaining the loyalty of the beneficiaries by recognizing the contribution that they make to increasing the value of the Group. The plan calls for the free assignment of up to a maximum number of 2,000,000 options on the same number of ordinary shares of De'Longhi S.p.A. with a nominal value of €1.50 each, for a total maximum capital increase of €3,000,000. At the date of this Annual Report a total of 1,830,000 options had been assigned.

Global market conditions

Global growth gradually gained momentum in the second half of 2016 but failed to translate, as expected, into a solid recovery in world trade.
The conditions of the global economy improved slightly. Uncertainty on several fronts, however, continues to hang over the future; the prospects in the United States will depend on the economic policies put into place by the new administration and have yet to be defined in detail. In Europe uncertainty about the negotiations which will define the new trade relations between the European Union and the United Kingdom remains high. The normalization of the US monetary policy and the changes in foreign exchange rates could trigger turbulence in the emerging markets.

In 2016 growth in the advanced economies exceeded expectations; economic activity moved at a sustained pace in the United States with an acceleration in domestic product, a robust expansion in consumption, despite sluggish investment. In Japan GDP slowed as a result of persistently weak consumption and investment. In the United Kingdom growth exceeded expectations despite concerns about a sudden slowdown following the Brexit referendum; uncertainty remains, however, about the medium-term economic repercussions of the exit from the European Union. In China growth was stable in the second half of the year, as well.
In the Euro zone GDP growth continued at a moderate pace, showing signs of gradual stabilization thanks to the boost coming from internal demand. Uncertainty about the direction of the world economy, in part influenced by geopolitical tensions, is the biggest risk factor for trade.
Inflation rose slightly in the advanced economies.
(Source: Bank of Italy/ECB).

Group results

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

(€/million)	2016	% revenues	2015	% revenues
Revenues	**1,845.4**	**100.0%**	**1,891.1**	**100.0%**
Change 2016/2015	*(45.7)*	*(2.4%)*		
Materials consumed & other production costs (production services and payroll costs)	(939.6)	(50.9%)	(986.5)	(52.2%)
Net industrial margin	**905.8**	**49.1%**	**904.6**	**47.8%**
Costs for services and other expenses	(439.5)	(23.8%)	(454.1)	(24.0%)
Payroll (non-production)	(170.9)	(9.3%)	(162.7)	(8.6%)
EBITDA before non-recurring income/expenses	**295.4**	**16.0%**	**287.8**	**15.2%**
Change 2016/2015	*7.6*	*2.7%*		
Other non-recurring income (expenses)	(3.5)	(0.2%)	(2.6)	(0.1%)
EBITDA	**292.0**	**15.8%**	**285.2**	**15.1%**
Amortization	(53.0)	(2.9%)	(52.5)	(2.8%)
EBIT	**239.0**	**13.0%**	**232.7**	**12.3%**
Change 2016/2015	*6.3*	*2.7%*		
Financial income (expenses)	(27.6)	(1.5%)	(33.6)	(1.8%)
Financial income from the fair value measurement of financial payables	15.9	0.9%	-	-
Profit (loss) before taxes	**227.4**	**12.3%**	**199.1**	**10.5%**
Income taxes	(59.2)	(3.2%)	(49.3)	(2.6%)
Profit (loss) after taxes	**168.2**	**9.1%**	**149.8**	**7.9%**
Profit (loss) pertaining to minority interests	0.8	0.0%	0.3	0.0%
Profit (loss) pertaining to the Group	**167.4**	**9.1%**	**149.5**	**7.9%**

The net industrial margin reported in the reclassified income statement differs by €142.0 million in 2016 (€157.9 million in 2015) from the consolidated income statement; this is because, in order to represent period performance better, production-related payroll and service costs have been reclassified from payroll and services respectively.

Revenues

Revenues amounted to €1,845.4 million in 2016, basically in line with the prior year despite the weak performance of a few key markets (the MEIA region, Russia, Turkey and the United Kingdom), the negative exchange effect of a few currencies, the disposal of unprofitable businesses and a few non-recurring commercial events.
In the fourth quarter while, at €686.3 million, sales were basically in line with the comparison period (+3.1% at constant exchange rates), there was a positive inversion in the trend, thanks also to the €8.3 million contribution made by NPE S.r.l. following inclusion in the scope of consolidation.

Operating segment disclosures

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

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

Markets

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

(€/million)	**2016**	**% revenues**	**2015**	**% revenues**	**Change**	**Change %**
North East Europe	459.8	24.9%	479.6	25.4%	(19.8)	(4.1%)
South West Europe	804.5	43.6%	802.9	42.5%	1.5	0.2%
EUROPE	**1,264.2**	**68.5%**	**1,282.5**	**67.8%**	**(18.3)**	**(1.4%)**
MEIA (Middle East/India/Africa)	**140.8**	**7.6%**	**179.9**	**9.5%**	**(39.1)**	**(21.8%)**
United States and Canada	137.7	7.5%	123.5	6.5%	14.2	11.5%
Australia and New Zealand	105.7	5.7%	105.1	5.6%	0.6	0.6%
Japan	72.2	3.9%	59.9	3.2%	12.3	20.5%
Other countries area APA	124.7	6.8%	140.2	7.4%	(15.5)	(11.0%)
APA (Asia/Pacific/Americas)	**440.4**	**23.9%**	**428.7**	**22.7%**	**11.7**	**2.7%**
Total revenues	**1,845.4**	**100.0%**	**1,891.1**	**100.0%**	**(45.7)**	**(2.4%)**

As for the markets, growth was recorded in the APA region and in South West Europe, while declines were recorded in North East Europe, due mainly to the negative exchange effect, and in the MEIA region as a result of both the slowdown in consumption and the high level of inventory held by a few distributors.

More in detail, in South West Europe revenues were basically in line with 2015 thanks to the good performance of sales in Germany, driven by coffee machines and the positive performance of portable air conditioners, and the Iberian Peninsula, thanks to the good trend in coffee machines and Braun brand products; the strength of these markets offset the drop in sales reported in Turkey, linked to the change made to the distribution model in order to increase profitability, and the challenging comparison with 2015 when the new Nespresso Lattissima Touch model was launched.
Sales were basically stable in Italy despite the lack of the promotions launched in 2015 thanks mainly to the good sales performance of single-serve coffee machines and the positive impact of the expanded scope of consolidation.

In North East Europe revenues amounted to €459.8 million; the decrease against the prior year (-4.1%) is due mainly to the adverse exchange effect of a few of the region's important currencies (namely the British Pound and the Ruble). At constant exchange rates sales were basically unchanged.
In a few countries the Group was able to offset the adverse exchange effect through price adjustments.
Sales in the United Kingdom were influenced by the general downturn of the market, above all in the food preparation segment, offset, however, by growth in De'Longhi brand fully automatic coffee machines.
A positive contribution came from Poland and the Czech Republic/Hungary where the small appliances market is showing no signs of slowing down and the Group's operations are successful.

Sales in Russia were impacted by the negative exchange effect and the temporary interruption of a commercial relationship with one client in order to protect margins which was reinstated in 2017.
Sales in Scandinavia were down due to a lackluster food preparation market and the adoption of a new distribution model.

In the MEIA region, the persistently difficult economic and political situation in the main markets and the high level of inventories held by a few important distributors caused 2016 sales to fall by 21.8% against 2015 to €140.8 million; in Saudi Arabia, the region's largest market, the new economic and fiscal policies caused consumption to slow. Sales in Egypt were influenced heavily by strong restrictions on imports introduced during the year and the devaluation of the local currency which basically blocked this market.
Sales in South Africa were impacted by a decided devaluation of the Rand which caused consumption, particularly of imported goods, to drop.

In the APA (Asia/Pacific/Americas) region revenues amounted to €440.4 million in 2016, an increase of 2.7% against 2015 (+6.2% at constant exchange rates). Good results were recorded in the United States and Canada where growth was driven by the sale of fully automatic coffee machines, the good performance of Comfort and the successful launch of Braun brand products in the second half of the year which were very well received by consumers.
Of note also is the increase in sales reported in Japan thanks to the good performance of both heating, in what was a cold winter, and Braun brand handblenders.
In China and Hong Kong, the Group used the De' Longhi brand to strengthen its presence in the coffee market; sales, including online, of Braun brand products were also good.
Good growth was recorded in South Korea thanks to a rise in the sale of coffee and Braun brand products.
In Australia, in a stable, highly competitive market, the Group posted good results in the fully automatic segment and an acceleration in the sale of Braun brand products, with increased market shares.

With regard to revenues by business line, growth was driven by coffee machines; double digit growth was recorded in the sale of fully automatic machines which more than offset the weak performance of single-serve machines. Manual and internally produced *DolceGusto* machines also performed well.
Sales for food preparation products fell due mainly to the above mentioned economic and foreign exchange issues encountered in few markets (MEIA, the United Kingdom, Russia and Turkey); net of these markets, sales for food preparation and cooking machines were in line with 2015.
Handblenders did well, but failed to offset the drop in the sale of other food preparation products (specifically, the Kenwood brand kitchen and food processor machines).
The performance of Comfort was also positive: the increase in the sale of heaters and portable air conditioners more than offset the drop, after several years of growth, of dehumidifiers and air treatment machines which were impacted by a generalized drop in the market and strong price pressure in a few regions.
Sales for home cleaning products and irons dropped slightly due to the difficult conditions encountered in a few key markets and the transition of the De'Longhi to the Braun brand irons.

The Braun brand, acquired from Procter & Gamble in 2012, posted good results, albeit lower than expectations, as a result of the above mentioned difficulties encountered in a few key markets in 2016.
Significant growth was reported in the APA region thanks, above all, to the successful launch of the Braun brand in the United State and Canada. The main product families were boosted by the introduction of new models; two new handblenders, the *MultiQuick 9* and the *MultiQuick 3* were, in fact, launched along with the *CareStyle 7* and *CareStyle 3* ironing systems.

Sales for the Kenwood brand were down compared to the prior year due to a slowdown in the market for the main categories: kitchen machines, food processors and handblenders; that said Kenwood continues to be global leader in the food preparation segment and to invest in the development of products with a view to renewing its product range and entering new segments.

Profitability

As for margins, a positive performance was recorded for both the industrial margin and EBITDA. The net industrial margin amounted to €905.8 million in the year and rose as a percentage of revenues (49.1% in 2016 versus 47.8% in 2015), despite the negative exchange/hedging and volume effect, thanks to price increases, a better mix, as well as cost savings linked also to the optimization of a few production flows.

EBITDA before non-recurring costs amounted to €295.4 million (€287.8 million in 2015), rising slightly against 2015 as a percentage of revenues from 15.2% to 16.0%.
The trend in EBITDA before non-recurring costs (+€7.6 million or +2.7%) reflects the exchange effect and the difficult comparison with the prior year which benefitted from the Group's currency hedges; at constant exchange rates and net of the hedging effect, the increase in EBITDA reaches 16.1% (+ €40.8 million).

The increase in EBITDA before non-recurring costs, both in absolute terms and as a percentage of revenues, is linked to the good performance of the industrial margin and the effective management of non-industrial operating costs which dropped by a total of €6.5 million despite the noticeable increase (+€10.4 million) in advertising costs incurred to support the launch in the second half of 2016 of the Braun brand in the United States and other Group brands.

Non-recurring costs of €3.5 million were recorded in 2016 relating to the reorganization of a few foreign branches (mainly in Brazil, Turkey and Germany).
Net of these non-recurring costs, EBITDA came to €292.0 million (€285.2 million in 2015).

Amortization and depreciation (€53.0 million) were basically in line with the prior year (€52.5 million).

EBIT increased by €6.3 million in 2016 to €239.0 million (rising also as a percentage of revenues from 12.3% to 13.0%).

Financial expenses came to €27.6 million in 2016 (€33.6 million in 2015), a decrease of €6.0 million due to lower factoring costs, the improved net financial position and a drop in currency management costs.
In 2016 financial income of €15.9 million linked to change in the fair value of the earn-out payable as a result of the Braun Household acquisition was recorded separately.

Profit pertaining to the Group amounted to €167.4 million, an increase of €17.9 million with respect to 2015.

Review of the statement of financial position

The reclassified consolidated statement of financial position is presented below:

(€/million)	31.12.2016	31.12.2015	Change
- Intangible assets	327.8	322.5	5.3
- Property, plant and equipment	196.5	199.1	(2.6)
- Financial assets	8.0	8.4	(0.3)
- Deferred tax assets	38.4	39.8	(1.4)
Non-current assets	**570.7**	**569.7**	**1.0**
- Inventories	320.8	323.4	(2.6)
- Trade receivables	372.8	372.1	0.7
- Trade payables	(365.3)	(383.3)	18.0
- Other payables (net of receivables)	(74.5)	(61.7)	(12.8)
Net working capital	**253.7**	**250.4**	**3.3**
Total non-current liabilities and provisions	**(118.0)**	**(103.2)**	**(14.9)**
Net capital employed	**706.4**	**717.0**	**(10.6)**
Net debt/(Net financial assets) (*)	**(307.6)**	**(188.9)**	**(118.8)**
Total net equity	**1,014.0**	**905.9**	**108.2**
Total net debt and equity	**706.4**	**717.0**	**(10.6)**

(*) The net financial position as at 31 December 2016 includes €0.1 million in net financial assets (€21.2 million at 31 December 2015 in net financial liabilities) relating to the fair value of derivatives and the financial debt connected to business combinations and pension fund.

Capital expenditures amounted to €55.1 million in 2016 (€53.3 million in 2015) and relate, above all, to investments in the Group's production facilities in Italy, China and Romania.

Net working capital amounted to €253.7 million at 31 December 2016, basically unchanged in absolute terms, but rising as a percentage of rolling revenues from the 13.2% recorded in 2015 to 13.8% in 2016 due mainly to the negative exchange effect and the change in the scope of consolidation (NPE S.r.l. was included during the last quarter of the year which contributed to the rise in working capital); net of these items, the increase in operating working capital was basically in line with fourth quarter sales.

The change in trade receivables is explained by, in addition to the accelerated sales recorded in the fourth quarter, the negative exchange effect.

The rise in inventory reflects the change in the scope of consolidation (the NPE acquisition) and the negative exchange effect recorded by a few commercial branches; net of these items, the turnover ratio was higher.

The net financial position came to a positive €307.6 million at 31 December 2016 (versus €188.9 million at 31 December 2015), of which €307.5 million relating to the net position with banks (€210.1 million at 31 December 2015).

Details of the net financial position are as follows:

(€/million)	31.12.2016	31.12.2015	Change
Cash and cash equivalents	461.4	357.9	103.5
Other financial receivables	25.7	15.9	9.8
Current financial debt	(108.3)	(71.5)	(36.8)
Net current financial position	**378.8**	**302.3**	**76.5**
Non-current financial debt	**(71.2)**	**(113.5)**	**42.3**
Total net financial position/(net debt)	**307.6**	**188.9**	**118.8**
Of which:			
- *Position with banks and other financial payables*	*307.5*	*210.1*	*97.5*
- *Financial assets/(liabilities) other than bank debt (fair value of derivaties, financial debt connected to business combinations and pension fund)*	*0.1*	*(21.2)*	*21.3*

Net cash flow amounted to a positive €118.8 million, of which €21.3 million relating to specific financial items including the fair value measurement of derivatives and the amounts payable as a result of business combinations. Net of these items, the net position with banks improved by €97.5 million thanks to the strong operating cash flow generation, and despite the payment of €65.8 million in dividends and the overall adverse foreign exchange effect.

As for structure, the net current financial position amounted to €378.8 million at 31 December 2016 (€302.3 million at 31 December 2015).
No new medium/long-term loans were taken out in 2016.

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

(€/million)	2016	2015
Cash flow by current operations	286.3	243.3
Cash flow by changes in working capital	(43.2)	(67.1)
Cash flow by investment activities	(55.1)	(53.3)
Cash flow by operating activities	**187.9**	**123.1**
Dividends paid	(65.8)	(61.3)
Cash flow by changes in cash flow hedge reserves	4.2	(7.7)
Cash flow by other changes in net equity	(7.5)	45.8
Cash flow absorbed by changes in net equity	**(69.1)**	**(23.2)**
Cash flow for the period	**118.8**	**99.9**
Opening net financial position	188.9	89.0
Closing net financial position	**307.6**	**188.9**

Total cash flow for the period reached a positive €118.8 million in 2016 (higher than the positive €99.9 million posted in 2015).
This result reflects an improvement in operating cash flow which was positive for €187.9 million in 2016 (versus €123.1 million in 2015). Cash flows in 2016 were, however, affected by changes in net equity which amounted to €69.1 million in 2016 (versus €23.2 million in 2015) explained for €65.8 million by the payment of dividends and for €2.7 million by the negative impact of exchange differences on the net financial position (versus a positive €30.2 million in 2015).

Research and development

The Group continued to invest in research and development in 2016. Total costs incurred (operating figures) reached approximately €48.7 million (approximately €47.0 million in 2015), €11.1 million of which capitalized as intangible assets.

More in detail, during the year extensive work was done on many fronts to develop food preparation products. The Group continued the activities focused on expanding the existing offer, while also working on the development of products with a view to completely renewing the product range, entering new segments or providing top-of-the-line models for each respective segment.

The R&D activities relative to coffee machines also continued. The new model of the fully automatic PrimaDonna Elite *Experience* machine which has a new touch screen, Bluetooth connection and a dedicated application testifies to the Group's continuous development of high end models. At the same time, new versions of the fully automatic Dinamica line were developed and low voltage lines and versions were completed for specific markets.

The homecare line was expanded with the development of new Braun brand irons (Series 5), as well as ironing systems (Series 3).

As for Comfort, the focus was on new interpretations of products in light of the growing demand for integrated solutions; "connected" devices were developed based on IoT systems for heating and air conditioning (for the US market, for example); an integrated heating system available with Apple's Homekit technology was launched and very well received in Japan.

With regard to the Group's technical organization, in 2016 more work was done on the plan to strengthen the Group's local R&D platforms, begun two years ago, resulting in investments in human resources, as well as equipment, in China and, more recently, Romania in order to support both Corporate product R&D and more effective local production.

Communication activities

In 2016 communication activities supporting the three main brands continued on various fronts.

With regard to the De'Longhi brand, during the year the European launch of Primadonna Elite's new top-of-the-line fully automatic machine was completed, supported by a large in store presence and a personalized digital communication campaign.
Downloads of the *Coffee Link* application reached 16,000 which shows that consumers are interested in and appreciate the products for which a digital connection is available. Toward this end, in the latter part of the year important updates of the current application were released in order to ensure compatibility with the coffee machines that will be launched in the near future.
The fully automatic *Dinamica* machine was launched in the second part of the year in order to strengthen the market presence of the De'Longhi brand; the launch was supported by a vast range of communication materials.
Generalized support of the main product family, coffee machines, continued in the year through traditional media campaigns and the web.
The Group worked to continuously improve the YouTube "*How to*" channel in terms of graphics, perception, structure and Search Engine Optimization (SEO) in order to show a larger number of consumers how to use and maintain products.
Demonstrations continued in stores with a view to enhancing the perception of the De'Longhi brand as the leader of the coffee machine segment.
As for the other product families, new important products were launched like *MultiOven* and *MultiGrill*, for which both online and offline communication campaigns were used on various fronts.

The use of the virtual reality application for the *Breakfast* and *Avvolta* collections gained momentum and is now available in seven markets.

In 2016 the Group wanted to give a new image to the Kenwood brand as the leader in food preparation. The investments made in communications were directed based on an analysis of the habits and behavior of cooking enthusiasts. The activities were focused on the launch of the new *Kenwood Chef*, the relaunch of the *Kmix* line, entry in the high-end with the Blend X Pro and the recent entry in the emerging food processor segment with *KCook Multi*.
Digital channels continued to be part of the communication activities and were enhanced with new content.

With regard to the Braun brand, during the year two new steam generator irons were launched, *CareStyle 3* and *CareStyle 7*, in order to strengthen the presence in this segment introduced in 2015. The launches were supported by dedicated promotional material. With a view to giving the brand visibility in the irons segment, in the fourth quarter the "*The real ironman*" campaign was successfully launched in Europe.
The model *MQ9* handblender was released and supported by an advertising campaign successfully launched in Europe during the Christmas season. The Group also promoted several local initiatives in order to increase the penetration of this segment in the countries where the use of handblenders is still not common. Toward this end, in Japan a TV campaign and promotional offers in stores were launched in the second half of the year.
The launch of the Braun brand in the United States and Canada, supported by an important advertising campaign, was significant.

One of the main objectives of the digital strategy in 2016 was the restructuring of existing websites in a new digital environment designed to enhance the consumers' brand experience while, at the same time, improving navigation and the support provided to local markets. The system is structured based on the idea of integrated navigation.
The work on Search Engine Optimization (SEO) continued and resulted in a significant increase in the number of consumers visiting the Group's websites.
At the same time, the eCommerce platform was expanded which allowed consumers to purchase finished products, exclusive models and discontinued items.
A tool was also created which makes it possible to channel content directly onto the distributors' websites in order to provide the consumer with accurate information about the product.

Human resources

The De'Longhi Group had 7,286 employees at 31 December 2016 (6,436 at 31 December 2015).

Here follows a detail of the average workforce in 2016 and in 2015:

	2016	%	2015	%	Change
Blue collar	4,149	57.9%	3,799	56.7%	350
White collar	2,913	40.7%	2,802	41.8%	111
Senior managers	101	1.4%	97	1.5%	4
Total	**7,163**	**100.0%**	**6,698**	**100.0%**	**465**

	2016	%	2015	%	Change
Household	7,065	98.6%	6,600	98.5%	465
Corporate	98	1.4%	98	1.5%	-
Total	**7,163**	**100.0%**	**6,698**	**100.0%**	**465**

The Group had an average of 7,163 employees in 2016, an increase of 465 employees attributable primarily to the strengthening of the production at the Romanian plant and the inclusion of NPE S.r.l. in the scope of consolidation (as described above).

During the year implementation of an operating system for human resources was begun on an international level: a master system for the management of human resources which is key to all the other existing corporate systems. By unifying the management of human resources on an international level, this project represents an important opportunity to create a Group identity. Looking ahead, the Group expects that this important project will not only greatly benefit Human Resources but, above all, will support business development, all the stakeholders, along with the actual end users (the employees) who will be able to access and use the system, based on different profiles, to manage the company’s most important human resource procedures.

In 2016 management was very involved in the analysis of the results of the Employee Engagement Survey carried out by the company in October 2015. The results were shared with the management at headquarters, branches, production facilities who, in turn, communicated the content to all of their subordinates.
The results were disclosed, therefore, in a widespread manner and great attention was paid to defining the steps that needed to be taken to improve the most critical areas. Each country acted independently in deciding which measures to implement and when based on the specifics of each local area.
The Group maintained its responsibility for the implementation of three global projects.
The first is linked to “organizational clarity” which emerged as an area in need of improvement with respect to *“Leadership”*: a group of senior managers defined a new Group identity by establishing a new vision, mission and values during a workshop that took place in September 2016. The results will be disclosed to all employees as part of a specific communication campaign that will be carried out in 2017.
The second global project is “*My Manager*” for which a professional development program for all the Group managers was created which aims to improve the skills needed to manage human resources. A pilot class was held in December 2016 and will be rolled out throughout 2017 in Italy, and in other countries, in full respect for local cultures and languages.
The focus of the third project or “*Giving Something Back*” is on providing all the countries with Group guidelines designed to strengthen existing, implement new and improve the visibility of the charitable initiatives and volunteer work done in the single countries in order to increase awareness within the Group and share best practices.

With a view to strengthening the relationship between De’Longhi and the academic world in September 2016 two new important partnerships were entered into with Bocconi University and Politecnico in Milan, two world renowned Italian universities.
The goal is to foster familiarity with the Group domestically by activating new channels for recruitment, attracting more applicants (both junior and specialized) and creating a qualified network of professors who can support the development of internal and specialized know-how.

The partnerships with Ca' Foscari University in Venice and the University of Padua, already operative for several years, were also renewed.

In 2016 the first international edition of the induction event "*Welcome on Board*" was also held. For the first time this initiative, which normally only new hires in Italy took part in, was extended also to colleagues of branches who participated in the induction to marketing held in Italy. Around ninety new hires were able to view the presentations of division heads, as well as interact with and get to know others through team building activities in the kitchen. As an experiment, thirty colleagues from different branches also participated in the event online. This new formula of "*Welcome on Board*" made it possible to reinforce the sense of belonging, engagement and the understanding of what it means to be part of a unique international Group.

Investments were also made in 2016 in management training, with specific courses focused on leadership and how to be assertive, as well as on specialized topics like patents which provided the basic knowledge needed to develop patent research strategies more effectively, as well as different initiatives relating to the use of technical software for product design.

Report on corporate governance and ownership structure

In compliance with applicable laws and regulations, as well as the Italian Stock Market Regulations, information is herewith provided about the corporate governance system, also with reference to the principles of the Corporate Governance Code for Listed Companies (July 2014 edition), and about ownership structure, in compliance with the legislator's requirements as set out in art. 123-*bis* of Legislative Decree n. 58/98 ("TUF").

The De'Longhi Group has adopted and complies with the Corporate Governance Code for Listed Companies, published in July 2014.
In compliance with applicable laws and regulations, as well as the Italian Stock Market Regulations, the Group prepares an annual Report on Corporate Governance and Ownership Structure, which not only provides a general description of the system of corporate governance adopted, but also the information on ownership structure, required by art. 123-*bis* of TUF.
This report, to which this section now refers, has been prepared in accordance with the "*Format for the report on corporate governance and ownership structure"* published by the stock market management company in January 2015, and will be made available to the public at the same time as the Report on Operations and the full year financial statements. The report is also available at www.delonghigroup.com, in the section " *Investor relations > Governance > Annual Shareholders Meeting > 2017"*.

The key points relevant for the purposes of the Report on Operations are summarized below.

Direction and Co-ordination
De'Longhi S.p.A. is not subject to the direction and co-ordination of its parent De'Longhi Industrial S.A., or of any other party, as defined by articles 2497 *et seq*. of the Italian Civil Code, and directs and co-ordinates its subsidiaries.
In compliance with the principles of corporate governance, transactions of particular importance strategically, or for the statement of financial position and results of the De'Longhi Group, must be examined and approved solely by the Board of Directors of the issuer De'Longhi S.p.A., which contains five directors qualifying as non-executive and independent, based on the guidelines found in article 3 of the Corporate Governance Code, adopted by the Company as resolved by the Board of Directors on 23 April 2013 (please refer to paragraph 4.6 of the 2016 Report on Corporate Governance and Ownership Structure) and articles 147 *ter*, 4th paragraph, and 148, 3rd paragraph, of TUF.

Board of Directors
The Board of Directors currently in office was appointed during the Annual General Meeting held on 14 April 2016 by shareholders who set the total number of directors at eleven. This Board will end its term in office at the shareholders' meeting called to approve the annual report at 31 December 2018.
In compliance with art. 147-*ter* of Italy's Consolidated Finance Act ("TUF"), De'Longhi S.p.A.'s Articles of Association establish that the Board of Directors is elected using a list voting mechanism, with one director elected from the list obtaining the second highest number of votes (the other members all being taken from the majority list). During the meeting held on 18 December 2012, the Board of Directors resolved to amend articles 9 and 14 of the Articles of Association, relating to the appointment and composition of boards and control bodies in order to comply with the new provisions of articles 147-*ter*, paragraph 1-*ter* and 148, paragraph 1-*bis* of TUF – as amended by Law n. 120/2011 "implementing provisions concerning gender equality in the composition of administrative and control bodies of companies listed on regulated markets" and the current version of article 144-*undiecies* of the Regulations for Issuers. Shareholders who own an interest at least equal to that determined by CONSOB pursuant to law and regulations are entitled to present lists of candidates for the office of director.

In order to ensure that the Company's governance complies with the changes introduced in the December 2011 version of the Code, on 18 December 2012 the Board of Directors approved a new framework resolution reiterating its adhesion to the Corporate Governance Code (with a few exceptions which will be detailed later in this Report, explaining the reasons for the exceptions and the other information required by the Corporate Governance Code), applying the new recommendations and confirming the resolutions relating to corporate governance approved in the past. The same framework resolution was subsequently amended in order to comply with subsequent editions of the Corporate Governance Code: most recently, on 10 November 2016, the Board of Directors, in office as of April 2016, approved the changes made to the Corporate Governance Code in July 2015, thus changing the framework resolution adopted on 18 December 2012 and amended on 19 February 2015. Pursuant to Article 1.C.1., lett. g) of the Corporate Governance Code, during the meeting on 2 March 2017 the Board of Directors resolved to begin a board review or self-assessment process in order to evaluate, among other things, the functioning, size and composition of the Board. The methods used and findings are discussed in the detail in the 2016 Report on Corporate Governance and Ownership Structure.

In 2016 the Board of Directors also:
- updated the list of the De'Longhi Group's "strategically important subsidiaries", identifying them as De'Longhi Capital Services S.r.l. and De'Longhi Appliances S.r.l., De'Longhi-Kenwood Appliances (Dongguan) Co. Ltd, Kenwood Ltd, De'Longhi Deutschland GmbH, De'Longhi Australia PTY Ltd., De'Longhi LLC, De' Longhi America Inc., De' Longhi Kenwood MEIA FZE, De'Longhi Japan Corporation, De'Longhi Romania Srl and De'Longhi Kenwood A.P.A. Ltd;
- resolved, pursuant to art. 3 of Consob Resolution n. 18079 dated 20 January 2012, to exercise effective 18 December 2012 the opt-out clause found in articles 70, paragraphs 8 and 71, paragraph 1-bis of Consob Regulation n. 11971/99 which grants the option to waive the mandatory publication of information documents relating to mergers, spin-offs, capital increases through in-kind transfers, acquisitions and disposals.

The Board of Directors periodically reviews whether its members qualify as executive/non-executive and independent/non-independent in compliance with the principles established by articles 2 and 3 of the Corporate Governance Code, and adopted by the Company in a framework resolution approved by the Board of Directors on 18 December 2012.

The Board has two executive directors - the Chairman and the Chief Executive Officer - and nine non-executive directors, who have no authority or managerial functions in the company or the Group, and five of whom satisfy the independence requirements established under art. 148, par. 3 of TUF and art. 3 of the Corporate Governance Code, and adopted by the Company in the above mentioned Board of Directors' resolution of 18 December 2012.
Lastly, during the meeting held on 2 March 2017, the Board confirmed that the directors Alberto Clò, Renato Corrada, Stefania Petruccioli, Cristina Pagni e Luisa Maria Virginia Collina still qualify as independent as per the above.
Some of the current directors hold appointments in other listed or relevant companies. The most significant appointments are listed in the 2016 Report on Corporate Governance and Ownership Structure.

The Board of Directors has decided to adopt the recommendation relating to the appointment of a lead independent director with the functions suggested in the Corporate Governance Code.

Committees set up by the Board of Directors

During the meeting held on 14 April 2016, the Board of Directors voted to confirm the establishment of two Board committees, namely:
- the Risk and Control and Corporate Governance Committee;
- the Compensation and Nominations Committee.

During the same meeting, the Board also decided to set up a committee solely comprising independent directors.

The Risk and Control and Corporate Governance Committee met six times in 2016. These meetings were also attended by the Board of Statutory Auditors, while the committee also extended invitations to the Head of Internal Audit, the Chief Financial Officer/Financial Reporting Officer, and the Group's Head of Corporate Affairs, who also acted as secretary.
The Compensation and Nominations Committee held four meetings during 2016, all of which were attended by all its members; the Chairman also extended an invitation to the Group's Head of Human Resources, who also attended all the meetings.

Details of the powers and operation of these committees can be found in the 2016 Report on Corporate Governance and Ownership Structure and in the annual Remuneration Report prepared in accordance with art. 123-*ter* of TUF and art. 84-*quater* of the Issuer Regulations.

Board of Statutory Auditors

Following the resolutions adopted by the shareholders' meeting of 14 April 2016, the Board of Statutory Auditors comprises Cesare Conti, its chairman, and Gianluca Ponzellini and Paola Mignani, both standing members. Their term in office expires with the approval of the annual report and financial statements at 31 December 2018.
Art. 14 of the articles of association is designed to ensure that the Chairman of the Board of Statutory Auditors is appointed by the minority, by taking him/her from the list obtaining the second highest number of votes.

External Auditors

EY S.p.A. has been engaged to audit the financial statements of De'Longhi S.p.A. and its subsidiaries, in accordance with the resolution adopted during the ordinary shareholders' meeting held on 21 April 2010. The assignment will expire with the approval of the annual report and financial statements for the year ended 31 December 2018.

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

Introduction

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

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

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

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

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

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

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

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

This project called for the development and monitoring of a structured ERM model in order to effectively manage the main risks to which the Issuer and the Group are exposed. The project was completed at the end of 2013 and

the results were shared with the Director in Charge of Internal Control and Risk Management, the Risk and Control and Corporate Governance Committee and the Board of Statutory Auditors.
It was possible, therefore, to map the main business risks based on the Group's value chain, identify inherent and residual risk with particular emphasis on what are potentially the biggest risks and proposing solutions; in 2016 follow-up on the monitoring and management of the risks continued through meetings with the the Risk and Control Committee, the Board of Statutory Auditors and Director in Charge of Internal Control and Risk Management.

The risk plan also calls for guidelines to be established for the control and risk management system using a top down approach, as well as the identification of the duties and responsibilities of the various individuals involved in the different levels of control:
(i) the recognition and identification by operations of the main risks and subsequent treatment;
(ii) control by the risk control department of the risks and definition of the instruments and methods to be used to managed the risks.

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

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

With reference to the requirements of art. 36 of the Market Regulations, it is reported as follows:
- in the issuer's opinion, these companies have suitable accounting and reporting systems for regularly providing management and the auditors of De'Longhi S.p.A. with all the financial information needed to prepare the consolidated financial statements and perform the audit of the accounts;
- these companies provide the auditors of De'Longhi S.p.A. with the information needed to audit the parent company's interim and annual financial statements;
- the issuer keeps the articles of association of the aforementioned companies and details of their company officers and related powers, which are constantly updated for any changes in the same;

- the financial statements of such companies, prepared for the purposes of the De'Longhi Group's consolidated financial statements, have been made available in the manner and terms established by existing law. Please note that the identification and analysis of the risk factors contained in this report were carried out including in light of the change in strategic companies as resolved by the Board of Directors.

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 (completed in December 2013 with following follow-up) and the assessments carried out in prior years including through more in depth analysis shared with the Risk and Control Committee and De'Longhi S.p.A.'s Board of Statutory Auditors.

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

1 - Risks relating to macroeconomic trends: the De'Longhi Group's economic performance and financial position are also affected by macroeconomic trends such as: trends in consumption, interest and exchange rates, as well as the cost of raw materials.

The economic environment already described in this report and the difficulties in preventing economic cycles, the prices of raw materials and energy, the crises in a few markets linked to ongoing conflicts, along with the other factors listed in this section, could have a significant impact on the Group's results and financial position.

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

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

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

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; that said, the concentration does not yet appear to be meaningful with respect to the Group's overall sales and the strength of the Group's brands, as well as the ability to propose a compelling commercial offering, which is proving to be very important.
If the Group were unable to adapt effectively to the external context, this could have an adverse impact on the Group's business prospects, as well as on its economic performance and/or financial position.

4 - Risks involved in relation to supply agreements and strategic alliances: the Group also operates through agreements with strategic partners that foresee the development, production and marketing of products, particularly coffee makers sold in international markets.
Consequently, the Group's failure to maintain or renew these agreements could impact economic results and the financial position.

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

6 - Risks relating to patents and trademarks. Given the importance of developing products that are innovative in both technology and design (see point 5 above), the Group pursues a policy of protecting its research and development by registering patents for inventions, utility models and designs in the various markets concerned; similar protection must be assured for the Group's trademarks.
The Group's legal offices are responsible for the legal protection of industrial property rights (patents for inventions, utility models, designs and models as well as trademarks) and constantly monitor and control the situation around the world, using the services of specialist consultants in the various countries concerned.
Such actions cannot absolutely guarantee that the Group's products will not be imitated and furthermore, certain jurisdictions (such as China and the United Arab Emirates) do not protect property rights to the same extent as European law.
The Group's policy is nonetheless based on incurring the necessary costs to ensure that its property rights have the greatest possible global protection in the various markets where it operates.
Moreover, there is no guarantee that protection of the industrial property rights still in the registration process (and, in particular, patents for inventions and utility models) will be actually granted as filed, since the extent of protection may be reduced - even significantly – not only as a result of technical examination by the competent office but also as a result of opposition to the registration and licensing of the rights that might be presented by third parties.
Lastly, although the Group does not believe that its products infringe third-party property rights, it is not possible to exclude that third parties might successfully claim that such infringements exist, including through legal proceedings.

7 - Exchange rate fluctuation risks: The Group does business in many foreign markets and is exposed to the risk of fluctuations in currencies.
For the purposes of protecting its income statement and statement of financial position from such fluctuations, the Group adopts a suitable hedging policy and tools, free from speculative connotations.
Hedging is carried out centrally by a special team on the basis of information obtained from a detailed reporting system, using instruments and policies that comply with international accounting standards. Hedging activities are defined when the yearly budget is approved (or when the three-year plan is approved). The purpose of hedging is to protect - at individual company level - the future revenues/costs contained in budgets and/or long-term plans and trade and financial receivables/payables.
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, as well as the bond loan issued by the parent company De'Longhi S.p.A. in 2012, 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.).
Despite such hedging transactions, sudden currency fluctuations could have an adverse impact on the Group's results and business prospects.

8 – Risks relating to manufacturing, commodity prices and supplier relationships: The Group's production costs are affected by the price of its principal raw materials, namely steel, plastic and copper.

Production is carried out at facilities in Italy, Romania and China and, therefore, balanced across three different geographic regions which reduces the risk that operations will be interrupted.
The Group's production costs are influenced by the prices of the most important raw materials like steel, plastic and copper.
Most of the purchases are made in China; the related risks are associated with production by Chinese subsidiaries that serve as suppliers to the Group, by the network of third-party suppliers and by suppliers of parts to the Group's manufacturing subsidiaries (see point 2 for the strategic risks of manufacturing in China).
The Group manages these risks through:
(a) a permanent evaluation system for the various suppliers, used for decision-making purposes and to identify the reliability of each recurrent supplier in terms of quality and price of the products supplied;
(b) assessment of the risk of fluctuation by the Chinese currency against the US dollar, the Group's reference currency which is protected by the Group's hedging policies;
(c) review of the financial status of suppliers and hence of the allocation of appropriate production volumes to each supplier;
(d) evaluation of the services provided by suppliers in terms of logistics and timeliness of deliveries and of the consequent decisions adopted each time;
(e) inspections, prior to product shipment by suppliers, intended to prevent any defects in the quality of products acquired.
(f) periodic assessment of the buy/make strategies for the Group's main products taking into account any global market conditions that could result in the need to change the strategy.
In addition, with reference to steel, one of its principal raw materials, the Group has dealt for a long time with the same suppliers, selected for their reliability; up until now, these suppliers have always guaranteed the results of production expected. Lastly, the Group defends its reputation with suppliers in their dealings with employees. Such caution is duly reflected in contractual dealings and furthermore, every supplier is given a copy of the De'Longhi Ethical Code governing all its activities.
Nevertheless, it is conceivable that a breach of contract by one or more suppliers to Group companies could have adverse effects on the Group's operations, economic performance, assets and liabilities and financial position.
The price of these raw materials and parts can fluctuate significantly, depending on several factors, including the cyclical nature of the markets concerned, supply conditions and other factors beyond the Group's control and difficult to predict. The trend in the price of these raw materials and parts is constantly monitored in order to take necessary action to keep the Group competitive.
At the date of the present report, the Group does not have any contracts to hedge the risk of fluctuations in commodity prices. There is also a possible risk linked to the dependence on one supplier for a few types of components of strategic production; in order to address this risk the Group has begun searching for secondary suppliers and to define an alternative strategy for purchasing/production.

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

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

The salary review process also includes reward systems for employees at various levels in the organization - from the plant worker through to top management and key people - which are linked to the achievement of short-term and/or medium/long term targets.
As far as plant personnel is concerned, the Group operates in China and Italy and, beginning in 2013, in Romania, as well. A majority of the personnel is employed in China following the restructuring of the manufacturing activities begun in 2004 (previously the production plants were based in Europe, mainly in Italy). Having a production facility in Eastern Europe beginning in 2013 has made it possible to diversify the Group's industrial platform, so as to partly restore the balance in production between the dominant China and Europe. The current arrangement involves certain risks associated with high staff turnover within the Chinese manufacturing workforce, combined with higher payroll costs following the Chinese government's decision to significantly raise minimum wages. These risks are managed through the development of incentive systems to foster staff retention (production bonuses and retention bonuses spread over time for workers, wage increases linked to length of service, and incentive schemes for management), investment in training and developing more qualified internal resources, improvements in living and working conditions within the various factories (canteens, recreational and leisure activities, internet access).

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.
Another risk is the efficient management of the supply chain that could affect the adequacy of customer service.
The Group currently has a logistics centre that ensures careful and timely planning and management of every stage of the supply chain.
As for the standard of customer service, the Group's procedures require that each customer's individual needs are taken into account.
If the Group is unable to predict and/or respond to issues that could give rise to these risks, there could be adverse consequences for the Group's business, economic performance, assets and liabilities and financial position.

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

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

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

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

These products, which represent approximately 12% of the total revenues (11% in 2015), 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 management of financial debt and cash, 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 Group has a 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 2016 the Group's net financial position is positive and financial debt is mainly medium-long term.

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.

In 2012, in order to have complete financial coverage of the Braun "Household" acquisition and to have enough financing in place should the credit markets worsen, the Group issued and placed a long term, fixed rate, unsecured bond in US dollars with US institutional investors worth USD 85 million which, due to the effect of a currency and interest rate hedge contract, is denominated in Euro at a fixed rate.

At the date of this report, the Group only has the above mentioned contract to hedge such risks.

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 2016, 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 31.12.2016	Profit for 2016	Net equity 31.12.2015	Profit for 2015
De'Longhi S.p.A. financial statements	**393,877**	**125,767**	**334,829**	**67,357**
Share of subsidiaries' equity and results for period attributable to the Group, after deducting carrying value of the investments	639,681	46,858	586,453	87,838
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	22,454	(2,420)	24,878	(2,337)
Elimination of intercompany profits	(39,763)	(2,575)	(37,552)	(3,616)
Other adjustments	(2,202)	565	(2,752)	557
Consolidated financial statements	**1,014,047**	**168,195**	**905,856**	**149,799**
Minority interests	3,420	784	2,973	266
Group portion	**1,010,627**	**167,411**	**902,883**	**149,533**

Tax consolidation

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

Related party transactions

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

Alternative performance indicators

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

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

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

Subsequent events

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

Outlook

The global market for Small Domestic Appliances continues to offer multiple opportunities for growth and to reward premium brands and innovative products able to improve the everyday life at home.
The Group's brand portfolio, global leaders in their respective segments, is confirmed as ideally positioned to benefit from such opportunities, although in a market environment which does not lack areas of volatility that limit consumption growth.
The Group intends to fully take advantage of such opportunities by further increasing its investments in research and development, media and production capacity.
Also in light of the signs provided by the sales trend in the first weeks of the year, the Group confirms for 2017 the target of growing revenues in organic terms at rates in the mid-single digit area.
Regarding profitability, for 2017, we foresee an improvement in Ebitda in absolute terms, not necessarily in terms of percentage of revenues, in a context of expected neutrality of foreign exchange rates and taking into account the mentioned investments.
Given the expected growth and profitability, and the consequent strong operating cash flow generation, the Group will be able to continue to actively look for growth opportunities by external lines.

Treviso, 2 march 2017

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

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CONSOLIDATED INCOME STATEMENT

(€/000)	Notes	2016	of which non-recurring	2015	of which non-recurring
Revenues from sales and services	1	1,821,583		1,866,750	
Other revenues	1	23,785		24,348	
Total consolidated revenues		***1,845,368***		***1,891,098***	
Raw and ancillary materials, consumables and goods	2	(785,676)		(829,148)	
Change in inventories of finished products and work in progress	3	(19,125)		(1,296)	
Change in inventories of raw and ancillary materials, consumables and goods	3	7,243		1,875	
Materials consumed		***(797,558)***		***(828,569)***	
Payroll costs	4-7	(240,940)	(2,959)	(228,707)	
Services and other operating expenses	5-7	(499,972)	(376)	(522,151)	
Provisions	6-7	(14,923)	(131)	(26,508)	(2,644)
Amortization	8	(52,953)		(52,490)	
EBIT		**239,022**	**(3,466)**	**232,673**	**(2,644)**
Financial income (expenses)	9	(27,553)		(33,551)	
Financial income from the fair value measurement of financial payables	10	15,947		-	
PROFIT (LOSS) BEFORE TAXES		**227,416**		**199,122**	
Income taxes	11	(59,221)		(49,323)	
CONSOLIDATED PROFIT (LOSS) AFTER TAXES		**168,195**		**149,799**	
Profit (loss) pertaining to minority interests	28	784		266	
PROFIT (LOSS) PERTAINING TO THE GROUP		**167,411**		**149,533**	
EARNINGS PER SHARE (in Euro)	27				
- basic		**€ 1.12**		**€ 1.00**	
- diluted		**€ 1.12**		**€ 1.00**	

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)	2016	2015
Consolidated profit (loss)	168,195	149,799
- Change in fair value of cash flow hedges and financial assets available for sale	3,787	(8,005)
- Tax effect on change in fair value of cash flow hedges and financial assets available for sale	62	936
- Differences from translating foreign companies' financial statements into Euro	3,146	38,340
Total other comprehensive income will subsequently reclassified to profit (loss) for the year	*6,995*	*31,271*
- Actuarial valuation funds	(1,751)	374
- Tax effect on actuarial valuation funds	459	(229)
Total other comprehensive income will not subsequently reclassified to profit (loss) for the year	*(1,292)*	*145*
Other components of comprehensive income	**5,703**	**31,416**
Total comprehensive income	**173,898**	**181,215**
Total comprehensive income attributables to:		
Owners of the parent	173,158	180,941
Minority interests	740	274

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS (€/000)	Notes	31.12.2016	31.12.2015
NON-CURRENT ASSETS			
INTANGIBLE ASSETS		327,792	322,498
- Goodwill	12	97,080	92,400
- Other intangible assets	13	230,712	230,098
PROPERTY, PLANT AND EQUIPMENT		195,095	197,983
- Land, property, plant and machinery	14	110,723	113,513
- Other tangible assets	15	84,372	84,470
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		12,720	13,135
- Equity investments	16	4,739	5,454
- Receivables	17	3,283	2,901
- Other non-current financial assets	18	4,698	4,780
DEFERRED TAX ASSETS	19	38,379	39,772
TOTAL NON-CURRENT ASSETS		573,986	573,388
CURRENT ASSETS			
INVENTORIES	20	320,786	323,420
TRADE RECEIVABLES	21	372,777	372,072
CURRENT TAX ASSETS	22	9,787	10,024
OTHER RECEIVABLES	23	32,328	32,544
CURRENT FINANCIAL RECEIVABLES AND ASSETS	24	25,676	15,912
CASH AND CASH EQUIVALENTS	25	461,430	357,910
TOTAL CURRENT ASSETS		1,222,784	1,111,882
NON-CURRENT ASSETS HELD FOR SALE	26	1,389	1,107
TOTAL ASSETS		**1,798,159**	**1,686,377**

NET EQUITY AND LIABILITIES (€/000)		31.12.2016	31.12.2015
NET EQUITY			
GROUP PORTION OF NET EQUITY		1,010,627	902,883
- Share capital	27	224,250	224,250
- Reserves	28	618,966	529,100
- Profit (loss) pertaining to the Group		167,411	149,533
MINORITY INTERESTS	28	3,420	2,973
TOTAL NET EQUITY		1,014,047	905,856
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES		75,883	118,248
- Bank loans and borrowings (long-term portion)	29	-	-
- Other financial payables (long-term portion)	30	75,883	118,248
DEFERRED TAX LIABILITIES	19	27,576	22,443
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		90,439	80,709
- Employee benefits	31	42,707	30,443
- Other provisions	32	47,732	50,266
TOTAL NON-CURRENT LIABILITIES		193,898	221,400
CURRENT LIABILITIES			
TRADE PAYABLES	33	365,315	383,346
FINANCIAL PAYABLES		108,279	71,498
- Bank loans and borrowings (short-term portion)	29	29,376	27,273
- Other financial payables (short-term portion)	30	78,903	44,225
CURRENT TAX LIABILITIES	34	29,528	10,955
OTHER PAYABLES	35	87,092	93,322
TOTAL CURRENT LIABILITIES		590,214	559,121
TOTAL NET EQUITY AND LIABILITIES		**1,798,159**	**1,686,377**

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

CONSOLIDATED STATEMENT OF CASH FLOW

	Notes	**2016**	**2015**
Profit (loss) pertaining to the Group		167,411	149,533
Income taxes for the period		59,221	49,323
Amortization		52,953	52,490
Net change in provisions and other non-cash items		6,685	(8,004)
Cash flow generated by current operations (A)		**286,270**	**243,342**
Change in assets and liabilities for the period:			
Trade receivables		(7,611)	(22,608)
Inventories		11,884	(1,646)
Trade payables		(9,950)	4,983
Other changes in net working capital		(5,157)	4,497
Payment of income taxes		(32,388)	(52,234)
Cash flow absorbed by movements in working capital (B)		**(43,222)**	**(67,008)**
Cash flow generated by current operations and movements in working capital (A+B)		**243,048**	**176,334**
Investment activities:			
Investments in intangible assets		(13,416)	(10,670)
Other cash flows for intangible assets		12	98
Investments in property, plant and equipment		(41,953)	(43,702)
Other cash flows for property, plant and equipment		2,070	1,266
Net investments in equity investments and other financial assets		182	(247)
Change in the scope of consolidation		(2,038)	-
Cash flow absorbed by ordinary investment activities (C)		**(55,143)**	**(53,255)**
Dividends paid		(65,780)	(61,295)
Change in currency translation reserve on cash and cash equivalents		(2,772)	30,384
Increase in minority interests		447	63
New loans		-	1,618
Payment of interests on loans		(3,228)	(3,337)
Repayment of loans and other net changes in sources of finance		(13,052)	(121,132)
Cash flow absorbed by changes in net equity and by financing activities (D)		**(84,385)**	**(153,699)**
Cash flow for the period (A+B+C+D)		**103,520**	**(30,620)**
Opening cash and cash equivalents	*25*	**357,910**	**388,530**
Increase (decrease) in cash and cash equivalents (A+B+C+D)		103,520	(30,620)
Closing cash and cash equivalents	*25*	**461,430**	**357,910**

The Statement of Cash Flows at 31.12.2015 was restated in order to show net working capital net of the effect of the translation of intercompany balances expressed in currencies other than the Euro included in the cash flows generated by changes in net equity.

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

CONSOLIDATED STATEMENT OF CHANGES IN NET EQUITY

(€/000)	SHARE CAPITAL	SHARE PREMIUM RESERVE	LEGAL RESERVE	EXTRAORDINARY RESERVE	FAIR VALUE AND CASH FLOW HEDGE RESERVES	STOCK OPTION RESERVE	CURRENCY TRANSLATION RESERVE	PROFIT (LOSS) CARRIED FORWARD	PROFIT (LOSS) PERTAINING TO GROUP	GROUP PORTION OF NET EQUITY	MINORITY INTERESTS	TOTAL NET EQUITY
Balance at 31 December 2014	**224,250**	**162**	**12,225**	**19,421**	**11,862**	**-**	**7,312**	**381,473**	**126,532**	**783,237**	**2,910**	**786,147**
Allocation of 2014 result as per AGM resolution of 14 April 2015												
- distribution of dividends								(61,295)		(61,295)		(61,295)
- allocation to reserves			3,348	2,312				120,872	(126,532)	-		-
Other changes in minority interests										-	(211)	(211)
Movements from transactions with shareholders	**-**	**-**	**3,348**	**2,312**	**-**	**-**	**-**	**59,577**	**(126,532)**	**(61,295)**	**(211)**	**(61,506)**
Profit (loss) after taxes									149,533	149,533	266	149,799
Other components of comprehensive income					(7,069)		38,340	137	-	31,408	8	31,416
Comprehensive income (loss)	**-**	**-**	**-**	**-**	**(7,069)**	**-**	**38,340**	**137**	**149,533**	**180,941**	**274**	**181,215**
Balance at 31 December 2015	**224,250**	**162**	**15,573**	**21,733**	**4,793**	**-**	**45,652**	**441,187**	**149,533**	**902,883**	**2,973**	**905,856**

(€/000)	SHARE CAPITAL	SHARE PREMIUM RESERVE	LEGAL RESERVE	EXTRAORDINARY RESERVE	FAIR VALUE AND CASH FLOW HEDGE RESERVES	STOCK OPTION RESERVE	CURRENCY TRANSLATION RESERVE	PROFIT (LOSS) CARRIED FORWARD	PROFIT (LOSS) PERTAINING TO GROUP	GROUP PORTION OF NET EQUITY	MINORITY INTERESTS	TOTAL NET EQUITY
Balance at 31 December 2015	**224,250**	**162**	**15,573**	**21,733**	**4,793**	**-**	**45,652**	**441,187**	**149,533**	**902,883**	**2,973**	**905,856**
Allocation of 2015 result as per AGM resolution of 14 April 2016												
- distribution of dividends				(1,791)				(63,989)		(65,780)		(65,780)
- allocation to reserves			3,368					146,165	(149,533)	-		-
Fair value Stock Option						366				366		366
Other changes in minority interests										-	(293)	(293)
Movements from transactions with shareholders	**-**	**-**	**3,368**	**(1,791)**	**-**	**366**	**-**	**82,176**	**(149,533)**	**(65,414)**	**(293)**	**(65,707)**
Profit (loss) after taxes									167,411	167,411	784	168,195
Other components of comprehensive income					3,849		3,146	(1,248)		5,747	(44)	5,703
Comprehensive income (loss)	**-**	**-**	**-**	**-**	**3,849**	**-**	**3,146**	**(1,248)**	**167,411**	**173,158**	**740**	**173,898**
Balance at 31 December 2016	**224,250**	**162**	**18,941**	**19,942**	**8,642**	**366**	**48,798**	**522,115**	**167,411**	**1,010,627**	**3,420**	**1,014,047**

EXPLANATORY NOTES

GROUP BUSINESS

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

ACCOUNTING STANDARDS

The De'Longhi Group's consolidated financial statements at 31 December 2016 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 2016), 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 2016 are the same as those used for preparing the consolidated financial statements at 31 December 2015, except for certain new amendments and accounting standards described below.

The consolidated financial statements at 31 December 2016 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 2 March 2017. The financial statements used for consolidation purposes are the separate ones for the year ended 31 December 2016 prepared by the Boards of Directors of the individual companies, as adjusted if necessary for the Group's accounting policies and measurement bases.

The financial statements have been prepared on the historical cost basis, adjusted as required for the valuation of certain financial instruments, and under the assumption of going concern. The Group has verified that there are no material uncertainties that might cast significant doubt upon its ability to continue as a going concern, as defined in par. 25 of IAS 1.
The risks and uncertainties relating to the business are described in a specific section of the Report on operations. The methods used by the Group to manage financial risks are described in note *39. Risk management* of the present Explanatory notes.

Translation of balances in foreign currencies

The following exchange rates have been used:

Currency		31.12.2016		31.12.2015		% 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	1.0541	1.1069	1.0887	1.10951	(3.2%)	(0.2%)
British pound	GBP	0.85618	0.81948	0.73395	0.72585	16.7%	12.9%
Hong Kong dollar	HKD	8.1751	8.59219	8.4376	8.60141	(3.1%)	(0.1%)
Chinese renminbi (Yuan)	CNY	7.3202	7.35222	7.0608	6.97333	3.7%	5.4%
Australian dollar	AUD	1.4596	1.48828	1.4897	1.47766	(2.0%)	0.7%
Canadian dollar	CAD	1.4188	1.46588	1.5116	1.41856	(6.1%)	3.3%
Japanese yen	JPY	123.4	120.19665	131.07	134.314	(5.9%)	(10.5%)
Malaysian ringgit	MYR	4.7287	4.58355	4.6959	4.33733	0.7%	5.7%
New Zealand dollar	NZD	1.5158	1.58862	1.5923	1.59305	(4.8%)	(0.3%)
Polish zloty	PLN	4.4103	4.36321	4.2639	4.18412	3.4%	4.3%
South African rand	ZAR	14.457	16.26448	16.953	14.1723	(14.7%)	14.8%
Singapore dollar	SGD	1.5234	1.52754	1.5417	1.52549	(1.2%)	0.1%
Russian rouble	RUB	64.3	74.14457	80.6736	68.072	(20.3%)	8.9%
Turkish lira	TRY	3.70720	3.34325	3.1765	3.02546	16.7%	10.5%
Czech koruna	CZK	27.021	27.03429	27.023	27.2792	0.0%	(0.9%)
Swiss franc	CHF	1.07390	1.09016	1.0835	1.06786	(0.9%)	2.1%
Brazilian real	BRL	3.4305	3.85614	4.3117	3.70044	(20.4%)	4.2%
Croatian kuna	HRK	7.5597	7.53329	7.638	7.6137	(1.0%)	(1.1%)
Ukrainian hryvnia	UAH	28.7386	28.28491	26.1587	24.2814	9.9%	16.5%
Romanian leu	RON	4.539	4.49043	4.524	4.44541	0.3%	1.0%
South Korean won	KRW	1,269.36	1,284.18113	1,280.78	1,256.54	(0.9%)	2.2%
Chilean Peso	CLP	704.945	748.47666	772.713	726.406	(8.8%)	3.0%
Swedish krona	SEK	9.5525	9.4689	9.1895	9.35346	4.0%	1.2%
Mexican Peso	MXN	21.7719	20.66731	18.9145	17.6157	15.1%	17.3%

(*) Source: Bank of Italy

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

This financial report complies with the amendments and new accounting standards which became mandatory beginning 1 January 2016 as established by the European Commission in the regulations published in the Official Gazette.

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

On 23 November 2015 the EC Regulation 2015/2113 was published in the Official Gazette which adopts the amendments to IAS 16 *Property, plant and equipment* and IAS 41 *Agriculture* relative to including bearer plants within the scope of IAS 16.

On 24 November 2015 EC Regulation 2015/2173 was published which introduces a few changes to IFRS 11 *Joint arrangements* relating to the acquisition of interests in joint arrangements; more in detail, the Regulation establishes that when an entity acquires an interest in a joint operation considered a business pursuant to and in accordance with IFRS, the interest held should be accounted for using the standards outlined in IFRS 3 *Business combinations.*

On 2 December 2015 the EC Regulation 2015/2231 was published in the Official Gazette which adopts some of the amendments made to IAS 16 *Property, plant and equipment* and IAS 38 *Intangible assets* relating, in particular, to amortization and depreciation. The Regulation clarifies that it is not appropriate to calculate

amortization and depreciation for both property, plant and equipment and intangible assets based on the revenue generated by the asset.

In Regulation 2015/2343 of 15 December 2015 the European Commission adopted the changes introduced by IASB in the *Annual Improvements to International Financial Reporting Standards 2012-2014 Cycle*, ("the annual improvements"), as part of its regular improvement process which aims at streamlining and clarifying the international standards. Clarification was provided relative to terms found in IFRS 5 *Non-current assets held for sale,* IFRS 7 *Financial instruments*, IAS 19 *Employee benefits* and IAS 34 *Interim financial reporting.*

On 18 December 2015 Regulation 2015/2406 and Regulation 2015/2441 were published in the Official Gazette. The first introduces a few changes to IAS 1 *Presentation of financial statements* which seek to improve the efficacy of the information provided; the second adopts a few amendments made to IAS 27 *Separate financial statements* which will allow an entity to use the equity method, described in IAS 28 *Investments in associates and joint ventures*, to account for investments in subsidiaries, joint ventures and associates in their respective financial statements.

Regulation 2016/1703 of 22 September 2016 amended IFRS 10 *Consolidated Financial Statements,* IFRS 12 *Disclosure of interests in other entities* and IAS 28 *Investments in associates and joint ventures*, in order to clarify the accounting of investment entities and provide for exemptions in certain situations.

International financial reporting standards and/or interpretations endorsed by the European Union in 2016 but not yet applicable

The Commission Regulation (EU) n. 2016/1905 of 22 September 2016 adopts IFRS 15 *Revenue from Contracts with Customers*.
The new standard contains a 5–point guide relating to the treatment of all customer contracts with the exception of contracts relating to leasing, insurance, financial instruments and non-monetary exchanges.
The five points relate to: identifying the contract, identifying performance obligations, determining the transaction price, allocating the transaction price to performance obligations, recognition of revenue.
The standard establishes that the revenue must be recognized when the obligation is performed, namely when the promised good (or service) is transferred to the customer.
The consideration in the contract with the customer may include fixed, variable or both amounts. In the case of variable components, the consideration must be estimated correctly based on reasonably available information (historical, current and forecasts).
The amounts owed for royalties are an exception as they may be recognized only after the underlying sale or usage has been completed.
The standard provides specific indications with respect to the allocation of the transaction price between the performance obligations, amendment of the transaction price and the definition of incremental contract costs.
The operating guide, which constitutes an integral part of the standard, provides great detail about various topics including sales with the right of return, consignment agreements, and deferred delivery sale agreements.

With Regulation 2016/2067 of 22 November 2016 the European Commission adopted IFRS 9 – *Financial Instruments* which introduces new requirements for the classification and measurement of financial assets previously reported based on IAS 39.
The new standard divides all financial assets into two classifications, namely those measured at amortized cost and those measured at fair value.
Financial assets that satisfy two conditions are measured at amortized cost: the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
All other financial assets must be measured at fair value through profit or loss.

The changes introduced in the above mentioned regulations will be applicable beginning on or after 1 January 2018.

The Company did not apply any new standards, interpretations or amendments endorsed, but not yet applicable, in advance; application of these revised standards is not, however, expected to have a material impact on the Group's income statement or net equity.

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

International Standard Board (IASB) published the new standard IFRS 16 *Leases* which has yet to be endorsed by the European Union which is applicable beginning on or after 1 January 2019.
The new standard eliminates the distinction between financial and operating leases for lessors and establishes a single category.
As for the lessee, the standard does not introduce significant changes, leaving the distinction between the two categories and the relative accounting treatment unchanged.
A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use.
Based on IFRS 16, the lessor recognizes a right-of-use asset, treated similarly to other goods and amortized, and an interest-bearing liability for leasing.
The liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease, if that can be readily determined, or at the borrowing rate.
Leases with a term of less than twelve months without purchase options and leases when the underlying asset has a low value may be recognized as an expense over the term of the lease or based on another systematic basis.

While this new principle was not adopted in advance, the Group has begun to assess the possible impact of its application. At the date of this annual report, the effects have yet to be quantified.

CONSOLIDATION PROCEDURES

The scope of consolidation includes the parent company, De'Longhi S.p.A., and its subsidiaries at 31 December 2016, meaning those companies in which the parent directly or indirectly owns the majority of share capital or shares with voting rights, or over which the parent has the power, including through contractual agreements, to govern their financial and operating policies.

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

Associated companies
These are companies in which the Group has a significant influence over their financial and operating policies and which are neither subsidiaries nor joint ventures. The consolidated financial statements show the Group's

portion of results of the associated companies, accounted for using the equity method, starting from the date when the significant influence began.

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

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

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

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

CHANGE IN THE SCOPE OF CONSOLIDATION – BUSINESS COMBINATIONS

On 22 September 2016, the Group signed a 36-month business lease agreement effective 23 September 2016 with Procond Elettronica S.r.l., based in Longarone (BL), which also provides for an irrevocable and conditional offer for the acquisition of said company.
By way of this agreement, the Group gained operating control of a strategic supplier of electronic components which paves the way for future benefits in terms of technological development and the cost of components. In accordance with the agreement the newly formed company NPE S.r.l., which signed the above mentioned contract, was included in the scope of consolidation effective 23 September 2016.

The purchase price allocation resulted in the recognition of goodwill of €4,680 thousand broken down as follows:

Total transaction value	2,038
(Fair value of assets and liabilities acquired)	(2,642)
Goodwill	4,680

The assets and liabilities measured in accordance with IFRS at the acquisition date are summarized below:

	Book value	**Value recognized under IFRS**
Property, plant and equipment and intangibile assets	1,673	1,673
Inventories	5,918	5,918
Total assets	**7,591**	**7,591**
Trade payables	(5,918)	(5,918)
Other current liabilities	(1,433)	(1,433)
Non current liabilities	(2,529)	(2,882)
Total liabilities	**(9,880)**	**(10,233)**
Net liabilities	**(2,289)**	**(2,642)**
Share acquired by the Group		**100%**

DISCLOSURE BY OPERATING SEGMENTS

Note *42. Operating segments* contains the required disclosures.
The report on operations contains comments on the economic results by geographical area.

PRINCIPAL ACCOUNTING POLICIES

Intangible assets

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

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

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

Research costs are also expensed to income 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	7 – 18 years
Industrial and commercial equipment	3 – 5 years
Other	4 – 8 years

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

Impairment of non-financial assets

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

Non-current assets held for sale

Non-current assets are classified as held for sale 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 assets are available for immediate sale in their present condition.
Assets 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

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

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

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

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

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

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

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

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

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

Financial liabilities

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

Derivatives

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

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

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

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

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

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

Factoring of trade receivables

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

Employee benefits

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

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

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

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

Provisions for contingencies and other charges

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

increase in the amount of the provision for the time value of money is accounted for in interest expense. Contingencies for which the probability of a liability is remote are disclosed in the notes but no provision is recognized.

Revenue recognition

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

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

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

Costs and expenses

Costs and expenses are accounted for on an accrual basis.

Dividends

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

Income taxes

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

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

Earnings per share

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

Estimates and assumptions

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

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

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

Recoverable amount of non-current assets
The Group reviews all its non-financial assets at every reporting date for any evidence of impairment.
Goodwill and other intangible assets with an indefinite useful life are tested annually for impairment.
The recoverable amount of non-current assets is usually determined with reference to value in use, being the present value of the future cash flows expected from an asset's continuing use. The test also involves selecting a suitable discount rate for calculating the present value of the expected cash flows.

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

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

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

Product warranty provisions

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

COMMENTS ON THE INCOME STATEMENT

1. REVENUES

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

	2016	% revenues	2015	% revenues	Change	% change
North East Europe	459,757	24.9%	479,556	25.4%	(19,799)	(4.1%)
South West Europe	804,456	43.6%	802,910	42.5%	1,546	0.2%
EUROPE	**1,264,213**	**68.5%**	**1,282,466**	**67.8%**	**(18,253)**	**(1.4%)**
MEIA (Middle East/India/Africa)	**140,763**	**7.6%**	**179,902**	**9.5%**	**(39,139)**	**(21.8%)**
United States and Canada	137,698	7.5%	123,457	6.5%	14,241	11.5%
Australia and New Zealand	105,723	5.7%	105,140	5.6%	583	0.6%
Japan	72,234	3.9%	59,923	3.2%	12,311	20.5%
Other countries area APA	124,737	6.8%	140,210	7.4%	(15,473)	(11.0%)
APA (Asia/Pacific/Americas)	**440,392**	**23.9%**	**428,730**	**22.7%**	**11,662**	**2.7%**
Total revenues	**1,845,368**	**100.0%**	**1,891,098**	**100.0%**	**(45,730)**	**(2.4%)**

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

"Other revenues" is broken down as follows:

	2016	2015	Change
Freight reimbursement	5,769	6,314	(545)
Commercial rights	2,354	3,249	(895)
Damages reimbursed	729	838	(109)
Out-of-period gains	88	444	(356)
Other income	14,845	13,503	1,342
Total	**23,785**	**24,348**	**(563)**

2. RAW AND ANCILLARY MATERIALS, CONSUMABLES AND GOODS

The breakdown is as follows:

	2016	2015	Change
Finished products	364,688	392,850	(28,162)
Parts	346,438	364,184	(17,746)
Raw materials	59,586	58,302	1,284
Other purchases	14,964	13,812	1,152
Total	**785,676**	**829,148**	**(43,472)**

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 company financial statements and to the changes in the scope of consolidation.

4. PAYROLL COSTS

These costs include €67,093 thousand in production-related payroll (€65,987 thousand at 31 December 2015).

	2016	2015	Change
Employee wages and salaries	230,101	217,324	12,777
Temporary workers	10,839	11,383	(544)
Total	**240,940**	**228,707**	**12,233**

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

In 2016 the item included non-recurring expenses of €2,959 thousand incurred for the reorganization of a few foreign subsidiaries and of €366 thousand relating to the notional cost of the stock option plan.

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

	2016	2015
Blue collar	4,149	3,799
White collar	2,913	2,802
Senior managers	101	97
Total	**7,163**	**6,698**

5. SERVICES AND OTHER OPERATING EXPENSES

These are detailed as follows:

	2016	2015	Change
Advertising and promotional expenses	188,689	177,630	11,059
Transport (for purchases and sales)	69,602	77,910	(8,308)
Subcontracted work	41,302	51,374	(10,072)
Rentals and leasing	33,732	34,275	(543)
Travel	18,312	17,799	513
Storage and warehousing	16,231	18,397	(2,166)
Technical support	15,802	16,205	(403)
Consulting services	15,444	15,648	(204)
Commissions	8,449	8,832	(383)
Power	7,757	8,165	(408)
Insurance	5,735	5,941	(206)
Maintenance	4,672	4,722	(50)
Product certification and product inspection fees	4,548	4,891	(343)
Postage, telegraph and telephones	3,700	3,929	(229)
Credit insurance fees	3,116	4,279	(1,163)
Directors' emoluments	2,959	2,983	(24)
Other utilities and cleaning fees, security, waste collection	2,651	2,669	(18)
Statutory auditors' emoluments	310	305	5
Other sundry services	21,684	22,278	(594)
Total services	**464,695**	**478,232**	**(13,537)**
Sundry taxes	30,285	38,198	(7,913)
Out-of-period losses	131	42	89
Bad debts	233	11	222
Other	4,628	5,668	(1,040)
Total other operating expenses	**35,277**	**43,919**	**(8,642)**
Total services and other operating expenses	**499,972**	**522,151**	**(22,179)**

In 2016 the item includes non-recurring expenses of €376 thousand incurred for the reorganization of a few foreign subsidiaries.

6. PROVISIONS

These include €13,860 thousand in provisions for contingencies and other charges; the main changes in this item are discussed in note 32. *Other provisions for non-current contingencies and charges*.

The figure at 31 December 2016 includes non-recurring provisions totaling €131 thousand (€2,644 thousand at 31 December 2015).

This item also includes provisions for doubtful accounts of €1,063 thousand.

7. NON-RECURRING INCOME/(EXPENSES)

The net non-recurring expenses of €3,466 thousand recorded at 31 December 2016 were recognized directly in the relative lines of the income statement (€2,959 thousand in payroll costs, €376 thousand in costs for services and €131 thousand in provisions); the amount reflects the costs incurred for the reorganization of a few foreign subsidiaries.

8. AMORTIZATION

The breakdown is as follows:

	2016	2015	Change
Amortization of intangible assets	12,314	13,608	(1,294)
Depreciation of property, plant and equipment	40,639	38,882	1,757
Total	**52,953**	**52,490**	**463**

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

9. FINANCIAL INCOME (EXPENSES)

Net financial income and expenses are broken down as follows:

	2016	2015	Change
Exchange differences and gains (losses) on currency hedges	**(2,621)**	**(7,388)**	**4,767**
Share of profit of equity investments consolidated by the equity method	**739**	**1,104**	**(365)**
Income from equity investments available for sale	**232**	**5**	**227**
Net interest expense	(5,630)	(6,880)	1,250
Financial discounts	(16,792)	(17,453)	661
Other financial income (expenses)	(3,481)	(2,939)	(542)
Other net financial income (expenses)	**(25,903)**	**(27,272)**	**1,369**
Financial income (expenses)	**(27,553)**	**(33,551)**	**5,998**

“Exchange differences and gains (losses) on currency hedges" include losses arising from exchange losses and fees on derivatives hedging currency risk.

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

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

10. FINANCIAL INCOME FROM THE FAIR VALUE MEASUREMENT OF FINANCIAL PAYABLES

This item includes income from the change in the fair value of the earn-out payable as a result of the Braun Household acquisition recognized as financial payable measured at fair value through profit and loss.

11. INCOME TAXES

These are analyzed as follows:

	2016	2015	Change
Current income taxes:			
- Income taxes	48,758	40,045	8,713
- IRAP (Italian regional business tax)	3,119	2,668	451
Deferred (advanced) taxes	7,344	6,610	734
Total	**59,221**	**49,323**	**9,898**

This item includes the estimated tax credit for research and development pursuant to Law 190/2014 for 2015 and 2016 supported by the relative documentation.

"Deferred income tax liabilities (assets)" 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:

	2016	%	2015	%
Profit before taxes	227,416	100.0%	199,122	100.0%
Theoretical taxes	62,539	27.5%	54,759	27.5%
Other (*)	(6,437)	(2.8%)	(8,104)	(4.1%)
Total income taxes	**56,102**	**24.7%**	**46,655**	**23.4%**
IRAP (Italian regional business tax)	3,119	1.4%	2,668	1.3%
Actual taxes	**59,221**	**26.0%**	**49,323**	**24.8%**

(*) Mostly refers to the net tax effect of permanent differences, of different tax rates applied abroad relative to the theoretical ones applied in Italy and of adjustments on prior years taxes.

COMMENTS ON THE STATEMENT OF FINANCIAL POSITION: ASSETS

NON-CURRENT ASSETS

12. GOODWILL

	31.12.2016		31.12.2015		
	Gross	**Net**	**Gross**	**Net**	**Change**
Goodwill	103,827	97,080	99,147	92,400	4,680

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. The increase in the year reflects the above mentioned change in the scope of consolidation.

The following table shows how goodwill is allocated by CGU (cash generating unit):

Cash-generating unit	**31.12.2016**
De'Longhi	31,124
Kenwood	17,120
Braun	48,836
Total	**97,080**

The objective of the impairment test is to determine the value in use of the CGU to which the goodwill refers, meaning the present value of the future cash flows expected to be derived from continuous use of the assets; any cash flows arising from extraordinary events are therefore ignored.
In particular, value in use is determined by applying the discounted cash flow method to forecast cash flows contained in three-year plans approved by management. These plans have been prepared assuming realistic scenarios based on the information available at the reporting date, also including the budget for 2017, which has already been approved and the forecasts for the subsequent two-year period 2018-2019.

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 2% for all the CGUs.
The cash flows and discount rate were determined net of tax. The discount rate of 6.2%, used for all the CGUs, reflects current market assessments of the time value of money and takes account of the risks specific to the sector.

The impairment tests carried out at the end of 2016 have not revealed any other significant evidence of goodwill impairment.
The results obtained using the discounted cash flow method have been tested for their sensitivity to changes in certain key variables, within reasonable ranges and on the basis of mutually consistent assumptions. The variables altered were the discount rate (between 6.0% and 6.4%) and the growth rate in terminal value (in the range 1.8%-2.2%).
With regard to the CGUs De'Longhi and Kenwood, which represent the Group's traditional business, the impairment tests and sensitivity analyses showed that the estimated recoverable amounts were significantly higher than book value.
The estimated recoverable amount for the CGU Braun was found to be above book value even though the brand was acquired only recently and the potential in terms of earnings has yet to be fully expressed.

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

No events of significance have occurred in the first few months of 2017 such as might indicate any further impairment in the carrying amount of goodwill.
However, estimating CGU recoverable amount requires management to make discretionary judgements and estimates. In fact, several factors also associated with developments in the difficult market context could make it necessary to reassess the value of goodwill. The Group will be constantly monitoring those events and circumstances that might make it necessary to perform new impairment tests.

13. OTHER INTANGIBLE ASSETS

These are analyzed as follows:

	31.12.2016		31.12.2015		
	Gross	**Net**	**Gross**	**Net**	**Change**
New product development costs	80,005	15,719	71,837	12,886	2,833
Patents	36,699	5,085	35,860	5,842	(757)
Trademarks and similar rights	280,919	188,221	280,717	191,788	(3,567)
Work in progress and advances	13,121	12,692	10,770	10,653	2,039
Other	23,343	8,995	21,975	8,929	66
Total	**434,087**	**230,712**	**421,159**	**230,098**	**614**

The following table reports movements in the main asset categories during 2016:

	New product development costs	Patents	Trademarks and similar rights	Work in progress and advances	Other	Total
Net opening balance	**12,886**	**5,842**	**191,788**	**10,653**	**8,929**	**230,098**
Additions	4,390	689	202	6,734	1,401	13,416
Amortization	(5,335)	(1,596)	(3,769)	(312)	(1,302)	(12,314)
Translation differences and other movements (*)	3,415	139	-	(4,383)	(33)	(862)
Change in the scope of consolidation	363	11	-	-	-	374
Net closing balance	**15,719**	**5,085**	**188,221**	**12,692**	**8,995**	**230,712**

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

The principal additions refer to the capitalization of new product development projects, based on detailed reporting and analysis of the costs incurred and the estimated future utility of such projects.
The Group has capitalized a total of €11,124 thousand in development costs as intangible assets in 2016, of which €4,390 thousand in "New product development costs" for projects already completed at the reporting date and €6,734 thousand in "Work in progress and advances" for projects still in progress.

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

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

The impairment test carried out at the end of 2016 for both brands based on an indefinite useful life, did not reveal any evidence that these assets might have suffered an impairment loss.
No events of significance have occurred in the first few months of 2017 such as might suggest that the carrying amount of trademarks could have suffered any impairment loss.

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

This method, which is based on royalty receipts and reasonably estimated sales volumes, is the most commonly used for company valuation purposes since it is able to provide a suitable expression of the relationship between the strength of the trademark and business profitability.
The discount rate (6.9% net of tax) reflects current market assessments of the time value of money. The cash flows discounted to present value are stated net of tax (in keeping with the discount rate).

The results of the impairment test have been tested for their sensitivity to changes in certain key variables, within reasonable ranges and on the basis of mutually consistent assumptions. The variables alterned were the discount rate (between 6.7% and 7.1%) and the growth rate in terminal value (in the range 1.8%-2.2%).
The sensitivity analysis has revealed relatively stable results; in fact, the minimum and maximum amounts diverged by around 10% from the central point when both variables were changed, while the divergence was considerably smaller when more reasonable assumptions regarding the change in variables were adopted.

14. LAND, PROPERTY, PLANT AND MACHINERY

These are analyzed as follows:

	31.12.2016		31.12.2015		
	Gross	**Net**	**Gross**	**Net**	**Change**
Land and buildings	79,642	56,900	76,862	57,344	(444)
Plant and machinery	136,373	53,823	122,824	56,169	(2,346)
Total	**216,015**	**110,723**	**199,686**	**113,513**	**(2,790)**

The following table reports movements during 2015:

	Land and buildings	**Plant and machinery**	**Total**
Net opening balance	**57,344**	**56,169**	**113,513**
Additions	3,532	4,304	7,836
Disposals	-	(629)	(629)
Depreciation	(4,520)	(7,609)	(12,129)
Translation differences and other movements	544	801	1,345
Change in the scope of consolidation	-	787	787
Net closing balance	**56,900**	**53,823**	**110,723**

The increases refer mainly to the investments made in production in China and Romania, as well as the investments made in Italy in the coffee machine production lines.

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

	31.12.2016	**31.12.2015**	**Change**
Plant and equipment	4,142	4,537	(395)
Other	2	15	(13)
Total	**4,144**	**4,552**	**(408)**

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

15. OTHER TANGIBLE ASSETS

Other tangible assets are analyzed as follows:

	31.12.2016		31.12.2015		
	Gross	**Net**	**Gross**	**Net**	**Change**
Industrial and commercial equipment	261,141	43,916	244,869	43,776	140
Other	76,620	22,874	82,039	24,837	(1,963)
Work in progress and advances	17,582	17,582	15,857	15,857	1,725
Total	**355,343**	**84,372**	**342,765**	**84,470**	**(98)**

The following table reports movements during 2016:

	Industrial and commercial equipment	Other	Work in progress and advances	Total
Net opening balance	**43,776**	**24,837**	**15,857**	**84,470**
Additions	19,353	6,338	8,426	34,117
Disposals	(569)	(101)	(528)	(1,198)
Depreciation	(20,884)	(7,626)	-	(28,510)
Translation differences and other movements	1,739	(585)	(6,173)	(5,019)
Change in the scope of consolidation	501	11	-	512
Net closing balance	**43,916**	**22,874**	**17,582**	**84,372**

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

The increase in “Work in progress” is explained primarily by the investments connected to the development of the Chinese and Romanian subsidiaries.

16. EQUITY INVESTMENTS

Details of equity investments are as follows:

	31.12.2016	31.12.2015	Change
Equity investments consolidated using the equity method	4,678	4,908	(230)
Other equity investments available-for-sale	61	546	(485)
Total	**4,739**	**5,454**	**(715)**

"Equity investments consolidated using the equity method" refers to the equity investments subject to joint control as per contractual agreements, accounted for using the equity method in accordance with IAS 28 – *Investments in associates and joint venture.* The changes in 2016 are shown below:

	31.12.2016
Opening net balance	**4,908**
Interest in net profit	739
Exchange differences	(175)
Payment of dividends	(794)
Closing net balance	**4,678**

17. NON-CURRENT RECEIVABLES

The balance at 31 December 2016 comprises €3,283 thousand in security deposits (€2,901 at 31 December 2015).

18. OTHER NON-CURRENT FINANCIAL ASSETS

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

19. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

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

	31.12.2016	31.12.2015	Change
Deferred tax assets	38,379	39,772	(1,393)
Deferred tax liabilities	(27,576)	(22,443)	(5,133)
Net asset balance	**10,803**	**17,329**	**(6,526)**

"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:

	31.12.2016	31.12.2015	Change
Temporary differences	5,490	11,327	(5,837)
Tax losses	5,313	6,002	(689)
Net asset balance	**10,803**	**17,329**	**(6,526)**

The change in the net asset balance also reflects the increase in “Profit (loss) carried forward" recognized in net equity of €459 thousand relating to the recognition of actuarial gains/(losses) pursuant to the new IAS 19 – *Employee Benefits* in the comprehensive income statement and an increase of €62 thousand in the "Fair value and cash flow hedge reserve".

CURRENT ASSETS

20. INVENTORIES

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

	31.12.2016	31.12.2015	Change
Finished products and goods	268,057	278,750	(10,693)
Raw, ancillary and consumable materials	64,115	49,917	14,198
Work in progress and semi-finished products	22,972	26,783	(3,811)
Inventory writedown allowance	(34,358)	(32,030)	(2,328)
Total	**320,786**	**323,420**	**(2,634)**

The value of inventories is stated after deducting an allowance for obsolete or slow-moving goods totaling €34,358 thousand (€32,030 thousand at 31 December 2015) in relation to products and raw materials that are no longer of strategic interest to the Group.

21. TRADE RECEIVABLES

These are analyzed as follows:

	31.12.2016	31.12.2015	Change
Trade receivables			
- due within 12 months	388,071	386,837	1,234
- due beyond 12 months	255	20	235
Allowance for doubtful accounts	(15,549)	(14,785)	(764)
Total	**372,777**	**372,072**	**705**

Trade receivables are stated net of an allowance for doubtful accounts of €15,549 thousand, representing a reasonable estimate of the expected risk at the reporting date. The allowance refers to a number of disputed receivables or those whose collection is otherwise in doubt and takes account of the fact that a significant portion of the receivables are covered by insurance policies with major insurers.

In accordance with the disclosure required by Consob Circular 3369 of 9 April 1997, we report that the total amount of receivables factored without recourse and outstanding at 31 December 2016 is €120,082 thousand. The total amount of receivables factored by the Group during 2016 (under Law 52/1991 known as the Factoring Law) was €683,190 thousand.

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

	31.12.2015	Net increases	Utilization	Translation differences and other movements	31.12.2016
Allowance for doubtful accounts	14,785	1,063	(553)	254	15,549

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

22. CURRENT TAX ASSETS

These are analyzed as follows:

	31.12.2016	31.12.2015	Change
Direct tax receivables	4,614	4,482	132
Tax payments on account	3,903	4,391	(488)
Tax refunds requested	1,270	1,151	119
Total	**9,787**	**10,024**	**(237)**

There are no current tax assets due beyond 12 months.

23. OTHER RECEIVABLES

"Other receivables" are analyzed as follows:

	31.12.2016	31.12.2015	Change
VAT	13,067	13,790	(723)
Advances to suppliers	6,257	4,949	1,308
Other tax receivables	3,612	4,283	(671)
Prepaid insurance costs	1,216	1,169	47
Employees	229	275	(46)
Other	7,947	8,078	(131)
Total	**32,328**	**32,544**	**(216)**

There are no current tax assets due beyond 12 months (€8 thousand at 31 December 2015).

24. CURRENT FINANCIAL RECEIVABLES AND ASSETS

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

	31.12.2016	31.12.2015	Change
Fair value of derivatives	25,576	15,509	10,067
Other financial receivables	100	403	(303)
Total	**25,676**	**15,912**	**9,764**

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

25. CASH AND CASH EQUIVALENTS

This balance consists of surplus liquidity on bank current accounts, mostly relating to customer payments received at period end and temporary cash surpluses.
Some of the Group's foreign companies have a total of €500.5 million in cash on current accounts held at the same
bank. These cash balances form part of the international cash pooling system and are partially offset by €496.2 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 2016 include €477 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.

	31.12.2015	Translation differences	31.12.2016
Non-current assets held for sale	1,107	282	1,389

COMMENTS ON THE STATEMENT OF FINANCIAL POSITION: NET EQUITY AND LIABILITIES

NET EQUITY

Net equity is made up as follows:

	31.12.2016	31.12.2015	Change
Group portion	1,010,627	902,883	107,744
Minority interests	3,420	2,973	447
Total	**1,014,047**	**905,856**	**108,191**

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

The annual general meeting (AGM) of De'Longhi S.p.A. held on 14 April 2016 approved a dividend totalling €65,780
thousand, which was paid in full during the year.

27. SHARE CAPITAL

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

During the above mentioned Annual General Meeting, shareholders of De'Longhi S.p.A. resolved to increase share capital against payment by up to a maximum nominal amount of €3,000,000 by 31 December 2022 through the issue, including on one or more occasions, of a maximum of 2,000,000 ordinary shares with a par value of €1.5 each with the characteristics of the ordinary shares outstanding at the issue date and dividend rights, to service the stock option plan.
A total of 1,830,000 shares were assigned at 21 November 2016.

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.

	31.12.2016
Weighted average number of shares outstanding	149,500,000
Weighted average number of diluted shares outstanding	149,700,000

The dilutive impact of the stock option plan was not significant at 31 December 2016, therefore the diluted earnings per share coincides with the basic earnings per share.

28. RESERVES

These are analyzed as follows:

	31.12.2016	31.12.2015	Change
Share premium reserve	162	162	-
Legal reserve	18,941	15,573	3,368
Other reserves:			
- Extraordinary reserve	19,942	21,733	(1,791)
- Fair value and cash flow hedge reserve	8,642	4,793	3,849
- Stock option reserve	366	-	366
- Currency translation reserve	48,798	45,652	3,146
- Profit (loss) carried forward	522,115	441,187	80,928
Total	**618,966**	**529,100**	**89,866**

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

The "Legal reserve" had a balance of €15,573 thousand at 31 December 2015. The increase of €3,368 thousand is explained by the allocation of profit for the year approved by shareholders during De’Longhi S.p.A.’s AGM held on 14 April 2016.

The "Extraordinary reserve" decreased by €1,791 thousand due to the allocation of the profit for the year, as approved by shareholders of De’Longhi S.p.A. during the above AGM.

The "Fair value and cash flow hedge reserve" reports a positive balance of €8,642 thousand, net of €1,891 thousand in tax.
The change in the “Fair value and cash flow hedge” reserve in 2016, recognized in the statement of comprehensive income for the year, is attributable to the fair value of the cash flow hedge and available-for-sale securities of €3,787 thousand net of €62 thousand in tax.

The “Stock option” reserve amounted to €366 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.
During the Annual General Meeting held on 14 April 2016 shareholders approved the stock-based incentive plan “Stock option plan 2016-2022” reserved for the Chief Executive Officer of the parent company De’Longhi S.p.A. and a limited number of Group managers and key resources. 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 number of options to be assigned to each beneficiary will be defined by the Board of Directors based on the proposal of the Remuneration and Appointments Committee, on the recommendations of the Statutory Auditors, in relation to those options to be allocated to the C.E.O. of the Company, or a proposal of the Company’s Chief Executive Officer in all other cases.
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. in the 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 May 15, 2019 and December 31, 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 Compensation Report for more information on the Plan.

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

	2016
Expected dividends (Euro)	0.43
Estimated volatility (%)	33.230%
Historic volatility (%)	36.067%
Market interest rate	Euribor 6M
Expected life of the options (years)	2.51 / 3.53
Exercise price (Euro)	20.4588

"Profit (loss) carried forward" includes the retained earnings of the consolidated companies and the effects of consolidation adjustments and adjustments to comply with Group accounting policies. The net increase posted in the year reflects the profit carried forward from the previous year of €149,533 thousand, net of dividends paid, allocation to other reserves and negative change in fair value of €1,248 thousand explained by the net actuarial losses on provisions for employee benefits (recognized in the statement of comprehensive income for the year).

Minority interests in net equity, which amount to €3,420 (including the profit for the period of €784 thousand), refer to the minority interest (49%) held in E-Services S.r.l.
The net increase of €447 thousand in minority interests in net equity with respect to 31 December 2015 is explained by the increase in the profit for the period attributable to minority interests of €784 thousand and the overall decline of €337 thousand relating, for €293 thousand, to dividends paid to minorities and the net actuarial losses on the provisions for employee benefits (recognized in the statement of comprehensive income for the year) of € 44 thousand.

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

	Net equity 31.12.2016	Profit for 2016	Net equity 31.12.2015	Profit for 2015
De'Longhi S.p.A. financial statements	**393,877**	**125,767**	**334,829**	**67,357**
Share of subsidiaries' equity and results for period attributable to the Group, after deducting carrying value of the investments	639,681	46,858	586,453	87,838
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	22,454	(2,420)	24,878	(2,337)
Elimination of intercompany profits	(39,763)	(2,575)	(37,552)	(3,616)
Other adjustments	(2,202)	565	(2,752)	557
Consolidated financial statements	**1,014,047**	**168,195**	**905,856**	**149,799**
Minority interests	3,420	784	2,973	266
Group portion	**1,010,627**	**167,411**	**902,883**	**149,533**

NON-CURRENT LIABILITIES

29. BANK LOANS AND BORROWINGS

"Bank loans and borrowings" are analyzed as follows:

	31.12.2016	31.12.2015	Change
Overdrafts	651	675	(24)
Short-term loans	28,725	26,598	2,127
Total short-term bank loans and borrowings	**29,376**	**27,273**	**2,103**

This item at 31 December 2016 did not include long-term loans.
Non new medium/long term loans were taken out in 2016.

30. OTHER FINANCIAL PAYABLES

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

	31.12.2016	31.12.2015	Change
Private placement (short-term portion)	7,365	-	7,365
Negative fair value of derivatives	5,356	3,749	1,607
Payables to lease companies (short-term portion)	776	880	(104)
Other short term financial payables	65,406	39,596	25,810
Total short-term payables	**78,903**	**44,225**	**34,678**
Private placement (one to five years)	29,453	28,435	1,018
Payables to lease companies (one to five years)	338	993	(655)
Other financial payables (one to five years)	1,422	38,188	(36,766)
Total long-term payables (one to five years)	**31,213**	**67,616**	**(36,403)**
Private placement (beyond five years)	44,403	50,135	(5,732)
Other financial payables (beyond five years)	267	497	(230)
Total long-term payables (beyond five years)	**44,670**	**50,632**	**(5,962)**
Total other financial payables	**154,786**	**162,473**	**(7,687)**

The short-term portion of "Negative fair value of derivatives" refers to hedges on currencies, foreign currency receivables and payables, as well as on future revenue streams.
Please refer to note *39. Risk management* for more information about the fair value of derivatives (currency risk hedges) at 31 December 2016.

"Other short term financial payables" include the earn-out payable under the Braun sales agreement linked to the sales performance of the Braun brand over the first five years following the acquisition (discounted at the end of the reporting period) which in prior years was included in long term payables.
The item also includes factoring without recourse and the debt consolidated as a result of the NPE S.r.l. acquisition.

The bond loan refers to the issue and placement of unsecured bonds with US institutional investors (the US Private Placement), completed in 2012 of USD 85,000 thousand (equal to, at 31 December 2016 €81,221 thousand based on the amortized cost method).
The securities were issued by De'Longhi S.p.A. in a single tranche and have a duration of 14 years. The bonds will accrue interest from the subscription date at a fixed rate of 4.25%. The bond loan will be repaid yearly in equal capital instalments beginning September 2017 and ending September 2027, without prejudice to the ability to repay the entire amount in advance, for an average life of 10 years.

The securities are unrated and are not intended to be listed on any regulated markets.
The bond loan is subject to half-yearly financial covenants in line with those contemplated in other existing loan transactions. At 31 December 2016 the covenants had not been breached. The issue is not secured by collateral of any kind.

The item “Other financial payables” includes the residual financial payables linked to the transfer of the pension fund liabilities pertaining to a few foreign companies to third parties.

All the principal other financial payables (with the exception of the bond) carry floating-rate interest, meaning that interest is based on a benchmark rate (usually 1 or 3-month Libor/Euribor) plus a spread, which depends on the nature of the payable and its due date. As a result, the fair value of loans, obtained by discounting expected future interest payments at current market rates, is not materially different from the value reported in the financial statements. This is based on the fact that forecasts of future interest payments use an interest rate which reflects current market conditions (in terms of benchmark interest rates).
The bond loan was issued at a fixed rate, however the change in fair value is hedged by a Cross Currency Interest Rate Swap.

Net financial position

Details of the net financial position are as follows:

	31.12.2016	31.12.2015	Change
A. Cash	139	134	5
B. Cash equivalents	461,291	357,776	103,515
C. Securities	-	-	-
D. Total liquidity (A+B+C)	**461,430**	**357,910**	**103,520**
E. Current financial receivables and other securities	**25,676**	**15,912**	**9,764**
of which:			
Fair value of derivatives	*25,576*	*15,509*	*10,067*
F. Current bank loans and borrowings	(29,376)	(27,273)	(2,103)
G. Current portion of non-current debt	-	-	-
H. Other current financial payables	(78,903)	(44,225)	(34,678)
of which:			
Fair value measurement of derivatives, financial payables linked to business combinations and pension fund transactions	*(29,375)*	*(3,749)*	*(25,626)*
I. Current financial debt (F+G+H)	**(108,279)**	**(71,498)**	**(36,781)**
J. Net current financial receivables (payables) (D+E+I)	**378,827**	**302,324**	**76,503**
Non-current financial receivables	4,698	4,780	(82)
of which:			
Fair value of derivatives	*4,698*	*4,686*	*12*
K. Non-current bank loans and borrowings	-	-	-
L. Bonds	(73,856)	(78,570)	4,714
M. Other non-current payables	(2,027)	(39,678)	37,651
of which:			
financial payables linked to pension fund transactions	*(798)*	*(37,666)*	*36,868*
N. Non-current financial debt (K+L+M)	**(71,185)**	**(113,468)**	**42,283**
Total	**307,642**	**188,856**	**118,786**

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

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

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

31. EMPLOYEE BENEFITS

These are made up as follows:

	31.12.2016	31.12.2015	Change
Provision for severance indemnities	14,119	11,195	2,924
Other defined benefit plans	18,055	14,915	3,140
Long term benefits	10,533	4,333	6,200
Total	**42,707**	**30,443**	**12,264**

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	2016	2015	Change
Current service cost	187	204	(17)
Interest cost on defined benefit obligation	218	205	13
Total	**405**	**409**	**(4)**

Change in present value of obligations	31.12.2016	31.12.2015	Change
Present value at 1 January	**11,195**	**11,663**	**(468)**
Current service cost	187	204	(17)
Utilization of provision	(550)	(541)	(9)
Interest cost on obligation	218	205	13
Actuarial gains & losses recognized in the comprehensive income statement	180	(336)	516
Change in the scope of consolidation	2,889	-	2,889
Present value at reporting date	**14,119**	**11,195**	**2,924**

Other defined benefit plans:

Movements in the year are as follows:

Net cost charged to income	2016	2015	Change
Current service cost	1,419	886	533
Return on plan assets	(8)	(172)	164
Interest cost on obligations	327	342	(15)
Total	**1,738**	**1,056**	**682**

Change in present value of obligations	31.12.2016	31.12.2015	Change
Present value at 1 January	**14,915**	**15,977**	**(1,062)**
Net cost charged to income	1,738	1,056	682
Benefits paid	(261)	(939)	678
Translation difference	93	247	(154)
Changes in financial payable linked to transfer of liabilities to third parties	-	(1,388)	1,388
Actuarial gains & losses recognized in the comprehensive income statement	1,570	(38)	1,608
Present value at reporting date	**18,055**	**14,915**	**3,140**

The outstanding liability at 31 December 2016 of €18,055 thousand (€14,915 thousand at 31 December 2015) 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 2016	Severance indemnity 2015	Other plans 2016	Other plans 2015
Discount rate	1.40%	2.00%	0.5%-1.85%	1.0%-3.5%
Future salary increases	1.4%-2.4%	1.8%-3.8%	0%-3%	0%-3.2%
Inflation rate	1.40%	1.80%	2%-5.8%	0%-3.3%

The other employee benefits refer to an incentive plan 2015 – 2017 for which relative provisions were made. The plan, benefitting the Chief Executive Officer, as well as a few other executives of De'Longhi S.p.A. and other Group companies was approved by the Company's Board of Directors on 11 November 2015.
For more information please refer to the Annual Report on Remuneration.

32. OTHER PROVISIONS FOR NON-CURRENT CONTINGENCIES AND CHARGES

These are analyzed as follows:

	31.12.2016	31.12.2015	Change
Agents' leaving indemnity provision	1,807	1,884	(77)
Product warranty provision	31,985	31,555	430
Provision for contingencies and other charges	13,940	16,827	(2,887)
Total	**47,732**	**50,266**	**(2,534)**

Movements are as follows:

	31.12.2015	Utilization	Accrual(*)	Translation difference and other movements	31.12.2016
Agents' leaving indemnity provision	1,884	(169)	92		1,807
Product warranty provision	31,555	(15,140)	15,206	364	31,985
Provision for contingencies and other charges (**)	16,827	(2,762)	678	(803)	13,940
Total	**50,266**	**(18,071)**	**15,976**	**(439)**	**47,732**

(*) Includes €2,092 thousand in payroll costs and €24 thousand in costs for services and other operating costs recognized in the income statement.
(**) "Other movements" refers mainly to the reclassification of €450 thousand under "Other payables".

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 2016. 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 €8,206 thousand (€11,760 thousand at 31 December 2015) for legal disputes and product complaint liabilities (limited to the Group's insurance deductible), the provision of €3,989 thousand (€3,165 thousand at 31 December 2015) for restructuring and reorganization, as well as the provisions made by the parent company, as well as a few subsidiaries, relating to commercial risks and other charges.

CURRENT LIABILITIES

33. TRADE PAYABLES

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

34. CURRENT TAX LIABILITIES

"Current tax liabilities" refers to the Group's direct tax and, with respect to the Italian subsidiaries who adhered to the Domestic Tax Consolidation regime, the amount owed the parent company De Longhi Industrial S.A.; for additional information please refer to Annex n.3.
The item does not include tax due beyond 12 months.

35. OTHER PAYABLES

These are analyzed as follows:

	31.12.2016	31.12.2015	Change
Employees	33,088	31,538	1,550
Indirect taxes	21,065	17,747	3,318
Social security institutions	6,723	6,960	(237)
Withholdings payables	4,931	6,041	(1,110)
Other taxes	1,366	7,372	(6,006)
Advances	154	554	(400)
Other	19,765	23,110	(3,345)
Total	**87,092**	**93,322**	**(6,230)**

“Other taxes” includes €25 thousand in tax due beyond 12 months.

36. COMMITMENTS

These are detailed as follows:

	31.12.2016	31.12.2015	Change
Guarantees given to third parties	2,203	1,512	691
Other commitments	4,815	5,230	(415)
Total	**7,018**	**6,742**	**276**

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

In addition De’Longhi S.p.A., as part of its factoring of trade receivables without recourse, the total exposure for which amounted to €120,082 at 31 December 2016, the Group issued a surety and a credit mandate.

37. IFRS 7 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

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

		Assets		
31/12/2016	**Book value**	**Loans and receivables**	**Available for sale**	**Derivatives**
Non-current assets				
- Equity investments	4,739		*61*	
- Receivables	3,283	*3,283*		
- Other non-current financial assets	4,698			*4,698*
Current assets				
- Trade receivables	372,777	*372,777*		
- Current tax assets	9,787	*9,787*		
- Other receivables	32,328	*32,328*		
- Current financial receivables and assets	25,676	*100*		*25,576*
- Cash and cash equivalents	461,430	*461,430*		

		Liabilities	
31/12/2016	**Book value**	**Loans**	**Derivatives**
Non-current liabilities			
- Bank loans and borrowings (long-term portion)	-		
- Other financial payables (long-term portion)	(75,883)	*(75,883)*	
Current liabilities			
- Trade payables	(365,315)	*(365,315)*	
- Bank loans and borrowings (short-term portion)	(29,376)	*(29,376)*	
- Other financial payables (short-term portion)	(78,903)	*(73,547)*	*(5,356)*
- Current tax liabilities	(29,528)	*(29,528)*	
- Other payables	(87,092)	*(87,092)*	

31/12/2015	Book value	Assets		
		Loans and receivables	**Available for sale**	**Derivatives**
Non-current assets				
- Equity investments	5,454	-	*546*	-
- Receivables	2,901	*2,901*	-	-
- Other non-current financial assets	4,780	-	*94*	*4,686*
Current assets				
- Trade receivables	372,072	*372,072*		
- Current tax assets	10,024	*10,024*	-	-
- Other receivables	32,544	*32,544*	-	-
- Current financial receivables and assets	15,912	*403*	-	*15,509*
- Cash and cash equivalents	357,910	*357,910*	-	-

31/12/2015	Book value	Liabilities	
		Loans	**Derivatives**
Non-current liabilities			
- Bank loans and borrowings (long-term portion)	-	-	-
- Other financial payables (long-term portion)	(118,248)	*(118,248)*	-
Current liabilities			
- Trade payables	(383,346)	*(383,346)*	-
- Bank loans and borrowings (short-term portion)	(27,273)	*(27,273)*	-
- Other financial payables (short-term portion)	(44,225)	*(40,476)*	*(3,749)*
- Current tax liabilities	(10,955)	*(10,955)*	-
- Other payables	(93,322)	*(93,322)*	-

38. HIERARCHICAL LEVELS OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The following table presents the hierarchical levels in which the fair value measurements of financial instruments have been classified at 31 December 2016. As required by IFRS 7, the hierarchy comprises the following levels:
- level 1: quoted prices in active markets for identical assets or liabilities;
- level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- level 3: inputs for the asset or liability that are not based on observable market data.

Financial instruments measured at fair value	Level 1	Level 2	Level 3
Derivatives:			
- derivatives with positive fair value	-	30,274	-
- derivatives with negative fair value	-	(5,356)	-
Available for sale financial assets:			
- equity investments	61	-	-
- other non-current financial assets	-	-	-
Financial payables linked to business combinations			(23,882)

There were no transfers between the levels during the year.

39. RISK MANAGEMENT

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

Credit risk

Credit risk consists of the Group's exposure to potential losses arising from failure by a counterparty to fulfill its obligations.
Trade credit risk is associated with the normal conduct of trade and is monitored using formal procedures for selecting and assessing customers, for defining credit limits, for monitoring expected receipts and for their recovery if necessary.
Credit risk is partly mitigated by insurance policies with major insurers, with the aim of insuring against the risk of default by a portfolio of customers selected together with the insurer, who then undertakes to pay an indemnity in
the event of default.
In some cases customers are required to provide guarantees, principally in the form of sureties.
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 €388,326 thousand at 31 December 2016 and €386,857 thousand at 31 December 2015.
This amount corresponds to the gross balance of trade receivables of €428,627 thousand at 31 December 2016 (€426,039 thousand at 31 December 2015), net of deductions and accounting offsets, which reduce the overall credit risk, mainly in the form of credit notes and other documents not yet issued to customers.
The following analysis of credit risk, carried out on the basis of receivables ageing and the reports used for credit management, refers to the trade balances before these deductions because the documents awaiting issue cannot be specifically allocated to the ageing categories.

Trade receivables of €428,627 thousand at 31 December 2016 comprise €400,600 thousand in current balances and €28,027 thousand in past due amounts, of which €20,175 thousand past due by less than 90 days and €7,852 thousand past due by more than 90 days.
The amount of insured or guaranteed receivables at 31 December 2016 is €364,914 thousand.
The Group has recognized €15,549 thousand in allowances for doubtful accounts against unguaranteed receivables of €63,714 thousand.

Trade receivables of €426,039 thousand at 31 December 2015 comprise €387,741 thousand in current balances and €38,298 thousand in past due amounts, of which €30,122 thousand past due by less than 90 days and €8,176 thousand past due by more than 90 days.
The amount of insured or guaranteed receivables at 31 December 2015 is €346,093 thousand.
The Group has recognized €14,785 thousand in allowances for doubtful accounts against unguaranteed receivables of €79,946 thousand.

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

Liquidity risk

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

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

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

Note *37. IFRS 7 classification of financial assets and liabilities* presents the book value of financial assets and liabilities, in accordance with the categories identified by IAS 39.

The following table summarizes the due dates of the Group's financial liabilities at 31 December 2016 and 31 December 2015 on the basis of undiscounted contractual payments.

	Undiscounted cash flows at 31.12.2016	*Within one year*	*One to five years*	*Beyond five years*	Undiscounted cash flows at 31.12.2015	*Within one year*	*One to five years*	*Beyond five years*
Bank loans and borrowings	29,376	29,376	-	-	27,273	27,273	-	-
Other financial payables (*)	157,069	80,604	34,724	41,741	172,104	46,944	75,426	49,734
Trade payables	365,315	365,315	-	-	383,346	383,346	-	-
Current tax payables and other payables	116,620	116,594	25	-	104,277	104,216	61	-

(*) The corresponding balance in the accounts is €154,786 thousand at 31 December 2016 and €162,473 at 31 December 2015 refers to the short-term portion of long-term leases, the loans from the Ministry of Industry and the bond loan.

Exchange rate risk

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

Hedging policies

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

Purpose of hedging

Hedging is carried out with three goals:
a) to hedge cash flows of budgeted or planned amounts up until the time of invoicing, with a time horizon that rarely goes beyond 24 months;
b) to hedge the monetary amounts of receivables and payables originating from invoicing and financing transactions;
c) to hedge interest rate and exchange rate risk relating to the medium/long term debt in currencies other than the Group’s functional currency, with regard specifically to the unsecured bond loan issued by the parent company De’Longhi S.p.A. and placed with US institutional investors (the “US Private Placement”);
d) 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, and the bond loan issued by De’Longhi S.p.A are denominated;
- the Japanese yen (JPY/HKD), for sales on the Japanese market;
- the Australian dollar (AUD/HKD) for sales on the Australian market;
- the Ruble (RUB/GBP), for sales on the Russian market;
- the British Pound (EUR/GBP and GBP/EUR), for sales and purchase costs relative to the UK company;
- the Renminbi (CNY/HKD) for the cost of raw materials, parts and finished products.

Instruments used

Highly liquid instruments of a non-speculative nature are used, mostly forward purchase/sale agreements.
With regard to the bond loan a Cross Currency Interest Rate Swap (CCIRS) agreement was stipulated to hedge both
interest rate and currency exchange risk.
The transactions are entered into with primary, well known counterparties of international standing.

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

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 2016:
(a) the risk associated with expected future revenues/costs (as estimated in budgets and/or long-term plans or interest flows relating to the bond loan) is mitigated by related hedges at 31 December 2016, whose fair value, in accordance with IAS, is reported in equity, as described in the earlier section of these explanatory notes on Accounting policies – Financial instruments; a change of +/- 5% in the year-end exchange rates of the exposed currency is estimated to produce a change of between - €12 million and +€ 12.8 million before tax (+/- €11.9 million before tax at 31 December 2015). This amount would affect the income statement only in the year in which the hedged revenues/costs are reported in profit or loss;
(b) as for the risk associated with foreign currency assets and liabilities, the analysis considers only unhedged receivables/payables in currencies other than the functional currency of the individual companies, since the impact of any hedges is assumed to be equal and opposite to that of the hedged items. A +/- 5% change in year-end exchange rates of the principal exposed currencies (mainly the USD) against the principal functional currencies would produce a change in fair value of around +/- €0.7 million before tax (+/- €0.8 million before tax at 31 December 2015).

The hedging transactions at 31 December 2016 are described in the paragraph *"Interest rate and currency exchange hedges at 31 December 2016".*

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.
Except for the private placement in the U.S. market, all of the Group's financial debt at 31 December 2016 was at floating rates following the decision to obtain the maximum benefit from the continued low level of interest rates.
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.

There was only one interest rate hedge, the Cross Currency Interest Rate Swap relating to the Private Placement, at 31 December 2016.

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 €427.9 million on a total of €307.6 million in net debt at 31 December 2016 and total net assets of €285.9 million on a total of €188.9 million in net debt in 2015).
The Group's debt is currently all at floating rates and, with the exception of the Private Placement completed by the parent company, therefore unhedged, so any change in market rates has a direct impact on its total cost, in terms of higher/lower interest payments.
A +/- 1% change in interest rates would have an impact of +/- €4.3 million before tax at 31 December 2016 recognized entirely in the income statement (+/- €2.9 million before tax at 31 December 2015).
With regard to the Private Placement, based on the hedge agreement the fixed rate US dollar debt is exchanged for fixed rate Euro denominated debt. Therefore, any change in interest rates would not have an impact on the income statement.

However, as the value of the hedge will be measured at fair value and the future interest flows will be reported in equity, a +/- 1% change in interest rates would have an impact on the cash flow hedge reserve of +/- €0.4 million before tax at 31 December 2016 (+/- €0.5 million before tax at 31 December 2015).

Interest rate and currency exchange hedges at 31 December 2016

At 31 December 2016 the Group has a number of derivatives, hedging both the fair value of underlying instruments and exposure to changes in cash flow.

For accounting purposes, derivatives that hedge changes in cash flow are treated in accordance with hedge accounting as called for in IAS 39.

Derivatives that hedge foreign currency payables and receivables are reported as financial assets and liabilities held for trading with changes in their fair value reported in the income statement. These instruments offset the risk on the hedged item (which is a recognized asset or liability).

The fair value of the outstanding derivatives at 31 December 2016 is provided below:

	Fair Value at 31/12/2016
FX forward agreements	16,360
CCIRS on the bond loan issued by the parent company (in USD)	14,168
Derivatives hedging foreign currency receivables/payables	**30,528**
FX forward agreements	2,100
CCIRS on the bond loan issued by the parent company (in USD)	(7,710)
Derivatives covering expected cash flows	**(5,610)**
Total fair value of the derivatives	**24,918**

Forward agreements to hedge against a change in 2017 trade flows:

A list of the forward agreements hedging a change in 2017 trade flows at 31 December 2016:

	Notional amount *(in thousands)*			**Fair value** *(in €/000)*	
Currency	**Purchases**	**Sales**	**Total**	**Current Assets**	**Current Liabilities**
AUD/HKD	-	(85,350)	(85,350)	2,462	-
CAD/USD	-	(24,900)	(24,900)	456	-
CHF/EUR	-	(8,000)	(8,000)	-	(127)
GBP/EUR	-	(151,360)	(151,360)	908	(3,509)
JPY/HKD	-	(6,023,100)	(6,023,100)	6,701	-
USD/EUR	104,326	(99,600)	4,726	6,987	(129)
USD/GBP	67,500	-	67,500	2,891	(266)
ZAR/USD	-	(48,000)	(48,000)	-	(14)
				20,405	**(4,045)**

A positive cash flow hedge reserve of €15,148 thousand has been recorded in net equity at 31 December 2016 in relation to these hedges, after €3,750 thousand in related tax (at 31 December 2015 this same reserve was a positive €9,868 thousand at, after the related tax of €3,468 thousand).

During 2016 the Group reversed to the income statement a net amount of €9,868 thousand from the cash flow hedge reserve at 31 December 2015.
This amount was reported in the following lines of the income statement:

	2016	**2015**
Increase (reduction) in revenues	(470)	6,944
(Increase) reduction in materials consumed	13,166	13,743
Financial income (expenses)	640	1,011
Taxes	(3,468)	(4,806)
Total recognized in income statement	**9,868**	**16,892**

Hedges against foreign currency receivables and payables (other than the bond loan issued by the parent company):

	Notional amount *(in thousands)*			**Fair value** *(in €/000)*	
Currency	**Purchases**	**Sales**	**Total**	**Current Assets**	**Current Liabilities**
AUD/EUR	(223)	466	243	9	(1)
AUD/HKD	(3,736)	33,464	29,728	283	(4)
BRL/HKD	-	17,352	17,352	-	(210)
CAD/USD	(2,400)	9,365	6,965	37	(15)
CHF/EUR	(2,101)	4,220	2,119	8	(11)
CLP/HKD	(412,552)	4,758,009	4,345,457	2	(77)
CNY/HKD	(156,515)	150,073	(6,442)	33	(120)
CZK/EUR	(53,806)	28,025	(25,782)	2	(6)
CZK/GBP	(133,539)	333,596	200,057	-	(62)
DKK/GBP	(1,058)	25,117	24,059	-	(23)
EUR/GBP	(459)	36,901	36,441	-	(168)
EUR/HKD	(535)	1,786	1,251	1	(17)
EUR/JPY	(226)	164	(62)	1	(1)
EUR/USD	-	572	572	-	(5)
GBP/EUR	(27,688)	56,416	28,728	1,250	(70)
HKD/EUR	(27,223)	9,430	(17,793)	23	(25)
HUF/EUR	(287,556)	1,309,366	1,021,811	0	(69)
JPY/HKD	(928,596)	3,222,059	2,293,463	54	(43)
KRW/HKD	-	7,342,587	7,342,587	99	(1)
NOK/EUR	(635)	-	(635)	-	(1)
NOK/GBP	(474)	-	(474)	1	-
PLN/EUR	(890)	1,451	561	1	(4)
PLN/GBP	-	73,435	73,435	-	(129)
EUR/RON	(53,412)	118,028	64,616	185	(56)
USD/RON	(6,571)	3,519	(3,052)	38	(40)
RUB/GBP	-	392,849	392,849	29	-
SEK/GBP	(1,976)	27,185	25,209	-	(29)
SGD/HKD	-	816	816	-	-
TRY/EUR	(3,214)	37,679	34,465	-	(35)
USD/CLP	(199)	531	332	6	(1)
USD/EUR	(70,698)	43,381	(27,317)	1,165	(21)
USD/GBP	(17,113)	17,113	-	176	-
ZAR/HKD	(4,025)	-	(4,025)	8	-
ZAR/USD	-	25,909	25,909	-	(48)
NZD/AUD	-	1,278	1,278	-	(21)
				3,411	**(1,311)**

CCIRS (Cross Currency Interest Rate Swap) hedging currency exchange and interest rate risks on the bond loan issued:

With regard to the bond issue, a CCIRS – Cross Currency Interest Rate Swap was entered into an hedging agreement for both exchange rate and interest rate risk with the same maturities and nominal value as the underlying debt. Based on the agreement the fixed rate (4.25%) USD dollar debt is exchanged for fixed rate (3.9775%) Euro denominated debt at the exchange rate indicated in the agreement.
This instrument hedges both future interest flows, for a nominal amount of USD 21,675 thousand, and the repayable amount (the nominal amount of the bond loan recognized, therefore, in the financial statements) of USD 85,000 thousand.

The fair value of the derivative is calculated using the exchange rate at the date of the financial statements and the discounted cash flow method based on the swap curve, not including the spread; the fair value of the derivative at 31 December 2016, calculated taking into account counterparty risk in accordance with IFRS 13 – *Fair Value measurement*, was positive for €6,458 and is included under financial receivables.
As it qualifies as an effective hedge, the effects of the exchange and interest rate hedge on the nominal debt and the interest accrued in the period are reported in the income statement as income of €2,590 thousand (the loss on the hedged item amounts to €2,579 thousand).
As the hedge on interest flows qualifies as an effective hedge of both exchange rate and interest rate risk a negative cash flow hedge reserve of €7,744 thousand at 31 December 2016 was reported in net equity, after the related tax of €1,859 thousand.

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

Currency	Notional amount *(in USD/000)*	Fair value at 31.12.2015 (*)	Changes 2016			Total fair value at 31.12.2016 (*)
			Gains/(losses) on the hedging instrument (*)	Cash flow hedge reserve (exchange rate risk) (*)	Cash flow hedge reserve (interest rate risk) (*)	
USD v/EUR	106,675	5,276	2,590	176	(1,584)	6,458
				of which		
				Short-term positive fair value		*1,760*
				Long-term positive fair value		*4,698*

(*) In €/000.

40. TAX POSITION

There is nothing to observe with respect to the tax position at 31 December 2016.

41. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

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

42. OPERATING SEGMENTS

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

Information relating to operating segments is presented below:

Income Statement data

	2016				
	Europe	*APA*	*MEIA*	Intersegment eliminations (**)	Total
Total revenues (*)	**1,410,237**	**926,516**	**120,220**	**(611,605)**	**1,845,368**
EBITDA	**191,490**	**87,343**	**14,004**	**(862)**	**291,975**
Amortization	(40,003)	(12,889)	(61)	-	(52,953)
EBIT	**151,487**	**74,454**	**13,943**	**(862)**	**239,022**
Financial income (expenses)					(11,605)
Profit (loss) before taxes					**227,417**
Income taxes					(59,222)
Profit (loss) after taxes					**168,195**
Profit (loss) pertaining to minority interests					784
Profit (loss) for the year					**167,411**

(*) 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 2016				
	Europe	*APA*	*MEIA*	Intersegment eliminations	Total
Total assets	1,152,003	741,795	45,245	(140,886)	1,798,157
Total liabilities	(640,857)	(271,185)	(12,957)	140,886	(784,113)

Income Statement data

	2015				
	Europe	*APA*	*MEIA*	Intersegment eliminations (**)	Total
Total revenues (*)	**1,427,562**	**977,124**	**162,494**	**(676,082)**	**1,891,098**
EBITDA	**186,854**	**81,322**	**18,143**	**(1,156)**	**285,163**
Amortization	(40,278)	(12,145)	(67)	-	(52,490)
EBIT	**146,576**	**69,177**	**18,076**	**(1,156)**	**232,673**
Financial income (expenses)					(33,551)
Profit (loss) before taxes					**199,122**
Income taxes					(49,323)
Profit (loss) after taxes					**149,799**
Profit (loss) pertaining to minority interests					266
Profit (loss) for the year					**149,533**

(*) 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 2015				
	Europe	*APA*	*MEIA*	Intersegment eliminations	Total
Total assets	1,019,367	756,890	61,145	(151,025)	1,686,377
Total liabilities	(647,463)	(267,725)	(16,358)	151,025	(780,521)

43. SUBSEQUENT EVENTS

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

Treviso, 2 March 2017

De'Longhi S.p.A.
Vice Chairman and Chief Executive Officer
Fabio de' Longhi

APPENDICES

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

This information is contained in the following appendices:

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

List of consolidated companies

(Appendix 1 to the Explanatory notes)

Company name	Registered office	Currency	Share capital (1)	Interest held at 31/12/2016	
				Directly	Indirectly
LINE-BY-LINE METHOD:					
DE'LONGHI APPLIANCES S.R.L.	Treviso	EUR	200,000,000	100%	
DE'LONGHI AMERICA INC.	Upper Saddle River	USD	9,100,000		100%
DE'LONGHI FRANCE S.A.R.L.	Clichy	EUR	2,737,500		100%
DE'LONGHI CANADA INC.	Mississauga	CAD	1		100%
DE'LONGHI DEUTSCHLAND GMBH	Neu-Isenburg	EUR	2,100,000	100%	
DE'LONGHI BRAUN HOUSEHOLD GMBH	Neu-Isenburg	EUR	100,000		100%
DE'LONGHI ELECTRODOMESTICOS ESPANA S.L.	Barcellona	EUR	3,066		100%
DE'LONGHI CAPITAL SERVICES S.R.L. (2)	Treviso	EUR	53,000,000	11.32%	88.68%
E- SERVICES S.R.L.	Treviso	EUR	50,000	51%	
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.	Maraisburg	ZAR	100,332,501		100%
DE'LONGHI KENWOOD HELLAS S.A.	Atene	EUR	452,520		100%
DE'LONGHI PORTUGAL UNIPESSOAL LDA	Maia	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	6,200,000		100%
DE'LONGHI PRAGA S.R.O.	Praga	CZK	200,000		100%
KENWOOD SWISS AG	Baar	CHF	1,000,000		100%
DL HRVATSKA D.O.O.	Zagabria	HRD	20,000		100%
DE'LONGHI BRASIL - COMÉRCIO E IMPORTAÇÃO Ltda	São Paulo	BRL	43,857,581		100%
DE'LONGHI POLSKA SP. Z.O.O.	Varsavia	PLN	50,000	0.1%	99.9%
DE'LONGHI APPLIANCES TECHNOLOGY SERVICES (Shenzen) Co. Ltd	Shenzen	CNY	USD 175,000		100%
DE'LONGHI UKRAINE LLC	Kiev	UAH	549,843		100%
DE'LONGHI TRADING (SHANGHAI) CO. LTD	Shanghai	CNY	USD 945,000		100%
DE'LONGHI KENWOOD MEIA F.ZE	Dubai	USD	AED 2,000,000		100%
DE'LONGHI ROMANIA S.R.L.	Cluj-Napoca	RON	47,482,500	10%	90%
DE'LONGHI KENWOOD KOREA LTD	Seoul	KRW	900,000,000		100%
DL CHILE S.A.	Santiago del Cile	CLP	3,079,066,844		100%
DE'LONGHI SCANDINAVIA AB	Stockholm	SEK	5,000,000		100%
DELONGHI MEXICO SA DE CV	Bosques de las Lomas	MXN	2,576,000		100%
NPE S.R.L.	Treviso	EUR	10,000		100%

INVESTMENTS VALUED IN ACCORDANCE WITH THE EQUITY METHOD

Company name	Registered office	Currency	Share capital (1)	Interest held at 31/12/2016	
				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%

OTHER SUBSIDIARIES (IN LIQUIDATION OR DORMANT)

Company name	Registered office	Currency	Share capital
Controlled companies: (3)			
DE'LONGHI LTD.	Wellingborough	GBP	4,000,000

(1) Figures at 31 December 2016, unless otherwies specified.
(2) The articles of association, approved by the extraordinary shareholders' meeting held on 29 December 2004, give special rights to De'Longhi
S.p.A. (holding 89% of the voting rights) for ordinary resolutions (approval of financial statements, declaration of dividends, nomination of directors and statutory auditors, purchase and sale of companies, grant of loans to third parties); voting rights are proportional as far as other resolutions are concerned, except for the preferential right to receive dividends held by the shareholder Kenwood Appliances Ltd.
(3) Dormant company, whose financial statement is unavailable.

Statement of consolidated cash flows in terms of net financial position

(Appendix 2 to the Explanatory notes)

	2016	**2015**
Profit (loss) pertaining to the Group	167,411	149,533
Income taxes for the period	59,221	49,323
Amortization	52,953	52,490
Net change in provisions and other non-cash items	6,685	(8,004)
Cash flow generated by current operations (A)	**286,270**	**243,342**
Change in assets and liabilities for the period:		
Trade receivables	(7,611)	(22,608)
Inventories	11,884	(1,646)
Trade payables	(9,950)	4,983
Other changes in net working capital	(5,157)	4,497
Payment of income taxes	(32,388)	(52,234)
Cash flow absorbed by movements in working capital (B)	**(43,222)**	**(67,008)**
Cash flow generated by current operations and movements in working capital (A+B)	**243,048**	**176,334**
Investment activities:		
Investments in intangible assets	(13,416)	(10,670)
Other cash flows for intangible assets	12	98
Investments in property, plant and equipment	(41,953)	(43,702)
Other cash flows for property, plant and equipment	2,070	1,266
Net investments in equity investments and other financial assets	182	(247)
Change in the scope of consolidation	(2,038)	-
Cash flow absorbed by ordinary investment activities (C)	**(55,143)**	**(53,255)**
Dividends paid	(65,780)	(61,295)
Fair value and cash flow reserves	4,150	(7,715)
Change in currency translation reserve	(7,935)	45,735
Increase (decrease) in minority interests	447	63
Cash flow absorbed by changes in net equity and by financing activities (D)	**(69,118)**	**(23,212)**
Cash flow for the period (A+B+C+D)	**118,787**	**99,867**
Opening net financial position	**188,855**	**88,988**
Cash flow for the period (A+B+C+D)	118,787	99,867
Closing net financial position	**307,642**	**188,855**

The Statement of Cash Flows at 31.12.2015 was restated in order to show net working capital net of the effect of the translation of intragroup balances expressed in currencies other than the Euro included in the cash flows generated by changes in net equity.

Transactions and balances with related parties

(Appendix 3 to the Explanatory notes)

(€/000)	2016	of which with related parties	2015	of which with related parties
Revenues from sales and services	1,821,583	820	1,866,750	1,262
Other revenues	23,785	829	24,348	1,991
Total consolidated revenues	***1,845,368***		***1,891,098***	
Raw and ancillary materials, consumables and goods	(785,676)	(17,552)	(829,148)	(22,870)
Change in inventories of finished products and work in progress	(19,125)		(1,296)	
Change in inventories of raw and ancillary materials, consumables and goods	7,243		1,875	
Materials consumed	***(797,558)***		***(828,569)***	
Payroll costs	(240,940)		(228,707)	
Services and other operating expenses	(499,972)	(5,570)	(522,151)	(5,441)
Provisions	(14,923)		(26,508)	
Amortization	(52,953)		(52,490)	
EBIT	**239,022**		**232,673**	
Financial income (expenses)	(27,553)		(33,551)	
Financial income from the fair value measurement of financial payables	15,947		-	
PROFIT (LOSS) BEFORE TAXES	**227,416**		**199,122**	
Income taxes	(59,221)		(49,323)	
CONSOLIDATED PROFIT	**168,195**		**149,799**	
Profit (loss) pertaining to minority interests	784		266	
PROFIT PERTAINING TO THE GROUP	**167,411**		**149,533**	

ASSETS (€/000)	31.12.2016	of which with related parties	31.12.2015	of which with related parties
NON-CURRENT ASSETS				
INTANGIBLE ASSETS	327,792		322,498	
- Goodwill	97,080		92,400	
- Other intangible assets	230,712		230,098	
PROPERTY, PLANT AND EQUIPMENT	195,095		197,983	
- Land, property, plant and machinery	110,723		113,513	
- Other tangible assets	84,372		84,470	
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS	12,720		13,135	
- Equity investments	4,739		5,454	
- Receivables	3,283		2,901	
- Other non-current financial assets	4,698		4,780	
DEFERRED TAX ASSETS	38,379		39,772	
TOTAL NON-CURRENT ASSETS	573,986		573,388	
CURRENT ASSETS				
INVENTORIES	320,786		323,420	
TRADE RECEIVABLES	372,777	989	372,072	1,277
CURRENT TAX ASSETS	9,787		10,024	
OTHER RECEIVABLES	32,328	241	32,544	309
CURRENT FINANCIAL RECEIVABLES AND ASSETS	25,676		15,912	
CASH AND CASH EQUIVALENTS	461,430		357,910	
TOTAL CURRENT ASSETS	1,222,784		1,111,882	
NON-CURRENT ASSETS HELD FOR SALE	1,389		1,107	
TOTAL ASSETS	**1,798,159**		**1,686,377**	

NET EQUITY AND LIABILITIES (€/000)	31.12.2016	of which with related parties	31.12.2015	of which with related parties
NET EQUITY				
GROUP PORTION OF NET EQUITY	1,010,627		902,883	
- Share capital	224,250		224,250	
- Reserves	618,966		529,100	
- Profit (loss) pertaining to the group	167,411		149,533	
MINORITY INTERESTS	3,420		2,973	
TOTAL NET EQUITY	1,014,047		905,856	
NON-CURRENT LIABILITIES				
FINANCIAL PAYABLES	75,883		118,248	
- Bank loans and borrowings (long-term portion)	-		-	
- Other financial payables (long-term portion)	75,883		118,248	
DEFERRED TAX LIABILITIES	27,576		22,443	
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES	90,439		80,709	
- Employee benefits	42,707		30,443	
- Other provisions	47,732		50,266	
TOTAL NON-CURRENT LIABILITIES	193,898		221,400	
CURRENT LIABILITIES				
TRADE PAYABLES	365,315	96	383,346	757
FINANCIAL PAYABLES	108,279		71,498	
- Bank loans and borrowings (short-term portion)	29,376		27,273	
- Other financial payables (short-term portion)	78,903		44,225	
CURRENT TAX LIABILITIES	29,528	13,269	10,955	
OTHER PAYABLES	87,092	500	93,322	500
TOTAL CURRENT LIABILITIES	590,214		559,121	
TOTAL NET EQUITY AND LIABILITIES	**1,798,159**		**1,686,377**	

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 2016 and related balances with commercial nature at 31 December 2016:

(€/million)	**Revenues**	**Costs**	**Trade and other receivables**	**Trade and other payables**
Related companies (1)				
DL Radiators S.r.l.	1.4	-	1.1	0.5
TCL-De'Longhi Home Appliances (Zhongshan) Co.Ltd.	0.1	17.6	-	0.1
Gamma S.r.l.	0.1	5.5	0.1	-
De Longhi Industrial S.A.	-	-	-	13.3
TOTAL RELATED PARTIES	**1.6**	**23.1**	**1.2**	**13.9**

(1) Commercial relationships.

The Parent Company De'Longhi S.p.A. and a few Italian subsidiaries adhered to the national tax consolidation regime (Presidential Decree. n. 917/1986 - articles 117 through 129, and Decree of 9.6.2004), as part of a tax group formed by De'Longhi Industrial S.A.; the agreement entered into covers the three-year period 2016-2018 and may be renewed. The €13.3 million included in tax payables is comprised of the taxes payable by the members of the tax group through De'Longhi Industrial S.A..

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

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

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

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

Type of service	Party performing the service	Recipient	Fees earned in 2016
Auditing	EY S.p.A.	De'Longhi Spa (parent company)	142
	EY S.p.A.	Italian subsidiaries	229
	Network of parent company auditor	Foreign subsidiaries	851
Other services	EY S.p.A.	De'Longhi Spa (parent company)	74
	EY S.p.A.	Italian subsidiaries	38
	Other auditors	Foreign subsidiaries	70

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

(Appendix 5 to the Explanatory notes)

The undersigned Fabio de' Longhi, Chief Executive Officer, and Stefano Biella, Financial Reporting Officer of De'Longhi S.p.A., attest, also taking account of the provisions of paragraphs 2, 3 and 4, art. 154-bis of Decree 58 dated 24 February 1998:

that the accounting and administrative processes for preparing the consolidated financial statements during 2016:

- 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 2016:

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

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

Fabio de' Longhi
Chief Executive Officer

Stefano Biella
Financial Reporting Officer

EY
Building a better working world

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Independent auditor's report
in accordance with articles 14 and 16 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

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

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of De'Longhi S.p.A. (the De'Longhi Group), which comprise the consolidated statement of financial position as at December 31st, 2016, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in net equity and consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The Directors of De'Longhi S.p.A. are responsible for the preparation of these 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 art. 9 of Legislative Decree n. 38, dated 28 February 2005.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 2.950.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of De'Longhi Group as at December 31st, 2016 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated 28 February 2005.

Report on other legal and regulatory requirements

Opinion on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and Ownership Structure with the consolidated financial statements

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements. The Directors of De'Longhi S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure in accordance with the applicable laws and regulations. In our opinion the Report on Operations and the specific information of the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of De'Longhi Group as at December 31st, 2016.

Treviso, March 20th, 2017

EY S.p.A.

Signed by: Stefano Marchesin, partner

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

De'Longhi S.p.A.

Report on operations to De'Longhi S.p.A. separate financial statements and Statutory Financial Statements at 31 December 2016

REPORT ON OPERATIONS TO THE SEPARATE FINANCIAL STATEMENTS

Review of the income statement

(€/million)	2016	% revenues	2015	% revenues
Revenues	**25.9**	**100.0%**	**28.1**	**100.0%**
Changes 2016/2015	*(2.2)*	*(7.9%)*		
Materials consumed	(0.1)	(0.2%)	(0.1)	(0.3%)
Other services and expenses	(31.6)	(121.9%)	(32.3)	(114.9%)
Payroll	(7.1)	(27.3%)	(5.4)	(19.3%)
EBITDA	**(12.8)**	**(49.4%)**	**(9.7)**	**(34.6%)**
Changes 2016/2015	*(3.1)*	*31.6%*		
Amortization and depreciation	(0.1)	(0.4%)	(0.1)	(0.2%)
EBIT	**(12.9)**	**(49.8%)**	**(9.8)**	**(34.8%)**
Changes 2016/2015	*(3.1)*	*31.9%*		
Dividends	145.4	561.1%	78.6	279.2%
Financial income (expenses)	(4.3)	(16.7%)	(4.3)	(15.3%)
Profit (loss) before taxes	**128.2**	**494.6%**	**64.5**	**229.1%**
Income taxes	(2.4)	(9.3%)	2.9	10.2%
Profit (loss) after taxes	**125.8**	**485.3%**	**67.4**	**239.3%**

De’Longhi S.p.A, the parent of the De’Longhi Group, performs holding company activities involving the management and supply of centralized services to its subsidiaries. The income statement, therefore, reflects the dividends received from the subsidiaries, other chargebacks for services provided, as well as operating (payroll costs and the cost of services) and financial expenses.
De’Longhi S.p.A., in its capacity as a holding company, carries out the centralized management of a few costs (amounts payable to clients - international commercial groups and global marketing costs relative to the Group’s brands) shared by several Group companies.
The relative costs are then allocated and charged back to the Group companies which had an impact of € 18.5 milion (€ 19.2 milion in 2015) and € 18,4 milion (€ 19.0 milion in 2015).

The higher payroll costs are explained mainly by the increase in costs allocated for employee incentive and stock option plans.

In 2016 dividends amounted to €145.4 million (€78.6 million in 2015) while net operating expenses came to €4.3 million (€4.3 million in 2015).

Net profit came to €125.8 million (€67,4 million in 2015).

Review of the statement of financial position

The reclassified statement of financial position is presented below:

(€/million)	31 December 2016	31 December 2015	Change	% change
- Tangible and intangibile assets	0.3	0.1	0.1	138,9%
- Financial assets	560.3	560.6	(0.4)	(0,1%)
- Deferred tax assets	-	1.9	(1.9)	(100,0%)
Non-current assets	**560.5**	**562.7**	**(2.1)**	**(0,4%)**
- Trade Receivables	29.1	31.3	(2.2)	(7,1%)
- Trade payables	(20.5)	(21.2)	0.7	(3,4%)
- Other current payables (net of other receivables)	(3.7)	(1.2)	(2.5)	201,0%
Net working capital	**4.9**	**8.9**	**(4.0)**	**(44,6%)**
Total non-current liabilities and provisions	**(4.0)**	**(1.9)**	**(2.1)**	**112,8%**
Net capital employed	**561.5**	**569.7**	**(8.2)**	**(1,4%)**
Net debt	**167.6**	**234.8**	**(67.2)**	**(28,6%)**
Total net equity	**393.9**	**334.8**	**59.0**	**17,6%**
Total net debt and equity	**561.5**	**569.7**	**(8.2)**	**(1,4%)**

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

(€/million)	2016	2015
Cash flow by current operations	(15.3)	(17.7)
Cash flow by other changes in working capital	4.2	(0.1)
Cash flow by current operations and changes in working capital	**(11.1)**	**(17.8)**
Cash flow by investment activities	145.5	53.6
Cash flow by operating activities	**134.4**	**35.8**
Cash flow by changes in net equity	(67.2)	(60.6)
Cash flow for the period	**67.2**	**(24.8)**
Opening net financial position	(234.8)	(210.0)
Closing net financial position	**(167.6)**	**(234.8)**

Net cash flow from operating activities amounted to €134.4 million (€35.8 million in 2015), a drop of €98.6 million with respect to the prior year. This change is due mainly to the increase in the dividends received from subsidiaries.
Cash flow to net equity reached a negative €67.2 million (negative €60.6 million in 2015), explained primarily by dividend payments and the change in the cash flow hedge reserve relating to the fair value of derivatives.

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

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

(€/thousands)	Net equity 31.12.2016	Profit for 2016	Net equity 31.12.2015	Profit for 2015
De'Longhi S.p.A. financial statements	**393,877**	**125,767**	**334,829**	**67,357**
Share of subsidiaries' equity and results for period attributable to the Group, after deducting carrying value of the investments	639,681	46,858	586,453	87,838
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	22,454	(2,420)	24,878	(2,337)
Elimination of intercompany profits	(39,763)	(2,575)	(37,552)	(3,616)
Other adjustments	(2,202)	565	(2,752)	557
Consolidated financial statements	**1,014,047**	**168,195**	**905,856**	**149,799**
Minority interests	3,420	784	2,973	266
Group portion	**1,010,627**	**167,411**	**902,883**	**149,533**

Annual remuneration report

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

Human resources and organization

The company had 42 employees at 31 December 2016 (42 at 31 December 2015).

The following table summarizes the average number of employees during 2016 compared with 2015:

	2016	%	2015	%	Change
White collar	31	78%	32	78%	(1)
Senior managers	9	22%	9	22%	-
Total	**40**	**100%**	**41**	**100%**	**(1)**

Research and development

As a holding company, the company does not directly carry out any research and development. Such activities are carried out by personnel within the individual subsidiary companies. More details can be found in the paragraph on "*Research and development*" in the Report on Operations accompanying the consolidated financial statements.

Report on corporate governance and ownership structure

In compliance with applicable laws and regulations, as well as the Italian Stock Market Regulations, information is herewith provided about the corporate governance system, also with reference to the principles of the Corporate Governance Code for Listed Companies (July 2014 edition), and about ownership structure, in compliance with the legislator's requirements as set out in art. 123-*bis* of Legislative Decree n. 58/98 ("TUF").

The Company has adopted and complies with the Corporate Governance Code for Listed Companies, published in July 2014.
In compliance with applicable laws and regulations, as well as the Italian Stock Market Regulations, the Company prepares an annual Report on Corporate Governance and Ownership Structure, which not only provides a general description of the system of corporate governance adopted, but also the information on ownership structure, required by art. 123-*bis* of TUF.
This report, to which this section now refers, has been prepared in accordance with the "*Format for the report on corporate governance and ownership structure"* published by the stock market management company in January 2015, and will be made available to the public at the same time as the Report on Operations and the full year financial statements. The report is also available at www.delonghi.com, in the section *" Investors > Governance > Shareholders' Meetings > 2017"*.

The key points relevant for the purposes of the Report on Operations are summarized below.

Direction and Co-ordination
De'Longhi S.p.A. is not subject to the direction and co-ordination of its parent De Longhi Industrial S.A., or of any other party, as defined by articles 2497 *et seq*. of the Italian Civil Code, and directs and co-ordinates its subsidiaries.
In compliance with the principles of corporate governance, transactions of particular importance strategically, or for the statement of financial position and results of the Company, must be examined and approved solely by the Board of Directors of the Company, which contains five directors qualifying as non-executive and independent, based on the guidelines found in article 3 of the Corporate Governance Code, adopted by the Company as resolved by the Board of Directors on 23 April 2013 (please refer to paragraph 4.6 of the 2014 Report on Corporate Governance and Ownership Structure) and articles 147 *ter*, 4th paragraph, and 148, 3rd paragraph, of TUF.

Board of Directors
The Board of Directors currently in office was appointed during the Annual General Meeting held on 14 April 2016 by shareholders who set the total number of directors at eleven. This Board will end its term in office at the shareholders' meeting called to approve the annual report at 31 December 2018.

In compliance with art. 147-*ter* of TUF, the articles of association establish that the Board of Directors is elected using a list voting mechanism, with one director elected from the list obtaining the second highest number of votes (the other members all being taken from the majority list).
During the meeting held on 18 December 2012, the Board of Directors resolved to amend articles 9 and 14 of the Articles of Association, relating to the appointment and composition of boards and control bodies in order to comply with the new provisions of articles 147-*ter*, paragraph 1-*ter* and 148, paragraph 1-*bis* of TUF – as amended by Law n. 120/2011 "implementing provisions concerning gender equality in the composition of administrative and control bodies of companies listed on regulated markets" and the current version of article 144-*undiecies* of the Regulations for Issuers. Shareholders who own an interest at least equal to that determined by CONSOB pursuant to law and regulations are entitled to present lists of candidates for the office of director

In order to ensure that the Company's governance complies with the changes introduced in the December 2011 version of the Code, on 18 December 2012 the Board of Directors approved a new framework resolution reiterating its adhesion to the Corporate Governance Code (with a few exceptions which will be detailed later in this Report, explaining the reasons for the exceptions and the other information required by the Corporate Governance Code), applying the new recommendations and confirming the resolutions relating to corporate governance approved in the past.

The same framework resolution was subsequently amended in order to comply with subsequent editions of the Corporate Governance Code: most recently, on 10 November 2016, the Board of Directors, in office as of April 2016, approved the changes made to the Corporate Governance Code in July 2015, thus changing the framework resolution adopted on 18 December 2012 and amended on 19 February 2015. Pursuant to Article 1.C.1., lett. g) of the Corporate Governance Code, during the meeting on 2 March 2017 the Board of Directors resolved to begin a board review or self-assessment process in order to evaluate, among other things, the functioning, size and composition of the Board. The methods used and findings are discussed in the detail in the 2016 Report on Corporate Governance and Ownership Structure.

In 2016 the Board of Directors also:
- updated the list of the De'Longhi Group's "strategically important subsidiaries", identifying them as De'Longhi Capital Services S.r.l. and De'Longhi Appliances S.r.l., De'Longhi-Kenwood Appliances (Dongguan) Co. Ltd, Kenwood Ltd, De'Longhi Deutschland GmbH, De'Longhi Australia PTY Ltd., De'Longhi LLC, De' Longhi America Inc., De' Longhi Kenwood MEIA FZE, De'Longhi Japan Corporation, De'Longhi Romania Srl and De'Longhi Kenwood A.P.A. Ltd;
- resolved, pursuant to art. 3 of Consob Resolution n. 18079 dated 20 January 2012, to exercise effective 18 December 2012 the opt-out clause found in articles 70, paragraphs 8 and 71, paragraph 1-bis of Consob Regulation n. 11971/99 which grants the option to waive the mandatory publication of information documents relating to mergers, spin-offs, capital increases through in-kind transfers, acquisitions and disposals.

The Board of Directors periodically reviews whether its members qualify as executive/non-executive and independent/non-independent in compliance with the principles established by articles 2 and 3 of the Corporate Governance Code, and adopted by the Company in a framework resolution approved by the Board of Directors on 18 December 2012.
The Board has two executive directors - the Chairman and the Chief Executive Officer - and nine non-executive directors, who have no authority or managerial functions in the company or the Group, and five of whom satisfy the independence requirements established under art. 148, par. 3 of TUF and art. 3 of the Corporate Governance Code, and adopted by the Company in the above mentioned Board of Directors' resolution of 18 December 2012.
Lastly, during the meeting held on 2 March 2017, the Board confirmed that the directors Alberto Clò, Renato Corrada, Stefania Petruccioli, Cristina Pagni e Luisa Maria Virginia Collina still qualify as independent as per the above.
Some of the current directors hold appointments in other listed or relevant companies. The most significant appointments are listed in the 2016 Report on Corporate Governance and Ownership Structure.

The Board of Directors has decided to adopt the recommendation relating to the appointment of a lead independent director with the functions suggested in the Corporate Governance Code.

<u>Committees set up by the Board of Directors</u>
During the meeting held on 14 April 2016, the Board of Directors voted to confirm the establishment of two Board committees, namely:
- the Risk and Control and Corporate Governance Committee;
- the Compensation and Nominations Committee.

During the same meeting, the Board also decided to set up a committee solely comprising independent directors.

The Risk and Control and Corporate Governance Committee met six times in 2016. These meetings were also attended by the Board of Statutory Auditors, while the committee also extended invitations to the Head of Internal Audit, the Chief financial officer/Financial Reporting Officer, and the Group's Head of Corporate Affairs, who also acted as secretary.
The Compensation and Nominations Committee held four meetings during 2016, all of which were attended by all its members; the Chairman also extended an invitation to the Group's Head of Human Resources, who also attended all the meetings.

Details of the powers and operation of these committees can be found in the 2016 Report on Corporate Governance and Ownership Structure and in the annual Remuneration Report prepared in accordance with art. 123-*ter* of TUF and art. 84-*quater* of the Issuer Regulations.

Board of Statutory Auditors
Following the resolutions adopted by the shareholders' meeting of 14 April 2016, the Board of Statutory Auditors comprises Cesare Conti, its chairman, and Gianluca Ponzellini and Paola Mignani, both standing members. Their term in office expires with the approval of the annual report and financial statements at 31 December 2018.
Art. 14 of the articles of association is designed to ensure that the Chairman of the Board of Statutory Auditors is appointed by the minority, by taking him/her from the list obtaining the second highest number of votes.

External Auditors
EY S.p.A. has been engaged to audit the financial statements of De'Longhi S.p.A. and its subsidiaries, in accordance with the resolution adopted during the ordinary shareholders' meeting held on 21 April 2010. The assignment will expire with the approval of the annual report and financial statements for the year ended 31 December 2018.

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

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

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

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

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

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

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

The Director of Internal Audit – who is in charge of verifying that the internal control and risk management system works efficiently and effectively – prepares a work plan each year that is presented to the Board of Directors for approval, subject to the positive opinion of the Risk and Control and Corporate Governance Committee and after having consulted with the Board of Statutory Auditors and the Director in Charge of the Internal Control and Risk Management System, based also on the comments made by the Chief financial officer/Financial Reporting Officer, as well as pursuant to Legislative Decree 262/05. Discusses the steps taken to resolve any problems, to make the improvements agreed upon, as well as the results of the testing activities with the Risk and Control and Corporate Governance Committee. Provides the Chief financial officer/Financial Reporting Officer, as well as the administrative body assigned, with a summary report based on which they can assess the adequacy and application of administrative procedures to be used to prepare the financial statements.
In order to identify and manage the Company's main risks, with regard particularly to corporate governance and compliance with the law and regulatory standards (including the Corporate Governance Code for Listed Companies), during 2013 the Issuer undertook a project designed to strengthen enterprise risk management (ERM) with the support of a premiere consulting company.

This project called for the development and monitoring of a structured ERM model in order to effectively manage the main risks to which the Issuer and the Group are exposed. The project was completed at the end of 2013 and the results were shared with the Director in Charge of Internal Control and Risk Management, the Risk and Control and Corporate Governance Committee and the Board of Statutory Auditors.
It was possible, therefore, to map the main business risks based on the Group's value chain, identify inherent and residual risk with particular emphasis on what are potentially the biggest risks and proposing solutions; in 2016 follow-up on the monitoring and management of the risks continued through meetings with the the Risk and Control Committee, the Board of Statutory Auditors and Director in Charge of Internal Control and Risk Management.

The risk plan also calls for guidelines to be established for the control and risk management system using a top down approach, as well as the identification of the duties and responsibilities of the various individuals involved in the different levels of control:
(i) the recognition and identification by operations of the main risks and subsequent treatment;
(ii) control by the risk control department of the risks and definition of the instruments and methods to be used to managed the risks.

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

Internal Audit must also include verification of the internal controls through the use of a self-assessment check list in its Audit Plan.
With regard to compliance with Title VI of the Regulation implementing Legislative Decree n. 58 of 24 February 1998 relating to market regulations, De' Longhi S.p.A. controls, directly or indirectly, eight companies formed and regulated by the law of countries that are not part of the European Union considered relevant pursuant to art. 151 of the Issuer Regulations.

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

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

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 (completed in December 2013 with follow-up) and the assessments carried out in prior years, including through more in depth analysis shared with the Risk and Control Committee and Company's Board of Statutory Auditors.

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

1 - Risks relating to macroeconomic trends: the Company's economic performance and financial position are also affected by macroeconomic trends.
Global growth gradually gained momentum in the second half of 2016 but failed to translate, as expected, into a solid recovery in world trade.
The conditions of the global economy improved slightly. Uncertainty on several fronts, however, continues to hang over the future; the prospects in the United States will depend on the economic policies put into place by the new administration and have yet to be defined in detail. In Europe uncertainty about the negotiations which will define the new trade relations between the European Union and the United Kingdom remains high. The normalization of the US monetary policy and the changes in foreign exchange rates could trigger turbulence in the emerging markets.
Growth in the advanced economies exceeded expectations; economic activity moved at a sustained pace in the United States with an acceleration in domestic product, a robust expansion in consumption, despite sluggish investment. In Japan GDP slowed as a result of persistently weak consumption and investment. In the United Kingdom growth exceeded expectations despite concerns about a sudden slowdown following the Brexit referendum; uncertainty remains, however, about the medium-term economic repercussions of the exit from the European Union. In China growth was stable in the second half of the year, as well.
In the Euro zone GDP growth continued at a moderate pace, showing signs of gradual stabilization thanks to the boost coming from internal demand. Uncertainty about the direction of the world economy, in part influenced by geopolitical tensions, is the biggest risk factor for trade.
Inflation rose slightly in the advanced economies.
(Source: Bank of Italy/ECB).

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 principal currency to which the Company is exposed is the US dollar (in which the bond loan issued by Company in 2012 is denominated).
Despite the Company's effort to minimize the abovementioned risk, sudden currency fluctuations could have an adverse impact on the Company's results and business prospects.

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

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

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

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

5 - Liquidity, financing and interest rate risks: the liquidity risk possibly faced by the Company is the risk of not having the funds needed to fulfil payment obligations arising from operating and investment activities and from the maturity of financial instruments. The Company holds assets and liabilities that are sensitive to interest rate changes and that are necessary to manage its liquidity and financial needs.
It is the Company's policy to maintain a sufficiently large portfolio of counterparties of international repute for the purposes of satisfying its financing and hedging needs.
The Company uses specific policies and procedures for the purposes of monitoring and managing this risk, including the centralized management of financial debt and cash, 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.
As for interest rate risk, at 31 December 2016 the Company's net financial position was negative and exposure is primarily short term, with the exception of the bond loan described in detail below.
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.
In 2012, in order to have complete financial coverage of the Braun "Household" acquisition and to have enough financing in place should the credit markets worsen, the Company issued and placed a long term, fixed rate, unsecured bond in US dollars with US institutional investors worth USD 85 million which, due to the effect of a currency and interest rate hedge contract, is denominated in Euro at a fixed rate.
At the date of this report, the Company only has the above mentioned contract to hedge such risks.

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 2016, effective implementation of the system of managing financial reporting risks was monitored on a continuous basis and periodically evaluated under the guidance of the functions in charge.
For the purposes of ensuring reliable internal controls over its financial reporting, the Group has implemented a system of administrative and accounting procedures and operations that include:
- an accounting policies manual;
- accounting policy instructions and updates;
- other procedures for preparing the consolidated financial statements and periodic financial reports.

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

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

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

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

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

Number and value of shares

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

Tax consolidation

The Company and a few of the Italian subsidiaries accepted the proposal made by De Longhi Industrial S.A. to jointly exercise the option to adhere to group taxation, referred to as "Domestic Tax Consolidation", as permitted under articles 117 - 129 of the Uniform Income Tax Act as per Presidential Decree n. 917 of 22 December 1986, and the Decree of the Ministry of Economy and Finance of 9 June 2014, for the three-year period 2016-2018.

Related party transactions

Related party transactions fall within the normal course of the company business.
Information on related party transactions is summarized in Appendix 4 to the Explanatory notes.

Alternative performance indicators

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

- EBITDA: the Company uses these measure as financial targets in internal presentations (business plans) and in external presentations (to analysts and investors), since it is a useful way of measuring operating performance besides EBIT.
EBITDA is an intermediate measure that derives from EBIT after adding back depreciation, amortization and impairment of property, plant and equipment and intangible assets. EBITDA is also presented net of non-recurring items, which are reported separately on the face of the income statement
- Net working capital: this measure is the sum of inventories, trade receivables, current tax assets and other receivables, minus trade payables, current tax liabilities and other payables.
- Net capital employed: this measure is the sum of net working capital, intangible assets, property, plant and equipment, equity investments, other non-current receivables, and deferred tax assets, minus deferred tax liabilities, employee severance indemnity and provisions for contingencies and other charges.
- Net debt/(Positive net financial position): this measure represents gross financial liabilities less cash and cash equivalents and other financial receivables. The individual line items in the statement of financial position used to determine this measure are analysed later in this report.

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

Subsequent events

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

Proposed allocation of profit

Dear Shareholders,

In submitting for your approval the financial statements for 2016, which report a net profit of €125,767,409, we propose:

- to approve the Directors' Report on Operations and the financial statements at 31 December 2016;
- to allocate €6,288,370 from this net profit to the legal reserve;
- to distribute a gross dividend to shareholders of €0.80 on each of the 149,500,000 outstanding shares for a total of €119,600,000, of which €119,479,039 from the net profit for the year, with the remainder allocated to the legal reserve, and €120,961 from the Extraordinary Reserve;
- to pay the dividend of €0.80 as of 26 April 2017, with shares going ex-coupon on 24 April 2017 and with the record date, pursuant to art. 83-*terdecies* of Legislative Decree n. 58/98, as at 25 April 2017.

Treviso, 2 march 2017

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

INCOME STATEMENT

(Amounts in Euro)	*Notes*	2016	2015
Revenues	*1*	25,914,958	28,145,432
Total revenues		**25,914,958**	**28,145,432**
Raw and ancillary materials, consumables and goods	*2*	(53,417)	(97,094)
Materials consumed		**(53,417)**	**(97,094)**
Payroll costs	*3*	(7,063,670)	(5,445,267)
Services and other operating expenses	*4*	(31,594,723)	(32,441,007)
Provisions	*5*	-	110,492
Amortization and depreciation	*6*	(108,844)	(60,118)
EBIT		**(12,905,696)**	**(9,787,562)**
Financial income (expenses)	*7*	141,082,222	74,263,697
PROFIT (LOSS) BEFORE TAXES		**128,176,526**	**64,476,135**
Income taxes	*8*	(2,409,117)	2,880,847
NET PROFIT (LOSS)		**125,767,409**	**67,356,982**

STATEMENT OF COMPREHENSIVE INCOME

(Amounts in Euro)	2016	2015
Net profit (loss)	**125,767,409**	**67,356,982**
- Change in fair value of cash flow hedges and financial assets available for sale	(1,640,164)	850,033
- Tax effect on change in fair value of cash flow hedges and financial assets available for sale	337,919	(399,591)
Total other comprehensive income will subsequently reclassified to profit (loss) for the year	*(1,302,245)*	*450,442*
- Actuarial valuation funds	(3,606)	20,397
- Tax effect of actuarial valuation funds	865	(10,434)
Total other comprehensive income will not subsequently reclassified to profit (loss) for the year	*(2,741)*	*9,963*
Other components of comprehensive income	**(1,304,986)**	**460,405**
Total comprehensive income	**124,462,423**	**67,817,387**

Appendix 4 reports the effect of related-party transactions on the income statement, as required by CONSOB resolution 15519 of 27 July 2006.

STATEMENT OF FINANCIAL POSITION

ASSETS (Amounts in Euro)	Notes	31.12.2016	31.12.2015
ATTIVITA' NON CORRENTI			
INTANGIBLE ASSETS		14,469	25,188
- Other intangible assets	9	14,469	25,188
TANGIBLE ASSETS		239,911	81,307
- Land, property, plant and machinery	10	192,546	-
- Other tangible assets	11	47,365	81,307
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		565,001,685	566,266,753
- Equity investments	12	560,265,420	560,627,588
- Receivables	13	39,249	952,366
- Other financial assets	14	4,697,016	4,686,799
DEFERRED TAX ASSETS	15	-	1,920,039
TOTAL NON-CURRENT ASSETS		**565,256,065**	**568,293,287**
CURRENT ASSETS			
INVENTORIES		-	-
TRADE RECEIVABLES	16	29,056,356	31,276,210
CURRENT TAX ASSETS	17	3,736,106	3,736,106
OTHER RECEIVABLES	18	3,371,170	4,219,050
CURRENT FINANCIAL RECEIVABLES AND ASSETS	19	1,759,871	35,608,758
CASH AND CASH EQUIVALENTS	20	24,503	26,117
TOTAL CURRENT ASSETS		**37,948,006**	**74,866,241**
TOTAL ASSETS		**603,204,071**	**643,159,528**

NET EQUITY AND LIABILITIES (Amounts in Euro)		31.12.2016	31.12.2015
NET EQUITY			
NET EQUITY		393,877,302	334,829,100
- Share capital	21	224,250,000	224,250,000
- Reserves	22	43,859,893	43,222,118
- Net profit (loss)		125,767,409	67,356,982
TOTAL NET EQUITY		**393,877,302**	**334,829,100**
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES		73,856,008	78,570,165
- Bank loans and borrowings (long-term portion)	23	-	-
- Other financial payables (long-term portion)	24	73,856,008	78,570,165
DEFERRED TAX LIABILITIES	15	449,939	-
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		3,525,591	1,868,071
- Employee benefits	25	3,025,941	1,368,421
- Other provisions	26	499,650	499,650
TOTAL NON-CURRENT LIABILITIES		**77,831,538**	**80,438,236**
CURRENT LIABILITIES			
TRADE PAYABLES	27	20,458,117	21,176,990
FINANCIAL PAYABLES		100,253,567	197,538,617
- Bank loans and borrowings (short-term portion)	23	1,082	92,947
- Other financial payables (short-term portion)	24	100,252,485	197,445,670
CURRENT TAX LIABILITIES	28	25,831	77,939
OTHER PAYABLES	29	10,757,716	9,098,646
TOTAL CURRENT LIABILITIES		**131,495,231**	**227,892,192**
		603,204,071	**643,159,528**

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*	2016	2015
Net profit (loss)		125,767,409	67,356,982
Income taxes for the period		2,409,117	(2,880,847)
Income for dividends receipt		(145,416,166)	(78,580,883)
Amortization and depreciation		108,843	60,118
Net change in provisions		1,787,525	(3,638,635)
Cash flow absorbed by current operations (A)		**(15,343,272)**	**(17,683,265)**
Change in assets and liabilities for the period:			
Trade receivables		2,219,854	(6,174,167)
Trade payables		(718,873)	1,373,430
Other current assets and liabilities		2,758,847	19,521,375
Payment of income taxes		(4,359)	(14,767,387)
Cash flow generated (absorbed) by changes in working capital (B)		**4,255,469**	**(46,749)**
Cash flow absorbed by current operations and changes in working capital (A+B)		**(11,087,803)**	**(17,730,014)**
Investment activities:			
Investments in intangible assets		-	(14,000)
Investments in tangible assets		(256,728)	-
Net investments in equity investments and other financial assets		362,168	(25,000,000)
Dividends receipt		180,416,166	45,580,883
Cash flow generated by investment activities (C)		**180,521,606**	**20,566,883**
Dividends paid		(65,780,000)	(61,295,000)
Payment of interests on loans		(3,227,620)	(3,333,353)
Repayment of loans and other net changes in source of finance		(100,427,797)	61,790,133
Cash flow absorbed by changes in net equity and by financing activities (D)		**(169,435,417)**	**(2,838,220)**
Decrease in cash and cash equivalents (A+B+C+D)		**(1,614)**	**(1,351)**
Opening cash and cash equivalents	*20*	**26,117**	**27,468**
Decrease in cash and cash equivalents (A+B+C+D)		(1,614)	(1,351)
Closing cash and cash equivalents	*20*	**24,503**	**26,117**

Appendix 2 presents the statement of cash flows at 31 December 2016 in terms of net financial position, that represents gross financial liabilities less cash and cash equivalents and other financial receivables. The individual items in the statement of financial position are analysed later in the paragraph *Detail of net financial position* .

STATEMENT OF CHANGES IN NET EQUITY

(Amounts in Euro)	SHARE CAPITAL	SHARE PREMIUM RESERVE	LEGAL RESERVE	EXTARORDINARY RESERVE	FAIR VALUE AND CASH FLOW HEDGE RESERVE	STOCK OPTION RESERVE	ACTUARIAL EVALUATION RESERVE	PROFIT (LOSS) CARRIED FORWARD	PROFIT (LOSS) FOR THE PERIOD	TOTAL
Balance at 31 December 2014	**224,250,000**	**162,545**	**12,225,396**	**19,420,909**	**(5,033,595)**	**-**	**(114,728)**	**10,441,324**	**66,954,862**	**328,306,713**
Allocation of 2014 result as per AGM resolution of 14 April 2015										
- distribution of dividends									(61,295,000)	(61,295,000)
- allocation to reserves			3,347,743	2,312,119					(5,659,862)	-
Movements from transactions with shareholders	**-**	**-**	**3,347,743**	**2,312,119**	**-**	**-**	**-**	**-**	**(66,954,862)**	**(61,295,000)**
Profit (loss) after taxes									67,356,982	67,356,982
Other components of comprehensive income					450,442		9,963			460,405
Comprehensive income (loss)	**-**	**-**	**-**	**-**	**450,442**	**-**	**9,963**	**-**	**67,356,982**	**67,817,387**
Balance at 31 December 2015	**224,250,000**	**162,545**	**15,573,139**	**21,733,028**	**(4,583,153)**	**-**	**(104,765)**	**10,441,324**	**67,356,982**	**334,829,100**

(Amounts in Euro)	SHARE CAPITAL	SHARE PREMIUM RESERVE	LEGAL RESERVE	EXTARORDINARY RESERVE	FAIR VALUE AND CASH FLOW HEDGE RESERVE	STOCK OPTION RESERVE	ACTUARIAL EVALUATION RESERVE	PROFIT (LOSS) CARRIED FORWARD	PROFIT (LOSS) FOR THE PERIOD	TOTAL
Balance at 31 December 2015	**224,250,000**	**162,545**	**15,573,139**	**21,733,028**	**(4,583,153)**	**-**	**(104,765)**	**10,441,324**	**67,356,982**	**334,829,100**
Allocation of 2015 result as per AGM resolution of 14 April 2016										
- distribution of dividends				(1,790,867)					(63,989,133)	(65,780,000)
- allocation to reserves			3,367,849						(3,367,849)	-
Fair value Stock Option						365,779				365,779
Movements from transactions with shareholders	**-**	**-**	**3,367,849**	**(1,790,867)**	**-**	**365,779**	**-**	**-**	**(67,356,982)**	**(65,414,221)**
Profit (loss) after taxes									125,767,409	125,767,409
Other components of comprehensive income					(1,302,245)		(2,741)			(1,304,986)
Comprehensive income (loss)	**-**	**-**	**-**	**-**	**(1,302,245)**	**-**	**(2,741)**	**-**	**125,767,409**	**124,462,423**
Balance at 31 December 2016	**224,250,000**	**162,545**	**18,940,988**	**19,942,161**	**(5,885,398)**	**365,779**	**(107,506)**	**10,441,324**	**125,767,409**	**393,877,302**

EXPLANATORY NOTES

COMPANY BUSINESS

De'Longhi S.p.A., a company with its registered office in Treviso whose shares are listed on the Italian stock exchange run by Borsa Italiana, is the parent company of the De'Longhi Group and performs holding company activities involving the management and supply of centralized services to its subsidiaries and the management of subsidiary undertakings.

ACCOUNTING STANDARDS

The financial statements of De'Longhi S.p.A. at 31 December 2016 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 2014), 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 2016 are the same as those used for preparing the financial statements at 31 December 2015, except for certain new amendments and accounting standards described below.

The financial statements at 31 December 2016 comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in net equity and these explanatory notes.
The statement of financial position has been prepared on a basis that distinguishes between current and non-current items.
The income statement has been presented on the basis of the nature of expense, being a suitable structure for faithfully representing the company's performance.
The statement of cash flows has been prepared using the "indirect method" allowed by IAS 7.

The present financial statements and notes are presented in Euro (the company's functional currency) with all amounts in financial statements presented in Euro, as required by the Italian Civil Code, while amounts in explanatory notes are rounded to thousands of Euro, unless otherwise indicated.

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

The risks and uncertainties relating to the business are described in a specific section of the Report on operations. The methods used by the company to manage financial risks are described in *note 33.Risk management* of the present Explanatory notes.

The amendments to international financial reporting standards that apply as from the financial statements at 31 December 2016 are described below:

Amendments and new accounting standards applied for the first time by the Company

This financial report complies with the amendments and new accounting standards which became mandatory beginning 1 January 2016 as established by the European Commission in the regulations published in the Official Gazette.

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

On 23 November 2015 the EC Regulation 2015/2113 was published in the Official Gazette which adopts the amendments to IAS 16 *Property, plant and equipment* and IAS 41 *Agriculture* relative to including bearer plants within the scope of IAS 16.

On 24 November 2015 EC Regulation 2015/2173 was published which introduces a few changes to IFRS 11 *Joint arrangements* relating to the acquisition of interests in joint arrangements; more in detail, the Regulation establishes that when an entity acquires an interest in a joint operation considered a business pursuant to and in accordance with IFRS, the interest held should be accounted for using the standards outlined in IFRS 3 *Business combinations.*

On 2 December 2015 the EC Regulation 2015/2231 was published in the Official Gazette which adopts some of the amendments made to IAS 16 *Property, plant and equipment* and IAS 38 *Intangible assets* relating, in particular, to amortization and depreciation. The Regulation clarifies that it is not appropriate to calculate amortization and depreciation for both property, plant and equipment and intangible assets based on the revenue generated by the asset.

In Regulation 2015/2343 of 15 December 2015 the European Commission adopted the changes introduced by IASB in the *Annual Improvements to International Financial Reporting Standards 2012-2014 Cycle,* ("the annual improvements"), as part of its regular improvement process which aims at streamlining and clarifying the international standards. Clarification was provided relative to terms found in IFRS 5 *Non-current assets held for sale,* IFRS 7 *Financial instruments*, IAS 19 *Employee benefits* and IAS 34 *Interim financial reporting.*

On 18 December 2015 Regulation 2015/2406 and Regulation 2015/2441 were published in the Official Gazette. The first introduces a few changes to IAS 1 *Presentation of financial statements* which seek to improve the efficacy of the information provided; the second adopts a few amendments made to IAS 27 *Separate financial statements* which will allow an entity to use the equity method, described in IAS 28 *Investments in associates and joint ventures*, to account for investments in subsidiaries, joint ventures and associates in their respective financial statements.

Regulation 2016/1703 of 22 September 2016 amended IFRS 10 *Consolidated Financial Statements,* IFRS 12 *Disclosure of interests in other entities* and IAS 28 *Investments in associates and joint ventures*, in order to clarify the accounting of investment entities and provide for exemptions in certain situations.

International financial reporting standards and/or interpretations endorsed by the European Union in 2016 but not yet applicable

The Commission Regulation (EU) n. 2016/1905 of 22 September 2016 adopts IFRS 15 *Revenue from Contracts with Customers*.
The new standard contains a 5–point guide relating to the treatment of all customer contracts with the exception of contracts relating to leasing, insurance, financial instruments and non-monetary exchanges.
The five points relate to: identifying the contract, identifying performance guidelines, determining the transaction price, allocating the transaction price to performance obligations, recognition of revenue.
The standard establishes that the revenue must be recognized when the obligation is performed, namely when the promised good (or service) is transferred to the customer.
The consideration in the contract with the customer may include fixed, variable or both amounts. In the case of variable components, the consideration must be estimated correctly based on reasonably available information (historical, current and forecasts).
The amounts owed for royalties are an exception as they may be recognized only after the underlying sale or usage has been completed.
The standard provides specific indications with respect to the allocation of the transaction price between the performance obligations, amendment of the transaction price and the definition of incremental contract costs.
The operating guide, which constitutes an integral part of the standard, provides great detail about various topics including sales with the right of return, consignment agreements, and deferred delivery sale agreements.

With Regulation 2016/2067 of 22 November 2016 the European Commission adopted IFRS 9 – *Financial Instruments* which introduces new requirements for the classification and measurement of financial assets previously reported based on IAS 39.
The new standard divides all financial assets into two classifications, namely those measured at amortized cost and those measured at fair value.
Financial assets that satisfy two conditions are measured at amortized cost: the objective of the entity's business model is to hold the financial asset to collect the contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.
All other financial assets must be measured at fair value through profit or loss.

The changes introduced in the above mentioned regulations will be applicable beginning on or after 1 January 2018.

The Company did not apply any new standards, interpretations or amendments endorsed, but not yet applicable, in advance; application of these revised standards is not, however, expected to have a material impact on the income statement or net equity.

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

International Standard Board (IASB) published the new standard IFRS 16 *Leases* which has yet to be endorsed by the European Union which is applicable beginning on or after 1 January 2019.
The new standard eliminates the distinction between financial and operating leases for lessors and establishes a single category.
As for the lessee, the standard does not introduce significant changes, leaving the distinction between the two categories and the relative accounting treatment unchanged. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
Control is conveyed where the customer has both the right to direct the identified asset's use and to obtain substantially all the economic benefits from that use
Based on IFRS 16, the lessee recognizes a right-of-use asset, treated similarly to other goods and amortized, and an interest-bearing liability for leasing.
The liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease, if that can be readily determined, or at the borrowing rate.
Leases with a term of less than twelve months without purchase options and leases when the underlying asset has a low value may be recognized as an expense over the term of the lease or based on another systematic basis.

While this new principle was not adopted in advance, the Company has begun to assess the possible impact of its application. At the date of this annual report, the effects have yet to be quantified.

Disclosure by operating segments

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

PRINCIPAL ACCOUNTING POLICIES

Intangible assets

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

Property, plant and equipment

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

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

Industrial buildings	4 years
Industrial and commercial equipment	1 year
Other	4 – 8 years

Impairment of non-financial assets

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

Assets and liabilities held for sale and Discontinued Operations

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

Financial instruments

Financial assets

All financial assets are initially recognized at fair value, corresponding to the consideration paid plus all directly attributable acquisition costs. They are recognized on the trade date, meaning the date when the Company makes a commitment to buy or sell the asset. Financial assets are derecognized only when all the associated risks and rewards are substantially transferred together with the assets; if such risks and rewards are not substantially transferred or retained, the Company derecognizes the assets when it no longer has control of them.
The Company reviews at every reporting date whether a financial asset or group of financial assets has suffered any impairment. If there is objective evidence of impairment, the related loss is recognized in the income statement.

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

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

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

Receivables:
These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets, except for those contractually due after more than twelve months from the reporting date, which are classified as non-current assets. The latter are measured at amortized cost using the effective interest method.
Receivables which are due after more than one year and which bear no interest or interest at a rate below the market one, are discounted to present value using market rates.
If there is objective evidence that an asset is impaired, its carrying amount is reduced to the present value of the estimated future cash flows. Impairment losses are recognized in the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the carrying amount of the asset is reinstated but to no more than what its amortized cost would have been had the impairment not been recognized.

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

Equity investments in subsidiary and associated companies:
Equity investments in subsidiary and associated companies are carried at cost less any impairment losses. These equity investments are tested for impairment once a year, or more often if specific events or circumstances indicate evidence of possible impairment. If there is evidence that these equity investments are impaired, the impairment loss is recognized in the income statement. If the company's share of losses in an equity investment exceeds the book value of the investment, and the company has an obligation to answer for them, the value of the equity investment is reduced to zero and the company's share of additional losses is recognized as a provision classified under liabilities. If the impairment loss subsequently disappears or is reduced, the value of the equity investment is reinstated through the income statement but to no more than its original cost.

The Company's financial assets are classified as both current and non-current assets.
"Non-current equity investments and other financial assets" include equity investments and non-current loans and receivables.

Current financial assets include trade receivables, other current financial assets, the positive fair value of derivatives and cash and cash equivalents.

Cash and cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial liabilities

Financial payables are initially recognized at fair value, less any transaction costs directly attributable to the issue of the liability itself. Subsequent to initial recognition, financial liabilities are valued on the basis of amortized cost, using the effective interest method.

Derivatives

Derivatives are used solely for hedging purposes, in order to reduce exposures to currency and interest rate risk. As allowed by IAS 39, derivatives may qualify for special hedge accounting only when, at the inception of the hedge, the following conditions are satisfied:
- there is a formal designation that the instrument is a hedging one;
- there is formal documentation of the hedging relationship, which is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is highly effective throughout the different financial reporting periods for which it was designated.

IAS 39 requires that all derivatives be measured at fair value.

If financial instruments qualify for hedge accounting, the following treatment applies:

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

Cash flow hedge – If a derivative instrument is designated as a hedge of the exposure to variability in cash flows attributable to a highly probable forecast transaction which will affect profit or loss, the effective portion of the gains or losses on the hedging instrument is recognized directly in the statement of comprehensive income. The effective portion of the cumulative gains or losses are reversed from net equity and reclassified to profit or loss in the same period in which the hedged transaction is reported in the income statement. Gains or losses associated with a hedge or part thereof that has become ineffective are reclassified to the income statement.

If a hedging instrument or hedging relationship is terminated, but the transaction being hedged has not yet occurred, the cumulative gains and losses, recorded up until then in the statement of comprehensive income, are reported in the income statement at the same time that the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the unrealized gains or losses reported directly in net equity are immediately reclassified to the income statement. If hedge accounting cannot be applied, the gains or losses arising from the fair value measurement of the derivatives are transferred immediately to the income statement.

Employee benefits

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

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

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

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

Provisions for contingencies and other charges

The Company recognizes provisions for contingencies and charges when (i) it has a present obligation (legal or constructive) to third parties (ii) it is probable that the company will need to employ resources to settle the obligation and (iii) a reliable estimate can be made of the amount of the obligation. Changes in these estimates are reflected in the income statement in the period in which they occur (also see the comments in the paragraph on "Estimates and assumptions".)
Where the effect of the time value of money is material and the date of extinguishing the liability can be reasonably estimated, provisions are stated at the present value of the expected expenditure, using a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.
An increase in the amount of the provision for the time value of money is accounted for in interest expense.
Contingencies for which the probability of a liability is remote are disclosed in the notes but no provision is recognized.

Revenue recognition

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

Costs and expenses

Costs and expenses are accounted for on an accrual basis.

Dividends

Dividend distributions represent a movement in net equity in the period in which they are declared by the shareholders in general meeting.
Dividends received are recognized in the income statement when the shareholder's right to receive payment is established.

Income taxes

Income taxes include all the taxes calculated on the Company's taxable income. Income taxes are recorded in the income statement, except for those relating to items directly debited or credited to net equity, in which case the associated tax is recognized directly in net equity.
Deferred taxes are provided on the basis of global provision for the liability. They are calculated on all the temporary differences emerging between the tax base of an asset or liability and their book value, except for differences arising from investments in subsidiaries which are not expected to reverse in the foreseeable future.
Deferred tax assets on the carryforward of unused tax losses and tax credits are recognized to the extent that it is probable that future taxable profit will be available against which these can be recovered. Current and deferred tax assets and liabilities may be offset when the income taxes are charged by the same tax authority and when there is a legal right of set-off.
Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability settled.
Deferred taxes on reserves of distributable earnings in subsidiaries are recognized only if it is probable that such reserves will be distributed.

Estimates and assumptions

These financial statements, prepared in accordance with IFRS, contain estimates and assumptions made by the Company relating to assets and liabilities, costs, revenues and contingent liabilities at the reporting date. These estimates are based on past experience and assumptions considered to be reasonable and realistic, based on the information available at the time of making the estimate.
The assumptions relating to these estimates are periodically reviewed and the related effects reflected in the income statement in the same period; actual results could therefore differ from these estimates.
The following paragraphs discuss the principal assumptions used for estimation purposes and the principal sources of uncertainty, that have a risk of causing material adjustment to the book value of assets and liabilities in the future; details of book value can be found in the individual explanatory notes.

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

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

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

COMMENTS ON THE INCOME STATEMENT

1. REVENUES

These are analyzed as follows:

	2016	2015	Change
Out-of-period gains	24	191	(167)
Damages reimbursed	34	-	34
Other income	25,857	27,954	(2,097)
Total	**25,915**	**28,145**	**(2,230)**

"Other income" include €23,630 thousand in revenue from related parties, as reported in Appendix 4.
These revenues primarily refer to costs charged back to Group companies related to commissions/incentives paid to clients – international commercial Groups and global marketing costs.

2. RAW AND ANCILLARY MATERIALS, CONSUMABLES AND GOODS

These are analyzed as follows:

	2016	2015	Change
Other purchases	53	97	(44)
Total	**53**	**97**	**(44)**

3. PAYROLL COSTS

The figures relating to the provisions made by the Company relative to defined and long-term benefits are summarized in the section on provisions.

4. SERVICES AND OTHER OPERATING EXPENSES

These are analyzed as follows:

	2016	2015	Variazione
Incentives paid to clients – international commercial groups - global marketing costs	18,355	18,961	(606)
Travel and entertaining	4,592	4,033	559
Insurance	3,198	3,879	(681)
Directors' emoluments	2,508	2,454	54
Consulting services	1,443	1,662	(219)
Rentals and leasing	317	311	6
Statutory auditors' emoluments	146	146	-
Telecommunication costs	74	77	(3)
Advertising and promotional activities	25	20	5
Other sundry services	643	567	76
Total services	**31,301**	**32,110**	**(809)**
Sundry taxes	98	180	(82)
Other	196	151	45
Total other operating expenses	**294**	**331**	**(37)**
Total services and other operating expenses	**31,595**	**32,441**	**(846)**

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

"Services and other operating expenses" include €6,421 thousand in costs from related parties, as reported in Appendix 4.

5. PROVISIONS

Non provisions were made in the year (see note *26.Other provisions*).

6. AMORTIZATION AND DEPRECIATION

These are analyzed as follows:

	2016	2015	Change
Depreciation of property, plant and equipment	98	41	57
Amortization of intangible assets	11	19	(8)
Total	**109**	**60**	**49**

7. FINANCIAL INCOME (EXPENSES)

Net financial income and expenses are broken down as follows:

	2016	2015	Change
Dividends	145,416	78,581	66,835
Gain on investments disposal	232	-	232
Financial income (expenses) from equity investments	**145,648**	**78,581**	**67,067**
Gains (losses) on currency hedging transactions	2,563	8,089	(5,526)
Exchange gains (losses)	(2,770)	(7,558)	4,788
Exchange gains (losses)	**(207)**	**531**	**(738)**
Bank interest income	3	4	(1)
Financial income	**3**	**4**	**(1)**
Interest expense on long-term loans and borrowings	-	(155)	155
Interest expenses on bonds	(2,744)	(2,659)	(85)
Interest expense on short-term loans and borrowings	(1,468)	(2,737)	1,269
Financial expenses	**(4,212)**	**(5,551)**	**1,339**
Other sundry income (expenses)	(150)	699	(849)
Other financial income (expenses)	**(150)**	**699**	**(849)**
Financial income (expenses)	**141,082**	**74,264**	**66,818**

"Financial income (expenses)" includes €143,860 thousand in income from group companies, as reported in Appendix 4.

Dividends relate primarily to amounts declared by the subsidiaries De Longhi Benelux S.A., De’Longhi Appliances S.r.l., De’Longhi Deutschland Gmbh, De’Longhi Kenwood Gmbh, E-Services S.r.l. and De’Longhi Capital Services S.r.l..

8. INCOME TAXES

These are analyzed as follows:

	2016	2015	Change
Current tax assets	300	4,286	(3,986)
Advanced (deferred) taxes	(2,709)	(1,405)	(1,304)
Total	**(2,409)**	**2,881**	**(5,290)**

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

"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 *15. Deferred tax assets and deferred tax liabilities*.

The actual and theoretical tax charge are reconciled as follows:

	2016	%	2015	%
Profit before taxes	128,177	100%	64,476	100%
Theoretical taxes	(35,248)	27,5%	(17,731)	27,5%
Permanent tax differences (dividends, net of disallowable costs) and other effects	32,839	25,6%	20,612	32,0%
Actual taxes	**(2,409)**	**(1,9%)**	**2,881**	**4,5%**

COMMENTS ON THE STATEMENT OF FINANCIAL POSITION: ASSETS

NON-CURRENT ASSETS

9. INTANGIBLE ASSETS

These are analyzed as follows:

	31 December 2016		31 December 2015		
	Gross	**Net**	**Gross**	**Net**	**Change**
Patents	130	14	130	25	(11)

The following table reports movements during 2016:

	Patents
Net opening balance	**25**
Amortization	(11)
Net closing balance	**14**

10. LAND, PROPERTY, PLANT AND MACHINERY

These are analyzed as follows:

	31 December 2016		31 December 2015		
	Gross	**Net**	**Gross**	**Net**	**Change**
Land and buildings	257	193	-	-	193
Total	**257**	**193**	**-**	**-**	**193**

The following table reports movements during 2016:

	Land and buildings
Net opening balance	**-**
Additions	257
Amortization	(64)
Net closing balance	**193**

11. PROPERTY, PLANT AND EQUIPMENT

These are analyzed as follows:

	31 December 2016		31 December 2015		
	Gross	**Net**	**Gross**	**Net**	**Change**
Industrial and commercial equipment	17	-	17	-	-
Other	203	47	203	81	(34)
Total	**220**	**47**	**220**	**81**	**159**

The following table reports movements during 2016:

	Other
Net opening balance	**81**
Additions	-
Amortization	(34)
Net closing balance	**47**

12. EQUITY INVESTMENTS

These are analyzed as follows:

	31 December 2016	**31 December 2015**	**Change**
De'Longhi Appliances S.r.l.	242,678	242,678	-
De Longhi Benelux S.A.	266,737	266,737	-
De'Longhi Deutschland GmbH	40,800	40,800	-
De'Longhi Capital Services S.r.l.	6,005	6,005	-
De'Longhi Kenwood GmbH	2,900	2,900	-
De'Longhi Romania S.r.l.	1,065	1,065	-
Clim.Re S.A.	54	54	-
E-Services S.r.l.	26	26	-
De'Longhi Polska Sp.Zo.o.	-	-	-
Total subsidiaries	**560,265**	**560,265**	
MEHIT Holding S.r.l.(*)	-	362	(362)
Total other equity investments	**-**	**362**	**(362)**
Total equity investments	**560,265**	**560,627**	**(362)**

(*) Previously named DeLclima S.p.A..

The list of equity investments and the related movements during 2016 can be found in Appendix 3.

In February 2016 the Company adhered to the mandatory tender offer launched by Mitsubishi Electric Corporation and disposed of all its shares in MEHIT Holding S.r.l. (previously named DeLclima S.p.A.).

The recoverability of the value of the equity investments has been tested for impairment by applying the Discounted Cash Flow method to cash flow forecasts contained in the three-year plans approved by management. These plans have been prepared assuming realistic scenarios based on the information available at the reporting date, also taking account of the budget approved for 2017 in respect of the subsidiaries. Plan data was projected beyond the explicit planning period using a perpetuity growth rate that was no higher than those expected for the markets in which the individual cash-generating units (CGUs) operate. The growth rate in terminal values used for projecting beyond the planning period was 2% for all the CGUs.

The cash flows and discount rate were determined net of tax. The discount rate of 6.2%, used for all the CGUs and so also for the equity investments, reflects current market assessments of the time value of money and takes account of the risks specific to the sector.

The impairment tests carried out at the end of 2016 have not revealed any significant evidence that equity investments are impaired. The results obtained using the discounted cash flow method have been tested for their sensitivity to changes in certain key variables, within reasonable ranges and on the basis of mutually consistent assumptions. The variables altered were the discount rate (between 6.0% and 6.4%) and the growth rate in terminal value (in the range 1.8% - 2.2%). The sensitivity analysis has revealed relatively stable results; in fact, the minimum and maximum amounts diverged by around 10% from the central point when both variables were altered, while the divergence was considerably smaller when more reasonable assumptions regarding the change in variables were adopted.

13. NON-CURRENT RECEIVABLES

This balance is analyzed as follows:

	31 December 2016	31 December 2015	Change
Receivables from subsidiary companies	39	952	(913)
Total	**39**	**952**	**(913)**

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

14. OTHER NON-CURRENT FINANCIAL ASSETS

Details are as follows:

	31 December 2016	31 December 2015	Change
Fair value of derivatives	4,697	4,687	10
Total	**4,697**	**4,687**	**10**

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

15. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

"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, and the distributable earnings of subsidiaries.

Details are as follows:

	31 December 2016			31 December 2015			Effect on income statement
	Taxable amount	Tax rate	Total tax	Taxable amount	Tax rate	Total tax	
Provisions for contingencies and other charges	3,069	24.0%	736	1,430	24.0%-27.5%	343	393
Other temporary differences	1,003	24.0%	241	180	24.0%-27.5%	23	218
Total deferred tax assets booke the income statement	**4,072**		**977**	**1,610**		**366**	**611**
Reserves distributable by subsidiaries	**(13,832)**	**24,0%**	**(3,320)**	-	-	-	**(3,320)**
Deferred tax assets on tax losses	-	-	-	-		-	-
Fair value of cash flow hedge derivatives	7,744	24.0%	1,859	6,336	24.0%	1,521	-
Actuarial valuation of provision according to IAS 19	141	24.0%	34	138	24.0%	33	-
Total temporary differences booke net equity	**7,885**		**1,893**	**6,474**		**1,554**	-
Net total	**(1,875)**		**(450)**	**8,084**		**1,920**	**(2,709)**

"Reserves distributable by subsidiaries" refer to the deferred tax calculated on the accumulated reserves of subsidiaries that are potentially distributable in the future.

There are no temporary differences or carryforward tax losses for which deferred tax assets have not been recognized.

CURRENT ASSETS

16. TRADE RECEIVABLES

These are analyzed as follows:

	31 December 2016	31 December 2015	Change
Trade receivables due within 12 months	29,082	31,302	(2,220)
Allowance for bad debts	(26)	(26)	-
Total	**29,056**	**31,276**	**(2,220)**

Trade receivables are stated net of an allowance for doubtful accounts of €26 thousand, representing the estimated risk at the reporting date.

"Trade receivables" include €26,816 thousand in receivables from related parties, as reported in Appendix 4.

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

	31 December 2015	Increases	Utilization	31 December 2016
Allowance for bad debts	26	-	-	26

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

17. CURRENT TAX ASSETS

These are detailed as follows:

	31 December 2016	31 December 2015	Change
Direct taxes	3,736	3,736	-
Total	**3,736**	**3,736**	**-**

In 2016, 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,.

More in detail, for the three-year period 2016 – 2018, the Company exercised the option to adhere to "Domestic Tax Consolidation" as part of the tax group formed by the Parent Company De Longhi Industrial S.A..

This item refers to credits for which a refund has been requested.

18. OTHER RECEIVABLES

These are analyzed as follows:

	31 December 2016	31 December 2015	Change
VAT receivables	826	1,323	(497)
Advances to suppliers	256	253	3
Prepaid costs	14	17	(3)
Employees	12	3	9
Other	2,263	2,623	(360)
Total	**3,371**	**4,219**	**(848)**

"Prepaid costs" mainly refer to the payment of insurance premiums relating to the following year.

Other receivables include €464 thousand in amounts due from related parties, as reported in Appendix 4.

None of the other receivables is due beyond 12 months.

19. CURRENT FINANCIAL RECEIVABLES AND ASSETS

These are analyzed as follows:

	31 December 2016	31 December 2015	Change
Fair value of derivatives	1,760	609	1.151
Financial receivables	-	35,000	(35,000)
Total	**1,760**	**35,609**	**(33,849)**

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

None of the current financial receivables is due beyond 12 months.

20. CASH AND CASH EQUIVALENTS

This balance consists of surplus liquidity on bank current accounts.

COMMENTS ON THE STATEMENT OF FINANCIAL POSITION: NET EQUITY

NET EQUITY

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

The annual general meeting (AGM) of De'Longhi S.p.A. held on 14 April 2016 declared a dividend totalling €65,780 thousand.

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

21. SHARE CAPITAL

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

During the above mentioned Annual General Meeting, shareholders of De'Longhi S.p.A. resolved to increase share capital against payment by up to a maximum nominal amount of €3,000,000 by 31 December 2022 through the issue, including on one or more occasions, of a maximum of 2,000,000 ordinary shares with a par value of €1.5 each with the characteristics of the ordinary shares outstanding at the issue date and dividend rights, to service the stock option plan.
A total of 1,830,000 shares were assigned at 21 November 2016.

22. RESERVES

These are analyzed as follows:

	31 December 2016	31 December 2015	Change
Share premium reserve	163	163	-
Legal reserve	18,941	15,573	3,368
Other reserves:			
- Extraordinary reserve	19,942	21,733	(1,791)
- Stock option reserve	366	-	366
- Fair value and cash flow hedge reserve	(5,885)	(4,583)	(1,302)
- Actuarial valuation reserve	(108)	(105)	(3)
- Profit (loss) carried forward	10,441	10,441	-
Total	**43,860**	**43,222**	**638**

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

The "Legal reserve" has a balance of €18,941 thousand at 31 December 2016. The increase of €3,368 thousand with respect to 31 December 2015 follows the allocation of profit for 2015, as approved by the AGM on 14 April 2016.

The "Extraordinary reserve" has a balance of €19,942 thousand. The decrease of €1,791 thousand with respect to 31 December 2015 follows the allocation of profit for 2015, as approved by the AGM on 14 April 2016.

The "stock option" reserve amounted to €366 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.
During the Annual General Meeting held on 14 April 2016 shareholders approved the stock-based incentive plan "Stock option plan 2016-2022" reserved for the Chief Executive Officer of the parent company De'Longhi S.p.A. and a limited number of Group managers and key resources. 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 number of options to be assigned to each beneficiary will be defined by the Board of Directors based on the proposal of the Remuneration and Appointments Committee, on the recommendations of the Statutory Auditors, in relation to those options to be allocated to the C.E.O. of the Company, or a proposal of the Company's Chief Executive Officer in all other cases.
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. in the 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 May 15, 2019 and December 31, 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 Compensation Report for more information on the Plan.
For the purposes of valuation under IFRS 2 *Share-based payment*, two different tranches were defined which contain the same number of options broken down by the plan's two exercise periods. The fair value per share of amounted to € 5.3072 for the first tranche and to €5.2488 for the second.
The fair value of the stock options is determined using the Black-Scholes model which takes into account the conditions for the exercise of the right, the current share price, expected volatility, a risk free interest rate, as well as the non-vesting conditions.
Volatility is estimated based on the data of a market provider and corresponds to the estimated volatility of the stock over the life of the plan.
The assumptions used to determine the fair value of the options assigned in 2016 are shown below:

	2016
Expected dividends (Euro)	0.43
Estimated volatility (%)	33.230%
Historic volatility (%)	36.067%
Market interest rate	Euribor 6M
Expected life of the options (years)	2.51 / 3,53
Exercise price (Euro)	20.4588

The "Fair value and cash flow hedge reserve" reports a negative balance of €5,885 thousand, net of €1,859 thousand in tax. This amount reflects the negative fair value of the cash flow hedge derivatives.

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

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

Nature / Description:	**Amount**	**Permitted use**	**Available amount**
Share capital	224,250 [(1)]		
Capital reserves:			
- Share premium reserve	163 [(2)]	A, B	
Earnings reserves:			
- Stock option reserve	366		
- Legal reserve	18,941	B	
- Extraordinary reserve	19,942	A, B, C	19,942
- Fair value and cash flow hedge reserve	(5,885)		
- Actuarial valuation reserve	(108)		
- Profit (loss) carried forward	10,441	A, B, C	1,866
Total	**268,110** [(3)]		**21,808**
Undistributable amount			5,993
Distributable amount			**15,815**

[(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 2016 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 2016 tax return.

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

COMMENTS ON THE STATEMENT OF FINANCIAL POSITION: LIABILITIES

NON-CURRENT LIABILITIES

23. BANK LOANS AND BORROWINGS

Bank loans and borrowings are analyzed as follows:

	Within one year	One to five years	Beyond five years	Balance 31.12.2016	Within one year	One to five years	Beyond five years	Balance 31.12.2015	Change
Overdrafts	1	-	-	1	93	-	-	93	(92)
Total bank loans and borrowings	**1**	**-**	**-**	**1**	**93**	**-**	**-**	**93**	**(92)**

24. OTHER FINANCIAL PAYABLES

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

	31 December 2016	31 December 2015	Change
Negative fair value of derivatives (short-term portion)	1	10	(9)
Private placement (short-term portion)	7,365	-	7,365
Other short-term financial payables	92,886	197,436	(104,550)
Total short-term payables	**100,252**	**197,446**	**(97,194)**
Private placement (one to five years)	29,453	28,435	1,018
Total long-term payables (one to five years)	**29,453**	**28,435**	**1,018**
Private placement (beyond five years)	44,403	50,135	(5,732)
Total long-term payables (beyond five years)	**44,403**	**50,135**	**(5,732)**
Total	**174,108**	**276,016**	**(101,908)**

"Other short term financial payables" mainly include €92,758 thousand owed to De'Longhi Capital Services S.r.l. for centralized treasury management and €65 thousand for financial services rendered.

Private placement refers to the issue and placement of unsecured bonds with US institutional investors (the US Private Placement), completed in the 2012 of USD 85,000 thousand (equal to, at 31 December 2016, €81,221 thousand based on the amortized cost method).
The securities were issued in a single tranche and have a residual duration of 11 years. The bonds will accrue interest from the subscription date at a fixed rate of 4.25%.
The bond loan will be repaid yearly in equal capital instalments beginning September 2017 and ending September 2027, without prejudice to the ability to repay the entire amount in advance, for an average life of 10 years.

The securities are unrated and are not intended to be listed on any regulated markets.
The bond loan is subject to half-yearly financial covenants. At 31 December 2016 the covenants had not been breached.
The issue is not secured by collateral of any kind.

As a hedge to the bond loan, the Group stipulated a Cross Currency Interest Rate Swap agreement which covers both interest rate and exchange risk and calls for the exchange, on the same maturities as those of the bond loan, of interest payments and principal. An exchange rate for the principal and interest was, therefore, determined along with an interest rate for the amounts in Euro of 3.9775%.

All the principal other financial payables carry floating-rate interest, meaning that interest is based on a benchmark rate (usually 1 or 3-month Libor/Euribor) plus a spread, which depends on the nature of the payable

and its due date. As a result, the fair value of loans, obtained by discounting expected future interest payments at current market rates, is not materially different from the value reported in the financial statements. This is based on the fact that forecasts of future interest payments use an interest rate which reflects current market conditions (in terms of benchmark interest rates).

The bond loan was issued at a fixed rate but, the change in its fair value is compensated by the change in fair value of the derivative contract hedging both interest rate and exchange risk (*Cross Currency Interest Rate Swap*).

More details on the fair value of derivatives, hedging both exchange rate and interest rate risk, can be found in *note 33.Risk management.*

The balance includes €92,888 thousand in payables to Group companies, as reported in Appendix 4.

Net financial position

Details of the net financial position are as follows:

	31 December 2016	31 December 2015	Change
A. Cash	18	19	(1)
B. Cash equivalents	6	7	(1)
C. Securities	-	-	-
D. Total liquidity (A+B+C)	**24**	**26**	**(2)**
E. Current financial receivables and other securities	**1,760**	**35,609**	**(33,849)**
of which:			
Fair value of derivatives	*1,760*	*609*	*1,151*
F. Current bank loans and borrowings	(1)	(93)	92
G. Current portion of non-current debt	-	-	-
H. Other current financial payables	(100,252)	(197,446)	97,194
of which:			
Fair value of derivatives	*(1)*	*(10)*	*9*
I. Current financial debt (F+G+H)	**(100,253)**	**(197,539)**	**97,286**
J. Net current financial debt (D+E+I)	**(98,469)**	**(161,904)**	**63,435**
Non-current financial receivables and other securities	4,736	5,639	(903)
of which:			
Fair value of derivatives	*4,697*	*4,687*	*10*
K. Non-current bank loans and borrowings	-	-	-
L. Bonds	(73,856)	(78,570)	4,714
M. Other non-current payables	-	-	-
of which:			
Fair value of derivatives	-	-	-
N. Non-current financial debt (K+L+M)	**(69,120)**	**(72,931)**	**3,811**
Total net financial debt (J+N)	**(167,589)**	**(234,835)**	**67,246**

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

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

25. EMPLOYEE BENEFITS

These are analyzed as follows:

	31 December 2016	31 December 2015	Change
Provision for severance indemnities	463	452	11
Long term benefits	2,563	916	1,647
Total	**3,026**	**1,368**	**1,658**

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

	31 December 2016	Average 2016	31 December 2015	Average 2015
White collar	33	31	33	32
Senior managers	9	9	9	9
Total	**42**	**40**	**42**	**41**

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 2016	31 December 2015	Change
Defined benefit obligations	463	452	11

Net cost charged to income statement	31 December 2016	31 December 2015	Change
Current service cost	-	-	-
Interest cost on obligations	8	8	-
Total	**8**	**8**	**-**

Change in present value of obligations	31 December 2016	31 December 2015	Change
Present value at 1 January	**452**	**508**	**(56)**
Current service cost	-	-	-
Utilization of provision	(1)	(44)	43
Interest cost on obligations	8	8	-
Actuarial gain losses booked in the statement of comprehensive income	4	(20)	24
Present value at reporting date	**463**	**452**	**11**

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

Assumptions used	TFR 2016	TFR 2015
Discount rate	1.4%	2.0%
Future salary increases	1.4% – 2.4%	1.8% – 3.8%
Inflation rate	1.4%	1.8%

The long term benefits refer to an incentive plan 2015 – 2017 for which relative provisions were made on accrual basis. This plan, benefitting the Company's Chief Executive Officer as well as a few other executives of De'Longhi S.p.A., which were approved by the Company's Board of Directors on 11 November 2015; for more information please refer to the Annual Report on Remuneration.

26. OTHER PROVISIONS

Movements are as follows:

	31 December 2015	Utilization	Accrual	31 December 2015
Provision for uninsured liabilities	110	-	-	110
Other provisions for contingencies	390	-	-	390
Total	**500**	**-**	**-**	**500**

"Provisions for uninsured liabilities" include provisions made for disputes and potential liabilities, as well as the insurance deductibles payable relating to submitted claims.

CURRENT LIABILITIES

27. TRADE PAYABLES

This balance of €20,458 thousand represents the amount owed by the company to third parties and Group companies for the supply of services. Details of amounts owed to Group companies are reported in Appendix 4.

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

28. CURRENT TAX LIABILITIES

These are analyzed as follows:

	31 December 2016	31 December 2015	Change
Direct taxes	26	78	(52)
Total	**26**	**78**	**(52)**

This balance refers to substitute tax payables and do not include any amounts due beyond 12 months.

29. OTHER PAYABLES

These are analyzed as follows:

	31 December 2016	31 December 2015	Change
Payables towards Group companies	5,418	2,490	2,928
Withholdings payable	1,265	1,732	(467)
Employees	1,223	1,677	(454)
Social security institutions	389	701	(312)
Other	2,463	2,499	(36)
Total	**10,758**	**9,099**	**1,659**

"Payables towards Group companies" mostly refer to amounts owed as a result of the Company's decision to adopt a group tax election, under Chapter II Section II of Presidential Decree 917/86, and to pay VAT on a group basis, under the Ministerial Decree dated 13 December 1979, as described in note *17. Current tax assets*.

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

"Social security institutions" include €281 thousand in payables to Italy's principal social security agency (INPS), €55 thousand in payables to pension funds and €53 thousand in amounts owed to other welfare agencies.

There are no other payables due beyond 12 months.

30. COMMITMENTS

These are detailed as follows:

	31 December 2016	31 December 2015	Change
Guarantees given for the benefit of:			
De'Longhi Capital Services S.r.l.	298,997	288,997	10,000
DL Kenwood A.P.A. Ltd.	73,593	96,436	(22,843)
De'Longhi Australia PTY Ltd.	18,828	16,077	2,751
De'Longhi Japan Corp.	13,047	12,284	763
Dong Guan De'Longhi Kenwood Appliances Co. Ltd.	9,487	9,185	302
De'Longhi LLC	7,778	37	7,741
De'Longhi Brasil Ltda.	7,685	4,268	3,417
De'Longhi Romania S.r.l.	6,215	49	6,166
De'Longhi Appliances S.r.l.	4,914	169	4,745
De'Longhi Kenwood Korea Ltd.	1,690	1,582	108
Kenwood Limited	876	-	876
DeLonghi South Africa Pty Ltd.	467	98	369
Elle S.r.l.	446	470	(24)
De'Longhi Kenwood MEIA FZE	388	-	388
De'Longhi Ukraine LLC	95	92	3
De'Longhi Scandinavia A.B.	86	89	(3)
De'Longhi New Zeland Ltd.	33	31	2
De'Longhi Polska Sp.Zo.o.	28	23	5
DL Chile S.A.	14	14	-
E-Services S.r.l.	11	11	-
Kenwood Appliances Malaysia Sdn. Bhd.	5	-	5
Total De'Longhi Group companies	**444,683**	**429,912**	**14,771**

The guarantees given in the interest of Group companies refer primarily to credit lines which have been partially drawn down and to short-term loans.

In addition to the above:
- as part of its factoring of trade receivables without recourse, the total exposure for which amounted to €120,082 at 31 December 2016 (€117,898 at 31 December 2015), the Company issued a surety and a credit mandate in the interest of its subsidiaries involved;
- the Company also issued a guarantee in the interest of subsidiaries relative to currency hedging, the positive fair value of which amounted to €18,460 thousand at 31 December 2016 (€11,170 at 31 December 2015);
- the Company also issued third party guarantees totalling €31 thousand.

No elements of risk as defined by IAS 37 have been noted to date.

31. CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

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

		Assets		
31/12/2016	**Book value**	**Loans and receivables**	**Available for sale**	**Derivatives**
Non-current assets				
- Equity investments (other)	-			
- Receivables	39	*39*		
- Other non-current financial assets	4,697			*4,697*
Current assets				
- Trade receivables	29,056	*29,056*		
- Current tax assets	3,736	*3,736*		
- Other receivables	3,371	*3,371*		
- Current financial receivables and assets	1,760			*1,760*
- Cash and cash equivalents	24	*24*		

		Liabilities	
31/12/2016	**Book value**	**Loans**	**Derivatives**
Non-current liabilities			
- Bank loans and borrowings (long-term portion)	-		
- Other financial payables (long-term portion)	(73,856)	*(73,856)*	
Current liabilities			
- Trade payables	(20,458)	*(20,458)*	
- Bank loans and borrowings (short-term portion)	(1)	*(1)*	
- Other financial payables (short-term portion)	(100,252)	*(100,251)*	*(1)*
- Current tax liabilities	(26)	*(26)*	
- Other payables	(10,758)	*(10,758)*	

		Assets		
31/12/2015	**Book value**	**Loans and receivables**	**Available for sale**	**Derivatives**
Non-current assets				
- Equity investments (other)	362		*362*	
- Receivables	952	*952*		
- Other non-current financial assets	4,687			*4,687*
Current assets				
- Trade receivables	31,276	*31,276*		
- Current tax assets	3,736	*3,736*		
- Other receivables	4,219	*4,219*		
- Current financial receivables and assets	35,609	*35,000*		*609*
- Cash and cash equivalents	26	*26*		

		Liabilities	
31/12/2015	**Book value**	**Loans**	**Derivatives**
Non-current liabilities			
- Bank loans and borrowings (long-term portion)	-		
- Other financial payables (long-term portion)	(78,570)	*(78,570)*	
Current liabilities			
- Trade payables	(21,177)	*(21,177)*	
- Bank loans and borrowings (short-term portion)	(93)	*(93)*	
- Other financial payables (short-term portion)	(197,446)	*(197,436)*	*(10)*
- Current tax liabilities	(78)	*(78)*	
- Other payables	(9,099)	*(9,099)*	

32. HIERARCHICAL LEVELS OF FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

The following table presents the hierarchical levels in which the fair value measurements of financial instruments have been classified at 31 December 2016. As required by IFRS 7, the hierarchy comprises the following levels:

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

Financial instruments measured at fair value	**Level 1**	**Level 2**	**Level 3**
Derivatives:			
- derivatives with positive fair value		6,457	
- derivatives with negative fair value		(1)	

There were no transfers between the levels during the year.

33. RISK MANAGEMENT

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

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

Credit risk

Credit risk consists of the company's exposure to potential losses arising from failure by a counterparty to fulfil its obligations.

Trade credit risk is associated with the normal conduct of trade and is monitored using formal procedures for assessing customers and extending them credit.
Positions are written down when there is objective evidence that they will be partially or entirely uncollected, bearing in mind that a significant proportion of receivables are covered by insurance policies with major insurers.
This is not a material risk for the Company, whose principal credit exposures are to Group companies.

As far as financial credit risk is concerned, it is the company's policy to maintain a sufficiently large portfolio of counterparties of high international repute for the purposes of satisfying its financing and hedging needs.

Liquidity risk

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

The Company complies with specific group policies and procedures for the purposes of monitoring and managing this risk, including:

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

The Company has short-term credit lines (typically renewed on an annual basis), for financing working capital and other operating needs (issue of guarantees, currency transactions etc.).

These credit lines, along with cash flow generated by operations, are considered sufficient to satisfy the company's annual funding requirements for working capital, investments and settlement of payables on their natural due dates.

Note *31.Classification of financial assets and liabilities* presents the book value of financial assets and liabilities, in accordance with the categories identified by IAS 39.

The following table summarizes the due dates of financial liabilities at 31 December 2016 and at 31 December 2015 on the basis of undiscounted contractual payments.

	Undiscounted cash flows at 31.12.2016	Within one year	One to five years	Beyond five years	Undiscounted cash flows at 31.12.2015	Within one year	One to five years	Beyond five years
Bank loans and borrowings	(1)	(1)			(93)	(93)		
Other financial payables (*)	(175,644)	(101,631)	(32,538)	(41,475)	(282,889)	(200,132)	(33,520)	(49,237)
Trade payables	(20,458)	(20,458)			(21,177)	(21,177)		
Current tax liabilities and other payables	(10,784)	(10,784)			(9,177)	(9,177)		
Total	**(206,887)**	**(132,874)**	**(32,538)**	**(41,475)**	**(313,336)**	**(230,579)**	**(33,520)**	**(49,237)**

(*) The corresponding balance reported in the financial statements is €174,108 thousand at 31 December 2016 (net of the fair value of financial derivative instruments for €1 thousand) and €276,006 thousand at 31 December 2015 (net of the fair value of financial derivative instruments for €10 thousand). See note *24.Other financial payables*.

More details about the maturity of the company's financial assets and liabilities can be found in notes *13.Other non-current receivables, 16.Trade receivables, 19.Current financial receivables and assets, 23.Bank loans and borrowings, 24.Other financial payables* and *27.Trade payables*.

Exchange rate risk

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

Details of the policies, instruments and purpose of hedging at group level can be found in the notes to the consolidated financial statements.

Sensitivity analysis:

The potential impact, in terms of change in fair value, of a hypothetical, sudden +/-5% change in year-end exchange rates was estimated in light solely of receivables/payables in unhedged currencies insofar as the impact on the income statement of the receivables/payables in hedged currencies is mitigated or offset by the respective hedges.

A +/- 5% change in year-end exchange rates of the principal exposed currencies (USD, HKD, AUD, GBP and JPY) is estimated to produce a change in fair value of around +/- €0.3 million (+/- €0.4 million at 31 December 2015). 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 2016 are described in the paragraph "*Interest rate and currency exchange hedges at 31 December 2016*".

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.

At 31 December 2016, all the Company's financial debt is floating rate, with the exception of the US Private Placement.

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.

There was only one interest rate hedge, the Cross Currency Interest Rate Swap relating to the Private Placement, at 31 December 2016.

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 liabilities of €92.8 million on a total of €167.6 million in net debt at 31 December 2016 and total net liabilities of €197.3 million on a total of €234.8 million in net debt in 2015).
The Company's debt is currently all at floating rates and, with the exception of the Private Placement, is therefore unhedged, so any change in market rates has a direct impact on its total cost, in terms of higher/lower interest payments.
A +/-1% change in interest rates would have an impact of +/- €0.9 million at 31 December 2016 recognized entirely in the income statement (+/- €2.0 million at 31 December 2015).
With regard to the Private Placement, based on the hedge agreement the fixed rate USD dollar debt is exchanged for fixed rate Euro denominated debt. Therefore, any change in interest rates would not have an impact on the income statement.
However, as the value of the hedge will be measured at fair value and the future interest flows will be reported in equity, a +/- 1% change in interest rates would have an impact on the cash flow hedge reserve of +/- €0.4 million before tax at 31 December 2016 (€0.5 million before tax at 31 December 2015).

Please refer to the paragraph "*Interest rate and currency exchange hedges at 31 December 2016*" for more information.

Interest rate and currency exchange hedges at 31 December 2016
At 31 December 2015 the Company has a number of derivatives, hedging both the fair value of underlying instruments and exposure to changes in cash flow.
For accounting purposes, derivatives that hedge changes in cash flow are treated in accordance with hedge accounting as called for in IAS 39.
Derivatives that hedge foreign currency payables and receivables are reported as financial assets and liabilities held for trading with changes in their fair value reported in the income statement. These instruments offset the risk on the hedged item (which is a recognized asset or liability).

The fair value of the outstanding derivatives at 31 December 2016 is provided below:

	31/12/2016
	Fair value
CCIRS on the bond loan (in USD)	14,168
Derivatives hedging foreign currency receivables/payables	**14,168**
CCIRS on the bond loan issued (in USD)	(7,711)
Derivatives covering expected cash flows	**(7,711)**
Total fair value of the derivatives	**6,457**

Hedges against foreign currency receivables and payables (other than the bond loan):

	Notional amount						***Fair value* with Group**	
Currency	**Group**			**Third parties**			**Asset**	**Liability**
	Purchases	**Sales**	**Total**	**Purchases**	**Sales**	**Total**		
GBP/EUR	(51)	-	(51)	-	-	-	-	(1)
						Total *Fair Value*		**(1)**

CCIRS (Cross Currency Interest Rate Swap) hedging currency exchange and interest rate risks on the bond loan:

With regard to the bond issue, a CCIRS – Cross Currency Interest Rate Swap was entered into with the same maturities and nominal value as the underlying debt. Based on the agreement the fixed rate (4.25%) USD dollar debt is exchanged for fixed rate (3.9775%) Euro denominated debt at the exchange rate indicated in the agreement.
This instrument hedges both future interest flows, for a nominal amount of USD 21,675 thousand, and the repayable amount (the nominal amount of the bond loan recognized, therefore, in the financial statements) of USD 85,000 thousand.

The fair value of the derivative, calculated using the exchange rate at the date of the financial statements and the discounted cash flow method based on the swap curve, not including the spread, at 31 December 2016 was a positive net balance of €6,457 thousand, recognized under "other financial receivables" also considering the counterparty risk in accordance with IFRS 13 – *Fair Value measurement*.
As it qualifies as an effective hedge, the effects of the exchange and interest rate hedge on the nominal debt are reported in the income statement which amount to a gain of €2,589 thousand (the loss on the hedged item amounts to €2,579 thousand).
As the hedge on interest flows qualifies as an effective hedge of both exchange rate and interest rate risk, a negative cash flow hedge reserve of €7,744 thousand at 31 December 2016 was reported in net equity, on which the related tax of €1,859 thousand has been calculated.

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

Currency	**Notional amount at 31.12.2016** *(amounts in M/USD)*	***Fair value* at 31.12.2015(*)**	**Changes in 2016**			***Fair value* at 31.12.2016(*)**
			Gains/(losses on the hedging instrument (*)	**Cash flow hedge reserve (exchange rate risk) (*)**	**Cash flow hedge reserve (interest rate risk) (*)**	
USD v/EUR	106,675	5,276	2,589	176	(1,584)	6,457
				of which:		
				positive short-term fair value		*1,760*
				positive medium/long-term fair value		*4,697*

(*) *Amounts in thousands of Euro*.

34. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

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

35. SUBSEQUENT EVENTS

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

Treviso, 2 March 2017

De'Longhi S.p.A.
Vice Chairman and Chief Executive Officer
Fabio de' Longhi

APPENDICES

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

This information is contained in the following appendices:

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

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

(Appendix 1 to the Explanatory Notes)

The undersigned Fabio De'Longhi, Chief Executive Officer, and Stefano Biella, Financial Reporting Officer of De'Longhi S.p.A., attest, also taking account of the provisions of paragraphs 2, 3 and 4, art. 154-*bis* of Decree 58 dated 24 February 1998:
that the accounting and administrative processes for preparing the consolidated financial statements during 2016:

- 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 2016:

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

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

Fabio de' Longhi
Chief Executive Officer

Stefano Biella
Financial Reporting Officer

Statement of cash flows in terms of net financial position

(Appendix 2 to the Explanatory Notes)

(Amounts in thousands of Euro)	**2016**	**2015**
Net profit (loss)	125,767	67,357
Income taxes for the period	2,409	(2,881)
Income for dividends receipt	(145,416)	(78,581)
Amortization and depreciation	109	60
Net change in provisions	1,788	(3,639)
Cash flow absorbed by current operations (A)	**(15,343)**	**(17,684)**
Change in assets and liabilities for the period:		
Trade receivables	2,220	(6,174)
Trade payables	(719)	1,373
Other current assets and liabilities	2,759	19,521
Payment of income taxes	(4)	(14,767)
Cash flow generated (absorbed) by changes in working capital (B)	**4,256**	**(47)**
Cash flow absorbed by current operations and changes in working capital (A+B)	**(11,087)**	**(17,731)**
Investment activities:		
Investments in intangible assets	-	(14)
Investments in tangible assets	(257)	-
Net investments in equity investments and other financial assets	362	(25,000)
Dividends receipt	145,416	78,581
Cash flow generated by investment activities (C)	**145,521**	**53,567**
Cash flow hedge and IAS 19 reserve related to actuarial evaluation of provisions	(1,408)	647
Dividends paid	(65,780)	(61,295)
Cash flow absorbed by changes in net equity (D)	**(67,188)**	**(60,648)**
Cash flow for the period (A+B+C+D)	**67,246**	**(24,812)**
Opening net financial position	**(234,835)**	**(210,023)**
Cash flow for the period (A+B+C+D)	67,246	(24,812)
Closing net financial position	**(167,589)**	**(234,835)**

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	282,102,822	Eur	35,968,385	100%	266,737
De'Longhi Appliances S.r.l.	Treviso	Eur	200,000,000	Eur	310,189,295	Eur	59,354,066	100%	242,678
De'Longhi Deutschland GmbH (2)	Neu Isenburg	Eur	2,100,000	Eur	33,394,359	Eur	12,477,424	100%	40,800
De'Longhi Capital Services S.r.l.(3)	Treviso	Eur	53,000,000	Eur	57,918,485	Eur	2,967,393	11,32%	6,005
De'Longhi Kenwood GmbH(2)	Wr. Neudorf	Eur	36,336	Eur	5,443,030	Eur	3,398,240	100%	2,900
De'Longhi Romania S.r.l.(2) (4)	Cluj-Napoca	Ron	47,482,500	Ron	104,123,276	Ron	31,628,595	10%	1,065
Clim.Re S.A. (1) (4)	Luxembourg	Eur	1,239,468	Eur	1,531,723	Eur	37,130	4%	54
E-Services S.r.l.	Treviso	Eur	50,000	Eur	6,928,982	Eur	1,526,094	51%	26
De'Longhi Polska Sp.Zoo(2) (4)	Warszawa	Pln	50,000	Pln	33,549,003	Pln	20,086,289	0,1%	-
Total									**560,265**

(*) Statutory figures at 31 December 2016, unless otherwise specified.
(1) Statutory figures at 31 December 2015.
(2) Figures used for the purposes of consolidation at 31 December 2016.
(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 2015	Acquisitions, subscriptions and recapitalizations	Demerger	Net impairment losses and reversals	Book value at 31 December 2016
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
De'Longhi Kenwood GmbH	2,900	-	-		2,900
De'Longhi Romania S.r.l.	1,065	-	-	-	1,065
Clim.Re S.A.	54	-	-	-	54
E-Services S.r.l.	26	-	-	-	26
De'Longhi Polka Sp.Zo.o.	-	-	-	-	-
Total subsidiaries	**560,265**	**-**	**-**	**-**	**560,265**
Other equity investments					
MEHIT Holding S.r.l.[1]	362	-	(362)	-	-
Total other equity investments	**362**	**-**	**(362)**	**-**	**-**
Total equity investments	**560,627**	**-**	**-**	**-**	**560,265**

[1] Previously named DeLclima S.p.A. and relating to the residual interest of the demerger transaction.

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	2016	of which related parties	2015	of which related parties
Revenues	*1*	25,915	23,630	28,145	26,629
Total revenues		**25,915**		**28,145**	
Raw and ancillary materials, consumables and goods	*2*	(53)		(97)	
Materials consumed		**(53)**		**(97)**	
Payroll costs	*3*	(7,064)		(5,445)	
Services and other operating expenses	*4*	(31,595)	(6,421)	(32,441)	(7,744)
Provisions	*5*	-		111	
Amortization and depreciation	*6*	(109)		(60)	
EBIT		**(12,906)**		**(9,787)**	
Financial income (expenses)	*7*	141,082	143,860	74,364	76,755
PROFIT (LOSS) BEFORE TAXES		**128,176**		**64,477**	
Income taxes	*8*	(2,409)		2,881	
NET PROFIT (LOSS)		**125,767**		**67,358**	

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	31.12.2016	of which related parties	31.12.2015	of which related parties
NON-CURRENT ASSETS					
INTANGIBLE ASSETS		14		25	
- Other intangible assets	9	14		25	
TANGIBLE ASSETS		240		81	
- Land, property, plant and machinery	10	193		-	
- Other tangible assets	11	47		81	
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		565,002		566,267	
- Equity investments	12	560,266		560,628	
- Receivables	13	39	39	952	952
- Other financial assets	14	4,697		4,687	
DEFERRED TAX ASSETS	15	-		1,920	
TOTAL NON-CURRENT ASSETS		565,256		568,293	
CURRENT ASSETS					
INVENTORIES		-		-	
TRADE RECEIVABLES	16	29,056	26,816	31,277	29,366
CURRENT TAX ASSETS	17	3,736		3,736	
OTHER RECEIVABLES	18	3,371	464	4,219	682
CURRENT FINANCIAL RECEIVABLES AND ASSETS	19	1,760		35,609	35,020
CASH AND CASH EQUIVALENTS	20	25		26	
TOTAL CURRENT ASSETS		37,948		74,867	
TOTAL ASSETS		603,204		643,160	

STATEMENT OF FINANCIAL POSITION PURSUANT TO CONSOB RESOLUTION 15519 OF 27 JULY 2006 NET EQUITY AND LIABILITIES (Amounts in thousands of Euro)	Notes	31.12.2016	of which related parties	31.12.2015	of which related parties
NET EQUITY					
NET EQUITY		393,877		334,829	
- Share capital	21	224,250		224,250	
- Reserves	22	43,860		43,222	
- Net profit (loss)		125,767		67,357	
TOTAL NET EQUITY		393,877		334,829	
NON-CURRENT LIABILITIES					
FINANCIAL PAYABLES		73,856		78,570	
- Bank loans and borrowings (long-term portion)	23	-		-	
- Other financial payables (long-term portion)	24	73,856		78,570	
DEFERRED TAX LIABILITIES	15	450		-	
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		3,526		1,868	
- Employee benefits	25	3,026		1,368	
- Other provisions	26	500		500	
TOTAL NON-CURRENT LIABILITIES		77,832		80,438	
CURRENT LIABILITIES					
TRADE PAYABLES	27	20,458	5,899	21,177	6,825
FINANCIAL PAYABLES		100,253		197,539	
- Bank loans and borrowings (short-term portion)	23	1		93	
- Other financial payables (short-term portion)	24	100,252	92,888	197,446	197,446
CURRENT TAX LIABILITIES	28	26		78	
OTHER PAYABLES	29	10,758	5,418	9,099	2,490
TOTAL CURRENT LIABILITIES		131,495		227,893	
TOTAL NET EQUITY AND LIABILITIES		603,204		643,160	

Transactions and balances with related parties
Summary by company

(Appendix 4 to the Explanatory Notes - *cont'd*)

Amounts in €/million	Revenues (1)	Materials consumed and cost for services (1)	Financial income (expenses)	Non-current financial receivables	Current financial receivables	Other receivables (2)	Current financial payables	Other payables (3)
Ultimate parent companies:								
DE'LONGHI INDUSTRIAL S.A.	-	-	-	-	-	1.0	-	-
Total ultimate parent companies (a)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**1.0**	**0.0**	**0.0**
Subsidiary companies								
DE'LONGHI APPLIANCES S.R.L.	12.7	(1.7)	40.6	-	-	15.2	-	(7.0)
KENWOOD LIMITED	5.3	(3.1)	-	-	-	5.3	-	(3.1)
DE'LONGHI KENWOOD A.P.A. LTD	3.6	-	(0.1)	-	-	3.6	(0.1)	-
DE'LONGHI KENWOOD MEIA FZE	1.2	-	-	-	-	1.2	-	-
E-SERVICES S.R.L.	0.5	(0.2)	0.3	-	-	0.6	-	(0.1)
ELLE SRL	0.1	-	-	-	-	0.1	-	-
DE'LONGHI AMERICA INC.	-	(1.2)	-	-	-	-	-	(0.6)
DE LONGHI BENELUX S.A. (LUXEMBOURG BRANCH)	-	-	98.0	-	-	-	-	-
DE'LONGHI DEUTSCHLAND GMBH	-	-	5.5	-	-	0.1	-	-
DE'LONGHI-KENWOOD GMBH - AUSTRIA	-	-	1.0	-	-	-	-	-
DE'LONGHI CAPITAL SERVICES Srl	-	-	(1.4)	-	-	-	(92.8)	-
Total subsidiary companies (b)	**23.4**	**(6.2)**	**143.9**	**0.0**	**0.0**	**26.1**	**(92.9)**	**(10.8)**
Related companies								
GAMMA S.R.L.	0.1	(0.2)	-	-	-	0.1	-	-
DL RADIATORS S.P.A.	0.1	-	-	-	-	0.1	-	(0.5)
Total related companies (c)	**0.2**	**(0.2)**	**0.0**	**0.0**	**0.0**	**0.2**	**0.0**	**(0.5)**
Total ultimate parent, subsidiary and related companies (a+b+c)	**23.6**	**(6.4)**	**143.9**	**0.0**	**0.0**	**27.3**	**(92.9)**	**(11.3)**

(1) These mostly refer to dealings of a commercial nature and the supply of administrative services by company employees
(2) These consist of € 26.8 million in "Trade receivables" and € 0.5 million in "Other receivables".
(3) These consist of € 5.9 million in "Trade payables" and € 5.4 million in "Other payables".

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

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Independent auditor's report
in accordance with articles 14 and 16 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)

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

Report on the financial statements

We have audited the accompanying financial statements of De'Longhi S.p.A., which comprise the statement of financial position as at December 31st, 2016, the income statement, the statement of comprehensive income, the statement of changes in net equity and statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The Directors of De'Longhi S.p.A. are responsible for the preparation of these 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 art. 9 of Legislative Decree n. 38, dated 28 February 2005.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale deliberato Euro 3.250.000,00, sottoscritto e versato Euro 2.950.000,00 i.v.
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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of De'Longhi S.p.A. as at December 31st, 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated 28 February 2005.

Report on other legal and regulatory requirements

Opinion on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and Ownership Structure with the financial statements

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Report on Operations and of specific information of the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the financial statements. The Directors of De'Longhi S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and the Ownership Structure in accordance with the applicable laws and regulations. In our opinion the Report on Operations and the specific information of the Report on Corporate Governance and the Ownership Structure are consistent with the financial statements of De'Longhi S.p.A. as at December 31st, 2016.

Treviso, March 20th, 2017

EY S.p.A.

Signed by: Stefano Marchesin, partner

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

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

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