De'Longhi S.p.A.

Annual report at 31 dicembre 2010

Annual report at 31 December 2010

Contents

Company officers Page 5

Letter from the Chairman Page 9

Group annual report and financial statements

Report on operations Page 15

Consolidated financial statements:
- Consolidated income statement Page 53
- Consolidated statement of comprehensive income Page 53
- Consolidated statement of financial position Page 54
- Consolidated statement of cash flows Page 56
- Consolidated statement of changes in net equity Page 58

Explanatory notes Page 61

External auditors' report on the consolidated financial statements Page 133

Separate annual report and financial statements

Report on operations Page 141

Separate financial statements of De'Longhi S.p.A.:
- Income statement Page 159
- Statement of comprehensive income Page 159
- Statement of financial position Page 160
- Statement of cash flows Page 162
- Statement of changes in net equity Page 163

Explanatory notes Page 165

External auditors' report on the separate financial statements Page 211

Company officers

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
Dario Melò	Director
Giorgio Sandri	Director
Silvio Sartori	Director
Giovanni Tamburi **	Director

Board of Statutory Auditors

Gianluca Ponzellini	Chairman
Massimo Lanfranchi	Standing member
Giuliano Saccardi	Standing member
Roberto Cortellazzo-Wiel	Alternate auditor
Enrico Pian	Alternate auditor

External Auditors

Reconta Ernst & Young S.p.A. ***

Internal Auditing and Corporate Governance Committee

Renato Corrada **
Silvio Sartori
Giovanni Tamburi **

Compensation Committee

Alberto Clò **
Carlo Garavaglia
Giovanni Tamburi **

* The company officers were elected at the shareholders' meeting of 21 April 2010 for the period 2010-2012.
** Independent directors.
*** The engagement to audit the financial statements for 2010-2018 was approved at the shareholders' meeting of 21 April 2010.

Letter from the Chairman

Letter from the Chairman

The year 2010 was a particularly positive one for the group, despite the still highly uncertain economic environment.
The various markets in which the group operates reported differing rates of economic growth: performance was strong in emerging economies, robust in the United States, and weaker in the Euro-zone, except for Germany which was actually one of the engines of the group's growth and of the entire small domestic appliances sector in Europe.
Despite the uncertain economic context, the group was able to deliver highly satisfactory growth: while 2010 was a positive year for the entire domestic appliances sector, which grew by around 7% in Europe, the group considerably outperformed the sector with growth of more than 15%.
Revenue growth was accompanied by an improvement in profitability and by strong cash generation allowing most of the group's debt to be eliminated.
Key in this regard was the group's ability to innovate products and its wide distribution network in the world's major markets, which allowed it to gain market share and secure the market leadership for its principal product lines.
The results achieved are even more impressive in view of the highly volatile exchange rate context (particularly the large swings in the euro-dollar rate) and the onset of steep commodity price inflation, triggered primarily by demand in Asia.

The better-than-expected results achieved in 2010 demonstrate the efficacy of the group's past decisions and allow it to confront 2011, despite the persistently uncertain economic scenario.
Its continuous drive for innovation, the improvement in product mix and potential attention to new opportunities offered by high-growth markets will be key factors in allowing the group to carry on pursuing its growth trajectory.

Group annual report and financial statements

Report on operations

The group closed 2010 with an excellent fourth-quarter performance (revenues up 18.4% to Euro 556.5 million), taking revenues for the year to Euro 1,626.3 million, a double-digit growth on 2009 (+15.8%). On a constant currency basis the increase was 12.1%.

Revenue growth was accompanied by an improvement in profit margins (EBITDA before non-recurring expenses was up 39.2% on 2009 at Euro 199.1 million, with a margin of 12.2%) and by strong cash generation allowing most of the group's debt to be eliminated.
Net financial debt amounted to Euro 4.7 million at year end, an improvement of Euro 112.4 million on Euro 117.1 million at 31 December 2009 thanks to cash flow from operating activities.

These results were achieved thanks to the group's ability to innovate products and its wide distribution network in the world's major markets, which allowed it to gain market share and secure the market leadership for its principal product lines.

Both the group's divisions contributed to the growth in revenues, even if not to the same extent. The Household division reported the strongest growth, with revenues climbing by 18.6% on 2009 to Euro 1,277.4 million, accounting for 79% of the group's total; sales performance was positive in every quarter but enjoyed a particular surge in the fourth quarter (+20.8% on the fourth quarter of 2009).
EBITDA before non-recurring expenses came to €176.2 million, reporting a margin of 13.8% (and 15.3% in the fourth quarter).
The division increased its sales of higher value added product lines, thanks to support from major advertising and promotional campaigns, a competitive product platform and a strong presence in both mature and emerging markets.
This growth was achieved for both the De'Longhi and Kenwood brands and for the principal product categories. Cooking and food preparation products did particularly well (especially coffee machines and food processors).
The Professional division, with 5.6% growth in revenues, was affected by continued market weakness, which was particularly bad in the earlier part of the year. The signs of recovery are encouraging and confirmed by the division's fourth-quarter results, which posted year-on-year revenue growth of 8.2%.

In terms of markets, all the major geographical areas experienced growth, not just the mature markets but also Eastern Europe, the emerging markets (Middle East, China and South America) and Australia; the only exceptions were certain European countries (Spain and Greece) where consumption was weak due to the financial crisis.

In terms of the group's profitability, gross profit improved from €598.3 million in 2009 to €716.6 million in 2010, with the margin climbing from 42.6% to 44.1% thanks to the effects of volume growth, product mix and generally positive management of currency risk.
These positive effects more than offset the impact on EBITDA of higher logistics costs, which were well up on 2009, and higher advertising and promotional costs.

EBITDA before non-recurring expenses came to €199.1 million in 2010 (€143.0 million in 2009), reporting an improvement in margin from 10.2% to 12.2%.

Fourth-quarter EBITDA before non-recurring expenses came to €74.6 million, with a margin improvement from 12.3% to 13.4%.

EBIT before non-recurring expenses was €159.2 million (€105.5 million in 2009).

Net financial expenses amounted to €36.1 million in 2010 (€35.3 million in 2009); the benefits of lower interest expense resulting from a reduction in the level of debt and from the continued low level of interest rates were more than offset by €4.6 million in exchange losses.

Profit pertaining to the group more than doubled from €32.4 million to €74.9 million.

Income statement

(€/million)	2010	% revenues	2009	% revenues	Change	% change
Revenues	1,626.3	100.0%	1,404.1	100.0%	222.2	15.8%
Constant currency revenues (*)	1,570.1		1,400.0		170.1	12.1%
Gross profit	716.6	44.1%	598.3	42.6%	118.3	19.8%
EBITDA before non-recurring income/expenses	**199.1**	**12.2%**	**143.0**	**10.2%**	**56.1**	**39.2%**
EBITDA	193.1	11.9%	129.9	9.3%	63.2	48.6%
EBIT before non-recurring expenses	**159.2**	**9.8%**	**105.5**	**7.5%**	**53.7**	**50.9%**
Profit (loss) pertaining to the group	**74.9**	**4.6%**	**32.4**	**2.3%**	**42.6**	**131.5%**

(*) Constant currency revenues have been determined by translating 2010 revenues in currencies other than the euro at the average rates for 2009 and adjusting them for the effect of hedges.

Statement of financial position

(€/million)	31.12.2010	31.12.2009
Net working capital	226.9	264.4
Net capital employed	765.3	805.6
Net financial position	(4.7)	(117.1)
Net financial position/Net equity	0.6%	17.0%
Net working capital/Revenues	14.0%	18.8%

The figures contained in this 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.

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

The Non-GAAP Measures used are as follows:

- Gross profit 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 in addition to EBIT.
  Gross profit 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 having added back depreciation and amortization of property, plant and equipment and intangible assets. EBITDA is also presented net of non-recurring items, which are reported on the face of the income statement.
- EBIT before non-recurring expenses reflects EBIT without any non-recurring items.
- Net working capital: this measure is the sum of inventories, trade receivables, current tax assets and other receivables, minus trade payables, current tax liabilities and other payables.
- Net capital employed: this measure is the sum of net working capital, intangible assets, property, plant and equipment, equity investments, other non-current receivables, and deferred tax assets, minus deferred tax liabilities, employee severance indemnity and provisions for contingencies and other charges.
- Net financial position: this measure represents gross financial debt as reduced by cash and cash equivalents and other financial receivables. The "Explanatory notes" provide details of the individual line items in the statement of financial position used to determine this measure.

Macroeconomic scenario

The economic forecasts indicate that the world economy grew in 2010, albeit at different rates in the various areas (Source: Bank of Italy).
Growth is particularly fast in the emerging economies, above all China and India, robust in the United States and more modest in the Euro-zone, except for Germany which is stronger.
Price rises on international markets for raw materials, driven above all by demand from emerging countries, have triggered inflationary trends in emerging countries as a whole, particularly in food prices. Even the advanced nations have reported a slight increase in inflation, driven by foreign imports; net of energy components, price inflation is still moderate and monetary policies continue to be expansionary, with official interest rates at record lows.
The Euro-zone has continued to see a modest recovery in industrial output and household consumption; instead, investments in capital goods have eased slightly, reflecting lower expenditure on construction and machinery, also because of high levels of unutilized production capacity.
The macroeconomic scenario in coming months will continue to offer little certainty as to the intensity and direction of the recovery, also because of a persistently weak jobs market.

Interest rates

Interest rates stayed at historically very low levels throughout 2010, under the highly accommodating policy adopted by the major central banks in order to avoid sudden liquidity crises on the debt markets and to support every timid sign of recovery.
However, since September interest rates have started to display a marked upturn, especially on the longer dated maturities; this indicates that while rates are still expected to be low in 2011, the medium-term price is starting to reflect a change in policy by monetary regulators, concerned about exogenous inflationary pressures coming from price rises in agricultural and non-agricultural goods.

Currency markets

Currency markets were highly volatile in 2010, particularly where the Euro-US dollar exchange rate was concerned.
Fears over difficulties by some of the European Union's minor member states in refinancing public debt and cutting public spending triggered a series of crises of confidence in the European currency, causing the Euro to fall against the US dollar in the first half of the year from 1.45 to below 1.20, only to stabilize above 1.30 in the last quarter.
European political and monetary authorities concentrated on measures to stem these crises of confidence and to inject liquidity into the system. In particular, the creation of the European Financial Stability Facility to cope with possible default by certain member states has helped make the market more confident as to the sustainability of debt in the countries most at risk.

At the same time the US Federal Reserve has adopted an accommodating monetary policy, continuing to buy US government bonds and thus ensuring a high level of liquidity within the monetary system.
These issues will likely remain central to the agenda of governments and monetary authorities in 2011 and will continue to cause a certain amount of volatility in the Euro exchange rate against the other major currencies.
Lastly, another key monetary policy theme in 2010 was a resumption of the steady revaluation of the Chinese yuan against the US dollar, after a break of around two years (from mid 2008 to mid 2010). Such appreciation, in response to repeated demands by most Western governments, is likely to continue in 2011, on the basis of globally redistributing responsibility for contributing to the economic recovery.

Significant events

CECED (the European Committee of Manufacturers of Domestic Equipment)

The group is a full member of CECED; Fabio De'Longhi, Chief Executive Officer of De'Longhi, has taken over the chair of this important European committee of domestic equipment manufacturers for the period 2011-2013, marking the first time this honour has fallen to an Italian.

Rationalization of the group's structure

During 2010 the group completed in both its operating divisions the restructuring and reorganization activities started in 2009.
These activities have primarily involved centralizing administrative and back office functions for some of the group's companies.
In addition, the distribution and manufacturing network was strengthened through agreements with local partners, reorganization plans and the opening of new commercial offices.

Household division

Ariete completed its reorganization in Italy, Spain and Portugal during 2010 by aggregating businesses and centralizing certain functions at country head offices.

The international commercial network continued to be strengthened with the De'Longhi brand now under direct distribution in Greece, and with preparations for the opening of a new commercial subsidiary in Ukraine (due to start business in April 2011).

The group's structure in Benelux was also reorganized with the creation of a single company operating in these countries through commercial divisions.

Professional division

With reference to the subsidiaries that manufacture and sell large thermo-cooling systems:

- the activities of Climaveneta Home System were fully integrated into its Climaveneta parent;
- Climaveneta continued to expand its operations with the opening of another manufacturing facility in China to produce precision thermo-cooling systems and with the making of an agreement in India with a local partner to manufacture and sell thermo-cooling systems on this important market;
- reorganization of RC Group manufacturing activities was completed, with the closure of a site in Rome and concentration of activities at the principal facility in Pavia.

Reorganization of DL Radiators also continued in response to the difficult market, involving further targeting of costs and process improvements in order to recoup profitability by restructuring both manufacturing and operating activities.

The division's Italian manufacturing facilities continued to draw on the ordinary and extraordinary state-funded temporary redundancy scheme during 2010.

Group results

The reclassified consolidated income statement is summarized as follows:

(€/million)	2010	% revenues	2009	% revenues
Revenues	**1,626.3**	**100.0%**	**1,404.1**	**100.0%**
Change 2010/2009	*222.2*	*15.8%*		
Materials consumed & other production costs (production services and payroll costs)	(909.6)	(55.9%)	(805.7)	(57.4%)
Gross profit	**716.6**	**44.1%**	**598.3**	**42.6%**
Other services & expenses	(355.7)	(21.9%)	(312.9)	(22.3%)
Value added	**360.9**	**22.2%**	**285.5**	**20.3%**
Payroll (non-production)	(130.0)	(8.0%)	(118.9)	(8.5%)
Provisions	(31.8)	(2.0%)	(23.6)	(1.7%)
EBITDA before non-recurring income/expenses	**199.1**	**12.2%**	**143.0**	**10.2%**
Change 2010/2009	*56.1*	*39.2%*		
Other non-recurring income (expenses)	(6.0)	(0.4%)	(13.1)	(0.9%)
EBITDA	**193.1**	**11.9%**	**129.9**	**9.3%**
Amortization and depreciation	(39.9)	(2.5%)	(37.5)	(2.7%)
Non-recurring impairment losses	(5.6)	(0.3%)	-	-
EBIT	**147.6**	**9.1%**	**92.4**	**6.6%**
Change 2010/2009	*55.2*	*59.7%*		
Financial income (expenses)	(36.1)	(2.2%)	(35.3)	(2.5%)
Profit (loss) before taxes	**111.6**	**6.9%**	**57.2**	**4.1%**
Income taxes	(36.5)	(2.2%)	(24.4)	(1.7%)
Profit (loss) after taxes	**75.1**	**4.6%**	**32.8**	**2.3%**
Profit (loss) pertaining to minority interests	0.2	0.0%	0.4	0.0%
Profit (loss) pertaining to the group	**74.9**	**4.6%**	**32.4**	**2.3%**

The gross profit reported in the reclassified income statement differs by €135.5 million at 31 December 2010 (€108.5 million at 31 December 2009) from the consolidated income statement; this is because, in order to represent period performance better, non-recurring income and expenses have been separately presented above and production-related payroll and service costs have been reclassified from payroll and services respectively.

De'Longhi closed 2010 with a major improvement in profitability; gross profit increased by €118.3 million from €598.3 million in 2009 to €716.6 million in 2010 (and from 42.6% to 44.1% in terms of margin), having benefited not only from higher volumes but also from a better product mix and generally positive exchange rate effects.

"Other services & expenses" accounted for a smaller proportion of revenues than in 2009 (22.3% in 2009 versus 21.9% in 2010), despite a 21.4% increase in transport costs (from €41.8 million to €50.8 million) and growth in advertising and promotions in support of the group's major brands (€116.0 million in 2010 versus €95.9 million in 2009).

Non-production payroll costs were 9.3% higher than in 2009, reflecting not only a growth in staff (particularly to strengthen certain commercial offices) but also the effects of salary increases and incentive schemes.

EBITDA before non-recurring expenses was €199.1 million, with the margin climbing from 10.2% in 2009 to 12.2% in 2010.

EBITDA amounted to €193.1 million (€129.9 million in 2009) after €6.0 million in non-recurring expenses mostly for restructuring and reorganizing certain production activities.

EBIT before non-recurring expenses was €159.2 million in 2010 (€105.5 million in 2009), with a margin of 9.8%, up from 7.5%.

Net financial expenses amounted to €36.1 million (€35.3 million in 2009); the benefits of lower interest expense resulting from a reduction in the level of debt and from the continued low level of interest rates were absorbed by €4.6 million in exchange losses.

Profit pertaining to the group came to €74.9 million (€32.4 million in 2009).

Results by operating segment

The group's results by operating segment are summarized in the following table:

	2010				2009			
(€/million)	Household	Professional	Corporate	Consolidated total	Household	Professional	Corporate	Consolidated total
Revenues	**1,277.4**	**352.6**	**12.5**	**1,626.3**	**1,077.0**	**334.0**	**12.3**	**1,404.1**
Change 2010/2009	*200.4*	*18.6*		*222.2*				
% change	*18.6%*	*5.6%*		*15.8%*				
Constant currency revenues (*)	**1,223.5**	**350.3**	**---**	**1,570.1**	**1,073.3**	**333.7**	**---**	**1,400.0**
Constant currency change 2010/2009	*150.3*	*16.6*		*170.1*				
% change	*14.0%*	*5.0%*		*12.1%*				
EBITDA before non-recurring expenses	**176.2**	**31.0**	**(8.0)**	**199.1**	**121.1**	**29.1**	**(7.3)**	**143.0**
Change 2010/2009	*55.0*	*1.9*		*56.1*				
% margin on revenues	*13.8%*	*8.8%*		*12.2%*	*11.2%*	*8.7%*		*10.2%*
EBITDA	**173.2**	**27.9**	**(8.0)**	**193.1**	**113.4**	**24.3**	**(7.9)**	**129.9**
Change 2010/2009	*59.8*	*3.6*		*63.2*				
% margin on revenues	*13.6%*	*7.9%*		*11.9%*	*10.5%*	*7.3%*		*9.3%*
EBIT before non-recurring expenses	**147.2**	**20.7**	**(8.7)**	**159.2**	**93.9**	**19.5**	**(8.0)**	**105.5**
Change 2010/2009	*53.3*	*1.2*		*53.7*				
% margin on revenues	*11.5%*	*5.9%*		*9.8%*	*8.7%*	*5.8%*		*7.5%*

(*)As adjusted for the effect of hedges.

Total segment revenues are reconciled to the consolidated figures by eliminating certain intersegment transactions, amounting to €16.2 million in 2010 and €19.3 million in 2009.

Household

The division reported €1,277.4 million in revenues, up €200.4 million (+18.6%) on 2009, thanks to the contribution of all the group's principal brands (De'Longhi, Kenwood and Ariete).

As for product lines, all the principal ranges performed well.

Espresso coffee machines posted strong growth in all three areas of business, from fully automatic machines and ones that use individual capsules to traditional pump-driven machines.
The range of compact fully automatic machines was completed in 2010 with a basic version, while distribution was extended to every country and growth was consolidated in German-speaking countries and other major markets.
The new Citiz models, forming part of the capsule range of machines under the established partnership with Nespresso, confirmed their growth; in addition, in the second half of 2010 De'Longhi took on the distribution of "Dolce Gusto" in 7 countries in partnership with Nestlè.

In the cooking line, De'Longhi reported good growth for all its categories; sales climbed for electric ovens, deep-fryers and small appliances, in the latter case thanks to good performance by kettles and toasters in the Icona breakfast collection.
The home care line also enjoyed positive results, thanks to continuous refilling ironing systems and electric brooms.

In the comfort product line, portable air conditioners had a good season; strong demand in Europe resulted in a total stock sell-out, including within the trade; sales in the United States were down after losing an important customer.

Sales of air treatment and heating products were also up, having streamlined the range and focused on high value-added markets.

Kenwood continued to innovate during 2010 to improve the quality and technical characteristics of its range; this included the European launch of the "Cooking Chef", the first machine of its kind to combine cooking with electronic temperature control. This innovative product has had immediate and significant success, achieving large market shares in several countries.

A new "Triblade" range of hand blenders has also been launched, and the K.MIX range of breakfast products completed.

EBITDA before non-recurring expenses was €176.2 million (€121.1 million in 2009), with the margin improving from 11.2% to 13.8% thanks to higher volumes, better product mix and a net positive contribution from exchange rate effects.

Professional

The division's revenues were 5.6% higher than in 2009 (€352.6 million in 2010 versus €334.0 million in 2009); this result reflects increased revenues from both industrial heating and large thermo-cooling systems.

EBITDA before non-recurring expenses was slightly higher (€31.0 million in 2010 and €29.1 million in 2009, with the margin going from 8.7% to 8.8%).

Revenues from heating increased despite continued market weakness. Growth was good in both the United Kingdom and Italy.

Sales of large thermo-cooling systems performed well, especially the new series of chillers and scroll compressor heat pumps and the new range of condensation-to-liquid and vapour refrigerating systems, which made up for a reduction in revenues from the hydronic terminal line and lower sales of the discontinued direct expansion line.

The positive trend in EBITDA before non-recurring expenses reflects the results from large thermo-cooling systems, that more than offset lower earnings from the company specialized in heating, affected by large fluctuations in raw material costs during the second part of the year.

Markets

The group's revenues are broken down by geographical area as follows:

(€/million)	2010	2009	Change	% change
Mature markets				
Italy	268.8	265.5	3.3	1.2%
United Kingdom	141.1	117.5	23.6	20.1%
North America	89.2	91.9	(2.8)	(3.0%)
Japan	47.4	37.8	9.6	25.5%
Western Europe	616.3	552.3	64.1	11.6%
Total	**1,162.8**	**1,065.0**	**97.8**	**9.2%**
Emerging markets				
Eastern Europe	146.3	107.6	38.7	36.0%
Rest of the world	317.1	231.5	85.6	37.0%
Total	**463.4**	**339.1**	**124.4**	**36.7%**
Total revenues	**1,626.3**	**1,404.1**	**222.2**	**15.8%**

Sales became stronger on the group's mature markets during 2010 (+€97.8 million or +9.2%), while accelerating fast on emerging markets (+€124.4 million or +36.7%), which accounted for 28.5% of total revenues, up from 24.1% the year before.

In terms of mature markets, sales in Italy reflected, on the one hand, a positive performance by the Household division, particularly its coffee machines and food processors, and on the other, a contraction by the Professional division, which was affected by discontinuation of its direct expansion cooling systems.

Both divisions reported good sales growth in the United Kingdom; coffee machines, food processors and other small domestic appliances all made a positive contribution to Household division sales growth. The Professional division reported an upturn in sales for both large thermo-cooling systems and industrial heating.

Sales in North America were slightly down on 2009; good performance by cooking and food preparation products and by the heating line made up for lower air conditioning sales, following the loss of an important customer.

Japan reported a good recovery particularly thanks to radiator and coffee machine sales.

Sales performance in Western Europe was good for the Household division, but largely flat for the Professional division.

As for emerging markets, countries in both Eastern Europe and the rest of the world (Middle East, China, South America and Australia) reported significant growth (+36.7%), especially thanks to strong demand for food preparation products (particularly coffee machines and small domestic appliances).

Review of the statement of financial position

The reclassified consolidated statement of financial position is presented below:

(€/million)	31.12.2010	31.12.2009	Change	% change
- Intangible assets	408.6	414.7	(6.1)	(1.5%)
- Property, plant and equipment	186.4	177.6	8.8	5.0%
- Financial assets	2.1	2.5	(0.5)	(18.3%)
- Deferred tax assets	33.5	38.1	(4.6)	(12.1%)
Non-current assets	**630.6**	**632.9**	**(2.3)**	**(0.4%)**
- Inventories	288.0	257.1	30.9	12.0%
- Trade receivables	387.9	351.9	36.1	10.2%
- Trade payables	(374.2)	(291.1)	(83.1)	28.6%
- Other current assets (liabilities)	(74.9)	(53.5)	(21.4)	40.1%
Net working capital	**226.9**	**264.4**	**(37.6)**	**(14.2%)**
Total non-current liabilities and provisions	(92.2)	(91.7)	(0.5)	0.5%
Net capital employed	**765.3**	**805.6**	**(40.3)**	**(5.0%)**
Net financial position*	**(4.7)**	**(117.1)**	**112.4**	**(96.0%)**
Total net equity	**(760.6)**	**(688.5)**	**(72.0)**	**10.5%**
Total net debt and equity	**(765.3)**	**(805.6)**	**40.3**	**(5.0%)**

(*) Net financial position includes €7.0 million in net financial liabilities (€0.1 million in net financial liabilities at 31 December 2009) relating to the fair value of derivatives and to the recognition of call options relating to minority interests.

Investments in property, plant and equipment and intangible assets amounted to €46.6 million, up from €39.9 million in 2009, most of which related to the group's manufacturing facilities (new production lines and moulds), the installation of photovoltaic systems, the building of a new factory in China and the reorganization of the RC Group manufacturing facilities.

Net working capital decreased by €37.6 million on 31 December 2009 despite the growth in business; working capital turnover improved from 18.8% of revenues in 2009 to 14.0% in 2010 (also inclusive of receivables factored without recourse, this turnover improved from 27.8% to 22.2%).

This was achieved thanks to good credit management; inventories grew by less than the increase in sales, despite higher purchases of raw materials and parts in the fourth quarter to satisfy the growth in business. This growth in purchases also produced an increase in trade payables.

The related cash flows from working capital management helped eliminate almost all the net financial debt to just €4.7 million at 31 December 2010, an improvement of €112.4 million since 31 December 2009.

Details of the net financial position are as follows:

(€/million)	31.12.2010	31.12.2009	Change 31.12.10 – 31.12.09
Cash and cash equivalents	193.5	124.0	69.6
Other financial receivables	12.2	13.9	(1.7)
Current portion of non-current debt	(40.6)	(67.1)	26.5
Current financial debt	(62.2)	(74.9)	12.7
Net current financial debt (assets)	**103.0**	**(4.1)**	**107.1**
Non-current financial debt	**(107.7)**	**(113.0)**	**5.3**
Total net financial position	**(4.7)**	**(117.1)**	**112.4**

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

(€/million)	2010	2009
Cash flow generated (absorbed) by current operations	168.0	100.7
Cash flow generated (absorbed) by other changes in working capital	9.5	73.3
Cash flow generated (absorbed) by current operations and changes in net working capital	**177.5**	**174.0**
Cash flow generated (absorbed) by investment activities	(45.4)	(34.1)
Cash flow generated (absorbed) by operating activities	**132.1**	**140.0**
Non-recurring cash flow	-	0.6
Cash flow generated (absorbed) by changes in net equity	(19.7)	(11.2)
Cash flow for the period	**112.4**	**129.4**
Opening net financial position	(117.1)	(246.5)
Closing net financial position	**(4.7)**	**(117.1)**

Cash flow generated by current operations and changes in working capital amounted to €177.5 million in 2010, slightly more than in 2009 (€174.0 million). However, the composition of flows was different with working capital optimization making a major contribution in 2009, and current operations making the biggest contribution in 2010.

Cash flow generated by operating activities amounted to €132.1 million (€140.0 million in 2009) after making €46.6 million in ordinary gross investments (€39.9 million in 2009).

Changes in net equity absorbed €19.7 million in cash flow in 2010 mainly to pay €12.0 million in dividends (€9.0 million in 2009) and to reflect €7 million in adjustments to hedging derivatives.

Organizational changes

Production structure

Activities continued in 2010 to improve manufacturing efficiency, and so reduce the impact on product costs of higher raw material prices. Such actions involved the introduction of new products, and the optimization of space, infrastructure and personnel.

Investment in new product lines and in quality was continued at the Mignagola factory, where production of fully automatic coffee machines is concentrated as well as production of "Lattissima", under a partnership with Nespresso, and where the Kaizen approach has already produced a high standard of quality and efficiency in manufacturing and operating processes.

During 2010 the group adopted a long-term plan of investment in renewable energy, with the goal of generating energy also for consumption by its own factories.
Under this plan a 1 MWp solar power system was installed on the roof of the Mignagola di Carbonera factory; this was completed by the deadline of 31 December 2010 in order to qualify for the GSE 2010 grant, although is still awaiting connection to the national electricity grid.
Also under this plan, procedures were started in 2010 for installing a 2.3 MWp solar power system on the roof of the Moimacco factory; this is currently under construction and will be completed and connected to the grid within the first four months of 2011.

As for the Chinese factories, it was decided to enhance the Tricom facilities, the group's most advanced and important industrial hub in China, with the construction of a new factory; construction started in September and will finish by the end of 2011, giving the group a more modern structure for better satisfying ever growing product demand, while ensuring better integration of manufacturing activities. New departments have been studied and designed to make the factory autonomous where mould construction, plastic screen printing and assembly are concerned.

The Chinese factory for radiators and metallic products started to make infrared and blue flame gas heaters, production of which had been transferred from Europe.

Research and development - new products - quality - communication

The group continued to invest in research and development in 2010. The group has over 300 staff working on R&D, on which the total spend in 2010 was €37.7 million (€33.6 million in 2009), of which €9.2 million capitalized as intangible assets.

R&D activities involving cooking and food preparation products focused on the project for an automatic breadmaker, on the design of a baby food cooker in partnership with Chicco and on making changes to ovens, broiler grills, toasters and breadmakers to comply with the new A12 cold sides regulation.
During 2010, ISO 9001 certification was obtained for the Product Development system, and products continued to be tested for compliance with the European Food Safety Directive 1935/2004.

R&D relating to coffee machines included the development of new models, the enlargement of existing ranges, and continued work on improving FEA energy classes for the entire fully automatic range.

Development activities for the comfort line included the creation of a range of air-conditioners and dehumidifiers to comply with new US environmental laws under which the R22 gas currently in use must be eliminated, and the creation of a new low-cost compact water/vapour air-conditioner.

Activities involving cleaning and ironing products mostly related to development and manufacture of new products in our factories and by outside suppliers.

Communication activities in 2010 involved television advertising campaigns that focused on fully automatic coffee machines and ironing systems.
These television campaigns were also backed up by print and web activities; these were then supported by point of sale activities involving product demonstrations and prime position displays.

Human resources and organization

The De'Longhi Group had 7,083 employees at 31 December 2010 (6,855 at 31 December 2009).

The following table summarizes the average number of employees during 2010 compared with 2009:

	2010	%	2009	%	Difference
Blue collar	4,530	61%	4,369	60%	161
White collar	2,855	38%	2,841	39%	14
Senior managers	122	1%	124	1%	(2)
Total	**7,507**	**100%**	**7,334**	**100%**	**173**

	2010	%	2009	%	Difference
Household	5,743	76%	5,518	75%	225
Professional	1,680	23%	1,736	24%	(56)
Corporate	84	1%	80	1%	4
Total	**7,507**	**100%**	**7,334**	**100%**	**173**

The group had an average of 7,507 employees during 2010, 173 more than the year before. This increase was the product of different trends in the group's two divisions.

The average number of employees in the Household division rose from 5,518 in 2009 to 5,743 in 2010 due to additions to strengthen some of the commercial offices and to an increase in the number of staff employed in Italy, particularly in relation to the growth in volumes at the Mignagola factory in the province of Treviso.

The average number of employees in the Professional division went from 1,736 in 2009 to 1,680 in 2010.

As for development of business organization and processes, during 2010 the Household division adopted a new commercial and marketing structure responsible for the De'Longhi, Kenwood and Ariete brands with the following objectives:

- sales organization - to maximize effectiveness and efficiency of sales organization, to improve impact in every market with the trade;
- marketing organization - to strengthen marketing and consumer focus, to maximize the impact of the brand portfolio and guide the new product development process, by creating two departments.

Commercial organization outside Europe saw the creation of two separate Commercial areas (Americas, Asia Pacific and Turkey – Africa, Middle East and India), both of which with responsibility for Kenwood and De'Longhi.

Activities were continued in the year to enhance and improve the quality of commercial offices in the major markets, guided by principles of process efficiency/effectiveness, development of in-house resources and attention to the specifics of local markets.

As for the Professional division, during 2010 RC Group was reorganized with the closure of the facility in Pomezia (Rome) and the merger of Climaveneta Home System into Climaveneta.

The group also continued to invest during 2010 in developing its key people in Italy and abroad; in Italy a number of key people continued to receive professional and individual coaching based on results of assessments performed during the year.
Management training also continued and involved a large group of managers and high-potential resources, from both the Household and Professional divisions.
These activities included courses for Country Managers in the Household division, that addressed the topics of leadership, communication, and negotiation skills, with the dual goal of sharing specific best practices in each country while at the same time providing tools, techniques and suggestions for improving their capabilities in this position. Management training in the Professional division included a team building exercise within Climaveneta involving senior managers and a group of high-potential resources.

In the second part of 2010 an experimental job posting system was started, in the form of an on-line notice board through which employees can apply for job vacancies within the various group companies. The principal objective of this system is to stimulate employee professional growth and development, as part of a process of ongoing business innovation.

During the year some of the group's Italian companies reached agreement with the trade unions over renewing payroll agreements that had long since expired, adopting a new approach to the past, with a particular focus on people, their working conditions and personal needs: new criteria for earning results-related bonuses were agreed, in line with changes in company organization, and wider use was made of mechanisms such as part-time work, special leave and remote on-line work.

Code of conduct and environment

De' Longhi is a member of the European Committee of Domestic Equipment Manufacturers (CECED) and has adopted its Code of Conduct under which it has committed to comply with all applicable environmental regulations wherever it operates.
The De' Longhi Group's intention has been communicated to all stakeholders by the Board of Directors in the Ethical Code adopted by the parent company in 2003, point 7 of whose specific principles ("Environmental protection") states: "The company's business is based on the principle of safeguarding the environment and public health, in compliance with specific applicable regulations."

Activities and investments involving ecology, safety and the environment continued once again in 2010.
The Safety Committee, whose members include the Managers of the Prevention and Protection Services at all the group's Italian companies, continued its work with the goal of examining and adopting internal solutions and processes to comply with changes in the law during the year, and of continuing to establish best practice.

Corporate governance and ownership structure

The De'Longhi Group has adopted and complies with the Code of Conduct for Listed Companies, published in March 2006 (the "Code").
In compliance with applicable laws and regulations, as well as the Italian stockmarket 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 Decree 58/98 (Italy's Financial Markets Consolidation Act), and on adoption of the Code and observance of the related requirements.
This report, to which this section now refers, is prepared in accordance with the "Borsa Italiana, edition II" format (February 2010), and has been published at the same time as the present Annual Report. This report is also available at www.delonghi.com, in the section "Corporate → Investor Relations → Governance → Corporate documentation".

The key points will be now be summarized for the purposes of the present Report on Operations.

Direction and Co-ordination

De'Longhi S.p.A. directs and co-ordinates its own subsidiaries and is not under the direction and co-ordination of its parent De' Longhi Soparfi S.A., or of any other party, as defined by articles 2497 et seq. of the Italian Civil Code.
In compliance with the Code's principles, 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 three directors qualifying as non-executive and independent, based on the guidelines established by the Code's article 3.
It should nonetheless be noted – as communicated to the issuer – that the business purpose of the parent De'Longhi Soparfi S.A., as set out in its articles of association, forbids it from interfering in the management of any of the companies in which it holds ownership interests.

Board of Directors

The Board of Directors currently in office was appointed by the shareholders' meeting of 21 April 2010, which set the total number of directors at ten. This Board will end its term in office at the shareholders' meeting called to approve the annual report and financial statements at 31 December 2012.

In compliance with art. 147-*ter* of Italy's Financial Markets Consolidation Act, the articles of association of De'Longhi S.p.A. 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). 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.

Since its meeting on 1 March 2007 the Board of Directors of De'Longhi S.p.A. has adopted a series of resolutions designed to implement the principles contained in the Code, with such resolutions duly implemented in subsequent years. Details of these resolutions can be found in the Report on Corporate Governance and Ownership Structure.

During 2010 the Board of Directors:

- approved a revision to the General Section of the Organization and Management Model established under Decree 231 dated 8 June 2001;
- confirmed the list of "strategically important subsidiaries", identifying them as De'Longhi Appliances S.r.l., Climaveneta S.p.A., De'Longhi Capital Service S.r.l., DL Radiators S.p.A. and RC Group S.p.A., all of which Italian registered companies, as well as Kenwood Ltd, a British registered company.

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 Code.

The Board has two executive directors - the Chairman and the Chief Executive Officer - and eight non-executive directors, who have no authority or managerial functions in the company or the group, and three of whom satisfy the independence requirements established by art. 148, par. 3 of the Financial Markets Consolidation Act and art. 3 of the Code.

In its meeting on 3 March 2011, the Board confirmed that the directors Alberto Clò, Renato Corrada and Giovanni Tamburi all satisfied the stated independence requirements.

Some of the current directors hold appointments in other listed or relevant companies. The most significant appointments are listed in the Report on Corporate Governance and Ownership Structure.

In compliance with CONSOB Regulation 17221/10 and having obtained the opinion of a committee comprising just independent directors, the Board of Directors approved in its meeting of 12 November 2010 a set of "Procedures for transactions with related parties of the De' Longhi Group" (the "RPT Procedures"), effective from 1 January 2011 (the full text of the RPT Procedures can be found at www.delonghi.com in the section "Corporate → Investor Relations → Governance → Corporate documentation").

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

Committees set up by the Board of Directors

In its meeting on 21 April 2010, the Board of Directors voted to confirm the establishment of two sub-committees, namely:

- the Internal Auditing and Corporate Governance Committee and
- the Compensation Committee.

The meeting of the Board of Directors on 12 November 2010 also decided to set up a committee comprising solely independent directors.

The Internal Auditing and Corporate Governance Committee met four times in 2010, and was attended by all of its members on each occasion. These meetings were also attended by the Chairman of the Board of Statutory Auditors or, if absent, by another standing statutory auditor, while the committee also extended invitations, according to its agenda, to the internal control officer, the financial reporting officer and the head of corporate affairs.

The Compensation Committee held two meetings during 2010, both of which attended by all its members.

Details of the powers and operation of these two committees can be found in the Report on Corporate Governance and Ownership Structure.

Board of Statutory Auditors

Following the resolutions adopted by the shareholders' meeting of 21 April 2010, the Board of Statutory Auditors comprises Gianluca Ponzellini, its chairman, and Giuliano Saccardi and Massimo Lanfranchi, both standing members. Their term in office expires with the approval of the annual report and financial statements at 31 December 2012.

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

Reconta Ernst & Young 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 by the ordinary shareholders' meeting held on 21 April 2010.

The engagement will expire with the approval of the annual report and financial statements for the year ended 31 December 2018.

Internal controls

The De'Longhi internal control model, approved in the meeting of the Board of Directors on 1 March 2007, is summarized in a framework document entitled "Internal control policies of the De'Longhi Group" ("Policies"), which are available at www.delonghi.com, in the section "Corporate → Investor Relations → Governance → Corporate documentation".
The model calls for:

- an executive director to supervise the operation of the internal control system, who has been granted the following powers:
  a) to identify the principal business risks (taking account of the type of business conducted by the company and its subsidiaries) and to submit such risks to the periodic review of the Board;
  b) to implement the "Policies" approved by the Board, seeing to the design, implementation and management of internal controls, and to constantly check their overall adequacy, effectiveness and efficiency in compliance with the "Policies"; to revise such controls for changes in operating conditions and in the legislative and regulatory framework;
  c) to submit for Board approval the nomination, revocation and remuneration of the group's internal control officers.

- the appointment of a Financial Reporting Officer by the Board of Directors. In accordance with art. 28-bis of the articles of association, the Financial Reporting Officer is selected, after consulting the Board of Statutory Auditors, from persons with at least three years of senior-level experience in accounting or administration, in a listed or nonetheless large company.

- the appointment of the Head of Internal Audit as the company's Internal Control Officer with the duties indicated in the "Policies".

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

Introduction

The risk management and internal control system relating to the financial reporting process under art. 123-bis par. 2.(b) of the Financial Markets Consolidation Act is part of the wider system of internal controls. This system is designed to guarantee the reliability, accuracy, consistency and timeliness of financial reporting and has been defined in accordance with the framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and with the Control Objectives for Information and Related Technology (COBIT).

The Internal Control Officer, who has responsibility for checking that internal controls operate efficiently and effectively, draws up an annual work programme which is submitted for the approval of the Internal Auditing Committee and then of the Board of Directors, and is also based on proposals by the Financial Reporting Officer and the requirements of Decree 262/05. The Internal Control Officer then reports to the Internal Auditing Committee on the results of work performed with reference to the problems uncovered, the agreed improvements and the outcome of testing activities. This person also provides a shorter report to the Financial Reporting Officer and the Chief Executive Officer to allow them to assess the adequacy and effective application of the administrative procedures adopted to prepare the consolidated financial statements.

Description of principal characteristics

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.

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 (ie. 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 general managers and finance managers of each group company are responsible for maintaining adequate internal controls and must provide a statement in which they confirm that internal controls are operating correctly.

The internal audit department also carries out tests as part of its audit programme using internal control self-assessment check lists.

With reference to the requirements of Chapter VI of the Regulations implementing Decree 58 dated 24 February 1998 concerning the regulation of markets ("Market Regulations"), it is reported that De'Longhi S.p.A. has direct or indirect control over seven companies established and regulated under the law of non-EU countries, which qualify as material for the purposes of 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.

The following disclosure in relation to risk management policy describes the work performed in accordance with art. 8.C.5 of the Italian stockmarket's Code of Conduct, published in March 2006, and with art. 5.1 (a) of the "Internal control policies of the De'Longhi Group".

Work continued in 2010 on identifying the principal business risks and on updating those identified in the past, also involving discussion and agreement with the Internal Auditing Committee and the parent company's Board of Statutory Auditors.

Business risks can be classified in the following broad categories:

(i) strategic risks, relating to medium/long-term business risks, which can be affected by changes in market trends and demand, socio-political events, the company's ability to carry on producing innovative products, and the competitive environment;

(ii) operational risks, relating to the sales and purchasing processes, involving correct management of operating stocks;

(iii) compliance risks relating to laws, regulations, contracts and financial reporting.

Strategic risks

1 - Macroeconomic trends

The group's results of operations and statement of financial position are also affected by macroeconomic trends such as: trends in consumption, in the cost of raw materials, and in interest rates and exchange rates.
The economic forecasts indicate that the world economy grew in 2010, albeit at different rates in the various areas (Source: Bank of Italy).
Growth is particularly fast in the emerging economies, above all China and India, robust in the United States and more modest in the Euro-zone, except for Germany which is stronger.
Although at the date of preparing the present report it is not possible to reasonably determine the impact of the geo-political events in North Africa and the Middle East, the impact on macroeconomic statistics is likely to be negative, especially in Continental Europe.
In particular, these events have already had a major impact on the international oil price.
Price rises on international markets for raw materials, driven above all by demand from emerging countries (and most recently by political unrest in North Africa), have triggered inflationary trends in emerging countries as a whole, particularly in food prices. Even the advanced nations have reported a slight increase in inflation, driven by foreign imports; net of energy components, price inflation is still not significant and monetary policies continue to be expansionary, with official interest rates at record lows.
The Euro-zone has continued to see a modest recovery in industrial output and household consumption; instead, investments in capital goods have eased slightly, reflecting lower expenditure on construction and machinery, also because of high levels of unutilized production capacity.
The macroeconomic scenario in coming months will continue to offer little certainty as to the intensity and direction of the recovery, also because of a persistently weak jobs market.

2 - Risks related to market trends and demand; socio-political risks

These risks refer to changes in the dynamics of markets and demand, and to socio-political risks.
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 De'Longhi Group has long had the characteristics of a multinational with a global reach, including in emerging countries and through joint ventures; it is therefore necessarily exposed to local economic and political conditions, to the introduction of restrictive policies or limits on foreign investment, and to any related restrictions on capital repatriation, and on imports and exports.
The emergence of adverse political and economic events in such markets could have a negative impact on the group's results and equity, which the group believes can be resisted thanks to the strong diversification of its product range and its markets.
Risks related to socio-political events could not only affect consumption in the various markets concerned but also be of relevance because of the group's concentration of manufacturing in foreign markets; even in this area, as a multinational, it is inevitable that the group is exposed to the risk of introduction of restrictive policies, limits on foreign investment, and restrictions on capital repatriation, imports and exports: such risks are therefore carefully monitored by top management.
The group, in the persons of the Chairman, the Group Chief Executive Officer, and the Division and Market Directors, constantly monitors market trends to rapidly seize opportunities for increasing business and to evaluate the possible emergence of any risks (and the potential impact on the group's results).

3 - Risks related to the De' Longhi Group's ability to achieve continual product innovation

The De'Longhi Group's ability to generate value also depends on its ability to offer technologically innovative products that respond to market trends.
In this respect, the De'Longhi 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. It is top management's intention to carry on the same policy adopted until now.

4 - Patents and trademarks
Given the importance of developing products that are innovative in both technology and design (point 3), it is natural that the group should follow a policy of protecting its research and development by registering patents, utility models and decorative designs in the various markets concerned; similar protection must be assured for the group's trademarks.

The group's Legal Affairs office is responsible for the defence of industrial property rights and constantly monitors and controls all the group's trademarks around the world, using the services of special consultants in the various countries concerned.

Such actions cannot of course absolutely guarantee that the group's products will not be imitated and furthermore, certain jurisdictions (China and the 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 best possible global protection in the various markets where it operates.

Operational risks
5 - Human resources management
The principal risks relating to human resources are linked to the ability to recruit, develop, motivate and retain staff with the necessary talent, values, and specialist and/or managerial competencies that meet the group's changing needs and to make such employees aware of their responsibilities.
In terms of recruitment, quality resources are attracted by having qualified, professional human resources teams in the group's principal organizational units, by taking steps to improve both the quality of internal career paths and the group's outside image (communication, relationships with schools and universities, testimonials, internships etc), and by using the services of specialist professional firms with proven experience.
In terms of motivating and developing personnel, actions taken include the enhancement of managerial, specialist, business and regulative competencies, with initiatives that involve managers and staff from different areas of the business.
There are also reward systems for employees at various levels in the organization - from the factory worker through to top management and key people - which are linked the achievement of short-term and/or medium/long term results.
It is also essential to develop tools that bring out an individual's ambitions and aspirations, so as to ensure that employee career aspirations match those of the company and that the risk of demotivation or loss of skilled resources is reduced. Two distinct tools have been recently developed and implemented for this purpose: a performance appraisal system (in use for several years) and an experimental system of "internal job posting".
The job posting system publicizes within the group's principal companies the vacancies of most interest, in order to stimulate application by internal candidates with the right requirements and to foster career paths within the same company, or between group companies, either in Italy or abroad.
In terms of its manufacturing workforce, the group operates in China and Italy, with a majority of the workforce employed in China after restructuring its manufacturing activities from 2004 (previously factories were based in Europe, mainly in Italy). The current structure involves certain risks associated with the high turnover of the Chinese manufacturing workforce, combined with that of higher payroll costs following the Chinese government's decision to significantly raise minimum wages (average increase of 15%/20% per annum).

Report on operations

These risks are managed through:
- organization of factory work that minimizes the impact of turnover on the efficiency and quality of production;
- development of incentive systems to secure staff loyalty (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 the quality of life and work within the various factories (canteens, recreational activities, recreational areas, internet access).

As regards workplace safety, all those who work day by day to improve working conditions, from management, to safety staff, to the safety committee set up in Italy, to workplace doctors, devote particular attention to analyzing the principal safety indicators with a view to learning and making continual improvements.

6 - Price of raw materials and other items
The group's production costs are affected by the price of the principal raw materials, namely steel and plastic; price trends are constantly monitored to take any necessary action to keep the group competitive.

Most of the purchases are made in China; the associated risks are linked to production by Chinese subsidiaries that act as suppliers to the group, by the network of third-party suppliers and by suppliers of parts to the manufacturing subsidiaries themselves (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) dealing with the same suppliers for steel, the main raw material purchased, who are selected for their reliability; up until now, these suppliers have always guaranteed the results of production expected; (g) defence of the group's 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.

7 - Product quality and product liability

The main risk is that products do not meet quality standards: product returns could incur extra production costs and damage the group's image.
The activities of the De'Longhi Group involve it assuming typical producer liability for damage arising from defective products: part of its sales take place in jurisdictions (like the USA) where the rules governing liability for damage caused by products to objects or people are particularly strict.

The group therefore applies strict standards of control to its products: it has a protocol for managing quality risk that involve 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 management considers provides adequate coverage against the related risks.

8 - Timeliness of delivery

Inefficient supply chain management is a risk, and can result in failure to supply products on time or situations in which stocks exceed requirements.
Another risk is the adequacy of customer service.

A centralized, efficient logistics service for the entire group ensures and guarantees careful, precise planning and management at every stage of the supply chain.
As for level of service, the group's procedures require that customers receive attentive service.

9 - Interest rate risks

The group is exposed to interest rate risk on floating rate loans and borrowings.
During 2010 all the major central banks kept their money market interest rates at the same level as at the end of 2009, thus maintaining a low cost of borrowing with the aim of fostering gradual economic growth.
Even at its recent meeting in January 2011, the governing council of the ECB has kept the Euro-zone principal reference rate at its record low of 1%. The Federal Reserve confirmed the 0.25% rate in force at the end of 2009, as did Japan (0.10%) and the United Kingdom (0.5%, a record low in force since March 2009).
Fears over the sustainability of sovereign debt in certain Euro-zone countries have heightened tensions on European financial markets, and also increased the risks associated with major European international banks. Accordingly, international co-ordination has continued to strengthen the regulation and supervision of banking and financial systems.

10 - Exchange rate risks

Transaction 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 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 and trade and financial receivables/payables.
The principal currencies to which the group is exposed are the US dollar (mainly the EUR/USD and GBP/USD rates), being the currency in which a significant part of the cost of raw materials, parts and finished products is denominated, the British pound (the EUR/GBP rate) for sales on the UK market and the Japanese yen (the EUR/JPY and USD/JPY rates) for sales on the Japanese market.

Despite hedging, unexpected currency fluctuations could have a negative impact on the group's financial results and performance.

Translation exchange rate risk

The group has controlling equity interests in companies which prepare their financial statements in currencies other than the euro; the group is therefore exposed to a translation risk associated with the impact on consolidated net equity caused by fluctuations in exchange rates by certain currencies against the consolidation currency. The principal exposures are monitored but such risks are not hedged under the group's current policies.

11 - Financial market risks

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 satisfying its financing and hedging needs.
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 group uses specific policies and procedures for the purposes of monitoring and managing this risk, including the centralized management of financial payables and cash, the raising of medium and long-term finance on capital markets and the obtaining of short-term credit lines such as to ensure wide room for manoeuvre when managing working capital and cash flows.

The group has medium-term bank credit lines and short-term credit lines (typically renewed on an annual basis), which are used to finance working capital and other operating needs.

12 - Credit risk

The group is exposed to credit risk both on its trading relationships and on its liquidity investment activities. The socio-political (or country) risks already mentioned in points 2 and 6 could also have an impact on credit risk.
Commercial credit risk is monitored using formal procedures for selecting and assessing customers, for defining credit limits, for monitoring expected receipts and for their possible recovery.
Credit risk is partly mitigated by insurance policies with major insurers, and in certain cases by additional guarantees required of customers, principally in the form of sureties.

13 - Seasonality of sales

The group operates in “comfort” lines of business relating to the sale of air-conditioners and heating products which are typically seasonal products and so depend on seasonal phenomena with a concentration of sales in a limited period.
Management believes that the geographical diversification of sales resulting from market globalization limits the extent of this risk and, following growth by other lines of business, the weight of “comfort” sales has come down to about 20% of the total; seasonality risk, which should be treated as ordinary, therefore applies only to this part of the group’s business.

Compliance and corporate reporting risks

14 - Adoption of Organizational Model (Decree 231/2001)

Further to the enactment of Decree 231/2001 and its subsequent amendments and additions, which has introduced specific corporate liability for certain types of felony, the group’s principal Italian companies have adopted suitable organizational and management models, under art. 6 of the Decree, for avoiding the incurrence of such liability at their expense.
The operation, observance and updating of these models is monitored by an Oversight Board in each company, which has autonomous powers of action and control.
The activities aimed at preventing the types of felony addressed by the Decree have focused on areas and processes for which the risks have been assessed and potential risks consequently identified.
The Boards of Directors of these companies have approved organizational models and any subsequent amendments to reflect the inclusion of new types of felony within the Decree’s scope.
The Organizational Models have been prepared on the basis of the Confindustria Guidelines (revised in 2008).
The current Organizational Models consist of:
1) a “general section” which not only presents the model but also addresses:
- the model’s bodies, activities and instruments of control, including:
  (I) the structure for implementing the organizational model;
  (II) the Oversight Board (with the duties of implementation, control, auditing, reporting, communication, education, information provision, breaches of the model, requested amendments and application of disciplinary punishments);
- how the model is implemented in practice, including through:
  (I) the ethical code;
  (II) the internal control policies;
  (III) operational guidelines on felony prevention;
  (IV) a disciplinary system.

2) a “special section” comprising:
- procedures for managing and controlling sensitive processes;
- decision-making procedures;
- procedures for regulating and managing corporate affairs;
- documentation on the safety and environmental management systems;
- procedures for the quality management system;
- personal data protection plan.

During 2010, activities were carried out for all the companies with an Organizational Model aimed at identifying the need for any additions or amendments to practices and documents that were sensitive to the inclusion of new felonies within the scope of Decree 231/2001, namely in art. 25-bis.1 (offences against industry and commerce) and art. 25-novies (offences involving breach of copyright), and the addition to art. 25-bis (deceit [...] in instruments or signs of recognition).
These activities were carried out by members of the Internal Audit department and were subsequently re-examined during checks by the Oversight Boards.
The amendments needed to the special section of the Organizational Models are expected to be completed during the

first half of 2011, including for any additional requirements that might be necessary for the inclusion of environmental offences in the decree (expected on 26 December 2010 and later delayed to 9 April 2011).
The ISO 14000 certification of the environmental management system at all the manufacturing sites of companies with an Organizational Model gives the Oversight Boards good reason to be confident that management and control processes in this area will comply with the latest legislative changes.

The Oversight Boards have a mixed membership, comprising members from within the companies and outside consultants. The internal members include members of the internal audit, legal, and human resources and organization departments.
The outside consultants have been selected for their specific expertise and experience of corporate organization and civil and criminal law.
The duties, activities and operation of the Oversight Boards are governed by specific rules of procedure.

15 - 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.
In November 2010, 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.

16 - 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.
Information about how these risks are addressed can be found earlier on in this section.

Compliance with personal data protection laws

As the party responsible for personal data use, De'Longhi S.p.A. declares that it has updated its Personal Data Protection Plan for De'Longhi S.p.A. in compliance with Decree 196 of 30 June 2003.

Shares held by directors, statutory auditors, general managers and key management personnel (Art. 79 CONSOB Regulations approved in Resolution 11971 of 14 May 1999)

As required by art. 79 of the CONSOB Regulations approved in Resolution 11971 of 14 May 1999, the following information relates to shares held by directors, statutory auditors, general managers and key management personnel of De'Longhi S.p.A. and its subsidiaries.

Name	Shares held in	No. of shares held at 31.12.10	
Giuseppe De'Longhi	De'Longhi S.p.A.	2,150,000	(*)
Fabio De'Longhi	De'Longhi S.p.A.	447,570	
Giorgio Sandri	De'Longhi S.p.A.	20,750	
Massimo Lanfranchi	De'Longhi S.p.A.	750	
Key management personnel	**De'Longhi S.p.A.**	**10,600**	

(*)Shares declared by Giuseppe De' Longhi which he considers require reporting to the CONSOB.

The shares held at 31 December 2010 also include those held indirectly and/or through relatives.
The changes during 2010 refer to the sale of 10,000 shares by Giorgio Sandri.

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:

	Net equity 31.12.2010	Profit for 2010	Net equity 31.12.2009	Profit for 2009
De'Longhi S.p.A. financial statements	**554,459**	**24,588**	**541,831**	**13,748**
Share of subsidiaries' equity and results for period attributable to the group, after deducting carrying value of the investments	94,220	60,515	26,466	10,898
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	135,339	(8,257)	141,342	(2,130)
Elimination of intercompany profits	(22,339)	(1,773)	(19,948)	9,929
Other adjustments	(1,107)	28	(1,168)	336
Consolidated financial statements	**760,572**	**75,101**	**688,523**	**32,781**
Minority interests	1,651	186	1,678	424
Group portion	**758,921**	**74,915**	**686,845**	**32,357**

Group tax election

During 2010 the group's Italian companies filed for income tax on a group basis, as permitted by Chapter II Section II of Presidential Decree 917/86.

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.

Subsequent events

There have been no significant events since the end of the reporting period.

Outlook for the current year

The group closed 2010 with impressive, better-than-expected results but is facing a still uncertain scenario in 2011; in the absence of unexpected events that might seriously affect the global economy and markets, the group is confident of being able to achieve continued growth thanks to its continuous drive for innovation, its winning product mix and the new opportunities offered by high-growth markets.

Treviso, 3 March 2011

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

Consolidated financial statements

Consolidated income statement

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of cash flows

Consolidated statement of changes in net equity

Consolidated income statement

(€/000)	Notes	2010	of which non-recurring	2009	of which non-recurring
Revenues from sales and services	1 -7	1.600.338	(396)	1.379.323	
Other revenues	1	25.546		24.744	
Total consolidated revenues		**1.625.884**	**(396)**	**1.404.067**	
Raw and ancillary materials, consumables and goods	2	(790.373)		(627.695)	
Change in inventories of finished products and work in progress	3 -7	20.643	(853)	(54.550)	(2.330)
Change in inventories of raw and ancillary materials, consumables and goods	3 -7	(4.011)	(400)	(15.034)	
Materials consumed		**(773.741)**	**(1.253)**	**(697.279)**	**(2.330)**
Payroll costs	4 -7	(203.493)	(466)	(186.733)	(1.646)
Services and other operating expenses	5 - 7	(421.652)	(1.819)	(359.788)	(2.295)
Provisions	6 - 7	(33.892)	(2.048)	(30.361)	(6.802)
Amortization, depreciation and impairment	8	(45.459)		(37.468)	
EBIT		**147.647**	**(5.982)**	**92.438**	**(13.073)**
Financial income (expenses)	9	(36.090)		(35.263)	
PROFIT (LOSS) BEFORE TAXES		**111.557**		**57.175**	
Income taxes	10	(36.456)		(24.394)	
PROFIT (LOSS) AFTER TAXES		**75.101**		**32.781**	
Profit (loss) pertaining to minority interests		186		424	
PROFIT (LOSS) PERTAINING TO THE GROUP		**74.915**		**32.357**	
EARNINGS PER SHARE					
- basic		€ 0,50		€ 0,22	
- diluted		€ 0,50		€ 0,22	

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)	Notes	2010	2009
Profit (loss) after taxes		**75.101**	**32.781**
Other components of comprehensive income:			
Change in fair value of cash flow hedges	26	(7.040)	3.879
Tax effect of change in fair value of cash flow hedges	26	1.920	(1.062)
Differences from translating foreign companies' financial statements into euro	26	14.239	668
Total comprehensive income (loss)		**84.220**	**36.266**
Total comprehensive income attributable to:			
Owners of the parent		84.036	35.886
Minority interests		184	380

Consolidated statement of financial position

Assets

(€/000)	Notes	31.12.2010	31.12.2009
NON-CURRENT ASSETS			
INTANGIBLE ASSETS		408.615	414.666
- Goodwill	11	228.042	231.318
- Other intangible assets	12	180.573	183.348
PROPERTY, PLANT AND EQUIPMENT		186.431	177.609
- Land, property, plant and machinery	13	133.493	132.384
- Other tangible assets	14	52.938	45.225
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		2.309	2.666
- Equity investments (in associated companies)	15	-	-
- Equity investments (in other companies)	15	671	671
- Receivables	16	1.512	1.894
- Other non-current financial assets	17	126	101
DEFERRED TAX ASSETS	18	33.471	38.060
TOTAL NON-CURRENT ASSETS		**630.826**	**633.001**
CURRENT ASSETS			
INVENTORIES	19	288.012	257.084
TRADE RECEIVABLES	20	387.937	351.879
CURRENT TAX ASSETS	21	13.686	18.529
OTHER RECEIVABLES	22	14.996	15.344
CURRENT FINANCIAL RECEIVABLES AND ASSETS	23	12.221	13.886
CASH AND CASH EQUIVALENTS	24	193.515	123.954
TOTAL CURRENT ASSETS		**910.367**	**780.676**
TOTAL ASSETS		**1.541.193**	**1.413.677**

Consolidated statement of financial position

Net equity and liabilities

(€/000)	Notes	31.12.2010	31.12.2009
NET EQUITY			
GROUP PORTION OF NET EQUITY		758.921	686.845
- Share capital	25	448.500	448.500
- Reserves	26	235.506	205.988
- Profit (loss) pertaining to the group		74.915	32.357
MINORITY INTERESTS	26	1.651	1.678
TOTAL NET EQUITY		**760.572**	**688.523**
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES		107.934	113.094
- Bank loans and borrowings (long-term portion)	27	89.416	96.276
- Other financial payables (long-term portion)	28	18.518	16.818
DEFERRED TAX LIABILITIES	18	19.393	25.304
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		72.787	66.384
- Employee benefits	29	25.907	28.667
- Other provisions	30	46.880	37.717
TOTAL NON-CURRENT LIABILITIES		**200.114**	**204.782**
CURRENT LIABILITIES			
TRADE PAYABLES	31	374.184	291.073
FINANCIAL PAYABLES		102.755	141.973
- Bank loans and borrowings (short-term portion)	27	81.353	124.009
- Other financial payables (short-term portion)	28	21.402	17.964
CURRENT TAX LIABILITIES	32	44.659	34.797
OTHER PAYABLES	33	58.909	52.529
TOTAL CURRENT LIABILITIES		**580.507**	**520.372**
TOTAL NET EQUITY AND LIABILITIES		**1.541.193**	**1.413.677**

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

Consolidated statement of cash flow

(€/000)	Notes	2010	2009
Profit (loss) pertaining to the group		74.915	32.357
Income taxes for the period		36.456	24.394
Capital gain on sale of equity investments		-	(271)
Amortization, depreciation and impairment		45.459	37.468
Net change in provisions		11.140	6.759
Cash flow generated (absorbed) by current operations (A)		**167.970**	**100.707**
Change in assets and liabilities for the period:			
Trade receivables		(18.593)	17.326
Inventories		(16.570)	69.615
Trade payables		58.883	(269)
Other current assets and liabilities		10.401	2.726
Payment of income taxes		(24.632)	(16.058)
Cash flow generated (absorbed) by movements in working capital (B)		**9.489**	**73.340**
Cash flow generated (absorbed) by current operations and movements in working capital (A+B)		**177.459**	**174.047**
Investment activities:			
Investments in intangible assets		(13.458)	(11.772)
Other cash flows for intangible assets		(2.157)	142
Investments in property, plant and equipment		(33.186)	(28.079)
Other cash flows for property, plant and equipment		2.819	1.463
Net investments in equity investments and other financial assets		587	4.172
Cash flow generated (absorbed) by ordinary investment activities		**(45.395)**	**(34.074)**
Cash effect for purchase of equity investments		-	(544)
Non-recurring cash flow (D)		**-**	**(544)**
Dividends paid		(11.960)	(8.970)
Change in currency translation reserve		10.426	1.601
Increase (decrease) in minority interests in capital and reserves		(28)	164
New loans		67.163	26.725
Repayment of loans and other net changes in sources of finance		(128.104)	(144.157)
Cash flow generated (absorbed) by changes in net equity and by financing activities (E)		**(62.503)**	**(124.637)**
Cash flow for the period (A+B+C+D+E)		**69.561**	**14.792**
Opening cash and cash equivalents	**24**	**123.954**	**109.162**
Increase (decrease) in cash and cash equivalents (A+B+C+D+E)		69.561	14.792
Closing cash and cash equivalents	**24**	**193.515**	**123.954**

Appendix 2 presents the statement of cash flows at 31 December 2010 in terms of net financial position; this measure represents gross financial debt as reduced by cash and cash equivalents and other financial receivables. More details can be found in the later analysis of *Net financial position*.

Consolidated statement of changes in net equity

(€/000)	Share capital	Share premium reserve	Legal reserve	Other reserves	Fair value and cash flow hedge reserves	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 2008	**448.500**	**325**	**6.430**	**42.173**	**484**	**(25.778)**	**147.635**	**40.160**	**659.929**	**2.346**	**662.275**
Allocation of 2008 result as per AGM resolution of 21 April 2009											
- distribution of dividends							(8.970)		(8.970)		(8.970)
- allocation to reserves			1.347	16.619			22.194	(40.160)	-		-
Other dividend distributions										(260)	(260)
Change in scope of consolidation									-	(788)	(788)
Movements from transactions with shareholders	**-**	**-**	**1.347**	**16.619**	**-**	**-**	**13.224**	**(40.160)**	**(8.970)**	**(1.048)**	**(10.018)**
Net result of the period								32.357	32.357		32.357
Other components of comprehensive income					2.817	712			3.529	380	3.909
Comprehensive income (loss)	**-**	**-**	**-**	**-**	**2.817**	**712**	**-**	**32.357**	**35.886**	**380**	**36.266**
Balance at 31 December 2009	**448.500**	**325**	**7.777**	**58.792**	**3.301**	**(25.066)**	**160.859**	**32.357**	**686.845**	**1.678**	**688.523**

(€/000)	Share capital	Share premium reserve	Legal reserve	Other reserves	Fair value and cash flow hedge reserves	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 2009	**448.500**	**325**	**7.777**	**58.792**	**3.301**	**(25.066)**	**160.859**	**32.357**	**686.845**	**1.678**	**688.523**
Allocation of 2009 result as per AGM resolution of 21 April 2010											
- distribution of dividends							(11.960)		(11.960)		(11.960)
- allocation to reserves			687	1.101			30.569	(32.357)	-		-
Other dividend distributions									-	(211)	(211)
Movements from transactions with shareholders	**-**	**-**	**687**	**1.101**	**-**		**18.609**	**(32.357)**	**(11.960)**	**(211)**	**(12.171)**
Net result of the period								74.915	74.915	186	75.101
Other components of comprehensive income					(5.120)	14.241			9.121	(2)	9.119
Comprehensive income (loss)	**-**	**-**	**-**	**-**	**(5.120)**	**14.241**	**-**	**74.915**	**84.036**	**184**	**84.220**
Balance at 31 December 2010	**448.500**	**325**	**8.464**	**59.893**	**(1.819)**	**(10.825)**	**179.468**	**74.915**	**758.921**	**1.651**	**760.572**

Explanatory notes

Group business

The De'Longhi Group is headed up by 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 companies included in the scope of consolidation are listed in Appendix 1 to the Explanatory notes.

The group is organized in three segments: *Household, Professional* and *Corporate*.

The *Household* segment operates in the domestic appliances market with products for air cooling and treatment, heating, food preparation and cooking, domestic cleaning and ironing, which are distributed mainly through the retail channel primarily under the De'Longhi, Kenwood and Ariete trademarks.

The *Professional* segment operates in the market for large thermo-cooling systems, hydronic terminals, heat pumps and wall-mounted air-conditioning units (Climaveneta, RC Group) and in the market for radiators (DL Radiators). These products are distributed mainly through the professional channel.

The *Corporate* segment comprises the activities of the parent company De'Longhi S.p.A. and other subsidiaries which provide the group with corporate services.

Accounting standards

The De'Longhi Group's consolidated financial statements at 31 December 2010 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 2010), 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;
- Interpretational documents on how to apply IAS/IFRS in Italy, prepared by the Italian Accounting Board.

The accounting policies and measurement bases used for preparing the financial statements at 31 December 2010 are the same as those used for preparing the consolidated financial statements at 31 December 2009.

The consolidated financial statements at 31 December 2010 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.

These present annual report and financial statements were approved by the Board of Directors on 3 March 2011.

The financial statements used for consolidation purposes are the separate ones for the year ended 31 December 2010 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 *37. Risk management* of the present Explanatory notes.

The following exchange rates have been used:

Currency		31.12.2010 Year-end exchange rate (*)	31.12.2010 Average exchange rate (*)	31.12.2009 Year-end exchange rate (*)	31.12.2009 Average exchange rate (*)	% change Year-end exchange rate (*)	% change Average exchange rate (*)
US dollar	USD	1.33620	1.32572	1.44060	1.39478	(7.2%)	(5.0%)
British pound	GBP	0.86075	0.85784	0.88810	0.89094	(3.1%)	(3.7%)
Hong Kong dollar	HKD	10.38560	10.29940	11.17090	10.81140	(7.0%)	(4.7%)
Chinese renminbi (yuan)	CNY	8.82200	8.97123	9.83500	9.52771	(10.3%)	(5.8%)
Australian dollar	AUD	1.31360	1.44231	1.60080	1.77270	(17.9%)	(18.6%)
Canadian dollar	CAD	1.33220	1.36511	1.51280	1.58496	(11.9%)	(13.9%)
Japanese yen	JPY	108.65000	116.23900	133.16000	130.33700	(18.4%)	(10.8%)
Malaysian ringgit	MYR	4.09500	4.26679	4.93260	4.90791	(17.0%)	(13.1%)
New Zealand dollar	NZD	1.72000	1.83774	1.98030	2.21213	(13.1%)	(16.9%)
Polish zloty	PLN	3.97500	3.99467	4.10450	4.32762	(3.2%)	(7.7%)
South African rand	ZAR	8.86250	9.69843	10.66600	11.67370	(16.9%)	(16.9%)
Singapore dollar	SGD	1.71360	1.80552	2.01940	2.02409	(15.1%)	(10.8%)
Russian rouble	RUB	40.82000	40.26290	43.15400	44.13760	(5.4%)	(8.8%)
Turkish lira	TRY	2.06940	1.99655	2.15470	2.16311	(4.0%)	(7.7%)
Czech koruna	CZK	25.06100	25.28400	26.47300	26.43490	(5.3%)	(4.4%)
Croatian kuna	HRK	7.38300	7.28906	7.30000	7.34003	1.1%	(0.7%)
Brazilian real	BRL	2.21770	2.33143	2.51130	2.76742	(11.7%)	(15.8%)
Swiss franc	CHF	1.25040	1.38034	1.48360	1.51002	(15.7%)	(8.6%)
Indian rupee	INR	59.75800	60.58780	67.04000	67.3611	(10.9%)	(10.1%)

(*) Source: Bank of Italy

Relevant new amendments and accounting standards applied by the group for the first time

In May 2010 the IASB published a number of Improvements to IFRSs. These revisions will now be outlined.

IAS 1 – *Presentation of financial statements*: the Improvement requires, amongst others, that changes in every component of equity be presented either in the statement of changes in net equity or in the notes to the financial statements. It also requires the “balance sheet” to be renamed as the “statement of financial position”.

IAS 34 – *Interim financial reporting*: the Improvement has provided clarification concerning disclosures about changes during the period affecting the fair value of financial instruments, transfers between different levels of the fair value hierarchy used to measure financial instruments, changes in classification of financial instruments as a result of changes in their utilization and purpose, and changes in contingent assets and liabilities.

Non-relevant new amendments and interpretations not applied by the group

IFRS 1 - *First-time adoption of IFRSs*: the Improvement provides clarification about the disclosures concerning reconciliation between previous GAAP and IFRSs. The Improvement also clarifies how to use fair value as deemed cost and how to use deemed cost for operations subject to rate regulation.

IFRS 3 – *Business combinations*: the Improvement clarifies that components of non-controlling interests that do not entitle their holders to a proportionate share of an acquiree’s net assets in the event of liquidation must be measured at their acquisition date fair value, unless another measurement basis is required by IFRSs.

IFRS 7 – *Financial instruments*: *disclosures*: the Improvement emphasizes the interaction between qualitative and quantitative disclosures and the nature and extent of risks associated with financial instruments. It also eliminates disclosure requirements relating to financial assets renegotiated to avoid becoming past due or impaired and to the fair value of collateral.

IFRIC 13 – *Customer loyalty programmes*: the Improvement clarifies that, when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the fair value of such award credits must take account of any expected forfeitures and the amount of discounts or incentives that would otherwise be offered to customers not participating in the award credit scheme.

On 28 January 2010, the IASB published the *Amendment to IFRS 1: Limited exemption from comparative IFRS 7 disclosures for first-time adopters* in order to exempt first-time adopters from providing the additional disclosures required by the IFRS 7 amendment concerning fair value hierarchy issued on 5 March 2009.

New amendments and interpretations not yet applicable

On 7 October 2010 the IASB published a number of amendments to IFRS 7 – *Financial instruments: disclosures*, applicable to accounting periods beginning on or after 1 July 2011. These amendments have been made to allow users of financial statements to improve their understanding of transfer transactions involving financial assets and the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. At the date of the present financial statements, the competent bodies of the European Union had not yet completed the endorsement process needed for the application of these amendments.

On 20 December 2010 the IASB issued a minor amendment to IFRS 1 – *First-time adoption of international financial reporting standards* to eliminate the reference to the date of 1 January 2004, described as the IFRS transition date, and to provide guidance on presenting financial statements in accordance with IFRS after a period of severe hyperinflation. These amendments are applicable from 1 July 2011. At the date of the present financial statements, the competent bodies of the European Union had not yet completed the endorsement process needed for the application of these amendments.

On 20 December 2010 the IASB issued a minor amendment to IAS 12 – *Income taxes* which requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. As a result of this amendment SIC-21 – *Income taxes - recovery of revalued non-depreciable assets* will no longer be applicable. This amendment is applicable from 1 January 2012. At the date of the present financial statements, the competent bodies of the European Union had not yet completed the endorsement process needed for the application of this amendment.

Consolidation procedures

The scope of consolidation includes the parent company, De'Longhi S.p.A., and its subsidiaries at 31 December 2010, 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 proportionate method of consolidation whereby its share of all the joint venture's assets, liabilities, income and costs are combined on a line-by-line basis with similar items in the parent's financial statements.

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.

Change in the scope of consolidation

The only changes in the scope of consolidation during 2010 related to the opening/acquisition of a number of new companies that were not yet operational at 31 December 2010.

Equity investments in joint ventures

The group holds interests in a number of joint ventures, listed in Appendix 1, whose assets, liabilities, revenues and expenses are consolidated in proportion to the interest held.

The portion of assets, liabilities, revenues and expenses of joint ventures included in the consolidated financial statements at 31 December 2010 and 2009 is as follows:

(€/000)	31.12.2010	31.12.2009
Current assets	28,828	17,285
Non-current assets	7,025	6,488
Total assets	**35,853**	**23,773**
Current liabilities	18,539	10,936
Non-current liabilities	-	-
Total liabilities	**18,539**	**10,936**
Net assets	**17,314**	**12,837**
Operating revenues	36,151	27,172
Operating costs	(32,107)	(24,247)
Financial expenses	3,421	2,481
Income taxes	(980)	(470)
Profit after tax	**6,485**	**4,936**

Disclosure by operating segments

Note 40. Operating segments contains the required disclosures.
The report on operations contains comments on the economic results by operating segment and 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 – 7 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.

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.

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.

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

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. The portion of the cumulative net value of the actuarial gains and losses which exceeds the greater of 10% of the present value of the obligation and 10% of the fair value of any plan assets at the end of the prior year is amortized over the average remaining working lives of the employees concerned ("corridor approach").
Further to the Finance Act 2007 (Law 296 dated 27 December 2006), only the remaining company liability for severance indemnity at 31.12.2006 has been valued in accordance with IAS 19, since indemnity accruing from this date in some of the group's companies has been paid into a separate entity (alternative pension funds or Italian social security funds). These payments are treated like a defined contribution fund since the company no longer has an obligation to pay further contributions if the fund does not have sufficient assets to pay all employee benefits relating to employee service.

Long-term liabilities for employee benefits are reported at the present value of the defined benefit obligation at the reporting date.

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.

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 profit or loss pertaining to the group attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the period.

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.

For the purposes of impairment testing, the group's plans for 2011 and thereafter take account of the current economic and financial crisis and the new market conditions.

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 as follows:

Revenues by operating segment:

	2010	2009	Change	% change
Household	1,277,002	1,077,045	199,957	18.6%
Professional	352,613	333,976	18,637	5.6%
Corporate	12,492	12,332	160	1.3%
Intersegment eliminations	(16,223)	(19,286)	3,063	(15.9%)
Total	**1,625,884**	**1,404,067**	**221,817**	**15.8%**

The section of the report on operations entitled "Results by operating segment" contains comments on the principal changes.

Revenues by geographical area:

	2010	2009	Change	% change
Italy	268,800	265,507	3,293	1.2%
United Kingdom	141,108	117,533	23,575	20.1%
Rest of Europe	762,261	659,825	102,436	15.5%
United States, Canada and Mexico	89,165	91,935	(2,770)	(3.0%)
Rest of the world	364,550	269,267	95,283	35.4%
Total	**1,625,884**	**1,404,067**	**221,817**	**15.8%**

The "Markets" section of the report on operations contains comments on the more significant changes.

"Other revenues" are broken down as follows:

	2010	2009	Change
Out-of-period gains	4,889	5,285	(396)
Freight reimbursement	7,908	6,557	1,351
Commercial rights	1,539	1,179	360
Damages reimbursed	846	1,019	(173)
Other income	10,364	10,704	(340)
Total	**25,546**	**24,744**	**802**

"Revenues from sales and services" include €396 thousand in non-recurring adjustments to revenues at 31 December 2010.

2. Raw and ancillary materials, consumables and goods

The breakdown is as follows:

	2010	2009	Change
Raw materials	106,863	110,308	(3,445)
Parts	331,935	206,927	125,008
Finished products	343,113	302,386	40,727
Other purchases	8,462	8,074	388
Total	**790,373**	**627,695**	**162,678**

3. Change in inventories

The breakdown is as follows:

	2010	2009	Change
Change in inventories of finished products and work in progress	20,643	(54,550)	75,193
Change in inventories of raw and ancillary materials, consumables and goods	(4,011)	(15,034)	11,023

Note 19. Inventories analyzes the changes in more detail. The difference between the overall change in inventories reported in the income statement and between the balances contained in the statement of financial position is mainly due to differences arising on the translation of financial statements of foreign companies.
The change in inventories includes €1,253 thousand in non-recurring costs at 31 December 2010 (€2,330 thousand in 2009).

4. Payroll costs

These costs include €73,050 thousand in production-related payroll (€66,155 thousand at 31 December 2009).

	2010	2009	Change
Employee wages and salaries	198,644	183,725	14,919
Temporary workers	4,849	3,008	1,841
Total	**203,493**	**186,733**	**16,760**

The figures relating to the cost of employee benefits provided by certain group companies in Italy and abroad are reported in the note on provisions.

Payroll costs include €466 thousand in non-recurring costs at 31 December 2010 (€1,646 thousand in 2009).

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

	2010	2009
Blue collar	4,530	4,369
White collar	2,855	2,841
Senior managers	122	124
Total	**7,507**	**7,334**

5. Services and other operating expenses

These are detailed as follows:

	2010	2009	Change
Advertising	40,594	35,250	5,344
Promotional expenses	75,389	60,774	14,615
Transport (for purchases and sales)	82,488	60,131	22,357
Commissions	23,558	22,532	1,026
Rentals and leasing	29,510	27,658	1,852
Subcontracted work	18,904	13,213	5,691
Technical support	20,552	17,624	2,928
Travel	14,627	13,877	750
Insurance	6,972	7,701	(729)
Storage and warehousing	14,650	14,646	4
Consulting services	15,258	14,657	601
Power and other utilities	10,436	11,672	(1,236)
Other third-party services	9,857	8,216	1,641
Postage, telegraph and telephones	4,240	4,184	56
Maintenance	4,556	4,140	416
Directors' emoluments	2,716	2,178	538
Receivables insurance	2,997	2,113	884
Statutory auditors' emoluments	399	490	(91)
Other sundry services	10,401	9,136	1,265
Total services	**388,104**	**330,192**	**57,912**
Sundry taxes	22,755	17,714	5,041
Out-of-period losses	3,738	4,930	(1,192)
Other	6,940	6,218	722
Bad debts	115	734	(619)
Total other operating expenses	**33,548**	**29,596**	**3,952**
Total services and other operating expenses	**421,652**	**359,788**	**61,864**

"Services and other operating expenses" include €1,819 thousand in non-recurring services at 31 December 2010 (€2,295 thousand in 2009) mostly in relation to reorganization of some the group's activities.

"Rentals and leasing" at 31 December 2010 include €23,813 thousand in premises rental (€22,913 thousand in 2009), €1,127 thousand in operating lease payments (€1,003 thousand in 2009), €1,178 thousand in royalties (€719 thousand in 2009) and €3,392 thousand in equipment hire (€3,023 thousand in 2009).

Explanatory notes

6. Provisions

These include €22,688 thousand in increases in provisions for contingencies and other charges, which are discussed in note 30. Other provisions.
They also include €9,679 thousand in increases to the allowance for doubtful accounts and €1,525 thousand in writedowns of intangible assets (mainly new product development costs).

Total provisions include €2,048 thousand in non-recurring amounts at 31 December 2010 (€6,802 thousand in 2009), mostly relating to costs for restructuring production activities in certain subsidiaries.

7. Non-recurring expenses

"Non-recurring expenses" of €5,982 thousand at 31 December 2010 are directly classified in the income statement line items to which they refer (€396 thousand in revenues, €1,253 thousand in changes in inventories, €466 thousand in payroll costs, €1,819 thousand in services and other operating expenses and €2,048 thousand in provisions).

The principal components of non-recurring expenses are as follows:

	2010	2009	Change
Restructuring costs – Italy	2,132	7,119	(4,987)
Reorganization costs - foreign operations	1,091	3,256	(2,165)
Reorganization costs - Italian commercial activities	1,036	759	277
Other non-recurring expenses	1,723	1,939	(216)
Total non-recurring expenses	**5,982**	**13,073**	**(7,091)**

8. Amortization, depreciation and impairment

These are detailed as follows:

	2010	2009	Change
Amortization of intangible assets	15,051	13,640	1,411
Depreciation of property, plant and equipment	24,808	23,828	980
Impairment losses	5,600	-	5,600
Total amortization, depreciation and impairment	**45,459**	**37,468**	**7,991**

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

Impairment losses refer to the writedown of goodwill relating to a subsidiary in the Professional segment.

9. Financial income (expenses)

Net financial income and expenses are broken down as follows:

	2010	2009	Change
Financial income (expenses) from equity investments	**6**	**285**	**(279)**
Exchange differences and gains (losses) on hedges	**(7,528)**	**(6,289)**	**(1,239)**
Net interest expense and other bank charges	(10,871)	(12,859)	1,988
Financial discounts	(13,341)	(11,836)	(1,505)
Other financial income (expenses)	(4,356)	(4,564)	208
Other financial income (expenses)	**(28,568)**	**(29,259)**	**691**
Financial income (expenses)	**(36,090)**	**(35,263)**	**(827)**

"Exchange differences and gains (losses) on hedges" include losses arising from rate differentials on derivatives hedging currency risk; they also include €990 thousand in exchange differences arising on consolidation.

"Net interest expense and other bank charges" include not only bank interest on the group's financial debt but also the financial cost of factoring receivables without recourse, as well as adjustments to calculate the amortized cost of bank loans and borrowings.
This amount also includes €1,022 thousand in interest accruing on defined benefit plans in favour of group employees.

No net gains or losses on financial instruments have been recognized in the year apart from interest and dividends which have been reported separately.

10. Income taxes

These are analyzed as follows:

	2010	2009	Change
Current income taxes:			
- Income taxes	34,441	10,931	23,510
- IRAP (Italian regional business tax)	4,694	3,625	1,069
Deferred income tax liabilities (assets)	(2,679)	9,838	(12,517)
Total	**36,456**	**24,394**	**12,062**

"Deferred income tax liabilities (assets)" include the taxes calculated on the temporary differences arising between the accounting values of assets and liabilities and the corresponding tax base (particularly for taxed provisions recognized by the parent company and its 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:

	2010	%	2009	%
Profit before taxes	111,557	100.0%	57,175	100.0%
Theoretical taxes	30,678	27.5%	15,723	27.5%
Other (*)	1,084	1.0%	5,046	8.8%
Total income taxes	**31,762**	**28.5%**	**20,769**	**36.3%**
IRAP	4,694	4.2%	3,625	6.3%
Actual taxes	**36,456**	**32.7%**	**24,394**	**42.7%**

(*) Mostly refers to the net tax effect of permanent differences and of different tax rates applied abroad relative to the theoretical ones applied in Italy and to the cost of settling certain tax disputes.

Comments on the statement of financial position: assets

Non-current assets

11. Goodwill

	31.12.2010		31.12.2009		
	Gross	Net	Gross	Net	Change
Goodwill	256,369	228,042	259,645	231,318	(3,276)

Impairment of €5,600 thousand has been recognized in 2010 against the goodwill allocated to the Professional CGU, following impairment testing at year end, as described in this note.

An increase in goodwill arising on consolidation has been recognized for an agreement with a local partner in India to manufacture and sell air-conditioners on this market.

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;
- is allocated to cash-generating units (CGUs), identified by operating segment: the De'Longhi Group has two principal operating segments (the Household and Professional divisions), plus the Corporate segment; these segments represent the main way in which the group is analyzed, both for management reporting purposes and for the disclosure of segment information in its financial reports; six CGUs have been identified within these operating segments.

The following table shows how goodwill is allocated by CGU:

Cash-generating unit	Goodwill at 31.12.2010
De'Longhi	24,471
Kenwood	17,120
Climaveneta	100,073
DL Radiators	63,375
RC	23,003
Total	**228,042**

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 ongoing use of the assets; any cash flows arising from extraordinary events are therefore ignored.
In particular, value in use is determined using the discounted cash flow method for 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 approved for 2011.

The CGU which produces and sells radiators was tested for impairment, also with the assistance of an independent expert, with reference to a five-year plan that takes account of the effects of the current market situation. This test has revealed a range of values for book value, which the group has accordingly written down by €5,600 thousand.
The estimated recoverable amount for the other CGUs was €10 million higher than book value.
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 after tax. The discount rate of 7%, 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.
Except as indicated above, the impairment tests carried out at the end of 2010 have not revealed any 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 changed were the discount rate (between 6.8% and 7.2%) 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.

No events of significance have occurred in the first few months of 2011 such as might indicate any further impairment in the carrying amount of goodwill.
However, the estimate of 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 circumstances and events that might make it necessary to perform new impairment tests.

12. Other intangible assets

These are analyzed as follows:

	31.12.2010		31.12.2009		
	Gross	Net	Gross	Net	Change
New product development costs	60,515	16,382	50,084	14,604	1,778
Patents	31,085	2,675	29,995	3,088	(413)
Trademarks and similar rights	220,803	150,741	220,811	154,968	(4,227)
Work in progress and advances	8,743	7,601	11,245	10,103	(2,502)
Other	19,031	3,174	15,766	585	2,589
Total	**340,177**	**180,573**	**327,901**	**183,348**	**(2,775)**

The following table reports movements in the main asset categories during 2010:

	New product development costs	Patents	Trademarks and similar rights	Work in progress and advances	Other	Total
Net opening balance	**14,604**	**3,088**	**154,968**	**10,103**	**585**	**183,348**
Additions	4,046	1,021	36	5,150	3,205	13,458
Amortization	(8,653)	(1,503)	(4,219)	-	(676)	(15,051)
Translation differences	98	47	2	-	17	164
Other movements (*)	6,287	22	(46)	(7,652)	43	(1,346)
Net closing balance	**16,382**	**2,675**	**150,741**	**7,601**	**3,174**	**180,573**

(*) The amounts reported as "Other movements" mostly refer to reclassifications of certain 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 €9,196 thousand in development costs as intangible assets during 2010, of which €4,046 thousand in "New product development costs" for projects already completed at the reporting date, and €5,150 thousand in "Work in progress and advances" for projects still in progress. The group has incurred some €37.7 million in research and development costs during 2010.

"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" also include €113.8 million in trademarks viewed as having an indefinite useful life under the criteria specified in IAS 38 (of which €79.8 million refers to the "De'Longhi" trademark and €34 million to the "Climaveneta" trademark). The De'Longhi and Climaveneta trademarks are considered to have indefinite lives particularly in view of their brand notoriety, their economic performance, the characteristics of their particular markets, the specific brand strategies and the level of investment in brand support.
The impairment test carried out at the end of 2010 has not revealed any significant evidence that these assets might have suffered an impairment loss. No events of significance have occurred so far in 2011 such as might suggest that the carrying amount of trademarks could be impaired.
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 post-tax discount rate of 7% reflects current market assessments of the time value of money. The cash flows discounted to present value are stated after tax (in keeping with the discount rate which is a post-tax one).

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 changed were the discount rate (between 6.8% and 7.2%) 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 7% 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.

"Other" intangible assets include €2,647 thousand for the acquisition of a "customer list" in Greece during the first half of 2010. This acquisition gives the subsidiary De'Longhi Kenwood Hellas S.A. an exclusive right to sell De'Longhi products on the Greek market and to customers of the previous distributor. This amount has been determined by also taking account of the fair value of a put option in the seller's favour that expires on 31 December 2014.
This acquisition will allow the group to raise its margins through higher sales in Greece.

13. Land, property, plant and machinery

These are analyzed as follows:

	31.12.2010		31.12.2009		
	Gross	Net	Gross	Net	Change
Land and buildings	88,791	68,638	86,017	68,453	185
Plant and machinery	195,042	64,855	189,882	63,931	924
Total	**283,833**	**133,493**	**275,899**	**132,384**	**1,109**

The following table reports movements during 2010:

	Land and buildings	Plant and machinery	Total
Net opening balance	**68,453**	**63,931**	**132,384**
Additions	3,312	6,494	9,806
Disposals	(1,385)	(681)	(2,066)
Depreciation	(2,980)	(6,434)	(9,414)
Translation differences and other movements	1,238	1,545	2,783
Net closing balance	**68,638**	**64,855**	**133,493**

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

	31.12.2010	31.12.2009	Change
Buildings	3,430	3,588	(158)
Plant and equipment	15,730	15,837	(107)
Other	289	208	81
Total	**19,449**	**19,633**	**(184)**

Information on the financial liability arising under the related lease agreements can be found in note 28. Other financial payables.

14. Other tangible assets

Details of other tangible assets are as follows:

	31.12.2010		31.12.2009		
	Gross	Net	Gross	Net	Change
Industrial and commercial equipment	198,366	30,840	182,095	27,993	2,847
Other	48,785	13,561	49,171	13,684	(123)
Work in progress and advances	8,537	8,537	3,548	3,548	4,989
Total	**255,688**	**52,938**	**234,814**	**45,225**	**7,713**

The following table reports movements during 2010:

	Industrial and commercial equipment	Other	Work in progress and advances	Total
Net opening balance	27,993	13,684	3,548	45,225
Additions	12,344	3,947	7,089	23,380
Disposals	(4)	(385)	(52)	(441)
Depreciation	(11,381)	(4,013)	-	(15,394)
Translation differences and other movements	1,888	328	(2,048)	168
Net closing balance	**30,840**	**13,561**	**8,537**	**52,938**

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

The increase in "Work in progress" is due to expenditure on the installation of photovoltaic systems and on the construction of a new manufacturing facility for a Chinese subsidiary.

15. Equity investments

The balance at 31 December 2010 reports €671 thousand in equity investments in other companies, accounted for as available-for-sale financial assets.

16. Non-current receivables

The balance at 31 December 2010 includes €1,394 thousand in security deposits (€1,848 thousand at 31 December 2009) and €118 thousand in other non-current receivables (€46 thousand at 31 December 2009).

17. Other non-current financial assets

These refer to €126 thousand in bonds held by subsidiaries at 31 December 2010 (€101 thousand at 31 December 2009).

18. Deferred tax assets and deferred tax liabilities

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

	31.12.2010	31.12.2009	Change
Deferred tax assets	33,471	38,060	(4,589)
Deferred tax liabilities	(19,393)	(25,304)	5,911
Net asset balance	**14,078**	**12,756**	**1,322**

"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) and the tax effects associated with the allocation of higher values to fixed assets as a result of allocating goodwill arising on consolidation. They also include the benefit arising from the carryforward of unused tax losses which are likely to be used in the future.

Details of the net balance are as follows:

	31.12.2010	31.12.2009	Change
- Temporary differences	6,046	1,875	4,171
- Tax losses	8,032	10,881	(2,849)
Net asset balance	**14,078**	**12,756**	**1,322**

The change in the net asset balance also reflects a reduction of €1,920 thousand in amounts booked to net equity in the "Fair value and cash flow hedge reserve".

It is also reported that no deferred taxes have been recognized on €9 million in carried forward tax losses reported by certain group companies, since these are unlikely to be recovered in the future.

Current assets

19. Inventories

“Inventories”, shown net of an allowance for obsolete and slow-moving goods, can be broken down as follows:

	31.12.2010	31.12.2009	Change
Raw, ancillary and consumable materials	50,682	57,863	(7,181)
Work in progress and semi-finished products	21,303	20,766	537
Finished products and goods	253,250	207,208	46,042
Advances	1	65	(64)
Inventory writedown allowance	(37,224)	(28,818)	(8,406)
Total	**288,012**	**257,084**	**30,928**

The value of inventories is stated after deducting an allowance for obsolete or slow-moving goods totalling €37,224 thousand (€28,818 thousand at 31 December 2009), in relation to products and raw materials no longer deemed to be of strategic interest.

20. Trade receivables

These are detailed as follows:

	31.12.2010	31.12.2009	Change
Trade receivables			
- due within 12 months	415,690	374,743	40,947
- due beyond 12 months	5	456	(451)
Allowance for doubtful accounts	(27,758)	(23,320)	(4,438)
Total trade receivables	**387,937**	**351,879**	**36,058**

Trade receivables are stated net of an allowance for doubtful accounts of €27,758 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 proportion 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 the reporting date is €134,672 thousand at 31 December 2010. The total amount of receivables factored during 2010 (under Law 52/1991 known as the Factoring Law) was €390,997 thousand.

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

	31.12.2009	Increases	Utilization	Translation differences and other movements	31.12.2010
Allowance for doubtful accounts	23,320	9,679	(5,419)	178	27,758

The group has received guarantees from customers as collateral against trade balances; in addition, a significant proportion of the receivables are covered by insurance polices with major insurers. More details can be found in note 37. Risk management.

Trade receivables are broken down by geographical area as follows:

Geographical area	31.12.2010	%	31.12.2009	%
Italy	73,301	18.9%	66,148	18.8%
United Kingdom	11,556	3.0%	17,554	5.0%
Rest of Europe	176,827	45.6%	168,842	48.0%
United States, Canada, Mexico	15,603	4.0%	13,808	3.9%
Rest of the world	110,650	28.5%	85,527	24.3%
Total	**387,937**	**100.0%**	**351,879**	**100.0%**

21. Current tax assets

These are detailed as follows:

	31.12.2010	31.12.2009	Change
VAT	6,724	9,398	(2,674)
Tax payments on account	1,931	4,394	(2,463)
Direct taxes	1,842	2,058	(216)
Tax refunds requested	2,225	1,964	261
Other tax receivables	964	715	249
Total current tax assets	**13,686**	**18,529**	**(4,843)**

The amount of current tax assets due beyond 12 months is €421 thousand (the same amount as at 31 December 2009).

22. Other receivables
"Other receivables" are analyzed as follows:

	31.12.2010	31.12.2009	Change
Prepaid insurance costs	531	2,591	(2,060)
Advances to suppliers	5,885	4,462	1,423
Employees	643	376	267
Other	7,937	7,915	22
Total other receivables	**14,996**	**15,344**	**(348)**

Other receivables include €82 thousand in amounts due beyond 12 months.

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

	31.12.2010	31.12.2009	Change
Fair value of derivatives	2,625	5,213	(2,588)
Other financial receivables	7,096	6,129	967
Other securities	2,500	2,544	(44)
Total current financial receivables and assets	**12,221**	**13,886**	**(1,665)**

More details on the fair value of derivatives can be found in note 37. Risk management.

"Other financial receivables" mainly refer to receivables arising from the without-recourse factoring of receivables.

"Other securities" report the bond issued by Edifriuli S.p.A. and subscribed by the subsidiary DL Radiators S.p.A.. This bond matures in 2011 and carries floating-rate annual interest equal to the European Central Bank interest rate uplifted by two-thirds.

24. Cash and cash equivalents
This balance consists of surplus liquidity on bank current accounts, mostly relating to customer payments received at period end.
Some of the group's foreign companies have a total of €200.3 million in cash on current accounts held at the same bank. These cash balances form part of the international cash pooling system and are partially offset by €183.9 million in overdrafts held by certain other foreign companies with the same bank. 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 allowed 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 2010 include €2,491 thousand in current accounts of Chinese subsidiaries that are restricted, having been given as collateral.

Comments on the statement of financial position: net equity

Net equity
Net equity is made up as follows:

	31.12.2010	31.12.2009	Change
Group portion	758,921	686,845	72,076
Minority interests	1,651	1,678	(27)
Total net equity	**760,572**	**688,523**	**72,049**

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

The annual general meeting (AGM) of De'Longhi S.p.A. held on 21 April 2010 declared a dividend totalling €11,960 thousand, which was paid in the year.

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

25. Share capital
Share capital is made up of 149,500,000 ordinary shares of par value €3.00 each, for a total of €448,500 thousand.

26. Reserves

These are broken down as follows:

	31.12.2010	31.12.2009	Change
Share premium reserve	325	325	-
Legal reserve	8,464	7,777	687
Other reserves			
- Extraordinary reserve	59,893	58,792	1,101
- Fair value and cash flow hedge reserve	(1,819)	3,301	(5,120)
- Currency translation reserve	(10,825)	(25,066)	14,241
- Profit (loss) carried forward	179,468	160,859	18,609
Total reserves	**235,506**	**205,988**	**29,518**

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 is €325 thousand.

The "Legal reserve" had a balance of €7,777 thousand at 31 December 2009. The intervening increase of €687 thousand is due to the allocation of profit for 2009, as approved by the above AGM of De'Longhi S.p.A..

The "Extraordinary reserve" has increased due to the allocation of the parent company's profit for 2009, as approved by the above AGM.

The "Fair value and cash flow hedge reserve" reports a negative balance of €1,819 thousand, net of €665 thousand in tax. This reserve has been recognized under IAS 39, adopted with effect from 1 January 2005, and includes the effective portion of net gains and losses on financial instruments designated as cash flow hedges against the exposure of future revenues and costs to exchange rate fluctuations.
This reserve also includes the net result of measuring "available for sale" financial assets at fair value.
The decrease of €5,120 thousand in the "Fair value and cash flow hedge reserve" during 2010 reflects €7,040 thousand in negative fair value changes in cash flow hedges (net of €1,920 thousand in tax).

The "Currency translation reserve" comprises €10,825 thousand in exchange differences arising on the translation of foreign company financial statements into euro.

"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 change reflects the distribution of €11,960 thousand in dividends, as approved by the above AGM.

Minority interests in net equity amount to €1,651 thousand. The interests held by minority interests and their corresponding share of net equity and results for the year ended 31 December 2010 are summarized below:

Company	% interest	Net equity	Profit (loss) for the period
E-Services S.r.l.	49%	1,714	188
Climaveneta Polska S.P.Zo.O.	19.12%	(63)	(2)
Total		**1,651**	**186**

The decrease of €27 thousand in minority interests in net equity reflects €211 thousand in dividends distributed to minority shareholders, €186 thousand in minority interests in the profit for the period, and translation differences attributable to minority interests for the remainder.

Below is a concise 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:

Company	Net equity 31.12.2010	Profit for 2010	Net equity 31.12.2009	Profit for 2009
De'Longhi S.p.A. financial statements	**554,459**	**24,588**	**541,831**	**13,748**
Share of subsidiaries' equity and results for period attributable to the group, after deducting carrying value of the investments	94,220	60,515	26,466	10,898
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	135,339	(8,257)	141,342	(2,130)
Elimination of intercompany profits	(22,339)	(1,773)	(19,948)	9,929
Other adjustments	(1,107)	28	(1,168)	336
Consolidated financial statements	**760,572**	**75,101**	**688,523**	**32,781**
Minority interests	1,651	186	1,678	424
Group portion	**758,921**	**74,915**	**686,845**	**32,357**

Comments on the statement of financial position: liabilities

Non-current liabilities

27. Bank loans and borrowings

“Bank loans and borrowings” (including the current portion) are analyzed as follows:

	Within one year	*One to five years*	*Beyond five years*	**Balance 31.12.2010**	*Within one year*	*One to five years*	*Beyond five years*	**Balance 31.12.2009**	**Change**
Overdrafts	4,398			4,398	6,874			6,874	(2,476)
Short-term loans in euro or foreign currency	33,979			33,979	48,252			48,252	(14,273)
Advances	2,373			2,373	1,808			1,808	565
Long-term loans (current portion)	40,603			40,603	67,075			67,075	(26,472)
Total short-term bank loans and borrowings	**81,353**	**-**	**-**	**81,353**	**124,009**	**-**	**-**	**124,009**	**(42,656)**
Long-term loans	-	81,857	7,559	89,416	-	95,929	347	96,276	(6,860)
Total bank loans and borrowings	**81,353**	**81,857**	**7,559**	**170,769**	**124,009**	**95,929**	**347**	**220,285**	**(49,516)**

Long-term loans comprise the following:

Loans (including short-term portion)	**Balance 31.12.2010**	**Balance 31.12.2009**
Banca Popolare di Verona	42,511	59,277
Banca Popolare di Sondrio	24,297	27,391
Centrobanca – Banca Popolare di Vicenza	17,866	-
KBC Bank	12,475	20,763
BNP Paribas	-	29,018
Banca Popolare Friuladria	11,480	14,301
Banca di Cividale	6,338	8,169
Banca di Treviso	4,404	-
Banca Popolare di Vicenza	4,983	-
Cariparma	2,568	-
IMI (Law 46)	2,213	2,994
Unicredit	-	482
Other minor loans	884	956
Total long-term loans	**130,019**	**163,351**

During 2010 De’Longhi S.p.A. entered a long-term loan agreement with Centrobanca and Banca Popolare di Vicenza for €30 million, of which €18 million was disbursed in the year (the rest will be disbursed in 2011).
De’Longhi S.p.A. has also entered a long-term loan agreement with Banca Popolare di Vicenza for €5 million.

Both loans mature in 2017 and carry a floating interest rate indexed to Euribor; neither is backed by any security and both call for annual compliance with financial covenants (ratio of net financial position to EBITDA and of net financial position to net equity).
The subsidiary De’Longhi Capital Services S.r.l. has agreed an unsecured, floating-rate loan with Banca di Treviso for €5 million, maturing in 2014.
The subsidiary RC Group S.p.A. obtained a total of €7 million in five-year, unsecured loans during the period that are not subject to financial covenants.

The loans from KBC Bank N.V. and Banca Popolare Friuladria call for the observance of financial covenants (the ratio between net financial position and net equity and between net financial position and consolidated EBITDA), compliance with which is verified on an annual basis. These covenants have been observed at 31 December 2010.
No other loans are subject to financial covenants.

The loan arranged by BNP Paribas was repaid in full at maturity during 2010.

All the loans 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 loan and its maturity. 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). Note 37. Risk management contains the results of analyzing sensitivity to changes in interest rates.

28. Other financial payables

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

	31.12.2010	31.12.2009	Change
Payables to lease companies (short-term portion)	2,467	1,832	635
Ministry of Industry loans (short-term portion)	557	546	11
Payables for the purchase of equity investments	143	477	(334)
Negative fair value of derivatives	5,490	1,253	4,237
Other short-term financial payables	12,745	13,856	-1,111
Total short-term payables	21,402	17,964	3,438
Payables to lease companies (one to five years)	8,307	7,885	422
Ministry of Industry loans (one to five years)	1,585	2,142	(557)
Other financial payables (one to five years)	7,478	4,024	3,454
Total long-term payables (one to five years)	17,370	14,051	3,319
Payables to lease companies (beyond five years)	1,148	2,767	(1,619)
Total long-term payables (beyond five years)	1,148	2,767	(1,619)
Total other financial payables	**39,920**	**34,782**	**5,138**

More details on the fair value of derivatives can be found in note 37. Risk management.

This balance mostly refers to €11,922 thousand in payables recognized for finance leases (€12,484 thousand at 31 December 2009) and €2,142 thousand in low-interest loans from the Ministry of Industry (€2,688 thousand at 31 December 2009).

"Other short-term financial payables" primarily refer to balances arising as part of without-recourse factoring of receivables.

"Other financial payables (one to five years)" refer to the value of the call option over the remaining shares in certain equity investments and over the distributor's customer list in Greece.

All the principal other financial payables (mostly consisting of recently-entered finance leases) 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). Note 37. Risk management contains the results of analyzing sensitivity to changes in interest rates.

Net financial position

Details of the net financial position are as follows:

	31.12.2010	31.12.2009	Change
A. Cash	357	313	44
B. Cash equivalents	193,158	123,641	69,517
C. Securities	-	-	-
D. Total liquidity (A+B+C)	**193,515**	**123,954**	**69,561**
E. Current financial receivables	12,221	13,886	(1,665)
Of which: Fair value of derivatives	*2,625*	*5,213*	*(2,588)*
F. Current bank loans and borrowings	(40,749)	(56,934)	16,185
G. Current portion of non-current debt	(40,604)	(67,075)	26,471
H. Other current financial payables	(21,402)	(17,964)	(3,438)
Of which: Fair value of derivatives	*(5,490)*	*(1,253)*	*(4,237)*
I. Current financial debt (F+G+H)	**(102,755)**	**(141,973)**	**39,218**
J. Net current financial receivables (payables) (E +D+I)	**102,981**	**(4,133)**	**107,114**
K. Non-current bank loans and borrowings	(89,416)	(96,276)	6,860
L. Bonds	-	-	-
M. Other non-current payables (*)	(18,274)	(16,682)	(1,592)
Of which: Call options on equity investments	*(7,479)*	*(4,024)*	*(3,455)*
N. Non-current financial debt (K+L+M)	**(107,690)**	**(112,958)**	**5,268**
Total net financial debt (J+N)	**(4,709)**	**(117,091)**	**112,382**

(*) This amount differs from that reported in the statement of financial position because it is presented net of €244 thousand included in "Receivables" and "Other non-current financial assets" (€136 thousand at 31 December 2009).

The net financial position has improved by €112.4 million, with net debt coming down from €117.1 million to €4.7 million primarily thanks to cash flow from operations.
Apart from the medium-term credit lines described earlier, the group has a significant amount of short-term facilities (amounting to more than €400 million with a maturity of less than 18 months), of which about one-sixth are committed and so cannot be revoked at the bank's discretion.

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 and the reclassified table in the report on operations.

More details on the fair value of derivatives can be found in note 37. Risk management.

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

29. Employee benefits

These are made up as follows:

	31.12.2010	31.12.2009	Change
Provision for severance indemnities	15,483	16,965	(1,482)
Other defined benefit plans	6,534	7,751	(1,217)
Long-term benefits	3,890	3,951	(61)
Total employee benefits	**25,907**	**28,667**	**(2,760)**

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:

Severance indemnity obligations	31.12.2010	31.12.2009	Change
Defined benefit obligations	15,483	16,965	(1,482)

Net cost charged to income	31.12.2010	31.12.2009	Change
Current service cost	**114**	**82**	**32**
Interest cost on defined benefit obligations	741	871	(130)
Total	**855**	**953**	**(98)**

Change in present value of obligations	31.12.2010	31.12.2009	Change
Present value at 1 January	**16,965**	**18,363**	**(1,398)**
Current service cost	114	82	32
Utilization of provision	(2,337)	(2,351)	14
Interest cost on obligations	741	871	(130)
Present value at reporting date	**15,483**	**16,965**	**(1,482)**

Other defined benefit plans:

Movements in the year are as follows:

Net cost charged to income	31.12.2010	31.12.2009	Change
Current service cost	339	266	73
Return on plan assets	(1,694)	(1,369)	(325)
Interest cost on obligations	1,975	1,651	324
Total	**620**	**548**	**72**

Change in present value of obligations	31.12.2010	31.12.2009	Change
Present value at 1 January	**7,751**	**9,268**	**(1,517)**
Net cost charged to income	620	548	72
Benefits paid	(2,569)	(2,289)	(280)
Translation difference	732	224	508
Present value at reporting date	**6,534**	**7,751**	**(1,217)**

The present value at 31 December 2010 comprises €3,472 thousand in respect of Kenwood Ltd. and €3,062 thousand for De'Longhi Japan Corp.

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

Assumptions used	Severance indemnity 2010	Severance indemnity 2009	Other plans 2010	Other plans 2009
Discount rate	4.3%	4.1%	1.75-5.4%	1.75-5.7%
Future salary increases	2.0-4.0%	2.0-2.75%	0.0-2.5%	0.0-2.5%
Inflation rate	2.0%	2.0%	0.0-3.55%	0.0-3.7%

The long-term benefits include extraordinary incentives relating to 2010.

The shareholders approved a share-based compensation scheme (Phantom Stock Option Plan) during 2008; this entitles beneficiaries to cash payments based on the growth in the company's ordinary share price.
De'Longhi S.p.A. prepared an information circular in regard to this plan, pursuant to art. 84-bis of the Issuer Regulations, which was drawn up in compliance with appendix 3, format 7 of the Issuer Regulations, and was filed with Borsa Italiana and published on the company's website.

During 2008 the Board of Directors allotted a total of 700,000 phantom stock options to beneficiaries of this plan. At 31 December 2010 the number of options that can be exercised has decreased to 500,000 due to changes in the number of plan beneficiaries. The allotment value was €4.00 and the cash payment will be made in relation to the increase in the value of the De'Longhi share price.

Under the plan, 50% of the phantom stock options can be exercised (and so give right to receipt of the above payment) from 1 May 2010, while the remaining 50% can be exercised from 1 October 2011; the options must be exercised by 31 December 2012 at the very latest.
The cost of these instruments, reported in the income statement under payroll costs, and the associated liability are recognized over the vesting period. For as long as the liability exists, the fair value is calculated at each reporting date and at the actual payment date, with all changes in fair value going through the income statement.
The fair value of options is measured by taking account of the terms and conditions under which such rights are granted, and using estimates based on market values.
The cost of adopting this Phantom Stock Option Plan had an impact of €1,890 thousand on the consolidated income statement in 2010.

30. Other provisions

These are detailed as follows:

	31.12.2010	31.12.2009	Change
Agents' leaving indemnity provision and other retirement provisions	6,602	6,515	87
Product warranty provision	22,226	18,182	4,044
Provisions for contingencies and other charges	18,052	13,020	5,032
Total non-current provisions for contingencies and other charges	**46,880**	**37,717**	**9,163**

Movements are as follows:

	31.12.2009	Utilization	Increases	Other	31.12.2010
Agents' leaving indemnity provision and other retirement provisions	6,515	(276)	370	(7)	6,602
Product warranty provision	18,182	(10,559)	14,027	576	22,226
Provisions for contingencies and other charges	13,020	(5,226)	10,223	35	18,052
Total	**37,717**	**(16,061)**	**24,620**	**604**	**46,880**

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 2010. It takes account of the provisions of Decree 24/2002 and of European Community law.

The "Provision for contingencies and other charges" includes:
- the provision of €6,971 thousand for liabilities arising from product complaints (€3,214 thousand at 31 December 2009);
- the provision of €3,164 thousand for restructuring and reorganization in Italy and abroad (€3,895 thousand at 31 December 2009);
- provisions of €7,917 thousand by the parent company and certain subsidiaries against various contingencies and liabilities relating to legal disputes.

Current liabilities

31. Trade payables

The balance represents the amount owed by the group to third parties for the provision of goods and services.

Trade payables are broken down by geographical area as follows:

Geographical area	31.12.2010	%	31.12.2009	%
Italy	151,454	40.5%	127,397	43.8%
United Kingdom	26,411	7.1%	8,232	2.8%
Rest of Europe	67,894	18.1%	60,847	20.9%
United States, Canada, Mexico	6,547	1.7%	5,740	2.0%
Rest of the world	121,878	32.6%	88,857	30.5%
Total	**374,184**	**100.0%**	**291,073**	**100.0%**

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

32. Current tax liabilities

These are detailed as follows:

	31.12.2010	31.12.2009	Change
Direct taxes	19,567	12,793	6,774
Indirect taxes	12,092	8,752	3,340
Withholdings payable	5,604	5,377	227
Other taxes	7,396	7,875	(479)
Total current tax liabilities	**44,659**	**34,797**	**9,862**

Tax liabilities due beyond 12 months amount to €21 thousand at 31 December 2010 (€16 thousand at 31 December 2009).

33. Other payables

These are detailed as follows:

	31.12.2010	31.12.2009	Change
Employees	28,254	23,854	4,400
Social security institutions	7,860	8,010	(150)
Advances	5,504	2,354	3,150
Other	17,291	18,311	(1,020)
Total other payables	**58,909**	**52,529**	**6,380**

34. Commitments

These are detailed as follows:

	31.12.2010	31.12.2009	Change
Guarantees given to third parties	1,332	769	563
Other commitments	3,260	3,605	(345)
Total commitments	**4,592**	**4,374**	**218**

"Other commitments" mainly consist of €1.4 million in contractual obligations by the subsidiary De'Longhi America Inc..

35. 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		
31.12.2010	**Book value**	**Loans and receivables**	**Available for sale**	**Derivatives**
Non-current assets				
- Equity investments (other)	**671**		671	
- Receivables	**1,512**	1,512		
- Other non-current financial assets	**126**		126	
Current assets				
- Trade receivables	**387,937**	387,937		
- Current tax assets	**13,686**	13,686		
- Other receivables	**14,996**	14,996		
- Current financial receivables and assets	**12,221**	9,596		2,625
- Cash and cash equivalents	**193,515**	193,515		

		Liabilities	
31.12.2010	**Book value**	**Loans**	**Derivatives**
Non-current liabilities			
- Bank loans and borrowings (long-term portion)	**(89,416)**	(89,416)	
- Other financial payables (long-term portion)	**(18,518)**	(18,518)	
Current liabilities			
- Trade payables	**(374,184)**	(374,184)	
- Bank loans and borrowings (short-term portion)	**(81,353)**	(81,353)	
- Other financial payables (short-term portion)	**(21,402)**	(15,912)	(5,490)
- Current tax liabilities	**(44,659)**	(44,659)	
- Other payables	**(58,909)**	(58,909)	

		Assets		
31.12.2009	**Book value**	**Loans and receivables**	**Available for sale**	**Derivatives**
Non-current assets				
- Equity investments (other)	**671**		671	
- Receivables	**1,894**	1,894		
- Other non-current financial assets	**101**		101	
Current assets				
- Trade receivables	**351,879**	351,879		
- Current tax assets	**18,529**	18,529		
- Other receivables	**15,344**	15,344		
- Current financial receivables and assets	**13,886**	8,629	44	5,213
- Cash and cash equivalents	**123,954**	123,954		

		Liabilities	
31.12.2009	**Book value**	**Loans**	**Derivatives**
Non-current liabilities			
- Bank loans and borrowings (long-term portion)	**(96,276)**	(96,276)	
- Other financial payables (long-term portion)	**(16,818)**	(16,818)	
Current liabilities			
- Trade payables	**(291,073)**	(291,073)	
- Bank loans and borrowings (short-term portion)	**(124,009)**	(124,009)	
- Other financial payables (short-term portion)	**(17,964)**	(16,711)	(1,253)
- Current tax liabilities	**(34,797)**	(34,797)	
- Other payables	**(52,529)**	(52,529)	

36. 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 2010. 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	-	2,625	-
- derivatives with negative fair value	-	(5,490)	-
Available-for-sale financial assets:			
- Other non-current financial assets	46	-	-

There were no transfers between the levels during the year.

37. 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 fulfil 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 €415,678 thousand at 31 December 2010 (€375,199 thousand at 31 December 2009). This amount corresponds to the gross balance of trade receivables of €447,941 thousand at 31 December 2010 (€396,537 thousand at 31 December 2009), 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 €447,941 thousand at 31 December 2010 comprise €387,391 thousand in current balances and €60,550 thousand in past due amounts, of which €40,421 thousand past due by less than 90 days and €20,129 thousand past due by more than 90 days.

The amount of insured or guaranteed receivables at 31 December 2010 is €239,249 thousand, of which €221,807 thousand is current, €15,172 thousand past due by less than 90 days and €2,270 thousand past due by more than 90 days.

The group has recognized €27,758 thousand in allowances for doubtful accounts against unguaranteed receivables of €208,692 thousand (of which €25,248 thousand past due by less than 90 days and €17,860 thousand past due by more than 90 days).

Trade receivables of €396,537 thousand at 31 December 2009 comprised €317,077 thousand in current balances and €79,460 thousand in past due amounts, of which €51,810 thousand past due by less than 90 days and €27,650 thousand past due by more than 90 days.

The amount of insured or guaranteed receivables at 31 December 2009 was €174,623 thousand, of which €154,339 thousand was current, €17,337 thousand past due by less than 90 days and €2,948 thousand past due by more than 90 days.

The group's allowance for doubtful accounts against unguaranteed receivables of €221,914 thousand (of which €34,474 thousand past due by less than 90 days and €24,702 thousand past due by more than 90 days) was €23,320 thousand at 31 December 2009.

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 35. 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 funds 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 35 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 2010 and 31 December 2009 on the basis of undiscounted contractual payments. The group's financial assets and derivatives are all short term at these dates.

	Undiscounted cash flows at 31.12.2010	***Within one year***	***One to five years***	***Beyond five years***	**Undiscounted cash flows at 31.12.2009**	***Within one year***	***One to five years***	***Beyond five years***
Bank loans and borrowings (*)	177,157	84,067	85,329	7,761	226,926	126,683	99,809	433
Other financial payables (**)	46,018	27,692	18,044	282	37,075	18,781	16,245	2,049
Trade payables	374,084	374,084	-	-	291,073	291,073	-	-
Current tax liabilities and other payables	103,568	103,242	21	305	87,326	87,033	8	285

(*) The corresponding balance reported in the financial statements is €170,769 thousand at 31 December 2010 and €220,284 thousand at 31 December 2009, which reflects long-term loans and borrowings inclusive of the short-term portion.

(**) The corresponding balance reported in the financial statements is €39,920 thousand at 31 December 2010 and €34,782 thousand at 31 December 2009, which reflects long-term payables (inclusive of the short-term portion) relating to finance leases and Ministry of Industry loans.

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 and trade and financial receivables/payables.

Purpose of hedging: hedging is carried out with two 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.

The principal currencies to which the group is exposed are:

- the US dollar (mainly the EUR/USD and GBP/USD exchange rates), being the currency in which a significant part of the cost of raw materials, parts and finished products is denominated;
- the British pound (EUR/GBP exchange rate), for sales on the UK market;
- the Japanese yen (JPY/EUR and JPY/HKD exchange rates), for sales on the Japanese market.

Instruments used: highly liquid instruments of a non-speculative nature are used, mostly forward purchase/sale agreements and call and put options. The counterparties to such transactions are leading institutions of high international repute.

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.

Outstanding transactions at 31 December 2010

A list of outstanding currency derivatives at 31 December 2010 is provided below:

- Forward agreements to hedge 2011 flows (for 2011-2012-2013 just for USD):

	Notional amount			Fair value (in Euro)	
Currency	Purchases	Sales	Total	Asset	Liability
USD/EUR	(180,000,000)	-	(180,000,000)	208,271	(1,437,613)
USD/GBP	(40,000,000)	-	(40,000,000)	534,422	-
GBP/EUR	(13,100,000)	24,000,000	10,900,000	1,160,504	(382,942)
AUD/EUR	-	16,700,000	16,700,000	-	(1,418,992)
CHF/EUR	-	8,200,000	8,200,000	-	(584,710)
JPY/EUR	-	395,000,000	395,000,000	65,914	(52,455)
JPY/HKD	-	700,000,000	700,000,000	-	(163,696)
PLN/EUR	-	7,300,000	7,300,000	-	(41,503)
TRY/EUR	-	3,000,000	3,000,000	13,388	-
				1,982,499	**(4,081,911)**

A negative cash flow hedge reserve of €1,809 thousand has been recorded in net equity at 31 December 2010 in relation to these hedges, after €658 thousand in related tax; this same reserve was a positive €3,311 thousand at 31 December 2009, after the related tax of €1,262 thousand.

During 2010 the group reversed to the income statement a net amount of €3,311 thousand (net of €1,262 thousand in tax) from the cash flow hedge reserve at 31 December 2009.
This amount was reported in the following lines of the income statement:

	2010	2009
Increase (reduction) in revenues	-	524
(Increase) reduction in materials consumed	4,564	57
Financial income (expenses)	9	104
Income taxes	(1,262)	(197)
Total recognized in income statement	**3,311**	**488**

- Hedges against foreign currency receivables and payables:

	Notional amount			Fair value (in Euro)	
Currency	Purchases	Sales	Total	Asset	Liability
AUD/EUR	(2,096,400)	34,630,300	32,533,900	8,941	(306,241)
AUD/GBP	(1,182,600)	9,066,300	7,883,700	-	(56,840)
CAD/EUR	(20,100)	83,600	63,500	57	(239)
CAD/USD	(345,000)	3,804,000	3,459,000	390	(46,481)
CHF/EUR	(1,443,100)	4,982,800	3,539,700	180	(14,881)
CHF/GBP	-	142,200	142,200	368	-
CHF/JPY	(86,000)	-	(86,000)	167	-
CZK/EUR	(47,488,700)	50,474,600	2,985,900	1,301	(17,783)
CZK/GBP	-	18,970,100	18,970,100	-	(15,083)
DKK/GBP	-	2,172,700	2,172,700	-	(2,500)
EUR/AUD	(240,612)	-	(240,612)	-	(13,189)
EUR/GBP	-	40,710,300	40,710,300	1,062	(356,351)
EUR/HKD	(445,000)	-	(445,000)	4,296	-
EUR/JPY	(64,000)	-	(64,000)	-	(909)
EUR/PLN	(2,377,900)	-	(2,377,900)	-	(16,318)
EUR/USD	(113,000)	-	(113,000)	1,629	-
GBP/EUR	(9,966,500)	14,021,043	4,054,543	229,058	(108,211)
HKD/EUR	(1,149,800)	1,215,000	65,200	2,073	(1,962)
HUF/EUR	-	189,327,700	189,327,700	718	(1,087)
JPY/EUR	(45,421,400)	-	(45,421,400)	5,406	-
JPY/HKD	-	911,172,800	911,172,800	-	(196,291)
NOK/EUR	(887,400)	9,370,200	8,482,800	173	(11,686)
NOK/GBP	-	9,956,100	9,956,100	230	(12,932)
NZD/EUR	-	2,026,500	2,026,500	-	(32,420)
NZD/GBP	(241,200)	2,943,000	2,701,800	74	(52,355)
PLN/EUR	(1,623,700)	18,700,700	17,077,000	33	(32,584)
PLN/GBP	-	6,066,000	6,066,000	-	(10,734)
TRY/EUR	(407,900)	13,211,200	12,803,300	26,611	(295)
USD/CAD	-	659,000	659,000	8,150	-
USD/EUR	(10,919,912)	37,924,315	27,004,403	236,701	(51,975)
USD/GBP	-	23,178,100	23,178,100	114,566	-
USD/JPY	(384,000)	-	(384,000)	-	(6,632)
ZAR/EUR	-	14,748,000	14,748,000	670	(42,038)
				642,854	**(1,408,017)**

Derivatives that hedge cash flow are treated in accordance with hedge accounting since they meet the requirements stipulated by 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 through profit or loss. These instruments offset the risk on the hedged item (which is a recognized asset or liability).

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 2010:

(a) the risk associated with expected future revenues/costs (as estimated in budgets and/or long-term plans) is mitigated by related hedges at 31 December 2010, 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 +/- 5% change in year-end exchange rates of the principal exposed currency (the USD) is estimated to produce a change of around +/- €8.3 million before tax (+/- €9.6 million before tax at 31 December 2009). 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 (USD, GBP and EUR) against the principal functional currencies would produce a change in fair value of around +/-€3.9 million before tax (+/- €1.1 million before tax at 31 December 2009).

Interest rate risk

The group is exposed to interest rate risk on floating rate loans and borrowings. This risk is managed centrally by the same team that manages currency risks.

All of the group's financial debt at 31 December 2010 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.

Outstanding transactions at 31 December 2010

There were no interest rate hedges at 31 December 2010.

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 have been considered and not any others (meaning total net cash balances of €1.4 million on a total of €4.7 million in net debt at 31 December 2010 and total net liabilities of €115.0 million on a total of €117.1 million in net debt in 2009).

The group's debt is currently all at floating rates and so, in the absence of hedges, 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 immaterial impact of just +/- €14 thousand on pre-tax financial expenses at 31 December 2010 (+/- €1.1 million before tax at 31 December 2009).

38. Tax position

The competent tax authorities have carried out the following inspections at companies within the De'Longhi Group as part of their programme of periodic taxpayer audits, the status of which is described below:

- De'Longhi S.p.A.: a general tax audit for tax year 2005 by the tax police's Treviso division. The preliminary notice of findings was issued on 16 September 2008, in respect of which the Veneto regional tax office (large taxpayer unit) issued a notice of assessment dated 29 December 2010, for which the company presented a tax assessment proposal on 21 January 2011;
- DL Radiators S.p.A.: a general tax audit for tax year 2005 by the Treviso tax office. A preliminary notice of findings was issued on 18 December 2008. Further to this notice the Veneto regional tax office (large taxpayer unit) issued a notice of assessment dated 29 December 2010, for which the company presented a tax assessment proposal on 21 January 2011;
- De'Longhi Capital Services S.r.l.: specific access for direct taxes relating to tax years 2004, 2005 and 2006 by the Veneto regional tax office. A preliminary notice of findings was issued on 14 December 2009, in respect of which the Treviso provincial tax office issued a notice of assessment on 13 December 2010, for which the company presented a tax assessment proposal on 21 January 2011;
- Climaveneta S.p.A.: a general tax audit for tax year 2005 by the Treviso tax office. The preliminary notice of findings was issued on 31 December 2008, in respect of which the Veneto regional tax office (large taxpayer unit) issued a notice of assessment dated 15 December 2010, for which the company presented a tax assessment proposal on 21 January 2011;

Since the above companies filed for tax on a group basis in 2005, the Veneto regional tax office (large taxpayer unit) issued a notice of assessment dated 29 December 2010 to the head of the tax group De' Longhi S.p.A., for which it presented a tax assessment proposal on 21 January 2011. The tax authorities will only present the settlement proposal once the proceedings have been completed for the tax group's individual participant companies. When preparing its consolidated financial statements, the group has evaluated, with the assistance of its tax advisors, the possible outcomes of the above proceedings which, being at an initial stage, were still uncertain at the end of the reporting period.

- Climaveneta S.p.A.: a tax audit for tax years 2007 and 2008 by the Treviso customs office, relating to correct compliance with the obligations under European Community law as introduced in Law 427/93. The preliminary notice of findings was issued on 23 February 2010: the company has stated that it will appeal before the competent bodies against the findings contained in the preliminary notice, although the tax authorities have not yet issued any notice of assessment.
- Climaveneta Home System S.r.l. (now Climaveneta S.p.A.): a general tax audit for tax year 2007 by the Treviso tax office. The preliminary notice of findings was issued on 5 March 2010, against which the company intends to appeal before the competent bodies: the tax authorities have not yet issued any notice of assessment.
- De'Longhi Appliances S.r.l.: audit by the Treviso tax police of direct tax, VAT and other taxes for tax periods from 01/01/2007 to 29/05/2009, under the provisions of art. 27, par. 9 -11 of Decree 185/2008 (so-called tax tutorship). A preliminary notice of findings relating to tax year 2007 was issued on 23 December 2009, against which the company intends to appeal before the competent bodies; the tax authorities have not yet issued any notice of assessment, while the audit in relation to tax year 2008 was completed with the issue of a notice of findings on 11 November 2010, in which no matters were raised.
- Kenwood Appliances Ltd. and Kenwood Ltd.: a number of issues regarding 2006 and 2007 still remain open, especially in relation to the taxation in the United Kingdom of dividends received by Italian companies and to the application of Controlled Foreign Corporation rules.

39. 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; all transactions have fallen within the group's normal operations and have been 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.

40. Operating segments

Information relating to operating segments is presented below:

Income statement data

	2010				
	Household	Professional	Corporate	Eliminations	Consolidated total
Total revenues	1,277,002	352,613	12,492	(16,223)	1,625,884
EBITDA	**173,245**	**27,920**	**(8,048)**	**(11)**	**193,106**
Amortization and depreciation	(29,043)	(15,803)	(613)	-	(45,459)
EBIT	**144,202**	**12,117**	**(8,661)**	**(11)**	**147,647**
Financial income (expenses)					(36,090)
Profit (loss) before taxes					**111,557**
Income taxes					(36,456)
Profit (loss) after taxes					**75,101**
Profit (loss) pertaining to minority interests					186
Profit (loss) for the year					**74,915**

Data from statement of financial position (31 December 2010)

	Household	Professional	Corporate	Eliminations	Consolidated total
Total assets	973,832	515,105	194,435	(142,179)	1,541,193
Total liabilities	(354,693)	(393,220)	(174,716)	142,008	780,621

Income statement data

	2009				
	Household	Professional	Corporate	Eliminations	Consolidated total
Total revenues	1,077,045	333,976	12,332	(19,286)	1,404,067
EBITDA	**113,397**	**24,326**	**(7,877)**	**59**	**129,905**
Amortization and depreciation	(27,255)	(9,540)	(673)	-	(37,468)
EBIT	**86,141**	**14,786**	**(8,549)**	**59**	**92,437**
Financial income (expenses)					(35,263)
Profit (loss) before taxes					**57,175**
Income taxes					(24,394)
Profit (loss) after taxes					**32,781**
Profit (loss) pertaining to minority interests					424
Profit (loss) for the year					**32,357**

Data from statement of financial position (31 December 2009)

	Household	Professional	Corporate	Eliminations	Consolidated total
Total assets	926,927	487,271	172,192	(172,713)	1,413,677
Total liabilities	(334,243)	(387,775)	(175,674)	172,538	(725,154)

The following table presents revenues and non-current assets by geographical area, as required by IFRS 8:

	2010		2009	
	Italy	Abroad	Italy	Abroad
Revenues	268,800	1,357,084	265,507	1,138,560
Non-current assets (*)	454,669	140,377	433,529	158,747

(*) Includes property, plant and equipment and intangible assets.

Note 1. Revenues contains further details about revenues earned from abroad.

41. Subsequent events

There have been no significant events since the end of the reporting period.

Treviso, 3 March 2011

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 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. Emoluments of directors and statutory auditors
5. Fees paid to the external auditors
6. 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

Line-by-line method:

Company name	Registered office	Currency	Share capital (1)	Interest held at 31.12.2010	
				Directly	Indirectly
DE'LONGHI APPLIANCES S.R.L.	Treviso	EUR	200,000,000.00	100%	
DE'LONGHI AMERICA INC.	Saddle Brook	USD	9,100,000.00		100%
DE'LONGHI FRANCE S.A.R.L.	Clichy	EUR	2,737,500.00		100%
DE'LONGHI CANADA INC.	Mississauga	CAD	1.00		100%
DE'LONGHI DEUTSCHLAND GMBH	Seligenstadt	EUR	2,100,000.00		100%
DE'LONGHI ELECTRODOMESTICOS ESPANA S.L.U.	Barcelona	EUR	3,066.00		100%
DE'LONGHI CAPITAL SERVICES S.R.L. (2)	Treviso	EUR	53,000,000.00	11.32%	88.68%
E- SERVICES S.R.L.	Treviso	EUR	50,000.00	51%	
DE'LONGHI NEDERLAND B.V.	Breda	EUR	226,890.00		100%
DL TRADING LIMITED	Hong Kong	HKD	73,010,000.00		100%
TRICOM INDUSTRIAL COMPANY LIMITED	Hong Kong	HKD	171,500,000.00		100%
PROMISED SUCCESS LIMITED	Hong Kong	HKD	28,000,000.00		100%
ON SHIU (ZHONGSHAN) ELECTRICAL APPLIANCE CO.LTD.	Zhongshan	CNY	55,112,118.00		100%
DONG GUAN DE'LONGHI-KENWOOD APPLIANCES CO.LTD.	Qing Xi Town	CNY	51,897,500.00		100%
CLIMAVENETA S.P.A.	Treviso	EUR	10,000,000.00		100%
CLIMAVENETA DEUTSCHLAND GMBH	Nordstedt	EUR	306,775.00		100%
CLIMAVENETA FRANCE SASU	Epone	EUR	150,000.00		100%
DE'LONGHI HOUSEHOLD S.A.	Luxembourg	EUR	181,730,990.00	100%	
DE'LONGHI JAPAN CORPORATION	Tokyo	JPY	50,000,000.00		100%
DL RADIATORS S.P.A.	Treviso	EUR	5,000,000.00		100%
DE'LONGHI CLIMA POLSKA SP.ZO.O	Warsaw	PLN	597,000.00		100%
Company controlled through nominee company (3)	Nuremberg	EUR	26,000.00		100%
DL RADIATORS FRANCE S.A.R.L.	Paris	EUR	150,000.00		100%
DE'LONGHI AUSTRALIA PTY LTD.	Prestons	AUD	28,800,001.00		100%
DE'LONGHI NEW ZEALAND LTD.	Auckland	NZD	18,857,143.00		100%
ALABUGA INTERNATIONAL S.A.	Luxembourg	EUR	200,000.00	0.05%	99.95%
ZASS ALABUGA LLC	Elabuga	RUB	95,242,767.00		100%
DE'LONGHI LLC	Moscow	RUB	6,000,000.00		100%
DL TRADING (SHENZEN) COMPANY CO. LTD.	Shenzhen	CNY	USD 1,543,000		100%
KENWOOD APPLIANCES LTD.	Havant	GBP	30,586,001.00		100%
KENWOOD APPLIANCES LUXEMBOURG S.A.	Luxembourg	EUR	1,000,000.00		100%
KENWOOD LIMITED	Havant	GBP	25,050,000.00		100%
KENWOOD INTERNATIONAL LTD.	Havant	GBP	20,000,000.00		100%
KENWOOD APPL. (SINGAPORE) PTE LTD.	Singapore	SGD	500,000.00		100%

Company name	Registered office	Currency	Share capital (1)	Interest held at 31.12.2010	
				Directly	Indirectly
KENWOOD APPL. (MALAYSIA) SDN.BHD.	Petaling Jaya	MYR	3.00		100%
DE'LONGHI-KENWOOD GMBH	Wr Neudorf	EUR	36,336.00		100%
KENWOOD HOME APPL. PTY LTD.	Maraisburg	ZAR	40,000.00		100%
DE'LONGHI KENWOOD HELLAS S.A.	Athens	EUR	452,520.00		100%
ARIES LUSITANIA ELECTRODOMESTICOS LDA	Maia	EUR	5,000.00		100%
ARIETE DEUTSCHLAND GMBH	Dusseldorf	EUR	25,000.00		100%
CLIM.RE. S.A.	Luxembourg	EUR	1,239,468.00	4%	96%
DL PROFESSIONAL S.A.	Luxembourg	EUR	30,205,000.00	99.95%	0.05%
R.C. GROUP S.P.A.	Valle Salimbene	EUR	10,680,000.00		100%
ELLE SRL	Treviso	EUR	10,000.00		100%
DE'LONGHI BOSPHORUS EV ALETLERI TICARET ANONIM SIRKETI	Istanbul	TRY	3,700,000.00		100%
DE'LONGHI PRAGA S.RO	Prague	CZK	200,000.00		100%
TOP CLIMA S.L. (4)	Barcelona	EUR	1,606,000.00		100%
SOMORA ASESORES SL (4)	Barcelona	EUR	303,005.00		100%
SATER MANTENIMIENTO SL (4)	Madrid	EUR	250,000.00		99.99%
KENWOOD SWISS AG	Baar	CHF	1,000,000.00		100%
DL HRVATSKA D.O.O.	Zagreb	HRD	370,000.00		100%
DE'LONGHI BRASIL - COMÉRCIO E IMPORTAÇÃO Ltda	São Paulo	BRL	4,842,340.00		100%
FOSHAN RC AIR CONDITIONING R.E. CO. LTD.	Foshan City	CNY	9,159,370.00		100%
DE'LONGHI POLSKA SP. Z.O.O.	Warsaw	PLN	50,000		100%
CLIMAVENETA POLSKA SP. ZO.O	Legionowo	PLN	1,700,000		80.88%
DE'LONGHI LTD.	Wellingborough	GBP	4,000,000.00		100%
DE'LONGHI APPLIANCES TECHNOLOGY SERVICES (Shenzen) Co. Ltd	Shenzhen	USD	175,000.00		100%
CLIMAVENETA REFRIGERATION EQUIPMENT (SHANGAI) CO. LTD	Shanghai	CNY	USD 2,100,000		100%
DE'LONGHI TRADING (SHANGAI) CO. LTD	Shanghai	CNY	USD 945,000		100%
TFA CLIMATE TECHNOLOGIES PRIVATE LIMITED (4)	Bangalore	INR	1,000,000		100%

Proportionate method:

CHAT UNION CLIMAVENETA COMPANY LTD.	Hong Kong	HKD	10,000		50%
CLIMAVENETA CHAT UNION REFRIGERATION EQUIPMENT (SHANGAI) CO.LTD.	Shanghai	CNY	USD 6,800,000		50%
CLIMAVENETA CHAT UNION TRADING (SHANGAI) CO.LTD.	Shanghai	CNY	USD 600,000		50%
DL-TCL HOLDINGS (HK) LTD.	Hong Kong	HKD	USD 5,000,000		50%
TCL-DE'LONGHI HOME APPLIANCES (ZHONGSHAN) CO.LTD.	Zhongshan	CNY	USD 5,000,000		50%
RC ASIA PACIFIC LTD	Hong Kong	HKD	20,000		50%
RC AIR CONDITIONING (BEIJING) LIMITED	Beijing	CNY	HKD 1,000,000		50%

Other subsidiaries (in liquidation or dormant)

Company name	Registered office	Currency	Share capital
Subsidiary companies: (5)			
Kenwood Appliances Inc.	Wilmington	USD	25,000

(1) Figures at 31 December 2010, unless otherwise specified.
(2) The articles of association, approved by the extraordinary shareholders' meeting held on 29 December 2004, give special rights to De'Longhi S.p.A. (holding 89% of the voting rights) for ordinary resolutions (approval of financial statements, declaration of dividends, nomination of directors and statutory auditors, purchase and sale of companies, grant of loans to third parties); voting rights are proportional as far as other resolutions are concerned, except for the preferential right to receive dividends held by the shareholder Kenwood Appliances Ltd.
(3) A distributor of heating products in Germany, the interest in which is held through a nominee company. As permitted by law, we have omitted the company's name to protect its interests and those of the group.
(4) The 100% interest includes the reciprocal put and call options over purchase of the minority interest.
(5) Dormant companies, whose financial statements are unavailable.

Statement of cash flows in terms of net financial position

(€/000)	2010	2009
Profit (loss) pertaining to the group	74.915	32.357
Income taxes for the period	36.456	24.394
Capital gain on sale of equity investments	-	(271)
Amortization, depreciation and impairment	45.459	37.468
Net change in provisions	11.140	6.759
Cash flow generated (absorbed) by current operations (A)	**167.970**	**100.707**
Change in assets and liabilities for the period:		
Trade receivables	(18.593)	17.326
Inventories	(16.570)	69.615
Trade payables	58.883	(269)
Other current assets and liabilities	10.401	2.726
Payment of income taxes	(24.632)	(16.058)
Cash flow generated (absorbed) by movements in working capital (B)	**9.489**	**73.340**
Cash flow generated (absorbed) by current operations and movements in working capital (A+B)	**177.459**	**174.047**
Investment activities:		
Investments in intangible assets	(13.458)	(11.772)
Other cash flows for intangible assets	(2.157)	142
Investments in property, plant and equipment	(33.186)	(28.079)
Other cash flows for property, plant and equipment	2.819	1.463
Net investments in equity investments and other financial assets	587	4.172
Cash flow generated (absorbed) by ordinary investment activities	**(45.395)**	**(34.074)**
Cash effect for purchase of equity investments	-	600
Non-recurring cash flow (D)	**-**	**600**
Fair value and cash flow hedge reserves	(7.040)	3.879
Dividends paid	(11.960)	(8.970)
Change in currency translation reserve	(653)	(6.281)
Increase (decrease) in minority interests in capital and reserves	(28)	164
Cash flow generated (absorbed) by changes in net equity (E)	**(19.681)**	**(11.208)**
Cash flow for the period (A+B+C+D+E)	**112.383**	**129.365**
Opening net financial position	**(117.091)**	**(246.456)**
Cash flow for the period (A+B+C+D+E)	112.383	129.365
Closing net financial position	**(4.709)**	**(117.091)**

Transactions and balances with related parties

Consolidated income statement

pursuant to CONSOB Resolution 15519 of 27 July 2006

(€/000)	2010	of which with related parties	2009	of which with related parties
Revenues from sales and services	1.600.338	408	1.379.323	224
Other revenues	25.546	100	24.744	82
Total consolidated revenues	**1.625.884**		**1.404.067**	
Raw and ancillary materials, consumables and goods	(790.373)	(309)	(627.695)	(435)
Change in inventories of finished products and work in progress	20.643		(54.550)	
Change in inventories of raw and ancillary materials, consumables and goods	(4.011)		(15.034)	
Materials consumed	**(773.741)**		**(697.279)**	
Payroll costs	(203.493)		(186.733)	
Services and other operating expenses	(421.652)	(6.714)	(359.788)	(7.252)
Provisions	(33.892)		(30.361)	
Amortization, depreciation and impairment	(45.459)		(37.468)	
EBIT	**147.647**		**92.438**	
Financial income (expenses)	(36.090)	2	(35.263)	4
PROFIT (LOSS) BEFORE TAXES	**111.557**		**57.175**	
Income taxes	(36.456)		(24.394)	
PROFIT (LOSS) AFTER TAXES	**75.101**		**32.781**	
Profit (loss) pertaining to minority interests	186		424	
PROFIT (LOSS) PERTAINING TO OWNERS OF THE PARENT	**74.915**		**32.357**	

Consolidated statement of financial position - Assets

pursuant to consob resolution 15519 of 27 july 2006

(€/000)	31.12.2010	of which with related parties	31.12.2009	of which with related parties
NON-CURRENT ASSETS				
INTANGIBLE ASSETS	408.615		414.666	
- Goodwill	228.042		231.318	
- Other intangible assets	180.573		183.348	
PROPERTY, PLANT AND EQUIPMENT	186.431		177.609	
- Land, property, plant and machinery	133.493		132.384	
- Other tangible assets	52.938		45.225	
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS	2.309		2.666	
- Equity investments (in associated companies)	-		-	
- Equity investments (in other companies)	671		671	
- Receivables	1.512		1.894	
- Other non-current financial assets	126		101	
DEFERRED TAX ASSETS	33.471		38.060	
TOTAL NON-CURRENT ASSETS	**630.826**		**633.001**	
CURRENT ASSETS				
INVENTORIES	288.012		257.084	
TRADE RECEIVABLES	387.937	85	351.879	164
CURRENT TAX ASSETS	13.686		18.529	
OTHER RECEIVABLES	14.996	111	15.344	-
CURRENT FINANCIAL RECEIVABLES AND ASSETS	12.221	-	13.886	78
CASH AND CASH EQUIVALENTS	193.515		123.954	
TOTAL CURRENT ASSETS	**910.367**		**780.676**	
TOTAL ASSETS	**1.541.193**		**1.413.677**	

Consolidated statement of financial position - Net equity and liabilities

pursuant to consob resolution 15519 of 27 july 2006

(€/000)	31.12.2010	of which with related parties	31.12.2009	of which with related parties
NET EQUITY				
GROUP PORTION OF NET EQUITY	758.921		686.845	
- Share capital	448.500		448.500	
- Reserves	235.506		205.988	
- Profit (loss) pertaining to the group	74.915		32.357	
MINORITY INTERESTS	1.651		1.678	
TOTAL NET EQUITY	**760.572**		**688.523**	
NON-CURRENT LIABILITIES				
FINANCIAL PAYABLES	107.934		113.094	
- Bank loans and borrowings (long-term portion)	89.416		96.276	
- Other financial payables (long-term portion)	18.518		16.818	
DEFERRED TAX LIABILITIES	19.393		25.304	
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES	72.787		66.384	
- Employee benefits	25.907		28.667	
- Other provisions	46.880		37.717	
TOTAL NON-CURRENT LIABILITIES	**200.114**		**204.782**	
CURRENT LIABILITIES				
TRADE PAYABLES	374.184	204	291.073	270
FINANCIAL PAYABLES	102.755		141.973	
- Bank loans and borrowings (short-term portion)	81.353		124.009	
- Other financial payables (short-term portion)	21.402		17.964	
CURRENT TAX LIABILITIES	44.659		34.797	
OTHER PAYABLES	58.909		52.529	
TOTAL CURRENT LIABILITIES	580.507		520.372	
TOTAL NET EQUITY AND LIABILITIES	**1.541.193**		**1.413.677**	

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 2010:

(€/million)	Revenues	Raw material and other costs	Trade, other and financial receivables	Trade payables
Related companies: (1)				
Max Information S.r.l.	-	(0.6)	-	(0.1)
Gamma	0.1	(6.2)	0.1	-
Mokarabia S.p.a.	0.4	(0.3)	0.1	(0.1)
TOTAL RELATED PARTIES	**0.5**	**(7.0)**	**0.2**	**(0.2)**

(1) These mostly refer to dealings of a commercial nature.

Emoluments of directors and statutory auditors

(art. 78 of CONSOB Regulation approved in Resolution 11971 of 14 May 1999)

(€/000)

Name	Details of office held		Emoluments				
Name	Office held	Term in office	End of term	Emoluments of office	Benefits in kind	Bonuses and other incentives	Other emoluments
Giuseppe De'Longhi	Chairman	01.01.10/31.12.12	Approval annual report 2012	850			407 (1)
Fabio De'Longhi	Vice Chairman and Chief Executive Officer	01.01.10/31.12.12	Approval annual report 2012	400		1,264	556 (2)
Alberto Clò	Director	01.01.10/31.12.12	Approval annual report 2012	40			3 (3)
Renato Corrada	Director	01.01.10/31.12.12	Approval annual report 2012	40			4 (3)
Silvia De'Longhi	Director	01.01.10/31.12.12	Approval annual report 2012	40			22
Dario Melò	Director	01.01.10/31.12.12	Approval annual report 2012	40			
Carlo Garavaglia	Director	01.01.10/31.12.12	Approval annual report 2012	40			1 (3)
Giorgio Sandri	Director	01.01.10/31.12.12	Approval annual report 2012	40			
Silvio Sartori	Director	01.01.10/31.12.12	Approval annual report 2012	40			4 (3) 15 (1)
Giovanni Tamburi	Director	01.01.10/31.12.12	Approval annual report 2012	40			6 (3)
Gianluca Ponzellini	Chairman of the Board of Statutory Auditors	01.01.10/31.12.12	Approval annual report 2012	60			
Giuliano Saccardi	Standing member	01.01.10/31.12.12	Approval annual report 2012	40			
Massimo Lanfranchi	Standing member	01.01.10/31.12.12	Approval annual report 2012	40			
Key management personnel							2,233

(1) Emoluments relating to offices held in other subsidiaries.
(2) This also includes emoluments relating to offices held in other subsidiaries and to remuneration received as a senior manager of De'Longhi S.p.A..
(3) Attendance fees relating to membership of the Compensation Committee and/or Internal Auditing and Corporate Governance Committee.

Fees paid to the external auditors

Disclosure pursuant to art. 149-duodecies of the CONSOB Issuer Regulations

(Appendix 5 to the Explanatory Notes – €/000)

Type of services	Provided by	Provided to	Fees relating to 2010
Auditing	Reconta Ernst & Young S.p.A.	Parent company De'Longhi Spa	130
	Reconta Ernst & Young S.p.A.	Italian subsidiaries	294
	Network of parent company auditor	Foreign subsidiaries	563

Certification of the consolidated financial statements

pursuant to art. 81-ter of CONSOB Regulation 11971 dated 14 May 1999 and subsequent amendments and additions

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 2010:

- 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 2010:

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

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

Fabio De'Longhi
Chief Executive Officer

Stefano Biella
Financial Reporting Officer

External auditors’ report on the consolidated financial statements

ERNST & YOUNG

Reconta Ernst & Young S.p.A.
Viale Appiani, 20/b
31100 Treviso

Tel. (+39) 0422 358811
Fax (+39) 0422 433026
www.ey.com

Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated January 27, 2010
(Translation from the original Italian text)

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

1. We have audited the consolidated financial statements of De'Longhi S.p.A. and its subsidiaries, (the "De'Longhi Group") as of and for the year ended December 31, 2010, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The Directors of De'Longhi S.p.A. are responsible for the preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was performed in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes, reference should be made to the report issued by another auditor dated March 26, 2010.

3. In our opinion, the consolidated financial statements of the De'Longhi Group at December 31, 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the De'Longhi Group for the year then ended.

4. The Directors of De'Longhi S.p.A. are responsible for the preparation, in accordance with the applicable laws and regulations, of the Report on Operations and the Report on Corporate Governance and the Ownership Structure published in the section Corporate/Investor Relations/Governance/Corporate Documentation of De'Longhi S.p.A.'s website. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the Report on Corporate Governance and the Company's Ownership Structure, as required by law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report

Reconta Ernst & Young S.p.A.
Sede Legale: 00198 Roma - Via Po, 32
Capitale Sociale € 1.402.500,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la CC.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.I. 00891231003
Iscritta all'Albo Revisori Contabili al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

on Operations and the information reported therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) included in the Report on Corporate Governance and the Ownership Structure, are consistent with the consolidated financial statements of the De'Longhi Group as of December 31, 2010.

Treviso, March 21, 2011

Reconta Ernst & Young S.p.A.

Signed by: Stefano Marchesin, Partner

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

Separate annual report and financial statements at 31 December 2010

Report on operations

Introduction

Since 2008, the company has only performed holding company activities involving the management and provision of centralized services to its subsidiaries.

Review of the income statement and statement of financial position

Review of the income statement

(€/million)	2010	% revenues	2009	% revenues
Revenues	**6.0**	**100.0%**	**5.9**	**100.0%**
Change 2010/2009	*0.1*	*1.7%*		
Materials consumed	(0.1)	(1.7%)	(0.1)	(1.7%)
Gross profit	**5.9**	**98.3%**	**5.8**	**98.3%**
Services & other expenses	(10.5)	(175.0%)	(9.7)	(164.4%)
Value added	**(4.6)**	**(76.7%)**	**(3.9)**	**(66.1%)**
Payroll costs	(5.1)	(85.0%)	(5.1)	(86.4%)
Provisions	0.3	5.0%	-	-
EBITDA before non-recurring income/expenses	**(9.4)**	**(156.7%)**	**(9.0)**	**(152.5%)**
Change 2010/2009	*(0.4)*	*4.4%*		
Other non-recurring income (expenses)	-	-	(0.5)	(8.5%)
EBITDA	**(9.4)**	**(156.7%)**	**(9.5)**	**(161.0%)**
Amortization and depreciation	-	-	-	-
EBIT	**(9.4)**	**(156.7%)**	**(9.5)**	**(161.0%)**
Change 2010/2009	*0.1*	*(1.1%)*		
Financial income (expenses)	31.2	520.0%	24.4	413.6%
Profit (loss) before taxes	**21.8**	**363.3**	**14.9**	**252.5%**
Income taxes	2.7	45.0%	(1.2)	(20.3%)
Profit (loss) after taxes	**24.5**	**408.3%**	**13.7**	**232.2%**

EBIT was a negative €9.4 million in 2010 (negative €9.5 million in 2009), due to the operating costs associated with its principal activity as the group's holding company. The result after taxes was a profit of €24.5 million, primarily thanks to financial income, which increased by €6.8 million on the prior year. This increase mainly reflected higher dividend receipts from the company's subsidiaries. More details can be found in the Explanatory notes.

Review of the statement of financial position

The reclassified statement of financial position is summarized below.

(€/million)	31.12.2010	31.12.2009	Change	% change
- Property, plant and equipment	0.1	0.1	-	-
- Financial assets	601.7	601.7	-	-
- Deferred tax assets	2.3	6.9	(4.6)	(66.7%)
Non-current assets	**604.1**	**608.7**	**(4.6)**	**(0.8%)**
- Trade receivables	4.1	3.2	0.9	28.1%
- Trade payables	(2.8)	(3.3)	0.5	(15.2%)
- Other payables (net of receivables)	8.8	6.5	2.3	35.4%
Net working capital	**10.1**	**6.4**	**3.7**	**57.8%**
Total non-current liabilities and provisions	**(6.5)**	**(6.0)**	**(0.5)**	**8.3%**
Net capital employed	**607.7**	**609.1**	**(1.4)**	**(0.2%)**
Net financial position	**(53.2)**	**(67.3)**	**14.1**	**21.0%**
Total net equity	**(554.5)**	**(541.8)**	**(12.7)**	**2.3%**
Total net equity and debt	**(607.7)**	**(609.1)**	**1.4**	**(0.2%)**

The statement of cash flows can be summarized as follows:

(€/million)	2010	2009
Cash flow absorbed by current operations	(5.6)	(12.9)
Cash flow absorbed by other changes in working capital	(0.5)	(4.0)
Cash flow absorbed by current operations and changes in net working capital	**(6.1)**	**(16.9)**
Cash flow generated by investment activities	32.2	27.2
Cash flow generated by operating activities	**26.1**	**10.3**
Cash flow absorbed by changes in net equity	(12.0)	(9.0)
Cash flow for the period	**14.1**	**1.3**
Opening net financial position	(67.3)	(68.6)
Closing net financial position	**(53.2)**	**(67.3)**

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:

(€/000)	Net equity 31.12.2010	Profit for 2010	Net equity 31.12.2009	Profit for 2009
De'Longhi S.p.A. financial statements	**554,459**	**24,588**	**541,831**	**13,748**
Share of subsidiaries' equity and results for period attributable to the group, after deducting carrying value of the investments	94,220	60,515	26,466	10,898
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	135,339	(8,257)	141,342	(2,130)
Elimination of intercompany profits	(22,339)	(1,773)	(19,948)	9,929
Other adjustments	(1,107)	28	(1,168)	336
Consolidated financial statements	**760,572**	**75,101**	**688,523**	**32,781**
Minority interests	1,651	186	1,678	424
Group portion	**758,921**	**74,915**	**686,845**	**32,357**

Compliance with personal data protection laws

As the party responsible for personal data use, De'Longhi S.p.A. declares that it has updated its Personal Data Protection Plan for De'Longhi S.p.A. in compliance with Decree 196 of 30 June 2003.

Human resources and organization

The company had 38 employees at 31 December 2010 (36 at 31 December 2009).

The following table summarizes the average number of employees during 2010 compared with 2009:

	2010	%	2009	%	Difference
White collar	28	78%	26	72%	2
Senior managers	8	22%	10	28%	(2)
Total	**36**	**100%**	**36**	**100%**	**-**

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 – new products – quality – communication*" in the Report on Operations accompanying the consolidated financial statements.

Code of conduct and environment

De' Longhi is a member of the European Committee of Domestic Equipment Manufacturers (CECED) and has adopted its Code of Conduct under which it has committed to comply with all applicable environmental regulations wherever it operates.
The company's intention has been communicated to all stakeholders by the Board of Directors in the Ethical Code adopted in 2003, point 7 of whose specific principles ("Environmental protection") states: "*The company's business is based on the principle of safeguarding the environment and public health, in compliance with specific applicable regulations*."

Activities and investments involving ecology, safety and the environment continued once again in 2010. The Safety Committee, whose members include the Managers of the Prevention and Protection Services at all the group's Italian companies, continued its work with the goal of examining and adopting internal solutions and processes to comply with changes in the law during the year, and of continuing to establish best practice.

Corporate governance and ownership structure

The company has adopted and complies with the Code of Conduct for Listed Companies, published in March 2006 (the "Code").
In compliance with applicable laws and regulations, as well as the Italian stockmarket 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 Decree 58/98 (Italy's Financial Markets Consolidation Act), and on adoption of the Code and observance of the related requirements.
This report, to which this section now refers, is prepared in accordance with the "Borsa Italiana, edition II" format (February 2010), and has been published at the same time as the present Annual Report. This report is also available at www.delonghi.com, in the section "*Corporate → Investor Relations → Governance → Corporate documentation*".

The key points will be now be summarized for the purposes of the present Report on Operations.

Direction and Co-ordination

De'Longhi S.p.A. directs and co-ordinates its own subsidiaries and is not under the direction and co-ordination of its parent De' Longhi Soparfi S.A., or of any other party, as defined by articles 2497 et seq. of the Italian Civil Code.
In compliance with the Code's principles, 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 issuer De'Longhi S.p.A., which contains three directors qualifying as non-executive and independent, based on the guidelines established by the Code's article 3.
It should nonetheless be noted – as communicated to the issuer – that the business purpose of the parent De'Longhi Soparfi S.A., as set out in its articles of association, forbids it from interfering in the management of any of the companies in which it holds ownership interests.

Board of Directors

The Board of Directors currently in office was appointed by the shareholders' meeting of 21 April 2010, which set the total number of directors at ten. This Board will end its term in office at the shareholders' meeting called to approve the annual report and financial statements at 31 December 2012.
In compliance with art. 147-*ter* of Italy's Financial Markets Consolidation Act, the articles of association of De'Longhi S.p.A. 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). 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.

Since its meeting on 1 March 2007 the Board of Directors of De'Longhi S.p.A. has adopted a series of resolutions designed to implement the principles contained in the Code, with such resolutions duly implemented in subsequent years. Details of these resolutions can be found in the Report on Corporate Governance and Ownership Structure.

During 2010 the Board of Directors:
- approved a revision to the General Section of the Organization and Management Model established under Decree 231 dated 8 June 2001;
- confirmed the list of "strategically important subsidiaries", identifying them as De'Longhi Appliances S.r.l., Climaveneta S.p.A., De'Longhi Capital Service S.r.l., DL Radiators S.p.A. and RC Group S.p.A., all of which Italian registered companies, as well as Kenwood Ltd, a British registered company.

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 Code.
The Board has two executive directors - the Chairman and the Chief Executive Officer - and eight non-executive directors, who have no authority or managerial functions in the company or the group, and three of whom satisfy the independence requirements established by art. 148, par. 3 of the Financial Markets Consolidation Act and art. 3 of the Code.

In its meeting on 3 March 2011, the Board confirmed that the directors Alberto Clò, Renato Corrada and Giovanni Tamburi all satisfied the stated independence requirements.

Some of the current directors hold appointments in other listed or relevant companies. The most significant appointments are listed in the Report on Corporate Governance and Ownership Structure.

In compliance with CONSOB Regulation 17221/10 and having obtained the opinion of a committee comprising just independent directors, the Board of Directors approved in its meeting of 12 November 2010 a set of "*Procedures for transactions with related parties of the De' Longhi Group*" (the "RPT Procedures"), effective from 1 January 2011 (the full text of the RPT Procedures can be found at www.delonghi.com, in the section "*Corporate → Investor Relations → Governance → Corporate documentation*").

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

Committees set up by the Board of Directors

In its meeting on 21 April 2010, the Board of Directors voted to confirm the establishment of two sub-committees, namely:
- the Internal Auditing and Corporate Governance Committee and
- the Compensation Committee.

The meeting of the Board of Directors on 12 November 2010 also decided to set up a committee comprising solely independent directors.

The Internal Auditing and Corporate Governance Committee met four times in 2010, and was attended by all of its members on each occasion. These meetings were also attended by the Chairman of the Board of Statutory Auditors or, if absent, by another standing statutory auditor, while the committee also extended invitations, according to its agenda, to the internal control officer, the financial reporting officer and the head of corporate affairs.

The Compensation Committee held two meetings during 2010, both of which attended by all its members.

Details of the powers and operation of these two committees can be found in the Report on Corporate Governance and Ownership Structure.

Board of Statutory Auditors

Following the resolutions adopted by the shareholders' meeting of 21 April 2010, the Board of Statutory Auditors comprises Gianluca Ponzellini, its chairman, and Giuliano Saccardi and Massimo Lanfranchi, both standing members. Their term in office expires with the approval of the annual report and financial statements at 31 December 2012.
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

Reconta Ernst & Young 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 by the ordinary shareholders' meeting held on 21 April 2010.
The engagement will expire with the approval of the annual report and financial statements for the year ended 31 December 2018.

Internal controls

The De'Longhi internal control model, approved in the meeting of the Board of Directors on 1 March 2007, is summarized in a framework document entitled "Internal control policies of the De'Longhi Group" ("Policies"), which are available at www.delonghi.com, in the section "*Corporate → Investor Relations → Governance → Corporate documentation*".

The model calls for:

- an executive director to supervise the operation of the internal control system, who has been granted the following powers:
  a) to identify the principal business risks (taking account of the type of business conducted by the company and its subsidiaries) and to submit such risks to the periodic review of the Board;
  b) to implement the "Policies" approved by the Board, seeing to the design, implementation and management of internal controls, and to constantly check their overall adequacy, effectiveness and efficiency in compliance with the "Policies"; to revise such controls for changes in operating conditions and in the legislative and regulatory framework;
  c) to submit for Board approval the nomination, revocation and remuneration of the group's internal control officers.

- the appointment of a Financial Reporting Officer by the Board of Directors. In accordance with art. 28-*bis* of the articles of association, the Financial Reporting Officer is selected, after consulting the Board of Statutory Auditors, from persons with at least three years of senior-level experience in accounting or administration, in a listed or nonetheless large company.

- the appointment of the Head of Internal Audit as the company's Internal Control Officer with the duties indicated in the "Policies".

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

Introduction

The risk management and internal control system relating to the financial reporting process under art. 123-*bis* par. 2.(b) of the Financial Markets Consolidation Act is part of the wider system of internal controls. This system is designed to guarantee the reliability, accuracy, consistency and timeliness of financial reporting and has been defined in accordance with the framework established by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and with the Control Objectives for Information and Related Technology (COBIT).

The Internal Control Officer, who has responsibility for checking that internal controls operate efficiently and effectively, draws up an annual work programme which is submitted for the approval of the Internal Auditing Committee and then of the Board of Directors, and is also based on proposals by the Financial Reporting Officer and the requirements of Decree 262/05. The Internal Control Officer then reports to the Internal Auditing Committee on the results of work performed with reference to the problems uncovered, the agreed improvements and the outcome of testing activities. This person also provides a shorter report to the Financial Reporting Officer and the Chief Executive Officer to allow them to assess the adequacy and effective application of the administrative procedures adopted to prepare the consolidated financial statements.

Description of principal characteristics

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;
- accounting policy instructions and updates;
- other procedures for preparing the separate financial statements and periodic financial reports.

The company's central "Corporate" functions are responsible for managing and communicating these procedures to other group companies.

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 (ie. 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 company's general manager and finance manager are responsible for maintaining adequate internal controls and must provide a statement in which they confirm that internal controls are operating correctly.

The internal audit department also carries out tests as part of its audit programme using internal control self-assessment check lists.

With reference to the requirements of Chapter VI of the Regulations implementing Decree 58 dated 24 February 1998 concerning the regulation of markets ("Market Regulations"), it is reported that De'Longhi S.p.A. has direct or indirect control over seven companies established and regulated under the law of non-EU countries, which qualify as material for the purposes of 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 the 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.

The following disclosure in relation to risk management policy describes the work performed in accordance with art. 8.C.5 of the Italian stockmarket's Code of Conduct, published in March 2006, and with art. 5.1 (a) of the "*Internal control policies of the De' Longhi Group*".

Work continued in 2010 on identifying the principal business risks and on updating those identified in the past, also involving discussion and agreement with the Internal Auditing Committee and the parent company's Board of Statutory Auditors.

Business risks can be classified in the following broad categories:

Macroeconomic risk

The company's results of operations and statement of financial position are also affected by macroeconomic trends such as: trends in consumption, in the cost of raw materials, and in interest rates and exchange rates, which affect the company indirectly through the results of its subsidiaries.
The economic forecasts indicate that the world economy grew in 2010, albeit at different rates in the various areas (Source: Bank of Italy).
Growth is particularly fast in the emerging economies, above all China and India, robust in the United States and more modest in the Euro-zone, except for Germany which is stronger.
Although at the date of preparing the present report it is not possible to reasonably determine the impact of the geo-political events in North Africa and the Middle East, the impact on macroeconomic statistics is likely to be negative, especially in Continental Europe.
In particular, these events have already had a major impact on the international oil price.
Price rises on international markets for raw materials, driven above all by demand from emerging countries (and most recently by political unrest in North Africa), have triggered inflationary trends in emerging countries as a whole, particularly in food prices. Even the advanced nations have reported a slight increase in inflation, driven by foreign imports; net of energy components, price inflation is still not significant and monetary policies continue to be expansionary, with official interest rates at record lows.
The Euro-zone has continued to see a modest recovery in industrial output and household consumption; instead, investments in capital goods have eased slightly, reflecting lower expenditure on construction and machinery, also because of high levels of unutilized production capacity.
The macroeconomic scenario in coming months will continue to offer little certainty as to the intensity and direction of the recovery, also because of a persistently weak jobs market.

Interest rate and exchange rate risks

Transaction exchange rate risk

The company, operating as an established multinational, 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: 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 the future revenues/costs contained in budgets and/or long-term plans and trade and financial receivables/payables.

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.
All of the company's financial debt at 31 December 2010 was at floating rates. Any increase in interest rates could have a negative impact on the company's economic and financial performance.

During 2010 all the major central banks kept their money market interest rates at the same level as at the end of 2009, thus maintaining a low cost of borrowing with the aim of fostering gradual economic growth.
Even at its recent meeting in January 2011, the governing council of the ECB has kept the Euro-zone principal reference rate at its record low of 1%. The Federal Reserve confirmed the 0.25% rate in force at the end of 2009, as did Japan (0.10%) and the United Kingdom (0.5%, a record low in force since March 2009).
Fears over the sustainability of sovereign debt in certain Euro-zone countries have heightened tensions on European financial markets, and also increased the risks associated with major European international banks.
Accordingly, international co-ordination has continued to strengthen the regulation and supervision of banking and financial systems.

Financial market risks

As far as financial 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 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 uses specific policies and procedures for the purposes of monitoring and managing this risk, including the centralized management of financial payables and cash, the raising of medium and long-term finance on capital markets and the obtaining of short-term credit lines such as to ensure wide room for manoeuvre when managing working capital and cash flows.
The company has medium-term bank credit lines and short-term credit lines (typically renewed on an annual basis), which are used to finance working capital and other operating needs.

Compliance and corporate reporting risks

Adoption of Organizational Model (Decree 231/2001)

Further to the enactment of Decree 231/2001 and its subsequent amendments and additions, which has introduced specific corporate liability for certain types of felony, the company has adopted suitable organizational and management models, under art. 6 of the Decree, for avoiding the incurrence of such liability at its expense.
The operation, observance and updating of these models is monitored by an Oversight Board, which has autonomous powers of action and control.
The activities aimed at preventing the types of felony addressed by the Decree have focused on areas and processes for which the risks have been assessed and potential risks consequently identified.
The company's Board of Directors has approved the Organizational Model and any subsequent amendments to reflect the inclusion of new types of felony within the Decree's scope.
The Organizational Model has been prepared on the basis of the Confindustria Guidelines (revised in 2008).
The current Organizational Model consists of:
1) a "general section" which not only presents the model but also addresses:
- the model's bodies, activities and instruments of control, including:
    - i) the structure for implementing the organizational model;
    - ii) the Oversight Board (with the duties of implementation, control, auditing, reporting, communication, education, information provision, breaches of the model, requested amendments and application of disciplinary punishments);
- how the model is implemented in practice, including through:
    - i) the ethical code;
    - ii) the internal control policies;
    - iii) operational guidelines on felony prevention;
    - iv) a disciplinary system.

2) a "special section" comprising:
- procedures for managing and controlling sensitive processes;
- decision-making procedures;
- procedures for regulating and managing corporate affairs;
- documentation on the safety and environmental management systems;
- procedures for the quality management system;
- personal data protection plan.

During 2010, the company carried out activities to identify the need for any additions or amendments to practices and documents that were sensitive to the inclusion of new felonies within the scope of Decree 231/2001, namely in art. 25-*bis*.1 (offences against industry and commerce) and art. 25-*novies* (offences involving breach of copyright), and the addition to art. 25-*bis* (deceit [...] in instruments or signs of recognition).
These activities were carried out by members of the Internal Audit department and were subsequently re-examined during checks by the Oversight Board.
The amendments needed to the special section of the Organizational Model are expected to be completed during the first half of 2011, including for any additional requirements that might be necessary for the inclusion of environmental

offences in the decree (expected on 26 December 2010 and later delayed to 9 April 2011).
The ISO 14000 certification of the environmental management system at all the manufacturing sites of companies with an Organizational Model gives the Oversight Board good reason to be confident that management and control processes in this area will comply with the latest legislative changes.

The company's Oversight Board has a mixed membership, comprising members from within the company and outside consultants. The internal members include members of the internal audit, legal, and human resources and organization departments.
The outside consultants have been selected for their specific expertise and experience of corporate organization and civil and criminal law.
The duties, activities and operation of the Oversight Board are governed by specific rules of procedure.

Related parties

The company has had and continues to have an insignificant amount of transactions with related parties. Such transactions carry conditions that are in line with market ones.
In November 2010, the company adopted a new set of procedures to govern related party transactions, 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.

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.
Information about how these risks are addressed can be found earlier on in this section.

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 €3.00 each, for a total of €448,500,000.

Shares held by directors, statutory auditors, general managers and key management personnel (Art. 79 CONSOB Regulations approved in Resolution 11971 of 14.5.1999)

As required by art. 79 of the CONSOB Regulations approved in Resolution 11971 of 14 May 1999, the following information relates to shares held by directors, statutory auditors, general managers and key management personnel of De'Longhi S.p.A. and its subsidiaries.

Name	Shares held in	No. of shares held at 31.12.10	
Giuseppe De'Longhi	De'Longhi S.p.A.	2,150,000	(*)
Fabio De'Longhi	De'Longhi S.p.A.	447,570	
Giorgio Sandri	De'Longhi S.p.A.	20,750	
Massimo Lanfranchi	De'Longhi S.p.A.	750	
Key management personnel	De'Longhi S.p.A.	10,600	

(*) Shares declared by Giuseppe De' Longhi which he considers require reporting to the CONSOB.

The shares held at 31 December 2010 also include those held indirectly and/or through relatives.
The changes during 2010 refer to the sale of 10,000 shares by Giorgio Sandri.

Group tax election

During 2010 the company filed for income tax on a group basis, as permitted by Chapter II Section II of Presidential Decree 917/86.

Subsequent events

There have been no significant events since the end of the reporting period.

Proposed allocation of profit

Shareholders,

We are submitting the annual report and financial statements for 2010 for your approval. In so doing we propose that the profit of €24,588,008 be allocated as follows:

- €1,229,401 to the legal reserve;
- €21,827,000 to the shareholders, corresponding to a gross dividend of €0.146 for each of the 149,500,000 outstanding shares;
- €129,080 to the undistributable reserve under art. 2426 par. 8-*bis* of the Italian Civil Code;
- €1,402,527 to the extraordinary reserve.

Treviso, 3 March 2011
For the Board of Directors
Vice Chairman and Chief Executive Officer
Fabio De'Longhi

Separate financial statements of De'Longhi S.p.A.

Income statement

Statement of comprehensive income

Statement of financial position

Statement of cash flows

Statement of changes in net equity

Income statement

(€/000)	Notes	2010	of which non-recurring	2009	of which non-recurring
Other revenues	1	6.014		5.948	
Total revenues		**6.014**		**5.948**	
Raw and ancillary materials, consumables and goods	2	(63)		(68)	
Materials consumed		**(63)**		**(68)**	
Payroll costs	3	(5.110)		(5.115)	
Services and other operating expenses	4-6	(10.465)		(10.197)	*(472)*
Provisions	5	319		(21)	
Amortization, depreciation and impairment	7	(56)		(52)	
EBIT		**(9.361)**		**(9.505)**	
Financial income (expenses)	8	31.224		24.411	
PROFIT (LOSS) BEFORE TAXES		**21.863**		**14.906**	
Income taxes	9	2.725		(1.158)	
PROFIT (LOSS) AFTER TAXES		**24.588**		**13.748**	

Statement of comprehensive income

(€/000)	2010	2009
Profit (loss) after taxes	**24.588**	**13.748**
Other components of comprehensive income		
Change in fair value of cash flow hedges	-	-
Tax effect of change in fair value of cash flow hedges	-	-
Total comprehensive income (loss)	**24.588**	**13.748**

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

(€/000)	*Notes*	31.12.2010	31.12.2009
NON-CURRENT ASSETS			
INTANGIBLE ASSETS		26	32
- Other intangible assets	*10*	26	32
PROPERTY, PLANT AND EQUIPMENT		88	109
- Other tangible assets	*11*	88	109
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		603.479	603.224
- Equity investments (in subsidiary companies)	*12*	601.705	601.705
- Receivables	*13*	1.774	1.519
DEFERRED TAX ASSETS	*14*	2.253	6.937
TOTAL NON-CURRENT ASSETS		**605.846**	**610.302**
CURRENT ASSETS			
INVENTORIES		-	-
TRADE RECEIVABLES	*15*	4.063	3.204
CURRENT TAX ASSETS	*16*	1.419	3.531
OTHER RECEIVABLES	*17*	18.220	12.831
CURRENT FINANCIAL RECEIVABLES AND ASSETS	*18*	18.475	32.296
CASH AND CASH EQUIVALENTS	*19*	98	201
TOTAL CURRENT ASSETS		**42.275**	**52.063**
TOTAL ASSETS		**648.121**	**662.365**

Statement of financial position

Net equity and liabilities

(€/000)	*Notes*	31.12.2010	31.12.2009
NET EQUITY			
NET EQUITY		554.459	541.831
- Share capital	*20*	448.500	448.500
- Reserves	*21*	81.371	79.583
- Profit (loss) for the year		24.588	13.748
TOTAL NET EQUITY		**554.459**	**541.831**
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES		53.532	50.630
- Bank loans and borrowings (long-term portion)	*22*	51.947	48.488
- Other financial payables (long-term portion)	*23*	1.585	2.142
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		6.476	6.005
- Employee benefits	*24*	4.204	4.265
- Other provisions	*25*	2.272	1.740
TOTAL NON-CURRENT LIABILITIES		**60.008**	**56.635**
CURRENT LIABILITIES			
TRADE PAYABLES	*26*	2.773	3.279
FINANCIAL PAYABLES		20.060	50.658
- Bank loans and borrowings (short-term portion)	*22*	19.416	48.228
- Other financial payables (short-term portion)	*23*	644	2.430
CURRENT TAX LIABILITIES	*27*	5.885	2.345
OTHER PAYABLES	*28*	4.936	7.617
TOTAL CURRENT LIABILITIES		**33.654**	**63.899**
TOTAL NET EQUITY AND LIABILITIES		**648.121**	**662.365**

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 flows

(€/000)	Notes	2010	2009
Profit (loss) after taxes		24.588	13.748
Income taxes for the period	9	(2.725)	1.158
Income from dividend receipts	8	(32.264)	(27.332)
Amortization, depreciation and impairment	7	56	52
Net change in provisions		4.206	(532)
Cash flow generated (absorbed) by current operations (A)		**(6.139)**	**(12.906)**
Change in assets and liabilities for the period:			
Trade receivables		(420)	1.431
Trade payables		(505)	(2.091)
Other current assets and liabilities		2.118	(2.739)
Payment of income taxes		(1.303)	(641)
Cash flow generated (absorbed) by movements in working capital (B)		**(110)**	**(4.040)**
Cash flow generated (absorbed) by current operations and movements in working capital (A+B)		**(6.249)**	**(16.946)**
Investment activities:			
Investments in intangible assets		10	-
Investments in property, plant and equipment	11	24	(90)
Proceeds from sale of property, plant and equipment and other cash flows		(64)	20
Dividend receipts	8	32.264	27.332
Cash flow generated (absorbed) by ordinary investment activities (C)		**32.234**	**27.262**
Dividends paid		(11.960)	(8.970)
New loans	22	52.817	25.000
Repayment of loans and other net changes in sources of finance		(66.945)	(26.696)
Cash flow generated (absorbed) by changes in net equity and by financing activities (D)		**(26.088)**	**(10.666)**
Cash flow for the period (A+B+C+D)		**(103)**	**(350)**
Opening cash and cash equivalents	**19**	**201**	**551**
Increase (decrease) in cash and cash equivalents (A+B+C+D)		(103)	(350)
Closing cash and cash equivalents	**19**	**98**	**201**

Appendix 2 presents the statement of cash flows at 31 December 2010 in terms of net financial position; this measure represents gross financial debt as reduced by cash and cash equivalents and other financial receivables. More details can be found in the later analysis of *Net financial position*.

Statement of changes in net equity of de'longhi s.P.A.

(€/000)	Share capital	Share premium reserve	Legal reserve	Extraordinary reserve	Profit (loss) carried forward	Profit (loss) for the year	Total
Balance at 31 December 2008	**448.500**	**325**	**6.431**	**42.173**	**12.688**	**26.936**	**537.053**
Allocation of 2008 result as per AGM resolution of 21 April 2009							
- distribution of dividends						(8.970)	(8.970)
- allocation to reserves			1.347	16.619		(17.966)	-
Movements from transactions with shareholders	**-**	**-**	**1.347**	**16.619**	**-**	**(26.936)**	**(8.970)**
Comprehensive income (loss)						13.748	13.748
Balance at 31 December 2009	**448.500**	**325**	**7.778**	**58.792**	**12.688**	**13.748**	**541.831**

(€/000)	Share capital	Share premium reserve	Legal reserve	Extraordinary reserve	Profit (loss) carried forward	Profit (loss) for the year	Total
Balance at 31 December 2009	**448.500**	**325**	**7.778**	**58.792**	**12.688**	**13.748**	**541.831**
Allocation of 2009 result as per AGM resolution of 21 April 2010							
- distribution of dividends						(11.960)	(11.960)
- allocation to reserves			687	1.101		(1.788)	-
Movements from transactions with shareholders	**-**	**-**	**687**	**1.101**	**-**	**(13.748)**	**(11.960)**
Comprehensive income (loss)						24.588	24.588
Balance at 31 December 2010	**448.500**	**325**	**8.465**	**59.893**	**12.688**	**24.588**	**554.459**

Explanatory notes

Company business

De'Longhi S.p.A., which has its registered office in Treviso, is the holding company for a group organized into the following divisions:

- the "Household" division operates in the domestic appliances market with products for air cooling and treatment, heating, food preparation and cooking, domestic cleaning and ironing, which are distributed mainly through the retail channel under the De'Longhi, Kenwood and Ariete trademarks.

- the "Professional" division operates in the market for large thermo-cooling systems, hydronic terminals, heat pumps and wall-mounted air-conditioning units (Climaveneta, RC Group) and in the market for radiators (DL Radiators). These products are distributed mainly through the professional channel.

- the "Corporate" division which mainly provides corporate services to the group with the functions of setting strategy, of control, co-ordination and management of centralized activities and resources.

Accounting standards

The financial statements of De'Longhi S.p.A. at 31 December 2010 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 2010), 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;
- Interpretational documents on how to apply IAS/IFRS in Italy, prepared by the Italian Accounting Board.

The accounting policies and measurement bases used for preparing the financial statements at 31 December 2010 are the same as those used for preparing the financial statements at 31 December 2009.

The financial statements at 31 December 2010 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 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 *30. Risk management* of the present Explanatory notes.

The amendments to international financial reporting standards that apply as from the financial statements at 31 December 2010 have not had a material impact on the company's financial statements and are described below:

Relevant new amendments and accounting standards applied by the company for the first time

In May 2010 the IASB published a number of *Improvements to IFRSs*. These revisions will now be outlined.

IAS 1 – *Presentation of financial statements*: the Improvement requires, amongst others, that the "balance sheet" be renamed using the new wording of "statement of financial position".

IAS 34 – *Interim financial reporting*: the Improvement has provided clarification concerning disclosures about changes during the period affecting the fair value of financial instruments, transfers between different levels of the fair value hierarchy used to measure financial instruments, changes in classification of financial instruments as a result of changes in their utilization and purpose, and changes in contingent assets and liabilities.

Non-relevant new amendments and interpretations not applied by the company

IFRS 1 - *First-time adoption of IFRSs*: the Improvement provides clarification about the disclosures concerning reconciliation between previous GAAP and IFRSs. The Improvement also clarifies how to use fair value as deemed cost and how to use deemed cost for operations subject to rate regulation.

IFRS 3 – *Business combinations*: the Improvement clarifies that components of non-controlling interests that do not entitle their holders to a proportionate share of an acquiree's net assets in the event of liquidation must be measured at their acquisition date fair value, unless another measurement basis is required by IFRSs.

IFRS 7 – *Financial instruments: disclosures*: the Improvement emphasizes the interaction between qualitative and quantitative disclosures and the nature and extent of risks associated with financial instruments. It also eliminates disclosure requirements relating to financial assets renegotiated to avoid becoming past due or impaired and to the fair value of collateral.

IFRIC 13 – *Customer loyalty programmes*: the Improvement clarifies that, when the fair value of award credits is measured based on the value of the awards for which they could be redeemed, the fair value of such award credits must take account of any expected forfeitures and the amount of discounts or incentives that would otherwise be offered to customers not participating in the award credit scheme.

On 28 January 2010, the IASB published the *Amendment to IFRS 1: limited exemption from comparative IFRS 7 disclosures for first-time adopters* in order to exempt first-time adopters from providing the additional disclosures required by the IFRS 7 amendment concerning fair value hierarchy issued on 5 March 2009.

New amendments and interpretations not yet applicable

On 7 October 2010 the IASB published a number of amendments to IFRS 7 – *Financial instruments: disclosures*, applicable to accounting periods beginning on or after 1 July 2011. These amendments have been made to allow users of financial statements to improve their understanding of transfer transactions involving financial assets and the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period. At the date of the present financial statements, the competent bodies of the European Union had not yet completed the endorsement process needed for the application of these amendments.

On 20 December 2010 the IASB issued a minor amendment to IFRS 1 – *First-time adoption of international financial reporting standards* to eliminate the reference to the date of 1 January 2004, described as the IFRS transition date, and to provide guidance on presenting financial statements in accordance with IFRS after a period of severe hyperinflation. These amendments are applicable from 1 July 2011. At the date of the present financial statements, the competent bodies of the European Union had not yet completed the endorsement process needed for the application of these amendments.

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 estimated useful life, generally between 10 and 20 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 and commercial equipment	3 – 5 years
Other	4 – 7 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.

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.

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 in subsidiary companies and non-current receivables from subsidiary companies.
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.

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

Net obligations relating to employee benefit plans, chiefly the provision for severance indemnities (for the portion retained in the company following the 2007 reform), 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 the defined benefit pension funds and the annual cost reported in the income statement are determined by independent actuaries using the projected unit credit method. The portion of the cumulative net value of the actuarial gains and losses which exceeds the greater of 10% of the present value of the obligation and 10% of the fair value of any plan assets at the end of the prior year is amortized over the average remaining working lives of the employees concerned ("corridor approach").

Further to the Finance Act 2007 (Law 296 dated 27 December 2006), only the remaining company liability for severance indemnity at 31.12.2006 has been valued in accordance with IAS 19, since indemnity accruing from this date has been paid into a separate entity (alternative pension funds or Italian social security funds). These payments are treated like a defined contribution fund since the company no longer has an obligation to pay further contributions if the fund does not have sufficient assets to pay all employee benefits relating to employee service.

Long-term liabilities for employee benefits are reported at the present value of the defined benefit obligation at the reporting date.

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

Dividends 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.

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.

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 company's customers to deteriorate, with an impact on the recoverability of trade receivables, to the extent uninsured.

Comments on the income statement

1. Other revenues

The breakdown is as follows:

	2010	2009	Change
Out-of-period gains	178	755	(577)
Damages reimbursed	7	50	(43)
Capital gains	-	20	(20)
Other income	5,829	5,123	706
Total	**6,014**	**5,948**	**66**

"Other income" includes €5,282 thousand in revenue from related parties, as reported in Appendix 4, which mainly comprises parent company recharges of services to its subsidiaries.

2. Raw and ancillary materials, consumables and goods

The breakdown is as follows:

	2010	2009	Change
Raw materials	16	15	1
Other purchases	47	53	(6)
Total	**63**	**68**	**(5)**

3. Payroll costs

The figures relating to the cost of defined benefit plans and other long-term benefits provided by the company are reported in the note on provisions.

4. Services and other operating expenses

These are detailed as follows:

	2010	2009	Change
Travel and entertaining	3,067	3,136	(69)
Consulting services	2,281	2,448	(167)
Insurance	1,839	1,456	383
Directors' emoluments	1,587	1,187	400
Rentals and leasing	317	323	(6)
Advertising and promotional activities	280	72	208
Statutory auditors' emoluments	152	177	(25)
Telecommunication costs	119	138	(19)
Other sundry services	510	549	(39)
Total services	**10,152**	**9,486**	**666**
Out-of-period losses	35	442	(407)
Sundry taxes	59	93	(34)
Other	219	176	43
Total other operating expenses	**313**	**711**	**(398)**
Total services and other operating expenses	**10,465**	**10,197**	**268**

"Services and other operating expenses" include €673 thousand in costs from related parties, as reported in Appendix 4.

5. Provisions

These mostly reflect the net effect of changes in provisions for legal disputes, comprising €45 thousand in additions to the provision and €368 thousand in releases for disputes settled in the year (more details can be found in *note 25. Other provisions*). Provisions also includes €4 thousand in additions to the allowance for doubtful accounts (see *note 15. Trade receivables*).

6. Non-recurring income (expenses)

The income statement for 2010 does not include any non-recurring income or expenses. The income statement in 2009 included €472 thousand in non-recurring expenses in connection with the group's reorganization.

7. Amortization, depreciation and impairment

These are detailed as follows:

	2010	2009	Change
Depreciation of property, plant and equipment	44	42	2
Amortization of intangible assets	12	10	2
Total	**56**	**52**	**4**

8. Financial income (expenses)

Net financial income and expenses are broken down as follows:

	2010	2009	Change
Dividends	32,264	27,332	4,932
Financial income (expenses) from equity investments	**32,264**	**27,332**	**4,932**
Gains (losses) on currency hedging transactions	(206)	(1,614)	1,408
Exchange gains (losses)	207	(16)	223
Exchange gains (losses)	**1**	**(1,630)**	**1,631**
Interest income from loans	130	360	(230)
Bank interest income	5	1	4
Financial income	**135**	**361**	**(226)**
Interest expense on long-term loans and borrowings	(1,562)	(1,595)	33
Interest expense on short-term loans and borrowings	(58)	-	(58)
Financial expenses	**(1,620)**	**(1,595)**	**(25)**
Other sundry income (expenses)	444	(57)	501
Other financial income (expenses)	**444**	**(57)**	**501**
Financial income (expenses)	**31,224**	**24,411**	**6,813**

Dividends relate to amounts declared and paid by the subsidiaries De'Longhi Household S.A., De'Longhi Professional S.A., De'Longhi Appliances S.r.l., E-Services S.r.l. and De'Longhi Capital Services S.r.l..
"Financial income (expenses)" includes €32,665 thousand in income from group companies, as reported in Appendix 4.

9. Income taxes

These comprise:

	2010	2009	Change
Current income taxes	2,465	3,487	(1,022)
Deferred income tax liabilities (assets)	260	(4,645)	4,905
Total	**2,725**	**(1,158)**	**3,883**

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).
Current income taxes consist of:

- €2,331 thousand in income from tax losses for IRES (Italy's corporate income tax);
- €41 thousand in charges for the separate taxation of income under art. 168 of Presidential Decree 917/86;
- €70 thousand in income for claims for IRES refunds from IRAP;
- €105 thousand in income for claims for IRES for VAT on motor vehicles.

"Deferred income tax liabilities (assets)" report the taxes calculated on the temporary differences arising between the accounting values of assets and liabilities and the corresponding tax base (particularly for taxed provisions).
More details on deferred taxes can be found in *note 14. Deferred tax assets*.

The actual and theoretical tax charge are reconciled as follows:

	2010	%	2009	%
Profit before taxes	21,863	100.0%	14,906	100.0%
Theoretical taxes	(6,012)	(27.5%)	(4,099)	(27.5%)
Permanent tax differences (untaxable dividends, net of disallowable costs) and other effects	8,737	40.0%	2,941	19.7%
Total income taxes	**2,725**	**12.5%**	**(1,158)**	**(7.8%)**

Comments on the statement of financial position: assets

Non-current assets

10. Intangible assets

These are detailed as follows:

	31.12.2010		31.12.2009		
	Gross	Net	Gross	Net	Change
Patents	49	26	42	32	(6)

The following table reports movements during 2010:

	Patents
Net opening balance	**32**
Additions	10
Disposals	(4)
Amortization	(12)
Net closing balance	**26**

Explanatory notes

11. Property, plant and equipment

These are detailed as follows:

	31.12.2010		31.12.2009		
	Gross	Net	Gross	Net	Change
Industrial and commercial equipment	9	-	6	-	-
Other	227	88	206	109	(21)
Total	**236**	**88**	**212**	**109**	**(21)**

The following table reports movements during 2010:

	Industrial and commercial equipment	Other	Total
Net opening balance	**-**	**109**	**109**
Additions	2	21	23
Depreciation	(2)	(42)	(44)
Net closing balance	**-**	**88**	**88**

The net increase of €21 thousand reflects €23 thousand in additions and €44 thousand in depreciation charges.

12. Equity investments in subsidiary companies

These are detailed as follows:

Equity investments in subsidiary companies	31.12.2010	31.12.2009	Change
De'Longhi Appliances S.r.l.	242,678	242,678	-
De'Longhi Household S.A.	241,737	241,737	-
De'Longhi Professional S.A.	111,205	111,205	-
De'Longhi Capital Services S.r.l.	6,005	6,005	-
Clim.Re S.A.	54	54	-
E-Services S.r.l.	26	26	-
De'Longhi Polska Sp.Zo.o.	-	-	-
Total	**601,705**	**601,705**	**-**

The list of subsidiary and associated companies and details of changes in equity investments during 2010 can be found in Appendix 3.

13. Non-current receivables
This balance is analyzed as follows:

	31.12.2010	31.12.2009	Change
Receivables from subsidiary companies	1,774	1,519	255

Appendix 4 contains details of “Receivables from subsidiary companies”.

14. Deferred tax assets
“Deferred tax assets” reflect the recognition of taxes calculated on temporary differences arising between the accounting values of assets and liabilities and the corresponding tax base (particularly for taxed provisions).

Details are as follows:

	31.12.2010			31.12.2009			Effect on income statement
	Taxable amount	Tax rate	Total tax	Taxable amount	Tax rate	Total tax	
Provisions for contingencies and other charges	6,178	27.5%	1,699	1,740	31.4%	546	1,153
Provisions for contingencies and other charges (only for IRES purposes)	-	-	-	5,391	27.5%	1,483	(1,483)
Other temporary differences	2,013	27.5%	554	1,010	31.4/27.5%	284	270
Total deferred tax assets	8,191		2,253	8,141		2,313	(60)
Deferred tax assets on tax losses	-	-	-	16,817	27.5%	4,624	551
Net total			**2,253**	**24,958**		**6,937**	**491**

The change in the net balance reflects the effects reported through the income statement in the year as well as changes through net equity relating to €5,175 thousand in deferred tax assets set off against taxable income transferred from subsidiaries under the group tax election.

Current assets
15. Trade receivables
These are detailed as follows:

	31.12.2010	31.12.2009	Change
Trade receivables due within 12 months	5,164	4,745	419
Allowance for doubtful accounts	(1,101)	(1,541)	440
Total	**4,063**	**3,204**	**859**

Trade receivables are stated net of an allowance for doubtful accounts of €1,101 thousand, representing the estimated risk at the reporting date. Prudent provision has been made against a number of disputed receivables or those whose collection is otherwise in doubt, taking account of the fact that a significant proportion of the receivables are covered by insurance policies with major insurers.

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

	31.12.2009	Increases	Utilization	31.12.2010
Allowance for doubtful accounts	1,541	4	(444)	1,101

“Trade receivables” include €3,518 thousand in amounts due from group companies, as reported in Appendix 4.
Trade receivables do not include any amounts due beyond 12 months.

Trade receivables are broken down by geographical area as follows:

	31.12.2010	%	31.12.2009	%
Italy	3,235	79.6%	2,340	73.0%
United Kingdom	723	17.8%	521	16.3%
Japan	-	-	60	1.9%
Rest of the world	105	2.6%	283	8.8%
Total	**4,063**	**100.0%**	**3,204**	**100.0%**

16. Current tax assets
These are detailed as follows:

	31.12.2010	31.12.2009	Change
VAT	670	2,629	(1,959)
Direct taxes	375	512	(137)
Tax refunds requested	256	262	(6)
Other tax receivables	118	128	(10)
Total current tax assets	**1,419**	**3,531**	**(2,112)**

For the purposes of optimizing the financial management of its tax affairs, the company has filed for income tax on a group basis in 2010 as allowed by Chapter II Section II of Presidential Decree 917/86, and also settled VAT on a group basis, as allowed by the Ministerial Decree dated 13 December 1979.

"Direct taxes" mainly comprise:
- €120 thousand in credits for payments on account of separate taxation of income under art. 168 of Presidential Decree 917/86;
- €61 thousand in credits for IRES (Italian corporate income tax) in relation to withholding taxes incurred by the company or its subsidiaries;
- €194 thousand in other credits for sundry taxes requested for refund.

"Tax refunds requested" include €2 thousand in foreign VAT credits, requested for refund from the different EU member tax authorities (under art. 271 of the VIII Directive 79/1072/CEE) and €254 thousand in additional VAT deductions on the purchase of motor vehicles and related costs, following the Court of Justice's sentence of 14 September 2006.

17. Other receivables

These are detailed as follows:

	31.12.2010	31.12.2009	Change
Prepaid costs	1,100	602	498
Advances to suppliers	32	56	(24)
Employees	6	1	5
Other	17,082	12,172	4,910
Total other receivables	**18,220**	**12,831**	**5,389**

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

"Other" receivables include €17,012 thousand in amounts due from related parties, as reported in Appendix 4.

None of the other receivables is due beyond 12 months.

18. Current financial receivables and assets

These are detailed as follows:

	31.12.2010	31.12.2009	Change
Financial receivables	18,465	32,289	(13,824)
Fair value of derivatives	10	7	3
Total current financial receivables and assets	**18,475**	**32,296**	**(13,821)**

Financial receivables in 2010 refer to amounts owed by De'Longhi Capital Services S.r.l. in connection with the centralized treasury service.

More details on the fair value of derivatives can be found in *note 30. Risk management*.

19. Cash and cash equivalents

This balance consists of surplus liquidity on bank current accounts.

Comments on the statement of financial position: net equity

Net equity

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

The annual general meeting (AGM) of De'Longhi S.p.A. held on 21 April 2010 declared a dividend totalling €11,960 thousand.

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

20. Share capital

Share capital is made up of 149,500,000 ordinary shares of par value €3.00 each, for a total of €448,500 thousand.

21. Reserves

These are analyzed as follows:

	31.12.2010	31.12.2009	Change
Share premium reserve	325	325	-
Legal reserve	8,465	7,778	687
Other reserves:			
- Extraordinary reserve	59,893	58,792	1,101
- Profit (loss) carried forward	12,688	12,688	-
Total reserves	**81,371**	**79,583**	**1,788**

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 is €325 thousand.

The "Legal reserve" has a balance of €8,465 thousand at 31 December 2010. The increase of €687 thousand since 31 December 2009 reflects the allocation of profit for 2009, as approved by the Annual General Meeting (AGM) held on 21 April 2010.

The "Extraordinary reserve" amounts to €59,893 thousand. The increase of €1,101 thousand since 31 December 2009 reflects the allocation of profit for 2009, as approved by the above AGM.

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

Nature / Description:	Amount		Permitted use	Available amount
Share capital	448,500	(1)		
Capital reserves:				
- Share premium reserve	325	(2)	A, B	
Earnings reserves:				
- Legal reserve	8,465		B	
- Extraordinary reserve	59,893		A, B, C	59,893
- Profit (loss) carried forward	12,688		A, B, C	4,114
Total	**529,871**	**(3)**		**64,007**
Undistributable amount				-
Distributable amount				**64,007**

(1) There is a tax restriction over €5,277 thousand following a bonus increase in capital in 1997 using tax-suspended reserves.
(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: €99,934 thousand relating to share capital, €2,324 thousand relating to the legal reserve and €34,628 thousand relating to the extraordinary reserve.

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

22. Bank loans and borrowings

Bank loans and borrowings (including the current portion) are analyzed as follows:

	Within one year	One to five years	Beyond five years	Balance 31.12.2010	Within one year	One to five years	Beyond five years	Balance 31.12.2009	Change
Overdrafts	35	-	-	35	77	-	-	77	(42)
Long-term loans (current portion)	19,381	-	-	19,381	48,151	-	-	48,151	(28,770)
Total short-term bank loans and borrowings	**19,416**	**-**	**-**	**19,416**	**48,228**	**-**	**-**	**48,228**	**(28,812)**
Long-term loans	-	44,728	7,219	51,947	-	48,488	-	48,488	3,459
Total bank loans and borrowings	**19,416**	**44,728**	**7,219**	**71,363**	**48,228**	**48,488**	**-**	**96,716**	**(25,353)**

Bank loans and borrowings are analyzed as follows:

Loans (including short-term portion)	31.12.2010	31.12.2009	Change
Centrobanca S.p.A. (club loan with Banca Popolare di Vicenza S.C.p.A.)	17,865	-	17,865
Banca Popolare di Sondrio S.C.p.A.	17,776	23,558	(5,782)
KBC Bank N.V., Italian branch	12,475	20,763	(8,288)
Banca Popolare Friuladria S.p.A.	11,480	14,301	(2,821)
Banca di Cividale S.p.A.	6,338	8,169	(1,831)
Banca Popolare di Vicenza S.C.p.A.	4,983	-	4,983
IMI (Law 46)	411	830	(419)
BNP Paribas (syndicated loan)	-	29,018	(29,018)
Total long-term loans	**71,328**	**96,639**	**(25,311)**

During the year two new long-term loans were obtained as follows:
- a club loan from Centrobanca-Banca di Credito Finanziario e Mobiliare S.p.A. together with Banca Popolare di Vicenza S.C.p.A. for €18,000 thousand (€17,865 thousand at amortized cost);
- a loan from Banca Popolare di Vicenza S.C.p.A. for €5,000 thousand (€4,983 thousand at amortized cost).

The new loans both mature in seven years and will be repaid on a quarterly basis starting from 2012. These loans call for annual compliance with financial covenants (the ratios between consolidated net debt and net equity and between consolidated net debt and consolidated EBITDA).

The loans from Banca Popolare Friuladria and KBC Bank also call for compliance with financial covenants (the ratios between net financial position and net equity and between net financial position and consolidated EBITDA).
The company was in compliance with these covenants at 31 December 2010.
The other loans do not call for compliance with financial covenants.
All the loans 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 loan and its maturity. 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). *Note 30* contains the results of analyzing sensitivity to changes in interest rates.

23. Other financial payables

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

	31.12.2010	31.12.2009	Change
Ministry of Industry loans (short-term portion)	557	546	11
Negative fair value of derivatives (short-term portion)	6	4	2
Other short-term financial payables	81	1,880	(1,799)
Total short-term payables	644	2,430	(1,786)
Ministry of Industry loans (one to five years)	1,585	2,142	(557)
Total long-term payables	**1,585**	**2,142**	**(557)**
Total other financial payables	**2,229**	**4,572**	**(2,343)**

More details on the fair value of derivatives can be found in *note 30. Risk management*.

“Other short-term financial payables” relate to payables to group companies, as reported in Appendix 4.

Explanatory notes

Net financial position

Details of the net financial position are as follows:

	31.12.2010	31.12.2009	Change
A. Cash	10	18	(8)
B. Cash equivalents	88	183	(95)
C. Securities	-	-	-
D. Total liquidity (A+B+C)	**98**	**201**	**(103)**
E. Current financial receivables and other securities	**20,249**	**33,815**	**(13,566)**
of which:			
Fair value of derivatives	*10*	*7*	*3*
F. Current bank loans and borrowings	(35)	(76)	41
G. Current portion of non-current debt	(19,382)	(48,151)	28,769
H. Other current financial payables	(644)	(2,430)	1,786
of which:			
Fair value of derivatives	*(6)*	*(4)*	*(2)*
I. Current financial debt (F+G+H)	**(20,061)**	**(50,657)**	**30,596**
J. Net current financial debt (I +E + D)	**286**	**(16,641)**	**16,927**
K. Non-current bank loans and borrowings	(51,947)	(48,488)	(3,459)
L. Bonds	-	-	-
M. Other non-current payables	(1,585)	(2,142)	557
N. Non-current financial debt (K+L+M)	**(53,532)**	**(50,630)**	**(2,902)**
Total net financial debt (J+N)	**(53,246)**	**(67,271)**	**14,025**

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

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

24. Employee benefits

These are analyzed as follows:

	31.12.2010	31.12.2009	Change
Provision for severance indemnities	314	314	-
Long-term benefits and Phantom Stock Option plan	3,890	3,951	(61)
Total employee benefits	**4,204**	**4,265**	**(61)**

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

	31.12.2010	Average 2010	31.12.2009	Average 2009
White collar	30	28	27	26
Senior managers	8	8	9	10
Total	**38**	**36**	**36**	**36**

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	31.12.2010	31.12.2009	Change
Defined benefit obligations	314	314	-

Net cost charged to income	31.12.2010	31.12.2009	Change
Current service cost	-	-	-
Interest cost on obligations	16	18	(2)
Total	**16**	**18**	**(2)**

Change in present value of obligations	31.12.2010	31.12.2009	Change
Present value at 1 January	**314**	**396**	**(82)**
Current service cost	-	-	-
Utilization of provision	(7)	(33)	26
Interest cost on obligations	16	18	(2)
Other changes	(9)	(67)	58
Present value at reporting date	**314**	**314**	**-**

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

Assumptions used	Severance indemnity 2010	Severance indemnity 2009
Discount rate	4.3%	4.1%
Future salary increases	2.0% – 4.0%	2.5%
Inflation rate	2.0%	2.0%

The long-term benefits include extraordinary incentives relating to 2010.

The shareholders approved a share-based compensation scheme (Phantom Stock Option Plan) during 2008; this entitles beneficiaries to cash payments based on the growth in the company's ordinary share price.

De'Longhi S.p.A. prepared an information circular in regard to this plan, pursuant to art. 84-bis of the Issuer Regulations, which was drawn up in compliance with appendix 3, format 7 of the Issuer Regulations, and was filed with Borsa Italiana and published on the company's website.

During 2008 the Board of Directors allotted a total of 700,000 phantom stock options to beneficiaries of this plan. At 31 December 2010 the number of options that can be exercised has decreased to 500,000 due to changes in the number of plan beneficiaries. The allotment value was €4.00 and the cash payment will be made in relation to the increase in the value of the De'Longhi share price.
Under the plan, 50% of the phantom stock options can be exercised (and so give right to receipt of the above payment) from 1 May 2010, while the remaining 50% can be exercised from 1 October 2011; the options must be exercised by 31 December 2012 at the very latest.
The cost of these instruments, reported in the income statement under payroll costs, and the associated liability are recognized over the vesting period. For as long as the liability exists, the fair value is recalculated at each reporting date and at the actual payment date, with all changes in fair value going through the income statement.
The fair value of options is measured by taking account of the terms and conditions under which such rights are granted, and using estimates based on market values.
The cost of adopting this Phantom Stock Option Plan had an impact of €1,890 thousand on the income statement in 2010.

25. Other provisions

Movements are as follows:

	31.12.2009	Utilization	Increases	Release	31.12.2010
Provision for uninsured liabilities	819	(80)	-	(323)	416
Other provisions for contingencies	921	(65)	1,000	-	1,856
Total	**1,740**	**(145)**	**1,000**	**(323)**	**2,272**

The "provision for uninsured liabilities" relates to the risk of liabilities arising from certain claims (limited to insurance policy deductibles).

"Other provisions for contingencies" mainly refer to costs associated with certain legal and tax disputes.

Current liabilities

26. Trade payables

This balance of €2,773 thousand represents the amount owed by the company to third parties and group companies for the provision of goods and services. Details of amounts owed to group companies are reported in Appendix 4.

Trade payables are broken down by geographical area as follows:

	31.12.2010	%	31.12.2009	%
Italy	2,469	89.0%	2,689	82.0%
United Kingdom	4	0.1%	32	1.0%
United States, Canada, Mexico	262	9.5%	41	1.3%
Rest of Europe	38	1.4%	506	15.4%
Rest of the world	-	-	11	0.3%
Total	**2,773**	**100.0%**	**3,279**	**100.0%**

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

27. Current tax liabilities

These are detailed as follows:

	31.12.2010	31.12.2009	Change
Direct taxes	4,862	105	4,757
Withholdings payable	988	708	280
Other taxes	35	1,532	(1,497)
Total current tax liabilities	**5,885**	**2,345**	**3,540**

"Direct taxes" relate to the amount due for the group tax filing under Chapter II, Section II of Presidential Decree 917/86. "Withholdings payable" relate to withholdings made by the company and payable to the tax authorities after the reporting date.

There are no current tax liabilities due beyond 12 months.

28. Other payables

These are detailed as follows:

	31.12.2010	31.12.2009	Change
Social security institutions	372	218	154
Sundry payables	4,564	7,399	(2,835)
Total other payables	**4,936**	**7,617**	**(2,681)**

"Social security institutions" include €315 thousand in payables to Italy's principal social security agency (INPS), €9 thousand in payables to pension funds and €48 thousand in amounts owed to other welfare agencies.

"Sundry payables" are detailed as follows:

	31.12.2010	31.12.2009	Change
Group companies	3,261	5,981	(2,720)
Employees	898	772	126
Other	405	646	(241)
Total sundry payables	**4,564**	**7,399**	**(2,835)**

"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 16. Current tax assets*.

29. Commitments

These are detailed as follows:

	31.12.2010	31.12.2009	Change
Guarantees given for the benefit of:			
De'Longhi Capital Services S.r.l.	397,677	466,828	(69,151)
DL Trading Ltd	83,718	59,216	24,502
Promised Success Ltd	-	25,000	(25,000)
De'Longhi Japan Corp.	26,783	21,853	4,930
DL Radiators S.p.A.	24,742	23,684	1,058
Kenwood Ltd	19,000	19,000	-
De'Longhi Australia PTY Ltd	18,270	-	18,270
De'Longhi Deutschland Gmbh	10,000	-	10,000
De'Longhi Appliances S.r.l.	9,381	8,376	1,005
De'Longhi France S.A.	7,100	7,100	-
De'Longhi New Zeland Ltd	6,686	-	6,686
Climaveneta S.p.A.	5,950	3,444	2,506
De'Longhi Electrodomesticos Espana S.L.	5,513	6,153	(640)
Zass Alabuga LLC	3,742	6,942	(3,200)
De'Longhi LLC	3,742	-	3,742
On Shiu Zhongshan Electrical Appliance Co. Ltd	3,174	2,847	327
Kenwood Home Appliances Pty Ltd. SA – South Africa	2,000	1,500	500
Dong Guan De'Longhi Kenwood Appliances Co. Ltd	1,220	-	1,220
Kenwood Hellas Sole partner Ltd Liability Co.	1,000	1,000	-
Climaveneta Polska Sp.Zo.o.	553	-	553
Elle S.r.l.	507	507	-
De'Longhi Brasil Ltda	121	108	13
Kenwood Appliances Singapore Pte Ltd	100	100	-
E-Services S.r.l.	13	13	-
Climaveneta Home System S.r.l.	-	5,550	(5,550)
Ariete Hispania S.L.	-	13	(13)
Total	**630,992**	**659,234**	**(28,242)**

All the guarantees have been given in the interests of group companies; no guarantees have been given in the interests of third parties.

The above guarantees refer to credit lines partially drawn down by group companies and to short-term loans; no elements of risk as defined by IAS 37 have been noted to date.

30. 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 De'Longhi S.p.A., whose principal credit exposures are to group companies.

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

Liquidity risk

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

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

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

The company has medium-term 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 company's annual funding requirements for working capital, investments and settlement of payables on their natural due dates.
The following table summarizes the due dates of financial liabilities at 31 December 2010 on the basis of undiscounted contractual payments.

	Undiscounted cash flows at 31.12.2010	Within one year	One to five years	Beyond five years	Undiscounted cash flows at 31.12.2009	Within one year	One to five years	Beyond five years
Bank loans and borrowings(*)	(75,863)	(21,043)	(47,420)	(7,400)	(99,983)	(49,746)	(50,237)	-
Other financial payables(**)	(2,215)	(592)	(1,623)	-	(4,691)	(2,476)	(2,215)	-
Trade payables	(2,773)	(2,773)	-	-	(3,279)	(3,279)	-	-
Current tax liabilities and other payables	(10,821)	(10,821)	-	-	(9,962)	(9,962)	-	-
Total	**(91,672)**	**(35,229)**	**(49,043)**	**(7,400)**	**(117,915)**	**(65,463)**	**(52,452)**	**-**

(*) The corresponding balance reported in the financial statements is €71,363 thousand at 31 December 2010 and €96,716 thousand at 31 December 2009, which reflects long-term loans and borrowings inclusive of the short-term portion.
(**) The corresponding balance reported in the financial statements is €2,229 thousand at 31 December 2010 and €4,572 thousand at 31 December 2009, which reflects long-term payables (inclusive of the short-term portion) relating to finance leases and Ministry of Industry loans.

More details about the maturity of the company's financial assets and liabilities can be found in *notes 13. Other non-current receivables, 15. Trade receivables, 18. Current financial receivables and assets, 22. Bank loans and borrowings, 23. Other financial payables* and *26.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 group adopts a suitable hedging policy that eschews speculative ends.

This risk is limited to transactions with group companies involving the provision of holding company services.
Details of the policies, instruments and purpose of hedging at group level can be found in the notes to the consolidated financial statements.

Outstanding transactions at 31 December 2010

Outstanding currency derivatives that hedge foreign currency receivables and payables at 31 December 2010 are reported below; all these transactions were completed with the subsidiary De'Longhi Capital Services S.r.l.:

	Notional amount						Fair value with group *(in Euro)*	
Currency	Group			Third parties			Asset	Liability
	Purchases	Sales	Total	Purchases		Purchases	Sales	Total
USD/EUR	-	1,343,200	1,343,200	-	-	-	7.128	(280)
GBP/EUR	-	618,400	618,400	-	-	-	1.017	-
CAD/EUR	-	83,600	83,600	-	-	-	-	(239)
NZD/EUR	-	187,500	187,500	-	-	-	-	(3.007)
HKD/EUR	-	1,215,000	1,215,000	-	-	-	2.073	-
AUD/EUR	(70,700)	572,400	501,700	-	-	-	205	(2.482)
Total fair value							**10,423**	**(6,008)**

Sensitivity analysis:

A +/- 5% change in year-end exchange rates of the principal exposed currencies (USD, GBP and JPY) would produce an immaterial change in fair value of foreign currency receivables and payables at year end.

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.
All of the company's financial debt at 31 December 2010 was at floating rates following the decision to obtain the maximum benefit from the continued low level of interest rates; there are currently no interest rate hedges.
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.

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.

The company's debt is currently all at a floating rate and so, in the absence of hedges, any change in market rates has a direct impact on its total cost, in terms of higher/lower interest payments.

As a result, a +/-1% change in interest rates would respectively increase/decrease financial expenses by €0.6 million at 31 December 2010 (+/- €0.7 million before tax at 31 December 2009).

31. IFRS 7 classification of financial assets and liabilities

For the purposes of classifying financial assets and liabilities in the categories identified in IAS 39 as required by IFRS 7, all the company's financial assets at 31 December 2010 fall into the "Loans and receivables" category, except for the positive fair value of derivatives of €10 thousand, reported in *note 18. Current financial receivables and assets.*

All the company's financial liabilities at 31 December 2010 fall into the "Loans" category, except for the negative fair value of derivatives, of €6 thousand, reported in *note 23. Other financial payables.*

The following table presents the hierarchical levels in which the fair value measurements of financial instruments have been classified at 31 December 2010. 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	-	10	-
- derivatives with negative fair value	-	(6)	-

There were no transfers between the levels during the year.

32. Tax position

As part of the periodic programme of inspections by the competent tax authorities, the company has undergone a general tax audit for tax year 2005 by the tax police's Treviso division.

The preliminary notice of findings was issued on 16 September 2008, in respect of which the Veneto regional tax office (large taxpayer unit) issued a notice of assessment dated 29 December 2010, for which the company presented a tax assessment proposal on 21 January 2011.

In addition, as the head of the tax group, the company received a notice of assessment on 29 December 2010 from the Veneto regional tax office in relation to tax year 2005, in connection with assessments notified to companies in the tax group, for which it presented a tax assessment proposal on 21 January 2011.

When preparing its financial statements, the company has evaluated, with the assistance of its tax advisors, the possible outcome of the above proceedings which, being at an initial stage, was still uncertain at the end of the reporting period.

33. 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.

34. Emoluments of directors and statutory auditors

Appendix 5 contains the information required by CONSOB Regulation 11971 dated 14 May 1999.

35. Subsequent events

There have been no significant events since the end of the reporting period.

Treviso, 3 March 2011
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
5. Emoluments of directors and statutory auditors.

Certification of the financial statements

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

The undersigned Fabio De'Longhi, Chief Executive Officer, and Stefano Biella, Financial Reporting Officer of De'Longhi S.p.A., attest, also taking account of the provisions of paragraphs 2, 3 and 4, art. 154-bis of Decree 58 dated 24 February 1998:
that the accounting and administrative processes for preparing the financial statements during 2010:
- have been adequate in relation to the company's characteristics and
- have been effectively applied.

It is also certified that:

• the financial statements at 31 December 2010:

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

• the report on operations contains a reliable account of performance and of the results of operations and of the situation of the issuer, together with a description of the principal risks and uncertainties to which it is exposed.

Fabio De'Longhi
Vice Chairman and Chief Executive Officer

Stefano Biella
Financial Reporting Officer

Statement of cash flows in terms of net financial position

(€/000)	*Notes*	2010	2009
Profit (loss) after taxes		24.588	13.748
Income taxes for the period	*9*	(2.725)	1.158
Income from dividend receipts	*8*	(32.264)	(27.332)
Amortization, depreciation and impairment	*7*	56	52
Net change in provisions		4.206	(532)
Cash flow generated (absorbed) by current operations (A)		**(6.139)**	**(12.906)**
Change in assets and liabilities for the period:			
Trade receivables		(420)	1.431
Trade payables		(505)	(2.091)
Other current assets and liabilities		2.118	(2.739)
Payment of income taxes		(1.303)	(641)
Cash flow generated (absorbed) by movements in working capital (B)		**(110)**	**(4.040)**
Cash flow generated (absorbed) by current operations and movements in working capital (A+B)		**(6.249)**	**(16.946)**
Investment activities:			
Investments in intangible assets		10	-
Investments in property, plant and equipment	*11*	24	(90)
Proceeds from sale of property, plant and equipment and other cash flows		(64)	20
Dividend receipts	*8*	32.264	27.332
Cash flow generated (absorbed) by ordinary investment activities (C)		**32.234**	**27.262**
Dividends paid		(11.960)	(8.970)
Cash flow generated (absorbed) by changes in net equity (D)		**(11.960)**	**(8.970)**
Cash flow for the period (A+B+C+D)		**14.025**	**1.346**
Opening net financial position	***23***	**(67.271)**	**(68.617)**
Cash flow for the period (A+B+C+D)		14.025	1.346
Closing net financial position	***23***	**(53.246)**	**(67.271)**

List of equity investments in subsidiary companies (art. 2427 of the Italian Civil Code)

Company name	Registered office		Share capital		Net equity		Latest reported profit or (loss)	Interest held (directly)	Book value
Subsidiary companies									*in €/000*
De'Longhi Appliances S.r.l.	Treviso	Eur	200,000,000	Eur	262,712,276	Eur	1.439.555	100%	242,678
De'Longhi Household S.A.	Luxembourg	Eur	181,730,990	Eur	255,182,030	Eur	5.409.769	100%	241,737
De'Longhi Professional S.A.	Luxembourg	Eur	30,205,000	Eur	118,263,808	Eur	7.088.109	100%	111,205
De'Longhi Capital Services S.r.l.(1)	Treviso	Eur	53,000,000	Eur	67,482,280	Eur	2.794.351	11.32%	6,005
Clim.Re S.A.(2)	Luxembourg	Eur	1,239,468	Eur	1,467,417	Eur	82.392	4%	54
E-Services S.r.l.	Treviso	Eur	50,000	Eur	3,145,606	Eur	862.491	51%	26
De'Longhi Polska Sp.Zo.o.	Warsaw	Pln	50,000	Pln	1,810,016	Pin	1.310.016	0.1%	-
Total									**601,705**

Figures from statutory financial statements at 31 December 2009.

(1) 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.
(2) The other 96% interest is held indirectly.

Changes in equity investments

Equity investments in subsidiary companies	Book value at 31 December 2009	Acquisitions, subscriptions and recapitalizations	Disposals	Net impairment losses and reversals	Book value at 31 December 2010
in subsidiary companies					
De'Longhi Appliances S.r.l.	242,678	-	-	-	242,678
De'Longhi Household S.A.	241,737	-	-	-	241,737
De'Longhi Professional S.A.	111,205		-	-	111,205
De'Longhi Capital Services S.r.l.	6,005	-	-	-	6,005
Clim.Re S.A.	54	-	-	-	54
E-Services S.r.l.	26	-	-	-	26
De'Longhi Clima Polka Sp.Zo.o.	-	-	-	-	-
Total	**601,705**	**-**	**-**	**-**	**601,705**

Transactions and balances with related parties

Income statement
(pursuant to CONSOB Resolution 15519 of 27 July 2006)

(€/000)	*Notes*	2010	of which with related parties	2009	of which with related parties
Other revenues	*1*	6.014	*5.282*	5.948	*4.355*
Total revenues		**6.014**		**5.948**	
Raw and ancillary materials, consumables and goods	*2*	(63)		(68)	
Materials consumed		**(63)**		**(68)**	
Payroll costs	*3*	(5.110)		(5.115)	
Services and other operating expenses	*4-6*	(10.465)	*(673)*	(10.197)	*(993)*
Provisions	*5*	319		(21)	
Amortization, depreciation and impairment	*7*	(56)		(52)	
EBIT		**(9.361)**		**(9.505)**	
Financial income (expenses)	*8*	31.224	*32.665*	24.411	*26.576*
PROFIT (LOSS) BEFORE TAXES		**21.863**		**14.906**	
Income taxes	*9*	2.725		(1.158)	
PROFIT (LOSS) AFTER TAXES		**24.588**		**13.748**	

Statement of financial position
(pursuant to CONSOB Resolution 15519 of 27 July 2006)

Assets

(€/000)	*Notes*	31.12.2010	of which with related parties	31.12.2009	of which with related parties
NON-CURRENT ASSETS					
INTANGIBLE ASSETS		26		32	
- Other intangible assets	*10*	26		32	
PROPERTY, PLANT AND EQUIPMENT		88		109	
- Other tangible assets	*11*	88		109	
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		603.479		603.224	
- Equity investments (in subsidiary companies)	*12*	601.705		601.705	
- Receivables	*13*	1.774	*1.774*	1.519	*1.519*
DEFERRED TAX ASSETS	*14*	2.253		6.937	
TOTAL NON-CURRENT ASSETS		**605.846**		**610.302**	
CURRENT ASSETS					
INVENTORIES		-		-	
TRADE RECEIVABLES	*15*	4.063	*3.518*	3.204	*3.176*
CURRENT TAX ASSETS	*16*	1.419		3.531	
OTHER RECEIVABLES	*17*	18.220	*17.012*	12.831	*12.141*
CURRENT FINANCIAL RECEIVABLES AND ASSETS	*18*	18.475	*18.475*	32.296	*32.296*
CASH AND CASH EQUIVALENTS	*19*	98		201	
TOTAL CURRENT ASSETS		**42.275**		**52.063**	
TOTAL ASSETS		**648.121**		**662.365**	

Statement of financial position

(pursuant to CONSOB Resolution 15519 of 27 July 2006)

Net equity and liabilities

(€/000)	*Notes*	31.12.2010	of which with related parties	31.12.2009	of which with related parties
NET EQUITY					
NET EQUITY		554.459		541.831	
- Share capital	*20*	448.500		448.500	
- Reserves	*21*	81.371		79.583	
- Profit (loss) for the year		24.588		13.748	
TOTAL NET EQUITY		**554.459**		**541.831**	
NON-CURRENT LIABILITIES					
FINANCIAL PAYABLES		53.532		50.630	
- Bank loans and borrowings (long-term portion)	*22*	51.947		48.488	
- Other financial payables (long-term portion)	*23*	1.585		2.142	
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		6.476		6.005	
- Employee benefits	*24*	4.204		4.265	
- Other provisions	*25*	2.272		1.740	
TOTAL NON-CURRENT LIABILITIES		**60.008**		**56.635**	
CURRENT LIABILITIES					
TRADE PAYABLES	*26*	2.773	*442*	3.279	*1.283*
FINANCIAL PAYABLES		20.060		50.658	
- Bank loans and borrowings (short-term portion)	*22*	19.416		48.228	
- Other financial payables (short-term portion)	*23*	644	*87*	2.430	*1.884*
CURRENT TAX LIABILITIES	*27*	5.885		2.345	
OTHER PAYABLES	*28*	4.936	*3.261*	7.617	*5.981*
TOTAL CURRENT LIABILITIES		**33.654**		**63.899**	
TOTAL NET EQUITY AND LIABILITIES		**648.121**		**662.365**	

Transactions and balances with related parties

Summary by company

(€/million)	Other revenues	Costs for services	Financial income and expenses	Non-current financial receivables	Current financial receivables	Other revenues	Current financial payables	Other payables(3)
Subsidiary companies(1)								
De'Longhi Appliances S.r.l.	2,3	(0,2)	5,0	-	-	10,2	-	(0,2)
Kenwood Limited	0,7	-	-	-	-	0,8	-	(0,1)
E-Services S.r.l.	0,5	(0,1)	0,2	-	-	0,9	-	-
DL Radiators S.p.A.	0,5	-	-	-	-	0,3	-	(3,2)
Climaveneta S.p.A.	0,5	-	-	-	-	4,0	-	-
DL Trading Limited	0,4	-	0,3	0,6	-	0,4	-	-
R.C. Group S.p.A.	0,1	-	-	-	-	1,1	-	-
Tricom Industrial Co. Ltd	0,1	-	-	-	-	0,1	-	-
Elle S.r.l.	0,1	-	-	-	-	-	-	-
De'Longhi America Inc.	-	(0,2)	-	0,1	-	-	-	(0,2)
De'Longhi Household S.A.	-	-	21,0	-	-	-	-	-
De'Longhi Professional S.A.	-	-	6,0	-	-	-	-	-
De'Longhi Australia PTY Limited	-	-	0,1	0,4	-	-	-	-
De'Longhi Japan Corporation	-	-	0,1	0,1	-	-	-	-
De'Longhi New Zeland Limited	-	-	0,1	0,1	-	-	-	-
De'Longhi Capital Services S.r.l.	-	-	(0,1)	-	18,5	2,6	(0,1)	-
Alabuga International S.A.		-	-	0,2	-	-	-	-
De'Longhi Canada Inc.	-	-	-	0,1	-	-	-	-
Kenwood Home Appl. PTY Limited	-	-	-	0,1	-	-	-	-
Promised Success Ltd	-	-	-	0,1	-	-	-	-
Total subsidiary companies (a)	**5,2**	**(0,5)**	**32,7**	**1,8**	**18,5**	**20,4**	**(0,1)**	**(3,7)**
Related companies								
Gamma S.r.l.	0,1	(0,1)	-	-	-	0,1	-	-
Total related companies (b)	**0,1**	**(0,1)**	**-**	**-**	**-**	**0,1**	**-**	**-**
Total subsidiary and related companies (a+b)	**5,3**	**(0,6)**	**32,7**	**1,8**	**18,5**	**20,5**	**(0,1)**	**(3,7)**

(1) These mostly refer to dealings of a commercial nature and the supply of administrative services by company employees.
(2) These consist of €3.5 million in "Trade receivables" and €17.0 million in "Other receivables".
(3) These consist of €0.4 million in "Trade payables" and €3.3 million in "Other payables".

Emoluments of directors and statutory auditors

(art. 78 of CONSOB Regulation approved in Resolution 11971 of 14 May 1999)

(€/000)

Name	Details of office held	Emoluments					
Name	Office held	Term in office	End of term	Emoluments of office	Benefits in kind	Bonuses and other incen-tives	Other emolu-ments
Giuseppe De'Longhi	Chairman	01.01.10/31.12.12	Approval annual report 2012	850			407 (1)
Fabio De'Longhi	Vice Chairman and Chief Executive Officer	01.01.10/31.12.12	Approval annual report 2012	400		1,264	556 (2)
Alberto Clò	Director	01.01.10/31.12.12	Approval annual report 2012	40			3 (3)
Renato Corrada	Director	01.01.10/31.12.12	Approval annual report 2012	40			4 (3)
Silvia De'Longhi	Director	01.01.10/31.12.12	Approval annual report 2012	40			22
Dario Melò	Director	01.01.10/31.12.12	Approval annual report 2012	40			
Carlo Garavaglia	Director	01.01.10/31.12.12	Approval annual report 2012	40			1 (3)
Giorgio Sandri	Director	01.01.10/31.12.12	Approval annual report 2012	40			
Silvio Sartori	Director	01.01.10/31.12.12	Approval annual report 2012	40			4 (3) 15 (1)
Giovanni Tamburi	Director	01.01.10/31.12.12	Approval annual report 2012	40			6 (3)
Gianluca Ponzellini	Chairman of the Board of Statutory Auditors	01.01.10/31.12.12	Approval annual report 2012	60			
Giuliano Saccardi	Standing member	01.01.10/31.12.12	Approval annual report 2012	40			
Massimo Lanfranchi	Standing member	01.01.10/31.12.12	Approval annual report 2012	40			
Key management personnel							2,233

(1) Emoluments relating to offices held in other subsidiaries.
(2) This also includes emoluments relating to offices held in other subsidiaries and to remuneration received as a senior manager of De'Longhi S.p.A.
(3) Attendance fees relating to membership of the Compensation Committee and/or Internal Auditing and Corporate Governance Committee.

External auditors' report on the financial statements

ERNST & YOUNG

Reconta Ernst & Young S.p.A.
Viale Appiani, 20/b
31100 Treviso

Tel. (+39) 0422 358811
Fax (+39) 0422 433026
www.ey.com

Independent auditors' report
pursuant to art. 14 and 16 of Legislative Decree n. 39 dated January 27, 2010
(Translation from the original Italian text)

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

1. We have audited the financial statements of De'Longhi S.p.A. as of and for the year ended December 31, 2010, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the related explanatory notes. The Directors of De'Longhi S.p.A. are responsible for the preparation of these financial statements in compliance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005. Our responsibility is to express an opinion on these financial statements based on our audit.

2. Our audit was performed in accordance with auditing standards recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

   For the opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to the report issued by another auditor dated March 26, 2010.

3. In our opinion, the financial statements of De'Longhi S.p.A. at December 31, 2010 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of De'Longhi S.p.A. for the year then ended.

4. The Directors of De'Longhi S.p.A. are responsible for the preparation, in accordance with the applicable laws and regulations, of the Report on Operations and the Report on Corporate Governance and the Ownership Structure published in the section Corporate/Investor Relations/Governance/Corporate Documentation of De'Longhi S.p.A.'s website. Our responsibility is to express an opinion on the consistency with the financial statements of the Report on Operations and the information included therein in compliance with art. 123-bis of Legislative Decree n. 58/1998, paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b) in the Report on Corporate Governance and the Ownership Structure, as required by law. For this purpose, we have performed the procedures required under Auditing Standard 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information reported therein in compliance with art. 123-bis of Legislative Decree n. 58/1998,

Reconta Ernst & Young S.p.A.
Sede Legale: 00198 Roma - Via Po, 32
Capitale Sociale € 1.402.500,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la CC.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.I. 00891231003
Iscritta all'Albo Revisori Contabili al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited

paragraph 1, letters c), d), f), l), m) and paragraph 2), letter b) included in the Report on Corporate Governance and the Ownership Structure, are consistent with the financial statements of De'Longhi S.p.A. as of December 31, 2010.

Treviso, March 21, 2011

Reconta Ernst & Young S.p.A.

Signed by: Stefano Marchesin, Partner

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

www.delonghi.it

De'Longhi S.p.A.
via L. Seitz, 47
31100 Treviso
tel. 0422.4131
fax 0422.413736
info@delonghi.it

project: design associati

20