Annual financial report at 31 December 2011

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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 2011 was the De'Longhi Group's last in its historic configuration, before demerger of the Professional division, which since 1 January 2012 has been placed under the control of DeLclima S.p.A., also listed on the Milan Stock Exchange.
Despite the still highly uncertain economic environment, the revenues for both the group's divisions grew in the year.
The various markets in which the group operates reported differing rates of growth: revenues in the domestic market, which still represents the group's largest market, were basically flat due to the difficult economic situation, while the other major markets were generally positive, with some exceptions (mainly Spain, the Middle East and Africa); there was strong revenue growth in emerging markets, where the group has invested in sales and marketing structures in recent years.
The driving force of the main Household product lines (coffee makers and food preparation products) and of the Professional division (primarily air conditioning machinery) also helped improve profitability despite constant pressure on costs.
In terms of cash flows, despite heavy investment in production in support of the group's growth, the group enjoyed net inflows during the year, resulting in a net positive financial position at year end.
Despite the difficult market environment, the group's particularly dynamic product mix and growing commercial penetration of emerging markets, combined with strong industry know-how, allow us to maintain a moderately positive outlook for the current year.
Two major events have taken place since the end of the financial year which will certainly be important for 2012: the first is the acquisition of a new factory in Romania, which is especially important given the strong growth in Eastern European markets and whose intent is to diversify production activities currently concentrated in Italy and China, by selecting countries closer to the major core markets.
The second major event is the acquisition of rights to all the Braun brand's small domestic appliances, as well as all the technological assets relating to these products; the acquisition will represent a potential accelerator in the process of strengthening the group's business.

Report on operations

Review of performance

Despite a more difficult economic environment, the group confirmed its upward trend in revenues and margins in the fourth quarter of 2011, thanks to excellent performance by its main businesses and geographical diversification, which allowed the difficulties in certain markets in Central and Southern Europe to be seamlessly absorbed.

The De'Longhi Group's fourth-quarter consolidated revenues amounted to €620.7 million (+11.5% on 2010), primarily as a result of growth by the Household division, which reported a 13.0% increase in sales on the fourth quarter of 2010. The final quarter's performance resulted in the achievement of €1,807.8 million in revenues for the full year, up €181.5 million on 2010 (+11.2%).
Both the group's divisions enjoyed double-digit growth; the Household division reported revenues of €1,429.4 million (+11.5%) and the Professional division €389.2 million (+10.4%).

Revenue growth was accompanied by an improvement in profit margins (EBITDA before non-recurring expenses was 21.5% up on 2010 at €243.7 million, with a margin of 13.5%) and in cash generation, allowing a positive net financial position of €69.6 million to be reported at 31 December 2011.

These results were achieved thanks to force of innovation, expansion of production capacity and the distribution network and to marketing, which allowed the group to gain additional market share in higher value-added business lines.

This background, combined with the desire for more incisive managerial focus, was behind the group's decision to demerge the Professional division's activities, with the aim of having more flexibility in implementing the strategies of the two divisions.
The demerger, effective from 1 January 2012, has seen the emergence of two distinct groups, each focused on its own business with clearly identified objectives visible to the market.
On the one hand, De'Longhi, with its small household appliances business, will have the opportunity to exhibit the unexpressed value of the Household division by focusing and simplifying its business and confirming itself as world leader in high-end coffee machines.
On the other, DeLclima will have the opportunity to strengthen its position among the top international players in high-energy-efficient products.

As for profit performance by the two divisions, the Household division (which includes the Corporate division) reported EBITDA before non-recurring expenses of €209.6 million with a margin of 14.7% for full year 2011 and 15.8% in the fourth quarter (in 2010 these margins were 13.2% and 14.8% respectively), benefiting not only from higher volumes but also from a positive effect of sales mix and exchange rates.
The division increased its sales of higher value-added product lines, thanks to product quality and strong diversification that has benefited from good performance in emerging markets and Western Europe.
There was continued growth in De'Longhi coffee machines and in Kenwood cooking and food preparation products; these sectors have good growth prospects, especially coffee machines where De'Longhi is world leader and intends to continue growing, being a high-potential market as demonstrated by the sales figures for Lattissima +, the latest machine for cappuccino successfully launched in 2011.

In terms of markets, both mature and emerging markets within the major geographical areas reported growth, with particular momentum in the APA region (Asia, Pacific, America); exceptions were Spain and the MEIA region (Middle East, India and Africa), partly as a result of the political crisis in some of these markets.

The Professional division achieved revenue growth of 10.4% in 2011, despite slowing to +5.8% in the fourth quarter due to weak performance in certain markets, especially Italy.
Air conditioning sales were positive, both for centralized systems (chillers, heat pumps and air treatment units) and for packaged systems (precision and rooftop conditioners); heating sales were broadly in line with 2010.

In terms of markets, growth primarily came from the Middle East, Eastern Europe, China and major Western European countries except for Great Britain (primarily because of lower heating sales), Greece and Spain.

The Professional division reported EBITDA before non-recurring expenses of €33.8 million (€31 million in 2010), with a margin of 8.7% (8.8% in 2010).

Group EBIT was €182.8 million (€147.6 million in 2010) after recognizing €19.4 million in non-recurring expenses and goodwill impairment, most of which relating to companies operating in the Professional division's wall-mounted radiators business (for restructuring costs and partial impairment of goodwill) and to the recognition of transaction costs in connection with the demerger.
In October, the new business plan for the Professional division (due to be demerged to DeLclima S.p.A.) was finalized with the assistance of a leading advisory firm; this was prepared in relation to the objectives of the proposed demerger by the De'Longhi Group and to the division's stock market flotation; in view of these objectives, and the growing macroeconomic uncertainties in recent months, it was felt reasonable to realign the carrying amount of goodwill for the company that operates in the water-filled radiators sector.

Adjusted EBIT (before the aforesaid non-recurring expenses and goodwill impairment) was €202.2 million (€159.2 million in 2010), with the margin going from 9.8% to 11.2%.

Net financial expenses came to €39.8 million in 2011 (€36.1 million 2010), primarily due to €10 million in net currency management losses (€7.5 million in 2010), also inclusive of €8.7 million in hedging costs in 2011 (€2.9 million in 2010), the increase in which was due to the larger number of currency hedging transactions carried out in 2011.
Profit pertaining to the group amounted to €90.2 million, an increase of €15.3 million on 2010 despite the above-mentioned negative impact of non-recurring expenses, goodwill impairment, currency management losses and extraordinary income taxes.

The net financial position reported a net positive balance of €69.6 million at 31 December 2011, an improvement of €74.3 million on the net debt of €4.7 million at 31 December 2010 thanks to the operating cash flows generated by higher earnings and to the positive fair value of derivatives.
Excluding the non-banking part of this exposure, in other words a net positive effect of €15.8 million for the recognition of derivatives, options and liabilities for the purchase of equity investments (net negative effect of €10.3 million at 31 December 2010), the financial position would have reported a net positive balance of €53.7 million at 31 December 2011 (positive €5.6 million at 31 December 2010).

Key performance indicators

Consolidated results (relating to pre-demerger De'Longhi Group)

(€/million)	2011	% revenues	2010	% revenues	Change	% change
Revenues	1,807.8	100.0%	1,626.3	100.0%	181.5	11.2%
Constant currency change*	181.1	11.1%				
Gross profit	808.2	44.7%	716.6	44.1%	91.6	12.8%
EBITDA before non-recurring income/expenses	243.7	13.5%	200.6	12.3%	43.1	21.5%
EBIT	182.8	10.1%	147.6	9.1%	35.2	23.8%
EBIT adjusted	202.2	11.2%	159.2	9.8%	43.0	27.0%
Profit (loss) pertaining to the Group	90.2	5.0%	74.9	4.6%	15.3	20.5%

* Constant currency revenues have been determined by translating 2011 revenues in currencies other than the euro at the average rates for 2010 and adjusting them for the effect of hedges.

Results by operating division

(€/million)	2011	Household + Corporate (Continuing Operations)	Professional (Discontinued Operations)	2010	Household + Corporate (Continuing Operations)	Professional (Discontinued Operations)
Revenues	1,807.8	1,429.4	389.2	1,626.3	1,281.8	352.6
Gross profit	808.2	687.2	125.7	716.6	609.0	111.8
% revenues	*44.7%*	*48.1%*	*32.3%*	*44.1%*	*47.5%*	*31.7%*
EBITDA before non-recurring income/ expenses	243.7	209.6	33.8	200.6	169.6	31.0
% revenues	*13.5%*	*14.7%*	*8.7%*	*12.3%*	*13.2%*	*8.8%*
EBIT	182.8	172.5	10.0	147.6	135.5	12.1
% revenues	*10.1%*	*12.1%*	*2.6%*	*9.1%*	*10.6%*	*3.4%*
EBIT adjusted	202.2	178.7	23.2	159.2	138.4	20.7
% revenues	*11.2%*	*12.5%*	*6.0%*	*9.8%*	*10.8%*	*5.9%*
Profit (loss) pertaining to the Group	90.2	93.9	(3.9)	74.9	80.1	0.8
% revenues	*5.0%*	*6.6%*	*(1.0%)*	*4.6%*	*6.2%*	*0.2%*

Statement of financial position

(€/million)	31.12.2011	Household + Corporate (Continuing Operations)	Professional (Discontinued Operations)	31.12.2010	Household + Corporate (Continuing Operations)	Professional (Discontinued Operations)
Net working capital	260.5	235.2	25.3	226.9	185.8	39.7
Net capital employed	793.7	469.2	324.5	765.3	430.3	333.5
Net financial position	69.6	117.4	(47.8)	(4.7)	208.5	(211.7)
Net financial position/Net equity	8.1%	20.0%	(17.3%)	(0.6%)	32.6%	(173.7%)
Net working capital/Revenues	14.4%	16.5%	6.5%	14.0%	14.5%	11.3%

On 1 January 2012, the partial, proportionate demerger from De'Longhi S.p.A. was completed in favour of De'Longhi Clima S.p.A., a wholly-owned subsidiary which changed its name to DeLclima S.p.A. from that date (a more detailed description of the demerger can be found in the next section of this report).
The present consolidated financial report at 31 December 2011 refers to the pre-demerger De'Longhi Group because the demerger has taken effect from 1 January 2012. The comments in the report on operations for 2011 refer to the pre-demerger De'Longhi Group with reference to its two operating divisions: the activities that will remain within the post-demerger De'Longhi Group have been identified as Continuing Operations (corresponding to the traditional Household and Corporate divisions), while the activities transferred to the new DeLclima Group, corresponding to the Professional division, have been identified as Discontinued Operations, in keeping with the definition used by IFRS 5 – Non-current assets held for sale and discontinued operations and with the amounts reported in the financial statements.

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

- 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 besides 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 adding back depreciation, amortization and impairment of property, plant and equipment and intangible assets. EBITDA is also presented net of non-recurring items, which are reported separately on the face of the income statement.
- Adjusted EBIT: this corresponds to EBIT, as adjusted to exclude non-recurring items and goodwill impairment.
- 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 liabilities less cash and cash equivalents and other financial receivables. The individual line items in the statement of financial position used to determine this measure are analysed later in this report.

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

Professional division demerger

On 1 January 2012, the partial, proportionate demerger from De'Longhi S.p.A. was completed in favour of De'Longhi Clima S.p.A., a wholly-owned subsidiary which changed its name to DeLclima S.p.A. from that date.

The main purpose of the demerger was to separate the activities relating to the two distinct areas of business in which the De'Longhi Group currently operates, and particularly to separate production and marketing activities for machines for industrial air-conditioning systems, ICT industrial process chillers and radiators (relating to the Professional division), from the production and marketing activities for small domestic appliances and portable air-conditioning and heating products (relating to the Household division).
The transaction's main aim was to permit independent development of the two distinct businesses managed by each of the two divisions, neither of which has any operating synergies with the other. In fact, the demerger's principal rationale was the fact that the Professional division's activities are substantially different from the Household division in terms of customers and markets and also address different potential investor profiles.
The separation of the two businesses has been achieved through a partial, proportionate demerger from De'Longhi S.p.A. in favour of De'Longhi Clima S.p.A. (which assumed the name of DeLclima S.p.A. from the demerger's effective date) and has led to the establishment, from 1 January 2012, of two distinct groups, each focused on their own business with clearly identified objectives visible to the market.

The Professional division has operated since 2007 as a separate operating division within the group, with a dedicated management team and with various services (administrative, legal, corporate affairs, payroll/human resources, information technology, financial) provided centrally by the De'Longhi Corporate division.
In anticipation of most of these services being discontinued, the DeLclima Group has created its own internal structure to manage them independently.

The demerger deed took effect on 1 January 2012 and trading in the shares of DeLclima S.p.A. commenced on 2 January 2012 on the Italian Stock Exchange run by Borsa Italiana S.p.A

As shown in the tables presented in this report (figures as at 31 December 2011), the demerger has involved transferring €324.5 million in net capital employed to the new group, comprising €331.3 million in non-current assets (of which €98.6 million in property, plant and equipment), €25.3 million in working capital and €32 million in long-term liabilities. Net financial liabilities of €47.8 million were also transferred at the same time: the net assets transferred therefore amounted to €276.7 million. In terms of the income statement, the demerged division's revenues totalled €389.2 million in 2011, with an adjusted EBIT of €23.2 million.
Since the demerger became highly probable in December (upon receipt of the decision by the Italian Stock Exchange and the equivalent Consob opinion), within the meaning of IFRS 5 – Non-current assets held for sale and discontinued operations, all the activities transferred to the new DeLclima Group qualify as "Discontinued Operations" for the De'Longhi Group and so have been classified as such in the financial statements and accompanying explanatory notes.

In accordance with the IFRS 5 guidance, such presentation in the financial statements has involved:

- Classification of the 2011 revenues and expenses relating to the Discontinued Operations under the heading "Profit (loss) after taxes from discontinued operations" in the income statement. For comparative purposes, an income statement for 2010 has been prepared on a consistent basis with the presentation adopted for 2011.
- Reclassification at December 2011 of the current and non-current assets relating to the Discontinued Operations to "Assets relating to discontinued operations" in the statement of financial position.
- Reclassification at December 2011 of the liabilities (excluding net equity) relating to the Discontinued Operations to "Liabilities relating to discontinued operations" in the statement of financial position.
- The figures presented in the statement of financial position at 31 December 2010 have not been reclassified in accordance with IFRS 5; for comparative purposes, the explanatory notes contain a set of financial statements in which the figures for the two years have been classified on a uniform basis.
- All cash flows relating to Continuing Operations for 2011 and 2010 for comparative purposes, have been presented in separate lines of the statement of cash flows in relation to current operations, movements in working capital, investment activities, financing activities and changes in net equity.
  The detailed analysis of items relating to discontinued operations, as presented in the income statement, in the statement of financial position and in the statement of cash flows is provided in the Explanatory Notes to the financial statements.

In other words, the consolidated financial statements of the De'Longhi Group at 31 December 2011 have involved the line-by-line consolidation of not only the subsidiaries that will remain in the post-demerger De'Longhi Group (the "Continuing Operations"), but also subsidiaries transferred to the DeLclima Group upon the demerger (the "Discontinued Operations"), although disclosed separately within the financial statements.

The reclassified financial statements presented in this report refer to the pre-demerger De'Longhi Group, unless otherwise specified, and show amounts relating to the Continuing Operations, which include the traditional Household and Corporate divisions, and those relating to Discontinued Operations, which coincide with the Professional division's business, previously identified as an operating segment and so the subject of separate disclosure and analysis.

Significant events

Changes in scope of consolidation and rationalization of the group's structure

During 2011 the group continued its strategy of building up Household division structures (for sales, logistics and administration) in high-growth emerging countries (in the Far East, Australia and the Americas, the Middle East, India and Africa) with the expansion/opening of new back offices to get closer to these important markets and be able to capture every available growth opportunity. The Household division has historically operated with a centralized business model that used a different approach for the various brands; to deal with ever greater competition in emerging markets the group has changed its strategy by shifting from a global but centralized organization to a single "GLocal" approach for all the brands and transferring its operations closer to markets while retaining control by the Italian and UK offices over the principal activities (product development, R&D and marketing).

Work has also continued on strengthening the international commercial network by starting direct distribution in Ukraine with the opening of a commercial subsidiary; in order to achieve its commercial expansion policies, the group has carried on analysis and research into certain markets where it currently has no direct presence.
The activities in New Zealand have also been reorganized by centralizing back office functions in Australia and transforming the subsidiary into an agency with consequent savings in resources and costs.

In the Professional division, Climaveneta, the company which produces and sells air-conditioning and cooling systems, has expanded its sales network by acquiring a company in the United Kingdom that distributes chillers in the UK market and by starting up business in India in partnership with a local partner that will produce and sell thermo-cooling systems in this important market. The necessary production permits were obtained for the ICT industrial process chillers production facilities in China, thus completing the start-up process forming part of the company's development plans for the Chinese market, and agreements were completed for the distribution of these products in the Chinese market.

As regards DL Radiators, continued steps have been taken to address the difficult market in which the company operates, involving further targeting of costs, including through voluntary redundancies, and process improvements to regain profitability by reorganizing manufacturing (also by delocalizing production of certain types of radiators to China, using, amongst others, the group's manufacturing know-how). A business plan was prepared in 2011 that envisages a gradual recovery in profitability in future years through additional actions particularly focused on profitable segments/customers and on market development.

De'Longhi brand fundamentals

The year 2011 was an important one for activities involving the De'Longhi brand: the "De'Longhi brand fundamentals" were presented in August, which define and set out the company's vision and brand values, its attributes and personality. This work has culminated in the introduction of the new logo which is no longer Living Innovation, but Better Everyday.
Better Everyday is the promise we make our consumers whose daily routine can be improved thanks to our products; it is also the commitment that we all make to continually improve in our every activity.

Group results

The reclassified consolidated income statement of the pre-demerger De'Longhi Group is summarized as follows:

(€/million)	2011	% revenues	2010	% revenues
Revenues	**1,807.8**	**100.0%**	**1,626.3**	**100.0%**
Change 2011/2010	*181.5*	*11.2%*		
Materials consumed & other production costs (production services and payroll costs)	(999.6)	(55.3%)	(909.6)	(55.9%)
Gross profit	**808.2**	**44.7%**	**716.6**	**44.1%**
Other services & expenses	(395.1)	(21.9%)	(355.7)	(21.9%)
Value added	**413.2**	**22.9%**	**360.9**	**22.2%**
Payroll (non-production)	(142.6)	(7.9%)	(130.0)	(8.0%)
Provisions	(26.9)	(1.5%)	(30.3)	(1.9%)
EBITDA before non-recurring income/expenses	**243.7**	**13.5%**	**200.6**	**12.3%**
Change 2011/2010	*43.1*	*21.5%*		
Other non-recurring income (expenses)	(7.9)	(0.4%)	(6.0)	(0.4%)
EBITDA	**235.8**	**13.0%**	**194.6**	**12.0%**
Amortization and depreciation	(41.5)	(2.3%)	(41.4)	(2.5%)
Non-recurring impairment losses	(11.5)	(0.6%)	(5.6)	(0.3%)
EBIT	**182.8**	**10.1%**	**147.6**	**9.1%**
Change 2011/2010	*35.2*	*23.8%*		
Financial income (expenses)	(39.8)	(2.2%)	(36.1)	(2.2%)
Profit (loss) before taxes	**143.0**	**7.9%**	**111.6**	**6.9%**
Income taxes	(52.5)	(2.9%)	(36.5)	(2.2%)
Profit (loss) after taxes	**90.5**	**5.0%**	**75.1**	**4.6%**
Profit (loss) pertaining to minority interests	0.3	0.0%	0.2	0.0%
Profit (loss) pertaining to the Group	**90.2**	**5.0%**	**74.9**	**4.6%**

The group closed 2011 by confirming the upward trend in earnings already seen in the previous quarters of the year; gross profit increased by €91.6 million from €716.6 million in 2010 to €808.2 million in 2011 (and from 44.1% to 44.7% in terms of margin), having benefited not only from higher volumes but also from a better product mix and generally positive exchange rate effects.

EBITDA before non-recurring expenses was €243.7 million, with the margin climbing from 12.3% in 2010 to 13.5% in 2011.

EBITDA came to €235.8 million (€194.6 million in 2010) after €7.9 million in non-recurring expenses mostly in connection with the demerger and corporate reorganization.

EBIT before non-recurring expenses and goodwill impairment came to €202.2 million in 2011 (€159.2 million in 2010), with the margin going from 9.8% to 11.2%.

Net financial expenses came to €39.8 million in 2011 (€36.1 million 2010), primarily due to €10 million in net currency management losses (€7.5 million in 2010), also inclusive of €8.7 million in hedging costs in 2011 (€2.9 million in 2010), the increase in which was due to the larger number of currency hedging transactions carried out in 2011.
Profit pertaining to the group amounted to €90.2 million, an increase of €15.3 million on 2010 despite the above-mentioned negative impact of extraordinary charges, currency management losses and extraordinary income taxes.

The income statement by operating division is presented below:

(€/million)	Household + Corporate (Continuing Operations)	Professional (Discontinued Operations)	Consolidated total (De'Longhi Group pre Demerger)	Household + Corporate (Continuing Operations)	Professional (Discontinued Operations)	Consolidated total (De'Longhi Group pre Demerger)
Revenues	1,429.4	389.2	1,807.8	1,281.8	352.6	1,626.3
Change 2011/2010	*147.6*	*36.6*	*181.5*			
% change	*11.5%*	*10.4%*	*11.2%*			
Constant currency change 2011/2010	*11.5%*	*10.4%*	*11.1%*			
EBITDA before non-recurring income/expenses	209.6	33.8	243.7	169.6	31.0	200.6
Change 2011/2010	*40.1*	*2.8*	*43.1*			
% margin on revenues	*14.7%*	*8.7%*	*13.5%*	*13.2%*	*8.8%*	*12.3%*
EBITDA	203.4	32.1	235.8	166.6	27.9	194.6
Change 2011/2010	*36.8*	*4.2*	*41.2*			
% margin on revenues	*14.2%*	*8.3%*	*13.0%*	*13.0%*	*7.9%*	*12.0%*
EBIT adjusted	178.7	23.2	202.2	138.4	20.7	159.2
Change 2011/2010	*40.3*	*2.4*	*43.0*			
% margin on revenues	*12.5%*	*6.0%*	*11.2%*	*10.8%*	*5.9%*	*9.8%*

The figures by segment are reconciled to the consolidated figures by eliminating certain intersegment transactions affecting individual components of the income statement.

Results by operating segment

The group's results by operating segment are summarized as follows:

Household + Corporate

The operating segment's economic performance is summarized as follows:

	2011			2010		
(€/million)	Household	Corporate	Household + Corporate	Household	Corporate	Household + Corporate
Revenues	**1,425.0**	**13.7**	**1,429.4**	**1,277.4**	**12.5**	**1,281.8**
Change 2011/2010	*147.6*	*1.2*	*147.6*			
% change	*11.6%*	*9.5%*	*11.5%*			
EBITDA before non-recurring income/ expenses	**217.9**	**(8.2)**	**209.6**	**177.7**	**(8.0)**	**169.6**
Change 2011/2010	*40.2*	*(0.2)*	*40.1*			
% margin on revenues	*15.3%*		*14.7%*	*13.9%*		*13.2%*
EBITDA	**215.2**	**(11.8)**	**203.4**	**174.7**	**(8.0)**	**166.6**
Change 2011/2010	*40.5*	*(3.7)*	*36.8*			
% margin on revenues	*15.1%*		*14.2%*	*13.7%*		*13.0%*
EBIT	**184.9**	**(12.4)**	**172.5**	**144.2**	**(8.7)**	**135.5**
Change 2011/2010	*40.7*	*(3.7)*	*37.0*			
% margin on revenues	*13.0%*		*12.1%*	*11.3%*		*10.6%*

The Household division reported €1,425.0 million in revenues (up €147.6 million, +11.6%, on 2010) thanks to good sales performance by both the De'Longhi and Kenwood brands.

Sales were up for cooking and food preparation products (primarily De'Longhi coffee machines and Kenwood food processors) and for air-conditioning products, while home cleaning, ironing appliances and heating sales were all down.

Espresso coffee machines saw double-digit growth both in volume and value in 2011. All the major product lines reported strong growth in value, from fully automatic machines to Nespresso capsule machines. The bulk of fully automatic sales continued to be made in German-speaking countries, but other countries, including Russia and the United Kingdom, also reported above-average growth. The range of compact fully automatic machines was completed in 2011 with the launch of the "Prima Donna S" model which, together with the other compact models, drove the growth of the fully automatic range.
Capsule coffee machines enjoyed excellent growth, driven by the launch of the "Lattissima +" and "Pixie" ranges with Nespresso and the by first full year of partnership with "Dolce Gusto" in certain European countries.
The GFK figures for 2011 reflected a generally good growth in the market share of the De'Longhi brand, which retained its European leadership in espresso coffee machines.

As for other cooking and food preparation products, kettles and toasters performed well mainly thanks to the continued success of the "Icona" line and the new "Brillante" line, while ovens and deep fryers reported unsatisfactory results.

"Cleaning and ironing appliances" saw a continuation of the growth reported in 2010 for continuous refilling ironing systems, supported by a slow but noticeable shift in almost all European markets from traditional pressurized boiler technology to new continuous refilling technology.

As for the "Comfort" range of products, portable air-conditioners reported a drop in volumes in Western Europe after an erratic season affected by uncertain weather; however, overall sales improved thanks to the APA region and growth in the United States (thanks to a major order) and Brazil.
Even portable heating was affected by the weather, with the late arrival of winter resulting in a slow start to the season's sales. Nevertheless, the results were positive especially on the profit front, where the quality of sales prevailed, with a concentration in higher margin markets.

Kenwood products continued to focus on the food preparation product range, mainly involving food processors and hand blenders.
After many years of continued growth and investment, Kenwood food processors have confirmed their leadership in a more competitive market following the introduction of low-cost alternatives by the main competitors.
During 2011 Kenwood continued to invest in promotions and advertising by launching the "Cooking chef" in many new markets.
As for its hand blenders, Kenwood has continued to support the "Triblade" product launched in 2010 with promotional activities in the major markets, gaining market share and becoming leader in the Premium range.

EBITDA before non-recurring expenses was €209.6 million (€169.6 million in 2010), with a major improvement in margin to 14.7% in 2011 from 13.2% in 2010, thanks to higher volumes and better product mix (due to increased sales of higher margin coffee makers and kitchen appliances) and to net positive exchange rate effects, which offset increases in procurement/production costs and in advertising and promotional costs.

"Other services & expenses" improved as a percentage of revenues (from 24.1% to 23.9%) despite higher advertising and promotional expenditure in support of the group's main brands (€138.6 million in 2011 versus €113.4 million in 2010).

Non-production payroll costs were 8.2% higher than in 2010, reflecting not only a growth in staff (particularly in relation to the expansion of certain commercial offices) but also the effects of salary increases and incentive schemes.

Professional

The division's revenues were 10.4% higher than in 2010 (€389.2 million in 2011 versus €352.6 million in 2010) despite the worsening economic situation immediately impacting the construction sector in the last quarter of the year; the revenue increase was driven by growth in sales of machinery for air-conditioning systems (both centralized and packaged systems); there was also an increase in revenues from services thanks to the growth of this business in Germany, the acquisition of Climaveneta UK and the new venture started in India.
Heating sales were broadly in line with 2010; good sales growth by aluminium radiators in France was offset by lower sales of panels and bathroom radiators, especially in the UK market.

As far as profits are concerned, gross profit increased by €13.9 million on 2010 (+12.4%). EBITDA before non-recurring expenses came to €33.8 million (€31.0 million in 2010), with margins basically stable (8.7% in 2011 and 8.8% in 2010).
With reference to air conditioners, the effect of higher volumes offset the growth in operating costs over the year as well as the cost of incentives and prudent provisions against customer receivables.

Markets

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

De'Longhi Group (€/million)	**2011**	**2010**	**Change**	**% change**
Mature markets				
Italy	269.1	268.8	0.3	0.1%
United Kingdom	154.0	141.1	12.9	9.1%
North America	94.8	89.2	5.7	6.4%
Japan	57.4	47.3	10.0	21.1%
Western Europe	689.0	616.3	72.7	11.8%
Total	**1,264.3**	**1,162.8**	**101.5**	**8.7%**
Emerging markets				
Eastern Europe	174.5	146.3	28.1	19.2%
MEIA (Middle East/India/Africa – excluding South Africa)	97.0	116.4	(19.4)	(16.6%)
Other countries area APA (Asia/Pacific/America and South Africa)	272.0	200.7	71.3	35.5%
Total	**543.5**	**463.4**	**80.1**	**17.3%**
Total De'Longhi Group revenues	**1,807.8**	**1,626.3**	**181.5**	**11.2%**

Details for the Household division are reported below (inclusive of Corporate segment revenues):

Household + Corporate (€/million)	2011	2010	Change	% change
Mature markets				
Italy	189.5	184.8	4.6	2.5%
United Kingdom	121.2	107.3	13.9	13.0%
North America	94.6	88.4	6.2	7.0%
Japan	57.4	47.4	10.0	21.2%
Western Europe	513.1	457.1	56.0	12.3%
Total	**975.7**	**885.0**	**90.7**	**10.3%**
Emerging markets				
Eastern Europe	145.8	125.0	20.9	16.7%
MEIA (Middle East/India/Africa – excluding South Africa)	79.5	103.2	(23.7)	(23.0%)
Other countries area APA (Asia/Pacific/America and South Africa)	228.3	168.6	59.7	35.4%
Total	**453.7**	**396.8**	**56.9**	**14.3%**
Totale Household + Corporate revenues	**1,429.4**	**1,281.8**	**147.6**	**11.5%**

All the Household division's major markets reported growth, except for Spain and MEIA region countries.
The so-called mature markets posted €975.7 million in sales (an increase of €90.7 million on 2010), thanks to good performance in Germany, the United Kingdom and other Western European countries. Even Italy had good results despite the weak market.
North American sales performed better than in 2010 thanks to the sale of air-conditioning units to an important customer. Japan made a good recovery thanks to radiator and coffee machine sales.

Sales surged ahead in emerging markets (+€56.9 million or +14.3%), accounting for 31.7% of the division's total revenues, up from 31.0% in the prior year.
The APA region enjoyed particular growth; sales performance in Australia was excellent thanks to strong growth in coffee machines and food processors.
As for the MEIA region, sales were down partly due to the political crisis in certain markets.
Eastern Europe enjoyed good sales growth in 2011, with an improvement in market share for cooking and food preparation products, especially coffee machines.

Details for the Professional division are reported below:

Professional (€/million)	2011	2010	Change	% change
Mature markets				
Italy	89.3	91.5	(2.2)	(2.4%)
United Kingdom	33.6	34.1	(0.5)	(1.5%)
North America	0.3	0.7	(0.5)	(64.3%)
Western Europe	175.8	159.2	16.6	10.4%
Total	**299.0**	**285.5**	**13.4**	**4.7%**
Emerging markets				
Eastern Europe	28.6	21.4	7.3	34.0%
MEIA (Middle East/India/Africa – excluding South Africa)	17.5	13.2	4.3	32.9%
Other countries area APA (Asia/Pacific/America and South Africa)	44.1	32.5	11.6	35.6%
Total	**90.3**	**67.1**	**23.2**	**34.6%**
Totale Professional revenues	**389.2**	**352.6**	**36.6**	**10.4%**

The Professional division's growth was achieved mainly in emerging markets, particularly in the APA and MEIA regions, thanks to China with the contribution of sales by the new dealers business, to the new venture in India and to the strong performance of some of the region’s markets. Markets in Western Europe also grew (particularly Germany, thanks to the development of services).
The UK market reported increased demand for air conditioners but lower demand for radiators, especially bathroom radiators following the loss of a high margin tender.
The French market was also positive thanks to higher sales of radiators after the main customer was joined by another major player.

Review of the statement of financial position

The reclassified consolidated statement of financial position, inclusive of the assets and liabilities of the Professional division, is presented below:

(€/million)	31.12.2011	31.12.2010	Change
- Intangibile assets	405.7	408.6	(2.9)
- Tangibile assets	207.6	186.4	21.2
- Financial assets	3.7	2.1	1.6
- Deferred tax assets	35.0	33.5	1.5
Non-current assets	**652.0**	**630.6**	**21.4**
- Inventories	327.1	288.0	39.1
- Trade receivables	434.9	387.9	47.0
- Trade payables	(420.8)	(374.2)	(46.6)
- Other current assets (liabilities)	(80.8)	(74.9)	(5.9)
Net working capital	**260.5**	**226.9**	**33.6**
Total non-current liabilities and provisions	**(118.8)**	**(92.2)**	**(26.6)**
Net capital employed	**793.7**	**765.3**	**28.4**
Net debt/(Net financial position)*	**(69.6)**	**4.7**	**(74.3)**
Total net equity	**863.3**	**760.6**	**102.7**
Total net debt and equity	**793.7**	**765.3**	**28.4**

(*) The net financial position includes €15.8 million in net financial assets (€10.3 million in net financial liabilities at 31 December 2010) relating to the fair value of derivatives, to the recognition of options and payables for the purchase of equity investments.

Investments in property, plant and equipment amounted to €47.3 million (€33.2 million in 2010), and included expenditure on the group's investment programme in the renewable energy sector, with the goal of generating power also for consumption by its own plants, as well as investments in certain Chinese factories; in fact, construction work continued during 2011 on two new factories, one for the Household division which will be ready in the first half of 2012, providing the group with a more modern structure better able to satisfy ever growing product demand, while achieving better integration of manufacturing activities, and the other for the Professional division to have close control over production of air conditioners for the Chinese market.

Net working capital increased by €33.6 million on 31 December 2010 mainly due to the growth in business, while net working capital turnover went from 14% of revenues in 2010 to 14.4% in 2011; the increase in net working capital was adversely affected by higher inventories, especially in the United States and because of coffee machines stocks accumulated in anticipation of large orders in January 2012, and by the growth in receivables as a result of higher fourth-quarter sales.

Cash flows from current operations helped achieve a positive net financial position of €69.6 million at 31 December 2011, an improvement of €74.3 million on 31 December 2010.

The statement of financial position of the two divisions is presented below: Household + Corporate (corresponding to the sub-consolidation of the two traditional Household and Corporate segments, i.e. the Continuing Operations) and Professional, corresponding to the Discontinued Operations:

	Household + Corporate (Continuing Operations)			Professional (Discontinued Operations)		
(€/million)	2011	2010	Change	2011	2010	Change
- Intangibile assets	175.8	179.6	(3.8)	229.9	229.0	0.9
- Tangibile assets	109.1	91.8	17.2	98.6	94.6	4.0
- Financial assets	3.0	1.9	1.1	0.7	0.2	0.5
- Deferred tax assets	32.8	32.1	0.7	2.1	1.3	0.8
Non-current assets	**320.7**	**305.4**	**15.3**	**331.3**	**325.2**	**6.1**
- Inventories	278.0	238.7	39.3	49.2	49.3	(0.2)
- Trade receivables	349.5	288.5	60.9	91.6	103.9	(12.3)
- Trade payables	(330.8)	(283.3)	(47.5)	(96.6)	(98.1)	1.4
- Other current assets (liabilities)	(61.5)	(58.2)	(3.3)	(18.8)	(15.4)	(3.4)
Net working capital	**235.2**	**185.8**	**49.5**	**25.3**	**39.7**	**(14.5)**
Total non-current liabilities and provisions	**(86.7)**	**(60.8)**	**(25.9)**	**(32.0)**	**(31.4)**	**(0.7)**
Net capital employed	**469.2**	**430.3**	**38.8**	**324.5**	**333.5**	**(9.0)**
Net debt/(Net financial position)	**(117.4)**	**(208.5)**	**91.1**	**47.8**	**211.7**	**(163.8)**
Total net equity	**586.6**	**638.9**	**(52.3)**	**276.7**	**121.9**	**154.8**
Total net debt and equity	**469.2**	**430.3**	**38.8**	**324.5**	**333.5**	**(9.0)**

Total segment figures are reconciled to the consolidated figures by eliminating certain intersegment transactions which affect individual components of net working capital.

Details of the net financial position are as follows:

	31.12.2011			31.12.2010		
(€/million)	Household + Corporate (Continuing Operations)	Professional (Discontinued Operations)	Consolidated total	Household + Corporate (Continuing Operations)	Professional (Discontinued Operations)	Consolidated total
Cash and cash equivalents	195.7	18.5	214.3	248.8	13.3	193.5
Other financial receivables	33.7	2.3	33.9	99.1	11.9	12.2
Current portion of non-current debt	(20.2)	(11.7)	(32.0)	(20.6)	(20.0)	(40.6)
Current financial debt	(40.7)	(25.9)	(64.0)	(59.3)	(168.6)	(62.2)
Net current financial assets (debt)	**168.5**	**(16.8)**	**152.2**	**267.9**	**(163.4)**	**103.0**
Non-current financial debt	**(51.1)**	**(31.0)**	**(82.6)**	**(59.4)**	**(48.2)**	**(107.7)**
Total net financial position	**117.4**	**(47.8)**	**69.6**	**208.5**	**(211.7)**	**(4.7)**
of which:						
- net bank financial position	*90.4*	*(36.7)*	*53.7*	*212.8*	*(205.6)*	*5.6*
- fair value of hedging derivatives and option/debt for investments acquisition	*27.0*	*(11.1)*	*15.8*	*(4.3)*	*(6.0)*	*(10.3)*

Total segment data are reconciled to the consolidated figures by eliminating certain intersegment transactions.

The net current financial position at 31 December 2011 is a positive €152.2 million (positive €103.0 million at 31 December 2010).
As for non-current debt, De'Longhi S.p.A., the parent company, received €12 million during 2011 as the second tranche of the loan arranged with a banking syndicate in the prior year.

If financial items other than net bank debt (i.e. fair value of hedging derivatives, options and payables for the purchase of equity investments) are eliminated, the net financial position improves by €48.1 million to a positive €53.7 million at 31 December 2011 (versus a positive €5.6 million at 31 December 2010).
The change in the net financial position of the two divisions reflects the capital contribution of €150 million authorized and paid by De'Longhi S.p.A. on 30 June 2011 to DL Professional S.A., as shown in the statement of cash flows presented below. This contribution was made with the aim of rebalancing the debt-equity structure of the group's two divisions and to give the DeLclima Group, ahead of the demerger, a better financial structure in relation to its earnings capability; the contribution also made it possible to eliminate the existing financial balances between the two divisions. In fact, following its payment, over the course of 2011 DL Professional and its subsidiaries paid off their financial liabilities to companies in the post-demerger De'Longhi Group contracted under the group's cash pooling arrangements.

Excluding this extraordinary contribution, the two operating divisions (Household + Corporate and Professional) generated net cash flows (ignoring non-banking items) of €27.6 million and €18.9 million respectively.

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

	2011			2010		
(€/million)	Household + Corporate (Continuing Operations)	Professional (Discontinued Operations)	Consolidated total	Household + Corporate (Continuing Operations)	Professional (Discontinued Operations)	Consolidated total
Cash flow by current operations	177.4	28.0	205.6	151.0	23.0	168.0
Cash flow by other changes in working capital	(80.5)	3.5	(75.6)	4.2	6.8	9.5
Cash flow by investment activities	(41.7)	(13.9)	(55.6)	(34.6)	(10.8)	(45.4)
Cash flow by operating activities	**55.2**	**17.6**	**74.4**	**120.6**	**19.0**	**132.1**
Non-recurring cash-flow	-	(11.5)	(11.5)	(1.6)	1.6	-
Capital contribution	(150.0)	150.0	-	-	-	-
Cash flow by changes in net equity	3.7	7.7	11.4	(20.3)	(5.4)	(19.7)
Cash flow for the period	**(91.1)**	**163.8**	**74.3**	**98.7**	**15.2**	**112.4**
Opening net financial position	208.5	(211.7)	(4.7)	109.8	(226.9)	(117.1)
Closing net financial position	**117.4**	**(47.8)**	**69.6**	**208.5**	**(211.7)**	**(4.7)**

Total segment figures are reconciled to the consolidated figures by eliminating certain intersegment transactions.

The Household division benefited from higher cash flows from operating activities (€177.4 million versus €151.0 million in 2010) that were nonetheless offset by €80.5 million in working capital movements (€4.2 million in positive cash flows in 2010) affected by higher inventories (especially at the US subsidiary) and by an increase in receivables due to less factoring activity and to revenue growth in the last quarter of the year (+13%).
Investments also increased in 2011 (from €34.6 million to €41.7 million), including for the new factory in China, in support of the group's growth.

Cash flow for the period therefore came to €58.9 million, excluding the capital contribution to the Professional division and including net changes in net equity (€3.7 million), where the outlay for dividends was offset by the positive change in the cash flow hedge reserve.

The Professional division benefited from higher cash flows from current operations and from working capital movements (totalling €31.5 million versus €29.8 million in 2010), thanks to good management and greater factoring of receivables without recourse.
Net cash flow from operating activities amounted to €17.6 million (€19 million in 2010), despite non-recurring investments for the acquisition in the United Kingdom and projects carried out in China.

At a consolidated level, net equity flows were a positive €11.4 million (negative €19.7 million in 2010) and include the positive flow of €27.6 million arising from changes in the cash flow hedge reserve (compared with a negative flow of €7.0 million at 31 December 2010) and the positive change in the translation difference, as partially offset by dividends paid.

Organizational changes

Production structure

Organizational measures continued to be implemented during 2011 for developing the business. Such measures involved the introduction of new products, and the optimization of space, infrastructure, and headcount.

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; production of the new "Lattissima +" coffee machine started, with a high output to satisfy strong market demand.

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.
As part of this programme a 1 MWp solar power system has been installed on the roof of the Mignagola di Carbonera factory; this was completed by the deadline of 31 December 2010 and started operating in 2011 after connecting to the national electricity grid. In addition, procedures were completed in 2011 for installing a 2.3 MWp solar power system on the roof of the Moimacco factory near Udine, which started operating in June 2011.

The group continued in 2011 to consolidate and improve the efficiency of its overseas manufacturing operations. In particular, production activities were restarted following the new tariff status of the factory in Russia, where another warehouse next to the existing one was purchased in order to make logistics costs more efficient.
In addition, production of cooking and food preparation products has been taken in-house following transfer from third-party suppliers to the group's factory in China. This activity forms part of the strategy for greater integration and verticalization of production, which will be achieved with the completion and commissioning of the new factory

during the first half of 2012, where new space, modern equipment and a more functional organization will make it possible to exploit the synergies offered by several product ranges that use common technological processes.

Following transfer from Europe, the Chinese radiator and metal products factory commenced production, of aluminium electric radiators for the professional distribution channel, which will allow strong synergies to be realized with traditional oil-filled radiators.

Research and development - new products - quality

The group continued to invest in research and development in 2011. The group has over 300 staff working on R&D, on which its total spend in 2011 was €37.6 million (€37.7 million in 2010), of which €9.3 million capitalized as intangible assets.

The R&D area completed its reorganization in 2011 into Platforms, making it possible to achieve synergies between the European and Chinese product development structures.
R&D activities involving cooking and food preparation products focused on developing a new platform of high-end high-performance ovens and on a "total clean" model of deep fryer. Strong impetus was given to the drip coffee product range where, having completed the range for the US market, three product platforms for the European market were initiated, all of which scheduled to start production during the current year. In the area of household cleaning products, the new rechargeable and bagless models of electric broom completed the range in previously missing segments.
Although the new high efficiency air purifiers and portable inverter air conditioners are definitely a niche segment, they were at the high-end of the comfort products developed in 2011. Range revamping activities included a new high-powered dehumidifier for both the European and American markets. At the top end of the range is the "Digital Dragon" radiator developed exclusively for the Japanese market.

As for coffee machines, new models were developed and the range was expanded, including the new fully automatic compact stainless steel model, the new high-end model, and the new Lattissima capsule coffee machine.

Communication activities in 2011

During 2011, De'Longhi focused its communication activities mainly on fully automatic coffee machines and on ironing systems.
As always, advertising expenditure was more concentrated in the second half of the year, in accordance with the market's seasonal trend.

Among the activities with greatest impact was the TV campaign for the new fully automatic "Primadonna S" coffee machine, broadcast in Australia, Germany, Austria, Switzerland, Russia, New Zealand, Poland, Belgium and Slovenia. As for ironing systems, Stirella De'Longhi was supported with a TV campaign in Italy, France, Spain and Switzerland. The TV campaigns were also backed up by print and web activities, with increasing activities in the latter, which is becoming more and more important in the media mix.

Communication activities were accompanied by growing attention to trade marketing. De'Longhi products are gaining an increasingly important presence in stores and there are many initiatives to draw attention to our offering and the brand, both through display materials and sales assistance and product demonstration.

Human resources and organization

The De'Longhi Group had 7,368 employees at 31 December 2011 (7,083 at 31 December 2010).

The following table summarizes the average number of employees during 2011 compared with 2010:

	2011	%	2010	%	Change
Blue collar	4,217	57%	4,530	61%	(313)
White collar	3,012	41%	2,855	38%	157
Senior managers	125	2%	122	1%	3
Total	**7,354**	**100%**	**7,507**	**100%**	**(153)**

	2011	%	2010	%	Change
Household	5,391	73%	5,743	76%	(352)
Professional	1,878	26%	1,680	23%	198
Corporate	85	1%	84	1%	1
Total	**7,354**	**100%**	**7,507**	**100%**	**(153)**

The group had an average of 7,354 employees during 2011, 153 fewer than the year before. This reduction was the product of different trends in the group's two divisions.

The Household division reported a reduction of 352 employees, reflecting on the one hand, a downsizing of the workforce at the Chinese and Russian electric oil-filled radiator factories to match market demand and on the other, a growth in the workforce at the Italian high-end coffee machines factory in the face of strong product demand and an increase in personnel employed by the group's subsidiaries.

The Professional division reported an increase of 198 employees, reflecting new recruits at the Climaveneta factories in Italy and at the Chinese production company and consolidation of the newly acquired or formed companies in the United Kingdom and India.
With regard to development of business organization and processes, during 2011 the Household division revised its technical manufacturing organization for the De'Longhi brands by implementing two distinct technical, production platforms – the Coffee and Ironing Platform and the Comfort, Cooking and Cleaning Platform, which bring together responsibility for all the technical and manufacturing structures engaged in developing and making these particular product categories. This organization is designed to improve overall performance, both in terms of efficiency and flexibility of the manufacturing structures, and in terms of reduced time and cost of developing new products.

During the month of July 2011, a Quality department was established for the Household division, as a central, independent structure with responsibility for the De'Longhi, Kenwood and Ariete brands, reflecting a concrete sign of the focus, efforts and investment that the company is putting into the quality of its products, internal processes and consumer services, as key factors to ensure the continued success of its business.

With regard to commercial structures, the central commercial structures completed their organizational overhaul in 2011 with the aim of integrating and unifying under a single regional structure responsibility for managing the De'Longhi and Kenwood brands and partly the Ariete brand. This process, initiated in 2010 with the creation of Commercial departments for APA (Asia Pacific, Americas and South Africa) and MEIA (Middle East, India and Africa - excluding South Africa), continued with the creation of i) two regional headquarters with responsibility for sales and marketing in Hong Kong and Dubai, and ii) two separate Commercial departments for Europe which became operational in January 2012, one responsible for countries in Central and Southern Europe and the other responsible for countries in Northern and Eastern Europe.

The group carried on strengthening its commercial structures in the international arena, both by recruiting new qualified resources and by improving the management processes of the structures operating in the key markets worldwide, based on principles of continuous improvement and the drivers of effectiveness/efficiency and development of internal resources, with particular attention to local market needs.

Again with reference to the Household division, work and investment continued on expanding one of the Chinese factories, as well as on restarting production at the factory in Russia.

As regards the Professional division, in 2011 Climaveneta undertook a number of major industrial and commercial projects in China, India and Europe, while DL Radiators started to reorganize its structure, with particular reference to the factory in Moimacco (Udine).

During 2011, the main group companies continued to invest in the training and development of key resources, both in Italy and abroad, through targeted initiatives involving individual and group assessment, specialized training programmes and management training courses, and professional development and coaching programmes. Internal climate and organizational well-being surveys were carried out using questionnaires and structured interviews that

allowed us to identify preventive measures and plan actions to improve corporate atmosphere.

Management training courses continued for a group of managers and high-potential resources, both in the Household division and the Professional division.
These included continuation of the training programme started in 2010 for Country Managers and Commercial Directors of the domestic division, and two teambuilding sessions involving technical staff from the Cooking, Cleaning and Comfort Platform and the sales and marketing team for Italy.

The Professional division completed the management and teambuilding programme started in 2010 within Climaveneta, which saw the participation of the senior management team and a group of high-potential resources.

During 2011, the internal job posting system was developed further, after being started as an experiment in the previous year, and resulted in a number of important examples of internal development of human resources, both nationally and internationally.

With the aim of facilitating the integration of new colleagues in the company, in July 2011 the first event was organized to welcome new employees in Italy to the group in order to develop a sense of belonging and involvement through sessions about the group's history, its different businesses and key functions, alternated with teambuilding activities.

Contact with the university sector was also intensified and developed with the aim of spreading knowledge about the De'Longhi Group, and attracting new talents to the company through participation in "Career Days" or similar events.

Report on corporate governance and ownership structure

In compliance with applicable laws and regulations, as well as the Italian Stockmarket Regulations and taking account of the third edition of the "Format for the report on corporate governance and ownership structure", published by the market management company in February 2012, information is herewith provided about the corporate governance system, also with reference to the principles of the Code of Conduct for Listed Companies (March 2006 edition), and about ownership structure, in compliance with the legislator's requirements as set out in art. 123-*bis* of Italy's Financial Markets Consolidation Act.

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, has been prepared in accordance with the Format for the report on corporate governance and ownership structure published by the market management company in February 2012, and will be made available to the public at the same time as the present annual financial 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., contained in its articles of association, forbids it from interfering in the management of any of the companies in which it has an interest.

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 2011 the Board of Directors:
- approved an amendment to the articles of association to reflect art. 135-novies par. 6 of the Financial Markets Consolidation Act, specifying certified email as the method that shareholders are entitled to use to electronically notify proxies;
- approved a new version of the Ethical Code;
- 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. Following the partial, proportionate demerger from De'Longhi S.p.A. to DeLclima S.p.A., which took effect from 1 January 2012, the Board of Directors updated the list of "strategically important subsidiaries" on 6 March 2012, identifying them as De'Longhi Appliances S.r.l. and De'Longhi Capital Service S.r.l., both 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 6 March 2012, 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.

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 solely comprising independent directors.

The Internal Auditing and Corporate Governance Committee met four times in 2011, 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 5 meetings during 2011, all 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 and in the Remuneration Report prepared in accordance with art. 123-*ter* of the Financial Markets Consolidation Act and art. 84-*quater* of the Issuer Regulations.

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

As required by art. 123-*bis* par. 2.(b) of the Financial Markets Consolidation Act it is reported that the De'Longhi Group uses a system of risk management and internal control for the financial reporting process that is part of the wider system of internal controls. 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 (i.e. companies that are relevant in terms of size and companies that are relevant just in terms of certain processes and specific risks).
Having identified these companies, the risks have been mapped and assessed and the key manual and automatic controls have been identified and rated as high/medium/low priority accordingly; these controls have then been tested.

The 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.

It should be noted that the identification and analysis of the above risk factors contained in this report has also taken account of the effects of the partial, proportionate demerger from De'Longhi SpA ("Demerged Company" or "Company") in favour of DeLclima SpA ("Beneficiary Company") as approved by the Company's Board of Directors during 2011 and which took effect on 1 January 2012 ("Demerger"). As a result of the Demerger, De'Longhi S.p.A. has transferred to the Beneficiary Company the entire investment it held in DL Professional S.A. (in turn the owner of the entire share capital of Climaveneta S.p.A., DL Radiators S.p.A. and RC Group S.p.A., all companies active in the De'Longhi Group's Professional business), with the result that, from the start of financial year 2012, the De'Longhi Group has concentrated its activities in the Household business and no longer operates in the Professional one.

This has also led to a change in the list of the De'Longhi Group's strategically important companies identified by the Board of Directors at its meeting on 10 November 2011: in fact, after the Demerger took effect, the companies Climaveneta S.p.A., DL Radiators S.p.A. and RC Group S.p.A. have joined the DeLclima Group.

Accordingly, in addition to the information provided in previous years, the present report describes and analyses the main risk factors. Such risk factors - which could materially affect the De'Longhi Group's future business - have been identified as a result of analytical work carried out in 2011, also involving discussion and agreement with the Internal Auditing Committee and the Board of Statutory Auditors of De'Longhi S.p.A..

Since this report refers to activities carried out during 2011, the main risks identified are presented in two separate sections: risks relating to the Household division (which will continue to exist since it incorporates the business of the post-demerger De'Longhi Group) and risks relating to the Professional division, to which the De'Longhi Group is no longer subject from 1 January 2012, as this business is now under the DeLclima Group.

As detailed in the Prospectus prepared for the purposes of the Demerger under art. 57 of the Issuer Regulations, the group has taken steps, in collaboration with the Chief Executive Officer of DeLclima, to define and create an independent management structure in DeLclima that, among other things, will also have the task from 2012 of continuing to monitor the business risks listed in this section and specifically relating to the business of the former Professional division.

Risk factors for the De'Longhi Group (Household division)

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

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 and contracts and financial reporting risks.

Strategic risks

1 - Risks relating to macroeconomic trends

The De'Longhi Group's economic performance and financial position are also affected by macroeconomic trends such as: trends in consumption, in the price of commodities, and in interest rates and exchange rates.
The world economy experienced a widespread slowdown in 2011. In particular, the most recent economic indicators (sources: Bank of Italy/ECB) show that activity in the major advanced economies weakened further in the fourth quarter; the only exception was the United States, where GDP appears to have picked up partly thanks to improved conditions in the jobs market.
At the same time, the economies of emerging countries also experienced a moderate deceleration, although still maintaining relatively high growth rates.
In this context of weak aggregate demand, inflationary pressures have eased, partly thanks to a lessening of tensions on commodity prices.

In the Euro-zone, tensions on the sovereign debt of certain countries have increased and spread, assuming systemic importance and reflecting on interest rates.
The price of government bonds in many Euro-zone countries has been affected by the uncertain responses to the crisis, despite the major fiscal adjustments being implemented by national governments.
As for currency markets, between late September and mid-January, the euro exchange rate depreciated against the US dollar, British pound, Japanese yen and Chinese renminbi, accompanied by a significant decrease in volatility.
The European Commission has accordingly announced proposals for stricter control of economic governance in member nations, for strengthening the existing financial stabilisation mechanisms (such as the EFSF and ESM) and for increasing the financial strength of banks.

In Italy, economic activity has been affected by the domestic and international context: GDP growth has been adversely affected by the weakness of domestic demand, aggravated by the recent fiscal corrections, the increase in unemployment, the rise in financing costs, and the slowdown in world trade, which nonetheless continues to support economic activity.
Average bank lending rates increased in 2011, reflecting the tensions in the government bonds market: from October on, the yield spread between Italian government bonds (ten-year BTPs) and German bunds rose steadily. However, since the end of December, the spread has gradually decreased for the shorter maturities.

This situation will not be quickly or easily resolved and is hindering growth prospects, especially in the Euro-zone.
According to the latest OECD forecasts, the recovery in 2012 will be modest and differ between countries. In the advanced economies, stagnation in Europe will be matched by expansion in the United States and Japan; growth in emerging countries is expected to ease in China and India, and most sharply in Brazil.
Moreover, the forecasts are affected not only by many factors of uncertainty, related to the effects of fiscal consolidation and of recently adopted financial stability measures in advanced economies, but also by the ability to adopt measures, currently being devised, to create conditions favourable to growth.

2 - Socio-political risks relating to market trends and demand, and to the group's presence in emerging markets

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

3 - Risks relating to strong competition in the sectors in which the De'Longhi Group operates

The Household business in which the De'Longhi Group operates is highly competitive.
The group competes with other major international industrial groups. The target markets for this division's products are highly competitive in terms of product quality, innovation, price, energy saving, reliability, safety and assistance.

If the group were unable to adapt effectively to the external context, this could have an adverse impact on the group's business prospects, as well as on its economic performance and/or financial position.

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

5 – Risks relating to patents and trademarks
Given the importance of developing products that are innovative in both technology and design (see point 4 above), the group pursues a policy of protecting its research and development by registering patents for inventions, utility models and designs in the various markets concerned; similar protection must be assured for the group's trademarks.
The group's legal offices are responsible for the legal protection of industrial property rights (patents for inventions, utility models, designs and models as well as trademarks) and constantly monitor and control the situation around the world, using the services of specialist consultants in the various countries concerned.
Such actions cannot absolutely guarantee that the group's products will not be imitated and furthermore, certain jurisdictions (such as China and the United Arab Emirates) do not protect property rights to the same extent as European law.
The group's policy is nonetheless based on incurring the necessary costs to ensure that its property rights have the greatest possible global protection in the various markets where it operates.
Moreover, there is no guarantee that protection of the industrial property rights still in the registration process (and, in particular, patents for inventions and utility models) will be actually granted as filed, since the extent of protection may be reduced - even significantly – not only as a result of technical examination by the competent office but also as a result of opposition to the registration and licensing of the rights that might be presented by third parties.
Lastly, although the group does not believe that its products infringe third-party property rights, it is not possible to exclude that third parties might successfully claim that such infringements exist, including through legal proceedings.

Operational risks
6 - Risks relating to human resources management
The group's success largely depends on the ability of its executive directors and other members of management to effectively manage the group and the individual areas of business and on the professionalism of the human resources that it has been able to attract and develop.
The principal risks relating to human resources are linked to the group's ability to attract, develop, motivate, retain and empower staff who have the necessary talent, values, and specialist and/or managerial skills to satisfy the group's changing needs.
The loss of such individuals or other key employees without adequate replacement, or the failure to attract and retain new qualified resources could therefore adversely affect the group's business prospects, as well as its economic performance and/or financial position.
In terms of being able to attract quality resources, the group's principal companies not only have specialist qualified professional human resources teams, but they also plan actions to improve the quality of working environment for its employees and staff as well as the group's external image (communication, contact with schools and universities, testimonials, internships, etc.), in some cases using the services of specialist professional firms with a proven track record.
In terms of motivating and developing personnel, actions taken include the strengthening of managerial, specialist, business and regulative competencies, with initiatives that involve managers and staff from different areas of the business.
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 can 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 separate tools have recently been developed and implemented for this purpose: a performance appraisal system (in use for several years) and an experimental system of "internal job postings".
The job posting system publicizes within the group's principal companies the vacancies of greatest interest, in order to stimulate application by internal candidates with the right qualifications and to foster career paths within the same company, or between group companies, either in Italy or abroad.
As far as manufacturing personnel are concerned, the group operates in China and Italy, with a majority of the workforce employed in China after restructuring its manufacturing activities since 2004 (previously factories were based in Europe, mainly in Italy). The current arrangement involves certain risks associated with high staff turnover within the Chinese manufacturing workforce, combined with higher payroll costs following the Chinese government's decision to significantly raise minimum wages.
These risks are managed through:
- organization of factory work that minimizes the impact of turnover on the efficiency and quality of production;
- development of incentive systems to foster staff retention (production bonuses and retention bonuses spread over time for workers, wage increases linked to length of service, and incentive schemes for management);
- investment in training and developing more qualified internal resources;
- improvements in living and working conditions within the various factories (canteens, recreational and leisure activities, internet access).

7 – Risks relating to commodity prices and supplier relationships

The group's production costs are affected by the price of its principal raw materials, namely steel, plastic and copper. Most of the purchases are made in China; the related risks are associated with production by Chinese subsidiaries that serve as suppliers to the group, by the network of third-party suppliers and by suppliers of parts to the group's manufacturing subsidiaries (see point 2 for the strategic risks of manufacturing in China).

The group manages these risks through: (a) a permanent evaluation system for the various suppliers, used for decision-making purposes and to identify the reliability of each recurrent supplier in terms of quality and price of the products supplied; (b) assessment of the risk of fluctuation by the Chinese currency against the US dollar, the group's reference currency which is protected by the group's hedging policies; (c) review of the financial status of suppliers and hence of the allocation of appropriate production volumes to each supplier; (d) evaluation of the services provided by suppliers in terms of logistics and timeliness of deliveries and of the consequent decisions adopted each time; (e) inspections, prior to product shipment by suppliers, intended to prevent any defects in the quality of products acquired.

In addition, with reference to steel, one of its principal raw materials, the group has dealt for a long time with the same suppliers, selected for their reliability; up until now, these suppliers have always guaranteed the results of production expected. Lastly, the group defends its reputation with suppliers in their dealings with employees. Such caution is duly reflected in contractual dealings and furthermore, every supplier is given a copy of the De'Longhi ethical code governing all its activities.

Nevertheless, it is conceivable that a breach of contract by one or more suppliers to group companies could have adverse effects on the group's operations, economic performance, assets and liabilities and financial position.

Such breaches could be caused by (a) production capacity problems that hinder or delay the delivery of goods ordered; (b) management and/or industrial decisions by individual suppliers which involve a disruption of production or processing of raw materials, making it more difficult to quickly find these materials on the related market; or (c) the occurrence of significant delays during transport and delivery of such raw materials to group companies.

The price of these raw materials and parts can fluctuate significantly, depending on several factors, including the cyclical nature of the markets concerned, supply conditions and other factors beyond the group's control and difficult to predict. The trend in the price of these raw materials and parts is constantly monitored in order to take necessary action to keep the group competitive.

At the date of the present report, the group does not have any contracts to hedge the risk of fluctuations in commodity prices.

8 - Risks relating to product quality and product liability

The group's products have to meet different quality standards according to the different jurisdictions in which they are marketed.

The main risk is that products do not meet the quality standards required by the different regulations in such jurisdictions. This could justify the return of such products, with increased costs of production and an impact on the group's image that could harm its reputation.

The activities of the De'Longhi Group involve it assuming typical producer liability for damage caused by defective products: part of its sales take place in jurisdictions (like the USA) where the rules governing liability for damage caused by products to people or things are particularly strict.

The group therefore applies strict standards of control to its products: it has a protocol for managing quality risk that involves a series of activities and procedures in defence of product quality; there is also a special team that controls quality directly in manufacturing units and at supplier locations.

In addition, the group has product liability insurance that the Demerged Company considers provides adequate

coverage against the related risks.

Nonetheless, it is conceivable that such insurance coverage could be inadequate for manufacturing defects in some of the group's products or in other circumstances. The initiation of significant product liability claims, or the identification of defects in the group's products, could harm the group, with adverse consequences for the management and development of its business.

9 - Risks relating to inventory levels and delivery punctuality

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

In particular, if the group did not have an adequate quantity of products it could run the risk of failing to adequately and promptly meet customer demand; if, however, the quantity of such products exceeded orders, the group might face the risk of unsold stock.

Another risk is the efficient management of the supply chain that could affect the adequacy of customer service.

The group currently has a logistics centre that ensures careful and timely planning and management of every stage of the supply chain.

As for the standard of customer service, the group's procedures require that each customer's individual needs are taken into account.

If the group is unable to predict and/or respond to issues that could give rise to these risks, there could be adverse consequences for the group's business, economic performance, assets and liabilities and financial position.

10 – Interest rate risks

The group holds assets and liabilities that are sensitive to interest rate changes and that are necessary to manage its liquidity and financial needs.

In particular, the De'Longhi Group's main source of exposure to this risk comes from its floating-rate debt. This risk is managed centrally by the same team that manages currency risks. Nevertheless, sudden fluctuations in interest rates could have an adverse impact on the group's business prospects, as well as on its economic performance and/or financial position.

At the date of the present report, the group does not have any contracts to hedge such risks.

11 - Exchange rate fluctuation risks

Transaction exchange rate risk

The De'Longhi 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 and tools free from 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 (in which part of its costs of purchasing raw materials, parts and finished products is denominated) and the British pound for sales on the UK market.

Despite such hedging transactions, sudden currency fluctuations could have an adverse impact on the group's business prospects.

Translation exchange rate risk

The De'Longhi 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.

12 - Liquidity and financing risks

The liquidity risk possibly faced by the group is the risk of not having the funds needed to fulfil payment obligations arising from operating and investment activities and from the maturity of financial instruments.

It is the group's policy to maintain a sufficiently large portfolio of counterparties of international repute for the purposes of satisfying its financing and hedging needs.

The group uses specific policies and procedures for the purposes of monitoring and managing this risk, including the centralized management of financial debt and cash, the raising of medium and long-term finance on capital markets and the obtaining of short-term credit lines that allow wide room for manoeuvre when managing working capital and cash flows.

The group has 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.

13 - Credit risk

The group is exposed to credit risk both on its trading activities and on its liquidity investment activities. The socio-political (or country) risks discussed earlier (see point 2) could also have an impact on credit risk.

Trade credit risk is monitored using formal procedures for selecting and assessing customers, for defining credit limits, for monitoring expected receipts and for their recovery, and involves taking out insurance policies with major insurers, and in some cases requesting additional guarantees from customers, principally in the form of sureties.

14 - Risks arising from the seasonality of sales

The De'Longhi Group's sells, amongst others, air conditioners and portable radiators. These products are typically seasonal with their sales concentrated in a limited period of the year.

Seasonality of sales could adversely affect the group's business prospects and its financial results.

15 - Risks relating to changes in the regulatory framework, particularly concerning environmental protection

The group is subject, in the various jurisdictions in which it operates, to the national and international legal requirements and technical standards applicable to the type of products sold.

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

In particular, any changes in environmental regulatory standards or requirements currently in force and the occurrence of unforeseen or exceptional circumstances, could require the group to incur unanticipated costs. Such costs could therefore have an adverse impact on the group's and/or company's business, economic performance, assets and liabilities and financial position.

16 - Risks relating to environmental damage

The industrial production carried out by the group with its factories and equipment could, in certain cases of serious faults or breakdown in such equipment, cause damage to third parties, accidents or environmental damage. Such accidents and damage could also occur in view of the structural characteristics of certain production facilities for which assessments and work are in progress to make them comply with current laws and regulations.

Although the group has taken the necessary safety precautions and complies with the applicable regulations for preventing these types of risks, if there was an accident or damage to the environment, the group could be held liable, including criminally, by the people harmed and by the competent authorities, and its production activity could be disrupted, with consequent adverse effects on the company's and/or group's economic performance, assets and liabilities and financial position.

Although group companies have taken out insurance policies against environmental damage, with the related coverage considered reasonable in relation to the estimated risk in question, it is nonetheless not possible to exclude the occurrence of damage, in which the compensation payable exceeds the maximum coverage provided by such policies.

17 - Risks relating to the concentration of the De'Longhi Group's business in the Household sector

As a result of the Demerger, De'Longhi S.p.A. has transferred to the Beneficiary Company the entire investment it held in DL Professional, the group's holding company for all its businesses in the Professional division. Consequently, from 1 January 2012 (the effective date of the Demerger) the De'Longhi Group mainly carries out activities involving the production and sale of small domestic appliances and portable air-conditioning units (attributable to the former Household division). Relative to the situation prior to the Demerger, the future economic results of De'Longhi S.p.A. will therefore reflect the economic performance of such activities and the dividends distributed by its subsidiaries.
Sales to Household division end customers may vary according to general economic conditions and the end customer's propensity to spend. In addition, the sector is subject to constant renewal of the range of models through new market launches. An adverse performance by the Household division's business could have a materially negative impact on the De'Longhi Group's business prospects, as well as on its economic performance and/or financial position.

Compliance and corporate reporting risks

18 - Risks relating to the administrative liability of legal persons

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

19 - Related parties

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

20 - Financial reporting

Risks associated with the reliability of financial reporting, particularly that the information contained in the annual and interim financial reports might not be correct, warrant particular attention, especially for a listed company.

In 2011, effective implementation of the system of managing financial reporting risks was monitored on a continuous basis and periodically evaluated under the guidance of the Financial Reporting Officer, who is directly responsible for checking the correct and timely execution of administrative, accounting and financial activities for the De'Longhi Group.

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.

21 - Risks relating to the rules applying to the Demerger

Under art. 2506-quater, par. 3, of the Italian Civil Code, as from the Demerger's effective date, the Demerged Company and the Beneficiary Company will remain jointly and severally liable for the liabilities of the Demerged Company not satisfied at the Demerger's effective date, to the extent of the actual value of net assets remaining with or transferred to them respectively.
However, under art. 173, par. 13, of the Italian Income Tax Code and art. 15, par. 2, of Decree 472 dated 18 December 1997 and as a departure from the Italian Civil Code, the Beneficiary Company could be held jointly and severally liable with the Demerged Company beyond the limit of net assets transferred only in the case of tax liabilities.

Report on operations

Specific risk factors for the DeLclima Group (Professional division)

The risk factors and uncertainties that could materially affect the DeLclima Group's business are discussed below (in addition to those already specified).
It should also be noted that in addition to the risk factors and uncertainties identified in this report, other risks and uncertain events not currently foreseeable, or which are currently thought unlikely, could also influence the business, the economic and financial conditions and prospects of the Professional division.

Strategic risks relating to the business of the DeLclima Group

1 - Socio-political risks, relating to market trends and demand and the division's presence in emerging markets

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

2 - Risks relating to strong competition in the sectors in which the DeLclima Group operates

The business in which the DeLclima Group operates is highly competitive.
The group competes with other major international industrial groups. The target markets for this division's products are highly competitive in terms of product quality, innovation, price, energy saving, reliability, safety and assistance.

In terms of turnover, the DeLclima Group is one of Europe’s top ten players in the sectors in which it operates.
In particular, with reference to the Professional division's competitive positioning:

- in the air conditioning segment, the Professional division's companies, despite having an international reach and a significant presence in China, have their strongest competitive position in Europe (particularly in Italy, Spain, Germany, UK and France); relative to its main competitors in Europe, the division’s offering is competitive in terms of product quality, standards of service and price;
- in the radiators segment, the Professional division's companies are particularly competitive in Italy, France, UK and Spain. In these markets, and in Europe in general, certain competitors have a particularly strong competitive position in terms of product, brand, service and trade relations; the group offers products of comparable quality relative to these competitors at competitive prices.

Sales by the group's businesses can vary according to general economic conditions and trends in demand which, for certain types of product, are (i) cyclical for volumes associated with new installations affected by trends in the housing market; (ii) weakly cyclical for volumes associated with replacements, particularly of air conditioning products.
Therefore, an adverse trend in these businesses could have a materially negative effect on the DeLclima Group's business prospects, as well as on its economic performance and/or financial position.

If the group were unable to adapt effectively to the external context, this could have an adverse impact on the group's business prospects, as well as on its economic performance and/or financial position.

With regard to radiators, this business is influenced by the markets which grew up until 2007 but have been subsequently affected by a severe contraction in sales due to the economic crisis and strong price pressures exerted mainly by countries with lower production costs.
In coming years radiator market demand is expected to remain basically stable thanks to new segments such as bathroom and designer radiators, which will make up for the reduction in the aluminium electric radiators market. Demand is expected to be stable for steel panel and multicolumn radiators. The company calls attention to the fact that there is no guarantee that these predictions will actually materialize.

3 - Risks associated with reliance on industrial partners

In some of the countries where they operate, some of the companies due to join the DeLclima Group after the Demerger pursue their development plans through agreements (including joint ventures) with local enterprises, currently in China and India.
The decision to enter into agreements with third parties is generally motivated by the opportunity to benefit from the experience and established presence of such parties in the local market.
The termination of existing agreements or the failure to conclude planned agreements with local partners, as well as the impossibility of quickly developing new relationships, under the same conditions as existing ones, could result in a modification and curtailment of the DeLclima Group's development objectives in certain areas, with possible negative effects on the group's business, economic performance, assets and liabilities and financial position.

4 - Risks relating to technological progress

The technologies used to produce the DeLclima Group's machinery are in constant evolution and are subject to a continuous process of improvement to achieve greater energy efficiency, use of renewable energy, reduced noise, greater reliability and lower costs.
To achieve this goal, the group must constantly update its technologies and carry out research and development in order to make its machinery ever more competitive.
If the DeLclima Group was unable to adequately develop its products in line with the best available technologies for its sector, it could have to modify or curtail its development objectives, possibly leading to adverse effects on the group's business, economic performance, assets and liabilities and financial position.

Operational risks

5 - Risks associated with key supplier relationships

The division's companies that operate in air conditioning and refrigeration markets depend in large part on the relationships in place with specialist manufacturers of key components for its machines, including electronic control hardware.

Despite the large number of qualified suppliers that operate in the air conditioning and refrigeration markets and the consequent availability of products necessary for the division's business, it is conceivable that failure to renew the company's supply contracts or their termination for any reason, could have adverse effects on the division's business, economic performance, assets and liabilities and financial position.

With particular reference to electronic control hardware, the division's companies mostly source from a leading company in this field. The non-renewal, termination or failure for any reason of the above supply contract would therefore make it necessary to rewrite the software to adapt it to controllers produced by other suppliers and this could make it impossible or at least difficult to produce machinery during this period, with a consequently adverse impact on the division's business, economic performance, assets and liabilities and financial position.

Except for the above, the division's companies source all other key components from many suppliers with whom there are no dependency relationships.

6 - Risks arising from dependence on a limited number of customers

One of the companies due to join the DeLclima Group after the Demerger has historically had continuing relationships with numerous customers, the major ones of which account for a significant proportion of turnover.

Although this company is continuously involved in establishing and expanding trade relations, the default or delayed payment of amounts owing by such customers and the possible termination of existing relationships could have negative repercussions on the business and results of this company and therefore of the DeLclima Group.

Critical processes and sub-processes relating to the principal risks have been identified in order to establish the principal controls needed to reduce such risks. This has involved identifying the strategically important companies, based on quantitative and qualitative financial parameters (i.e. companies that are relevant in terms of size and companies that are relevant just in terms of certain processes and specific risks).

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

The 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.

Report on operations

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.

Annual remuneration report

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

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

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

	Net equity 31.12.2011	Profit for 2011	Net equity 31.12.2010	Profit for 2010
De'Longhi S.p.A. financial statements	**568,666**	**36,033**	**554,459**	**24,588**
Share of subsidiaries' equity and results for period attributable to the group, after deducting carrying value of the investments	211,945	74,696	94,220	60,515
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	112,646	(13,905)	135,339	(8,257)
Elimination of intercompany profits	(28,154)	(5,727)	(22,339)	(1,773)
Other adjustments	(1,826)	(570)	(1,107)	28
Consolidated financial statements	**863,277**	**90,527**	**760,572**	**75,101**
Minority interests	4,237	279	1,651	186
Group portion	**859,040**	**90,248**	**758,921**	**74,915**

Group tax election

During 2011 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 2 to the Explanatory notes.

Subsequent events

The Demerger, described earlier, took effect from 1 January 2012, leading to the creation of two distinct groups, De'Longhi S.p.A. and DeLclima S.p.A.; at the same time, the share capital and reserves of De'Longhi S.p.A. underwent a change, as described in the Explanatory Notes to the separate financial statements. As a result of the Demerger, the shareholders of De'Longhi S.p.A. have been allotted, without payment of consideration, an equal number of shares in the Beneficiary Company DeLclima S.p.A. as those held at the time of Demerger.
Trading in the shares of DeLclima S.p.A. commenced on 2 January 2012 on the Italian Stock Exchange run by Borsa Italiana S.p.A.

In January, an agreement was announced for the acquisition of a production facility in Cluj in Romania, which is subject to receipt of the necessary authorizations from the local authorities.
The acquisition is part of the group's development strategies aimed at supporting its fast-growing international presence, and at diversifying its industrial platform, so as to partly restore the balance in production activities between the currently dominant Far East and Europe, where De'Longhi is present with one factory in Italy.

Outlook for the current year

Although the world market is still difficult and uncertain, the group's outlook for the current year is moderately positive, thanks to the strength of its industrial know-how, its competitive positioning and efficient distribution structure, its good exposure to emerging markets and its presence in high-growth niche businesses.

Treviso, 6 March 2012

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

Group annual report and financial statements

Consolidated financial statements

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

Consolidated income statement

(€/000)	Notes	2011	of which non-recurring	2010 (*)	of which non-recurring
CONTINUING OPERATIONS					
Revenues from sales and services	1 -7	1,406,152		1,259,902	(528)
Other revenues	1 -7	23,247		21,494	132
Total consolidated revenues		**1,429,399**		**1,281,396**	**(396)**
Raw and ancillary materials, consumables and goods	2	(675,075)		(606,512)	
Change in inventories of finished products and work in progress	3 -7	33,371		20,083	(676)
Change in inventories of raw and ancillary materials, consumables and goods	3	1,814		1,428	
Materials consumed		**(639,890)**		**(585,001)**	**(676)**
Payroll costs	4 -7	(160,211)	(402)	(142,113)	(235)
Services and other operating expenses	5 - 7	(403,799)	(5,607)	(361,364)	(695)
Provisions	6 - 7	(22,081)	(217)	(26,297)	(948)
Amortization, depreciation and impairment	8	(30,930)		(31,152)	
EBIT		**172,488**	**(6,226)**	**135,469**	**(2,950)**
Financial income (expenses)	9	(33,688)		(23,896)	
PROFIT (LOSS) BEFORE TAXES		**138,800**		**111,573**	
Income taxes	10	(44,360)		(31,287)	
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS		**94,440**		**80,286**	
DISCONTINUED OPERATIONS					
Net profit (loss) from discontinued operations	(**)	(4,085)		805	
Elimination of income/expenses vs. discontinued operations		172		(5,990)	
CONSOLIDATED PROFIT (LOSS) AFTER TAXES		**90,527**		**75,101**	
Profit (loss) pertaining to minority interests	26	279		186	
PROFIT (LOSS) PERTAINING TO THE GROUP		**90,248**		**74,915**	
EARNINGS PER SHARE (in Euro)	**27**				
- basic		€ 0.60		€ 0.50	
- diluted		€ 0.60		€ 0.50	

(*) In accordance with IFRS 5 – Non-current assets held for sale and discontinued operations, the figures for 2010 have been reclassified for the extraordinary transaction involving the partial, proportionate demerger from De'Longhi to De'Longhi Clima S.p.A., a wholly-owned subsidiary which changed its name to DeLclima S.p.A. from 1 January 2012.
(**) A detailed breakdown is provided in the Discontinued Operations section of the Explanatory Notes.
Appendix 2 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	2011	2010 (*)
Consolidated profit (loss) after taxes		**90,527**	**75,101**
Other components of comprehensive income from CONTINUING OPERATIONS			
Change in fair value of cash flow hedges and financial assets available for sale	26	27,960	(7,188)
Tax effect on change in fair value of cash flow hedges and financial assets available for sale	26	(7,411)	1,960
Fifferences from translating foeign companies' financial statements into Euro	26	10,215	13,529
Other components of comprehensive income from DISCONTINUED OPERATIONS			
Change in fair value of cash flow hedges	26	(409)	148
Tax effect on change in fair value of cash flow hedges	26	112	(40)
Fifferences from translating foeign companies' financial statements into Euro	26	1,237	710
Total comprehensive income (loss)		**122,231**	**84,220**
Total comprehensive income attributables to:			
Owners of the parent		121,946	84,036
Minority interests		285	184

(*) In accordance with IFRS 5 – Non-current assets held for sale and discontinued operations, the figures for 2010 have been reclassified for the extraordinary transaction involving the partial, proportionate demerger from De'Longhi to De'Longhi Clima S.p.A., a wholly-owned subsidiary which changed its name to DeLclima S.p.A. from 1 January 2012.

Consolidated statement of financial position

Assets

(€/000)	Notes	31.12.2011	31.12.2010 (*)
		CONTINUING OPERATIONS	
NON-CURRENT ASSETS			
INTANGIBLE ASSETS		175,825	408,615
- Goodwill	11	41,591	228,042
- Other intangible assets	12	134,234	180,573
PROPERTY, PLANT AND EQUIPMENT		109,051	186,431
- Land, property, plant and machinery	13	50,414	133,493
- Other tangible assets	14	58,637	52,938
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		5,352	2,309
- Equity investments (in associated companies)	15	-	-
- Equity investments (in other companies)	15	673	671
- Receivables	16	3,387	1,512
- Other non-current financial assets	17	1,292	126
DEFERRED TAX ASSETS	18	32,821	33,471
TOTAL NON-CURRENT ASSETS		**323,049**	**630,826**
CURRENT ASSETS			
INVENTORIES	19	277,984	288,012
TRADE RECEIVABLES	20	349,490	387,937
CURRENT TAX ASSETS	21	18,379	13,686
OTHER RECEIVABLES	22	17,675	14,996
CURRENT FINANCIAL RECEIVABLES AND ASSETS	23	33,740	12,221
CASH AND CASH EQUIVALENTS	24	195,722	193,515
TOTAL CURRENT ASSETS		**892,990**	**910,367**
		DISCONTINUED OPERATIONS	
ASSETS RELATED TO DISCONTINUED OPERATIONS	(**)	500,929	-
Elimination of financial receivables due from DISCONTINUED OPERATIONS		(16,968)	-
TOTAL ASSETS		**1,700,000**	**1,541,193**

Consolidated statement of financial position

Net equity and liabilities

(€/000)	Notes	31.12.2011	31.12.2010 (*)
NET EQUITY			
GROUP PORTION OF NET EQUITY		859,040	758,921
- Share capital	25	448,500	448,500
- Reserves	26	320,292	235,506
- Profit (loss) pertaining to the group		90,248	74,915
MINORITY INTERESTS	26	4,237	1,651
TOTAL NET EQUITY		**863,277**	**760,572**
		CONTINUING OPERATIONS	
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES		53,452	107,934
- Bank loans and borrowings (long-term portion)	28	46,802	89,416
- Other financial payables (long-term portion)	29	6,650	18,518
DEFERRED TAX LIABILITIES	18	9,690	19,393
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		77,038	72,787
- Employee benefits	30	15,502	25,907
- Other provisions	31	61,536	46,880
TOTAL NON-CURRENT LIABILITIES		140,180	200,114
CURRENT LIABILITIES			
TRADE PAYABLES	32	330,766	374,184
FINANCIAL PAYABLES		60,957	102,755
- Bank loans and borrowings (short-term portion)	28	40,347	81,353
- Other financial payables (short-term portion)	29	20,610	21,402
CURRENT TAX LIABILITIES	33	51,510	44,659
OTHER PAYABLES	34	46,028	58,909
TOTAL CURRENT LIABILITIES		**489,261**	**580,507**
		DISCONTINUED OPERATIONS	
LIABILITIES RELATED TO DISCONTINUED OPERATIONS	(**)	224,250	-
Elimination of financial debt payable to DISCONTINUED OPERATIONS		(16,968)	-
TOTAL NET EQUITY AND LIABILITIES		**1,700,000**	**1,541,193**

(*) In view of the extraordinary transaction involving the partial, proportionate demerger from De'Longhi to De'Longhi Clima S.p.A., a wholly-owned subsidiary which changed its name to DeLclima S.p.A. from 1 January 2012, and the consequent application of IFRS 5 - Non-current assets held for sale and discontinued operations, the figures at 31 December 2010 are not comparable with 2011 because they reflect the full consolidation, whereas the figures at 31 December 2011 refer to the Household division (Continuing Operations) with the figures of the Professional division (Discontinued Operations) aggregated and reported separately. The Report on Operations and the "Discontinued Operations" section of the Explanatory Notes on page 79 contain analyses using comparable data.
(**) A detailed breakdown is provided in the Discontinued Operations section of the Explanatory Notes.
Appendix 2 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)		2011	2010
Profit (loss) pertaining to the group from continuing operations (**)		93,935	80,099
Income taxes for the period		44,360	31,287
Amortization, depreciation and impairment		30,694	29,656
Net change in provisions		8,416	9,930
Cash flow generated (absorbed) by current operations from discontinued operations		28,173	16,998
Cash flow generated (absorbed) by current operations (A)		**205,578**	**167,970**
Change in assets and liabilities for the period:			
Trade receivables		(40,249)	(9,750)
Inventories		(35,412)	(21,513)
Trade payables		30,838	45,812
Other current assets and liabilities		(6,721)	12,207
Payment of income taxes		(28,991)	(22,536)
Cash flow generated (absorbed) by movements in working capital from discontinued operations		4,911	5,270
Cash flow generated (absorbed) by movements in working capital (B)		**(75,624)**	**9,490**
Cash flow generated (absorbed) by current operations and movements in working capital (A+B)		**129,954**	**177,460**
Investment activities:			
Investments in intangible assets		(7,104)	(9,944)
Other cash flows for intangible assets		102	(7)
Investments in property, plant and equipment		(36,807)	(26,572)
Other cash flows for property, plant and equipment		2,347	1,302
Net investments in equity investments and other financial assets		(237)	625
Cash flow generated (absorbed) by ordinary investment activities from discontinued operations		(13,897)	(10,799)
Cash flow generated (absorbed) by ordinary investment activities (C)		**(55,596)**	**(45,395)**
Cash flow from non recurring investments			(1,588)
Cash flow from non recurring investments from discontinued operations		(4,409)	1,588
Non-recurring cash flow (D)		**(4,409)**	**-**
Dividends paid		(21,827)	(11,960)
Change in currency translation reserve		6,648	10,002
Increase (decrease) in minority interests in capital and reserves		270	(24)
New loans		15,885	59,823
Payment of interests on loans		(2,421)	(2,041)
Repayment of loans and other net changes in sources of finance		(106,758)	(106,243)
Cash flow generated (absorbed) by changes in net equity and by financing activities from discontinued operations		58,996	(12,061)
Cash flow generated (absorbed) by changes in net equity and by financing activities (E)		**(49,207)**	**(62,504)**
Cash flow for the period (A+B+C+D+E)		**20,742**	**69,561**
Opening cash and cash equivalents	*24*	**193,515**	**123,954**
Increase (decrease) in cash and cash equivalents (A+B+C+D+E)		20,742	69,561
Closing cash and cash equivalents		**214,257**	**193,515**
of which:			
Cash and cash equivalents included as discontinued operations		18,535	-
Cash and cash equivalents as reported in the statement of financial position	*24*	**195,722**	**193,515**

(*) In accordance with IFRS 5 – Non-current assets held for sale and discontinued operations, the figures for 2010 have been reclassified for the extraordinary transaction involving the partial, proportionate demerger from De'Longhi to De'Longhi Clima S.p.A., a wholly-owned subsidiary which changed its name to DeLclima S.p.A. from 1 January 2012.
(**) Profit (loss) pertaining to the Group from Continuing operations is reconciled to the consolidated figure reported in the income statement considering the minority interest, amounting to €505 thousand.

Consolidated financial statement

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 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)**
Profit (loss) after taxes								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**
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**
Allocation of 2010 result as per AGM resolution of 12 April 2011											
- distribution of dividends							(21,827)		(21,827)		(21,827)
- allocation to reserves			1,229	1,532			72,154	(74,915)	-		-
Other changes in minority interests										2,301	2,301
Movements from transactions with shareholders	**-**	**-**	**1,229**	**1,532**	**-**	**-**	**50,327**	**(74,915)**	**(21,827)**	**2,301**	**(19,526)**
Profit (loss) after taxes								90,248	90,248	279	90,527
Other components of comprehensive income					20,252	11,446			31,698	6	31,704
Comprehensive income (loss)	**-**	**-**	**-**	**-**	**20,252**	**11,446**	**-**	**90,248**	**121,946**	**285**	**122,231**
Balance at 31 December 2011	**448,500**	**325**	**9,693**	**61,425**	**18,433**	**621**	**229,795**	**90,248**	**859,040**	**4,237**	**863,277**

Explanatory notes

Group business

De'Longhi S.p.A., a company with its registered office in Treviso whose shares are listed on the Italian stock exchange run by Borsa Italiana, is the parent company of the De'Longhi Group.
The companies included in the scope of consolidation are listed in Appendix 1 to the Explanatory Notes.

On 1 January 2012, the partial, proportionate demerger from De'Longhi S.p.A. was completed in favour of De'Longhi Clima S.p.A., a wholly-owned subsidiary which changed its name to DeLclima S.p.A. from that date. The main purpose of the demerger was to separate the activities relating to the two distinct areas of business in which the De'Longhi Group currently operates, and particularly to separate production and marketing activities for machines for industrial air-conditioning systems, ICT industrial process chillers and water-filled radiators (relating to the Professional division), from the production and marketing activities for small domestic appliances and portable air-conditioning and heating products (relating to the Household division).

The Demerger proposal was approved in July 2011 by the Boards of Directors of De'Longhi S.p.A. and De'Longhi Clima S.p.A..
During the month of October, the shareholders' meetings of De'Longhi S.p.A. and De'Longhi Clima S.p.A. approved the Demerger, subject to obtaining clearance from the Italian Stock Exchange to list the Beneficiary Company's shares on the screen-traded market run by Borsa Italiana and the equivalent Consob opinion under art. 57, par. 1.d) of Consob Regulation 11971/1999 concerning prospectuses, and its subsequent additions under art. 57.

After obtaining the above authorizations in December 2011, the demerger deed was executed with legal effect from 1 January 2012.
As a result of the Demerger, on 1 January 2012 the net equity of De'Longhi S.p.A. was reduced by €261.2 million (of which €224.2 million relating to share capital), while the net equity of DeLclima S.p.A. (the new name of De'Longhi Clima S.p.A. assumed upon Demerger) increased by a corresponding amount; this amount corresponds to the net value demerged, or the value of the equity investment in De'Longhi Professional S.A. reported in the financial statements of De'Longhi S.p.A.. The value of the Group's consolidated net equity subject to demerger, net of minority interests, was €274.4 million at 31 December 2011.
As a result, the De'Longhi shareholders have been allotted, without payment of consideration, an equal number of same class shares in DeLclima S.p.A. as those held in De'Longhi S.p.A.

Trading in the shares of DeLclima S.p.A. commenced on 2 January 2012 on the Italian Stock Exchange run by Borsa Italiana S.p.A.. As from this date, De'Longhi S.p.A. and DeLclima S.p.A. operate separately as independent listed companies, with their own respective management and Boards of Directors.

The present consolidated financial statements at 31 December 2011 refer to the pre-demerger De'Longhi Group because the demerger has taken effect from 1 January 2012.
At 31 December 2011, the Demerger was considered "highly probable" within the meaning of IFRS 5 – Non-current assets held for sale and discontinued operations, meaning that the Professional division transferred to the new DeLclima Group qualified as "Discontinued Operations" for the De'Longhi Group and so have been presented as such in these financial statements.

Explanatory notes

Such presentation has involved:
- Classification of the revenues and expenses relating to the Discontinued Operations for 2011 and 2010 for comparative purposes, under the heading "Profit (loss) after taxes from discontinued operations" in the income statement.
- Classification of the assets and liabilities in the statement of comprehensive income relating to the Discontinued Operations for 2011 and 2010 for comparative purposes, under the heading "Other components of comprehensive income of the discontinued operations".
- Reclassification at December 2011 of the current and non-current assets relating to the Discontinued Operations to "Assets relating to discontinued operations" in the statement of financial position.
- Reclassification at December 2011 of the liabilities (excluding net equity) relating to the Discontinued Operations to "Liabilities relating to discontinued operations" in the statement of financial position.
- All cash flows relating to discontinued operations for 2011 and 2010 for comparative purposes, have been presented in separate lines of the statement of cash flows in relation to current operations, movements in net working capital, investment activities and financing activities.

In other words, the consolidated financial statements of the De'Longhi Group thus prepared have involved the line-by-line consolidation of not only the subsidiaries that will remain in the post-demerger De'Longhi Group (the "Continuing Operations"), which correspond to the traditional Household and Corporate divisions, but also the Professional division's subsidiaries transferred to the DeLclima Group (the "Discontinued Operations"), which have been reported separately in the financial statements.

A specific section of these Explanatory Notes, to which the reader should refer, provides a detailed breakdown of the amounts reported as Discontinued Operations in the income statement, the statement of financial position and the statement of cash flows. In addition, given the size of the group represented by the Discontinued Operations, it was thought appropriate to provide, within each individual note to the financial statements, the disclosures required by the accounting standards not only with reference to the Continuing Operations, but also with reference to the Discontinued Operations.

In previous reports, operating segment information was provided for three operating segments (Household, Corporate and Professional). In view of the imminent demerger of the Professional division, the operating segment information is discussed in the report on operations with reference to just two segments: Household + Corporate (which combines the traditional Household and Corporate segments) and Professional.

For completeness, it is reported that the Demerger is a business combination involving entities or businesses under common control and so is excluded from the scope of IFRS 3 and IFRIC 17. Accordingly, the consolidated financial statements of De'Longhi S.p.A. after Demerger and the consolidated financial statements of DeLclima S.p.A. in 2012 will be prepared using consistent values, meaning that the opening statement of financial position will report the same values as those reported in the De'Longhi Group's financial statements prior to Demerger.

Accounting standards

The De'Longhi Group's consolidated financial statements at 31 December 2011 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 2011), 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 2011 are the same as those used for preparing the consolidated financial statements at 31 December 2010, except for certain new amendments and accounting standards described below, which nonetheless have had an immaterial impact on the present annual financial report.

The consolidated financial statements at 31 December 2011 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.

As regards the comparative periods, it is reported that for the purposes of consistent comparison a number of reclassifications have been made to the previously published income statement to reallocate the impairment of intangible assets to "Amortization, depreciation and impairment".

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

The present annual financial report was approved and authorized for publication by the Board of Directors on 6 March 2012. The financial statements used for consolidation purposes are the separate ones for the year ended 31 December 2011 prepared by the Boards of Directors of the individual companies, as adjusted if necessary for the group's accounting policies and measurement bases.

Explanatory notes

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 38. Risk management of the present Explanatory notes.

The following exchange rates have been used:

		31.12.2011		31.12.2010		% change	
Currency		Year-end exchange rate (*)	Average exchange rate (*)	Year-end exchange rate (*)	Average exchange rate (*)	Year-end exchange rate	Average exchange rate
US dollar	USD	1.29390	1.39196	1.33620	1.32572	(3.2%)	5.0%
British pound	GBP	0.83530	0.86788	0.86075	0.85784	(3.0%)	1.2%
Hong Kong dollar	HKD	10.05100	10.83620	10.38560	10.29940	(3.2%)	5.2%
Chinese renminbi (yuan)	CNY	8.15880	8.99600	8.82200	8.97123	(7.5%)	0.3%
Australian dollar	AUD	1.27230	1.34839	1.31360	1.44231	(3.1%)	(6.5%)
Canadian dollar	CAD	1.32150	1.37610	1.33220	1.36511	(0.8%)	0.8%
Japanese yen	JPY	100.20000	110.95900	108.65000	116.23900	(7.8%)	(4.5%)
Malaysian ringgit	MYR	4.10550	4.25580	4.09500	4.26679	0.3%	(0.3%)
New Zealand dollar	NZD	1.67370	1.76003	1.72000	1.83774	(2.7%)	(4.2%)
Polish zloty	PLN	4.45800	4.12061	3.97500	3.99467	12.2%	3.2%
South African rand	ZAR	10.48300	10.09700	8.86250	9.69843	18.3%	4.1%
Singapore dollar	SGD	1.68190	1.74887	1.71360	1.80552	(1.8%)	(3.1%)
Russian rouble	RUB	41.76500	40.88460	40.82000	40.26290	2.3%	1.5%
Turkish lira	TRY	2.44320	2.33781	2.06940	1.99655	18.1%	17.1%
Czech koruna	CZK	25.78700	24.58980	25.06100	25.28400	2.9%	(2.7%)
Croatian kuna	HRK	7.53700	7.43904	7.38300	7.28906	2.1%	2.1%
Brazilian real	BRL	2.41590	2.32651	2.21770	2.33143	8.9%	(0.2%)
Swiss franc	CHF	1.21560	1.23261	1.25040	1.38034	(2.8%)	(10.7%)
Ukrainian hryvnia	UAH	10.36920	11.10670	10.62540	10.53860	(2.4%)	5.4%
Indian rupee	INR	68.71300	64.88590	59.75800	60.58780	15.0%	7.1%

(*) Source: Bank of Italy

New amendments and accounting standards applied by the group for the first time

During 2011 the European Union endorsed a number of "Improvements to International Financial Reporting Standards", which are already applicable to the present financial statements but without having a material impact.

In addition, the following standards and IFRIC interpretations, both new and revised, became effective from 1 January 2011 and so were applied for the first time in the present financial statements, without however having a material impact.

- *IAS 24 - Related party disclosures (revised);*
- *IAS 32 - Financial instruments: presentation (revised);*
- *IFRIC 14 - Prepayment of a minimum funding requirement (revised);*
- *IFRIC 13 - Customer loyalty programmes;*
- *IFRIC 19 - Extinguishing financial liabilities with equity instruments.*

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

In November 2011, the European Commission adopted the amendments to IFRS 7 - Financial instruments: disclosures, which seek to allow users of financial statements to improve their understanding of exposures to risks associated with transfers of financial assets. The amendments apply to financial statements for annual periods beginning on or after 30 June 2011; the group has not adopted these amendments early.

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

At the date of the present financial statements, new standards have also been issued but cannot be applied because the endorsement process by the European Union has not yet been completed.

On 12 May 2011, the IASB published IFRS 10 - Consolidated financial statements, with the aim of proposing a new standard for consolidated financial statements to replace the current version of IAS 27 -Consolidated and separate financial statements and also to incorporate the contents of SIC 12 - Special purpose entities.

On the same date the IASB also published IFRS 11 - Joint arrangements, which supersedes IAS 31, and IFRS 12 - Disclosure of interests in other entities, which establishes what information to disclose in the notes to financial statements to which IFRS 10 and IFRS 11 apply.

At the same time revised versions were issued of IAS 27 - Separate financial statements and IAS 28 - Investments in associates and joint ventures.

Also issued was IFRS 13 – Fair value measurement, which provides guidance on how to determine fair value.

On 16 June 2011, the IASB published a revised version of IAS 19 -Employee benefits, which makes a number of changes to the accounting treatment for employee benefits, and an amendment to IAS 1 - Presentation of items of other comprehensive income (OCI).

Amendments were also published to IAS 12 - Income taxes and to IFRS 1- First-time adoption of International Financial Reporting Standards.

Consolidation procedures

The scope of consolidation includes the parent company, De'Longhi S.p.A., and its subsidiaries at 31 December 2011, 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.
Exchange differences arising on monetary items that are effectively part of the group's net investment in foreign operations are classified in net equity until the investment's disposal, at which time such differences are recognized in the income statement as income or expenses.

Discontinued operations

As a result of the demerger and the presentation of the discontinued operations in accordance with IFRS 5 – Non-current assets held for sale and discontinued operations, the figures for 2011 are not always comparable with 2010 or those published in previous years.
Figures for the income statement, statement of financial position and statement of cash flows are therefore provided below for the entire De'Longhi Group prior to the Demerger.

Consolidated income statement of De'Longhi group pre-demerger

(€/000)	2011	of which non-recurring	2010	of which non-recurring
Revenues from sales and services	1,779,102		1,600,338	(396)
Other revenues	28,720		25,546	
Total consolidated revenues	**1,807,822**		**1,625,884**	**(396)**
Raw and ancillary materials, consumables and goods	(881,433)		(790,373)	
Change in inventories of finished products and work in progress	33,595		20,643	(853)
Change in inventories of raw and ancillary materials, consumables and goods	967		(4,011)	(400)
Materials consumed	**(846,871)**		**(773,741)**	**(1,253)**
Payroll costs	(226,967)	(402)	(203,493)	(466)
Services and other operating expenses	(470,033)	(6,263)	(421,652)	(1,819)
Provisions	(28,127)	(1,217)	(32,368)	(2,048)
Amortization, depreciation and impairment	(53,008)		(46,983)	
EBIT	**182,816**	**(7,882)**	**147,647**	**(5,982)**
Financial income (expenses)	(39,828)		(36,090)	
PROFIT (LOSS) BEFORE TAXES	**142,988**		**111,557**	
Income taxes	(52,461)		(36,456)	
NET PROFIT (LOSS)	**90,527**		**75,101**	
Profit (loss) pertaining to minority interests	279		186	
PROFIT (LOSS) PERTAINING TO THE GROUP	**90,248**		**74,915**	

Consolidated statement of financial position of De'Longhi group pre-demerger

ASSETS (€/000)	31.12.2011	31.12.2010
NON-CURRENT ASSETS		
INTANGIBLE ASSETS	405,734	408,615
- Goodwill	228,879	228,042
- Other intangible assets	176,855	180,573
PROPERTY, PLANT AND EQUIPMENT	207,607	186,431
- Land, property, plant and machinery	144,965	133,493
- Other tangible assets	62,642	52,938
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS	5,501	2,309
- Equity investments (in associated companies)	-	-
- Equity investments (in other companies)	677	671
- Receivables	3,532	1,512
- Other non-current financial assets	1,292	126
DEFERRED TAX ASSETS	34,966	33,471
TOTAL NON-CURRENT ASSETS	**653,808**	**630,826**
CURRENT ASSETS		
INVENTORIES	327,134	288,012
TRADE RECEIVABLES	434,948	387,937
CURRENT TAX ASSETS	19,671	13,686
OTHER RECEIVABLES	16,307	14,996
CURRENT FINANCIAL RECEIVABLES AND ASSETS	33,875	12,221
CASH AND CASH EQUIVALENTS	214,257	193,515
TOTAL CURRENT ASSETS	**1,046,192**	**910,367**
TOTAL ASSETS	**1,700,000**	**1,541,193**

NET EQUITY AND LIABILITIES (€/000)	31.12.2011	31.12.2010
NET EQUITY		
GROUP PORTION OF NET EQUITY	859,040	758,921
- Share capital	448,500	448,500
- Reserves	320,292	235,506
- Profit (loss) pertaining to the group	90,248	74,915
MINORITY INTERESTS	4,237	1,651
TOTAL NET EQUITY	**863,277**	**760,572**
NON-CURRENT LIABILITIES		
FINANCIAL PAYABLES	84,463	107,934
- Bank loans and borrowings (long-term portion)	69,488	89,416
- Other financial payables (long-term portion)	14,975	18,518
DEFERRED TAX LIABILITIES	27,082	19,393
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES	91,673	72,787
- Employee benefits	21,746	25,907
- Other provisions	69,927	46,880
TOTAL NON-CURRENT LIABILITIES	**203,218**	**200,114**
CURRENT LIABILITIES		
TRADE PAYABLES	420,807	374,184
FINANCIAL PAYABLES	95,942	102,755
- Bank loans and borrowings (short-term portion)	65,537	81,353
- Other financial payables (short-term portion)	30,405	21,402
CURRENT TAX LIABILITIES	55,955	44,659
OTHER PAYABLES	60,801	58,909
TOTAL CURRENT LIABILITIES	**633,505**	**580,507**
TOTAL NET EQUITY AND LIABILITIES	**1,700,000**	**1,541,193**

Consolidated cash flow of De'Longhi group pre-demerger (in terms of net financial position)

(€/000)	2011	2010
Profit (loss) pertaining to the group	90,247	74,915
Income taxes for the period	52,461	36,456
Gain (loss) on investment disposal	(185)	-
Amortization, depreciation and impairment	52,756	45,459
Net change in provisions	10,299	11,140
Cash flow generated (absorbed) by current operations (A)	**205,578**	**167,970**
Change in assets and liabilities for the period:		
Trade receivables	(26,937)	(18,593)
Inventories	(34,948)	(16,570)
Trade payables	28,154	58,883
Other current assets and liabilities	(9,627)	10,401
Payment of income taxes	(32,266)	(24,632)
Cash flow generated (absorbed) by movements in working capital (B)	**(75,624)**	**9,489**
Cash flow generated (absorbed) by current operations and movements in working capital (A+B)	**129,954**	**177,459**
Investment activities:		
Investments in intangible assets	(10,585)	(13,458)
Other cash flows for intangible assets	1,124	(2,157)
Investments in property, plant and equipment	(47,289)	(33,186)
Other cash flows for property, plant and equipment	1,850	2,819
Net investments in equity investments and other financial assets	(695)	587
Cash flow generated (absorbed) by ordinary investment activities (C)	**(55,595)**	**(45,395)**
Non-recurring cash flow (D)	**(11,484)**	**-**
Fair value and cash flow hedge reserves	27,551	(7,040)
Dividends paid	(21,827)	(11,960)
Changes in currency translation reserve	3,083	(653)
Increase (decrease) in minority interests in capital and reserves	2,586	(28)
Cash flow generated (absorbed) by changes in net equity (E)	**11,393**	**(19,681)**
Cash flow for the period (A+B+C+D+E)	**74,268**	**112,383**
Opening net financial position	**(4,709)**	**(117,091)**
Cash flow for the period (A+B+C+D+E)	74,268	112,383
Closing net financial position	**69,559**	**(4,709)**

The above format presents the statement of cash flows at 31 December 2011 in terms of net financial position; this measure represents gross financial liabilities less cash and cash equivalents and other financial receivables. More details can be found in the later analysis of Net financial position.

This section provides a detailed breakdown of the line items relating to Discontinued Operations, as presented in the consolidated income statement, statement of comprehensive income, statement of financial position and statement of cash flows.
From a methodological point of view it should be noted that, with reference to the presentation of the Discontinued Operations under IFRS 5 - Non-current assets held for sale and discontinued operations, the Discontinued Operations are included in the consolidation of the De'Longhi Group at 31 December 2011 and therefore the total balances for the entire group are determined by eliminating the economic and financial transactions between the Continuing and Discontinued Operations.

In more detail, the following steps were taken:
- the individual lines of the income statement relating to Continuing Operations and the individual components of "Profit (loss) after taxes from discontinued operations" reported in these financial statements are presented without eliminating intercompany transactions between the two Operations;
- therefore, in the consolidated income statement the overall effects of eliminating economic transactions are presented in a separate line denoted "Elimination of transactions with discontinued operations";
- in the statement of financial position, the individual lines relating to Continuing Operations and the individual components of the "Assets/liabilities relating to discontinued operations" reported in these financial statements are presented without eliminating intercompany transactions between the two Operations;
- therefore, in the consolidated statement of financial position the overall effects of eliminating asset/liability transactions are presented in a separate line denoted "Elimination of balances with discontinued operations";
- with reference to the statement of cash flows, all the cash flows relating to Discontinued Operations have been presented in separate lines of the statement of cash flows in relation to current operations and movements in net working capital, to investment activities and financing activities. These figures are presented net of the effects of transactions between the Operations, which are analyzed in the ensuing commentary on the cash flows of the Discontinued Operations.

Net profit (loss) from discontinued operations

Here follows a detail of net profit (loss) from Discontinued Operations:

(€/000)	2011	of which non-recurring	2010	of which non-recurring
Revenues from sales and services	379,575		344,773	-
Other revenues	9,660		7,841	-
Total consolidated revenues	**389,235**		**352,614**	**-**
Raw and ancillary materials, consumables and goods	(212,567)		(187,813)	
Change in inventories of finished products and work in progress	224		560	(177)
Change in inventories of raw and ancillary materials, consumables and goods	(847)		(5,439)	(400)
Materials consumed	**(213,190)**		**(192,692)**	**(577)**
Payroll costs	(66,756)		(61,380)	(231)
Services and other operating expenses	(71,129)	(656)	(64,521)	(1,124)
Provisions	(6,046)	(1,000)	(6,071)	(1,100)
Amortization, depreciation and impairment	(22,078)		(15,831)	
EBIT	**10,036**	**(1,656)**	**12,119**	**(3,032)**
Financial income (expenses)	(6,020)		(6,145)	
PROFIT (LOSS) BEFORE TAXES	**4,016**		**5,974**	
Income taxes	(8,101)		(5,169)	
NET PROFIT (LOSS) FROM DISCONTINUED OPERATIONS	**(4,085)**		**805**	
Profit (loss) pertaining to minority interests	(226)		(1)	
NET PROFIT (LOSS) FROM DISCONTINUED OPERATIONS PERTAINING TO THE GROUP	**(3,859)**		**806**	
Other components of comprehensive income	940		818	
COMPREHENSIVE INCOME (LOSS) FROM DISCONTINUED OPERATIONS PERTAINING TO THE GROUP	**(2,919)**		**1,625**	

Assets and liabilities related to discontinued operations

Here follows a detail of assets and liabilities at 31 December 2011 related to Discontinued operations:

ASSETS RELATED TO DISCONTINUED OPERATIONS (€/000)	31.12.2011
NON-CURRENT ASSETS	
INTANGIBLE ASSETS	229,909
- Goodwill	187,288
- Other intangible assets	42,621
PROPERTY, PLANT AND EQUIPMENT	98,556
- Land, property, plant and machinery	94,551
- Other tangible assets	4,005
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS	661
- Equity investments (in associated companies)	-
- Equity investments (in other companies)	4
- Receivables	657
- Other non-current financial assets	-
DEFERRED TAX ASSETS	2,145
TOTAL NON-CURRENT ASSETS	**331,271**
CURRENT ASSETS	
INVENTORIES	49,150
TRADE RECEIVABLES	91,571
CURRENT TAX ASSETS	1,292
OTHER RECEIVABLES	6,803
CURRENT FINANCIAL RECEIVABLES AND ASSETS	2,307
CASH AND CASH EQUIVALENTS	18,535
TOTAL CURRENT ASSETS	**169,658**
TOTAL ASSETS	**500,929**

LIABILITIES RELATED TO DISCONTINUED OPERATIONS (€/000)	31.12.2011
NON-CURRENT LIABILITIES	
FINANCIAL PAYABLES	31,011
- Bank loans and borrowings (long-term portion)	22,686
- Other financial payables (long-term portion)	8,325
DEFERRED TAX LIABILITIES	17,392
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES	14,635
- Employee benefits	6,244
- Other provisions	8,391
TOTAL NON-CURRENT LIABILITIES	**63,038**
CURRENT LIABILITIES	
TRADE PAYABLES	96,631
FINANCIAL PAYABLES	37,670
- Bank loans and borrowings (short-term portion)	25,190
- Other financial payables (short-term portion)	12,480
CURRENT TAX LIABILITIES	4,445
OTHER PAYABLES	22,466
TOTAL CURRENT LIABILITIES	**161,212**
TOTAL LIABILITIES	**224,250**
NET EQUITY RELATED TO DISCONTINUED OPERATIONS (GROUP PORTION)	274,426
MINORITY INTERESTS	2,253
NET EQUITY	**276,679**
TOTAL NET EQUITY AND LIABILITIES	**500,929**

Cash flows of the discontinued operations

The following table presents a detailed breakdown of the cash flows of the Discontinued Operations; the figures differ from those presented in the statement of cash flows because the latter are stated net of the effects of eliminating transactions between the Continuing and Discontinued Operations.
The impact of eliminations is equal to €175 thousand on cash flow from current operations (-€5,993 thousand in 2010 primarily due to dividends paid by the Discontinued Operations to the parent company De'Longhi S.p.A.); €1,378 thousand on changes in net working capital (-€1,529 thousand in 2010); €66,957 thousand in net changes in sources of finance, mainly in connection with the offsetting of cash pooling balances (€4,606 thousand in 2010).

Explanatory notes

(€/000)	2011	2010
Profit (loss) pertaining to the group	(3,859)	806
Income taxes for the period	8,101	5,169
Gain (loss) on investment disposal	(185)	-
Amortization, depreciation and impairment	22,062	15,803
Net change in provisions	1,879	1,213
Cash flow generated (absorbed) by current operations (A)	**27,998**	**22,991**
Change in assets and liabilities for the period:		
Trade receivables	11,715	(8,705)
Inventories	465	4,944
Trade payables	(3,264)	15,137
Other current assets and liabilities	(2,108)	(2,481)
Payment of income taxes	(3,275)	(2,096)
Cash flow generated (absorbed) by movements in working capital (B)	**3,533**	**6,799**
Cash flow generated (absorbed) by current operations and movements in working capital (A+B)	**31,531**	**29,790**
Investment activities:		
Investments in intangible assets	(3,480)	(3,514)
Other cash flows for intangible assets	1,021	(2,150)
Investments in property, plant and equipment	(10,482)	(6,614)
Other cash flows for property, plant and equipment	(499)	1,517
Net investments in equity investments and other financial assets	(457)	(38)
Cash flow generated (absorbed) by ordinary investment activities (C)	**(13,897)**	**(10,799)**
Cash flow generated (absorbed) by non-recurring investment	(4,409)	1,588
Non-recurring cash flow (D)	**(4,409)**	**1,588**
Dividends paid	-	(6,000)
Changes in currency translation reserve	1,244	407
Increase (decrease) in minority interests in capital and reserves	2,316	(4)
Capital contribution	150,000	-
New loans	59	7,340
Payment of interests on loans	(1,059)	(1,077)
Repayment of loans and other net changes in sources of finance	(160,522)	(17,333)
Cash flow generated (absorbed) by changes in net equity and by financing activities (E)	**(7,962)**	**(16,667)**
Cash flow for the period (A+B+C+D+E)	**5,264**	**3,912**
Opening cash and cash equivalents	**13,271**	**9,359**
Increase (decrease) in cash and cash equivalents (A+B+C+D+E)	5,264	3,912
Closing cash and cash equivalents	**18,535**	**13,271**

Change in the scope of consolidation

The changes in the scope of consolidation during 2011 are described in the Report on Operations, to which the reader should refer for more information.

The Household division has continued its process of reorganization aimed at strengthening its structures for sales, logistics and administration in high-growth emerging countries (in the Far East, Australia and the Americas, the Middle East, India and Africa) and its process of expanding the sales network abroad with direct distribution in Ukraine, where a commercial subsidiary has been established.

With reference to the Professional division, Climaveneta, the company which produces and sells air-conditioning and cooling systems, formed a new company in late December 2010 in India with a local partner to produce and sell thermo-cooling systems in this important market, and it continued to work on starting up the production facilities in China intended to manufacture ICT process chillers as part of the company's development plans for the Chinese market.

During May 2011, Climaveneta acquired 100% of a British company that distributes chillers in the UK market and has been renamed Climaveneta UK Ltd.
The transaction value was €2,847 thousand for net assets of €371 thousand (with a positive impact on net financial position of €606 thousand, corresponding to the acquired company's cash and cash equivalents less its debt).

This acquisition has involved recognizing €2,476 thousand in goodwill, determined as follows:

Total transaction value	**2,847**
(Fair value of assets and liabilities acquired)	(371)
Goodwill	2,476

The acquisition date value of the assets and liabilities determined under IFRS is as follows:

	Book value	Value recognized under IFRS
Tangibile and intangibile assets	101	101
Deferred tax assets	205	205
Trade receivables	1,750	1,750
Inventories	228	228
Cash and cash equivalents	650	650
Other current assets	169	169
Total assets	**3,103**	**3,103**
Trade payables	1,967	1,967
Other current liebilities	505	505
Other current financial liabilities	44	44
Non-current liabilities	216	216
Contingent liabilities	-	-
Total liabilities	**2,732**	**2,732**
Net assets	**371**	**371**
Share acquired by the group	**371**	**371**

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 2011 and 2010 is as follows:

	31 December 2011			31 December 2010		
(€/000)	Continuing Operations	Discontinued Operations	TOTAL	Continuing Operations	Discontinued Operations	TOTAL
Current assets	10,724	23,027	33,751	11,037	17,791	28,828
Non-current assets	4,382	16,889	21,271	4,321	2,704	7,025
Total assets	**15,106**	**39,916**	**55,022**	**15,358**	**20,495**	**35,853**
Current liabilities	9,067	22,601	31,668	9,167	9,372	18,539
Non-current liabilities	75	-	75	-	-	-
Total liabilities	**9,142**	**22,601**	**31,743**	**9,167**	**9,372**	**18,539**
Net assets	**5,964**	**17,315**	**23,279**	**6,191**	**11,123**	**17,314**
Operating revenues	28,840	25,924	54,764	17,971	18,180	36,151
Operating costs	(28,631)	(21,226)	(49,857)	(17,776)	(14,331)	(32,107)
Financial expenses	965	2,103	3,068	(24)	3,445	3,421
Taxes	(42)	(925)	(967)	(20)	(960)	(980)
Profit after tax	**1,132**	**5,876**	**7,008**	**151**	**6,334**	**6,485**

Disclosure by operating segments

Note 41. 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.

Assets and liabilities held for sale and Discontinued Operations

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

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.
Dividends received are reported when the Group is entitled to receive the payment.

Income taxes

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

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

Earnings per share

Basic earnings per share are calculated by dividing the 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 2012 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:

	2011	2010	Change	% Change
Household	1,425,044	1,277,002	148,042	11.6%
Corporate	13,680	12,492	1,188	9.5%
Intersegment eliminations	(9,325)	(8,098)	(1,227)	15.2%
Continuing Operations	**1,429,399**	**1,281,396**	**148,003**	**11.6%**
Discontinued Operations (Professional)	389,235	352,614	36,621	10.4%
Intersegment eliminations	(10,812)	(8,126)	(2,686)	33.1%
Total	**1,807,822**	**1,625,884**	**181,938**	**11.2%**

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

Revenues by geographical area:

	2011				2010			
	Continuing Operations	Discontinued Operations	Intersegment eliminations	Total	Continuing Operations	Discontinued Operations	Intersegment eliminations	Total
Mature markets								
Italy	189,465	89,301	(9,667)	269,099	184,820	91,467	(7,487)	268,800
United Kingdom	121,159	33,581	(745)	153,995	107,256	34,103	(251)	141,108
North America	94,581	266	-	94,847	88,421	744	-	89,165
Japan	57,375	9	-	57,384	47,377	37	(1)	47,413
Western Europe	513,150	175,822	-	688,972	456,710	159,190	50	615,950
Total	**975,730**	**298,979**	**(10,412)**	**1,264,297**	**884,584**	**285,541**	**(7,689)**	**1,162,436**
Emerging markets								
Eastern Europe	145,834	28,633	(15)	174,452	124,965	21,361	(15)	146,311
MEIA (Middle East/India/ Africa – excluding South Africa)	79,501	17,546	-	97,047	103,199	13,198	-	116,397
Other countries area APA (Asia/Pacific/America and South Africa)	228,334	44,077	(385)	272,026	168,648	32,514	(422)	200,740
Total	**453,669**	**90,256**	**(400)**	**543,525**	**396,812**	**67,073**	**(437)**	**463,448**
Totale revenues	**1,429,399**	**389,235**	**(10,812)**	**1,807,822**	**1,281,396**	**352,614**	**(8,126)**	**1,625,884**

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

"Other revenues" are broken down as follows:

	2011				2010			
	Continuing Operations	Discontinued Operations	Intersegment eliminations	Total	Continuing Operations	Discontinued Operations	Intersegment eliminations	Total
Out-of-period gains	4,276	2,256	-	6,532	3,294	1,570	25	4,889
Freight reimbursement	6,294	485	-	6,779	7,397	511	-	7,908
Commercial rights	1,942	62	(415)	1,589	2,021	-	(482)	1,539
Damages reimbursed	537	40	-	577	338	508	-	846
Other income	10,198	6,817	(3,772)	13,243	8,444	5,252	(3,332)	10,364
Total	**23,247**	**9,660**	**(4,187)**	**28,720**	**21,494**	**7,841**	**(3,789)**	**25,546**

"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:

	2011				2010			
	Continuing Operations	Discontinued Operations	Intersegment eliminations	Total	Continuing Operations	Discontinued Operations	Intersegment eliminations	Total
Raw materials	76,491	47,109	(48)	123,552	60,727	46,161	(25)	106,863
Parts	234,741	145,465	(868)	379,338	208,107	124,560	(732)	331,935
Finished products	354,727	19,153	(5,286)	368,594	330,114	16,174	(3,175)	343,113
Other purchases	9,116	840	(7)	9,949	7,564	918	(20)	8,462
Total	**675,075**	**212,567**	**(6,209)**	**881,433**	**606,512**	**187,813**	**(3,952)**	**790,373**

3. Change in inventories

The breakdown is as follows:

	2011			2010		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Change in inventories of finished products and work in progress	33,371	224	33,595	20,083	560	20,643
Change in inventories of raw and ancillary materials, consumables and goods	1,814	(847)	967	1,428	(5,439)	(4,011)

With reference to the total consolidated figures (inclusive of the amounts relating to both the Continuing Operations and the Discontinued Operations, the difference between the overall change in inventories reported in the income statement and the change in balances reported in the statement of financial position is mainly due to differences arising on the translation of foreign company financial statements.

The change in inventories included €1,253 thousand in non-recurring costs at 31 December 2010.

4. Payroll costs

These costs include €84,005 thousand in production-related payroll (€73,050 thousand at 31 December 2010) of which €46,149 thousand relating to Continued Operations (€36,835 thousand at 31 December 2010).

	2011			2010		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Employee wages and salaries	154,931	65,763	220,694	138,351	60,293	198,644
Temporary workers	5,280	993	6,273	3,762	1,087	4,849
Total	**160,211**	**66,756**	**226,967**	**142,113**	**61,380**	**203,493**

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.

At 31 December 2011, payroll costs include €402 thousand in non-recurring costs, all of which attributable to Continuing Operations. In 2010, non-recurring costs totalled €466 thousand, of which €235 thousand relating to Continuing Operations.

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

	2011			2010		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Blue collar	3,078	1,139	4,217	3,468	1,062	4,530
White collar	2,307	705	3,012	2,265	590	2,855
Senior managers	91	34	125	94	28	122
Total	**5,476**	**1,878**	**7,354**	**5,827**	**1,680**	**7,507**

5. Services and other operating expenses

These are detailed as follows:

	2011				2010			
	Continuing Operations	Discontinued Operations	Intersegment eliminations	Total	Continuing Operations	Discontinued Operations	Intersegment eliminations	Total
Advertising	49,603	700	(314)	49,989	40,240	817	(463)	40,594
Promotional expenses	89,045	2,752	-	91,797	73,173	2,216	-	75,389
Transport (for purchases and sales)	67,556	11,619		79,175	71,483	11,012	(7)	82,488
Commissions	10,780	11,924	-	22,704	12,261	11,297	-	23,558
Rentals and leasing	25,923	4,297	(415)	29,805	25,756	4,236	(482)	29,510
Subcontracted work	21,105	3,882	-	24,987	15,137	3,767	-	18,904
Technical support	15,052	6,026	(390)	20,688	14,999	5,942	(389)	20,552
Travel	13,684	3,872	-	17,556	11,873	2,754	-	14,627
Insurance	4,088	656	-	4,744	6,390	582	-	6,972
Storage and warehousing	15,110	266	-	15,376	14,489	161	-	14,650
Consulting services	17,319	3,973	(1,736)	19,556	13,688	3,003	(1,433)	15,258
Power and other utilities	6,124	4,995	-	11,119	5,531	4,905	-	10,436
Other third-party services	10,974	1,386	-	12,360	8,838	1,019	-	9,857
Postage, telegraph and telephones	3,644	741	-	4,385	3,509	731	-	4,240
Maintenance	2,809	1,509	-	4,318	2,889	1,667	-	4,556
Directors' emoluments	2,127	664	-	2,791	2,052	674	(10)	2,716
Statutory auditors' emoluments	320	103	-	423	323	76	-	399
Other sundry services	12,665	6,892	(1,747)	17,810	9,284	5,557	(1,443)	13,398
Total services	**367,928**	**66,257**	**(4,602)**	**429,583**	**331,915**	**60,416**	**(4,227)**	**388,104**
Sundry taxes	28,358	905	-	29,263	22,062	693	-	22,755
Out-of-period losses	3,068	1,352	-	4,420	3,373	365	-	3,738
Other	4,437	2,615	(293)	6,759	3,905	3,041	(6)	6,940
Bad debts	8	-	-	8	109	6	-	115
Total other operating expenses	**35,871**	**4,872**	**(293)**	**40,450**	**29,449**	**4,105**	**(6)**	**33,548**
Total services and other operating expenses	**403,799**	**71,129**	**(4,895)**	**470,033**	**361,364**	**64,521**	**(4,233)**	**421,652**

At 31 December 2011, services include €6,263 thousand in non-recurring costs mainly due to the demerger and restructuring of the group; of this amount, €5,607 thousand refers to Continuing Operations.
At 31 December 2010, non-recurring costs for services were €1,819 thousand, of which €695 thousand related to Continuing Operations.
Further details about non-recurring items can be found in note 7. Non-recurring expenses.

Explanatory notes

6. Provisions

These include €23,998 thousand in increases in provisions for contingencies and other charges, of which €21,397 relating to Continuing Operations, which are discussed in note 31. Other provisions.
They also include €4,129 thousand in increases to the allowance for doubtful accounts, of which €684 thousand relating to Continuing Operations.

Total provisions include €1,217 thousand in non-recurring amounts at 31 December 2011 (€2,048 thousand in 2010), mostly relating to costs for restructuring the production activities of certain subsidiaries (of which €217 thousand attributable to Continuing Operations).

7. Non-recurring expenses

"Non-recurring expenses" of €7,882 thousand at 31 December 2011 include €6,226 thousand in respect of Continuing Operations.
The non-recurring items are reported directly in the respective lines of the income statement to which they refer (€6,263 thousand in services and other operating expenses, €1,217 thousand in provisions and €402 thousand in payroll costs).

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

	2011			2010		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Demerger costs	2,819	656	3,475	-	-	-
Reorganization and restructuring costs	2,658	1,000	3,658	2,127	2,132	4,259
Other non-recurring expenses	749	-	749	823	900	1,723
Total non-recurring expenses	**6,226**	**1,656**	**7,882**	**2,950**	**3,032**	**5,982**

8. Amortization, depreciation and impairment

These are analyzed as follows:

	2011			2010		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Amortization of intangible assets	10,666	3,497	14,163	11,724	3,327	15,051
Depreciation of property, plant and equipment	20,028	7,065	27,093	17,932	6,876	24,808
Impairment losses	236	11,516	11,752	1,496	5,628	7,124
Total amortization, depreciation and impairment	**30,930**	**22,078**	**53,008**	**31,152**	**15,831**	**46,983**

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

Impairment losses relating to the Discontinued Operations mostly refer to impairment of the goodwill of a subsidiary in the Professional division. Further information can be found in note 11. Goodwill.

9. Financial income (expenses)

Net financial income and expenses are broken down as follows:

	2011				2010			
	Continuing Operations	Discontinued Operations	Intersegment eliminations	Total	Continuing Operations	Discontinued Operations	Intersegment eliminations	Total
Financial income (expenses) from equity investments	**6**	**-**	**-**	**6**	**6,006**	**-**	**(6,000)**	**6**
Exchange differences and gains (losses) on hedges	**(9,770)**	**(150)**	**(120)**	**(10,040)**	**(7,441)**	**(38)**	**(49)**	**(7,528)**
Net interest expense and other bank charges	(7,070)	(3,917)	-	(10,987)	(6,683)	(4,188)	-	(10,871)
Financial discounts	(14,538)	(581)	-	(15,119)	(12,795)	(546)	-	(13,341)
Other financial income (expenses)	(2,316)	(1,372)	-	(3,688)	(2,983)	(1,373)	-	(4,356)
Other financial income (expenses)	**(23,924)**	**(5,870)**	**-**	**(29,794)**	**(22,461)**	**(6,107)**	**-**	**(28,568)**
Financial income (expenses)	**(33,688)**	**(6,020)**	**(120)**	**(39,828)**	**(23,896)**	**(6,145)**	**(6,049)**	**(36,090)**

"Exchange differences and gains (losses) on hedges" include losses arising from rate differentials on derivatives hedging currency risk; they also include €948 thousand in positive exchange differences arising on consolidation (€990 thousand in 2010), of which €992 thousand relating to Continuing Operations.

"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 €854 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:

	2011			2010		
	Continuing Operations	Discontinued Operations	Total	Continuing Operations	Discontinued Operations	Total
Current income taxes:						
- Income taxes	40,531	5,205	45,736	30,885	3,556	34,441
- IRAP (Italian regional business tax)	4,097	2,140	6,237	2,858	1,836	4,694
Deferred (advanced) taxes	(268)	756	488	(2,456)	(223)	(2,679)
Total	**44,360**	**8,101**	**52,461**	**31,287**	**5,169**	**36,456**

"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:

	2011						
	Continuing Operations	%	Discontinued Operations	%	Intersegment eliminations	Total	%
Profit before taxes	138,800	100.0%	4,016	25.9%	172	142,988	92.6%
Impairment of goodwill	-	-	11,500	74.1%	-	11,500	7.4%
Profit before taxes adjusted	**138,800**	**100.0%**	**15,516**	**100.0%**	**172**	**154,488**	**100.0%**
Theoretical taxes	38,170	27.5%	4,267	27.5%	47	42,484	27.5%
Other (*)	2,093	1.5%	1,694	10.9%	(47)	3,740	2.4%
Total income taxes	**40,263**	**29.0%**	**5,961**	**38.4%**	**-**	**46,224**	**29.9%**
IRAP	4,097	3.0%	2,140	13.8%	-	6,237	4.0%
Actual taxes	**44,360**	**32.0%**	**8,101**	**52.2%**	**-**	**52,461**	**34.0%**

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

	2010						
	Continuing Operations	%	Discontinued Operations	%	Elisioni	Totale	%
Profit before taxes	111,573	100.0%	5,974	51.6%	(5,990)	111,557	95.2%
Impairment of goodwill	-	-	5,600	48.4%	-	5,600	4.8%
Profit before taxes adjusted	**111,573**	**100.0%**	**11,574**	**100.0%**	**(5,990)**	**117,157**	**100.0%**
Theoretical taxes	30,683	27.5%	3,183	27.5%	(1,647)	32,219	27.5%
Other (*)	(2,254)	(2.0%)	150	1.3%	1,647	(457)	(0.4%)
Total income taxes	**28,429**	**25.5%**	**3,333**	**28.8%**	**-**	**31,762**	**27.1%**
IRAP	2,858	2.6%	1,836	15.9%	-	4,694	4.0%
Actual taxes	**31,287**	**28.0%**	**5,169**	**44.7%**	**-**	**36,456**	**31.1%**

(*) 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.

Comments on the statement of financial position: assets

Non-current assets

11. Goodwill

	31 December 2011						31 December 2010	
	Continuing Operations		Discontinued Operations		Total		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Goodwill	48,338	41,591	208,868	187,288	257,206	228,879	256,369	228,042

The change in goodwill is the combined effect of €11,500 thousand in impairment of the goodwill allocated to a CGU in the Professional division, following impairment testing at year end, as described in this note, the impact of the Professional division's acquisition of Climaveneta UK Ltd. and completion of distribution agreements for ICT industrial process chillers in the Chinese market, and the failure to exercise call options over the minority interest in TopClima S.L..

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 used to operate through two principal operating segments (the Household and Professional divisions), plus the Corporate segment; these segments used to represent the main way in which the group was analyzed, both for management reporting purposes and for the disclosure of segment information in its financial reports. In view of the extraordinary transaction involving the partial, proportionate demerger from De'Longhi to its wholly-owned subsidiary De'Longhi Clima S.p.A., the Professional division's CGUs have been classified as Discontinued Operations. As a result, two CGUs have been identified within the one operating segment that represents the Continuing Operations.

The following table shows how goodwill is allocated by CGU:

Cash-generating unit	Goodwill at 31.12.2011
De'Longhi	24,471
Kenwood	17,120
Total Continuing Operations	**41,591**
Climaveneta	112,410
DL Radiators	51,875
RC	23,003
Total Discontinued Operations	**187,288**
Total	**228,879**

The objective of the impairment test is to determine the value in use of the CGU to which the goodwill refers, meaning the present value of the future cash flows expected to be derived from continuous use of the assets; any cash flows arising from extraordinary events are therefore ignored.
In particular, value in use is determined by applying the discounted cash flow method to forecast cash flows contained in three-year plans approved by management. These plans have been prepared assuming realistic scenarios based on the information available at the reporting date, also including the budget approved for 2012.

With reference to the Discontinued Operations, a new business plan for the Professional division, based on the demerger's objectives, was finalized during 2011 with the assistance of a leading firm of consultants. In view of these objectives, and the growing macroeconomic uncertainties in recent months, the goodwill of the CGU which produces and sells radiators was tested for impairment, on the basis of a five-year business plan envisaging a gradual return to profitability in future years through further actions particularly focusing on profitable segments/customers and on market development. This test has revealed a range of values for book value, which the group has accordingly written down by €11,500 thousand.

The estimated recoverable amount for the other CGUs was €20 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 net of tax. The discount rate of 7.4%, 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 2011 have not revealed any other significant evidence of goodwill impairment.
The results obtained using the discounted cash flow method have been tested for their sensitivity to changes in certain key variables, within reasonable ranges and on the basis of mutually consistent assumptions. The variables altered were the discount rate (between 7.2% and 7.6%) and the growth rate in terminal value (in the range 1.8%-2.2%).
The sensitivity analysis has revealed relatively stable results; in fact, the minimum and maximum amounts diverged by around 10% from the central point when both variables were altered, while the divergence was considerably smaller when more reasonable assumptions regarding the change in variables were adopted.

No events of significance have occurred in the first few months of 2012 such as might indicate any further impairment in the carrying amount of goodwill.
However, estimating CGU recoverable amount requires management to make discretionary judgements and estimates. In fact, several factors also associated with developments in the difficult market context could make it necessary to reassess the value of goodwill. The group will be constantly monitoring those events and circumstances that might make it necessary to perform new impairment tests.

12. Other intangible assets

These are analyzed as follows:

	31 December 2011						31 December 2010	
	Continuing Operations		Discontinued Operations		Total		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
New product development costs	49,710	12,565	21,055	5,977	70,765	18,542	60,515	16,382
Patents	26,429	1,772	5,560	424	31,989	2,196	31,085	2,675
Trademarks and similar rights	184,895	112,661	35,929	34,022	220,824	146,683	220,803	150,741
Work in progress and advances	4,593	4,593	1,910	1,910	6,503	6,503	7,601	7,601
Other	11,075	2,643	8,324	288	19,399	2,931	19,031	3,174
Total	**276,702**	**134,234**	**72,778**	**42,621**	**349,480**	**176,855**	**339,035**	**180,573**

The following table reports movements in the main asset categories during 2011:

	New product development costs	Patents	Trademarks and similar rights	Work in progress and advances	Other	Total
Net opening balance	**16,382**	**2,675**	**150,741**	**7,601**	**3,174**	**180,573**
Additions	5,187	789	63	4,148	397	10,584
Amortization	(8,090)	(1,383)	(4,079)	-	(611)	(14,163)
Translation differences	55	12	(1)	-	3	69
Other movements (*)	5,008	103	(41)	(5,246)	(32)	(208)
Reclassification to Discontinued Operations	(5,977)	(424)	(34,022)	(1,910)	(288)	(42,621)
Net closing bilance related to Continuing Operations	**12,565**	**1,772**	**112,661**	**4,593**	**2,643**	**134,234**

(*) The amounts reported as "Other movements" mostly refer to reclassifications of certain intangible assets and to the first-time consolidation of Climaveneta UK Ltd.

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 €9,335 thousand in development costs as intangible assets during 2011, of which €5,187 thousand in "New product development costs" for projects already completed at the reporting date (of which €3,042 thousand relating to Continuing Operations) and €4,148 thousand in "Work in progress and advances" for projects still in progress (of which €3,251 thousand relating to Continuing Operations).
The group has incurred some €37.6 million in research and development costs during 2011, of which €28.3 million relating to Continuing Operations.

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

"Trademarks and similar rights" include €79.8 million for the "De'Longhi" trademark, treated as having an indefinite useful life under the criteria specified in IAS 38.
The "Reclassification to Discontinued Operations" refers to the "Climaveneta" trademark (whose value is €34 million), treated as having an indefinite useful life under the criteria specified in IAS 38.

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 2011 has not revealed any significant evidence that these assets might have suffered an impairment loss. No events of significance have occurred so far in 2012 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 7.4% reflects current market assessments of the time value of money. The cash flows discounted to present value are stated net of tax (in keeping with the discount rate 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 alterned were the discount rate (between 7.2% and 7.6%) 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 5% 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.

13. Land, property, plant and machinery

These are analyzed as follows:

	31 December 2011						31 December 2010	
	Continuing Operations		Discontinued Operations		Total		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Land and buildings	22,219	14,237	70,129	54,929	92,348	69,166	88,791	68,638
Plant and machinery	102,427	36,177	108,490	39,622	210,917	75,799	195,042	64,855
Total	**124,646**	**50,414**	**178,619**	**94,551**	**303,265**	**144,965**	**283,833**	**133,493**

The following table reports movements during 2011:

	Land and buildings	Plant and machinery	Total
Net opening balance	**68,638**	**64,855**	**133,493**
Additions	2,254	14,559	16,813
Disposals	(51)	(110)	(161)
Depreciation	(3,204)	(7,001)	(10,205)
Translation differences	534	437	971
Other movements (*)	995	3,059	4,054
Reclassification to Discontinued Operations	(54,929)	(39,622)	(94,551)
Net closing bilance related to Continuing Operations	**14,237**	**36,177**	**50,414**

(*) The amounts reported as "Other movements" mostly refer to reclassifications from work in progress and advances.

Investments in plant and machinery include expenditure on the group's investment programme in the renewable energy sector, with the goal of generating power also for consumption by its own facilities, as well as investments in certain Chinese factories for the installation of new lines.

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

	31 December 2011			31 December 2010
	Continuing Operations	Discontinued Operations	Total	Total
Buildings	-	2,140	2,140	3,430
Plant and equipment	6,076	12,028	18,104	15,730
Other	181	86	267	289
Total	**6,257**	**14,254**	**20,511**	**19,449**

Information on the financial liability arising under the related lease agreements can be found in note 29. Other financial payables.

14. Other tangible assets

Other tangible assets are analyzed as follows:

	31 December 2011						31 December 2010	
	Continuing Operations		Discontinued Operations		Total		Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Industrial and commercial equipment	192,309	31,498	13,267	2,042	205,576	33,540	198,366	30,840
Other	41,852	13,448	9,579	1,700	51,431	15,148	48,785	13,561
Work in progress and advances	13,691	13,691	263	263	13,954	13,954	8,537	8,537
Total	**247,852**	**58,637**	**23,109**	**4,005**	**270,961**	**62,642**	**255,688**	**52,938**

The following table reports movements during 2011:

	Industrial and commercial equipment	Other	Work in progress and advances	Total
Net opening balance	**30,840**	**13,561**	**8,537**	**52,938**
Additions	13,022	6,195	11,259	30,476
Disposals	(70)	(298)	-	(368)
Depreciation	(12,486)	(4,402)	-	(16,888)
Translation differences	58	17	164	239
Other movements (*)	2,176	75	(6,006)	(3,755)
Reclassification to Discontinued Operations	(2,042)	(1,700)	(263)	(4,005)
Net closing bilance related to Continuing Operations	**31,498**	**13,448**	**13,691**	**58,637**

(*) The amounts reported as "Other movements" mostly refer to reclassifications of work in progress and advances.

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 mainly due to expenditure on the construction of a new manufacturing facility for a Chinese subsidiary, which will be ready at the start of 2012 and provide the group with a more modern structure better able to satisfy ever growing product demand, while achieving better integration of manufacturing activities.

15. Equity investments

The balance at 31 December 2011 reports €673 thousand in equity investments in other companies, accounted for as available-for-sale financial assets.

16. Non-current receivables

The balance at 31 December 2011 comprises €2,335 thousand in security deposits (€1,394 thousand at 31 December 2010, of which €1,197 thousand relating to Continuing Operations) and €1,052 thousand in other non-current receivables (€118 thousand at 31 December 2010, all of which relating to Continuing Operations).

17. Other non-current financial assets

At 31 December 2011, these reflect €1,167 thousand for the positive fair value of derivatives and €125 thousand in bonds held by subsidiaries (€126 thousand at 31 December 2010).

18. Deferred tax assets and deferred tax liabilities

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

	31 December 2011			31 December 2010
	Continuing Operations	Discontinued Operations	Total	Total
Deferred tax assets	32,821	2,145	34,966	33,471
Deferred tax liabilities	(9,690)	(17,392)	(27,082)	(19,393)
Net asset balance	**23,131**	**(15,247)**	**7,884**	**14,078**

"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.

The net balance is analyzed as follows:

	31 December 2011			31 December 2010
	Continuing Operations	Discontinued Operations	Total	Total
- Temporary differences	14,561	(15,462)	(901)	6,046
- Tax losses	8,570	215	8,785	8,032
Net asset balance	**23,131**	**(15,247)**	**7,884**	**14,078**

The change in the net asset balance also reflects a reduction of €7,299 thousand booked to net equity in the "Fair value and cash flow hedge reserve" (of which €7,411 thousand relating to Continuing Operations).

It is also reported that no deferred taxes have been recognized on €8.5 million in carried forward tax losses reported by certain group companies (of which about €4.2 million relating to Continuing Operations).

Current assets

19. Inventories

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

	31 December 2011			31 December 2010
	Continuing Operations	Discontinued Operations	Total	Total
Raw, ancillary and consumable materials	38,287	25,651	63,938	50,682
Work in progress and semi-finished products	14,455	6,808	21,263	21,303
Finished products and goods	252,599	23,020	275,619	253,250
Advances	-	1	1	1
Inventory writedown allowance	(27,357)	(6,330)	(33,687)	(37,224)
Total	**277,984**	**49,150**	**327,134**	**288,012**

The value of inventories is stated after deducting an allowance for obsolete or slow-moving goods totalling €27,357 thousand (€37,224 thousand at 31 December 2010, of which €31,361 thousand relating to Continuing Operations), in relation to products and raw materials no longer deemed to be of strategic interest.

20. Trade receivables

These are analyzed as follows:

	31 December 2011				31 December 2010
	Continuing Operations	Discontinued Operations	Intersegment eliminations	Total	Total
Trade receivables					
- due within 12 months	364,551	103,829	(6,113)	462,267	415,690
- due beyond 12 months	5	-	-	5	5
Allowance for doubtful accounts	(15,066)	(12,258)	-	(27,324)	(27,758)
Total trade receivables	**349,490**	**91,571**	**(6,113)**	**434,948**	**387,937**

Trade receivables are stated net of an allowance for doubtful accounts of €15,066 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 31 December 2011 is €103,460 thousand for Continuing Operations and €28,730 thousand for Discontinued Operations. The total amount of receivables factored by the group during 2011 (under Law 52/1991 known as the Factoring Law) was €348,421 thousand (€76,640 thousand for the Discontinued Operations).

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

	31.12.2010	Increases	Utilization	Translation differences and other movements	Reclassification to Discontinued Operations	31.12.2011
Allowance for doubtful accounts	27,758	4,129	(3,557)	(1,006)	(12,258)	15,066

The group has received guarantees from customers as collateral against trade balances; in addition, a significant proportion of the receivables are covered by insurance policies with major insurers. More details can be found in note 38. Risk management.

Trade receivables are broken down by geographical area as follows:

	31 December 2011						31 December 2010	
Geographical area	Continuing Operations	%	Discontinued Operations	%	Total	%	Total	%
Italy	29,767	8.5%	39,467	43.1%	63,853	14.7%	73,301	18.9%
United Kingdom	16,415	4.7%	5,476	6.0%	21,814	5.0%	11,556	3.0%
Rest of Europe	173,597	49.7%	33,783	36.9%	207,378	47.7%	176,827	45.6%
United States, Canada, Mexico	13,184	3.8%	907	1.0%	14,090	3.2%	15,603	4.0%
Rest of the world	116,527	33.3%	11,938	13.0%	127,813	29.4%	110,650	28.5%
Total	**349,490**	**100.0%**	**91,571**	**100.0%**	**434,948**	**100.0%**	**387,937**	**100.0%**

21. Current tax assets

These are analyzed as follows:

	31 December 2011			31 December 2010
	Continuing Operations	Discontinued Operations	Total	Total
VAT	12,773	469	13,242	6,724
Tax payments on account	2,388	30	2,418	1,931
Direct taxes	484	10	494	1,842
Tax refunds requested	1,785	629	2,414	2,225
Other tax receivables	949	154	1,103	964
Total current tax assets	**18,379**	**1,292**	**19,671**	**13,686**

The amount of current tax assets due beyond 12 months is €433 thousand, of which €12 million relating to the Professional division (€421 thousand at 31 December 2010, all of which relating to the Professional division).

22. Other receivables

"Other receivables" are analyzed as follows:

	31 December 2011				31 December 2010
	Continuing Operations	Discontinued Operations	Intersegment eliminations	Total	Total
Prepaid insurance costs	492	7	-	499	531
Advances to suppliers	5,627	942	-	6,569	5,885
Employees	384	395	-	779	643
Other	11,172	5,459	(8,171)	8,460	7,937
Total other receivables	**17,675**	**6,803**	**(8,171)**	**16,307**	**14,996**

Other receivables include €139 thousand in amounts due beyond 12 months.

23. Current financial receivables and assets

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

	31 December 2011				31 December 2010
	Continuing Operations	Discontinued Operations	Intersegment eliminations	Total	Total
Fair value of derivatives	28,626	87	-	28,713	2,625
Other financial receivables	5,114	2,220	(2,172)	5,162	7,096
Other securities	-	-	-	-	2,500
Total current financial receivables and assets	**33,740**	**2,307**	**(2,172)**	**33,875**	**12,221**

More details on the fair value of derivatives can be found in note 38. Risk management.

"Other financial receivables" mainly refer to receivables arising from the without-recourse factoring of receivables and to financial receivables owed by the Discontinued Operations.

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 belonging to its Continuing Operations have a total of €226.1 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 €223.5 million in overdrafts held at the same bank by other foreign companies belonging to the Continuing Operations. This bank therefore acts as a "clearing house" for the group's positive and negative cash balances. Considering the substance of the transactions and technical workings of the international cash pooling system, the positive and negative cash balances have been netted against one another in the consolidated statement of financial position, as permitted by IAS 32. The bank in question has been given a lien over all the cash balances within the international cash pooling system in respect of this service.

The cash balances at 31 December 2011 include €4,046 thousand in current accounts of certain subsidiaries, mainly in China and mostly relating to Continuing Operations, 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:

	31.12.2011	31.12.2010	Change
Group portion	859,040	758,921	100,119
Minority interests	4,237	1,651	2,586
Total net equity	**863,277**	**760,572**	**102,705**

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 12 April 2011 declared a dividend totalling €21,827 thousand, which was paid in full during 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 analyzed as follows:

	31.12.2011	31.12.2010	Change
Share premium reserve	325	325	-
Legal reserve	9,693	8,464	1,229
Other reserves			
- Extraordinary reserve	61,425	59,893	1,532
- Fair value and cash flow hedge reserve	18,433	(1,819)	20,252
- Currency translation reserve	621	(10,825)	11,446
- Profit (loss) carried forward	229,795	179,468	50,327
Total reserves	**320,292**	**235,506**	**84,786**

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 €8,464 thousand at 31 December 2010. The intervening increase of €1,229 thousand is due to the allocation of profit for 2010, 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 2010, as approved by the above AGM.

The "Fair value and cash flow hedge reserve" reports a positive balance of €18,433 thousand, net of €6,634 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 increase of €20,252 thousand in the "Fair value and cash flow hedge reserve" during 2011 reflects €27,551 thousand in fair value changes in cash flow hedges and in available-for-sale financial assets (net of €7,299 thousand in tax).

The "Currency translation reserve" comprises €621 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 €21,827 thousand in dividends, as approved by the above AGM.

Minority interests in net equity amount to €4,237 thousand. The interests held by minority interests and their corresponding share of net equity and results for the year ended 31 December 2011 are summarized below:

Company	% interest	Net equity	Profit (loss) for the period
E-Services S.r.l.	49%	1,984	505
Climaveneta Polska S.P.Zo.O.	19.12%	(48)	10
Top Clima	35%	2,301	(236)
Total		**4,237**	**279**

Minority interests in net equity have changed by a total of €2,586 thousand during 2011.
The change is mainly as a result of attributing minority shareholders their portion of the net equity of the subsidiary TopClima S.L., treated as a wholly-owned subsidiary in the past because of an agreement involving reciprocal call and put options over the purchase/sale of the remaining shares; since the agreement has expired without these options being exercised, at 31 December 2011 the minority shareholders have been attributed their portion of net equity of €2,537 thousand.

The rest of the change reflects €236 thousand in dividends distributed to minority shareholders, €279 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 31.12.2011	Profit for 2011	Net equity 31.12.2010	Profit for 2010
De'Longhi S.p.A. financial statements	**568,666**	**36,033**	**554,459**	**24,588**
Share of subsidiaries' equity and results for period attributable to the group, after deducting carrying value of the investments	211,945	74,696	94,220	60,515
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	112,646	(13,905)	135,339	(8,257)
Elimination of intercompany profits	(28,154)	(5,727)	(22,339)	(1,773)
Other adjustments	(1,826)	(570)	(1,107)	28
Consolidated financial statements	**863,277**	**90,527**	**760,572**	**75,101**
Minority interests	4,237	279	1,651	186
Group portion	**859,040**	**90,248**	**758,921**	**74,915**

27. Earnings per share

	31.12.2011	31.12.2010
EARNINGS PER SHARE (in Euro)		
- basic	€ 0.60	€ 0.50
- diluted	€ 0.60	€ 0.50
Earnings per share of CONTINUING OPERATIONS		
- basic	€ 0.63	€ 0.54
- diluted	€ 0.63	€ 0.54
Earnings per share of DISCONTINUED OPERATIONS		
- basic	-€ 0.03	€ 0.01
- diluted	-€ 0.03	€ 0.01

Comments on the statement of financial position: liabilities

Non-current liabilities

28. Bank loans and borrowings

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

	31 December 2011			31 December 2010
	Continuing Operations	Discontinued Operations	Total	Balance at 31.12.2010
Overdrafts	162	2,714	2,876	4,398
Short-term loans in euro or foreign currency	19,942	8,608	28,550	33,979
Advances	-	2,138	2,138	2,373
Long-term loans (current portion)	20,243	11,730	31,973	40,603
Total short-term bank loans and borrowings	**40,347**	**25,190**	**65,537**	**81,353**
Long-term loans, one to five years	43,013	22,385	65,398	81,857
Long-term loans, over five years	3,789	301	4,090	7,559
Total long term loans	**46,802**	**22,686**	**69,488**	**89,416**
Total bank loans and borrowings	**87,149**	**47,876**	**135,025**	**170,769**

Long-term loans comprise the following:

	31 December 2011			31 December 2010
Loans (including short-term portion)	Continuing Operations	Discontinued Operations	Total	Total
Banca Popolare di Verona	-	25,557	25,557	42,511
Banca Popolare di Sondrio	11,648	4,749	16,397	24,297
Centrobanca – Banca Popolare di Vicenza	28,687	-	28,687	17,866
KBC Bank	4,166	-	4,166	12,475
Banca Popolare Friuladria	8,645	-	8,645	11,480
Banca di Cividale	4,376	-	4,376	6,338
Banca di Treviso	4,383	-	4,383	4,404
Banca Popolare di Vicenza	4,995	-	4,995	4,983
Cariparma	-	1,991	1,991	2,568
IMI Legge 46	145	1,372	1,517	2,213
Other minor loans	-	747	747	884
Total long-term loans	**67,045**	**34,416**	**101,461**	**130,019**

During the year Centrobanca-Banca di Credito Finanziario e Mobiliare S.p.A. in syndicate with Banca Popolare di Vicenza S.C.p.A. paid the second tranche of €12,000 thousand of the loan arranged in the prior year.

The loans from KBC Bank N.V., Banca Popolare Friuladria, Centrobanca-Banca di Credito Finanziario e Mobiliare S.p.A. and Banca Popolare di Vicenza S.C.p.A., 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 2011.
No other loans are subject to 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 38. Risk management contains the results of analyzing sensitivity to changes in interest rates.

29. Other financial payables

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

	31 December 2011			31 December 2010
	Continuing Operations	Discontinued Operations	Total	Total
Payables to lease companies (short-term portion)	1,049	1,778	2,827	2,467
Ministry of Industry loans (short-term portion)	536	-	536	557
Negative fair value of derivatives	1,844	103	1,987	5,490
Other short-term financial payables	17,181	10,599	25,055	12,888
Total short-term payables	**20,610**	**12,480**	**30,405**	**21,402**
Payables to lease companies (one to five years)	3,646	4,999	8,645	8,307
Ministry of Industry loans (one to five years)	1,049	-	1,049	1,585
Other financial payables (one to five years)	963	2,469	3,432	7,478
Total long-term payables (one to five years)	**5,658**	**7,468**	**13,126**	**17,370**
Payables to lease companies (beyond five years)	992	857	1,849	1,148
Total long-term payables (beyond five years)	**992**	**857**	**1,849**	**1,148**
Total other financial payables	**27,260**	**20,805**	**45,380**	**39,920**

More details on the fair value of derivatives can be found in note 38. Risk management.

"Other short-term financial payables" primarily refer to balances arising as part of without-recourse factoring of receivables and to payables for the purchase of equity investments.

This balance also includes €5,687 thousand in payables recognized for finance leases (€11,922 thousand at 31 December 2010, of which €2,613 thousand relating to Continuing Operations) and €1,585 thousand in low-interest loans from the Ministry of Industry (€2,142 thousand at 31 December 2010).

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 38. 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 December 2011			31 December 2010
	Continuing Operations	Discontinued Operations	Total	Total
A. Cash	598	73	671	357
B. Cash equivalents	195,124	18,462	213,586	193,158
C. Securities	-	-	-	-
D. Total liquidity (A+B+C)	**195,722**	**18,535**	**214,257**	**193,515**
E. Current financial receivables	**33,740**	**2,307**	**33,874**	**12,221**
Of which:				
Fair value of derivatives	*28,626*	*87*	*28,713*	*2,625*
F. Current bank loans and borrowings	(20,104)	(13,460)	(33,564)	(40,749)
G. Current portion of non-current debt	(20,243)	(11,730)	(31,973)	(40,604)
H. Other current financial payables	(20,610)	(12,480)	(30,405)	(21,402)
Of which:				
Fair value of derivatives	*(1,884)*	*(103)*	*(1,987)*	*(5,490)*
I. Current financial debt (F+G+H)	**(60,957)**	**(37,670)**	**(95,942)**	**(102,755)**
J. Net current financial receivables (payables) (E +D+I)	**168,505**	**(16,828)**	**152,189**	**102,981**
Non-current financial receivables (*)	2,345	-	1,832	244
Of which:				
Fair value of derivatives	*1,167*	*-*	*1,167*	*-*
K. Non-current bank loans and borrowings	(46,802)	(22,686)	(69,488)	(89,416)
L. Bonds	-	-	-	-
M. Other non-current payables (*)	(6,649)	(8,325)	(14,974)	(18,518)
Of which:				
Options on equity investments	*(925)*	*(2,469)*	*(3,394)*	*(7,479)*
N. Non-current financial debt (K+L+M)	**(51,106)**	**(31,011)**	**(82,630)**	**(107,690)**
Total net financial debt (J+N)	**117,399**	**(47,839)**	**69,559**	**(4,709)**

(*) The amount at 31 December 2011 differs from that reported in the statement of financial position in "Other non-current financial assets" because it includes €1,053 thousand in non-current financial receivables classified in "Receivables" (€118 thousand at 31 December 2010).

The consolidated net financial position has improved by €74.3 million, going from net debt of €4.7 million to a positive net balance of €69.6 million primarily thanks to cash flow from operations; the net financial position of Continuing Operations is €117.4 million.

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 38. Risk management.

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

30. Employee benefits

These are made up as follows:

	31 December 2011			31 December 2010
	Continuing Operations	Discontinued Operations	Total	Total
Provision for severance indemnities	8,842	6,244	15,086	15,483
Other defined benefit plans	3,760	-	3,760	6,534
Short-term benefits	2,900	-	2,900	3,890
Total employee benefits	**15,502**	**6,244**	**21,746**	**25,907**

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

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

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

Provision for severance indemnities:

Movements in the year are summarized below:

Net cost charged to income	**31.12.2011**	**31.12.2010**	**Change**
Current service cost	122	114	8
Interest cost on defined benefit obligations	676	741	(65)
Total	**798**	**855**	**(57)**

Change in present value of obligations	**31.12.2011**	**31.12.2010**	**Change**
Present value at 1 January	**15,483**	**16,965**	**(1,482)**
Current service cost	122	114	8
Utilization of provision	(1,195)	(2,337)	1,142
Interest cost on obligations	676	741	(65)
Reclassification to Discontinued Operations	(6,244)	-	(6,244)
Present value at reporting date	**8,842**	**15,483**	**(6,641)**

Other defined benefit plans:

Movements in the year are as follows:

Net cost charged to income	31.12.2011	31.12.2010	Change
Current service cost	379	339	40
Return on plan assets	(1,789)	(1,694)	(95)
Actuarial (gain) losses	1,036	-	1,036
Interest cost on obligations	1,967	1,975	(8)
Total	**1,592**	**620**	**972**

Change in present value of obligations	31.12.2011	31.12.2010	Change
Present value at 1 January	**6,534**	**7,751**	**(1,217)**
Net cost charged to income	1,592	620	972
Benefits paid	(4,645)	(2,569)	(2,076)
Translation difference	279	732	(453)
Present value at reporting date	**3,760**	**6,534**	**(2,774)**

The outstanding liability at 31 December 2011 of €3,760 thousand refers to the subsidiary De'Longhi Japan.

The subsidiary Kenwood Limited has a defined employee benefit plan, through an outside pension fund, which has financial assets and obligations to certain employees and former employees of the company (the fund has been closed to new entrants for several years).
Any deficit between the plan's financial assets and obligations is borne by the group and has therefore been represented as a liability for employee benefits in previous consolidated financial statements, based on actuarial valuations and application of the corridor method (see the related note in Principal Accounting Policies).
In view of the fund deficit, and the gradual increase in the net liability in recent years, the group has decided to reduce its exposure to the risk arising from this plan's obligations, just for beneficiaries who have already retired, by purchasing annuities, that exactly cover the plan's benefits and essentially neutralize the group's risk, for the beneficiaries concerned.
This transaction has given rise to an actuarial loss, which the group could have deferred under the corridor method. However, based on the provisions of IFRIC 14, and forecasts of future contributions, the net difference of €1,036 thousand has been recognized as an expense in the income statement in 2011.

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

Assumptions used	Severance indemnity 2011	Severance indemnity 2010	Other plans 2011	Other plans 2010
Discount rate	4.7%	4.3%	1.75%-4.65%	1.75-5.4%
Future salary increases	2.0-4.0%	2.0-4.0%	0.0%-2.5%	0.0-2.5%
Inflation rate	2.0%	2.0%	0.0-2.8%	0.0-3.55%

The short-term benefits include extraordinary incentives relating to group employees in 2011.

A share-based compensation scheme (Phantom Stock Option Plan) was approved in 2008; this entitled beneficiaries to cash payments based on the growth in the company's ordinary share price.
De'Longhi S.p.A. published an information circular with regard to this plan, as required by art. 84-bis of the Issuer Regulations; this circular was prepared in compliance with Appendix 3, format 7 of the Issuer Regulations, and was filed with Borsa Italiana and published on the company's website; the Board of Directors allotted a total of 700,000 phantom stock options to beneficiaries of this plan; the number of exercisable options had decreased to 500,000 at 31 December 2010 due to changes in the number of plan beneficiaries. During 2011 the plan beneficiaries exercised the Phantom Stock Options in full, meaning that there is no outstanding liability for this plan at 31 December 2011.
The options were exercised in the second half of 2011 at the average monthly share price, ranging from €7.61 to €8.48, for a total value of €2,564 thousand, inclusive of social security costs.

31. Other provisions

These are analyzed as follows:

	31 December 2011			31 December 2010
	Continuing Operations	Discontinued Operations	Total	Total
Agents' leaving indemnity provision and other retirement provisions	2,254	4,395	6,649	6,602
Product warranty provision	24,852	1,370	26,222	22,226
Provisions for contingencies and other charges	34,430	2,626	37,056	18,052
Total non-current provisions for contingencies and other charges	**61,536**	**8,391**	**69,927**	**46,880**

Movements are as follows:

	31.12.2010	Utilization	Increases	Other	Reclassification to Discontinued Operations	31.12.2011
Agents' leaving indemnity provision and other retirement provisions	6,602	(467)	516	(2)	(4,395)	2,254
Product warranty provision	22,226	(13,055)	14,782	2,269	(1,370)	24,852
Provisions for contingencies and other charges	18,052	(2,616)	23,357	(1,737)	(2,626)	34,430
Total	**46,880**	**(16,138)**	**38,655**	**530**	**(8,391)**	**61,536**

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 2011. 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 €12,355 thousand for liabilities arising from product complaints (€6,971 thousand at 31 December 2010);
- the provision of €2,691 thousand for restructuring and reorganization in Italy and abroad (€3,164 thousand at 31 December 2010), of which €1,060 thousand relating to Continuing Operations;
- provisions of €22,010 thousand by the parent company and certain subsidiaries against various contingencies and liabilities relating to legal and tax disputes, of which €21,015 thousand relating to the Continuing Operations.

Current liabilities

32. 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:

	31 December 2011						31 December 2010	
Geographical area	Continuing Operations	%	Discontinued Operations	%	Total	%	Total	%
Italy	98,800	29.9%	70,072	72.5%	164,699	39.1%	151,454	40.5%
United Kingdom	32,154	9.7%	2,176	2.2%	33,404	7.9%	26,411	7.1%
Rest of Europe	61,388	18.6%	16,174	16.7%	77,560	18.4%	67,894	18.1%
United States, Canada, Mexico	5,212	1.6%	301	0.3%	5,513	1.3%	6,547	1.7%
Rest of the world	133,212	40.2%	7,908	8.3%	139,631	33.3%	121,878	32.6%
Total	**330,766**	**100.0%**	**96,631**	**100.0%**	**420,807**	**100.0%**	**374,184**	**100.0%**

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

33. Current tax liabilities

These are analyzed as follows:

	31 December 2011			31 December 2010
	Continuing Operations	Discontinued Operations	Total	Total
Direct taxes	27,363	983	28,346	19,567
Indirect taxes	13,281	1,450	14,731	12,092
Withholdings payable	3,932	1,994	5,926	5,604
Other taxes	6,934	18	6,952	7,396
Total current tax liabilities	**51,510**	**4,445**	**55,955**	**44,659**

Tax liabilities due beyond 12 months amount to €22 thousand at 31 December 2011 (€21 thousand at 31 December 2010).

34. Other payables

These are analyzed as follows:

	31 December 2011				31 December 2010
	Continuing Operations	Discontinued Operations	Intersegment eliminations	Total	Total
Employees	22,133	8,597	-	30,730	28,254
Social security institutions	5,508	3,107	-	8,615	7,860
Advances	2,449	3,529	-	5,978	5,504
Other	15,938	7,233	(7,693)	15,478	17,291
Total other payables	**46,028**	**22,466**	**(7,693)**	**60,801**	**58,909**

35. Commitments

These are detailed as follows:

	31 December 2011			31 December 2010
	Continuing Operations	Discontinued Operations	Total	Total
Guarantees given to third parties	930	323	1,253	1,332
Other commitments	3,554	164	3,718	3,260
Total commitments	**4,484**	**487**	**4,971**	**4,592**

"Other commitments" mainly consist of contractual obligations by subsidiaries.

36. 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		
31.12.2011 (Continuing Operations)	**Book value**	**Loans and receivables**	**Available for sale**	**Derivates**
Non-current assets				
- Equity investments (other)	673		673	
- Receivables	3,387			
- Other non-current financial assets	1,292	125		1,167
Current assets				
- Trade receivables	349,490	349,490		
- Current tax assets	18,379	18,379		
- Other receivables	17,675	17,675		
- Current financial receivables and assets	33,740	5,114		28,626
- Cash and cash equivalents	195,722	195,722		

31.12.2011 (Continuing Operations)	Book value	Liabilities Loans	Derivates
Non-current liabilities			
- Bank loans and borrowings (long-term portion)	(46,802)	(46,802)	
- Other financial payables (long-term portion)	(6,650)	(6,650)	
Current liabilities			
- Trade payables	(330,766)	(330,766)	
- Bank loans and borrowings (short-term portion)	(40,347)	(40,347)	
- Other financial payables (short-term portion)	(20,610)	(18,726)	(1,884)
- Current tax liabilities	(51,510)	(51,510)	
- Other payables	(46,028)	(46,028)	

31.12.2010	Book value	Assets Loans and receivables	Available for sale	Derivates
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		

31.12.2010	Book value	Liabilities Loans	Derivates
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)	

37. 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 2011. 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.

	Continuing Operations			Discontinued Operations		
Financial instruments measured at fair value	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Derivatives:						
- derivatives with positive fair value	-	29,793	-	-	87	-
- derivatives with negative fair value	-	(1,884)	-	-	(103)	-
Available-for-sale financial assets:						
- Other non-current financial assets	64	-	-	-	-	-

There were no transfers between the levels during the year.

38. 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 €462,273 thousand at 31 December 2011 (€415,694 thousand at 31 December 2010).
This amount corresponds to the gross balance of trade receivables of €499,379 thousand at 31 December 2011 (€447,941 thousand at 31 December 2010), 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 €499,379 thousand at 31 December 2011 comprise €428,213 thousand in current balances and €71,166 thousand in past due amounts, of which €50,375 thousand past due by less than 90 days and €20,791 thousand past due by more than 90 days.
The amount of insured or guaranteed receivables at 31 December 2011 is €293,267 thousand, of which €260,032 thousand is current, €29,494 thousand past due by less than 90 days and €3,741 thousand past due by more than 90 days.
The group has recognized €27,324 thousand in allowances for doubtful accounts against unguaranteed receivables of €206,112 thousand (of which €20,880 thousand past due by less than 90 days and €17,050 thousand past due by more than 90 days).

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).

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 36. 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 36 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 2011 and 31 December 2010 on the basis of undiscounted contractual payments.

	Undiscounted cash flows at 31.12.2011	Within one year	One to five years	Beyond five years	Undiscounted cash flows at 31.12.2010	Within one year	One to five years	Beyond five years
Bank loans and borrowings (*)	130,318	63,323	62,826	4,169	177,157	84,067	85,329	7,761
Other financial payables (**)	39,436	29,758	8,664	1,014	46,018	27,692	18,044	282
Trade payables	420,807	420,807	-	-	374,184	374,184	-	-
Current tax liabilities and other payables	116,756	116,734	22	-	103,568	103,242	21	305

(*) The corresponding balance reported in the financial statements is €135,025 thousand at 31 December 2011 and €170,769 thousand at 31 December 2010, which reflects long-term loans and borrowings inclusive of the short-term portion.
The corresponding balance reported in the financial statements is €45,380 thousand at 31 December 2011 and €39,920 thousand at 31 December 2010, 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, GBP/USD and CNY/USD exchange rates), being the currency in which a significant part of the cost of raw materials, parts and finished products is denominated;
- 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.

Explanatory notes

Outstanding transactions at 31 December 2011
A list of outstanding currency derivatives at 31 December 2011 is provided below:

- Forward agreements to hedge 2012 flows (for 2012-2013-2014 just for USD):

	Notional amount			Fair value (in Euro)	
Currency	**Purchases**	**Sales**	**Total**	**Asset**	**Liability**
CAD v/USD	-	8,000,000	8,000,000	354,845	-
CHF v/EUR	-	19,000,000	19,000,000	1,424,165	(37,335)
PLN v/EUR	-	10,000,000	10,000,000	212,400	-
USD v/EUR	(393,020,000)	-	(393,020,000)	24,366,265	-
USD v/GBP	(65,500,000)	-	(65,500,000)	2,094,365	-
AUD v/HKD	-	30,000,000	30,000,000	903,944	-
CNY v/USD	(400,000,000)	-	(400,000,000)	143,135	(43,315)
JPY v/HKD	-	1,500,000,000	1,500,000,000	82,597	-
				29,581,716	**(80,650)**

A positive cash flow hedge reserve of €18,439 thousand has been recorded in net equity at 31 December 2011 in relation to these hedges, after €6,638 thousand in related tax; this same reserve was a negative €1,809 thousand at 31 December 2010, after the related tax of €658 thousand.

During 2011 the group reversed to the income statement a net amount of €1,378 thousand from the cash flow hedge reserve at 31 December 2010.

This amount was reported in the following lines of the income statement:

	2011	**2010**
Increase (reduction) in revenues	(1,128)	-
(Increase) reduction in materials consumed	(771)	4,564
Financial income (expenses)	(9)	9
Income taxes	525	(1,262)
Total recognized in income statement	**(1,383)**	**3,311**

- Hedges against foreign currency receivables and payables:

	Notional amount			Fair value (in Euro)	
Currency	Purchases	Sales	Total	Asset	Liability
AUD v/EUR	(3,591,600)	16,133,600	12,542,000	79,334	(358,067)
AUD v/GBP	-	311,900	311,900	-	(6,224)
AUD v/HKD	-	40,635,000	40,635,000	-	(623,814)
CAD v/USD	-	9,398,300	9,398,300	-	(137,323)
CAD v/EUR	-	83,600	83,600	-	(1,356)
CHF v/EUR	(2,844,400)	3,162,600	318,200	6,080	(7,565)
CHF v/GBP	-	1,686,100	1,686,100	1,811	-
CZK v/EUR	(23,267,700)	93,576,100	70,308,400	66,012	(1,571)
CZK v/GBP	-	24,404,800	24,404,800	21,071	-
DKK v/GBP	-	886,700	886,700	640	-
EUR v/GBP	-	12,082,000	12,082,000	36,708	(26,625)
EUR v/HKD	(372,000)	858,000	486,000	8,381	(2,396)
EUR v/JPY	(117,000)	-	(117,000)	-	(1,080)
EUR v/PLN	(1,491,900)	-	(1,491,900)	-	(49,017)
EUR v/USD	(224,200)	-	(224,200)	-	(838)
GBP v/EUR	(2,960,800)	6,655,700	3,694,900	11,938	(42,059)
GBP v/HKD	(69,000)	-	(69,000)	-	(440)
HKD v/EUR	(1,147,900)	1,215,000	67,100	1,080	(1,143)
HUF v/EUR	-	98,981,100	98,981,100	10,650	-
JPY v/EUR	(125,291,900)	17,460,000	(107,831,900)	12,926	(2,074)
JPY v/HKD	(566,779,600)	1,115,071,000	548,291,400	15,463	(35,929)
NOK v/EUR	(1,369,300)	6,167,800	4,798,500	1,040	(817)
NOK v/GBP	-	8,418,600	8,418,600	5,254	-
NZD v/EUR	-	60,000	60,000	-	(1,122)
NZD v/GBP	-	332,100	332,100	-	(3,753)
PLN v/EUR	(3,592,000)	24,782,700	21,190,700	-	(53,572)
PLN v/GBP	-	4,554,000	4,554,000	-	(5,128)
TRY v/EUR	(40,300)	17,509,100	17,468,800	236	(127,074)
TRY v/GBP	-	541,800	541,800	-	(2,025)
USD v/CAD	-	804,100	804,100	12,241	-
USD v/EUR	(1,428,112)	66,791,800	65,363,688	6,695	(326,840)
USD v/GBP	-	33,958,800	33,958,800	-	(57,456)
ZAR v/EUR	-	8,205,700	8,205,700	-	(31,550)
				297,560	**(1,906,858)**

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).

Explanatory notes

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 2011:

(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 2011, 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 +/- €17.6 million before tax (+/- €8.3 million before tax at 31 December 2010). This amount would affect the income statement only in the year in which the hedged revenues/costs are reported in profit or loss;

(b) as for the risk associated with foreign currency assets and liabilities, the analysis considers only unhedged receivables/payables in currencies other than the functional currency of the individual companies, since the impact of any hedges is assumed to be equal and opposite to that of the hedged items. A +/- 5% change in year-end exchange rates of the principal exposed currencies (mainly USD) against the principal functional currencies would produce a change in fair value of around +/-€4.0 million before tax (+/- €3.9 million before tax at 31 December 2010).

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 2011 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 2011

There were no interest rate hedges at 31 December 2011.

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 €51 million on a total of €69.6 million in net assets at 31 December 2011 and total net assets of €1.4 million on a total of €4.7 million in net debt in 2010). 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 +/- €510 thousand on pre-tax financial expenses at 31 December 2011 (+/- €14 thousands before tax at 31 December 2010).

39. 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 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, against which the company filed an appeal on 8 June 2011 with Treviso's Provincial Tax Commission following failure of the attempt to reach a mutually agreed solution. The petition for conciliation was presented to the Treviso provincial tax office on 15 July 2011.
  Since the above company 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., against which the company filed an appeal on 23 June 2011 with Venice's Provincial Tax Commission following failure of the attempt to reach a mutually agreed solution.

- 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 requests for information 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.

When preparing the present consolidated financial statements, the group has evaluated, with the assistance of its tax advisors, the possible outcomes of the above proceedings which were still uncertain at the end of the reporting period.

40. 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.

41. Operating segments

Information relating to operating segments is presented below:

Income statement data

						2011
	Household	**Corporate**	**Continuing Operations (*)**	**Professional**	**Intersegment eliminations**	**Total**
Total revenues	1,425,044	13,680	1,429,399	389,235	(10,812)	1,807,822
EBITDA	**215,220**	**(11,764)**	**203,417**	**32,114**	**293**	**235,824**
Amortization and depreciation	(30,314)	(616)	(30,930)	(22,078)	-	(53,008)
EBIT	**184,906**	**(12,380)**	**172,487**	**10,036**	**293**	**182,816**
Financial income (expenses)						(39,828)
Profit (loss) before taxes						**142,988**
Income taxes						(52,461)
Profit (loss) after taxes						**90,527**
Profit (loss) pertaining to minority interests						279
Profit (loss) for the year						**90,248**

Data from statement of financial position (at 31 December 2011)

			31 December 2011			
	Household	**Corporate**	**Continuing Operations (*)**	**Professional**	**Intersegment eliminations**	**Total**
Total assets	1,139,048	151,482	1,216,039	500,929	(16,968)	1,700,000
Total liabilities	(433,455)	(270,439)	(629,441)	(224,250)	16,968	(836,723)

Income statement data

	2010					
	Household	Corporate	Continuing Operations (*)	Professional	Intersegment eliminations	Total
Total revenues	1,277,002	12,492	1,281,396	352,614	(8,126)	1,625,884
EBITDA	**174,739**	**(8,048)**	**166,621**	**27,950**	**59**	**194,630**
Amortization and depreciation	(30,539)	(613)	(31,152)	(15,831)	-	(46,983)
EBIT	**144,200**	**(8,661)**	**135,469**	**12,119**	**59**	**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 (at 31 December 2010)

	31 December 2010					
	Household	Corporate	Continuing Operations (*)	Professional	Intersegment eliminations	Total
Total assets	973,832	194,435	1,209,395	515,105	(183,307)	1,541,193
Total liabilities	(354,693)	(174,716)	(570,537)	(393,220)	183,136	(780,621)

(*) Totalling data of segment Household e Corporate, net of related intersegment transactions.

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

	31 December 2011								31 December 2010	
	Continuing Operations		Discontinued Operations		Intersegment eliminations		Total		Total	
	Italy	Abroad	Italy	Abroad	Italy	Abroad	Italy	Abroad	Italy	Abroad
Revenues	189,465	1,239,934	89,301	299,934	(9,667)	(1,145)	269,099	1,538,723	268,800	1,357,084
Non-current assets (*)	151,052	133,824	300,176	28,289	-	-	451,228	162,113	454,669	140,377

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

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

42. Subsequent events

The Demerger, described earlier, took effect from 1 January 2012, leading to the creation of two distinct groups, De'Longhi S.p.A. and DeLclima S.p.A.; at the same time, the share capital and reserves of De'Longhi S.p.A. underwent a change, as described in the Explanatory Notes to the separate financial statements. As a result of the Demerger, the shareholders of De'Longhi S.p.A. have been allotted, without payment of consideration, an equal number of shares in the Beneficiary Company DeLclima S.p.A. as those held at the time of Demerger.
Trading in the shares of DeLclima S.p.A. commenced on 2 January 2012 on the Italian Stock Exchange run by Borsa Italiana S.p.A.

In January, an agreement was announced for the acquisition of a production facility in Cluj in Romania, which is subject to receipt of the necessary authorizations from the local authorities.
The acquisition is part of the group's development strategies aimed at supporting its fast-growing international presence, and at diversifying its industrial platform, so as to partly restore the balance in production between the currently dominant Far East and Europe, where De'Longhi is present with one factory in Italy.

Treviso, 6 March 2012

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

Appendix 1 to the Explanatory Notes

List of consolidated companies

Continuing operations

Company name	Registered office	Currency	Share capital (1)	Interest held at 31.12.2011	
				Directly	Indirectly
LINE-BY-LINE METHOD:					
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.	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 KENWOOD A.P.A. LTD	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	HKD 180,905,000		100%
DE'LONGHI HOUSEHOLD S.A.	Luxembourg	EUR	181,730,990.00	100%	
DE'LONGHI JAPAN CORPORATION	Tokyo	JPY	50,000,000.00		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.	Shenzen	CNY	USD 1,543,000		100%
KENWOOD APPLIANCES LTD.	Havant	GBP	30,586,001.00		100%
DE'LONGHI BENELUX 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%
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%
ELLE SRL	Treviso	EUR	10,000.00		100%

Company name	Registered office	Currency	Share capital (1)	Interest held at 31.12.2011	
				Directly	Indirectly
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%
KENWOOD SWISS AG	Baar	CHF	1,000,000.00		100%
DL HRVATSKA D.O.O.	Zagreb	HRD	20,000.00		100%
DE'LONGHI BRASIL - COMÉRCIO E IMPORTAÇÃO Ltda	São Paulo	BRL	4,842,340.00		100%
DE'LONGHI POLSKA SP. Z.O.O.	Warsaw	PLN	50,000		100%
DE'LONGHI LTD.	Wellingborough	GBP	4,000,000.00		100%
DE'LONGHI APPLIANCES TECHNOLOGY SERVICES (Shenzen) Co. Ltd	Shenzen	USD	175,000.00		100%
DE'LONGHI UKRAINE LLC	Kiev	UAH	549,843.20		100%
DE'LONGHI TRADING (SHANGHAI) CO. LTD	Shanghai	CNY	USD 945,000		100%
DE'LONGHI KENWOOD MEIA F.ZE	Dubai	USD	AED 2,000,000		100%
PROPORTIONATE METHOD:					
RC ASIA PACIFIC LTD	Hong Kong	HKD	20,000		50%
RC AIR CONDITIONING (BEIJING) LIMITED	Beijing	CNY	HKD 1,000,000		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%

Other subsidiaries (in liquidation or dormant)

Company name	Registered office	Currency	Share capital
Subsidiaries: (3)			
Kenwood Appliances Inc.	Wilmington	USD	25,000

Discontinued operations

Company name	Registered office	Currency	Share capital (1)	Interest held at 31.12.2011	
				Directly	Indirectly
LINE-BY-LINE METHOD:					
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%
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%
Società controllata tramite Società Fiduciarie (4)	Nürnberg	EUR	26,000.00		100%
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%
TOP CLIMA S.L.	Barcellona	EUR	1,606,000.00		65%
SOMORA ASESORES SL	Barcelona	EUR	303,005.00		100%
SATER MANTENIMIENTO SL	Madrid	EUR	250,000.00		99,99%
FOSHAN RC AIR CONDITIONING R.E. CO. LTD.	Foshan City	CNY	9,159,370.00		100%
CLIMAVENETA POLSKA SP. ZO.O	Legionowo	PLN	1,700,000		80,88%
CLIMAVENETA CLIMATE TECHNOLOGY PRIVATE LIMITED (5)	Bangalore	INR	2,500,000		100%
CLIMAVENETA UK LIMITED	Solihull	GBP	890,000.00		100%
DELCLIMA S.P.A. (6)	Milan	EUR	120,000.00	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 (SHANGHAI) CO.LTD.	Shanghai	CNY	USD 600,000		50%
CHAT UNION CLIMAVENETA TRADING (SHANGHAI) CO.LTD	Shanghai	CNY	10,000,000		50%
CLIMAVENETA REFRIGERATION EQUIPMENT (SHANGHAI) CO. LTD	Shanghai	CNY	USD 2,100,000		50%
JINCHAT CLIMAVENETA HONG KONG LIMITED	Hong Kong	HKD	10,000		50%

(1) Figures at 31 December 2011, 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) Dormant company, whose financial statement is unavailable.
(4) 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.
(5) The 100% interest includes the reciprocal put and call options over purchase of the minority interest.
(6) Company name modified following the extraordinary Shareholders'meeting on 18 July 2011, also stating the change of the company from S.r.l. into S.p. A.

Transactions and balances with related parties

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

(€/000)	2011	of which with related parties	2010	of which with related parties
CONTINUING OPERATIONS				
Revenues from sales and services	1,406,152	106	1,259,902	408
Other revenues	23,247	98	21,494	100
Total consolidated revenues	**1,429,399**		**1,281,396**	
Raw and ancillary materials, consumables and goods	(675,075)	(284)	(606,512)	(309)
Change in inventories of finished products and work in progress	33,371		20,083	
Change in inventories of raw and ancillary materials, consumables and goods	1,814		1,428	
Materials consumed	**(639,890)**		**(585,001)**	
Payroll costs	(160,211)		(142,113)	
Services and other operating expenses	(403,799)	(6,281)	(361,364)	(5,629)
Provisions	(22,081)		(26,297)	
Amortization, depreciation and impairment	(30,930)		(31,152)	
EBIT	**172,488**		**135,469**	
Financial income (expenses)	(33,688)		(23,896)	2
PROFIT (LOSS) BEFORE TAXES	**138,800**		**111,573**	
Income taxes	(44,360)		(31,287)	
NET PROFIT (LOSS) FROM CONTINUING OPERATIONS	94,440		80,286	
DISCONTINUED OPERATIONS				
Net profit (loss) from discontinued operations	(4,085)	(1,064)	805	(1,085)
Elimination of income/expenses vs. discontinued operations	172		(5,990)	
CONSOLIDATED PROFIT (LOSS) AFTER TAXES	**90,527**		**75,101**	
Profit (loss) pertaining to minority interests	279		186	
PROFIT (LOSS) PERTAINING TO THE GROUP	**90,248**		**74,915**	

Appendix 2 to the Explanatory Notes

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

(€/000)	31.12.2011	of which with related parties	31.12.2010	of which with related parties
	CONTINUING OPERATIONS			
NON-CURRENT ASSETS				
INTANGIBLE ASSETS	175,825		408,615	
- Goodwill	41,591		228,042	
- Other intangible assets	134,234		180,573	
PROPERTY, PLANT AND EQUIPMENT	109,051		186,431	
- Land, property, plant and machinery	50,414		133,493	
- Other tangible assets	58,637		52,938	
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS	5,352		2,309	
- Equity investments (in associated companies)	-		-	
- Equity investments (in other companies)	673		671	
- Receivables	3,387		1,512	
- Other non-current financial assets	1,292		126	
DEFERRED TAX ASSETS	32,821		33,471	
TOTAL NON-CURRENT ASSETS	**323,049**		**630,826**	
CURRENT ASSETS				
INVENTORIES	277,984		288,012	
TRADE RECEIVABLES	349,490	18	387,937	85
CURRENT TAX ASSETS	18,379		13,686	
OTHER RECEIVABLES	17,675	83	14,996	111
CURRENT FINANCIAL RECEIVABLES AND ASSETS	33,740		12,221	-
CASH AND CASH EQUIVALENTS	195,722		193,515	
TOTAL CURRENT ASSETS	**892,990**		**910,367**	
	DISCONTINUED OPERATIONS			
ASSETS RELATED TO DISCONTINUED OPERATIONS	500,929	2	-	
Elimination of financial receivables due from DISCONTINUED OPERATIONS	(16,968)		-	
TOTAL ASSETS	**1,700,000**		**1,541,193**	

Statement of financial position - net equity and liabilities

(pursuant to CONSOB Resolution 15519 of 27 July 2006)

(€/000)	31.12.2011	of which with related parties	31.12.2010	of which with related parties
NET EQUITY				
GROUP PORTION OF NET EQUITY	859,040		758,921	
- Share capital	448,500		448,500	
- Reserves	320,292		235,506	
- Profit (loss) pertaining to the group	90,248		74,915	
MINORITY INTERESTS	4,237		1,651	
TOTAL NET EQUITY	**863,277**		**760,572**	
	CONTINUING OPERATIONS			
NON-CURRENT LIABILITIES				
FINANCIAL PAYABLES	53,452		107,934	
- Bank loans and borrowings (long-term portion)	46,802		89,416	
- Other financial payables (long-term portion)	6,650		18,518	
DEFERRED TAX LIABILITIES	9,690		19,393	
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES	77,038		72,787	
- Employee benefits	15,502		25,907	
- Other provisions	61,536		46,880	
TOTAL NON-CURRENT LIABILITIES	140,180		200,114	
CURRENT LIABILITIES				
TRADE PAYABLES	330,766	939	374,184	204
FINANCIAL PAYABLES	60,957		102,755	
- Bank loans and borrowings (short-term portion)	40,347		81,353	
- Other financial payables (short-term portion)	20,610		21,402	
CURRENT TAX LIABILITIES	51,510		44,659	
OTHER PAYABLES	46,028		58,909	
TOTAL CURRENT LIABILITIES	**489,261**		**580,507**	
	DISCONTINUED OPERATIONS			
LIABILITIES RELATED TO DISCONTINUED OPERATIONS	224,250	(36)	-	
Elimination of financial debt payable to DISCONTINUED OPERATIONS	(16,968)		-	
TOTAL NET EQUITY AND LIABILITIES	**1,700,000**		**1,541,193**	

Transactions and balances with related parties

Summary by company

In compliance with the guidelines and methods for identifying significant transactions, especially those with related parties covered by the De'Longhi S.p.A. rules on corporate governance, we shall now present the following information concerning related party transactions during 2011:

Continuing operations

(€/million)	Revenues	Raw material and other costs	Trade, other and financial receivables	Trade payables
Related parties: (1)				
Max Information S.r.l.	-	(1,3)	-	(0,8)
Gamma	0,1	(5,0)	0,1	-
Mokarabia S.p.a.	0,1	(0,3)	-	(0,1)
Total related parties	**0,2**	**(6,6)**	**0,1**	**(0,9)**

Discontinued operations

(€/million)	Revenues	Raw material and other costs	Trade, other and financial receivables	Trade payables
Related parties: (1)				
Gamma	-	(1,1)	-	-
Total related parties	**-**	**(1,1)**	**-**	**-**

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

Appendix 3 to the Explanatory Notes

Fees paid to the external auditors

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

Type of services	Provided by	Provided to	Fees relating to 2011
Auditing	Reconta Ernst & Young S.p.A.	Parent company De'Longhi Spa	253
	Reconta Ernst & Young S.p.A.	Italian Subsidiaries	341
	Network of parent company auditor	Foreign Subsidiaries	661
Other Services	Reconta Ernst & Young S.p.A.	Parent company De'Longhi Spa	182
	Network of parent company auditor	Subsidiaries	-
	Other Auditors	Foreign Subsidiaries	108

(*) Fees related to the services received in relation to the Demerger.

Appendix 4 to the Explanatory Notes

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 2011:
- 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 2011:
- 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

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

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

1. We have audited the consolidated financial statements of De'Longhi S.p.A. and its subsidiaries, (the "De'Longhi Group") as of 31 December 2011 and for the year then ended, 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. We conducted our audit 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 of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

   The consolidated financial statements of the prior year are presented for comparative purposes. As described in the explanatory notes, due to the partial, proportionate demerger of De'Longhi S.p.A. the requirements in accordance with IFRS 5 -*"Non-current Assets Held for Sale and Discontinued Operations"* have been applied; therefore Directors have restated certain comparative data related to the prior year with respect to the data previously presented, on which we issued our auditor's report dated March 18, 2011. We have examined the method used to restate the comparative financial data and the information presented in the explanatory notes in this respect, for the purpose of expressing our opinion on the consolidated financial statements as of 31 December 2011 and for the year then ended.

3. In our opinion, the consolidated financial statements of De'Longhi S.p.A. at 31 December 2011 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 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 Company's 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 of the information presented 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

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required by law. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information presented 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 , are consistent with the consolidated financial statements of the De'Longhi Group at December 31, 2011.

Treviso, April 2, 2012

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.

Report on operations to separate financial statement and Statutory Financial Statements at 31 December 2011

Report on operations to the separate financial statements

Introduction

De'Longhi S.p.A., the parent company of the De'Longhi Group, performs holding company activities involving the management and supply of centralized services to its subsidiaries.

On 1 January 2012, the partial, proportionate demerger from De'Longhi S.p.A. was completed in favour of De'Longhi Clima S.p.A., a wholly-owned subsidiary which changed its name to DeLclima S.p.A. from that date.
The demerger deed took effect on 1 January 2012 and trading in the shares of DeLclima S.p.A. commenced on 2 January 2012 on the Italian Stock Exchange run by Borsa Italiana S.p.A.: the De'Longhi shareholders have been allotted, without payment of consideration, an equal number of same class shares in DeLclima S.p.A. as those held in De'Longhi S.p.A..
As from this date, De'Longhi S.p.A. and DeLclima S.p.A. operate separately as independent listed companies, with their own respective management and Boards of Directors.
The main stages of the operation are described in detail in the Explanatory Notes to the Consolidated Financial Statements, to which reference should be made.

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

- 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 besides 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 adding back depreciation, amortization and impairment of property, plant and equipment and intangible assets. EBITDA is also presented net of non-recurring items, which are reported separately on the face of the income statement.
- Net working capital: this measure is the sum of inventories, trade receivables, current tax assets and other receivables, minus trade payables, current tax liabilities and other payables.
- Net capital employed: this measure is the sum of net working capital, intangible assets, property, plant and equipment, equity investments, other non-current receivables, and deferred tax assets, minus deferred tax liabilities, employee severance indemnity and provisions for contingencies and other charges.
- Net financial position: this measure represents gross financial liabilities less cash and cash equivalents and other financial receivables. The individual line items in the statement of financial position used to determine this measure are analysed later in this report.

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

Review of the income statement and statement of financial position

Review of the income statement

(€/million)	2011	% revenues	2010	% revenues
Revenues	**7.0**	**100.0%**	**6.0**	**100.0%**
Change 2011/2010	*1.0*	*16.7%*		
Materials consumed	(0.1)	(1.4%)	(0.1)	(1.7%)
Gross profit	**6.9**	**98.6%**	**5.9**	**98.3%**
Other services & expenses	(11.6)	(165.7%)	(10.5)	(175.0%)
Value added	**(4.7)**	**(67.1%)**	**(4.6)**	**(76.7%)**
Payroll	(5.3)	(75.7%)	(5.1)	(85.0%)
Provisions	-	-	0.3	5.0%
EBITDA before non-recurring income/expenses	**(10.0)**	**(142.9%)**	**(9.4)**	**(156.7%)**
Change 2011/2010	*(0.6)*	*6.4%*		
Other non-recurring income (expenses)	(3.3)	(47.1%)	-	-
EBITDA	**(13.3)**	**(190.0%)**	**(9.4)**	**(156.7%)**
Amortization and depreciation	-	-	-	-
EBIT	**(13.3)**	**(190.0%)**	**(9.4)**	**(156.7%)**
Change 2011/2010	*(3.9)*	*41.5%*		
Financial income (expenses)	47.3	675.7%	31.2	520.0%
Profit (loss) before taxes	**34.0**	**485.7%**	**21.8**	**363.3**
Income taxes	2.0	28.6%	2.7	45.0%
Profit (loss) after taxes	**36.0**	**514.3%**	**24.5**	**408.3%**

EBIT was a negative €13.3 million in 2011 (negative €9.4 million in 2010), due to operating costs associated with its principal activity as the group's holding company and to non-recurring expenses incurred mainly to complete the demerger described earlier. The result after taxes was a profit of €36.0 million (€24.5 million in 2010), primarily thanks to higher dividend receipts from subsidiaries. More details can be found in the Explanatory Notes.

Review of the statement of financial position

The reclassified statement of financial position is presented below.

(€/million)	31 December 2011	31 December 2010	Change	% change
- Tangible assets	0.1	0.1	-	-
- Financial assets (*)	751.9	601.7	150.2	25.0%
- Deferred tax assets	2.1	2.3	(0.2)	(8.7%)
Non-current assets	**754.1**	**604.1**	**150.0**	**24.8%**
- Trade receivables	3.9	4.1	(0.2)	(4.9%)
- Trade payables	(5.8)	(2.8)	(3.0)	107.1%
- Other current assets (liabilities)	20.9	8.8	12.1	137.5%
Net working capital	**19.0**	**10.1**	**8.9**	**88.1%**
Total non-current liabilities and provisions	**(17.9)**	**(6.5)**	**(11.4)**	**175.4%**
Net capital employed	**755.2**	**607.7**	**147.5**	**24.3%**
(Net debt)/Net financial position	**(186.6)**	**(53.2)**	**(133.4)**	**250.8%**
Total net equity	**(568.6)**	**(554.5)**	**(14.1)**	**2.5%**
Total net debt and equity	**(755.2)**	**(607.7)**	**(147.5)**	**24.3%**

(*) Financial assets include €261.2 million related to "Discontinued Operations".

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

(€/million)	2011	2010
Cash flow by current operations	(17.1)	(6.1)
Cash flow by other changes in working capital	5.5	-
Cash flow by current operations and changes in working capital	**(11.6)**	**(6.1)**
Cash flow by investment activities	50.0	26.2
Cash flow related to Discontinued operations	(150.0)	6.0
Cash flow by operating activities	**(111.6)**	**26.1**
Cash flow by changes in net equity	(21.8)	(12.0)
Cash flow for the period	**(133.4)**	**14.1**
Opening net financial position	(53.2)	(67.3)
Closing net financial position	**(186.6)**	**(53.2)**

The change in the net financial position reflects the capital contribution of €150 million paid to De'Longhi Professional S.A. on 30 June 2011.
This contribution was approved with the aim of rebalancing the debt-equity structure of the Professional division's holding company in anticipation of the demerger described earlier.

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 staetements:

(€/000)	Net equity 31.12.2011	Profit for 2011	Net equity 31.12.2010	Profit for 2010
De'Longhi S.p.A. financial statements	**568,666**	**36,033**	**554,459**	**24,588**
Share of subsidiaries' equity and results for period attributable to the group, after deducting carrying value of the investments	211,945	74,696	94,220	60,515
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	112,646	(13,905)	135,339	(8,257)
Elimination of intercompany profits	(28,154)	(5,727)	(22,339)	(1,773)
Other adjustments	(1,826)	(570)	(1,107)	28
Consolidated financial statements	**863,277**	**90,527**	**760,572**	**75,101**
Minority interests	4,237	279	1,651	186
Group portion	**859,040**	**90,248**	**758,921**	**74,915**

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.

Annual remuneration report

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

Human resources and organization

The company had 37 employees at 31 December 2011 (38 at 31 December 2010).

	2011	%	2010	%	Differenza
White collar	29	78%	28	78%	1
Senior managers	8	22%	8	22%	-
Total	**37**	**100%**	**36**	**100%**	**1**

Research and development

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

Report on corporate governance and ownership structure

In compliance with applicable laws and regulations, as well as the Italian Stockmarket Regulations and taking account of the third edition of the "Format for the report on corporate governance and ownership structure", published by the market management company in February 2012, information is herewith provided about the corporate governance system, also with reference to the principles of the Code of Conduct for Listed Companies (March 2006 edition), and about ownership structure, in compliance with the legislator's requirements as set out in art. 123-*bis* of Italy's Financial Markets Consolidation Act.

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 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, has been prepared in accordance with the *Format for the report on corporate governance and ownership structure* published by the market management company in February 2012, and will be made available to the public at the same time as the present annual financial 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., contained in its articles of association, forbids it from interfering in the management of any of the companies in which it has an interest.

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 2011 the Board of Directors:
- approved an amendment to the articles of association to reflect art. 135-*novies* par. 6 of the Financial Markets Consolidation Act, specifying certified email as the method that shareholders are entitled to use to electronically notify proxies;
- approved a new version of the Ethical Code;
- 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. Following the partial, proportionate demerger from De'Longhi S.p.A. to DeLclima S.p.A., which took effect from 1 January 2012, the Board of Directors updated the list of "strategically important subsidiaries" on 6 March 2012, identifying them as De'Longhi Appliances S.r.l. and De'Longhi Capital Service S.r.l., both 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 6 March 2012, 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.

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 solely comprising independent directors.

The Internal Auditing and Corporate Governance Committee met four times in 2011, 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 5 meetings during 2011, all 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 and in the Remuneration Report prepared in accordance with art. 123-*ter* of the Financial Markets Consolidation Act and art. 84-*quater* of the Issuer Regulations.

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

As required by art. 123-*bis* par. 2.(b) of the Financial Markets Consolidation Act it is reported that the De'Longhi S.p.A. uses a system of risk management and internal control for the financial reporting process that 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 (i.e. companies that are relevant in terms of size and companies that are relevant just in terms of certain processes and specific risks).
Having identified these companies, the risks have been mapped and assessed and the key manual and automatic controls have been identified and rated as high/medium/low priority accordingly; these controls have then been tested.

The 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.

It should be noted that the identification and analysis of the above risk factors contained in this report has also taken account of the effects of the partial, proportionate demerger from De'Longhi SpA ("Demerged Company" or "Company") in favour of DeLclima SpA ("Beneficiary Company") as approved by the Company's Board of Directors during 2011 and which took effect on 1 January 2012 ("Demerger"). As a result of the Demerger, De'Longhi S.p.A. has transferred to the Beneficiary Company the entire investment it held in DL Professional S.A. (in turn the owner of the entire share capital of Climaveneta S.p.A., DL Radiators S.p.A. and RC Group S.p.A., all companies active in the De'Longhi Group's Professional business), with the result that, from the start of financial year 2012, the De'Longhi Group has concentrated its activities in the Household business and no longer operates in the Professional one.

This has also led to a change in the list of the De'Longhi Group's strategically important companies identified by the Board of Directors at its meeting on 10 November 2011: in fact, after the Demerger took effect, the companies Climaveneta S.p.A., DL Radiators S.p.A. and RC Group S.p.A. have joined the DeLclima Group.

Accordingly, in addition to the information provided in previous years, the present report describes and analyses the main risk factors. Such risk factors - which could materially affect the company's future business - have been identified as a result of analytical work carried out in 2011, also involving discussion and agreement with the Internal Auditing Committee and the Board of Statutory Auditors.

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

Business risks can be classified in the following broad categories:

1 - Risks relating to macroeconomic trends

The company's economic performance and financial position are also affected by macroeconomic trends such as: trends in consumption, in the price of commodities, and in interest rates and exchange rates.

The world economy experienced a widespread slowdown in 2011. In particular, the most recent economic indicators (sources: Bank of Italy/ECB) show that activity in the major advanced economies weakened further in the fourth quarter; the only exception was the United States, where GDP appears to have picked up partly thanks to improved conditions in the jobs market.
At the same time, the economies of emerging countries also experienced a moderate deceleration, although still maintaining relatively high growth rates.
In this context of weak aggregate demand, inflationary pressures have eased, partly thanks to a lessening of tensions on commodity prices.

In the Euro-zone, tensions on the sovereign debt of certain countries have increased and spread, assuming systemic importance and reflecting on interest rates.
The price of government bonds in many Euro-zone countries has been affected by the uncertain responses to the crisis, despite the major fiscal adjustments being implemented by national governments.
As for currency markets, between late September and mid-January, the euro exchange rate depreciated against the US dollar, British pound, Japanese yen and Chinese renminbi, accompanied by a significant decrease in volatility.
The European Commission has accordingly announced proposals for stricter control of economic governance in member nations, for strengthening the existing financial stabilisation mechanisms (such as the EFSF and ESM) and for increasing the financial strength of banks.

In Italy, economic activity has been affected by the domestic and international context: GDP growth has been adversely affected by the weakness of domestic demand, aggravated by the recent fiscal corrections, the increase in unemployment, the rise in financing costs, and the slowdown in world trade, which nonetheless continues to support economic activity.
Average bank lending rates increased in 2011, reflecting the tensions in the government bonds market: from October on, the yield spread between Italian government bonds (ten-year BTPs) and German bunds rose steadily. However, since the end of December, the spread has gradually decreased for the shorter maturities.

This situation will not be quickly or easily resolved and is hindering growth prospects, especially in the Euro-zone.
According to the latest OECD forecasts, the recovery in 2012 will be modest and differ between countries. In the advanced economies, stagnation in Europe will be matched by expansion in the United States and Japan; growth in emerging countries is expected to ease in China and India, and most sharply in Brazil.
Moreover, the forecasts are affected not only by many factors of uncertainty, related to the effects of fiscal consolidation and of recently adopted financial stability measures in advanced economies, but also by the ability to adopt measures, currently being devised, to create conditions favourable to growth.

Report on operations to the separate financial statements

Risks relating to human resources management

The company's success largely depends on the ability of its executive directors and other members of management to effectively manage the company and the individual areas of business and on the professionalism of the human resources that it has been able to attract and develop.
The principal risks relating to human resources are linked to the company's ability to attract, develop, motivate, retain and empower staff who have the necessary talent, values, and specialist and/or managerial skills to satisfy the company's changing needs.
The loss of such individuals or other key employees without adequate replacement, or the failure to attract and retain new qualified resources could therefore adversely affect the company's business prospects, as well as its economic performance and/or financial position.
In terms of being able to attract quality resources, the company not only has specialist qualified professional human resources teams, but it also plans actions to improve the quality of working environment for its employees and staff as well as the company's external image (communication, contact with schools and universities, testimonials, internships, etc.), in some cases using the services of specialist professional firms with a proven track record.
In terms of motivating and developing personnel, actions taken include the strengthening of managerial, specialist, business and regulative competencies, with initiatives that involve managers and staff from different areas of the business.
There are also reward systems for employees at various levels in the organization - from the staff 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 can 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 separate tools have recently been developed and implemented for this purpose: a performance appraisal system (in use for several years) and an experimental system of "internal job postings".
The job posting system publicizes within the group's principal companies the vacancies of greatest interest, in order to stimulate application by internal candidates with the right qualifications and to foster career paths within the same company, or between group companies, either in Italy or abroad.

Exchange rate fluctuation risks

The company is exposed to the risk of fluctuations in currencies (other than its functional one) in which ordinary trade and financial transactions are denominated. For the purposes of protecting its income statement and statement of financial position from such fluctuations, the company adopts a suitable hedging policy and tools free from 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.
Despite such hedging transactions, sudden currency fluctuations could have an adverse impact on the company's business prospects.

Interest rate risks

The company holds assets and liabilities that are sensitive to interest rate changes and that are necessary to manage its liquidity and financial needs.

In particular, the company's main source of exposure to this risk comes from its floating-rate debt. This risk is managed centrally by the same team that manages currency risks. Nevertheless, sudden fluctuations in interest rates could have an adverse impact on the company's business prospects, as well as on its economic performance and/or financial position.

At the date of the present report, the company does not have any contracts to hedge such risks.

Liquidity and financing risks

The liquidity risk possibly faced by the company is the risk of not having the funds needed to fulfil payment obligations arising from operating and investment activities and from the maturity of financial instruments.

It is the company's policy to maintain a sufficiently large portfolio of counterparties of international repute for the purposes of satisfying its financing and hedging needs.

The company uses specific policies and procedures for the purposes of monitoring and managing this risk, including the centralized management of financial debt and cash, the raising of medium and long-term finance on capital markets and the obtaining of short-term credit lines that allow wide room for manoeuvre when managing working capital and cash flows.

The company has 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

Risks relating to the administrative liability of legal persons

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

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

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

Related parties

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

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 S.p.A.'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.

In 2011, effective implementation of the system of managing financial reporting risks was monitored on a continuous basis and periodically evaluated under the guidance of the Financial Reporting Officer, who is directly responsible for checking the correct and timely execution of administrative, accounting and financial activities.

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 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.

Risks relating to the rules applying to the Demerger

Under art. 2506-*quater*, par. 3, of the Italian Civil Code, as from the Demerger's effective date, the Demerged Company and the Beneficiary Company will remain jointly and severally liable for the liabilities of the Demerged Company not satisfied at the Demerger's effective date, to the extent of the actual value of net assets remaining with or transferred to them respectively.

However, under art. 173, par. 13, of the Italian Income Tax Code and art. 15, par. 2, of Decree 472 dated 18 December 1997 and as a departure from the Italian Civil Code, the Beneficiary Company could be held jointly and severally liable with the Demerged Company beyond the limit of net assets transferred only in the case of tax liabilities.

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.

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.

Since 1 January 2012, the demerger has had the effect of reducing share capital by €224,250,000 to €224,250,000 following a reduction in the unit par value of the shares from €3.00 to €1.50.

Group tax election

During 2011 the company filed for income tax on a group basis, as permitted by Chapter II Section II of Presidential Decree 917/86.

Subsequent events

The demerger, described earlier, took effect from 1 January 2012, leading to the creation of two distinct groups; this has been accompanied by changes in the share capital and reserves of De'Longhi S.p.A., as described in the Explanatory Notes.
As a result of the demerger, the shareholders of De'Longhi S.p.A. have been allotted, without payment of consideration, an equal number of shares in the beneficiary company DeLclima S.p.A. as those held at the time of demerger.

Proposed allocation of profit

Shareholders,

In submitting for your approval the financial statements for 2011, which report a profit of €36,033,405, we propose:

- to allocate €1,801,670 from this profit to the legal reserve;

- to distribute a gross dividend to the shareholders of €0.33 for each of the 149,500,000 outstanding shares, for a total pay-out of €49,335,000, of which €34,231,735 from the remainder of the profit for the year, €12,858,000 from the extraordinary reserve and €2,245,265 from profit (loss) carried forward.

Treviso, 6 March 2012

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

Separate financial statements

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

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

Income statement

(Amounts in Euro)	Notes	2011	of which non-recurring	2010	of which non-recurring
Revenues	1	6,962,873		6,014,215	
Totale revenues		**6,962,873**		**6,014,215**	
Raw and ancillary materials, consumables and goods	2	(67,927)		(62,556)	
Materials consumed		**(67,927)**		**(62,556)**	
Payroll costs	3	(5,311,122)		(5,110,081)	
Services and other operating expenses	4	(14,882,071)	3,335,499	(10,464,816)	
Provisions	5	34,816		318,870	
Amortization, depreciation and impairment	6	(44,817)		(56,442)	
EBIT		**(13,308,248)**		**(9,360,810)**	
Financial income (expenses)	7	47,321,029		25,223,699	
Financial income (expenses) from Discontinued Operations	7	-		6,000,000	
PROFIT (LOSS) BEFORE TAXES		**34,012,781**		**21,862,889**	
Income taxes	8	2,020,624		2,725,119	
NET PROFIT (LOSS)		**36,033,405**		**24,588,008**	

Statement of comprehensive income

(Amounts in Euro)	2011	2010
NET PROFIT (LOSS)	36,033,405	24,588,008
Other components of comprehensive income	-	-
Total comprehensive income (loss)	**36,033,405**	**24,588,008**

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

Statement of financial position

Assets

(Amounts in Euro)	Notes	31.12.2011	31.12.2010
NON-CURRENT ASSETS			
INTANGIBLE ASSETS		15,550	26,325
- Other intangible assets	9	15,550	26,325
PROPERTY, PLANT AND EQUIPMENT		92,656	88,430
- Other tangible assets	10	92,656	88,430
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		491,911,199	603,479,797
- Equity investments	11	490,630,556	601,705,456
- Receivables	12	1,280,643	1,774,341
DEFERRED TAX ASSETS	13	2,128,761	2,252,920
TOTAL NON-CURRENT ASSETS		**494,148,166**	**605,847,472**
CURRENT ASSETS			
INVENTORIES		-	-
TRADE RECEIVABLES	14	3,866,603	4,062,882
CURRENT TAX ASSETS	15	2,312,765	1,418,633
OTHER RECEIVABLES	16	32,117,031	18,219,469
CURRENT FINANCIAL RECEIVABLES AND ASSETS	17	5,003,000	18,474,634
CASH AND CASH EQUIVALENTS	18	22,866	98,097
TOTAL CURRENT ASSETS		**43,322,265**	**42,273,715**
ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS	19	261,205,300	-
ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS		**261,205,300**	**-**
TOTAL ASSETS		**798,675,731**	**648,121,187**

Net equity and liabilities

(Amounts in Euro)	Notes	31.12.2011	31.12.2010
NET EQUITY			
NET EQUITY		568,665,547	554,459,142
- Share capital	20	448,500,000	448,500,000
- Reserves	21	84,132,142	81,371,134
- Net profit (loss)		36,033,405	24,588,008
TOTAL NET EQUITY		**568,665,547**	**554,459,142**
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES		45,904,046	53,532,073
- Bank loans and borrowings (long-term portion)	22	44,855,067	51,946,896
- Other financial payables (long-term portion)	23	1,048,979	1,585,177
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		17,854,210	6,475,941
- Employee benefits	24	3,227,960	4,204,108
- Other provisions	25	14,626,250	2,271,833
TOTAL NON-CURRENT LIABILITIES		**63,758,256**	**60,008,014**
CURRENT LIABILITIES			
TRADE PAYABLES	26	5,772,622	2,773,249
FINANCIAL PAYABLES		146,988,874	20,060,858
- Bank loans and borrowings (short-term portion)	22	123,908,554	19,416,748
- Other financial payables (short-term portion)	23	23,080,320	644,110
CURRENT TAX LIABILITIES	27	9,293,930	5,885,198
OTHER PAYABLES	28	4,196,502	4,934,726
TOTAL CURRENT LIABILITIES		**166,251,928**	**33,654,031**
TOTAL NET EQUITY AND LIABILITIES		**798,675,731**	**648,121,187**

Appendix 4 reports the effect of related party transactions on the balance sheet, as required by CONSOB Resolution 15519 of 27 July 2006.

Statement of cash flow

(Amounts in Euro)	Notes	2011	2010
Net profit (loss)		36,033,405	24,588,008
Income taxes for the period	*8*	(2,020,624)	(2,725,119)
Income from dividend receipts	*7*	(50,244,800)	(26,264,480)
Income from dividend receipts from Discontinued Operations	*7*	-	(6,000,000)
Amortization, depreciation and impairment	*6*	44,817	56,442
Net change in provisions		(907,308)	4,206,314
Cash flow generated (absorbed) by current operations (A)		**(17,094,510)**	**(6,138,835)**
Change in assets and liabilities for the period:			
Trade receivables	*14*	197,682	(419,619)
Trade payables		2,999,374	(505,489)
Other current assets and liabilities		3,388,509	2,118,141
Payment of income taxes		(1,080,410)	(1,302,872)
Cash flow generated (absorbed) by movements in working capital (B)		**5,505,155**	**(109,839)**
Cash flow generated (absorbed) by current operations and movements in working capital (A+B)		**(11,589,355)**	**(6,248,674)**
Investment activities:			
Investments in intangible assets	*9*	(2,000)	(10,000)
Investments in property, plant and equipment	*10*	(52,748)	(23,160)
Proceeds from sale of property, plant and equipment and other cash flows		16,152	2,899
Net investment (disposals) in equity investments and other financial assets	*11*	(130,400)	-
Dividends receipts		45,244,800	26,264,480
Cash flow from Discontinued Operations	*19*	(150,000,000)	6,000,000
Cash flow from investment activities (C)		**(104,924,196)**	**32,234,219**
Dividends paid		(21,827,000)	(11,960,000)
New loans		21,970,000	52,817,500
Payment of interests on loans		(2,298,040)	(1,851,676)
Repayment of loans and other net changes in sources of finance		118,593,378	(65,094,732)
Cash flow generated (absorbed) by changes in net equity and by financing activities (D)		**116,438,338**	**(26,088,908)**
Cash flow for the period (A+B+C+D)		**(75,213)**	**(103,363)**
Opening cash and cash equivalents	*18*	**98,079**	**201,442**
Increase (decrease) in cash and cash equivalents (A+B+C+D)		(75,213)	(103,363)
Closing cash and cash equivalents	*18*	**22,866**	**98,079**

Appendix 2 presents the statement of cash flows at 31 December 2011 in terms of net financial position, that represents gross financial liabilities less cash and cash equivalents and other financial receivables. The individual line items in the statement of financial position are analysed later in paragraph *Detail of the net financial position.*

Statement of changes in net equity

(Amounts in Euro)	SHARE CAPITAL	SHARE PREMIUM RESERVE	LEGAL RESERVE	EXTRAORDINARY RESERVE	PROFIT (LOSS) CARRIED FORWARD	PROFIT (LOSS) OF THE PERIOD	TOTAL
Balance at 31 December 2009	**448,500,000**	**325,090**	**7,777,650**	**58,793,680**	**12,686,589**	**13,748,125**	**541,831,134**
Allocation of 2009 result as per AGM resolution of 21 April 2010							
- distribution of dividends						(11,960,000)	(11,960,000)
- allocation to reserves			687,407	1,100,718		(1,788,125)	-
Movements from transactions with shareholders	**-**	**-**	**687,407**	**1,100,718**	**-**	**(13,748,125)**	**(11,960,000)**
Comprehensive income (loss)						24,588,008	24,588,008
Balance at 31 December 2010	**448,500,000**	**325,090**	**8,465,057**	**59,894,398**	**12,686,589**	**24,588,008**	**554,459,142**

(Amounts in Euro)	SHARE CAPITAL	SHARE PREMIUM RESERVE	LEGAL RESERVE	EXTRAORDINARY RESERVE	PROFIT (LOSS) CARRIED FORWARD	PROFIT (LOSS) OF THE PERIOD	TOTAL
(Amounts in Euro)	**448,500,000**	**325,090**	**8,465,057**	**59,894,398**	**12,686,589**	**24,588,008**	**554,459,142**
Allocation of 2010 result as per AGM resolution of 12 April 2011							
- distribution of dividends						(21,827,000)	(21,827,000)
- allocation to reserves			1,229,401	1,531,607		(2,761,008)	-
Movements from transactions with shareholders	**-**	**-**	**1,229,401**	**1,531,607**	**-**	**(24,588,008)**	**(21,827,000)**
Comprehensive income (loss)						36,033,405	36,033,405
Balance at 31 December 2011	**448,500,000**	**325,090**	**9,694,458**	**61,426,005**	**12,686,589**	**36,033,405**	**568,665,547**

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.

Demerger of the professional division

After executing the merger deed on 22 December 2011, the partial, proportionate demerger by De'Longhi S.p.A. to De'Longhi Clima S.p.A (a wholly-owned subsidiary which changed its name from 1 January 2012 to DeLclima S.p.A.) took effect from 1 January 2012, in accordance with the resolution adopted by the respective shareholders in meetings held on 11 October 2011.

Under the demerger, De'Longhi S.p.A. has transferred to DeLclima S.p.A the business of the Professional division, meaning the group's businesses that operate in the production and sale of machines for industrial air-conditioning systems, ICT industrial process chillers and water-filled radiators.

The present financial statements at 31 December 2011 refer to the situation prior to demerger, which has taken effect only since 1 January 2012. Furthermore, since the demerger became "highly probable" in December 2011, within the meaning of IFRS 5 – *Non-current assets held for sale and discontinued operations*, all the activities transferred to DeLclima S.p.A qualify as "Discontinued Operations" and have been presented as such in the present financial statements, with detailed breakdowns of the amounts provided in *note 19. Non-current assets held for sale and discontinued operations.* In addition, the comparative revenues and expenses and cash flows relating to Discontinued Operations in 2010 have been reclassified to the specific lines reporting discontinued operations in the income statement and statement of cash flows respectively.

For completeness, it is reported that the demerger is a business combination involving entities or businesses under common control and so is excluded from the scope of IFRS 3 and IFRIC 17. As a result, the financial statements have been prepared on the basis of consistent values.

Accounting standards

The financial statements of De'Longhi S.p.A. at 31 December 2011 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 2011), 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 2011 are the same as those used for preparing the financial statements at 31 December 2010, except for certain new amendments and accounting standards described below, which nonetheless have had an immaterial impact on the present annual financial report.

The financial statements at 31 December 2011 comprise the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, the statement of changes in net equity and these explanatory notes.
The statement of financial position has been prepared on a basis that distinguishes between current and non-current items.
The income statement has been presented on the basis of the nature of expense, being a suitable structure for faithfully representing the company's performance.
The statement of cash flows has been prepared using the "indirect method" allowed by IAS 7.

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

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

The risks and uncertainties relating to the business are described in a specific section of the Report on operations. The methods used by the company to manage financial risks are described in *note 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 2011 are described below:

New amendments and accounting standards applied by the company for the first time

During 2011 the European Union endorsed a number of "*Improvements to International Financial Reporting Standards*", which are already applicable to the present financial statements but without having a material impact.

In addition, the following standards and IFRIC interpretations, both new and revised, became effective from 1 January 2011 and so were applied for the first time in the present financial statements, without however having a material impact.
- IAS 24 - *Related party disclosures (revised);*
- IAS 32 - *Financial instruments: presentation (revised);*
- IFRIC 14 - *Prepayment of a minimum funding requirement (revised);*
- IFRIC 13 - *Customer loyalty programmes;*
- IFRIC 19 - *Extinguishing financial liabilities with equity instruments.*

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

In November 2011, the European Commission adopted the amendments to IFRS 7 - *Financial instruments: disclosures*, which seek to allow users of financial statements to improve their understanding of exposures to risks associated with transfers of financial assets. The amendments apply to financial statements for annual periods beginning on or after 30 June 2011; the company has not adopted these amendments early.

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

At the date of the present financial statements, new standards have also been issued but cannot be applied because the endorsement process by the European Union has not yet been completed.

On 12 May 2011, the IASB published IFRS 10 - *Consolidated financial statements*, with the aim of proposing a new standard for consolidated financial statements to replace the current version of IAS 27 - *Consolidated and separate financial statements* and also to incorporate the contents of SIC 12 - *Special purpose entities.*

On the same date the IASB also published IFRS 11 - *Joint arrangements*, which supersedes IAS 31, and IFRS 12 - *Disclosure of interests in other entities*, which establishes what information to disclose in the notes to financial statements to which IFRS 10 and IFRS 11 apply.

At the same time revised versions were issued of IAS 27 - *Separate financial statements* and IAS 28 - *Investments in associates and joint ventures.*

Also issued was IFRS 13 – *Fair value measurement*, which provides guidance on how to determine fair value.

On 16 June 2011, the IASB published a revised version of IAS 19 - *Employee benefits*, which makes a number of changes to the accounting treatment for employee benefits, and an amendment to IAS 1 - *Presentation of items of other comprehensive income* (OCI).

Amendments were also published to IAS 12 - *Income taxes* and to IFRS 1- *First-time adoption of International Financial Reporting Standards.*

Disclosure by operating segments

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

Principal accounting policies

Intangible assets

Other intangible assets

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

Property, plant and equipment

Property, plant and equipment owned by the company are recorded at purchase or production cost and systematically depreciated over their residual useful lives.
The cost of assets qualifying for capitalization also includes the borrowing costs directly attributable to the acquisition, construction or production of the asset itself.

Subsequent expenditure is capitalized only if it increases the future economic benefits flowing to the enterprise. All other costs are expensed to income as incurred.

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

Industrial and commercial equipment	1 year
Other	4 – 8 years

Impairment of non-financial assets

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

Assets and liabilities held for sale and Discontinued Operations

Non-current assets and disposal groups are classified as held for sale or Discontinued operations if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition.
Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amounts and fair value less costs to sell.

Financial instruments

Financial assets

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

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

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

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

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

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

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

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

The company's financial assets are classified as both current and non-current assets.
"Non-current equity investments and other financial assets" include equity investments and non-current loans and receivables.
Current financial assets include trade receivables, other current financial assets, the positive fair value of derivatives and cash and cash equivalents.

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

Financial liabilities

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

Derivatives

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

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

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

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

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

Employee benefits

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. Revenues

These are analyzed as follows:

	2011	2010	Change
Out-of-period gains	370	178	192
Damages reimbursed	110	7	103
Capital gains	6	-	6
Other income	6,477	5,829	648
Total	**6,963**	**6,014**	**949**

"Revenues" include €6,464 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

These are analyzed as follows:

	2011	2010	Change
Raw materials	13	16	(3)
Other purchases	55	47	8
Total	**68**	**63**	**5**

"Raw and ancillary materials, consumables and goods" include €1 thousand in costs from group companies, as reported in Appendix 4.

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 analyzed as follows:

	2011	2010	Change
Consulting services	5,372	2,301	3,071
Travel and entertaining	3,346	3,067	279
Insurance	2,714	1,839	875
Directors' emoluments	1,594	1,587	7
Rentals and leasing	322	317	5
Advertising and promotional activities	156	280	(124)
Statutory auditors' emoluments	145	152	(7)
Telecommunication costs	144	120	24
Other sundry services	786	489	297
Total services	**14,579**	**10,152**	**4,427**
Sundry taxes	86	59	27
Out-of-period losses	23	35	(12)
Other	194	219	(25)
Total other operating expenses	**303**	**313**	**(10)**
Total services and other operating expenses	**14,882**	**10,465**	**4,417**

"Services and other operating expenses" include €880 thousand in costs from related parties, as reported in Appendix 4, and €3,335 thousand in non-recurring expenses, of which €2,819 thousand in costs relating to the demerger described in *note 19. Non-current assets held for sale and discontinued operations.*

5. Provisions

These mostly reflect the net effect of changes in provisions for uninsured liabilities, comprising €228 thousand in additions to the provision and €263 thousand in releases for disputes settled in the year (more details can be found in *note 25. Other provisions*).

6. Amortization, depreciation and impairment

These are analyzed as follows:

	2011	2010	Change
Depreciation of property, plant and equipment	32	44	(12)
Amortization of intangible assets	13	12	1
Total	**45**	**56**	**(11)**

7. Financial income (expenses)

Net financial income and expenses are broken down as follows:

	2011	2010	Change
Dividends	50,245	26,264	23,981
Financial income (expenses) from equity investments	**50,245**	**26,264**	**23,981**
Gains (losses) on currency hedging transactions	(5)	(205)	200
Exchange gains (losses)	(42)	206	(248)
Exchange gains (losses)	**(47)**	**1**	**(48)**
Interest income from loans	265	130	135
Bank interest income	2	5	(3)
Financial income	**267**	**135**	**132**
Interest expense on long-term loans and borrowings	(2,312)	(1,562)	(750)
Interest expense on short-term loans and borrowings	(240)	(58)	(182)
Financial expenses	**(2,552)**	**(1,620)**	**(932)**
Other sundry income (expenses)	(592)	444	(1,036)
Other financial income (expenses)	**(592)**	**444**	**(1,036)**
Financial income (expenses)	**47,321**	**25,224**	**22,097**

	2011	2010	Change
Dividends from Discontinued Operations	-	6,000	(6,000)
Net financial income (expenses) from Discontinued Operations	**-**	**6,000**	**(6,000)**

Dividends relate to amounts declared by the subsidiaries De'Longhi Household S.A., De'Longhi Appliances S.r.l. and E-Services S.r.l..
"Financial income (expenses)" includes €51,336 thousand in income from group companies, as reported in Appendix 4.

At 31 December 2010, "Net financial income (expenses) from Discontinued Operations" refer to the dividends declared by the subsidiary De'Longhi Professional S.A. which was the subject of the demerger, discussed in *note 19. Non-current assets held for sale and discontinued operations*.

8. Income taxes

These are analyzed as follows:

	2011	2010	Change
Current income taxes	2,145	2,465	(320)
Advanced (deferred) taxes	(124)	260	(384)
Total	**2,021**	**2,725**	**(704)**

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:
- €3,834 thousand in income from tax losses for IRES (Italy's corporate income tax);
- €1,594 thousand in charges for the separate taxation of income under art. 167 and art. 168 of Presidential Decree 917/86;
- €82 thousand for agreed settlements of tax assessments;
- €23 thousand in provisions recognized for disputes still in progress;
- €10 thousand in income due to changes in the IRES rate on intercompany payments under the group tax filing.

"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 13. Deferred tax assets*.

Comments on the statement of financial position: assets

Non-current assets

9. Intangible assets

These are analyzed as follows:

	31 December 2011		31 December 2010		
	Gross	Net	Gross	Net	Change
Patents	51	15	49	26	(11)

The following table reports movements during 2011:

	Patents
Net opening balance	**26**
Additions	2
Disposals	-
Amortization	(13)
Net closing balance	**15**

10. Property, plant and equipment

These are analyzed as follows:

	31 December 2011		31 December 2010		
	Gross	Net	Gross	Net	Change
Industrial and commercial equipment	8	-	9	-	-
Other	244	93	227	88	5
Total	**252**	**93**	**236**	**88**	**5**

The following table reports movements during 2011:

	Industrial and commercial equipment	Other	Total
Net opening balance	-	**88**	**88**
Additions	1	52	53
Disposals	-	(16)	(16)
Depreciation	(1)	(31)	(32)
Net closing balance	-	**93**	**93**

The net increase of €5 thousand reflects €53 thousand in additions, €16 thousand in disposals and €32 thousand in depreciation charges.

11. Equity investments

These are analyzed as follows:

	31 December 2011	31 December 2010	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 Clima S.p.A. (*)	130	-	130
De'Longhi Polska Sp.Zo.o.	-	-	-
Total	**490,630**	**601,705**	**(111,075)**

(*) New name of VVZ S.r.l. after its transformation from a private to a public limited company approved on 18 July 2011. Since 1 January 2012 it has assumed the name of DeLclima S.p.A..

The list of equity investments and the related movements during 2011 can be found in Appendix 3.

In relation to the movements in the year, the change relating to the subsidiary De' Longhi Professional S.A. is due to a different presentation in the financial statements. Further comments can be found in *note 19. Non-current assets held for sale and discontinued operations.*

During the year the interest worth €10 thousand previously held through a nominee company in De'Longhi Clima S.p.A. was put into the name of De'Longhi S.p.A.; subsequently €120 thousand in capital contributions were paid into De'Longhi Clima S.p.A..
The interest held by De'Longhi Household S.A. in De'Longhi Professional S.A. was acquired for €0.4 thousand, giving De'Longhi S.p.A. 100% direct control of the latter.

The recoverability of the value of the equity investments has been tested for impairment by applying the Discounted Cash Flow method to cash flow forecasts contained in the three-year plans approved by management. These plans have been prepared assuming realistic scenarios based on the information available at the reporting date, also taking account of the budget approved for 2012 in respect of the subsidiaries. Plan data was projected beyond the explicit planning period using a perpetuity growth rate that was no higher than those expected for the markets in which the individual cash-generating units (CGUs) operate. The growth rate in terminal values used for projecting beyond the planning period was 2% for all the CGUs. The cash flows and discount rate were determined net of tax. The discount rate of 7.4%, used for all the CGUs and so also for the equity investments, reflects current market assessments of the time value of money and takes account of the risks specific to the sector. The impairment tests carried out at the end of 2011 have not revealed any significant evidence that equity investments are impaired. The results obtained using the discounted cash flow method have been tested for their sensitivity to changes in certain key variables, within reasonable ranges and on the basis of mutually consistent assumptions. The variables altered were the discount rate (between 7.2% and 7.6%) and the growth rate in terminal value (in the range 1.8%-2.2%). The sensitivity analysis has revealed relatively stable results; in fact, the minimum and maximum amounts diverged by around 10% from the central point when both variables were altered, while the divergence was considerably smaller when more reasonable assumptions regarding the change in variables were adopted.

12. Non-current receivables

This balance is analyzed as follows:

	31 December 2011	31 December 2010	Change
Receivables from subsidiary companies	1,281	1,774	(493)

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

13. 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 December 2011			31 December 2010			Effect on income statement
	Taxable amount	Tax rate	Total tax	Taxable amount	Tax rate	Total tax	
Provisions for contingencies and other charges	5,111	27.5%	1,406	6,178	27.5%	1,699	(293)
Other temporary differences	2,629	27.5%	723	2,013	27.5%	554	169
Total deferred tax assets	**7,740**		**2,129**	**8,191**		**2,253**	**(124)**
Deferred tax assets on tax losses	-	-	-	-	-	-	-
Net total	**7,740**		**2,129**	**8,191**		**2,253**	**(124)**

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

Current assets

14. Trade receivables

These are analyzed as follows:

	31 December 2011	31 December 2010	Change
Trade receivables due within 12 months	4,967	5,164	(197)
Allowance for doubtful accounts	(1,100)	(1,101)	1
Total	**3,867**	**4,063**	**(196)**

Trade receivables are stated net of an allowance for doubtful accounts of €1,100 thousand, representing the estimated risk at the reporting date.

Explanatory notes

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

	31 December 2010	Increases	Utilization	31 December 2011
Allowance for doubtful accounts	1,101	-	(1)	1,100

"Trade receivables" include €3,855 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 December 2011	%	31 December 2010	%
Italy	3,549	91.8%	3,235	79.6%
United Kingdom	202	5.2%	723	17.8%
Rest of the world	110	2.8%	105	2.6%
Other Europe	6	0.2%	-	-
Total	**3,867**	**100.0%**	**4,063**	**100.0%**

15. Current tax assets

These are detailed as follows:

	31 December 2011	31 December 2010	Change
VAT	1,558	670	888
Direct taxes	371	375	(4)
Tax refunds requested	206	256	(50)
Other tax receivables	178	118	60
Total current tax assets	**2,313**	**1,419**	**894**

For the purposes of optimizing the financial management of its tax affairs, the company has filed for income tax on a group basis in 2011 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:
- €176 thousand in credits for IRES (Italian corporate income tax) in relation to withholding taxes incurred by the company or its subsidiaries;
- €192 thousand in other credits requested for refund in relation to "IRES for partial IRAP deduction".

"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 €204 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.

16. Other receivables

These are analyzed as follows:

	31 December 2011	31 December 2010	Change
Prepaid costs	1,233	1,100	133
Advances to suppliers	46	32	14
Employees	5	6	(1)
Other	30,833	17,082	13,751
Total other receivables	**32,117**	**18,220**	**13,897**

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

"Other" receivables include €30,755 thousand in amounts due from related parties, as reported in Appendix 4.

None of the other receivables is due beyond 12 months.

17. Current financial receivables and assets

These are analyzed as follows:

	31 December 2011	31 December 2010	Change
Financial receivables	5,000	18,465	(13,465)
Fair value of derivatives	3	10	(7)
Total current financial receivables and assets	**5,003**	**18,475**	**(13,472)**

"Financial receivables" comprise dividends receivable from the subsidiary De'Longhi Appliances S.r.l.. At 31 December 2010, this balance referred to amounts owed by De'Longhi Capital Services S.r.l. in connection with the centralized treasury service. At 31 December 2011, there is a net liability position in connection with this service, as discussed in *note 23. Other financial payables.*

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

The above balance includes €5,003 thousand in amounts owed by group companies, as reported in Appendix 4.

18. Cash and cash equivalents

This balance consists of surplus liquidity on bank current accounts.

19. Non-current assets held for sale and discontinued operations

After executing the merger deed on 22 December 2011, the partial, proportionate demerger by De'Longhi S.p.A. to De'Longhi Clima S.p.A (a wholly-owned subsidiary which changed its name from 1 January 2012 to DeLclima S.p.A.) took effect from 1 January 2012, in accordance with the resolution adopted by the respective shareholders in meetings held on 11 October 2011. Under the demerger, De'Longhi S.p.A. has transferred to DeLclima S.p.A its equity investment in De'Longhi Professional S.A., a Luxembourg-registered holding company for the interests in the companies that operate in the group's "Professional" division, specialized in the production and sale of large thermo-cooling systems and heating products.

The demerger took place on the basis of consistent values, without recognizing any gain or loss, meaning that the above equity investment was transferred to the beneficiary company DeLclima S.p.A. at book value.

During 2011, the company that was the subject of the demerger received a capital contribution of €150,000 thousand. The recoverability of the value of the equity investment has been tested for impairment, details of which can be found in *note 11. Equity investments.*

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 12 April 2011 declared a dividend totalling €21,827 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 December 2011	31 December 2010	Change
Share premium reserve	325	325	-
Legal reserve	9,694	8,465	1,229
Other reserves:			
- Extraordinary reserve	61,426	59,894	1,532
- Profit (loss) carried forward	12,687	12,687	-
Total reserves	**84,132**	**81,371**	**2,761**

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 €9,694 thousand at 31 December 2011. The increase of €1,229 thousand since 31 December 2010 reflects the allocation of profit for 2010, as approved by the AGM on 12 April 2011.

The "Extraordinary reserve" amounts to €61,426 thousand. The increase of €1,532 thousand since 31 December 2010 reflects the allocation of profit for 2010, as approved by the AGM on 12 April 2011.

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	9,694		B	
- Extraordinary reserve	61,426		A, B, C	61,426
- Profit (loss) carried forward	12,687		A, B, C	4,114
Total	**532,632**	(3)		**65,540**
Undistributable amount				-
Distributable amount				**65,540**

(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

Effects of the demerger on share capital and reserves

As a result of the demerger, since 1 January 2012 net equity has been proportionately reduced by €261,205 thousand, of which €224,250 thousand accounted for as a decrease in share capital and €36,955 thousand as a decrease in reserves. In detail:

- share capital has decreased by €224,250 thousand to €224,250 thousand;
- the share premium reserve has decreased by €162 thousand to €163 thousand;
- the legal reserve has decreased by €4,827 thousand to €4,847 thousand;
- the extraordinary reserve has decreased by €31,946 thousand to €29,480 thousand.

The residual amount of net equity at 1 January 2012, after the effects of the demerger, is €307,460 thousand.

The reduction in share capital determined by the demerger has not involved cancellation of the shares of De'Longhi S.p.A., but rather a reduction in their unit par value from €3.00 to €1.50.

The reduction of €1.50 in the par value of the shares of De'Longhi S.p.A. (corresponding to a proportionate reduction in net equity), is the result of issuing new shares in the beneficiary company DeLclima S.p.A. with a par value of €1.50 each in a ratio of one-to-one, for no consideration.

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 31.12.2011	Within one year	One to five years	Beyond five years	Balance 31.12.2010	Change
Overdrafts	104,914	-	-	104,914	35	-	-	35	104,879
Long-term loans (current portion)	18,995	-	-	18,995	19,381	-	-	19,381	(386)
Total short-term bank loans and borrowings	**123,909**	**-**	**-**	**123,909**	**19,416**	**-**	**-**	**19,416**	**104,493**
Long-term loans		41,066	3,789	44,855	-	44,728	7,219	51,947	(7,092)
Total bank loans and borrowings	**123,909**	**41,066**	**3,789**	**168,764**	**19,416**	**44,728**	**7,219**	**71,363**	**97,401**

Bank loans and borrowings are analyzed as follows:

Loans (including short-term portion)	**31.12.2011**	**31.12.2010**	**Change**
Centrobanca S.p.A. (club loan with Banca Popolare di Vicenza S.C.p.A.)	29,875	17,865	12,010
Banca Popolare di Sondrio S.C.p.A.	11,648	17,776	(6,128)
Banca Popolare Friuladria S.p.A.	8,645	11,480	(2,835)
Banca Popolare di Vicenza S.C.p.A.	4,995	4,983	12
Banca di Cividale S.p.A.	4,376	6,338	(1,962)
KBC Bank N.V., succursale italiana	4,166	12,475	(8,309)
IMI L.46	145	411	(266)
Total long-term loans	**63,850**	**71,328**	**(7,478)**

The loans from Banca Popolare Friuladria, KBC Bank, Centrobanca-Banca di Credito Finanziario e Mobiliare S.p.A. and Banca Popolare di Vicenza S.C.p.A., 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.
The company was in compliance with these covenants at 31 December 2011.
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).

23. Other financial payables

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

	31 December 2011	**31 December 2010**	**Change**
Ministry of Industry loans (short-term portion)	536	557	(21)
Negative fair value of derivatives (short-term portion)	7	6	1
Other short-term financial payables	22,537	81	22,456
Total short-term payables	**23,080**	**644**	**22,436**
Ministry of Industry loans (one to five years)	1,049	1,585	(536)
Total long-term payables	1,049	1,585	(536)
Total other financial payables	**24,129**	**2,229**	**21,900**

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

"Other short-term financial payables" comprise €22,455 thousand in liabilities to the subsidiary De'Longhi Capital Services S.r.l. for centralized treasury services and €82 thousand for financial services received.

The balance includes €22,544 thousand in payables to group companies, as reported in Appendix 4.

Net financial position

Details of the net financial position are as follows:

	31 December 2011	31 December 2010	Change
A. Cash	11	10	1
B. Cash equivalents	12	88	(76)
C. Securities	-	-	-
D. Total liquidity (A+B+C)	**23**	**98**	**(75)**
E. Current financial receivables and other securities	**6,284**	**20,249**	**(13,965)**
of which:			
Fair value of derivatives	*3*	*10*	*(7)*
F. Current bank loans and borrowings	(104,914)	(35)	(104,879)
G. Current portion of non-current debt	(18,995)	(19,382)	387
H. Other current financial payables	(23,080)	(644)	(22,436)
of which:			
Fair value of derivatives	*(7)*	*(6)*	*(1)*
I. Current financial debt (F+G+H)	**(146,989)**	**(20,061)**	**(126,928)**
J. Net current financial debt (I +E + D)	**(140,682)**	**286**	**(140,968)**
K. Non-current bank loans and borrowings	(44,855)	(51,947)	7,092
L. Bonds	-	-	-
M. Other non-current payables	(1,049)	(1,585)	536
N. Non-current financial debt (K+L+M)	**(45,904)**	**(53,532)**	**7,628**
Total net financial debt (J+N)	**(186,586)**	**(53,246)**	**(133,340)**

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 December 2011	31 December 2010	Change
Provision for severance indemnities	328	314	14
Short-term benefits and Phantom Stock Option plan	2,900	3,890	(990)
Total employee benefits	**3,228**	**4,204**	**(976)**

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

	31 December 2011	Average 2011	31 December 2010	Average 2010
White collar	29	29	30	28
Senior managers	8	8	8	8
Total	**37**	**37**	**38**	**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 December 2011	31 December 2010	Change
Defined benefit obligations	328	314	14

Net cost charged to income	31 December 2011	31 December 2010	Change
Current service cost	-	-	-
Interest cost on obligations	16	16	-
Total	**16**	**16**	**-**

Change in present value of obligations	31 December 2011	31 December 2010	Change
Present value at 1 January	**314**	**314**	**-**
Current service cost	-	-	-
Utilization of provision	(2)	(7)	5
Interest cost on obligations	16	16	-
Other changes	-	(9)	9
Present value at reporting date	**328**	**314**	**14**

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

Assumptions used	TFR 2011	TFR 2010
Discount rate	4.7%	4.3%
Future salary increases	2.0% – 4.0%	2.0% – 4.0%
Inflation rate	2.0%	2.0%

The short-term benefits include extraordinary incentives relating to 2011.

A share-based compensation scheme (Phantom Stock Option Plan) was approved in 2008; this entitled beneficiaries to cash payments based on the growth in the company's ordinary share price.
De'Longhi S.p.A. published an information circular with regard to this plan, as required by art. 84-*bis* of the Issuer Regulations; this circular was prepared 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 had allotted a total of 700,000 phantom stock options to beneficiaries of this plan; the number of exercisable options had decreased to 500,000 at 31 December 2010 due to changes in the number of plan beneficiaries. During 2011 the plan beneficiaries exercised all the phantom stock options, meaning that there is no outstanding liability for this plan at 31 December 2011.
The options were exercised in the second half of 2011 at the average monthly share price, ranging from €7.61 to €8.48, for a total value of €1,542 thousand, inclusive of social security costs.

25. Other provisions

Movements are as follows:

	31 December 2010	Utilization	Increases	Release	31 December 2011
Provision for uninsured liabilities	416	(17)	228	(263)	364
Other provisions for contingencies	1,856	(25)	12,431	-	14,262
Total	**2,272**	**(42)**	**12,659**	**(263)**	**14,626**

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 €5,773 thousand represents the amount owed by the company to third parties and group companies for the supply of services. Details of amounts owed to group companies are reported in Appendix 4.

Trade payables are broken down by geographical area as follows:

	31 December 2011	%	31 December 2010	%
Italy	5,705	98.8%	2,469	89.0%
United States, Canada, Mexico	34	0.6%	262	9.5%
Rest of Europe	20	0.4%	38	1.4%
Rest of the world	14	0.2%	-	-
United Kingdom	-	-	4	0.1%
Total	**5,773**	**100.0%**	**2,773**	**100.0%**

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

27. Current tax liabilities

These are analyzed as follows:

	31 December 2011	31 December 2010	Change
Direct taxes	8,212	4,862	3,350
Withholdings payable	1,082	988	94
Other taxes	-	35	(35)
Total current tax liabilities	**9,294**	**5,885**	**3,409**

"Direct taxes" include €7,782 thousand for the amount due for the group tax filing under Chapter II, Section II of Presidential Decree 917/86 and €430 thousand in amounts due for the separate taxation of income under art. 167 and art. 168 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 analyzed as follows:

	31 December 2011	31 December 2010	Change
Social security institutions	449	392	57
Sundry payables	3,748	4,543	(795)
Total other payables	**4,197**	**4,935**	**(738)**

"Social security institutions" include €371 thousand in payables to Italy's principal social security agency (INPS), €30 thousand in payables to pension funds and €48 thousand in amounts owed to other welfare agencies.

"Sundry payables" are detailed as follows:

	31 December 2011	31 December 2010	Change
Group companies	1,936	3,261	(1,325)
Employees	976	898	78
Other	836	385	451
Total sundry payables	**3,748**	**4,544**	**(796)**

"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 15. Current tax assets.*

29. Commitments

These are detailed as follows:

	31 December 2011	31 December 2010	Change
Guarantees given for the benefit of:			
De'Longhi Capital Services S.r.l.	428,897	397,677	31,220
DL Kenwood A.P.A. Ltd	89,132	83,718	5,414
DL Radiators S.p.A.	29,857	24,742	5,115
De'Longhi Deutschland Gmbh	23,000	10,000	13,000
De'Longhi Australia PTY Ltd	18,864	18,270	594
Kenwood Ltd	17,000	19,000	(2,000)
De'Longhi Japan Corp.	16,068	26,783	(10,715)
De'Longhi Brasil Ltda	13,770	121	13,649
De'Longhi Appliances S.r.l.	11,475	9,381	2,094
Climaveneta S.p.A.	9,623	5,950	3,673
De'Longhi France S.A.	7,100	7,100	-
De'Longhi Electrodomesticos Espana S.L.	5,513	5,513	-
On Shiu Zhongshan Electrical Appliance Co. Ltd	3,432	3,174	258
Kenwood Home Appliances Pty Ltd. SA – South Africa	1,908	2,000	(92)
Dong Guan De'Longhi Kenwood Appliances Co. Ltd	1,319	1,220	99
De'Longhi Ukraine LLC	1,159	-	1,159
Elle S.r.l.	507	507	-
Climaveneta Polska Sp.Zo.o.	494	553	(59)
Kenwood Hellas Sole partner Ltd Liability Co.	157	1,000	(843)
Carg di Carifone Raffaele	31	-	31
E-Services S.r.l.	13	13	-
De'Longhi New Zeland Ltd	-	6,686	(6,686)
Zass Alabuga LLC	-	3,742	(3,742)
De'Longhi LLC	-	3,742	(3,742)
Kenwood Appliances Singapore Pte Ltd	-	100	(100)
Total	**679,319**	**630,992**	**48,327**

Guarantees have been given in the interest of group companies for €679,288 thousand and in the interest of third parties for €31 thousand.
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 2011 and at 31 December 2010 on the basis of undiscounted contractual payments.

	Undiscounted cash flows at 31.12.2011	Within one year	One to five years	Beyond five years	Undiscounted cash flows at 31.12.2010	Within one year	One to five years	Beyond five years
Bank loans and borrowings (*)	(173,416)	(125,698)	(43,879)	(3,839)	(75,863)	(21,043)	(47,420)	(7,400)
Other financial payables (**)	(24,167)	(23,103)	(1,064)		(2,215)	(592)	(1,623)	-
Trade payables	(5,773)	(5,773)			(2,773)	(2,773)	-	-
Current tax liabilities and other payables	(13,491)	(13,491)			(10,821)	(10,821)	-	-
Total	**(216,847)**	**(168,065)**	**(44,943)**	**(3,839)**	**(91,672)**	**(35,229)**	**(49,043)**	**(7,400)**

(*)The corresponding balance reported in the financial statements is €168,764 thousand at 31 December 2011 and €71,363 thousand at 31 December 2010, which reflects long-term loans and borrowings inclusive of the short-term portino.
(**) The corresponding balance reported in the financial statements is €24,129 thousand at 31 December 2010 and €2,229 thousand at 31 December 2010, which reflects financing payables to the subsidiary De'Longhi Capital Services S.r.l. for centralized treasury services and 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 12. Other non-current receivables, 14. Trade receivables, 17. 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 2011

Outstanding currency derivatives that hedge foreign currency receivables and payables at 31 December 2011 are reported below; all these transactions were completed with the subsidiary De'Longhi Capital Services S.r.l.:

(Amounts v Euro)	Notional amount						Fair value with Group	
Currency	Group			Third parties			Asset	Liability
	Purchases	Sales	Total	Purchases	Sales	Total		
HKD/EUR		1,215,000	1,215,000	-	-	-		(1.143)
USD/EUR	(191,200)	407,500	216,300	-	-	-	1.182	(1.681)
CAD/EUR		83,600	83,600	-	-	-		(1.356)
AUD/EUR		52,800	52,800	-	-	-		(1.233)
TRY/EUR		28,100	28,100	-	-	-		(204)
NZD/EUR		24,200	24,200	-	-	-		(452)
JPY/EUR	(8,730,000)	8,730,000	-	-	-	-	1.169	(881)
						Total Fair Value	**2,351**	**(6,950)**

Sensitivity analysis:

A +/- 5% change in year-end exchange rates of the principal exposed currencies (USD, GBP and JPY) would produce a change for +/- M/Euro 107 (+/- M/Euro 9 at 31 December 2010) in fair value of foreign currency receivables and payables at year end.
This amount would affect the next year income statement only, since most of receivables/payables are due within one year.

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 2011 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 €1.9 million at 31 December 2011 (+/- €0.6 million before tax at 31 December 2010).

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 2011 fall into the "Loans and receivables" category, except for the positive fair value of derivatives of €3 thousand, reported in *note 17. Current financial receivables and assets.*
All the company's financial liabilities at 31 December 2011 fall into the "Loans" category, except for the negative fair value of derivatives, of €7 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 2011. 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		3	
- derivatives with negative fair value		(7)	

There were no transfers between the levels during the year.

32. Tax position

As head of the tax group, the company received a notice of assessment on 29 December 2010 from the Veneto regional tax office (large taxpayers unit) in relation to tax year 2005, in connection with assessments notified to companies in the tax group.
The above notice of assessment has been challenged before the Venice Provincial Tax Commission in an appeal lodged on 23 June 2011, after an unsuccessful attempt to reach a settlement.
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. Subsequent events

The demerger, described earlier, took effect from 1 January 2012, leading to the creation of two distinct groups; at the same time, the share capital and reserves of De'Longhi S.p.A. underwent a change, as described in the Explanatory Notes.
As a result of the demerger, the shareholders of De'Longhi S.p.A. have been allotted, without payment of consideration, an equal number of shares in the beneficiary company DeLclima S.p.A. as those held at the time of demerger.

Treviso, 6 March 2012

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

Appendix 1 to the Explanatory Notes

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 2011:
- 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 2011:

- 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

Appendix 2 to the Explanatory Notes

Statement of cash flows in terms of net financial position

(Amounts in Euro)	Notes	2011	2010
Net profit (loss)		36,033	24,588
Income taxes for the period	8	(2,021)	(2,725)
Income from dividend receipts	7	(50,245)	(26,264)
Income from dividend receipts from Discontinued Operations	7	-	(6,000)
Amortization, depreciation and impairment	6	45	56
Net change in provisions		(907)	4,206
Cash flow generated (absorbed) by current operations (A)		**(17,095)**	**(6,139)**
Change in assets and liabilities for the period:			
Trade receivables	14	198	(420)
Trade payables		2,999	(505)
Other current assets and liabilities		3,389	2,118
Payment of income taxes		(1,080)	(1,303)
Cash flow generated (absorbed) by movements in working capital (B)		**5,506**	**(110)**
Cash flow generated (absorbed) by current operations and movements in working capital (A+B)		**(11,589)**	**(6,249)**
Investment activities:			
Investments in intangible assets	9	(2)	(10)
Investments in property, plant and equipment	10	(53)	(23)
Proceeds from sale of property, plant and equipment and other cash flows		16	3
Net investment (disposals) in equity investments and other financial assets	11	(130)	-
Dividends receipts	7	50,245	26,264
Cash flow from Discontinued Operations	19	(150,000)	6,000
Cash flow from investment activities (C)		**(99,924)**	**32,234**
Dividends paid		(21,827)	(11,960)
Cash flow generated (absorbed) by changes in net equity (D)		**(21,827)**	**(11,960)**
Cash flow for the period (A+B+C+D)		**(133,340)**	**14,025**
Opening net financial position	23	**(53,246)**	**(67,271)**
Cash flow for the period (A+B+C+D)		(133,340)	14,025
Closing net financial position	23	**(186,586)**	**(53,246)**

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	276,866,979	Eur	27,590,147	100%	242,678
De'Longhi Household S.A.	Luxembourg	Eur	181,730,990	Eur	245,262,995	Eur	11,080,965	100%	241,737
De'Longhi Professional S.A.	Luxembourg	Eur	30,205,000	Eur	65,438,172	Eur	(46,825,636)	100%	261,205
De'Longhi Capital Services S.r.l.(1)	Treviso	Eur	53,000,000	Eur	63,474,153	Eur	(1,376,389)	11.32%	6,005
Clim.Re S.A.(2)	Luxembourg	Eur	1,239,468	Eur	1,483,658	Eur	16,240	4%	54
E-Services S.r.l.	Treviso	Eur	50,000	Eur	3,676,151	Eur	961,545	51%	26
De'Longhi Clima S.p.A. (3)	Treviso	Eur	10,000	Eur	6,913	Eur	(3,087)	100%	130
De'Longhi Polska Sp.Zo.o.	Warszawa	Pln	50,000	Pln	3,526,432	Pln	1,716,416	0,1%	-
Total									**751,835**

(*) Figures from statutory financial statements at 31 December 2010.
(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.
(3) Company name modified (former VVZ) following the extraordinary Shareholders'meeting on 18 July 2011, also stating the change of the company from S.r.l. into S.p.A.. Starting from 1 January 2012, the company name has been changed in DeLclima S.p.A.

Changes in equity investments

(Amounts in thousands of Euro)

Equity investments	Book value at 31 December 2010	Acquisitions, subscriptions and recapitalizations	Disposals	Net impairment losses and reversals	Book value at 31 December 2011
In subsidiaries:					
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	150,000	-	-	261,205
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 S.p.A.	-	130	-	-	130
De'Longhi Polka Sp.Zo.o.	-	-	-	-	-
Total	**601,705**	**150,130**	**-**	**-**	**751,835**

Transactions and balances with related parties

Income statement

Pursuant to consob resolution 15519 of 27 july 2006

(Amounts in thousands of Euro)	Notes	2011	of which related parties	2010	of which related parties
Revenues	*1*	6,963	*6,464*	6,014	*5,282*
Totale revenues		**6,963**		**6,014**	
Raw and ancillary materials, consumables and goods	*2*	(68)	*(1)*	(63)	
Materials consumed		**(68)**		**(63)**	
Payroll costs	*3*	(5,311)		(5,110)	
Services and other operating expenses	*4*	(14,882)	*(880)*	(10,465)	*(673)*
Provisions	*5*	35		319	
Amortization, depreciation and impairment	*6*	(45)		(56)	
EBIT		**(13,308)**		**(9,361)**	
Financial income (expenses)	*7*	47,321	*51,336*	25,224	*26,665*
Financial income (expenses) from Discontinued Operations	*7*	-		6,000	*6,000*
PROFIT (LOSS) BEFORE TAXES		**34,013**		**21,863**	
Income taxes	*8*	2,021		2,725	
NET PROFIT (LOSS)		**36,034**		**24,588**	

Balance sheet

Pursuant to consob resolution 15519 of 27 july 2006

Assets

(Amounts in thousands of Euro)	Notes	31.12.2011	of which related parties	31.12.2010	of which related parties
NON-CURRENT ASSETS					
INTANGIBLE ASSETS		15		26	
- Goodwill		-		-	
- Other intangible assets	*9*	15		26	
PROPERTY, PLANT AND EQUIPMENT		93		88	
- Other tangible assets	*10*	93		88	
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		491,911		603,479	
- Equity investments	*11*	490,630		601,705	
- Receivables	*12*	1,281	*1,281*	1,774	*1,774*
DEFERRED TAX ASSETS	*13*	2,129		2,253	
TOTAL NON-CURRENT ASSETS		**494,148**		**605,846**	
CURRENT ASSETS					
INVENTORIES		-		-	
TRADE RECEIVABLES	*14*	3,867	*3,855*	4,063	*3,518*
CURRENT TAX ASSETS	*15*	2,313		1,419	
OTHER RECEIVABLES	*16*	32,117	*30,755*	18,220	*17,012*
CURRENT FINANCIAL RECEIVABLES AND ASSETS	*17*	5,003	*5,003*	18,475	*18,475*
CASH AND CASH EQUIVALENTS	*18*	23		98	
TOTAL CURRENT ASSETS		**43,323**		**42,275**	
ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS	*19*	261,205		-	
ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS		**261,205**		**-**	
TOTAL ASSETS		**798,676**		**648,121**	

Balance sheet

Pursuant to consob resolution 15519 of 27 july 2006

Net equity and liabilities

(Amounts in thousands of Euro)	Notes	31.12.2011	of which related parties	31.12.2010	of which related parties
NET EQUITY					
NET EQUITY		568,665		554,459	
- Share capital	*20*	448,500		448,500	
- Reserves	*21*	84,132		81,371	
- Net profit (loss)		36,033		24,588	
TOTAL NET EQUITY		**568,665**		**554,459**	
NON-CURRENT LIABILITIES					
FINANCIAL PAYABLES		45,904		53,532	
- Bank loans and borrowings (long-term portion)	*22*	44,855		51,947	
- Other financial payables (long-term portion)	*23*	1,049		1,585	
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		17,854		6,476	
- Employee benefits	*24*	3,228		4,204	
- Other provisions	*25*	14,626		2,272	
TOTAL NON-CURRENT LIABILITIES		**63,758**		**60,008**	
CURRENT LIABILITIES					
TRADE PAYABLES	*26*	5,773	*220*	2,773	*442*
FINANCIAL PAYABLES		146,989		20,060	
- Bank loans and borrowings (short-term portion)	*22*	123,909		19,416	
- Other financial payables (short-term portion)	*23*	23,080	*22,544*	644	*87*
CURRENT TAX LIABILITIES	*27*	9,294		5,885	
OTHER PAYABLES	*28*	4,197	*1,936*	4,936	*3,261*
TOTAL CURRENT LIABILITIES		**166,253**		**33,654**	
TOTAL NET EQUITY AND LIABILITIES		**798,676**		**648,121**	

Appendix 4 to the Explanatory Notes

Transactions and balances with related parties

Summary by company

(AMOUNTS IN €/MILLION)	Revenues (1)	Materials consumed and cost for services (1)	Financial income (expenses)	Non-current financial receivables	Current financial receivables	Other receivables (2)	Current financial payables	Other payables (3)
Subsidiary companies								
De'Longhi Appliances S.r.l.	2.8	(0.2)	24.0	-	5.0	16.7	-	(0.2)
De'Longhi Kenwood A.P.A. Ltd	1.1	-	0.6	0.6	-	1.0	-	-
Climaveneta S.p.A.	0.8	-	-	-	-	5.8	-	-
DL Radiators S.p.A.	0.6	-	-	-	-	0.4	-	(2.0)
E-Services S.r.l.	0.5	(0.1)	0.3	-	-	0.9	-	-
Kenwood Limited	0.2	-	-	-	-	0.2	-	-
R.C. Group S.p.A.	0.2	-	-	-	-	0.3	-	-
De'Longhi Clima S.p.A.	0.2	-	-	-	-	0.2	-	-
De'Longhi Capital Services S.r.l.	-	-	(0.1)	-	-	9.0	(22.5)	-
De'Longhi Professional S.A.	-	-	0.2	-	-	-	-	-
De'Longhi America Inc.	-	(0.4)	-	0.1	-	-	-	-
De'Longhi Japan Corporation	-	-	0.1	0.1	-	-	-	-
De'Longhi Canada Inc.	-	-	-	0.1	-	-	-	-
Kenwood Home Appl. PTY Limited	-	-	-	0.1	-	-	-	-
De'Longhi Australia PTY Limited	-	-	0.2	0.3	-	-	-	-
De'Longhi Household S.A.	-	-	26.0	-	-	-	-	-
Total subsidiary companies (a)	**6.4**	**(0.7)**	**51.3**	**1.3**	**5.0**	**34.5**	**(22.5)**	**(2.2)**
Related companies								
Gamma S.r.l.	0.1	(0.2)	-	-	-	0.1	-	-
Total related comnpanies (b)	**0.1**	**(0.2)**	**-**	**-**	**-**	**0.1**	**-**	**-**
Total subsidiaries and related parties (a+b)	**6.5**	**(0.9)**	**51.3**	**1.3**	**5.0**	**34.6**	**(22.5)**	**(2.2)**

(1) These mostly refer to dealings of a commercial nature and the supply of administrative services by comany employees.
(2) This consists of € 3.8 million in "Trade receivables" and of € 30.8 million on "Other receivables".
(3) This consists of € 0.2 million in "Trade payables" and of € 2.0 million on "Other payables".

External auditors' report on the financial statements

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

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

1. We have audited the financial statements of De'Longhi S.p.A. as of 31 December 2011 and for the year then ended, 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. We conducted our audit 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 of the accounting principles applied and the reasonableness of the estimates made by Directors. We believe that our audit provides a reasonable basis for our opinion.

   The financial statements of the prior year are presented for comparative purposes. As described in the explanatory notes, due to the partial, proportionate demerger of De'Longhi S.p.A. the requirements in accordance with IFRS 5 - "Non-current Assets Held for Sale and Discontinued Operations" have been applied; therefore Directors have restated certain comparative data related to the prior year with respect to the data previously presented, on which we issued our auditor's report dated March 18, 2011. We have examined the method used to restate the comparative financial data and the information presented in the explanatory notes in this respect, for the purpose of expressing our opinion on the financial statements as of 31 December 2011 and for the year then ended.

3. In our opinion, the financial statements of De'Longhi S.p.A. at 31 December 2011 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 Company's 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 of the information presented 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 n. 001

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issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion, the Report on Operations and the information presented 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 , are consistent with the financial statements of the De'Longhi Group at December 31, 2011.

Treviso, April 2, 2012

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.

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