DēLonghi Group

Annual report at 31 dicembre 2012

DēLonghi KENWOOD BRAUN Ariete

Contents

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 2012 was the De'Longhi Group's first in its new configuration, after demerger of the Professional division which, beginning 1 January 2012, has been under the control of DeLclima S.p.A., also listed on the Milan Stock Exchange.
There was a gradual slowdown of the world economy in 2012, particularly in the Euro zone, which become more evident in the second half of the year. Despite the difficult market environment, the Group reported revenue growth thanks, above all, to the emerging markets in the Asia-Pacific region, Eastern Europe and the Middle-East & Africa, where the Group has invested in commercial and marketing structures over the past few years.
The mature markets, particularly Western Europe, reported more contrasting performances. The good sales trend reported in Germany and Benelux more than offset the drop posted in a few markets in Southern Europe (particularly Spain).
The strength of the most important product families (coffee machines and food preparation products) and containment of operating costs made it possible to also report improvement in profitability.
Thanks to its financial solidity, the Group was able to make important investments in the year which included the acquisition of the perpetual license over Braun's Household segment, making it possible for the Group to further strengthen its competitive positioning, and the expansion of the production capacity in China and in Romania.
More in detail, in Romania the Group purchased a 35,000 square meter production facility, which can be expanded. The relative investment plan should be completed by the end of 2014. Production of the automated coffee machines already started early 2013 while in 2014, when the plant is working at full capacity, it will also be used for the production of food preparation products.
Despite the difficult market environment, and the forecasts for 2013 which call for continued uncertainty, the Group believes that thanks to the strength of its industrial know-how, its competitive positioning, its good exposure to emerging markets, its presence in high-growth niche businesses and the Braun "Household" acquisition, it will be able to continue along its growth path.

Key performance indicators

Consolidated results

(€/million)	2012	% revenues	2011	% revenues	Change	% change
Revenues	1,530.1	100,0%	1,429.4	100.0%	100.7	7.0%
*Constant currency change **					*48.7*	*3.4%*
Gross profit	735.3	48.1%	687.2	48.1%	48.2	7.0%
EBITDA before non-recurring income/expenses	232.3	15.2%	209.6	14.7%	22.6	10.8%
EBIT	189.0	12.3%	172.5	12.1%	16.5	9.6%
EBIT adjusted	196.7	12.9%	178.7	12.5%	18.0	10.1%
Profit (loss) pertaining to the Group	118.0	7.7%	93.9	6.6%	24.1	25.6%

(*) Constant currency revenues have been determined by translating 2012 revenues in currencies other than the euro at the average rates for 2011 and adjusting them for the effect of hedges.

Statement of financial position

(€/million)	31 December 2012	31 December 2011
Net working capital	243.4	235.2
Net capital employed	727.0	469.2
Net debt (Net financial position)	92.9	(117.4)
of which:		
- net bank financial position	19.9	(90.4)
- other financial (receivables) payables (*)	73.0	(27.0)
Net equity	634.0	586.6
Net debt (Net financial position)/Net equity	14.7%	(20.0%)
Net working capital/Revenues	15.9%	16.5%

(*) Of which € 63.8 million related to the present value of the potential Braun earn-out payment (including interest accrued up to December 2012).

Report on operations

Introduction

The partial, proportionate demerger of the Professional division's activities from De'Longhi S.p.A. to its wholly-owned subsidiary DeLclima S.p.A. which took effect from 1 January 2012 resulted in the creation of two distinct groups, De'Longhi S.p.A. and DeLclima S.p.A.; trading in the shares of DeLclima S.p.A. commenced on 2 January 2012 on the screen-traded market managed by Borsa Italiana S.p.A., with the two companies operating as two separate groups, each focused on their own business.
The annual financial report at 31 December 2012, therefore, reports the activities of the former Household and Corporate divisions, which have become a single operating division since 1 January 2012; the 2011 comparison figures reflect the De'Longhi Group post-demerger, recognized in the 2011 financial statements under "Continuing operations".

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 debt/(Positive net financial position): this measure represents gross financial liabilities less cash and cash equivalents and other financial receivables. The individual line items in the statement of financial position used to determine this measure are analysed later in this report.

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

Performance Review

The De'Longhi Group continued along its growth path in 2012, strengthening its position as leader worldwide in its main product categories.
The year was characterized by the significant investments that were made in both the Asian and the European platforms in order to enhance production capacity and growth, as well as the very positive results (economic and financial) achieved in what continues to be a weak market environment.

Net revenues amounted to €1,530.1 million in 2012, an increase of 7.0% with respect to the same period in 2011, thanks to the positive volume and mix effect, as well as the positive trend in exchange rates (growth at constant exchange rates reached +3.4%).

In terms of markets, growth continued in the APA region, where revenues reached €436.8 million (+14.9%), driven by sales in the principal markets (Australia, the United States, Japan and China).
Sales increased in the MEIA region (+7.3%) and in Europe (+4.0%), where the good sales trend in Germany, Benelux and Eastern Europe more than offset the drop posted in a few Southern European markets.
Cooking and food preparation products showed the most growth; particularly coffee machines, (mainly the fully automatic machines) and the Kenwood kitchen products (food processors, hand blenders, kettles).

The Group is progressing in line with its business plan and in potentially high-growth segments; of which the investments made during the year are testimony, namely the acquisition of a production facility in Romania from Nokia and the decision to grow externally through the acquisition of Braun's small domestic appliances division (active in small kitchen appliances, irons and other minor categories).

The facility in Romania forms part of the Group's development strategies to support its growing international presence, and to diversify its industrial platform, so as to partly restore the balance in production between the currently dominant China and Europe.
In addition to the perpetual licence over the Braun brand, related patents and know how (in the above mentioned categories), the Braun "Household" acquisition involved the sale of a few manufacturing assets (production lines and presses) and the transfer of a few employees located in Germany, as well as inventories relating to the categories concerned, at a later date.
The agreement reached has enriched the De'Longhi Group's brand portfolio with a new, prestigious brand positioned in the upmarket segment. Braun belongs to a world synonymous with quality, innovation and superior design, characteristics that fit perfectly with De'Longhi's culture and strategy.
Thanks to the acquisition of the perpetual license over the brand (in the above mentioned categories), the De'Longhi Group has significantly strengthened its market positioning and will be able to fully exploit the potential of a global brand like Braun in its expansion overseas.

EBITDA before non-recurring income/expenses was €232.3 million (+€22.6 million or +10.8% with respect to 2011) with the margin reaching 15.2% (14.7% in 2011); this result reflects the contribution of the gross profit, which rose by €48.2 million (rising from €687.2 million to €735.3 million); this margin was, on the one hand, supported by volumes and a better product mix and, on the other hand, penalized by the increased cost of raw materials. EBITDA before non-recurring income/expenses also benefitted from the net contribution made by the Braun business in the transition period which amounted to approximately € 4.9 million.

The item " Costs for Services and other operating income/(expenses)" fell as a percentage of revenues, from 23.9% to 22.8%, due above all to the transport, advertising and promotional expenditure which was broadly unchanged with respect to the prior year, as well as a decrease in fixed costs as a percentage of revenues.

EBITDA amounted to €224.6 million (€203.4 million in 2011), after non-recurring expenses of €7.7 million relating primarily to the acquisition of the Braun "Household" assets.

Amortization and depreciation came to €35.6 million, an increase with respect to 2011 (€30.9 million) due to the increased investments made in 2011 and the current year to support growth.

EBIT amounted to €189.0 million in 2012 (€172.5 million in the previous year), with the margin rising from 12.1% to 12.3%.

Adjusted EBIT, net of the above mentioned non-recurring expenses, reached €196.7 million (€178.7 million in 2011) with a margin of 12.9% (12.5% in 2011).

Net financial expenses amounted to €34.9 million, an increase of €1.2 million with respect to 2011. This result is explained primarily by smaller exchange differences and higher financial expenses linked to the rise in debt with respect to 2011, due primarily to the capital contribution of €150 million made to the Professional division at 30 June 2011 which was then absorbed by the DeLclima Group as result of the demerger and the Braun "Household" acquisition, above all in relation to the deferred purchase price which accrued interest payable of approximately €3.0 million and which, moreover, was repaid in advance at the end of the year.

Profit pertaining to the Group amounted to €118.0 million, an increase of €24.1 million with respect to 2011.

With regard to the Group's financial performance and structure, of note is the good trend in working capital which reached €243.4 million, an increase of 3.5% with respect to 2011, with lower inventories thanks to the efficiencies implemented in 2012.

The net financial position reported a negative balance of approximately €92.9 million at 31 December 2012, which includes net bank debt of €19.9 million and other financial items (estimated deferred purchase price for the Braun "Household" acquisition, fair value of hedging derivatives, options and payables for the purchase of minority equity investments).
With regard to bank debt, the increase of €110.3 million with respect to year-end 2011 is attributable primarily to the above mentioned Braun acquisition (in relation to the price already paid of €143 million, including interest), as well as the non-recurring investments made in 2012 to strengthen production in Romania and China, which exceeded the increase in operating cash flow.

Global market conditions

In 2012 the widespread slowdown of the world economy, already underway in the previous year, persisted; while the slowdown continued in the first months of the year, albeit at a slower pace, thanks above all to growth in the emerging markets and the United States, in the second half of the year the economy weakened further.
GDP continued to shrink, particularly in the Euro-zone, due to a drop in domestic demand and investments, along with weak employment and real income, low consumer confidence and the tight credit markets.
As a result of the weak international markets, the price of oil dropped significantly and the ECB further reduced interest rates. Along with investors' concerns about the political situation in Greece and the implications of the difficulties encountered by the Spanish banking system, there is now a perception that governments are not united in their approach to European governance reforms and to changing the mechanisms used to manage the crisis.
Only in the last few months of the year did the tensions in financial markets ease gradually, due also to the decision of the Euro group to sustain Greece and the agreement reached in Europe to create a single bank supervisory mechanism in order to end the vicious circle of sovereign risk and fragility in the banking system. The credit markets, however, remain tight and financing is not readily available due to the high level of risk perceived by the lenders related to the impact of the recession on businesses.
With regard to the future, despite the signals of strengthening in a few emerging markets in the last months of the year, the growth prospects for 2013 remain unclear as they are linked to the Euro-zone crisis and management of the debt crisis in the United States, where risks remain despite the resolution of fiscal cliff issue at the beginning of 2013. In 2013, therefore, the recovery will continue to be weak and will continue to be characterized by great differences between regions and countries; analysts share the view that the gross world product could begin to strengthen in 2014 (Source: Bank of Italy/ECB).

Significant events

In 2012 significant investments were made in order to strengthen the Group's production capacity, to acquire Braun "Household" and to complete the introduction of operational and organizational procedures following the demerger approved effective 1 January 2012.

With regard to the "Braun" acquisition, following completion of the authorisation process by the German antitrust authorities and trade unions and once the conditions precedent were satisfied, on 1 September 2012 the definitive contract was signed under which De'Longhi will be granted the perpetual licence, held by Procter & Gamble, over the Braun brand for small kitchen appliances, irons and other minor categories, in full implementation of the preliminary agreements signed in April.
In addition to the perpetual licence over the Braun brand, the related patents and know how (in the above mentioned categories), the transaction involved the sale of a few manufacturing assets (production lines and presses), as well as the transfer of a few employees located in Germany.
The agreement reached called for a transition period, which was over at the end of 2012, during which the Group was able to implement the procedures needed to independently manage the business acquired: effective 1 January 2013, De'Longhi took over the direct management of Braun's Household operations.
Once the transition phase was over, beginning at the end of 2012 and over the first few months of 2013, De'Longhi also acquired the inventory of Braun "Household" products from Procter & Gamble at a price established in the contract, though it did not assume the other short term assets and liabilities.
The agreement reached has enriched the De'Longhi Group's brand portfolio with a new, prestigious brand positioned in the upmarket segment. Braun belongs to a world synonymous with quality, innovation and superior design, characteristics that fit perfectly with De'Longhi's culture and strategy.
Thanks to the acquisition of the perpetual license over the brand (in the above mentioned categories), the De'Longhi Group has significantly strengthened its market positioning and will be able to fully exploit the potential of a global brand like Braun in its expansion overseas.

With regard to investments in production, the Group continued to focus on strengthening the production capacity of both its European and Asian platforms.

With regard to Europe, an investment plan was defined for the period 2012-2014 in Romania which called for the purchase of a 35,000 square meter production facility in Cluj, Romania, which can be expanded as a large uncovered space is available. The first equipment for the assembly of fully automated coffee machines was installed during the last quarter of 2012 and production started early 2013. In 2014, when the plant is working at full capacity, plastic moulding and painting machines should also be installed for the production of both coffee machines and food preparation products. This project calls for the hiring of approximately 670 employees, at full capacity, in order to increase the production capacity of the highest growth product lines at competitive rates, to be closer to the main markets and reduce the risk of USD exposure. In light of this investment and the jobs created, De'Longhi received a government subsidy from the Romanian Ministry of Financial Affairs which should be disbursed over the three-year period 2013-2015 as the investments progress.

In the first half of the year the construction, begun in the prior year, of the new section of the Dongguan factory in China was completed. The new four story building covers a total of 42,000 square meters to be used in the production of cooking and food preparation products. The expanded activities will allow for greater integration and verticalization of production, particularly of the plastic mould technologies, making it possible to rely even less on third party suppliers.

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.

In 2010-2011 the Group defined a plan of investment in renewable energy which resulted in the installation of system which generates approximately 1 MWp of power used to meet the Group's energy needs. The system was fully operative in 2012 and generated approximately 1.1 million kwh of power.

In order to finance the internal growth and the above mentioned investments, the Group took out two bank loans totalling €80 million and placed an unsecured bond issue of USD 85 million with US institutional investors.

In June 2012 the agreement for the factoring of trade receivables, involving the revolving monthly transfer of a portfolio of trade receivables without recourse, was renewed. This new agreement, which is the third after the first one entered into for the period 2002-2006 and the second one entered into at the beginning of 2007 and terminated with the new transaction, called for the assignment of receivables without recourse to BNP Paribas N.V.; the transaction involved a greater number of Group companies (including the principal European commercial companies).

With regard to the operational and organizational procedures introduced as a result of the demerger approved effective 1 January 2012, at the end of first quarter 2012 the organizational work needed to provide DeLclima S.p.A. with an independent structure, with its own management capable of managing the administrative services initially provided by De'Longhi S.p.A., was completed.

In 2012 the Group continued with the strategy to strengthen the structures (sales, logistics and administrative) in the high growth emerging markets (East Asia, Australia and the Americas, as well as the Middle East, India and Africa) with the expansion/opening of new back offices in order to be closer to the markets and to be in a position to take advantage of any opportunities that may materialize in these high growth regions.

The Group 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, UK and German (for the Braun brand) offices over the principal activities (product development, R&D and marketing).
The opening of new commercial offices in South Korea and Chile in order to support the growing commercial activity in these markets should also be considered part of this approach.

Report on operations

Group results

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

(€/million)	2012	% revenues	2011	% revenues
Revenues	**1,530.1**	**100.0%**	**1,429.4**	**100.0%**
Change 2012/2011	*100.7*	*7.0%*		
Materials consumed & other production costs (production services and payroll costs)	(794.8)	(51.9%)	(742.2)	(51.9%)
Gross profit	**735.3**	**48.1%**	**687.2**	**48.1%**
Costs for services and other income (expenses)	(348.8)	(22.8%)	(342.0)	(23.9%)
Payroll (non-production)	(128.7)	(8.4%)	(113.7)	(8.0%)
Provisions	(25.6)	(1.7%)	(21.9)	(1.5%)
EBITDA before non-recurring income/expenses	**232.3**	**15.2%**	**209.6**	**14.7%**
Change 2012/2011	*22.6*	*10.8%*		
Other non-recurring income (expenses)	(7.7)	(0.5%)	(6.2)	(0.4%)
EBITDA	**224.6**	**14.7%**	**203.4**	**14.2%**
Amortization	(35.6)	(2.3%)	(30.9)	(2.2%)
EBIT	**189.0**	**12.3%**	**172.5**	**12.1%**
Change 2012/2011	*16.5*	*9.6%*		
Financial income (expenses)	(34.9)	(2.3%)	(33.7)	(2.4%)
Profit (loss) before taxes	**154.0**	**10.1%**	**138.8**	**9.7%**
Income taxes	(35.6)	(2.3%)	(44.4)	(3.1%)
Profit (loss) after taxes	**118.5**	**7.7%**	**94.4**	**6.6%**
Profit (loss) pertaining to minority interests	0.5	0.0%	0.5	0.0%
Profit (loss) pertaining to the Group	**118.0**	**7.7%**	**93.9**	**6.6%**

Sales performance

The Group closed 2012 with positive sales figures, confirming the growth trend already seen in previous quarters.
Despite the very critical economic environment, particularly in certain regions, revenues rose by 7.0% in the year thanks to increased sales volumes and a good product mix, as well as to the positive exchange effect in a few markets (the increase at constant exchange rates reached 3.4%).
This performance reflects the different trends of the different product lines. In 2012 espresso coffee machines recorded double digit growth. Growth was strong for all three categories, from the fully automated to the traditional machines, as well as the capsule machines, particularly in German speaking countries, above all Germany. In 2012 the *Prima Donna Exclusive* was launched in the high end, while the range of compact full automatic machines was expanded to service the low to medium end, increasing the weight of the latter as a percentage of total sales.
Good growth was posted by the capsule machines, above all the machines manufactured in-house. The growth was driven by both the Nespresso brand products due to the success of the *Lattissima*+ range and the launch of the new *U* machine, as well as the expansion of the partnership with Dolce Gusto to Australia and the UK.
The growth of the pump machines is attributable to the mix effect, thanks to the *Icona* collection and the new *800* series which completed the product range this year.

The GFK figures for 2012 (10 countries in Western Europe) reflected an excellent performance for the De'Longhi brand, which grew more than the market, maintaining its leadership in espresso coffee machines in terms of turnover. The leadership of the full automatic machines was confirmed, with a higher market share. The leadership of the traditional pump machines was also confirmed, though it was the only segment of the espresso market to post a drop in volumes. The capsule machine segment grew the most and De'Longhi increased its market share.

The kitchen products line reported very positive results. With regard to the De'Longhi brand products, kettles and toasters posted an excellent performance due to the new Icona Vintage line and the Brillante line launched internationally at year-end 2011.
The growth of Kenwood brand products continued in both traditional European and emerging markets explained, above all, by the kitchen machines, hand blenders and kettles. In 2012 the main products of the energy saving range were launched in the United States, Canada and Brazil, with a view to building the foundation for a global launch of the brand.

Home Care in 2012 was rich with projects and new product launches, in line with the company's aim to strengthen/enhance our presence in the most important markets.
Sales of irons fell, but the Group was able to maintain its market share in the main markets, with the exception of Italy where market share increased noticeably. In order to strengthen the Group's market position in 2012 the entire range of ironing systems underwent functional restyling and was given a new look. This new product line was launched on the market.
While sales of cleaning appliances fell, the strategic decisions made to strengthen a few product segments, in particular the bagless and rechargeable electric brooms, made it possible to maintain an important position in the reference market.

As for the "Comfort" range of products, the air conditioning season was affected by erratic weather conditions, as well as the exit from the fixed air conditioning business (which only made a residual contribution in 2012). The portable air-conditioners, however, reported positive results thanks to a good performance in the United States and Italy.

The season for heating in Europe was very difficult for the second year in a row with cold arriving only in the new year; despite this dynamic, radiators reported a positive trend in terms of profit thanks to the Group's strategic choice to favour a high margin product mix and the non-recurring contribution of Japan which reported record sales.

Profit performance

Gross profit rose by €48.2 million with respect to 2011 (+7.0%), with the margin largely in line with the prior year despite increased costs and the strong pressure on exchange rates in foreign currency purchases mitigated by the Group's hedging policies.

As a result of this performance, along with containment of the costs for services (as a percentage of net revenues) and the recognition of the net income generated by Braun "Household" in the transition period which amounted to €4.9 million, EBITDA before non-recurring expenses increased (from €209.6 million to €232.3 million with the margin rising from the 14.7% posted in 2011 to 15.2% in 2012).
In relation to costs for services, the advertising and promotional expenditure was broadly unchanged (in absolute terms with respect to 2011), while transportation and other fixed costs were lower.

EBITDA came to €224.6 million (€203.4 million in 2011) after €7.7 million in non-recurring expenses mostly in connection with the Braun "Household" acquisition.

EBIT amounted to €189.0 million, an increase with respect to the prior year of +9.6% with the margin rising from the 12.1% posted in 2011 to 12.3% in 2012, despite the increase in depreciation and amortization (+ €4.7 million) linked to the increased investments made in 2011 and in the current year to support the Group's growth.
Adjusted EBIT reached €196.7 million in 2012 (€178.7 million in 2011) with the margin rising from 12.5% to 12.9%.

Net financial expenses came to €34.9 million in 2012 (€33.7 million in 2011), despite a significant drop in current management fees (from €9.8 million in 2011 to €5.0 million in 2012).
The increase in financial expenses reflects the increase in average debt with respect to 2011 due to the capital contribution of €150 million made to the Professional division (which was then absorbed by the DeLclima Group as result of the demerger) and the Braun transaction described above; please note, on 31 December 2012 the Group paid Procter & Gamble €93.0 million (which includes interest of €3.0 million), in advance of the original payment schedule which called for yearly instalments over the next 15 years.

Profit pertaining to the Group amounted to €118.0 million, an increase of €24.1 million with respect to 2011.

Results by operating segment

Following the above mentioned partial, proportionate demerger of the Professional division's activities from De'Longhi S.p.A. to its wholly-owned subsidiary DeLclima S.p.A., the De'Longhi Group changed the segment information provided in accordance with IFRS 8; beginning in 2012 three new operating segments were defined which coincide with the Group's three main business regions: Europe (which consists of two regions, northeast and southwest), MEIA (Middle East, India and Africa) and APA (Asia, Pacific, America). Each segment is responsible for all aspects of the Group's brands within the different markets it services.
This breakdown is in line with the tools used by Group management to run operations, as well as evaluate the company's performance and make strategic decisions.

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

Markets

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

(€/million)	2012	%	2011	%	Change	% change
Western Europe	848.2	55.4%	823.8	57.6%	24.4	3.0%
Eastern Europe	159.8	10.4%	145.8	10.2%	14.0	9.6%
EUROPE	**1,008.0**	**65.9%**	**969.6**	**67.8%**	**38.4**	**4.0%**
MEIA (Middle East/India/Africa)	**85.3**	**5.6%**	**79.5**	**5.6%**	**5.8**	**7.3%**
APA (Asia/Pacific/Americhe)	**436.8**	**28.5%**	**380.3**	**26.6%**	**56.5**	**14.9%**
Total revenues	**1,530.1**	**100.0%**	**1,429.4**	**100.0%**	**100.7**	**7.0%**

Europe reported €1,008 million in revenues, up 4% on 2011.
Sales in Western Europe grew by €24.4 million (+3%) as a result of a positive sales trend above all in Germany and Benelux and a poor performance in the Mediterranean countries (above all Spain and Italy) and Scandinavia where the launch in 2011 of the Dolce Gusto coffee machines had caused sales to rise significantly. Sales also rose in the United Kingdom, despite the exit of an important customer from the market; sales were off in Italy where the increased market share failed to offset the market decline.

The countries of Eastern Europe (primarily Poland, the Czech Republic and the Ukraine) posted growth of €14 million, + 9.6% with respect to 2011. The main product categories, such as kitchen and fully automatic coffee machines, posted growth, while Comfort (above all radiators) was negatively impacted by a mild early winter which caused sales to slow for this business segment.

The MEIA region performed well. Sales increased +7.3% with respect to 2011 to €85.3 million thanks above all to sales of Kenwood brand products in the Saudi Arabian market; this region benefitted from the restructuring completed in 2011 to strengthen the commercial and back office structures.

The sales in the APA region were particularly brilliant, rising 14.9% on 2011 to €436.8 million. This region now represents 28.5% of the Group's total sales (versus 26.6% in 2011).
The 2012 performance reflects the strong growth of the principal markets, above all Australia, the United States, Japan and China where the primary focus is on cooking and food preparation products, as well as coffee machines.
In 2012 Kenwood energy saving products were launched in the countries where they had yet to be distributed (the USA, Canada, Brazil) with the premium positioning of a few important customers.
The performance of coffee machines in the USA and radiator sales in Japan were very good.

The following table shows how sales in the so-called emerging markets are gradually increasing:

(€/million)	2012		2011		Change	% change
Paesi maturi	1,024.0	66.9%	975.7	68.3%	48.3	4.9%
Paesi emergenti	506.1	33.1%	453.7	31.7%	52.4	11.6%
Totale ricavi	**1,530.1**	**100.0%**	**1.429.4**	**100.0%**	**100.7**	**7.0%**

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 December 2012	31 December 2011	Change
- Intangibile assets	364.6	175.8	188.8
- Tangibile assets	158.6	109.1	49.5
- Financial assets	3.1	3.0	0.1
- Deferred tax assets	40.8	32.8	8.0
Non-current assets	**567.1**	**320.7**	**246.4**
- Inventories	273.8	278.0	(4.2)
- Trade receivables	381.2	349.5	31.7
- Trade payables	(351.7)	(330.8)	(21.0)
- Other current assets (liabilities)	(59.8)	(61.5)	1.6
Net working capital	**243.4**	**235.2**	**8.2**
Total non-current liabilities and provisions	**(83.5)**	**(86.7)**	**3.2**
Net capital employed	**727.0**	**469.2**	**257.8**
Net debt/(Positive net financial position)*	**92.9**	**(117.4)**	**210.3**
Total net equity	**634.0**	**586.6**	**47.4**
Total net debt and equity	**727.0**	**469.2**	**257.8**

(*) The net financial position at 31 December 2012 includes € 73.0 million in net financial liabilities (€ 27.0 million in net financial assets at 31 December 2011) relating to the fair value of derivatives, to the recognition of options and payables for the purchase of equity investments and Braun acquisition.

The increase in non-current assets reflects primarily the Braun "Household" acquisition which had an impact of €191.4 million on intangible assets and of €23.0 million on property, plant and equipment.
Excluding the Braun "Household" acquisition, investments in intangible assets and property, plant and equipment amounted to €62.7 million (€43.9 million in 2011). These investments, in addition to ordinary capital expenditure, include an investment in Romania of €13.2 million and in China, for the completion of the new plant described above, of €15.8 million.

Net working capital increased by €8.2 million or 3.5% on 31 December 2011, with net working capital turnover going from 16.5% of revenues at the end of 2011 to 15.9% in 2012. This very positive trend reflects, above all, the decrease in the level of inventories which fell by €4.2 million with respect to the prior year, despite the increase in sales and the acquisition, near the end of the year, of a part of Braun's finished products (so that the Group may independently distribute products as of 1 January 2013).

Net debt at 31 December 2012 amounted to €92.9 million (versus a positive net financial position of €117.4 million at 31 December 2011).

Details of the net financial position are as follows:

(€/million)	31 December 2012	31 December 2011	Change
Cash and cash equivalents	244.0	195.7	48.3
Other financial receivables	16.1	33.7	(17.7)
Current financial debt	(115.3)	(61.0)	(54.4)
Net current financial assets	**144.7**	**168.5**	**(23.8)**
Non-current financial debt	**(237.7)**	**(51.1)**	**(186.6)**
Total net financial position (net debt)	**(92.9)**	**117.4**	**(210.3)**
of which:			
- net bank financial position	(19.9)	90.4	(110.3)
- residual payable to P&G related to the Braun acquisition	(63.8)	-	(63.8)
- fair value of hedging derivatives and option/debt for investments acquisition	(9.2)	27.0	(36.2)

The net financial position at 31 December 2012 reflects items other than bank debt: the negative fair value of derivatives and call options which amounted to €9.2 million at 31 December 2012 (versus a positive impact at 31 December 2011 of €27.0 million) and the residual amount owed to Procter & Gamble of €63.8 million relating to the potential earn-out payable over the next three-five years.

Net of these items, net debt with banks and other sources of finance increased by €110.3 million in the year. This change is explained for €143.0 million by the part of the price paid in the year, including interest, for the Braun "Household" acquisition, by the change in the equity reserves (above all due to the dividends paid of €49.3 million) and for €30.9 million by the non-recurring investments in production described above.

With regard to debt structure, the short term portion of the net financial position reflects a positive balance of €144.7 million at 31 December 2012 (versus positive €168.5 million at 31 December 2011).
The non-recurring investments were financed with medium/long term debt which rose from €51.1 million to €237.7 million. As part of the Group's policy to provide complete financial coverage of the Braun "Household" acquisition and to have enough financing in place should the credit markets worsen, in 2012 two new 5-year floating rate loan agreements were signed for a total of €80 million.
Toward this end, a 15-year 4.25% unsecured bond of USD 85 million was issued and placed with US institutional investors.

The condensed and reclassified statement of cash flows is shown below.
The main reclassification resulted in the cash flows relative to changes in long and short term not being presented in separate lines in order to ensure that the financial flows in the period match the change in the net financial position as described above:

(€/million)	2012	2011
Cash flow by current operations	191.6	177.4
Cash flow by other changes in working capital	(65.2)	(80.5)
Cash flow by investment activities	(62.8)	(41.7)
Cash flow by operating activities	**63.5**	**55.2**
Non recurring cash flows towards Discontinued operations	-	(155.4)
Braun acquisition	(202.9)	-
Cash flow by extraordinary investments	**(202.9)**	**(155.4)**
Dividends paid	(49.3)	(21.8)
Cash flow by changes in fair value and cash flow hedge reserves	(25.0)	28.0
Cash flow by changes in currency translation reserve	3.2	2.7
Cash flow generated (absorbed) by other changes in net equity	0.2	0.3
Cash flow generated (absorbed) by changes in net equity	**(70.9)**	**9.1**
Cash flow for the period	**(210.3)**	**(91.1)**
Opening net financial position	117.4	208.5
Closing net financial position	**(92.9)**	**117.4**

Net cash flow from operating activities, which reflects the increase in investments (€30.9 million in 2012 and €14.2 million in 2011) referred to above, reached €63.5 million (€55.2 million in 2011); operating cash flow net of the non-recurring investments would have reached a positive €94.4 million (€69.4 million in 2011).

Changes in net equity absorbed €70.9 million in 2012 (versus a positive €9.1 million in 2011), due primarily to a larger dividend payment and the change in the cash flow hedge reserve relating to the fair value of derivatives.

Research and development

In 2012 the Group invested approximately €30.4 million (€28.3 million in 2011) in research and development, of which €5.5 million capitalized as intangible assets.
The R&D activities involving coffee machines were focused on the development of new versions of products in order to expand distribution in new countries, on the completion of the product range, as well as on the development of a new platform.

Significant activity was devoted to compliance with the new European regulations relating to energy consumption and standby and ready for use modes. This involved an almost complete revision of all the coffee machines and the introduction of new solutions for energy consumption controls, while still guaranteeing the same user interface, as well as maintaining the same dimensions and current ease of use. This activity was carried out with a view, particularly, to future developments already planned by the European Community in order to maintain the adequacy of the new functions at least through 2015.

As for Kenwood brand products, in 2012 the Group continued to invest in its dedicated infrastructures (with the development of new laboratories for testing and quality control) and, in collaboration with premiere external research centers dedicated to project development and innovation, in the search for new technologies and patents; thanks to this activity production was begun on innovative products which will be launched on the market soon.

Communication activities in 2012

In 2012 De'Longhi focused its communication activities mainly on fully automatic coffee machines, in line with the communication strategy implemented in 2011.
In 2012 De'Longhi's most important advertising campaign was for the *Primadonna S* coffee machine which was launched in Germany, Austria, Switzerland, the United Kingdom, France, Belgium, the Netherlans, New Zealand, South Africa and the Ukraine.
The *Primadonna Exclusive* was introduced in 2012. This fully automatic coffee machine comes with a new exclusive function for the preparation of hot chocolate. *Primadonna Exclusive* was advertised in Australia, Germany, the Czech Republic and Slovakia.

De'Longhi also continued with brand support activities in all its consumer contact points. Investments in product demonstrations and display materials at the points of sale increased significantly. The store experience is more and more toward a service oriented format where information about the products is provided, where shoppers can see how the products work and where the brand is featured in dedicated areas.

The first *De'Longhi Group Official Store* was also opened in 2012 on very central via Borgogna in Milan. The store incorporates the personality of the brands De'Longhi, Kenwood, Braun and Ariete in a new format. Not only are the products displayed, but they can be tested with the help of sales assistants capable of making recommendations and guiding you through the choice of the purchase that best fits different needs. The *Official Store* is completed with a "*Spazio Cucina*" dedicated to classes and demonstrations where our chefs are available to demonstrate all the potential uses of the food preparation and cooking products.

With regard, specifically, to the Kenwood brand, considerable investments were made in the marketing of the principal products, particularly in innovative kitchen machines like the triblade hand blender and Kmix, in line with the Group's marketing strategy that seeks to create a positive association between Kenwood's top quality products and the activities of key chefs.

In addition to the traditional distribution channels, the Group continued to explore online sales which could be a viable way to reach consumers with a passion for cooking.

Human resources and organization

The De'Longhi Group had 5,694 employees at 31 December 2012 (5,415 at 31 December 2011).

The following table summarizes the average number of employees during 2012 compared with 2011:

	2012	%	2011	%	Change
Blue collar	3,406	58.1%	3,078	56.2%	328
White collar	2,372	40.4%	2,307	42.1%	65
Senior managers	87	1.5%	91	1.7%	(4)
Total	**5,865**	**100.0%**	**5,476**	**100.0%**	**389**

The Group had an average of 5,865 employees in 2012, an increase of 389 employees.

This increase is the result of both the normal commercial and industrial expansion of the Group's business and the two important transactions that the Group finalized in 2012: the acquisition of the former Nokia plant in Cluj, Romania (with what is still a small staff as production is still in a start up phase) and the agreement for the perpetual licence over the Braun brand Household business which resulted in the hiring of approximately 100 employees in Germany.

The new organization De'Longhi Braun Household GmbH is based on a strong nucleus of technical-manufacturing resources which include: an expert and proven group of technicians which supervise all phases of new product development, from research and development to quality control of the new products, along with a production facility where motors used in several appliances that are part of today's portfolio are manufactured and a team dedicated to the management of the contract manufacturers. The technical area is accompanied by two other strategic functions: design, which will continue to support development of the products' look in order to guarantee the features which have made the Braun brand famous worldwide and marketing which, on the one hand, will manage the development process of new products based on market needs and, on the other, will ensure adequate management of the brand, communications and the promotional activities supporting the sales staff, in tight collaboration with Marketing Braun/Procter & Gamble.

The new Human Resources Division became operative early 2012 with the creation of three Regional HR Managers (Western/Southern Europe, Northeast Europe, Asia) dedicated to the management and development of resources active in the different commercial and marketing units in the respective regions. At the end of 2012, with a view to strengthening the Group's manufacturing structures in Europe, the position HR Manager Industrial Operations Europe was also created.

Once again as part of human resources management, at the end of 2012 a new Group performance assessment tool was launched focusing on development. This tool is the product of a project developed during the year by the Corporate Human Resources Division with the cooperation of relative regional personnel.
The purpose of this new performance appraisal process is to promote an open and constructive dialogue between supervisors and staff members, as well as share strong points and areas where there is room for improvement, while focusing on the priorities, namely development and the 2013 performance targets.
The launch of this new tool was followed up with training of management, including to raise awareness, on an international level with a view to further strengthening the culture of personal development within the Group.
In 2012 investments in management training continued (topics included staff management, public speaking, project management, feedback management), as well as specialized courses (such as, for example, courses in English, IT, basic finance, technical regulations).

Investments in individual development paths for managers and high potential Group resources based on the use of, for example, assessment and coaching tools also continued.

Collaboration with universities was also intensified in order to strengthen De'Longhi's local image and presence and attract new, talented graduates to the company through participation in "Career Days" or similar events.

In terms of organization, in 2012 the Group finalized the reorganization of the Group's quality control function through the creation of quality control units for each brand and product category. Members of these units are in charge of ensuring compliance with the Group's procedures for product development, testing, defining control plans for new products and, in general, ensuring product quality in all the Group's different plants.

Report on corporate governance and ownership structure

In compliance with applicable laws and regulations, as well as the Italian Stock Market Regulations, information is herewith provided about the corporate governance system, also with reference to the principles of the Code of Conduct for Listed Companies (2011 edition), and about ownership structure, in compliance with the legislator's requirements as set out in art. 123-bis of Legislative Decree n. 58/98 ("TUF").

The De'Longhi Group has adopted and complies with the Code of Conduct for Listed Companies, published in December 2011.
In compliance with applicable laws and regulations, as well as the Italian Stock Market Regulations, the Group prepares an annual Report on Corporate Governance and Ownership Structure, which not only provides a general description of the system of corporate governance adopted, but also the information on ownership structure, required by art. 123-bis of TUF.
This report, to which this section now refers, has been prepared in accordance with the *Format for the report on corporate governance and ownership structure* published by the 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 "*Investors > Governance > Shareholders' Meetings > 2013*".

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.

Report on operations

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). During the meeting held on 18 December 2012, the Board of Directors resolved to amend articles 9 and 14 of the articles of association, relating to the appointment and composition of boards and control bodies in order to comply with the new provisions of articles 147-ter, paragraph 1-ter and 148, paragraph 1-bis of TUF – as amended by Law n. 120/2011 "implementing provisions concerning gender equality in the composition of administrative and control bodies of companies listed on regulated markets". 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. In order to ensure that the Company's governance complies with the changes introduced in the December 2011 version of the Code, on 18 December 2012 the Board of Directors approved a new framework resolution reiterating its adhesion to the Code of Conduct (with a few exceptions, detailed in the 2012 Report on Corporate Governance and Ownership Structure), applying the new recommendations and confirming the resolutions relating to corporate governance approved in the past.

Pursuant to Article 1.C.1., lett. g) of the Code of Conduct, during the meeting on 11 March 2013 the Board of Directors resolved to begin a board review or self-assessment process in order to evaluate, among other things, the functioning, size and composition of the Board. The methods used and findings are discussed in the detail in the 2012 Report on Corporate Governance and Ownership Structure. Based on the findings of the review, the Board then prepared an opinion regarding the composition and number of new Board members that will be appointed during the shareholders' meeting to be held on 23 April 2013; the opinion can be found in the Directors' Report on the Agenda pursuant to art. 125-ter of TUF, published on the website www.delonghi.com, in the section "Investors > Governance > Shareholders' Meetings > 2013".

During 2012 the Board of Directors:
- adopted a new version of the "Procedures for the disclosure of price sensitive information" and of the internal dealing procedure;
- 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 the De'Longhi Group's "strategically important subsidiaries", identifying them as the following Italian registered companies; De'Longhi Capital Services S.r.l. and De'Longhi Appliances S.r.l., the Chines registered company De'Longhi-Kenwood Appliances (Dongguan) Co. Ltd, the British registered company Kenwood Ltd, the German registered company De'Longhi Deutschland GmbH, the Australian registered company De'Longhi Australia PTY Ltd. and the Russian registered De'Longhi LLC;
- resolved, pursuant to art. 3 of Consob Resolution n. 18079 dated 20 January 2012, to exercise the opt-out clause found in articles 70, paragraph 8 and 71, paragraph 1-bis of Consob Regulation n. 11971/99 which grants the option to waive the mandatory publication of information documents relating to mergers, spin-offs, capital increases through in-kind transfers, acquisitions and disposals.

The Board of Directors periodically reviews whether its members qualify as executive/non-executive and independent/non-independent in compliance with the principles established by articles 2 and 3 of the 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 11 March 2013, 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 seven times in 2012, and was attended by all of its members 99% of the time. These meetings were also attended by the Chairman of the Board of Statutory Auditors and often by other standing statutory auditors, while the committee also extended invitations to the internal control officer, the financial reporting officer and the head of corporate and legal affairs.

The Compensation Committee held 5 meetings during 2012, all of which attended by all its members; the head of the Group's human resources and organization also attended all the meetings.

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

Board of Statutory Auditors

Following the resolutions adopted by the shareholders' meeting of 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 can be appointed by the minority, by taking him/her from the list obtaining the second highest number of votes.

Report on operations

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.

The Internal Control System

The Issuer's and the De'Longhi Group's Internal Control System consists in the set of rules, procedures and organizational structures set in place to ensure that company strategies are adhered to and to guarantee:
a) efficient and effective company operations (administration, production, distribution, etc.);
b) reliable, accurate, trustworthy and timely economic and financial information;
c) compliance with laws and regulations, as well as the corporate articles of associations, rules and company procedures;
d) safeguarding of the company's assets and protection, to the extent possible, from losses.

The executive administrative bodies of the Parent Company De'Longhi S.p.A. (Board of Directors, the Internal Auditing and Corporate Governance Committee, Director in Charge of the Internal Control System and Risk Management), the Board of Statutory Auditors, the Head of Internal Audit, the Supervisory Board, the Financial Reporting Officer and all De'Longhi personnel, as well as the Directors and Statutory Auditors of the Issuer's subsidiaries are involved in the controls, with different roles and in function of their expertise and adhere to the recommendations and principles found in the guidelines.
The Internal Control System is subject to examination and periodic audits, taking into account changes in the company's operations and reference context.
The Issuer's and the De'Longhi Group's Internal Control System makes it possible to address the main risks that the Issuer and the Group are exposed to over time (strategic, operational, market, liquidity, credit, compliance, fraud and employee disloyalty, regulatory, reputational, etc.), in a timely manner, as well as to identify, assess and control the degree of the exposure of the Issuer and all the other companies of the De'Longhi Group – particularly the strategically important subsidiaries – to the different types of risk, and also makes it possible to manage the overall exposure taking into account: (i) the possible correlations between the different risk factors; (ii) the probability that the risk materializes; (iii) the impact of the risk on the company's operations; (iv) the overall impact of the risk.
The internal control and risk management system relating to the financial reporting process (administrative and accounting procedures used to draft the separate and consolidated annual financial statements and the other economic and/or financial reports and disclosures prepared in accordance with the law and/or regulations, as well as ensuring correct implementation) coordinated by the Financial Reporting Officer, is an integral and essential part of the De'Longhi Group's Internal Control and Risk Management System.

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

Description of 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 current economic environment – which calls for maximum attention to be paid to preventive identification of all the events that could significantly impact the company's operations and growth plans, as well as corporate governance – and the ever increasing number of requests made by the supervisory bodies (Consob and Borsa Italiana S.p.A.) of companies listed on regulated markets make it necessary to have increasingly more complex and comprehensive control and monitoring tools available; toward this end it was deemed appropriate to invest in risk management processes in order to improve the ability to address risks, particularly with regard to corporate governance and compliance with regulatory standards (which include specifically the recommendations found in the December 2011 edition of the Code of Conduct for Listed Companies). A company project was, therefore, undertaken in order to strengthen enterprise risk management (ERM) with the support of a premiere consulting company. This project calls for the development of a structured ERM model which makes it possible to identify current and future risks, the risks monitored correctly and the other risks which are not completely monitored (for which appropriate corrective measures will be defined). The project is underway since the first part of 2013 and the phases relating to risk identification and assessment, documenting the risk management process and defining the roll out schedule, should be completed by the end of first half 2013.

The general managers and administrative heads of each Group company are responsible for maintaining an adequate internal control system and, given their roles, must certify that the internal control system works properly.

Internal Audit must also include verification of the internal controls through the use of a self-assessment check list in its Audit Plan.

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

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

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").
This resulted in a change in the list of the De' Longhi Group's strategically important subsidiaries which during the Board of Directors' meeting held on 12 November 2012 were indentified as the Group's principal operating companies in Italy (De'Longhi Capital Services S.r.l. and De'Longhi Appliances S.r.l.) and in the United Kingdom (Kenwood Ltd), as the principal commercial companies in Germany (De'Longhi Deutschland Gmbh), Russia (De'Longhi LLC) and Australia (De'Longhi Australia PTY Ltd.) and the main company in China dedicated to the production of small appliances De' Longhi - Kenwood Appliances (Dong Guan) Co. Ltd).

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 2012, also involving discussion and agreement with the Internal Auditing Committee and the Board of Statutory Auditors of De'Longhi S.p.A..

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, interest rates and exchange rates, as well as the cost of raw materials.
In 2012 the widespread slowdown of the world economy, already underway in the previous year, persisted; while the slowdown continued in the first months of the year, albeit at a slower pace, thanks above all to growth in the emerging markets and the United States, in the second half of the year the economy weakened further.
GDP continued to shrink, particularly in the Euro-zone, due to a drop in domestic demand and investments, along with weak employment and real income, low consumer confidence and the tight credit markets.
As a result of the weak international markets, the price of oil dropped significantly and the ECB further reduced interest rates. Along with investors' concerns about the political situation in Greece and the implications of the difficulties encountered by the Spanish banking system, there is now a perception that governments are not united in their approach to European governance reforms and to changing the mechanisms used to manage the crisis.
Only in the last few months of the year did the tensions in financial markets ease gradually, due also to the decision of the Euro group to sustain Greece and the agreement reached in Europe to create a single bank supervisory mechanism in order to end the vicious circle of sovereign risk and fragility in the banking system. The credit markets, however, remain tight and financing is not readily available due to the high level of risk perceived by the lenders related to the impact of the recession on businesses.
With regard to the future, despite the signals of strengthening in a few emerging markets in the last months of the year, the growth prospects for 2013 remain unclear as they are linked to the Euro-zone crisis and management of the debt crisis in the United States where risks remain despite the resolution of fiscal cliff issue at the beginning of 2013. In 2013, therefore, the recovery will continue to be weak and will continue to be characterized by great differences between regions and countries; analysts share the view that the gross world product could begin to strengthen in 2014 (Source: Bank of Italy/ECB).

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 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.
The salary review process also includes reward systems for employees at various levels in the organization - from the plant worker through to top management and key people - which are linked to the achievement of short-term and/or medium/long term targets.
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 plant personnel is concerned, the Group operates in China and Italy and, beginning in 2013, in Romania, as well. A majority of the personnel is employed in China following the restructuring of the manufacturing activities begun in 2004 (previously the production plants were based in Europe, mainly in Italy). Having a production facility in Eastern Europe beginning in 2013 has made it possible to diversify the Group’s industrial platform, so as to partly restore the balance in production between the currently dominant China and Europe.

The current arrangement involves certain risks associated with high staff turnover within the Chinese manufacturing workforce, combined with higher payroll costs following the Chinese government's decision to significantly raise minimum wages.

Report on operations

These risks are managed through:
- organization of factory work that minimizes the impact of turnover on the efficiency and quality of production;
- development of incentive systems to 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 this report, the Group does not have any contracts to hedge such risks.

With regard to debt, in 2012, as part of the policy to provide complete financial coverage of the Braun "Household" acquisition and to have enough financing in place should the credit markets worsen, the Group issued and placed a long term, fixed rate, unsecured bond in Euro (due to the effect of a currency and interest rate hedge contract) worth USD 85 million with US institutional investors.

At the date of this report, the Group only has the above mentioned contract 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, which represent approximately 15% of the total revenues, are typically seasonal with their sales concentrated in a limited period of the year.

Seasonality of sales could adversely affect the Group's business prospects, as well as its economic performance and/or financial position.

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

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

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

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 2012, 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.

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:

(€/000)	Net equity 31 December 2012	Profit for 2012	Net equity 31 December 2011 (*)	Profit for 2011 (*)
De'Longhi S.p.A. financial statements	**303,571**	**47,990**	**568,666**	**36,033**
Share of subsidiaries' equity and results for period attributable to the Group, after deducting carrying value of the investments	328,180	77,283	211,945	74,696
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	36,111	(2,420)	112,646	(13,905)
Elimination of intercompany profits	(31,370)	(3,771)	(28,154)	(5,727)
Other adjustments	(2,468)	(623)	(1,826)	(570)
Consolidated financial statements	**634,024**	**118,459**	**863,277**	**90,527**
Minority interests	2,228	472	4,237	279
Group portion	**631,796**	**117,987**	**859,040**	**90,248**

(*) Consolidated data related to 2011 refer to De'Longhi Group before demerger.

Group tax election

During 2012 the Group's Italian companies filed for income tax on a group basis, as permitted by Chapter II Section II of Presidential Decree 917/86.

Related party transactions

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

Subsequent events

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

Outlook

The forecasts for 2013 indicate that uncertain economic conditions will continue to characterize the principal markets; the Group, although it must operate in this negative environment, believes that thanks to the strength of its industrial know-how, its competitive positioning, its good exposure to emerging markets, its presence in high-growth niche businesses and the Braun "Household" acquisition, it will be able to continue along its growth path.

Treviso, 11 March 2013

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	2012	of which non-recurring	2011	of which non-recurring
Revenues from sales and services	*1*	1,506,039		1,406,152	
Other revenues	*1*	24,066		23,247	
Total consolidated revenues		**1,530,105**		**1,429,399**	
Raw and ancillary materials, consumables and goods	*2*	(693,799)		(675,075)	
Change in inventories of finished products and work in progress	*3*	11,156		33,371	
Change in inventories of raw and ancillary materials, consumables and goods	*3*	(6,992)		1,814	
Materials consumed		**(689,635)**		**(639,890)**	
Payroll costs	*4 -8*	(179,635)	(565)	(160,211)	(402)
Services and other operating expenses	*5 - 8*	(409,686)	(1,301)	(403,799)	(5,607)
Provisions	*6*	(25,625)		(22,081)	(217)
Amortization	*9*	(35,590)		(30,930)	
Other income (expenses)	*7 - 8*	(971)	(5,853)	-	
EBIT		**188,963**	**(7,719)**	**172,488**	**(6,226)**
Financial income (expenses)	*10*	(34,924)		(33,688)	
PROFIT (LOSS) BEFORE TAXES		**154,039**		**138,800**	
Income taxes	*11*	(35,580)		(44,360)	
NET PROFIT (LOSS) FROM CONTINUING OPERATION		**118,459**		**94,440**	
Net profit (loss) from discontinued operation		-		(3,913)	
CONSOLIDATED PROFIT (LOSS) AFTER TAXES		**118,459**		**90,527**	
Profit (loss) pertaining to minority interests	*27*	472		279	
PROFIT (LOSS) PERTAINING TO THE GROUP		**117,987**		**90,248**	
EARNINGS PER SHARE (in Euro)					
- basic		**€ 0.79**		**€ 0.60**	
- diluted		**€ 0.79**		**€ 0.60**	

Consolidated statement of comprehensive income

(€/000)	Notes	2012	2011
Consolidated profit (loss) after taxes		**118,459**	**90,527**
Other components of comprehensive income from CONTINUING OPERATION			
Change in fair value of cash flow hedges and financial assets available for sale	*27*	(25,105)	27,960
Tax effect on change in fair value of cash flow hedges and financial assets available for sale	*27*	6,607	(7,411)
Differences from translating foeign companies' financial statements into Euro	*27*	(3,913)	10,215
Other components of comprehensive income from DISCONTINUED OPERATION		**-**	**940**
Total comprehensive income (loss)		**96,048**	**122,231**
Total comprehensive income attributables to:			
Owners of the parent		95,576	121,946
Minority interests		472	285

Consolidated statement of financial position

Assets

(€/000)	Notes	31.12.2012	31.12.2011
NON-CURRENT ASSETS			
INTANGIBLE ASSETS		364,619	175,825
- Goodwill	*12*	115,608	41,591
- Other intangible assets	*13*	249,011	134,234
PROPERTY, PLANT AND EQUIPMENT		158,584	109,051
- Land, property, plant and machinery	*14*	81,794	50,414
- Other tangible assets	*15*	76,790	58,637
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		3,192	5,352
- Equity investments	*16*	737	673
- Receivables	*17*	2,346	3,387
- Other non-current financial assets	*18*	109	1,292
DEFERRED TAX ASSETS	*19*	40,791	32,821
TOTAL NON-CURRENT ASSETS		**567,186**	**323,049**
CURRENT ASSETS			
INVENTORIES	*20*	273,758	277,984
TRADE RECEIVABLES	*21*	381,233	349,490
CURRENT TAX ASSETS	*22*	12,126	4,657
OTHER RECEIVABLES	*23*	32,989	31,397
CURRENT FINANCIAL RECEIVABLES AND ASSETS	*24*	16,076	33,740
CASH AND CASH EQUIVALENTS	*25*	243,995	195,722
TOTAL CURRENT ASSETS		**960,177**	**892,990**
ASSETS RELATED TO DISCONTINUED OPERATIONS		-	500,929
Elimination of financial receivables due from DISCONTINUED OPERATIONS		-	(16,968)
TOTAL ASSETS		**1,527,363**	**1,700,000**

Consolidated statement of financial position

Net equity and liabilities

(€/000)	*Notes*	31 December 2012	31 December 2011
NET EQUITY			
GROUP PORTION OF NET EQUITY		631,796	859,040
- Share capital	*26*	224,250	448,500
- Reserves	*27*	289,559	320,292
- Profit (loss) pertaining to the group		117,987	90,248
MINORITY INTERESTS	*27*	2,228	4,237
TOTAL NET EQUITY		**634,024**	**863,277**
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES		237,780	53,452
- Bank loans and borrowings (long-term portion)	*28*	97,793	46,802
- Other financial payables (long-term portion)	*29*	139,987	6,650
DEFERRED TAX LIABILITIES	*19*	6,589	9,690
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		76,953	77,038
- Employee benefits	*30*	20,608	15,502
- Other provisions	*31*	56,345	61,536
TOTAL NON-CURRENT LIABILITIES		**321,322**	**140,180**
CURRENT LIABILITIES			
TRADE PAYABLES	*32*	351,731	330,766
FINANCIAL PAYABLES		115,333	60,957
- Bank loans and borrowings (short-term portion)	*28*	96,933	40,347
- Other financial payables (short-term portion)	*29*	18,400	20,610
CURRENT TAX LIABILITIES	*33*	30,597	27,363
OTHER PAYABLES	*34*	74,356	70,175
TOTAL CURRENT LIABILITIES		**572,017**	**489,261**
LIABILITIES RELATED TO DISCONTINUED OPERATIONS		-	224,250
Elimination of financial debt payable to DISCONTINUED OPERATIONS		-	(16,968)
TOTAL NET EQUITY AND LIABILITIES		**1,527,363**	**1,700,000**

Consolidated statement of cash flow

(€/000)	*Notes*	2012	2011
Profit (loss) pertaining to the group		117,987	93,935
Income taxes for the period		35,580	44,360
Amortization		35,590	30,694
Net change in provisions		2,409	8,416
Cash flow generated (absorbed) by current operations from discontinued operation		-	28,173
Cash flow generated (absorbed) by current operations (A)		**191,566**	**205,578**
Change in assets and liabilities for the period:			
Trade receivables		(37,415)	(40,249)
Inventories		(978)	(35,412)
Trade payables		23,441	30,838
Other current assets and liabilities		(282)	(6,721)
Payment of income taxes		(49,954)	(28,991)
Cash flow generated (absorbed) by movements in working capital from discontinued operation		-	4,911
Cash flow generated (absorbed) by movements in working capital (B)		**(65,188)**	**(75,624)**
Cash flow generated (absorbed) by current operations and movements in working capital (A+B)		**126,378**	**129,954**
Investment activities:			
Investments in intangible assets		(9,317)	(7,104)
Other cash flows for intangible assets		(23)	102
Investments in property, plant and equipment		(53,360)	(36,807)
Other cash flows for property, plant and equipment		352	2,347
Net investments in equity investments and other financial assets		(501)	(237)
Cash flow generated (absorbed) by ordinary investment activities from discontinued operation		-	(13,897)
Cash flow generated (absorbed) by ordinary investment activities (C)		**(62,849)**	**(55,596)**
Braun transaction		(139,984)	-
Cash flow from non recurring investments from discontinued operation			(154,409)
Non-recurring cash flow (D)		**(139,984)**	**(154,409)**
Dividends paid		(49,335)	(21,827)
Change in currency translation reserve		(1,102)	6,648
Increase (decrease) in minority interests in capital and reserves		245	270
New loans		146,485	15,885
Payment of interests on loans		(2,125)	(2,421)
Repayment of loans and other net changes in sources of finance		30,560	43,242
Cash flow generated (absorbed) by changes in net equity and by financing activities from discontinued operation		-	58,996
Cash flow generated (absorbed) by changes in net equity and by financing activities (E)		**124,728**	**100,793**
Cash flow for the period (A+B+C+D+E)		**48,273**	**20,742**
Opening cash and cash equivalents	*25*	**195,722**	**193,515**
Increase (decrease) in cash and cash equivalents (A+B+C+D+E)		48,273	20,742
Closing cash and cash equivalents	*25*	**243,995**	**214,257**
of which:			
Cash and cash equivalents included as discontinued operation			18,535
Cash and cash equivalents as reported in the statement of financial position			**195,722**

Consolidated statement of changes in net equity

(€/000)	SHARE CAPITAL	SHARE PREMIUM RESERVE	LEGAL RESERVE	EXTRAORDINARY RESERVE	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 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**
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**
Demerger	(224,250)	(162)	(4,847)	(31,946)	(60)	(2,255)	(9,964)		(273,484)	(2,253)	(275,737)
Balance at 1st January 2012	**224,250**	**162**	**4,846**	**29,479**	**18,373**	**(1,634)**	**219,831**	**90,248**	**585,555**	**1,984**	**587,539**
Allocation of 2011 result as per AGM resolution of 24 April 2012											
- distribution of dividends				(12,857)			(36,478)		(49,335)		(49,335)
- allocation to reserves			1,802				88,446	(90,248)	-		-
Other changes in minority interests										(228)	(228)
Movements from transactions with shareholders	**-**	**-**	**1,802**	**(12,857)**	**-**	**-**	**51,968**	**(90,248)**	**(49,335)**	**(228)**	**(49,563)**
Profit (loss) after taxes								117,987	117,987	472	118,459
Other components of comprehensive income					(18,498)	(3,913)			(22,411)		(22,411)
Comprehensive income (loss)	**-**	**-**	**-**	**-**	**(18,498)**	**(3,913)**	**-**	**117,987**	**95,576**	**472**	**96,048**
Balance at 31 December 2012	**224,250**	**162**	**6,648**	**16,622**	**(125)**	**(5,547)**	**271,799**	**117,987**	**631,796**	**2,228**	**634,024**

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 the wholly-owned subsidiary DeLclima S.p.A., which resulted in the spin off of the Professional Division's assets and the creation of two distinct groups, De'Longhi S.p.A. and DeLclima 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. and, therefore, from this date, the two companies operate as two separate groups focused on their respective businesses.
The consolidated financial statements at 31 December 2012 refer to the pre-demerger De'Longhi Group because the demerger has taken effect from 1 January 2012.
The comparative data at 31 December 2011 refer to the assets and liabilities defined as "continuing operations" in the consolidated financial statements at 31 December 2011. The assets and liabilities transferred to the DeLclima Group are shown separately due to the effect of the demerger as of 1 January 2012.

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 2012 are the same as those used for preparing the consolidated financial statements at 31 December 2011, 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 2012 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.

For the purposes of consistent comparison, tax receivables and payables (with the exception of those relative to current tax) have been reclassified under "Other receivables " and "Other payables".
Furthermore, the non-recurring cash flows for discontinued operations, primarily those relating to the capital contribution

made to the Professional division (then transferred to the DeLclima Group following the demerger), have been presented in separate lines of the statement of cash flows for 2011.

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

The present annual financial report was approved and authorized for publication by the Board of Directors on 11 March 2013. The financial statements used for consolidation purposes are the separate ones for the year ended 31 December 2012 prepared by the Boards of Directors of the individual companies, as adjusted if necessary for the Group's accounting policies and measurement bases.

The financial statements have been prepared on the historical cost basis, adjusted as required for the valuation of certain financial instruments, and under the assumption of going concern. The Group has verified that there are no material uncertainties that might cast significant doubt upon its ability to continue as a going concern, as defined in par. 25 of IAS 1. The risks and uncertainties relating to the business are described in a specific section of the Report on operations. The methods used by the Group to manage financial risks are described in note 38. Risk management of the present Explanatory notes.

The following exchange rates have been used:

		31 December 2012		31 December 2011		% 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	1.31940	1.28479	1.29390	1.39196	2.0%	(7.7%)
British pound	GBP	0.81610	0.81087	0.83530	0.86788	(2.3%)	(6.6%)
Hong Kong dollar	HKD	10.22600	9.96626	10.05100	10.8362	1.7%	(8.0%)
Chines renminbi (Yuan)	CNY	8.22070	8.10523	8.15880	8.99600	0.8%	(9.9%)
Australian dollar	AUD	1.27120	1.24071	1.27230	1.34839	(0.1%)	(8.0%)
Canadian dollar	CAD	1.31370	1.28421	1.32150	1.37610	(0.6%)	(6.7%)
Japanes yen	JPY	113.61000	102.49200	100.20000	110.95900	13.4%	(7.6%)
Malaysian ringgit	MYR	4.03470	3.96725	4.10550	4.25580	(1.7%)	(6.8%)
New Zealand dollar	NZD	1.60450	1.58670	1.67370	1.76003	(4.1%)	(9.8%)
Polish zloty	PLN	4.0740	4.18474	4.45800	4.12061	(8.6%)	1.6%
South African rand	ZAR	11.17270	10.55110	10.48300	10.09700	6.6%	4.5%
Singapore dollar	SGD	1.61110	1.60546	1.68190	1.74887	(4.2%)	(8.2%)
Russian rouble	RUB	40.32950	39.92620	41.76500	40.88460	(3.4%)	(2.3%)
Turkish lira	TRY	2.35510	2.31354	2.44320	2.33781	(3.6%)	(1.0%)
Czech koruna	CZK	25.15100	25.14910	25.78700	24.58980	(2.5%)	2.3%
Croatian kuna	HRK	7.55750	7.52167	7.53700	7.43904	0.3%	1.1%
Brazilian real	BRL	2.70360	2.50844	2.41590	2.32651	11.9%	7.8%
Swiss franc	CHF	1.20720	1.20528	1.21560	1.23261	(0.7%)	(2.2%)
Ukrainian hryvnia	UAH	10.58357	10.35200	10.36920	11.10670	2.1%	(6.8%)
Indian rupee	INR	72.56000	68.59730	68.71300	64.88590	5.6%	5.7%
Romanian leu	RON	4.44450	4.45931	4.32330	4.23909	2.8%	5.2%
South Korean won	KRW	1406.23000	1447.69000	1498.69000	1541.23000	(6.2%)	(6.1%)
Chilean Peso	CLP	631.72872	624.80100	671.99700	672.54000	(6.0%)	(7.1%)

(*) Source: Bank of Italy

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

On 7 October 2010, IASB published a few amendments to IFRS 7 – Financial Instruments: Disclosures, adopted by the European Commission in November 2011, to be complied with by the Group as of 1 January 2012. The amendments seek to allow users of financial statements to improve their understanding of exposures to risks associated with transfers of financial assets. Application of this amendment did not have a material impact on the information found in this annual report.

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

On 5 June 2012 the European Commission adopted (in Regulation n.475) the amendments to IAS 1 - Presentation of Items of Other Comprehensive Income (OCI) and to IAS 19 - Employee Benefits.
The purpose of the IAS 1 amendment is to clarify the growing number of items included in comprehensive income statements. With regard to the IAS 19 amendments, these should help users of financial statements to better understand the impact that defined benefits have on the financial position, economic results and cash flows.
The amendments to IAS 1 and IAS 19 apply to financial statements for annual periods beginning on, respectively, 1 July 2012 and 1 January 2013; the amendments were not applied in advance.

On 11 December 2012 the European Commission adopted (in Regulation n.1254/2012), IFRS 10 - Consolidated Financial Statements; the new standard substitutes IAS 27 - Consolidated and Separate Financial Statements and incorporates SIC 12 - Special Purpose Entities. IFRS 10 deviates from existing standards; control is viewed as the determining factor with regard to the consolidation of a company in the consolidated financial statements of a Parent Company. It also provides guidelines to be used to determine whether or not control exists.

In the same regulation IFRS 11 - Joint arrangements was adopted, which repeals and substitutes IAS 31 and IFRS 12 - Disclosure of Interests in Other Entities and establishes what information needs to be provided in the explanatory notes when IFRS 10 and IFRS 11 are applied. Based on the latter, joint control is based on the rights and obligations stemming from contractual arrangements and not on the legal from of the parties and establishes that these jointly controlled equity investments may only be consolidated using the equity method.

The revised versions of IAS 27 - Separate Financial Statements and IAS 28 - Investments in Associates and Joint Ventures were also adopted.

The amendments apply to reporting periods beginning on or after 1 January 2014; the amendments were not applied in advance.

On 11 December the European Commission adopted (in Regulation n.1255/2012) IFRS 13 – Fair value measurement, which provides guidelines about determining fair value and the amendments to IAS 12 - Income taxes and IFRS 11 - First-time Adoption of International Financial Reporting Standards.

The above standards apply to reporting periods beginning on or after 1 January 2013; the amendments were not applied in advance.

On 13 December the European Commission adopted (in Regulation n.1256/2012) the amendments to IFRS 7 – Financial Instruments: Disclosures and to IAS 32 – Financial Instruments: Presentation.

The amendments apply to reporting periods beginning on or after 1 January 2014; the amendments were not applied in advance.

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

In 2009 IASB published a first version of IFRS 9 – Financial Instruments, which was subsequently amended and will ultimately substitute IAS 39. The standard, which must be applied beginning 1 January 2015 retroactively, introduces new criteria to be used in the classification and valuation of financial assets and liabilities.

A group of improvements to other IFRS was also published (“Improvement to IFRS – 2009-2011”).

Consolidation procedures

The scope of consolidation includes the parent company, De'Longhi S.p.A., and its subsidiaries at 31 December 2012, 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.

Change in the scope of consolidation – business combinations

Braun household acquisition

On 1 September 2012, following completion of the authorisation process by the German antitrust authorities and trade unions and once the conditions precedent were satisfied, the definitive contract was signed under which De'Longhi was granted the perpetual licence, held by Procter & Gamble, over the Braun brand for small kitchen appliances, irons and other minor categories, in full implementation of the preliminary agreements signed in April.
The transaction is structured basically like a business combination pursuant to IFRS 3 as, in addition to the perpetual license over the Braun brand, the related patents and know how (in the above mentioned categories), the transaction involved the sale of a few manufacturing assets (production lines and presses), as well as the transfer of a few employees located in Germany.
The agreement reached called for a transition period, which was over at the end of 2012, during which the Group was able to implement the procedures needed to independently manage the business acquired; during the transition period this business made a net contribution to EBITDA of €4.9 million before the non-recurring costs sustained for the acquisition. Effective 1 January 2013, De'Longhi took over the direct management of Braun's Household operations.
Once the transition phase was over, beginning at the end of 2012 and over the first few months of 2013, De'Longhi also acquired the inventory of Braun "Household" products from Procter & Gamble at a price established in the contract, though it did not assume the other short term assets and liabilities.

The consideration paid for the acquisition paid at the closing date (1 September 2012) amounted to €202.9 million, broken down in three parts:
- €50 million paid upon signing the contracts;
- €90 million (present value) to be paid in yearly instalments over the next fifteen year, in addition to interest; on 31 December 2012, however, this contractual obligation was extinguished in advance;
- an earn-out linked to the sales performance of the Braun brand over the first five years ("CAGR") following the acquisition, the present value of which was estimated to be €63.0 million based on the business plan "Braun Household" 2013-2017.

The breakdown of the consideration paid by assets and liabilities acquired is summarized below. This temporary allocation was made while waiting to receive information which will make it possible to determine the definitive value of the net assets acquired.

Total transaction value	202,940
(Fair value of assets and liabilities acquired)	(130,586)
Goodwill	72,354

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

	Acquisition date fair value
Intangible assets (*)	119,000
Property, plant and equipment	22,994
Deferred tax assets	5,032
Other current assets	3,195
Total assets	**150,221**
General provisions	19,635
Total liabilities	**19,635**
Net assets	**130,586**
Share acquired by the Group (100%)	**130,586**

(*) The allocation relates for €105.0 million to the perpetual license over the "Braun Household" brand (value based on the valuation of an independent expert).

Acquisition of DL Chile S.A.

In 2012 the De'Longhi Group acquired, through the subsidiary De'Longhi Household S.A., a 70% controlling interest in DL Chile S.A. active in local product distribution. A series of put/call option agreements was also signed for purchase/sale of the residual 30%; as called for under IAS 32 the call option on the residual interest was recognized under "Other financial payables" for an estimated amount of €758 thousand.

The purchase involved recognizing €1,663 thousand in goodwill, determined as follows:

Total transaction value	781
(Fair value of assets and liabilities acquired)	882
Goodwill	1,663

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

	Value recognized under IFRS
Property, plant and equipment and intangible assets	48
Trade receivables	458
Inventories	50
Cash and cash equivalents	39
Other current assets	109
Total assets	**704**
Trade payables	1,552
Other current liabilities	3
Other current financial liabilities	31
Total liabilities	**1,586**
Net liabilities	**882**
Share acquired by the Group (100%)	**882**

This temporary allocation was made while waiting to receive information which will make it possible to determine the definitive value of the net assets acquired. The acquisition had no impact on the consolidated income statement.

Explanatory notes

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 2012 and 2011 is as follows:

(€/000)	31 December 2012	31 December 2011 (*)
Curent assets	7,912	10,724
Non-current assets	2,229	4,382
Total assets	**10,141**	**15,106**
Current liabilities	6,422	9,067
Non-current liabilities	-	75
Total liabilities	**6,422**	**9,142**
Net assets	**3,719**	**5,964**
Operating revenues	16,865	28,840
Operating costs	(16,086)	(28,631)
Financial income	111	965
Taxes	(234)	(42)
Profit after tax	**656**	**1,132**

(*) Comparative data restated, following the demerger which took effect from 1 January 2012.

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 anni
Plant and machinery	7 – 18 anni
Industrial and commercial equipment	3 – 5 anni
Other	4 – 7 anni

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 2013 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 by geographical area as follows:

	2012	%	2011	%	Change	% Change
Western Europe	848,168	55.5%	823,774	57.6%	24,394	3.0%
Eastern Europe	159,833	10.4%	145,834	10.2%	13,999	9.6%
EUROPE	**1,008,001**	**65.9%**	**969,608**	**67.8%**	**38,393**	**4.0%**
MEIA (Middle East/India/Africa)	**85,325**	**5.6%**	**79,501**	**5.6%**	**5,824**	**7.3%**
APA (Asia/Pacific/Americas)	**436,779**	**28.5%**	**380,290**	**26.6%**	**56,489**	**14.9%**
Total revenues	**1,530,105**	**100.0%**	**1,429,399**	**100.0%**	**100,706**	**7.0%**

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

"Other revenues" are broken down as follows:

	2012	2011	Change
Out-of-period gains	5,922	4,276	1,646
Freight reimbursement	5,443	6,294	(851)
Commercial rights	1,652	1,942	(290)
Damages reimbursed	664	537	127
Other income	10,385	10,198	187
Total	**24,066**	**23,247**	**819**

2. Raw and ancillary materials, consumables and goods

The breakdown is as follows:

	2012	2011	Change
Raw materials	50,283	76,491	(26,208)
Parts	254,086	234,741	19,345
Finished products	379,889	354,727	25,162
Other purchases	9,541	9,116	425
Total	**693,799**	**675,075**	**18,724**

3. Change in inventories

The breakdown is as follows:

	2012	2011	Change
Change in inventories of finished products and work in progress	11,156	33,371	(22,215)
Change in inventories of raw and ancillary materials, consumables and goods	(6,992)	1,814	(8,806)

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.

4. Payroll costs

These costs include €50,396 thousand in production-related payroll (€46,149 thousand at 31 December 2011).

	2012	2011	Change
Employee wages and salaries	175,089	154,931	20,158
Temporary workers	4,546	5,280	(734)
Total	**179,635**	**160,211**	**19,424**

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.

The figure at 31 December 2012 includes €565 thousand in non-recurring expenses (€402 thousand at 31 December 2011) attributable primarily to restructuring costs.

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

	2012	2011
Blue collar	3,406	3,078
White collar	2,372	2,307
Senior managers	87	91
Total	**5,865**	**5,476**

5. Services and other operating expenses

These are detailed as follows:

	2012	2011	Change
Advertising and promotional expenses	141,035	138,648	2,387
Transport (for purchases and sales)	67,048	67,556	(508)
Commissions	10,334	10,780	(446)
Rentals and leasing	30,711	25,923	4,788
Subcontracted work	19,325	21,105	(1,780)
Technical support	12,785	15,052	(2,267)
Travel	14,592	13,684	908
Insurance	4,035	4,088	(53)
Storage and warehousing	15,831	15,110	721
Consulting services	15,158	17,319	(2,161)
Power and other utilities	7,278	6,124	1,154
Other third-party services	12,391	10,974	1,417
Postage, telegraph and telephones	3,830	3,644	186
Maintenance	2,905	2,809	96
Directors' emoluments	2,063	2,127	(64)
Statutory auditors' emoluments	335	320	15
Credit insurance fees	3,966	3,190	776
Other sundry services	11,140	9,475	1,665
Total services	**374,762**	**367,928**	**6,834**
Sundry taxes	28,848	28,358	490
Out-of-period losses	2,325	3,068	(743)
Other	3,743	4,437	(694)
Bad debts	8	8	-
Total other operating expenses	**34,924**	**35,871**	**(947)**
Total services and other operating expenses	**409,686**	**403,799**	**5,887**

The figure at 31 December 2012 includes non-recurring costs for services totalling €1,301 thousand (€5,607 in 2011). For more information about non-recurring items please refer to note 8. Non-recurring expenses.

6. Provisions

These include €20,501 thousand in provisions for contingencies and other charges, the main changes in this item are discussed in note 31. Other provisions.
They also include €5,124 thousand in provisions for doubtful accounts, €5,074 of which relative to trade receivables.

7. Other operating income (expenses)

These include income (net of the relative costs) generated by Procter & Gamble for the distribution of Braun products (small kitchen appliances, irons and other minor categories) during the transition period called for under the sales contract for the brand license, net of the cost sustained for the acquisition of the “Braun Household” business.

8. Non-recurring expenses

"Non-recurring expenses" of €7,719 at 31 December 2012 are directly classified in the income statement line items to which they refer (€5,853 thousand in other operating income/(expenses, €1,301 thousand in services and other operating expenses and €565 thousand in payroll costs).

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

	2012	2011	Change
Braun Household transaction costs	5,853	-	5,853
Demerger costs	-	2,819	(2,819)
Reorganization and restructuring costs	697	2,658	(1,961)
Other non-recurring expenses	1,169	749	420
Total	**7,719**	**6,226**	**1,493**

9. Amortization

The breakdown is as follows:

	2012	2011	Change
Amortization of intangible assets	11,635	10,899	736
Depreciation of property, plant and equipment	23,955	20,031	3,924
Total	**35,590**	**30,930**	**4,660**

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

10. Financial income (expenses)

Net financial income and expenses are broken down as follows:

	2012	2011	Change
Financial income (expenses) from equity investments	10	6	4
Financial income (expenses) from equity investments	**10**	**6**	**4**
Exchange differences and gains (losses) on hedges	**(4,966)**	**(9,770)**	**4,804**
Net interest expense and other bank charges	(11,935)	(7,070)	(4,865)
Financial discounts	(14,558)	(14,538)	(20)
Other financial income (expenses)	(3,475)	(2,316)	(1,159)
Other financial income (expenses)	**(29,968)**	**(23,924)**	**(6,044)**
Financial income (expenses)	**(34,924)**	**(33,688)**	**(1,236)**

The increase in “Net financial expenses” reflects the combined effect of a decrease in exchange differences and an increase in interest payable.

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

"Net interest expense and other bank charges" include not only bank interest on the Group's financial debt (recalculated used the amortized cost method), but also the financial cost of factoring receivables without recourse.

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

11. Income taxes

These are analyzed as follows:

	2012	2011	Change
Current income taxes:			
- Income taxes	31,760	40,531	(8,771)
- IRAP (Italian regional business tax)	3,691	4,097	(406)
Deferred (advanced) taxes	129	(268)	397
Total	**35,580**	**44,360**	**(8,780)**

"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:

	2012	%	2011	%
Profit before taxes	154,039	100%	138,800	100%
Theoretical taxes	42,361	27.5%	38,170	27.5%
Other (*)	(10,472)	(6.8%)	2,093	1.5%
Total income taxes	**31,889**	**20.7%**	**40,263**	**29.0%**
IRAP	3,691	2.4%	4,097	3.0%
Actual taxes	**35,580**	**23.1%**	**44,360**	**32.0%**

(*)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.

Comments on the statement of financial position: assets

NON-CURRENT ASSETS

12. Goodwill

	31 December 2012		31 December 2011		
	Gross	Net	Gross	Net	Change
Goodwill	**122,355**	**115,608**	**48,338**	**41,591**	**74,017**

The change in “Goodwill” is explained for €72,354 by the “Braun Household” acquisition and for €1,663 by the acquisition of DL Chile S.A.

Goodwill is not amortized because it is considered to have an indefinite useful life. Instead, it is tested for impairment at least once a year to identify any evidence of loss in value.

The following table shows how goodwill is allocated by CGU:

Cash-generating unit	Goodwill at 31 December 2012
De'Longhi	26,134
Kenwood	17,120
Braun	72,354
Total	**115,608**

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 2013.

The estimated recoverable amount for all the CGUs was 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.

The impairment tests carried out at the end of 2012 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 2013 such as might indicate any further impairment in the carrying amount of goodwill.

However, estimating CGU recoverable amount requires management to make discretionary judgements and estimates. In fact, several factors also associated with developments in the difficult market context could make it necessary to reassess the value of goodwill. The Group will be constantly monitoring those events and circumstances that might make it necessary to perform new impairment tests.

13. Other intangible assets

These are analyzed as follows:

	31 December 2012		31 December 2011		
	Gross	**Net**	**Gross**	**Net**	**Change**
New product development costs	54,932	12,321	49,710	12,565	(244)
Patents	32,847	7,199	26,429	1,772	5,427
Trademarks and similar rights	290,053	213,729	184,895	112,661	101,068
Work in progress and advances	4,395	4,395	4,593	4,593	(198)
Other	20,647	11,367	11,075	2,643	8,724
Total	**402,874**	**249,011**	**276,702**	**134,234**	**114,777**

The following table reports movements in the main asset categories during 2012:

	New product development costs	Patents	Trademarks and similar rights	Work in progress and advances	Other	Total
Net opening balance	**12,565**	**1,772**	**112,661**	**4,593**	**2,643**	**134,234**
Additions	2,631	1,624	158	2,866	375	7,654
Amortization	(5,577)	(879)	(4,084)	(444)	(651)	(11,635)
Translation differences and other movements	2,702	(318)	(6)	(2,620)	-	(242)
Acquisizione "Braun Household"	-	5,000	105,000	-	9,000	119,000
Net closing bilance	**12,321**	**7,199**	**213,729**	**4,395**	**11,367**	**249,011**

As a result of the "Braun Household" acquisition described above, the intangible assets of the De'Longhi Group increased by the value of the perpetual license over the Braun brand for small kitchen appliances, irons and other minor categories of €105,000 thousand, and the related patents and know how (in the previously mentioned categories) of € 5,000 thousand and €9,000 thousand, respectively.

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 €5,497 thousand in development costs as intangible assets in 2012, of which €2,631 thousand in "New product development costs" for projects already completed at the reporting date and €2,866 thousand in "Work in progress and advances" for projects still in progress.
The Group incurred some €30.4 million in research and development costs during 2012.

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

"Trademarks and similar rights" include €79.8 million for the "De'Longhi" trademark, as well as €105 million (calculated based on the purchase price established in the independent expert's valuation) for the perpetual license over the Braun brand, treated as having an indefinite useful life under the criteria specified in IAS 38, taking into account, above all, brand awareness, economic performances, characteristics of the target market, the specific brand strategies and the amount of the investments made to support the brands.

The impairment test carried out at the end of 2012 for both trademarks with indefinite lives has not revealed any significant evidence that these assets might have suffered an impairment loss. No events of significance have occurred so far in 2013 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 9% 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 8.8% and 9.2%) and the growth rate in terminal value (in the range 1.8%-2.2%).
The sensitivity analysis has revealed relatively stable results; in fact, the minimum and maximum amounts diverged by around 10% from the central point when both variables were changed, while the divergence was considerably smaller when more reasonable assumptions regarding the change in variables were adopted.

14. Land, property, plant and machinery

These are analyzed as follows:

	31 December 2012		31 December 2011		
	Gross	**Net**	**Gross**	**Net**	**Change**
Land and buildings	52,770	42,354	22,219	14,237	28,117
Plant and machinery	108,171	39,440	102,427	36,177	3,263
Total	**160,941**	**81,794**	**124,646**	**50,414**	**31,380**

The following table reports movements during 2012:

	Land and buildings	Plant and machinery	Total
Net opening balance	**14,237**	**36,177**	**50,414**
Additions	23,820	7,273	31,093
Disposals	(100)	(282)	(382)
Depreciation	(2,638)	(3,936)	(6,574)
Translation differences and other movements	7,035	208	7,243
Net closing balance	**42,354**	**39,440**	**81,794**

The increase in "Land and buildings" mainly refers to the purchase of a new facility in Romania, which will be used for high-growth product lines, and the investment made in the plant in China, dedicated to the production of some of the Group's most important product categories which became operative after production lines and offices were transferred from the previous production facility, and the opening of a logistics warehouse in Russia.

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

	31 December 2012	31 December 2011	Change
Impianti e Attrezzature	5,647	6,076	(429)
Altri beni	220	181	39
Totale	**5,867**	**6,257**	**(390)**

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

15. Other tangible assets

Other tangible assets are analyzed as follows:

	31 December 2012		31 December 2011		
	Gross	Net	Gross	Net	Change
Industrial and commercial equipment	215,750	41,734	192,309	31,498	10,236
Other	58,399	26,020	41,852	13,448	12,572
Work in progress and advances	9,036	9,036	13,691	13,691	(4,655)
Total	**283,185**	**76,790**	**247,852**	**58,637**	**18,153**

The following table reports movements during 2012:

	Industrial and commercial equipment	Other	Work in progress and advances	Total
Net opening balance	**31,498**	**13,448**	**13,691**	**58,637**
Additions	9,387	6,068	6,812	22,267
Disposals	-	(267)	(28)	(295)
Depreciation	(12,611)	(4,770)	-	(17,381)
Translation differences and other movements	1,604	403	(11,439)	(9,432)
Braun Household acquisition	11,856	11,138	-	22,994
Net closing balance	**41,734**	**26,020**	**9,036**	**76,790**

The "Braun Household" acquisition involved, in addition to the intangible assets described above, a few manufacturing assets (production lines and moulds) for a total of €22,994 thousand.

The increase in "Industrial and commercial equipment" relates primarily to purchase of moulds for manufacturing new products.

The increase in "Work in progress" is explained primarily by investments made in the new plant in Romania.

16. Equity investments

The balance at 31 December 2012 reports €737 thousand in equity investments in other companies, accounted for as available-for-sale financial assets.

17. Non-current receivables

The balance at 31 December 2012 comprises €2,340 thousand in security deposits (€2,335 thousand at 31 December 2011) and €6 thousand in other non-current receivables (€1,052 thousand at 31 December 2011)

18. Other non-current financial assets

At 31 December 2012, these reflect €109 thousand in bonds held by subsidiaries (at 31 December 2011 these reflected the positive fair value of derivatives of €1,167 thousand and €125 thousand in bonds held by subsidiaries).

19. Deferred tax assets and deferred tax liabilities

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

	31 December 2012	31 December 2011	Change
Deferred tax assets	40,791	32,821	7,970
Deferred tax liabilities	(6,589)	(9,690)	3,101
Net asset balance	**34,202**	**23,131**	**11,071**

"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 2012	31 December 2011	Change
Temporary differences	25,651	14,561	11,090
Tax losses	8,551	8,570	(19)
Net asset balance	**34,202**	**23,131**	**11,071**

The change in the net asset balance also reflects a reduction of €6,607 thousand booked to net equity in the "Fair value and cash flow hedge reserve".

Current assets

20. Inventories

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

	31 December 2012	31 December 2011	Change
Raw, ancillary and consumable materials	33,186	38,287	(5,101)
Work in progress and semi-finished products	14,491	14,455	36
Finished products and goods	265,284	252,599	12,685
Advances	(39,203)	(27,357)	(11,846)
Inventory writedown allowance	**273,758**	**277,984**	**(4,226)**

The balance at 31 December reflects the acquisition, made near the end of the year, of Braun's product inventory for €12.2 million so that the Group may independently distribute and market these products as of 1 January 2013.

The value of inventories is stated after deducting an allowance for obsolete or slow-moving goods totalling €39,203 thousand (€27,357 thousand at 31 December 2011) in relation to products and raw materials no longer deemed to be of strategic interest to the Group.

21. Trade receivables

These are analyzed as follows:

	31 December 2012	31 December 2011	Change
Trade receivables			
- due within 12 months	398,939	364,551	34,388
- due beyond 12 months	9	5	4
Allowance for doubtful accounts	(17,715)	(15,066)	(2,649)
Total trade receivables	**381,233**	**349,490**	**31,743**

Trade receivables are stated net of an allowance for doubtful accounts of €17,715 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 2012 is €110,113 thousand. The total amount of receivables factored by the Group during 2012 (under Law 52/1991 known as the Factoring Law) was €417,753 thousand.

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

	31 December 2011	Increases	Utilization	Translation differences and other movements	31 December 2012
Allowance for doubtful accounts	15,066	5,074	(2,148)	(277)	17,715

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:

Geographical area	31 December 2012	%	31 December 2011	%
Italy	50,944	13.3%	29,767	8.5%
United Kingdom	28,771	7.5%	16,415	4.7%
Rest of Europe	171,789	45.1%	173,597	49.7%
United States, Canada, Mexico	13,575	3.6%	13,184	3.8%
Rest of the world	116,154	30.5%	116,527	33.3%
Total	**381,233**	**100.0%**	**349,490**	**100.0%**

22. Current tax assets

These are analyzed as follows:

	31 December 2012	31 December 2011	Change
Tax payments on account	2,826	2,388	438
Tax refunds requested	2,343	1,785	558
Other direct tax receivables	6,957	484	6,473
Total	**12,126**	**4,657**	**7,469**

There are no current tax assets due beyond 12 months (at 31 December 2011 this item amounted to €12 thousand).

23. Other receivables

"Other receivables" are analyzed as follows:

	31 December 2012	31 December 2011	Change
VAT	17,448	12,773	4,675
Other tax receivables	1,184	949	235
Advances to suppliers	4,275	5,627	(1,352)
Prepaid insurance costs	432	492	(60)
Employees	276	384	(108)
Other	9,374	11,172	(1,798)
Total	**32,989**	**31,397**	**1,592**

Other receivables include €67 thousand in amounts due beyond 12 months (€139 thousand at 31 December 2011).

24. Current financial receivables and assets

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

	31 December 2012	31 December 2011	Change
Fair value of derivatives	2,460	28,626	(26,166)
Other financial receivables	13,616	5,114	8,502
Total	**16,076**	**33,740**	**(17,664)**

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.

25. Cash and cash equivalents

This balance consists of surplus liquidity on bank current accounts, mostly relating to customer payments received at period end.

Some of the Group's foreign companies have a total of €285.5 million in cash on current accounts held at the same bank. These cash balances form part of the international cash pooling system and are partially offset by €282.8 million in overdrafts held at the same bank by other foreign companies. This bank therefore acts as a "clearing house" for the group's positive and negative cash balances. Considering the substance of the transactions and technical workings of the international cash pooling system, the positive and negative cash balances have been netted against one another in the consolidated statement of financial position, as permitted by IAS 32. The bank in question has been given a lien over all the cash balances within the international cash pooling system in respect of this service.

The cash balances at 31 December 2012 include €3,658 thousand in current accounts of certain subsidiaries, mainly in China, 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 December 2012	31 December 2011	Change
Group portion	631,796	859,040	(227,244)
Minority interests	2,228	4,237	(2,009)
Total	**634,024**	**863,277**	**(229,253)**

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.

Following the demerger which took effect on 1 January 2012, De'Longhi S.p.A.'s net equity was reduced by €261,205 thousand (€224,250 thousand of which relating to share capital) while DeLclima S.p.A.'s net equity was increased by the same amount; this amount corresponds to the carrying amount of De'Longhi S.p.A.'s equity investment in De'Longhi Professional S.A.. The value of the consolidated net equity involved in the demerger was €273,484 thousand at 31 December 2011.
As a result, the shareholders of De'Longhi S.p.A. 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.

The annual general meeting (AGM) of De'Longhi S.p.A. held on 24 April 2012 approved a dividend totalling €49,335 thousand, which was paid in full during the year.

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

26. Share capital

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

27. Reserves

These are analyzed as follows:

	31 December 2012	31 December 2011	Change
Share premium reserve	162	325	(163)
Legal reserve	6,648	9,693	(3,045)
Other reserves			
- Extraordinary reserve	16,622	61,425	(44,803)
- Fair value and cash flow hedge reserve	(125)	18,433	(18,558)
- Currency translation reserve	(5,547)	621	(6,168)
- Profit (loss) carried forward	271,799	229,795	42,004
Total	**289,559**	**320,292**	**(30,733)**

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 at 31 December 2011; following the demerger transaction in favour of DeLclima S.p.A. the share premium reserve was reduced to €162 thousand.

The "Legal reserve" had a balance of €9,693 thousand at 31 December 2011. The increase is explained for €4,847 thousand by the decrease following the above mentioned demerger and for €1,802 thousand by the increase due to the allocation of profit for 2011, as approved by the above AGM of De'Longhi S.p.A. on 24 April 2012.

The "Extraordinary reserve" fell by a total of €44,803 thousand; this change is explained for €31,946 thousand by the demerger transaction and for €12,857 thousand by the payment of the dividend approved by the AGM.

The "Fair value and cash flow hedge reserve" reports a negative balance of €125 thousand, net of €5 thousand in tax.
The reduction in this reserve recorded in 2012 of €18,558 thousand is attributable for €18,498 to the fair value of the cash flow hedge and the available-for-sale financial assets (net of €6,607 thousand in tax) and for €60 thousand to the demerger transaction.
More details on the fair value of derivatives can be found in note 38. Risk management.

The "Currency translation reserve" comprises €5,547 thousand in exchange differences arising from 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.

Minority interests in net equity, which amount to €2,228 (including the profit for the period of €472 thousand), refer to the minority interest (49%) held in E-Services S.r.l..

Minority interests in net equity fell by a total of €2,009 thousand with respect to 31 December 2011; this change is attributable for €2,253 thousand to the demerger, for €472 thousand to the profit for the period and for €228 thousand to the payment of dividends to minorities.
Below is a reconciliation between the net equity and profit reported by the parent company, De'Longhi S.p.A., and the figures shown in the consolidated financial statements:

	Net equity 31 December 2012	Profit for 2012	Net equity 31 December 2011	Profit for 2011
De'Longhi S.p.A. financial statements	**303,571**	**47,990**	**568,666**	**36,033**
Share of subsidiaries' equity and results for period attributable to the Group, after deducting carrying value of the investments	328,180	77,283	211,945	74,696
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	36,111	(2,420)	112,646	(13,905)
Elimination of intercompany profits	(31,370)	(3,771)	(28,154)	(5,727)
Other adjustments	(2,468)	(623)	(1,826)	(570)
Consolidated financial statements	**634,024**	**118,459**	**863,277**	**90,527**
Minority interests	2,228	472	4,237	279
Group portion	**631,796**	**117,987**	**859,040**	**90,248**

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 2012	31 December 2011	Change
Overdrafts	1,069	162	907
Short-term loans in euro or foreign currency	67,178	19,942	47,236
Long-term loans (current portion)	28,686	20,243	8,443
Total short-term bank loans and borrowings	**96,933**	**40,347**	**56,586**
Long-term loans, one to five years	97,793	43,013	54,780
Long-term loans, over five years	-	3,789	(3,789)
Total long term loans	**97,793**	**46,802**	**50,991**
Total bank loans and borrowings	**194,726**	**87,149**	**107,577**

Long-term loans comprise the following:

Loans (including short-term portion)	31 December 2012	31 December 2011
Bank of America – Milan branch	40,210	-
Intesa S.Paolo	39,676	-
Centrobanca – Banca Popolare di Vicenza	26,803	29,875
Banca Popolare Friuladria	5,750	8,645
Banca Popolare di Sondrio	5,110	11,648
Banca Popolare di Vicenza	4,739	4,995
Banca di Cividale	2,255	4,376
Banca di Treviso	1,936	3,195
KBC Bank	-	4,166
IMI Law 46	-	145
Total long-term loans	**126,479**	**67,045**

In 2012 two new loans were obtained for €40,000 thousand each from Bank of America and Intesa S.Paolo; both are 5-year floating rate loans and call for the observance of financial covenants, compliance with which will be verified every six months beginning 31 December 2012. These loans are repayable every six months beginning 31 December 2013.

The loans from 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 had not been breached at 31 December 2012.

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 the interest rate change sensitivity analysis.

29. Other financial payables

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

	31 December 2012	31 December 2011	Change
Payables to lease companies (short-term portion)	1,170	1,049	121
Ministry of Industry loans (short-term portion)	547	536	11
Negative fair value of derivatives	4,362	1,844	2,518
Other short term financial payables	12,321	17,181	(4,860)
Total short-term payables	**18,400**	**20,610**	**(2,210)**
Payables to lease companies (one to five years)	3,457	3,646	(189)
Ministry of Industry loans (one to five years)	502	1,049	(547)
Private placement (one to five years)	5,713	-	5,713
Negative fair value of derivatives (one to five years)	5,605	-	5,605
Braun Household earn-out	63,785	-	63,785
Other financial payables (one to five years)	1,727	963	764
Total long-term payables (one to five years)	**80,789**	**5,658**	**75,131**
Payables to lease companies (beyond five years)	223	992	(769)
Private placement (beyond five years)	58,975	-	58,975
Total long-term payables (beyond five years)	**59,198**	**992**	**58,206**
Total other financial payables	**158,387**	**27,260**	**131,127**

On 27 September 2012 the Group completed a USD 85,000 thousand (equal to €64,688 thousand based on the amortized cost method) private placement of a long term, fixed rate, unsecured bond with US institutional investors.
The securities were issued by De'Longhi S.p.A. in a single tranche and have a duration of 15 years. The bonds will accrue interest from the subscription date at a rate of 4.25%.
The bond loan will be repaid yearly in equal capital instalments beginning September 2017 and ending September 2027, without prejudice to the ability to repay the entire amount in advance, for an average life of 10 years.
The securities are unrated and are not intended to be listed on any regulated markets.
The bond loan is subject to financial covenants in line with those contemplated in other existing loan transactions. The issue is not secured by collateral of any kind.

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

The "Braun Household earn-out" refers to the residual amount owed to Procter & Gamble relating to the potential variable consideration or earn-out payable over the next three-five years called for under the Braun asset purchase agreement linked to the sales performance of the Braun brand over the first five years ("CAGR") following the acquisition, the present value of which was estimated to be €63.0 million at the closing date; the amount recognized under other financial payables includes the interest accrued at the date of the annual report.

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

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

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. The bond loan was issued at a fixed rate but, as it was issued toward year-end the fair value is not likely to deviate significantly from its book value.

Net financial position

Details of the net financial position are as follows:

	31 December 2012	31 December 2011	Change
A. Cash	912	598	314
B. Cash equivalents	243,083	195,124	47,959
C. Securities	-	-	-
D. Total liquidity (A+B+C)	**243,995**	**195,722**	**48,273**
E. Current financial receivables and other securities	**16,076**	**33,740**	**(17,664)**
of which:			
Fair value of derivatives	*2,460*	*28,626*	
F. Current bank loans and borrowings	(68,247)	(20,104)	(48,143)
G. Current portion of non-current debt	(28,686)	(20,243)	(8,443)
H. Other current financial payables	(18,400)	(20,610)	2,210
of which:			
Fair value of derivatives	*(4,362)*	*(1,884)*	
I. Current financial debt (F+G+H)	**(115,333)**	**(60,957)**	**(54,376)**
J. Net current financial receivables (payables)(E+D+I)	**144,738**	**168,505**	**(23,767)**
Non-current financial receivables (*)	114	2,346	(2,232)
of which:			
Fair value of derivatives	-	*1,167*	
K. Non-current bank loans and borrowings	(97,793)	(46,802)	(50,991)
L. Bonds	(64,688)	-	(64,688)
M. Other non-current payables	(75,299)	(6,650)	(68,649)
of which:			
Fair value of derivatives	*(5,605)*	-	
Options on equity investments	*(1,727)*	*(925)*	
Residual payables for Braun acquisition (earn-out)	*(63,785)*	-	
N. Non-current financial debt (K+L+M)	**(237,666)**	**(51,106)**	**(186,560)**
Total	**(92,928)**	**117,399**	**(210,327)**

(*)The amount at 31 December 2012 differs from that reported in the statement of financial position in "Other non-current financial assets" because it includes €5 thousand in non-current financial receivables classified in "Receivables" (€1,054 thousand at 31 December 2011).

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 (Appendix 2) and the summary 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 2012	31 December 2011	Change
Provision for severance indemnities	8,763	8,842	(79)
Other defined benefit plans	7,845	3,760	4,085
Short-term benefits	4,000	2,900	1,100
Total	**20,608**	**15,502**	**5,106**

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 December 2012	31 December 2011	Change
Current service cost	114	122	(8)
Interest cost on defined benefit obligation	421	398	23
Total	**535**	**520**	**15**

Change in present value of obligations	31 December 2012	31 December 2011	Change
Present value at 1 January	**8,842**	**9,016**	**(174)**
Current service cost	114	122	(8)
Utilization of provision	(614)	(694)	80
Interest cost on obligation	421	398	23
Present value at reporting date	**8,763**	**8,842**	**(79)**

Other defined benefit plans:

Movements in the year are as follows:

Net cost charged to income	31 December 2012	31 December 2011	Change
Current service cost	845	379	466
Return on plan assets	(1,773)	(1,789)	16
Actuarial (gain) losses	226	1,036	(810)
Interest cos on obligations	1,851	1,966	(115)
Total	**1,149**	**1,592**	**(443)**

Change in present value of obligations	31 December 2012	31 December 2011	Change
Present value at 1 January	**3,760**	**6,534**	**(2,774)**
Net cost charged to income	1,149	1,592	(443)
Benefits paid	(2,473)	(4,645)	2,172
Translation difference	(477)	279	(756)
Braun Household acquisition	5,656	-	5,656
Other movements	230	-	230
Present value at reporting date	**7,845**	**3,760**	**4,085**

The outstanding liability at 31 December 2012 of €7,845 thousand refers to the subsidiaries De'Longhi Japan De'Longhi Japan Corporation, Kenwood Limited, De'Longhi Deutschland Gmbh, De'Longhi France S.a.r.l. and De'Longhi Braun Household Gmbh.

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 2011 in view of the fund deficit, and the gradual increase in the net liability in recent years, the Group decided to reduce its exposure to the risk arising from this plan's obligations, just for beneficiaries who have already retired, by purchasing annuities which exactly cover the plan's benefits and essentially neutralize the Group's risk, for the beneficiaries concerned.
Based on these assessment criteria and the provisions of IFRIC 14, the net difference at 31 December 2012 came to a positive €2,359 thousand.

De'Longhi Braun Household Gmbh has a defined benefit plan related to the "Braun Household" acquisition with an estimated outstanding liability at 31 December 2012 of €5,930 thousand.

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

Assumptions used	Severance indemnity 2012	Severance indemnity 2011	Other plans 2012	Other plans 2011
Discount rate	3.2%	4.7%	1.5%-4.3%	1.75%-4.65%
Future salary increases	2.0-4.0%	2.0-4.0%	0.0%-3.0%	0.0%-2.5%
Inflation rate	2.0%	2.0%	0.0%-2.7%	0.0%-2.8%

The short-term benefits include extraordinary incentives relating to Group employees in 2012.

31. Other provisions

These are analyzed as follows:

	31 December 2012	31 December 2011	Change
Agents' leaving indemnity provision	2,094	2,254	(160)
Product warranty provision	34,511	24,852	9,659
Provision for contingencies and other charges	19,740	34,430	(14,690)
Total	**56,345**	**61,536**	**(5,191)**

Movements are as follows:

	31 December 2011	Utilization	Accrual	Other (*)	31 December 2012
Agents' leaving indemnity provision	2,254	(304)	142	2	2,094
Product warranty provision	24,852	(15,065)	19,869	4,855	34,511
Provision for contingencies and other charges	34,430	(10,669)	3,274	(7,295)	19,740
Total	**61,536**	**(26,038)**	**23,285**	**(2,438)**	**56,345**

(*) Includes the effects of the "Braun Household" acquisition.

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 2012. It takes account of the provisions of Decree 24/2002 and of European Community law.

The "Provision for contingencies and other charges" includes:

- the provision of €6,124 thousand for liabilities arising from product complaints (within the limits of the Group's insurance deductible) (€12,355 thousand at 31 December 2011);
- the provision of €192 thousand for restructuring and reorganization in Italy and abroad (€1,060 thousand at 31 December 2011);
- provisions of €4,925 thousand by the parent company and certain subsidiaries against various contingencies and liabilities relating to legal and tax disputes;
- provisions relating to potential liabilities connected to the independent distribution of the "Braun Household" products effective after the end of the transition period, namely after 1 January 2013.

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:

Geographical area	31 December 2012	%	31 December 2011	%
Italy	88,846	25.3%	98,800	29.9%
United Kingdom	38,027	10.8%	32,154	9.7%
Resto of Europe	87,599	24.9%	61,388	18.6%
United States, Canada, Mexico	7,306	2.1%	5,212	1.6%
Rest of the world	129,953	36.9%	133,212	40.2%
Total	**351,731**	**100.0%**	**330,766**	**100.0%**

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

33. Current tax liabilities

Tax liabilities due beyond 12 months amount to €8,468 thousand.

34. Other payables

These are analyzed as follows:

	31 December 2012	31 December 2011	Change
Employees	24,701	22,133	2,568
Indirect taxes	22,910	19,523	3,387
Social security institutions	5,504	5,508	(4)
Withholdings payables	4,340	3,932	408
Advances	1,182	2,449	(1,267)
Other taxes	968	692	276
Other	14,751	15,938	(1,187)
Total	**74,356**	**70,175**	**4,181**

35. Commitments

These are detailed as follows:

	31 December 2012	31 December 2011	Change
Guarantees given to third parties	1,344	930	414
Other commitments	5,382	3,554	1,828
Total	**6,726**	**4,484**	**2,242**

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

In addition:

- as part of its factoring of trade receivables without recourse, the total exposure for which amounted to €110,239 at 31 December 2012, the Group issued a surety and a credit mandate;
- the Group also issued guarantees in the name of DL Radiators S.p.A. of €12,738 thousand and Climaveneta S.p.A. of €5,573 in relation to the 2009 and 2010 VAT declarations for which De'Longhi S.p.A. acted as the head of VAT refunds for the Group;
- the Group also issued third party guarantees totalling €31 thousand.

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 December 2012	**Book value**	**Loans and receivables**	**Available for sale**	**Derivatives**
Non-current assets				
- Equity investments (other)	737		*737*	
- Receivables	2,346	*2,346*		
- Other non-current financial assets	109	*109*		
Current assets				
- Trade receivables	381,233	*381,233*		
- Current tax assets	12,126	*12,126*		
- Other receivables	32,989	*32,989*		
- Current financial receivables and assets	16,076	*13,616*		*2,460*
- Cash and cash equivalents	243,995	*243,995*		

		Liabilities	
31 December 2012	**Book value**	**Loans**	**Derivatives**
Non-current liabilities			
- Bank loans and borrowings (long-term portion)	(97,793)	*(97,793)*	
- Other financial payables (long-term portion)	(139,987)	*(134,382)*	*(5,605)*
Current liabilities			
- Trade payables	(351,731)	*(351,731)*	
- Bank loans and borrowings (short-term portion)	(96,933)	*(96,933)*	
- Other financial payables (short-term portion)	(18,400)	*(14,038)*	*(4,362)*
- Current tax liabilities	(30,597)	*(30,597)*	
- Other payables	(74,356)	*(74,356)*	

31 December 2011	Book value	Assets: Loans and receivables	Available for sale	Derivatives
Non-current assets				
- Equity investments (other)	673		*673*	
- Receivables	3,387	*3,387*		
- Other non-current financial assets	1,292	*125*		*1,167*
Current assets				
- Trade receivables	349,490	*349,490*		
- Current tax assets (*)	4,657	*4,657*		
- Other receivables (*)	31,397	*31,397*		
- Current financial receivables and assets	33,740	*5,114*		*28,626*
- Cash and cash equivalents	195,722	*195,722*		

31 December 2011	Book value	Liabilities: Loans	Derivatives
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 (*)	(27,363)	*(27,363)*	
- Other payables (*)	(70,175)	*(70,175)*	

(*) For the purposes of consistent comparison, tax receivables and payables (with the exception of those relative to current tax) have been reclassified under "Other receivables " and "Other payables".

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.

Financial instruments measured at fair value	Level 1	Level 2	Level 3
Derivatives:			
- derivatives with positive fair value	-	2,460	-
- derivatives with negative fair value	-	9,967	-
Available for sale financial assets:			
- equity investments	54	-	-
- other non-current financial assets	67	-	-

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 €398,948 thousand at 31 December 2012 (€364,556 thousand at 31 December 2011 with reference to the continuing operation).
This amount corresponds to the gross balance of trade receivables of €434,830 thousand at 31 December 2012 (€398,945 thousand at 31 December 2011 pertaining to the continuing operation), 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 €434,830 thousand at 31 December 2012 comprise €345,260 thousand in current balances and €89,570 thousand in past due amounts, of which €76,751 thousand past due by less than 90 days and €12,819 thousand past due by more than 90 days.
The amount of insured or guaranteed receivables at 31 December 2012 is €292,405 thousand, of which €258,797 thousand is current, €33,020 thousand past due by less than 90 days and €588 thousand past due by more than 90 days.
The Group has recognized €17,715 thousand in allowances for doubtful accounts against unguaranteed receivables of €142,425 thousand (of which €43,730 thousand past due by less than 90 days and €12,230 thousand past due by more than 90 days).

Trade receivables of €398,945 thousand at 31 December 2011 (pertaining to continuing operation) comprise €348,397 thousand in current balances and €50,548 thousand in past due amounts, of which €38,039 thousand past due by less than 90 days and €12,509 thousand past due by more than 90 days.
The amount of insured or guaranteed receivables at 31 December 2011 is €252,787 thousand, of which €227,277 thousand is current, €22,686 thousand past due by less than 90 days and €2,824 thousand past due by more than 90 days.
The Group has recognized €15,066 thousand in allowances for doubtful accounts against unguaranteed receivables of €146,158 thousand (of which €15,353 thousand past due by less than 90 days and €9,685 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 2012 and 31 December 2011 on the basis of undiscounted contractual payments.

	Undiscounted cash flows at 31 December 2011	***Within one year***	***One to five years***	***Beyond five years***	**Undiscounted cash flows at 31 December 2011**	***Within one year***	***One to five years***	***Beyond five years***
Bank loans and borrowings (*)	204,637	100,680	103,957	-	88,092	42,218	45,874	-
Other financial payables (**)	195,162	21,197	93,600	80,365	26,266	19,264	5,988	1,014
Trade payables	351,731	351,731	-	-	330,766	330,766	-	-
Current tax payables and other payables	104,953	96,363	8,590	-	97,538	97,516	22	-

(*) the corresponding balance reported in the financial statements is € 194,726 thousands at 31 December 2012 and € 87,149 thousands at 31 December 2011, which reflects long-term loans and borrowings inclusive of the short-term portion.
(**) the corresponding balance reported in the financial statements is € 158,387 thousands at 31 December 2012 and € 27,260 thousands at 31 December 2011, which reflects long-term payables (inclusive of the short-term portion) relating to finance leases, Ministry of Industry loans and Private Placement.

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 three goals:
a) to hedge cash flows of budgeted or planned amounts up until the time of invoicing, with a time horizon that rarely goes beyond 24 months;
b) to hedge the monetary amounts of receivables and payables originating from invoicing and financing transactions.
c) to hedge interest rate and exchange rate risk relating to the medium/long term debt in currencies other than the Group’s functional currency, with regard specifically to the unsecured bond loan issued by the parent company De’Longhi S.p.A. and placed with US institutional investors (the “US Private Placement”).

The principal currencies to which the Group is exposed are:
- the US dollar (mainly the EUR/USD and GBP/USD, RUB/USD and CNY/USD), being the currency in which a significant part of the cost of raw materials, parts and finished products, and the bond loan issued by De’Longhi S.p.A are denominated;
- the Japanese yen (JPY/EUR and JPY/HKD exchange rates) for sales on the Japanese market;
- the Australian dollar /AUD/HKD) for sales on the Australian market.

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

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

Sensitivity analysis
When assessing the potential impact, in terms of change in fair value, of a hypothetical, sudden +/-5% change in year-end exchange rates, it is necessary to distinguish between the risk associated with expected future revenues/costs and the risk associated with foreign currency assets and liabilities at 31 December 2012:
(a) the risk associated with expected future revenues/costs (as estimated in budgets and/or long-term plans or interest flows relating to the bond loan) is mitigated by related hedges at 31 December 2012, whose fair value, in accordance with IAS, is reported in equity, as described in the earlier section of these explanatory notes on Accounting policies – Financial instruments; a +/- 5% change in year-end exchange rates of the principal exposed currency (the USD) is estimated to produce a change of around +/- €8.1 million before tax (+/- €17.6 million before tax at 31 December 2011). This amount would affect the income statement only in the year in which the hedged revenues/costs are reported in profit or loss;
(b) as for the risk associated with foreign currency assets and liabilities, the analysis considers only unhedged receivables/payables in currencies other than the functional currency of the individual companies, since the impact of any hedges is assumed to be equal and opposite to that of the hedged items. A +/- 5% change in year-end exchange rates of the principal exposed currencies (mainly the USD) against the principal functional currencies would produce a change in fair value of around +/-€1.8 million before tax (+/- €4.1 million before tax at 31 December 2011).

The hedging transactions at 31 December 2012 are described in the paragraph "Interest rate and currency exchange hedges at 31 December 2012".

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.

There was only one interest rate hedge, the Cross Currency Interest Rate Swap relating to the Private Placement, at 31 December 2012.

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 liabilities of €23.2 million on a total of €92.9 million in net debt at 31 December 2012 and total net assets of €99.0 million on a total of €117.4 million in net debt in 2011).
The Group's debt is currently all at floating rates and, with the exception of the Private Placement completed by the parent company, therefore unhedged, so any change in market rates has a direct impact on its total cost, in terms of higher/lower interest payments.
A +/- 1% change in interest rates would have an immaterial impact recognized entirely in the income statement (+/- €0.2 million at 31 December 2012; +/- €1.0 million before tax at 31 December 2011).
With regard to the Private Placement, based on the hedge agreement the fixed rate USD dollar debt is exchanged for fixed rate Euro denominated debt. Therefore, any change in interest rates would not have an impact on the income statement.
However, as the value of the hedge will be measured at fair value and the future interest flows will be reported in equity, a +/- 1% change in interest rates would have an impact on the cash flow hedge reserve of +/- €0.9 million before tax at 31 December 2012.

Please refer to the paragraph "Interest rate and currency exchange hedges at 31 December 2012" for more information.

Interest rate and currency exchange hedges at 31 December 2012
At 31 December 2012 the Group has a number of derivatives, hedging both the fair value of underlying instruments and exposure to changes in cash flow.
For accounting purposes, derivatives that hedge changes in cash flow are treated in accordance with hedge accounting as called for in IAS 39.
Derivatives that hedge foreign currency payables and receivables are reported as financial assets and liabilities held for trading with changes in their fair value reported in the income statement. These instruments offset the risk on the hedged item (which is a recognized asset or liability).

The fair value of the outstanding derivatives at 31 December 2012 is provided below:

	Fair Value at 31 December 2012	
	Attività	**Passività**
FX forward agreements	1,677	(616)
CCIRS on the bond loan issued by the parent company (in USD)	-	(2,201)
Derivatives hedging foreign currency receivables/payables	**1,677**	**(2,817)**
FX fFX forwards	783	(3,746)
CCIRS on the bond loan issued by the parent company (in USD)	-	(3,404)
Derivatives covering expected cash flows	**783**	**(7,150)**
Total fair value of the derivatives	**2,460**	**(9,967)**

Forward agreements to hedge against a change in 2013 trade flows (relative only to the USD in 2014):

A list of the forward agreements hedging a change in 2013 trade flows (relative only to the USD in 2014) at 31 December 2012:

	Notional amount *(in thousands)*			Fair value *(in €/000)*	
Currency	**Purchases**	**Sales**	**Total**	**Asset**	**Liability**
CHF v/EUR	-	3,500	3,500	5	-
USD v/EUR	(155,870)	-	(155,870)	751	(3,545)
USD v/GBP	(26,000)	-	(26,000)	27	(201)
				783	**(3,746)**

A positive cash flow hedge reserve of €2,423 thousand has been recorded in net equity at 31 December 2012 in relation to these hedges, after €943 thousand in related tax; this same reserve, relating to continuing operations, was a positive €18,378 thousand at 31 December 2011, after the related tax of €6,616 thousand.

During 2012 the Group reversed to the income statement a net amount of €13,475 thousand from the cash flow hedge reserve at 31 December 2011.
This amount was reported in the following lines of the income statement:

	2012	**2011**
Increase (reduction) in revenues	3,236	(1,657)
(Increase) reduction in materials consumed	14,995	(733)
Financial income (expenses)	386	(9)
Taxes	(4,872)	660
Total recognized in income statement	**13,745**	**(1,739)**

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

	Notional amount *(in thousands)*			Fair value *(in €/000)*	
Currency	**Purchases**	**Sales**	**Total**	**Asset**	**Liability**
AUD v/HKD	-	60,401	60,401	653	-
CAD v/USD	-	7,351	7,351	49	-
CAD v/EUR	-	84	84	1	-
CHF v/EUR	(396)	554	158	-	-
CZK v/EUR	(44,142)	146,734	102,592	1	(30)
CZK v/GBP	-	28,311	28,311	-	(6)
DKK v/GBP	-	921	921	-	(1)
EUR v/GBP	-	17,952	17,952	-	(86)
EUR v/HKD	(2,099)	-	(2,099)	27	-
EUR v/JPY	(179)	90	(89)	8	-
EUR v/USD	-	2,527	2,527	3	(28)
GBP v/EUR	(1,119)	3,061	1,942	50	(9)
HKD v/EUR	(1,918)	-	(1,918)	-	(5)
HUF v/EUR	-	57,622	57,622	5	-
PY v/EUR	(87,078)	5,665	(81,413)	2	(51)
JPY v/HKD	(514,379)	1,217,672	703,293	349	(22)
NOK v/EUR	(530)	1,783	1,253	1	(1)
NOK v/GBP	-	6,790	6,790	-	(8)
PLN v/EUR	(5,060)	24,396	19,336	4	(77)
PLN v/GBP	-	7,557	7,557	-	(22)
RON v/EUR	-	43,214	43,214	-	(42)
RUB v/EUR	-	562,469	562,469	-	(33)
TRY v/EUR	-	20,819	20,819	139	-
TRY v/GBP	-	2,376	2,376	-	(3)
USD v/CAD	(777)	777	-	-	(5)
USD v/EUR	(12,293)	23,878	11,585	382	(19)
USD v/GBP	(914)	29,940	29,026	1	(55)
USD v/JPY	(112)	43	(69)	2	-
ZAR v/EUR	-	10,619	10,619	-	(6)
ZAR v/USD	-	6,787	6,787	-	(107)
				1,677	**(616)**

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

With regard to the bond issue, a CCIRS – Cross Currency Interest Rate Swap was entered into with the same maturities and nominal value as the underlying debt. Based on the agreement the fixed rate (4.25%) USD dollar debt is exchanged for fixed rate (3.9775%) Euro denominated debt at the exchange rate indicated in the agreement.
This instrument hedges both future interest flows, for a nominal amount of USD 36,125 thousand, and the repayable amount (the nominal amount of the bond loan recognized, therefore, in the financial statements) of USD 85,000 thousand.

The fair value of the derivative, calculated using the exchange rate at the date of the financial statements and the discounted cash flow method based on the swap curve, not including the spread, at 31 December 2012 was a negative €5,605 thousand, recognized under "other financial payables".

As it qualifies as an effective hedge, the effects of the exchange and interest rate hedge on the nominal debt and the interest accrued in the period are reported in the income statement which amount to a loss of €2,201 thousand (the gain on the hedged item amounts to €2,195 thousand).

As the hedge on interest flows qualifies as an effective hedge of both exchange rate and interest rate risk a negative cash flow hedge reserve of €3,404 thousand at 31 December 2012 was reported in net equity, after the related tax of €936 thousand.

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

Currency	Notional amount *(in USD/000)*	Gains/(losses on the hedging instrument (*)	Cash flow hedge reserve (exchange rate risk) (*)	Cash flow hedge reserve (interest rate risk) (*)	Total fair value (*)
USD v/EUR	121,125	(2,201)	(845)	(2,559)	(5,605)

(*) In €/000.

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 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, which the company appealed with the competent bodies. On 17 December 2012 the tax authorities issued a notice of assessment and on 15 January 2013 the company filed a tax settlement proposal. At the date of these financial statements no settlement has been reached.

- Kenwood Appliances Ltd. and Kenwood Ltd.: a number of requests for information regarding the years through 2009 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

As required under IFRS 8, following the demerger transaction the Group's activities were broken down into three operating segments (Europe, APA, MEIA) based on business region.
Each segment is responsible for all aspects of the Group's brands within the different markets it services; the revenues, therefore, generated by each operating segment (based on business region) may not coincide with the market revenues (based on geographic destination) given the sales made by a few Group companies outside of their respective geographical areas.
The figures for the first half of 2011, which are not fully comparable insofar as the commercial reorganization of the Group was not yet finished in 2011, were restated based on the new breakdown.

Information relating to operating segments is presented below:

Income statement data

	2012				
	Europe	APA	MEIA	Intersegment eliminations	Total
Total revenues	1,106,689	855,327	82,740	(514,651)	1,530,105
EBITDA	**128,972**	**86,396**	**8,081**	**1,104**	**224,553**
Amortization and depreciation	(25,010)	(10,537)	(43)	-	(35,590)
EBIT	**103,962**	**75,859**	**8,038**	**1,104**	**188,963**
Financial income (expenses)					(34,924)
Profit (loss) before taxes					**154,039**
Income taxes					(35,580)
Profit (loss) after taxes					**118,459**
Profit (loss) pertaining to minority interests					472
Profit (loss) for the year					**117,987**

Data from statement of financial position

	31 December 2012				
	Europe	APA	MEIA	Intersegment eliminations	Total
Total assets	1,043,581	585,533	28,714	(130,465)	1,527,363
Total liabilities	(707,246)	(297,386)	(19,176)	130,469	(893,339)

Income statement data

	2011				
	Europe	APA	MEIA	Intersegment eliminations	Total
Total revenues	1,119,427	815,418	53,001	(558,447)	1,429,399
EBITDA	**114,863**	**82,699**	**6,586**	**(730)**	**203,418**
Amortization and depreciation	(24,529)	(6,316)	(85)	-	(30,930)
EBIT	**90,334**	**76,383**	**6,501**	**(730)**	**172,488**
Financial income (expenses)					(33,688)
Profit (loss) before taxes					**138,800**
Income taxes					(44,360)
Profit (loss) after taxes from continuing operations					**94,440**
Net result from discontinued operation					(3,913)
Consolidated net result					**90,527**
Profit (loss) pertaining to minority interests					279
Profit (loss) for the year					**90,248**

Data from statement of financial position

	31 December 2011				
	Europe	APA	MEIA	Intersegment eliminations	Total
Total assets	897,261	537,580	29,204	(248,006)	1,216,039
Total liabilities	(528,511)	(323,155)	(25,832)	248,057	(629,441)

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

	31 December 2012		31 December 2011	
	Italy	Abroad	Italy	Abroad
Revenues	183,989	1,346,117	189,465	1,239,934
Non-current assets (*)	330,851	192,352	151,052	133,824

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

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

42. Subsequent events

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

Treviso, 11 March 2013

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

Appendices

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

This information is contained in the following appendices:

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

List of consolidated companies

Company name	Registered office	Currency	Share capital (1)	Interest held at 31/12/2012	
				Directly	Indirectly
LINE-BY-LINE METHOD:					
DE'LONGHI APPLIANCES S.R.L.	Treviso	EUR	200,000,000.00	100%	
DE'LONGHI AMERICA INC.	Upper Saddle River	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	Neu-Isenburg	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 City	CNY	USD 6,900,000.00		100%
DE'LONGHI-KENWOOD APPLIANCES (DONG GUAN) CO.LTD.	Qing Xi Town	CNY	HKD 199,864,860.00		100%
DE'LONGHI HOUSEHOLD S.A.	Luxembourg	EUR	181,730,990.00	100%	
DE'LONGHI JAPAN CORPORATION	Tokyo	JPY	50,000,000.00		100%
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.	Subang Jaya	MYR	150,003.00		100%
DE'LONGHI-KENWOOD GMBH	Wr Neudorf	EUR	36,336.00		100%
KENWOOD HOME APPL. PTY LTD.	Maraisburg	ZAR	96,372,500.00		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%
DE'LONGHI BOSPHORUS EV ALETLERI TICARET ANONIM SIRKETI	Istanbul	TRY	14,100,000.00		100%
DE'LONGHI PRAGA S.R.O.	Prague	CZK	200,000.00		100%
KENWOOD SWISS AG	Baar	CHF	1,000,000.00		100%

Company name	Registered office	Currency	Share capital (1)	Interest held at 31/12/2012	
				Directly	Indirectly
DL HRVATSKA D.O.O.	Zagreb	HRD	20,000.00		100%
DE'LONGHI BRASIL - COMÉRCIO E IMPORTAÇÃO Ltda	São Paulo	BRL	35,954,946.00		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	CNY	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%
DE'LONGHI ROMANIA S.R.L.	Cluj-Napoca	RON	27,399,380.00		100%
DE'LONGHI KENWOOD KOREA LTD	Seoul	KRW	100,000,000.00		100%
ZHONGSHAN NEW AN SHENG ELECTRICAL APPLIANCES CO.LTD	Zhongshan City	CNY	USD 14,300,000		100%
DE'LONGHI BRAUN HOUSEHOLD GMBH	Neu-Isenburg	EUR	100,000.00		100%
DL CHILE S.A.	Santiago del Cile	CLP	3,000,000		100%

PROPORTIONATE METHOD:					
DL-TCL HOLDINGS (HK) LTD.	Hong Kong	HKD	USD 5,000,000	50%	
TCL-DE'LONGHI HOME APPLIANCES (ZHONGSHAN) CO.LTD.	Zhongshan City	CNY	USD 5,000,000	50%	

OTHER SUBSIDIARIES (IN LIQUIDATION OR DORMANT)

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

(1) Figures at 31 December 2012, unless otherwies specified.
(2) The articles of association, approved by the extraordinary shareholders' meeting held on 29 December 2004, give special rights to De'Longhi S.p.A. (holding 89% of the voting rights) for ordinary resolutions (approval of financial statements, declaration of dividends, nomination of directors and statutory auditors, purchase and sale of companies, grant of loans to third parties); voting rights are proportional as far as other resolutions are concerned, except for the preferential right to receive dividends held by the shareholder Kenwood Appliances Ltd.
(3) Dormant company, whose financial statement is unavailable.

Statement of cash flows in terms of net financial position

€/000	2012	2011
Profit (loss) pertaining to the group	117,987	93,934
Income taxes for the period	35,580	44,360
Amortization	35,590	30,694
Net change in provisions	2,409	8,416
Cash flow generated (absorbed) by current operations (A)	**191,566**	**177,404**
Change in assets and liabilities for the period:		
Trade receivables	(37,415)	(40,247)
Inventories	(978)	(35,412)
Trade payables	23,441	30,838
Other current assets and liabilities	(282)	(6,721)
Payment of income taxes	(49,954)	(28,991)
Cash flow generated (absorbed) by movements in working capital (B)	**(65,188)**	**(80,533)**
Cash flow generated (absorbed) by current operations and movements in working capital (A+B)	**126,378**	**96,871**
Investment activities:		
Investments in intangible assets	(9,317)	(7,104)
Other cash flows for intangible assets	(23)	102
Investments in property, plant and equipment	(53,360)	(36,807)
Other cash flows for property, plant and equipment	352	2,347
Net investments in equity investments and other financial assets	(501)	(237)
Cash flow generated (absorbed) by ordinary investment activities (C)	**(62,849)**	**(41,699)**
Braun transaction	-	(155,378)
Cash flow from non recurring investments from discontinued operation	(202,940)	-
Non-recurring cash flow (D)	**(202,940)**	**(155,378)**
Fair value and cash flow reserves	(25,032)	27,960
Dividends paid	(49,335)	(21,827)
Change in currency translation reserve	3,206	2,693
Increase (decrease) in minority interests in capital and reserves	245	270
Cash flow generated (absorbed) by changes in net equity and by financing activities (E)	**(70,916)**	**9,096**
Cash flow for the period (A+B+C+D+E)	**(210,327)**	**(91,110)**
Opening net financial position	**117,399**	**208,509**
Cash flow for the period (A+B+C+D+E)	(210,327)	(91,110)
Closing net financial position	**(92,928)**	**117,399**

(*) Comparative data restated, following the demerger.

Transactions and balances with related parties

Income statement

(pursuant to CONSOB Resolution 15519 of 27 July 2006)

(€/000)	2012	of which with related parties	2011	of which with related parties
Revenues from sales and services	1,506,039	8,037	1,406,152	5,619
Other revenues	24,066	2,978	23,247	3,867
Total consolidated revenues	**1,530,105**		**1,429,399**	
Raw and ancillary materials, consumables and goods	(693,799)	(894)	(675,075)	(2,153)
Change in inventories of finished products and work in progress	11,156		33,371	
Change in inventories of raw and ancillary materials, consumables and goods	(6,992)		1,814	
Materials consumed	**(689,635)**		**(639,890)**	
Payroll costs	(179,635)		(160,211)	
Services and other operating expenses	(409,686)	(5,315)	(403,799)	(6,897)
Provisions	(25,625)		(22,081)	
Amortization	(35,590)		(30,930)	
Other income (expenses)	(971)		-	
EBIT	**188,963**		**172,488**	
Financial income (expenses)	(34,924)	427	(33,688)	1,441
PROFIT (LOSS) BEFORE TAXES	**154,039**		**138,800**	
Income taxes	(35,580)		(44,360)	
NET PROFIT (LOSS) FROM CONTINUING OPERATION	**118,459**		**94,440**	
Net profit (loss) from discontinued operation	-		(3,913)	
CONSOLIDATED PROFIT (LOSS) AFTER TAXES	**118,459**		**90,527**	
Profit (loss) pertaining to minority interests	472		279	
PROFIT (LOSS) PERTAINING TO THE GROUP	**117,987**		**90,248**	

Statement of financial position - assets

(pursuant to CONSOB Resolution 15519 of 27 July 2006)

(€/000)	31 December 2012	of which with related parties	31 December 2011	of which with related parties
NON-CURRENT ASSETS				
INTANGIBLE ASSETS	364,619		175,825	
- Goodwill	115,608		41,591	
- Other intangible assets	249,011		134,234	
PROPERTY, PLANT AND EQUIPMENT	158,584		109,051	
- Land, property, plant and machinery	81,794		50,414	
- Other tangible assets	76,790		58,637	
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS	3,192		5,352	
- Equity investments	737		673	
- Receivables	2,346	6	3,387	1,015
- Other non-current financial assets	109		1,292	
DEFERRED TAX ASSETS	40,791		32,821	
TOTAL NON-CURRENT ASSETS	**567,186**		**323,049**	
CURRENT ASSETS				
INVENTORIES	273,758		277,984	
TRADE RECEIVABLES	381,233	4,422	349,490	4,944
CURRENT TAX ASSETS	12,126		4,657	
OTHER RECEIVABLES	32,989	465	31,397	5,493
CURRENT FINANCIAL RECEIVABLES AND ASSETS	16,076	1,694	33,740	1,116
CASH AND CASH EQUIVALENTS	243,995		195,722	
TOTAL CURRENT ASSETS	**960,177**		**892,990**	
ASSETS RELATED TO DISCONTINUED OPERATIONS	-		500,929	
Elimination of financial receivables due from DISCONTINUED OPERATIONS	-		(16,968)	
TOTAL ASSETS	**1,527,363**		**1,700,000**	

Statement of financial position - net equity and liabilities
(pursuant to CONSOB Resolution 15519 of 27 July 2006)

(€/000)	31 December 2012	of which with related parties	31 December 2011	of which with related parties
NET EQUITY				
GROUP PORTION OF NET EQUITY	631,796		859,040	
- Share capital	224,250		448,500	
- Reserves	289,559		320,292	
- Profit (loss) pertaining to the group	117,987		90,248	
MINORITY INTERESTS	2,228		4,237	
TOTAL NET EQUITY	**634,024**		**863,277**	
NON-CURRENT LIABILITIES				
FINANCIAL PAYABLES	237,780		53,452	
- Bank loans and borrowings (long-term portion)	97,793		46,802	
- Other financial payables (long-term portion)	139,987		6,650	
DEFERRED TAX LIABILITIES	6,589		9,690	
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES	76,953		77,038	
- Employee benefits	20,608		15,502	
- Other provisions	56,345		61,536	
TOTAL NON-CURRENT LIABILITIES	**321,322**		**140,180**	
CURRENT LIABILITIES				
TRADE PAYABLES	351,731	660	330,766	1,892
FINANCIAL PAYABLES	115,333		60,957	
- Bank loans and borrowings (short-term portion)	96,933		40,347	
- Other financial payables (short-term portion)	18,400	2,779	20,610	2,866
CURRENT TAX LIABILITIES	30,597		27,363	
OTHER PAYABLES	74,356	1,323	70,175	1,929
TOTAL CURRENT LIABILITIES	**572,017**		**489,261**	
LIABILITIES RELATED TO DISCONTINUED OPERATIONS	-		224,250	
Elimination of financial debt payable to DISCONTINUED OPERATIONS	-		(16,968)	
TOTAL NET EQUITY AND LIABILITIES	**1,527,363**		**1,700,000**	

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 2012 and related balances at 31 December 2012:

(€/million)	Revenues	Raw material and other costs	Financial income (expenses)	Trade and other receivables	Financial receivebles	Trade and other payables	Financial payables
DelClima S.p.A.	0,1	-	0,1	0,1	0,1	-	-
Climaveneta S.p.A.	1,7	0,3	-	1,1	-	1,0	-
DL Radiators S.p.A.	8,9	0,5	0,2	3,6	-	0,4	-
R.C. Group S.p.A.	0,1	-	-	0,1	-	0,4	-
Altre società del Gruppo DeLClima	0,1	-	0,1	-	1,6	-	2,8
Gamma S.r.l.	0,1	5,0	-	0,1	-	-	-
Mokarabia S.p.a.	-	0,4	-	-	-	0,2	-
TOTALE PARTI CORRELATE	**11,0**	**6,2**	**0,4**	**4,9**	**1,7**	**2,0**	**2,8**

(1) These mostly refer to dealings of a commercial nature.
Beginning January 2012, following the demerger described above, DeLclima S.p.A. and its subsidiaries are now considered related parties as they are controlled by the same shareholders.
The transactions between the De'Longhi Group and the DeLclima Group are limited to financial and administrative services which, in part, were terminated in the first part of 2012 and, in part, continue to be provided by De'Longhi to DeLclima (payroll, IT services, administrator of the factoring without recourse programme and bookkeeping for a subsidiary of DeLclima).
There are also a few transactions and balances relating to the production/purchase (primarily in China) of finished and semi-finished products subsequently resold to DeLclima Group companies at market rates.
The receivables/payables relative to Climaveneta S.p.A., DL Radiators S.p.A. and RC Group S.p.A. refer primarily to the tax receivables/payables from previous years when the companies were part of De'Longhi S.p.A.'s tax group.

In addition, the parent company De'Longhi S.p.A. recharged Giuseppe De'Longhi (Chairman of the Board of Directors) during 2012 for the cost of services incurred.

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

(€/000)

Type of service	Party performing the service	Recipient	Fees earned in 2012
Auditing	Reconta Ernst & Young S.p.A.	De'Longhi Spa (parent company)	150
	Reconta Ernst & Young S.p.A.	Italian subsidiaries	198
	Network of parent company auditor	Foreign subsidiaries	684
	Other auditors	Foreign subsidiaries	55

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 2012:
- 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 2012:
- 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 2012 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 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 is the responsibility of De'Longhi S.p.A.'s Directors. 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, 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 April 2, 2012. 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 2012 and for the year then ended.

3. In our opinion, the consolidated financial statements of the De'Longhi Group at 31 December 2012 have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with art. 9 of Legislative Decree n. 38/2005; accordingly, they present clearly and give a true and fair view of the financial position, the results of operations and the cash flows of the De'Longhi Group for the year then ended.

4. The Directors of De'Longhi S.p.A. are responsible for the preparation, in accordance with the applicable laws and regulations, of the Report on Operations and the Report on Corporate Governance and the Company's Ownership Structure published in the section "Investors > Governance > Assemblee" 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 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, 2012.

Treviso, March 27, 2013

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 De'Longhi S.p.A. separate financial statement and Statutory Financial Statements at 31 December 2012

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.

The partial, proportionate demerger of the Professional division's activities from De'Longhi S.p.A. to its wholly-owned subsidiary DeLclima S.p.A. which took effect from 1 January 2012 resulted in the creation of two distinct groups, De'Longhi S.p.A. and DeLclima S.p.A.; trading in the shares of DeLclima S.p.A. commenced on 2 January 2012 on the screen-traded market managed by Borsa Italiana S.p.A., with the two companies operating as two separate groups, each focused on their own business.

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.
- Net working capital: this measure is the sum of inventories, trade receivables, current tax assets and other receivables, minus trade payables, current tax liabilities and other payables.
- Net capital employed: this measure is the sum of net working capital, intangible assets, property, plant and equipment, equity investments, other non-current receivables, and deferred tax assets, minus deferred tax liabilities, employee severance indemnity and provisions for contingencies and other charges.
- Net debt/(Positive net financial position): this measure represents gross financial liabilities less cash and cash equivalents and other financial receivables. The individual line items in the statement of financial position used to determine this measure are analysed later in this report.

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

Report on operations to the separate financial statements

Review of the income statement and statement of financial position

Review of the income statement

(€/million)	2012	% revenues	2011	% revenues
Revenues	**6.3**	**100.0%**	**7.0**	**100.0%**
Change 2012/2011	*(0.7)*	*(10.0%)*	*1.0*	*16.7%*
Materials consumed	(0.1)	(1.6%)	(0.1)	(1.4%)
Gross profit	**6.2**	**98.4%**	**6.9**	**98.6%**
Other services & expenses	(10.7)	(169.8%)	(11.6)	(165.7%)
Value added	**(4.5)**	**(71.4%)**	**(4.7)**	**(67.1%)**
Payroll	(6.1)	(96.8%)	(5.3)	(75.7%)
EBITDA before non-recurring income/expenses	**(10.6)**	**(168.3%)**	**(10.0)**	**(142.9%)**
Change 2012/2011	*(0.6)*	*6.0%*	*(0.6)*	*6.4%*
Other non-recurring income (expenses)	-	-	(3.3)	(47.1%)
EBITDA	**(10.6)**	**(168.3%)**	**(13.3)**	**(190.0%)**
Amortization and depreciation	(0.1)	(1.6%)	-	-
EBIT	**(10.7)**	**(169.8%)**	**(13.3)**	**(190.0%)**
Change 2012/2011	*2.6*	*(19.5%)*	*(3.9)*	*41.5%*
Financial income (expenses)	53.7	852.4%	47.3	675.7%
Profit (loss) before taxes	**43.0**	**682.5%**	**34.0**	**485.7%**
Income taxes	5.0	79.4%	2.0	28.6%
Profit (loss) after taxes	**48.0**	**761.9%**	**36.0**	**514.3%**

EBIT was a negative €10.7 million in 2012 (negative €13.3 million in 2011), due to operating costs associated with its principal activity as the group's holding company. EBIT improved with respect to 2011 insofar as it was not penalized by the non-recurring expenses which, in 2011, amounted to €3.3 million (incurred, primarily, to complete the demerger described above). The result after taxes was a profit of €48.0 million (€36.0 million in 2011), attributable mainly to higher financial income which rose by €6.4 million with respect to the previous year. This change is largely attributable to an increase in 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 2012	31 December 2011	Change	% Change
- Tangible assets	0.1	0.1	-	-
- Financial assets (*)	490.9	490.7	0.2	-
- Deferred tax assets	3.3	2.1	1.2	57.1%
Non-current assets	**494.3**	**492.9**	**1.4**	**0.3%**
- Trade receivables	9.8	3.9	5.9	151.3%
- Trade payables	(6.1)	(5.8)	(0.3)	(5.2%)
- Other current assets (liabilities)	3.3	20.9	(17.6)	(84.2%)
Net working capital	**7.0**	**19.0**	**(12.0)**	**(63.2%)**
Total non-current liabilities and provisions	**(5.1)**	**(17.9)**	**12.8**	**71.5%**
Net capital employed	**496.2**	**494.0**	**2.2**	**0.4%**
Net debt	**192.6**	**186.6**	**6.0**	**3.2%**
Total net equity (*)	**303.6**	**307.4**	**(3.8)**	**(1.2%)**
Total net debt and equity	**496.2**	**494.0**	**2.2**	**0.4%**

(*) Comparative data related to 31 December 2011 have been restated following the demerger.

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

(€/million)	2012	2011
Cash flow by current operations	(16.9)	(17.1)
Cash flow by other changes in working capital	3.8	5.5
Cash flow by current operations and changes in working capital	**(13.1)**	**(11.6)**
Cash flow by investment activities	59.8	50.0
Cash flow related to Discontinued operations	-	(150.0)
Cash flow by operating activities	**46.7**	**(111.6)**
Cash flow by changes in net equity	(52.7)	(21.8)
Cash flow for the period	**(6.0)**	**(133.4)**
Opening net financial position	(186.6)	(53.2)
Closing net financial position	**(192.6)**	**(186.6)**

The operating cash flow reached €46.7 million (negative €111.6 million in 2011), a difference of €158.3 million with respect to the prior year which reflected the capital contribution of €150 million paid to De'Longhi Professional S.A..

Cash flow to net equity reached a negative €52.7 million in 2012 (negative €21.8 in 2011), explained primarily by a larger dividend payment and the change in the cash flow hedge reserve relating to the fair value of derivatives.

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

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

(€/thousands)	Net equity 31 December 2012	Profit for 2012	Net equity 31 December 2011 (*)	Profit for 2011 (*)
De'Longhi S.p.A. financial statements	**303.571**	**47.990**	**568.666**	**36.033**
Share of subsidiaries' equity and results for period attributable to the Group, after deducting carrying value of the investments	328.180	77.283	211.945	74.696
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	36.111	(2.420)	112.646	(13.905)
Elimination of intercompany profits	(31.370)	(3.771)	(28.154)	(5.727)
Other adjustments	(2.468)	(623)	(1.826)	(570)
Consolidated financial statements	**634.024**	**118.459**	**863.277**	**90.527**
Minority interests	2.228	472	4.237	279
Group portion	**631.796**	**117.987**	**859.040**	**90.248**

(*) Consolidated data related to 2011 refer to De'Longhi Group before demerger.

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 38 employees at 31 December 2012 (37 at 31 December 2011).

The following table summarizes the average number of employees during 2012 compared with 2011:

	2012	%	2011	%	Change
White collar	30	79%	29	78%	1
Senior managers	8	21%	8	22%	-
Total	**38**	**100%**	**37**	**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 Stock Market Regulations, information is herewith provided about the corporate governance system, also with reference to the principles of the Code of Conduct for Listed Companies (2011 edition), and about ownership structure, in compliance with the legislator's requirements as set out in art. 123-*bis* of Legislative Decree n. 58/98 ("TUF").

De'Longhi S.p.A. has adopted and complies with the Code of Conduct for Listed Companies, published in December 2011.

In compliance with applicable laws and regulations, as well as the Italian Stock Market Regulations, the company prepares an annual Report on Corporate Governance and Ownership Structure, which not only provides a general description of the system of corporate governance adopted, but also the information on ownership structure, required by art. 123-*bis* of TUF.

This report, to which this section now refers, has been prepared in accordance with the *Format for the report on corporate governance and ownership structure* published by the 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 "*Investors > Governance > Shareholders' Meetings > 2013*".

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

Direction and Co-ordination

De'Longhi S.p.A. directs and co-ordinates its own subsidiaries and is not under the direction and co-ordination of its parent De'Longhi Soparfi S.A., or of any other party, as defined by articles 2497 *et seq.* of the Italian Civil Code.

In compliance with the Code's principles, transactions of particular importance strategically, or for the statement of financial position and results of the company must be examined and approved solely by the Board of Directors, 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.

Report on operations to the separate financial statements

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).

During the meeting held on 18 December 2012, the Board of Directors resolved to amend articles 9 and 14 of the articles of association, relating to the appointment and composition of boards and control bodies in order to comply with the new provisions of articles 147-*ter*, paragraph 1-*ter* and 148, paragraph 1-*bis* of TUF – as amended by Law n. 120/2011 "*implementing provisions concerning gender equality in the composition of administrative and control bodies of companies listed on regulated markets*". 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. In order to ensure that the Company's governance complies with the changes introduced in the December 2011 version of the Code, on 18 December 2012 the Board of Directors approved a new framework resolution reiterating its adhesion to the Code of Conduct (with a few exceptions, detailed in the 2012 Report on Corporate Governance and Ownership Structure), applying the new recommendations and confirming the resolutions relating to corporate governance approved in the past.

Pursuant to Article 1.C.1., lett. g) of the Code of Conduct, during the meeting on 11 March 2013 the Board of Directors resolved to begin a board review or self-assessment process in order to evaluate, among other things, the functioning, size and composition of the Board. The methods used and findings are discussed in the detail in the 2012 Report on Corporate Governance and Ownership Structure. Based on the findings of the review, the Board then prepared an opinion regarding the composition and number of new Board members that will be appointed during the shareholders' meeting to be held on 23 April 2013; the opinion can be found in the Directors' Report on the Agenda pursuant to art. 125-*ter* of TUF, published on the website www.delonghi.com, in the section "*Investors > Governance > Shareholders' Meetings > 2013*".

During 2012 the Board of Directors:
- adopted a new version of the "Procedures for the disclosure of price sensitive information" and of the internal dealing procedure;
- 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 the De'Longhi Group's "strategically important subsidiaries", identifying them as the following Italian registered companies; De'Longhi Capital Services S.r.l. and De'Longhi Appliances S.r.l., the Chines registered company De'Longhi-Kenwood Appliances (Dongguan) Co. Ltd, the British registered company Kenwood Ltd, the German registered company De'Longhi Deutschland GmbH, the Australian registered company De'Longhi Australia PTY Ltd. and the Russian registered De'Longhi LLC;
- resolved, pursuant to art. 3 of Consob Resolution n. 18079 dated 20 January 2012, to exercise the opt-out clause found in articles 70, paragraph 8 and 71, paragraph 1-*bis* of Consob Regulation n. 11971/99 which grants the option to waive the mandatory publication of information documents relating to mergers, spin-offs, capital increases through in-kind transfers, acquisitions and disposals.

The Board of Directors periodically reviews whether its members qualify as executive/non-executive and independent/non-independent in compliance with the principles established by articles 2 and 3 of the 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 11 March 2013, 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 seven times in 2012, and was attended by all of its members 99% of the time. These meetings were also attended by the Chairman of the Board of Statutory Auditors and often by other standing statutory auditors, while the committee also extended invitations to the internal control officer, the financial reporting officer and the head of corporate and legal affairs.
The Compensation Committee held 5 meetings during 2012, all of which attended by all its members; the head of the Group's human resources and organization also attended all the meetings.

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

Board of Statutory Auditors

Following the resolutions adopted by the shareholders' meeting of 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.

The Internal Control System

The Issuer's and the De'Longhi Group's Internal Control System consists in the set of rules, procedures and organizational structures set in place to ensure that company strategies are adhered to and to guarantee :
a) efficient and effective company operations (administration, production, distribution, etc.);
b) reliable, accurate, trustworthy and timely economic and financial information;
c) compliance with laws and regulations, as well as the corporate articles of associations, rules and company procedures;
d) safeguarding of the company's assets and protection, to the extent possible, from losses.

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

The Internal Control System is subject to examination and periodic audits, taking into account changes in the company's operations and reference context.
The Issuer's and the De'Longhi Group's Internal Control System makes it possible to address the main risks that the Issuer and the Group are exposed to over time (strategic, operational, market, liquidity, credit, compliance, fraud and employee disloyalty, regulatory, reputational, etc.), in a timely manner, as well as to identify, assess and control the degree of the exposure of the Issuer and all the other companies of the De'Longhi Group – particularly the strategically important subsidiaries – to the different types of risk, and also makes it possible to manage the overall exposure taking into account: (i) the possible correlations between the different risk factors; (ii) the probability that the risk materializes; (iii) the impact of the risk on the company's operations; (iv) the overall impact of the risk.

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

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

Description of principal characteristics

For the purposes of ensuring reliable internal controls over its financial reporting, the company has implemented a system of administrative and accounting procedures and operations that include:
- an accounting policies manual;
- accounting policy instructions and updates;
- other procedures for preparing the 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 current economic environment – which calls for maximum attention to be paid to preventive identification of all the events that could significantly impact the company's operations and growth plans, as well as corporate governance – and the ever increasing number of requests made by the supervisory bodies (Consob and Borsa Italiana S.p.A.) of companies listed on regulated markets make it necessary to have increasingly more complex and comprehensive control and monitoring tools available; toward this end it was deemed appropriate to invest in risk management processes in order to improve the ability to address risks, particularly with regard to corporate governance and compliance with regulatory standards (which include specifically the recommendations found in the December 2011 edition of the Code of Conduct for Listed Companies). A company project was, therefore, undertaken in order to strengthen enterprise risk management (ERM) with the support of a premiere consulting company. This project calls for the development of a structured ERM model which makes it possible to identify current and future risks, the risks monitored correctly and the other risks which are not completely monitored (for which appropriate corrective measures will be defined). The project is underway since the first part of 2013 and the phases relating to risk identification and assessment, documenting the risk management process and defining the roll out schedule, should be completed by the end of first half 2013.

The general managers and administrative heads of each Group company are responsible for maintaining an adequate internal control system and, given their roles, must certify that the internal control system works properly.

Internal Audit must also include verification of the internal controls through the use of a self-assessment check list in its Audit Plan.

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

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

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").
This resulted in a change in the list of the De' Longhi Group's strategically important subsidiaries which during the Board of Directors' meeting held on 12 November 2012 were indentified as the Group's principal operating companies in Italy (De'Longhi Capital Services S.r.l. and De'Longhi Appliances S.r.l.) and in the United Kingdom (Kenwood Ltd), as the principal commercial companies in Germany (De'Longhi Deutschland Gmbh), Russia (De'Longhi LLC) and Australia (De'Longhi Australia PTY Ltd.) and the main company in China dedicated to the production of small appliances De' Longhi - Kenwood Appliances Dong Guan Co. Ltd).

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 2012, also involving discussion and agreement with the Internal Auditing Committee and the Board of Statutory Auditors.

Business risks can be classified in the following broad categories:

Risks relating to macroeconomic trends

The company's economic performance and financial position are also affected by macroeconomic trends such as: trends in consumption, interest rates and exchange rates, as well as the cost of raw materials.
In 2012 the widespread slowdown of the world economy, already underway in the previous year, persisted; while the slowdown continued in the first months of the year, albeit at a slower pace, thanks above all to growth in the emerging markets and the United States, in the second half of the year the economy weakened further.
GDP continued to shrink, particularly in the Euro-zone, due to a drop in domestic demand and investments, along with weak employment and real income, low consumer confidence and the tight credit markets.
As a result of the weak international markets, the price of oil dropped significantly and the ECB further reduced interest rates. Along with investors' concerns about the political situation in Greece and the implications of the difficulties encountered by the Spanish banking system, there is now a perception that governments are not united in their approach to European governance reforms and to changing the mechanisms used to manage the crisis.

Only in the last few months of the year did the tensions in financial markets ease gradually, due also to the decision of the Euro group to sustain Greece and the agreement reached in Europe to create a single bank supervisory mechanism in order to end the vicious circle of sovereign risk and fragility in the banking system. The credit markets, however, remain tight and financing is not readily available due to the high level of risk perceived by the lenders related to the impact of the recession on businesses.
With regard to the future, despite the signals of strengthening in a few emerging markets in the last months of the year, the growth prospects for 2013 remain unclear as they are linked to the Euro-zone crisis and management of the debt crisis in the United States where risks remain despite the resolution of fiscal cliff issue at the beginning of 2013. In 2013, therefore, the recovery will continue to be weak and will continue to be characterized by great differences between regions and countries; analysts share the view that the gross world product could begin to strengthen in 2014 (Source: Bank of Italy/ECB).

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 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 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 its external image (communication, contact with schools and universities, testimonials, internships, etc.), in some cases using the services of specialist professional firms with a proven track record.
In terms of motivating and developing personnel, actions taken include the strengthening of managerial, specialist, business and regulative competencies, with initiatives that involve managers and staff from different areas of the business.
The salary review process also includes reward systems for employees at various levels in the organization - from the plant worker through to top management and key people - which are linked to the achievement of short-term and/or medium/long term targets.
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 company 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.

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.

With regard to debt, in 2012, as part of the policy to provide complete financial coverage of the Braun "Household" acquisition and to have enough financing in place should the credit markets worsen, the company issued and placed a long term, fixed rate, unsecured bond in Euro (due to the effect of a currency and interest rate hedge contract) worth USD 85 million with US institutional investors.

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

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.

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 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 transactions with related parties, in compliance with the standards set by the supervisory authorities in CONSOB Regulation 17221 dated 12 March 2010.
The procedures identify those related party transactions subject to specific examination and approval rules, which change according to whether such transactions are above or below defined thresholds. The procedures place particular importance on the role of the independent directors, who must always issue a prior opinion on the proposed transaction (if the transaction qualifies as material, this opinion is binding on the Board of Directors); the independent directors must also be involved in the preliminary examination of material transactions prior to their approval.
These procedures are considered to represent an additional guarantee of the transparency of the company's operations.

Information on related party transactions is summarized in Appendix 4 to the Explanatory notes.

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 2012, 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 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.

Report on operations to the separate financial statements

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

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

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

Number and value of shares

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

Group tax election

During 2012 the company filed for income tax on a group basis, as permitted by Chapter II Section II of Presidential Decree 917/86.

Subsequent events

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

Proposed allocation of profit

Dear Shareholders,

In submitting for your approval the financial statements for 2012, which report a net profit of €47,990,133, we propose:

- to allocate €2,399,507 from this profit to the legal reserve;
- to allocate €2,235,626 from this profit to the extraordinary reserve;
- to distribute a gross dividend to the shareholders of €0.29 for each of the 149,500,000 outstanding shares, for a total pay-out of €43,355,000.

Treviso, 11 March 2013

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

Separate financial statements 2012

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*	2012	of which non-recurring	2011	of which non-recurring
Revenues	*1*	12,520,088	6,206,190	6,962,873	
Totale revenues		**12,520,088**		**6,962,873**	
Raw and ancillary materials, consumables and goods	*2*	(77,416)		(67,927)	
Materials consumed		**(77,416)**		**(67,927)**	
Payroll costs	*3*	(6,127,642)		(5,311,122)	
Services and other operating expenses	*4*	(16,897,701)	(6,206,190)	(14,882,071)	(3,335,499)
Provisions	*5*	(23,492)		34,816	
Amortization	*6*	(60,935)		(44,817)	
EBIT		**(10,667,098)**		**(13,308,248)**	
Financial income (expenses)	*7*	53,667,896		47,321,029	
PROFIT (LOSS) BEFORE TAXES		**43,000,798**		**34,012,781**	
Income taxes	*8*	4,989,335		2,020,624	
NET PROFIT (LOSS)		**47,990,133**		**36,033,405**	

Statement of comprehensive income

(Amounts in Euro)	2012	2011
NET PROFIT (LOSS)	**47,990,133**	**36,033,405**
Other components of comprehensive income		
Change in fair value of cash flow hedges and financial assets available for sale	(3,480,079)	-
Tax effect on change in fair value of cash flow hedges and financial assets available for sale	936,012	-
Total comprehensive income (loss)	**45,446,066**	**36,033,405**

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*	31.12.2012	31.12.2011
NON-CURRENT ASSETS			
INTANGIBLE ASSETS		30,200	15,550
- Other intangible assets	*9*	30,200	15,550
PROPERTY, PLANT AND EQUIPMENT		74,704	92,656
- Other tangible assets	*10*	74,704	92,656
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		491,833,206	491,911,199
- Equity investments	*11*	490,860,808	490,630,556
- Receivables	*12*	972,398	1,280,643
DEFERRED TAX ASSETS	*13*	3,320,636	2,128,761
TOTAL NON-CURRENT ASSETS		**495,258,746**	**494,148,166**
CURRENT ASSETS			
INVENTORIES		-	-
TRADE RECEIVABLES	*14*	9,784,336	3,866,603
CURRENT TAX ASSETS	*15*	4,834,037	370,830
OTHER RECEIVABLES	*16*	14,895,686	34,058,966
CURRENT FINANCIAL RECEIVABLES AND ASSETS	*17*	2,356,001	5,003,000
CASH AND CASH EQUIVALENTS	*18*	889,343	22,866
TOTAL CURRENT ASSETS		**32,759,403**	**43,322,265**
ASSETS HELD FOR SALE AND DISCONTINUED OPERATION		-	261,205,300
ASSETS HELD FOR SALE AND DISCONTINUED OPERATION		**-**	**261,205,300**
TOTAL ASSETS		**528,018,149**	**798,675,731**

Statement of financial position

Net equity and liabilities

(Amounts in Euro)	*Notes*	31.12.2012	31.12.2011
NET EQUITY			
NET EQUITY		303,571,313	568,665,547
- Share capital	*19*	224,250,000	448,500,000
- Reserves	*20*	31,331,180	84,132,142
- Net profit (loss)		47,990,133	36,033,405
TOTAL NET EQUITY		**303,571,313**	**568,665,547**
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES		167,935,458	45,904,046
- Bank loans and borrowings (long-term portion)	*21*	97,140,090	44,855,067
- Other financial payables (long-term portion)	*22*	70,795,368	1,048,979
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		5,130,196	17,854,210
- Employee benefits	*23*	4,325,438	3,227,960
- Other provisions	*24*	804,758	14,626,250
TOTAL NON-CURRENT LIABILITIES		**173,065,654**	**63,758,256**
CURRENT LIABILITIES			
TRADE PAYABLES	*25*	6,054,858	5,772,622
FINANCIAL PAYABLES		28,837,375	146,988,874
- Bank loans and borrowings (short-term portion)	*21*	28,195,517	123,908,554
- Other financial payables (short-term portion)	*22*	641,858	23,080,320
CURRENT TAX LIABILITIES	*26*	12,343,641	8,211,581
OTHER PAYABLES	*27*	4,145,308	5,278,851
TOTAL CURRENT LIABILITIES		**51,381,182**	**166,251,928**
TOTAL NET EQUITY AND LIABILITIES		**528,018,149**	**798,675,731**

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	2012	2011
Net profit (loss)		47,990,133	36,033,405
Income taxes for the period		(4,989,335)	(2,020,624)
Income from dividend receipts		(60,242,367)	(50,244,800)
Amortization		60,935	44,817
Net change in provisions		299,901	(907,308)
Cash flow absorbed by current operations (A)		**(16,880,733)**	**(17,094,510)**
Change in assets and liabilities for the period:			
Trade receivables		(5,909,334)	197,682
Trade payables		282,236	2,999,374
Other current assets and liabilities		21,406,469	3,388,509
Payment of income taxes		(12,006,720)	(1,080,410)
Cash flow generated by movements in working capital (B)		**3,772,651**	**5,505,155**
Cash flow absorbed by current operations and movements in working capital (A+B)		**(13,108,082)**	**(11,589,355)**
Investment activities:			
Investments in intangible assets		(35,600)	(2,000)
Investments in property, plant and equipment		(22,033)	(52,748)
Proceeds from sale of property, plant and equipment and other cash flows		-	16,152
Net investment (disposals) in equity investments and other financial assets		(306,652)	(130,400)
Dividends receipts		65,242,367	45,244,800
Cash flow from Discontinued Operation		-	(150,000,000)
Cash flow generated (absorbed) by investment activities (C)		**64,878,082**	**(104,924,196)**
Dividends paid		(49,335,000)	(21,827,000)
New loans		146,297,496	21,970,000
Payment of interests on loans		(2,053,608)	(2,298,040)
Repayment of loans and other net changes in sources of finance		(145,812,411)	118,593,378
Cash flow generated (absorbed) by changes in net equity and by financing activities (D)		**(50,903,523)**	**116,438,338**
Cash flow for the period (A+B+C+D)		**866,477**	**(75,213)**
Opening cash and cash equivalents	*18*	**22,866**	**98,079**
Increase (decrease) in cash and cash equivalents (A+B+C+D)		866,477	(75,213)
Closing cash and cash equivalents	*18*	**889,343**	**22,866**

Appendix 2 presents the statement of cash flows at 31 December 2012 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.

Separate financial statements

Statement of changes in net equity

(Amounts in Euro)	SHARE CAPITAL	SHARE PREMIUM RESERVE	LEGAL RESERVE	EXTRAORDINARY RESERVE	FAIR VALUE AND CASH FLOW HEDGE RESERVES	PROFIT (LOSS) CARRIED FORWARD	PROFIT (LOSS) OF THE PERIOD	TOTAL
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**
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)**
Profit (loss) after taxes							36,033,405	36,033,405
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**

(Amounts in Euro)	SHARE CAPITAL	SHARE PREMIUM RESERVE	LEGAL RESERVE	EXTRAORDINARY RESERVE	FAIR VALUE AND CASH FLOW HEDGE RESERVES	PROFIT (LOSS) CARRIED FORWARD	PROFIT (LOSS) OF THE PERIOD	TOTAL
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**
Demerger	(224,250,000)	(162,545)	(4,847,229)	(31,945,526)				(261,205,300)
Balance at 1 January 2012	**224,250,000**	**162,545**	**4,847,229**	**29,480,479**	**-**	**12,686,589**	**36,033,405**	**307,460,247**
Allocation of 2011 result as per AGM resolution of 24 April 2012								
- distribution of dividends				(12,858,000)		(2,245,265)	(34,231,735)	(49,335,000)
- allocation to reserves			1,801,670		-		(1,801,670)	-
Movements from transactions with shareholders	**-**	**-**	**1,801,670**	**(12,858,000)**	**-**	**(2,245,265)**	**(36,033,405)**	**(49,335,000)**
Change in fair value of cash flow hedges and financial assets available for sale					(2,544,067)			(2,544,067)
Profit (loss) after taxes							47,990,133	47,990,133
Comprehensive income (loss)	**-**	**-**	**-**	**-**	**(2,544,067)**	**-**	**47,990,133**	**45,446,066**
Balance at 31 December 2012	**224,250,000**	**162,545**	**6,648,899**	**16,622,479**	**(2,544,067)**	**10,441,324**	**47,990,133**	**303,571,313**

Explanatory notes

Company business

De'Longhi S.p.A., a company with its registered office in Treviso whose shares are listed on the Italian stock exchange run by Borsa Italiana, is the parent company of the De'Longhi Group.
The partial, proportionate demerger of the Professional division's activities from De'Longhi S.p.A. to its wholly-owned subsidiary DeLclima S.p.A. which took effect from 1 January 2012 resulted in the creation of two distinct groups, De'Longhi S.p.A. and DeLclima S.p.A.; trading in the shares of DeLclima S.p.A. commenced on 2 January 2012 on the screen-traded market managed by Borsa Italiana S.p.A., with the two companies operating as two separate groups, each focused on their own business.

Moreover in December 2011, when it appeared that the demerger was highly probably, the activities transferred to the DeLclima Group were 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 at that date.

Accounting standards

The financial statements of De'Longhi S.p.A. at 31 December 2012 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 2012), 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 2012 are the same as those used for preparing the financial statements at 31 December 2011, 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 2012 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.

For the purposes of consistent comparison, tax receivables and payables (with the exception of those relative to current tax) have been reclassified under "Other receivables " and "Other payables".

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 *31.Risk management* of the present Explanatory notes.

The amendments to international financial reporting standards that apply as from the financial statements at 31 December 2012 are described below:

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

On 7 October 2010, IASB published a few amendments to IFRS 7 – *Financial Instruments: Disclosures*, adopted by the European Commission in November 2011, to be complied with by the Group as of 1 January 2012. The amendments seek to allow users of financial statements to improve their understanding of exposures to risks associated with transfers of financial assets. Application of this amendment did not have a material impact on the information found in this annual report.

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

On 5 June 2012 the European Commission adopted (in Regulation n.475) the amendments to IAS 1 - *Presentation of Items of Other Comprehensive Income (OCI)* and to IAS 19 - *Employee Benefits*.
The purpose of the IAS 1 amendment is to clarify the growing number of items included in comprehensive income statements. With regard to the IAS 19 amendments, these should help users of financial statements to better understand the impact that defined benefits have on the financial position, economic results and cash flows.
The amendments to IAS 1 and IAS 19 apply to financial statements for annual periods beginning on, respectively, 1 July 2012 and 1 January 2013; the amendments were not applied in advance.

On 11 December 2012 the European Commission adopted (in Regulation n.1254/2012), IFRS 10 - *Consolidated Financial Statements*; the new standard substitutes IAS 27 - *Consolidated and Separate Financial Statements* and incorporates SIC 12 - *Special Purpose Entities.* IFRS 10 deviates from existing standards; control is viewed as the determining factor with regard to the consolidation of a company in the consolidated financial statements of a Parent Company. It also provides guidelines to be used to determine whether or not control exists.
In the same regulation IFRS 11 - *Joint arrangements* was adopted, which repeals and substitutes IAS 31 and IFRS 12 - *Disclosure of Interests in Other Entities* and establishes what information needs to be provided in the explanatory notes when IFRS 10 and IFRS 11 are applied. Based on the latter, joint control is based on the rights and obligations stemming from contractual arrangements and not on the legal from of the parties and establishes that these jointly controlled equity investments may only be consolidated using the equity method.

The revised versions of IAS 27 - *Separate Financial Statements* and IAS 28 - *Investments in Associates and Joint Ventures* were also adopted.

The amendments apply to reporting periods beginning on or after 1 January 2014; the amendments were not applied in advance.

On 11 December the European Commission adopted (in Regulation n.1255/2012) IFRS 13 – *Fair value measurement*, which provides guidelines about determining fair value and the amendments to IAS 12 - *Income taxes* and IFRS 11 - *First-time Adoption of International Financial Reporting Standards*.
The above standards apply to reporting periods beginning on or after 1 January 2013; the amendments were not applied in advance.

On 13 December the European Commission adopted (in Regulation n.1256/2012) the amendments to IFRS 7 – *Financial Instruments: Disclosures* and to IAS 32 – *Financial Instruments: Presentation*.
The amendments apply to reporting periods beginning on or after 1 January 2014; the amendments were not applied in advance.

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

In 2009 IASB published a first version of IFRS 9 – *Financial Instruments*, which was subsequently amended and will ultimately substitute IAS 39. The standard, which must be applied beginning 1 January 2015 retroactively, introduces new criteria to be used in the classification and valuation of financial assets and liabilities.

A group of improvements to other IFRS was also published ("*Improvement to IFRS – 2009-2011*").

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.
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.

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.

Provisions for contingencies and other charges

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

Revenue recognition

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

Costs and expenses

Costs and expenses are accounted for on an accrual basis.

Dividends

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

Income taxes

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

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:

	2012	2011	Change
Out-of-period gains	294	370	(76)
Damages reimbursed	2	110	(108)
Capital gains	-	6	(6)
Other income	12,224	6,477	5,747
Total	**12,520**	**6,963**	**5,557**

"Revenues" include €11,560 thousand in revenue from related parties, as reported in Appendix 4, which mainly comprises parent company recharges of services to its subsidiaries. The item also includes non-recurring income of €6,206 thousand which consists primarily in recharges of the subsidiary De'Longhi Appliances S.r.l for expenses incurred as part of the "Braun Household" acquisition.

2. Raw and ancillary materials, consumables and goods

These are analyzed as follows:

	2012	2011	Change
Raw materials	-	13	(13)
Other purchases	77	55	22
Total	**77**	**68**	**9**

"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:

	2012	2011	Change
Consulting services	7,596	5,372	2,224
Travel and entertaining	3,273	3,346	(73)
Insurance	2,469	2,714	(245)
Directors' emoluments	1,600	1,594	6
Rentals and leasing	315	322	(7)
Statutory auditors' emoluments	146	145	1
Telecommunication costs	142	144	(2)
Advertising and promotional activities	29	156	(127)
Other sundry services	622	786	(164)
Total services	**16,192**	**14,579**	**1,613**
Sundry taxes	445	86	359
Out-of-period losses	145	23	122
Other	116	194	(78)
Total other operating expenses	**706**	**303**	**403**
Total services and other operating expenses	**16,898**	**14,882**	**2,016**

"Services and other operating expenses" include €844 thousand in costs from related parties, as reported in Appendix 4, and €6,206 thousand in non-recurring expenses wholly recharged by the subsidiary De'Longhi Appliances S.r.l. as described above in note *1.Revenues.*

5. Provisions

These include releases for disputes settled during the year of €35 thousand, allowances for doubtful accounts of €8 thousand (more details can be found in note *14.Trade receivables*) and allowances for double accounts relating to other receivables of €50 thousand (more details can be found in note *16.Other receivables*).

6. Amortization and depreciation

These are analyzed as follows:

	2012	2011	Change
Depreciation of property, plant and equipment	40	32	8
Amortization of intangible assets	21	13	8
Total	**61**	**45**	**16**

7. Financial income (expenses)

Net financial income and expenses are broken down as follows:

	2012	2011	Change
Dividends	60,242	50,245	9,997
Financial income (expenses) from equity investments	**60,242**	**50,245**	**9,997**
Gains (losses) on currency hedging transactions	(2,274)	(5)	(2,269)
Exchange gains (losses)	2,215	(42)	2,257
Exchange gains (losses)	**(59)**	**(47)**	**(12)**
Interest income from loans	48	265	(217)
Bank interest income	28	2	26
Financial income	**76**	**267**	**(191)**
Interest expense on long-term loans and borrowings	(2,547)	(2,312)	(235)
Interest expenses on bonds	(732)	-	(732)
Interest expense on short-term loans and borrowings	(883)	(240)	(643)
Financial expenses	**(4,162)**	**(2,552)**	**(1,610)**
Other sundry income (expenses)	(2,429)	(592)	(1,837)
Other financial income (expenses)	**(2,429)**	**(592)**	**(1,837)**
Financial income (expenses)	**53,668**	**47,321**	**6,347**

Dividends relate primarily to amounts declared by the subsidiaries De'Longhi Household S.A., De'Longhi Appliances S.r.l., E-Services S.r.l..
"Financial income (expenses)" includes €60,231 thousand in income from group companies, as reported in Appendix 4.

8. Income taxes

These are analyzed as follows:

	2012	2011	Change
Current income taxes	4,733	2,145	2,588
Advanced (deferred) taxes	256	(124)	380
Total	**4,989**	**2,021**	**2,968**

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).
"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.*

The actual and theoretical tax charge are reconciled as follows:

	2012	%	2011	%
Profit before taxes	43,001	100%	34,013	100%
Theoretical taxes	(11,825)	27.5%	(9,353)	27.5%
Permanent tax differences (dividends, net of disallowable costs) and other effects	16,814	39.1%	11,374	33.4%
Actual taxes	**4,989**	**11.6%**	**2,021**	**5.9%**

Comments on the statement of financial position: assets

NON-CURRENT ASSETS

9. Intangible assets

These are analyzed as follows:

	31 December 2012		31 December 2011		
	Gross	Net	Gross	Net	Change
Patents	**87**	**30**	**51**	**15**	**15**

The following table reports movements during 2012:

	Patents
Net opening balance	**15**
Additions	36
Disposals	-
Amortization	(21)
Net closing balance	**30**

10. Property, plant and equipment

These are analyzed as follows:

	31 December 2012		31 December 2011		
	Gross	Net	Gross	Net	Change
Industrial and commercial equipment	9	1	8	-	1
Other	265	74	244	93	(19)
Total	**274**	**75**	**252**	**93**	**(18)**

The following table reports movements during 2012:

	Industrial and commercial equipment	Other	Total
Net opening balance	**-**	**93**	**93**
Additions	1	21	22
Disposals	-	-	-
Depreciation	-	(40)	(40)
Net closing balance	**1**	**74**	**75**

The net increase of €18 thousand reflects €22 thousand in additions and €40 thousand in depreciation charges.

Explanatory notes

11. Equity investments

These are analyzed as follows:

	31 December 2012	31 December 2011	Change
De'Longhi Appliances S.r.l.	242,678	242,678	-
De'Longhi Household S.A.	241,737	241,737	-
De'Longhi Capital Services S.r.l.	6,005	6,005	-
De'Longhi Romania S.r.l.	307	-	307
Clim.Re S.A.	54	54	-
E-Services S.r.l.	26	26	-
De'Longhi Polska Sp.Zo.o.	-	-	-
Total subsidiary companies	**490,807**	**490,500**	**307**
DeLclima S.p.A.	54	130	(76)
Totale other equity investments	**54**	**130**	**(76)**
Totale equity investments	**490,861**	**490,630**	**231**

The list of equity investments and the related movements during 2012 can be found in Appendix 3.

The most significant change in the year relates to the formation of and consequent capital contribution of €307 thousand to De'Longhi S.r.l., subsequently named De'Longhi Romania S.r.l..

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 2013 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 (CGU) operate. The growth rate in terminal values used for projecting beyond the planning period was 2% for all the CGU. The cash flows and discount rate were determined net of tax. The discount rate of 7.4%, used for all the CGU 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 2012 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 2012	31 December 2011	Change
Receivables from subsidiary companies	972	1,281	(309)
Total	**972**	**1,281**	**(309)**

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 2012			31 December 2011			Effect on income statement
	Taxable amount	Tax rate	Total tax	Taxable amount	Tax rate	Total tax	
Provisions for contingencies and other charges	5,864	27.5%	1,613	5,111	27.5%	1,406	207
Other temporary differences	2,807	27.5%	772	2,629	27.5%	723	49
Total deferred tax assets	**8,671**		**2,385**	**7,740**		**2,129**	**256**
Deferred tax assets on tax losses	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Fair value of cash flow hedge derivatives	3,404	27.5%	936	-		-	-
Net total	**12,075**		**3,321**	**7,740**		**2,129**	**256**

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 2012	31 December 2011	Change
Trade receivables due within 12 months	10,876	4,967	5,909
Allowance for doubtful accounts	(1,092)	(1,100)	8
Total	**9,784**	**3,867**	**5,917**

Trade receivables are stated net of an allowance for doubtful accounts of €1,092 thousand, representing the estimated risk at the reporting date.

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

	31 December 2011	Increases	Utilization	31 December 2012
Allowance for doubtful accounts	1,100	8	(16)	1,092

"Trade receivables" include €9,138 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 2012	%	31 December 2011	%
Italy	9,381	95.9%	3,549	91.8%
Rest of Europe	211	2.2%	6	0.2%
Rest of the world	118	1.2%	110	2.8%
United Kingdom	74	0.7%	202	5.2%
Total	**9,784**	**100.0%**	**3,867**	**100.0%**

15. Current tax assets

These are detailed as follows:

	31 December 2012	31 December 2011	Change
Direct taxes	4,834	371	4,463
Total	**4,834**	**371**	**4,463**

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.

16. Other receivables

These are analyzed as follows:

	31 December 2012	31 December 2011	Change
Prepaid costs	837	1,233	(396)
VAT	765	1,558	(793)
Tax refunds requested	204	206	(2)
Advances to suppliers	17	46	(29)
Employees	4	5	(1)
Other	13,069	31,011	(17,942)
Total	**14,896**	**34,059**	**(19,163)**

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

"Tax refunds requested" include additional VAT deductions on the purchase of motor vehicles and related costs, following the Court of Justice's sentence of 14 September 2006.

Other receivables include €12,494 thousand in amounts due from related parties, as reported in Appendix 4.

Other receivables are stated net of an allowance for doubtful accounts of €50 thousand which represents the estimated risk at the reporting date.

None of the other receivables is due beyond 12 months.

17. Current financial receivables and assets

These are analyzed as follows:

	31 December 2012	31 December 2011	Change
Financial receivables	2,355	5,000	(2,645)
Fair value of derivatives	1	3	(2)
Total current financial receivables and assets	**2,356**	**5,003**	**(2,647)**

"Financial receivables" comprise amounts owed by De'Longhi Capital Services S.r.l. in connection with the centralized treasury service. At 31 December 2011 there was a net liability position in connection with this service as discussed in note *22.Other financial payables*. At 31 December 2011 this item referred to dividends receivable from De'Longhi Appliances S.r.l..

More details on the fair value of derivatives can be found in note *31.Risk management*.

The above balance includes €2,356 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.

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.

As a result of the demerger, since 1 January 2012 net equity was 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.
The reduction in share capital determined by the demerger did not result in the 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.

The annual general meeting (AGM) of De'Longhi S.p.A. held on 24 April 2012 declared a dividend totalling €49,335 thousand.

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

19. Share capital

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

20. Reserves

These are analyzed as follows:

	31 December 2012	31 December 2011	Change
Share premium reserve	163	325	(162)
Legal reserve	6,649	9,694	(3,045)
Other reserves:			
- Extraordinary reserve	16,622	61,426	(44,804)
- Fair value and cash flow hedge reserve	(2,544)	-	(2,544)
- Profit (loss) carried forward	10,441	12,687	(2,246)
Total reserves	**31,331**	**84,132**	**(52,801)**

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 at 31 December 2011; following the demerger transaction in favour of DeLclima S.p.A. the share premium reserve was reduced to €163 thousand.

The "Legal reserve" has a balance of €6,649 thousand at 31 December 2012. The change of €3,045 thousand with respect to 31 December 2011 reflects the reduction of €4,487 thousand following the demerger transaction and the increase of €1,802 thousand following the allocation of profit for 2011, as approved by the AGM on 24 April 2012.

The "Extraordinary reserve" fell by a total of €44,804 thousand; this change is explained for €31,946 thousand by the demerger transaction and for €12,858 thousand by the dividend payment approved by the AGM.

The "Fair value and cash flow hedge reserve" reports a negative balance of €2,544 thousand, net of €936 thousand in tax. This figure reflects the fair value of the cash flow hedge of €2,468 thousand, net of €936 thousand in tax, and the fair value of the equity investment in DeLclima S.p.A. of €76 thousand.

More details on the fair value of derivatives can be found in note *31.Risk management.*

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

Nature / Description:	Amount		Permitted use	Available amount
Share capital	224,250	(1)		
Capital reserves:				
- Share premium reserve	163	(2)	A, B	
Earnings reserves:				
- Legal reserve	6,649		B	
- Extraordinary reserve	16,622		A, B, C	16,622
- Fair value and cash flow hedge reserve	(2,544)			
- Profit (loss) carried forward	10,441		A, B, C	1,866
Total	**255,581**	**(3)**		**18,488**
Undistributable amount				2,544
Distributable amount				**15,944**

(1) There is a tax restriction over €2,638 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: €49,967 thousand relating to share capital, €1,162 thousand relating to the legal reserve and €16,622 thousand relating to the extraordinary reserve.

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

Comments on the statement of financial position: liabilities

NON-CURRENT LIABILITIES

21. 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 31.12.2012	Within one year	One to five years	Beyond five years	Balance 31.12.2011	Change
Overdrafts	792	-	-	792	104,914	-	-	104,914	(104,122)
Long-term loans (current portion)	27,404	-	-	27,404	18,995	-	-	18,995	8,409
Total short-term bank loans and borrowings	**28,196**	**-**	**-**	**28,196**	**123,909**	**-**	**-**	**123,909**	**(95,713)**
Long-term loans	-	97,140	-	97,140	-	41,066	3,789	44,855	52,285
Total bank loans and borrowings	**28,196**	**97,140**	**-**	**125,336**	**123,909**	**41,066**	**3,789**	**168,764**	**(43,428)**

Bank loans and borrowings are analyzed as follows:

Loans (including short-term portion)	31.12.2012	31.12.2011	Change
Bank of America N.A. - *Milan Branch*	40,210	-	40,210
Intesa Sanpaolo S.p.A.	39,676	-	39,676
Centrobanca S.p.A. (club loan with Banca Popolare di Vicenza S.C.p.A.)	26,803	29,875	(3,072)
Banca Popolare Friuladria S.p.A.	5,750	8,645	(2,895)
Banca Popolare di Sondrio S.C.p.A.	5,111	11,648	(6,537)
Banca Popolare di Vicenza S.C.p.A.	4,739	4,995	(256)
Banca di Cividale S.p.A.	2,255	4,376	(2,121)
KBC Bank N.V., *Italian Branch*	-	4,166	(4,166)
IMI L.46	-	145	(145)
Total long-term loans	**124,544**	**63,850**	**60,694**

In 2012 two new long term loans were obtained from:
- Bank of America N.A. – *Milan Branch* of €40,000 thousand (€40,210 thousand if valued using the amortized cost method);
- Intesa Sanpaolo S.p.A. of €40,000 thousand (€39,676 thousand if valued using the amortized cost method).

Both loans are 5-year loans, repayable every six months beginning 31 December 2013 and call for the observance of financial covenants, compliance with which will be verified every six months beginning 31 December 2012.

The loans from Banca Popolare Friuladria, Centrobanca-Banca di Credito Finanziario e Mobiliare S.p.A. and Banca Popolare di Vicenza S.C.p.A. also 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 2012.

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).

22. Other financial payables

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

	31 December 2012	31 December 2011	Change
Ministry of Industry loans (short-term portion)	547	536	11
Negative fair value of derivatives (short-term portion)	-	7	(7)
Other short-term financial payables	95	22,537	(22,442)
Total short-term payables	**642**	**23,080**	**(22,438)**
Ministry of Industry loans (one to five years)	502	1,049	(547)
Negative fair value of derivatives (one to five years)	5,605	-	5,605
Private placement (one to five years)	5,713	-	5,713
Total long-term payables (one to five years)	**11,820**	**1,049**	**10,771**
Private placement (beyond five years)	58,975	-	58,975
Total long-term payables (beyond five years)	**58,975**	**-**	**58,975**
Total other financial payables	**71,437**	**24,129**	**47,308**

"Other short term financial payables" include €95 thousand owed to De' Longhi Capital Services S.r.l. for financial services rendered. At 31 December 2011 this item comprised €22,455 thousand owed De' Longhi Capital Services S.r.l., in connection with the centralized treasury service, and €82 thousand for financial services rendered. At 31 December 2012 there was a credit balance in connection with the centralized treasury services as discussed in note *17.Receivables and other current financial assets*.

On 27 September 2012 the company completed a USD 85,000 thousand (equal to €64,688 thousand based on the amortized cost method) private placement of a long term, fixed rate, unsecured bond with US institutional investors.
The securities were issued by De'Longhi S.p.A. in a single tranche and have a duration of 15 years. The bonds will accrue interest from the subscription date at a rate of 4.25%.
The bond loan will be repaid yearly in equal capital instalments beginning September 2017 and ending September 2027, without prejudice to the ability to repay the entire amount in advance, for an average life of 10 years.
The securities are unrated and are not intended to be listed on any regulated markets.
The bond loan is subject to financial covenants in line with those contemplated in other existing loan transactions. The issue is not secured by collateral of any kind.

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

All the principal other financial payables (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. The bond loan was issued at a fixed rate but, as it was issued toward year-end the fair value is not likely to deviate significantly from its book value.

More details on the fair value of derivatives, hedging both exchange rate and interest rate risk, can be found in note *31.Risk management*.

The balance includes €95 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 2012	31 December 2011	Change
A. Cash	29	11	18
B. Cash equivalents	860	12	848
C. Securities	-	-	-
D. Total liquidity (A+B+C)	**889**	**23**	**866**
E. Current financial receivables and other securities	**3,328**	**6,284**	**(2,956)**
of which: *Fair value of derivatives*	*1*	*3*	*(2)*
F. Current bank loans and borrowings	(792)	(104,914)	104,122
G. Current portion of non-current debt	(27,404)	(18,995)	(8,409)
H. Other current financial payables	(642)	(23,080)	22,438
of which: *Fair value of derivatives*	-	*(7)*	*7*
I. Current financial debt (F+G+H)	**(28,838)**	**(146,989)**	**118,151**
J. Net current financial debt (I +E + D)	**(24,621)**	**(140,682)**	**116,061**
K. Non-current bank loans and borrowings	(97,140)	(44,855)	(52,285)
L. Bonds	(64,688)	-	(64,688)
M. Other non-current payables	(6,106)	(1,049)	(5,057)
of which: *Fair value of derivatives*	*(5,605)*	-	*(5,605)*
N. Non-current financial debt (K+L+M)	**(167,934)**	**(45,904)**	**(122,030)**
Total net financial debt (J+N)	**(192,555)**	**(186,586)**	**(5,969)**

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.

23. Employee benefits

These are analyzed as follows:

	31 December 2012	31 December 2011	Change
Provision for severance indemnities	325	328	(3)
Short-term benefits	4,000	2,900	1,100
Total employee benefits	**4,325**	**3,228**	**1,097**

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

	31 December 2012	Average 2012	31 December 2011	Average 2011
White collar	30	28	29	29
Senior managers	8	8	8	8
Total	**38**	**36**	**37**	**37**

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 2012	31 December 2011	Change
Defined benefit obligations	325	328	(3)

Net cost charged to income	31 December 2012	31 December 2011	Change
Current service cost	-	-	-
Interest cost on obligations	16	16	-
Total	**16**	**16**	**-**

Change in present value of obligations	31 December 2012	31 December 2011	Change
Present value at 1 January	**328**	**314**	**14**
Current service cost	-	-	-
Utilization of provision	(25)	(2)	(23)
Interest cost on obligations	16	16	-
Other changes	6	-	6
Present value at reporting date	**325**	**328**	**(3)**

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

Assumptions used	Severance indemnity 2012	Severance indemnity 2011
Discount rate	3.2%	4.7%
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 2012.

24. Other provisions

Movements are as follows:

	31 December 2011	Utilization	Release	31 December 2012
Provision for uninsured liabilities	364	-	(35)	329
Other provisions for contingencies	14,262	(13,786)	-	476
Total	**14,626**	**(13,786)**	**(35)**	**805**

The decrease in "Other provisions" relates to the resolution of a few disputes.

CURRENT LIABILITIES

25. Trade payables

This balance of €6,055 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 2012	%	31 December 2011	%
Italy	3,317	54.8%	5,705	98.8%
United Kingdom	2,221	36.7%	-	-
United States, Canada, Mexico	365	6.0%	34	0.6%
Rest of the world	153	2.5%	14	0.2%
Rest of Europe	-	-	20	0.4%
Total	**6,055**	**100.0%**	**5,773**	**100.0%**

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

26. Current tax liabilities

These are analyzed as follows:

	31 December 2012	31 December 2011	Change
Direct taxes	-	8,212	(8,212)
Other taxes	4,680	-	4,680
Total current tax liabilities (short-term)	**4,680**	**8,212**	**(3,532)**
Other taxes	7,664	-	7,644
Total current tax liabilities (beyond one year)	**7,664**	**-**	**7,664**
Total current tax liabilities	**12,344**	**8,212**	**4,132**

27. Other payables

These are analyzed as follows:

	31 December 2012	31 December 2011	Change
Withholdings payable	889	1,082	(193)
Social security institutions	304	449	(145)
Sundry payables	2,952	3,748	(796)
Total other payables	**4,145**	**5,279**	**(1,134)**

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

"Social security institutions" include €225 thousand in payables to Italy's principal social security agency (INPS), €30 thousand in payables to pension funds and €49 thousand in amounts owed to other welfare agencies.

"Sundry payables" are detailed as follows:

	31 December 2012	31 December 2011	Change
Group companies	1,137	1,936	(799)
Employees	816	976	(160)
Other	999	836	163
Total sundry payables	**2,952**	**3,748**	**(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.*

There are no other payables due beyond 12 months.

28. Commitments

These are detailed as follows:

	31 December 2012	31 December 2011	Change
Guarantees given for the benefit of:			
De'Longhi Capital Services S.r.l.	414,714	428,897	(14,183)
DL Kenwood A.P.A. Ltd	73,649	89,132	(15,483)
De'Longhi Australia PTY Ltd	18,880	18,864	16
De'Longhi Japan Corp.	14,171	16,068	(1,897)
De'Longhi Appliances S.r.l.	287	11,475	(11,188)
De'Longhi Brasil Ltda	5,289	13,770	(8,481)
De'Longhi LLC	3,032	-	3,032
Kenwood Home Appliances Pty Ltd. S.A. – South Africa	2,314	1,908	406
De' Longhi America Inc.	2,274	-	2,274
De' Longhi Kenwood MEIA FZE	758	-	758
Elle S.r.l.	507	507	-
De'Longhi Kenwood Hellas S.A.	116	157	(41)
De'Longhi Ukraine LLC	76	1,159	(1,083)
De'Longhi Electrodomesticos Espana S.L.	13	5,513	(5,500)
E-Services S.r.l.	13	13	-
De'Longhi Deutschland Gmbh	-	23,000	(23,000)
Kenwood Ltd	-	17,000	(17,000)
De'Longhi France S.A.	-	7,100	(7,100)
On Shiu Zhongshan Electrical Appliance Co. Ltd	-	3,432	(3,432)
Dong Guan De'Longhi Kenwood Appliances Co. Ltd	-	1,319	(1,319)
Climaveneta Polska Sp.Zo.o.	-	494	(494)
Total De'Longhi Group companies	**536,093**	**639,808**	**(103,715)**

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

In addition to the above:
- as part of its factoring of trade receivables without recourse, the total exposure for which amounted to €110,239 at 31 December 2012, the Company issued a surety and a credit mandate in the interest of the parent company principals;
- the Company also issued guarantees in the name of DL Radiators S.p.A. of €12,738 thousand and Climaveneta S.p.A. of €5,573 in relation to the 2009 and 2010 VAT declarations for which De'Longhi S.p.A. acted as the head of VAT refunds for the Group;
- the Company also issued third party guarantees totalling €31 thousand.

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

Explanatory notes

29. 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.

31 December 2012	Book value	Assets: Loans and receivables	Assets: Available for sale	Assets: Derivatives
Non-current assets				
- Equity investments (other)	54		*54*	
- Receivables	972	*972*		
- Other non-current financial assets	-			
Current assets				
- Trade receivables	9,784	*9,784*		
- Current tax assets	4,834	*4,834*		
- Other receivables	14,896	*14,896*		
- Current financial receivables and assets	2,356	*2,355*		*1*
- Cash and cash equivalents	889	*889*		

31 December 2012	Book value	Liabilities: Loans	Liabilities: Derivatives
Non-current liabilities			
- Bank loans and borrowings (long-term portion)	(97,140)	*(97,140)*	
- Other financial payables (long-term portion)	(70,795)	*(65,190)*	*(5,605)*
	-		
Current liabilities			
- Trade payables	(6,055)	(6,055)	
- Bank loans and borrowings (short-term portion)	(28,196)	*(28,196)*	
- Other financial payables (short-term portion)	(642)	*(642)*	
- Current tax liabilities	(12,344)	*(12,344)*	
- Other payables	(4,145)	*(4,145)*	

31 December 2011	Book value	Assets: Loans and receivables	Available for sale	Derivatives
Non-current assets				
- Equity investments (other)	-			
- Receivables	1,281	*1,281*		
- Other non-current financial assets	-			
Current assets				
- Trade receivables	3,867	*3,867*		
- Current tax assets	371	*371*		
- Other receivables	34,059	*34,059*		
- Current financial receivables and assets	5,003	*5,000*		*3*
- Cash and cash equivalents	23	*23*		

31 December 2011	Book value	Liabilities: Loans	Derivatives
Non-current liabilities			
- Bank loans and borrowings (long-term portion)	(44,855)	*(44,855)*	
- Other financial payables (long-term portion)	(1,049)	*(1,049)*	
	-		
Current liabilities			
- Trade payables	(5,773)	(5,773)	
- Bank loans and borrowings (short-term portion)	(123,909)	*(123,909)*	
- Other financial payables (short-term portion)	(23,080)	*(23,080)*	
- Current tax liabilities (*)	(8,212)	*(8,212)*	
- Other payables (*)	(5,279)	*(5,279)*	

(*)For the purposes of consistent comparison, tax receivables and payables (with the exception of those relative to current tax) have been reclassified under "Other receivables " and "Other payables".

30. 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.

Financial instruments measured at fair value	Level 1	Level 2	Level 3
Derivatives:			
- derivatives with positive fair value		1	
- derivatives with negative fair value		(5,605)	
Available for sale financial assets:			
- equity investments	54		

There were no transfers between the levels during the year.

31. 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 2012 and at 31 December 2011 on the basis of undiscounted contractual payments.

	Undiscounted cash flows at 31.12.2012	Within one year	One to five years	Beyond five years	Undiscounted cash flows at 31.12.2011	Within one year	One to five years	Beyond five years
Bank loans and borrowings (*)	(135,211)	(31,911)	(103,300)		(173,416)	(125,698)	(43,879)	(3,839)
Other financial payables (**)	(94,670)	(3,341)	(11,259)	(80,070)	(24,167)	(23,103)	(1,064)	
Trade payables	(6,055)	(6,055)			(5,773)	(5,773)		
Current tax liabilities and other payables	(16,489)	(8,825)	(7,664)		(8,212)	(8,212)		
Total	**(252,425)**	**(50,132)**	**(122,223)**	**(80,070)**	**(211,568)**	**(162,786)**	**(44,943)**	**(3,839)**

(*) The corresponding balance reported in the financial statements is €125,335 thousand at 31 December 2012 and €168,764 thousand at 31 December 2011, which reflects long-term loans and borrowings inclusive of the short-term portion.
(**) The corresponding balance reported in the financial statements is €65,832 at 31 December 2012 (net of the change in the fair value of financial derivative instruments of €5,605 thousand) and €24,129 thousand at 31 December 2011 and refers to the amount payable to De'Longhi Capital Services S.r.l. for financial services rendered, to medium/long term payables (inclusive of the short-term portion) relating to the Ministry of Industry loans and to the medium/long term securities issued (inclusive of the short-term portion).

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, 21.Bank loans and borrowings, 22.Other financial payables* and *25.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.

Sensitivity analysis

The potential impact, in terms of change in fair value, of a hypothetical, sudden +/-5% change in year-end exchange rates was estimated in light solely of receivables/payables in unhedged currencies insofar as the impact on the income statement of the receivables/payables in hedged currencies is mitigated or offset by the respective hedges.
A +/- 5% change in year-end exchange rates of the principal exposed currencies (USD, GBP and JPY) is estimated to produce a change in fair value of around +/- €87 thousand (+/- €107 thousand at 31 December 2011). As most of the receivables/payables in question are due beyond twelve months the change in fair value would impact the income statement of the following year.

The hedging transactions at 31 December 2012 are described in the paragraph "*Interest rate and currency exchange hedges at 31 December 2012*".

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 the Company's financial debt is floating rate, with the exception of the US Private Placement as it was deemed opportune to take advantage of the interest rates which continue to be favourable.
The purpose of interest rate risk management is to fix in advance the maximum cost (in terms of the interbank rate, which represents the benchmark for these borrowings) for a part of the debt.

There was only one interest rate hedge, the Cross Currency Interest Rate Swap relating to the Private Placement, at 31 December 2012

Sensitivity analysis:

When estimating the potential impact of a hypothetical, sudden material change in interest rates (+/- 1% in market rates) on the cost of the Company's debt, only those items forming part of net financial position which earn/incur interest have been considered and not any others (meaning total net liabilities of €123.1 million on a total of €192.6 million in net debt at 31 December 2012 and total net assets of €192.8 million on a total of €186.6 million in net debt in 2011).
The Group's debt is currently all at floating rates and, with the exception of the Private Placement, is therefore unhedged, so any change in market rates has a direct impact on its total cost, in terms of higher/lower interest payments.
As a result, a +/-1% change in interest rates would respectively increase/decrease financial expenses by €1.2 million at 31 December 2012 (+/- €1.9 million before tax at 31 December 2011).

With regard to the Private Placement, based on the hedge agreement the fixed rate USD dollar debt is exchanged for fixed rate Euro denominated debt. Therefore, any change in interest rates would not have an impact on the income statement.

However, as the value of the hedge will be measured at fair value and the future interest flows will be reported in equity, a +/- 1% change in interest rates would have an impact on the cash flow hedge reserve of +/- €0.9 million before tax at 31 December 2012.

Please refer to the paragraph "*Interest rate and currency exchange hedges at 31 December 2012*" for more information.

Interest rate and currency exchange hedges at 31 December 2012

At 31 December 2012 the company has a number of derivatives, hedging both the fair value of underlying instruments and exposure to changes in cash flow.
For accounting purposes, derivatives that hedge changes in cash flow are treated in accordance with hedge accounting as called for in IAS 39.
Derivatives that hedge foreign currency payables and receivables are reported as financial assets and liabilities held for trading with changes in their fair value reported in the income statement. These instruments offset the risk on the hedged item (which is a recognized asset or liability).

The fair value of the outstanding derivatives at 31 December 2012 is provided below:

	31/12/2012	
	Assets	**Liabilities**
FX forward agreements	1	-
CCIRS on the bond loan issued by the parent company (in USD)	-	(2,201)
Derivatives hedging foreign currency receivables/payables	**1**	**(2,201)**
CCIRS on the bond loan issued by the parent company (in USD)	-	(3,404)
Derivatives covering expected cash flows	**-**	**(3,404)**
Total fair value of the derivatives	**1**	**(5,605)**

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

	Notional amount						Fair value with Group	
Currency	**Group**			**Third parties**			**Asset**	**Liability**
	Purchases	**Sales**	**Total**	**Purchases**	**Sales**	**Total**		
CAD/EUR	-	84	84	-	-	-	1	-
PLN/EUR	(5)	29	24	-	-	-	-	-
						Total Fair Value	**1**	**-**

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

With regard to the bond issue, a CCIRS – Cross Currency Interest Rate Swap was entered into with the same maturities and nominal value as the underlying debt. Based on the agreement the fixed rate (4.25%) USD dollar debt is exchanged for fixed rate (3.9775%) Euro denominated debt at the exchange rate indicated in the agreement.
This instrument hedges both future interest flows, for a nominal amount of USD 36,125 thousand, and the repayable amount (the nominal amount of the bond loan recognized, therefore, in the financial statements) of USD 85,000 thousand.
The fair value of the derivative, calculated using the exchange rate at the date of the financial statements and the discounted cash flow method based on the swap curve, not including the spread, at 31 December 2012 was a negative €5,605 thousand, recognized under "other financial payables".
As it qualifies as an effective hedge, the effects of the exchange and interest rate hedge on the nominal debt and the interest accrued in the period are reported in the income statement which amount to a loss of €2,201 thousand (the gain on the hedged item amounts to €2,195 thousand).
As the hedge on interest flows qualifies as an effective hedge of both exchange rate and interest rate risk a negative cash flow hedge reserve of €3,404 thousand at 31 December 2012 was reported in net equity, after the related tax of €936 thousand.

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

Valuta	**Notional amount** *(in USD/000)*	**Gains/(losses on the hedging instrument (*)**	**Cash flow hedge reserve (exchange rate risk) (*)**	**Cash flow hedge reserve (interest rate risk) (*)**	**Total fair value (*)**
USD v/EUR	121,125	(2,201)	(845)	(2,559)	(5,605)

(*) In €/000.

32. 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.

33. Subsequent events

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

Treviso, 11 March 2013
De'Longhi S.p.A.
Vice Chairman and Chief Executive Officer
Fabio de' Longhi

Appendices

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

This information is contained in the following appendices:

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

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

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 2012:
- 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 2012:
- have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union under Regulation (EC) 1606/2002 of the European Parliament and Council dated 19 July 2002 and with the measures implementing art. 9 of Decree 38/2005;
- correspond to the underlying accounting records and books of account;
- are able to provide a true and fair view of the issuer's statement of financial position and results of operations and of the group of companies included in the consolidation.

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

Fabio de' Longhi
Chief Executive Officer

Stefano Biella
Financial Reporting Officer

Statement of cash flows in terms of net financial position

(Amounts in thousands of Euro)	2012	2011
Net profit (loss)	47,990	36,033
Income taxes for the period	(4,989)	(2,021)
Income from dividend receipts	(60,242)	(50,245)
Amortization	61	45
Net change in provisions	300	(907)
Cash flow absorbed by current operations (A)	**(16,880)**	**(17,095)**
Change in assets and liabilities for the period:		
Trade receivables	(5,909)	198
Trade payables	282	2,999
Other current assets and liabilities	21,407	3,389
Payment of income taxes	(12,007)	(1,080)
Cash flow generated by movements in working capital (B)	**3,773**	**5,506**
Cash flow absorbed by current operations and movements in working capital (A+B)	**(13,107)**	**(11,589)**
Investment activities:		
Investments in intangible assets	(36)	(2)
Investments in property, plant and equipment	(22)	(53)
Proceeds from sale of property, plant and equipment and other cash flows	-	16
Net investment (disposals) in equity investments and other financial assets	(307)	(130)
Dividends receipts	60,242	50,245
Cash flow from Discontinued Operation	-	(150,000)
Cash flow generated (absorbed) by investment activities (C)	**59,877**	**(99,924)**
Cash flow hedge reserve	(3,404)	-
Dividends paid	(49,335)	(21,827)
Cash flow absorbed by changes in net equity (D)	**(52,739)**	**(21,827)**
Cash flow for the period (A+B+C+D)	**(5,969)**	**(133,340)**
Opening net financial position	**(186,586)**	**(53,246)**
Cash flow for the period (A+B+C+D)	(5,969)	(133,340)
Closing net financial position	**(192,555)**	**(186,586)**

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	274,921,861	Eur	29,694,624	100%	242,678
De'Longhi Household S.A.(1)	Luxembourg	Eur	181,730,990	Eur	248,322,674	Eur	29,059,679	100%	241,737
De'Longhi Capital Services S.r.l.(2)	Treviso	Eur	53,000,000	Eur	60,984,560	Eur	792,853	11.32%	6,005
Clim.Re S.A.(1) (3)	Luxembourg	Eur	1,239,468	Eur	1,483,658	Eur	-	4%	54
De'Longhi Romania S.r.l.(3) (4)	Cluj-Napoca	Ron	27,399,380	Ron	18,875,476	Ron	(8,523,904)	5%	307
E-Services S.r.l.	Treviso	Eur	50,000	Eur	4,547,520	Eur	886,985	51%	26
De'Longhi Polska Sp.Zo.o.(1)(3)	Warszawa	Pln	50,000	Pln	5,560,102	Pln	2,033,670	0,1%	-
Total									**490,807**

(*) Figures at 31 December 2012, unless otherwies specified.
(1) Figures from statutory financial statements at 31 December 2011.
(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.
(3) The residual interest is held indirectly.
(4) Figures used for the purposes of consolidation at 31 December 2012.

Changes in equity investments

(Amounts in thousands of Euro)

Equity investments	Book value at 31 December 2011	Acquisitions, subscriptions and recapitalizations	Demerger	Net impairment losses and reversals	Book value at 31 December 2012
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.	261,205	-	(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 Romania S.r.l.	-	307	-	-	307
De'Longhi Polka Sp.Zo.o.	-	-	-	-	-
Total subsidiaries	**751,705**	**307**	**(261,205)**	**-**	**490,807**
Other equity investments					
DeLclima S.p.A. (1)	130	-	-	(76)	54
Total other equity investments	**130**	**-**	**-**	**(76)**	**54**
Total equity investments	**751,835**	**307**	**(261,205)**	**(76)**	**490,861**

(1) Residual interest connected to the demerger transaction.

Transactions and balances with related parties

Income statement

Pursuant to consob resolution 15519 of 27 july 2006

(Amounts in thousands of Euro)	*Notes*	2012	of which related partie	2011	of which related partie
Revenues	*1*	12,520	11,560	6,963	6,464
Totale revenues		**12,520**		**6,963**	
Raw and ancillary materials, consumables and goods	*2*	(77)	(1)	(68)	(1)
Materials consumed		**(77)**		**(68)**	
Payroll costs	*3*	(6,128)		(5,311)	
Services and other operating expenses	*4*	(16,898)	(844)	(14,882)	(880)
Provisions	*5*	(23)		35	
Amortization	*6*	(61)		(45)	
EBIT		**(10,667)**		**(13,308)**	
Financial income (expenses)	*7*	53,668	60,231	47,321	51,336
PROFIT (LOSS) BEFORE TAXES		**43,001**		**34,013**	
Income taxes	*8*	4,989		2,021	
NET PROFIT (LOSS)		**47,990**		**36,034**	

Balance sheet

Pursuant to consob resolution 15519 of 27 july 2006

Assets

(Amounts in thousands of Euro)	*Notes*	31.12.2012	of which related partie	31.12.2011	of which related partie
NON-CURRENT ASSETS					
INTANGIBLE ASSETS		30		15	
- Other intangible assets	*9*	30		15	
PROPERTY, PLANT AND EQUIPMENT		75		93	
- Other tangible assets	*10*	75		93	
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		491,833		491,911	
- Equity investments	*11*	490,861		490,630	
- Receivables	*12*	972	972	1,281	1,281
DEFERRED TAX ASSETS	*13*	3,321		2,129	
TOTAL NON-CURRENT ASSETS		**495,259**		**494,148**	
CURRENT ASSETS					
INVENTORIES		-		-	
TRADE RECEIVABLES	*14*	9,784	9,138	3,867	3,855
CURRENT TAX ASSETS	*15*	4,834		2,313	
OTHER RECEIVABLES	*16*	14,896	12,494	32,117	30,755
CURRENT FINANCIAL RECEIVABLES AND ASSETS	*17*	2,356	2,356	5,003	5,003
CASH AND CASH EQUIVALENTS	*18*	889		23	
TOTAL CURRENT ASSETS		**32,759**		**43,323**	
ASSETS HELD FOR SALE AND DISCONTINUED OPERATION		-		261,205	
ASSETS HELD FOR SALE AND DISCONTINUED OPERATION		**-**		**261,205**	
TOTAL ASSETS		**528,018**		**798,676**	

Balance sheet
Pursuant to consob resolution 15519 of 27 july 2006

Net equity and liabilities

(Amounts in thousands of Euro)	*Notes*	31.12. 2012	of which related partie	31.12. 2011	of which related partie
NET EQUITY					
NET EQUITY		303,571		568,665	
- Share capital	*19*	224,250		448,500	
- Reserves	*20*	31,331		84,132	
- Net profit (loss)		47,990		36,033	
TOTAL NET EQUITY		**303,571**		**568,665**	
NON-CURRENT LIABILITIES					
FINANCIAL PAYABLES		167,935		45,904	
- Bank loans and borrowings (long-term portion)	*21*	97,140		44,855	
- Other financial payables (long-term portion)	*22*	70,795		1,049	
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		5,130		17,854	
- Employee benefits	*23*	4,325		3,228	
- Other provisions	*24*	805		14,626	
TOTAL NON-CURRENT LIABILITIES		**173,065**		**63,758**	
CURRENT LIABILITIES					
TRADE PAYABLES	*25*	6,055	550	5,773	220
FINANCIAL PAYABLES		28,838		146,989	
- Bank loans and borrowings (short-term portion)	*21*	28,196		123,909	
- Other financial payables (short-term portion)	*22*	642	95	23,080	22,544
CURRENT TAX LIABILITIES	*26*	12,344		9,294	
OTHER PAYABLES	*27*	4,145	1,137	4,197	1,936
TOTAL CURRENT LIABILITIES		**51,382**		**166,253**	
TOTAL NET EQUITY AND LIABILITIES		**528,018**		**798,676**	

Transactions and balances with related parties

Summary by company

(Amounts in €/milion)	*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.	8.7	(0.2)	35.0	-	-	9.0	-	(0.2)
DE'LONGHI KENWOOD A.P.A. LTD	1.3	-	0.6	0.6	-	1.2	-	-
E-SERVICES S.R.L.	0.5	(0.1)	0.2	-	-	0.6	-	-
DE'LONGHI DEUTSCHLAND GMBH	0.2	-	-	-	-	0.2	-	-
DE'LONGHI FRANCE S.A.R.L.	0.1	-	-	-	-	0.1	-	-
KENWOOD LIMITED	0.1	-	-	-	-	0.1	-	-
DE'LONGHI AMERICA INC.	-	(0.3)	-	0.1	-	-	-	(0.3)
DE'LONGHI HOUSEHOLD S.A.	-	-	25.0	-	-	-	-	-
DE'LONGHI AUSTRALIA PTY LIMITED	-	-	0.1	0.1	-	-	-	-
DE'LONGHI JAPAN CORPORATION	-	-	0.1	0.1	-	-	-	-
DE'LONGHI CAPITAL SERVICES Srl	-	-	(0.8)	-	2.4	9.9	(0.1)	-
DE'LONGHI CANADA INC.	-	-	-	0.1	-	-	-	-
ELLE SRL	-	-	-	-	-	-	-	(0.2)
Total subsidiary companies (a)	**10.9**	**(0.6)**	**60.2**	**1.0**	**2.4**	**21.1**	**(0.1)**	**(0.7)**
Related companies								
DL RADIATORS S.P.A.	0.3	-	-	-	-	0.2	-	-
CLIMAVENETA S.P.A.	0.2	-	-	-	-	0.1	-	(0.6)
DELCLIMA S.P.A.	0.1	-	-	-	-	0.1	-	-
GAMMA S.R.L.	0.1	(0.2)	-	-	-	0.1	-	-
R.C. GROUP S.P.A.	-	-	-	-	-	-	-	(0.4)
Total related comnpanies (b)	**0.7**	**(0.2)**	**0.0**	**0.0**	**0.0**	**0.5**	**0.0**	**(1.0)**
Total subsidiaries and related parties (a+b)	**11.6**	**(0.8)**	**60.2**	**1.0**	**2.4**	**21.6**	**(0.1)**	**(1.7)**

(1) These mostly refer to dealings of a commercial nature and the supply of administrative services by comany employees.
(2) This consists of € 9.1 million in "Trade receivables" and of € 12.5 million on "Other receivables".
(3) This consists of € 0.6 million in "Trade payables" and of € 1.1 million on "Other payables".
In addition, the Company recharged Giuseppe De'Longhi (Chairman of the Board of Directors) during 2012 for the cost of services incurred.

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 2012 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 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 is the responsibility of De'Longhi S.p.A.'s Directors. 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, 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 April 2, 2012. 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 2012 and for the year then ended.

3. In our opinion, the financial statements of De'Longhi S.p.A. at 31 December 2012 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 "Investors > Governance > Assemblee" 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 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 financial statements of De'Longhi S.p.A. at December 31, 2012.

Treviso, March 27, 2013

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.

This interim report is available on the corporate website:
www.delonghi.it

De'Longhi S.p.A.
Registered office: Via L. Seitz, 47 – 31100 Treviso
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Tax ID and Company Register no.: 11570840154
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