DēLonghi Group

Interim financial report at 31 March 2013

DēLonghi KENWOOD BRAUN Ariete

Company officers *

Board of Directors

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

Board of Statutory Auditors

GIANLUCA PONZELLINI	Chairman
PAOLA MIGNANI	Standing member
ALBERTO VILLANI	Standing member
PIERA TULA	Alternate auditor
ENRICO PIAN	Alternate auditor

External Auditors

RECONTA ERNST & YOUNG S.P.A. ***

Internal Auditing and Corporate Governance Committee

RENATO CORRADA **
SILVIO SARTORI
STEFANIA PETRUCCIOLI**

Compensation Committee

ALBERTO CLÒ **
CARLO GARAVAGLIA
CRISTINA PAGNI **

* The company officers were elected at the shareholders' meeting of 23 April 2013 for the period 2013-2015.
** Independent directors.
*** The engagement to audit the financial statements for 2010-2018 was approved at the shareholders' meeting of 21 April 2010.

Key performance indicators

Income statement

(€/million)	1st quarter 2013	% revenues	1st quarter 2012	% revenues	Change	% Change
Revenues	320.5	100.0%	317.7	100.0%	2.8	0.9%
Constant currency change						*2.3%*
Net industrial margin	160.7	50.1%	149.3	47.0%	11.4	7.7%
EBITDA before non-recurring income/expenses	44.5	13.9%	42.8	13.5%	1.7	4.1%
EBITDA	44.5	13.9%	41.4	13.0%	3.2	7.7%
EBIT	34.1	10.6%	33.6	10.6%	0.5	1.5%
Profit (loss) pertaining to the group	18.9	5.9%	22.7	7.2%	(3.8)	(16.6%)

Statement of financial position

(€/million)	31.03.2013	31.12.2012 (*)	31.03.2012 (*)
Net working capital	259.9	243.4	245.4
Net capital employed	741.5	723.2	500.7
Net debt/(Net financial position)	81.6	92.9	(93.7)
Of which:			
- *Net bank debt*	*13.2*	*19.9*	*(79.2)*
- *Other financial (receivables)/payables (**)*	*68.4*	*73.0*	*(14.5)*
Net equity	659.9	630.3	594.4

(*) As a result of the retroactive application of the new IAS 19 – *Employee benefits,* the comparative figures were restated.
(**) The figure at 31 March 2013 and at 31 December 2012 includes the current value of the earn-out (including the interest accrued at the date of the financial statements).

Content of the interim financial report

The present document reporting the unaudited consolidated results at 31 March 2013 constitutes the interim financial report required by art. 154-ter of Decree 58/98 (known as "Testo Unico della Finanza" or "TUF").
The income statement figures refer to the three months to 31 March 2013, with comparatives at 31 March 2012.
The statement of financial position figures refer to 31 March 2013, 31 March 2012 and 31 December 2012.
This report includes details of any significant transactions, including those with related parties.
The format of the financial statements presented herein is comparable with the reclassified statements presented in the report on operations contained in the half-year and annual financial reports.

The consolidated figures have been prepared using the same consolidation procedures and accounting policies as those described in the annual financial report, to which the reader should refer.
The consolidated financial figures were prepared using the same accounting policies as those used to prepare the consolidated financial statements at 31 December 2012, with the exception of a few standards and amendments which took effect 1 January 2013, the most important of which, for the purposes of this interim financial report, is the new version of IAS 19 – *Employee Benefits*.

The standard changes the way in which defined benefit plans are to be recognized, eliminates the corridor method used by the Group through 2012; consequently the actuarial gains and losses are recognized in the comprehensive income statement, while the changes in the pension fund relating to the cost of services and net interest are recognized in the income statement under operating costs and financial income/(expenses), respectively.
Based on the new standard the discount rate applied to the pension fund's net assets and liabilities should also be applied to net interest expense (income), eliminating the use of the expected rate of return of the assets servicing the plan.
As per par. 173 of the new standard, the new accounting rules were applied retroactively and, consequently, the original statement of financial position was restated. The main effects are shown in the reclassified financial statements.

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.

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 benefits and provisions for contingencies and other charges.
- Net debt/ (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.

Significant events

The first quarter of 2013 was characterized by the steps the Group took to finalize its organizational structure following the extraordinary transactions undertaken in 2012 relating primarily to the Braun Household acquisition and the start-up of the new production facility in Romania.

With regard to the Braun Household acquisition, the Group began managing the business directly effective 1 January 2013, after the transition period, which resulted in the definition of the procedures needed to manage the new activity.

With regard to the production facility in Romania, during the first quarter of 2013 the production rollout plan continued with the installation of the first new production lines, the hiring of employees and the production of the first coffee machines.

Group results

The reclassified consolidated income statement is summarized as follows:

(€/million)	1st quarter 2013	% revenues	1st quarter 2012	% revenues
Revenues	**320.5**	**100.0%**	**317.7**	**100.0%**
Change	*2.8*	*0.9%*		
Materials consumed & other production costs (production services and payroll costs)	(159.8)	(49.9%)	(168.4)	(53.0%)
Gross profit	**160.7**	**50.1%**	**149.3**	**47.0%**
Other services, expenses and provisions	(81.1)	(25.3%)	(75.8)	(23.9%)
Payroll (non-production)	(35.1)	(10.9%)	(30.6)	(9.6%)
EBITDA before non-recurring income/expenses	**44.5**	**13.9%**	**42.8**	**13.5%**
Change	*1.7*	*4.1%*		
Other non-recurring income (expenses)	-	-	(1.5)	(0.5%)
EBITDA	**44.5**	**13.9%**	**41.4**	**13.0%**
Change	*3.2*	*7.7%*		
Amortization and depreciation	(10.5)	(3.3%)	(7.8)	(2.5%)
EBIT	**34.1**	**10.6%**	**33.6**	**10.6%**
Change	*0.5*	*1.5%*		
Financial income (expenses)	(8.4)	(2.6%)	(2.8)	(0.9%)
Profit (loss) before taxes	**25.7**	**8.0%**	**30.8**	**9.7%**
Income taxes	(6.6)	(2.0%)	(7.9)	(2.5%)
Profit (loss) after taxes	**19.1**	**6.0%**	**22.9**	**7.2%**
Profit (loss) pertaining to minority interests	0.2	0.1%	0.2	0.1%
Profit (loss) pertaining to the group	**18.9**	**5.9%**	**22.7**	**7.2%**

The Group closed the first quarter of 2013 with good results in terms of both profitability and financial soundness; the net revenues, which rose by 0.9% to €320.5 million, were influenced by the unfavourable exchange trend (at constant exchange rates growth would have reached 2.3% or approximately €7.4 million in first quarter) and the decrease in sales for Comfort (air conditioners and radiators).
Looking at margins, EBITDA before non-recurring expenses reached €44.5 million (+4.1%, with the margin rising from the 13.5% posted in first quarter 2012 to 13.9% in first quarter 2013).

The breakdown of revenues by product lines shows a good sales trend for Kenwood brand kitchen machines and hand blenders, thanks also to the contribution of the Braun brand products.
With regard to coffee machines, the comparison with the first quarter of 2012 reflects the drop in sales due to fewer promotional sales and new product launches with respect to the prior year relating primarily to the Nespresso *Lattissima +* machines; the Dolcegusto coffee machines performed well, thanks also to the distribution recently begun in the Australian market.
Sales for Comfort (air conditioners and radiators) fell (by approximately €11 million).

In terms of markets, of note was the performance in Europe which was slightly positive explained, above all, by the growth recorded in Germany, Benelux and Scandinavia which more than offset the decline posted in a few markets (primarily Russia, the United Kingdom and Italy), along with the significant growth recorded in the MEIA region; Comfort declined in the APA region (above all in the USA and Japan).
The first quarter of 2013 was, therefore, characterized by a persistently uncertain and weak economic environment, particularly in a few of the reference markets. Thanks to the steps taken in prior months and growth in higher value added segments, the Group was, however, able to benefit from the positive price/mix effect which made it possible to achieve the positive margins referred to above.

Gross profit amounted to €160.7 million (€149.3 million in first quarter 2012), thanks to the positive price/mix effect with volumes largely unchanged and the margin rising considerably from 47.0% to 50.1% due to the combined effect of the components mentioned above.

EBITDA before non-recurring expenses was €44.5 million, an increase of €1.7 million with respect to the first quarter of 2012 with the margin rising from the 13.5% recorded in 2012 to 13.9% in 2013; this very positive result, considering the difficult markets, was achieved despite the increase of a few fixed costs linked to the new Braun business and the start-up of direct management of operations (above all payroll and the rental of logistics facilities which were higher than the Braun brand sales in the first few months of 2013).

EBITDA amounted to €44.5 million, an increase of 7.7% with respect to the first quarter of 2012 (with the margin rising from 13.0% to 13.9%).

EBIT amounted to €34.1 million in the first three months of 2013, with the margin unchanged versus the prior year, after amortization and depreciation of €10.5 million (a sharp increase with respect to the comparison period, +€2.7 million) relating, above all, to the assets acquired as part of the Braun transaction and the significant investments made in production facilities in 2012 (China and Romania, in particular).

Net financial expenses at 31 March 2013 increased by €5.6 million rising from €2.8 million to €8.4 million due, above all, to the temporary exchange gains recorded in first quarter 2012 (€2.9 million) versus temporary losses in first quarter 2013 of approximately €1.5 million and the rise in average debt in the quarter (including in relation to the Braun acquisition finalized in the second part of 2012).

Profit pertaining to the Group reached €18.9 million in the first quarter of 2013, a drop of €3.8 million with respect to the same period 2012 (€22.7 million).

Performance by market and product line

The following table summarizes sales performance in the Group's various business regions (Europa, APA, MEIA):

(€/million)	1st quarter 2013	%	1st quarter 2012	%	Change	% Change
Western Europe	174.8	54.5%	168.9	53.2%	5.9	3.5%
Eastern Europe	41.2	12.8%	42.7	13.4%	(1.6)	(3.6%)
EUROPE	**216.0**	**67.4%**	**211.7**	**66.6%**	**4.3**	**2.0%**
MEIA (Middle East/India/Africa)	**27.2**	**8.5%**	**17.7**	**5.6%**	**9.5**	**53.9%**
APA (Asia/Pacific/Americas)	**77.3**	**24.1%**	**88.4**	**27.8%**	**(11.0)**	**(12.5%)**
Total revenues	**320.5**	**100.0%**	**317.7**	**100.0%**	**2.8**	**0.9%**

Europe reported €216.0 million in revenues, an increase of 2.0% with respect to the same period 2012, a particularly positive result in light of the weak market and the lack of the promotional sales carried out in 2012. Good results were reported in Germany, Benelux and Scandinavia, while results in Great Britain, Russia and Italy were down.

Sales were particularly brilliant in the MEIA region thanks to the reorganization carried out in prior years and continuous growth, despite the political crisis which caused sales to drop noticeably in a few important reference markets.

The decline reported in the APA region is attributable primarily to the US market as a result of having lost a client in the Comfort segment and a drop in radiator sales in Japan.

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

(€/million)	1st quarter 2013		1st quarter 2012		Change	% Change
Mature markets	200.1	62.4%	201.6	63.4%	(1.5)	(0.7%)
Emerging markets	120.5	37.6%	116.1	36.6%	4.3	3.7%
Total revenues	**320.5**	**100.0%**	**317.7**	**100.0%**	**2.8**	**0.9%**

As for performance by product line, of note is the drop in Comfort and the continuous, strong growth of Kenwood brand kitchen machines and food preparation products, in general, thanks also to the sale of Braun brand products.

With regard to coffee machines, despite the good performance of the *Dolcegusto* machines, there was a slowdown in a few categories which, however, reflects the promotional sales and the launch of new Nespresso (*Lattissima +*) products in first quarter 2012.

Review of the statement of financial position

The reclassified consolidated statement of financial position is presented below:

(€/million)	31.03.2013	31.03.2012 (*)	31.12.2012 (*)	Change 31.03.13 – 31.03.12	Change 31.03.13 – 31.12.12
- Intangible assets	363.5	174.9	364.6	188.6	(1.1)
- Property, plant and equipment	160.3	123.6	158.6	36.7	1.8
- Financial assets	3.1	3.1	3.1	(0.0)	0.0
- Deferred tax assets	43.0	36.3	41.3	6.7	1.6
Non-current assets	**570.0**	**337.9**	**567.6**	**232.0**	**2.4**
- Inventories	341.2	316.9	273.8	24.3	67.4
- Trade receivables	268.0	252.9	381.2	15.1	(113.2)
- Trade payables	(307.0)	(287.5)	(351.7)	(19.5)	44.7
- Other payables (net of receivables)	(42.2)	(36.9)	(59.8)	(5.3)	17.6
Net working capital	**259.9**	**245.4**	**243.4**	**14.5**	**16.5**
- Deferred tax liabilities	(8.2)	(8.9)	(6.6)	0.6	(1.6)
- Employee benefits	(23.6)	(17.6)	(24.9)	(6.0)	1.3
- Other provisions	(56.5)	(56.2)	(56.3)	(0.3)	(0.2)
Total non-current liabilities and provisions	**(88.4)**	**(82.7)**	**(87.8)**	**(5.7)**	**(0.5)**
Net capital employed	**741.5**	**500.7**	**723.2**	**240.8**	**18.3**
Net debt/(Net financial assets)	**81.6**	**(93.7)**	**92.9**	**175.3**	**(11.3)**
Total net equity	**659.9**	**594.4**	**630.3**	**65.5**	**29.7**
Total net debt and equity	**741.5**	**500.7**	**723.2**	**240.8**	**18.3**

(*) As a result of the retroactive application of the new IAS 19 – *Employee benefits,* the comparative figures were restated.

The comparison with the statement of financial position at 31 March 2012 is strongly influenced by 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. The acquisition also contributed to an increase in the Group's debt in terms of both the consideration already paid at year-end 2012, which amounted to €143 million including interest, and the additional consideration potentially owed Procter & Gamble over the next three-five years linked to the earn-out, the estimated amount of which is already included in the Group's debt.

Net investments in the first quarter of 2013, which amounted to €10.0 million (€ 22.8 million in the first quarter of 2012) include the investments outlined in the business plan for the start-up of the production facility in Romania and the enhancement of the Chinese plant of €3.6 million.

Net working capital increased by €14.5 million on 31 March 2012 (with net working capital turnover going from 16.8% of revenues at the end of March 2012 to 17.0% in 2013). This trend reflects the start-up of the Braun business which, initially, called for the purchase of inventory from Procter & Gamble in the latter part of 2012 and the first few months of 2013, products which were not sold at the end of first quarter 2013, as well as the lower factoring of trade receivables with respect to first quarter 2012.

Details of the net financial position are as follows:

(€/million)	31.03.2013	31.03.2012	31.12.2012	Change 31.03.13 – 31.03.12	Change 31.03.13 – 31.12.12
Cash and cash equivalents	245.4	208.0	244.0	37.4	1.4
Other financial receivables	25.7	25.8	16.1	(0.1)	9.6
Current financial debt	(117.3)	(92.7)	(115.3)	(24.6)	(2.0)
Net current financial debt	**153.7**	**141.1**	**144.7**	**12.7**	**9.0**
Non-current financial debt	**(235.4)**	**(47.4)**	**(237.7)**	**(188.0)**	**2.3**
Total net financial position/ (net debt)	**(81.6)**	**93.7**	**(92.9)**	**(175.3)**	**11.3**
Of which:					
- positions with banks and other financial payables	*(13.2)*	*79.2*	*(19.9)*	*(92.5)*	*6.7*
- residual payable to P&G related to the Braun acquisition	*(64.4)*	*-*	*(63.8)*	*(64.4)*	*(0.6)*
- fair value of hedging derivatives and option/debt for investments acquisition	*(4.0)*	*14.5*	*(9.2)*	*(18.4)*	*5.3*

Net debt at 31 March 2013 amounted to €81.6 million and reflects items other than bank debt: the negative fair value of derivatives and call options which amounted to €4.0 million (versus a negative €9.2 million at 31 December 2012 and a positive €14.5 million at 31 March 2012) and the residual amount owed to Procter & Gamble of €64.4 million relating to the potential earn-out payable over the next three-five years.

Net of these items, the net financial position at 31 March 2013 reached a negative €13.2 million, an improvement of €6.7 million with respect to 31 December 2012, despite the drop in the factoring of trade receivables of €36.4 million and non-recurring investments of €3.6 million; in the same period 2012 (first quarter), the net bank financial position absorbed €11.2 million in cash (with a drop in the factoring of trade receivables of €18 million and non-recurring investments of €17.7 million with respect to year-end 2011).

The increase of €92.5 million in net debt with banks and other sources of finance with respect to 31 March 2012 is explained for €143.0 million by the consideration already paid in the year, including interest, for the “Braun Household” acquisition and the non-recurring investments in production.

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

(€/million)	**31.03.2013 (3 months)**	**31.03.2012 (3 months)**	**31.12.2012 (12 months)**
Cash flow generated (absorbed) by current operations	35.4	32.3	191.6
Cash flow generated (absorbed) by changes in working capital	(24.8)	(20.5)	(65.2)
Cash flow generated (absorbed) by investment activities	(10.0)	(22.8)	(62.8)
Cash flow generated (absorbed) by operating activities	**0.6**	**(11.1)**	**63.5**
Braun acquisition	-	-	(202.9)
Cash flow by extraordinary investments	-	-	**(202.9)**
Dividends paid	-	-	(49.3)
Cash flow by changes in fair value and cash flow hedge reserves	5.1	(13.7)	(25.0)
Cash flow by changes in currency translation reserve	5.4	1.0	3.2
Cash flow generated (absorbed) by other changes in net equity	0.2	0.2	0.2
Cash flow generated (absorbed) by changes in net equity	**10.7**	**(12.6)**	**(70.9)**
Cash flow for the period	**11.3**	**(23.7)**	**(210.3)**
Opening net financial position	(92.9)	117.4	117.4
Closing net financial position/(Net debt)	**(81.6)**	**93.7**	**(92.9)**

Net cash flow from operating activities in the first three months of the year reached a positive €0.6 million (versus a negative €11.1 million in first quarter 2012 which included the non-recurring investments in production made in the prior year).
First-quarter cash flows were also positively affected by changes in net equity: changes in the fair value of currency derivatives and the translation differences relating to the financial position of the Group’s foreign subsidiaries had a positive impact of €10.5 million on the first three months of 2013 (versus a negative €12.8 million in first quarter 2012).

The following tables present the statement of comprehensive income and the principal changes in net equity in the first three months of 2013:

(€/million)	**1st quarter 2013**	**1st quarter 2012**
Profit (loss) for the period	19.1	22.9
Other components of comprehensive income:		
Change in fair value of cash flow hedges and fair value of available-for-sale financial assets	5.1	(13.7)
Tax effect of change in fair value of cash flow hedges and fair value of available-for-sale financial assets	(1.3)	3.7
Other components of comprehensive income (loss)	2.9	(2.3)
Total comprehensive income (loss) for the period	**25.9**	**10.6**
Total comprehensive income (loss) attributable to:		
Parent company shareholders	25.8	10.4
Minority interests	0.1	0.2

(€/million)	Group portion of net equity	Minority interests in net equity	Total net equity
Net equity at 31 December 2012 (official data)	**631.8**	**2.2**	**634.0**
Total comprehensive income (loss) for the period	25.8	0.1	25.9
Net equity at 31 March 2013	**657.5**	**2.4**	**659.9**

Other information

The Board of Directors 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.

Subsequent events

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

Outlook

The first quarter of 2013 was characterized by the weak performance of revenues and improved margins due to the positive product/price mix effect; the Group believes that it will be able to confirm its targets for revenue and margin growth in the remaining quarters of the year.

Treviso, 9 May 2013

For the Board of Directors
Vice Chairman and Chief Executive Officer

Fabio de' Longhi

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Declaration by the Financial Reporting Officer

Pursuant to art. 154-bis para. 2 of TUF, Stefano Biella, the Financial Reporting Officer, declares that the accounting information contained in the present interim financial report corresponds to the underlying documentary and accounting records.

Treviso, 9 May 2013

Financial Reporting Officer
Stefano Biella

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

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Registered office: Via L. Seitz, 47 – 31100 Treviso
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