Consolidated financial statements 2000

ASSETS	31.12.00		31.12.99	
	Partial	Total	Partial	Total
A Receivables from shareholders		-		25,000
B Assets				
Intangible fixed assets				
Start-up expenses		637		237
Research, development and advertising		698		992
Industrial and other patent rights		6,659		4,423
Concessions, licenses, trademarks and similar rights		191,075		192,214
Goodwill		545,344		10,658
Others		4,054		1,013
Total intangible fixed assets		748,467		209,537
Tangible fixed assets				
Land and buildings		176,387		148,965
Plant and machinery		113,743		75,335
Industrial and commercial equipment		40,217		32,264
Other assets		11,302		10,037
Assets under construction and advances to suppliers		2,448		686
Total tangible fixed assets		344,097		267,287
Financial assets				
Equity investments in:				
subsidiaries	2,409		2,409	
associated companies	11,629		11,577	
other companies	319	14,357	384	14,370
Accounts receivable due from:				
parents				
more than 1 year	-	-	8,000	8,000
other companies				
within 1 year	1,864		203	
more than 1 year	6,415	8,279	21,025	21,228
Total		8,279		29,228
Other securities		43		-
Total financial assets		22,679		43,598
Total fixed assets		1,115,243		520,422
C Current assets				
Inventory				
Raw materials and consumables		131,009		66,365
Work in progress		41,234		24,224
Finished goods		198,296		137,016
Total inventory		370,539		227,605
Receivables				
From customers:				
within 1 year	615,299		497,226	
more than 1 year	436	615,735	111	497,337
From subsidiaries		-		2,059
From associated companies		2,529		1,925
From parent companies		28,413		31
Other receivables				
within 1 year	111,380		95,348	
more than 1 year	3,749	115,129	159	95,507
Total receivables		761,806		596,859
Short term financial assets				
Equity investments		1,754		1,754
Other securities		250		2,676
Total short term financial assets		2,004		4,430
Liquid funds				
Cash in bank		127,172		141,045
Cheques		1,317		9
Cash in hand		487		331
Total liquid funds		128,976		141,385
Total current assets		1,263,325		970,279
D Total prepayments and current income		23,637		4,337
Total assets		2,402,205		1,520,038

Millions Lire

LIABILITIES	31.12.00		31.12.99	
	Partial	Total	Partial	Total
A Shareholders' equity				
Share capital		400,000		400,000
Additional paid-in capital		-		-
Revaluation reserve		-		-
Legal reserve		4,565		1,820
Reserve for treasury stock on hand		-		-
Statutory reserve		-		-
Other reserve				
Foreign exchange reserve	69		670	
Other reserves	34,241	34,310	26,169	26,839
Retained earnings		1,937		7,703
Net income (loss) for the year		27,980		49,125
Total group shareholders' equity		468,792		485,487
Shareholders' equity - minority interest		433		660
Net income (loss) - minority interest		204		1
Total shareholders equity		469,429		486,148
B Provision for contingencies and obligations				
Provisions for agents leaving indemnity and similar obligations		6,405		5,341
Other provisions		15,447		10,385
Total		21,852		15,726
C Staff leaving indemnity		37,526		24,302
D Payables				
Debentures				
more than 1 year		290,440		92,711
Bank loans and overdrafts:				
within 1 year	304,304		144,771	
more than 1 year	228,702	533,006	252,336	397,107
Other financing payables		26,437		23,572
Advances		5,453		2,542
Trade payables		357,814		258,132
Notes payable		73		-
Payables due to subsidiaries		2,704		2,586
Payables due to associated companies		1,369		276
Payables due to parent companies:				
within 1 year	413,019		149,956	
more than 1 year	-	413,019	1,000	150,956
Payables due to tax authorities				
within 1 year	44,923		29,805	
more than 1 year	29,383	74,306	-	29,805
Social security payables		9,887		7,358
Other payables:				
within 1 year	130,452		22,322	
more than 1 year	63	130,515	-	22,322
Total payables		1,845,023		987,367
E Total accrued liabilities and deferred income		28,375		6,495
Total liabilities		1,932,776		1,033,890
Total liabilities and shareholders' equity		2,402,205		1,520,038
Memorandum accounts		24,254		177,567

Millions Lire

INCOME STATEMENT	31.12.00		31.12.99	
	Partial	Total	Partial	Total
A Income				
Net revenues from the sale of goods and services		1,222,951		1,136,044
Changes in work in progress and finished goods (inventory)		50,254		(20,810)
Increases in fixed assets for internal work		3,937		2,346
Other income		27,073		22,531
Value of production (revenues)		1,304,215		1,140,111
B Expenses				
Raw and subsidiary material and goods		625,633		521,080
Services		301,812		251,733
Leases		14,241		11,885
Personnel costs:				
salaries and wages	126,697		115,245	
social security costs	36,490		34,140	
severance payments	7,101		6,144	
social benefits	1,975		2,169	
other costs	1,396	173,659	1,068	158,766
Amortisation, depreciation and writedowns:				
amortisation of intangible fixed assets	18,841		18,695	
depreciation of tangible fixed assets	41,352		43,108	
other writedowns of fixed assets	-		35	
writedowns of trade receivables	6,868	67,061	8,310	70,148
Changes in stock of raw materials and consumables		(16,188)		2,397
Provision for risks		7,820		6,159
Other provisions		1,342		250
Sundry operating expenses		8,543		15,596
Total production costs (expenses)		1,183,923		1,038,014
Difference between revenues and expenses (A - B)		120,292		102,097
C Financial income and expenses				
Income from equity investments:				
dividends	-		92	
others		8,481	743	835
Other financial income:				
from other receivables entered as fixed assets	19			-
from securities entered as current assets	3,097		2,812	
other income:				
from subsidiaries	68		252	
from parents	401		2,271	
others	54,731	58,316	25,720	31,055
Interest and other financial expenses:				
from subsidiaries	(409)		(115)	
from parents	(6,641)		(13,042)	
others	(90,529)	(97,579)	(46,281)	(59,438)
Total financial income and expenses		(30,782)		(27,548)
D Adjustment to financial assets				
Revaluations of equity investments		53		-
Writedowns of equity investments		(1)		(467)
Total adjustments to financial assets		52		(467)
E Extraordinary income and expenses				
Income:				
gains on fixed asset disposal	294		225	
other	3,319	3,613	342	567
Expenses:		(23,548)		(7,607)
Total extraordinary income and expenses		(19,935)		(7,040)
Net income (loss) before income tax		69,627		67,042
Income taxes		(41,443)		(17,916)
Net income (loss) before minority interest		28,184		49,126
Net (income) loss attributable to minority interest		(204)		(1)
Net income (loss) for the year		27,980		49,125

Report of the Board of Directors

Group profile

De'Longhi S.p.A. is the holding company of a Group with a leadership position in market segments linked by the concept of well-being. The Group manufactures and markets products for heating, air conditioning and air treatment, cooking and food preparation, home cleaning and ironing. In particular, it is the world leader in heaters and portable air conditioners, and the Italian leader in all of the segments in which it operates.

The Group's competitive position was strengthened in early 2001 by its acquisition of the Kenwood Group, market leader in Great Britain and international specialist in food preparation products, as well as producer of cleaning and ironing systems through its subsidiary Ariete S.p.A.

The Group dominates a variety of product segments and price levels through its use of several brands (De' Longhi, Simac, Vetrella, Supercalor, Ariagel, Radel, Elba, Superclima and Climaveneta, to which Kenwood and Ariete have been added by acquisition of the Kenwood Group), each with a distinct connotation in terms of market perception and positioning.

The Group has assumed the position of specialist in its sectors thanks to its ability to offer market products with innovative technology and design and, in some cases, to anticipate and stimulate latent consumer needs with the support of effective communication.

The Group has strong industrial ability and solid know-how, with 14 production facilities (one of the three recently acquired with the Kenwood Group being located in China) that execute initial machining operations such as plate stamping and plastic moulding. These operations are critical for rapid production of products marked by high quality, technology and design.

The Group's products are distributed by means of a complex sales network that is appropriately differentiated by brands, sales channels, and at times by lines of business.
In Italy, distribution is performed by a direct sales force managing major accounts, as well as by an extensive network of agents and by specific business structures for some channels. In foreign countries, which account for over 65% of sales, the Group has strong direct presence through subsidiaries in Holland, Canada, France, Japan, Germany, Great Britain, Poland, and the United States, and through sales offices in China, Russia and Ukraine. Additional subsidiaries have been added in Austria, Hong Kong, Malaysia, and Singapore, acquired with the Kenwood Group. In other countries (especially Greece, Spain, New Zealand and Australia), local distributors work almost exclusively to promote and market the Group's products.

The Group's strong growth in recent years (an average CAGR of over 10.54% in the last four years) was achieved both organically and through acquisitions. When integrating acquired companies, the Group's policy has always been to safeguard the specificity of production competences, business structures and brands, while (with various methods depending on the acquisition in question) taking advantage of synergies made possible by the centralisation of some roles and sharing of technological know-how.

The year just ended was a milestone for the Company's profile and prospects. In December, it acquired some companies previously held directly by the controlling shareholder, producers of free-standing kitchens, heaters, and large-scale air conditioners and thermocooling units, with total sales of Lire 338 billion. By doing so, it consolidated a group of businesses which, due to their complementarity, completeness, internal synergies, and market prospects, will become the basis

for profitable and sustainable growth in the future.
Reports by independent experts were obtained to support and account for the acquisition price.
Applying the same logic aimed at gathering all strategic businesses around De' Longhi, the company was reorganised to achieve greater leanness after a few smaller companies (less consistent with the core business) left the consolidation perimeter. Following such reorganisation, the consolidation area is not completely comparable to the previous one.

To adapt its organisational model to this increased complexity and size, the Company set the bases for improvement of internal control systems and the reference management model. A Managing Director was appointed to increase the authoritativeness of management and to build a management model in which strategy, organisation and operations are conducted with the mutual approval of businessman/shareholder and management.
This was also achieved by means of greater formalisation and, in some cases, revision of organisational reports and with implementation of a more adequate system of authorisation.

Principal results

- In 2000, De' Longhi had consolidated income of Lire 1,223 billion, which, compared to 1999, discounts the de-consolidation of sales of De' Longhi Radiators S.r.l. for nine months of 2000, with consequent minor contribution to consolidated income of approximately Lire 86 billion.
Growth in sales compared to 1999, 7.6%, would therefore be equal to 17% on a homogeneous basis.
In addition, consolidated income does not consider the income of acquired companies for 2000.

EBITDA (profits before interests, taxes, depreciation and amortisation) rose from Lire 178.7 billion (with incidence on sales of 15.7%) to Lire 196.5 billion (with incidence on sales of 16.1%).

Net profits were Lire 28 billion.

Market scenario

- In 2000, growth in GDP worldwide was approximately 4.7%, with a larger contribution to growth by non-EU nations. During the first half of 2000, the economy in the Euro area consolidated the recovery phase begun in 1999; exports gave a positive contribution thanks to weakening of the Euro and to a strong expansion of international trade.
Also in the Euro area, monetary authorities gradually raised the interest rate, bringing it to 4.75%, to guard against inflation. In 2000, family consumption grew at a slightly greater rate than in 1999.
With regard to the Italian economic trend, the recovery continued and growth in GDP was 2.8%. Growth in domestic demand remained strong and, as in other European countries, exports benefited from a weakened currency and from growth in international trade.
The British economy confirmed this growth trend; GDP increased by 3.3%, thanks mainly to increased domestic demand.
The long growth phase of the American economy continued at a strong rate in 2000 (+5.2%), but suffered from an unexpected drop in the last quarter following an increase in the price of oil and uncertainties in the stock market.
After a period of recession, the Japanese economy gradually recovered in the first half. In this period, the contribution of public demand was significant due to the implementation of measures to sustain the economy. Growth in GDP was 1.9%.

The home appliances market

Growth in sales of home appliances in the EU were substantially in line with that of overall consumption.
During 2000, growth in the Italian home appliances market slowed to about 2.5%, mainly due to the demand for cooking appliances and heaters.
On the other hand, the demand for small appliances remained at the high levels achieved in 1999.
The demand for home appliances in non-EC markets caused a significant rise in exports (+10% in volume), with production increasing of more than 5%.
The demand for home appliances in the United States slowed with regard to the heating and cooking segments, while small appliance sales rose. Over all, imports from Italy showed a growth trend, counteracting the trend in the heating segment.

Business segments

The Group operates in the following main categories:

- heaters,
- air conditioning and air treatment systems,
- cooking and food preparation products,
- home cleaning and ironing products.

An insignificant part of the Group income derives from the sale of accessories, raw materials, spare parts, or distribution of marketed products.

The following table shows consolidated sales for each segment in 1999 and 2000 (in the first two columns). The other columns show proforma consolidated values, including income from companies acquired by 31.12.2000.

DE'LONGHI GROUP	1999 consolidated	2000 consolidated	1999 proforma	2000 proforma	Diff. 99-00 proforma	Diff. % 99-00 proforma
	(bil. Lire)	(bil. Lire)	(bil. Lire)	(bil. Lire)	(bil. Lire)	
Heating *	228	299	348	409	61	17.5%
Air conditioning and air treatment	298	320	426	461	35	8.2%
Cooking and food preparation	329	403	435	506	71	16.3%
Home cleaning and ironing	133	134	133	131	(2)	(1.5%)
Other	35	40	32	53	21	65.6%
Total (partial)	1,023	1,196	-	-	-	-
Heating**	113	27	-	-	-	-
Total	1,136	1,223	1,375	1,561	186	13.5%

* The sales of De'Longhi Radiators S.r.l. are not included
** Values refer to sales of De'Longhi Radiators S.r.l.

Heaters

The range of heating products may be divided into:

- mobile heaters,
- units for fixed heating systems.

The Group produces a complete range of mobile heating solutions, including oil-filled electric radiators, (portable and wall) electric convectors, fan heaters, gas heaters, gas/electric heaters, kerosene heaters, wood burning stoves, coal burning stoves, and wood and coal burning stoves.
The Group is the world leader in this sector, particularly with regard to its family of oil-filled electric radiators, where it is the only company to offer four lines with different aesthetics, technical features and positionings.

Sales of mobile heaters grew by Lire 61 billion (+17.5%) compared to 1999.
The recent introduction of a new range of oil radiators was the determining factor in such a result.

With DL Radiators S.p.A., the Group is also present on the European market of steel radiators (so-called “terminal units”) for fixed heating systems, where it has a significant position.
Sales of fixed heating systems were Lire 119 billion, substantially in line with the previous year despite a generally weak market.
Forecasts for the current year are encouraging because consumers are turning to types of products more in line with our assortment.

Air conditioning and air treatment systems

The Group offers a complete line of air conditioners, humidifiers, dehumidifiers and air purifiers that ranges from a portable dehumidifier to a plant with a power rating of 0.4 Kw, to thermocooling units for industrial use and for large public complexes with a power rating of 2400 Kw.

The range of air conditioning and air treatment products is divided into:

- portable air conditioners,
- fixed modular air conditioners (split),
- medium and large thermocooling units,
- other air treatment products.

With regard to portable air conditioners, the success of Pinguino, offered all over the world, made the Group the world leader in this segment. These compact units, with power ratings from 1.9 Kw to 4 Kw, are designed to condition single rooms. They have the advantage of not requiring any installation, and can be moved easily from one room to another.

The Group also offers a complete line of wall-mounted air conditioners that can support up to three internal units. These are appropriate for cooling single apartments and offices or small businesses. The Group holds an important position in the Italian market for these products.

The Group is the Italian leader in the sector of medium and large thermocooling machines and systems, offering a wide range of thermocooling machines and systems with power ratings ranging from 2 Kw to 2400 Kw. Systems rated from 2 Kw to 37 Kw are suitable for large apartments and for medium/medium-large offices or businesses. Large systems (rated from 40 Kw to 2400 Kw) are designed to air condition large commercial and residential structures, or for specific industrial applications (cooling of machinery).
Some models may become a high-yield heat source for rooms, using the heat pump principle.

The Group’s range of air treatment products is completed by a line of dehumidifiers, humidifiers and purifiers. The dehumidifiers are portable enbloc systems that use the same technology as air conditioners, and reduce the level of water vapour in the air. The Group, which created the home dehumidifier market in Italy with the launching of its “Tasciugo” line, is the European leader in such segment and has a major market share worldwide.

Overall sales in the air conditioning and air treatment segment were Lire 461 billion, an increase of 8.2% compared to the previous year.

Cooking and food preparation products

The Group is highly specialised in many segments of the cooking and food preparation products market. In particular, it produces and sells ovens, deep-fryers, toasters, barbecues and contact grills, coffee machines, free standing kitchens, cooking surfaces and built-in ovens, as well as mixers, food processors, and other food preparation products.

It has a leadership position in Italy and a major role worldwide in the top oven segment. For the fullness and depth of its range, which includes microwave, electric and combined ovens with capacity and sizes from 7 to 30 litres, it is one of the world’s top competitors.
The Group is the leader in Italy and in Great Britain for deep-fryers, and a major operator on the international market.
The Group has a significant position in the Italian coffee machine market, and is the leader in Japan. The line offers various models, including machines for espresso coffee, machines for American coffee, and machines that make both espresso and American coffee.
The Group also occupies a major role in the free-standing kitchen, cooking surface, and oven segments.
The category of food preparation products includes a complete range of juicers, mixers, and ice cream makers.

Overall sales in the cooking and food preparation segment were Lire 506 billion, up 16.3% compared to last year.

Home cleaning products and ironing systems

The Group produces a wide range of home cleaning and ironing products. It is the national leader in vacuum cleaners and a major operator in ironing systems.
The Group produces an extensive range of electric sweepers, vacuum cleaners, steam and multifunction cleaners, steam extractors (which combine dissolving of dirt by steam with suction) and steam ironing systems.

Sales in the “home cleaning” segment were Lire 131 billion, in line with 1999.
The updating of the range completed in late 2000 will bring positive effects in terms of greater sales, especially in 2001.

Allocation of growth by geographic area

The strong international trend is documented in the table below, which shows sales divided by geographic area.
As was done above for business segments, consolidated proforma values are given, which include income of companies acquired by 31.12.2000. Comments refer to proforma data.

Income by geographic area:

	1999 consolidated (bil. Lire)	2000 consolidated (bil. Lire)	1999 proforma (bil. Lire)	2000 proforma (bil. Lire)	VAr 00-99 proforma (bil. Lire)	Var % 00-99 proforma
Italy	441	422	509	510	1	0.2 %
United States and Canada	147	199	147	199	52	35.3%
Japan	67	103	67	103	36	53.7%
Great Britain	92	98	143	160	17	11.9%
Other European Countries	319	308	294	329	35	11.9%
Rest of the World	70	93	215	260	45	20.9%
Total	1,136	1,223	1,375	1,561	186	13.5%

There were significant increases in sales (from 14% to 38%) in Great Britain, the United States, Canada, Japan, France, and Benelux (all countries in which the Group has subsidiaries). Among countries in which the Group has a subsidiary, growth in sales was below 10% only in Germany. In general, such a growth is attributable to the success of our products, to an increasing recognition of the brand, and to the fine work done by our international structures.

Company performance

The following table presents a reclassification of consolidated income statements, with the warning that 2000 is not perfectly comparable to 1999 due to the above-mentioned deconsolidation of data of an affiliate.
Inclusion of such a data in 2000 would have resulted in increased income of Lire 86 billion.
Reclassification of consolidated income statements:

	2000 (bil. Lire)	% of sales	1999 (bil. Lire)	% of sales
Income from sales	1,223	100.0%	1,136	100.0%
Gross industrial margin	695	56.8%	617	54.3%
Costs for services and other costs	(325)	(26.5%)	(279)	(24.6%)
Added value	370	30.3%	338	29.7%
Labour costs	(174)	(14.2%)	(159)	(14.0%)
Gross operating margin (EBITDA)	196	16.1%	179	15.7%
Depreciation and accruals	(76)	(6.2%)	(77)	(6.7%)
Net operating profit (EBIT)	120	9.8%	102	9.0%
Financial and extraordinary income (expenses)	(50)	(4.1%)	(35)	(3.1%)
Earnings before taxes	70	5.7%	67	5.9%
Income Taxes	(42)	(3.4%)	(18)	(1.6%)
Net income	28	2.3%	49	4.3%

Sales grew by 7.6% (which, with a homogeneous consolidation perimeter, would be +17%).
Gross industrial margin increased by 2.5% in terms of incidence on sales, and by Lire 78 billion in absolute value (+13% compared to the previous year).
The improvement of margins is due in part to a positive exchange effect, generally favourable compared with the Euro,

and in part due to cost containment, notwithstanding the generalised increase in prices of raw materials and price adjustments.
In addition, the trend continued toward a mix favouring higher-margin products.
Compared to 1999, EBITDA increased in by 0.4 points; EBIT by 0.8 points.
Given the many terms on the income statement regarding financial income/expenses, we point out that financial expenses (with the exclusion of components regarding costs/income - profit/loss on differences in exchange rates) amount to Lire 41.8 billion, an increase of Lire 8.9 billion compared to 1999, due to an increase in interest rates that brought the average interest rate from 3% to over 5%.

Earnings before tax compared to 1999 grew from Lire 67 billion to Lire 70 billion, and was affected by a worsening of financial management as described above and by extraordinary expenses of approximately 20 billion, almost all of which regarded payment of an indemnity following divestment of a share capital investment made in 1997.
Profit for the year compared to 1999 dropped from Lire 49.1 billion to Lire 28 billion due to a greater tax burden.

Analysis of financial statement

The Group's financial statement is broken down as follows:

	2000	1999	Diff.
	(bil. Lire)	(bil. Lire)	(bil. Lire)
Current assets	1,128	829	299
Current liabilities	(516)	(327)	(189)
Net working capital	612	502	110
Non-current assets:			
Intangible assets	748	209	539
Tangible assets	344	267	77
Long-term investments	18	36	(18)
Receivables from shareholders	-	25	(25)
Non-current liabilities	(59)	(40)	19
Total capital employed	1,663	999	664
Minority interest	1	1	-
Net equity	469	485	(17)
Total non-financial sources	469	486	(17)
Net financial position	(1,193)	(513)	(680)

	2000	1999
Key ratios:		
Working capital/ income from sales	50 %	44%
Net financial position/ net equity	254 %	106 %

Acquisitions made in late December 2000 caused a significant change in the consolidation area compared to the previous year. As a result, comparison to 1999 lacks homogeneity, and it is necessary to point out the effects of such acquisitions on the Group's financial statement.

Net operating capital increased by Lire 110 billion compared to 1999; with equal consolidation areas, and not considering the companies acquired in December 2000, such increase was Lire 46 billion, mainly due to an increase in inventory of air conditioning products, affected by poor seasonal climate.

The increase of Lire 664 billion in total capital employed was due mainly to the effects of acquired companies (approximately 642 billion); in particular, intangible assets increased by Lire 539 billion compared to 1999, due mainly to consolidation differences. Such differences, which will be subject to amortisation based on future usefulness, appear justified in consideration of the profitability expressed by the acquired companies as well as by the entire Group.

Net financial position changed from Lire 513 billion in 1999 to Lire 1,193 billion in 2000. This is because it contained not only the net financial standing of subsidiaries acquired at year end, consolidated at the equity level with the integral method, but also debts to controlling companies for the unpaid part of acquisitions.

Cah flow may be summarised as follows:

Cash flow from:	2000	1999
Operating activities	92.7	110
Change in net working capital	(43.4)	5.8
Investing activities	(20.7)	(22.9)
Movements of net equity	-	100.0
Variation in consolidation area	(707.7)	-
Variation in conversion difference	(0.6)	0.8
Var. in net financial position	(679.7)	193.4

At 31 December 2000, there were debts related to the purchases of the above-described company amounting to Lire 504.6 billion. Agreements signed by the parties provide that the remaining portion of the debt (not onerous) shall be paid in three instalments by 31 December 2001.

In addition, net financial position toward third parties, equal to Lire 713.9 billion, is composed by loans payable within 12 months (Lire 168.3 billion) and loans payable beyond 12 months (Lire 545.6 billion).

Human resources: organisation and systems

- There were 3860 employees of the De'Longhi Group at 31 December 2000 (2,595 in 1999) divided as follows:

	31/12/00	31/12/99
Workers	2,747	1,745
Employees	1,057	817
Managers	56	33
Total	3,860	2,595

Of these, 3,536 are employed by the Group's Italian companies, and 324 work in foreign countries companies.

Data for 2000 include personnel of the companies acquired in late December. Considering a consolidation area homogeneous with that of 1999, the labour force has incremented by 250 employees.

During 2000, training activities conducted at the Group level, also financed by the European Social Fund and under national laws, involved approximately 600 employees at all levels, for over 17,000 hours of training. These initiatives regarded both managerial training and professional updating of various organisational, technical/productive, administrative and sales personnel.

With regard to labour relations, 2000 was the year in which Collective Labour Agreements were renewed for the Group's main companies (De' Longhi S.p.A., Elba S.p.A. and Radel S.p.A.). The new Performance Bonus is linked to improvement of profitability, quality and efficiency indices, and is paid to employees based on a mechanism that awards presence at work.

The arrival of the new Managing Director of the Parent Company set the bases for redefinition of internal organisational reports and management authorities, as well as activation of some internal communication and integration mechanisms (periodic meetings to check the progress of main company problems, think tanks and organisational innovation).
Reinforcement of internal and external sales structures continued during 2000, which permitted the Group to increase its presence in the territory and to enter new distribution channels. Specifically, the sales office in Belgium began operations, and an agreement was signed with an important group for distribution in Southeast Asia.

An internal review process was also begun with the aim of reducing operating capital by means of a series of activities, including redesigning of sales planning flows, which should produce a greater sense of responsibility in sales personnel.

Computer systems used by main Group companies are essentially based on SAP management software, used by the Parent Company as well as by Simac-Vetrella S.p.A., DL Radiators S.p.A., Radel S.p.A., and Elba S.p.A. SAP provides integrated management of all main aspects of the Group's production and business activities, including logistics, stock, warehouse, orders, sales, and handling of raw, semi-finished and finished products, both among Group companies and among such companies and the distribution network.
The Company has continued its plan to extend the computer system to other Group companies, including De' Longhi America Inc. and De' Longhi Nederland B.V. for a total of over 1000 enabled users.

Research and development

The Group's Research and Development department, in which large investments are constantly made, has 10 laboratories and 13 technical offices located in or near production facilities. The Group dedicates over 223 resources to research and development. Over the years, such significant investments have allowed the Group to obtain and consolidate competitive advantages, including:

- Efficiency of production cycle and containment of production costs through innovation of production processes. In its various business sectors, the Group exploits specific skills developed in plate stamping, welding, plastic injection, painting and enamelling, use of gases, electronics and electrotechnics to design and build production plants that are highly automated, modern and efficient from the costs point of view.

- The ability to identify innovative solutions and technologies thanks to which it has been possible to satisfy, and often anticipate, changes in customer demand and in reference standards.

The Group has taken advantage of the benefits granted by Law 46/82, *"Program of applied research," for the study of "New air conditioning systems utilising hydrocarbons as refrigerant gas in place of HFCs and HCFCs, and prototype production process"* and of a *"Machine for the production of hot or cold water or air by means of a refrigerant fluid."* Contributions provided by Law 140/97, *"Technological Innovation"* have also been obtained.

In the wall air conditioning segment, interesting Internet-based solutions have been created that extend and increase existing functions by means of remote management, a type of remote control that is highly innovative compared to market standards.

In 2000, the Parent company alone sustained research and development costs of approximately Lire 11 billion, allocated entirely to the income statement with the exception of an amount for the "new voice-controlled microwave" project, which was capitalised for Lire 270 million, given its clearly defined product development specifications.

In expectation of possible exploitation of Law 140/97 *"Technological Innovation,"* we provide details of the required information regarding just the Parent company.

Nature and description of research and development activities

This activity regards several research projects in air conditioning (Lire 4.2 billion), heating (Lire 1.8 billion) and small appliances (Lire 5.2 billion).

Nature and description of cost deducted for purposes of DPR 917/86

Expenses sustained during the year regard (i) costs for Research & Development personnel (Lire 4.4 billion), (ii) costs for tools and equipment (Lire 0.6 billion), and (iii) costs for technological consulting services, for acquisition of know-how, and for general expenses (Lire 6 billion).

Description of fundamental results achieved and possible effects on know-how

In witness of the Group's innovative ability, and as demonstration of cost effectiveness, we highlight the registration of important inventions in 2000. These included, in the electric radiator family, a patent for a special structure for room radiators; in air conditioning, a patent for a machine that produces hot and cold air or water by means of a refrigerant fluid; in cooking products, a patent for a voice-controlled microwave oven with automatic cooking process.

Investments and products

Total investments in tangible assets were approximately Lire 35 billion. Of these, over Lire 19 billion were spent for moulds/dies and tools to produce new products. The remaining amount was predominantly investments to complete and maintain the current production capacity.
In 2000, a new production facility was inaugurated at Ampezzo (UD). This facility specialises in assembling coffee machines, fan heaters, electric ovens and contact grills, and has already achieved high levels of efficiency in line with the Group standards.

For purposes of example, we summarise the most important products created in 2000:

- new espresso coffee machine with pump, featuring an innovative system to whip milk, and the new BAR 50 and 51 series with IFD instant cappuccino,
- new steam extractor cleaner,

- new series of Simac ironing systems,
- new series of high capacity deep-fryers positioned at the high end of the market,
- extension of the “retrò” range of Sfornatutto ovens, with creation of a model for the American market with a 12 litre capacity,
- new model of stainless steel ventilated combination oven,
- completion of range of ventilated ovens with creation of two digital ovens with electronic commands and temperature control for the American market,
- new water-air Pinguino entirely in plastic, with exclusive Turbo power system,
- new range of Caldobagno bath fan heaters for the high end of the market, and table fan heater,
- new electronic fan heater model with intelligent functioning,
- (ECC-Electronic Climate Control),
- new series of plated resistance convectors for the American market.

Large investments were made in 2000 for advertising and communication. These investments (approximately Lire 64 billion) were allocated entirely to the income statement, and regarded support and consolidation of existing product lines (cooking and food preparation, air conditioning) as well as launching of new products.
In particular, major advertising campaigns were conducted in 2000 for launching of the “twin-oven” (“doppioforno”) microwave in Italy and for launching of the new “living innovation” concept in the United States linked to digital ovens, deep-fryers and combined coffee machines.

Businesses and relations with subsidiaries, controlling companies and affiliates

Relations with controlling companies are described in the explanatory note, and in the notes to the single items of the balance sheet and the income statement. In conformity to law, we specify that the Company did not hold, nor did it buy or sell, any of its own shares during the year.

Euro

After an analysis of conversion to the Euro as money of account, the Group has decided to schedule such conversion for the second half of 2001.

Events subsequent to close of year

Increase in share capital

A special meeting of shareholders was called in early April 2001. On the agenda there was a proposal to increase share capital with a purchase option reserved to shareholders. In this regard, we have been informed that the shareholders of Parent company De’ Longhi S.p.A. have confirmed their intention to subscribe the entire increase in share capital in the amount of Lire 250,587 million.

Kenwood

In early 2001, De’ Longhi S.p.A. (through a subsidiary) completed, by means of a take-over bid, its acquisition of the entire share capital of Kenwood Appliances Plc, for a total cost at the end of the take-over bid of approximately GBP 46.2 million (equal to about Lire 142.4 billion). Such company is the head of a Group that manufactures food preparation products and home cleaning and ironing products, and in the fiscal year ending 31 March 2001 had sales of approximately GBP 155.2 million (equal to Lire 484 billion).
The Kenwood acquisition will allow the Group to improve its strategic position in the cooking/food preparation segment, becoming the European leader in this area. The quality of the brand acquired, critical mass reached, increased purchase power, strong complementarity of product and distribution, possibility of having a currently under-utilised factory in China, are the principal points in favour of this acquisition.

With the exception of the above remarks, there were no major events that may have had a significant influence on the Company’s results or that may have modified the Company’s equity, financial, or economic structure.

Foreseeable prospects/progress in operations

In 2001, the Group will continue its growth strategy aimed at maintaining its market share in business segments and countries in which it is the leader or where the market is expanding, and at increasing shares in fastest growing markets by innovating its products and strengthening its distribution network.

Integration with the Kenwood Group, scheduled to start in the second quarter 2001, should result in important synergies and therefore bring major economic returns.

Results in the early months of current year confirm the forecast of increased growth.

It is also expected that operating results will benefit from a current trend toward lower costs of raw materials.

Sales are growing, with improvement in the gross contribution margin compared to the same period in 2000, including with respect to recently acquired companies.

For the Board of Directors
Stefano Beraldo
Managing Director

Explanatory notes to consolidated financial statements

Introduction

The consolidated financial statements of De' Longhi S.p.A. for the financial period ending on December 31st 2000 have been drawn up in accordance with the standards for consolidated financial statements set forth by Leg. Decree No 127 of April 9th 1991. They comprise the consolidated balance sheet, income statement and these explanatory notes. Moreover, the latter include all the supplementary information deemed necessary in order to provide a true and accurate picture of the Group's financial and economic position.

For the purpose of compiling the consolidated financial statements, we used the yearly statements prepared by the Boards of Directors of each individual company, adjusting them, when necessary, to reverse tax items and make them compliant with the Group accounting policies. These, in turn, are in conformity with the laws regarding consolidated financial statements, as interpreted and integrated by the accounting principles set forth by the Consiglio Nazionale dei Dottori Commercialisti e Ragionieri (National Boards of Professional Accountants) and, where necessary, those set by the International Accounting Standards Committee (IASC).

Figures reported in the consolidated balance sheet, income statement and explanatory notes are expressed in millions of Italian Lire (or in billions in the section pertaining to the notes) to provide a clearer illustration and facilitate assessment of the financial position of the Group and the results of its operations.

In the consolidated financial statements as of December 31st 2000 the corresponding items of the consolidated financial statements as of December 31st 1999 are shown. To allow a comparison between the consolidated financial statements as of December 31st 1999 and the consolidated financial statements as of December 31st 2000, certain reclassifications were done.

Area of consolidation

The Consolidated Financial Statements as of December 31st 2000 include the financial statements of the parent company De' Longhi S.p.A. and its directly and indirectly controlled Italian and foreign subsidiaries.

A list of the main companies included in the integral consolidation of accounts is attached hereto.

An itemized list of shareholdings, accounted for using the equity method, is provided in the section pertaining to long-term investments.

Compared to 1999, the area of consolidation underwent a significant change due to acquisitions and disposals taking place in December 2000 and the transfer of undertakings in the 'fixed heating' segment.

The main transactions leading to changes in the area of consolidation are described below:

- as a result of the transfer of the sale of 'heating' products from De' Longhi Radiators S.r.l. to DL Radiators S.p.A., only 3 months of business are accounted for in the 2001 consolidated financial statements (as opposed to 12 months in 1999). The company leasing contract between the two above mentioned companies expired on March 31st 2000 and, as of April 1st 2000, this business was again taken over by the lessor (DL Radiators S.p.A.). On 28th December 2000 the shareholding owned in De' Longhi Radiators S.r.l. was sold, the latter company being inactive and thus no longer of strategic importance for the Group,
- the transfer of the share capital investments in the companies Nauta S.r.l., De' Longhi Canada Distributors Inc. and Ontario Ltd. The removal of said companies from the area of consolidation determined no changes in the consolidated financial and economic position, given that they were either inactive or provided a limited range of services for the Group,
- the acquisition, by De' Longhi Pinguino S.A. – a wholly owned controlled subsidiary of De' Longhi Spa - of shareholdings listed below, with their consequent inclusion within the consolidated accounts; the acquisitions, completed on 28th December 2000, concerned:
  - 99.99% of the share capital of De' Longhi Divisione Cucine S.p.A., for a total of Lire 71.7 billion, by De' Longhi Soparfi S.A.,
  - 99.92% of the share capital of DL Radiators S.p.A., for a total of Lire 96.4 billion, by Xarocco - MKG and Investments Ltda,

- 90% of the share capital of Climaveneta S.p.A., for a total of Lire 276.9 billion, by De' Longhi Soparfi S.A., taking into account that the remaining 10% is made up of own shares,
- 100% of the share capital of Micromax S.p.A., for a total of Lire 39.7 billion, by De' Longhi Soparfi S.A.,
- 30% of the share capital of Ergoklima S.p.A. for, for a total of Lire 54.2 billion, by De' Longhi Soparfi S.A.,

for an overall total of Lire 538.9 billion plus Lire 125 million in accessory expenses. The book values have been determined on the basis of appraisals performed by independent experts. The acquired companies were included in the integral consolidation taking effect on December 31st 2000, only with respect to the balance sheet,

- the acquisition of a shareholding in the company Sile Corpi Scaldanti S.r.l., for an amount of Lire 4.6 billion,
- the incorporation of the company De'Longhi Clima Polska Sp.Zo.o., which is engaged in marketing 'fixed heating' segment products in Poland,
- the incorporation of the company E-Services S.r.l., share capital of 50,000 Euros, with 51% Group ownership, linked to the stipulation of a company leasing contract with De'Longhi S.p.A.

Principles of consolidation

The most important accounting principles adopted for the preparation of the consolidated financial statements are the following:

- data have been consolidated using the method of global integration, the book value of consolidated shareholdings being replaced by the corresponding net equity shares,
- any difference deriving from the elimination of shareholdings in the financial period in which a company is included for the first time in the consolidated financial statements is attributed:
  - if positive, where possible, to the assets and liabilities of the companies included in the consolidation. Any residual amounts are entered under the item "Goodwill",
  - if negative, it is entered as a part of Net Equity, under the item "Reserves",
- the positive difference is amortized according to the estimated useful life,
- the portions of net equity and net profits in which third-party shareholders have claims are shown separately under "Minority Interests",
- receivables and payables, costs and revenues and all items pertaining to transactions between companies included in the area of consolidation have been eliminated, including dividends distributed among Group companies. Any non-realised profits, capital gains and capital losses deriving from intercompany transactions are eliminated,
- any effect of allowances and value adjustments made by the individual consolidated companies for the purpose of attaining tax benefits under current laws is likewise eliminated, the relative tax consequences being taken into account where applicable.

Foreign currency translation principles and exchange rates

The financial statements of foreign subsidiaries are translated into Italian Lire in the following manner:

- assets and liabilities are assessed using the current exchange rates in effect at the year end. For currencies of countries in the EU, they are represented by the permanent exchange rates fixed by the European Commission on December 1998;
- items in the income statement are assessed using the average yearly exchange rates;
- net equity items are assessed at the historical exchange rates.

Exchange rate differences deriving from the application of this method are directly recorded under a specific consolidated equity item, "Reserve".

The Lira/currency exchange rates applied for the purposes of translation are shown below.

CURRENCY		AVE. EXCHANGE RATE '00 (**)	EXCHANGE RATE AS OF 31.12.00 (*)
French franc (*)	FRF	295.182	295.182
Dutch guilder (*)	NLG	878.641	878.641
German mark (*)	DEM	989.999	989.999
Luxembourg franc (*)	LUF/BEF	47.999	47.999
Pound sterling	GBP	3,178.432	3,102.499
US dollar USD	USD	2,102.587	2,080.892
Japanese yen	JPG	19.513	18.109
Canadian dollar	CAD	1,414.986	1,386.516
Portuguese escudo	PTE	9.658	9.658
Spanish peseta	ESP	11.637	11.637
Polish zloty	PLN	483.41	502.95
Greek drachma	GRD	5.682	5.682
Austrian schilling	ATS	140.71	140.71

(*) rates fixed by the E.C. in 1998

(**) source: UIC (Italian Exchange Office)

Summary of Significant accounting policies

The most important accounting principles adopted in the preparation of the consolidated financial statements at December 31st 2000, as per the provisions of article 2426 of the Civil Code, reiterated by art. 35 of Leg. Decree 127/91, are as follows:

a- Intangible fixed assets

Intangible fixed assets are recorded at their purchase price, plus any additional value and are systematically amortized on the basis of their estimated useful life.

Whenever, these assets experience a permanent impairment in value, they are written down accordingly; should the reasons for the write-down no longer subsist, the original book value is restored in subsequent financial periods.

Start-up and expansion costs include incorporation expenses and capital increases and is amortised over a period of five years.

Research & Development costs are capitalised if they pertain to specific, clearly defined products whose technical feasibility and future market prospects have been reasonably demonstrated. The book value is systematically amortised over a period of five years.

Licences, trademarks and similar rights are amortized on the basis of their remaining future utility, estimated as ten to twenty years for trademarks, four years for user rights and ten years for patents.

Goodwill is systematically amortised over a period of ten years in some cases and twenty years in others, based on reasonable estimates of their useful life and the Group's prospects for employing the surpluses, in turn estimated according to the characteristics of the sector in which affiliates operate.

The values have been recorded with the consent of the board of auditors, where their approval is required. It should be noted that, pursuant to art. 2426 of the C.C., - until start-up and expansion costs, research, development and advertising costs having a long-term economic useful are completely amortised, dividends may be distributed only if the available reserves are sufficient to cover the residual amount of capitalised costs.

b- Tangible fixed assets

Tangible fixed assets are shown at their purchase or production cost, inclusive of any directly attributable ancillary expenses; some categories of assets have undergone revaluations pursuant to Laws n° 576/75, n°72/83 e n° 413/91 (and of additional value allocated in consequence of mergers and consolidations). Any fixed assets that, at the closure of the financial period, indicated permanent declines in value are written down accordingly; the original book value is restored in subsequent financial periods if the reasons for the write-down no longer subsist.

Tangible fixed assets are shown net of accumulated depreciation, systematically calculated in each financial period on the basis of their estimated economic useful life. The depreciation applied to fixed assets acquired during the period is reduced by one half to reflect the shorter period of use.

The following charges have been applied:

Industrial Buildings	3.0%
Lightweight constructions	10.0%
General/specific plant	10.0-15.5%
Ovens	15.0%
Misc. equipment	25.0%
Purification systems	15.0%
Office furnishings and equip.	12.0%
Electromechanical equipment	20.0%
Chemical laboratory	25.0%
Transport vehicles	20.0%
Automobiles	25.0%

Routine maintenance costs are expensed as incurred, while any maintenance costs serving to increase the economic useful life of the assets to which they pertain are attributed to the assets themselves and amortized on the basis of their estimated future utility.

Investment assets acquired through financial leasing contracts are computed according to the pertinent International Accounting Principle (IAS No 17), which provides that the present value of the future minimum lease payment is to be capitalised among the fixed assets and amortized on the basis of the charges applicable to the respective assets themselves, while the corresponding financial liabilities payable to lessors is to be shown as a liability. The depreciation charges on assets and accrued interests are recorded the income statement.

c- Financial fixed assets

Shareholdings in non-consolidated affiliates and subsidiary companies accounts are accounted for using the equity method, whereas share capital investments in other companies are valuated on the basis of their purchase cost, adjusted to reflect any permanent impairment in value; the original book value is restored in subsequent financial periods should the reasons for the write-down no longer subsist.

Financial receivables are entered at their net realisable value.

Other long-term investments are shown at their cost, adjusted to reflect any permanent impairments.

d- Inventory

Inventory is shown either at the purchase or production cost, determined using the lower of weighted average cost method, or the presumable market value. The cost of production has been used for finished and semi-finished products; the valuation of work in progress again takes into account the cost of production, according to the actual stage of work completed at the end of the year. Obsolete or slow-moving inventory stock is depreciated, according to its estimated future utility, through a specific inventory valuation adjustment allowance.

e- Receivables and payables

Receivables are shown in the consolidated financial statements at their net realisable value taking into account the provisions for doubtful accounts.
Payables are shown at their nominal value.

f- Short term financial assets

Short-term investments are shown at the lessor of purchase or production cost or the market value. Should the reasons for the write-down no longer subsist, the original book value is restored in subsequent financial periods.

g- Accrued income, prepayments, accrued liabilities and deferred income

This item comprises any portions of costs and revenues pertaining to two or more financial periods, whose entity varies over time, calculated in accordance with the accruals principle.

h- Cash and banks

These items are shown at face value.

i- Provisions for contingencies and obligations

Specific provisions have been made to cover expenses of a precise nature, either certain or likely, whose entity or occurrence may not be determined at the closure of the financial year; said provisions reflect the best estimate that may be made on the basis of available information.

l- Staff leaving indemnity

The staff leaving indemnity is recorded in compliance with the law and labour contracts currently in force; it reflects the total liabilities accrued vis-à-vis employees at the balance-sheet date.

m- Costs and revenues

Costs and incomes are recorded on an accrual basis.

Revenues are shown net of returned products, discounts, rebates and premiums; taxes directly connected with the sale of products and the performance of services are likewise deducted. Income from the sale of products is taken into account when the property changes hands, which generally coincides with shipment of the merchandise.

n- Foreign currency transaction

Foreign currency transactions are recorded at the exchange rates in effect on the date of the transaction. Any exchange rates differences for the year are recognized in the income statement under the item financial incomes and expenses.
Receivables and payables outstanding at the end of the year current year-end exchange rates only if the overall adjustment results in a loss. This adjustment is made through a provision for exchange rate risks, as provided by the law.

o- Financial instruments

Financial instruments used for hedging against foreign exchange risks are valuated in a manner that is consistent with the assets and liabilities covered. Specifically as regards hedging transactions concerning assets and liabilities not calculated in Lire, expenses and revenues, as well as any resulting effects deriving from the difference between the original contract value and the forward value, are recorded in the period to which they pertain.

p- Income taxes

Income taxes are determined on the basis of taxable income and in conformity with the laws currently in force in the individual countries. The net balance of advance and deferred taxes has also been calculated as per the instructions issued by the National Boards of Professional Accountants in document No 25, in regard to the accounting methods for determining income taxes. Advance (deferred) taxes have thus been budgeted according to the tax liability method to account for the fiscal effects on some consolidation adjustments and all the temporary differences arising among the book values of assets and liabilities and the corresponding fiscal values with the application of current tax rates. The benefit of carrying forward tax losses is taken into account insofar as it is deemed likely that future taxable incomes will be sufficient to absorb the losses that may be carried forward during the period in which they are deductible under current tax regulations.

Deferred taxes on the indivisible profits of subsidiaries are recorded whenever the profits are likely to be distributed and whenever the share capital investments are not maintained on a permanent basis.

q- Memorandum accounts

Commitments and guarantees are reported in the memorandum accounts at their contract value.

Comments on main items of balance sheet and income statement

The area of consolidation as of December 31st 2000 differed significantly from that of the previous year as a result of acquisitions made at the end of December 2000. Consequently, some items shown in comparison with the figures of 1999 may not be consistent with the latter. For this reason, a table is provided below which shows the changes in the main balance-sheet items compared to 1999, calculated considering a homogeneous area of consolidation (*).

	2000 Consolidated Total	Effect of the acquisitions	Consolidated without acquisitions (*) A	1999 B	Difference (A-B)
Receivables still due from shareholders	-	-	-	25,000	(25,000)
Intangible fixed assets (**)	748,467	551,057	197,410	209,537	(12,127)
Tangible fixed assets	344,097	85,712	258,385	267,287	(8,902)
Long-term investments	22,679	5,551	17,128	43,598	(26,470)
Total fixed assets	1,115,243	642,320	472,923	520,422	(47,499)
Inventory	370,539	71,470	299,069	227,605	71,464
Receivables from customers	615,735	107,175	508,560	497,337	11,223
Receivables from associated companies - subsidiary companies - parent companies	30,942	-	30,942	4,015	26,927
Receivables from others	115,129	31,048	84,081	95,507	(11,426)
Other assets non-fixed/cash on hand	130,980	24,995	105,985	145,815	(39,830)
Total working capital	1,263,325	234,688	1,028,637	970,279	58,358
Accrued income and prepaid expenses	23,637	571	23,066	4,337	18,729
Total assets	2,402,205	877,579	1,524,626	1,520,038	4,588
Net equity	469,429	-	469,429	486,148	(16,719)
Provisions for contingencies and obligations	21,852	4,832	17,020	15,726	1,294
Provision for employee leaving indemnity	37,526	11,130	26,396	24,302	2,094
Debentures and bonds	290,440	-	290,440	92,711	197,729
Liabilities with banks	533,006	128,901	404,105	397,107	6,998
Other finance providers	26,437	18,348	8,089	23,572	(15,483)
Payables to suppliers	357,814	95,797	262,017	258,132	3,885
Advances/other payables	220,234	26,054	194,180	62,027	132,153
Payables to subsidiary companies – associated companies - parent companies	417,092	-	417,092	153,818	263,274
Total payables	1,845,023	269,100	1,575,923	987,367	588,556
Accrued expenses and deferred income	28,375	2,050	26,325	6,495	19,830
Total liabilities	2,402,205	287,112	2,115,093	1,520,038	595,055
Net equity effect deriving from change in the area of consolidation		590,467	(590,467)	-	(590,467)

(*) Said acquisitions refer to the purchase of shareholdings on 28.12.00; the effects shown in the table above also include the allocation of the consolidation difference.

(**) In the column "effects of acquisitions" the amount disclosed under the item "intangible assets" mainly comprises the consolidation differences deriving from the purchases of shareholdings, which account for approximately 536.6 billion Lire.

a- Receivables from shareholders

During 2000, the receivables due from shareholders for the capital increase subscribed in December 1999, amounting to 25 billion Lire, were collected in full.

b-Fixed assets

The intangible asset item "trademarks" and the tangible asset items "large-scale plant" and "general/specific plant" include some revaluations applied by the Parent Company in previous financial periods in consequence of the allocation of the merger deficit not recognised for tax purposes.

It is noted that for the year ending on 31 December 2000 the Parent Company, under the provisions of Art. 14 of Law 342/2000, undertook to realign the fiscally recognised values of the property items listed below and owned at 31 December 1999 in relation to the greater civil values disclosed in the financial statements.

Said realignment resulted in the payment of a 19% substitution tax on the difference between the two values. The table below provides a breakdown of the items affected by the realignment and the corresponding substitution tax paid:

	Difference between civil and tax values	Substitution tax
- trademarks	190.7	36.2
- large scale plant	15.9	3.0
- general/specific plant	25.4	4.8
Total	232.0	44.0

Said substitution tax, based on a systematic and coordinated interpretation of the law and relative provisions for its implementation, has been directly accounted for by deducting the amount from the net equity item “extraordinary reserves”.

In addition, as per the above-mentioned law regulating the entity of the realignment, a tax restriction was placed on the Parent Company’s net equity item “extraordinary reserves” (Lire 34 billion), the item “legal reserve” (Lire 4.5 billion) and the item “share capital” (Lire 193.5 billion) for an overall total of Lire 232 billion, equivalent to the amount of the realignment.

A breakdown of the revaluations applied is provided in annex No 4 to these explanatory notes.

I – Intangible fixed assets

This item may be broken down as follows:

	31.12.1999		31.12.2000		1999/2000
[in millions lire]	Gross	Net	Gross	Net	on net values
Start-up and expansion costs	6,468	237	8,532	637	400
Research, development and advertising costs	5,610	992	6,147	698	(294)
Patent rights	26,552	4,423	33,980	6,659	2,236
Licence, trademarks and similar rights	238,832	192,214	257,977	191,075	(1,139)
Consolidation difference	15,535	10,658	560,679	545,344	534,686
Sundry items	6,448	1,013	11,699	4,054	3,041
Total	299,445	209,537	879,014	748,467	538,930

The increase of Lire 538.9 billion compared to 1999 is mainly attributable to the consolidation of the companies acquired at the end of December 2000 and Sile Corpi Scaldanti S.r.l., acquired in February 2000; they account for an increase of about Lire 551.1 billion in the value of intangible assets (primarily consolidation difference and trademarks) and additional amortisation of about Lire 18.8 billion.

The variation of Lire 534.6 billion in the item “consolidation difference” is attributable to amortisation, calculated as Lire 1.9 billion, and the consolidation of acquired companies (the difference was determined by comparing the price paid to the net equity as of 31 December 2000); this difference was temporarily ascribed to the item “Consolidation Difference”, pending its allocation, where possible, to individual asset and liability items based on the assessments that will be made by independent experts; it was not amortised given that, as noted previously, the acquisitions were made at the end of December 2000. Amortisation will be calculated as of the 2001 financial period, when the companies acquired will contribute to the results achieved by the Group.

The division below serves to illustrate the differences deriving from the acquisition (price less net equity) and those already accounted for in the financial statements of the acquired companies; this item may be broken down as follows:

[in billions Lire]	Consolidation difference
Directly acquired companies:	
- Climaveneta	265.2
- Ergoklima (30%)	36.1
- Micromax	11.0
- DL Radiators	88.3
- Divisione Cucine	42.2
Total	442.8
Sile Corpi Scaldanti	3.3
Indirectly acquired companies:	
- Elba	35.2
- Radel	99.3
- Ergoklima (70%)	(41.7)
- Clima D.	0.7
Total	539.6
Consolidation adjustments	(3)
Total	536.6

The item “research, development and advertising costs” has decreased due to the depreciation allowance calculated in the financial period and the capitalisation of costs for developing the “new Vocal Microwave” project.

The item “Licences, trademarks and similar rights” mainly refers to the value attributed to trademarks following the allocation of the deficit deriving from the merger of 1995. More specifically, the item refers to the “De’ Longhi” trademark and other registered Group trademarks (including “Pinguino”, “Sfornatutto”, “Friggimeglio, “Stiromeglio”, etc.).

The table below shows the movements occurring in 2000 with regard to the main intangible asset items:

[in millions Lire]	Start-up and expansion costs	Research and develop. costs	Patent rights	Licences, trademarks and similar rights	Consolid. Diff.	Sundry items	Total
Net opening balance	237	992	4,423	192,214	10,658	1,013	209,537
Change in area of consolid.	67	-	2,274	11,417	536,570	729	551,057
Increases	459	254	2,343	-	-	3,409	6,465
Amortisation	(126)	(569)	(2,391)	(12,671)	(1,884)	(1,200)	(18,841)
Translation difference and other mov.	-	21	10	115	-	103	249
Net closing balance	637	698	6,659	191,075	545,344	4,054	748,467

II- Tangible fixed assets

The tangible fixed assets have been assessed as follows:

	31.12.1999		31.12.2000		1999/2000
[in millions Lire]	Gross	Net	Gross	Net	on net values
Land and buildings	194,582	148,965	238,656	176,387	27,422
Plant and machinery	221,090	75,335	367,561	113,743	38,408
Industrial equipment	126,983	32,264	174,543	40,217	7,953
Sundry items	38,746	10,037	42,025	11,302	1,265
Fixed assets and advances	686	686	2,448	2,448	1,762
Total	582,087	267,287	825,233	344,097	76,810

The increase of Lire 76.8 billion mainly derives from the consolidation of the companies acquired at the end of December 2000, which account for approximately Lire 84 billion, from purchases made during the financial period, amounting to about Lire 35 billion, and the Lire 41 billion in depreciation charges calculated for the financial period.

The increases in ‘industrial equipment’, primarily derives from dies and equipment to be used in the manufacturing of new products, and the item ‘plant and machinery’.

This item includes goods acquired through leasing, which may be thus broken down (net of accrued depreciation):

	2000	1999
Buildings	8,035	8,163
Plant and equipments	20,324	4,929
Other goods	279	595
Total	28,638	13,687

The table below shows the movements occurring in 2000 with regard to the main tangible asset items:

[in millions Lire]	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other goods	Fixed asset under construction and advances	Total
Net opening balance	148,965	75,335	32,264	10,037	686	267,287
Change in the area of consolidation	31,873	44,455	5,163	1,584	1,322	84,397
Increases	1,649	10,042	18,970	3,252	897	34,810
Decreases	(488)	-	(556)	(364)	(100)	(1,508)
Depreciation	(5,870)	(16,179)	(15,821)	(3,482)	-	(41,352)
Translation differences and other movements	258	90	197	275	(357)	463
Net closing balance	176,387	113,743	40,217	11,302	2,448	344,097

III- Financial fixed assets

1- Equity investments

	2000	1999
Equity investment in subsidiary companies	2,409	2,409
Equity investment in associated companies	11,629	11,577
Other companies	319	384
Total	14,357	14,370

An itemized list of shareholdings that were not included in the integral consolidation follows:

Investment assets	Book value	Group stake	Valuation criteria	Location	Currency	Share capital
Subsidiary companies:						
Climre S.A.	2,409	100.00	Net equity	Luxemburg	Flux	50,000,000
Associate companies:						
Omas S.r.l.	2,027	40.00	Net equity	S.Vittorio di Gualtieri (RE)	Lit	700,000,000
Effegici S.r.l.	144	25.00	Net equity	Gorgo al Monticano	Lit	470,000,000
Liguria Vita S.p.A.	3,458	30.00	Net equity	Treviso	Lit	12,000,000,000
Interest held through a trust company	6,000		Net equity		Lit	300,000,000
Total associated comp.	11,629					

The subsidiary Climre S.A., which provides limited insurance services on behalf of several Group companies, has been excluded from the integral consolidation since its activities are dissimilar to those in which the Group engages; it has been consolidated using the equity method, likewise used for the other associated companies.

The interest held through a trust company relates to a company that manufactures finished products on behalf of the Parent Company; with respect to said interest, the Group has availed itself of the right, granted by the applicable laws (art. 39 Leg. decree 127/91), to omit the name of the subsidiary in order to avoid causing damage to the latter or Group companies.

2- Receivables

The amount shown primarily refers to credits for prepaid taxes on Employee leaving indemnity and a credit of Lire 5 billion due from a Trust Company, which was transferred on April 9th 2001 to the Parent Company De'Longhi Soparfi at face value.

c-Current assets

I- Inventory

The item “inventory”, shown net of the inventory provision, may be broken down as follows:

	2000	1999
Raw materials	131,009	66,365
Work in progress	41,234	24,224
Finished products	198,296	137,016
Total	370,539	227,605

The increase in inventory is attributable to the consolidation of the acquired companies, which account for about Lire 71 billion, and also reflects the trend in the sale of air-conditioning equipment, negatively influenced by adverse weather conditions. The value of inventory has been adjusted through an inventory provision of Lire 8.2 billion (Lire 11.5 billion for 1999) referring to products and raw materials that are obsolete or turn over slowly and thus considered no longer strategic for the group.

We further note that a valuation of inventory on the basis of current costs would not result in any significant differences.

II- Receivables

The balance may be broken down as follows:

	2000	1999
From customers	615,735	497,337
From subsidiary companies	-	2,059
From associated companies	2,529	1,925
From parent companies	28,413	31
From others	115,129	95,507
Total	761,806	596,859

Receivables due in a period beyond 12 months include Lire 436 million in receivables from customers and Lire 3.7 billion from others.

1- Receivables from customers

Trade receivables are shown net of a Provision for Doubtful Debts, amounting to Lire 11.4 billion, which represents a reasonable estimate of risk, as assessed at the time the financial statements were drawn up, and included an estimate related to the exposure for receivables in litigation.

The changes in the provision for doubtful accounts are summed up in the table below.

	1999	Increases	Decreases	Trans. diff.	2000
Provision for doubt. accounts	23,325	8,607	(20,515)	11	11,428

The increase in receivables from customers mainly derives from the change in the area of consolidation, which accounts for approximately Lire 107 billion. The variation, taking into account an area of consolidation comparable with that of 1999, thus reveals an improvement in terms of payment collection, considering the increase in sales in 2000 compared to 1999.

2- Receivables from subsidiary companies

This item in 1999 includes the amount receivable from the company Italia Distribuidora de Eletrodomesticos Ltda that was sold to third parties at the end of December 2000. Consequently, the residual amount receivable as of 31 December 2000 of Lire 0.7 billion has been reclassified and included in the item “Receivables from others”.

3- Receivables from associated companies

The amount relates to a receivable with the associated company Omas S.r.l.

4- Receivables from parent companies

The breakdown of receivables from parent companies is as follows:

	2000	1999
De’ Longhi Soparfi	28,370	-
De’ Longhi Holding	43	31
Total	28,413	31

The receivables from the parent company De' Longhi Soparfi S.A. are of a financial nature and refer to the transfer of shareholdings by the subsidiary companies Ergoklima S.p.A. and Micromax S.p.A., taking place at the end of December 2000. This amount was wholly collected in 2001.

5- Receivables from others

The item receivables from others comprises:

	2000	1999
Reicevables from the revenue	57,097	35,592
Advances to suppliers	3,443	5,792
Credits for advance taxes	36,279	35,100
Advances to personel	123	263
Others receivables	14,438	18,601
Total receivables from others	111,380	95,348
Collectible after 12 months	3,749	159
Total receivables from others	115,129	95,507

"Receivables from the revenue" includes tax credits totalling Lire 6 billion and V.A.T. credits of Lire 51 billion; the change in comparison with 1999 is mainly attributable to the increased VAT credit, in turn a consequence of the higher export sales reported by some Group companies that were not able to avail themselves of the option of buying non-taxable goods and services to the full extent allowed, as per current laws.

The item "Credits for advance taxes" refers to the sum of advance taxes, which have been calculated on the basis of the temporary differences arising between the book value of assets and their corresponding tax values and also to the advance taxes related to losses that may be claimed for tax purposes.

The overall balance of advance taxes as of December 31st 2000 is the following:

	2000	1999
- temporary differences (taxes funds, etc.)	20,347	25,904
- consolidation adjustments	15,932	9,196
Total	36,279	35,100

"Other receivables" includes receivables from the company "Cogef S.p.A. in liquidation" for a net value of Lire 6.7 billion Lire; on March 30th 2001 this credit was transferred to third parties without recourse at the same book value of Lire 6.7 billion Lire.

The item "Collectible after 12 months" includes guarantee deposits and receivables from the revenue for refundable taxes. The increase compared to the previous financial period is attributable to the registration tax refund receivable by the Parent Company.

III- Short-term financial assets

This item is composed of bonds, government securities and shareholdings purchased for the purpose of utilizing cash surpluses.

IV- Liquid funds

This item refers to surpluses in transaction accounts with lending institutions and includes significant amounts collected from customers at the end of the year.

d-Accrued income and prepayments

This item may be broken down as follows:

	2000	1999
Accrued income:		
Interests receivable on hedging transactions	17,263	1,900
Other financial income	2,049	194
Total	19,312	2,094
Prepayments:		
Advertising and insurance costs	1,217	819
Financial expenses	1,798	-
Other general expenses	1,310	1,424
Total	4,325	2,243
Total accrued income and prepayments	23,637	4,337

The Lire 19.3 billion increase in the item “accrued income and prepaid expenses” is mainly ascribable to the portion of hedging transaction revenues pertaining to the financial period.

Notes to main liability items

a- Shareholders’ equity

The movements of the items making up net equity are illustrated in an attached schedule; below we provide some notes regarding the main items and their variations.

For the purpose of the attribution of the tax credit under art. 105 of President’s decree 917/86, with respect to the Parent company, the total taxes falling in box “A” (article 105, clause 1, letter a) amount to 33.7 billion Lire, whereas those falling in box B (article 105, clause 1, letter b) amount to 80.5 billion Lire.

I- Share capital

The Share Capital is divided into 400,000,000 common shares having a face value of Lire 1,000 each, for a total capital of Lire 400 billion. The shares are registered and indivisible. Each share entitles the holder to one vote at the shareholders’ meeting.

IV- Legal reserve

As of December 31st 1999, this item totalled Lire 1.8 billion. The increase of Lire 2.7 billion corresponds to the amount allocated as profit 1999, on approval of the shareholders at the general meeting of June 29th 2000.

VII – Other reserves

Extraordinary reserve

The extraordinary reserve amounts to Lire 34.2 billion; the increase of Lire 8.1 billion over December 31st 1999 is mainly due to:

- allocation of Lire 52.1 billion of the Parent Company’s profits for the year 1999;
- withdrawal, for accounting purposes, of the substitution tax payable – Lire 44 billion - due to the realignment of the Parent Company’s fiscal values to the book values described in the paragraph relative to fixed assets.

VIII- Retained earnings

This item includes the profits reported by the consolidated companies and the effects of the adjustments made in conformity with accounting and consolidation principles.

X- Net equity of minority interests

The net equity of minority interests amounts to Lire 637 million. The table below itemizes the minority interests held and the corresponding values with regard to net equity and the attributable profit for the year.

Company	% of shares	Net equity	Allocable portion of profits
Ariagel S.p.A.	10%	343	66
E-Services S.r.l.	49%	132	84
La Supercalor S.p.A.	5%	90	8
Sile Corpi Scaldanti S.r.l.	8.30%	153	46
Other minor interests		(81)	-
Total		637	204

A comparison between the net equity and year-end profits of the Parent Company De'Longhi S.p.A. and the consolidated net equity and year-end profits is shown below:

	Net equity 2000	Net equity 1999	Profit for the year 2000	Profit for the year 1999
Statutory financial statements	473,273	482,881	34,467	54,891
Diff. between NE of affiliates and book value of shareholdings, year-end profit of consolidated companies, movements in the area of consolidation and write-off of dividends	(67)	14,968	5,611	601
Elimination of intercompany profits	(56,833)	(41,693)	(21,242)	(9,139)
Elimination of tax-related items	31,474	7,742	15,062	(3,797)
Other adjustments	20,945	21,589	(5,918)	6,569
Consolidated financial statements before minorities	468,792	485,487	27,980	49,125
Minorities	637	661	204	1
Consolidated Financial Statements	469,429	486,148	28,184	49,126

b- Provisions for contingencies and obligations

1- Provisions for agents leaving indemnity and similar obligations

This item includes the supplementary allowance for customers, consisting of amounts set aside against potential risks for the payment of the retirement indemnities that must be paid to agents, subject to the conditions stated in art. 1751 c.c., as applied by the collective Business Agreements in force.

The variations in the fund were as follows:

	1999	Withdr.	Allocat.	Var. in area of consolid.	2000
Agents leaving indemnity	5,341	(822)	866	1,020	6,405

3- Other provisions

This item may be broken down as follows:

	1999	Withdr.	Allocat.	Trans. diff.	Var. in area of consolid.	2000
Product warranty fund	2,259	(565)	634	(5)	62	2,385
Prize contest fund	114	(114)				-
Prov. for exchange rate fluctuation	3	(393)			390	-
Prov. for recovery of third-party property	32	(32)				-
Prov. for returned goods	1,386	(451)	396	(19)		1,312
Prov. for litigation risks	5,000	(2,546)	6,446		1,550	10,450
Other provisions	1,591	(1,746)	820	(213)	848	1,300
Total	10,385	(5,847)	8,296	(237)	2,850	15,447

The product warranty fund has been set aside for some consolidated companies on the basis of a prudential estimate of warranty services to be performed on products sold as of December 31st 2000.

The provision for “litigation risks” is set aside against risks of varying nature that could cause potential liabilities to arise; more specifically, the sums prudentially set aside by the Parent Company include Lire 5 billion against the risk of liabilities that could arise in connection with litigation proceedings taking place in the American market (limited to the insurance deductible to be paid by us). There are also other litigation proceedings under way with third parties and in some cases the amounts claimed are of a considerable entity; it should be noted that, on the basis of different expert opinions, the Group does not deem there to be a reasonable risk of the event occurring and materially influencing its financial position. The amounts prudentially set aside are rather aimed at covering any legal expenses that may be incurred in connection with these litigation proceedings.

The provision for litigation risks also includes amounts prudently set aside by the subsidiary companies Simac-Vetrella S.p.A. and Elba S.p.A. against the risk of liabilities deriving from litigation proceedings under way with the Financial Authorities and with third parties. It is deemed, also on the basis of opinions received, that said proceedings are not likely to result in significant expenses in the future and in any case that the expenses will not exceed the amounts already set aside.

In previous years the Company and a subsidiary company, Elba S.p.A., received ascertainment reports from the Tax authorities and, on the basis of the information currently at our disposal, we have deemed it unnecessary to make any further provisions for tax liabilities.

c- Staff leaving indemnity

The table below summarizes the movements occurring during the year for each category of employees.

	Managers	Office staff	Workers	Total
Opening balance 01.01.00	2,896	7,610	13,796	24,302
Sums allocated	645	2,344	4,112	7,101
Indemnities paid	(339)	(1,275)	(3,398)	(5,012)
Var. in area of consolid.	234	3,154	7,747	11,135
Closing balance 31.12.00	3,436	11,833	22,257	37,526

d- Payables

Below we comment the changes occurring in the individual balance-sheet items.

1- Debentures

The amount disclosed in the financial statements refers to the bond loan listed in the Luxembourg stock exchange, issued by the subsidiary company De' Longhi Pinguino S.A. in April 2000 for a total of Euro 150 million, due to expire in 2003, which accrues interests with an annual coupon of 5.625%. This loan is not secured by guarantees.

In 2000 the bonded loans to the Parent company, totalling Lire 92.7 billion, were paid in full.

2- Bank loans and overdrafts

Payables to banks are broken down as follows:

	Within one year	From one to five	Over five	Balance 31/12/00	Balance 31/12/99
Current accounts	13,471			13,471	27,744
Short-term loans in lire or currency	173,775			173,775	61,060
Loans on bills portfolio	55,792			55,792	47,191
Short-term part of long-term loans	61,266			61,266	8,776
Total short-term payables to banks	304,304			304,304	144,771
Long-term loans		189,098	39,604	228,702	252,336
Total payables to banks	304,304	189,098	39,604	533,006	397,107

A portion of the payables to banks, in the amount of Lire 246 billion, is secured by mortgages on tangible property for an amount of Lire 475 billion.

For a detailed illustration of the changes occurring in the Group's financial position, see the summary schedule provided in the directors' report and the sources-and-uses statement.

4- Other financing payables

Other financing payables, in the amount of Lire 26.4 billion, relates to payments for leasing contracts as calculated using the financial method.

5- Advances

Advances relate to amounts received from customers for supplies and as guarantees.

6- Trade payables

The balance represents the amounts payable to third parties for the supply of goods and services. This item grew by Lire 99.7 billion compared to 1999 mainly as a result of the consolidation of the companies acquired at the end of December 2000.

8- Payables to subsidiary companies

This item relates to the loan disbursed by the subsidiary Clim.Re, which has not been consolidated with the integral method.

9- Payables to associated companies

The item refers to payables to the company Omas S.r.l.

10- Payables to parent companies

This item refers to the residual amount due, without interest, for the previously described acquisition of shareholdings at the end of December 2000.

11- Payables due to tax authorities

This item may be broken down as follows:

	2000	1999
Direct taxes payable	61,482	18,857
Indirect taxes payable	5,406	5,070
Withholding taxes payable	6,539	5,254
Other taxes payable	879	624
Total Taxes Payable	74,306	29,805

The “taxes payable” rose Lire 44.5 billion compared to 1999, again due to the consolidation of the companies acquired at the end of December 2000 as well as the increase in the item “direct taxes payable”. This item includes the amounts due for current taxes net of advances, credits, withholdings and the substitution tax of Lire 44 billion relative to the previously described revaluation of tax values.

12- Social Security payables

This item may be broken down as follows:

	2000	1999
INPS (National Institute of Social Insurance)	7,952	4,939
FASI- INPDAI (Social Security Institute for Industrial Executives)	491	288
ENASARCO (National Board for the Assistance to Commercial Agent and Representatives)	340	338
INAIL (National Board for the Insurance against Industrial Accidents)	264	56
Other Institutions	840	1,737
Total payables to Soc. Sec. Inst.	9,887	7,358

13- Other payables

This item may be broken down as follows:

	2000	1999
To personnel	28,332	18,719
To third parties for acquisition of shares	91,586	0
Others	10,597	3,603
Total other payables	130,515	22,322

“To third parties for acquisition of shares” refers to the residual amount payable, without interest, for the previously described acquisition of a stake in DL Radiators S.p.A. at the end of 2000.

e- Accrued liabilities and deferred income

This item may be broken down as follows:

Accrued liabilities for:	2000	1999
Interests payable to Banks	4,694	1,676
Expenses for int. rate hedging transactions	6,939	561
Interests on Bond loan issues	11,056	-
Other accrued expenses	828	1,078
Total accrued liabilities	23,517	3,315
Total deferred income	4,858	3,180
Total accrued liabilities and deferred income	28,375	6,495

The increase of Lire 21.9 billion compared to 1999 is due to the interests accrued in the year for bond loan issues (Lire 11 billion) and hedging costs relative to transactions in derivatives.

Financial hedging instruments and other derivative contracts

In order to reduce the financial risks deriving from the fluctuations in exchange and interest rates which affect international commercial and financial transactions, the Group availed itself of hedging contracts within the limits defined by typical operating requirements. The nominal values of the derivative transactions (net of any transactions that offset each other) undertaken as of December 31st are as follows:

Derivatives in foreign exchange:

USD	42,000,000
GBP	33,400,000
JPY	3,023,000,000

The instruments utilised include both forward transactions and derivatives.

Derivatives in interest rates

The company uses derivatives as means of hedging against possible losses caused by interest rate fluctuations; their purpose is to fix in advance a maximum cost (in terms of the interbank rate) for part of its financial debts. The current derivatives cover a time span that extends up to the end of 2004; the overall initial nominal value of Euro 207 million will decrease over the years. During this time span, the weighted average rate payable by the company on hedging transactions will range from a minimum of 4.25% to a maximum of 5.9%.
More specifically, of the total Euro 207 million mentioned above, Euro 150 million is to be considered in connection with the issuance of a bond loan on the Euromarket by De' Longhi Pinguino in April 2000.

The current estimation (as of March 31st 2001) of derivative transactions (in foreign exchange and interest rates) shows no potential losses for the Group.

Memorandum accounts

The breakdown and comparison with the previous financial period is shown below.

	2000	1999
Property c/o third parties	2,408	-
Guarantees on behalf of third parties	20,135	128,525
Other commitments	1,711	49,042
Total	24,254	177,567

Guarantees on behalf of third parties

The guarantees have been issued mainly on behalf of third parties that in 1999 also included non-consolidated group companies. The decrease of Lire 108.4 billion compared to1999 is due to:

- The change in the area of consolidation resulting from the acquisition of shareholdings at the end of December 2000.
- The termination of a commitment relative to a guarantee of Lire 40 billion provided to Banco Ambrosiano Veneto following the signing of an agreement with the parent company De'Longhi Soparfi S.A., which undertook all the obligations deriving from said guarantee.

Other commitments

The reduction of Lire 47.3 billion is due to:

- The termination of a Lire 17.6 billion commitment to the company "Cogef S.p.A. in liquidation" as a consequence of an agreement with the parent company De' Longhi Soparfi S.A. which, as of December 28th 2000, undertook all the obligations borne by De' Longhi S.p.A., releasing the latter from any claims that may be set forth relative to the commitments to banking system of "Cogef S.p.A. in liquidation".
- Termination of the commitment to the parent company De' Longhi Soparfi S.A., which amounted to Lire 30 billion as of 31.12.1999, in consequence of the payment in 2000 of a compensation of Lire 18.7 billion, given the occurrence of the conditions provided in the agreement undersigned in 1997 (see comment in Extraordinary expenses for further information).

Notes to the main items comprising the income statement

a- Value of production

1- Net revenues from the sale of goods and services

Net revenues from sales in 2000 rose by Lire 87 billion, i.e. 7.6%, which, if we consider an area of consolidation comparable to that of 1999, amounts to 17%.

The revenue from sales and services may be broken up as follows:

Income by geographical region:

	2000	%	1999	%
Italy	422,000	34.5	441,000	38.8
United States and Canada	199,000	16.3	147,000	12.9
Japan	103,000	8.4	67,000	5.9
Great Britain	98,000	8.0	92,000	8.1
Germany (*)	66,000	5.4	42,000	3.7
Others in Europe	225,000	18.4	205,000	18.0
Rest of the World	93,951	7.7	70,044	6.2
Total	1,206,951		1,064,044	
Germany (**)	16,000	1.3	72,000	6.4
Total	1,222,951	100.0	1,136,044	100.0

Income by product lines:

	2000	%	1999	%
Cooking and food preparation	403,000	33.0	329,000	29.0
Heating (*)	299,000	24.4	228,000	20.1
Air conditioning and climate control	320,000	26.1	298,000	26.2
Home cleaning and ironing	134,000	11.0	133,000	11.7
Others	39,951	3.3	35,044	3.1
Total	1,195,951		1,023,044	
Heating (**)	27.000	2.2	113,000	9.9
Total	1,222,951	100.0	1,136,044	100.0

(*) the sales of De' Longhi Radiators S.r.l. are not considered

(**) amounts relative to the sales of De'Longhi Radiators S.r.l.

5- Other income

The item “other income” comprises:

	2000	1999
Transportation refunds	9,080	9,680
Trade fees	2,210	1,350
Contingent assets	6,063	2,638
Compensation for damage	1,674	472
Capital gains	184	258
Other sundry incomes	7,862	8,133
Total	27,073	22,531

b- Production costs

6- For raw and subsidiary materials and goods

This item may be broken down as follows:

	2000	1999
Purchases of raw materials	96,885	66,411
Purchases of components	324,799	273,322
Purchases of finished products	172,277	162,808
Other sundry purchases	31,672	18,539
Total	625,633	521,080

7- For services

The item “services” comprises the following:

	2000	1999
Advertising	64,127	58,561
Outsourcing	40,170	31,409
Commissions	27,954	29,436
Transport	53,497	42,577
Technical servicing	14,613	9,811
Travel and promotional expenses	20,519	16,137
Insurance expenses	4,148	2,905
Warehouse expenses and contribution	11,271	9,075
Consulting service and other legal and notary fees	11,932	9,986
Utilities	7,829	6,378
Postal and telegraph services	4,206	3,792
Third-party maintenance services	5,419	5,261
Other sundry services	36,127	26,405
Total	301,812	251,733

The item other sundry services includes the gross fees paid in 2000 to the Directors and Auditors of the Parent Company, amounting to Lire 0.7 billion and Lire 0.2 billion respectively.

9- Personnel costs

The breakdown by categories of employees is shown in the table below (Group workforce as of 31/12/00 and average in 2000):

	31/12/00	Average 2000	31/12/99	Average 1999
Workers	2,747	2,754	1,745	1,716
Office staff	1,057	1,058	817	821
Managers	56	55	33	35
Total	3,860	3,867	2,595	2,572

The 2000 data include employees of the companies acquired at the end of December 2000. Considering an area of consolidation comparable to that of 1999, the workforce increased by 250 employees.

10- Amortisation, depreciation and write-downs

Amortisation and depreciation amounted to Lire 60.2 billion (Lire 61.8 billion in 1999).

The write-downs of receivables entered as operating capital, amounting to Lire 6.9 billion, are ascribable to the sums prudentially set aside as provision for doubtful debts, previously commented in the paragraph on receivables from customers.

12/13- Provisions for risks/other provisions

The items mainly comprise the amounts allocated as provision against litigation risks, to the product warranty fund, the supplementary allowance for customer indemnity, previously commented in the section "Other provisions".

14- Sundry operating expenses

This item may be broken down as follows:

	2000	1999
Contingent liabilities	1,635	1,371
Sundry taxes and duties	2,433	2,544
Losses on credits	314	4,380
Other sundry expenses	4,161	7,301
Total	8,543	15,596

c- Financial income and expenses

15-Income from equity investments

This item may be broken down as follows:

	2000	1999
Dividends from other shareholdings	90	92
Other income	8,391	743
Total income from equity investments	8,481	835

The item "Other income" mainly regards the tax credit for dividends paid in 2000 by De'Longhi Radiators S.r.l. and the capital gains realized through the sale of certain shareholdings.

16- Other financial income

	2000	1999
a) from other receivables entered as fixed assets	19	-
c) from securities entered as current assets that		
do not represent long-term investments	3,097	2,812
d) other income:		
- from subsidiary companies	68	252
- from parent companies	401	2,271
- others	54,731	25,720
Totale other financial income	58,316	31,055

The income deriving from securities recorded as operating capital, amounting to Lire 3.1 billion, consists of Lire 1.4 billion in capital gains realized through the sale of securities, Lire 1.1 billion from interests on debentures and Lire 0.6 billion from interests on government securities.

The other income, amounting to Lire 54.7 billion, may be broken down as follows:

	2000	1999
Exch. rate gains and transactions in derivatives (*)	46,242	23,432
Bank interests receivable	8,059	701
Other income	430	1,587
Total	54,731	25,720

17-Interests and other financial expenses

	2000	1999
a) from subsidiary companies	(409)	(115)
c) from parent companies	(6,641)	(13,042)
d) others	(90,529)	(46,281)
Total interests and financial expenses	(97,579)	(59,438)

“Other interests and financial expenses”, amounting to Lire 90.5 billion may be broken down as follows:

	2000	1999
Interests payable to banks	4,417	8,406
Medium/long term interests payable	23,341	11,718
Interests payable to other finance providers	1,178	1,477
Interests payable on P.O.	11,056	477
Bank charges	2,283	1,584
Total	42,275	23,662
Exch. rate losses and expenses for		
derivative transactions (*)	38,695	13,912
Interests payable for leasing, financial method	1,244	666
Factor commissions	2,726	4,544
Other financial expenses	5,589	3,351
Sundry expenses	-	146
Total	9,559	8,707
Total sundry interests and financial expenses	90,529	46,281

(*) The items exchange rate profits/losses and income/expenses from/for derivative transactions account respectively for the profits/losses on commercial and financial transactions and on hedging transactions for offsetting possible exchange and interest rate losses.
The net expenses/income resulting from the management of exchange rate/derivative transactions amount to Lire 7.5 billion in 2000 and Lire 9.5 billion in 1999.

e- Extraordinary income and expenses

20 - Extraordinary income

This item may be broken down as follows:

	2000	1999
Capital gains on transfers	294	225
Other income	3,319	342
Total	3,613	567

The item 'Other income' mainly comprises the extraordinary income deriving from the refund of the registration tax paid for the deed of merger of 20th December 1995, amounting to Lire 2.3 billion, pursuant to the judgment of 1st instance of the Revenue Commission, issued on 19th June 2000.

21 - Extraordinary expenses

This item may be broken down as follows:

	2000	1999
Write-down of inventories	-	3,650
Subsidiary restructuring costs	-	2,215
Extraordinary expenses	23,548	1,742
Total	23,548	7,607

The item "extraordinary expenses" mainly regards:

- a compensation of Lire 18.7 billion accorded to the company De' Longhi Soparfi Sa in consequence of agreements undersigned in 1997 at the time De'Longhi Soparfi Sa purchased a majority stake in Liguria Assicurazioni Spa; the contract provided for the negotiation of a compensation to De'Longhi Soparfi subject to certain conditions, which came to be in 2000.
- the amount paid for settling, through a deed of consent, the litigation with the Revenue Department of Treviso, pertaining to the 1994 financial period.

22- Taxes on income for the year

The item comprises:

	2000	1999
Current taxes	29,554	15,807
Deferred (advance) taxes	11,889	2,109
Total	41,443	17,916

Subsequent events

For any information not provided below, you may refer to the report of the Board of Directors.

On behalf of the Board of Directors

The Managing Director

Annexes to explanatory notes

List of the companies included in the area of consolidation

Company name	Registered office		Share capital	Controlling interest
Ariagel S.p.A.	Candiolo (TO)	Lit	1,500,000,000	80%
La Supercalor S.p.A.	Seregno (MI)	Lit	1,000,000,000	95%
Simac-Vetrella S.p.A. (****)	Cazzago di Pianiga (VE)	Lit	3,000,000,000	100%
Effeplast S.r.l. (****)	Gorgo al Mont. (TV)	Lit	700,000,000	100%
De' Longhi Pinguino S.A.	Luxembourg (L)	EUR	26,500,000	100%
DL Radiators S.p.A. (*)	Treviso	EUR	6,000,000	100%
De' Longhi America Inc.	Saddle Brook (U.S.A.)	$U	9,100,000	100%
De' Longhi Ltd.	Wellingborough (G.B.)	GBP	4,000,000	100%
De' Longhi France Sarl	Asnieres Cedex(F)	Ff	18,000,000	100%
De' Longhi Nederland B.V.	DB Leiden (NL)	Hfl	500,000	100%
De' Longhi Canada Inc.	Mississauga (CAN)	$C	1	100%
E- Services S.r.l.	Treviso	EUR	50,000	51%
De' Longhi Japan Corp.	Tokyo (JAP)	Jpy	50,000,000	100%
De' Longhi Deutschland GmbH	Mainhausen (D)t	DM	4,000,000	100%
Radel S.p.A. (*)	Moimacco (UD)	Lit.	10,000,000,000	98%
DL Clima Polska Sp. Zo.o.	Varsavia (P)	PLZ	4,000	100%
Company controlled by a trust Company (***)		DM	50,000	100%
DL Div. Cucine S.p.A. (*)	Treviso	Lit.	29,706,000,000	99%
Elba S.p.A. (*)	Treviso	Lit.	900,000,000	100%
Sile Corpi Scaldanti S.r.l.	Fossalta di Piave (VE)	Lit.	180,000,000	92%
Climaveneta S.p.A. (*)	Bassano G. (VI)	Lit.	3,110,000,000	90%
Ergoklima S.p.A. (*)	Pieve d'Alpago (BL)	EUR	520,000	100%
Climaveneta GmbH (*)	Norderstedt (D)	DM	600,000	70%
De' Longhi Radiators S.r.l. (**)	Treviso	EUR	1,032,000	
Micromax S.p.A. (*)	Pieve d'Alpago (BL)	EUR	969,000	100%

(*) Companies acquired by De'Longhi Pinguino S.A. on 28 December 2000, included in the integral consolidation only as regards the balance sheet.

(**) Company sold on December 2000 and included in the integral consolidation only as regards the profit and loss.

(***) The interest held through a trust company regards a trading company that engages in the marketing of "heating" products in Germany; with respect to said interest, the Group has availed itself of the right, granted by the applicable laws (art. 39 Leg. Decree 127/91), to omit the name of the subsidiary in order to avoid causing damage to the latter or Group companies.

(****) On January 2001 the merger by incorporation of Simac-Vetrella S.p.A. in Effeplast S.p.A. has been completed, with change of the Company name in Simac Vetrella S.p.A.

in millions Lire

Consolidated statements of cash flows for years ended December 31, 2000 and 1999

	2000	1999
Cash flows provided (used) by operating activities		
Net income (loss) for the year	27,980	49,125
Depreciation - Amortisation	60,193	61,803
Staff and agents leaving indemnity	(1,675)	314
Write off of investments (net of gain)	-	535
(Increase) decrease in deferred taxes provision	1,179	1,598
Other non-cash charges	5,062	(3,686)
Total	92,739	109,689
Changes in Working Capital:		
Trade receivables	(11,223)	(16,339)
Net inventory	(71,464)	16,120
Trade payables	6,797	25,167
Other payables, receivables, accrued liabilities and deferred income	4,927	(4,905)
Receivables and payables with subsidiaries, associated companies and parents	27,548	(14,268)
Total	(43,415)	5,775
Cash flows used in investing activities		
Fixed assets additions	(32,450)	(26,767)
Sale (purchase) of investments	(29)	213
Increase in intangible assets	(6,714)	(1,473)
Other receivables	18,476	5,087
Total	(20,717)	(22,940)
Cash flows provided (used) by changes in shareholders' equity		
Increase in share capital		100,000
Total		100,000
Increase (decrease) in foreign exchange reserve	(601)	836
Net change in the area of consolidation (*)	(707,721)	-
Change in net financial position	(679,715)	193,360
Net financial position at the beginning of the financial year	(513,086)	(706,446)
Net financial position at the end of the financial year	(1,192,801)	(513,086)
Change in extraordinary reserve		
for substitution tax compensation	(44,077)	
Change in other payables for substitution tax	44,077	

(*) The amount includes:
i) The net equity effect of the acquisiton (Lire 53.8 billion),
ii) Consolidation differences for Lire 536.6 billion,
iii) Financial indebtness of the companies acquired (Lire 117.3 billion).

Summary of consolidated net financial position for the year ended December 31, 2000 and 1999

	2000	1999
Liquid funds	128,976	141,385
Short-term bank loans and overdrafts	(243,038)	(135,994)
Short term investments and securities	2,004	4,430
Financing payables (within 1 year)	(61,266)	(8,777)
Short term net financial position	(173,324)	1,044
Financing payables (more than 1 year)	(228,703)	(252,336)
Debenture loans	(290,440)	(92,711)
Total (partial)	(692,467)	(344,003)
Financing receivables (net of payables) due from subsidiaries and parent companies	28,412	8,031
Financing receivables due from others	5,000	-
Other financing payables	(26,437)	(23,572)
Financing payables for equity investments	(504,605)	-
Financing payables due to subsidiaries and parent companies	(2,704)	(153,542)
Total net financial position	(1,192,801)	(513,086)

Note: The comparison with the figures in 1999 may not be consistent, as a result of the acquisition made at the end of December 2000 and the consequent change of the area of consolidation previously described in the notes to the consolidation financial statement.

in millions Lire

Statement of changes in consolidated shareholders' equity

	Share capital	Legal reserve	Other reserves	Difference in exchange reserve	Retained earnings	Net income (loss)	Total
Balance at 1 January 2000	400,000	1,820	26,169	670	7,703	49,125	485,487
Appropriation of result for 1999		2,745	52,146		(5,766)	(49,125)	-
Withdrawal, for accounting purposes,							
of the substitution tax payable due to							
the realignment of the fiscal values							
to the book values			(44,074)				(44,074)
Currency translation differences				(601)			(601)
Net income (loss)						27,980	27,980
Balance at 31 December 2000	400,000	4,565	34,241	69	1,937	27,980	468,792

Schedule of revalued assets

Balance sheet item	Revalued assets			Total revaluation
	1995 merger deficit allocation	Law n.413/1991	Other revaluation	
Operational real estate	85,000	11,736	35,473	132,209
Plant and machinery	73,847	6	28,585	102,438
Industrial and commercial equip.		106	6,867	6,973
Vehicles		4	540	544
Trademarks and rights	231,100			231,100
Totals	389,947	11,852	71,465	473,264

ASSETS	31.12.00		31.12.99		Δ
	Partial	Total	Partial	Total	Total
A Receivables from shareholders		-		12,911	(12,911)
B Assets					
Intangible fixed assets					
Start-up expenses		329		122	207
Research, development and advertising		360		512	(152)
Industrial and other patent rights		3,439		2,284	1,155
Concessions, licenses, trademarks and similar rights		98,682		99,270	(588)
Goodwill		281,647		5,505	276,142
Others		2,094		523	1,571
Total intangible fixed assets		386,551		108,216	278,335
Tangible fixed assets					
Land and buildings		91,096		76,934	14,162
Plant and machinery		58,743		38,907	19,836
Industrial and commercial equipment		20,770		16,663	4,107
Other assets		5,837		5,184	653
Assets under construction and advances to suppliers		1,264		354	910
Total tangible fixed assets		177,710		138,042	39,668
Financial assets					
Equity investments in:					
subsidiaries	1,244		1,244		
associated companies	6,006		5,979		
other companies	165	7,415	198	7,421	(6)
Accounts receivable due from:					
parents					
more than 1 year	-	-	4,132	4,132	(4,132)
other companies					
within 1 year	963		105		
more than 1 year	3,313	4,276	10,859	10,964	(6,688)
Total		4,276		15,096	(10,820)
Other securities		22		-	22
Total financial assets		11,713		22,517	(10,804)
Total fixed assets		575,974		268,775	307,199
C Current assets					
Inventory					
Raw materials and consumables		67,661		34,275	33,386
Work in progress		21,296		12,511	8,785
Finished goods		102,411		70,763	31,648
Total inventory		191,368		117,549	73,819
Receivables					
From customers:					
within 1 year	317,775		256,796		
more than 1 year	225	318,000	57	256,853	61,147
From subsidiaries		0		1,063	(1,063)
From associated companies		1,306		994	312
From parent companies		14,674		16	14,658
Other receivables					
within 1 year	57,523		49,243		
more than 1 year	1,936	59,459	82	49,325	10,134
Total receivables		393,439		308,251	85,188
Short term financial assets					
Equity investments		906		905	1
Other securities		129		1,383	(1,254)
Total short term financial assets		1,035		2,288	(1,253)
Liquid funds					
Cash in bank		65,679		72,844	(7,165)
Cheques		680		5	675
Cash in hand		252		171	81
Total liquid funds		66,611		73,020	(6,409)
Total current assets		652,453		501,108	151,345
D Total prepayments and accrued income		12,207		2,240	9,967
Total assets		1,240,634		785,034	455,600

in thousands Euro

LIABILITIES	31.12.00		31.12.99		Δ
	Partial	Total	Partial	Total	Total
A Shareholders' equity					
Share capital		206,583		206,583	-
Additional paid-in capital		-		-	-
Revaluation reserve		-		-	-
Legal reserve		2,358		940	1,418
Reserve for treasury stock on hand		-		-	-
Statutory reserve		-		-	-
Other reserve					
Foreign exchange reserve	36		346		
Other reserves	17,684	17,720	13,515	13,861	3,859
Retained earnings		1,000		3,978	(2,978)
Net income (loss) for the year		14,450		25,371	(10,921)
Total group shareholders' equity		242,111		250,733	(8,622)
Shareholders' equity - minority interest		224		341	(117)
Net income (loss) - minority interest		105		1	104
Total shareholders equity		242,439		251,075	(8,636)
B Provision for contingencies and obligations					
Provisions for agents leaving indemnity and similar obligations		3,308		2,758	550
Other provisions		7,978		5,363	2,615
Total		11,286		8,121	3,165
C Staff leaving indemnity		19,380		12,551	6,829
D Payables					
Debentures					
more than 1 year		150,000		47,881	102,119
Bank loans and overdrafts					
within 1 year	157,160		74,768		
more than 1 year	118,115	275,275	130,321	205,089	70,186
Other financing payables		13,654		12,174	1,480
Advances		2,816		1,313	1,503
Trade payables		184,796		133,314	51,482
Notes payable		38		-	38
Payables due to subsidiaries		1,396		1,336	60
Payables due to associated companies		707		143	564
Payables due to parent companies					
within 1 year	213,307		77,446		
more than 1 year	-	213,307	516	77,962	135,345
Payables due to tax authorities					
within 1 year	23,201		15,393		
more than 1 year	15,175	38,376	-	15,393	22,983
Social security payables		5,106		3,800	1,306
Other payables					
within 1 year	67,372		11,528		
more than 1 year	33	67,405	-	11,528	55,877
Total payables		952,876		509,933	442,943
E Total accrued liabilities and deferred income		14,653		3,354	11,299
Total liabilities		998,195		533,959	464,236
Total liabilities and shareholders' equity		1,240,634		785,034	455,600
Memorandum accounts		12,526		91,706	(79,180)

in thousands Euro

INCOME STATEMENT	31.12.00		31.12.99		Δ
	Partial	Total	Partial	Total	Total
A Income					
Net revenues from the sale of goods and services		631,600		586,717	44,883
Changes in work in progress and					
finished goods (inventory)		25,954		(10,747)	36,701
Increases in fixed assets for internal work		2,033		1,212	821
Other income		13,982		11,636	2,346
Value of production		673,570		588,818	84,752
B Expenses					
Raw and subsidiary material and goods		323,112		269,115	53,997
Services		155,873		130,009	25,864
Leases		7,355		6,138	1,217
Personnel costs:					
salaries and wages	65,434		59,519		
social security costs	18,846		17,632		
severance payments	3,667		3,173		
social benefits	1,020		1,120		
other costs	721	89,688	552	81,996	7,692
Amortisation, depreciation and writedowns:					
amortisation of intangible fixed assets	9,731		9,655		
depreciation of tangible fixed assets	21,357		22,263		
other writedowns of fixed assets	0		18		
writedowns of trade receivables	3,547	34,635	4,292	36,228	(1,593)
Changes in stock of raw materials and					
consumables		(8,360)		1,238	(9,598)
Provision for risks		4,039		3,181	858
Other provisions		693		129	564
Sundry operating expenses		4,412		8,055	(3,643)
Total production costs (expenses)		611,447		536,089	75,358
Difference between revenues and expenses (A - B)		62,123		52,729	9,394
C Financial income and expenses					
Income from equity investments:					
dividends	-		48		
others	4,380	4,380	384	432	3,948
Other financial income:					
from other receivables entered as fixed assets	10		-		
from securities entered as current assets	1,599		1,452		
other income:					
from subsidiaries	35		130		
from parents	207		1,173		
others	28,267	30,118	13,283	16,038	14,080
Interest and other financial expenses:					
from subsidiaries	(211)		(59)		
from parents	(3,430)		(6,736)		
others	(46,754)	(50,395)	(23,902)	(30,697)	(19,698)
Total financial income and expenses		(15,897)		(14,227)	(1,670)
D Adjustment to financial assets					
Revaluations of equity investments		27		-	27
Writedowns of equity investments		(1)		(241)	240
Total adjustments to financial assets		26		(241)	267
E Extraordinary income and expenses					
Income:					
gains on fixed asset disposal	152		116		
other	1,714	1,866	177	293	1,573
Expenses:					
other	(12,161)	(12,161)	(3,929)	(3,929)	(8,232)
Total extraordinary income and expenses		(10,294)		(3,636)	(6,658)
Net income (loss) before income tax		35,958		34,625	1,333
Income taxes		(21,403)		(9,253)	(12,150)
Net income (loss) before minority interest		14,555		25,372	(10,817)
Net (income) loss attributable to minority interest		(105)		(1)	(104)
Net income (loss) for the year		14,450		25,371	(10,921)

Report of the Board of Statutory Auditors

Dear Sirs,

We examined the draft consolidated balance sheet of the year ended 31st December 2000 of the De'Longhi Group, drawn up and approved by Directors today. It can be summarised as follows (amounts in thousands Lire):

Assets	1,856,861
Goodwill	545,344
Total assets	2,402,205
Liabilities	1,932,776
Shareholders' equity and reserves	440,812
Net income (loss) for the year	27,980
Shareholders' equity and reserves–minority interest	433
Net income (loss) for the year-minority interest	204
Total liabilities	2,402,205

Memorandum accounts amount at Lire 24,254 million.

The consolidated income statement, which represents the corporate management as from January 1st, 2000 to December 31st, 2001, can be summarised as follows *(amounts in thousands Lire)*:

Value of production	1,304,215
Production costs	(1,183,923)
Difference	120,292
Financial income and expenses	(30,782)
Adjustments to financial assets	52
Extraordinary income and expenses	(19,935)
Net income (loss) before income tax	69,627
Income taxes	(41,443)
Consolidated net income (loss) for the year	27,980
Net income (loss) attributable to minority interest	204

On the same date, after the following audits, we drew up the present report, in our area of expertise, renouncing the terms provided by article 2429 (1) of Italian Civil Code.

In particular, the consolidated financial statements have been drawn up in accordance with the standards set forth by Lg. Decree n. 127/91.

Explanatory notes to consolidated financial statements detail the above mentioned items and their amendments introduced with reference to the previous year.

Please note that the consolidated financial statements show an income of Lire 27,980 million, with a decrease of Lire 21,145 million with respect to the previous year, mainly due to an increase of extraordinary expenses.

Our analysis has been executed in accordance with professional demeanour principles set forth by the Consiglio Nazionale dei Dottori Commercialisti (National Board of Professional Accountants), and we referred to the laws regarding consolidated financial statements, as interpreted and integrated by the accounting principles of Consiglio Nazionale dei Dottori Commercialisti e dei Ragionieri (National Board of Professional Accountants) and, where necessary, those set by the International Accounting Standards Committee (IASC).

Our analysis has been finalised to audit the regularity of the consolidated financial statements, and their conformity with the controlling company's accounting records and information sent by any controlled company, which has been included in the area of consolidation.

The report of Directors describes any event that has occurred to the Group, and the sector in which it operates. We verified the consistency of its information with reference to the consolidated financial statements' results.

Moreover, we examined any report of Directors and Board of Statutory Auditors of controlled companies included in the area of consolidation, table of elimination of the carrying value of investments and analysis of the consolidation difference.

Please be informed that, on the basis of our audit, we make no remarks; as a consequence, the Group consolidated financial statements at December 31st, 2000 correspond to the holding Company's accounting records and information transmitted by the companies included in the area of consolidation.

Treviso, April 10th 2001

Statutory Auditors
Carlo Garavaglia
Giuliano Saccardi
Giancarlo Malerba

Auditors' report

PRICEWATERHOUSECOOPERS

CONSOLIDATED FINANCIAL STATEMENTS AT 31 DECEMBER 2000
AUDITORS' REPORT

To the shareholders of
De' Longhi SpA

1 We have audited the consolidated financial statements of De' Longhi SpA and subsidiaries (De' Longhi Group) as of 31 December 2000. These financial statements are the responsibility of De' Longhi SpA'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 the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion. The financial statements of some subsidiaries have been examined by other auditors who have provided us with their audit opinions. Our opinion, expressed in this report, is also based on the audits performed by these other auditors with regard to approximately 7 per cent of total consolidated assets and approximately 21 per cent of consolidated revenues.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to our report issued on June 26, 2000.

3 In our opinion, the consolidated financial statements of De' Longhi SpA as of 31 December 2000 comply with the laws governing the criteria for their preparation; accordingly, they give a true and fair view of the financial position and of the results of operations of the Company.

Treviso, 11 April 2001

PricewaterhouseCoopers SpA

S/ Roberto Adami
(Partner)

"This report has been translated from the original which was issued in accordance with Italian legislation. The financial statements referred to in the above report have not been translated"