



Consolidated Financial Statements
as at
31st December, 2001

De'Longhi S.p.A. – Corporate headquartes: Via L. Seitz, 47 – 31100 Treviso – Italy
Share capital: Eur 448.500.000,00
Listed in the Register of Companies: Court of Treviso at n. 41279
Listed in the R.E.A. of Treviso at n. 224758
Taxpayer's Code 11570840154 – VAT n. 03162730265

Report of the Board of Directors

2001 was an extraordinary year for De' Longhi.

The Group's internal growth, acquisition of Kenwood and listing in the Stock Exchange enabled it to radically strengthen its competitive standing and step forward into a leading role within the world market.

Group Profile

De' Longhi can boast a position of *leadership* in market segments that share a concept of comfort and well-being and embrace products ranging from heating, air-conditioning and air treatment systems to cooking and food preparation and home cleaning and ironing systems.

The acquisition of Kenwood, an international specialist in the sector of appliances for food preparation, likewise active in the sector of cleaning and ironing systems through its subsidiary Ariete, served not only to complete the range of products offered but also further accentuated the Group's international vocation. Exports account for over 73% of sales revenues and the stability and effectiveness of operations abroad is mainly left up to completely controlled commercial organisations that are fully in tune with the values and competence characterising the Group's culture.

The two strong international brands (De' Longhi and Kenwood), which fall within the medium to high price range, are backed by various European or local brands (Simac, Vetrella, Supercalor, Ariagel, Radel, Elba, Superclima Climaveneta and Ariete), each bearing its own distinctive connotation in terms of image and market positioning.

The Group acts as a multi-specialist, thanks to its capacity to offer the market products with innovative technological features and a high-quality *design* and, in some cases, to anticipate and stimulate the latent needs of consumers, always with the support of vigorous communication initiatives.

De' Longhi relies on a broad industrial capacity and solid manufacturing *know-how*. It has 13 factories (including one located in China, among the three recently acquired together with the Kenwood Group), where, in particular, the initial processes take place, such as sheet metal forming and plastic injection moulding, critical in order to develop and realise products with distinctive quality, technology and design at a fast rate.

However, the Group increasingly relies on outsourcing in order to increase flexibility and the range of available alternatives.

A great deal of attention is focused on innovation, seen as the determinant factor for the success of its products; this is manifested through an R&D staff of over 230 people.

Thanks to the resources and skills available to it, De' Longhi has succeeded in achieving strong growth, both internally and through takeovers.

Significant events

We intend to continue cultivating and reinforcing these values to ensure that shareholders will receive adequate returns on their investment.

In the early months of 2001, De' Longhi S.p.A., through one of its subsidiary companies, acquired a 100% stake of Kenwood Appliances Plc. following a public purchase offer; this English company heads a group that operates in the sector of appliances for food preparation, household cleaning and ironing. The takeover bid was announced on 16 February 2001 and completed on 24 May 2001, the date marking the closure of the procedure for the purchase of shares not included in the public offer.

The purchase price of the entire stake, including accessory expenses, amounted to 76.4 million Euros.

The acquisition of Kenwood has enabled the Group to improve its strategic positioning in the segment of appliances for cooking/food preparation, where it now stands as *leader* in Europe.

The quality of the brand acquired, the strong complementarity between products and distribution, the considerable synergies from a purchasing standpoint and the possibility of having a factory in China, only partly used, have enabled us to implement a plan of action that has already yielded some important results.

Less than a year after the aforesaid takeover, the balance is largely positive; revenues from sales are up 13.2% compared to the previous year, the synergies forecast at the time of the takeover have been achieved, though only partly reflected in the results reported in the 2001 income statement.

Our efforts have also enabled us to discover further synergies, consisting in particular of better purchasing conditions that will benefit future operations.

The Group's organisational model was revised in order to ensure an orientation toward safeguarding and enhancing the distinctive qualities of the *Brands* on the one hand, while maximising the potential synergies within the Group at the same time. To this end, the necessary steps were taken to upgrade the Chinese factory to adequate levels of efficiency and an organisational unit has been set up in China for the purpose of providing all Group *Brands* with the best conditions for managing the purchase of finished products.

At the same time, in countries where pre-existing branch divisions were merged (France and Germany), the respective sales forces remained unchanged.

In the month of July, after months of intense preparation, the Italian Stock Exchange admitted the ordinary shares of De' Longhi S.p.A. to a listing on the stock market. Trading started on 24 July 2001. The operation consisted in a public offering of 37,500,000 ordinary shares in De' Longhi S.p.A. at the value of 3.4 Euros each; 11,055,000 shares were made available to the public at large in Italy and 26,445,000 shares were privately placed with professional investors in Italy and institutional investors abroad, for a total counter-value of 127.5 million Euros. As of the public offering, the share capital of De' Longhi consists of 149,500,000 shares worth a total of 448.5 million Euros.

The listing took place at an especially difficult time for the stock market; in the first months of trading share prices showed a downward trend, which was however in line with general market trends. But over time the market has gradually rewarded the quality of the work achieved by the Group and the credibility of its plans.

The initial share trading price was exceeded in the month of December and the growth trend has continued in a positive fashion, with values and liquidity constantly on the rise up to the present date.

The trading price has increased by 31.5% up to today, considering a closing price of 4.47 Euros as at 25/03/2002.

Evolution of the Group

After compacting the industrial activities connected to the De' Longhi family, taken over by De' Longhi S.p.A in December 2000, and acquiring Kenwood, the Group has succeeded in consolidating a range of activities which, given their complementary nature, the resulting internal synergies and the prospects offered by the markets they are concentrated in, represent a basis for further, sustained growth.

2001 was the first year of consolidated operations for the companies acquired at the end of December 2000, which are specialised in the sectors of "*free standing*" cookers, heating units and large climate control and heating/cooling machines. These companies had a turnover of 220.5 million Euros in 2001, an improvement compared to 2000.

By virtue of said acquisitions, the area of consolidation has undergone significant change in the last two years; in the 2000 financial statements, the companies acquired on 28 December 2000 were consolidated with the integral method only insofar as their assets and liabilities were concerned; The 2001 consolidated financial statements include the aforesaid acquisitions and the Kenwood Group, which were integrally consolidated (Kenwood operating results were considered only for 10 months since De' Longhi acquired control at the end of February 2001).

To allow a fair comparison of balance-sheet and profit and loss data, based on a consistent area of consolidation, a pro forma reclassified balance sheet and income statement have been prepared for the year 2000; the pro forma statements are shown below.

Principal results

In 2001, the De' Longhi Group earned revenues of 1,197.9 million Euros. Revenues grew by 552.3 Euros compared to 2000, equivalent to an increase of 85.6%. Considering pro forma data calculated on the basis of a comparable area of consolidation, the growth in revenues amounts to 127.7 million Euros, +11.9% compared to the previous year.

EBITDA (earnings before interests, taxes, depreciation and amortisation) rose from 93.2 million Euros to 164.1 million Euros. If we consider a comparable area of consolidation, EBITDA in 2000 amounted to 142.4 million Euros (with a ratio to sales rising from 13.3% to 13.7%) and the increase to 21.8 million Euros (+15.3% compared to 2000).

EBIT increased from 62.1 million Euros in 2000 to 94.4 Euros in 2001, up 51.9%; If we consider a comparable area of consolidation, the ratio to sales rises from 6.6% to 7.9%, with an increase of 23.4 million Euros (+33%). EBIT includes depreciation and amortisation of 69.7 million Euros (versus 71.4 million Euros in the pro forma data for 2000), including amortisation of the consolidation difference (17.9 million Euros) and of other intangible assets (13.4 million Euros).

Net profits increased by 82.2%, from 14.4 million Euros in 2000 to 26.3 million Euros; considering a comparable area of consolidation, the increase amounts to 17.1 million Euros (+185.7%).

Market scenario

In 2001 world GDP grew at a much slower rate than in 2000 - approximately +1.6% - despite the significant contribution of Far East countries, especially China and the Indian subcontinent.

In 2001 the economy within the EURO zone slowed down considerably; the manufacturing sector was penalised by the repercussions of the worldwide decline in demand; Internal demand within the EURO zone suffered a further setback due to the effects of inflation, which exceeded forecasts, as well as the consequences arising in the aftermath of September 11th.

The sharpest downturn occurred in Germany, where average yearly growth of the GDP stood at 0.6%, versus 3% in 2000. Italy and France reported growth rates of only 1.8% and 2.1% respectively.

The slowdown in growth and falling crude oil prices contributed to bring average inflation within the Euro zone down to 3%. Consequently, at the end of the year the monetary authorities lowered interest rates from 4.75%, where they stood in April 2001, to 3.25%.

The British economy likewise saw a downturn in GDP (which grew only 1.1%) and domestic consumption, after enjoying an uptrend in growth which had culminated in 2000.

The slowdown in the expansion of the North American economy was accentuated as a result of the terrorist attacks of September 2001 (GDP grew at a rate of 0.9%). This period was also characterised by a sharp fall in domestic demand and an increase in inflation.

The Japanese economy remains caught in a recession, with decreases both in GDP (0.9%) and consumption (0.4%).

The unpropitious scenario described above had only a partial impact on the market segments we are interested in.

As regards the market for small appliances for cooking and food preparation, we witnessed a variety of phenomena, which need to be interpreted segment by segment. In Italy, there was a general growth of about 3%, the sector being buoyed by personal care products and several cooking segments. On a European level, the UK market showed considerable growth - fairly generalised - whereas the data for other countries are difficult to interpret due to the anomalous situation created with the winding up of the Moulinex Group. The disappearance of this player, whose shares of the market were only partly taken over by the buyer, SEB, caused a contraction in the market in general in the latter part of the year, though this was accompanied by an increase in the market shares of other *brands*.

As far as the North American market is concerned, though overall growth was modest, the uptrend in *high end* products continued, and a good part of our range falls into this category.

Based on the data in our possession, we can affirm that the major markets for portable heating appliances enjoyed generalised growth while heating fixtures suffered a definite contraction.

Within the air treatment sector, the market for portable products - more greatly influenced by seasonal factors - underwent a decline due to a particularly cold summer in the northern hemisphere.

Business segments

All the segments the Group operates in showed a positive trend. The table below illustrates the trend in consolidated sales revenues for each segment in the years 2000 (pro forma data) and 2001.

DE' LONGHI GROUP	2001 consolidated	2000 consolidated pro forma	Change 01-00	Change % 01-00
	(mill. Euros)	(mill. Euros)	(mill. Euros)	%
Heating	246.2	212.2	34.0	16%
Air conditioning and air treatment	256.5	243.8	12.7	5.2%
Cooking and food preparation	503.2	450.9	52.3	11.6%
Home cleaning and ironing	144.5	119.2	25.3	21.2%
Others	47.5	44.1	3.4	7.7%
Total	1,197.9	1,070.2	127.7	11.9%

Heaters

Sales in the heating segment reached 246.2 million Euros in 2001, with an increase of 34 million Euros (+16%) compared to 2000.

Growth was especially strong in the fourth quarter (+16.6% compared to the same period in 2000), especially in the sector of oil heating products.

Our strong focus on product innovation, as shown through the expansion of the new "ECC" range of portable heaters, and the launching of a new "baseboard" convector, helped sustain growth in this business segment, particularly in the North American, English and Japanese markets.

On the other hand, sales in heating fixtures grew at a slower rate due to a general market downturn, above all in France, Germany and Poland.

The outlook for the current year is encouraging, however, since we have defined a commercial agreement with a major French group and reinforced our trade relations in Germany; moreover, there is a rise in the European demand for decorative and bathroom radiators, products the Group is orienting its efforts toward.

Air conditioning and air treatment systems

Sales in the air conditioning and air treatment segment reached 256.5 million Euros, up 5.2% compared to the previous year.

With regard to portable air conditioners - a sector in which De' Longhi is world leader - the unfavourable summer weather conditions negatively impacted sales in 2001 as compared to 2000, especially in Italy.

In 2001 the Group reported moderate growth in the sector of fixed air-conditioning systems, where it enjoys a prominent position within the Italian market. During the financial period the market was influenced by strong competitive pressure, which the Group had to confront also by using prices as a lever.

In the segment of medium- and large-sized cooling machines and systems, the Group - Italian leader in this sector - reported significant growth in (+16.6%), notwithstanding a decrease in orders, which could be observed above all in the information technology sector, a sector centred on machines with advanced technological features and adversely affected by the crisis of the *net economy*.

As regards air treatment (dehumidifiers, humidifiers and air cleaning systems) the Group strengthened its market position, thanks also to product innovation and an improved commercial penetration.

Cooking and food preparation products

In order to maintain and reinforce its *leadership* positions in Italy and throughout the world, in 2001 the Group continued its program of product renewal, above all as regards countertop ovens, deep fryers and coffee machines, and ventured into new product sectors, including that of bread-making machines.

Overall sales in the cooking and food preparation segment amounted to 503.2 Euros, increasing by 11.6% compared to the previous year.

Home cleaning products and ironing systems

The renewal of the Group's product strategy, which is aimed at expanding the range of steam and multifunctional appliances as well as upgrading traditional products in terms of power and efficiency, resulted in a 144.5 million Euro increase in net earnings, equivalent to a 21.2% increase compared to 2000.

***Allocation of growth
by geographical
area***

The Group's international vocation is documented by the table below, which shows sales trends in different geographical areas (considering a comparable perimeter of consolidation).

Income by geographical area:

	2001 consolidated	2000 consolidated pro forma	Change 01-00	Change % 01-00
	mill. Euros	mill. Euros	mill. Euros	
Italy	322.1	307.4	14.7	4.8%
United States and Canada	150.5	108.6	41.9	38.6%
Japan	62.3	54.2	8.1	14.9%
Great Britain	178.4	159.0	19.4	12.2%
Others in Europe	319.6	294.2	25.4	8.6%
Rest of the World	165.0	146.8	18.2	12.5%
Total	1,197.9	1,070.2	127.7	11.9%

In Great Britain, the United States, Canada, Japan, France and Benelux - all countries where the Group operates through its own branch divisions - significant increases in turnover were achieved (ranging from 14% to 38%); among the countries where the Group has a branch, only in Germany was growth less than 10%. The growth trend may be generally ascribed to the success of our products, the increasing fame of our brand and the good job done by our international organisations.

In the Italian market, growth was strongly penalised by an unfavourable summer season, which particularly affected sales of portable air conditioners and - to a lesser degree - of fixed air-conditioning systems.

Company performance

Below is a reclassification of income statement data which also considers a comparable area of consolidation for the year 2000 (pro forma data).

	2001	% of sales	2000	% of sales	2000 pro forma	% of sales
	mill. Euros	%	mill. Euros	%	mill. Euros	%
Net revenues	1,197.9	100.0%	645.6	100.0%	1,070.2	100.0%
<i>Increases 2001/2000 – 2001/2000 pro forma</i>			552.3	85.6%	127.7	11.9%
Materials consumables and goods	(596.4)	(49.8%)	(286.8)	(44.4%)	(530.0)	(49.5%)
Services	(269.3)	(22.5%)	(167.6)	(26.0%)	(238.4)	(22.3%)
Added value	332.2	27.7%	191.2	29.6%	301.8	28.2%
Labour cost	(157.2)	(13.1%)	(89.7)	(13.9%)	(150.2)	(14.0%)
Provisions	(10.9)	(0.9%)	(8.3)	(1.3%)	(9.2)	(0.9%)
EBITDA	164.1	13.7%	93.2	14.4%	142.4	13.3%
<i>Increases 2001/2000 – 2001/2000 pro forma</i>			70.9	76.1%	21.8	15.3%
Amortisation and depreciation	(69.7)	(5.8%)	(31.1)	(4.8%)	(71.4)	(6.7%)
EBIT	94.4	7.9%	62.1	9.6%	71.0	6.6%
<i>Increases 2001/2000 – 2001/2000 pro forma</i>			32.2	51.9%	23.4	33.0%
Financial incomes (expenses)	(39.9)	(3.3%)	(20.3)	(3.1%)	(35.6)	(3.3%)
Other financial incomes (expenses)	(4.9)	(0.4%)	(5.9)	(0.9%)	2.0	0.2%
Earnings before taxes	49.6	4.1%	35.9	5.6%	37.4	3.5%
Income taxes	(23.1)	(1.9%)	(21.4)	(3.3%)	(28.1)	(2.6%)
Minorities	(0.2)	(0.0%)	(0.1)	(0.0%)	(0.1)	(0.0%)
Net income	26.3	2.2%	14.4	2.2%	9.2	0.9%
<i>Increases 2001/2000– 2001/2000 pro forma</i>			11.9	82.2%	17.1	185.7%

Net earnings rose 85.6% between 2000 and 2001; considering a comparable area of consolidation, the increase amounted to 11.9% and is almost entirely ascribable to the growth in volumes.

EBITDA amounted to 164.1 million Euros; this item increased by 70.9 million Euros compared to the year 2000 (+76.1%); considering a comparable area of consolidation, the increase amounts to 21.8 million Euros (+15.3%), with the ratio to sales rising from 13.3% to 13.7%.

It is worth noting that this improvement was achieved despite the negative impact of a sales mix that was less favourable than in the previous year, given the lower incidence of sales in portable air conditioners, which yield higher-than-average margins. Exchange rate trends saw currencies falling against the Euro, in particular the Yen and Pound Sterling, and were only partly offset by a rising US Dollar; hence they represent a further negative factor affecting profitability.

On the other hand, the numerous actions undertaken to improve efficiency, the greater exploitation of the Chinese factory and broader reliance on outsourcing and on the purchase of finished products led to a strong reduction in the incidence of labour costs on revenues, which went from 14.0% to 13.1% in 2001.

EBIT amounted to 94.4 million Euros; this item increased by 32.2 million Euros compared to 2000 (+51.9%); considering a comparable area of consolidation, the increase amounts to 23.4 million Euros (+33%), with the ratio to sales rising from 6.6% to 7.9%.

Depreciation and amortisation are shown as 69.7 million Euros and include amortisation of consolidation differences (17.9 million Euros) and other intangible assets (13.4 million Euros); this item confirms the high extent to which the Group relies on self-financing.

The profit for the year amounted to 26.3 million Euros - a strong increase compared to the results of the previous year (14.4 million Euros and 9.2 million Euros considering a comparable area of consolidation). This result was achieved thanks both to better performance and a lower incidence of taxes.

Again considering a comparable area of consolidation, the ratio of financial expenses to sales was in line with the year 2000 (pro forma data). It should be further pointed out that despite the excellent results that were achieved in the second half of the year as regards the management of Net Operating Capital and the considerable improvement in the net financial standing, the *timing* of the extraordinary operations, i.e. acquisitions and capital increases, resulted in an average indebtedness exceeding that of the previous year.

Analysis of balance-sheet and financial data

Below we provide a summary of balance-sheet/financial data, noting that the data as at 31 December 2000 reflect the consolidation of the companies acquired at the end of December 2000, whereas the data as at 31 December 2001 also include Kenwood, acquired in 2001.

Consequently we also show pro forma figures for 2000, which take Kenwood into account.

	2001 A	2000 B	2000 pro forma with Kenwood C	Change 2001- 2000 A-B	Change 2001- 2000 pro forma A-C
	mill. Euros	mill. Euros	mill. Euros	mill. Euros	mill. Euros
Trade receivables	412.5	318.0	391.7	94.5	20.8
Inventories	234.8	191.4	240.5	43.4	(5.7)
Trade payables	(249.7)	(184.8)	(222.3)	(64.9)	(27.4)
Others	(9.1)	(8.9)	(7.4)	(0.2)	(1.7)
Net working capital	388.5	315.7	402.5	72.8	(14.0)
Non current assets					
Intangible assets	435.2	386.6	441.6	48.6	(6.4)
Tangible assets	193.7	177.7	198.1	16.0	(4.4)
Financial assets	9.6	9.1	9.1	0.5	0.5
Long-term liabilities	(54.8)	(30.7)	(51.5)	(24.1)	(3.3)
Total capital employed	972.2	858.4	999.8	113.8	(27.6)
Minority interests	(0.2)	(0.3)	(0.3)	0.1	0.1
Group shareholder's equity	(524.9)	(242.1)	(374.7)	(282.8)	(150.2)
Total non-financial sources	(525.1)	(242.4)	(375.0)	(282.7)	(150.1)
Net financial position	(447.1)	(616.0)	(624.8)	169.1	177.7

The ratio of operating capital to sales fell in 2001 from 37.6% to 32.4% as a result of various measures undertaken during the year in order to control operating capital.

Net operating capital was reduced by 14 million Euros, considering a comparable area of consolidation, though sales rose by nearly 12%. The most significant factor underlying this reduction was an improved stock turnover, which was obtained above all thanks to a more incisive, careful control of planning and the installation of SAP in another two branch divisions abroad.

During the year investments of 14.7 million Euros were made to cover Stock Exchange listing costs, which have been capitalized. Additional investments in intangible assets totalled 4.8 million Euros while the carrying amount of investments in tangible assets was 35.9 million Euros; the latter mainly regarded moulds and equipment for the manufacture of new products.

The net financial standing went from 616 million Euros to 447 million Euros, with an improvement of 169 million Euros; 51.6 million is ascribable to the Group's core operations, while the rest mainly derives from the following extraordinary operations:

- Change in the area of consolidation following the takeover of the Kenwood group, which accounts for a total of 138.9 million Euros; the aforesaid amount reflects the expenses tied to the acquisition and the relative indebtedness.
- Share capital increase of 129.4 million Euros approved by the Shareholders during the general meeting taking place on 18 April 2001 and share capital increase of 127.5 million Euros deriving from the Public offering.

The cash flow can be summarised as follows:

	2001	2000
Self-financing	103.6	47.9
Changes in net working capital	(5.9)	(22.4)
Fin. flow provided by investing activities	(46.1)	(10.7)
Operating cash flow	51.6	14.8
Fin. flow provided by movements in net equity	256.9	-
Change in translation reserve	(0.6)	(0.3)
Change in the area of consolidation	(138.9)	(365.5)
Change in net financial standing	169.0	(351.0)

The ratio between net financial indebtedness and shareholders' equity (GEARING) dropped from 1.7 in 2000 (pro forma data) to 0.9 in 2001. Even though the denominator of the 2000 pro forma ratio takes into account all the capital increases made in 2001, the Group's capital *gearing* shows a strong improvement (from 1.2 in 2000 to 0.9 in 2001).

Below we show some financial highlights:

	2001	2000 pro forma
Cash flow	103.6	75.1
ROI (EBIT/Capital invested)	9.7%	7.1%
ROE (net profit/net equity)	5.0%	2.5%
EBIT/Financial income (expenses)	2.4	2.0
NWC/Net revenues	32.4%	37.6%
Gearing (Net fin. position/Net equity)	0.9	1.7

**Human resources:
organisation and
systems**

As at 31 December, De'Longhi Group employed 5,195 people (versus 3,860 in 2000), who may be classified as follows:

	31/12/2001	31/12/2000
Workers	3,454	2,747
Office staff	1,650	1,057
Managers	91	56
Total	5,195	3,860

Of the total shown above, 3,618 are employed in Italian companies belonging to the Group, whereas the remaining 1,577 work abroad.

Considering a comparable area of consolidation, the workforce remained practically unchanged (5,189 employees as at 31.12.2000).

Based on a comparison with the pro forma data for 2000, the cost of labour rose 4.7%, arriving at 157.2 million Euros. The increase is mainly ascribable to pay raises granted during the year, either by contract or as a reward for performance. As regards the average number of people employed by the Group in 2001 (5,350 in 2001 versus 5,451 in 2000), it is worth pointing out the significant reduction ascribable to the restructuring of the Kenwood Group, completed in 2001, and the closing of the Simac Vetrella factory in Dolo (VE) and the Ariagel factory in Candiolo (TO).

During the year, also to further their professional development, several company managers ventured out onto the international stage; this meets the Group's need to directly monitor several critical activities and to transfer skills and *best practices* all across the organisation, while offering the managers involved an opportunity to enjoy a challenging experience in sociocultural contexts unlike those they are accustomed to.

In 2001, as in the past, the different Group companies planned and implemented countless job training, refresher and management training courses aimed at their own personnel. Over 800 employees from the technical-industrial, commercial, administrative and service divisions, both in Italy and abroad, took part in the courses, which were carried out both internally and with the support of external job-training agencies.

As regards the distribution/sales organisation, in 2001 the Group continued in its efforts to optimise/reinforce internal and external channels and markets through which it operates. This led, among other things, to the year-end merger of the commercial enterprises of De' Longhi and Kenwood in France and Germany. Furthermore, the Group continued its reorganisation of logistic processes and flows as well as commercial planning and order management processes, which has already yielded some substantial results, its objective being to achieve a further reduction in operating capital.

Industrial restructuring

In 2001 the Group launched a restructuring of its productive basis with the planned closure of the Ariagel S.p.A. factory and transfer of production to De' Longhi's own factories, the centralisation of Simac Vetrella manufacturing activities in the factory in Gorgo al Monticano, following the planned closure of the Dolo factory, and preparations for the transfer of several De' Longhi manufacturing processes - fan heaters and coffee machines (low-end) - to the Tricom factory in China. In order to better focus the resources invested in improving costs and quality, during the year the Group set up two technical - productive poles (mechanical and plastic) and a centralised planning division as well as reinforcing responsibilities for controlling industrial costs.

Again with reference to the Group's technical-industrial basis, in the year 2001 it strengthened its organisations dedicated to design, research and development of new products.

Reorganisation in Hong Kong and China

In the second part of the year, the Group launched a project to reorganise and boost existing operations in China (which provide jobs for over 700 employees), with the aim of shifting their focus to the production / purchase of finished products and components at the service of Group Companies. In addition, in the Kenwood Hong Kong division, a finished product purchase department was set up, which is dedicated to the various Group *brands* and provides marketing support in connection with the purchase of finished products from Far East manufacturers.

Quality

During the year, the Group continued its quality control restructuring project, which aimed to extend the quality standards of De' Longhi to all the major Group companies. The Group expects to obtain ISO 9001 Certification for the fixed air-conditioner manufacturing division of De' Longhi S.p.A. before the end of 2002. Furthermore, a project got under way to revamp the internal organisation and production processes of the Tricom factory (in China) in order to achieve levels of efficiency and product quality enabling it to compete with other Group production centres.

Logistics

In 2001, work also began to expand the finished products warehouse in Mignagola; said expansion fits within the framework of a project to move Kenwood's central European warehouse from Holland to Treviso, Italy. Direct deliveries increased in 2001, especially in France, Great Britain and Germany.

Distribution

In 2001, our affiliate Parex took over distribution of Kenwood products in New Zealand, previously entrusted to a distributor.

In South Africa the pre-existing branch division of Kenwood was assigned to distribute De' Longhi products, previously sold through a distributor. Ariete opened a branch division in Spain.

Information systems

The Group's information systems are essentially based on SAP management software, which permits an integrated management of all the main aspects tied to production and trade activities, including logistics, supplies, stock, orders, sales and the handling of raw materials, semi-finished goods and finished products.

The projects undertaken fit into the strategy of:

- extending a “single integrated” system to all Group companies in order to ensure more reliable, prompter information and more efficient management of intercompany relations as well as better control over the companies' activities;
- computerising an increasing number of processes to improve the efficiency of internal organisational structures, exploiting the potentialities offered by the software used;
- improving the management of relations with third parties (customers and suppliers) by exploiting the new technologies that rely on use of the Internet.

In the year 2001, several important projects were carried out, including the extension of the SAP system to the branch divisions in Germany and France, which were moreover integrated with the former divisions of the Kenwood Group, the implementation and development of software for managing the consolidation of statutory and performance data, the development of new and more efficient procedures for commercial planning management extended to sales divisions and the planning of procedures with visibility on a European scale, the introduction of Internet management of orders from service centres and De' Longhi control over direct purchases.

Risk coverage

The Group has broad insurance coverage to protect its main assets (tangible assets and receivables) and protect Group companies from the possible liabilities connected with sold products.

Research & development

The Group's research and development sector, in which hefty investments are constantly being made, can rely on 10 laboratories and 13 technical departments located inside or in proximity to the production facilities. The Group has a research and development staff made up of over 230 people. These considerable investments have enabled the Group to gain competitive advantages and consolidate them over time.

The activities conducted have also allowed it to take advantage of the benefits granted under Law 46/82 and subsequent modifications for investments in applied research and technological innovation. Said benefits consist in long-term loans at special low interest rates and lump sum grants.

In the segment of wall-mounted air conditioners interesting solutions were devised - based on the use of the Internet - in order to upgrade and increase existing functions with the possibility of tele-management and remote control features that are highly innovative in comparison with current market standards.

Again with regard to the production of air conditioners, we shall emphasize that the E.U. has banned the use of the refrigerant gas R22 in the production of cooling appliances as of 01/06/2002 and for appliances with heat pumps as of 1/01/2004, within the framework of its policies to protect the ozone layer. The use of R22 continues to be allowed in the rest of the world.

The possible alternatives in Europe will be of two types: synthetic gases and natural gases. For years De' Longhi has relied on a sophisticated technology for employing natural gases, whose use is strongly supported by the public opinion and institutions concerned about protecting the environment.

In this context of regulatory change, De' Longhi's technological know-how should serve to strengthen its competitive advantage in the segment of portable air conditioners, where it has always enjoyed world leadership.

However, given the complex, evolving scenario which is subject to many technological and market factors that will determine future, final choices, the Group has decided to develop the different technological alternatives throughout its product range, being equipped with the resources, know-how and means needed to achieve this purpose.

In 2001 the Group's R&D costs amounted to 22.2 million Euros, with an incidence on net revenues of 1.9%; all R&D costs are carried as expenses in the Income Statement.

Considering the 13.5 million Euros invested in moulds, the total amounts to 35.7 million Euros, with an incidence on net revenues of almost 3%.

Investments and products

In 2001 the Group's commitment to research and development was concretely manifested in the launching of a series of new products to support the various product families in which the De' Longhi Group specialises:

- In the "Cooking and food preparation" segment, the traditional range of 12-litre ovens was broadened to include a "retro" model and the range of 28-litre ventilated ovens was enriched with functions such as a rotisserie and new user-friendly electronics for the USA and Canadian markets.
The range of coffee machines with pumps was further reinforced by the introduction of a new electronic model featuring temperature control, new models for filter packets and a new middle-priced model. Kenwood successfully launched a new "bread maker" and extended its range of mixers.
The Group increased its share of the important British market in almost every product segment, thanks above all to the new products.
- The "Air conditioning and air treatment" segment saw the introduction of a new air/air conditioner marketed with the Superclima brand and the development of "telegate" technology, thanks to which the functions of our air conditioners can be controlled through the Internet.
- In the "Heating" segment, the range of appliances featuring "ECC" intelligent electronics was broadened to include a fan heater, convector and radiator model.

- In the “Household products and ironing” segment, the Group renewed the range of electric brooms aimed at the Italian market with the introduction of high-performance motors on class A models and launched a new vacuum cleaner with a filtering system and multifunctional steam cleaners.

In 2001 the Group invested about 51.6 million Euros in advertising and communication. The campaigns were concentrated in the spring-summer (the cleaning and air conditioning season), and continued up to October both for small home appliances and dehumidification systems.

The advertising drive successfully backed the launching of the Colombina class A as well as the marketing efforts already undertaken in 2000 to promote the new Pinguino Air/water with turbopower, the dual oven, rotating deep fryers and wall-mounted air conditioners.

We also undertook press campaigns to promote small appliances, coffee machines in particular, and initiatives at points of sale to support climate control products and decision-making and small home appliances.

As regards the export market, we witnessed the launching of a new television format “*living innovation*”, with filmed spots on deep fryers and coffee machines which, besides focusing consumers' attention on the benefits deriving from De' Longhi products, promote an image of the De' Longhi brand that is consistent with the tradition of innovation distinguishing it, together with its design and the prestige of products made in Italy.

Ad hoc communication initiatives continued in Japan and the United States, while press advertising activities were also conducted in Eastern European countries.

Stock option plans

The month of July 2001 saw the implementation of the stock option plan approved by the Board of Directors on 12 June 2001, whose objectives include building up the loyalty of key resources by focusing their attention on medium- and long-term factors of success, and maintaining or improving the Group's competitiveness in the domestic and international market from the pay standpoint by introducing an economic variable correlated to the creation of value for the company and shareholders.

The option plan was carried out on the approval of the shareholders, who during the extraordinary general meeting of 18 April 2001 authorized the Board of Directors, for a period not to exceed five years, to undertake a paid increase in capital by issuing a maximum of 7,500,000 ordinary company shares

The initiative involved 63 Italian and foreign employees covering key positions within the Group, whom were assigned an overall total of about 6,900,000 options.

Entitlement to part of the options granted is conditional upon the holders' maintaining their working relationship with the Group; the remaining part, ranging from 40% to 50% of the total, is also conditional on the achievement of some of the goals defined within the framework of the 2001 – 2003 Strategic Plan, with regard to EBITDA and the ratio between Net Operating Capital and net total revenues.

Any options granted may be exercised by participants in the plan to an extent of 50% starting from 2004; the remaining 50% may be exercised in the year 2005 and up to 28.02.2006, within the framework of the periods defined.

Corporate Governance For information regarding Corporate Governance, the reader should refer to the report drawn up in accordance with Art. IA 2.12 of the Stock Exchange Regulatory Guidelines, which includes complete information about the implementation status of the Corporate Governance system. This report will be registered with the Italian Stock Exchange.

Shares held by Directors Pursuant to art. 79 of Consob (Italian Securities and Exchange Commission) directive n. 11971 of 14/05/1999, we hereby provide information relative to the shares held by directors and auditors in De' Longhi S.p.A. and its subsidiaries.

Last and first name	Affiliate	Ownership as at 31/12/00	Purchases 2001	Sales 2001	Ownership As at 31/12/2001
De' Longhi Giuseppe	De' Longhi SpA	340	7,250	-	7,590
De' Longhi Giuseppe	Elba SpA	90	-	-	90
De' Longhi Fabio	De' Longhi SpA (*)	-	130,000	-	130,000
De' Longhi Fabio	De' Longhi Pinguino SA	1	-	-	1
Beraldo Stefano	De' Longhi SpA	-	15,500	-	15,500
Sandri Giorgio	De' Longhi SpA	-	30,000	-	30,000
Lanfranchi Massimo (statutory auditor)	De' Longhi SpA (*)	-	750	-	750

(*) shares held indirectly and/or through family members are also included

Business and relations with parent subsidiary, associated companies and related parties

In reference to Consob communications n. 97001574 dated 20/02/97 and n. 98015375 dated 27/02/98, which concern relations with Group companies and correlated parties, we note that all the transactions taking place fell within the scope of ordinary Group operations, with the exceptions already described in the explanatory notes, and were stipulated at normal market conditions. Furthermore, no significant transactions of an atypical nature can be reported.

The effects deriving from De' Longhi's relations with parent, subsidiary and associated companies and correlated parties are summarised in the Explanatory Notes.

Euro

In 2001 the Parent Company and the other consolidated group companies completed their conversion to the Euro as the accounting currency.

Events subsequent To close of year

In the month of March 2002, we completed our acquisition of a 10% stake in Top Clima SL, a company boasting solid experience in the air-conditioning sector and current distributor of Climaveneta products in the Spanish market. The investment cost a total of 509 thousand Euros, and carries the option of increasing the stake up to a maximum of 50% by 30/06/2006.

The acquisition meets a dual objective, i.e. to stabilise the distribution of our products in the important Spanish market and to start production of air-conditioning systems in a factory belonging to the company AYRE SA, completely controlled by Top Clima SL.

More specifically, the product will be characterised by "roof top" technology, whose technical simplicity allows the cooling machine to be combined with an air treatment unit so that treated air can be distributed directly to the interiors.

***Foreseeable
prospects/progress in
operations***

The results of the first months of the current year, though they are not particularly indicative, given that they refer to the least favourable period of the year in terms of earnings (the heating and air-conditioning lines are not at the peak of their respective business seasons), confirm expectations of further significant growth compared to the same period of last year.

The process of integration with the Kenwood Group, which got under way in 2001 and brought some important benefits as a result of the synergies achieved, is only partly reflected in the Group's results of last year.

In 2002 the advantages gained will fully manifest themselves, especially as regards purchasing and reductions in costs.

Steel prices were down sharply from the previous year's average and this trend is likely to persist, also due to the recent introduction of customs barriers in the USA.

Treviso, March 27th 2002

On behalf of the Board of Directors
The Managing Director
Stefano Beraldo

ASSETS	31.12.2001		31.12.2000	
	Partial	Total	Partial	Total
A) RECEIVABLES FROM SHAREHOLDERS		0		0
B) ASSETS				
I - INTANGIBLE ASSETS				
1) Start-up expenses		12.116		329
2) Research, development and advertising		427		360
3) Industrial and other patent rights		3.241		3.439
4) Concessions, licenses, trademarks and similar rights		92.300		98.682
5) Goodwill		324.561		281.647
7) Others		2.531		2.094
TOTAL INTANGIBLE ASSETS		435.176		386.551
II - TANGIBLE ASSETS				
1) Land and buildings		95.504		91.096
2) Plant and machinery		62.567		58.743
3) Industrial and commercial equipment		24.840		20.770
4) Other assets		8.411		5.837
5) Tangible assets under construction and advances to suppliers		2.369		1.264
TOTAL TANGIBLE ASSETS		193.691		177.710
III - FINANCIAL ASSETS				
1) Equity investments in:				
a) subsidiaries	1.245		1.244	
b) associated companies	4.384		6.006	
c) other companies	162	5.791	165	7.415
2) Accounts receivables due from:				
b) associated companies		6.196		0
d) other companies				
- within 1 year	874		963	
- more than 1 year	2.932	3.806	3.313	4.276
Total		10.002		4.276
3) Other securities				22
TOTAL FINANCIAL ASSETS		15.793		11.713
TOTAL FIXED ASSETS		644.660		575.974
C) CURRENT ASSETS				
I - INVENTORY				
1) Raw materials and consumables		62.111		67.661
2) Work in progress		23.441		21.296
3) Finished goods		149.294		102.411
TOTAL INVENTORY		234.846		191.368
II - RECEIVABLES				
1) From customers:				
- within 1 year	404.521		317.775	
- more than 1 year	885	405.406	225	318.000
3) From associated companies				
- within 1 year	6.348		1.306	
- more than 1 year	680	7.028	0	1.306
4) From parent companies		3.792		14674
5) Other receivables				
- within 1 year	42.386		57.523	
- more than 1 year	29.605	71.991	1.936	59.459
TOTAL RECEIVABLES		488.217		393.439
III - SHORT TERM FINANCIAL ASSETS				
4) Equity investments		906		906
6) Other securities		4.698		129
TOTAL SHORT TERM FINANCIAL ASSETS		5.604		1.035
IV - LIQUID FUNDS				
1) Cash in bank		77.701		65.679
2) Cheques		6.863		680
3) Cash in hand		598		252
TOTAL LIQUID FUNDS		85.162		66.611
TOTAL CURRENT ASSETS		813.829		652.453
D) TOTAL PREPAYMENTS AND CURRENT INCOME		16.859		12.207
TOTAL ASSETS		1.475.348		1.240.634

LIABILITIES	31.12.2001		31.12.2000	
	Partial	Total	Partial	Total
A) SHAREHOLDER'S EQUITY				
I - SHARE CAPITAL		448.500		206.583
II - ADDITIONAL PAID-IN CAPITAL		15.000		0
III - REVALUATION RESERVE		0		0
IV - LEGAL RESERVE		3.254		2.358
V - RESERVE FOR TREASURY STOCK ON HAND		0		0
VI - STATUTORY RESERVE				0
VII - OTHER RESERVES				
d) Foreign exchange reserve	(512)		36	
e) Other reserves	34.588	34.076	17.684	17.720
VIII - RETAINED EARNINGS		(2.350)		1.000
IX - NET INCOME (LOSS) FOR THE YEAR		26.321		14.450
TOTAL GROUP SHAREHOLDER'S EQUITY		524.801		242.111
X - SHAREHOLDER'S EQUITY - MINORITY INTEREST		77		224
XI - NET INCOME (LOSS) - MINORITY INTEREST		214		105
TOTAL SHAREHOLDER'S EQUITY		525.092		242.439
B) PROVISION FOR CONTINGENCIES AND OBLIGATIONS				
1) Provisions for agents leaving indemnity and similar obligations		4.434		3.308
3) Other provisions		29.116		7.978
TOTAL		33.550		11.286
C) STAFF LEAVING INDEMNITY		21.256		19.380
D) PAYABLES				
1) Debentures:				
- more than 1 year	150.000	150.000	150.000	150.000
3) Bank loans and overdrafts:				
- within 1 year	174.426		157.160	
- more than 1 year	200.722	375.148	118.115	275.275
4) Other financing payables				13.654
- within 1 year	11.871			
- more than 1 year	10.102	21.973		
5) Advances		1.794		2.816
6) Trade payables		246.124		184.796
7) Notes payable		55		38
8) Payables due to subsidiaries				
- more than 1 year	1.469	1.469		1.396
9) Payables due to associated companies		3.577		707
10) Payables due to parent companies		158		213.307
11) Payables due to tax authorities				
- within 1 year	35.040		23.201	
- more than 1 year	8.993	44.033	15.175	38.376
12) Social security payables		6.425		5.106
13) Other payables				
- within 1 year	27.504		67.372	
- more than 1 year	93	27.597	33	67.405
TOTAL PAYABLES		878.353		952.876
E) TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME		17.097		14.653
TOTAL LIABILITIES		950.256		998.195
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		1.475.348		1.240.634
MEMORANDUM ACCOUNTS				
- Property c/o third parties		0		1.244
- Other commitments		1.746		884
- Guaranties on behalf of associated companies		1.236		3.976
- Guaranties on behalf of third parties		9.075		6.422
TOTAL MEMORANDUM ACCOUNTS		12.057		12.526

INCOME STATEMENT	31.12.2001		31.12.2000	
	Partial	Total	Partial	Total
A) INCOME				
1) Net revenues from the sale of goods and services		1.177.943		631.600
2) Changes in work in progress and finished goods (inventory)		3.661		25.954
4) Increases in fixed assets for internal work		1.924		2.033
5) Other income		19.989		13.982
VALUE OF PRODUCTION (REVENUE)		1.203.517		673.570
B) EXPENSES				
6) Raw and subsidiary material and goods		593.661		323.112
7) Services		247.971		155.873
8) Leases		12.204		7.355
9) Personnel costs:				
a) salaries and wages	114.906		65.434	
b) social security costs	31.797		18.846	
c) severances payments	5.689		3.667	
d) social benefits	2.720		1.020	
e) other costs	2.113	157.225	721	89.688
10) Amortisation, depreciation and writedowns:				
a) amortisation of intangible fixed assets	31.327		9.731	
b) amortisation of tangible fixed assets	38.410		21.357	
c) other writedowns of fixed asstes	48		0	
d) writedowns of trade receivables	6.001	75.786	3.547	34.635
11) Changes in stock of raw materials and consumables		8.353		(8.360)
12) Provision for risks		4.858		4.732
14) Sundry operating expenses		9.088		4.412
TOTAL PRODUCTION COSTS (EXPENSES)		1.109.146		611.447
DIFFERENCE BETWEEN REVENUES AND EXPENSES (A-B)		94.371		62.123
C) FINANCIAL INCOME AND EXPENSES				
15) Income from equity investments:		1.377		4.380
16) Other financial income:				
a) from receivables entered as fixed assets				
- others	3		10	
c) from securities entered as current assets that aren't equity investments	7		1.599	
d) other income:				
- from subsidiaries			35	
- from associated companies	374			
- from parents			207	
- others	35.153	35.537	28.267	30.118
17) Interest and other financial expenses:				
a) from subsidiaries	(72)		(211)	
c) from parents	(147)		(3.430)	
d) others	(75.201)	(75.420)	(46.754)	(50.395)
TOTAL FINANCIAL INCOME AND EXPENSES		(38.506)		(15.897)
D) ADJUSTMENTS TO FINANCIAL ASSETS				
18) Revaluations:				
a) of equity investments	164	164	27	27
19) Writedowns:				
a) of equity investments	(646)		(1)	(1)
c) of securities entered as current assets	(36)	(682)		
TOTAL ADJUSTMENTS TO FINANCIAL ASSETS		(518)		26
E) EXTRAORDINARY INCOME AND EXPENSES				
20) Income:				
a) gains on fixed asset disposal	547		152	
b) other	5.968	6.515	1.714	1.866
21) Expenses				
c) other extraordinary expenses	(12.253)	(12.253)	(12.161)	(12.161)
TOTAL EXTRAORDINARY INCOME AND EXPENSES		(5.738)		(10.294)
NET INCOME (LOSS) BEFORE INCOME TAX		49.609		35.958
22) Income taxes		(23.074)		(21.403)
23) NET INCOME (LOSS) BEFORE MINORITY INTEREST		26.535		14.555
23a) Net (income) loss attributable to minority interest		(214)		(105)
23b) NET INCOME (LOSS) FOR THE YEAR		26.321		14.450

De' Longhi S.p.A.
Consolidated statements of cash flows for the years 2001 and 2000

(Euro thousands)

	31/12/01	31/12/00
Net income (loss) for the year	26.321	14.450
Amortisations and depreciations	69.785	31.087
Provisions net of utilisation	7.507	2.358
Cash flow provided (used) by operating activities (A)	103.613	47.896
Changes in Working Capital:		
Trade receivables	(20.250)	(5.796)
Net inventory	5.674	(36.908)
Trade payables	23.828	3.510
Receivables and payables with subsidiaries, associated companies and parents	(10.900)	2.545
Other payables, receivables, accrued liabilities and deferred income	(4.273)	14.227
Cash flow provided (used) by working capital (B)	(5.921)	(22.422)
Investment activities:		
Intangible assets additions	(19.222)	(3.467)
Tangible assets additions	(26.434)	(16.759)
Financial assets additions	(435)	9.527
Cash flow (used) in investing activities (C)	(46.091)	(10.699)
Increase in share capital and reserves	256.919	0
Changes in foreign exchange reserve	(548)	(310)
Increase (decrease) of minority interest	(37)	0
Cash flow provided (used) by changes in shareholders' equity (D)	256.334	(310)
Net change in the area of consolidation (E)	(138.969)	(365.507)
Period cash flow (A+B+C+D+E)	168.966	(351.044)
Financial net position at the beginning of the financial year	(616.030)	(264.987)
Period cash flow (A+B+C+D+E)	168.966	(351.044)
Financial net position at the end of the financial year (1)	(447.064)	(616.030)
Change in extraordinary reserve for substitution tax compensation		(22.764)
Change in "other payables" for substitution tax		22.764

(1) The amount as at 31,12,2001 includes a 150.000 M/Euro debentur, 290.329 M/Euro financial indebttness towards banks and 6.735 M/Euro towards others.

The residual debt for the participation acquisition has been totally paid in 2001.

De' Longhi S.p.A.

STATEMENT OF CHANGES IN CONSOLIDATED SHAREHOLDER'S EQUITY

Thousands of Euros

	Share capital	Additional paid-in capital	Legal reserve	Other reserves	Foreign exchange reserve	Retained earnings	Net income (loss)	Total
Balance as at 1ST January 2001	206.583	0	2.358	17.684	36	1.000	14.450	242.111
Appropriation of result for year 2000 as per extraordinary assembly dated 18/04/01			896	16.904		(3.350)	(14.450)	0
Share Capital exchange to Euro as per extraordinary assembly dated 18/04/01	1.417							1.417
Share capital increase as per extraordinary assembly dated 18/04/01	128.000							128.000
Share capital increase due to the listing in the Stock Exchange Market on 24/07/01	112.500	15.000						127.500
Currency translation differences					(548)			(548)
Net income							26.321	26.321
Balance as at 31st December 2001	448.500	15.000	3.254	34.588	(512)	(2.350)	26.321	524.801

LAYOUT AND CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements comprise the consolidated balance sheet, consolidated income statement and these explanatory notes. They have been drawn up in accordance with the guidelines provided by Legislative Decree 127/91 and the Civil Code, integrated by the accounting principles set forth by the National Boards of Professional Accountants. The provisions introduced by Legislative Decree N. 58/1998 (Draghi Consolidation Act) and subsequent implementary and complementary measures, as well as CONSOB (Italian Securities and Exchange Commission) recommendations, have also been taken into account.

Moreover, they furnish all the complementary information deemed necessary in order to provide a true and accurate picture of the Group's financial position, even if not specifically required by law.

For the purpose of compiling the consolidated financial statements, we used the yearly statements prepared by the Boards of Directors of the individual companies, adjusting them, when necessary, to reverse tax items and make them compliant with Group accounting principles.

The figures reported in the balance sheet, consolidated income statement and the explanatory notes are expressed in thousands of Euros (T/Euros) 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 at 31 December 2001 the corresponding items of the consolidated financial statements as at 31 December 2000 are shown. To allow a comparison between the consolidated financial statements as at 31 December 2000 and the consolidated financial statements as at 31 December 2000, a few reclassifications were made, mainly concerning some balance sheet items.

For any information not provided below, you may refer to the comments provided in the Director's report on performance.

AREA OF CONSOLIDATION

The main corporate transactions leading to changes in the area of consolidation are commented below.

- Acquisition, through a public purchase offer, of a 100% stake in Kenwood Appliances Plc, parent company of the Kenwood group. The takeover was completed on 24 May 2001; the total cost of the operation, including accessory expenses, was 76,400 T/Euros.
- Acquisition of a minority stake of 2% in the company Radel S.p.A., at a cost of 452 T/Euros.
- Acquisition of a minority stake of 5% in La Supercalor S.p.A., at a cost of 67 M/Euros.
- Acquisition of a minority stake of 10% in the company Ariagel S.p.A., at a cost of 362 T/Euros.
- Acquisition of a 49% stake in Parex Industries Limited, which distributes De' Longhi Group products in New Zealand and Australia.

By virtue of said acquisitions, the area of consolidation has undergone significant change in the last two years; in the 2000 consolidated financial statements, the companies acquired on 28 December 2000 were consolidated with the integral method only insofar as their assets and liabilities were concerned. The 2001 consolidated financial statements include the aforesaid acquisitions and the Kenwood Group, which were integrally consolidated. The Kenwood operating results were considered only for 10 months since De' Longhi acquired control at the end of February 2001; therefore, for the period prior to the takeover, the results shown refer to the previous Group components.

To allow a fair comparison of balance-sheet and profit and loss data, based on a consistent area of consolidation, a pro forma reclassified balance sheet and income statement have been prepared; said data are illustrated in the Director's Report on Performance and, with regard to the balance sheet only, in the assets section of the "Notes to the main balance sheet items".

In 2001 the Group continued its program of reorganisation begun in 2000, which resulted both in a simplification of the corporate structure, thanks to a reduction in the number of companies, and the exclusion of Liguria Vita S.p.A. from the area of consolidation. Liguria Vita S.p.A., an associated company (30% ownership), engages in activities extraneous to the Group's core business.

The structure of the Group was simplified through several mergers of subsidiary companies, which are summarised below.

- Merger of Elba S.p.A. with De' Longhi Divisione Cucine S.p.A. (formerly exclusively a holding company), which took the merged company's name.
- Merger of DL Radiators S.p.A. with the subsidiary Radel S.p.a., which then changed its name to DL Radiators S.p.A.;
- Merger of Ergoklima S.p.A. and Micromax S.p.A. with Climaveneta S.p.A..

Two other mergers served to combine the Kenwood Group's commercial branches in France and Germany with those of the De'Longhi Group, in order to streamline their structure and cut operating costs.

The aforementioned mergers were carried out on the basis of book values, so as to preserve continuity in the statutory and fiscal values of the assets belonging to the companies: no change occurred at a Group level, therefore, since all the companies involved in the mergers were already indirectly owned by De' Longhi S.p.A.

The takeovers of 28 December 2000 were brought to completion on 20 February 2001 with the definition of the final price, which amounted to 278,800 T/Euros; said amount, determined on the basis of assessments conducted by independent experts, was paid in 2001.

PRINCIPLES OF CONSOLIDATION

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

- The differences resulting from the elimination of shareholdings against the affiliated company's share of Net Equity as of the purchase date are attributed, where applicable, to the assets and liabilities of the companies included in the consolidation. Any residual value, if positive, is entered as an asset under the item "Goodwill" and amortised on a straight-line basis in relation to its estimated recoverability; if negative, it is ascribed to the Net Equity item "Consolidation Reserve".
- The portions of net equity and net profits in which minorities have claims are shown separately under specific consolidated net equity items, respectively "Capital and Reserves pertaining to Minorities" and "Year-end Profits pertaining to Minorities".
- Debit and credit items, 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.
- In the consolidated financial statements, the effects of provisions and value adjustments made by the individual consolidated companies for the purpose of attaining tax benefits under current laws are likewise eliminated, the relative fiscal consequences being taken into account where applicable.

Foreign currency translation principles and exchange rates

The financial statements of companies based abroad are translated into Euros in the following manner:

- assets and liabilities are assessed using the year-end exchange rates;
- the items in the income statement are assessed on the basis of the average yearly exchange rates;
- individual net equity items are assessed at the historical exchange rates.

Exchange rate differences deriving from the application of said method are directly accounted for in a specific consolidated net equity item, "Foreign exchange reserve".

The foreign currency/Euro exchange rates applied for the translation of currencies were:

Currency		Average Exchange Rate 2001 (*)	Exchange rate as at 31.12.2001
Danish krone	DKK	7.4521	7.4365
Australian dollar	AUD	1.7319	1.7280
Canadian dollar	CAD	1.3864	1.4077
Hong Kong dollar	HKD	6.9855	6.8723
New Zealand dollar	NZD	2.1300	2.1215
Singapore dollar	SGD	1.6040	1.6306
US dollar	USD	0.8956	0.8813
South African rand	RND	7.6873	10.4302
Malaysia ringgit	MYR	3.4028	3.3484
British pound sterling	GBP	0.6219	0.6085
Japanese yen	JPG	108.6820	115.3297
Polish zloty	PLN	3.6721	3.4953

(*) 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 31 December 2001, 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 assets

Intangible assets are valued at their purchase cost, plus any additional value-adding expenses, and are systematically amortised on the basis of their future life.

The “start-up and expansion costs”, which include incorporation expenses, costs for capital increases and for gaining admission of the Parent Company to a listing on the Milan Stock Exchange, are amortised in a period of five years.

Research and development costs are expensed unless they pertain to the realisation of specific, clearly defined products whose technical feasibility has been reasonably demonstrated, and for which a future market is reasonably presumed to exist. The book value is systematically written off in a period of five years.

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

Consolidation differences are systematically written off in a period of ten years in some cases and twenty years in others, based on a reasonable presumption of their future utility and the Group's prospects for economically benefiting from them, in turn estimated according to the characteristics of the sector in which the affiliates operate.

It should be noted that, pursuant to art. 2426 of the civil code, until start-up and expansion costs, research, development and advertising costs having long-term utility are completely amortised, dividends may be distributed only if the remaining available reserves are sufficient to cover the remainder of the capitalised costs.

b- Tangible assets

Tangible assets are valued at their purchase or production cost, inclusive of any directly ascribable value-increasing ancillary expenses; some categories of assets have undergone revaluations pursuant to Laws n. 576/75, n.72/83 and n. 413/91 (the carrying amount also includes any additional value allocated on the occasion of mergers and consolidations). Any asset that, at the closure of the financial period, reveals lasting declines in value is written down accordingly; the original book value is restored in subsequent financial periods if the reasons for the write-down no longer subsist.

Tangible assets are shown net of cumulative depreciation charges, systematically calculated in each financial period on the basis of the estimated life of the assets themselves. The depreciation applied to tangible assets acquired during the year 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%
Sundry equipment	25.0%
Purification systems	15.0%
Office furnishings and equip.	12.0%
Electromechanical equipment	20.0%
Chemical laboratory	25%
Waste disposal facilities	15%
Transport vehicles	20.0%
Automobiles	25.0%

Routine maintenance costs are expensed as incurred and fully accounted for in the income statement. Maintenance costs increasing the life of the assets to which they pertain are attributed to the assets themselves and amortised 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 n° 17), which provides that the normal value of assets is to be entered among tangible assets and depreciated on the basis of the charges applicable to the respective assets themselves, while the corresponding financial debts payable to lessors are to be shown as a liability. The depreciation charges on assets and accrued interests are carried in the income statement.

c- Financial assets

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

Financial receivables are shown at their presumable realisation value.

Other long-term investments are shown at their cost, adjusted to reflect any lasting declines in value.

d- Inventory

Inventories are shown either at the purchase or production cost, determined using the weighted average cost method, or the presumable market value, whichever is lower. 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 stock is depreciated, according to its estimated future utility, through a specific inventory valuation adjustment allowance.

e- Receivables and payables

Receivables are shown at their presumable realisation value, i.e. net of appropriate provisions for doubtful debts, determined in accordance with the prudence principle.

Payables are shown at their nominal value.

f- Short-term financial assets

Short-term financial assets are shown either at the purchase or production cost or the presumable market value, whichever is lower. 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

These items account for portions of costs and incomes 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 date of 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.

I- Staff leaving indemnity

Provisions for employee leaving indemnity are made in compliance with the law and labour contracts currently in force; they reflect the total liabilities accrued vis-à-vis employees at the balance-sheet date.

m- Costs and revenues

They are accounted for according to the prudence and accruals principles. Incomes are shown net of returned products, discounts, rebates and premiums, as well as any taxes directly connected to the sale of products and provision of services. Income from the sale of products is taken into account when the property changes hands, which generally coincides with dispatch of the merchandise. Costs are calculated according to principles analogous to those used for assessing incomes.

n- Foreign currency transactions

Transactions in foreign currency are translated on the basis of the exchange rates in effect on the trade date. Any exchange rate differences arising during the year are accounted for in the income statement, among the financial expenses and incomes. Payables and receivables outstanding at the end of the year and hedging derivatives are adjusted to current year-end exchange rates only if the overall adjustment results in a loss; said loss is accounted for through the provision for exchange rate risks, as allowed by law.

o- Financial instruments

Financial instruments used for hedging foreign exchange risks are valued in a manner that is consistent with the assets and liabilities covered. As regards the hedging transactions pertaining to assets and liabilities not expressed in Euros, expenses and incomes are accounted for on an accruals basis.

p- Income taxes

They are calculated 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 n° 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 budgeted 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 disclosed in the memorandum accounts at their contract value.

COMMENTS ON THE MAIN ITEMS OF THE BALANCE SHEET

The area of consolidation as at 31 December 2001 differed significantly from that of the previous year as a result of the takeover of the Kenwood group, completed in the early months of 2001. Consequently, the balance sheet items are not comparable with the data as at 31 December 2000. For this reason, a table is provided below which shows the changes in the main balance-sheet items compared to 31 December 2001, calculated considering a homogeneous area of consolidation.

	31/12/2001 Consolidated Total	31/12/2001 Impact of Kenwood acquisition	31/12/2001 Comparable area of consolidation (C)=(A-B)	31/12/2000 D	Difference (C-D)
	(A)	(B)		D	(C-D)
Intangible Assets	435,176	58,081	377,095	386,551	(9,456)
Tangible Assets	193,691	19,968	173,723	177,710	(3,987)
Long-term investments	15,793	29	15,764	11,713	4,051
Total assets	644,660	78,078	566,582	575,974	(9,392)
Inventory	234,846	45,049	189,797	191,368	(1,571)
Receivables from companies	405,406	61,440	343,966	318,000	25,966
Receivables from associated-subsidiary – parent companies	10,820	462	10,358	15,980	(5,622)
Receivables from others	71,991	20,390	51,601	59,459	(7,858)
Other short-term assets	5,604	0	5,604	1,035	4,569
Liquid assets	85,162	29,508	55,654	66,611	(10,957)
Total operating capital	813,829	156,849	656,980	652,453	4,527
Accrued income and prepaid expenses	16,859	2,920	13,939	12,207	1,732
Total assets	1,475,348	237,847	1,237,501	1,240,634	(3,133)
Net equity	525,092		525,092	242,439	282,653
Provisions for contingencies and obligations	33,550	19,701	13,849	11,286	2,563
Provision for staff leaving indemnity	21,256	1,634	19,622	19,380	242
Debentures and bonds	150,000	0	150,000	150,000	0
Liabilities with banks	375,148	55,209	319,939	275,275	44,664
Other financial providers	21,973	1,553	20,420	13,654	6,766
Trade payables	246,124	60,699	185,425	184,796	629
Advances/other payables	79,904	8,621	71,283	113,741	(42,458)
Payables to subsidiary - associated - parent companies	5,204	8,517	(3,313)	215,410	(218,723)
Total payables	878,353	134,599	743,754	952,876	(209,122)
Accrued expenses and deferred income	17,097	832	16,265	14,653	1,612
Total liabilities and net equity	1,475,348	156,766	1,318,582	1,240,634	77,948
Net equity effect deriving from change in the area of consolidation		81,081	(81,081)		(81,081)

B) FIXED ASSETS

I - INTANGIBLE ASSETS

This item may be broken down as follows:

	31.12.2001		31.12.2000		Change
	Gross	Net	Gross	Net	
Start-up and expansion costs	19,312	12,116	4,406	329	11,787
Research, development and advertising costs	3,634	427	3,175	360	67
Patent rights	18,768	3,241	17,549	3,439	(198)
Licences, trademarks and similar rights	134,598	92,300	133,234	98,682	(6,382)
Goodwill	351,006	324,561	289,567	281,647	42,914
Sundry items	7,862	2,531	6,042	2,094	437
TOTAL	535,180	435,176	453,973	386,551	48,625

The intangible assets increased by 48,625 T/Euros, above all as a result of the increase in the items "Goodwill" and "Start-up and Expansion costs".

The item "Start-up and expansion costs" increased by 11,787 T/Euros, above all as a result of the capitalisation of the expenses incurred to gain admission to a listing in the Milan Stock Exchange (a total of 14,675 T/Euros). These expenses include the costs relative to the preparation of a prospectus and other fees tied to the operation, including the financial costs tied to the placing of shares and communication and market reporting costs.

The goodwill increased by 42,914 T/Euros compared to 31.12.2000; the increase primarily reflects the difference arising as a result of the takeover of the Kenwood Group (60,192 T/Euros) and accumulated amortisation (17,917 T/Euros); The "Goodwill" is based on a comparison between the purchase cost and the company's net equity as of the purchase date, adjusted to account for restructuring costs, as well as the goodwill already entered in the Kenwood Group's accounts.

The goodwill relative to the acquisitions made at the end of December 2000 were confirmed through the assessments of independent experts, carried out using the income method. Said assessments were substantially validated by an update issued in March 2002 by an independent professional.

As no final estimates are yet available to permit a precise attribution, the goodwill arising from the takeovers completed in the first 12 months of 2001 have been temporarily ascribed to the intangible assets item "Goodwill".

Said differences are amortised considering a useful life of 20 years, a period deemed consistent with the future utility of the assets (mainly trademarks and buildings) to which the aforementioned differences will be reasonably attributed.

The table below shows the changes occurring in the main intangible assets items in 2001:

	Start-up and expansion costs	Research and Development costs	Patent rights	Licences, trademarks and similar rights	Goodwill	Sundry items	Total
Net opening balance	329	360	3,439	98,682	281,647	2,094	386,551
Change in the area of consolidation				103	60,192	14	60,309
Increases	14,906	463	1,807	453	621	1,248	19,498
Decreases			(2)			(10)	(12)
Amortisation	(3,119)	(393)	(1,417)	(7,511)	(17,917)	(970)	(31,327)
Translation differences and Other changes		(3)	(586)	573	18	155	157
Net closing balance	12,116	427	3,241	92,300	324,561	2,531	435,176

II- TANGIBLE ASSETS

The tangible assets may be broken down as follows:

	31.12.2001		31.12.2000		Changes
	Gross	Net	Gross	Net	
Land and buildings	132,413	95,504	123,256	91,096	4,408
Plant and machinery	235,239	62,567	189,829	58,743	3,824
Industrial equipment	112,703	24,840	90,144	20,770	4,070
Sundry items	31,033	8,411	21,704	5,837	2,574
Tangible assets under construction and advances	2,369	2,369	1,264	1,264	1,105
TOTAL	513,757	193,691	426,197	177,710	15,981

The 15,981 T/Euro increase above all reflects the broadening of the area of consolidation following the takeover of Kenwood, which accounts for about 20 million Euros, purchases made during the year, amounting to 35.9 million Euros, and the 38.4 million Euros in accumulated depreciation calculated for the year.

The item includes assets acquired through leasing, which may be broken down as follows (values net of accumulated depreciation):

	2001	2000	Change
Buildings	6,549	6,795	(246)
Plant and equipment	7,877	9,240	(1,363)
Other goods	187	144	43
Total	14,613	16,179	(1,566)

The table below shows the changes occurring in the main tangible asset items in 2001.

	Land and building s	Plant and machine ry	Industrial and commercial equipment	Sundry items	Tangible assets under construction and advances	Total
Net opening balance	91,096	58,743	20,770	5,837	1,264	177,710
Change in the area of consolidation	2,764	9,649	5,289	1,562	616	19,880
Increases	4,793	11,905	13,551	4,180	1,472	35,901
Decreases	(3)	(1,513)	(1,130)	(385)	(237)	(3,268)
Amortisation and depreciation	(3,953)	(17,893)	(13,586)	(2,978)		(38,410)
Translation diff. and other changes	807	1,676	(54)	195	(746)	1,878
Net closing balance	95,504	62,567	24,840	8,411	2,369	193,691

III- FINANCIAL ASSETS

1- Equity investments

Below is a breakdown of share capital investments that have not been consolidated with the integral method:

	Book value
Subsidiary companies:	
Clim.Re Sa	1,245
Associated companies:	
Omas S.r.l.	1,171
Effegici S.r.l.	71
Parex Industries Ltd.	0
Fiduciaria Comitalia	3,142
Total associated co.	4,384
Other companies	162
Total	5,791

The subsidiary Clim.Re Sa, which provides limited insurance services to some Group companies, has not been integrally consolidated as its activities are outside the sphere of the Group's core business. It has been consolidated with the equity method, like the other associated companies.

The investment held through the Comitalia trust company pertains to a company that mainly produces finished products on behalf of the Group; with respect to said investment, the Group has availed itself of its right under applicable laws (art. 39 Leg. decree 127/91) to omit the name of the subsidiary in order to avoid causing prejudice to the latter or to Group companies.

In order to gain better control and secure the Group's position in the strategic market of Oceania, at the beginning of May a 49% stake was acquired in Parex Industries Ltd., which distributes De' Longhi Group products in New Zealand and Australia. Within the context of this transaction, a significant portion of the amounts receivable

from the distributor were collected, for a total of NZD 13.8 million; moreover, an interest-bearing loan of the same amount was granted, guaranteed by the company's assets, to help bring the deal to a close.

At the end of December 2001 the stake in Liguria Vita S.p.A. was sold to De' Longhi Soparfi SA for a total of 3,099 T/Euros, with capital gains of 1,313 T/Euros. The aforesaid amount has been collected in full.

2- Receivables

The total refers to:

	2001	2000	Change
Receivables from associated companies	6,196	-	6,196
Receivables from others			
- due within 12 months	874	963	(89)
- beyond 12 months	2,932	3,313	(381)
Total	10,002	4,276	5,726

The receivables from associated companies principally refer to credit granted to Parex Industries Ltd.; the loan will be repaid in monthly instalments, the last of which due on 31/03/2005, and earns interests in line with market rates (see previous paragraph).

C) CURRENT ASSETS

I- INVENTORY

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

	2001	2000	Change
Raw materials	62,111	67,661	(5,550)
Work in progress	23,441	21,296	2,145
Finished products	149,294	102,411	46,883
Total	234,846	191,368	43,478

The value of inventories has been adjusted through an inventory devaluation provision of 7,771 T/Euros (4,235 T/Euros in 2000) for products and raw materials that turn over slowly or are obsolete and considered no longer strategic for the Group.

The increase in inventories is mainly ascribable to the consolidation of Kenwood, which accounts for about 45,000 T/Euros. Considering a comparable area of consolidation, the value of inventories decreased by 1,571 T/Euros compared to 2000, despite an increase in business, due to the efforts undertaken in 2001 to reduce operating capital.

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

II – RECEIVABLES

The breakdown is as follows:

1- Receivables from companies

Trade receivables are shown net of a provision for doubtful debts of 11,703 T/Euros, which represents a reasonable estimate of risk, as assessed at the time the financial statements were drawn up, and was prudentially set aside against some credits in litigation and whose collection is in any case dubious.

The table below summarises the changes in the provision for doubtful debts.

	2000	Change in the area of consolidation	Increase	Decrease	Trans. diff.	2001
Prov. for doubtful debts	5,902	2,019	6,222	(2,484)	44	11,703

The increase in trade receivables is mainly attributable to the change in the area of consolidation, which accounts for about 61,440 T/Euros; considering a comparable area of consolidation, the change reflects an improvement in collection times compared to 2000, taking into account that business increased in the same period.

The Parent Company received guarantees from customers totalling 631 T/Euros, which served to cover commercial transactions.

3- Receivables from associated companies

This item includes commercial credits vis-à-vis the associated companies Omas S.r.l. (745 T/Euros) and Parex Industries Limited (6,283 T/Euros).

4- Receivables from parent companies

The receivables from parent companies may be broken down as follows:

	2001	2000	Change
De' Longhi Soparfi	3,770	14,652	(10,882)
De' Longhi Holding	22	22	0
Total	3,792	14,674	(10,882)

In 2001, approximately 13,981 T/Euros was collected of the amount receivable from the parent De' Longhi Soparfi as at 31 December 2000. The amount shown as at 31 December 2001 mainly regards the transfer of the stake in Liguria Vita S.p.A.. Said amount has been collected in full.

5- Receivables from others

The item "Receivables from others" includes:

	2001	2000	Change
Tax credits	36,384	29,488	6,896
Deferred tax assets	27,772	18,736	9,036
Advances to personnel and other receivables	3,945	9,457	(5,512)
Advances to suppliers	3,890	1,778	2,112
Total receivables from others	71,991	59,459	12,532

This item increased by 12,532 T/Euros, mainly as a result of a 6,896 T/Euro increase in tax credits and 9,036 T/Euros of taxes paid in advance.

The item "Tax credits" primarily refers to 10,044 T/Euros in credits for direct taxes and 23,714 T/Euros in credits for indirect taxes. The increase in this item reflects the higher credits for direct taxes paid in advance (6,900 T/Euros), offset by the decrease in credits for indirect taxes (2,600 T/Euros), which reflects the VAT credits that were recovered exploiting the Group intercompany clearing principle, as per Ministerial Decree 13/12/79 Art. 1 and subsequent modifications. Exploiting the same principle will enable the Group to further reduce its VAT credits in 2002.

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

The overall balance of advance taxes as at 31 December 2001 is broken down as follows:

	2001	2000	Change
- <i>temporary differences (taxed funds, etc.)</i>	14,673	10,509	4,164
- consolidation adjustments	13,099	8,228	4,871
Total	27,772	18,737	9,035

The amount also includes advance taxes deriving from the consolidation of the Kenwood Group, which made it necessary, on completion of the takeover, to adjust the net equity as a prudential measure against the risks tied to some potential liabilities, entered under the liability item "Provision for litigation risks", and some non-expressed assets.

The credit for advance taxes does not include the 11,500 T/Euros relative to the benefit, to which some Group companies are entitled, for losses that may be carried forward for tax purposes, since at present there is no reasonable certainty of their being recovered.

III- Short-term financial assets

This item includes bonds, government bonds and stocks purchased for the purpose of utilizing cash surpluses.

IV- Liquid funds

This item refers to surpluses in transaction accounts with lending institutions and bank cheques received from some foreign branch divisions but not deposited in current accounts before 31 December, consisting mainly in payments collected from customers at the end of the year.

D) ACCRUED INCOME AND PREPAYMENTS

This item may be broken down as follows:

	2001	2000	Change
<u>Accrued income:</u>			
Financial incomes	9,144	9,974	(830)
C.2.1 Prepaid expenses:			
Advertising and insurance costs	947	628	319
Financial expenses	2,587	929	1,658
Others	4,181	676	3,505
<i>Total prepaid expenses</i>	<i>7,715</i>	<i>2,233</i>	<i>5,482</i>
<i>C.2.1.a Total accrued income and prepayments</i>	16,859	12,207	4,652

The accrued income is mainly related to earnings on interest and exchange rate hedging transactions.

As regards the prepaid expenses, the item “Financial expenses” refers above all to a once-for-all commission paid on issue of a bond loan and expenses related to exchange-rate hedging transactions.

The item “Others” mainly refers to stock liquidation operations carried out by some foreign-based companies in 2001.

NOTES TO THE MAIN LIABILITY ITEMS

A) SHAREHOLDER'S EQUITY

The movements of the items making up net equity are shown in specific schedules; below we provide some notes regarding the main items and their changes.

I- SHARE CAPITAL

This item increased as a result of:

- A paid capital increase amounting to 129,417 T/Euros, which was approved on 18 April 2001 and fully paid up. At the same meeting it was also decided to convert the capital into Euros and to combine the shares issued by increasing their face value to 3 Euros;
- Share capital increase resulting from the public offering which took place on the occasion of the listing on the Milan Stock Exchange on 23/07/01. The operation consisted in a public offering of 37,500,000 ordinary shares in De' Longhi S.p.A. at the value of 3.4 Euros each; 11,055,000 shares were made available to the public at large in Italy and 26,445,000 shares were privately placed with professional investors in Italy and institutional investors abroad, for a total counter-value of 127.5 million Euros. Following the aforesaid public offering, the share capital of De' Longhi S.p.A. consists of 149,500,000 shares with a face value of 3 Euros and worth a total of 448.5 million Euros.

II – ADDITIONAL PAID-IN CAPITAL

Following the aforesaid public offering, a share premium reserve of 15,000 T/Euros was established.

IV- LEGAL RESERVE

As at 31 December 2000, this item totalled 2,358 T/Euros. The increase of 896 T/Euros compared to 2000 reflects the portion of the profits for the year 2000 appropriated to the reserve on approval of the shareholders at the general meeting of 18 April 2000.

VII- OTHER RESERVES

Extraordinary reserve

The extraordinary reserve amounts to 34,588 T/Euros; The 16,904 T/Euro increase compared to 31 December 2000 reflects the allocation of the Parent Company's profit for the year 2000.

In 2000 the Group adjusted the values of some categories of assets, to align the values recognised for tax purposes with the higher values disclosed in the financial statements; in accordance with the applicable laws, a fiscal constraint was placed on the net equity item "Extraordinary reserve" (17,560 T/Euros), the balance-sheet item "Legal reserve" (2,324 T/Euros) and the item "Share capital" (99,934 T/Euros), for an overall total of 119,818 T/Euros.

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 minorities is disclosed as 291 T/Euros. The table below itemizes the minority interests held and the corresponding values with regard to net equity and the operating result.

Company	% minority interest	Net equity	Operating result
E-Services S.r.l.	49%	162	124
Sile Corpi Scaldanti S.r.l.	8.33%	119	41
Climaveneta GmbH	30%	10	49
Total		291	214

A comparison between the net equity and operating result of the Parent Company De'Longhi S.p.A. and the consolidated net equity and operating result is shown below:

	Net equity	Net equity	Profit for the year	Profit for the year
	2001	2000	2001	2000
Financial statements of the Parent Company	507,482	244,425	6,140	17,801
Difference between Net Equity of affiliates and book value of shareholdings, net profit of consolidated companies, movements in the area of consolidation and write-off of dividends	13,073	(35)	17,667	2,898
Elimination of intercompany profits	(27,711)	(29,352)	(2,276)	(10,970)
Other adjustments	31,957	27,072	4,790	4,722
Consolidate shareholder's equity	524,801	242,110	26,321	14,451
Minorities	291	329	214	105
Consolidated financial statements	525,092	242,439	26,535	14,556

B) PROVISIONS FOR CONTINGENCIES AND OBLIGATIONS

1- Provisions for agents leaving indemnity and similar obligations

This item includes a "supplementary customer indemnity provision", consisting in sums 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 of the civil code, as applied by the collective Business Agreements in force.

The provision underwent the following changes:

	2000	Withdrawals	Allocations	Var in. area of consolid.	Trans . diff.	2001
Agents leaving indemnity	3,308	(302)	782	640	6	4,434

3- Other provisions

The 21,138 T/Euro increase is mainly due to the change in the area of consolidation. The breakdown is as follows:

	2000	Withd ra.	Allocat.	Change in area of consolidation, others (*)	Trans. differen ce	2001
Product warranty fund	1,232	(113)	596	863	9	2,587
Provision for exchange rate fluctuations	0	0	94	0	0	94
Provision for returned goods	678	0	182	714	(4)	1,570
Provision for losses on investments	0	0	645	0	0	645
Provision for litigation risks	5,397	(3,299)	1,641	14,854	3	18,596
Other provisions	671	(1,385)	2,653	3,796	(111)	5,624
Total	7,978	(4,797)	5,811	20,227	(103)	29,116

(*) These mainly regard reclassifications of other balance sheet items.

The product warranty fund has been set aside on the basis of a prudential estimate of warranty services to be performed on products sold as at 31 December 2001.

The provision for losses on investments relates to the share capital investment in the associated company Parex Industries Ltd.

Since 31 December 2000, the provision for litigation risks has risen by 13,199 T/Euros. The increase is due above all to the consolidation of Kenwood, which made it necessary, on completion of the takeover, to adjust the net equity of the acquired stake to take into account the risks tied to some potential liabilities, amounting to 13,388 T/Euros, and some non-expressed assets classified among the operating capital items under the heading "receivables from others".

The provision also includes sums prudentially set aside against risks of a varying nature that could determine the emergence of potential liabilities; more specifically, the sums prudentially set aside include 1,084 T/Euros to cover the risk of liabilities that may arise in connection with some claims against products sold in the American market (solely the insurance deductible that must be paid by the Parent Company). This item was lower than in 2000, thanks to the settlement of several claims. The Group is also involved in litigation with third parties and in some cases the damages claimed are considerable; in this regard, we shall note that, based on the different expert opinions we have heard, we do not believe there are any reasonable grounds for fearing that such claims will be enforced, hence the Group's financial position should not be materially affected.

The Parent Company and a subsidiary, Elba S.p.A., approved and signed an assessment issued by the Revenue Dept. of Treviso, in connection with auditing proceedings initiated by the Tax authorities for the years from 1995 to 1998. The assessment resulted in expenses for taxes (plus fines and interests) amounting to 2,095 T/Euros, of which 2,032 T/Euros were ascribed to "Extraordinary expenses" and 63 T/Euros to "Financial expenses".

C) STAFF LEAVING INDEMNITY

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

	Managers	Office staff	Workers	Total
Opening balance 01.01.01	1,774	6,111	11,495	19,380
Accruals	494	2,062	3,133	5,689
Indemnities paid	(568)	(1,750)	(3,065)	(5,383)
Change in area of consolidation and other reclassifications	7	1,637	(74)	1,570
Closing Balance 31.12.01	1,707	8,060	11,489	21,256

The table below shows the number of employees per category (Group Workforce as at 31/12/01 and average 2001):

	31/12/2001	Average 2001	31/12/2000 (*)	Average 2000 (*)
Workers	3,454	3,609	2,747	2,754
Office staff	1,650	1,652	1,057	1,058
Managers	91	89	56	55
Total	5,195	5,350	3,860	3,867

(*) The figures as at 31/12/2000 do not take into account the acquisition of the Kenwood Group.

D) PAYABLES

1-Debentures

The amount disclosed in the financial statements refers to the bond loan listed on the Luxembourg Stock Exchange, issued by the subsidiary company De' Longhi Pinguino SA in April 2000 for a total of 150 million Euros, which will mature in 2003 and accrues interests with an annual coupon of 5.625%. This loan is not secured by guarantees.

2- Bank loans and overdrafts

The payables to banks are broken down as follows:

	Within one year	From one to five	Over five	Balance as at 31/12/01	Balance as at 31/12/00	Change
Current accounts	4,635			4,635	6,957	(2,322)
Short-term loans in Euro or foreign currency	144,774			144,774	89,747	55,027
<i>Loans on bills portfolio</i>	2,533			2,533	28,814	(26,281)
Loans on invoice advances	6,066			6,066	-	6,066
Short-term part of long-term loans	16,418			16,418	31,642	(15,224)
Total short-term payables to banks				174,426	157,160	17,266
Long-term loans		198,394	2,328	200,722	118,115	82,607
Total payables to banks	174,426	198,394	2,328	375,148	275,275	99,873

Part of the payables to banks - a total of 20,000 T/Euros - is secured by mortgages on tangible property for an amount of 37,020 T/Euros.

Shares of the company Kenwood Appliances Plc. have also been pledged to secure a loan provided by a pool of banks to De' Longhi for the acquisition of the Kenwood Group.

For a more complete picture of the changes occurring in the Group's net financial standing, see the summary table provided in the director's report on performance and the cash flow statement.

4- Other financing payables

This item mainly refers to the amounts payable based on the costing of leasing contracts using the financial method and an advance received from a factoring company for a transfer of debts with recourse.

5- Advances

They refer to advances received from customers for supplies and as guarantee deposits.

6- Trade payables

The balance represents the amounts the Group must pay to third parties for the supply of goods and services; this item rose by 61,328 T/Euros compared to 2000, mainly due to the broadening of the area of consolidation.

8- Payables to subsidiary companies

This item regards 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 commercial debts payable to Omas S.r.l.

10- Payables to parent companies

The amount shown includes 147 T/Euros in interests payable to De' Longhi Soparfi SA on loans paid off during the year. It also includes 11 T/Euros payable to De' Longhi Holding.

The amount payable, without interest, to De' Longhi Soparfi SA for the acquisition of shares taking place at the end of December 2000 was settled in full in 2001.

11- Tax payables

The breakdown is as follows:

	2001	2000	Change
Direct tax payables	33,615	31,753	1,862
Indirect tax payables	7,090	2,792	4,298
Withholding tax payables	2,883	3,377	(494)
Other tax payables	445	454	(9)
Total Tax Payables	44,033	38,376	5,657

The item "Tax payables" rose by 5,657 T/Euros, mainly as a result of the increase in indirect taxes payable by some foreign-based companies, amounting to 4,298 T/Euros. The 1,862 T/Euro increase in the item "Direct tax payables" reflects the change in the area of consolidation, offset by the payment of the first instalment of 7,587 T/Euros of the substitute tax due in consequence of the value adjustments made by the Parent Company in 2000 to align the fiscal values of assets to the higher values disclosed in the financial statements.

12- Social Security payables

The amount shown includes payables to Social Security Institutions (5,039 T/Euros), Inail (National Insurance Institute for Industrial Accidents: 152 T/Euros) and other institutions (1,234 T/Euros).

13- Other payables

This item may be broken down as follows:

	2001	2000	Change
To personnel	17,733	14,632	3,101
To third parties for acquisition of shares	-	47,300	(47,300)
Others	9,864	5,473	4,391
Total Other Payables	27,597	67,405	(39,808)

The item "Payables to personnel" includes the amounts accrued but not yet paid as at the balance-sheet date.

The item payable "To third parties for acquisition of shares" included, in 2000, the residual amount payable, without interest, for the purchase of shares in DL Radiators S.p.A. from Xarroco Marketing Investments Ltda.; the amount was paid in full in 2001.

E) ACCRUED LIABILITIES AND DEFERRED INCOME

This item may be broken down as follows:

	2001	2000	Change
<u>Accrued liabilities:</u>			
Expenses for hedging transactions	4,280	3,583	697
Interests on bond loan issues	5,710	5,710	0
Other accrued expenses	3,221	2,851	370
<i>Total Accrued liabilities</i>	<i>13,211</i>	<i>12,144</i>	<i>1,067</i>
<u>Deferred income:</u>			
<i>Total Deferred Income</i>	<i>3,886</i>	<i>2,509</i>	<i>1,377</i>
Total Accrued Liabilities and Deferred Income	17,097	14,653	2,444

The expenses for hedging transactions refer to forward contracts in which the Group entered to hedge exchange rate risks.

The interests on bond loans refer to the financial expenses on the bond loan issued by De' Longhi Pinguino SA (for further information see the section "Debentures").

Financial hedging instruments and other derivative contracts

In order to reduce its exposure to the financial risks tied to international commercial and financial transactions as a result of fluctuations in exchange and interest rates, the Group relies on hedging contracts within the limits defined by typical operating requirements. As at 31 December 2001, the nominal values of derivatives (net of any transactions that offset each other) currently in force were as follows:

Exchange rate derivatives: these include hedging transactions serving to guarantee a pre-established collection (or payment) exchange rate in the different currencies. They include both forward transactions and structured options for the currencies in which the Company's exposure is greatest (USA Dollar, Pound Sterling, Yen, Canadian dollar).

The income statement for the year only partially reflects the total positive financial effects we expect to derive from our hedging transactions, largely as a result of transactions involving the sale of Yen.

As at 31 December 2001, the nominal values of derivatives (net of any transactions that offset each other) currently in force were as follows:

sale of USD against EUR	USD	62,000,000
sale of GBP against EUR	GBP	64,500,000
sale of JPY against EUR	JPY	2,700,000,000
sale of CAD against EUR	CAD	10,500,000
sale of NZD against EUR	NZD	14,277,360
sale of USD against GBP	USD	26,000,000

Interest rate derivatives: these are financial instruments that the Group uses in order to fix, in advance, a ceiling (in terms of the interbank rate, representing the benchmark for Group indebtedness) on the costs it will have to pay for part of its financial debts. These instruments traditionally have a term of several years and can also be "linked" to specific operations to raise funds in capital markets.

Of the total existing as at 31 December 2001, 150 million Euros specifically relate to a bond loan issued on the Euromarket by De' Longhi Pinguino S.A. in 2000, which falls due in April 2003.

We shall point out that the centralised management activities, insofar as the hedging of exchange and interest rate risks is concerned, will be transferred in 2002 from the parent to another group company, which will be dedicated exclusively to this activity.

MEMORANDUM ACCOUNTS

The breakdown is as follows:

	2001	2000	Change
<i>Property c/o third parties</i>	-	1,244	(1,244)
<i>Other commitments</i>	1,746	884	862
<i>Guarantees on behalf of correlated parties</i>	1,236	3,976	(2,740)
<i>Guarantees on behalf of third parties</i>	9,075	6,422	2,653
<i>Total</i>	12,057	12,526	(469)

The item “Guarantees on behalf of correlated parties” mainly includes guarantees provided by De’ Longhi S.p.a. to Immobiliare Findomestic S.r.l., against a pre-existing leasing contract stipulated by the latter with Basileasing S.p.a. .

The item “Guarantees on behalf of third parties” includes:

- guarantees amounting to 6,016 T/Euros provided by the subsidiary De’ Longhi America Inc. to secure a long-term lease agreement stipulated in 1999 and expiring in 2006;
- other minor guarantees provided to third parties; they were mainly issued by the subsidiary companies Climaveneta S.p.a. and Climaveneta Deutschland GmbH.

NOTES TO THE MAIN ITEMS COMPRISING THE INCOME STATEMENT

The data for 2000 and 2001 are not comparable since, as noted previously, the area of consolidation has undergone significant change.

In fact, the 2000 data include neither the companies acquired in December 2000 nor the Kenwood Group. For a comparison of profitability data, see the director's report on performance, which includes an assessment based on comparable pro forma data.

A) VALUE OF PRODUCTION

Below is a breakdown of the income from sales and services and other income.

Income by geographical region:

	2001	%	2000	%
Italy	322,100	26.9	231,928	35.9
United States, Canada and Mexico	150,500	12.6	102,775	15.9
Japan	62,300	5.2	53,195	8.2
Great Britain	178,400	14.9	50,613	7.8
Others in Europe	319,600	26.7	158,551	24.6
Rest of the World	165,032	13.8	48,520	7.5
Total	1,197,932	100	645,582	100

Income by product lines:

	2001	%	2000	%
Cooking and food preparation	503,200	42.0	208,132	32.2
Heating	246,200	20.6	168,365	26.1
Air conditioning and climate control	256,500	21.4	165,266	25.6
<i>Home cleaning and ironing</i>	144,500	12.1	69,205	10.7
Others	47,532	4.0	34,614	5.4
Total	1,197,932	100	645,582	100

5- Other income

The item "Other income" comprises:

	2001	2000	Change
Transportation refunds	8,434	4,690	3,744
Trade fees	440	1,141	(701)
Contingent assets	7,362	3,131	4,231
Compensation for damage	1,665	865	800
Capital gains	158	95	63
Other sundry incomes	1,930	4,060	(2,130)
Total	19,989	13,982	6,007

The transportation refunds include amounts debited to customers for transport expenses incurred.

The contingent assets include 1,549 T/Euros in insurance indemnities received from Assicurazioni Generali S.p.A., a tax credit of 696 T/Euros accrued in our favour, pursuant to Law 388/ 2000, in virtue of the increase in the number of our employees, 841 T/Euros in contributions for operating expenses, related to funding for applied research granted under Law 46/82, and another sum deriving from the utilisation of funds previously set aside and no longer deemed necessary.

B) PRODUCTION COSTS

6- For raw and subsidiary materials and goods

The breakdown is as follows:

	2001	2000	Change
Purchases of raw materials	177,738	50,037	127,701
Purchases of components	202,845	167,745	35,100
Purchases of finished products	205,573	88,973	116,600
Other sundry purchases	7,505	16,357	(8,852)
Total	593,661	323,112	270,549

7- For services

The item "Services" is broken down as follows:

	2001	2000	Change
Advertising	51,601	33,119	18,482
Temporary work	3,364	2,373	991
Outsourcing	26,756	20,746	6,010
Commissions	24,539	14,437	10,102
Transport	48,189	27,629	20,560
Technical services	8,035	7,547	488
Travel and promotional expenses	19,516	10,597	8,919
Insurance expenses	6,205	2,142	4,063
Warehouse expenses and contributions	9,474	5,821	3,653
Consulting services	11,144	6,162	4,982
Utilities	8,323	4,043	4,280
Postal and telegraph services	3,247	2,172	1,075
Third-party maintenance services	5,176	2,799	2,377
Other sundry services	22,402	16,286	6,116
Total	247,971	155,873	92,098

10- Amortisation, depreciation and write-downs

Amortisation and depreciation amounted to 69,737 T/Euros, broken down as follows:

<i>Amortisation of goodwill</i>	<i>17,917 Euros</i>
<i>Amortisation of intangible assets</i>	<i>13,410 Euros</i>
<i>Depreciation of tangible assets</i>	<i>38,410 Euros</i>
<i>Total</i>	<i>69,737 Euros</i>

For further details, see the schedules reporting the changes in tangible and intangible assets.

12- Provisions for risks

These items mainly refer to accruals to the provision for litigation risks, product warranty fund and supplementary customer indemnity provision, previously commented in the section on “Other provisions”.

14- Sundry operating expenses

The breakdown is as follows:

	2001	2000	Change
Contingent liabilities	1,319	844	475
Sundry taxes and duties	3,479	1,256	2,223
Losses on credits	433	162	271
Other sundry expenses	3,857	2,150	1,707
<i>Total</i>	9,088	4,412	4,676

C) FINANCIAL INCOME AND EXPENSES

	2001	2000	Change
Incomes from:			
- Capital gains on sales	1,314	2,583	(1,269)
- Dividends and tax credits	63	1,797	(1,734)
Total income from equity investments (a)	1,377	4,380	(3,003)

The capital gains realised during the financial period refer to the transfer of the stake in the subsidiary Liguria Vita S.p.A. (for further details, see the section “Area of consolidation”).

The item "dividends" refers to tax credits on dividends collected by E-Services Srl.

Other financial income	2001	2000	Change
Incomes from:			
- Subsidiary companies	-	35	(35)
- Associated companies	374	-	374
- Parent companies	-	207	(207)
- Other income:			
- from banks	2,002	4,162	(2,160)
- exchange rate gains and transactions in derivatives	32,090	23,882	8,208
- sundry incomes	1,071	1,832	(761)
Total (b)	35,537	30,118	5,419
Interests and financial expenses	2001	2000	Change
Payable to subsidiary companies	72	211	(139)
Payable to parent companies	147	3,430	(3,283)
Payable to others:			0
- Interests payable on M.T. debts	15,217	12,055	3,162
- Interests on payables to banks	13,691	2,281	11,410
- Interests payable on bond loan issues	8,437	5,710	2,727
- Exchange rate losses and expenses for derivative transactions	23,833	19,984	3,849
- Other financial expenses	14,023	6,724	7,299
Total (c)	75,420	50,395	25,025
Total Financial Income (Expenses) (a + b - c)	(38,506)	(15,897)	22,609

The sundry financial expenses mainly regard factoring commissions, financial discounts and bank charges.

D) ADJUSTMENTS TO FINANCIAL ASSETS

This item is related to the valuation of share capital investments, appraised using the equity method, and includes a write-down of the investment in the associated company Parex Ind. Ltd. and a revaluation of the investment in Omas S.r.l..

E) EXTRAORDINARY INCOME AND EXPENSES

20 – Extraordinary income

The breakdown is as follows:

	2001	2000
Capital gains on sales	547	152
Reclassification of operating result prior to acquisition of the Kenwood group	4,300	-
Other income	1,668	1,714
Total	6,515	1,866

The item “reclassification of Kenwood pre-takeover result” regards the integral consolidation, which, in accordance with generally accepted accounting principles, resulted in the classification of the share of profits ascribable to the previous period (1 January – 28 February 2001) under the item extraordinary income (expenses), as the group attained control at the end of February 2001. The operating result reported thus includes Kenwood's profits only for ten months.

21- Extraordinary expenses

The breakdown is as follows:

	2001	2000
Taxes pertaining to previous years	1,836	-
Restructuring costs	4,765	-
Other extraordinary expenses	5,652	12,161
Total	12,253	12,161

The taxes pertaining to previous years are mainly relative to expenses for the approved tax assessment carried out in 2001, in consequence of which the parent company had to pay 1,827 T/Euros in taxes and fines.

The item “Restructuring costs” refers above all to:

- restructuring costs borne by Kenwood in order to complete its reorganisation plan, especially in the first two months of the year, and accessory costs connected to the acquisition made by De’ Longhi.
- closure of the Ariagel S.p.A. production centre, which resulted in the termination of the company's production in the factory in Candiolo (TO) and its transfer to the production facility belonging to the Parent Company, De’ Longhi S.p.A.. This restructuring operation resulted in the collective dismissal of personnel (pursuant to Law 223/91 art. 4 and 24) assigned to production activities and total liabilities of 1,301 T/Euros comprising extraordinary costs for indemnities and various appropriations.
- closure of the Simac-Vetrella S.p.A. production centre in Dolo (VE) and transfer of production to the company's other factory in Gorgo al Monticano (TV). This restructuring operation resulted in extraordinary expenses amounting to 433 T/Euros for staff turnover.

The other extraordinary expenses include retirement incentives paid during 2001 and expenses pertaining to previous years.

22- Taxes on income for the year

The item comprises:

	2001	2000
Current taxes	21,080	15,263
Deferred (advance) taxes	1,994	6,140
Total	23,074	21,403

Financial and business relations with parent companies, non-consolidated subsidiaries, associated companies and related parties

Annex n. 3 provides the information required under CONSOB regulations (Communications n. 97001574 issued on 20.2.97 and n. 98015375 issued on 27.2.98).

Directors' and Auditors' fees

Annex n. 4 provides the information required under CONSOB regulations (directive n. 11971 issued on 14.05.1999).

Stock options allotted to Directors

Annex n. 5 provides the information required under CONSOB regulations (directive n. 11971 issued on 14.05.1999).

Subsequent events

For any information not provided herein, you may refer to the Director's report on performance.

Treviso, March 27th 2002

De' Longhi S.p.A.
On behalf of the Board of Directors
The Managing Director
Stefano Beraldo

Annexes to explanatory notes

These annexes contain additional information to that set out in the Notes to the consolidated financial statements, of which they are part as a whole.

The information is contained in the following annexes:

1. List of the companies included in the area of consolidation
2. Schedule of revalued assets
3. Financial and business relations with parent, subsidiary, associated companies and related companies
4. Fees paid to Directors and Statutory Auditors
5. Stock-Options allotted to Directors

**List of companies included in the area of consolidation
as at 31st December 2001**

(includes all interests above 10 percent as per CONSOB's directive n. 11971 dated 14/05/1999)

(Explanatory notes - Annex n. 1)

**List of companies included in the consolidated financial statement with
the integral method:**

Company name	Registered office	Curren y	Share Capital	Shares held	
				Directl y	Indirectl y
ARIAGEL SPA	Candiolo (TO)	EUR	765.000	100%	
LA SUPERCALOR SPA	Seregno (MI)	EUR	520.000	100%	
SIMAC-VETRELLA SPA	Gorgo al Monticano (TV)	EUR	365.000	100%	
DE' LONGHI PINGUINO SA	Luxembourg (L)	EUR	26.500.000	100%	
DL RADIATORS SPA	Treviso	EUR	5.000.000		100%
DE' LONGHI AMERICA INC.	Saddle Brook (U.S.A.)	USD	9.100.000	100%	
DE' LONGHI LTD	Wellingborough (G.B.)	GBP	4.000.000	100%	
DE' LONGHI FRANCE SARL	Asnieres Cedex(F)	EUR	2.699.388	100%	
DE' LONGHI NEDERLAND BV	DB Leiden (NL)	EUR	226.890	100%	
DE' LONGHI CANADA INC.	Mississauga (CAN)	CAD	1	100%	
E- SERVICES SRL	Treviso	EUR	50.000	51%	
DE' LONGHI JAPAN CORP	Tokyo (JAP)	JPY	50.000.000		100%
DE' LONGHI DEUTSCHLAND GMBH	Mainhausen (D)	EUR	2.100.000		100%
DL CLIMA POLSKA SP.ZO.O	Varsavia (P)	PLZ	4.000		100%
Company held through a trust com (1)	Nurenberg (D)	EUR	25.565		100%
ELBA SPA	Treviso	EUR	15.000.000		100%
SILE CORPI SCALDANTI SRL	Fossalta di Piave (VE)	EUR	93.600		92%
CLIMAVENETA SPA	Bassano G. (VI)	EUR	1.600.000	100%	
CLIMAVENETA GMBH	Norderstedt (D)	EUR	306.775		70%
KENWOOD APPLIANCES PLC	Havant (G.B.)	GBP	4.586.000		100%
KENWOOD MARKS LIMITED	Havant (G.B.)	GBP	2		100%
KENWOOD APPL. (HONG KONG) LTD	Hong Kong (Cina)	HKD	73.010.000		100%
TRICOM INDUSTRIES CO. LTD	Hong Kong (Cina)	HKD	4.500.000		100%
KENWOOD LTD	Havant (G.B.)	GBP	5.050.000		100%
KENWOOD INTERNATIONAL LTD	Havant (G.B.)	GBP	20.000.000		100%
ARIETE SPA	Prato (FI)	EUR	8.272.000		100%
KENWOOD APPL. (SINGAPORE) LTD	Singapore	SGD	500.000		100%
KENWOOD APPL. (MALAYSIA) LTD	Petaling Jaya (Malays)	MYR	3		100%
KENWOOD MANUFACTURING GMBH	Wr Neudorf (A)	EUR	36.337		100%
KENWOOD HOME APPL. PTY LTD	Blumberg Str. (South Africa)	ZAR	40.000		100%

(1) 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 to avoid causing damage to the latter or to other Group companies.

**List of companies included in the consolidated financial statement at
equity:**

Company name	Book value	Registered office	Curren y	Share Capital	Shares held	
					Directl y	Indirectl y
Subsidiaries:						
Climre SA	1.245	Luxembourg (L)	EUR	1.239.468	4%	96%
Associated companies						
Omas S.r.l.	1.171	S. Vittorio di Gualtieri (RE)	ITL	700.000.000 (2)	40%	
Effegici S.r.l.	71	Gorgo al Monticano (TV)	ITL	470.000.000 (2)	25%	
Parex Industries Ltd	0	Auckland (NZ)	NZD	7.600.000	49%	
Participation held through Comitalia Trust	3.142		ITL	1.000.000.00 0 (2)	40%	

Schedule of revalued assets

Euro thousands

(Explanatory notes - Annex n. 2)

Balance sheet item	Revalued assets			Total revaluation
	1995 merger deficit allocation	Law n.413/1991	Other revaluation	
Operational real estate	43.899	6.061	18.320	68.280
Plant and machinery	38.139	3	14.763	52.905
Industrial and commercial equipment		55	3.546	3.601
Vehicles		2	279	281
Trademarks and rights	119.353			119.353
Totals	201.391	6.121	36.908	244.420

Financial and business relations with parent, subsidiary, associated companies and related companies

Euro millions

(Explanatory notes - Annex n. 3)

	Revenues from sales	Other income	Raw material expenses and other	Financial income and expenses	Receivables	Payables
Parent companies:						
De' Longhi Soparfi SA (1)	-	-	-	(0,1)	3,8	(0,2)
Total parent companies	-	-	-	(0,1)	3,8	(0,2)
Subsidiaries: (2)						
Clim.Re SA	-	-	-	(0,1)	-	(1,5)
Total subsidiaries	-	-	-	(0,1)	-	(1,5)
Associated companies: (3)						
Omas S.r.l.	4,1	0,1	(5,9)	-	0,7	(3,6)
Parex Industries Limited	12,8	0,1	(0,4)	0,4	12,5	-
Comitalia Trust (6)	0,1	-	(4,5)	-	-	-
Total associated companies	17,0	0,2	(10,8)	0,4	13,2	(3,6)
Total subsidiaries and associated companies	17,0	0,2	(10,8)	0,3	13,2	(5,1)
Related companies:						
Nauta S.r.l. (4)	-	-	(0,5)	-	-	(0,1)
Italia Distribuidora (3)	-	-	-	-	0,3	-
Genesi S.r.l. (3)	5,8	-	-	-	4,5	-
Delta Erre Trust (3) (7)	-	0,1	(11,0)	-	0,1	(2,2)
Max Information S.r.l. (5)	-	-	(0,8)	-	-	(0,1)
Total related companies	5,8	0,1	(12,3)	-	4,9	(2,4)

(1) Receivables from De' Longhi Soparfi SA are mainly referred to the sale of the participation in Liguria Vita S.p.A..

(2) Amounts regarding financial expenses of De' Longhi S.p.A..

(3) Amounts regarding trade relations.

(4) Amounts regarding air plane services.

(5) Amounts regarding marketing expenses; Max Information S.r.L. is a company in which De' Longhi S.p.A.'s director, Mr. G. Sandri, is managing director.

(6) Referral to the section "Long-term investments – Share capital investments"

(7) The company mainly produces finished goods; for this purpose 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 to avoid causing damage to the latter or to other Group companies.

Besides what exposed above, there aren't other transactions with related parties, except for the fees paid to the Studio Biscozzi e Nobili, from which the Group, during year 2001, has acquired consulting services. For a more precise detail, please refer to the comments of the Explanatory Notes in Annex n. 4 "Fees paid to Directors and Auditors".

Fees Paid to Directors and Statutory Auditors
(art. 78 CONSOB's directive n. 11971 dated 14.5.1999)

Euro thousands

(Explanatory notes – Annex n. 4)

Interested party	Position description		Fees			
			Fees	Not financial benefits	Bonus and other incentives	Other fees
First and last name	Position held	Position lasting				
De' Longhi Giuseppe	President	01.01/31.12.01	331			18 (1)
De' Longhi Fabio	Vice-President	01.01/31.12.01	288	(2)		26 (3)
Beraldo Stefano	Managing Director	01.01/31.12.01	494	(4)		13 (5)
Sandri Giorgio	Director	01.01/31.12.01	21			
Gordon Colin James	Director	18.04/31.12.01	21			
Brunetti Giorgio	Director	18.04/31.12.01	21			1,6 (6)
Garavaglia Carlo	Director	18.04/31.12.01	21			1,6 (7)
Ponzellini Gianluca	President of the Board of Auditors	18.04/31.12.01	62			
Malerba Giancarlo	Statutory Auditor	18.04/31.12.01	41			
Lanfranchi Massimo	Statutory Auditor	18.04/31.12.01	41			

- (1) Fees due to positions held in other subsidiaries.
(2) The amount includes also the fee due to the position of Sales and Marketing Director of De' Longhi S.p.A..
(3) Fees due to positions held in other subsidiaries reversible to De' Longhi S.p.A..
(4) The amount includes also the fee due to the position of General Director.
(5) Fees due to positions held in other subsidiaries reversible to De' Longhi S.p.A..
(6)-(7) Fees due to the position of member of the Remuneration Committee and the Internal Control Committee and for the Corporate Governance.

Mr. C. Garavaglia and Mr. G. Malerba are partners of the Studio Biscozzi Nobili, to which the Group has paid fees, during year 2001, for 623 T/Euros, which include also the consulting services rendered during the IPO process.

Stock-Options allotted to Directors
(art. 78 CONSOB's directive n. 11971 dated 14.5.1999)

(Explanatory notes – Annex n. 5)

Person	Allotted options during 2001			Options took-up during the year	
Surname and Name	Number of buyable shares	Strike price	Exercise period	Numer of shares bought	Share price
Beraldo Stefano	1.189.004	3,4	2004 - 2006	-	-
De' Longhi Fabio	608.790	3,4	2004 - 2006	-	-

DE' LONGHI S.p.A.

Headquarters Via L. Seitz, 47 – 31100 Treviso

Share capital: EUR 448,500,000.00

Listed in the Register of Companies: Court of Treviso no. 41279

Listed in the REA of Treviso no. 224758

Taxpayer's Code 11570840154 – VAT n° 03162730265

Board of Auditors' Report

to the shareholders

To the shareholders:

during the financial period ended 31 December 2001, we performed the monitoring activities required by law, in accordance with the principles of conduct for the Board of Auditors recommended by the National Boards of Professional Accountants, and furthermore taking into account the CONSOB (Italian Securities and Exchange Commission) recommendations contained in Communication n° 1025564 of 6 April 2001.

With regard to the methods adopted by the Board of Auditors in carrying out its institutional duties, we shall note that both the present members, appointed on 18 April 2001, and the previous members:

- took part in all Shareholders' and Directors' meetings held during the year and received periodic information from the Board of Directors regarding the business conducted and most significant operations undertaken by the company or by subsidiary companies;

- were able to acquire sufficient data about the evolution of the organisational process of the Group, which, as illustrated in the performance report accompanying the 2001 financial statements, pursued the expansion of its operations by reinforcing its hold over the Kenwood group, acquired in the early months of 2001, both in terms of directional activities and new procedures of governance and control. The information in question was gathered through direct audits, from the persons in charge of the functions concerned and through exchanges of data and information with the Independent Auditors;
- monitored the performance of the internal control and administrative – accounting systems to assess whether they duly satisfied operating and management requirements and whether the latter system provided a reliable picture of performance;
- verified compliance with the laws regulating the compilation of financial statements, consolidated financial statements and performance reports, through direct audits and specific information obtained from the Independent Auditors.

In the performance of the above-described monitoring activities, we detected no facts worth bringing to the attention of the Controlling Bodies or worth mentioning to Shareholders.

Moreover, in observance of the above-mentioned Consob communication issued on 6 April 2001, we provide you with the following information:

1. the most important business and financial transactions undertaken by the company and its subsidiaries were all conducted in accordance with the law and the articles of association. Based on the information gathered, we were able to ascertain that said transactions were not manifestly imprudent or risky, or likely to create a conflict of interest, or compromise in any way the integrity of the company's assets.

2. During the year, we did not observe any atypical and/or unusual transactions among group companies or with third or correlated parties.

In their report on performance and in the explanatory notes, the Directors specify and illustrate the main transactions among group companies or with third or correlated parties, describing both their nature and financial impact. We moreover ascertained that the ordinary operational procedures currently adopted by the Group guarantee that all commercial transactions with the above-named parties are settled at market conditions.

3. In our opinion, the Directors have provided adequate information about said transactions in their report on performance.

4. The report issued on 29.03.2002 by the independent auditors Price Waterhouse Coopers S.p.A. on the consolidated financial statements of the De' Longhi Group for the year ended 31.12.2001 contains no revelations or references to information. The independent auditors' report on the 2001 financial statements of De' Longhi S.p.A., likewise issued on 29.03.2002, contains no revelations; however it calls attention to the information contained

in the explanatory notes with regard to the value adjustments entered solely for tax purposes.

5. No declarations have been filed under 2408 c.c..
6. In 2001 the Board of Auditors received some reports from a single individual about alleged irregularities occurring in the relations between said individual and the company represented by the latter and De' Longhi S.p.A., and about certain behaviours ascribable to subsidiaries of De' Longhi S.p.A. itself. The Board of Auditors conducted an investigation into these claims and found no omissions, censurable facts or irregularities.
7. In 2001 De' Longhi S.p.A. and its subsidiaries appointed PricewaterhouseCoopers S.p.A. (and Italian and foreign companies belonging to the PricewaterhouseCoopers network) to perform services other than the auditing of accounts required by law and the auditing of the biannual report; the fees, excluding out-of-pocket expenses and VAT, are itemised below (in Euros):

<u>Nature of assignment</u>	<u>Total fees</u>
Assistance in the stock exchange listing (prospectus and comfort letters)	€ 620,000.00
Assistance to De' Longhi Canada (tax and accountancy consulting services)	€ 40,000.00
Assistance to De' Longhi Germany and De' Longhi Nederland (tax and merger consulting services, tax and accountancy consulting services)	€ 55,000.00
Sundry accounting services to group companies	<u>€ 30,860.00</u>

Total € 745,860.00

8. We have no knowledge of any assignments made to individuals who have on-going ties with the independent auditing firm.
9. In 2001, the auditors of Price Waterhouse Coopers S.p.A. issued no opinions for the purposes of the law.
10. In 2001 the Board of Directors met 10 times and the Board of Auditors met 4 times. It shall be noted, moreover, that the “Internal Control and Corporate Governance Committee” met once, as did the “Pay Committee”.
11. We have no particular observations to make as regards compliance with the principles of proper administration, which appear to have been constantly observed.
12. Notwithstanding the limitations deriving from the recentness of our appointment and the consequently limited number of audits conducted, we have no particular observations to make regarding the capacity of the organisational structure to meet the company's operating and management needs.
13. Bearing in mind the limitations stated above in item 12, it is our opinion that the internal control system is likewise suited to the companies' operational and management needs. The assessments conducted by the “Internal Control and Corporate Governance Committee” with the aid of the Board of Auditors have served to further corroborate the above opinion.
14. Based on the audits conducted up to the present, we have no particular observations to make regarding the adequacy of the administrative –

accounting system and its reliability in providing a fair picture of performance.

15. The mechanism by which directives are issued by the parent company to subsidiary companies is assured by the presence of top management officials of the parent company in the executive bodies of the subsidiaries, as well as by the organisational structure of the group, which provides for the submission of periodical informative reports to the managers of the parent company.
16. The periodic exchanges of information taking place between the Board of Auditors and the Independent Auditors, as per art. 150, section 2, Leg. Decree no. 58/1998, did not bring to light any aspects worthy of note.
17. With the Board of Directors' resolution of 18 April 2001, the company adopted a Code of Self-Regulation conforming to the model proposed by the Corporate Governance Committee of the listed companies.
18. To conclude, we shall confirm that our monitoring activities revealed no omissions, censurable facts or irregularities to disclose.
19. Finally, we hereby express our consent, for the matters lying within our province, to the approval of the financial statements for the year 2001, as presented by the Board of Directors together with the Report on performance and the proposal for the distribution of net profits formulated by the Board itself.

Treviso, 5 April 2002

Board of Auditors

**AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW
DECREE N° 58 DATED 24 FEBRUARY 1998**

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 2001. These consolidated 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 consolidated 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 17 per cent of total consolidated assets and approximately 31 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 dated April 11, 2001.

3 In our opinion, the consolidated financial statements of De'Longhi Group as of 31 December 2001 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 Group.

Treviso, 29 March 2002

PricewaterhouseCoopers SpA

S/ Roberto Adami
(Partner)

“This report as 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”



**Financial statements
as at
31st December, 2001**

De'Longhi S.p.A. – Corporate headquartes: Via L. Seitz, 47 – 31100 Treviso – Italy
Share capital: Eur 448.500.000,00
Listed in the Register of Companies: Court of Treviso at n. 41279
Listed in the R.E.A. of Treviso at n. 224758
Taxpayer's Code 11570840154 – VAT n. 03162730265

De' Longhi S.p.A.
Headquarters: Via L. Seitz, 47 - Treviso (TV)
Share capital: EUR 448,500,000 wholly paid up
Listed in the Register of Companies of the Court of Treviso at no. 41279
Listed in the R.E.A. at no. 224758

Report of the Board of Directors

2001 was an extraordinary year for De' Longhi. The company's internal growth, acquisition of Kenwood and listing in the Stock Exchange enabled it to radically strengthen its competitive standing and step forward into a leading role within the world market.

Company Profile

De' Longhi can boast a position of *leadership* in market segments that share a concept is comfort and well-being and embrace products ranging from heating, air-conditioning and air treatment systems to cooking and food preparation and home cleaning and ironing systems.

The takeover of Kenwood, an international specialist in the sector of appliances for food preparation, likewise active in the sector of cleaning and ironing systems through its subsidiary Ariete S.p.A., served not only to complete the range of products offered but also further accentuated De' Longhi's international vocation. Exports account for over 67% of sales revenues and the stability and effectiveness of operations abroad is mainly left up to completely controlled commercial organisations that are fully in tune with the values and competence characterising the company's culture.

The company plays a multi-specialist role in the segments it operates in, given its capacity to offer the market products with innovative technological features and a high-quality *design* and, in some cases, to anticipate and stimulate the latent needs of consumers, always with the support of vigorous communication initiatives.

De' Longhi relies on a broad industrial capacity and solid manufacturing *know-how*. It has 3 factories where, in particular, the initial processes take place, such as sheet metal forming and plastic injection moulding, critical in order to develop and realise products with distinctive quality, technology and design at a fast rate.

However, the company increasingly relies on outsourcing in order to increase flexibility and the range of available alternatives.

A great deal of attention is focused on innovation, seen as the determinant factor for the success of its products.

Thanks to the resources and skills available to it, De' Longhi has succeeded in achieving strong growth, both internally and through takeovers.

We intend to continue cultivating and reinforcing these values to ensure that shareholders will receive adequate returns on their investment.

Significant events

In the early months of 2001, De' Longhi S.p.A., through one of its subsidiary companies, acquired a 100% stake of Kenwood Appliances Plc. following a public purchase offer; this English company heads a group that operates in the sector of appliances for food preparation, household cleaning and ironing. The takeover bid was announced on 16 February 2001 and completed on 24 May 2001, the date marking the closure of the procedure for the purchase of shares not included in the public offer.

The purchase price of the entire stake, including accessory expenses, amounted to 76.4 million Euros.

The acquisition of Kenwood has enabled the company to improve its strategic positioning in the segment of appliances for cooking/food preparation, where it now stands as *leader* within Europe.

The quality of the brand acquired, the strong complementarity between products and distribution, the considerable synergies from a purchasing standpoint and the possibility of having a factory in China, only partly used, have enabled us to implement a plan of action that has already yielded some important results.

Less than a year after the aforesaid takeover, the balance is largely positive: revenues from sales are up 13.2% compared to the previous year, the synergies forecast at the time of the takeover have been achieved, though only partly reflected in the results reported in the 2001 income statement.

Our efforts have also enabled us to discover further synergies that will benefit future operations.

The company's organisational model was revised in order to ensure an orientation toward safeguarding and enhancing the distinctive qualities of the *brands* on the one hand, while maximising the potential synergies within the Group at the same time. To this end, the necessary steps were taken to upgrade the Chinese factory to adequate levels of efficiency and an organisational unit has been set up in China for the purpose of providing all Group brands with the best conditions for managing the purchase of finished products.

At the same time, in countries where pre-existing branches were merged (France and Germany), the respective sales forces remained unchanged.

In the month of July, after months of intense preparation, the Italian Stock Exchange admitted the ordinary shares of De' Longhi S.p.A. to a listing on the stock market. Trading started on 24 July 2001. The operation consisted in a public offering of 37,500,000 ordinary shares in De' Longhi S.p.A. at a value of 3.4 Euros each; 11,055,000 shares were made available to the public at large in Italy and 26,445,000 shares were privately placed with professional investors in Italy and institutional investors abroad, for a total counter-value of 127.5 million Euros. Following the aforesaid public offering, the share capital of De' Longhi consists of 149,500,000 shares worth a total of 448.5 million Euros.

The listing took place at an especially difficult time for the stock market; in the first months of trading share prices showed a downward trend, which was however in line with general market trends. But over time the market has gradually rewarded the quality of the work achieved by the company and the credibility of its plans.

The initial share trading price was exceeded in the month of December and the growth trend has continued in a positive fashion, with values and liquidity constantly on the rise up to the present date.

The trading price has increased by 31.5% up to today, considering a closing price of 4.47 Euros as at 25/03/2002.

Principal results

In 2001, De' Longhi S.p.A. earned net revenues of 568.6 million Euros. Revenues grew by 77.3 million Euros compared to 2000, equivalent to an increase of 15.7%.

EBITDA (earnings before interests, taxes, depreciation and amortisation) rose from 80.5 million Euros in 2000 (with a ratio to sales of 16.4%) to 88.9 million Euros in 2001 (with a ratio to sales of 15.6%).

EBIT went from 48.1 million Euros in 2000 to 53.0 million Euros in 2001, with an increase of 4.9 million Euros (+10.2%); the ratio to net revenues went from 9.8% to 9.3%.

Net profits decreased from 17.8 million Euros in 2000 to 6.1 million Euros in 2001; this result reflects above all the write-downs of share capital investments, partly offset by lower financial expenses and fewer extraordinary expenses.

Market scenario

In 2001 world GDP grew at a much slower rate than in 2000 - approximately +1.6% - despite the significant contribution of Far East countries, especially China and the Indian subcontinent.

In 2001 the economy within the EURO zone slowed down considerably; the manufacturing sector was penalised by the repercussions of the worldwide decline in demand; Internal demand within the EURO zone suffered a further setback due to the effects of inflation, which exceeded forecasts, and the consequences arising in the aftermath of September 11th.

The sharpest downturn occurred in Germany, where average yearly growth of the GDP stood at 0.6%, versus 3% in 2000. Italy and France reported growth rates of only 1.8% and 2.1% respectively.

The slowdown in growth and falling crude oil prices contributed to bring average inflation within the Euro zone down to about 3%. Consequently, at the end of the year the monetary authorities lowered interest rates from 4.75%, where they stood in April 2001, to 3.25%.

The British economy likewise saw a downturn in GDP (which grew only 1.1%) and domestic consumption, after enjoying an uptrend in growth which had culminated in 2000.

The slowdown in the expansion of the North American economy was accentuated as a result of the terrorist attacks of September 2001 (GDP grew at a rate of 0.9%). This period was also characterised by a sharp fall in domestic demand and an increase in inflation.

The Japanese economy remains caught in a recession, with decreases both in GDP (0.9%) and consumption (0.4%).

The unpropitious scenario described above had only a partial impact on the market segments we are interested in.

As regards the market for small appliances for cooking and food preparation, we witnessed a variety of phenomena, which need to be interpreted segment by segment. In Italy, there was a general growth of about 3%, the sector being buoyed by personal care products and several cooking segments. On a European level, the UK market showed considerable growth - fairly generalised - whereas the data for other countries are difficult to interpret due

to the anomalous situation created with the winding up of the Moulinex Group. The disappearance of this player, whose shares of the market were only partly taken over by the buyer, SEB, caused a contraction in the market in general in the latter part of the year, though this was accompanied by an increase in the market shares of other brands.

As far as the North American market is concerned, though overall growth was modest, the uptrend in high-end products continued, and a good part of our range falls into this category.

Based on the data in our possession, we can affirm that the major markets for portable heating appliances enjoyed generalised growth.

Within the air treatment sector, the market for portable products - more greatly influenced by seasonal factors - underwent a decline due to a particularly cold summer in the northern hemisphere.

Company performance

Below we provide a reclassification of income statement data.

	2001	% of sales	2000	% of sales	Change	Change %
	Euros	%	Euros	%		%
Net revenues	548.4	96.4%	477.3	97.1%	71.1	14.9%
Other revenues	20.2	3.6%	14.0	2.9%	6.2	44.3%
Total revenues	568.6	100.0%	491.3	100.0%	77.3	15.7%
Materials consumables and goods	(299.9)	(52.7%)	(245.9)	(50.1%)	(54.0)	22.0%
Services	(118.8)	(20.9%)	(107.2)	(21.8%)	(11.6)	(10.8%)
Added value	149.9	26.4%	138.2	28.1%	11.7	8.5%
Labour cost	(57.2)	(10.1%)	(51.3)	(10.4%)	(5.9)	11.5%
Provisions	(3.8)	(0.7%)	(6.4)	(1.3%)	2.6	(40.6%)
EBITDA-0	88.9	15.6%	80.5	16.4%	8.4	10.4%
Amortisation and depreciation	(35.9)	(6.3%)	(32.4)	(6.6%)	(3.5)	10.8%
EBIT	53.0	9.3%	48.1	9.8%	4.9	10.2%
Financial income (expenses)	(11.2)	(2.0%)	(13.1)	(2.6%)	1.9	(14.5%)
Other income (expenses)	(26.1)	(4.6%)	1.3	0.2%	(27.4)	-
Earnings before taxes	15.7	2.8%	36.3	7.4%	(20.6)	(56.7%)
Income taxes	(9.6)	(1.7%)	(18.5)	(3.8%)	(8.9)	(48.1%)
Net income	6.1	1.1%	17.8	3.6%	(11.7)	(65.7%)

Net revenues rose 15.7% in 2001 compared to 2000, above all as a result of the good performance of key segments, i.e. heating (+21.6%) and cooking and food preparation/home cleaning and ironing (+21.4%). As regards the air-conditioning segment, whose performance was in line with that of the previous year, the unfavourable summer weather conditions negatively impacted sales in 2001, especially in Italy.

With respect to sales trends in different geographical regions, we may note that the slight decrease in the Italian market - which is mainly due to the aforesaid contraction in the air-conditioning market - is offset by a substantial increase in all our major markets, above all North America and the U.K.

EBITDA amounted to 88.9 million Euros; this item increased by 8.4 million Euros compared to the year 2000 (+10.4%);

Though it grew in absolute terms, EBITDA showed a slight decline in terms of the ratio to revenues, which dropped from 16.4% to 15.6%; this mainly ascribable to the negative impact of a less favourable sales mix, given the lower incidence of sales in portable air conditioners, which yield higher-than-average margins.

EBIT amounted to 53.0 million Euros; this item increased by 4.9 million Euros compared to 2000 (+10.2%); the ratio to revenues went from 9.8% in 2000 to 9.3% in 2001.

The profit for the year amounted to 6.1 million Euros, and was thus lower than in the previous year; the overall result reflects write-downs in share capital investments, partly offset by a reduction in extraordinary expenses and improved financial management.

***Analysis of balance sheet -
financial data***

Below we provide a summary of balance-sheet/financial data.

	2001 (A)	2000 (B)	Change 2001-2000 (A - B)
	mill. Euros	mill. Euros	mill. Euros
Trade receivables	138.7	139.5	(0.8)
Inventory	77.5	91.3	(13.8)
Trade payables	(91.8)	(88.7)	(3.1)
Others	105.6	77.8	27.8
Net Working Capital	230.0	219.9	10.1
Non-current assets			
Intangible assets	93.2	90.9	2.3
Tangible assets	96.3	101.9	(5.6)
Long-term investments	49.6	53.6	(4.0)
Non-current liabilities	(22.2)	(30.9)	8.7
Total capital employed	446.9	435.4	11.5
Net equity	(507.5)	(244.4)	(263.1)
Total non-financial sources	(507.5)	(244.4)	(263.1)
Net financial position	60.6	(191.0)	251.6

Net operating capital increased by 10.1 million Euros compared to the same period in 2000, primarily as a result of the reduction in inventories; the ratio of operating capital to sales fell in 2001 from 44.7% to 40.4%.

We shall also note the 14.7 million Euro investment made to cover the Stock Exchange listing costs.

The net financial standing reflects the share capital increase of 129.4 million Euros approved by the Shareholders during the general meeting taking place on 18 April 2001 as well as the share capital increase of 127.5 million Euros deriving from the Public offering.

The cash flow can be summarised as follows:

	2001	2000	Change
Self-financing	67.2	55.9	11.3
Changes in net working capital	(19.4)	(8.8)	(10.6)
Cash flow from investing activities	(53.1)	(34.1)	(19.0)
Cash flow provided by movements of net equity	256.9	-	256.9
Change in net financial standing	251.6	13.0	238.6

**Main subsidiary
companies**

De' Longhi Pinguino S.A.

It is a holding company.

In the year 2001 the company acquired the shares of Kenwood Appliances Plc; among the main companies controlled by De' Longhi Pinguino S.A., we shall mention:

DL Radiators S.p.A.

This company, which engages in the manufacture and sale of terminal fixtures for fixed heating systems, was formed through the merger of Radel S.p.a. and DL Radiators S.p.A. taking place at the end of December 2001.

Net sales stood at 56 million Euros as at 31 December 2001 and EBITDA amounted to 7.0 million Euros (with a ratio to revenues of 12,6%).

Elba S.p.A.

During the year, within the framework of the group restructuring project, the sub-holding De' Longhi Divisione Cucine S.p.A. merged the subsidiary Elba S.p.A., taking on the merged company's name.

This company manufactures freestanding cookers, cooktops and built-in ovens, falling within the segment of appliances for cooking and food preparation.

Net sales stood at 71.1 million Euros as at 31 December 2001 and EBITDA amounted to 8.1 million Euros (with a ratio to sales of 11.4%).

Climaveneta S.p.A.

This company manufactures medium- and large-sized cooling machinery and systems for the air-conditioning segment.

In 2001, Climaveneta S.p.A. merged the former subsidiary Ergoklima S.p.A. and Micromax S.p.A.

Net sales stood at 92 million Euros as at 31 December 2001, up 12.1 million Euros compared to 2000 (+12.1%); EBITDA amounted to 13.5 million Euros - increasing by 1.6 million Euros compared to 2000 - with a ratio to sales of 14.6%, in line with the figure for the previous year.

De' Longhi Japan Corp.

This company distributes De' Longhi Group products in the Japanese market.

Net sales stood at 60.9 million Euros as at 31 December 2001, up 8.7 million Euros compared to 2000 (+16.7%); EBITDA amounted to 7.2 million Euros - increasing by 3.1 million Euros compared to 2000 - with a ratio to sales that rose from 7.8% to 11.9%.

The other main subsidiaries directly controlled by De' Longhi S.p.A. are:

Ariagel S.p.A.

This company manufactures and sells air-conditioners and other indoor air-cleaning products.

The company launched a corporate restructuring which resulted in the dismissal of the majority of its production workers as manufacturing activities were transferred to De' Longhi's factories. The company will thus focus its operations exclusively on the sale of air conditioners.

The revenues from sales totalled 14.0 million Euros at 31 December 2001; the company reported a loss of 3.6 million Euros, mainly as a result of its restructuring costs.

Simac -Vetrella S.p.A.

This company manufactures and sells ironing systems and appliances for food preparation and household cleaning. In addition, the company represents the thermoplastic manufacturing "pole" within the De'Longhi Group.

Sales amounted to 110.7 million Euros as at 31 December 2001 almost in line with the 2000 figure. EBITDA is disclosed as 7.4 million Euros, up 3.3 million Euros compared to 2000. The ratio to sales rose from 3.8% in 2000 to 6.6% in 2001.

De' Longhi LTD

This company distributes Group products in the United Kingdom.

Net sales amounted to 63.6 million Euros, up 36% compared to 2000. EBITDA is reported as 2.8 million Euros - 1 million Euros higher than in the previous year - with a ratio to sales that rose from 3.9% to 4.5%.

De' Longhi America Inc.

This company distributes Group products in the American market.

Sales amounted to 95.4 million Euros as at 31 December 2001, up 21.7 million Euros (+29.4%) compared to 2000. EBITDA is reported as 4.4 million Euros - 2.5 million Euros higher than in 2000 - with a ratio to sales that rose from 2.6% to 4.6%.

Kenwood Group

The Kenwood Group underwent a corporate restructuring aimed at simplifying its organisation. In this context, the most important companies from an operational standpoint are Ariete S.p.A. and Kenwood Limited, also in consideration of the income flows among the companies belonging to the Group.

We shall note that the aggregate data for the Kenwood Group show revenues from sales totalling 284 million Euros and an operating result of 9.1 million Euros.

***Human resources:
organisation and
systems***

As at 31 December 2001, De'Longhi S.p.A. employed 1,831 people (versus 1,762 in 2000), who may be classified as follows:

	31/12/2001	31/12/2000
Workers	1,286	1,280
Office staff	510	455
Managers	35	27
TOTAL	1,831	1,762

Based on a comparison with the data for 2000, the cost of labour rose 11.5%, arriving at 57.2 million Euros; this increase was however lower than the increase in business.

It is mainly ascribable to pay raises granted during the year, either by contract or as a reward for performance.

During the year, also to further their professional development, several company managers ventured out onto the international stage; this meets the company's need to directly monitor several critical activities and to transfer skills and *best practices* all across the organisation, while offering the managers involved an opportunity to enjoy a challenging experience in sociocultural contexts unlike those they are accustomed to.

In 2001, as in the past, the company planned and implemented countless job training, refresher and management training courses aimed at its own staff. Numerous employees from the technical-industrial, commercial, administrative and service divisions, both in Italy and abroad, took part in the courses, which were carried out both internally and with the support of external job-training agencies.

As regards the distribution/sales organisation, in 2001 the company continued in its efforts to optimise/reinforce the internal and external channels and markets through which it operates. This led, among other things, to the year-end merger of the commercial enterprises of De' Longhi and Kenwood in France and Germany. Furthermore, the company continued its reorganisation of logistic processes and flows as well as commercial planning and order management processes, which has already yielded some substantial results, its objective being to achieve a further reduction in operating capital.

Quality

During the year, the company continued its quality control restructuring project, which aimed to extend the quality standards of De' Longhi to all the major Group companies. We expect to obtain ISO 9001 Certification for the fixed air-conditioner manufacturing division of De' Longhi S.p.A. before the end of 2002.

Logistics

In 2001, work also began to expand the finished products warehouse in Mignagola, as part of a project to move Kenwood's central European warehouse from Holland to Treviso, Italy. De' Longhi will work on behalf of Kenwood to maximise efficiency in deliveries.

Direct deliveries increased in 2001, especially in France, Great Britain and Germany.

Distribution

In 2001, our affiliate Parex Industries Limited took over distribution of Kenwood products in New Zealand and Australia, which was previously entrusted to a distributor.

In South Africa the pre-existing branch division of Kenwood was assigned to distribute De' Longhi products, previously sold through a distributor. Ariete opened a branch in Spain.

New sales personnel were recruited in Austria and provided with logistic support through the Kenwood branch division.

Information systems

The company's information systems are essentially based on SAP management software, which permits an integrated management of all the main aspects tied to production and trade activities, including logistics, supplies, stock, orders, sales and the handling of raw materials, semi-finished goods and finished products.

The projects undertaken fit into the strategy of:

- extending a “single integrated” system to all Group companies in order to ensure more reliable, prompter information and more efficient management of intercompany relations as well as better control over the companies' activities;
- computerising an increasing number of processes to improve the efficiency of internal organisational structures, exploiting the potentialities offered by the software used;
- Improving the management of relations with third parties (customers and suppliers) by exploiting the new technologies that rely on use of the Internet.

In the year 2001, several important projects were carried out, including the extension of the SAP system to the branch divisions in Germany and France, which were moreover integrated with the former divisions of the Kenwood Group, the implementation and development of software for managing the consolidation of statutory and performance data, the development of new and more efficient procedures for commercial planning management extended to sales divisions and the planning of procedures with visibility on a European scale, the introduction of Internet management of orders from service centres and De' Longhi control over direct purchases.

Risk coverage

The company has broad insurance coverage to protect its main assets (tangible fixed assets and receivables) and protect itself from the possible liabilities connected with sold products.

Research & development

The company's research and development department dedicates substantial resources to this activity. These considerable investments have enabled the company to gain competitive advantages and consolidate them over time.

The activities conducted have also allowed it to take advantage of the benefits granted under Law 46/82 and subsequent modifications for investments in applied research and technological innovation. Said benefits consist in long-term loans at special low interest rates and lump sum grants.

In the segment of wall-mounted air conditioners interesting solutions were devised - based on the use of the Internet - to upgrade and increase existing functions with the possibility of tele-management and remote control features that are highly innovative in comparison with current market standards.

Again with regard to the production of air conditioners, we shall emphasize that the E.U. has banned the use of the refrigerant gas R22 in the production of cooling appliances only as of 01/06/2002 and for appliances with heat pumps as of 1/01/2004, within the framework of its policies to protect the ozone layer. The use of R22 continues to be allowed in the rest of the world.

The possible alternatives in Europe will be of two types: synthetic gases and natural gases. For years De' Longhi has relied on a sophisticated technology

for employing natural gases, whose use is strongly supported by the public opinion and institutions concerned about protecting the environment. In this context of regulatory change, De' Longhi's technological know-how should serve to strengthen its competitive advantage in the segment of portable air conditioners, where it has always enjoyed world leadership. However, given the complex, evolving scenario which is subject to many technological and market factors that will determine future, final choices, the company has decided to develop the different technological alternatives throughout its product range, being equipped with the resources, know-how and means needed to achieve this purpose.

In 2001 the costs incurred for research and development totalled about 6.3 million Euros, entirely expensed as incurred.

In view of the benefits to which the company may be entitled under the law, below we provide the information required.

Nature and description of research & development activities

These activities included various research projects dedicated to the air-conditioning sector (2.3 million Euros), the heating sector (1.0 million Euros) and small home appliances (3.0 million Euros);

Nature and description of costs deducted as per Dpr (President's decree) no. 917/86

The expenses incurred during the year may be broken down into (i) labour costs for Research & Development personnel, amounting to 4.3 million Euros, (ii) instrument and equipment costs, amounting to 0.3 million Euros and (iii) costs of technological consulting services, for the acquisition of know-how and general expenses, amounting to 1.7 million Euros.

Description of the fundamental results achieved and the possible benefits in terms of know-how

As proof of the capacity for innovation expressed by the company at this time and as justification, therefore, of the investments made, we call attention to the registration of some important inventions.

Investments and products In 2001 the commitment to research and development was concretely manifested in the launching of a series of new products to support the various product families in which De' Longhi specialises:

In the "Cooking and food preparation" segment, the traditional range of 12-litre ovens was broadened to include a "retro" model and the range of 28-litre ventilated ovens was enriched with functions such as a rotisserie and new user-friendly electronics for the USA and Canadian markets.

The range of coffee machines with pumps was further reinforced by the introduction of a new electronic model featuring temperature control, new models for filter packets and a new middle-priced model.

The Group increased its share of the important British market in almost every product segment, thanks above all to the new products.

The "Air conditioning and air treatment" segment saw the introduction of a new air/air conditioner marketed with the Superclima brand and the development of "telegate" technology, thanks to which the functions of our air conditioners can be controlled through the Internet.

In the “Heating” segment, the range of appliances featuring “ECC” intelligent electronics was broadened to include a fan heater, convector and radiator model.

In the “Household products and ironing” segment, the Group renewed the range of electric brooms aimed at the Italian market with the introduction of high-performance motors on class A models and launched a new vacuum cleaner with a filtering system and multifunctional steam cleaners.

In 2001 the company invested approximately 26.6 million Euros in advertising and communication. The campaigns were concentrated in the spring-summer (the cleaning and air conditioning season), and continued up to October both for small home appliances and dehumidification systems.

The advertising drive successfully backed the launching of the Colombina class A as well as the marketing efforts already undertaken in 2000 to promote the new Pinguino Air/water with turbopower, the dual oven, rotating deep fryers and wall-mounted air conditioners.

We also undertook press campaigns to promote small appliances, coffee machines in particular, and initiatives at points of sale to support climate control products and decision-making and small home appliances.

As regards the export market, we witnessed the launching of a new television format “living innovation”, with filmed spots on deep fryers and coffee machines which, besides focusing consumers' attention on the benefits deriving from De' Longhi products, promote an image of the De' Longhi brand that is consistent with the tradition of innovation distinguishing it, together with its design and the prestige of products made in Italy.

Ad hoc communication initiatives continued in Japan and the United States, while press advertising activities were also conducted in Eastern European countries.

Stock option plans

The month of July 2001 saw the implementation of the stock option plan approved by the Board of Directors on 12 June 2001, whose objectives include building up the loyalty of key resources by focusing their attention on medium- and long-term factors of success, and maintaining or improving the Group's competitiveness in the domestic and international market from the pay standpoint by introducing an economic variable correlated to the creation of value for the company and shareholders.

The option plan was carried out on the approval of the shareholders, who during the extraordinary general meeting of 18 April 2001 authorized the Board of Directors, for a period not to exceed five years, to undertake a paid increase in capital by issuing a maximum of 7,500,000 ordinary company shares

The initiative involved 63 Italian and foreign employees covering key positions within the Group, whom were allotted an overall total of about 6,900,000 options.

Entitlement to part of the options granted is conditional upon the holders' maintaining their working relationship with the Group; the remaining part, ranging from 40% to 50% of the total, is also conditional on the achievement of some of the goals defined within the framework of the 2001 – 2003 Strategic Plan, with regard to EBITDA and the ratio between Net Operating Capital and net total revenues.

Any options granted may be exercised by participants in the plan to an extent of 50% starting from 2004; the remaining 50% may be exercised in the year 2005 and up to 28.02.2006, within the framework of the periods defined.

Corporate Governance

For information regarding Corporate Governance, the reader should refer to the report drawn up in accordance with Art. IA 2.12 of the Stock Exchange Regulatory Guidelines, which includes complete information about the implementation status of the Corporate Governance system.

This report will be registered with the Italian Stock Exchange.

Shares held by Directors and Auditors

Pursuant to art. 79 of Consob (Italian Securities and Exchange Commission) directive n. 11971 of 14/05/1999, we hereby provide information relative to the shares held by directors and auditors in De' Longhi S.p.A. and its subsidiaries.

Last and first name	Affiliate	Owner-ship as at 31/12/00	Purchases 2001	Sales 2001	Ownership As at 31/12/2001
De' Longhi Giuseppe	De' Longhi SpA	340	7,250	-	7,590
De' Longhi Giuseppe	Elba SpA	90	-	-	90
De' Longhi Fabio	De' Longhi SpA (*)	-	130,000	-	130,000
De' Longhi Fabio	De' Longhi Pinguino S.A.	1	-	-	1
Beraldo Stefano	De' Longhi SpA	-	15,500	-	15,500
Sandri Giorgio	De' Longhi SpA	-	30,000	-	30,000
Lanfranchi Massimo	De' Longhi SpA (*)	-	750	-	750

(*) shares held indirectly and/or through family members are also included.

Relations with parent, subsidiary, associated companies and related parties

In reference to Consob communications n. 97001574 dated 20/02/97 and n. 98015375 dated 27/02/98, which concern relations with Group companies and correlated parties, we note that all the transactions taking place fell within the scope of ordinary Group operations, with the exceptions already described in the explanatory notes, and were stipulated at normal market conditions. Furthermore, no significant transactions of an atypical nature can be reported. The effects deriving from De' Longhi's relations with parent, subsidiary and associated companies and correlated parties are summarised in the explanatory notes.

Euro

In 2001 the company completed the conversion of its accounts to the Euro.

Events subsequent to close of year

No significant events may be reported.

Foreseeable prospects/progress in operations

The results of the first months of the current year, though they are not particularly indicative, given that they refer to the least favourable period of the year in terms of earnings (the heating and air-conditioning lines are not at the peak of their respective business seasons), confirm expectations of further significant growth compared to the same period of last year.

Steel prices were down sharply from the previous year's average and this trend is likely to persist, also due to the recent introduction of customs barriers in the USA.

***Proposal for the allocation
of profits***

In submitting the financial statements for the year 2001 to the shareholders for approval, we propose that the net profit of 6,140,325 Euros be allocated as follows:

- 307,016 Euros to the Legal Reserve;
- 4,933,500 Euros to the Shareholders, through the distribution of a gross dividend of 0.033 Euros on each of the 149,500,000 shares in circulation, with the attribution of the tax credit provided under art. 14 D.P.R. (President's Decree) n. 917 of 1986;
- 899,809 Euros to the Extraordinary Reserves.

Treviso, March 27th 2002

On behalf of the Board of Directors
The Managing Director
Stefano Beraldo

ASSETS	31.12.2001		31.12.2000	
	Partial	Total	Partial	Total
A) RECEIVABLES FROM SHAREHOLDERS		0		0
B) ASSETS				
I - INTANGIBLE ASSETS				
1) Start-up expenses		11.739.928		40.752
2) Research, development and advertising		139.763		110.661
3) Industrial and other patent rights		1.740.947		1.338.685
4) Concessions, licenses, trademarks and similar rights		78.784.885		88.643.223
5) Goodwill		161.184		193.421
7) Others		659.957		548.667
TOTAL INTANGIBLE ASSETS		93.226.664		90.875.409
II - TANGIBLE ASSETS				
1) Land and buildings		59.253.845		61.467.509
2) Plant and machinery		26.890.539		29.040.872
3) Industrial and commercial equipment		7.951.871		8.994.089
4) Other assets		1.503.308		1.930.594
5) Assets under construction and advances to suppliers		659.608		474.939
TOTAL TANGIBLE ASSETS		96.259.171		101.908.003
III - FINANCIAL ASSETS				
1) Equity investments in:				
a) subsidiaries	45.110.028		47.295.946	
b) associated companies	4.362.701		6.148.075	
c) other companies	152.076	49.624.805	152.556	53.596.577
2) Accounts receivables due from:				
subsidiaries				
- within 1 year	393.590.148		10.687.858	
- more than 1 year	4.708.895	398.299.043	62.213.100	72.900.958
b) associated companies		6.196.655		
c) parent companies		0		0
d) other companies				
- within 1 year	55.736		52.529	
- more than 1 year	505.090	560.826	733.991	786.520
Total receivables		405.056.524		73.687.478
TOTAL FINANCIAL ASSETS		454.681.329		127.284.055
TOTAL FIXED ASSETS		644.167.164		320.067.467
C) CURRENT ASSETS				
I - INVENTORY				
1) Raw materials and consumables		29.504.849		34.836.076
2) Work in progress		7.958.951		7.137.494
4) Finished goods and materials		40.090.885		49.303.602
TOTAL INVENTORY		77.554.685		91.277.172
II - RECEIVABLES				
1) From customers:		138.683.295		139.488.236
2) From subsidiaries		168.921.359		107.921.539
3) From associated companies				1.305.937
- within 1 year	5.138.919			
- more than 1 year	680.333	5.819.252		
4) From parent companies		3.305.821		207.080
5) Other receivables				
- within 1 year	6.440.198		21.312.591	
- more than 1 year	7.160.722	13.600.920	1.531.522	22.844.113
TOTAL RECEIVABLES		330.330.647		271.766.905
III - SHORT TERM FINANCIAL ASSETS				
4) Equity investments		905.659		905.659
6) Other securities				129.316
TOTAL SHORT TERM FINANCIAL ASSETS		905.659		1.034.975
IV - LIQUID FUNDS				
1) Cash in bank		17.061.976		21.916.697
2) Cheques		796.981		494.722
3) Cash in hand		115.573		156.931
TOTAL LIQUID FUNDS		17.974.530		22.568.350
TOTAL CURRENT ASSETS		426.765.521		386.647.402
D) PREPAYMENTS AND CURRENT INCOME				
1) Accrued income		1.833.292		1.675.638
2) Prepaid expenses		1.290.834		1.421.286
TOTAL PREPAYMENTS AND CURRENT INCOME		3.124.126		3.096.924
TOTAL ASSETS		1.074.056.811		709.811.793

LIABILITIES	31.12.2001		31.12.2000	
	Partial	Total	Partial	Total
A) SHAREHOLDER'S EQUITY				
I - SHARE CAPITAL		448.500.000		206.582.760
II - ADDITIONAL PAID-IN CAPITAL		15.000.000		0
III - REVALUATION RESERVE		0		0
IV - LEGAL RESERVE		3.253.678		2.357.637
V - RESERVE FOR TREASURY STOCK ON HAND		0		0
VI - STATUTORY RESERVE		0		0
VII - OTHER RESERVES		34.588.590		17.683.931
IX - NET INCOME (LOSS) FOR THE YEAR		6.140.325		17.800.700
TOTAL SHAREHOLDER'S EQUITY		507.482.593		244.425.028
B) PROVISION FOR CONTINGENCIES AND OBLIGATIONS				
1) Provisions for agents leaving indemnity and similar obligations		1.564.043		1.372.780
3) Other provisions		4.875.359		6.829.626
TOTAL		6.439.402		8.202.406
C) STAFF LEAVING INDEMNITY		10.337.038		9.855.554
D) PAYABLES				
3) Bank loans and overdrafts:				
- within 1 year	75.823.901		31.211.271	
- more than 1 year	124.914.263	200.738.164	91.431.649	122.642.920
4) Other financing payables		0		0
5) Advances		628.806		2.356.265
6) Trade payables		91.834.385		88.717.926
8) Payables due to subsidiaries				
- within 1 year	41.723.163		27.388.492	
- more than 1 year	174.680.154	216.403.317	163.760.951	191.149.443
9) Payables due to associated companies		3.576.642		707.110
10) Payables due to parent companies		11.288		10.895
11) Payables due to tax authorities				
- within 1 year	12.117.705		13.030.942	
- more than 1 year	8.226.957	20.344.662	15.175.144	28.206.086
12) Social security payables		2.430.762		2.154.049
13) Other payables		10.518.230		8.623.483
TOTAL PAYABLES		546.486.256		444.568.177
E) ACCRUED LIABILITIES AND DEFERRED INCOME				
1) Accrued liabilities		2.336.500		2.760.628
2) Deferred income		975.022		
TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME		3.311.522		2.760.628
TOTAL LIABILITIES		566.574.218		465.386.765
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY		1.074.056.811		709.811.793
MEMORANDUM ACCOUNTS				
- Guaranties on behalf of subsidiaries associated companies		220.752.005		247.734.097
- Guaranties on behalf of third parties		1.951.000		3.978.000
TOTAL MEMORANDUM ACCOUNTS		222.703.005		251.712.097

INCOME STATEMENT	31.12.2001		31.12.2000	
	Parziali	Totali	Parziali	Totali
A) INCOME				
1) Net revenues from the sale of goods and services		548.392.175		477.324.466
2) Changes in work in progress and finished goods (inventory)		(8.391.259)		16.435.385
4) Increases in fixed assets for internal work		1.831.460		1.998.881
5) Other income		20.234.962		14.022.228
VALUE OF PRODUCTION (REVENUE)		562.067.338		509.780.960
B) EXPENSES				
6) Raw and subsidiary material and goods		288.025.850		273.281.871
7) Services		113.255.213		101.267.535
8) Leases		3.219.331		2.236.296
9) Personnel costs:				
a) salaries and wages	40.536.415		36.050.914	
b) social security costs	13.477.273		12.352.968	
c) severances payments	2.857.477		2.632.073	
e) other costs	316.922	57.188.087	281.693	51.317.648
10) Amortisation, depreciation and writedowns:				
a) amortisation of intangible fixed assets	14.127.273		11.083.679	
b) amortisation of tangible fixed assets	21.760.109		21.377.242	
d) writedowns of trade receivables	1.817.939	37.705.321	3.008.158	35.469.079
11) Changes in stock of raw materials and consumables		5.331.227		(8.908.785)
12) Provision for risks		1.947.675		3.355.876
14) Sundry operating expenses		2.291.751		3.685.439
TOTAL PRODUCTION COSTS (EXPENSES)		508.964.455		461.704.959
DIFFERENCE BETWEEN REVENUES AND EXPENSES (A-B)		53.102.883		48.076.001
C) FINANCIAL INCOME AND EXPENSES				
15) Income from equity investments:				
a) from subsidiaries	48.916		0	
d) others	1.376.652	1.425.568	11.017.723	11.017.723
16) Other financial income:				
c) from securities entered as current assets that aren't equity investments	7.152		1.599.461	
d) other income:				
- from subsidiaries	11.545.614		102.490	
- from associated companies	374.051		207.080	
- from parent companies				
- others	11.358.017	23.284.834	14.719.692	16.628.723
17) Interest and other financial expenses:				
a) from subsidiaries	(2.501.439)		(1.605.971)	
b) from parent companies			(3.429.740)	
c) others	(31.961.409)	(34.462.848)	(24.713.552)	(29.749.263)
TOTAL FINANCIAL INCOME AND EXPENSES		(9.752.446)		(2.102.817)
D) ADJUSTMENTS TO FINANCIAL ASSETS				
18) Revaluations:				
a) of equity investments				702.368
19) Writedowns:				
a) of equity investments		(24.853.169)		(291.885)
TOTAL ADJUSTMENTS TO FINANCIAL ASSETS		(24.853.169)		410.483
E) EXTRAORDINARY INCOME AND EXPENSES				
20) Income:				
b) other		86.713		1.266.850
21) Oneri:				
c) other extraordinary expenses		(2.795.250)		(11.392.066)
TOTAL EXTRAORDINARY INCOME AND EXPENSES		(2.708.537)		(10.125.216)
NET INCOME (LOSS) BEFORE INCOME TAX		15.788.731		36.258.451
22) Income taxes		(9.648.406)		(18.457.751)
23) NET INCOME		6.140.325		17.800.700

Cash flows for the years 2001 and 2000

	2001	2000	Change
Cash flow provided (used) by operating activities			
Profit for the year	6.140.325	17.800.720	(11.660.395)
Depreciation	35.887.382	32.460.865	3.426.517
Accruals and write-downs less amounts drawn	25.131.682	5.714.596	19.417.086
Total self-financing	67.159.389	55.976.181	11.183.208
Changes in working capital:			
Trade receivables	806.700	4.669.803	(3.863.103)
Net inventories	13.722.486	(25.344.089)	39.066.575
Trade payables	1.389.000	10.798.081	(9.409.081)
Other payables, receivables, expenses and income	2.515.713	9.694.412	(7.178.699)
Receivables from and payables to parent, subsidiary and associated companies	(37.823.871)	(8.626.380)	(29.197.492)
Total changes in in working capital	(19.389.972)	(8.808.172)	(10.581.800)
Cash flow (used) by investing activities			
Investments in tangible fixed assets	(16.111.277)	(12.175.988)	(3.935.289)
Share capital investments	(20.881.396)	(29.837.781)	8.956.385
Investments in intangible fixed assets	(16.478.527)	(1.747.690)	(14.730.837)
Net change in receivables from others	225.694	9.637.602	(9.411.908)
Total cash flow (used) by investing activities	(53.245.506)	(34.123.857)	(19.121.649)
Cash flow provided (used) by changes in shareholder's equity			
Share capital increase and share premium	256.917.240	0	256.917.240
Total cash flow provided (used) by changes in shareholder's equity	256.917.240	0	256.917.240
Net financial position change	251.441.151	13.044.152	238.396.999
Net financial position as at 31 December 2000	(190.919.138)	(203.963.290)	13.044.152
Net financial position as at 31 December 2001	60.522.013	(190.919.138)	251.441.151
Change in extraordinary reserve for tax compensation	0	(22.763.871)	22.763.871
"Other payables" change for substitution tax	0	22.763.871	(22.763.871)

Statement of changes in shareholder's equity for the financial period ended 31 December 2001

	Share capital	Additional paid-in capital	Legal reserve	Other reserves	Net income (loss) of the period	Total
Balance as at 1st January 2001	206.583	0	2.358	17.684	17.801	244.426
Appropriation of result for year 2000 as per extraordinary assembly dated 18/04/01			896	16.905	(17.801)	0
Share Capital exchange to Euro as per extraordinary assembly dated 18/04/01	1.417					1.417
Share capital increase as per extraordinary assembly dated 18/04/01	128.000					128.000
Share capital increase due to the listing in the Stock Exchange Market on 24/07/01	112.500	15.000				127.500
Net income					6.140	6.140
Balance as at 31st December 2001	448.500	15.000	3.254	34.589	6.140	507.483

EXPLANATORY NOTES

INTRODUCTION

The financial statements for the year ended 31 December 2001 have been drawn up in accordance with the guidelines provided by the Civil Code, integrated by the accounting principles set forth by the National Boards of Professional Accountants and the directives of the Consob (Italian Securities and Exchange Commission). They comprise the balance sheet, income statement and these explanatory notes.

Moreover, they furnish all the complementary information deemed necessary in order to provide a true and accurate picture of the company's financial position, even if not specifically required by law. The accounting principles adopted are consistent with those of the previous year and comply with the specifications of art. 2426 of the civil code.

In the financial statements as at 31 December 2001 the corresponding items of the financial statements as at 31 December 2000 are shown.

To facilitate interpretation and for the sake of clarity, the amounts shown are expressed in T/Euros (thousands of Euros).

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The most important accounting principles adopted in the preparation of the financial statements for the year ended 31 December 2001 are the following:

a- Intangible assets

Intangible assets are valued at their purchase cost, plus any additional value and are systematically amortised on the basis of their future life.

The “start-up and expansion costs”, which include incorporation expenses, costs for capital increases and for gaining admission to a listing on the Milan Stock Exchange, are amortised in a period of five years.

Research and development costs are expensed unless they pertain to the realisation of specific, clearly defined products whose technical feasibility has been reasonably demonstrated, and for which a future market is reasonably presumed to exist. The book value is systematically written off in a period of five years.

Licences, trademarks and kindred rights are amortised on the basis of their remaining future utility, estimated as twenty years for trademarks and four years for user rights. As regards trademarks, additional amortisation is calculated solely for tax purposes and within the limits allowed by tax laws.

Goodwill is systematically amortised over a period of 10 years, which may reasonably be considered as representative of its useful life.

It should be noted that, pursuant to art. 2426 of the civil code, until start-up and expansion costs, research, development and advertising costs having long-term utility are completely amortised, dividends may be distributed only if the remaining available reserves are sufficient to cover the remainder of the capitalised costs.

b- Tangible assets

Tangible assets are valued at their purchase or production cost, inclusive of any directly ascribable ancillary expenses, as well as a portion of indirect costs that may be reasonably ascribed to the assets themselves, and shown net of accumulated depreciation; some categories of assets have undergone revaluations pursuant to Laws n. 576/75, n.72/83 and n. 413/91.

Any tangible asset that, at the closure of the financial period, reveals lasting declines in value is written down accordingly; the original book value is restored in subsequent financial periods if the reasons for the write-down no longer subsist.

Depreciation is systematically calculated on a straight-line basis, according to the presumed useful life of the assets themselves, starting from the year of their entry in the books; the charge is reduced by one half in the first year. The following rates are applied:

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

In the years in which the company takes advantage of the tax benefits deriving from accelerated depreciation, the latter is shown together indistinctly with ordinary depreciation charges and is offset by a direct reduction of the corresponding tangible asset items. The accounting effects of accelerated depreciation, for the purposes of the income statement and balance sheet, are explained in the comment to the item “tangible assets”.

Routine maintenance costs are wholly expensed as incurred; any maintenance costs serving to increase the life of the assets to which they pertain are attributed to the assets themselves and amortised on the basis of their estimated future utility.

c- Financial assets

Share capital investments are valued on the basis of their purchase cost, adjusted to reflect any losses in value judged to be of a lasting nature; the original book value is restored in subsequent financial periods should the reasons for the write-down no longer subsist.

d- Inventory

Inventories are shown either at the purchase or production cost or the presumable market value, whichever is lower; the latter value is determined using the weighted average cost method. 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 stock is depreciated, according to its estimated future utility, through a specific inventory valuation adjustment allowance.

e- Receivables and payables

Receivables are shown at their presumable realisation value, i.e. net of appropriate provisions for doubtful debts, determined in accordance with the prudence principle.

Payables are shown at their nominal value.

f- Short-term financial assets

The book value of securities is shown either at the purchase cost or at the estimated realisation value, if assumed to be lower on the basis of market trends; the original value is restored in subsequent financial periods if the reasons for the write-down no longer subsist.

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

Accrued income, prepayments, accrued liabilities and deferred income are calculated according to the accruals principle of accounting, so that costs and revenues pertaining to two or more financial periods are divided accordingly over the periods in question.

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 date of 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.

I- Staff leaving indemnity

Provisions for employee leaving indemnity are made in compliance with the law and labour contracts currently in force; they reflect the total liabilities accrued vis-à-vis employees at the balance-sheet date.

m- Costs and revenues

They are accounted for according to the prudence and accrual principles.

Revenues are shown net of returned products, discounts, rebates and premiums, as well as any taxes directly connected to the sale of products and provision of services. Income from the sale of products is taken into account when the property changes hands, which generally coincides with dispatch of the merchandise.

Costs are calculated according to principles analogous to those used for assessing revenues.

n- Foreign currency transaction

Transactions in foreign currency are translated on the basis of the exchange rates in effect on the trade date. Any exchange rate differences arising during the year are accounted for in the income statement, among the financial expenses and incomes.

Payables and receivables outstanding at the end of the year and hedging derivatives are adjusted to current year-end exchange rates only if the overall adjustment results in a loss; said loss is accounted for through the provision for exchange rate risks, as allowed by law.

o- Financial instruments

Financial instruments used for hedging foreign exchange risks are valued in a manner that is consistent with the assets and liabilities covered. As regards the hedging transactions pertaining to assets and liabilities not expressed in Euros, expenses and incomes are accounted for on an accruals basis.

p- Income taxes

They are calculated on the basis of estimated taxable income in conformity with the current provisions of law. 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 n° 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 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. Advance taxes are shown among the receivables from others (under the heading of operating capital), net of deferred taxes.

q- Dividends

The dividends and relative tax credits of subsidiary, associated and affiliated companies are accounted for in the year in which they are collected.

r- Memorandum accounts

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

COMMENTS ON THE MAIN ITEMS OF THE BALANCE SHEET

a- Intangible assets

This item may be broken down as follows:

[in thousands of Euros]	31.12.2001		31.12.2000		Difference
	Gross	Net	Gross	Net	Net
Start-up and expansion costs	15,072	11,740	397	41	11,699
Research, development and advertising costs	209	140	138	110	30
Patent rights	13,443	1,741	12,099	1,339	402
Licences, trademarks and kindred rights	120,373	78,785	120,373	88,643	(9,858)
Goodwill	322	161	322	193	(32)
Sundry items	1,566	660	1,159	549	111
Total	150,985	93,227	134,488	90,875	2,352

The 2,352 T/Euro increase is principally ascribable to the change in the item “Start-up and expansion costs”.

The item “Start-up and expansion costs” increased by 11,699 T/Euros as a result of the expenses incurred to gain admission to a listing in the Milan Stock Exchange; these expenses include the costs relative to the preparation of a prospectus and other fees tied to the operation, including the financial costs tied to the placing of shares and communication and market reporting costs, which amounted to a total of 14,675 T/Euros, gross of amortisation.

The item “patent and intellectual property rights” primarily pertains to software user licenses.

The item “Licences, trademarks and kindred rights” refers above all to the trademarks entered following the allocation of the deficit resulting from the 1995 merger, including the company trademark and other registered group trademarks (such as “Pinguino”, “Sfornatutto”, “Friggimeglio”, “Stiromeglio”, etc.).

Trademarks are amortised over a period of 10 years, less than the period established according to the above-mentioned principles; the period has been abbreviated solely for tax purposes. The higher amortisation charges, calculated exclusively on the basis of tax laws, pursuant to art. 2426 section 2 of the Civil Code, amount to 3,879 M/Euros.

Had no extra amortisation been calculated, the profit for the year and net equity would have been respectively 2,318 T/Euros and 4,636 T/Euros higher, net of the fiscal effects.

The table below shows the changes occurring in the main intangible asset items in 2001:

[in thousands of Euros]	Start-up and expansion costs	Re-search & development costs	Patent rights	Licences, trademks. and kindred rights	Goodwill	Sundr y items	Total
Net opening balance	41	110	1,339	88,643	193	549	90,875
Increases	14,675	72	1,346	-	-	392	16,485
Decreases	-	-	(2)	-	-	(4)	(6)
Amortisation	(2,976)	(42)	(942)	(9,858)	(32)	(277)	(14,127)
Net closing balance	11,740	140	1,741	78,785	161	660	93,227

II- Tangible assets

The tangible assets may be broken down as follows:

[in thousands of Euros]	31.12.2001		31.12.2000		Difference 2001/2000
	Gross	Net	Gross	Net	
Land and buildings	85,258	59,254	84,890	61,467	(2,213)
Plant and machinery	115,588	26,890	109,078	29,041	(2,151)
Industrial equipment	66,118	7,952	58,003	8,994	(1,042)
Sundry items	12,869	1,503	12,625	1,931	(428)
Tangible assets under construction and advances	660	660	475	475	185
Total	280,493	96,259	265,071	101,908	(5,649)

The 5,649 T/Euro decrease is the resultant above all of increases in the item “Plant and machinery” (6,902 T/Euros) and “Others industrial equipment” (8,262 T/Euros) - mainly ascribable to moulds and equipment for the manufacture of new products - minus accumulated depreciation for the year, amounting to 21,760 T/Euros.

The item “Assets under construction” refers primarily to the work completed thus far in the construction of the new finished products warehouse in Mignagola (Treviso).

In the current and previous years, accelerated depreciation charges were applied in order to take advantage of tax benefits, within the limits allowed under current tax laws. Had depreciation been calculated solely on a normal straight-line basis, the item “Tangible assets” would have been 10,290 T/Euros higher and the item “Depreciation” would have been 3,110 T/Euros lower. Consequently, net equity and profit for the year would have been respectively 6,148 T/Euros and 1,858 T/Euros higher, net of the relative fiscal effects.

The table below shows the changes occurring in the main tangible asset items in 2001.

[in thousands of Euros]	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other goods	Tangible assets under construction and advances	Total
Net opening balance	61,467	29,041	8,994	1,931	475	101,908
Increases	369	6,902	8,262	932	185	16,650
Decreases	-	(357)	(137)	(45)	-	(539)
Depreciation	(2,582)	(8,696)	(9,167)	(1,315)	-	(21,760)
Net closing balance	59,254	26,890	7,952	1,503	660	96,259

III- Financial assets

1- Equity investments

This item may be broken down as follows:

Subsidiary companies	31/12/2001	31/12/2000	Change
De' Longhi Pinguino S.A.	22,744	23,413	(669)
Simac Vetrella S.p.A. (*)	10,393	10,393	0
Ariagel S.p.A.	2,073	3,695	(1,622)
La Supercalor S.p.A.	2,933	2,866	67
De' Longhi France SARL(**)	2,440	2,402	38
De' Longhi America Inc.	1,407	1,407	0
De' Longhi Canada Inc.	1,214	1,214	0
De' Longhi LTD	1,145	1,145	0
De' Longhi Nederland B.V.	681	681	0
Clim.Re S.A.	54	54	0
E-Services S.r.l.	26	26	0
Total	45,110	47,296	(2,186)

(*) The amount shown is the sum of the investments in Effeplast S.r.l. and Simac-Vetrella, following the decision approved on 16/01/2001 to merge Simac-Vetrella with Effeplast and change the company name to Simac-Vetrella S.p.A.

(**) The amount includes the stake in Kenwood Holding S.A., merged by De' Longhi France at the end of December 2001.

Associated companies	31/12/2001	31/12/2000	Change
Comitalia Società Fiduciaria	3,025	3,025	0
Omas S.r.l.	1,136	1,136	0
Effegici S.r.l.	201	201	0
Parex Industries Limited	0	0	0
Liguria Vita S.p.A.	0	1,786	(1,786)
Total	4,362	6,148	(1,786)

Other companies	31/12/2001	31/12/2000	Change
SP. Tasoglou S.A.	142	142	0
Other minor investments	10	11	(1)
Total	152	153	(1)

Total equity investments	49,624	53,597	(3,973)
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A list of share capital investments is provided in annex n° 1.

The 3,973 T/Euro decrease is the resultant of the following:

- Acquisition of a minority stake of 5% in La Supercalor S.p.A., at a cost of 67 M/Euros.
- Acquisition of a minority stake of 10% in the company Ariagel S.p.A., at a cost of 362 T/Euros.
- Prudential write-down of the investment in Ariagel S.p.A., for an amount of 1,983 T/Euros. Ariagel S.p.A. reported a heavy loss for the 2001 financial period, deriving above all from extraordinary restructuring costs; on 15 March 2002, a contribution of 1,983 T/Euros was paid to cover losses.
- Acquisition of a 100% stake in the French branch of the affiliate Kenwood, at a cost of 38 T/Euros; the investment served to rationalise the corporate structure of the De' Longhi Group in the French market; in December 2001, it was decided to merge the French company with De' Longhi France SARL.
- Contributions of capital amounting to 22,200 T/Euros to the subsidiary De' Longhi Pinguino S.A. in December 2001 and subsequent prudential write-down of the shareholding by 22,869 T/Euros, to align the value of the investment with the company's net equity.

- Acquisition of a 49% stake in Parex Industries Limited, which distributes De' Longhi Group products in New Zealand and Australia. The company made this acquisition in order to gain better control and secure its position in the strategic market of Oceania. Within the context of this transaction, a significant portion of the amounts receivable from the distributor were collected, for a total of \$NZ 13.8 million; moreover, an interest-bearing loan of the same amount was granted, guaranteed by the company's assets, to help bring the deal to a close.
- Transfer of the shares in the affiliated company Liguria Vita S.p.A.; said shareholding was sold to De' Longhi Soparfi for a total of 3,099 T/Euros; the transaction, which brought capital gains of 1,313 T/Euros, falls within the framework of a corporate restructuring project begun at the end of 2000, which provided for the disposal of share capital investments no longer deemed strategic; the aforesaid amount, established on the basis of an assessment made by independent experts, has been collected in full.

As per art. 2426 n° 3 of the civil code, we shall note that some affiliates are ascribed a book value exceeding their respective fraction of net equity as shown in the last approved financial statements; said entries are justified by the existence of favourable business prospects and/or greater values attributable to the affiliate's assets.

2- Receivables

This item may be broken down as follows:

From subsidiary companies	31/12/2001	31/12/2000	Change
De' Longhi Nederland B.V.	4,500	0	4,500
De' Longhi Pinguino S.A.	393,799	72,901	320,898
Total	398,299	72,901	325,398

The loans were granted on a short-term basis and bear interests in line with market rates. The receivables from De' Longhi Pinguino S.A. mainly refer to loans granted on the occasion of the acquisitions made at the end of December 2000 and during 2001.

From associated companies	31/12/2001	31/12/2000	Change
Parex Industries Limited	6,197	0	6,197
Total	6,197	0	6,197

Said loan expires on 31/03/2005 and bears interests in line with market rates (see previous paragraph).

From others	31/12/2001	31/12/2000	Change
Credit for advance payment of withholdings on employee leaving indemnity	505	734	(229)
Guarantee deposits	56	53	3
Total	561	787	(226)

C) CURRENT ASSTES

I- Inventory

A comparison of year-end inventories is shown below.

	31/12/2001	31/12/2000	Change
Raw materials	29,505	34,836	(5,331)
Work in progress	7,959	7,137	822
Finished products	40,091	49,304	(9,213)
Total	77,555	91,277	(13,722)

The value of inventories decreased significantly (-13,722 T/Euros) compared to the same period of 2000, despite an increase in sales. This is mainly due to the efforts undertaken in 2001 to reduce operating capital.

The carrying amount of inventories has been adjusted through an inventory devaluation provision of 2,948 T/Euros (2,841 T/Euros in 2000) referring to products and raw materials that are obsolete or turn over slowly and are thus considered no longer strategic for the company.

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

II- Receivables

1- Receivables from customers

Trade receivables are shown net of a provision for doubtful debts, amounting to 3,450 T/Euros, which represents a reasonable estimate of risk, as assessed at the time the financial statements were drawn up, and was prudentially set aside against some credits in litigation and whose collection is in any case dubious.

The table below summarises the changes in the provision for doubtful debts.

	Balance 2000	Decreases	Increases	Balance 2001
Provision for Doubtful Debts	2,631	(999)	1,818	3,450

The trade receivables outstanding fell despite an increase in business; this is mainly due to an improvement in payment collection times.

The company received guarantees from customers totalling 631 T/Euros, which served to cover commercial transactions.

2- Receivables from subsidiary companies

The breakdown of receivables from subsidiary companies is as follows:

	31/12/2001	31/12/2000	Change
Trade receivables	156,650	107,819	48,831
Financial receivables	12,271	102	12,169
Total	168,921	107,921	61,000

The change in the item commercial credits is due to the considerable increase in sales to the most important commercial divisions abroad, which in turn saw sales rise significantly compared to the same period in 2000.

The increase in financial receivables mainly reflects credit granted to the subsidiary companies De' Longhi Pinguino S.A., Ariagel S.p.A., DL Radiators S.p.A. and Elba S.p.A.

3- Receivables from associated companies

The receivables refer to commercial credit granted and are mainly due from Parex Industries Limited, distributor in New Zealand and Australia.

4- Receivables from parent companies

The breakdown of receivables from parent companies is as follows:

	31/12/2001	31/12/2000	Change
De' Longhi Soparfi SA	3,284	185	3,099
De' Longhi Holding SA	22	22	-
Total	3,306	207	3,099

The amounts refer to the remainder of accrued interests to be paid by parent companies on loans already paid off in previous years as well as the sum receivable from De' Longhi Soparfi S.A. following the sale of the company Liguria Vita S.p.A. (see the assets section " Share capital investments").

5- Receivables from others

The item receivables from others comprises:

	31/12/2001	31/12/2000	Change
Deferred tax assets	5,567	7,127	(1,560)
Tax credits	2,823	8,909	(6,086)
Advances to suppliers	507	1,264	(757)
Advances to personnel	139	99	40
Other receivables	4,565	5,443	(878)
Total receivables from others	13,601	22,842	(9,241)

This item decreased by 9,241 T/Euros, above all as a result of the decrease in receivables from the Inland Revenue; more specifically, the decrease reflects the VAT credits that were recovered exploiting the Group intercompany clearing principle, as per Ministerial Decree 13/12/79 Art. 1 and subsequent modifications; this operation allowed us to almost completely absorb the credits accumulated in previous years.

The item "Deferred tax asstes" refers to the sum of advance taxes paid, which have been calculated on the basis of the temporary differences arising between the book value of assets and their corresponding fiscal values.

The overall balance of advance taxes as at 31 December 2001 shows a credit of 5,567 T/Euros.

This item may be broken down as follows:

Advance taxes referring to:	2001	2000	Change
- provision for contingencies and other provisions	4,269	5,736	(1,467)
- non-deductible write-downs of shareholdings	543	683	(140)
- other temporary differences	793	722	71
Deferred taxes for:			
- others	(38)	(14)	(24)
Total deferred tax assets	5,567	7,127	(1,560)

III- Short-term financial assets

This item, amounting to 906 T/Euros, is composed of shareholdings purchased for the purpose of utilizing cash surpluses.

IV- Cash and banks

This item, amounting to 17,975 T/Euros, mainly refers to surpluses in transaction accounts with lending institutions, comprising amounts received from customers at the end of the year.

D) ACCRUED INCOME AND PREPAYMENTS

The breakdown is as follows:

	31/12/2001	31/12/2000	Change
<u>Accrued income:</u>			
Financial incomes	1,833	1,676	157
<u>Prepayments:</u>			
Financial expenses	527	920	(76)
Others	764	501	(54)
Total	1,291	1,421	(130)
Total accrued income and prepayments	3,124	3,097	27

The item “Accrued income” includes financial incomes related for the most part to hedging transactions.

The item “Financial expenses”, under the heading of prepaid expenses, includes a 512 T/Euro once-for-all commission paid on the stipulation of an interest rate and exchange rate hedging contract connected to a 14.7 billion Yen loan received (see the section on “Payables to subsidiary companies”). The item “Others” mainly refers to deferred advertising costs of 181 T/Euros falling due in subsequent financial periods and a substitute tax of 217 T/Euros on M/L-term loans.

NOTES TO THE MAIN LIABILITY ITEMS

A) SHAREHOLDER’S 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 changes.

Annex n° 6 provides summary information as to the tax items available for the attribution of tax credits to shareholders.

I - Share capital

This item increased as a result of:

- A paid capital increase amounting to 129,417 T/Euros, which was approved on 18 April 2001 and fully paid up. At the same meeting it was also decided to convert the capital into Euros and to combine the shares issued by increasing their face value to 3 Euros;
- Share capital increase resulting from the public offering which took place on the occasion of the listing on the Milan Stock Exchange on 23/07/01. The operation consisted in a public offering of 37,500,000 ordinary shares in De’ Longhi S.p.A. at the value of 3.4 Euros each; 11,055,000 shares were made available to the public at large in Italy and 26,445,000 shares were privately placed with professional investors in Italy and institutional investors abroad, for a total counter-value of 127.5 million Euros. Following the aforesaid public offering, the share capital of De’ Longhi S.p.A. consists of 149,500,000 shares with a face value of 3 Euros and worth a total of 448.5 million Euros.

II- Additional paid-in capital

Following the aforesaid public offering, a share premium reserve of 15,000 T/Euros was established.

IV- Legal reserve

As at 31 December 2000, this item totalled 2,358 T/Euros. The increase of 896 T/Euros corresponds to the portion of the year's profits appropriated to the reserve on approval of the shareholders at the general meeting of 18 April 2001.

VII- Other reserves

Extraordinary reserve

The extraordinary reserve amounts to 34,589 T/Euros; the increase of 16,905 T/Euros versus 31 December 2000 corresponds to the portion of the year's profits appropriated to the reserve on approval of the shareholders at the general meeting of 18 April 2001.

In 2000 the company adjusted the values of some categories of fixed assets, to align the values recognised for tax purposes with the higher values disclosed in the financial statements; in accordance with the applicable laws, a fiscal constraint was placed on the net equity item "Extraordinary reserve" (17,560 T/Euros), the balance-sheet item "Legal reserve" (2,324 T/Euros) and the item "Share capital" (99,934 T/Euros), for an overall total of 119,818 T/Euros.

B) PROVISIONS FOR CONTINGENCIES AND OBLIGATIONS

1- Provisions for agents leaving indemnity and similar obligations

This item includes a "supplementary customer indemnity provision", consisting in sums 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 of the civil code.

The breakdown of supplementary customer indemnity provision is as follows:

	Balance 2000	Withdrawals	Allocations	Balance 2001
Agents leaving indemnity	1,373	(87)	278	1,564

3- Other provisions

This item may be broken down as follows:

	Balance 2000	Withdrawals	Allocations	Balance 2001
Product warranty fund	930	-	220	1,150
Provision for exchange rate fluctuation	1,510	(1,510)	-	0
Provision for returned goods	258	-	365	623
Provision for litigation risks	4,132	(2,114)	1,084	3,102
Total	6,830	(3,624)	1,669	4,875

The product warranty fund has been set aside on the basis of a prudential estimate of warranty services to be performed on products sold as at 31 December 2001.

The provision for "litigation risks" covers risks of a varying nature that could determine the emergence of potential liabilities; more specifically, the sums prudentially set aside by the Company include 1,084 T/Euros to cover the risk of liabilities that may arise in connection with some claims against products sold in the American market (solely the insurance deductible that

we must pay). This item was lower than in 2000, thanks to the settlement of several claims. The Company is also involved in litigation with third parties and in some cases the damages claimed are considerable; in this regard, we shall note that, based on the different expert opinions we have heard, we do not believe there are any reasonable grounds for fearing that such claims will be enforced, hence the Company's financial position should not be materially affected.

On 29 October 2001, the company approved and signed an assessment issued by the Revenue Agency of Treviso, in connection with auditing proceedings initiated by the Tax authorities for the years 1995 and 1996. This approved assessment resulted in expenses for taxes, fines and interests amounting to 1,024 T/Euros, of which 994 T/Euros were ascribed to "Extraordinary expenses" and 30 T/Euros to "Financial expenses".

C) STAFF LEAVING INDEMNITY

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

	Managers	Office staff	Workers	Total
Opening balance 01.01.01	1,294	3,046	5,516	9,856
Accruals	324	937	1,596	2,857
Indemnities paid	(294)	(618)	(1,464)	(2,376)
Closing balance 31.12.01	1,324	3,365	5,648	10,337

D)- PAYABLES

The changes occurring in the individual items are shown below.

3- Bank loans and overdrafts

The payables to banks are broken down as follows:

	Within one year	from one to five	Over five	Balance as at 31/12/01	Balance as at 31/12/00
Current accounts	0	-	-	0	359
Short-term loans in Euro or currency	63,020	-	-	63,020	0
Loans on bills portfolio	4,453	-	-	4,453	4,883
Short-term part of long-term loans	8,351	-	-	8,351	25,970
Total short-term payables to banks	75,824	0	0	75,824	31,212
Long-term loans	-	123,041	1,873	124,914	91,431
Total payables to banks	75,824	123,041	1,873	200,738	122,643

None of Company's assets have been pledged as collateral security for the above debt items. For a more complete picture of the changes occurring in the company's financial accounts, see the summary table provided in the director's report on performance and the cash flow statement.

5- Advances

They refer to advances received from customers for supplies and as guarantee deposits.

6- Trade payables

The balance represents the amounts payable to third parties for the supply of goods and services.

8- Payables to subsidiary companies

This item may be broken down as follows:

	31/12/2001	31/12/2000	Change
Trade payables	38,722	26,380	12,342
Financial payables	177,681	164,769	12,912
Total	216,403	191,149	25,254

The increase in commercial debts is mainly due to the larger purchases of finished products from the subsidiary Simac-Vetrella S.p.A.

The financial liabilities primarily refer to an interest-bearing loan of 8,765 T/Euros granted by the subsidiary De' Longhi Pinguino S.A., as well as another loan of 14.7 billion Yen provided in 2000; financial instruments were used to hedge the exchange rate risks associated with the latter.

9- Payables to associated companies

The item regards amounts payable to Omas S.r.l. (3,568 T/Euros) and Effegici S.r.l. (9 T/Euros).

11- Payables due to tax authorities

This item may be broken down as follows:

	31/12/2001	31/12/2000	Change
Direct taxes payable	19,121	26,407	(7,286)
Withholding taxes payable	1,224	1,799	(575)
Total payables due to tax authorities	20,345	28,206	(7,861)

The item "Payables due to tax authorities" includes current taxes payable net of advances, tax credits and withholdings paid, and a substitute tax of 15,175 T/Euros - representing the remainder due after the first instalment of 7,587 - related to the realignment of fiscal values effected in the year 2000.

12- Social Security payables

This item may be broken down as follows:

	31/12/2001	31/12/2000	Change
Inps (National Institute of Social Insurance)	1,953	1,770	183
Fasi- Inpdai (Social Security Institute for Industrial Executives)	140	125	15
Enasarco (National Board for the Assistance to Commercial Agents and Representatives)	105	110	(5)
Inail (Nat. Board for the Insurance against Industrial Accidents)	107	56	51
Social Security provisions	72	65	7
Other Institutions	54	28	26
Total payables to Soc. Sec. Inst.	2,431	2,154	277

13- Other payables

This item comprises the following:

	31/12/2001	31/12/2000	Change
To personnel	8,537	7,547	990
Costs incurred	1,949	849	1,100
Others	32	227	(195)
Total Other Payables	10,518	8,623	1,895

The item "To personnel" includes the amounts accrued and not yet paid.

The item "Costs incurred" mainly refers to costs accruing in the financial period.

E) ACCRUED LIABILITIES AND DEFERRED INCOME

This item may be broken down as follows:

	31/12/2001	31/12/2000	Change
<u>Accrued expenses</u>			
Interests payable on subsidiary company loans	0	1,518	(1,518)
Interests payable on M/L term loans	49	61	(12)
Other accrued expenses	2,288	1,182	1,106
<i>Total Accrued Expenses</i>	<i>2,337</i>	<i>2,761</i>	<i>(424)</i>
<i>Total Deferred Income:</i>	<i>975</i>	<i>0</i>	<i>975</i>
Total Accrued Expenses and Deferred Income	3,312	2,761	551

The item "Other accrued expenses" refers to expenses for exchange-rate and interest-rate hedging transactions.

The item "Deferred income" includes the portion of interests (pertaining to future financial periods) receivable on the financial credit granted to the associated company Parex Industries Limited.

Financial hedging instruments and other derivative contracts

In order to reduce its exposure to the financial risks tied to international commercial and financial transactions as a result of fluctuations in exchange and interest rates, the Company relies on hedging contracts within the limits defined by typical operating requirements.

In some cases, in virtue of the specific centralised treasury management functions assigned to it, the Company has engaged in hedging transactions on behalf of other group companies. The effect on De' Longhi Spa is neutral, since every transaction stipulated with market operators is counterbalanced by an identical, offsetting intercompany transaction.

Exchange rate derivatives: these include hedging transactions serving to guarantee a pre-established collection (or payment) exchange rate in the different currencies. They include both forward transactions and structured options for the currencies in which the Company's exposure is greatest (USA Dollar, Pound Sterling, Yen, Canadian dollar).

The income statement for the year only partially reflects the total positive financial effects we expect to derive from our hedging transactions, largely as a result of transactions involving the sale of Yen.

As at 31 December 2001, the nominal values of derivatives (net of any transactions that offset each other) currently in force were as follows:

Transactions between De' Longhi S.p.A. and third parties:

sale of USD against EUR	USD	62,000,000
sale of GBP against EUR	GBP	58,000,000
sale of JPY against EUR	JPY	2,700,000,000
sale of CAD against EUR	CAD	10,500,000
sale of NZD against EUR	NZD	14,277,360
sale of USD against GBP	USD	26,000,000

Transactions between De' Longhi S.p.A. and group companies:

purchase of GBP against EUR	GBP	10,000,000
sale of USD against GBP	USD	26,000,000

Interest rate derivatives: these are financial instruments that the Company uses in order to fix, in advance, a ceiling (in terms of the interbank rate, representing the *benchmark* for Group indebtedness) on the costs it will have to pay for part of the Group's financial debts. These instruments traditionally have a term of several years and can also be "linked" to specific operations to raise funds in capital markets. As at 31 December 2001, the current transactions amounted to 222,304 T/Euros.

Of the total existing as at 31 December 2001, 150 million Euros specifically relate to a loan of 14.7 billion Yen provided by De' Longhi Pinguino S.A., which falls due in April 2003 (See the liability item "Payables to subsidiary companies").

We shall point out that the centralised management activities, insofar as the hedging of exchange and interest rate risks is concerned, will be transferred in 2002 from De' Longhi S.p.A. to another Group company, which will be dedicated exclusively to this activity.

MEMORANDUM ACCOUNTS

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

	31/12/2001	31/12/2000	Change
Guarantees on behalf of subsidiary and associated companies	220,752	247,734	(26,982)
Guarantees on behalf of third parties	1,951	3,978	(2,027)
Total	222,703	251,712	(29,009)

The guarantees provided in behalf of subsidiary companies decreased by 26,982 T/Euros as a result of efforts to centralise credit lines, serving to prepare the way for cash pooling initiatives aimed mainly at companies residing in Italy.

The company issued a warrant to grant credit for a total of 58,305 T/Euros on behalf of several subsidiary companies to enable them to obtain the necessary bank guarantees required by their creditors and thus go ahead with the definition of mergers involving their own respective subsidiaries. At the time these financial statements were drawn up, the period in which creditors were entitled to raise objections had elapsed; hence there is no risk of actions of recourse.

NOTES TO THE MAIN ITEMS COMPRISING THE INCOME STATEMENT

A) VALUE OF PRODUCTION

1- Net revenue from the sale of goods and services

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

Income by geographical region:

	31/12/2001	%	31/12/2000	%	Change
Italy	177,666	32.4%	185,717	38.9%	(8,051)
USA, Canada and Mexico	94,939	17.3%	65,040	13.6%	29,899
Japan	30,550	5.6%	23,944	5.0%	6,606
Great Britain	54,812	10.0%	40,197	8.4%	14,615
Others in Europe	120,441	21.9%	104,963	22.0%	15,478
Rest of the World	69,984	12.8%	57,463	12.0%	12,521
Total	548,392	100%	477,324	100%	71,068

Income by product lines:

	31/12/2001	%	31/12/2000	%	Change
Cooking and food preparation, home cleaning and ironing	226,483	41.3%	186,195	39.0%	40,288
Heating	156,637	28.6%	129,005	27.0%	27,632
Air conditioning and air treatment	140,228	25.6%	140,275	29.4%	(47)
Others	25,044	4.5%	21,849	4.6%	3,195
Total	548,392	100%	477,324	100%	71,068

4- Increases in fixed assets for internal work

Software development expenses were capitalised and ascribed to the item "Intangible Assets".

5- Other income

The item "Other income and revenues" comprises:

	31/12/2001	31/12/2000	Change
Transportation refunds	6,280	4,755	1,525
Contingent assets	4,888	1,654	3,234
Rents receivable	725	723	2
Compensation for damage	1,067	664	403
Consulting fees receivable	1,667	1,197	470
Other sundry incomes	5,608	5,029	579
Total	20,235	14,022	6,213

The transportation refunds include amounts debited to customers for transport expenses incurred.

The contingent assets include 1,549 T/Euros in insurance indemnities received from Assicurazioni Generali S.p.A., a tax credit of 696 T/Euros accrued in our favour, pursuant to Law 388/ 2000, in virtue of the increase in the number of our employees, 841 T/Euros in contributions for operating expenses, related to funding for applied research granted under Law 46/82, and 633 T/Euros deriving from the utilisation of funds previously set aside and no longer deemed necessary.

The items "consulting fees receivable" and "other sundry incomes" basically comprise fees for services of an administrative nature and services provided to other group companies by our own personnel.

B) PRODUCTION COSTS

6- For raw and subsidiary materials and goods

This item may be broken down as follows:

	31/12/2001	31/12/2000	Change
Purchases of raw materials	22,397	27,220	(4,823)
Purchases of components	146,367	136,942	9,425
Purchases of finished products	111,359	101,781	9,578
Other sundry purchases	7,903	7,339	564
Total	288,026	273,282	14,744

The purchases of finished products mainly refer to goods purchased from other Group companies.

7- For services

The item "services" comprises the following:

	31/12/2001	31/12/2000	Change
Advertising	26,641	27,219	(578)
Transport	16,530	13,914	2,616
Outsourcing	15,677	14,148	1,529
Commissions	9,857	9,493	364
Consulting services	6,031	4,791	1,240
Technical services	7,221	6,119	1,102
Utilities	3,814	2,892	922
Travel expenses	3,486	2,530	956
Insurance expenses	3,431	2,254	1,177
Warehouse expenses and contributions	2,786	2,195	591
Temporary work	2,072	946	1,126
Third-party maintenance services	1,908	1,999	(91)
Other sundry services	13,801	12,768	1,033
Total	113,255	101,268	11,987

The directors' and auditors' fees are itemised in annex n° 4.

9- Personnel costs

A breakdown of the Company workforce is shown in the table below (Workforce as at 31/12/01 and 2001 average):

	31/12/2001	Average 2001	31/12/2000	Average 2000
Workers	1,286	1,329	1,280	1,281
Office personnel	510	504	455	450
Managers	35	35	27	27
Total	1,831	1,868	1,762	1,758

The workforce grew by an average of 91 employees.

10- Amortisation, depreciation and write-downs

Amortisation and depreciation amounted to 35,887 T/Euros (32,461 T/Euros in 2000).

The 1,818 T/Euro write-down in receivables included under the heading of "operating capital" refers to the amount prudentially allocated to the provision for doubtful debts, commented previously in the section regarding trade receivables.

12/13- Provisions for risks/other provisions

These items mainly refer to accruals to the provision for litigation risks, product warranty fund and supplementary customer indemnity provision, previously commented in the section on "Other provisions".

14- Sundry operating expenses

This item may be broken down as follows:

	31/12/2001	31/12/2000	Change
Contingent liabilities	495	542	(47)
Deductibles and compensation for damages	591	1,935	(1,344)
Sundry taxes and duties	860	842	18
Membership contributions	168	163	5
Other sundry expenses	178	203	(25)
Total	2,292	3,685	(1,393)

C) FINANCIAL INCOME AND EXPENSES

Income from equity investments	31/12/2001	31/12/2000	Change
Incomes from:			
- Capital gains on sales	1,313	2,911	(1,598)
- Dividends and tax credits	113	8,107	(7,994)
Total (a)	1,426	11,018	(9,592)

The capital gains realised during the financial period refer to the transfer of the stake in the subsidiary Liguria Vita S.p.A..

Dividends were distributed primarily by the subsidiary E-Services S.r.l.

Other financial income	31/12/2001	31/12/2000	Change
From subsidiary companies	11,546	102	11,444
From associated companies	374	0	374
From parent companies	0	207	(207)
From others:			
- from banks	765	2,995	(2,230)
- from customers	191	377	(186)
- exch. rate differences	10,402	11,184	(782)
Other financial income	7	1,763	(1,756)
Total (b)	23,285	16,628	6,657

Interests and financial expenses	31/12/2001	31/12/2000	Change
payable to subsidiary companies	2,501	1,606	895
payable to others:			
- Interests payable on M.T. debts	12,174	11,006	1,168
- interests on payables to banks	3,990	887	3,103
- exch. rate losses	11,259	8,063	3,196
- sundry financial expenses	4,539	8,187	(3,648)
Total (c)	34,463	29,749	4,714

Total financial income (expenses) (a+b-c)	(9,752)	(2,103)	(7,649)
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D) ADJUSTMENTS IN THE VALUE OF FINANCIAL ASSETS

18) Revaluations

	31/12/2001	31/12/2000	Change
Revaluation of equity investments	0	702	(702)
Total income from equity investments	0	702	(702)

19) Write-downs

	31/12/2001	31/12/2000	Change
Write-downs of equity investments	24,853	292	24,561
Total expenses from equity investments	24,853	292	24,561

This item refers to the write-down of the investment in the subsidiary companies De' Longhi Pinguino S.A. and Ariagel S.p.A. (For further information see pages 7-8).

E) EXTRAORDINARY INCOME AND EXPENSES

21- Extraordinary expenses

This item may be broken down as follows:

	31/12/2001	31/12/2000	Change
Taxes pertaining to previous years	863	651	212
Extraordinary expenses	1,932	10,741	(8,809)
Total extraordinary expenses	2,795	11,392	(8,597)

The taxes pertaining to previous years are relative to expenses for the approved tax assessment carried out in 2001 (commented previously), in consequence of which the Company had to pay 994 T/Euros in taxes and fines (of which 863 T/Euros is ascribed to the item "Taxes pertaining to previous years" and the remainder to "Extraordinary expenses").

The item Extraordinary expenses mainly refers to retirement incentives and sundry expenses pertaining to previous financial periods.

22- Income taxes

The item comprises:

	31/12/2001	31/12/2000	Change
Current taxes	8,089	12,789	(4,700)
Deferred taxes	1,559	5,669	(4,110)
Total	9,648	18,458	(8,810)

The income taxes amount to 3,357 T/Euros in corporate income tax (Irpeg) and 4,732 T/Euros in regional corporate income tax (Irap).

Financial and business relations with parent, subsidiary, associated companies and related parties

An itemization is provided in annex no. 3.

Directors' and Auditors' fees

The information required under Consob regulations (n° 4971 issued on 14.05.1999) is provided in annex n° 4.

Stock Options allotted to Directors

The information required under Consob regulations (n° 11971 issued on 14.5.1999) is provided in annex n° 5.

Subsequent events

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

Treviso, March 27th 2002

De' Longhi S.p.A.
The Managing Director
Stefano Beraldo

ANNEXED DOCUMENTS

The annexes contain further data serving to complete the information provided in the Explanatory Notes.

These data are contained in the following annexes:

1. List subsidiary and associated companies.
2. Breakdown of revalued assets.
3. Financial and business relations with parent, subsidiary, associated companies and related parties.
4. Fees paid to Directors and Statutory Auditors.
5. Stock-Options allotted to Directors.
6. Tax items available for the attribution of tax credits to shareholders.

Participation in subsidiaries and associated companies ex art. 2427 c.c

(Explanatory notes – Annex n. 1)

Name	Registered head offices	Capital share		Net equity		Net income (loss) of the period	Shares held	Type of relation	Book value
Subsidiary companies									in M/Euro
DE'LONGHI AMERICA INC.	Saddle Brook (U.S.A.)	US\$	9.100.000	US\$	2.597.596	US\$ (74.536)	100%	Direct	1.407
DE'LONGHI LTD.	Wellingborough (G.B.)	Gbp	4.000.000	Gbp	2.986.522	Gbp 1.359.909	100%	Direct	1.145
DE'LONGHI FRANCE SARL	Asnieres Cedex(F)	Eur	2.699.388	Eur	3.306.861	Eur 905.323	100%	Direct	2.440
DE'LONGHI NEDERLAND BV	DB Leiden (NL)	Eur	226.890	Eur	1.594.434	Eur 557.369	100%	Direct	681
DE'LONGHI CANADA INC.	Mississagua – Ontario (CAN)	Cad	1	Cad	2.163.945	Cad 635.770	100%	Direct	1.214
DE'LONGHI PINGUINO S.A.	Luxembourg	Eur	26.500.000	Eur	22.744.162	Eur (26.883.300)	100%	Direct	22.744
LA SUPERCALOR	Seregno (MI)	Eur	520.000	Eur	1.054.788	Eur 60.890	100%	Direct	2.933
ARIAGEL SPA	Candiolo (TO)	Eur	765.000	Eur	(1.473.407)	Eur (3.570.214)	90%	Direct	2.073
SIMAC-VETRELLA SPA (*)	Gorgo al Mont. (TV)	Eur	365.000	Eur	4.656.539	Eur 283.814	100%	Direct	10.393
E-SERVICES SRL	Treviso	Eur	50.000	Eur	276.439	Eur 215.744	51%	Direct	26
CLIM.RE (**)	Luxembourg	Eur	1.239.468	Eur	1.239.468	Eur 0	4%	Direct	54
Total									45.110
Associated companies (****)									
OMAS SRL	S.V.di Gualtieri (RE)	Lit	700.000.000	Lit	4.921.412.863	Lit 428.545.187	40%	Direct	1.136
EFFEGICI SRL	Gorgo al Monticano (TV)	Lit	470.000.000	Lit	576.787.742	Lit 20.132.927	25%	Direct	201
PAREX INDUSTRIES LIMITED (*****)	Auckland (NZ)	Nzd	7.600.000	Nzd	(1.687.000)	Nzd 1.103.000	49%	Direct	0
Interest held through Comitalia Trust (***)		Lit	1.000.000.000	Lit	12.598.922.809	Lit 37.152.332	40%	Direct	3.025
Total									4.362

(*) In January 2001 the merger through incorporation between Simac-Vetrella S.p.A. and Effeplast S.p.A. into Simac-Vetrella S.p.A. has been completed.

(**) De' Longhi S.p.A. holds directly 4% and indirectly, through De' Longhi Pinguino SA, the residual 96%.

(***) The interest held through the trust company regards a company that produces finished goods; 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 to avoid causing damage to the latter or to other Group companies.

(****) Data regarding 31/12/2000.

(*****) Data from provisional balance sheet as at 31/12/01 (nine months).

Schedule of revalued assets

Euro thousands

(Explanatory notes - Annex n. 2)

Balance sheet item	Revalued assets			Total revaluation
	1995 merger deficit allocation	Law n.413/1991	Other revaluation	
Operational real estate	43.899	6.061	18.320	68.280
Plant and machinery	38.139	3	14.763	52.905
Industrial and commercial equipment		55	3.546	3.601
Vehicles		2	279	281
Trademarks and rights	119.353			119.353
Totals	201.391	6.121	36.908	244.420

Financial and business relations with parent, subsidiary, associated and related companies

(Explanatory notes - Annex n. 3)

	Revenues from sales	Other income	Raw material expenses and other	Financial income and expenses	Receivables	Payables
Parent companies:						
De' Longhi Soparfi S.A. (1)	-	-	-	-	3,3	-
Total	-	-	-	-	3,3	-
Subsidiaries: (2)						
De' Longhi America Inc.	62,4	-	(7,5)	-	64,9	(3,2)
De' Longhi Limited	53,3	-	(6,4)	-	24,3	(2,1)
De' Longhi Japan	30,5	0,2	(1,5)	-	16,8	(0,2)
De' Longhi Pinguino S.A.	-	3,3	-	8,1	407,4	(161,2)
De' Longhi Canada Inc.	11,8	0,8	(0,4)	-	8,3	(0,1)
De' Longhi France SARL	15,9	-	(2,1)	-	7,6	(0,2)
Simac-Vetrella S.p.A.	10,8	1,5	(61,7)	0,2	6,9	(24,3)
De' Longhi Deutschland GMBH	10,6	-	(1,6)	-	6,4	(0,3)
La Supercalor S.p.A.	4,2	0,2	-	-	5,3	-
De' Longhi Nederland B.V.	10,2	-	(0,4)	0,3	9,6	-
Ariagel S.p.A.	2,9	-	(1,0)	0,1	4,9	(1,2)
Elba S.p.A.	1,2	0,9	(17,1)	0,5	1,7	(6,3)
DL Radiators S.p.A.	-	0,6	-	0,5	1,1	-
Climaveneta S.p.A.	-	0,7	(0,3)	(0,6)	0,8	(15,3)
E-Services S.r.l.	-	1,7	(2,9)	-	0,5	(0,1)
Kenwood Singapore	3,0	-	-	-	0,3	-
Climaveneta Deutsch.	1,1	-	-	-	0,2	-
Kenwood Limited	-	0,1	(0,3)	-	-	(0,3)
Clim.Re S.A.	-	-	-	(0,1)	-	(1,5)
Kenwood South Africa	0,3	0,1	-	-	-	-
Total	218,2	10,1	(103,2)	9,0	567,0	(216,3)
Associated companies: (3)						
Omas	4,1	0,1	(5,9)	-	0,7	(3,6)
Parex Industries Limited	10,2	0,1	(0,4)	0,4	11,3	-
Comitalia Trust (6)	0,1	-	(4,5)	-	-	-
Total	14,4	0,2	(10,8)	0,4	12,0	(3,6)
Total subsidiaries and associated companies	232,6	10,3	(114,0)	9,4	579,0	(219,9)
Related parties						
Nauta S.r.l. (4)	-	-	(0,5)	-	-	(0,1)
Italia Distribuidora	-	-	-	-	0,3	-
Genesi S.r.l. (3)	5,8	-	-	-	4,5	-
Delta Erre Trust (3) (7)	-	0,1	(9,9)	-	0,1	(1,8)
Max Information (5)	-	-	(0,8)	-	-	(0,1)
Totale	5,8	0,1	(11,2)	-	4,9	(2,0)

- (1) Receivables from De' Longhi Soparfi SA are mainly referred to the sale of the participation in Liguria Vita S.p.A..
- (2) It mainly regards commercial relations and administrative services supplied by Headquarters' employees.
- (3) Amounts regarding trade relations.
- (4) Amounts regarding air plane services.
- (5) Amounts regarding marketing expenses; Max Information S.r.L. is a company in which De' Longhi S.p.A.'s director, Mr. G. Sandri, is managing director.
- (6) Referral to Annex n.1.
- (7) The company mainly produces finished goods; for this purpose 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 to avoid causing damage to the latter or to other Group companies.

Besides what exposed above, there aren't other transactions with related parties, except for the fees paid to the Studio Biscozzi e Nobili, from which the Group, during year 2001, has acquired consulting services. For a more precise detail, please refer to the comments of the Explanatory Notes in Annex n. 4 "Fees paid to Directors and Auditors".

Fees Paid to Directors and Statutory Auditors
(art. 78 CONSOB's directive n. 11971 dated 14.5.1999)

Euro thousands

(Explanatory notes – Annex n. 4)

Interested party	Position description		Fees			
			Fees	Not financial benefits	Bonus and other incentives	Other fees
First and last name	Position held	Position lasting				
De' Longhi Giuseppe	President	01.01/31.12.01	331			18 (1)
De' Longhi Fabio	Vice-President	01.01/31.12.01	288	(2)		26 (3)
Beraldo Stefano	Managing Director	01.01/31.12.01	494	(4)		13 (5)
Sandri Giorgio	Director	01.01/31.12.01	21			
Gordon Colin James	Director	18.04/31.12.01	21			
Brunetti Giorgio	Director	18.04/31.12.01	21			1,6 (6)
Garavaglia Carlo	Director	18.04/31.12.01	21			1,6 (7)
Ponzellini Gianluca	President of the Board of Auditors	18.04/31.12.01	62			
Malerba Giancarlo	Statutory Auditor	18.04/31.12.01	41			
Lanfranchi Massimo	Statutory Auditor	18.04/31.12.01	41			

- (1) Fees due to positions held in other subsidiaries.
(2) The amount includes also the fee due to the position of Sales and Marketing Director of De' Longhi S.p.A..
(3) Fees due to positions held in other subsidiaries reversible to De' Longhi S.p.A..
(4) The amount includes also the fee due to the position of General Director.
(5) Fees due to positions held in other subsidiaries reversible to De' Longhi S.p.A..
(6)-(7) Fees due to the position of member of the Remuneration Committee and the Internal Control Committee and for the Corporate Governance.

Mr. C. Garavaglia and Mr. G. Malerba are partners of the Studio Biscozzi Nobili, to which the Group has paid fees, during year 2001, for 623 T/Euros, which include also the consulting services rendered during the IPO process.

Stock-Options allotted to Directors
(art. 78 CONSOB's directive n. 11971 dated 14.5.1999)

(Explanatory notes – Annex n. 5)

Person	Allotted options during 2001			Options took-up during the year	
Surname and Name	Number of buyable shares	Strike price	Exercise period	Numer of shares bought	Share price
Beraldo Stefano	1.189.004	3,4	2004 - 2006	-	-
De' Longhi Fabio	608.790	3,4	2004 - 2006	-	-

**Disposable taxes for the tax credit allotment to shareholders
(art. 105 section 1 letters A e B DPR 917/86)**

(Explicatory notes – Annex n. 6)

	Disposable taxes for the tax credit allotment to shareholders	
	“A” ordinary	“B” limited
A) Opening balance	17.333.623	42.396.247
B) Increases due to period income increases	3.530.281	348.847
– Scheduled allotment for settled taxes or in any case relevant for the tax credit recognition (to be used only in dividend distribution)		
Closing balance	20.863.904	42.745.094

**AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW
DECREE N° 58 DATED 24 FEBRUARY 1998**

To the shareholders of
De' Longhi SpA

- 1 We have audited the financial statements of De' Longhi SpA as of 31 December 2001. These financial statements are the responsibility of De' Longhi'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 11 per cent of the amount included within "investments in controlled companies" and 0.5 per cent of total assets. Furthermore, the audit of the financial statements of some indirectly controlled subsidiaries is also performed by other auditors.

For the opinion on the financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to our report issued on April 11, 2001.

- 3 In our opinion, the financial statements of De' Longhi SpA as of 31 December 2001 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.
- 4 We draw your attention to the following information:
 - (a) In current and previous years, accelerated depreciation has been applied to tangible fixed assets within limits allowed by fiscal laws. The related effects on the net result for the year and on shareholders' equity have

been provided in the notes to the financial statements within the section on “tangible fixed assets”.

- (b) In current and previous years, accelerated depreciation has been applied to trademarks recorded as intangible fixed assets within limits allowed by fiscal laws. The related effects on the net result for the year and on shareholders’ equity have been provided in the notes to the financial statements within the section on “intangible fixed assets”.
- (c) The Company holds controlling investments recorded in the financial statements at cost adjusted for permanent diminution in value, and has therefore prepared consolidated financial statements of the Group as required by law. The consolidated financial statements represent an integration to these financial statements in order to provide adequate information on the Group’s financial position and its results for the year. We have audited the consolidated financial statements, which have been submitted together with the Company’s financial statements and our audit opinion.

Treviso, 29 March 2002

PricewaterhouseCoopers SpA

S/ Roberto Adami
(Partner)

“This report as 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”