



## Annual report 2004





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## Corporate Bodies and Officers





# Corporate Bodies and Officers

## Board of Directors

Giuseppe De'Longhi *	President
Fabio De'Longhi *	Vice-President
Stefano Beraldo *	CEO
Alberto Clò **	Director
Renato Corrada **	Director
Carlo Garavaglia **	Director
Giorgio Sandri	Director
Silvio Sartori	Director
Giovanni Tamburi **	Director

## Board of Statutory Auditors

Gianluca Ponzellini	President
Massimo Lanfranchi	Standing Auditor
Giuliano Saccardi	Standing Auditor
Roberto Cortellazzo-Wiel	Substitute Auditor
Alberto Lanfranchi	Substitute Auditor

## Independent Auditors

PricewaterhouseCoopers S.p.A. (\*\*\*)

## Internal Control & Corporate Governance Committee

Renato Corrada \*\*  
Carlo Garavaglia \*\*  
Giovanni Tamburi \*\*

## Remuneration Committee

Alberto Clò \*\*  
Carlo Garavaglia \*\*  
Giovanni Tamburi \*\*

\* The present corporate officers and bodies were appointed at the shareholders' meeting held on April 28th 2004 for the period 2004-2006. At its meeting on April 28th 2004, the Board of Directors renewed the delegation of executive powers, supplementing them with the limits envisaged by law, as well as the guidelines and criteria for identifying significant transactions – and in particular those with related parties – and our Code of Ethics.

\*\* Independent directors.

\*\*\* Appointment for the audit of 2004-2005-2006 financial statements assigned by the shareholders' meeting held on April 28th 2004







## Letter from the Chairman





# Letter from the Chairman

## **A new basis for growth**

In 2004 strengthening of the euro versus the US dollar, consequent pressures on selling prices, sluggish consumer spending, and the increase in commodity prices made the global competitive scenario more challenging.

Moving from the international scenario to that of the Italian economy, we find further punitive factors, i.e. the rigidity of the labour market, the high costs of social security charges payable by companies, high taxation, inadequate infrastructures and transport networks, and higher electricity costs than in other European countries.

De'Longhi continues to be a model for Italian multinationals – but concentration of our manufacturing set-up in the original sites was no longer viable. Industrial delocalisation to combat the factors described above thus became necessary and led to the consequence of industrial restructuring in Europe.

The process started a few years ago and, after China, has materially been followed by Russia, which becomes the new model for multinationals, i.e. manufacture at local costs to sell competitively in the production market and in neighbouring markets.

The manufacturing internationalisation process, through strengthening of the Chinese operating platform, and a consequent programme for revision of the Italian manufacturing set-up have enabled us to defend the Group's profitability.

Innovation, R&D, marketing and design continue to be the lynch pins of the Group's strategy to establish successful, hi-tech products in the market.

The early months of 2005 – due to adverse weather conditions and to the consequently different dynamics of air conditioner sales compared with the same period last year – have featured shrinkage of revenues and have not been able to benefit fully from actions taken on the cost-reduction front.

I am convinced that it is essential to take – in a long-term perspective - the industrial and commercial action necessary to underpin and strengthen the company's fundamentals, i.e. manufacturing, product, distribution, and markets. By so doing we have created the basis for the Group's further growth.

Giuseppe De'Longhi  
Chairman





## De'Longhi and Corporate Social Responsibility



# De'Longhi and Corporate Social Responsibility

Social responsibility is one of the basic principles guiding our corporate choices.

The De'Longhi Group's extensiveness – from both the geographical standpoint and as regards our various product lines – increasingly imposes the adoption of a commonly shared operating model and standards. We introduced the Code of Business Ethics and other procedural and organisational measures indicated by Italian Legislative Degree 231/2003 with the aim of preventing risks and legal offences. Here we would like to present an updated picture also of the working environment existing above all at our manufacturing locations.

During 2004 the De'Longhi Group employed an average of 4,897 blue-collar workers in 15 production units, of which 3 in China (and of these, 2 located in the Guangdong area and 1, on a joint-venture basis, located in the vicinity of Shanghai). Our delocalisation process continued as planned with consequent closure of the Ampezzo site in the Carnia area, it is appropriate to report here that demanning efforts in De'Longhi SpA's facilities in the Treviso area are also continuing in 2005.

All relevant trade union agreements were signed giving the utmost attention to the social impact that such reorganisation processes inevitably have. This does not mean just the request to apply the subsidised temporary lay-off system on an extraordinary basis but also – and above all – defining criteria for choosing staff involved giving priority to voluntary exit, protection of couples (both married and otherwise), and adoption of part-time contracts. The satisfactory outcome of negotiations was in fact publicly recognised by trade union representatives, who defined them as “negotiations that have led to positive results from both the employment and economic standpoint” (as reported in *Il Sole 24 Ore* newspaper, Northeast edition, on May 25th 2005).

Another major issue typically relating to corporate social responsibility policies is occupational safety. In our Italian factories the number of accidents has decreased significantly (by way of example, in the factories of the direct parent company De'Longhi SpA the accident index has descended from 88 in 1995 to 59 in 2001 and to 33 in 2004 – the accident index used for the purposes of the state occupational accident prevention and insurance agency INAIL is the number of accidents multiplied by a factor of 1,000,000 and the number of hours worked). A further example of sensitivity and attention to people is the fact that we banned smoking in our offices long before introduction of the legal requirement commonly known as the Sirchia Law.

Lastly, if we look at the situation of our Chinese factories and in particular at that of the two most important units in terms of size and organisational complexity - i.e. Tricom (specialised in processing plastic and to which production of fan heaters and of some coffee machine and fryer models has already been transferred) and On Shiu (specialised in processing sheet metal and in radiator production) – the photograph is as follows:

- De'Longhi has started implementing appropriate measures to upgrade and align working conditions with Italian standards and, more generally, with Western companies' standards
- As regards occupational safety, various actions have been implemented concerning prevention (training, supply of new instruments, and installation of machinery equipped with automatic safety systems, etc.)
- Similar attention has been dedicated to improvement of “related” conditions such as dormitories and canteens – very important factors to attract and retain skilled staff in China.

The De'Longhi Group strictly complies with current laws as regards working age and has implemented

## De'Longhi and Corporate Social Responsibility

numerous control procedures (e.g. internal audit committees, and internal supervisory functions, etc.) to ensure that workers' rights are guaranteed. The best proof of De'Longhi's commitment and serious approach in this respect is the positive outcome of the inspections – formal and substantive – performed by our main American customers, who impose total observance of the so-called Business Code of Conduct standards (e.g. prohibition of use of juvenile workers, payment of proper wages, basic safety conditions, and verification of absence of discrimination, etc.).







## Financial high-lights

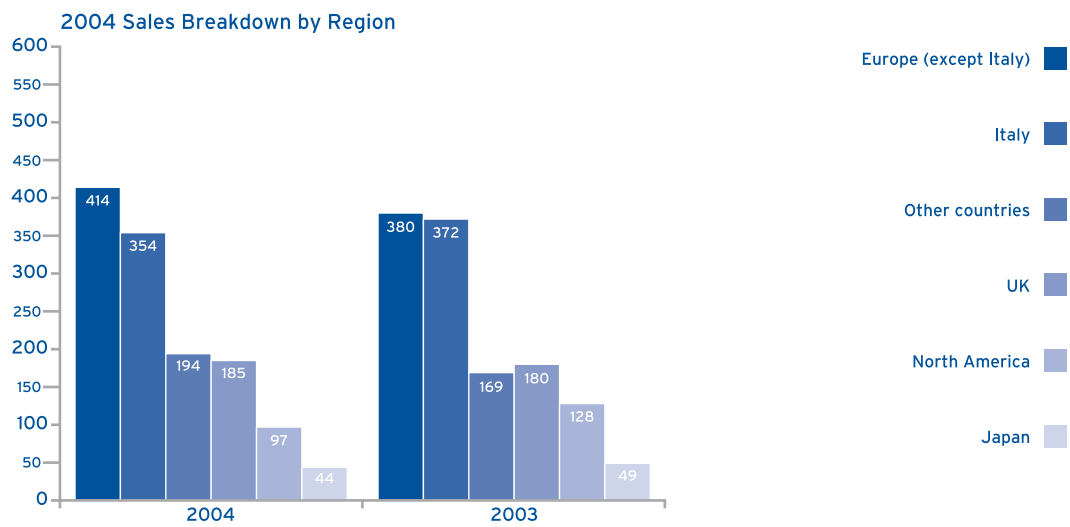
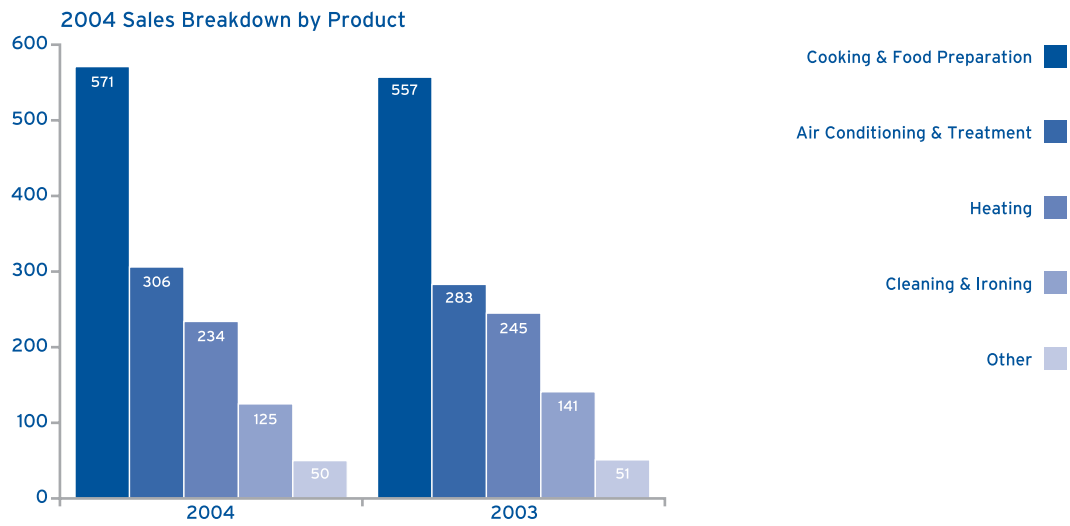


## Financial high-lights

	2004	2003	2002
<b>Key Income Statement Figures (Euro m)</b>			
Net Sales	1.287,0	1.278,0	1.273,7
EBITDA	137,2	151,0	180,4
EBIT	74,0	84,7	109,9
Net Income	15,0	22,3	40,0
<b>Key Balance Sheet Figures (Euro m)</b>			
Net Working Capital	332,5	249,2	269,1
Net Debt	313,3	247,2	269,1
Group Shareholders' Equity	561,3	560,7	554,5
<b>Key Ratios</b>			
ROCE (EBIT/Capital Employed)	8,5%	10,5%	13,3%
ROE (Net Income/Shareholders' Funds)	2,7%	4,0%	7,2%
ROS (EBIT/Net Sales)	5,7%	6,6%	8,6%
NWC/Net Sales	25,8%	19,5%	21,1%
Net Debt/Group Shareholders' Equity	0,56	0,44	0,49
<b>Data per Share</b>			
Number of shares (m)	149,5	149,5	149,5
Earnings per Share	0,10	0,15	0,27
Book Value per Share	3,75	3,75	3,71
Dividend per Share	0,06	0,06	0,06
Pay out Ratio %	59,8%	40,2%	22,4%
P/EPS (1)	33,7	22,1	15,9
P/Book Value (1)	0,9	0,9	1,1
Dividend Yield (1)	1,8%	1,8%	1,4%

(1) Ratios calculated using closing share prices as of year end

# Financial high-lights







## Directors' report on operations



# Directors' report on operations

## To Our Shareholders

2004 featured continuation of adverse external conditions in the main markets in which the group is active. Further strengthening of the euro penalised export business and put selling prices under strong pressure, which was also caused by increasing competition from products coming from low-cost countries – also used by the main Western companies active in small domestic appliances. Weather conditions during 2004 were less than favourable for the seasonal part of the group's business. Temperatures in July and August 2004 were below average in the western hemisphere, with a consequent negative impact on revenues for air conditioning products – more subject to “impulse buying”. Conversely, November and December 2004 featured unusually high temperatures, which dampened sales of portable heating products.

In this environment – and notwithstanding a weak fourth quarter – in 2004 the De'Longhi Group achieved volume growth of some 8%, which translated into a revenue increase of 0.7% (progressing from € 1,278.0 million (mn) in 2003 to € 1,287.0 mn in 2004), due to the adverse effects of pressure on selling prices (6.1%) and exchange rates (1.2%).

Thanks to its ongoing R&D activity, the group succeeded in achieving significant rates of growth in some product families for which quality and innovation play a particularly important role (e.g. coffee machines/makers, food processors, and ironing systems).

In addition, the group also benefited from strong growth of the wall-mounted air conditioner market and from its presence in business segments less impacted by the adverse external scenario – such as

thermo-cooling systems, freestanding cookers, and water-filled radiators, categories that all contributed to the group's revenues and profitability in 2004.

In this scenario our two-pronged strategy proved to be right. On the one hand, the product development and geographical expansion leading the group to draw the market's attention to its cutting-edge technologies in the production of automatic coffee machines and ironing systems – categories in which it is establishing itself in a world leadership position – and, on the other, continuation of manufacturing internationalisation designed to secure the cost reduction necessary to preserve market share in the product segments hardest hit by price tensions. The actions taken on these two fronts permitted a slight increase in gross margin, which increased to € 656.3 mn vs. € 653.3 mn in 2003, with a 51.0% margin on revenues vs. 51.1% in 2003.

The group continued the manufacturing internationalisation programme initiated at the end of 2002. More than half the small domestic appliance (SDA) families have been transferred, with major cost savings, making it possible to offset the adverse effects of external factors.

During the current year the programme will be substantially completed, with start-up of production in China of categories that in 2004 were still produced in Italy.

Costs relating to the increase in sales volume and non-recurrent costs associated with the transitional phase penalised EBITDA, which amounted to € 137.2 mn, with a 10.7% margin on consolidated net revenues, as opposed to 11.8% in 2003.

## Directors' report on operations

Net income - € 15.0 mn vs. € 22.3 mn in 2003 – felt the effects of other non-recurrent and extraordinary items. Extraordinary expenses, amounting to € 11.7 mn, included provisions required to cover restructuring costs. Another non-recurrent and extraordinary item related to exchange-rate hedging transactions (mainly set up by the Kenwood subsidiary), which caused a loss of € 10 mn (€ 1.5 mn in 2003) due to weakening of the US dollar. We point out that these losses – not speculative in nature and the result of hedging policies applied – were caused by the difference between hedge exchange rates, designed to protect the budget, and current exchange rates.

The increase in net financial debt (€ 313.3 mn vs. € 247.2 mn in 2003 net of securitisation, and € 403.4 mn vs. € 356.3 mn in 2003 gross of securitisation) was mainly due to the increase in net working capital (25.8% on revenues vs. 19.5% in 2003 net of securitisation). This change was mainly due to (a) the higher inventories originating from prudent stockpiling consistently with the process of transfer to China and (b) higher inventory of air conditioning products due to a season affected by the adverse weather trend in June and July 2004. We also note the impact on working capital of the decrease in taxes payable following payment in 2004 of the charge for the tax amnesty and of taxes relating to extraordinary operations completed in 2003.

2004 was a year of transition for the De'Longhi Group, during which it unceasingly continued its manufacturing internationalisation effort. At the same time we continued to pay close attention to investments in innovation, and to marketing, design, and customer service. These strategic activities will continue to be carried out in Italy also in future years, in order to keep industrial skills and technological know-how firmly rooted in the operating parent company.

### Main exchange rate and interest rate trends

During 2004 the euro continued to appreciate versus the US dollar (by about 10% comparing the average exchange rate in 2004 with that of 2003). It appreciated less versus the Japanese yen (by about 3%), whilst sterling strengthened slightly versus the euro (+2%).

Interest rates remained low in the world's major economies, albeit increasing in some countries vs. 2003 year-end levels (in the USA by 1% point to 2.25% and in the UK from 3.75% to 4.75%).

### Market scenario

In 2004 the global economy grew by approximately 4%. In the face of robust growth by the US and UK economies, Eurozone countries showed faint signs of recovery. Strengthening of the euro vs. the US dollar eroded exports' competitiveness and the consumer-spending trend was further dampened by tensions on the employment front.

2004 also featured big increases in commodity prices (mainly steel and plastic), as well as achievement of record oil prices.

In the domestic appliance market the growth trend of coffee machines continued in the main geographical areas, above all for automatic machines and those using pods.

Some SDA categories felt the effects of strong selling-price tensions caused by imports of products from low-cost countries and by the increased bargaining power of retail chains.



## Directors' report on operations

In the air conditioning segment, the adverse summer season caused a downturn in sales volume for portable air conditioners – more sensitive to weather trends. Conversely, fixed conditioners benefited from ever decreasing seasonality of their sales, no longer concentrated solely in the summer season, and showed considerable rates of increase.

In the main markets of reference heating products suffered a reduction in sales due to the late start to the autumn/winter season.

### Products

Once again in 2004 product initiatives were fundamental to strengthen our leadership as a multi-specialist in the various markets where we are present.

Special highlights of 2004 were as follows:

- Development in the coffee machine/maker segment, via new versions of the automatic machine and electrical moka coffee-maker, and models of machines launched on the market in collaboration with producers of coffee pods and capsules (Mokarabia, Nespresso)
- As regards other cooking products, we introduced the first codes of a new range of 12-litre electric ovens made in the group's Chinese factories for the domestic and North American markets
- Development in the air conditioning & treatment family, of innovative fan coils and hydronic systems, a new innovative series of "Pinguino" products, and applications for the mobile and wireline telephony market

- As regards the cleaning & ironing area, we expanded the range of continuous-refill ironing systems and launched the "Tabata" electric floor sweeper which is selling successfully
- In the heating segment 2004 featured development of the third generation of the "Dragon" model and entry into the attractive and remunerative focal-point heater market
- In products under the Kenwood brand, we highlight the launch of new ranges of products for cooking and food preparation, plus range extension for the "Smoothie" blender – one of the most outstanding cases of commercial success in this product category in Europe.

### Significant events

#### **Manufacturing internationalisation programme**

Work on manufacturing internationalisation continued in 2004 with strengthening of the manufacturing and procurement organisation and facilities – necessary to tackle the challenging external scenario adequately.

As regards products for cooking and preparing food, the process of transfer of fryers to the Tricom factory was completed.

In the second half of 2004 the Ampezzo factory was closed. This involved 130 workers and led to transfer of coffee machine production to the Tricom subsidiary's site (with the exclusion of production of automatic coffee machines, which are produced at the Mignagola factory in the province of Treviso).

## Directors' report on operations

In the air conditioning segment, we intensified preparatory activities for production in China for the range of portable conditioners and dehumidifiers. During 2004 production started in China of low-end portable conditioners and as from 2005 both product families will mostly be produced locally. For the manufacturing and commercial joint venture between Climaveneta, a group company active in thermo-cooling systems, and its distributor in Shanghai 2004 was the first fully operational year, with good results in terms of revenues and profitability.

In heating, 2004 featured development of the Group's second industrial complex in China (On-Shiu) consisting of the factories in Zhongsan, acquired at the end of 2003. During 2004 transfer of production of oil-filled radiators took place for just over half the group's production requirements. The remainder will be transferred during 2005.

2004 also marked the start of production of ironing systems and home cleaning appliances c/o Chinese partners.

Strengthening of our Chinese industrial operations, which, according to company plans, will be completed by the end of 2005, has led to review of the manufacturing set-up in Italy. In relation to this, in December 2004 the De'Longhi Group announced a reorganisation plan for the Italian workforce. As regards developments concerning our manufacturing plan, reference should be made to what is described in the section on events occurring after year-end.

The choice made to transfer production mainly to factories owned by us is motivated by the desire not to forfeit our industrial vocation, keeping technological and manufacturing know-how in the group, in the belief that this is a major plus distinguishing us from competitors.

Thus far the results of this programme of change have been positive – both in terms of renewed competitiveness of products that would otherwise have been unable to compete in the market, and of quality.

### **Group organisational rationalisation programme**

In 2004 De'Longhi Finance SA, the company set up in 2003 to co-ordinate international cash pooling for the group's foreign companies and for centralised management of other group financial activities, continued to develop its operations.

As part of the project to centralise the group's main trademarks in a dedicated organisation, the Kenwood trademark was sold to Kenwood Appliances Luxembourg SA. This operation, a prelude to further development of the company DL Finance SA, will permit better and more effective management of the trademark.

At the end of December 2004 the decision was taken to merge group companies active in the production and marketing of water-filled radiators (Sile Corpi Scaldanti Srl and DL Radiators SpA). The objective is to implement commercial synergies and achieve greater industrial, economic, and financial functionality.

# Directors' report on operations

## Sales trend

The group achieved revenue growth of 0.7% vs. 2003 (1.9% at constant foreign exchange rates).

We should point out that the amounts shown in this report are expressed in millions of euro. Percent changes and incidence have instead been calculated using amounts originally expressed in thousands

of euro. Because of this, some of the percentages shown in the report might be slightly different to those obtainable calculating percentages directly on amounts in millions of euro.

## Business segments

The following table shows the trend in consolidated net sales or each segment in 2003 and 2004:

DE'LONGHI GROUP (€ millions)	2004	2003	Change 2004 vs. 2003	% Change at actual exchange rates 2004 vs. 2003	% Change at constant exchange rates 2004 vs. 2003
Cooking & food preparation	571.2	556.6	14.6	2.6%	3.8%
Air conditioning & treatment	306.2	283.4	22.8	8.0%	9.0%
Heating	234.2	245.4	(11.2)	(4.6%)	(2.8%)
Home cleaning & ironing	125.1	141.2	(16.1)	(11.4%)	(10.8%)
Other	50.4	51.3	(1.0)	(1.9%)	(1.4%)
<b>Total</b>	<b>1,287.0</b>	<b>1,278.0</b>	<b>9.1</b>	<b>0.7%</b>	<b>1.9%</b>

### *Cooking & Food Preparation*

The increase in sales in the cooking & food preparation segment was due to good performance by coffee machines/makers, also thanks to the success of the new models of automatic machines, and by cookers, hobs, and automatic food processors. Sales of electric ovens and fryers were down, particularly in the North American market.

### *Air Conditioning & Treatment*

The biggest contribution to sales growth in this segment came from the family of fixed conditioners, which benefited from a big increase in unit sales volume, aided by the decrease of selling prices and by less seasonality in terms of consumers' purchases. Portable conditioners' revenues, although growing, were penalised by the mild summer season in the main markets of reference. The performance of thermo-cooling systems was highly positive, whereas revenues for the air treatment category were down.

### *Heating*

The downturn of revenues in the heating was due to the shrinkage suffered by the portable heater family, headed by oil-filled radiators, which more than absorbed water-filled radiators' sales growth. Portable heaters felt the effects of the late start of the winter season caused by above-average temperatures until November-December, as well as of downward selling price pressure in some markets.

### *Home cleaning products and ironing systems*

In the ironing category the trend in revenues was positive, whereas they were down in the case of cleaning products – a category affected by strong price pressure.

# Directors' report on operations

## Geographical areas

In 2004 the group once again confirmed its strong international vocation. Foreign sales in fact accounted for 73% of total sales.

DE'LONGHI GROUP (€ millions)	2004	2003	Outright Change 2004 vs. 2003	% Change at actual exchange rates 2004 vs. 2003	% Change at constant exchange rates 2004 vs. 2003
Italy	353.8	372.1	(18.3)	(4.9%)	(4.9%)
UK	184.8	180.1	4.7	2.6%	0.7%
Rest of Europe	413.5	380.3	33.3	8.7%	9.3%
USA, Canada and Mexico	97.1	127.6	(30.5)	(23.9%)	(17.2%)
Japan	44.0	48.5	(4.5)	(9.4%)	(6.6%)
Rest of the world	193.9	169.4	24.6	14.5%	18.1%
<b>Total</b>	<b>1.287.0</b>	<b>1.278.0</b>	<b>9.1</b>	<b>0.7%</b>	<b>1.9%</b>

The revenue downturn in the Italian market was ascribable to the sales decrease in cooking & food preparation and by a reduction in sales of portable conditioners, caused by the weak summer season. The British market benefited from good performance by water-filled radiators and by ovens and hobs.

Revenue performance was satisfactory in markets in the rest of Europe, above all in France and Germany. Growth in the German market was made possible by the major success of launch of the new models of automatic coffee machines.

It is also worth mentioning the ranking published in premier sector magazines, which ranked De'Longhi coffee machines in the top echelons of the category.

The reduction of sales in North America is explained not only by US dollar depreciation, but also by the decrease in revenues for fryers and electric ovens – with the latter particularly penalised by competition from Asian manufacturers. Completion of transfer of this category to China in 2005 should enable the group to increase its competitiveness in the North American market.

In Japan the decrease in sales was partly ascribable to the negative trend of the heating season. We nevertheless underline the good result achieved by the Japanese subsidiary in overhead cost reduction, which permitted improvement of an already good level of profitability. Sales growth in the rest of the world was driven by revenue growth in Australia, New Zealand, and South Africa.

# Directors' report on operations

## Operating performance

Below we present the reclassified income statements.

	2004	% on sales	2003	% on sales
	€ millions	%	€ millions	%
<b>Net sales</b>	<b>1,287.0</b>	<b>100.0%</b>	<b>1,278.0</b>	<b>100.0%</b>
YoY change	9.1	0.7%		
Cost of materials and goods	(630.7)	(49.0%)	(624.7)	(48.9%)
<b>Gross margin</b>	<b>656.3</b>	<b>51.0%</b>	<b>653.3</b>	<b>51.1%</b>
Service costs and sundry expenses	(342.3)	(26.6%)	(328.1)	(25.7%)
<b>Value added</b>	<b>314.0</b>	<b>24.4%</b>	<b>325.2</b>	<b>25.4%</b>
Labour costs	(164.0)	(12.7%)	(162.4)	(12.7%)
Provisions	(12.8)	(1.0%)	(11.8)	(0.9%)
<b>EBITDA</b>	<b>137.2</b>	<b>10.7%</b>	<b>151.0</b>	<b>11.8%</b>
YoY change	(13.8)	(9.1%)		
Depreciation & amortisation	(63.2)	(4.9%)	(66.3)	(5.2%)
<b>EBIT</b>	<b>74.0</b>	<b>5.7%</b>	<b>84.7</b>	<b>6.6%</b>
YoY change	(10.7)	(12.6%)		
Financial income (charges)	(32.6)	(2.5%)	(32.4)	(2.5%)
Foreign exchange gains (losses)	(10.0)	(0.8%)	(1.5)	(0.1%)
Extraordinary income (expenses)	(11.7)	(0.9%)	(11.6)	(0.9%)
<b>Pre-tax income</b>	<b>19.7</b>	<b>1.5%</b>	<b>39.2</b>	<b>3.1%</b>
Taxes	(4.6)	(0.4%)	(16.7)	(1.3%)
<b>Net income before minorities</b>	<b>15.2</b>	<b>1.2%</b>	<b>22.4</b>	<b>1.8%</b>
Minorities	0.2	0.0%	0.1	0.0%
<b>Group net income</b>	<b>15.0</b>	<b>1.2%</b>	<b>22.3</b>	<b>1.7%</b>

Sales revenues progressed by 0.7% to € 1,287.0 mn at current exchange rates, set against volume growth of approximately 8%.

Actions taken on the industrial front (manufacturing internationalisation and innovation) enabled us to limit the negative effects of price pressures and of euro appreciation on gross margin. The latter increased to € 656.3 mn vs. € 653.3 mn in 2003, with a 51.0% margin on sales compared with 51.1% in 2003.

Service costs increased by € 13.7 mn, with incidence rising from 24.9% to 25.8%, mainly because of higher transport and warehousing costs (+20% vs. 2003). As well as by the higher purchase volume of products manufactured in China, this increase is also explained by the average increase in commercial freight tariffs and by the increase in sales volume.

Labour costs increased by € 1.7 mn following the increase in manning levels of some of the group's industrial and commercial companies, which more than offset the reduction in the operating parent company's employee headcount following the restructuring process.

## Directors' report on operations

Due to the factors outlined above and to non-recurrent costs associated with the transitional phase (travel expenses for China, transport costs for moulds and machinery and warehousing relating to pre-production items), EBITDA amounted to € 137.2 mn (vs. € 151.0 mn in 2003) with a 10.7% margin on sales compared with 11.8% in 2003.

Financial charges benefited from lower interest expenses thanks to the reduction in the average cost of debt. 2004 featured non-recurrent items relating to hedging of exchange-rate risks mainly set up by the Kenwood subsidiary, which generated foreign-exchange losses of € 10 mn (€ 1.5 mn in 2003). We point out that these losses – not speculative in nature and the result of hedging policies applied – were

caused by the difference between hedge exchange ranges, designed to protect the budget, and current exchange rates.

Extraordinary expenses included costs relating to the manufacturing internationalisation process and, in particular, the group's costs relating to the restructuring programme currently underway.

Net income amounted to €15.0 mn, down from €22.3 mn in 2003.

### Analysis of capital and financial status

Below we summarise the group's capital and financial status:

	31.12.2004	31.12.2003	Change
	€ millions	€ millions	€ millions
Trade receivables	275.9	298.3	(22.4)
Inventories	290.9	260.4	30.4
Trade payables	(267.2)	(308.6)	41.4
Other current assets (liabilities)	32.9	(0.9)	33.8
<b>Net working capital</b>	<b>332.5</b>	<b>249.2</b>	<b>83.3</b>
Fixed assets:			
Intangible assets	407.0	430.3	(23.3)
Tangible assets	226.7	215.3	11.4
Financial assets	7.5	8.1	(0.6)
Deferred tax provision	(17.3)	(29.3)	12.0
Other provisions	(80.1)	(64.4)	(15.8)
<b>Net capital employed</b>	<b>876.2</b>	<b>809.3</b>	<b>66.9</b>
Minority interests' equity	(1.7)	(1.4)	(0.3)
Group net shareholders' equity	(561.3)	(560.7)	(0.6)
<b>Total non-financial sources</b>	<b>(563.0)</b>	<b>(562.1)</b>	<b>(0.9)</b>
<b>Net financial position</b>	<b>(313.3)</b>	<b>(247.2)</b>	<b>(66.0)</b>

## Directors' report on operations

Below we summarise the group's reclassified cash flow statement:

€ millions	2004	2003
Operating cash flow	78.1	90.4
Change in net working capital (*)	(67.3)	33.7
Cash flow from investment activities (**)	(43.7)	(63.6)
<b>Free cash flow</b>	<b>(32.9)</b>	<b>60.5</b>
Working capital for new commercial subsidiaries	-	(31.4)
Dividend distribution	(9.0)	(9.0)
Change in translation difference and other items	(5.1)	(6.1)
Securitisation (***)	(19.0)	7.9
<b>Change in net financial position</b>	<b>(66.0)</b>	<b>21.9</b>

(\*) 2003 does not include the change in NWC relating to the new subsidiaries.

(\*\*) 2003 includes the investment of some € 15 mn for start-up of the new commercial subsidiaries.

(\*\*\*) The change was exclusively due to the lower amount of receivables securitised.

The increase in net financial debt (to € 313.3 mn vs. € 247.2 mn in 2003 net of securitisation and € 403.4 mn vs. € 356.3 mn in 2003 gross of securitisation) was primarily attributable to the increase in net working capital, following the higher inventories originating from prudent stock-piling consistently with the process of transfer to China and from air conditioning products due to a less than favourable season for these products. For 2005 we expect progressive sale of 2004 inventory (representing only a part of 2005 sales requirements), which should thus enable 2005 year-end NWC to return to levels closer to those of the previous two years (21.2% in

2002 and 19.5% in 2003). "Other" items also had a significant impact due to the decrease in taxes payable following payment in 2004 of the charge for the tax amnesty and of substitute tax relating to extraordinary operations completed in 2003.

### Human resources and organisation

As at December 31st 2004 the De'Longhi Group had 7,184 employees (vs. 5,848 in 2003).

The following table summarises average employee headcount in 2004 vs. 2003:

Average number of employees	2004	2003 (*)
Blue-collars	4,897	3,840
White-collars	2,299	1,920
Managers	119	113
<b>Total</b>	<b>7,315</b>	<b>5,873</b>

(\*) Figures adjusted according to uniform group-wide classification criteria.

## Directors' report on operations

Group companies employed, as stated, an average total of 7,315 employees, 1,442 more than in the previous year. This change was mainly the result of (a) an increase in the work force of the Chinese factories and of staff employed in the new subsidiaries and (b) a reduction in the operating parent company's employee headcount.

During 2004 we made significant investments to consolidate the organisational set-up in China as regards both the hire of skilled staff and implementation of appropriate personnel policies (working hours, overtime working, training & development policies, and reward systems, etc.).

Given the growing importance of our Chinese operations, numerous Italian managers, supervisors, white-collar and blue-collar staff have helped to cover critical functions and activities (management of factories and production departments, quality control of finished products and in-house production, industrialisation, maintenance, time & methods, equipping of lines, water depuration, purchasing, and procurement marketing, etc.). Some have done this on a long-lasting basis as expatriate staff working abroad, whilst others have alternated periods of work in China with periods of work at our Italian factories.

At the same time, in the operating parent company a number of management development initiatives were undertaken with the aim of preparing company managers to manage an increasingly international and complex operating environment.

### **Information systems**

Information system services provided within the De'Longhi Group continue in the direction mapped out by the original strategic choices. These centre the information system's present and potential functionalities round the SAP software product. We highlight the start, during 2004, of the project for SAP implementation in the new Chinese companies and upgrading of the information system currently used by all organisational units in Europe and in the USA. Adoption of new programmes will provide benefits in terms of efficiency, effectiveness and control to the some 1,100 users involved in the project.

Some major projects were completed or are still underway. These include the PLM (Product Life-cycle Management) project – permitting electronic management of the main documents concerning finished products managed by the group; the new reporting system to achieve tighter analysis of new scenarios emerging; and the BW (Business Warehouse) project for replacement of existing tools for the analysis of information (sales statistics, inventories, etc.) with a technological platform.

### **Logistics and supply chain**

In connection with the major changes underway in the group, the logistics function has been the subject of investments in human resources, particularly in Hong Kong. On the one hand we have organised ourselves to address the significant changes in the volume of products transported, particularly from China. On the other, we have decided to create just one group directorate to supervise logistics and planning activities.



# Directors' report on operations

## Research and development

R&D activity is performed by the R&D units (specifically dedicated to the four business segments), working on innovation and, more recently, on quality control activities. These units work in close contact with the product management, industrial design, and industrialisation functions in order to accelerate new products' time to market, assure smooth and efficient production start-up, and assure that the product matches market expectations.

The group dedicates over 250 people to R&D activities. These investments have enabled it to achieve competitive pluses and consolidate them over time.

During 2004 development activities permitted the market launch of numerous products – both those designed and manufactured in-house and those purchased from outside.

Special mention is merited by our “SuperAutomatica” coffee machine – a product of high unitary value launched on the market of three years of investments in R&D also leading to registration of numerous patents.

In the air conditioning segment, activity focused on development of (a) new ranges of compact products, with the aim of offering chillers – normally offered only for commercial use due to their size – also to the residential market, and (b) conditioners for telecom shelters.

In the field of domestic air conditioning we initiated important technological partnerships with Chinese suppliers so as to assure development of innovative products meeting the safety, design and ergonomic standards typical of De'Longhi products.

We also note our work on standardisation, designed

to assure that our products fully meet the severest standards. More specifically, De'Longhi is lead company at European level for definition of a standard for the utilisation of ecological refrigerants in domestic air conditioning – a sector in which the group is leader in Europe with its Pinguino Eco product.

## Quality

In 2004 we continued our quality policy, aiming to achieve customer satisfaction as regards quality, reliability, and aftersales service.

Until midway through the previous year, quality activity was performed within the various manufacturing sites. During 2004 responsibility was divided between (a) the technical units directly involved in the industrialisation process and (b) the central directorates as regards co-ordination of quality assurance processes.

## Aftersales service

The growth of the group in the last few years has required profound redesign of facilities for aftersales assistance at European level, with the aim of creating an international and multibrand organisation.

Reorganisation of our Aftersales Service unit has above all envisaged rationalisation of spare-part inventories existing in the various European facilities.

## Marketing and communication

Advertising activities focused on strengthening the De'Longhi brand via some focused campaigns – such as that for the electric moka coffee-maker “Alicia”, designed to consolidate its success and present the new model equipped with a timer – and for the

## Directors' report on operations

"Pinguino" portable air conditioner to strengthen its market leadership.

In June air conditioners were the lead players of telepromotions aired during the European soccer championship. The key product presented was the Pinguino "Applique", the revolutionary split portable conditioner that can also be hung on the wall.

Another item presented was De'Longhi's unique air/water (twin condenser) system in the form of the PAC 55 and 70 models, together with the company's latest novelties in terms of design PAC T90 and PAC T100.

### **Risk coverage**

The group has extensive insurance coverage in place for both its main assets (specifically: all tangible fixed assets are insured and most of trade receivables are covered by premier insurance companies) and for any risks relating to products sold.

The group also has a policy of hedging financial risks (relating to exchange rates).

### **Changes in regulatory framework**

The group is active in the various association and institutional bodies that have the task of following the evolution of the regulatory framework affecting the business at both national and international level. May 1st 2004 marked enlargement of the European Union of 15 countries (EU-15) to the European Union of 25 countries. The first important consequence of this enlargement is adoption by new member countries of all EU product directives, with consequent disappearance of all country-specific requirements and of any national certification obligations. The De'Longhi Group's products, in line with EU-15 standards, can also be marketed in new

member countries since it is sufficient for them to have CE marking.

On August 13th 2004 the deadline expired for incorporation in local EU members' legislation of the European Directive 2002/96/EC "Waste Electrical & Electronic Equipment" (WEEE), which regulates re-utilisation, recovery, and recycling of electrical and electronic equipment that has reached the end of its life. It is expected that legislative incorporation throughout the European Union will only be complete in the early months of 2005 because the main countries have suffered legislative delays. In the face of this very uncertain scenario, the entire sector is making a major effort to set up voluntary recycling consortia and to overcome implementation problems. The De'Longhi Group is involved in this activity via a co-ordination task force to follow all technical and financial aspects and via active participation in all meetings concerning creation of national consortia.

### **Stock option plans**

The stock option plan decided upon by the Board of Directors on June 12th 2001 was implemented in July 2001. The plan's aims reflect the desire to (a) build the loyalty of key resources, focusing their attention on the factors for medium-/long-term success and (b) maintain or improve the group's competitiveness in the domestic and international compensation market, introducing an economic variable linked to the creation of value for the company and for shareholders.

The plan initially involved 63 Italian and non-Italian employees holding key positions at group level, who were assigned a total of some 6,900,000 options, vesting of a part of which is subject to achievement of objectives whilst another part depends on

## Directors' report on operations

maintenance of their employment relationship with the group.

Following the addition of new participants to the stock option plan decided upon by the Board of Directors of De'Longhi SpA in 2002 and 2003, and exits from the Group occurring in the meantime (3 in 2002, 3 in 2003, and 9 in 2004), as at the end

of December 2004 the number of participants had decreased to 55.

Given only partial vesting of options linked to objectives and in view of the fact that none of the plan participants exercised options during 2004, the maximum number of options exercisable by the deadline of February 28th 2006, within the periods defined by the Plan Regulation, totals 5,140,240.

	2004					2003			
	Partici- pants	Total no. of options	No. of options exercisable	Period of exercise	Unitary exercise price (€)	Partici- pants	Total no. of options	Period of exercise	Unitary exercise price (€)
Status as at 01.01	57	6,349,120	5,277,287	2004-'06	3.400	60	6,586,627	2004-'06	3.400
	3	293,890	205,723	2004-'06	4.123	3	293,890	2004-'06	4.123
	3	236,500	191,687	2005-'06	4.765	3	236,500	2005-'06	4.765
	1	80,000	56,000	2005-'06	3.460	3	236,500	2005-'06	4.765
New plan participants in period						1	80,000	2005-'06	3.460
Rights lapsing in period	(8) (1)	(709,348) (85,000)	(530,957) (59,500)	-	3.400 4.765	(3)	(237,507)	-	3.400
<b>Year-end status</b>	<b>55</b>	<b>6,165,162</b>	<b>5,140,240</b>			<b>64</b>	<b>6,959,510</b>		

### Corporate Governance

Once again during 2004 the corporate governance system of De'Longhi SpA was in line with the principles contained in the Italian Self-Governance Code for Listed Companies. We also point out that, the shareholders' meeting held on April 28th 2004 amended the Articles of Association following the coming into force of company law reform as per Italian Legislative Decree 6/2003.

On the same date shareholders also renewed corporate bodies. The present Board of Directors consists of nine directors, of which four directors rated as independent as per Article 3 of the Self-Governance Code.

In addition, we continued optimisation of the internal audit and governance system. Specifically, the Board of Directors continued the process of adaptation to the requirements of Italian Legislative

Decree 231/2001 [concerning legal entities' administrative liability] – also aided by the Internal Control & Corporate Governance Committee and by the Internal Auditor – in view of forthcoming adoption of the “organisational model” envisaged by the decree. Moreover, an extensive awareness-building programme was undertaken for all heads of functions in the group's Italian companies, to achieve an increasing governance culture. This took the form of a series of in-depth training meetings.

We note that, during FY2004, all the De'Longhi Group's Italian companies approved their own Code of Business Ethics, in line with the code originally adopted by the operating parent company De'Longhi SpA.

## Directors' report on operations

For information concerning corporate governance, reference should in any case be made to the report prepared as per Article IA.2.13 of the Instructions for the Italian Stock Exchange Regulation. This provides full information on the ways in which the corporate governance system and Self-Governance Code are implemented. The report has been lodged with Borsa Italiana SpA.

### Shareholdings owned by directors and statutory auditors

As required by Article 79 of the CONSOB (Italian listed company and stock market surveillance body) Regulation passed with resolution no. 11971 on 14/05/1999, below we provide information on the shareholdings owned by directors and statutory auditors in De'Longhi SpA and in its subsidiary companies.

Full name	Company in which shares are owned	No. of shares owned as at 31.12.03	Purchases 2004	Sales 2004	No. of shares owned as at 31.12.04
Giuseppe De'Longhi	Elba SpA	90	-	-	90
Fabio De'Longhi	De'Longhi SpA (*)	(*) 447,570	-	-	(*) 447,570
Stefano Beraldo	De'Longhi SpA	20,600	-	-	20,600
Giorgio Sandri	De'Longhi SpA	30,750	-	-	30,750
Silvio Sartori	De'Longhi SpA	(*) 100,000	100,000	-	(*) 200,000
Massimo Lanfranchi (standing statutory auditor)	De'Longhi SpA (*)	(*) 750	-	-	(*) 750

(\*) Figure includes shares owned indirectly and/or via relatives.

### Transactions with parent, subsidiary, associated, and related companies

The effects of De'Longhi's dealings with parent companies, subsidiaries, associated companies,

and with related parties are summarised in the Explanatory Note.

### Key stock market and per-share indicators

Stock market data	2004	2003
Maximum price - € (June 28th 2004)	3.68	4.70
Minimum price - € (March 23rd 2004)	2.59	2.98
Average price - €	3.16	3.58
Market capitalisation as at December 30th 2004 (€ millions)	505.3	494.1
Source: Reuters		
Per-share data	2004	2003
Number of shares (millions)	149.5	149.5
Earnings per share	0.10	0.15
Net equity per share	3.77	3.76
Dividend per share	0.06	0.06
Payout ratio %	59.8%	40.2%
Price/Earnings per share (1)	33.7	22.1
Price/Net Equity per share (1)	0.90	0.88
Dividend Yield (1)	1.8%	1.8%

(1) Calculated on basis of year-end prices

# Directors' report on operations

## De'Longhi share price performance

During 2004 De'Longhi share price featured a maximum price of € 3.68 and a minimum price of €2.59, with an average price in the year of € 3.16.

In 2004 daily trading volume averaged 150,000 shares.

## Introduction of international accounting standards

EU Regulation 1606/2002 of the European Parliament envisages that, for financial years starting on January 1st 2005, European companies traded in regulated markets must prepare consolidated financial statements according to the international accounting standards IAS/IFRS – issued by the International Accounting Standards Board and homologated by the European Union.

These accounting standards were only published in December 2004, with this timing causing a delay in the definition of a basic regulatory framework.

As regards CONSOB memorandum DME/5015175 of March 10th 2005 concerning the status of implementation of systems and accounting procedures for IAS/IFRS application, we advise that, during 2003, the De'Longhi Group started a project to study the new standards and identify their primary effects on group companies and on consolidated financial statements. An internal task force was set up that, aided by outside consultants, has identified the main accounting impacts and the main areas for action, in cases when application of the new standards and information needed to draw up consolidated financial statements required modifications to the group's administrative procedures and information systems.

As at today's date, we are now completing definitive quantification of the impacts of the new standards'

application both on opening capital balances as at transition date (January 1st 2004) and on consolidated P&L and balance sheet data relating to FY2004 and interim periods in 2004, since these have to be prepared for the purposes of comparison with 2005 figures.

The main impacts on consolidated financial statements emerging from the analysis performed thus far relate to the following areas:

- **Intangible fixed assets:** international standards envisage more restrictive rules for capitalisation of intangible fixed assets. Specifically, start-up and expansion costs have to be charged to the profit & loss account when they are incurred. Capitalisation of these costs therefore has to be adjusted at the time of the opening balance, whilst subsequent income statements will benefit from lower amortisation.
- **Goodwill, consolidation difference and trademarks considered to be of indefinite duration:** residual value as at transition date will no longer undergo systematic straight-line amortisation but must be revised each year according to so-called impairment testing, i.e. a verification process designed to identify any losses of value (as per IFRS 3 amortisation of consolidation difference must no longer be posted in the P&L account – in 2004 it amounted to € 13.5 mn).
- **Trade receivables:** for this item international standards require that the financial component be separated if the due date exceeds normal credit collection terms.
- **Securitisation:** valuation based on IAS/IFRS could require balance-sheet reclassification.

## Directors' report on operations

- **Employee severance indemnity provisions and pension funds:** the necessary actuarial valuations have been performed for the operating parent company, Italian subsidiaries, and for a foreign company with the aid of actuarial consultants, based on the provisions of IAS 19.
- **Accounting treatment of financing:** in some cases application of the amortised-cost method to group financing activities involves redistribution of the effective financial expense in the various financial years.
- **Accounting treatment of derivative hedging instruments and underlying transactions:** the international standard imposes more restrictive rules for the posting of operations hedging the risk of changes in exchange and interest rates.
- **Layout of financial statements:** IAS 1 ("Presentation of Financial Statements") does not envisage a mandatory layout for financial statements but merely establishes minimum requirements for their content. The structure chosen by the De'Longhi Group will not be very different to the present layouts used for financial statements. The balance sheet will in any be based on the distinction between "current" and "non-current" assets and liabilities. The income statement will be classified by nature.  
We also underline that more restrictive rules have been introduced for the accounting treatment of "Extraordinary income and expenses".

In its document dated February 17th 2005, CONSOB regulated the timing for application of the new IAS/IFRS standards in the preparation of interim financial

statements. Specifically, it pointed out that the use of accounting policies and standards established by current regulations is allowed for preparation of financial statements for the first two quarterly reports of 2005.

Based on the provisions of the aforementioned document, the De'Longhi Group intends to prepare its reports for the first quarter and first half using current standards, whilst the switch to IAS/IFRS will take place as from the quarterly report for the quarter ending on September 30th 2005. 2005 year-end financial statements will be drawn up according to international accounting standards. Based on initial analysis, the Group expects the economic and financial impact of IAS/IFRS to be positive.

We also advise that we are in the process of commissioning the independent auditor, in the terms that will be indicated by CONSOB, to verify the opening balances as at transition date (January 1st 2004).

### Events after year-end

In February 2005 we acquired a manufacturing site located in the Republic of Tatarstan (Russia). This plant will be totally dedicated to the production of oil-filled radiators for sale in the Russian market. According to group plans, the new factory will produce some 300,000 radiators in 2005 and 500,000 in 2006. The acquisition is strategically important because it makes it possible to avoid import duties that, until now, had reduced the group's commercial competitiveness in Russia.

## Directors' report on operations

On March 17th 2005 agreement was reached with trade union organisations concerning the industrial plan announced to them on December 2nd 2004. The agreement envisages the following conditions:

- The programme for revision of the Italian production platform of De'Longhi SpA, which will lead to total redundancies of 504 people. The number, by virtue of the switch to part-time work and transfer to other group companies, could be reduced to 459 employees.
- Use of the subsidised temporary lay-off system (Cassa Integrazione Guadagni Straordinaria - CIGS) for an initial period of 12 months, which can be extended for a further 12 months after the Labour Ministry has ascertained that the prerequisites to do so in fact exist.
- Temporary lay-offs are scheduled as from April 2005 and will be staggered during the year.

The costs for restructuring of Italian industrial activities have been totally accounted for in the 2004 consolidated income statement.

### **Outlook and expected business progress**

The group believes that, with FY2004, it has overcome the most critical phase of the manufacturing internationalisation process, since production of more than half the families of SDA (small domestic appliance) products have been transferred to China with major cost savings. For the remaining product families production transfers are in the process of completion in 2005 and the execution risk now appears to be relatively modest.

We reasonably believe that, in 2005, there is no room for further significant reductions of selling prices – a circumstance from which the group should benefit.

The early months of FY2005 have featured a decrease in revenues versus the same period in 2004, mainly because of a lower contribution from the air conditioning & treatment segment. In the first quarter of 2004 this segment delivered growth of nearly 47% YoY because of retail orders earlier than usual in terms of seasonality, due to expectations of a very hot summer. The current season instead seems to feature behaviour in line with established habits. Management believes that revenue performance will start to improve as from the second quarter. It has set itself the target for 2005 of a moderate increase in sales and significant recovery of profitability vs. 2004 at the various levels of the income statement.

Treviso, March 24th 2005  
On behalf of the Board of Directors  
Stefano Beraldo  
Managing Director









## Consolidated financial statement



**Balance sheet**

**Income statement**

**Consolidated cash-flow statement for the years ending on December 31st 2004 and 2003**

**Statement of changes in consolidated net shareholders' equity for the years ending on December 31st 2004 and 2003**

# Consolidated financial statement

## Balance sheet

### Assets

	31.12.2004		31.12.2003	
	Sub-Total	Total	Sub-Total	Total
<b>A) AMOUNTS RECEIVABLE FROM SHAREHOLDERS</b>		-		-
<b>B) FIXED ASSETS</b>				
<b>I - INTANGIBLE FIXED ASSETS</b>				
1) Start-up and expansion expenses		3.995		7.228
2) Research, development and advertising costs		9.876		6.430
3) Industrial patents and intellectual property rights		3.446		3.122
4) Concessions, licenses, trademarks and similar rights		170.411		182.678
5) Consolidation difference and goodwill		204.437		217.313
6) Intangible assets under construction and advance payments		5.630		3.172
7) Other intangible assets		9.203		10.367
<b>TOTAL INTANGIBLE FIXED ASSETS</b>		<b>406.998</b>		<b>430.310</b>
<b>II - TANGIBLE FIXED ASSETS</b>				
1) Land and buildings		120.408	121.382	
2) Plant and machinery		59.608		48.816
3) Industrial and commercial equipment		29.260		30.932
4) Other tangible assets		10.269		10.336
5) Tangible assets under construction and advance payments		7.125		3.809
<b>TOTAL TANGIBLE FIXED ASSETS</b>		<b>226.670</b>	<b>215.275</b>	
<b>III - FINANCIAL FIXED ASSETS</b>				
1) Equity investments in:				
a) subsidiaries	2.067		2.099	
b) associated companies	3.638		4.120	
d) other companies	950	6.655	931	7.150
2) Amounts receivable from:				
d) others:				
- within 12 months	853		1.010	
- beyond 12 months	1.693	2.546	2.934	3.944
<b>TOTAL FINANCIAL FIXED ASSETS</b>		<b>9.201</b>		<b>11.094</b>
<b>TOTAL FIXED ASSETS</b>		<b>642.869</b>		<b>656.679</b>
<b>C) CURRENT ASSETS</b>				
<b>I - INVENTORIES</b>				
1) Raw materials, consumables and other materials		65.888		64.158
2) Work in progress and semi-finished products		20.830		18.133
4) Finished goods		204.158		178.146
<b>TOTAL INVENTORIES</b>		<b>290.876</b>		<b>260.437</b>
<b>II - RECEIVABLES</b>				
1) Trade receivables				
- within 12 months	275.855		297.562	
- beyond 12 months	84	275.939	468	298.030
3) Due from associated companies				
- within 12 months	85	85	290	290
4) Due from parent companies				
- within 12 months	423	423	-	-
4-bis) Due from tax authorities				
- within 12 months	22.794		18.660	
- beyond 12 months	230	23.024	239	18.899
4-ter) Deferred tax assets				
- beyond 12 months	42.966	42.966	35.814	35.814
5) Others:				
- within 12 months	10.598		11.079	
- beyond 12 months	653	11.251	1.578	12.657
<b>TOTAL RECEIVABLES</b>		<b>353.688</b>		<b>365.690</b>
<b>III - CURRENT FINANCIAL ASSETS</b>				
4) Other equity investments		-		606
6) Other securities		36.680		33.683
<b>TOTAL CURRENT FINANCIAL ASSETS</b>		<b>36.680</b>		<b>34.289</b>
<b>IV - LIQUID FUNDS</b>				
1) Cash in bank		99.522		101.089
2) Cheques		1.055		1.502
3) Cash in hand		270		225
<b>TOTAL LIQUID FUNDS</b>		<b>100.847</b>		<b>102.816</b>
<b>TOTAL CURRENT ASSETS</b>		<b>782.091</b>		<b>763.232</b>
<b>D) ACCRUED INCOME AND PREPAID EXPENSES</b>		<b>4.157</b>	<b>3.388</b>	
<b>TOTAL ASSETS</b>		<b>1.429.117</b>		<b>1.423.299</b>

# Consolidated financial statement

## Balance sheet

### Liabilities

	31.12.2004		31.12.2003	
	Sub-Total	Total	Sub-Total	Total
<b>A) NET SHAREHOLDERS' EQUITY</b>				
I - SHARE CAPITAL		448.500		448.500
II - ADDITIONAL PAID-IN CAPITAL		15.000		15.000
III - REVALUATION RESERVE		-		-
IV - LEGAL RESERVE		4.839		4.349
V - TREASURY STOCK RESERVE		-		-
VI - STATUTORY RESERVE		-		-
VII - OTHER RESERVES				
- Extraordinary reserve	41.833		41.493	
- Cumulative translation reserve	(18.496)	23.337	(13.024)	28.469
VIII - RETAINED EARNINGS (LOSSES CARRIED FORWARD)		54.623	42.083	
IX - NET INCOME (LOSS) FOR THE YEAR		14.990		22.340
<b>TOTAL GROUP SHAREHOLDERS' EQUITY</b>		<b>561.289</b>		<b>560.741</b>
X - CAPITAL AND RESERVES - MINORITY INTERESTS		1.501		1.259
XI - NET INCOME (LOSS) - MINORITY INTERESTS		188		104
<b>TOTAL NET SHAREHOLDERS' EQUITY</b>		<b>562.978</b>	<b>562.104</b>	
<b>B) PROVISION FOR RISKS AND CHARGES</b>				
1) Agents leaving indemnity, pensions and similar obligations		5.835		5.160
2) Taxes				
- deferred		17.335		29.291
3) Other		47.819		34.617
<b>TOTAL PROVISION FOR RISKS AND CHARGES</b>		<b>70.989</b>		<b>69.068</b>
<b>C) STAFF LEAVING INDEMNITY</b>		<b>26.490</b>		<b>24.583</b>
<b>D) PAYABLES</b>				
4) Amounts due to banks				
- within 12 months	226.104		119.086	
- beyond 12 months	195.060	421.164	237.808	356.894
5) Other financing payables				
- within 12 months	3.050	3.020		
- beyond 12 months	9.668	12.718	10.065	13.085
6) Advances		1.164		1.317
7) Trade payables		267.005		307.792
8) Notes payable		2		
9) Amounts due to subsidiaries				
- beyond 12 months	1.711	1.711	1.622	1.622
10) Amounts due to associated companies		181		767
11) Amounts due to parent companies		-		11
12) Amounts due to tax authorities				
- within 12 months	14.875	35.040	33.809	35.040
- beyond 12 months	7	14.882	-	33.809
13) Social security payables				
- within 12 months	6.596		6.847	
- beyond 12 months	-	6.596	-	6.847
14) Other payables				
- within 12 months	38.933		40.512	
- beyond 12 months	182	39.115	355	40.867
<b>TOTAL PAYABLES</b>		<b>764.538</b>		<b>763.011</b>
<b>E) ACCRUED LIABILITIES AND DEFERRED INCOME</b>		<b>4.122</b>		<b>4.533</b>
<b>TOTAL LIABILITIES</b>		<b>866.139</b>		<b>863.822</b>
<b>TOTAL LIABILITIES AND NET SHAREHOLDERS' EQUITY</b>		<b>1.429.117</b>		<b>1.423.299</b>

### Memorandum accounts

	31.12.2004		31.12.2003	
	Parziali	Totali	Parziali	Totali
1) Unsecured guarantees given				
- Sureties given in third parties' favour	1.359		3.504	
- Other unsecured guarantees given in third parties' favour	-	1.359	1.273	4.777
2) Other commitments		8.284		6.290
<b>TOTAL MEMORANDUM ACCOUNTS</b>		<b>9.643</b>		<b>11.067</b>

# Consolidated financial statement

## Income statement

	31.12.2004		31.12.2003	
	Sub-Total	Total	Sub-Total	Total
<b>A) PRODUCTION VALUE</b>				
1) Revenues from sales and services		1.266.193		1.252.724
2) Changes in inventories of work in progress and finished goods		31.329		17.864
4) Increase in fixed assets for internal work		2.542		3.008
5) Other income				
- miscellaneous	20.581		24.281	
- operating grants	264	20.845	953	25.234
<b>TOTAL PRODUCTION VALUE</b>		<b>1.320.909</b>		<b>1.298.830</b>
<b>B) PRODUCTION COSTS</b>				
6) Raw materials, subsidiary materials, consumables and goods		667.366		649.404
7) Services		311.349		300.131
8) Leasing, rental and royalties		20.365		17.900
9) Personnel costs:				
a) salaries and wages	121.072		119.487	
b) social security charges	33.022		32.853	
c) staff leaving indemnity	6.196		6.223	
d) staff severance benefits	1.516		2.040	
e) other costs	2.236	164.042	1.779	162.382
10) Amortisation, depreciation and write-downs:				
a) amortisation of intangible fixed assets	37.262		34.539	
b) depreciation of tangible fixed assets	25.951	31.800		
c) other write-downs of fixed assets	155		11	
d) write-downs of current receivables and liquid funds	3.703	67.071	4.006	70.356
11) Changes in inventory of raw materials, subsidiary materials, consumables and goods		(2.801)		(3.875)
12) Provision for risks and charges		8.918		7.831
14) Sundry operating expenses		10.621		10.047
<b>TOTAL PRODUCTION COSTS</b>		<b>1.246.931</b>		<b>1.214.176</b>
<b>DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS (A-B)</b>		<b>73.978</b>		<b>84.654</b>
<b>C) FINANCIAL INCOME AND EXPENSES</b>				
15) Income from equity investments				
d) others	209	209	3.651	3.651
16) Other financial income:				
c) from securities included among current assets that aren't equity investments	844		687	
d) other financial income:				
- from associated companies	-		116	
- others	1.191	2.035	6.253	7.056
17) Interest and other financial expenses:				
a) from subsidiaries	(84)		(78)	
d) others	(34.195)	(34.279)	(42.953)	(43.031)
17-bis) Exchange rate gains (losses)	(9.956)	(9.956)	(1.508)	(1.508)
<b>TOTAL FINANCIAL INCOME AND EXPENSES</b>		<b>(41.991)</b>		<b>(33.832)</b>
<b>D) ADJUSTMENTS TO VALUE OF FINANCIAL ASSETS</b>				
18) Revaluations		-	947	
19) Write-downs		(599)		(989)
<b>TOTAL ADJUSTMENTS TO VALUE OF FINANCIAL ASSETS</b>		<b>(599)</b>		<b>(42)</b>
<b>E) EXTRAORDINARY INCOME AND EXPENSES</b>				
20) Extraordinary income:				
a) gains on disposal	263		274	
b) other extraordinary income	10.959	11.222	9.145	9.419
21) Extraordinary expenses:				
a) losses on disposal	(455)	(140)		
b) taxes related to prior years	(51)		(8.713)	
c) other extraordinary expenses	(22.366)	(22.872)	(12.192)	(21.045)
<b>TOTAL EXTRAORDINARY INCOME AND EXPENSES</b>		<b>(11.650)</b>		<b>(11.626)</b>
<b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>		<b>19.738</b>		<b>39.154</b>
22) Income taxes:				
- current taxes	(14.371)		(20.962)	
- deferred taxes	9.811	(4.560)	4.252	(16.710)
<b>NET INCOME (LOSS) BEFORE MINORITIES</b>		<b>15.178</b>		<b>22.444</b>
<b>Net (income)loss attributable to minority interests</b>		<b>(188)</b>		<b>(104)</b>
<b>GROUP NET INCOME (LOSS) FOR THE YEAR</b>		<b>14.990</b>		<b>22.340</b>

## Consolidated financial statement

### Consolidated cash-flow statement for the years ending on December 31st 2004 and 2003

	31.12.2004	31.12.2003
	12 months	12 months
Net profit	14.990	22.340
Amortisation and depreciation	63.213	66.339
Provisions and write-downs less amounts drawn	(139)	1.692
<b>Cash flow provided by (used in) operating activities (A)</b>	<b>78.064</b>	<b>90.371</b>
Changes in the assets and liabilities for the period:		
Trade receivables	41.233	16.452
Inventories	(30.439)	(26.687)
Trade payables	(41.379)	17.713
Other current assets and liabilities	(36.757)	(5.143)
<b>Cash flows provided by (used in) movements of operating capital (B)</b>	<b>(67.342)</b>	<b>2.335</b>
<b>Investments</b>		
Net investments in intangible fixed assets	(13.950)	(36.629)
Net investments in tangible fixed assets	(29.783)	(27.370)
Net long-term investments	78	374
<b>Cash flows provided by (used in) investing activities (C)</b>	<b>(43.655)</b>	<b>(63.625)</b>
Dividends distribution	(8.970)	(8.970)
Changes in translation reserve	(5.472)	(7.166)
Increase (decrease) in minorities	326	1.026
<b>Cash flow provided by movements of net equity (D)</b>	<b>(14.116)</b>	<b>(15.110)</b>
<b>Securitisation (E)</b>	<b>(18.999)</b>	<b>7.946</b>
<b>Cash flow for the year (A+B+C+D+E)</b>	<b>(66.048)</b>	<b>21.917</b>
Net financial standing, beginning of year	(247.206)	(269.123)
Cash flow for the year (A+B+C+D+E)	(66.048)	21.917
<b>Net financial standing, end of year (1)</b>	<b>(313.254)</b>	<b>(247.206)</b>

The data as at 31 December 2004 include cash availability and other financial assets for 139,535 T/ Euros, of which 1,664 expiring beyond 12 months.

Financial debts refer to net financial exposure towards banks for 421,164 T/ euros ( of wich 195,060 T/Euros expiring beyond 12 months) and toward others for 31,625 T/Euros (of which 11,379 T/euros expiring beyond 12 months).

## Consolidated financial statement

### Statement of changes in consolidated net shareholders' equity for the years ending on December 31st 2004 and 2003

	Share Capital	Share premium reserve	Legal reserve	Other reserves	Conversion differences Reserve	Profit (losses) carried forward	Net income (loss) for the year	Total
<b>Balance as at January 1st 2003</b>	<b>448.500</b>	<b>15.000</b>	<b>3.561</b>	<b>35.488</b>	<b>(5.858)</b>	<b>17.830</b>	<b>40.016</b>	<b>554.537</b>
Allocation of 2003 net income as approved by shareholders on 14 April 2003: - Dividends distribution - Allocation to reserves			788	6.005		24.253	(8.970) (31.046)	(8.970) 0
Differences resulting from translation in Euro of foreign currency balances					(7.166)			(7.166)
<b>Net income for the year</b>							<b>22.340</b>	<b>22.340</b>
<b>Balance as at December 31st 2003</b>	<b>448.500</b>	<b>15.000</b>	<b>4.349</b>	<b>41.493</b>	<b>(13.024)</b>	<b>42.083</b>	<b>22.340</b>	<b>560.741</b>
Allocation of 2003 net income as approved by shareholders on 28 April 2004: - Dividends distribution - Allocation to reserves			490	340		12.540	(8.970) (13.370)	(8.970) 0
Differences resulting from translation in Euro of foreign currency balances					(5.472)			(5.472)
<b>Net income for the year</b>							<b>14.990</b>	<b>14.990</b>
<b>Balance as at December 31st 2004</b>	<b>448.500</b>	<b>15.000</b>	<b>4.839</b>	<b>41.833</b>	<b>(18.496)</b>	<b>54.623</b>	<b>14.990</b>	<b>561.289</b>









## Explanatory notes



## **Format and content of consolidated financial statements**

The consolidated year-end financial statements have been prepared in accordance with Italian Legislative Decree 127/1991 and the Italian Civil Code, as supplemented by the accounting standards established by the Italian National Councils of Chartered & Registered Accountants (Consigli Nazionali dei Dottori Commercialisti e Ragionieri). They also take into account provisions introduced by Italian Legislative Decree 58/1998 (known as the Draghi Consolidated Act) and subsequent implementation and supplementary decrees and additions, as well as CONSOB recommendations.

Due to the effect of application of Italian Legislative Decree no. 6 of January 17th 2003 and subsequent amendments, financial statements' format has been adjusted accordingly taking into account the following information requirements:

- Separate indication in balance sheet assets of taxes receivable and credits for prepaid taxes
- Direct adjustment of current assets and liabilities denominated in foreign currency to the exchange rate in force at year-end date
- Separate indication in the income statement of foreign exchange gains and losses
- Separate indication in the income statement of current and deferred taxes.

In addition, we have provided all complementary information deemed necessary to assure true and proper representation of the group's capital, operating and financial position.

The financial statements used for consolidation purposes are those prepared by the Boards of Directors of the individual companies, adjusted, where necessary, to eliminate items recorded solely for tax purposes and to align statements with group accounting policies.

In order to ensure clearer representation and easier analysis of the group's capital, financial and operating position, amounts recorded in the financial statements, in the statements of changes in consolidated cash flows and in shareholders' equity, as well as in these explanatory notes, are expressed in thousands of euro (€k).

Consolidated financial statements as at December 31st 2004 also show the amounts reported for the corresponding items of the consolidated financial statements as at December 31st 2003.

For the sake of consistency of classification criteria adopted for the two financial years, in some cases amounts in the previously published consolidated accounts as at December 31st, 2003 have been reclassified without, however, modifying the group's net result in the period or net shareholders' equity.

For information not specified in these notes, reference should be made to the comments contained in the Directors' report.

# Explanatory notes

## Consolidation area

The consolidation area, shown in Attachment 1 to these notes, includes the financial statements of the group's operating parent company, De'Longhi SpA, and those of its subsidiary companies as at December 31st, 2004 in which the operating parent company, directly or indirectly, holds the majority of share capital or of voting rights.

The consolidation area has changed since December 31st 2003 due to:

- Constitution of a new company in Luxembourg, called Kenwood Appliances Luxembourg SA, controlled by Kenwood Appliances Plc, to which the Kenwood trademark – previously held by the company Kenwood Marks Limited has been transferred. This operation forms part of the project centralising the group's primary trademarks in a dedicated company, thus enabling them to be managed more efficiently.
- Constitution of two new Chinese companies: Dong Guan De'Longhi-Kenwood Appliances Co. Ltd., 100% controlled by Tricom Industrial Co. Ltd., and Climaveneta Chat Union Trading (Shanghai) Co. Ltd., 50% owned and proportionally consolidated. These companies have been set up to permit sale of the group's products in the Chinese market.
- Consolidation of the companies On Shiu (Zhongshan) Electrical Appliances Co. Ltd. and Promised Success Ltd., set up at the end of December 2003, which are active in the production of electric radiators.

## Significant events

The programme to rationalise the group's structure continued. In December 2004 it was decided to merge the companies Sile Corpi Scaldanti Srl and DL Radiators SpA – both active in the production and sale of water-filled radiators – in order to achieve commercial synergies and greater functionality, in both manufacturing and economic/financial terms. The merger took effect on January 1st 2005.

The group's Italian companies have opted for the domestic tax consolidation system, which is regulated by Articles 117 et seq. of Italian Presidential Decree 917/1986.

## Consolidation policies

The most significant consolidation policies adopted in the preparation of consolidated financial statements are the following:

- Differences resulting from the elimination of the book value of equity investments against their equity value at the acquisition date are allocated to specific assets and liabilities of companies included in consolidation, when this is possible. Any unallocated residual balances, if positive, are recorded as "Consolidation differences" among the assets and amortised on a straight-line basis to reflect their expected recoverability. If negative, they are credited to an equity account called "Consolidation reserve".

## Explanatory notes

- Minority shareholders' interests in equity and the net result are reported separately among consolidated equity accounts called, respectively, "Capital and reserves of minority shareholders" and "Net income attributable to minority interests".
- All intercompany receivables and payables, revenues and expenses and transactions between consolidated companies, are eliminated, as are dividends distributed between group companies. Unrealised profits and capital gains and losses deriving from transactions between group companies are also eliminated.
- Adjustments have also been made in consolidated financial statements for alignment with group accounting policies and standards. The effects of provisions and adjustments, made by individual companies included in the consolidation area in order to obtain tax benefits available under current legislation, are also eliminated from the consolidated financial statements, if they have not

already been eliminated for individual statutory financial statements following so-called tax "decontamination".

### Policies and exchange rates applied to translation into euro of foreign-currency financial statements

Foreign companies' financial statements are translated into euro as follows:

- For assets and liabilities, the exchange rates in force at year-end are used
- For income statement items, average exchange rates for the year are used
- For individual items in net shareholders' equity, historical exchange rates are used.

Foreign exchange differences deriving from application of the above method are entered directly in a specific item of consolidated net shareholders' equity called "Cumulative translation adjustment".

The exchange rates applied for translation into euro of currencies outside the Eurozone were as follows:

Currency		FY2004		FY2003	
		Year-end x-rate (*)	Average x-rate (*)	Year-end x-rate (*)	Average x-rate (*)
Australian dollar	AUD	1.74590	1.69049	1.68020	1.73790
Canadian dollar	CAD	1.64160	1.61675	1.62340	1.58170
Pound sterling	GBP	0.70505	0.67867	0.70480	0.69200
Hong Kong dollar	HKD	10.58810	9.68811	9.80490	8.80790
Japanese yen	JPY	139.65000	134.44500	135.05000	130.97100
Malaysian ringitt	MYR	5.17529	4.72616	4.79900	4.29790
New Zealand dollar	NZD	1.88710	1.87288	1.92440	1.94380
Polish zloty	PLN	4.08450	4.52676	4.70190	4.39960
South African rand	ZAR	7.68970	8.00920	8.32760	8.53170
Singapore dollar	SGD	2.22620	2.10156	2.14500	1.97030
US dollar	USD	1.36210	1.24390	1.26300	1.13120
Chinese Renminbi (Yuan)	CNY	11.27810	10.29920	10.45760	9.36600

(\*) Source: UIC (Ufficio Italiano Cambi – Italian Foreign Exchange Office)

# Explanatory notes

## Accounting policies

The most significant accounting policies applied in preparation of consolidated year-end financial statements as at December 31st 2004, in compliance with the provisions of Article 2426 of the Italian Civil Code, as recalled by Article 35 of Italian Legislative Decree 127/1991, are the following:

### *a - Intangible fixed assets*

Intangible fixed assets are recorded at acquisition cost, including related charges, and are systematically amortised in relation to their future usefulness. This value may be increased by allocations of consolidation differences.

Start-up and expansion expenses – which include constitution costs and expenses relating to share capital increases, together with costs incurred for listing of the operating parent company on the Milan Stock Exchange - are amortised in a 5-year period.

Research and development expenses are charged in full to the income statement in the year when they are incurred, unless they relate to the creation of clearly defined specific products, the technical feasibility of which has been reasonably demonstrated, together with the existence of a future market, and the recoverability of costs via future revenues. Their book value is amortised on a straight-line basis over five years, which represents their useful life.

Advertising expenses are fully charged to the income statement in the year when they are incurred.

Patents and intellectual property rights include the costs of development and registration of industrial patents and of data processing systems and are accounted for at purchase or production cost. These costs are amortised each year base on their residual

possibility of utilisation and the limit of their legal duration.

Concessions, trademarks and similar rights are amortised in relation to their residual possibility of use, estimated to be 10-20 years for trademarks.

Consolidation differences are systematically amortised over a period of 10 years or, in some cases, 20 years, according to their reasonable future usefulness and based on the outlook for their business utilisation by the group, estimated with reference to the characteristics of the sector in which group companies operate.

Other intangible fixed assets are amortised according to their residual future usefulness.

### *b - Tangible fixed assets*

Tangible fixed assets are recorded at purchase or production cost, inclusive of directly attributable incidental expenses, and as increased for certain asset categories by (a) monetary revaluations carried out under Italian Laws 576/1975, 72/1983, 413/1991 and 342/2000 and (b) the allocation of amounts emerging at the time of mergers and consolidation. Fixed assets that at year-end feature a permanent loss in value vs. book value are written down. The value of such assets is reinstated in future accounting periods should the reasons for write-down no longer apply.

Tangible assets are stated net of depreciation calculated systematically each year to reflect assets' residual useful lives. Assets entering service during the year are depreciated using rates reduced by 50% in order to allow for their limited use.

## Explanatory notes

The rates applied are as follows:

Industrial buildings	3.0%
Lightweight constructions	10.0%
Generic and specific plant	5.6-15.0%
Furnaces	15.0%
Miscellaneous equipment	20.0-33.0%
Purification systems	15.0%
Office furniture and machinery	12.0%
Electromechanical machinery	20.0%
Transport vehicles	20.0%
Cars	25.0%

Ordinary maintenance costs are fully expensed in the income statement as incurred. Incremental maintenance costs that increase the useful lives of the related assets are allocated to those assets and depreciated according to their residual possibility of utilisation.

Investment assets acquired under financial leasing contracts are accounted for in accordance with the relevant international accounting standard (IAS 17), which provides that such assets be recorded among fixed assets at normal value and depreciated using rates applicable to the respective assets. At the same time, the corresponding financial debts payable to the leasing companies are recorded among liabilities. Depreciation on such assets and accrued interest are posted in the income statement.

### *c - Financial fixed assets*

Equity investments in associated and subsidiary companies not consolidated on a 100% line-by-line basis are carried at equity, whilst equity investments in other companies are stated at acquisition cost, as written down in cases where the companies concerned suffer permanent impairment of value. The original value is written back in future accounting periods if the reasons for write-down no longer apply. Financial receivables are recorded at their estimated realisable value.

### *d - Inventories*

Inventories are stated at the lowest out of purchase or production cost, determined applying the weighted average cost criterion, and their realisable value based on market trends. Finished and semi-finished products are stated at production cost. Work in progress is stated taking into account production cost and effective year-end completion status. Obsolete or slow-moving inventories are written down to their estimated future possibility of use or realisable value via provision of a specific reserve adjusting inventory value.

### *e - Receivables and payables*

Receivables are stated in accounts at their estimated realisable value via doubtful-debt provision determined in accordance with principles of prudence.

Payables are stated at their nominal value.

### *f - Current financial assets*

These are stated in accounts at the lowest out of purchase cost and presumable realisation value based on market trends. If in subsequent accounting periods the reasons for write-down no longer apply, the original cost is written back.

## Explanatory notes

### *g - Accruals and deferrals*

This heading comprises portions of cost and income common to two or more years, the entity of which varies over time, applying the principle of business/timing match (accrual accounting).

### *h - Liquid funds*

These are posted at their nominal value.

### *i - Reserves for risks and charges*

Specific reserves are provisioned in accounts to cover charges of a given type, certain or likely to occur, and the timing and entity of which cannot be determined at year-end. They reflect the best possible estimate of losses based on the information available.

As regards the reserve for deferred taxes reference should be made to subparagraph n below.

### *j - Reserve for employee severance indemnities*

The reserve for employee severance indemnities is entered in accounts in compliance with current laws and collective labour contracts and reflect the liability accrued vis-à-vis all employees as at year-end date.

### *k - Recognition of costs and revenues*

These items are recorded, in accordance with the principle of prudence and business match (accrual accounting).

Revenues are stated net of sales returns, discounts, allowances and bonuses, together with all taxes directly connected with the sale of products and services. Revenues from the sale of products are recognised at the time ownership is transferred, which is generally upon delivery or shipment of the goods.

Costs are recorded using criteria similar to those applied to revenue recognition.

### *l - Foreign exchange differences stemming from foreign-currency transactions and criteria for translation of foreign-currency items*

Foreign-currency transactions are recorded using the exchange rates in force on the transaction date. Any foreign exchange differences arising during the year are reflected in the income statement among financial income and expenses.

Foreign-currency payables and receivables outstanding at year-end, as well as derivative contracts hedging exchange rates, are adjusted to the exchange rates in force on the financial year-end date. Any positive or negative foreign exchange differences emerging are entered in the income statement.

### *m - Financial instruments*

Financial instruments used to hedge exchange-rate risks are accounted for consistently with the assets and liabilities covered. Related financial income and expenses are posted in the income statement according to applicability.

### *n - Income taxes*

Income taxes are determined according to taxable income and in conformity with tax regulations in force in individual countries, as envisaged by Italian accounting standard no. 25 issued by the Italian National Councils of Chartered & Registered Accountants. Prepaid (deferred) taxes have been provisioned in accordance with the tax liability method, in order to reflect the tax effects deriving from the allocation of gains on acquisitions, on certain consolidation adjustments, and on all temporary differences emerging between the book value of assets and liabilities and their corresponding tax value, applying the current tax rate. The benefit of



## Explanatory notes

tax losses carried forward is recorded to the extent that achievement of future taxable income sufficient to absorb the losses carried forward is considered probable, within the period in which such losses are deductible under current tax regulations.

Deferred taxes are provisioned for subsidiary companies' retained earnings if they are likely to be distributed and if the equity investments are not held on a long-term basis.

Prepaid taxes are recorded among "Amounts due from third parties" (among current assets), net of deferred taxes relating to consolidation adjustments and other temporary differences. Deferred taxes calculated on consolidation differences allocated to specific asset and liability items are reported separately among "Reserves for risks and charges".

### *o - Memorandum accounts*

Commitments and guarantees are shown in memorandum accounts at their contractual value.

### *p - Accounting treatment of receivables securitisation*

As from 2002 the operating parent company and Ariete SpA undertook a 5-year trade receivables monetisation programme. This took place pursuant to Italian Law 52/1991 (the factoring law) and is based

on no-recourse transfer, on a revolving and monthly basis, of a trade receivables book that is securitised via the market issue of securities. De'Longhi SpA and Ariete SpA perform the servicer role on behalf of the legal vehicle.

The related accounting criteria are as follows:

- The receivables transferred without recourse have been reversed from "Customer receivables" in the balance sheet and their equivalent value, net of contractual dilution and securitisation costs, has been recorded in bank accounts
- Securitisation costs are posted among financial expenses
- The one-off expenses relating to the securitisation programme's analysis/start-up process (for legal fees, rating, and arrangement commission) were capitalised in the previous year and are being amortised according to the programme's duration.

The effects of the above operation on our net financial position are discussed in the Directors' Report.

### *q - Exceptions to rules under Paragraph 4, Article 2423 of the Italian Civil Code*

No exceptions to rules under Paragraph 4, Article 2423 of the Italian Civil Code have been made in year-end financial statements.

# Explanatory notes

## Balance sheet - Comments on the main asset items

### B) Fixed assets

#### I - Intangible fixed assets

The detail is as shown below.

	31.12.2004		31.12.2003		Change
	Gross	Net	Gross	Net	
Start-up and expansion expenses	16,880	3,995	16,844	7,228	(3,233)
Research, development and advertising costs	14,178	9,876	8,755	6,430	3,446
Patent rights	23,340	3,446	21,239	3,122	324
Licenses, trademarks and similar rights	252,250	170,411	247,374	182,678	(12,267)
Consolidation differences	252,212	204,437	250,076	217,313	(12,876)
Assets under construction & advance paym.ts	5,630	5,630	3,172	3,172	2,458
Other intangible fixed assets	21,174	9,203	18,138	10,367	(1,164)
<b>Total</b>	<b>585,664</b>	<b>406,998</b>	<b>565,598</b>	<b>430,310</b>	<b>(23,312)</b>

The following schedule highlights changes occurring in the main items during 2004:

	Start-up & expansion expenses	R&D & advertis.g costs	Patent rights	Licenses, trademarks and similar rights	Consol. difference	Assets under const. & adv. paym.ts.	Other intang. assets	Total
<b>Net opening balance</b>	<b>7,228</b>	<b>6,430</b>	<b>3,122</b>	<b>182,678</b>	<b>217,313</b>	<b>3,172</b>	<b>10,367</b>	<b>430,310</b>
Increases	69	5,093	2,093	196	870	4,522	2,163	15,006
Decreases	-	-	-	(52)	-	(13)	(40)	(105)
Amortisation	(3,288)	(2,483)	(1,709)	(12,507)	(13,545)	-	(3,730)	(37,262)
Translation differences	(11)	6	1	-	20	-	(35)	(19)
Other changes (*)	(3)	830	(61)	96	(221)	(2,051)	478	(932)
<b>Net closing balance</b>	<b>3,995</b>	<b>9,876</b>	<b>3,446</b>	<b>170,411</b>	<b>204,437</b>	<b>5,630</b>	<b>9,203</b>	<b>406,998</b>

(\*)The amounts shown as "Other changes" mainly refer to (a) reclassification of items from the category "Assets under construction and advance payments" to specific categories and (b) write-down of some intangible assets.

The decrease of €k 23,312 in the total balance of intangible fixed assets was mainly the result of increases of €k 15,006 in the year and of amortisation totalling €k 37,262.

As regards the "Research and development costs" item, which increased by €k 5,093, we point out that during 2004, based on the procedures implemented in the previous year, expenses incurred were precisely and analytically reported. This led to capitalisation of

those costs bookable in the balance sheet by virtue of their distinctive estimated future usefulness.

Among these, we particularly highlight the R&D work successfully concluded with the production and marketing of the new De'Longhi "Superautomatica" coffee machine, of new telecom air conditioning products, of the new range of high-efficiency portable monoblock conditioners, and of the innovative "Pinguino Applique" conditioner.

## Explanatory notes

The item “Patent rights” mainly refers to the costs of in-house development of industrial patents and of charges for the development and integration of data processing systems.

The item “Licenses, trademarks and similar rights” mainly includes the De’Longhi, Kenwood, Ariete, Climaveneta, and Elba trademarks and other registered group trademarks.

The increase in the item “Consolidation difference” mainly referred to acquisition of the business division concerning three production units in Zhongshan (China) for the production of oil-filled radiations,

which was completed at the end of December 2003.

The item “Assets under construction and advance payments” included €k 4,948 for capitalisation of development projects not yet completed as at year-end.

The increase of the “Other intangible assets” item mainly related to enhancement of third-party assets and costs for production of TV commercials for long-term use.

### *II - Tangible fixed assets*

Tangible fixed assets were as detailed below:

	31.12.2004		31.12.2003		Change
	Gross	Net	Gross	Net	
Land and buildings	169,045	120,408	166,910	121,382	(974)
Plant and machinery	224,413	59,608	215,394	48,816	10,792
Industrial and commercial equipment	159,206	29,260	151,424	30,932	(1,672)
Other tangible fixed assets	36,334	10,269	34,607	10,336	(67)
Assets under construction and advances	7,125	7,125	3,809	3,809	3,316
<b>Total</b>	<b>596,123</b>	<b>226,670</b>	<b>572,144</b>	<b>215,275</b>	<b>11,395</b>

The net increase of €k 11,395 was mainly the result of the combined effect of investments (€k 42,592) and of depreciation for the year (€k 25,951).

The following schedule summarises changes occurring in 2004:

	Land and buildings	Plant and machinery	Industrial & commercial equipment	Other tangible fixed assets	Assets under construct.n & advances	Total
<b>Net opening balance</b>	<b>121,382</b>	<b>48,816</b>	<b>30,932</b>	<b>10,336</b>	<b>3,809</b>	<b>215,275</b>
Increases	5,835	15,972	12,680	3,817	4,288	42,592
Decreases	(2,257)	(589)	(671)	(118)	(707)	(4,342)
Depreciation	(4,302)	(5,081)	(12,907)	(3,661)	-	(25,951)
Translation diff.	(199)	(60)	65	(69)	(32)	(295)
Other changes (*)	(51)	550	(839)	(36)	(233)	(609)
<b>Net closing balance</b>	<b>120,408</b>	<b>59,608</b>	<b>29,260</b>	<b>10,269</b>	<b>7,125</b>	<b>226,670</b>

(\*) This item includes some reclassifications from “Assets under construction” to specific asset categories and to “Research and development costs”.

## Explanatory notes

Increases mainly referred to:

- Change in the consolidation area following acquisition of the business division (described earlier) for the production of oil-filled radiator. We also note the investments in land & building (€k 5,294), plant (€k 2,694), and assets under construction (€k 1,097).
- Investments made by other group companies, mainly relating to the “Plant & machinery” and

“Equipment” categories. These investments referred to the purchase of plant and moulds for the production of new products in the Treviso factories and those of the Chinese companies. We note the fact the “Assets under construction” included investments of €k 1,295 in the corporate HQ in Via Seitz (Treviso).

The amount shown for tangible fixed assets include assets acquired under financial leasing contracts, detailed as follows (net of cumulative depreciation):

	31.12.2004	31.12.2003	Change
Buildings	5,107	5,905	(798)
Plant & equipment	5,717	4,576	1,141
Other tangible fixed assets	109	119	(10)
<b>Total</b>	<b>10,933</b>	<b>10,600</b>	<b>333</b>

### III - Financial fixed assets

#### 1 - Equity investments

Details of equity investments not consolidated on a 100% line-by-line basis are as follows:

	31.12.2004	31.12.2003	Change
<b>Subsidiary companies:</b>			
Clim.Re SA	2,067	2,099	(32)
<b>Associated companies:</b>			
Omas Srl	1,118	1,277	(159)
Effegici Srl	71	71	-
Investment held via Comitalia Compagnia Fiduciaria SpA	2,449	2,772	(323)
<b>Total associated companies</b>	<b>3,638</b>	<b>4,120</b>	<b>(482)</b>
<b>Other companies</b>	<b>950</b>	<b>931</b>	<b>19</b>
<b>Total</b>	<b>6,655</b>	<b>7,150</b>	<b>(495)</b>

The change in equity investments in subsidiary and associated companies is due to valuation of investments applying the net equity method.

The subsidiary company Clim.Re SA, which performs limited insurance services, has been excluded from line-by-line consolidation and is consolidated at equity, since inclusion within the consolidation area would have been insignificant for the purposes of

true and proper representation of the group’s capital and financial position.

The investment held through Comitalia Compagnia Fiduciaria SpA relates to a company producing finished products also on behalf of the group. In this regard, we have availed ourselves of the possibility, as permitted by applicable laws (Article 39 of Italian Decree 127/91), of not indicating the associated

## Explanatory notes

company's name so that no prejudice is caused to the company or to group companies.

"Other companies" mainly include an 8.34% stake in Top Clima SL. This is the current distributor in the Spanish market for the subsidiary company, Climaveneta SpA, and was acquired in 2002 for €k 902.

The "Memorandum Accounts" section indicates the group's commitment, via its subsidiary Climaveneta SpA, to acquire a further equity interest in Top Clima SL. The deal was completed in January 2005 with the purchase of a 16.6% stake at the price of €k 2,740.

### 2 - Receivables

The amount refers to:

	31.12.2004	31.12.2003	Change
Amounts due from third parties			
- Within 12 months	853	1,010	(157)
- After 12 months	1,693	2,934	(1,241)
<b>Total</b>	<b>2,546</b>	<b>3,944</b>	<b>(1,398)</b>

The item includes cautionary deposits (€k 847), the amount receivable for advances on employee severance indemnities booked in the accounts of the parent company and of Italian subsidiaries (€k 42), a 5-year loan of €k 1,651 granted to the minority shareholders of the newly acquired company Promised Success Ltd (€k 2,856 as at December 31st

2003), and other receivables totalling €k 6.

### C) Current assets

#### I – Inventories

Inventories, shown net of inventory write-down provision, are detailed below:

	31.12.2004	31.12.2003	Change
Raw & other materials, and consumables	65,888	64,158	1,730
Work in progress and semi-finished products	20,830	18,133	2,697
Finished products and goods for resale	204,158	178,146	26,012
<b>Total</b>	<b>290,876</b>	<b>260,437</b>	<b>30,439</b>

The increase was primarily attributable to (a) prudent stockpiling, consistently with the process of transfer to China, and (b) a season less than favourable for air conditioning products.

For slow-moving or obsolete products and raw materials, considered to be no longer strategic for the group, inventories were adjusted by inventory write-

down provision of €k 21,263 (€k 14,036 in 2003). The entity of such provision increased significantly over the previous year.

We also point out that quantification of inventories according to current cost would not show any significant differences.

# Explanatory notes

## II – Accounts receivable

### 1 - Trade receivables

The breakdown of this item was as follow:

	31.12.2004	31.12.2003	Change
Trade receivables			
- Within 12 months	285,138	306,727	(21,589)
- Beyond 12 months	84	468	(384)
Provision for doubtful debts	(9,283)	(9,165)	(118)
<b>Total</b>	<b>275,939</b>	<b>298,030</b>	<b>(22,091)</b>

Excluding the securitisation effect, “Trade receivables” would be as follows:

	31.12.2004	31.12.2003
Trade receivables	285,222	307,195
Securitisation effect	90,124	109,123
<b>Total</b>	<b>375,346</b>	<b>416,318</b>

We point out (as required by CONSOB circular no. 3369 dated 9/4/1997) that, as part of the securitisation operation undertaken by the parent company and a subsidiary, the receivables transferred that will be collected at their natural maturity (outstanding credits) amounted to €k 90,124, net of contractual dilution, and that receivables transferred in the period January 1st-December 31st 2004 totalled €k 314,001 (credit turnover).

Trade receivables are shown net of doubtful-debt provision of €k 9,283. This represents a reasonable estimate of predictable risk at the time when financial statements were prepared. It has been prudently made against some legally disputed receivables, whose collectability is in any case doubtful, taking into account the fact that a significant part of receivables is covered by insurance policies with premier insurers.

The following table summarises changes in cumulative doubtful-debt provision:

	31.12.2003	New provisioning	Use	Translation diffs. and other changes	31.12.2004
Doubtful-debt provision	9,165	3,703	(3,415)	(170)	9,283

The group received guarantees from customers (mostly sureties) totalling €k 1,579 to cover sales transactions.

## Explanatory notes

As required by Article 2427 of the Italian Civil Code, in the following table we show the breakdown of trade receivables by geographical area:

Geographical area	Amount as at 31.12.2004	%
Italy	69,235	25,09%
UK	30,354	11,00%
Rest of Europe	106,915	38,75%
USA, Canada, and Mexico	15,685	5,68%
Japan	16,812	6,09%
Rest of world	36,938	13,39%
<b>Total</b>	<b>275,939</b>	<b>100,00%</b>

### 3 - Amounts due from associated companies

The amount refers to commercial receivables due to the parent company from the associated company Omas Srl.

to the operating parent company from the ultimate parent company De'Longhi Soparfi SA for services provided during 2004.

### 4 - Amounts due from parent companies

The amount refers to commercial receivables due

### 4 bis - Amounts due from tax authorities

The detailed breakdown of the item "Amounts receivable from the Inland Revenue" was as follows:

Amounts receivable from Inland Revenue for:	31.12.2004	31.12.2003	Change
VAT	14,493	4,610	9,883
Tax payments on account	6,783	11,914	(5,131)
Direct taxes	897	1,453	(556)
Tax rebates requested	690	614	76
Other tax receivables	161	308	(147)
<b>Total amounts receivable from Inland Revenue</b>	<b>23,024</b>	<b>18,899</b>	<b>4,125</b>

The amount of tax credits collectable after 12 months totalled €k 230 (€k 239 as at December 31st 2003). The item "Amounts receivable for tax payments on account" mainly refers to tax payments on account for 2004 made by the operating parent company and

Italian companies that exceeded the year's actual tax debts.

### 4 ter- Credits for prepaid taxes

The breakdown of prepaid taxes (net of deferred taxes) as at December 31st 2004 was as follows

	31.12.2004	31.12.2003	Change
<b>Prepaid taxes relating to:</b>			
- Temporary adjustments	22,307	26,434	(4,127)
- Tax losses	14,516	11,947	2,569
- Consolidation adjustments	11,141	(1,872)	13,013
<b>Deferred taxes relating to:</b>			
- Temporary differences	(4,998)	(695)	(4,303)
<b>Total credit for prepaid (deferred) taxes</b>	<b>42,966</b>	<b>35,814</b>	<b>7,152</b>

## Explanatory notes

The “Prepaid taxes” item includes taxes calculated on the temporary differences emerging between the book value of assets and liabilities and their corresponding tax value (mainly taxed provisions made by the operating parent company and subsidiaries). It also includes the benefit stemming from losses that can be carried forward for tax purposes and for which achievement of future taxable income is reasonably certain.

The item “Consolidation adjustments” is offset in the “Temporary differences” line. The difference was in fact mainly due to the effect of so-called tax “decontamination” of the statutory financial

statements of the operating parent company and of some subsidiaries, which involved posting of some consolidated adjustments directly in individual financial statements as from 2004 (primarily for accelerated depreciation).

We also point out that, as a prudent measure, we have not booked prepaid taxes on losses that can be carried forward for tax purposes and on temporary differences of some group companies for a total amount of some € 13.5 million.

### 5 - Amounts due from third parties

The detailed breakdown of “Amounts due from third parties” is shown below:

	31.12.2004	31.12.2003	Change
Advance payments to suppliers	1,594	798	796
Other amounts due from third parties	9,657	11,859	(2,202)
<b>Total amounts due from third parties</b>	<b>11,251</b>	<b>12,657</b>	<b>(1,406)</b>

Amounts due from third parties collectable after more than 12 months amounted to €k 653 (€k 1,578 as at December 31st 2003).

### III - Current financial assets

The item mainly includes bonds and shares, acquired for the investment of surplus liquidity, and short-term securities (featuring monthly maturity) issued by Marka Finance SA, as part of the securitisation program described earlier, and that, as at December 31st 2004 amounted to €k 33,365.

The securities posted as at December 31st 2004, which accrued interest at a EURIBOR-linked rate of 2.925% for December 2004 securitisation transfers, were fully repaid on January 25th 2005.

### IV - Liquid funds

The item consists of surpluses in correspondent accounts with banks, mainly referring to trade credit collections received at year-end.

In addition, some group companies, hold liquid

funds in current accounts c/o just one bank for a total of € 47.2 million. These funds form part of our international cash pooling system and are offset, in financial liability positions – of the same total amount – that other group companies have vis-à-vis the same bank. The latter therefore acts as a “clearing house” for the system’s debit/credit amounts.

In the previous year – in the absence of the international cash pooling mechanism – group companies’ liquid funds and short-term borrowing were balanced via intercompany flows that were then eliminated at consolidated level.

For the above reasons, considering the substance of transactions and the technicalities of the international cash pooling system, neither the liquid funds nor the debt have been included in the consolidated balance sheet.

To service the cash pooling system, a pledge has been attached to all liquid balances present within the system in favour of the bank concerned.



## Explanatory notes

### D) Accrued income & prepayments

The details of this item were as follows:

	31.12.2004	31.12.2003	Change
<b>Accrued income:</b>			
Financial income	302	29	273
Other	23	182	(159)
Total accrued income	325	211	114
<b>Prepaid expenses:</b>			
Advertising and insurance costs	1,314	486	828
Other	2,518	2,691	(173)
Total prepaid expenses	3,832	3,177	655
<b>Total accrued income and prepaid expenses</b>	<b>4,157</b>	<b>3,388</b>	<b>769</b>

The item “Accrued income”, which increased vs. December 31st 2003, mainly referred to financial income on exchange-rate hedging operations.

The increase in the item “Advertising and insurance costs” was mainly due to higher prepayments for insurance, which in turn was due to the different durations of policies taken out by the group.

### Balance sheet – comments on the main liability items

#### A) Net shareholders’ equity

At the meeting held on April 28th 2004, shareholders approved a resolution for distribution of dividends totalling €k 8,970.

Changes in net equity accounts have been shown in the detailed balance sheet. Below we comment on the main items and changes.

	31.12.2004	31.12.2003	Change
Extraordinary reserve	41,833	41,493	340
Cumulative translation differences	(18,496)	(13,024)	(5,472)
<b>Total other reserves</b>	<b>23,337</b>	<b>28,469</b>	<b>(5,132)</b>

#### I - Share capital

Share capital consists of 149,500,000 shares of a par value of € 3.00 each for a total of €k 448,500.

#### II – Share premium reserve

Following the IPO, which took place when the company was listed on Milan’s electronic equity market on July 23rd 2001, a share premium reserve of €k 15,000 was set up.

#### IV- Legal reserve

As at December 31st 2003 this reserve amounted to €k 4,349. The increase of €k 490 was due to allocation of the year’s earnings, as per the shareholders’ resolution mentioned above.

#### VII – Other reserves

The breakdown of this item was as shown below:

## Explanatory notes

### Extraordinary reserve

The extraordinary reserve increased by €k 340 vs. December 31st 2003 due to the effect of allocation of the operating parent company's 2003 earnings, as per the shareholders' resolution mentioned earlier.

### Cumulative translation adjustments

This item concerns translation into euro of our foreign companies' financial statements.

### VIII – Retained earnings (losses carried forward)

The item includes consolidated companies' retained earnings and the effect of adjustments relating to alignment of accounting and consolidation policies.

### X-XI - Minority interests' net equity

Minorities' net equity amounted to €k 1,689. Equity interests owned by minority shareholders, the relevant net equity value, and result for the period are summarised below:

Company	% Minority interest	Net equity	Net result for year
E-Services Srl	49%	439	190
Inntek Sas	24%	70	(2)
Promised Success Ltd.	33%	942	-
On Shiu (Zhongshan) Electrical Appliance Company Limited.	33%	238	-

Reconciliation between the operating parent company De'Longhi SpA's net equity and net result for the year and corresponding consolidated figures are summarised below:

	Net equity	Net equity	Net income for year	Net income for year
	31.12.2004	31.12.2003	2004	2003
Parent company's year-end financial statements	521,248	519,143	11,075	9,800
Portion of subsidiaries' net equity and income attributable to the group, net of equity investments' book value	(97,597)	(159,930)	138,257	43,574
Adjustment of statutory write-downs and intercompany profits on equity investments, and reversal of dividends	11,582	59,948	(75,344)	(26,546)
Allocation of consolidation difference and related amortisation and reversals of merger losses and statutory goodwill	148,145	147,279	(2,020)	6,974
Elimination of intercompany profits	(40,600)	(42,850)	(37,199)	(8,364)
Other adjustments	18,511	37,151	(19,779)	(3,098)
<b>Group consolidated net shareholders' equity</b>	<b>561,289</b>	<b>560,741</b>	<b>14,990</b>	<b>22,340</b>
Minority interests	1,689	1,363	188	104
<b>Consolidated year-end financial statements</b>	<b>562,978</b>	<b>562,104</b>	<b>15,178</b>	<b>22,444</b>

# Explanatory notes

## B) Reserve for risks and charges

The detailed breakdown of this item was as follows:

	31.12.2004	31.12.2003	Change
<b>Agents' termination indemnity reserve and other retirement reserves</b>	<b>5,835</b>	<b>5,160</b>	<b>675</b>
<b>Reserve for deferred taxes</b>	<b>17,335</b>	<b>29,291</b>	<b>(11,956)</b>
Product warranty reserve	7,541	6,163	1,378
Exchange-rate fluctuation reserve	-	2,441	(2,441)
Sales returns reserve	3,394	2,875	519
Reserve for future risks	18,236	18,731	(495)
Restructuring reserve	14,196	2,500	11,696
Others	4,452	1,907	2,545
<b>Other reserves</b>	<b>47,819</b>	<b>34,617</b>	<b>13,202</b>
<b>Total</b>	<b>70,989</b>	<b>69,068</b>	<b>1,921</b>

The Agents' termination indemnity reserve comprises provisions made against potential risks for payment of termination indemnities that have to be paid to agents when the conditions under Article 1751 of the Italian Civil Code, as applied by current collective pay

agreements, occur.

During 2004 the following changes in occurred in the Agents' termination indemnity reserve and in Other retirement reserves:

	31.12.2003	Use	New provis.n	Other	31.12.2004
Agents' termination indemnity reserve	5,015	(169)	807	(12)	5,641
Other retirement reserves	145	-	-	49	194
<b>Total</b>	<b>5,160</b>	<b>(169)</b>	<b>807</b>	<b>37</b>	<b>5,835</b>

The Reserve for deferred taxes reflects recognition of the tax effects relating to attribution of additional amounts to fixed asset items as part of allocation of consolidation differences. The amount of €k 29,291 stemming from allocation of consolidation differences

decreased by €k 11,956 as at December 31st 2004. This was mainly because of release of deferred tax provision for the Kenwood trademark, which has also been recognised for tax purposes.

Changes in Other reserves were as follows:

	31.12.2003	Use	New provis.	Translation difference	Others (*)	31.12.2004
Product warranty reserve	6,163	(4,736)	6,143	(4)	(25)	7,541
Exchange-rate fluctuation reserve	2,441	(2,441)	-	-	-	-
Sales returns reserve	2,875	(681)	1,210	(10)	-	3,394
Reserve for future risks	18,731	(3,272)	2,194	-	583	18,236
	2,500	(197)	11,893	-	-	14,196
Others	1,907	(1202)	2,217	(131)	1,661	4,452
<b>Total</b>	<b>34,617</b>	<b>(12,529)</b>	<b>23,657</b>	<b>(145)</b>	<b>2,219</b>	<b>47,819</b>

(\*) These mainly consisted of: (a) reclassifications, (b) alignment of Kenwood Limited's pension fund based on year-end actuarial valuation, and (c) alignment of risk provision against conferment of production lines to the Chinese company On Shiu (Zhongshan) Electrical Appliance Company Ltd.

## Explanatory notes

The Product warranty reserve was provisioned, for some companies included in the consolidation area, based on a prudent estimate of costs for repairs under warranty for sales as up to December 31st 2004 and also taking into account the requirements of Italian Legislative Decree 24/2002 and EU regulations.

The Exchange-rate fluctuation reserve represents total adjustment of payables and receivables in currencies other than the euro, plus related derivative contracts, to the year-end exchange rate. It has no longer been provisioned in the year ending on December 31st 2004 since the various companies now directly adjust year-end non-euro balances to the year-end exchange rate.

The Sales returns reserve reflects provisioning for expected sales returns from customers and refers to sales as up to December 31st 2004.

The Reserve for future risks comprises:

- Provision stemming from consolidation of Kenwood, which at the time of acquisition led to inclusion in accounts of a risks reserve against some potential liabilities (relating to the Kenwood pension fund). The residual amount as at December 31st 2004 was €k 11,530.
- The P&C insurance deductibles reserve of €k 1,360 (€k 1,225 as at December 31st 2004) relating to

the risk of liabilities potentially arising following some claims (limited to the insurance deductibles charged to us)

- Prudent provision of €k 5,346 against possible contractual risks and other reserves for various types of risks that could give rise to potential liabilities in the operating parent company and in some subsidiary companies.

Restructuring reserves have been provisioned by the operating parent company for the manufacturing internationalisation process – mainly for charges connected with the workforce reorganisation plan and for the risk of write-downs of some operating fixed assets that might no longer be used in production processes – and by some subsidiaries.

Other reserves mainly refer to pension funds provisioned by certain foreign subsidiaries and to the reserve for future risks of €k 1,463 provisioned by the subsidiary On Shiu (Zhongshan) Electrical Appliance Company Ltd. at the time of acquisition of the business division (described earlier).

### C) Employee severance indemnity reserve

Changes occurring during the year are summarised below by contractual category:

	Managers	White-collars	Blue-collars	Total
Opening balance as at 01.01.04	2,239	9,168	13,176	24,583
New provision	767	2,234	3,195	6,196
Indemnities paid	(490)	(1,600)	(2,199)	(4,289)
<b>Closing balance as at 31.12.04</b>	<b>2,516</b>	<b>9,802</b>	<b>14,172</b>	<b>26,490</b>

## Explanatory notes

The following table summarises headcount by category (group employees as at December 31st 2004 and 2004 average):

	31.12.2004	2004 Average	31.12.2003(*)	2003 Average (*)
Blue-collars	4,880	4,897	3,730	3,840
White-collars	2,187	2,299	2,006	1,920
Managers	117	119	112	113
<b>Total</b>	<b>7,184</b>	<b>7,315</b>	<b>5,848</b>	<b>5,873</b>

(\*) Data reclassified based on uniform group-wide classification criteria

### D) Accounts payable

#### 3 - Amounts due to banks

The breakdown of amounts due to banks was as follows:

	Within 1 year	From 1 to 5 years	After 5 years	Balance 31.12.2004	Balance 31.12.2003	Change
Current accounts	21,871			21,871	10,535	11,336
Short-term loans in euro or foreign currency	160,789			160,789	63,458	97,331
Loans on advances	-			-	-	-
Current portion of long-term loans	43,444			43,444	45,093	(1,649)
<b>Total short-term amounts due to banks</b>	<b>226,104</b>			<b>226,104</b>	<b>119,086</b>	<b>107,018</b>
Long-term loans		194,886	174	195,060	237,808	(42,748)
<b>Total amounts due to banks</b>	<b>226,104</b>	<b>194,886</b>	<b>174</b>	<b>421,164</b>	<b>356,894</b>	<b>64,270</b>

As at December 31st there were no bank debts secured by mortgages on tangible assets (as at December 31st 2003 they amounted to €k 516).

There is a pledge on Kenwood Appliances Plc shares to guarantee the loan granted by a banking syndicate to De'Longhi SpA in relation to acquisition of the Kenwood Group.

Short-term bank debt increased - due to (a) repayment of portions of principal for medium-/long-term loans and (b) the temporary increase in net working capital (mainly caused by higher inventories) – within the limits of short-term credit facilities, which total some € 500 million.

For better understanding of the changes occurring in the group's net financial position, reference should be made to the consolidated cash-flow statement and to the summary schedule shown in the Directors' Report on Operations.

#### 4 - Amounts due to other sources of finance

The amount prevalently consists of the sum payable due to posting of leasing contracts using the financial method, i.e. €k 5,072 (€k 6,662 as at December 31st 2003), and amounts payable to the Italian Industry Ministry for low-rate loans, i.e. €k 5,925 (€k 6,302 as at December 31st 2003).

#### 5 - Advances from customers

These relate to payments on account for supplies and guarantees received from customers.

## Explanatory notes

### 6 - Trade payables

The balance is the amount payable by the group to third parties for the supply of goods and services. The decrease in the balance compared with 2003 was due to greater use of non-European suppliers, who,

on average, are paid faster than European suppliers.

In compliance with the requirements of Article 2427 of the Italian Civil Code, below we show the breakdown of trade payables by geographical area:

Geographical area	Amount as at 31.12.2004	%
Italy	162,836	60.99%
UK	13,598	5.09%
Rest of Europe	44,542	16.68%
USA, Canada, and Mexico	5,756	2.16%
Japan	1,452	0.54%
Rest of world	38,821	14.54%
<b>Total</b>	<b>267,005</b>	<b>100.00%</b>

### 8 - Amounts payable to subsidiary companies

The item concerns the interest-bearing loan granted by the subsidiary Clim.Re SA, which is not consolidated on a line-by-line basis.

and to the equity investment owned via the trustee company (€k 115).

Attachment 3 to these explanatory notes details the breakdown of the year-end balance.

The total change vs. December 31st 2003 amounted to €k 586.

### 9 - Amounts payable to associated companies

The item concerns commercial payables due to associated companies, headed by Omas Srl (€k 66)

### 11 - Taxes payable

The detail of this item was as follows:

	31.12.2004	31.12.2003	Change
Direct taxes	5,670	10,379	(4,709)
Indirect taxes	3,005	5,038	(2,033)
Withheld tax to be paid	4,247	4,078	169
Other taxes	1,960	14,314	(12,354)
<b>Total taxes payable</b>	<b>14,882</b>	<b>33,809</b>	<b>(18,927)</b>

The amount payable for direct taxes includes debts for current taxes (mainly for regional business tax) net of payments on account and of any receivables/credits.

- Amounts payable to the tax authorities by some group companies totalling €k 5,549 for the Italian tax amnesty.

In 2004 amounts due for other taxes mainly consisted of:

- Substitute tax of €k 7,879, owed by Elba SpA and Climaveneta SpA, for tax recognition of statutory reported values

### 12- Amounts due to social security institutions

The amount includes sums payable to social security institutions (€k 5,729), to INAIL (the state occupational safety & insurance agency) (€k 102), and to other similar institutions (€k 765). There was a change of €k 251 vs. December 31st 2003.

# Explanatory notes

## 13 - Other payables

The details of this item were as follows:

	31.12.2004	31.12.2003	Change
Amounts due to employees	21,571	22,391	(820)
Other	17,544	18,476	(932)
<b>Total other payables</b>	<b>39,115</b>	<b>40,867</b>	<b>(1,752)</b>

The item "Other" includes financial payables posted by the parent company and by some subsidiaries for customer payments received at year-end as part of their service functions and pertaining to assignees.

## E) Accrued liabilities and deferred income

The details of this item are specified below:

	31.12.2004	31.12.2003	Change
<b>Accrued liabilities:</b>			
Charges for exchange- & interest-rate hedging	1,409	1,086	323
Other accrued liabilities	2,296	1,831	465
Total accrued liabilities	3,705	2,917	788
<b>Deferred income:</b>			
Total deferred income	417	1,616	(1,999)
<b>Total accrued liabilities and deferred income</b>	<b>4,122</b>	<b>4,533</b>	<b>(411)</b>

## MEMORANDUM ACCOUNTS

This item was as detailed below:

	31.12.2004	31.12.2003	Change
<b>Sureties given:</b>			
- In favour of third parties	1,359	3,504	(2,145)
<b>Other unsecured guarantees</b>			
- In favour of third parties	-	1,273	(1,273)
<b>Total unsecured guarantees given</b>	<b>1,359</b>	<b>4,777</b>	<b>(3,418)</b>
<b>Other commitments</b>	<b>8,284</b>	<b>6,290</b>	<b>1,994</b>
<b>Total</b>	<b>9,643</b>	<b>11,067</b>	<b>(1,424)</b>

The item "Other commitments" mainly refers to (a) the subsidiary De'Longhi America Inc.'s contractual commitments (€k 4,461), (b) a commitment of the subsidiary Climaveneta SpA to acquire a further equity interest in Top Clima SL (as described in the "Equity Investments" section), and (c) to contractual commitments of the parent company concerning construction of a new building (€k 687).

## Financial instruments hedging financial risks

In order to reduce financial risks stemming from exchange- and interest-rate fluctuations relating to commercial and financial transactions, the group has set up hedging contracts within the limits defined by normal core-business requirements.

## Explanatory notes

**Exchange-rate derivatives:** these include hedging transactions undertaken to assure a pre-arranged exchange rate for collection (or payment) of the various currencies. They include both forward transactions and structured options for the main exposure currencies (US dollar, GB pound, Japanese yen, Canadian dollar, Australian dollar, New Zealand dollar, Polish zloty, and South African rand).

The nominal amounts of such transactions (net of any compensating transactions) in place as at December 31st 2004 are summarised below:

Transactions set up by group companies with third parties:

1) Sales of GBP against EUR	GBP	50,216,411
2) Sales of PLN against EUR	PLN	38,200,000
3) Purchases of USD against EUR	USD	65,000,000
4) Sales of USD against EUR	USD	11,001,000
5) Purchases of CNY against USD	CNY	25,000,000
6) Sales of AUD against EUR	AUD	6,000,000
7) Purchases of USD against GBP	USD	50,000,000
8) Sales of CAD against EUR	CAD	8,550,000
9) Sales of HKD against EUR	HKD	131,418,000
10) Purchases of HKD against USD	HKD	170,000,000
11) Sales of ZAR against EUR	ZAR	10,000,000
12) Sales of JPY against EUR	JPY	700,000,000
13) Purchases of USD against ZAR	USD	4,000,000
14) Purchases of USD against AUD	USD	525,855
15) Purchases of USD against NZD	USD	109,763

**Interest-rate derivatives:** These are financial instruments used by the group to pre-establish a maximum cost (in terms of interbank rate, which is the benchmark) for part of its financial debt. They typically have a multi-year term and can also be

linked to specific funding operations on the capital markets. The transactions in place as at December 31st 2004 amounted to €k 18.7 million, of which €k 15.5 million maturing in 2006, and €k 3.2 million in 2008.



# Explanatory notes

## Comments on the main income-statement items

### A) Production value

The breakdown of revenues – comprising revenues from sales of goods and services and other revenues – was as shown below.

#### Revenues by geographical area

	2004	%	2003	%
Italy	353,779	27.5	372,127	29.1
UK	184,765	14.4	180,102	14.1
Rest of Europe	413,549	32.1	380,291	29.8
USA, Canada, and Mexico	97,056	7.5	127,571	10.0
Japan	43,957	3.4	48,492	3.8
Rest of world	193,932	15.1	169,375	13.3
<b>Total</b>	<b>1,287,038</b>	<b>100</b>	<b>1,277,958</b>	<b>100</b>

#### Revenues by product category:

	2004	%	2003	%
Cooking and food preparation	571,160	44.4	556,583	43.6
Air conditioning and treatment	306,174	23.8	283,421	22.2
Heating	234,236	18.2	245,427	19.2
Home cleaning and ironing	125,094	9.7	141,179	11.0
Other	50,374	3.9	51,348	4.0
<b>Total</b>	<b>1,287,038</b>	<b>100</b>	<b>1,277,958</b>	<b>100</b>

Relevant comments are made in the Directors' Report on Operations.

#### 5 - Other revenues and income

The breakdown of this item was as follows:

	2004	2003	Change
Transport costs reimbursed	9,374	9,315	59
Commercial rights	307	272	35
Incidental income	3,642	5,234	(1,592)
Claim damages received	386	869	(483)
Operating grants	264	953	(689)
Miscellaneous other income	6,872	8,591	(1,719)
<b>Total</b>	<b>20,845</b>	<b>25,234</b>	<b>(4,389)</b>

Transport costs reimbursed consist of charge-backs to customers of transport expenses incurred.

€k 264 of operating grants referred to applied research projects (€k 793 as at December 31st 2003).

The main amounts recognised in 2004 referred to grants under Italian Law 46/1982 for the programme "Range of conditioners featuring low energy impact – Kyoto protocol".

# Explanatory notes

## B) Production costs

### 6 - Raw materials, other materials, consumables, and goods for resale

These costs are detailed below:

	2004	2003	Change
Raw materials	222,281	182,463	39,818
Components	170,031	212,387	(42,356)
Finished products	265,719	244,491	21,228
Other miscellaneous purchases	9,335	10,063	(728)
<b>Total</b>	<b>667,366</b>	<b>649,404</b>	<b>17,962</b>

## 7- Services

The detail of these costs was as follows:

	2004	2003	Change
Transport	82,350	67,932	14,418
Advertising	37,528	47,683	(10,155)
Promotions	43,578	36,912	6,666
Outsourcing	22,919	27,318	(4,399)
Commissioning	25,035	26,464	(1,429)
Technical servicing	9,954	9,374	580
Travel and entertainment expenses	12,458	11,348	1,110
Insurance	5,265	5,422	(157)
Warehouse expenses and contributions	17,101	14,661	2,440
Consulting services	11,017	9,549	1,468
Temporary agency workers	6,113	8,933	(2,820)
Motive power	8,359	7,935	424
Telephone and postal services	4,717	4,345	372
Outside maintenance services	3,518	3,944	(426)
Other miscellaneous services	21,437	18,311	3,126
<b>Total</b>	<b>311,349</b>	<b>300,131</b>	<b>11,218</b>

The item "Other miscellaneous services" includes emoluments paid to directors and statutory auditors, details of which are shown in Attachment 4 to these explanatory notes.

### 8 - Leasing, rental and royalties

The item consisted of rental costs (€k 16,285), instalments on operating leasing contracts (€k 610), royalties (€k 703), and hire costs (€ 2,767).

# Explanatory notes

## 10 - Amortisation, depreciation and write-downs

This item is detailed below:

	2004	2003	Change
Amortisation of consolidation difference	13,545	13,231	314
Amortisation of intangible assets	23,717	21,308	2,409
Depreciation of tangible assets	25,951	31,800	(5,849)
Total amortisation and depreciation	63,213	66,339	(3,126)
Write-downs	3,858	4,017	(159)
<b>Total amortisation, depreciation &amp; write-downs</b>	<b>67,071</b>	<b>70,356</b>	<b>(3,285)</b>

Depreciation for tangible fixed assets decreased versus 2003 mainly because of lower depreciation calculated by the operating parent company and by some subsidiaries. The reduction was due to completion of the depreciation process for some major asset items in the “Plant & machinery” category and to application, in some asset categories (moulds for the operating parent company and plant in the case of Italian subsidiaries), of annual depreciation rates better representing – based on appraisals performed by independent experts – the remaining useful life of the asset items concerned.

The assignment to determine the residual useful working life of the main asset categories originated from the belief that, with application of the original depreciation rates, assets’ net value would have gone down to zero in future years whereas production capability would have remained substantially unchanged, compared with the past. It was therefore considered appropriate to apply the new benchmark

rates in order to better reflect the residual value of the plant and moulds in question. This had an effect of some € 3.7 million net of tax on the 2004 consolidated income statement.

For further details, reference should be made to the tables detailing changes in tangible and intangible fixed assets.

Write-downs mainly referred to trade doubtful-debt provisioning (€k 3,703).

## 12 - Provisions for risks

The item mainly includes allocations to reserves for future risk, product warranty, and agents’ termination indemnity, already discussed earlier in the section on “Reserve for risks and charges”, when commenting on the balance sheet.

## 14 - Other operating expenses

The details of this item are as follows:

	2004	2003	Change
Contingent liabilities	1,143	1,074	69
Other taxes and levies	6,344	5,169	1,175
Losses on receivables	108	245	(137)
Other miscellaneous operating expenses	3,026	3,559	(533)
<b>Total</b>	<b>10,621</b>	<b>10,047</b>	<b>574</b>

# Explanatory notes

## C) Financial income and expenses

The following table summarises classification of net financial income (expenses) by type.

	2004	2003	Change
Income from equity investments	209	3,651	(3,442)
Total interest expenses and charges for securitisation (*)	(17,630)	(19,180)	1,550
Gains (losses) on exchange rates and exchange-rate hedging	(9,956)	(1,508)	(8,448)
Financial discounting	(9,968)	(10,049)	81
Miscellaneous financial income (expenses)	(4,646)	(6,746)	2,100
<b>Total financial income (expenses)</b>	<b>(41,991)</b>	<b>(33,832)</b>	<b>(8,159)</b>

(\*) As regards securitisation, as well as the financial component, the item also includes incidental costs.

The detail of the above is as follows:

	2004	2003	Change
<b>Income from equity investments:</b>			
Capital gains on disposals	103	3,579	(3,476)
<b>Dividends:</b>			
- Others	106	72	34
<b>Total income from equity investments (a)</b>	<b>209</b>	<b>3,651</b>	<b>(3,442)</b>

	2004	2003	Change
<b>Other financial income</b>			
<b>Others:</b>			
- Current securities (i.e. not equity investments)	843	687	156
- Banks	617	928	(311)
- Exchange-rate gains and income from exchange-rate hedging	25,063	44,822	(19,759)
- Income from interest-rate hedging	190	5,006	(4,816)
- Miscellaneous financial income	385	435	(50)
<b>Total other financial income (b)</b>	<b>27,098</b>	<b>51,878</b>	<b>(24,780)</b>

	2004	2003	Change
<b>Interest and other financial expenses</b>			
<b>Subsidiary companies</b>	<b>84</b>	<b>78</b>	<b>6</b>
<b>Others:</b>			
- Interest on medium-/long-term loans	7,406	8,183	(777)
- Bank interest expense	6,191	4,535	1,656
- Securitisation costs	4,487	4,582	(95)
- Bond loan interest expense	-	2,732	(2,732)
- Exchange-rate losses and exchange-rate hedging costs	35,019	46,330	(11,311)
- Interest-rate hedging costs	1,262	6,712	(5,450)
- Financial discounting	9,968	10,049	(81)
- Miscellaneous financial expenses	4,881	6,160	(1,279)
<b>Total interest and other financial expenses (c)</b>	<b>69,298</b>	<b>89,361</b>	<b>(20,063)</b>
<b>Total financial income (expenses) (A+B-C)</b>	<b>(41,991)</b>	<b>(33,832)</b>	<b>(8,159)</b>

## Explanatory notes

The reduction in income and expenses for interest-rate hedging followed clearance of some hedging operations set up in previous years by the subsidiary De'Longhi Pinguino SA (which was wound up at the end of 2003).

### D) Adjustments to value of financial assets

This item refers mainly to equity investments carried at equity.

### E) Extraordinary income and expenses

#### 20 - Extraordinary income

The breakdown of extraordinary income was as follows:

	2004	2003	Change
Capital gains on disposals	263	274	(11)
Other extraordinary income	10,959	9,145	1,814
<b>Total</b>	<b>11,222</b>	<b>9,419</b>	<b>1,803</b>

The "Other extraordinary income" included €k 10,394 for release of deferred-tax provisions made in previous years for the Kenwood trademark, the value of which has also been recognised for tax purposes.

#### 21 - Extraordinary expenses

The breakdown of extraordinary expenses was as follows:

	2004	2003	Change
Restructuring costs	12,102	2,973	9,129
Taxes and levies for previous years	51	8,713	(8,662)
Other extraordinary expenses	10,719	9,359	1,360
<b>Total</b>	<b>22,872</b>	<b>21,045</b>	<b>1,827</b>

The "Restructuring costs" item refers to the operating parent company and to some subsidiaries. It comprises costs connected with the programme for internationalisation of the production platform (for further information should be made to the section "Events after year-end" in the Directors' Report on Operations).

In 2003 the item "Taxes and levies for previous years" included the cost of the tax amnesty - pursuant to Italian Decree Law 289 dated December 27th 2002 and subsequent amendments and additions and to

Decree Law 350 dated December 24th 2003 - borne by the parent company and Italian subsidiaries for a total of €k 8,688.

The item "Other extraordinary expenses) mainly included non-recurrent charges and contingent costs relating to the operating parent company and to some foreign subsidiaries.

#### 22 - Income tax for the year

The breakdown of this item was as follows:

	2004	2003	Change
Current income tax	14,371	20,962	(6,591)
Deferred (prepaid) income tax	(9,811)	(4,252)	(5,559)
<b>Total</b>	<b>4,560</b>	<b>16,710</b>	<b>(12,150)</b>

# Explanatory notes

Current income tax consisted of corporate income tax of €k 2,620, regional business tax of € 6,307, and other taxes of €k 5,444.

The effective tax rate (calculated as percent tax incidence on the pre-tax result) for 2004 decreased versus that of 2003 (42.6%). This change was mainly due to some consolidation adjustments and to the posting of prepaid taxes stemming from temporary differences that more than offset the higher incidence of regional business tax (IRAP) provisioned by the operating parent company and Italian subsidiaries.

#### **Financial and business transactions and relations with unconsolidated subsidiaries and with associated, parent and related companies**

Attachment 3 gives information requested by CONSOB circulars 97001574 of February 20th 1997, 98015375 of February 27th 1998, and DEM2064231 of September 30th, 2002, which refer to transactions between group companies and related parties. We point out the all transactions undertaken formed part of normal group operations, excepting those already specified in these notes, and were settled at going market rates.

No effects deriving from capital and income transactions between the operating parent company and the subsidiary companies are indicated since these have already been shown in the statutory year-end financial statements of De'Longhi SpA and have been eliminated for the purposes of preparation of consolidated financial statements.

#### **Emoluments paid to directors and statutory auditors**

Attachment 4 gives the information required by CONSOB regulations (Resolution 11971 of May 14th 1999).

#### **Stock options assigned to directors**

Attachment 5 gives the information required by the CONSOB Regulation (Resolution 11971 of May 14th 1999), also taking into account the requirements of CONSOB circular 11508 of February 15th, 2000.

#### **Events after year-end**

Reference should be made to the Directors' Report on Operations.

Treviso, March 24th 2005  
De'Longhi SpA  
Managing Director  
Stefano Beraldo





## Attachments



**These attachments contain additional information to that contained in the Explanatory Notes, of which they are an integral part.**

1. List of companies included in consolidation area
2. Statement of revalued assets
3. Capital and business transactions with subsidiary, associated, parent and related companies
4. Emoluments paid to directors and statutory auditors
5. Stock options assigned to directors.



# Attachment 1

## List of companies included in consolidation area

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

Company name	Registered Office	Currency	Share Capital (1)	Shares held at 31/12/2004	
				Directly	Indirectly
DE'LONGHI CAPITAL SERVICES S.R.L. (2)	Treviso	EUR	53.000.000	11,32%	88,68%
DE'LONGHI LTD.	Wellingborough	GBP	4.000.000	100%	
DE'LONGHI AMERICA INC.	Saddle Brook	USD	9.100.000	100%	
DE'LONGHI FRANCE S.A.R.L.	Asnieres Cedex	EUR	2.737.500	100%	
DE'LONGHI CANADA INC.	Mississauga	CAD	1	100%	
DE'LONGHI DEUTSCHLAND GMBH	Seligenstadt	EUR	2.100.000	100%	
DE'LONGHI ELECTRODOMESTICOS ESPANA S.L.	Barcelona	EUR	510.000	100%	
LA SUPERCALOR S.P.A.	Seregno (MI)	EUR	520.000	100%	
E- SERVICES S.R.L.	Treviso	EUR	50.000	51%	
DE'LONGHI NEDERLAND B.V.	Leiden	EUR	226.890	100%	
DL TRADING LIMITED	Hong Kong	HKD	73.010.000		100%
TRICOM INDUSTRIAL CO. LTD	Hong Kong	HKD	4.500.000		100%
PROMISED SUCCESS LTD.	Hong Kong	HKD	28.000.000		67%
ON SHIU (ZHONGSHAN) ELECTRICAL APPLIANCE COMPANY LTD.	Zhongshan City	CNY	39.034.400		67%
DONG GUAN DE'LONGHI-KENWOOD APPLIANCES CO.LTD.	Qing Xi Town	HKD	4.000.000		100%
CLIMAVENETA S.P.A.	Treviso	EUR	10.000.000	100%	
CLIMAVENETA DEUTSCHLAND GMBH	Nordstedt	EUR	306.775		100%
CLIMAVENETA FRANCE SAS	Montesson	EUR	150.000		76%
DE'LONGHI FINANCE S.A.	Luxembourg	EUR	181.730.99		100%
ELBA S.P.A.	Treviso	EUR	15.000.000		100%
DE'LONGHI JAPAN CORP.	Tokyo	JPY	50.000.000		100%
DL RADIATORS S.P.A.	Treviso	EUR	5.000.000		100%
DE'LONGHI CLIMA POLSKA SPZO.O	Varsavia	PLN	597.000		100%
Società controllata tramite Società Fiduciarie (3)	Norimberga	EUR	26.000		100%
SILE CORPI SCALDANTI S.R.L.	Fossalta di Piave (VE)	EUR	93.600		100%
DL RADIATORS FRANCE S.A.R.L.	Parigi	EUR	150.000		100%
DE'LONGHI AUSTRALIA PTY LTD.	Sydney	AUD	7.000.000		100%
DE'LONGHI NEW ZEALAND LTD.	Auckland	NZD	6.000.000		100%
KENWOOD APPLIANCES PLC	Havant	GBP	4.586.000		100%
KENWOOD MARKS LIMITED	Havant	GBP	2		100%
KENWOOD APPLIANCES LUXEMBOURG S.A.	Luxembourg	EUR	1.000.000	0,01%	99,99%
KENWOOD LIMITED	Havant	GBP	25.050.000		100%
KENWOOD INTERNATIONAL LTD .	Havant	GBP	20.000.000		100%
KENWOOD APPL. (SINGAPORE) PTE LTD .	Singapore	SGD	500.000		100%
KENWOOD APPL. (MALAYSIA) SDN.BHD.	Petaling Jaya	MYR	3		100%
KENWOOD MANUFACTURING GMBH	Wr Neudorf	EUR	36.336		100%
KENWOOD HOME APPL. PTY LTD.	Industria West	ZAR	40.000		100%
ARIETE S.P.A.	Prato	EUR	8.272.000		100%
ARIETE HISPANIA S.L.	Madrid	EUR	3.066		100%
ARIETE HELLAS EPE	Atene	EUR	18.000		100%
ARIES LUSITANIA ELECTRODOMESTICOS LDA	Maia	EUR	5.000		100%
ARIETE FRANCE ELECTROMENAGER SARL	Parigi	EUR	30.000		100%

## Attachment 1

### List of companies included in the consolidated financial statement with proportional method:

Company name	Registered Office	Currency	Share Capital (1)	Shares held at 31/12/2004	
				Directly	Indirectly
CHAT UNION CLIMAVENETA COMPANY LTD.	Hong Kong	HKD	10.000		50%
CLIMAVENETA CHAT UNION REFRIGERATION EQUIPMENT (SHANGAI) CO.LTD.	Shangai	USD	2.500.000		50%
CLIMAVENETA CHAT UNION TRADING (SHANGAI) CO.LTD.	Shangai	USD	600.000		50%

### List of companies included in the consolidated financial statement with equity method:

Company name	Registered Office	Currency	Share Capital (1)	Shares held at 31/12/2004	
				Directly	Indirectly
<b>Subsidiary Companies:</b>					
Clim.Re S.A.	Luxembourg	EUR	1.239.468	4%	96%
<b>Associated companies:</b>					
Omas S.r.l. (4)	Gualtieri (RE)	EUR	364.000	40%	
Effegici S.r.l. (4)	Gorgo al Monticano (TV)	EUR	244.400	25%	
Equity investment owned via trustee company Compagnia Fiduciaria Comitalia S.p.A. (3)	EUR	520.000	40%		

### Other equity investments in subsidiaries companies (in liquidation or dormant)

Company name	Registered Office	Currency	Share Capital
<b>Subsidiary Companies (5):</b>			
Kenwood Appliances (Australia) Pty Limited	Sydney	AUD	15.000
Kenwood Appliances Limited	Auckland	NZD	1.002.650
Kenwood Appliances Inc.	Havant	USD	25.000

(1) Unless otherwise specified, data relate to year-end financial statements as at 31/12/2004 used for the purposes of consolidation.

(2) The Articles of Association, approved by the Extraordinary Shareholders' Meeting held on December 29th 2004, envisages special rights for De'Longhi SpA (equivalent to 89% of voting rights) for ordinary resolutions (approval of year-end accounts, dividend distribution, appointment of directors and statutory auditors, acquisition and sale of companies, and granting of loans to third parties). For other resolutions voting rights are proportional.

(3) The investment held through Comitalia Compagnia Fiduciaria SpA relates to a company producing finished products also on behalf of the group. In this regard, as permitted by applicable laws (Article 39 of Italian Legislative Decree 127/1991), indication of the associated company's name has been omitted so that no damage is done to the company or to De'Longhi SpA.

(4) Data as per financial statements for the year ending on 31/12/2003.

(5) They are dormant companies or companies in liquidation, for which Financial Statements are not available.

## Attachment 2

### Statement of revalued assets

(in € millions)

	Revalued fixed assets						Total revaluations
	Allocation of 1995 merger loss	Allocation of 2003 merger loss	Law 72/1983	Law 413/1991	Law 342/2000	Other revaluations	
Operational buildings	43,899	6,305	55	5,777	-	18,265	74,301
Plant & machinery	34,207	-	77	-	-	9,805	44,089
Industrial & commercial equipment	-	-	2	-	780	3,701	4,483
Other tangible assets	-	-	1	-	-	211	212
Concessions, licences, trademarks & similar rights	119,353	-	-	-	-	-	119,353
<b>Total</b>	<b>197,459</b>	<b>6,305</b>	<b>135</b>	<b>5,777</b>	<b>780</b>	<b>31,982</b>	<b>242,438</b>

## Attachment 3

### Capital and business transactions with subsidiary, associated, parent and related companies

(in € millions)

In compliance with the provisions of the guidelines and criteria for identification of significant transactions, and in particular of transactions with related parties, as envisaged by De'Longhi SpA in relation to corporate governance, below we summarise transactions between related parties occurring in 2004:

	Revenues from product sales	Other revenues	Raw material and other costs	Financial income (expenses)	Extraordinary income (expenses)	Financial receivables	Trade receivables	Financial payables	Trade payables
<b>Subsidiary companies:</b>									
Clim.Re S.A.	-	-		(0.1)	-	-	-	(1.7)	-
<b>Total subsidiary companies</b>	-	-	-	<b>(0.1)</b>	-	-	-	<b>(1.7)</b>	-
<b>Associated companies:(1)</b>									
Omas Srl	1.1	-	(0.3)	-	-	-	0.1	-	(0.1)
Equity interest held via trustee company "Comitalia Compagnia Fiduciaria SpA" (2)	-	-	(0.3)	-	-	-	-	-	(0.1)
<b>Total associated companies</b>	<b>1.1</b>	-	<b>(0.6)</b>	-	-	-	<b>0.1</b>	-	<b>(0.2)</b>
<b>Total subsidiary and associated companies</b>	<b>1.1</b>	-	<b>(0.6)</b>	<b>(0.1)</b>	-	-	<b>0.1</b>	<b>(1.7)</b>	<b>(0.2)</b>
<b>Parent companies:</b>									
De'Longhi Soparfi S.A. (ultimate parent company) (4)	-	0.4	-	-	-	-	0.4	-	-
<b>Total parent companies</b>	-	<b>0.4</b>	-	-	-	-	<b>0.4</b>	-	-
<b>Related companies:</b>									
Max Information Srl (3)	-	-	(1.3)	-	-	-	-	-	(0.9)
Liguria Assicurazioni SpA	-	-	(0.1)	-	-	-	0.1	-	-
Mokarabia SpA	0.2		(0.1)						(0.1)
<b>Total related companies</b>	<b>0.2</b>	-	<b>(1.5)</b>	-	-	-	<b>0.1</b>	-	<b>(1.0)</b>

(1) These are mainly commercial transactions.

(2) See the section "Financial fixed assets – equity investments".

(3) The amount relates to advertising services. Max Information Srl is a company in which Mr. G. Sandri, a director of De'Longhi SpA, serves as Managing Director.

(4) This relates to charge-back for services rendered.

## Emoluments paid to Directors and Statutory Auditors

(Art. 78, CONSOB regulation 11971 dated May 14th 1999)

(in € millions)

Person	Description of office	Emoluments					
		Term of office	Expiry of term	Emoluments for office	Non monetary benefits	Bonus and other	Other Remuneration
De'Longhi Giuseppe	President	01.01.04/31.12.06	2006 financial statements	486			9 (1)
De'Longhi Fabio	Vice-President	01.01.04/31.12.06	2006 financial statements	442 (2)			14 (3)
Beraldo Stefano	CEO	01.01.04/31.12.06	2006 financial statements	570 (4)			9 (3)
Sandri Giorgio	Director	01.01.04/31.12.06	2006 financial statements	21			
Sartori Silvio	Director	01.01.04/31.12.06	2006 financial statements	21			15 (1)
Garavaglia Carlo	Director	01.01.04/31.12.06	2006 financial statements	21			4 (5)
Corrada Renato	Director	01.01.04/31.12.06	2006 financial statements	21			2 (5)
Tamburi Giovanni	Director	01.01.04/31.12.06	2006 financial statements	21			2 (5)
Alberto Clò	Director	01.01.04/31.12.06	2006 financial statements	21			1 (5)
Ponzellini Gianluca	President of Board of Statutory Auditors	01.01.04/31.12.06	2006 financial statements	62			
Saccardi Giuliano	Standing Statutory Auditor	01.01.04/31.12.06	2006 financial statements	41			
Lanfranchi Massimo	Standing Statutory Auditor	01.01.04/31.12.06	2006 financial statements	41			

(1) Remuneration relating to corporate positions held in other subsidiary companies..

(2) The amount also includes remuneration received at Sales & Marketing Director of De'Longhi S.p.A.

(3) Remuneration reversible to De' Longhi Spa, relating to corporate positions held in other subsidiary companies

(4) The amount also includes remuneration received as General Manager

(5) Remuneration relating to membership of Remuneration Committee and Internal Control & Corporat Governance

Carlo Garavaglia is partner of the legal and tax consultancy firm Bisozzi e Nobili, to which the company paid fees of €k 450 during 2004.

## Attachment 5

### Stock-Option assigned to Directors

(Art. 78 Consob regulation 11971 dated May 14th 1999)

(in € millions)

Person	Options assigned			Exercise of options during year	
Full name	Number of shares purchasable	Per-share Exercise price (€)	Exercise period	Number of shares purchased	Exercise price
Beraldo Stefano	1.189.004	3.4	2004 - 2006	-	-
De'Longhi Fabio	608.790	3.4	2004 - 2006	-	-





## Auditors' report





**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 2004. 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 audits of the financial statements of some subsidiaries and associated companies, which account for 4.3% of the consolidated assets and 7.1% of the consolidated revenues respectively, are the responsibility of other independent auditors.

For the opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes as required by law, reference is made to our report issued on 31 March 2004.

- 3 In our opinion, the consolidated financial statements of De'Longhi Group as of 31 December 2004 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.

- 4 By way of information, we note the fact that the Company appointed independent appraisers to determine the residual useful working life of the “Plant and Machinery” and “Equipment” (Moulds) categories of fixed assets in order to determine the most appropriate rates of depreciation. The related effects have been provided in the notes to the financial statements within the section on “Amortisation, depreciation, and write-downs”.

Treviso, 11 April 2005

PricewaterhouseCoopers SpA

Signed by Roberto Adami  
(Partner)

*This report has been translated into the English language solely for the convenience of international readers.*

[www.delonghi.com](http://www.delonghi.com)

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