Annual report 2005

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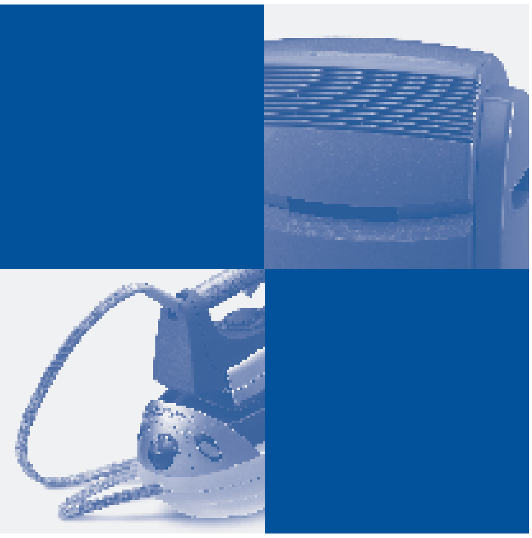


Corporate Bodies and Officers

Board of Directors	
Giuseppe De'Longhi *	Chairman
Fabio De'Longhi *	Vice Chairman and Chief Executive Officer
Dario Melò	Director and Chief Operating Officer
Alberto Clò **	Director
Renato Corrada **	Director
Carlo Garavaglia **	Director
Giorgio Sandri	Director
Silvio Sartori	Director
Giovanni Tamburi **	Director

Board of Statutory Auditors	
Gianluca Ponzellini	Standing members
Massimo Lanfranchi	Standing members
Giuliano Saccardi	Standing members
Roberto Cortellazzo-Wiel	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 company officers were elected at the shareholders' meeting of 28 April 2004 for the period 2004-2006. The Board of Directors co-opted Dario Melò as a director and chief operating officer on 27 June 2005. It accordingly revised the managerial powers delegated, adjusting them for the restrictions required by law, by the Guidelines and principles for identifying significant transactions and particularly related-party transactions and the Ethical Code.

** Independent directors

*** The Board of Directors co-opted Silvio Sartori as a director on 14 November 2005.

**** Engaged by the shareholders' meeting of 28 April 2004 to audit the 2004, 2005 and 2006 financial statements.

Letter from the Chairman

Letter from the Chairman

New bases for development

The trends begun in 2004, precisely the strengthening of the Euro against the dollar and increasing prices for raw materials, continued in 2005 making the European and global business environment even more difficult.

The process of moving production abroad, commenced in the past, has been completed. New strategic investments have also been made in the high-potential area of Russia. The process of reorganizing the structure of the business in Italy and expanding internationally has helped defend the group's profit margins, despite the difficult international context.

The year 2005 featured a mixed performance falling into two separate periods: the first six months of 2005 were marked by a drop in revenues, reflecting the adverse weather conditions and consequent lower demand for air conditioning products relative to the same period in the prior year; furthermore, the actions taken to save costs were not sufficient to make up for this shortfall.

The second half of the year witnessed strong revenue growth by the group's principal businesses.

The continued focus on innovation, research and development, marketing and design and the actions taken to strengthen production and sales were reflected in the results achieved in the second half of the year and will yield even greater benefits in 2006.

Giuseppe De'Longhi
Chairman

Directors'report on operations

Introduction

This report has been prepared in accordance with CONSOB Regulation 11971 and subsequent amendments. The figures for the period have been prepared in accordance with international accounting and financial reporting standards (IFRS); as a result, the comparative amounts for the corresponding period in 2004 have been restated under the new standards.

As a result of introducing the new accounting standards, the group has taken the opportunity to change its reporting structure with the objective of improving the presentation of its results. This structure has involved splitting the group into two divisions: "Household products" and "Professional products" in place of the former split by product segment (air conditioning and air treatment, heating, cooking and food preparation and cleaning and ironing systems).

The "Professional" division includes large thermo-cooling systems (Climaveneta), water filled radiators (DL Radiators) and wall-mounted air conditioning units for the professional market (Climaveneta Home System). These types of product are distributed mainly through the professional channel.

The "Household" division includes all the types of product not included in the Professional division and which are distributed through the retail channel.

Overview of the group's results

The year just ended was a difficult one, unhappily scarred by necessary and painful internal reorganization albeit with the reassurance provided by the emergence of positive signs in the second half of the year. The year was marked by contrasting trends: the first half suffered from a poor season for portable and wall-mounted air conditioning units, resulting in a significant drop in profitability, followed by an improvement in revenues, EBITDA and EBIT in the second half. The group reacted successfully in the second half of the year by increasing its market share in its core markets.

As a result of these trends, the year closed with a 2% decrease in consolidated revenues to €1,257.7 million.

In terms of business segments, the household division reported a 1.9% drop in sales; of particular note was the growth in sales of coffee machines, food processors and portable heaters. The division's overall performance was affected by the downturn in revenues for portable and wall-mounted air conditioning units coupled with weak demand for home cleaning products. Revenues were 2.3% lower in the professional division, where lower sales of wall-mounted air conditioning units sold through professional channels more than absorbed the increase in revenues from large cooling systems.

Fourth-quarter EBITDA and EBIT were much improved at €40.7 million and €31.2 million respectively (compared with €15.5 million and €8.8 million in the same period of 2004); as a result, full-year EBITDA came to €105.0 million (€114.4 million in 2004), while EBIT was €67.5 million (€77.5 million in 2004). Ignoring non-recurring income and expenses, EBITDA came to €117.4 million in 2005, or 9.3% of revenues (€136.7 million in 2004, or 10.6% of revenues).

EBIT closed at €67.5 million, or 5.4% of net revenues (€77.5 million in 2004, or 6.0% of net revenues).

After a decrease of €3.4 million in financial expenses (inclusive of exchange losses) relative to 2004, profit for 2005 amounted to €24.8 million, compared with €35.3 million in 2004.

Net debt at 31 December 2005 also includes €113.1 million in receivables securitized and factored without recourse (€149 million in 2004) which, under a conservative interpretation of IFRS, have been reinstated in the net financial position even if ownership of the receivables has been legally transferred; net debt climbed to €511.4 million from €458 million at the end of 2004. This change was mostly due to higher inventories of air conditioning products after a poor sales season affected by adverse weather conditions in the months of June and July 2005, and to the increase in trade receivables following higher sales in the fourth quarter of 2005 relative to the same period in 2004.

Main exchange rate and interest rate trends

Interest rates continued to rise in the United States and United Kingdom during 2005, while the ECB changed its monetary policy stance by embarking on a series of gradual rate hikes. The euro depreciated against the major currencies, especially against the US dollar in the first half of the year, stabilizing in the face of expectations for a reduction in the differentials between European, US and UK interest rates.

Market scenario

The global economy grew by more than 4% in 2005; China, the United States and Japan all reported robust GBP growth; GDP in the Euro-zone grew by around 1.3%, while remaining the same as the year before in Italy.

The domestic appliances market experienced continued growth in demand for coffee machines. Demand for portable and wall-mounted air conditioning units suffered from the adverse weather conditions, while heating products benefited from low autumn and winter temperatures in the group's core markets.

Products

Product initiatives were once again fundamental to strengthening our leadership as a multi-specialist in the different markets where we are present.
Specific highlights of 2005 included:

- completion of the range of fully automatic products and launch of a fully automatic model with an innovative patent for automatically preparing cappuccino coffee;
- introduction of two updated ranges of fryers and a new high-end oven, which completed the range of electric table-top ovens;
- introduction of series "L", a mid-range "Pinguino" portable air conditioner; in the air treatment range, the introduction of new humidifiers for the Italian market and a condensorless dehumidifier; the group completed its wall-mounted air conditioning range with the introduction of the Planos and Close lines for the professional market and the new Inverter line;
- in the area of "cleaning and ironing" products, the Tabata range of hoovers was completed; in the area of steam, the group continued to expand its ironing systems with additions to the range of continuous refilling ironing devices;
- in the heating segment, new convector heaters were developed in 2005 as well as a new range of ceramic fan heaters;
- new product lines for cooking and food preparation were launched under the Kenwood brand; more specifically, a new generation of food processors was introduced, as well as a new range of coffee machines, kettles and toasters.

Rationalization of the group's structure

Manufacturing activities

The group continued to internationalize its manufacturing activities during 2005 with enhancements to its production and procurement structures in China.

The existing manufacturing set-up was also rationalized by centralizing certain types of production at the Treviso factory and by transferring the production of certain Kenwood product lines from the UK factory in Havant to one in Italy.

Certain models of coffee machine were transferred in 2005 to the Tricom factory in China, which already produced fryers and fan heaters.

The group completed the transfer of production of oil-filled radiators to its manufacturing hub in China, comprising the various factories located in Zhongshan, purchased at the end of 2003. It also transferred the production lines for manufacturing certain models of table-top oven to China.

The commercial and manufacturing joint venture between Climaveneta, the group company operating in the large cooling systems sector, and its distributor in Shanghai continued with good results in terms of sales and earnings.

New factory in Russia

In February 2005, the group purchased a factory located in the Republic of Tatarstan (Russia). This facility is entirely devoted to the manufacture of oil-filled radiators for sale on the Russian market. This acquisition is strategically important in that it will help avoid import duties and so raise the sales potential on the local market of products made in Russia.
Certain production lines and equipment were transferred in 2005 for starting up production of De' Longhi brand heaters.

Industrial plan

In March 2005 agreement was reached with the trade unions on the industrial plan. The agreement referred to the plan for overhauling the Italian production platform of De'Longhi S.p.A., involving a total of 504 lay-offs, which might come down to 459 in the event of using part-time contracts and transferring staff to other group companies. The agreement also called for access to the special state-funded redundancy programme for an initial period of twelve months, extendible for another twelve months if the Ministry of Employment considers that the relevant conditions have been satisfied.
Access to the special state-funded redundancy fund was granted in a decree dated 27 July 2005 for the period from 11 April 2005 to 10 April 2006. As regards the lay-off programme, a total of 353 employees have already left, of whom 338 on a voluntary basis. Another 90-95 redundancies are also planned, taking the overall number of lay-offs to nearly 450.
De'Longhi, in partnership with the employment agency "Unimpiego Confindustria" presented the Veneto regional authorities with a project for the orientation and redeployment of staff involved in the plan. This project was approved on 20 December 2005 and started to be implemented in January 2006.

Reorganization of the professional air conditioning business

During 2005 the parent company transferred its business relating to the production and distribution of wall-mounted conditioning systems to Climaveneta Home System S.r.l., a wholly-owned subsidiary of Climaveneta S.p.A.. This transfer took place as part of a reorganization of the group's activities involving a concentration of assets in the professional air conditioning sector in a specific structure within the group (in fact, the business transferred is devoted to the production and distribution of wall-mounted air conditioning systems for the professional market).
The purpose of this operation is to give greater focus to the range of products sold to business customers, engineering consultants and professional installers.

Reorganization of the activities of companies producing water filled radiators

The group companies which produce and sell water filled radiators (Sile Corpi Scaldanti S.r.l and DL Radiators S.p.A.) were merged with effect from 1 January 2005 with the purpose of achieving commercial synergies and improving operations both in terms of production and economic and financial performance.

Reorganization of distribution activities

The group continued to implement measures in 2005 to make its distribution structure more efficient.
This involved reorganizing the business on the UK market by absorbing into Kenwood the activities previously carried out by the trading company which distributed De'Longhi products on the UK market; two business units devoted to the two separate brands were created within Kenwood Ltd, while the offices of the former trading company were closed.

New trading companies were opened in Russia, China and Greece, in the latter market just for the Kenwood brand, to cope with expected growth in these important markets.

A new business unit was set up within De'Longhi S.p.A. to manage the Simac and Kenwood brands on the Italian market with the goal of achieving greater commercial and sales focus and of becoming sector leader by consolidating Kenwood's growth and relaunching Simac.

Rationalization of management of the group's trademarks and insurance activities

De'Longhi Finance S.A. continued to pursue its activities during 2005. This company was set up in 2003 to co-ordinate international cash pooling arrangements for the group's foreign companies and to manage its other financial activities centrally.
As part of this project, work continued on centralizing the group's main trademarks under a specific structure, into which were transferred the Simac and Ariagel brands. This operation, anticipating further development of DL Finance S.A., will help achieve better, more efficient trademark management.

The group's insurance activities relating to product risk management were also centralized.

Results by business segment

Household

(millions of Euro)	2005	2004	Change 2004-2005
Business segment			
Net revenues	994.0	1,013.5	(19.5)
% change	(1.9%)		
EBITDA	79.7	76.0	3.7
% of revenues	8.0%	7.5%	

Professional

(millions of Euro)	2005	2004	Change 2004-2005
Business segment			
Net revenues	263.7	269.8	(6.1)
% change	(2.3%)		
EBITDA	25.3	38.4	(13.1)
% of revenues	9.6%	14,3%	

Household

This division reported a 1.9% contraction in sales; the significant second-half rebound helped almost entirely make up for the poor air conditioning season consequent upon Europe's bad second-quarter weather.
Coffee machines continued to perform well, partly thanks to the major contribution from automatic models; food processors also sold well. Sales of deep fryers and table-top ovens declined.
Ironing systems performed in line with 2004, while cleaning products suffered from the absence of certain extraordinary sales that took place during the first quarter of 2004 and from a particularly weak market for cleaning and steam products.
Sales of heating products were higher thanks to radiator sales in Russia and Japan.

Professional

Higher sales of large cooling systems by this division, partly thanks to a greater presence in the Far East were not enough to make up for the decline in wall-mounted air conditioners resulting from Europe's bad second-quarter weather; revenues were 2.3% lower than in 2004.

Markets

The group's revenues are broken down below by geographical area:

	2005	2004	Change	% change
Italy	307.9	340.3	(32.4)	(9.5)%
United Kingdom	163.4	187.4	(24.0)	(12.8)%
Rest of Europe	421.8	417.7	4.1	1.0%
United States, Canada and Mexico	97.2	98.8	(1.5)	(1.5)%
Japan	47.5	44.4	3.2	7.1%
Rest of the world	219.8	194.7	25.1	12.9%
Total	**1,257.7**	**1,283.3**	**(25.6)**	**2.0%**

The poor performance in Italy was almost entirely due to lower air conditioner sales.

Sales in the UK market were hurt by flagging consumption.

France, Spain and Benelux all performed well, helping boost sales in the Rest of Europe.

In North America good last-quarter results for heating products almost entirely made up for the first-half contraction in sales (-26%), closing 2005 with revenues of €97.2 million.

After several years of stagnation, revenues started to grow once more in Japan (+7.1%).

The positive results in the Rest of the world particularly benefited from the big increase in revenues in Russia.

Profitability

	2005	% of revenues	2004	% of revenues
	Euro/million	%	Euro/million	%
Net revenues	**1,257.7**	**100.0%**	**1,283.3**	**100.0%**
Change 2005/2004	(25.6)	(2.0%)		
Materials consumed and other production costs (services and production payroll costs)	(763.2)	(60.7%)	(777.0)	(60.6%)
Gross profit	**494.5**	**39.3%**	**506.2**	**39.4%**
Cost of services & other expenses	(274.9)	(21.9%)	(272.3)	(21.2%)
Value added	**219.6**	**17.5%**	**233.9**	**18.2%**
Payroll (non-industrial)	(88.9)	(7.1%)	(84.9)	(6.6%)
Provisions	(13.3)	(1.1%)	(12.4)	(1.0%)
EBITDA before non-recurring expenses	**117.4**	**9.3%**	**136.7**	**10.6%**
Change 2005/2004	(19.3)	(14.1%)		
Non-recurring income (expenses)	(12.4)	(1.0%)	(22.2)	(1.7%)
EBITDA	**105.0**	**8.3%**	**114.4**	**8.9%**
Amortization and depreciation	(37.5)	(3.0%)	(36.9)	(2.9%)
EBIT	**67.5**	**5.4%**	**77.5**	**6.0%**
Change 2005/2004	(10.1)	(13.0%)		
Financial income (expenses)	(40.0)	(3.2%)	(43.4)	(3.4%)
Profit before taxes	**27.5**	**2.2%**	**34.1**	**2.7%**
Taxes	(2.6)	(0.2%)	1.4	0.1%
Profit after tax	**24.9**	**2.0%**	**35.5**	**2.8%**
Profit (loss) pertaining to minority interests	(0.0)	0.0%	(0.2)	0.0%
Profit (loss) pertaining to the group	**24.8**	**2.0%**	**35.3**	**2.8%**

The six-month figures for net revenues and profitability are set out below, demonstrating how the second-half recovery made up for the adverse air conditioning season.

			2005			2004
	I HY	II HY	Total	I HY	II HY	Total
Net revenues	536.2	721.5	1,257.7	611.7	671.6	1,283.3
% of total	42.6%	57.4%	100.0%	47.7%	52.3%	100.0%
EBITDA	32.6	72.4	105.0	63.8	50.6	114.4
% of total	31.0%	69.0%	100.0%	55.8%	44.2%	100.0%
% of net revenues	6.1%	10.0%	8.3%	10.4%	7.5%	8.9%

Gross profit, at €494.5 million (€506.2 million in 2004), was hurt by the lower contribution of air conditioning products to revenues, especially as this category is more profitable than the group's average product.

Breaking down the gross profit, the payroll component decreased, even though only partially benefiting from the industrial plan agreement; this agreement, which calls for personnel cuts at the parent company starting in the second quarter of 2005, will produce the expected savings above all in years to come.

The unfavourable sales mix (lower sales of air conditioners which carry above-average margins) coupled with extraordinary, non-recurring expenses, particularly associated with the transition phase, produced EBITDA of €105 million (or 8.3% of revenues).

Excluding non-recurring expenses, 2005 closed with EBITDA of €117.4 million, representing 9.3% of revenues (€136.7 million in 2004 or 10.6% of revenues) .

The EBITDA margin in the household division (8.0% compared with 7.5% in 2004) benefited from strong sales of coffee machines, food processors and portable heating products, all of which carry healthy margins.

Margins in the professional division (9.6% compared with 14.3% in 2004) were hurt by the bad season for wall-mounted conditioners and the higher price of steel, the most important raw material used for manufacturing water filled radiators, particularly in the third and fourth quarters.

EBIT was €67.5 million (€77.5 million in 2004).

Net interest expense (including exchange losses) decreased by €3.4 million, reflecting an increase in interest expense, which climbed from €33.4 million to €36.3 million due to higher average debt, and a decrease of €6.3 million in exchange losses.

Review of the balance sheet

The reclassified consolidated balance sheet is summarized below:

Euro/million	31.12.2005	31.12.2004	Change	% change
Non-current assets	**730.2**	**709.8**	**20.4**	**2.9%**
-Inventories	340.2	295.3	44.9	15.2%
-Receivables	450.1	415.5	34.6	8.3%
-Other current assets	31.4	37.2	(5.8)	(15.5%)
-Suppliers	(285.9)	(265.7)	(20.2)	7.6%
-Other current liabilities	(65.9)	(51.1)	(14.8)	29.0%
Net working capital	**469.8**	**431.1**	**38.7**	**9.0%**
Total non-current liabilities and provisions	(103.1)	(119.1)	15.9	(13.4%)
Net capital employed	**1,096.9**	**1,021.9**	**75.1**	**7.3%**
Net debt (*)	**511.4**	**458.0**	**53.4**	**11.6%**
Total equity	**585.5**	**563.8**	**21.7**	**3.8%**
Total net debt and equity	**1,096.9**	**1,021.9**	**75.1**	**7.3%**

(*) Includes €113.1 million in securitization transactions and receivables factored without recourse at 31 December 2005 (€149 million at 31 December 2004, which includes €58.9 million in receivables factored without recourse to provide a better presentation of group's financial position and ensure a proper basis for comparison even if IAS 39, under which factored receivables fall, is applicable as from 1 January 2005).

The net increase of €20.4 million in non-current assets includes around €48 million in investments in property, plant and equipment in Italy (particularly for the new column radiator production lines and the purchase of a building for the centralized management of the spare parts warehouse) and abroad (in the Chinese and Russian factories); it also reflects the recognition of finance leases under IFRS in respect of the long-term rental agreements for Kenwood's buildings in the UK.

The increase in working capital is mainly due to higher inventories of air conditioners and an increase in trade receivables due to higher sales in the fourth quarter of 2005.

The increase of €53.4 million in the net financial position (from €458.0 million at 31 December 2004 to €511.4 million at 31 December 2005) mainly reflects the net increase in non-current assets (€20.4 million) and the increase in net working capital (€38.7 million).

The financial position is as follows:

	31.12.2005	31.12.2004
Net bank borrowings	398.3	309.0

As a result of applying IFRS, the payables to factors for securitization agreements and receivables assigned without recourse have been reinstated in the net financial position, even though their ownership has been legally transferred.

	31.12.2005	31.12.2004
Payables to factors for assigned receivables	113.1	149.0

Debt thus adjusted is as follows:

	31.12.2005	31.12.2004
Debt adjusted for payables to factors for assigned receivables	511.4	458.0

Debt includes €409.5 million in medium/long-term loans (of which €220 million obtained in 2005).

The cash flow statement can be summarized as follows:

(Euro/million)	31.12.2005
Cash flow generated (absorbed) by current operations	51.1
Cash flow generated (absorbed) by movements in working capital	(40.6)
Cash flow generated (absorbed) by investment activities	(60.8)
Net operating cash flow	**(50.3)**
Cash flows generated by changes in equity accounts	(3.1)
Cash flow for the period	**(53.4)**
Opening net financial position	(458.0)
Closing net financial position	(511.4)

Human resources and organization

The De'Longhi Group had 7,467 employees at 31 December 2005 (7,184 in 2004).

The following table summarizes the average number of employees during 2005 compared with 2004:

	2005	%	2004	%	Difference
Blue collar	5,163	66%	4,897	67%	266
White collar	2,542	33%	2,299	31%	243
Executives	118	1%	119	1%	(1)
Total	**7,823**	**100%**	**7,315**	**100%**	**508**

The average increase of around 500 employees, despite the reduction of approximately 350 employees at the parent company's factories, was principally due to the growth in the workforce at the Chinese factories and the inclusion in the consolidation of the companies in Russia.

Major investments were made during 2005 to reorganize the parent company's structure, to manage the restructuring of production sites and to consolidate the organizational set-up in China, both as regards the recruitment of skilled staff and implementation of appropriate personnel policies (working hours, overtime, training and development, reward systems etc.).

After over a year of negotiations, a deal was reached to renew the financial terms of the national payroll agreement for the mechanical engineering sector, which expired on 31 December 2004. The agreement signed on 19 January 2006 calls for average gross increases of €100, the payment of a one-off amount of €320 in two instalments for back-dated pay relating to 2005, as well as certain regulatory changes for apprenticeships and a broadening of the different types of flexible option available for economic and market reasons.

Information systems

Information system services provided within the De'Longhi Group have continued in the direction mapped out by the original strategic decisions. These focus the information system's current and potential functioning around the SAP software product. During 2005 we completed the SAP implementation project at the new Chinese companies and the Canadian company. A number of major projects were also completed or are still in progress. These include the project for computerizing the budgeting process using the BPS module and the project for computerizing inbound transport via sea, air and land, with particular attention to controlling and allocating its cost. A "portal" for the sales network of all the divisions operating on the Italian market was also developed. This system helps improve communication between office and agents and makes for a more efficient, controlled management of sales orders.

We implemented a great many measures in support of the organizational changes (mergers and business spin-offs, migration of production activities from the UK to Italy and China, specifically for the "Chef" line, engagement of representatives for tax purposes and assimilation of new rules on ROHS (Restriction Of Hazardous Substance), WEEE (Waste Electronic and Electrical Equipment) and VEMC (Visible Environment Management Charge).

Logistics and supply chain

In connection with the major changes underway in the group and the ever-increasing importance of the supply chain, a project is in progress, in collaboration with an external firm of consultants, to redesign logistics and supply chain flows to make the process more efficient.

Research and development

R&D activity is performed by the R&D units working on innovation and, more recently, quality control activities. These units work in close contact with the product management, industrial design and industrialization functions in order to accelerate new products' time to market, ensure smooth and efficient production start-up and ensure that the product matches up to market expectations. The group dedicates over 300 people to R&D activities. These investments have enabled it to achieve competitive benefits and consolidate them over time.

During 2005 development activities permitted the market launch of numerous products - both those designed and manufactured in-house and those purchased from outside.

During 2005 the R&D units were involved in the process of internationalizing production to ensure the same qualitative standards as in Italy and to retain product know-how.

An intense level of work was carried out on the process of transferring certain production lines to the Chinese factories. This involved revising the technical documentation, setting new standards for all the parts, while seeking the planned cost reductions.

Quality

In 2005 we continued our quality policy, aiming to achieve customer satisfaction by implementing a system for monitoring the quality of finished products, with an emphasis on core products.
We continued work on developing documentation for controlling the quality of products purchased in China, so that the group’s inspectors are able to adopt standard methods when visiting suppliers and controlling the quality of their products.

After sales service

The growth of the group in the last few years has required making sweeping changes to the after sales service structures within Europe, with the aim of creating an international, multi-brand organization.
Reorganization of our after sales service has above all involved rationalizing spare parts inventories existing in the different European locations.

Marketing and communication

Advertising activities focused on strengthening the De’Longhi brand through brand promotion (for example, sponsorship of the Giro d’Italia cycling race) and campaigns designed to support the launch of new product lines, such as the TV campaigns for the Planos wall-mounted conditioners and Pinguino portable conditioners, for the Tabata hoover, the Kenwood Chef food processor and Kenwood Chef School.
A number of television advertising campaigns were conducted abroad in support of the launch of fully automatic coffee machines.

Risk coverage

The group has extensive insurance coverage in place for its principal assets (specifically, all property, plant and equipment is insured and most trade receivables are covered by insurance from major insurers), and for any risks relating to its products sold.
The group also has a policy of hedging financial risks (relating to exchange rates).

Stock option plans

The stock option plan approved by the Board of Directors on 12 June 2001 was implemented in July 2001. Its purpose was to secure the loyalty of key members of staff by focusing their efforts of medium/long-term objectives, to maintain or improve the group’s competitiveness on the domestic and international personnel remuneration market, by introducing an economic variable linked to the creation of value for the company and its shareholders.
The plan was initially extended to 63 Italian and international employees holding key positions in the group. They were granted a total of approximately 6,900,000 options, whose vesting was partly dependent on the achievement of objectives and partly on continued employment with the group.

Further to new inclusions in the stock option plan approved by the Board of Directors of De’Longhi S.p.A. in 2002 and 2003, and intervening departures from the group (3 in 2002, 3 in 2003, 9 in 2004 and 7 in 2005), the number of the plan’s beneficiaries had decreased to 48 by the end of December 2005.

In view of the fact that only part of the options associated with objectives have vested and the fact that during 2005 none of the plan’s beneficiaries exercised any options, the maximum number of options that could be exercised under the plan’s rules by the end date of 28 February 2006 was 4,720,435.

The stock option plan expired on 28 February 2006 without anyone having exercised any options.

Description	2005				2004			
	Beneficiaries	Total number of options	Exercise period	Strike price	Beneficiaries	Total number of options	Exercise period	Strike price
Position at 01.01.	49	5,939,772	2005-2006	3.400	57	6,349,120	2005-2006	3.400
	3	293,890	2005-2006	4.123	3	293,890	2005-2006	4.123
	2	151,500	2005-2006	4.765	3	236,500	2005-2006	4.765
	1	80,000	2005-2006	3.460	1	80,000	2005-2006	3.460
New inclusions in period								
Options forfeited in period	6	(1,412,540)		3.400	8	(709,348)		3.400
	1	(32,187)		4.765	1	(85,000)		4.765
Position at period end	**48**	**4,720,435**			**55**	**6,165,162**		

Corporate Governance

The corporate governance system of De’Longhi S.p.A. complied with the principles contained in the Code of Conduct for Listed Companies issued in 1999 and revised in July 2002.

More specifically, as part of the process of optimizing its internal control system, the company continued making the necessary changes to comply with Decree 231/2001, completing work on the “organizational model”, formal adoption of which was approved by the company’s Board of Directors on 27 March 2006.

The Board of Directors passed a resolution on 20 February to update its “Guidelines” for identifying particularly significant transactions and those with related parties, in accordance with the above-mentioned Code of Conduct.

In its meeting of 27 March 2006 the Board of Directors approved (a) a new set of internal dealing rules, pursuant to paragraph 8, letter a) of article 152 octies of CONSOB Regulation 11971/99; these new rules reflected the new statutory and regulatory provisions concerning market abuse; (b) a new set of procedures for reporting price-sensitive information to the market, also in accordance with article 6 of the Code of Conduct; and (c) a set of procedures for creating, managing and updating the list of persons with access to price-sensitive information, pursuant to article 115 bis of Decree 58/98 and articles 152 bis et seq. of CONSOB Regulation 11971/99.

In the same meeting of 27 March, the Board of Directors reviewed whether all its members met the necessary "integrity" requirements, as defined in article 147 quinquies of Decree 58/98 and introduced by Law 262/2005 (known as the "Investor Protection Act").
Since the Board of Directors consists of more than seven members, it also checked that at least one of them satisfied the independence requirements established by articles 147 quater and 148.3 of Decree 58/98, subsequently confirming that these new provisions introduced by the "Investor Protection Act" had been observed.

For information concerning corporate governance, reference should in any case be made to the report prepared in accordance with article IA 2.14 of the Instructions to the Italian Stock Exchange Regulations. This provides full information on the ways in which the corporate governance system and the Code of Conduct (issued in 1999 and revised in July 2002) are implemented.
In the same report the Board of Directors has also stated that it will review its corporate governance system in view of the new guidelines established in the revised version of the Code of Conduct. It will perform this review in the time required to do so and nonetheless within the deadline suggested by the Italian Stock Exchange in its press release of 14 March 2006.
The corporate governance report has been filed with Borsa Italiana SpA.

Equity interests held by directors and statutory auditors

As required by article 79 of CONSOB Regulation 11971 of 14 May 1999, the following information relates to the equity interests held by directors and statutory auditors of De'Longhi S.p.A. and its subsidiaries.

Name	Name of company in which interest held	No. of shares held at 31.12.04	Purchases in 2005	Sales in 2005	No. of shares held at 31.12.05
Giuseppe De'Longhi	Elba S.p.A.	90	-	-	90
Fabio De'Longhi	De'Longhi S.p.A.	447,570(*)	-		447,570(*)
Giorgio Sandri	De'Longhi S.p.A.	30,750	-	-	30,750
Silvio Sartori	De'Longhi S.p.A.	200,000(*)	-27,800(**)		227,800(*)
Massimo Lanfranchi (standing statutory auditor)	De'Longhi S.p.A.	750(*)	-		750(*)

(*) includes shares held indirectly and/or through relatives.
(**) shares obtained through inheritance.

Transactions and balances with parent companies, subsidiaries, associated companies and related parties

The transactions and balances arising from dealings by De’Longhi with parent companies, subsidiaries, associated companies and related parties are summarized in the notes to the financial statements.

Stock performance

During 2005 the De’Longhi share price varied between a minimum of €2.15 and a maximum of €3.39, with an average price per share of €2.79; a daily average of over 120,000 shares was traded during 2005.

Subsequent events

The new factory built under the joint venture with the TCL Corporation was inaugurated at the start of 2006 in Zangshan, in the Chinese region of Guandong.
The factory will be devoted to the manufacture of portable air conditioning units and dehumidifiers, to be sold throughout the world under the De’Longhi brand, except in China and the Far East, where they will be sold under the TCL brand. It is planned to manufacture 500,000 units in 2006.

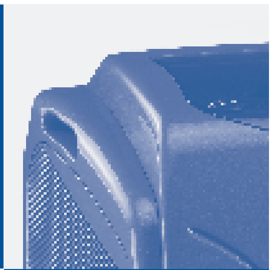
On 22 March 2006 De’Longhi Radiators S.p.A., a wholly-owned subsidiary of the De’Longhi Group, started up new production lines for the manufacture ofcolumn radiators in the factory in Moimacco (Udine). The investment of €8 million, already included in the De’Longhi Group’s investment plan, will result in the manufacture of column radiators, a type of radiator that is rapidly gaining significant market share in Europe, particularly in Italy, Germany, France and the United Kingdom. The new lines will employ around 100 blue-collar workers once fully up and running.

Outlook for the current year

The upward trend in revenues, starting in the third quarter of 2005, has continued in the early part of 2006. Despite continued difficulties in the market situation as a whole, the size of the order book for upcoming months and the signs of recovery on certain markets give the group grounds for believing that it will be possible to achieve an increase in revenues in 2006.

Treviso, 27 March 2006
for the Board of Directors
Vice Chairman and CEO
Fabio De’Longhi

Consolidated financial statement



Consolidated financial statement

Income statement

	Notes	31.12.2005	31.12.2004
NET REVENUES			
Revenues from sales and services	(1)	1.233.628	1.261.102
Other operating income and revenues	(1)	24.070	22.177
Total consolidated net revenues		**1.257.698**	**1.283.279**
Change in inventories of finished products and work in progress	(3)	36.795	34.585
Raw and ancillary materials, consumables and goods	(2)	(659.072)	(666.279)
Change in inventories of raw and ancillary materials, consumables and goods	(3)	(1.571)	2.801
Raw materials and goods consumed		**(623.848)**	**(628.893)**
Payroll costs	(4)	(168.619)	(166.953)
Services and other operating expenses	(5)	(334.581)	(338.375)
Provision for contingencies and other provisions	(6)	(13.258)	(12.398)
Amortization and depreciation	(7)	(37.502)	(36.889)
Other operating expenses		**(553.960)**	**(554.615)**
Non-recurring income (expenses)	(8)	(12.426)	(22.244)
EBIT		**67.464**	**77.527**
FINANCIAL INCOME (EXPENSES)			
Financial income (expenses)	(9)	(39.976)	(43.399)
Earnings before tax		**27.488**	**34.128**
Current income taxes	(10)	(17.131)	(14.371)
Deferred income taxes	(10)	14.513	15.760
PROFIT (LOSS) BEFORE MINORITY INTERESTS		**24.870**	**35.517**
Profit (loss) pertaining to minority interests		50	188
PROFIT (LOSS) PERTAINING TO THE GROUP		**24.820**	**35.329**
EARNINGS PER SHARE		**0,17**	**0,24**

Balance sheet pro-forma

Assets

	Notes	31.12.2005		31.12.2004 pro-forma	
		Sub-total	Total	Sub-total	Total
NON-CURRENT ASSETS					
INTANGIBLE ASSETS					
- Goodwill	(11)	219.239		217.011	
- Other intangible assets	(12)	199.540	418.779	201.432	418.443
PROPERTY, PLANT AND EQUIPMENT					
- Land, property, plant and machinery	(13)	218.139		195.704	
- Other tangible assets	(14)	45.703	263.842	46.795	242.499
FINANCIAL ASSETS					
- Equity investments (in associated companies)	(15)	6.496		3.638	
- Equity investments (other)	(15)	221		1.430	
- Receivables	(16)	2.148	8.865	2.546	7.614
DEFERRED TAX ASSETS	(17)		40.022		42.904
TOTAL NON-CURRENT ASSETS			**731.508**		**711.460**
CURRENT ASSETS					
INVENTORIES	(18)		340.210		295.317
TRADE RECEIVABLES (a)	(19)		450.064		415.470
CURRENT TAX ASSETS	(20)		12.338		23.364
OTHER RECEIVABLES	(21)		19.062		13.792
CURRENT FINANCIAL RECEIVABLES AND ASSETS	(22)		1.662		2.420
CASH AND CASH EQUIVALENTS	(23)		177.031		116.795
TOTAL CURRENT ASSETS			**1.000.367**		**867.158**
TOTAL ASSETS			**1.731.875**		**1.578.618**

Balance sheet pro-forma

Net equity and liabilities

	Notes	31.12.2005		31.12.2004 pro-forma	
		Sub-total	Total	Sub-total	Total
NET EQUITY					
GROUP PORTION OF NET EQUITY					
- Share capital	(24)	448.500		448.500	
- Reserves	(25)	110.461		78.313	
- Profit (Loss) for the year		24.820	583.781	35.329	562.142
MINORITY INTERESTS	(25)		1.754		1.689
TOTAL NET EQUITY			585.535		563.831
NON-CURRENT LIABILITIES					
FINANCIAL PAYABLES					
- Bank loans and borrowings (long-term portion)	(26)	217.823		195.060	
- Other financial payables (long-term portion)	(27)	16.654	234.477	11.747	206.807
DEFERRED TAX LIABILITIES	(17)		16.715		36.812
PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES					
- Employee benefits	(28)	42.824		44.730	
- Other provisions	(29)	43.611	86.435	37.512	82.242
TOTAL NON-CURRENT LIABILITIES			**337.627**		**325.861**
CURRENT LIABILITIES					
TRADE PAYABLES	(30)		285.932		265.733
FINANCIAL PAYABLES					
- Bank loans and borrowings (short-term portion)	(26)	313.751		226.095	
- Other financial payables (short-term portion) (b)	(27)	143.134	456.885	146.006	372.101
CURRENT TAX LIABILITIES	(31)		25.149		14.896
OTHER PAYABLES	(32)		40.747		36.196
TOTAL CURRENT LIABILITIES			**808.713**		**688.926**
TOTAL NET EQUITY AND LIABILITIES			**1.731.875**		**1.578.618**

(a) Includes €58.9 million at 31/12/2004 in receivables due from factors for receivables transferred without recourse
(b) Includes €58.9 million at 31/12/2004 in payables due to factors for receivables transferred without recourse.

Balance sheet

The comparative figures at 31/12/2004 do not include the effect of transferring receivables without recourse to factors

Assets

	31.12.2005		31.12.2004	
	Sub-total	Total	Sub-total	Total
NON-CURRENT ASSETS				
INTANGIBLE ASSETS				
- Goodwill	219.239		217.011	
- Other intangible assets	199.540	418.779	201.432	418.443
PROPERTY, PLANT AND EQUIPMENT				
- Land, property, plant and machinery	218.139		195.704	
- Other tangible assets	45.703	263.842	46.795	242.499
FINANCIAL ASSETS				
- Equity investments (in associated companies)	6.496		3.638	
- Equity investments (other)	221		1.430	
- Receivables	2.148	8.865	2.546	7.614
DEFERRED TAX ASSETS		40.022		42.904
TOTAL NON-CURRENT ASSETS		**731.508**		**711.460**
CURRENT ASSETS				
INVENTORIES		340.210		295.317
TRADE RECEIVABLES		450.064		356.570
CURRENT TAX ASSETS		12.338		23.364
OTHER RECEIVABLES		19.062		13.792
CURRENT FINANCIAL RECEIVABLES AND ASSETS		1.662		2.420
CASH AND CASH EQUIVALENTS		177.031		116.795
TOTAL CURRENT ASSETS		**1.000.367**		**808.258**
TOTAL ASSETS		**1.731.875**		**1.519.718**

Balance sheet

Net equity and liabilities

	31.12.2005		31.12.2004	
	Sub-total	Total	Sub-total	Total
NET EQUITY				
GROUP PORTION OF NET EQUITY				
- Share capital	448.500		448.500	
- Reserves	110.461		78.313	
- Profit (Loss) for the year	24.820	583.781	35.329	562.142
MINORITY INTERESTS		1.754		1.689
TOTAL NET EQUITY		**585.535**		**563.831**
NON-CURRENT LIABILITIES				
FINANCIAL PAYABLES				
- Bank loans and borrowings (long-term portion)	217.823		195.060	
- Other financial payables (long-term portion)	16.654	234.477	11.747	206.807
DEFERRED TAX LIABILITIES		16.715		36.812
PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES				
- Employee benefits	42.824		44.730	
- Other provisions	43.611	86.435	37.512	82.242
TOTAL NON-CURRENT LIABILITIES		**337.627**		**325.861**
CURRENT LIABILITIES				
TRADE PAYABLES		285.932		265.733
FINANCIAL PAYABLES				
- Bank loans and borrowings (short-term portion)	313.751		226.095	
- Other financial payables (short-term portion) (b)	143.134	456.885	87.106	313.201
CURRENT TAX LIABILITIES		25.149		14.896
OTHER PAYABLES		40.747		36.196
TOTAL CURRENT LIABILITIES		**808.713**		**630.026**
TOTAL NET EQUITY AND LIABILITIES		**1.731.875**		**1.519.718**

Cash flow statement

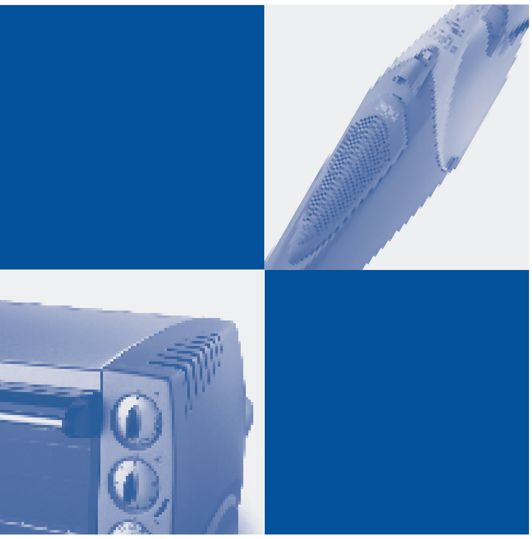
	31.12.2005 pro-forma	31.12.2004	31.12.2005
Profit (loss) for the year	24.820	35.329	24.820
Amortization and depreciation	37.502	36.889	37.502
Net change in provisions and writedowns	(11.232)	3.574	(11.232)
Cash flow generated (absorbed) by current operations (A)	**51.090**	**75.792**	**51.090**
Change in assets and liabilities for the period:			
Trade receivables	(36.432)	43.595	(95.332)
Inventories	(44.894)	(31.577)	(44.894)
Trade payables	20.200	(42.326)	20.200
Other current assets and liabilities	20.562	(29.361)	20.562
Cash flow generated (absorbed) by movements in working capital (B)	**(40.564)**	**(59.669)**	**(99.464)**
Investment activities			
Net investments in intangible assets	(11.698)	(12.473)	(11.698)
Net investments in property, plant and equipment	(47.579)	(39.794)	(47.579)
Net investments in non-current financial assets	(1.568)	80	(1.568)
Cash flow generated (absorbed) by investment activities (C)	**(60.845)**	**(52.187)**	**(60.845)**
Changes in net equity	(1.119)	0	(1.119)
Payment of dividends	(8.970)	(5.633)	(8.970)
Change in currency translation reserve	6.983	(8.764)	6.983
Increase (Decrease) in minority interests	65	327	65
Cash flow generated by changes in net equity (D)	**(3.041)**	**(14.070)**	**(3.041)**
Cash flow for the year (A+B+C+D)	**(53.360)**	**(50.134)**	**(112.260)**
Opening net financial position (*)	**(458.038)**	**(349.004)**	**(399.138)**
Cash flow for the year (A+B+C+D)	(53.360)	(50.134)	(112.260)
Closing net financial position (**)	**(511.398)**	**(399.138)**	**(511.398)**

(*) The opening net financial position in the 2005 pro-forma cash flow statement includes €58.9 million in payables to factors for receivables factored without recourse.
(**) The closing net financial position for 2005 includes €40 million in payables to factors for receivables factored without recourse.

Statement of changes in net equity at 31 december 2005 and 31 december 2004

	Share capital	Share premium reserve	Legal reserve	Other reserves	Fair value reserve	Retained earnings	Profit (loss) for the year	Total
Balance at 1 January 2004 (IAS)	**448.500**	**325**	**4.349**	**41.493**	**-**	**46.542**	**-**	**541.209**
Allocation of 2003 result as per AGM resolution of 28 April 2004								
- payment of dividends						(8.970)		(8.970)
- allocation to reserves			490	340	-	(830)		-
Difference from translation of foreign companies' financial statements into euro						(5.426)		(5.426)
Profit for the year							35.329	35.329
Balance at 31 December 2004 (IAS)	**448.500**	**325**	**4.839**	**41.833**	**-**	**31.316**	**35.329**	**562.142**
Adoption of IAS 32 and IAS 39					(1.507)	(520)		(2.027)
Balance at 1 January 2005	**448.500**	**325**	**4.839**	**41.833**	**(1.507)**	**30.796**	**35.329**	**560.115**
Allocation of 2004 result as per AGM resolution of 28 April 2005								
- payment of dividends							(8.970)	(8.970)
- allocation to reserves			554	1.551		3.915	(6.020)	-
Allocation to retained earnings of effects of 2004 adoption of IAS/IFRS						20.339	(20.339)	-
Adoption of IAS 32 and IAS 39					887			887
Adoption of IAS 19						(54)		(54)
Difference from translation of foreign companies' financial statements into euro						6.983		6.983
Profit for the year							24.820	24.820
Balance at 31 December 2005	**448.500**	**325**	**5.393**	**43.384**	**(620)**	**61.979**	**24.820**	**583.781**

Explanatory notes



Group business

De'Longhi S.p.A., which has its registered office in Treviso, is the operational holding company to a group of 52 companies, organized into the two divisions of "Professional products" and "Household products" and which hold leadership positions in the household appliances market for air cooling and treatment, heating, food preparation, domestic cleaning and ironing. The "Professional" division includes large cooling systems (Climaveneta), hot water radiators (DL Radiators) and fixed air conditioning units for the professional market (Climaveneta Home System). These types of product are distributed mainly through the professional channel.
The "Household" division includes all the types of product not included in the Professional division and which are distributed through the retail channel.

Accounting standards

The De'Longhi Group's consolidated financial statements at 31 December 2005 have been prepared on the basis of the international accounting and financial reporting standards issued by the International Accounting Standards Board (IASB), including the SIC and IFRIC interpretations, as adopted by the European Commission (at the date of 31 December 2005), pursuant to EC Regulation 1606 of 19 July 2002.
The following documents have been used for interpretation and application purposes even though not adopted by the European Commission:

- *Framework for the Preparation and Presentation of Financial Statements* (issued by the IASB in 2001);
- *Implementation Guidance, Basis for Conclusions,* IFRIC and other documents issued by the IASB or IFRIC complementing the accounting standards;
- Interpretational documents on how to apply IAS/IFRS in Italy, prepared by the Italian Accounting Board.

The De'Longhi Group took up the option allowed by IFRS 1 for first-time adopters to apply IFRS starting from the quarterly report at 30 September 2005, with 1 January 2004 as the transition date to IFRS.

The comparative figures for the corresponding period in 2004 have been restated under the new accounting standards; the reconciliations of equity and profit for the period relating to the year ending 31 December 2004 and of equity at the transition date of 1 January 2004 are provided in the appendix.

The accounting policies used for preparing the financial statements at 31 December 2005 are the same as those used for preparing the consolidated financial statements under IFRS on the transition date of 1 January 2004. IAS 32 and IAS 39 have been applied with effect from 1 January 2005.

For the purposes of a better representation and comparison of the group's financial position, the line item "Other providers of finance" includes in 2004 amounts due to factors for the transfer of receivables without recourse since, under a prudent interpretation of IAS 39, the conditions have not been satisfied for eliminating them from the balance sheet.

A pro-forma balance sheet at 31 December 2004 has therefore been prepared which includes:

- under "trade receivables": the receivable due from factors for receivables transferred without recourse;
- under "other providers of finance": the payable due to factors for receivables transferred without recourse.

The comments contained in these notes refer to the balance sheet at 31 December 2005 compared with pro-forma figures at 31 December 2004.

The balance sheet has been prepared on a basis that distinguishes between current and non-current items.
The income statement has been presented on the basis of the nature of expense, being a structure regarded as suitable for faithfully representing the group's performance.

These financial statements are presented in thousands of euro, which is the reporting currency of the parent company and the group's principal companies.

The financial statements used for consolidation purposes are the annual ones prepared by the boards of directors of the individual companies, as adjusted if necessary for the group's accounting policies.
The financial statements have been prepared on the historical cost basis, adjusted as required for the valuation of certain financial instruments.

Consolidation procedures

The scope of consolidation, detailed in Attachment 1, includes the financial statements of the parent company, De'Longhi S.p.A., and of the companies in which it directly or indirectly owns the majority of share capital or shares with voting rights, or over which it has the power, including through contractual agreements, to govern their financial and operating policies.

Subsidiaries

These are companies over which the group exercises control. Such control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are consolidated starting from the date that control is assumed. The portion of equity and results attributable to minority shareholders is shown separately in the consolidated balance sheet and income statement respectively.

Associated companies

These are companies over which the group has a significant influence regarding their financial and operating policies and which are neither subsidiaries nor joint ventures. The consolidated financial statements include the group's share of results of the associated companies, recorded using the equity method, starting from the date when the significant influence began.

Joint ventures

These are companies over whose activities the group has joint control, as established by contract. The consolidated financial statements include the group's share of the results of joint ventures, recorded using the proportionate method of consolidation whereby its share of all the joint venture's assets, liabilities, income and costs are combined on a line-by-line basis with similar items in its own financial statements.

Consolidation of foreign companies

All the assets and liabilities of foreign companies that report in a currency other than the euro and which fall within the scope of consolidation are translated into euro using the exchange rate ruling at the balance sheet date (current exchange rate method). Income and costs are translated using average rates for the reporting period. The exchange differences arising from this method are booked directly to the "currency translation reserve" under consolidated equity.

The group decided on first-time adoption of IFRS not to take up the option allowed by IFRS 1 to reset to zero the "currency translation reserve" at 31 December 2003 arising on the consolidation of foreign companies outside the Euro-zone.

Consolidation of special purpose entities

Under IFRS and, specifically SIC 12, the special purpose entity set up for the purposes of securitization, even if not controlled by De'Longhi S.p.A., must be consolidated since all the risks and rewards of the assigned receivables are not deemed to have been transferred, implying that, in substance, De'Longhi has control of the special purpose entity.

Transactions eliminated upon consolidation

All material transactions and balances between group companies and all unrealized gains and losses arising on intercompany transactions are eliminated on consolidation.

Transactions in foreign currency

Transactions in foreign currency are recorded at the exchange rate in force on the transaction date. Monetary assets and liabilities in foreign currency are translated using the exchange rate ruling on the balance sheet date. Exchange differences arising on the extinguishment of monetary items or their translation at different rates to those used for their translation upon initial recognition or in previous financial statements are recorded in the income statement.

The following exchange rates were used:

Currency		2005		2004	
		Year-end exchange rate (*)	Average exchange rate (*)	Year-end exchange rate (*)	Average exchange rate (*)
Australian dollar	AUD	1.61090	1.63196	1.74590	1.69049
Canadian dollar	CAD	1.37250	1.50873	1.64160	1.61675
British pound	GBP	0.68530	0.68380	0.70505	0.67867
Hong Kong dollar	HKD	9.14740	9.67682	10.58810	9.68811
Japanese yen	JPY	138.90000	136.84900	139.65000	134.44500
Malaysian ringgit	MYR	4.45840	4.71161	5.17529	4.72616
New Zealand dollar	NZD	1.72700	1.76595	1.88710	1.87288
Polish zloty	PLN	3.86000	4.02302	4.08450	4.52676
South African rand	ZAR	7.46420	7.91834	7.68970	8.00920
Singapore dollar	SGD	1.96280	2.07024	2.22620	2.10156
US dollar	USD	1.17970	1.24409	1.36210	1.24390
Russian rouble	RUB	33.92000	35.18600	37.9010	35.8084
Chinese Renminbi (Yuan)	CNY	9.52040	10.19640	11.27810	10.29920

(*) source: UIC (Italian Exchange Office)

Change in the scope of consolidation

The scope of consolidation expanded during 2005 due to the acquisition of the production facilities located in the Republic of Tatarstan (Russia) which manufacture oil radiators for sale on the Russian market. The acquisition was completed in April 2005 with the purchase of 92.8% of Zass Alabuga LLC, the company which owned the production facilities. The company was recapitalized by making a cash payment and by conferring plant formerly used for production in Italy.

De'Longhi LLC was also incorporated. This company sells De'Longhi heating products on the Russian market.

A new company was set up in Greece known as Kenwood Hellas Sole Partner Ltd. Liability Company for distributing Kenwood products on the Greek market.

In June, two new companies were set up in Hong Kong and China, as joint ventures with TCL, a Chinese company listed on the Hong Kong and Shanghai stock exchange and leader in the production and distribution of air conditioners, telephony products and televisions. The Hong Kong company was called DL-TCL Holdings (HK) Ltd, while the Chinese company was called De'Longhi Home Appliances (Zhongshan) Co.Ltd. The group's investment was USD 2,500,000.
These companies have been consolidated using the proportional method.

Principal accounting policies

Segment reporting

Segment information is provided by business sector and geographical area as required by IAS 14 *Segment reporting*.

The primary reporting format consists of business sectors, while the secondary reporting format refers to geographical areas. This distinction is based on the nature of the risks and returns relating to the group's business and reflects its internal organizational structure and the management reporting system.

The notes on the income statement contain a breakdown of revenues by business segment and geographical area.

Intangible assets

Goodwill

Business combinations, whereby control of a company/entity is acquired, are accounted for in accordance with the purchase method, meaning that the assets and liabilities acquired are initially measured at their market value on the purchase date. The difference between the cost of acquisition and the group's share of equity is attributed to specific balance sheet items to the extent of their fair value on that date; any remaining difference is allocated to goodwill, if positive, and to the income statement if negative. The cost of acquisition is determined on the basis of the fair value on the purchase date of the assets transferred, the liabilities assumed, the equity instruments issued and any other related amount.

Goodwill is not amortized but tested for impairment once a year or more often if specific events or changed circumstances indicate that its value may have been impaired. This procedure is in accordance with IAS 36 Impairment of assets. After initial recognition, goodwill is valued at cost less any accumulated impairment losses.

The group elected on first-time adoption of IFRS to take up the option allowed by IFRS 3 to use this method of accounting only for transactions concluded after the transition date of 1 January 2004. This means that business combinations prior to 1 January 2004 have not been adjusted retrospectively by recalculating the fair value of assets and liabilities at the date they were acquired by the group.

Research and development costs

Developments costs for the production of new products or parts are recognized as assets only if the costs can be reliably determined and the technical feasibility of the product and its expected volumes and prices indicate that the costs incurred for development will generate future economic benefits. Capitalized development costs include only those expenses that can be directly attributed to the development process.

Development costs are amortized on a systematic basis, starting from the commencement of production and lasting the length of the product or process's estimated life, generally corresponding to five years. All other development costs are expensed to income as incurred.
Research costs are also expensed to income.

Other intangible assets

Other intangible assets purchased or internally generated are recognized as assets in accordance with IAS 38 Intangible assets, when it is probable that the future economic benefits attributable to their use will flow to the group and when the cost of the asset can be reliably measured.
These assets are valued at purchase or production cost and amortized on a straight-line basis over their estimated useful life if this is finite.
Intangible assets with an indefinite useful life, particularly trademarks, are not amortized but tested for impairment once a year or more often, any time there are signs that their value might be impaired.

Property, plant and equipment

Land, property, plant and equipment

Property, plant and equipment owned by the group is recorded at purchase or production cost and systematically depreciated over its residual useful life. The land pertaining to buildings is not depreciated. The group adopted the deemed cost as the value of certain assets on the transition date of 1 January 2004. This value was based on expert appraisals.
The cost of assets qualifying for capitalization also includes the financial charges directly attributable to the acquisition, construction or production of the asset itself.
Subsequent expenditure is capitalized only if it increases the future economic benefits flowing to the enterprise. All other costs are expensed to income as incurred.

The depreciation rates used are as follows:

Industrial buildings	3.0% - 10%
Plant and machinery	5.6% - 15%
Industrial and commercial equipment	20% - 33%
Other	15% - 25%

Property, plant and equipment under finance lease

Assets held under finance lease, under which all the risks and rewards incident to ownership are substantially transferred to the group, are recognized among the group's assets at the lower of the asset's fair value or the present value of the minimum lease payments. The corresponding liability due to the lessor is reported under financial payables.
Leases in which the lessor substantially retains all the risks and rewards incident to ownership of the asset are classified as operating leases. The costs relating to operating leases are recognized as an expense in the income statement on a straight-line basis over the lease term.

Financial instruments

Equity investments

Equity investments in companies other than associates and subsidiaries are classified, at the time of purchase, as financial assets "available for sale" or as assets "at fair value through profit or loss" under current or non-current assets as appropriate.

Such equity investments are carried at fair value or at cost, if they are unlisted or if the fair value is not reliable or cannot be determined, as adjusted for any impairment losses calculated in accordance with IAS 39.

Changes in the value of equity investments classified as available for sale are reported in an equity reserve that is reversed to income when the investment is sold.

Changes in the value of equity investments classified as assets at fair value through profit or loss are recorded directly in the income statement. Any such writedowns are not reinstated.

Equity investments in associated companies and unconsolidated subsidiaries are reported using the equity method.

Securities other than equity investments

Securities, classified under current assets, which are not equity investments are recorded on the basis of their "trade date". Such securities are classified in the following categories:

- held to maturity and carried at amortized cost;
- held for trading and carried at fair value through profit or loss;
- available for sale and carried at fair value through an equity reserve.

If the market price is not available, the fair value of the financial instruments is determined using the most appropriate valuation technique, such as discounted cash flow analysis using information available at the balance sheet date.

The increase/decrease in the value of financial assets available for sale is reported directly in an equity reserve (Fair value reserve) up until the time the financial asset is sold or written down, whereupon the cumulative gains or losses are reclassified to income for the period.

Loans and receivables

Loans and receivables classified under both current and non-current assets are valued at amortized cost.

Receivables which are due after more than one year and which bear interest or interest at a rate below the market one, are discounted to present value using market rates.

Cash and cash equivalents

Cash and cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Inventories

Inventories of raw materials, semi-finished and finished products are valued at the lower of cost and market value. Cost is determined using the weighted average cost method. The valuation of inventories includes the direct cost of materials and labour as well as indirect (variable and fixed) costs. Provisions for obsolete and slow-moving goods are calculated for materials and finished products, taking account of their future expected use and realizable value.

Trade receivables

Receivables are recorded at their estimated realizable value by means of the provision for doubtful accounts, which takes account of the risk of customer default. Trade receivables are discounted to present value if their payment terms exceed the average ones generally granted.

Securitization

Since 2002 the parent company and other group companies have conducted a five-year securitization of trade receivables, under Law 52/1991 (law on factoring). This has involved the revolving monthly transfer of a portfolio of trade receivables without recourse, which has then been securitized by issuing securities to the market. De'Longhi S.p.A. and Ariete S.p.A. act as servicers for the special purpose entity.
Under IFRS and, specifically SIC 12, the special purpose entity set up for the purposes of securitization, even if not controlled by De'Longhi S.p.A., must be consolidated since all the risks and rewards of the assigned receivables are not deemed to have been transferred, implying that, in substance, De'Longhi has control of the special purpose entity. This accounting treatment has involved reversing the above-mentioned transactions and leaving the trade receivables as they were in the balance sheet, with a consequent adjustment to the net financial position.

Without recourse factoring contracts

IAS 39 provides a more restrictive interpretation of the conditions required for recognizing the transfer of receivables without recourse; the standard allows such recognition provided all the risks and rewards are substantially transferred. Despite the lack of specific rules and until specific guidance on the accounting treatment is available on such transactions, the group has decided to reinstate in the balance sheet receivables transferred without recourse under factoring contracts taken out by the parent company and certain subsidiaries, even though they have been legally transferred on a final basis.
These receivables, almost all of which are covered by insurance, have been recorded under "trade receivables", with a corresponding financial liability recognized for the consideration received.

Financial liabilities

Financial payables are initially recognized at the fair value of the liability, less any transaction costs directly attributable to the issue of the liability itself. Subsequent to initial recognition, financial liabilities are valued on the basis of "amortized cost", using the effective interest method.

Derivatives

Derivatives are used solely for hedging purposes, in order to reduce exposures to currency and interest rate risk. As allowed by IAS 39, derivatives may qualify for special hedge accounting only when, at the inception of the hedge, the following conditions are satisfied:

- there is a formal designation that the instrument is a hedging one;
- there is formal documentation of the hedging relationship, which is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is highly effective throughout the different financial reporting periods for which it was designated.

IAS 39 requires that all derivatives be measured at fair value.
If financial instruments qualify for hedge accounting, the following treatment applies:

Fair value hedge – If a derivative instrument is designated as a hedge of the exposure to changes in the fair value of a recognized asset or liability that is attributable to a particular risk that will affect net profit, the gain or loss from remeasuring the hedging instrument at fair value should be recognized in the income statement. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the income statement.

Cash flow hedge – If a derivative instrument is designated as a hedge of the exposure to variability in cash flows attributable to a recognized asset or liability or a highly probable expected transaction and that will affect net profit or loss, the effective portion of the gains or losses on the hedging instrument is recognized directly in equity. The effective portion of the cumulative gains or losses are reversed from equity and charged to net profit or loss in the same period in which the hedged transaction is reported in the income statement. Gains or losses associated with a hedge or part thereof that has become ineffective are reported in the income statement. If a hedging instrument or hedging relationship is terminated, but the transaction being hedged has not yet occurred, the cumulative gains and losses, recorded up until then in equity, are reported in the income statement at the same time as the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the unrealized gains or losses reported directly in equity are immediately released to the income statement. If hedge accounting cannot be applied, the gains or losses arising from the fair value measurement of the derivatives are booked immediately to the income statement.

If hedge accounting cannot be applied, the gains or losses arising from the fair value measurement of the derivatives are booked immediately to the income statement.

Employee benefits

Net obligations relating to employee benefit plans, chiefly the provision for severance indemnities and pension funds, are recorded at the expected future value of the benefits that will be received and which have accrued at the balance sheet date. The group's obligation to finance the defined benefit pension funds and the annual cost reported in the income statement are determined by independent actuaries using the projected unit credit method. The portion of the cumulative net value of the actuarial gains and losses which exceeds the greater of 10% of the present value of the obligation and 10% of the fair value of any plan assets at the end of the prior year is amortized over the average remaining working lives of the employees concerned ("corridor approach").

According to IFRS 2 Share-based payment, these plans represent a part of the beneficiaries' remuneration; the cost is represented by the fair value of the stock options on the grant date, and is reported in the income statement on a straight-line basis over the period from the grant date to the vesting date, with a corresponding amount recognized directly in equity. Any changes in fair value subsequent to the grant date do not have any effect on the initial valuation. The group has adopted the transitional provisions allowed by IFRS 2, meaning that it has applied the standard to all stock options granted after 7 November 2002 and not yet vested on the date when IFRS came into force (ie. 1 January 2005).

Provisions for contingencies and other charges

The group recognizes provisions for contingencies and charges when (i) it has a present obligation (legal or constructive) to third parties (ii) it is probable that the group will need to employ resources to settle the obligation and (iii) a reliable estimate can be made of the amount of the obligation. Changes in these estimates are reflected in the income statement in the period in which they occur. If this obligation is estimated to extend beyond one year, it must be discounted to its present value.

Revenue recognition

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

Taxes

Income taxes include all the taxes calculated on the group's taxable income. Income taxes are recorded in the income statement, except for those relating to items directly debited or credited to equity, in which case the associated tax is recognized directly in equity.

Deferred taxes are provided on the basis of global provision for the liability. They are calculated on all the temporary differences emerging between the tax base of an asset or liability and their book value in the consolidated financial statements, except for goodwill for which amortization is not deductible for tax purposes and those differences arising from investments which are not expected to reverse in the foreseeable future. Deferred tax assets on the carryforward of unused tax losses and tax credits are recognized to the extent that it is probable that future taxable profit will be available against which these can be recovered. Current and deferred tax assets and liabilities may be offset when the income taxes are charged by the same tax authority and when there is a legal right of offset. Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realized or the liability settled, based on tax rates and laws applying in the countries where the group operates.
Deferred taxes for reserves of distributable earnings in subsidiaries are recognized only if it is probable they will be distributed.

Dividends
Dividends paid by the group to third parties represent a movement in equity in the year in which they are declared by the shareholders in general meeting.

Earnings per share
Basic earnings per share are calculated by dividing the profit or loss pertaining to the group attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the period.

Estimates and assumptions
These financial statements, prepared in accordance with IFRS, contain estimates and assumptions made by the group relating to assets and liabilities at the balance sheet date. The assumptions relating to these estimates are periodically reviewed and the related effects reflected in the income statement in the same period. Estimates are used for determining amortization and depreciation and provisions for doubtful accounts and for obsolete and slow-moving inventories, for recognizing the impairment of assets, for recognizing employee benefits and provisions for restructuring and taxation.

New accounting standards
No new accounting standards or interpretations have been issued or old ones amended, applicable as from 1 January 2005, that have a material effect on the group's financial statements.

Comments on the income statement
1. Net revenues

Net revenues, comprising revenues from sales and services and other operating income and revenues, are broken down as follows:

Revenues by business segment:

	2005	2004	Change	% change
Professional	263,736	269,841	(6,105)	(2.3)%
Household	993,962	1,013,438	(19,476)	(1.9)%
Total	**1,257,698**	**1,283,279**	**(25,581)**	**(2.0)%**

Revenues by geographical area:

	2005	2004	Change	% change
Italy	307,874	340,265	(32,391)	(9.5)%
United Kingdom	163,399	187,425	(24,026)	(12.8)%
Rest of Europe	421,843	417,733	4,110	1.0%
United States, Canada and Mexico	97,233	98,755	(1,522)	(1.5)%
Japan	47,533	44,365	3,168	7.1%
Rest of the world	219,816	194,736	25,080	12.9%
Total	**1,257,698**	**1,283,279**	**(25,581)**	**(2.0)%**

The related trends are discussed in the directors' report on operations.

"Other operating income and revenues" are broken down as follows:

	2005	2004	Change
Freight reimbursement	8,708	9,374	(666)
Commercial rights	1,304	307	997
Out-of-period gains	4,650	4,843	(193)
Damage reimbursement	295	389	(94)
Operating grants	21	264	(243)
Rental income	491	614	(123)
Customs duty refunds	315	244	71
Capital gains	805	249	556
Other income	7,481	5,893	1,588
Total	**24,070**	**22,177**	**1,893**

Freight reimbursement is the cost of shipping charged to the customer.

2. Raw and ancillary materials, consumables and goods

The breakdown is as follows:

	2005	2004	Change
Raw materials	184,873	221,741	(36,868)
Parts	173,282	170,031	3,251
Finished products	287,348	265,172	22,176
Other purchases	13,569	9,335	4,234
Total	**659,072**	**666,279**	**(7,207)**

3. Change in inventories

These are as follows:

	2005	2004	Change
Change in inventories of finished products and work in progress	36,795	34,585	2,210
Change in inventories of raw and ancillary materials, consumables and goods	(1,571)	2,801	(4,372)

4. Payroll costs

The breakdown is as follows:

	2005	2004	Change
Employee wages and salaries	163,843	160,840	3,003
Temporary workers	4,776	6,113	(1,337)
Total	**168,619**	**166,953**	**1,666**

The figures relating to the benefit plans provided by certain group companies in Italy and abroad are summarized in the note on provisions.

5. Services and other operating expenses

These are detailed as follows:

	2005	2004	Change
Transport (for purchases and sales)	80,060	82,734	(2,674)
Advertising	35,416	37,528	(2,112)
Promotional expenses	39,673	43,578	(3,905)
Subcontracted work	17,951	22,019	(4,068)
Commissions	24,198	25,035	(837)
Technical support	13,904	9,954	3,950
Travel and entertaining	13,496	12,467	1,029
Insurance	5,142	5,265	(123)
Storage and warehousing	17,611	17,101	510
Consulting services	11,235	12,906	(1,671)
Power	8,663	8,359	304
Postage, telegraph and telephones	4,817	4,717	100
Maintenance	3,730	3,524	206
Other services	25,763	22,195	3,568
Rentals and leasing	21,595	20,364	1,231
Total services	**323,254**	**327,746**	**(4,492)**
Out-of-period losses	1,178	1,143	35
Sundry taxes	7,884	6,344	1,540
Bad debts	256	108	148
Other	2,009	3,034	(1,025)
Total other operating expenses	**11,327**	**10,629**	**698**
Total services and other operating expenses	**334,581**	**338,375**	**(3,794)**

"Other services" include the emoluments of the directors (€2,048 thousand) and statutory auditors (€144 thousand), details of which are found in Attachment 3 to these notes.

"Rentals and leasing" consist of premises rental (€17,007 thousand), operating lease payments (€956 thousand), royalties (€778 thousand) and equipment hire (€2,827 thousand).

6. Provisions for contingencies

These mainly consist of increases in the provision for contingencies, the product warranty provision and the agents' leaving indemnity provision as discussed in the note on "Non-current provisions for contingencies and other charges".

7. Amortization and depreciation

These are detailed as follows:

	2005	2004	Change
Amortization of intangible assets	11,362	11,118	244
Depreciation of property, plant and equipment	26,140	25,771	369
Total amortization and depreciation	**37,502**	**36,889**	**613**

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

8. Non-recurring income (expenses)

	2005	2004	Change
Restructuring costs	6,257	12,102	(5,845)
Other extraordinary costs relating to prior years	6,169	10,142	(3,973)
Total	**12,426**	**22,244**	**(9,818)**

The restructuring costs are associated with the plan to globalize production and relate to prudent provisions for the risk of having to write down the value of components and company assets that can no longer be used in the current production set-up.

Other extraordinary costs mostly relate to expenses from prior years and the writedown of certain new product development projects capitalized in the past and now of uncertain future utility.

9. Financial income and expenses

Net financial income and expenses are broken down below:

	2005	2004	Change
Interest expense and other financial charges	(27,305)	(22,837)	(4,468)
Exchange gains (losses) and profits (losses) on exchange rate hedges	(3,632)	(9,956)	6,324
Financial discounts	(9,249)	(10,183)	934
Revaluation and writedown of equity investments	210	(423)	633
Total financial income (expenses)	**(39,976)**	**(43,399)**	**3,423**

10. Income taxes for the year

These are made up as follows:

	2005	2004	Change
Current income taxes	17,131	14,371	2,760
Deferred income taxes	(14,513)	(15,760)	1,247
Total	**2,618**	**(1,389)**	**4,007**

Current income taxes include €12,003 thousand in corporate income tax and €5,128 thousand in IRAP (Italy's regional business tax).

During 2005 the parent company and some of its Italian subsidiaries (Elba S.p.A., Climaveneta S.p.A. and Ariete S.p.A.) took up the extension to Law 342/2000, granted under article 1(469) of Law 266/2005, in order to revalue and align the values of their "Trademarks" for tax and statutory purposes, eliminating the accumulated difference as a result of applying different amortization rates.
This operation resulted in the release of €10,265 thousand in deferred taxes, representing the difference between the current tax rate (37.25%) and that of the flat-rate tax payable (12%).

"Deferred income taxes" include the taxes calculated on the temporary differences arising between the accounting values of assets and liabilities and the corresponding tax base (particularly for taxed provisions, set aside by the parent company and subsidiaries). They also include the benefit arising from the carryforward of unused tax losses which are reasonably certain to be used in the future.

The effective tax rate of 9.5% has been affected by the release of the deferred tax liabilities mentioned above, which more than made up for the higher amount of IRAP provided by the parent company and consolidated Italian subsidiaries.

Comments on the balance sheet: assets
Non-current assets
11. Goodwill

	31.12.2005		31.12.2004		
	Gross	Net	Gross	Net	Change
Goodwill	249,363	219,239	247,135	217,011	2,228

The increase in "Goodwill" mostly relates to the acquisition of the production facilities in Russia and the adjustment to goodwill recognized in the past for the acquisition of the facilities in Zhongshan (China).

Goodwill is no longer being amortized since it is considered to have an indefinite useful life. Instead, it is tested for impairment at least once a year to identify any evidence of loss in value.
The objective of the test is to determine the value in use of the cash generating units to which the goodwill refers, meaning the present value of the future cash flows expected to be derived from the ongoing use of the assets; any cash flows arising from extraordinary events are therefore ignored. The main assumptions adopted for the test relate to the discount and growth rates, which are also based on the group's plans and budgets for the next three years. The discount rates used reflect current market assessments of the time value of money and take account of the risks specific to the individual cash generating units. These rates range between 6.4% and 9.3%.
Impairment testing has not revealed any material evidence that goodwill is impaired.

12. Other intangible assets

The breakdown is as follows:

	31.12.2005		31.12.2004		
	Gross	Net	Gross	Net	Change
New product development costs	20,835	12,585	14,173	9,957	2,628
Patents	24,432	3,771	22,723	3,538	233
Trademarks and similar rights	223,415	174,138	223,352	178,235	(4,097)
Work in progress and advances	6,235	6,235	5,602	5,602	633
Other	11,064	2,811	11,091	4,100	(1,289)
Total	**285,981**	**199,540**	**276,941**	**201,432**	**(1,892)**

The following table reports movements in the main asset categories during 2005:

	Development costs	Patents	Trademarks and similar rights	Work in progress and advances	Other	Total
Net opening balance	**9,957**	**3,538**	**178,235**	**5,602**	**4,100**	**201,432**
Additions	3,946	1,556	82	4,889	254	10,727
Amortization	(3,935)	(1,729)	(4,174)	-	(1,524)	(11,362)
Translation difference	75	7	-	-	98	180
Other movements (*)	2,542	399	(5)	(4,256)	(117)	(1,437)
Net closing balance	**12,585**	**3,771**	**174,138**	**6,235**	**2,811**	**199,540**

(*) The amounts reported as "Other movements" mostly refer to reclassifications from "Work in progress and advances" to the specific categories of reference and to the writedown of certain intangible assets.

The net decrease of €1,892 thousand in intangible assets is mostly the result of €10,727 thousand in additions and €11,362 thousand in amortization charges.

With reference to "New product development costs", which report an increase of €3,946 thousand, these costs have been capitalized by virtue of their estimated future utility, based on detail reporting and analysis of the costs incurred.

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

"Trademarks and similar rights" include trademarks viewed as having an indefinite useful life under the criteria specified in IAS 38. Review of the De'Longhi and Climaveneta trademarks has supported the thesis that they have indefinite useful lives. This conclusion was based on their brand notoriety, their economic performance, the characteristics of their particular markets, the specific brand strategies and the level of investment in brand support.
Impairment testing, carried out using discount rates considered to reflect current market assessments of the time value of money and the risks specific to the individual cash generating units at the evaluation date, has not revealed any material evidence that these assets might be impaired.

"Work in progress and advances" includes €4,889 thousand in newly capitalized development costs for projects that had not been completed at the balance sheet date.

13. Land, property, plant and machinery

These are detailed as follows:

	31.12.2005		31.12.2004		
	Gross	Net	Gross	Net	Change
Land and buildings	164,423	152,793	144,846	138,731	14,062
Plant and machinery	223,266	65,346	211,423	56,973	8,373
Total	**387,689**	**218,139**	**356,269**	**195,704**	**22,435**

The following table reports movements during 2005:

	Land and buildings	Plant and machinery	Total
Net opening balance	**138,731**	**56,973**	**195,704**
Additions	14,380	16,035	30,415
Disposals	(490)	(3,038)	(3,528)
Depreciation	(3,963)	(5,668)	(9,631)
Translation difference	1,221	1,894	3,115
Other movements	2,914	(850)	2,064
Net closing balance	**152,793**	**65,346**	**218,139**

The net increase of €22,435 thousand mainly reflects the combined effect of €30,415 thousand in new investment and €9,631 thousand in depreciation charges.

The additions to "Buildings" relate to:

- investment in the new head office building at the site in Treviso, construction of which was completed at the end of 2005;
- the recognition as finance leases of long-term building leases by Kenwood in Havant (UK), resulting in the capitalization of €5,096 thousand in costs;
- the purchase of a building for the centralized management of the spare parts warehouse.

The additions to "Plant and machinery" relate to investments made in Italy (mainly for new production lines for manufacturing tubular radiators) and abroad (particularly at the Chinese factories and the new Russian factory).

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

	31.12.2005	31.12.2004	Change
Buildings	16,230	5,107	11,123
Plant and equipment	4,846	5,717	(871)
Other	122	109	13
Total	**21,198**	**10,933**	**10,265**

The net book value of buildings under finance lease has increased since 31 December 2004 due to the recognition as finance leases of the long-term leases for the buildings in Havant (UK) and other lease agreements taken out by the parent company as described earlier.

14. Other tangible assets

Details of other tangible assets are as follows:

	31.12.2005		31.12.2004		
	Gross	Net	Gross	Net	Change
Industrial and commercial equipment	168,905	28,003	159,206	29,283	(1,280)
Other	37,808	10,667	36,656	10,392	275
Work in progress and advances	7,033	7,033	7,125	7,120	(87)
Total	**213,746**	**45,703**	**203,014**	**46,795**	**(1,092)**

The net decrease of €1,092 thousand largely reflects the combined effect of €21,237 thousand in new investment and €16,509 thousand in depreciation charges.

The following table reports movements during 2005:

	Industrial and commercial equipment	Other	Work in progress and advances	Total
Net opening balance	**29,283**	**10,392**	**7,120**	**46,795**
Additions	13,637	3,717	3,883	21,237
Disposals	(2,196)	(322)	(2,320)	(4,838)
Depreciation	(12,952)	(3,557)	-	(16,509)
Translation differences	55	451	604	1,110
Other movements (*)	176	(14)	(2,254)	(2,092)
Net closing balance	**28,003**	**10,667**	**7,033**	**45,703**

(*) This includes certain reclassifications from “Work in progress and advances” to specific asset categories and to development costs.

The additions to “Equipment” mostly refer to the purchase of moulds for manufacturing new products.

15. Equity investments

	31.12.2005	31.12.2004	Change
Associated companies	6,496	3,638	2,858
Other companies	221	1,430	(1,209)
Total	**6,717**	**5,068**	**1,649**

Details of the carrying value of the associated companies, reported under the equity method, are as follows:

Financial asset	**31.12.2005**	**31.12.2004**
Associated companies:		
Top Clima S.L.	3,799	-
Effegici S.r.l.	71	71
Investment held through trust company	2,626	2,449
Omas S.r.l.	0	1,118
Total associated companies	**6,496**	**3,638**

The increase in “Equity investments” is the combined effect of purchasing a 16.66% interest in Top Clima S.L., the Spanish distributor for the subsidiary Climaveneta S.p.A. (carried at €1,382 thousand at 31 December 2004 and classified under “other companies”) and writedowns due to the valuation of this and other companies using the equity method.

The investment held through Comitalia Compagnia Fiduciaria S.p.A. refers to a company which makes finished products, for which the group is also a customer; as permitted by law (article 39 of Legislative Decree 127/91), we have omitted the company’s name to protect its interests and those of the group.

16. Other non-current receivables

This balance is analyzed as follows:

	31.12.2005	31.12.2004	Change
Due from others			
- within 12 months	877	854	23
- beyond 12 months	1,271	1,692	(421)
Total	**2,148**	**2,546**	**(398)**

This balance includes €877 thousand in security deposits (€847 thousand at 31 December 2004) and €1,271 thousand for a five-year loan to the minority shareholder in the Chinese subsidiary Promised Success Ltd (€1,650 thousand at 31 December 2004).

17. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are detailed as follows at 31 December 2005:

	31.12.2005	01.01.2005 post-adoption of IAS 32 & 39	31.12.2004	Change vs. 31.12.2004 post-adoption of IAS 32 & 39
Deferred tax assets	40,022	42,904	42,904	(2,882)
Deferred tax liabilities	(16,715)	(35,807)	(36,812)	19,092
Net asset balance	**23,307**	**7,097**	**6,092**	**16,210**

"Deferred tax assets" and "Deferred tax liabilities" include the taxes calculated on temporary differences between the carrying amount of assets and liabilities and their corresponding tax base (particularly taxed provisions set aside by the parent company and subsidiaries) and the tax effects associated with the allocation of higher values to fixed assets as a result of allocating goodwill arising on consolidation. They also include the benefit arising from the carryforward of unused tax losses which are reasonably certain to be used in the future.

Details of the net balance are as follows:

	31.12.2005	01.01.2005	Change
- Temporary differences	(936)	(7,419)	6,483
- Tax losses	24,243	14,516	9,727
Net asset balance	**23,307**	**7,097**	**16,210**

The reduction in "Deferred tax assets" includes €397 thousand in amounts booked to equity in the "Fair value reserve".

The decrease in deferred tax liabilities is mostly due to the release of deferred taxes previously provided on certain company trademarks whose value has now been recognized for tax purposes by paying the flat-rate tax. It is also noted that no deferred taxes have been recognized on €12.6 million in carried forward tax losses and temporary differences at certain group companies.

Current assets
18. Inventories

This balance, shown net of the provision for obsolete and slow-moving goods, can be broken down as follows:

	31.12.2005	31.12.2004	Change
Raw, ancillary and consumable materials	64,311	66,171	(1,860)
Work in progress and semi-finished products	27,240	24,136	3,104
Finished products and goods	248,659	205,010	43,649
Total	**340,210**	**295,317**	**44,893**

The value of inventories is adjusted by a provision for obsolete and slow-moving goods totalling €27,983 thousand (€21,263 thousand at 31 December 2004), in relation to products and raw materials no longer deemed to be of strategic interest.

If inventories had been valued on a current cost basis this would have produced no significant differences.

19. Trade receivables

These are made up as follows:

	31.12.2005	31.12.2004	Change
Trade receivables			
- within 12 months	347,410	275,669	71,741
- beyond 12 months	29	84	(55)
Provision for doubtful accounts	(10,493)	(9,283)	(1,210)
Total	**336,946**	**266,470**	**70,476**
Assigned receivables	113,118	149,000	(35,882)
Total	**450,064**	**415,470**	**34,594**

Trade receivables include receivables, almost all of which are covered by insurance, which have been transferred under securitization and without-recourse factoring transactions; even if the ownership of these receivables has been legally transferred, under IFRS these balances have been reinstated in the balance sheet with a corresponding adjustment to the net financial position, by recording a payable due to the factor.

Pursuant to CONSOB Circular 3369 of 9 April 1997, we report that the total amount of receivables assigned under the securitization conducted by the parent company and one of its subsidiaries in the period from January to the end of December 2005 was €266,678 thousand.

Trade receivables are stated net of a provision for doubtful accounts of €10,493 thousand, representing a reasonable estimate of the expected risk at the reporting date. Provisions are made for the sake of prudence against disputed receivables or those whose collection is otherwise in doubt, taking account of the fact that a significant portion of the receivables is covered by major insurers.

Movements in the provision for doubtful accounts are shown in the table below:

	31.12.2004	Increases	Utilization	Translation difference and other movements	31.12.2005
Provision for doubtful accounts	9,283	3,368	(2,250)	92	10,493

The group has received customer guarantees (mainly sureties) totalling €2,220 thousand, to cover commercial transactions.

Trade receivables include €272 thousand in amounts due from associated companies, of which €226 thousand refers to receivables owed by Omas S.r.l. to the parent company.

Trade receivables are broken down by geographical area as follows:

Geographical area	**Amount at 31.12.2005**	**%**
Italy	171,743	38.2%
United Kingdom	41,823	9.3%
Rest of Europe	117,803	26.2%
United States, Canada, Mexico	27,321	6.1%
Japan	19,386	4.3%
Rest of the world	71,988	16.0%
Total	**450,064**	**100.00%**

20. Current tax assets

"Current tax assets" are detailed below:

	31.12.2005	31.12.2004	Change
VAT	3,068	14,493	(11,425)
Tax payments on account	7,501	6,783	718
Direct taxes	808	869	(61)
Tax refunds requested	861	1,030	(169)
Other tax receivables	100	189	(89)
Total current tax assets	**12,338**	**23,364**	**(11,026)**

The amount of current tax assets due beyond 12 months is €610 thousand (€570 thousand at 31 December 2004).

"Tax payments on account" mostly refer to the tax paid on account of 2005 income by the parent company and other Italian companies that exceeds the amount of income tax payable for the year.

21. Other receivables

"Other receivables" are broken down as follows:

	31.12.2005	31.12.2004	Change
Advances to suppliers	3,061	1,594	1,467
Factors	5,641	1,957	3,684
Employees	598	1,030	(432)
Other	8,779	8,107	672
Advertising and insurance costs	983	1,104	(121)
Total other receivables	**19,062**	**13,792**	**5,270**

None of the other receivables is due beyond 12 months (€459 thousand at 31 December 2004).

"Other" mostly refers to financial prepayments on currency hedges.

22. Current financial receivables and assets

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

	31.12.2005	31.12.2004	Change
Other financial receivables	1,006	119	887
Other securities	656	2,301	(1,645)
Total financial receivables and assets	**1,662**	**2,420**	**(758)**

"Other securities" include €500 thousand in respect of 4,902 Banca Popolare di Vicenza bonds purchased by the parent bank to invest its surplus cash and held for trading.

23. Cash and cash equivalents

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

Some of the group's foreign companies have a total of €96.7 million in cash on current accounts held at the same bank. These cash balances form part of the international cash pooling system and are partially offset by €79.7 million in overdrafts held by certain other foreign companies with the same bank. This bank therefore acts as a "clearing house" for the group's positive and negative cash balances. Considering the substance of the transactions and technical procedures of the international cash pooling system, the positive and negative cash balances which are netted against one another within it have not been included in the consolidated balance sheet.

The bank in question has been given a lien over all the cash balances within the international cash pooling system in respect of this service.

The cash balance at 31 December 2005 includes €100 million received in December by way of a syndicated loan to the parent bank, as discussed in more detail in the notes on bank loans and borrowings.

Comments on the balance sheet: liabilities

Equity

"Equity" is made up as follows:

	31.12.2005	31.12.2004	Change
Group portion	583,781	562,142	21,639
Minority interests	1,754	1,689	65
Total equity	**585,535**	**563,831**	**21,704**

The annual general meeting of 28 April 2005 approved a dividend payment totalling €8,970 thousand.

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

24. Share capital

Share capital is made up of 149,500,000 ordinary shares of par value €3.00 each, for a total of €448,500 thousand.

25. Reserves

These are broken down as follows:

	31.12.2005	31.12.2004	Change
Share premium reserve	325	325	-
Legal reserve	5,393	4,839	554
Other reserves			
- Extraordinary reserve	43,384	41,833	1,551
- Fair value reserve	(620)	-	(620)
- Currency translation reserve	(10,873)	(17,856)	6,983
- Profits (losses) carried forward	72,852	49,172	23,680
Total reserves	**110,461**	**78,313**	**32,148**

The "share premium reserve" of €325 thousand was set up following the public offering accompanying the company's flotation on the Milan stock exchange on 23 July 2001.

The "legal reserve" had a balance of €4,839 thousand at 31 December 2004. The intervening increase of €554 thousand is due to the allocation of the profit for the year, as approved by the above AGM.

The "extraordinary reserve" is €1,551 thousand higher than at 31 December 2004 due to the parent company's allocation of profit for 2004, as approved by the above AGM.

The "fair value reserve" is stated net of €314 thousand in tax. This reserve has been recognized under IAS 39, adopted with effect from 1 January 2005, and includes the effective portion of net gains and losses on financial instruments designated as cash flow hedges.
This reserve also includes the net result of measuring financial assets "available for sale" at fair value.
The movement in the fair value reserve during 2005 reflects the combined effect of an increase of €1,170 thousand, as a result of valuing cash flow hedges, and a decrease of €283 thousand for measuring financial assets "available for sale", mostly due to the purchase of an additional interest in Top Clima S.L.. In fact, this investment has been valued at 31 December 2005 using the equity method since it is now qualifies as an associated company. It was carried at fair value at 31 December 2004.

The "Currency translation reserve" relates to the translation into euro of the financial statements of the group's foreign companies.

"Profits (losses) carried forward" include the retained earnings of the consolidated companies and the effects of making accounting policy and consolidation adjustments.

Minority interests in equity amount to €1,754 thousand. The interests held by minority interests and their corresponding share of equity and results for the year are summarized below:

Company	% interest	Equity	Profit (loss) for the year
E-Services S.r.l.	49%	566	249
Climaveneta France Sas	24%	80	10
Promised Success Ltd.	33%	840	(102)
On Shiu (Zhongshan) Electrical Appliance Company Ltd.	33%	238	-
Zass Alabuga LLC	7.2%	30	(107)
Total		**1,754**	**50**

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

	Equity 31.12.2005	Profit for year 2005
De'Longhi S.p.A. financial statements (*)	**514,958**	**8,782**
Share of subsidiaries' equity and results for period attributable to the group, after deducting carrying value of the investments	(660)	87,916
Adjustment of writedowns made for statutory purposes and intercompany profits on investments and reversal of dividends	(3,740)	(61,643)
Allocation of goodwill and related amortization and reversal of merger deficits and goodwill recognized for statutory purposes	112,105	(6,015)
Elimination of intercompany profits	(33,336)	(5,827)
Other adjustments	(3,792)	1,657
Group portion	**585,535**	**24,870**
Minority interests	(1,754)	(50)
Consolidated financial statements	**583,781**	**24,820**

(*) This refers to the equity and profit (loss) for the year of the parent company reported under IAS/IFRS. The parent company's equity and profit for the year reported under Italian GAAP amount to €516,276 thousand and €3,998 thousand respectively.

Non-current liabilities
26. Bank loans and borrowings

Bank loans and borrowings (including the current portion) are analyzed as follows:

	Within one year	One to five years	Beyond five years	Balance 31.12.2005	Balance 31.12.2004	Change
Overdrafts	4,474			4,474	21,875	(17,401)
Short-term loans in euro or foreign currency	117,587			117,587	160,789	(43,202)
Advances	-			-	-	-
Long-term loans (current portion)	191,690			191,690	43,431	148,259
Total short-term payables to banks	**313,751**			**313,751**	**226,095**	**87,656**
Long-term loans		174,588	43,235	217,823	195,060	22,763
Total bank loans and borrowings	**313,751**	**174,588**	**43,235**	**531,574**	**421,155**	**110,419**

Long-term loans comprise the following:

Loans (including short-term portion)	Balance 31.12.2005	Balance 31.12.2004
Loan from Istituto San Paolo maturing 2008	150,289	149,864
Loan from Banca Popolare di Verona e Novara maturing 2013	105,154	-
Loan from BNP Paribas maturing 2010	99,836	-
Loan from Banca Popolare di Verona e Novara maturing 2013	15,000	-
Loan from Banca Popolare di Verona e Novara maturing 2006	13,437	26,472
Loan from Banca Nazionale del Lavoro maturing 2007	8,007	35,321
Loan from Banca Ant. Popolare Veneta maturing 2007	5,773	10,278
Loan from Banca Popolare di Verona e Novara maturing 2006	4,112	8,028
Loan from Mediocredito del Friuli Venezia Giulia maturing 2008	3,225	4,437
Other minor loans (*)	4,680	4,091
Total medium/long-term loans	**409,513**	**238,491**

(*) The loan of €1,492 thousand from Akbars Bank to the newly-acquired company Zass Alabuga LLC is secured by a lien for a corresponding amount on the company's inventories.

A total of €220 million in new medium/long-term borrowings was finalized during 2005, whose principal features are as follows:

- unsecured 8-year loan of €105 million from Banca Popolare di Verona e Novara to Climaveneta S.p.A.;
- unsecured 8-year loan of €15 million from Banca Popolare di Verona e Novara to DL Radiators S.p.A.;
- 5-year unsecured syndicated loan of €100 million from a pool of banks to De' Longhi S.p.A.. The participating banks are BNP Paribas (lead bank), Banca Nazionale del Lavoro, Bank of Tokyo Mitsubishi UFJ, Banca Popolare di Vicenza, UBM, Cassa di Risparmio di Firenze and Veneto Banca. The terms of the loan require the observance of financial covenants.

At 31 December 2005 there was an outstanding loan of €150 million from a pool of banks (Istituto San Paolo, Banca Antonveneta, Banca di Roma, MCC, Banca Popolare di Vicenza, Veneto Banca), for which a total of €60 million in capital was due to be repaid in 2006. This loan is unsecured and it requires financial covenants to be met.

At 31 December 2005 one of the financial covenants – namely the ratio between Net financial position and Ebitda – was not observed, meaning that the related contractual mechanism would be implemented whereby (a) the agent bank notifies the company of its failure to observe the covenant, and (b) within 15 days of receiving this notice, the parties must agree the most suitable steps for satisfying the covenant in question. Only if no agreement is reached within this term can the lending banks terminate the loan agreement.

Although the notice from the agent bank has not yet been received, the company is in no reasonable doubt that this procedure will have a favourable outcome.

Nonetheless, in accordance with IAS 1, it has been necessary to reclassify the entire amount of this loan as a current liability.

It has been decided and already formally notified that the following two loans will be repaid early in 2006: the loan from Banca Antonveneta for a residual amount of €5.7 million and the loan from B.N.L. for a residual amount of €8 million.

These loans have been reported under current bank loans and borrowings.

Lastly, shares of the company Kenwood Appliances Plc have been pledged against the credit line granted by a pool of banks to De'Longhi S.p.A..

27. Other providers of finance

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

	Balance 31.12.2005	Balance 31.12.2004	Change
Payables for assigned receivables (*)	(125,049)	(128,853)	3,804
Payables to lease companies (short-term portion)	(2,663)	(568)	(2,095)
Payables for loans under Law 46/1982 (short-term portion)	(822)	(761)	(61)
Payables for the purchase of equity investments	(386)	(119)	(267)
Other short-term financial payables	(14,214)	(15,705)	1,491
Total short-term payables	**(143,134)**	**(146,006)**	**2,872**
Payables to lease companies (long-term portion)	(12,040)	(5,536)	(6,504)
Payables for loans under Law 46/1982 (long-term portion)	(4,614)	(5,164)	550
Other long-term financial payables	-	(1,047)	1,047
Total long-term payables	**(16,654)**	**(11,747)**	**(4,907)**
Total amounts due to other providers of finance	**(159,788)**	**(157,753)**	**(2,035)**

(*) This amount forms part of the net effect of factoring receivables discussed in the notes accompanying the table below.

The payables for assigned receivables include the consideration received from factors for the transfer of trade receivables without recourse under the securitization programme. Even if the ownership of these receivables has been legally transferred, under IFRS these balances have been reinstated in the balance sheet with a corresponding adjustment to the net financial position, by recording a payable due to the factor.

This balance also includes finance leases of €14,703 thousand (€6,104 thousand at 31 December 2004) and low-interest loans from the Ministry of Industry and Trade of €5,436 thousand (€5,925 thousand at 31 December 2004).

The net financial position, including the effect of assigning receivables, is detailed as follows:

	Balance 31.12.2005	Balance 31.12.2004	Change
Cash and cash equivalents (*)	164,881	101,499	63,382
Short-term bank debt	(218,528)	(226,095)	7,567
Long-term bank debt (**)	(95,223)	-	(95,223)
Short-term debt to other providers of finance (***)	(18,085)	(17,153)	(932)
Short-term net payables	**(166,955)**	**(141,749)**	**(25,206)**
Long-term bank debt	(217,823)	(195,060)	(22,763)
Long-term debt to other providers of finance	(16,654)	(11,747)	(4,907)
Long-term payables	**(234,477)**	**(206,807)**	**(27,670)**
Other (****)	3,150	39,518	(36,368)
Total	**(398,280)**	**(309,038)**	**(89,242)**
Net effect of receivables assignment	(113,118)	(149,000)	35,882
Total	**(511,398)**	**(458,038)**	**(53,360)**

(*) This amount differs from that reported in the balance sheet (€177,031 thousand in 2005 and €116,795 thousand in 2004) because the amount of €12,150 thousand (€15,296 thousand in 2004) has been reclassified in this table to the "Net effect of receivables assignment".
(**) Portion reclassified from long-term liabilities as required by IAS 1 (see comment in note 26. Bank loans and borrowings).
(***) This amount differs from that reported in the balance sheet (€143,134 thousand in 2005 and €146,006 thousand in 2004) because the amount of €125,049 thousand (€128,853 thousand in 2004) has been reclassified in this table to the "Net effect of receivables assignment".
(****) The amount of €219 thousand (€35,443 thousand in 2004) has been reclassified in this table to the "Net effect of receivables assignment".

For a better understanding of changes in the group's net financial position, please see the complete consolidated cash flow statement and the summary table in the directors' report on operations.

As far as "Deferred tax liabilities" are concerned, please refer to the earlier notes on "Deferred tax assets and deferred tax liabilities".

28. Employee benefits

These are made up as follows:

	2005	2004	Change
Provision for severance indemnities	25,551	26,243	(692)
Other employee benefits	17,273	18,487	(1,214)
Total employee benefits	**42,824**	**44,730**	**(1,906)**

The provision for severance indemnities payable to employees of the group's Italian companies falls into the category of defined benefit plans governed by IAS 19 Employee benefits.
Some of the group's foreign companies provide defined benefit plans for their employees.
Some of these plans have assets servicing them, but severance indemnities, as a self-financed obligation, do not.
These plans are valued on an actuarial basis to express the present value of the benefit payable at the end of service that employees have accrued at the balance sheet date.

The amounts of the obligations and assets to which they refer are set out below:

Provision for severance indemnities:

Movements in the year are summarized below:

Severance indemnity obligations	31.12.2005	31.12.2004	Change
Defined benefit obligations	25,551	26,243	(692)

Net cost charged to income	2005	2004	Change
Current service cost	4,466	4,438	28
Interest cost on obligations	1,012	1,051	(39)
Total	**5,478**	**5,489**	**(11)**

Change in present value of obligations	2005	2004
Present value at 1 January	26,243	27,808
Current service cost	4,466	4,438
Benefits paid	(6,170)	(7,054)
Interest cost on obligations	1,012	1,051
Total	**25,551**	**26,243**

Other benefit plans:

Movements in the year are as follows:

Obligations for other plans	31.12.2005	31.12.2004	Change
Defined benefit obligations	44,064	40,268	3,796
Fair value of plan assets (-)	(26,791)	(21,781)	(5,010)
Net obligation	**17,273**	**18,487**	**(1,214)**

The amount includes €15,673 thousand in respect of Kenwood Ltd. and €1,600 thousand for De'Longhi Japan Corp.

Net cost charged to income	2005	2004	Change
Current service cost	308	325	(17)
Return on plan assets	(1,331)	(1,415)	84
Interest cost on obligations	1,974	2,100	(126)
Total	**951**	**1,010**	**(59)**

Change in present value of obligations	2005	2004
Present value at 1 January	18,487	18,929
Net cost charged to income	951	1,010
Benefits paid	(1,475)	(1,439)
Translation difference	(690)	(13)
Total	**17,273**	**18,487**

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

Assumptions used	Severance indemnity 2005	Severance indemnity 2004	Other plans 2005	Other plans 2004
Discount rate	4.0%	4.0%	2.0-4.7%	2.0-5.3%
Future salary increases	2.0-2.75%	2.0-2.75%	0.0-2.0%	0.0-2.0%
Inflation rate	2.0%	2.0%	0.0-2.9%	0.0-2.8%

The group's workforce is broken down by category in the following table:

	31.12.2005	Average 2005	31.12.2004	Average 2004
Blue collar	4,844	5,163	4,880	4,897
White collar	2,504	2,542	2,187	2,299
Executives	119	118	117	119
Total	**7,467**	**7,823**	**7,184**	**7,315**

Stock option plans

The stock option plan approved by the Board of Directors on 12 June 2001 was implemented in July 2001. Its purpose was to secure the loyalty of key members of staff by focusing their efforts of medium/long-term objectives, to maintain or improve the group's competitiveness on the domestic and international personnel remuneration market, by introducing an economic variable linked to the creation of value for the company and its shareholders.

The plan was initially extended to 63 Italian and international employees holding key positions in the group. They were granted a total of approximately 6,900,000 options, whose vesting was partly dependent on the achievement of objectives and partly on continued employment with the group.

Further to new inclusions in the stock option plan approved by the Board of Directors of De'Longhi S.p.A. in 2002 and 2003, and intervening departures from the group (3 in 2002, 3 in 2003, 9 in 2004 and 7 in 2005), the number of the plan's beneficiaries had decreased to 48 at the end of December 2005.

In view of the fact that only part of the options associated with objectives have vested and the fact that during 2005 none of the plan's beneficiaries exercised any options, the maximum number of options that could be exercised under the plan's rules by the end date of 28 February 2006 was 4,720,435.

The stock option plan expired on 28 February 2006 without anyone having exercised any options.

Description	2005				2004			
	Beneficiaries	Total number of options	Exercise period	Strike price	Beneficiaries	Total number of options	Exercise period	Strike price
Position at 01.01.2005	49	5,939,772	2005-2006	3.400	57	6,349,120	2005-2006	3.400
	3	293,890	2005-2006	4.123	3	293,890	2005-2006	4.123
	2	151,500	2005-2006	4.765	3	236,500	2005-2006	4.765
	1	80,000	2005-2006	3.460	1	80,000	2005-2006	3.460
New inclusions in period								
Options forfeited in period	6	(1,412,540)		3.400	8	(709,348)		3.400
	1	(32,187)		4.765	1	(85,000)		4.765
Position at 31.12.2005	48	4,720,435			55	6,165,162		

29. Other non-current provisions for contingencies and other charges

These are broken down as follows:

	31.12.2005	31.12.2004	Change
Agents' leaving indemnity provision and other retirement provisions	**5,941**	**5,521**	**420**
Product warranty provision	9,427	7,393	2,034
Provision for contingencies	8,441	6,620	1,821
Provision for restructuring	16,551	14,196	2,355
Other	3,251	3,782	(531)
Other provisions	**37,670**	**31,991**	**5,679**
Total	**43,611**	**37,512**	**6,099**

The agents' leaving indemnity provisions covers the payments that might be due to departing agents in accordance with article 1751 of the Italian Civil Code, as applied by collective compensation agreements in force.

The agents' leaving indemnity provision and other retirement provisions reported the following movements during 2005:

	31.12.2004	Utilization	Increases	Other	31.12.2005
Agents' leaving indemnity provision	5,327	(232)	649	(17)	5,727
Other retirement provisions	194	-	-	20	214
Total	**5,521**	**(232)**	**649**	**3**	**5,941**

Other provisions reported the following movements:

	31.12.2004	Utilization	Increases	Translation difference	Other (*)	31.12.2005
Product warranty provision	7,393	(4,643)	6,673	16	(12)	9,427
Provision for contingencies	6,620	(741)	2,581	-	(19)	8,441
Provision for restructuring	14,196	(3,922)	6,257	20	-	16,551
Other	3,782	(48)	380	386	(1,249)	3,251
Total	**31,991**	**(9,354)**	**15,281**	**422**	**(1,280)**	**37,670**

(*) This mostly refers to reclassifications and the release of provisions after conferring production lines on the Chinese company On Shiu (Zhongshan) Electrical Appliance Company Ltd.

The product warranty provision has been established, for certain consolidated companies, on the basis of a prudent estimate of under-warranty repair and replacement costs for sales taking place by 31 December 2005. It takes account of the provisions of Legislative Decree 24/2002 and of European Community law.

The provision for contingencies includes the following:

- the provision for insurance deductibles of €2,211 thousand (€1,360 thousand at 31 December 2004), which covers the group's insurance liability (limited to the deductible) in the case of liabilities arising from complaints.
- a prudent provision of €6,230 thousand against potential contractual risks and other provisions against potential liabilities at the parent company and certain subsidiaries.

The provision for restructuring has been set up by the parent company against the cost of globalizing its production. It mostly refers to costs for reorganizing the workforce and, prudently, to the risk of impairment of certain components and plant and machinery that may no longer be used for production.

Current liabilities
30. Trade payables

These are amounts owed by the group to third parties for the provision of goods and services.

The balance includes €69 thousand in trade payables due to associated companies, most of which refers to amounts owed by the parent company to Omas S.r.l..

Trade payables are broken down by geographical area as follows:

Geographical area	Amount at 31.12.2005	%
Italy	142,615	49.9%
United Kingdom	16,561	5.8%
Rest of Europe	55,788	19.5%
United States, Canada, Mexico	8,261	2.9%
Japan	1,704	0.6%
Rest of the world	61,003	21.3%
Total	**285,932**	**100.00%**

Financial payables are discussed in the corresponding notes on “Non-current liabilities”.

31. Current tax liabilities

These are broken down as follows:

	31.12.2005	31.12.2004	Change
Direct taxes	14,777	5,653	9,124
Indirect taxes	4,048	3,005	1,043
Withholdings payable	4,388	4,252	136
Other taxes	1,936	1,986	(50)
Total current tax liabilities	**25,149**	**14,896**	**10,253**

Direct taxes includes payables for current income tax less payments on account and any tax credits.
This balance also includes €5,030 thousand in flat-rate tax due by De’Longhi S.p.A., Elba S.p.A., Climaveneta S.p.A. and Ariete S.p.A. for revaluations and the tax recognition of statutory amounts for certain classes of intangible asset, mainly trademarks.

32. Other payables

These are detailed as follows:

	31.12.2005	31.12.2004	Change
Social security institutions	6,897	6,596	301
Sundry payables	33,850	29,600	4,250
Total other payables	**40,747**	**36,196**	**4,551**

“Social security institutions” include €6,068 thousand in payables to social security agencies, €73 thousand in payables to Italy’s industrial accident insurer and €756 thousand to other agencies.

"Sundry payables" are detailed as follows:

	31.12.2005	31.12.2004	Change
Employees	23,627	21,571	2,056
Advances	2,564	1,164	1,400
Other	7,659	6,865	794
Total sundry payables	**33,850**	**29,600**	**4,250**

Commitments

These are broken down as follows:

	31.12.2005	31.12.2004	Change
Guarantees given:			
- to third parties	736	1,359	(623)
Other personal guarantees			
- to third parties	-	-	
Total personal guarantees given	736	1,359	(623)
Other commitments	5,256	8,284	(3,028)
Total	**5,992**	**9,643**	**(3,651)**

"Other commitments" mainly consist of €4.6 million in contractual obligations by the subsidiary De'Longhi America Inc..

Risk management

The group is exposed to the following financial risks as part of its normal business activity:

- **credit risk**, arising from commercial activities, financing activities and the investment of surplus cash;
- **liquidity risk**, arising from the need to have suitable access to capital markets and sources of finance to fund its operations, investment activities and the settlement of financial payables;
- **exchange rate risk,** associated with the significant amount of purchases and sales in currencies other than the group's reporting currency;
- **interest rate risk**, relating to the cost of the group's borrowings.

Credit risk

The group does not provide unsecured credit to third parties. As far as its dealings with banks and other financial institutions are concerned, it is the group's policy to maintain a sufficiently large portfolio of counterparties of high international repute for the purposes of satisfying its financing and hedging needs.

Liquidity risk

Liquidity risk is the risk of not having the funds needed to fulfil payment obligations arising from operating and investment activities and from the maturity of financial instruments.

The group uses specific policies and procedures for the purposes of monitoring and managing this risk, including:

- centralized management of financial payables and cash, supported by reporting and information systems and, where possible, cash pooling arrangements;
- raising of medium and long-term finance on capital markets;
- diversification of the type of financing instruments used;
- obtaining of short-term credit lines such as to ensure wide room for manoeuvre for the purposes of managing working capital and cash flows;
- monitoring of current and forecast financing needs and distribution within the group.

Exchange rate risk

The group is exposed to the risk of fluctuations in currencies (other than its reporting one) in which ordinary trade and financial transactions are denominated. For the purposes of protecting its income statement and balance sheet from such fluctuations, the group adopts a suitable hedging policy that eschews speculative ends:

hedging policies: hedging is carried out centrally on the basis of information obtained from a structured reporting system and from a special team of staff, using instruments and policies that comply with international accounting standards. The purpose of hedging is to protect budgets and trade and financial receivables/payables.

purpose of hedging: hedging is carried out with two goals: cash flow hedging of amounts contained in the budget up until the time of invoicing, and hedging of the monetary amounts of receivables and payables originating from invoicing and financing transactions.

instruments used: highly liquid instruments of a non-speculative nature are used, mostly forward purchase/sale agreements and call/put options. The counterparties to such transactions are leading institutions of high international repute.

operating structure: hedging activity is centralized (except for isolated, negligible cases) under De'Longhi Capital Services S.r.l., the group's finance company, which acts on the markets on the basis of information received from the individual operating companies. The terms and conditions thus negotiated are passed down in full to the operating companies so that De'Longhi Capital Services S.r.l. does not directly carry derivatives for risks that are not its own.

The group has exposures to the major international currencies (US dollar, GB pound and Yen), to other minor currencies and those in emerging countries. A list of outstanding currency derivatives at 31 December 2005 is provided below:

- for hedging the 2006 budget:

Currency	Type of hedge	Notional amount			Fair value
		Purchases	Sales	Net total	
USD	Synthetic forward	15,000	-	15,000	(548)
CAD	Forward agreement	-	10,000	10,000	(406)
Total fair value					**(954)**

- for hedging receivables and payables in foreign currency:

Currency	Notional amount			Fair value
	Purchases	Sales	Net total	
AUD vs/EUR		21,598	21,598	(292)
USD vs/GBP	(2,000)	6,487	4,487	88
CAD vs/EUR		11,308	11,308	(504)
CHF vs/EUR		667	667	(1)
GBP vs/EUR	(15,000)	75,957	60,957	189
CHF vs/GBP		2,580	2,580	3
DKK vs/GBP		3,411	3,411	3
EUR vs/GBP		28,549	28,549	92
NOK vs/GBP		35,402	35,402	(13)
HKD vs/EUR	(2,400)		(2,400)	2
JPY vs/EUR		1,019,000	1,019,000	294
NOK vs/EUR		4,000	4,000	(2)
NZD vs/EUR	(850)	6,495	5,645	(81)
PLZ vs/EUR		14,679	14,679	(313)
USD vs/EUR		38,027	38,027	(235)
ZAR vs/EUR		10,000	10,000	(25)
Total fair value				**(795)**

Derivatives that hedge economic risk are treated as cash flow hedges in accordance with hedge accounting since they meet the requirements stipulated by IAS 39. Derivatives that hedge payables and receivables in currency are reported at fair value through profit or loss, as financial assets and liabilities held for trading. These instruments counterbalance the hedged item, which has already been recognized in accordance with IAS 21.

Interest rate risk

The group is exposed to interest rate risk on floating rate loans and borrowings. This risk is managed centrally by the same team that manages currency risks.

All of the group's financial debt at 31 December 2005 was at floating rates following the decision to obtain the maximum benefit from the continued low level of interest rates.

The purpose of interest rate risk management is to pre-set the maximum cost (in terms of the interbank rate, which represents the benchmark for these borrowings) for a part of the debt.

At 31 December 2005 there were €18.7 million in outstanding hedging transactions, of which €15.5 million expiring in 2006 and €3.2 million in 2008.

The fair value of these transactions at 31 December 2005 was a negative €321 thousand:

Company	Counterparty	Type of hedge	Maturity	Notional amount	Fair value
De Longhi S.p.A.	B.N.L	I.R.S.	2-Sept-2006	15,494	(188)
Ariete S.p.A.	B. Pop. Verona e Novara	I.R.S.	14-Mar-2008	3,200	(133)
Total fair value					**(321)**

At 31 December 2005 the derivatives hedging this risk have been recorded at fair value through profit or loss, as financial assets and liabilities held for trading.

Tax position

During 2005 the regional tax office for the Veneto carried out a general tax inspection of De' Longhi S.p.A for tax year 2003. The inspection, forming part of the programme of periodic audits of large taxpayers, ended on 3 February 2006 with the issue of a preliminary notice of findings. De'Longhi S.p.A. has decided to demonstrate to the competent authorities that the findings contained in the notice are unjustified and incorrect.

At the timing of preparing these notes the legal term has not yet expired for De'Longhi S.p.A. to present its written defence; as a result no assessment has been raised by the tax authorities.

Transactions and balances with unconsolidated subsidiaries, associated companies, parent companies and related parties

Attachment 2 contains the information concerning transactions and balances between group companies and related parties required by CONSOB Regulations 97001574 dated 20 February 1997, 98015375 dated 27 February 1998 and DEM/2064231 dated 30 September 2002. All transactions fall within the group's normal operations, except as otherwise stated in these notes, and are settled at arm's-length conditions.

Transactions and balances between the parent company and subsidiaries are not reported since these have already been disclosed in the individual financial statements of De'Longhi S.p.A. and eliminated upon consolidation.

Emoluments of directors and statutory auditors

Attachment 3 contains the information required by CONSOB Regulation 11971 dated 14 May 1999.

Stock options granted to directors

Attachment 4 contains the information required by CONSOB Regulation 11971 dated 14 May 1999, also taking account of the provisions of CONSOB Communication 11508 dated 15 February 2000.

Subsequent events

See the directors' report on operations.

Treviso, 27 March 2006
De'Longhi S.p.A.
Vice Chairman and CEO
Fabio De'Longhi

Appendix – Transition to international accounting and reporting standards (IAS/IFRS)

Introduction

Under EU Regulation 1606/2002 European listed companies must adopt international accounting and reporting standards (IAS/IFRS, or IFRS for short) for their consolidated financial reporting as of 31 December 2005.

We shall now present the following information:
(a) the elections made on first-time adoption of IFRS;
(b) the reconciliations between Italian GAAP and IFRS for consolidated equity at 1 January 2004, 31 December 2004 and 1 January 2005 and the consolidated results for 2004;
(c) a description of the reconciling items between Italian GAAP and IFRS.

The preliminary IFRS reconciliation is being presented solely for the purposes of the transition towards the first-time preparation of the group's consolidated financial statements under IFRS. They therefore lack complete balance sheet and income statement information, the explanatory notes and comparative figures that would be necessary for a true and fair representation of the De'Longhi Group's balance sheet and results.

(a) Elections made on first-time adoption of IFRS

General principles

The De'Longhi Group has restated its opening consolidated balance sheet at 1 January 2004 by electing to adopt or otherwise the optional exceptions allowed by the IFRS:

- Business combinations:
Business combinations need be accounted for in accordance with IFRS only from the transition date of 1 January 2004. The De'Longhi Group has elected to take up this option; this means that business combinations prior to 1 January 2004 have not been adjusted retrospectively by recalculating the fair value of assets and liabilities at the date acquired by the group.

- Currency translation reserve:
First-time adopters are allowed to reset the currency translation reserve reported in the consolidated financial statements at 31 December 2003 to zero, by reclassifying its balance to other reserves; the group has decided not to adopt this option.

- Employee benefits:
The group has decided to recognize all cumulative actuarial gains and losses at 1 January 2004, even though it has elected to adopt the corridor approach for actuarial gains and losses arising after this date.

(b) Reconciliation between Italian GAAP and IFRS for consolidated equity at 1 January 2004, 31 December 2004 and 1 January 2005 and the consolidated results for 2004.

- Reconciliation between Italian GAAP and IFRS for consolidated equity at 1 January 2004, 31 December 2004 and 1 January 2005 and for the consolidated results for 2004.

	Equity 01.01.2004	Profit (Loss) 2004	Payment of dividends	Currency translation reserve	Equity 31.12.2004	Effects IAS 32 and IAS 39	Equity 01.01.2005
Balance pertaining to the group under Italian GAAP	560.7	15.0	(9.0)	(5.5)	561.3	-	561.3
1) Reversal of intangible assets	(10.1)	3.5			(6.5)		(6.5)
2) Amortization reversal for trademarks with indefinite life		7.7			7.7		7.7
3) Reversal of goodwill and related amortization	(0.9)	13.5			12.6		12.6
4) Deemed cost of buildings	12.1	0.7			12.8		12.8
5) Securitizations	1.2	(0.2)			1.0		1.0
6) Recognition of hedging transactions						(3.5)	(3.5)
7) Employee benefits	(5.9)	(0.1)			(5.9)		(5.9)
8) Other effects	(1.9)	0.5		0.1	(1.3)	0.5	(0.8)
9) Recognition of deferred taxes	(14.1)	(5.4)			(19.5)	1.0	(18.5)
Total IFRS adjustments	(19.5)	20.3		0.1	0.9	(2.0)	(1.1)
Balance pertaining to the group under IFRS	**541.2**	**35.3**	**(9.0)**	**(5.4)**	**562.2**	**(2.0)**	**560.2**

(c) Description of the reconciling items between Italian GAAP and IFRS

The main IFRS adjustments made to the figures reported under Italian GAAP are discussed below; information is also provided on certain effects which, although not impacting consolidated equity and results, have produced differences in the net financial position.

1- Intangible assets

Certain types of deferred cost (mainly start-up and expansion costs relating to the stock listing process and other long-term costs), which were capitalized prior to 1 January 2004 under specified circumstances, may no longer be capitalized under IAS 38; the net book values at the transition date have been reversed, causing equity to decrease by €10.1 million.

This change has resulted in lower amortization charges of €3.6 million in 2004.

2- Trademarks

The accounting standards require intangible assets to be amortized over the period they are expected to benefit.

IFRS require that trademarks and goodwill with an indefinite life are no longer amortized but tested at least once a year for impairment.

IAS 38 states that an intangible asset is considered to have an indefinite life if "based on an analysis of relevant factors, there is no foreseeable limit to the period over which the asset will generate net inflows for the enterprise".

The group's main trademarks are considered to possess the requirements for being treated as having an indefinite life, particularly bearing in mind their recognition, performance, the characteristics of their market, the specific brand strategies and the level of investment supporting them. Prudently, the reconciliation has treated only the "De'Longhi" and "Climaveneta" trademarks as having indefinite lives.

This change has resulted in lower amortization charges of €7.7 million in 2004.

3- Goodwill

This is no longer being systematically amortized since considered to have an indefinite useful life. Instead, it is tested at least once a year for any impairment. This change has resulted in:
-lower equity at the transition date of €0.9 million after reversing certain minor amounts of goodwill considered, under the more restrictive rules envisaged by IFRS, as being no longer recognizable in the balance sheet;
-lower amortization charges of €13.5 million in 2004.

4- Property, plant and equipment

Under Italian GAAP property, plant and equipment are valued at cost, as revalued in certain cases in accordance with specific laws.
Under IFRS property, plant and equipment are valued at cost or fair value.
The group has decided to use the principle of cost and, at the transition date of 1 January 2004, to restate some of the buildings of the parent company and other Italian companies at their fair value (based on expert appraisals) and to treat this value as the deemed cost at that date.

Under Italian GAAP plant and machinery are recorded at cost, which includes a number of revaluations carried out by law in the past. This value has been used as the deemed cost upon transition to IFRS.

This change has resulted in:

- an increase of €12.1 million in equity at 1 January 2004;
- higher depreciation charges of €0.3 million in 2004.

Under Italian GAAP the land pertaining to buildings was depreciated together with the buildings themselves, while under IFRS it must be classified separately and no longer depreciated. This policy was already applied by some of the group's companies in 2004 which prepared their financial statements under Italian GAAP; as a result, the effect of this change on IFRS equity and results for the year has not been significant.

5- Securitizations

Since 2002 the parent company and other group companies have conducted a five-year securitization of trade receivables, under Law 52/1991 (law on factoring). This has involved the revolving monthly transfer of a portfolio of trade receivables without recourse, which has then been securitized by issuing securities to the market. De'Longhi S.p.A. and Ariete S.p.A. act as servicers for the special purpose entity. Under Italian GAAP these receivables are eliminated from the balance sheet against a corresponding increase in the bank balance.

Under IFRS and, specifically SIC 12, the special purpose entity, even if not controlled by De'Longhi, must be consolidated since the subscription to subordinated securities by the assignor, meaning that all the risks and benefits of the assigned receivables have not been transferred, implies in substance that the assignor has control of the special purpose entity; this accounting treatment has involved (i) reversing the above-mentioned transactions and leaving the trade receivables as they were in the balance sheet, and (ii), as already seen in previous financial statements, decreasing the net financial position (bank and other loans and borrowings less cash and financial receivables) by €109.1 million at 1 January 2004, by €90.1 million at 31 December 2004 and by €73.1 million at 31 December 2005 and increasing trade receivables by a corresponding amount.

In addition this has involved:

- higher equity of €1.2 million on the transition date (due to accumulated earnings from the consolidation of the special purpose entity);
- higher financial charges of €0.3 million in 2004 (reflecting the special purpose entity's results).

At 31 December 2005 there had been no intervening amendments to reflect new interpretations or new positions adopted by the European Commission or any new pronouncements by the IASB or IFRIC or contractual changes to the securitization such as to alter the accounting treatment described above.

6- Recognition and measurement of financial assets and liabilities

a) Derivatives

Under Italian GAAP, derivatives are represented as off-balance sheet items and valued on a consistent basis with the assets and liabilities being hedged and in accordance with the accrual principle, with adequate disclosures being provided in the explanatory notes. IAS 39 requires that such transactions be accounted for in the financial statements and recorded at their fair value; changes in cash flow hedges are initially recorded, for the portion determined to be an effective hedge, in an equity reserve and subsequently released to the income statement as and when the hedged item affects profit or loss. Fair value hedges and the related underlying hedged item are recorded at fair value; changes in value are reflected in the income statement.

The first-time application of the method envisaged by IAS 39 has resulted in a reduction of €3.5 million in equity at 1 January 2005.

b) Long-term financial liabilities

IFRS rules call for application of the amortized cost method based on the principle of effective interest.

Application of this method has increased equity by €0.7 million at the date of transition to IAS 39 (1 January 2005).

7- Employee benefits (IAS 19)

a- Severance indemnities

Italian GAAP requires this liability to be reported on the basis of the face value of the payable that has accrued under rules in force at the balance sheet date; under IFRS the reserve for severance indemnities qualifies as a defined benefit plan to be accounted for in accordance with IAS 19 using the projected unit credit method in order to determine the present value of the related obligations; this plan is valued on an actuarial basis to express the present value of the benefit accruing to employees at the balance sheet date.

b- Other benefits

The group has recognized defined benefit plans in the case of some of its foreign subsidiaries; with reference to the pension fund of its UK subsidiary Kenwood Ltd., the group's consolidated financial statements already included the type of valuation required by IAS 19 involving the application of the corridor approach. This involves amortizing over employees' average remaining working life only the portion of the net cumulative actuarial gains and losses that exceeds the greater of (i) 10% of the present value of the defined benefit obligation and (ii) 10% of the fair value of any plan assets at that date; the portion included in the 10% corridor is not recognized.

As allowed by IFRS 1 the group has elected to recognize all unrecognized actuarial losses existing at 1 January 2004 in its opening consolidated financial statements at that date. The group has decided to use the corridor approach for actuarial gains and losses that arise after 1 January 2004.

The application of IAS 19 has resulted in:

- a decrease of €5.9 million in equity on the transition date of 1 January 2004 (of which €5.4 million relating to the cumulative actuarial loss at Kenwood);
- a reduction of €0.1 million in the results at 31 December 2004.

8- Other effects

These mostly include the effects of:

a) Discounting payables and provisions for contingencies to present value

IFRS require liabilities for contingencies whose expected financial outlays extend beyond one year to be discounted to present value. This accounting treatment has produced an increase of €0.5 million in equity at the transition date.

The effect on the income statement for 2004 was not material.

b) Discounting trade receivables to present value

IAS 39 requires receivables, whose terms of payment are longer than those normally practised, to be discounted to present value.

The first-time application of this IAS on 1 January 2005 has caused equity to go down by €0.6 million.

c) Valuation of advertising material in inventories

IFRS do not allow advertising material to be reported in inventories; the result is a reduction of 1.5 million in equity at the transition date. The impact on the results for 2004 was not significant.

d) Scope of consolidation

IFRS include stricter rules on consolidating subsidiary companies; as a result, in addition to the change described in point 5, the subsidiary Clim.Re S.A. has also been consolidated on transition; this company performs limited insurance services for certain group companies.
The consolidation of this investment using the equity method, in accordance with Italian GAAP, has not had a material impact on consolidated equity or results.
The consolidation of this investment has however improved the net financial position by 1.6 million not only at the transition date, but also at the end of 2004.

9- Recognition of deferred taxes

This includes the tax effects arising from the differences between Italian GAAP and IFRS (described above).

10- Derecognition of financial assets for factored receivables

Without recourse factoring contracts

The adoption of IAS 39 involves a more restrictive interpretation of the circumstances in which the factoring of receivables without recourse may be recognized; Italian GAAP allows receivables factored without recourse to be eliminated from the balance sheet if the factoring transactions meet certain legal requirements; IAS allows such recognition provided all the risks and rewards are substantially transferred. Despite the uncertainties caused by the lack of specific regulations and until precise guidelines on the accounting treatment of these transactions are available, the group has nonetheless adopted for transition purposes an accounting treatment for factoring transactions conducted by the parent company and certain subsidiaries (for whom the assignor continues to maintain an involvement with the assigned customers), that involves keeping in the balance sheet the receivables factored without recourse even though legally assigned. They are all recoverable receivables since almost entirely covered by credit insurance.

These receivables, amounting to €58.9 million at 1 January 2005, have been recorded on the asset side of the balance sheet as "receivables assigned to factors" with a corresponding financial liability recognized for the consideration received.

11- Share-based payments (stock option plan)

The related IFRS has not been applied since the stock option plan was approved on 12 January 2002, ie. before the date from which the new IFRS starts to apply.

12- Income statement reclassifications

Non-recurring income and expenses

Under IFRS non-recurring items are no longer reported separately in the income statement but must be classified as part of ordinary items.

Restructuring costs

The accounting standards allow restructuring costs to be recorded if a formally approved plan exists and this is completed by the balance sheet date.

The non-recurring costs booked by the group in the financial statements prepared under Italian GAAP comply with IFRS requirements.

Attachments

These attachments contain additional information to that reported in the notes to the financial statements, of which they form an integral part.

This information is contained in the following attachments:

1. List of consolidated companies.
2. Transactions and balances with associated companies, parent companies and related parties.
3. Emoluments of directors and statutory auditors.
4. Stock options granted to directors.

Attachment 1

List of companies consolidated on a line-by-line basis

Name	Registered office	Currency	Share capital (1)	Interest held at 31/12/2005	
				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	4.251.440		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	181.730.990		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 SP.ZO.O	Warsaw	PLN	597.000		100%
Company controlled through trust company (3)	Nuremberg	EUR	26.000		100%
DL RADIATORS FRANCE S.A.R.L.	Paris	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%
CLIMAVENETA HOME SISTEM S.R.L.	Treviso	EUR	5.000.000		100%
ALABUGA INTERNATIONAL SA	Luxembourg	EUR	200.000	0,05%	99,95%
ZASS ALABUGA LLC	Elabuga	RUB	95.242.767		92,8%
DE LONGHI LLC	Elabuga	RUB	6.000.000		100,0%
DL TRADING (SHENZEN) COMPANY CO LTD.	Shenzen	USD	363.000		100,0%
KENWOOD APPLIANCES PLC	Havant	GBP	4.586.000		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%

Attachment 1

Name	Registered office	Currency	Share capital (1)	Interest held at 31/12/2005	
				Directly	Indirectly
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%
KENWOOD HELLAS SOLE PARTNER LTD. LIABILITY COMPANY	Athens	EUR	18.000		100%
ARIETE S.P.A.	Prato	EUR	8.272.000		100%
ARIETE HISPANIA S.L.	Madrid	EUR	3.066		100%
ARIETE HELLAS EPE	Athens	EUR	18.000		100%
ARIES LUSITANIA ELECTRODOMESTICOS LDA	Maia	EUR	5.000		100%
ARIETE DEUTSCHLAND GMBH	Dusseldorf	EUR	25.000		100%
ARIETE FRANCE ELECTROMENAGER SARL	Paris	EUR	30.000		100%
CLIM.RE. SA	Luxembourg	EUR	1.239.468	4%	96%
MARKA FINANCE SA (6)	Luxembourg	EUR	31.000	-	-

Attachment 1

List of companies consolidated under the proportional method

Name	Registered office	Currency	Share capital (1)	Interest held at 31/12/2005	
				Directly	Indirectly
CHAT UNION CLIMAVENETA COMPANY LTD.	Hong Kong	HKD	10.000		50%
CLIMAVENETA CHAT UNION REFRIGERATION EQUIPMENT (SHANGAI) CO.LTD.	Shanghai	USD	2.500.000		50%
CLIMAVENETA CHAT UNION TRADING (SHANGHAI) CO.LTD.	Shanghai	USD	600.000		50%
DL-TCL HOLDINGS (HK) LTD.	Hong Kong	EUR	5.000.000		50%
TCL-DE'LONGHI HOME APPLIANCES (ZHONGSHAN) CO.LTD.	Zhongshan	USD	2.500.000		50%

List of companies consolidated under the equity method

Name	Registered office	Currency	Share capital (1)	Interest held at 31/12/2003	Interest held at 31/12/2005
				Directly	Indirectly
Associated companies:					
Omas S.r.l. (4)	Gualtieri (RE)	EUR	364.000	40%	
Effegici S.r.l. (4)	Gorgo al Monticano (TV)	EUR	244.400	25%	
Top Clima SL	Barcelona	EUR	1.606.000		25%
AYRE SA	Parets del Valles	EUR	2.500.000		25%
Investment held through trust company		EUR	520.000	40%	

Other subsidiaries (in liquidation or dormant)

Name	Head office	Currency	Share capital
Subsidiaries: (5)			
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) Figures at 31 December 2005, unless otherwise specified.
(2) The articles of association approved by the extraordinary shareholders' meeting held on 29 December 2004, provides for special rights for De'Longhi S.p.A. (holding 89% of the voting rights) for ordinary resolutions (approval of financial statements, payment of dividends, nomination of directors and statutory auditors, purchase and sale of companies, loans to third parties); for other resolutions voting rights are proportional, except for the preferential right to receive dividends held by the shareholder Kenwood Appliances Plc.
(3) A distributor of heating products in Germany, the interest in which is held through a trust company. As permitted by law, we have omitted the company's name to protect its interests and those of the group.
(4) Figures at 31 December 2004.
(5) Dormant companies or companies in liquidation, whose balance sheets are unavailable.
(6) This is a "special purpose entity" serving the securitization of receivables. Even though not controlled (directly or indirectly) by De'Longhi S.p.A., Marka Finance SA has been consolidated since all the risks and rewards relating to the receivables sold are not considered to have been transferred, implying that the special purpose entity is substantially under De'Longhi's control

Transactions and balances with associated companies, parent companies and related parties

In compliance with the guidelines and methods for identifying significant transactions, especially those with related parties covered by De'Longhi S.p.a.'s rules on corporate governance, we shall now present the following information concerning transactions with related parties during 2005:

	Revenues from sales	Other income (other costs)	Trade receivables and other receivables	Trade payables
Associated companies: (1)				
Top Clima	16.2	(0.3)	6.0	(0.1)
Omas S.r.l.	0.2	(0.2)	0.2	(0.1)
Total associated companies	**16.4**	**(0.5)**	**6.2**	**(0.2)**
Parent companies:				
De'Longhi Soparfi S.A. (2)	-	-	0.5	-
Total parent companies	**-**	**-**	**0.5**	**-**
Related parties:				
Liguria Assicurazioni S.p.A.	-	(0.1)	-	-
Liguria Vita S.p.A.	-	(0.1)	-	-
Mokarabia S.p.A.	0.3	-	0.1	-
Total related parties	**0.3**	**(0.2)**	**0.1**	**-**

(1) These mostly refer to dealings of a commercial nature.
(2) These refer to receivables for the recharge of services rendered.

Other than the above, there are no transactions with related parties except for the professional fees paid to the firm of Biscozzi Nobili during 2005. Please refer to the notes accompanying Attachment 3 "Emoluments of directors and statutory auditors" for more information.

Attachment 3

Emoluments of directors and statutory auditors (article 78 CONSOB Regulation 11971 of 14 May 1999)

(Attachment 3 to the notes to the financial statements – in thousands of euro)

		Emoluments					
Name	**Office held**	**Term in office**	**End of term**	**Emoluments of office**	**Benefits in kind**	**Bonuses and other incentives**	**Other emoluments**
Giuseppe De'Longhi	Chairman	01.01.04/ 31.12.06	Approval annual report 2006	486			12 (1)
Fabio De'Longhi	Vice Chairman and Chief Executive Officer (2)	01.01.04/ 31.12.06	Approval annual report 2006	562 (3)			14 (4)
Dario Melò	Director and Chief Operating Officer (5)	27.06.05/ 27.04.06	Approval annual report 2005	411 (6)			29 (1) 17 (4)
Stefano Beraldo	Director (7)	01.01.04/ 31.12.06	12.10.2005	372 (8)			
Giorgio Sandri	Director	01.01.04/ 31.12.06	Approval annual report 2006	21			
Carlo Garavaglia	Director	01.01.04/ 31.12.06	Approval annual report 2006	21			3 (10)
Renato Corrada	Director	01.01.04/ 31.12.06	Approval annual report 2006	21			2 (10)
Giovanni Tamburi	Director	01.01.04/ 31.12.06	Approval annual report 2006	21			3 (10)
Alberto Clò	Director	01.01.04/ 31.12.06	Approval annual report 2006	21			1 (10)
Silvio Sartori	Director (9)	14.11.05/ 27.04.06	Approval annual report 2005	13			18 (1)
Gianluca Ponzellini	Chairman of the Board of Statutory Auditors	01.01.04/ 31.12.06	Approval annual report 2006	62			
Giuliano Saccardi	Standing statutory auditor	01.01.04/ 31.12.06	Approval annual report 2006	41			
Massimo Lanfranchi	Standing statutory auditor	01.01.04/ 31.12.06	Approval annual report 2006	41			

(1) Emoluments relating to offices held in other subsidiaries.
(2) Fabio De'Longhi was appointed as Chief Executive Officer on 27 June 2005.
(3) The amount also includes remuneration received as Commercial and Marketing Director of De'Longhi S.p.A.
(4) Emoluments relating to offices held in other subsidiaries transferred back to De'Longhi S.p.A..
(5) Dario Melò was co-opted as a director on 27 June 2005 and also appointed Chief Operating Officer on the same date.
(6) The amount also includes remuneration received as Chief Operating Officer.
(7) Stefano Beraldo resigned as Chief Executive Officer on 27 June 2005, while staying on as a director (without authority) until 12 October 2005, when he also resigned as a director.
(8) The amount also includes remuneration received as Chief Operating Officer, a position held until 27 June 2005.
(9) Silvio Sartori resigned as a director on 27 June 2005; he was co-opted as a director on 14 November 2005.
(10) Emoluments relating to membership of the Compensation Committee and Internal Auditing and Corporate Governance Committee.

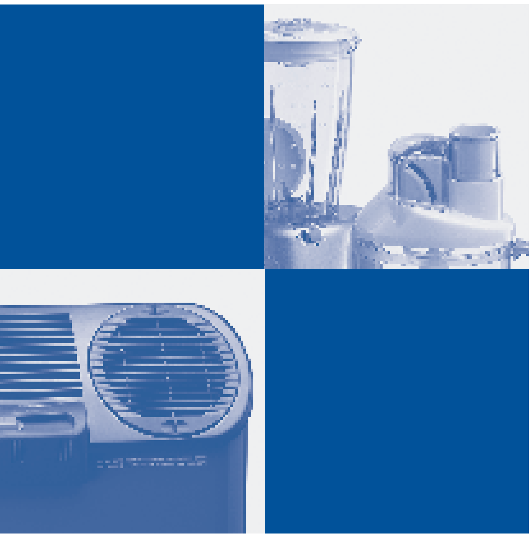
Carlo Garavaglia is a partner in the legal firm of Biscozzi Nobili, which received €350 thousand in fees from the company during 2005.

Attachment 4

Stock options granted to directors (article 78 CONSOB Regulation 11971 of 14 May 1999)

	Options granted			Options exercised during year	
Name	Number of sha-res buyable	Strike per share under options	Exercise period	Number of shares purchased	Strike price
Fabio De'Longhi	608,790	3.4	2004 - 2006	-	-

Auditors’ report



PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW DECREE NO. 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 its subsidiaries (De' Longhi Group) as of 31 December 2005, comprising the balance sheet, income statement, statement of changes in shareholders' equity, statement of cashflows and related notes. These consolidated financial statements are the responsibility of the directors of De' Longhi SpA. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The aforementioned consolidated financial statements are the first to be prepared in compliance with the International Financial Reporting Standards as adopted by the European Union.

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 consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

The financial statements of certain subsidiaries, representing, respectively, 2.7 per cent of consolidated assets and 8.3 per cent of consolidated revenues, have been audited by other auditors.

The consolidated financial statements show as comparatives the corresponding amounts of the prior year determined in accordance with the same accounting principles, except for the effect of the application of IAS 32 and IAS 39 which, as allowed by IFRS 1, have been applied starting from 1 January 2005. Moreover, the appendix to the notes to the consolidated financial statements illustrates the effects of the transition to the

International Financial Reporting Standards as adopted by the European Union and includes disclosures concerning the reconciliation schedules prescribed by IFRS 1, previously approved by the board of directors and published as an appendix to the interim financial reporting as of 30 June 2005, which we examined and on which we issued our auditors' report on 24 October 2005

3 In our opinion, the consolidated financial statements of De' Longhi SpA as of 31 December 2005 comply with the International Financial Reporting Standards as adopted by the European Union; accordingly, they have been drawn up clearly and give a true and fair view of the financial position, results of operations, changes in shareholders' equity and cashflows of De' Longhi Group for the year then ended

Padua, 11 April 2006

PricewaterhouseCoopers SpA

Signed by
Nicola Piovan
(Partner)

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

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