Annual report 2006

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Corporate Bodies and Officers

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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	Chairman
Massimo Lanfranchi	Standing members
Giuliano Saccardi	Standing members
Roberto Cortellazzo-Wiel	Alternate auditor
Enrico Pian	Alternate 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 shareholders' meeting of 27 April 2006 appointed Dario Melò and Silvio Sartori as full members of the Board of Directors and Enrico Pian as an alternate auditor.

** Independent directors.

*** 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

Our Group was able to benefit from the positive economic environment in 2006, reacting to the rise in raw material prices and continuing to grow strongly thanks to its new industrial base abroad. In this context we also strengthened our distribution network, which is now even more international following the opening of subsidiaries in China, Russia, Greece and Turkey.

The brands are well positioned and investments in advertising have continued, especially in the faster growing and higher margin product ranges, bringing the Group's results into line with the three-year plan and, more importantly, allowing it to increase its market share.

I believe that our Group can continue to grow in the future and particularly in 2007.

The Chairman
Giuseppe De'Longhi

Group annual report and financial statements

Directors' report on operations

Overview of the group’s results

De’Longhi enjoyed a positive year in 2006. Having completed the reorganization of its manufacturing processes started in 2003, the group concentrated on introducing new products, particularly in the cooking and coffee product ranges. Improvements in the efficiency of manufacturing and logistics helped make up for the sharp rise in the price of raw materials and significantly boost all the major performance indicators: growth, earnings and cash generation.

Net revenues came to €1,363 million, an increase of €105.3 million (+8.4%) on 2005. Assuming the same scope of consolidation (ie. adjusting 2005 revenues to exclude those of Elba S.p.A. in the period June-December 2005 and 2006 revenues to exclude those of the RC Group in the period October-December 2006), revenues would have grown by €116.6 million (+9.5%).

Both divisions contributed to this result. The Household division reported €1,072.0 million in revenues, an increase of €74.8 million (+7.5%) or €102.1 million (+10.5%) assuming the same scope of consolidation; coffee machines performed particularly well, confirming the group’s leadership in this market, as did kitchen appliances. Sales of portable heating products reported good growth despite one of the mildest winters in the recent past.
The Professional segment reported €317.8 million in revenues, an increase of €47.1 million (+17.4%) or €31.2 million (+11.5%) assuming the same scope of consolidation; water-filled radiators performed particularly well, thanks to the release of new products, as did large thermo-cooling systems.

Revenues were higher in all geographical markets if we assume the same scope of consolidation. North America, Russia and France made the biggest contribution to revenue growth in 2006.

Gross profit climbed from €496.0 million to €513.1 million (with the margin going from 39.4% to 37.6%).

The reduction in service and payroll costs as a percentage of revenues helped produce a more than proportionate rise in EBITDA and EBIT relative to the increase in sales; EBITDA improved from €105.0 million to €125.6 million (with the margin rising from 8.3% to 9.2%), while EBIT increased from €67.5 million to €85.0 million (with the margin climbing from 5.4% to 6.2%).
Assuming the same scope of consolidation, EBITDA improved from 8.1% of revenues in 2005 to 9.2% in 2006.

Profit before taxes was €33.8 million higher than in 2005 at €61.3 million, partly thanks to the gain realized on the sale of Elba S.p.A.. Profit (loss) pertaining to the group was a profit of €39.8 million, an improvement of €15.0 million on 2005 (+60.3%).

A significant amount of cash was generated thanks to improved profitability, better working capital management and the proceeds from the sale of Elba. As a result, the net financial position improved by €196.8 million, from net borrowings of €511.4 million at 31 December 2005 to €314.6 million at the end of 2006.

Net borrowings at 31 December 2006 also benefited from the recognition of €117.0 million in receivables factored without recourse which, on the basis of intervening contractual amendments, have been excluded from the consolidated balance sheet since they now satisfy the IAS/IFRS requirement that their risks and rewards be substantially transferred to the factor.

Significant events

During 2006 the De'Longhi Group purchased and sold certain companies under its strategy of focusing its business and growth on two segments: small domestic appliances and professional products.

Sale of Elba S.p.A.

The interest in Elba S.p.A., a company which produces and sells ovens and hobs, was sold in June 2006 to a white goods manufacturing group from New Zealand. Elba S.p.A. was the only company within the De'Longhi Group that operated in this sector.
The company was sold for a figure of €78.2 million, inclusive of its financial payables of €6.1 million at 31 May 2006. Under the terms of the sale the De'Longhi Group will carry on distributing De'Longhi branded cooking products in New Zealand and Australia as part of an ongoing strategic partnership with Elba.

Acquisition of the RC Group

During the month of October, De'Longhi purchased 83.3% of the RC Group for the sum of €31 million. This group is a leading manufacturer and seller of equipment for cooling mobile radio stations, for the precision cooling of computer and fixed telephony rooms, of liquid refrigeration systems and heat pumps.
The acquisition, driven by the highly complementary nature of the product range and of the commercial and manufacturing synergies, has further strengthened the group's position in the high-tech world of the Professional division, especially in the European market for large thermo-cooling systems.

Macroeconomic scenario

The world economy expanded in 2006 despite the signs of a slowing in growth in the United States emerging in the second half of the year. The international impact of this slowdown was counterbalanced by the rapid growth reported by the major emerging countries, especially those in Asia.
The EU economy continued the process of recovery starting in the second half of 2005, benefiting above all from a growth in investments. The growth forecasts were revised up on numerous occasions, so much so that the average estimate for 2006 jumped from 2.1% to 2.7% between June and December. Even the Italian economy enjoyed a reasonable expansion in consumer spending as well as increased demand for investment goods.

Interest rates

As a result of the aforementioned trends, all the central banks raised their respective interest rates in 2006. The FED Funds rate in the United States went from 4.25% at the end of 2005 to 5.25% at the end of 2006, the Bank of England raised its base rate to 5% while the Bank of Japan increased its reference rate to 0.25% for the first time since 2000. The ECB also gradually raised rates over the course of 2006, increasing them from 2.25% at the end of 2005 to 3.5% at the end of 2006, the highest level since November 2001.

Currency markets

The increased economic growth, the diversification of international portfolios, the repeated rate rises by the ECB and the strict controls by Asian countries on their currency caused the euro to continue to appreciate against an ever weaker US dollar, which reached a rate of almost 1.32 dollars to the euro at the end of 2006. The Japanese yen experienced a significant depreciation against the euro and other European currencies.

Products

Product innovation was once again fundamental to strengthening our leadership as a multi-specialist in the different markets where the De'Longhi Group is present.

In the case of the Household division, this included:
- the large increase in market share in the coffee machines segment, particularly for fully automatic models;
- the completion of the high-end range of cooking products: ovens, fryers and grills;
- the introduction of the new range of portable air conditioners;
- the upgrading of portable heating products and ceramic fan heaters;
- the launch of new Kenwood product lines for cooking and food preparation; more specifically, a new generation of food processors was introduced, as well as a new range of coffee machines, kettles and toasters.

In the case of the Professional division, innovations included:
- the introduction of a new range of more environmentally friendly "chillers" that are more efficient under low and average wattage, with R407C gas replaced by R410A gas.
- the introduction of a new range of high power, highly efficient "chillers" using overflow condensation, with a digital inverter frictionless separator with magnetically levitated bearings;
- the enlargement of the range of water-filled radiators with the introduction of new design multi-column models.

Rationalization of the group's structure

Distribution structure

Continued actions were taken in 2006 to enhance De'Longhi's distribution structure and make it more efficient.

By opening new trading companies the group has covered traditionally important markets like Greece and Russia and high potential ones like Turkey and China. The opening of a trading company in China also indicates a change in approach to this Asian giant with the market evolving from a purely sourcing one to one of potential outlet.

Manufacturing activities

The strategy of moving production abroad has enabled the group to make the most of opportunities for growth in markets where the trend in production costs and the currency have allowed it to be competitive and to establish an effective defence in the euro-zone against imports of Chinese origin. The gradual transfer of manufacturing of different products to China can be regarded as largely complete. The factory in Mignagola was closed during 2006 and the manufacturing plant was completely closed down; the existing manufacturing set-up was also rationalized by centralizing certain types of production at the Treviso factory.

The Italian factories will be left with the production of highly specialized products. These include the production of water-filled radiators for the Professional division, which saw investments of around €7 million in 2006 (plus additional amounts in 2007) in the factory in Moimacco (Udine) for the manufacture of column radiators.

In this particular case the decision to keep production in Italy was based on the fact that the quality of the product and level of manufacturing efficiency have made any potential competitive advantage from transferring to a low labour-cost country negligible if not negative.

During 2006 the joint venture with a leading Chinese manufacturer started to produce portable air-air and water-air conditioners as well as dehumidifiers.

The production of food preparation and electric moka coffee machines was transferred to the Tricom factory in China during the year.

The processes of moulding, welding and assembly were all enhanced at the group's Chinese manufacturing hub, consisting of the factories in Zhongshan purchased at the end of 2003, where production of 18 litre electric ovens was also started.

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

The factory in Russia, entirely devoted to the manufacture of heating products for the local market, upgraded its production systems with the introduction of new plant and equipment.

Results by business segment

Household

(Euro/million)	2006	2005	Change 2006/2005	2005 pro-forma (*)	Change 2006/2005 pro-forma
Net revenues	1,072.0	997.1	74.8	969.9	102.1
% change			7.5%		10.5%
EBITDA	92.2	79.5	12.7	73.6	18.6
% of revenues	8.6%	8.0%		7.6%	

(*) The pro-forma figures at 31 December 2005 have been determined assuming the same scope of consolidation (ie. excluding the figures of Elba for the period June-December 2005).

Professional

(Euro/million)	2006	2005	Change 2006/2005	2006 pro-forma (**)	Change 2006/2005 pro-forma
Net revenues	317.8	270.6	47.1	301.8	31.2
% change			17.4%		11.5%
EBITDA	33.3	25.4	7.9	31.5	6.1
% of revenues	10.5%	9.4%		10.4%	

(**) The pro-forma figures at 31 December 2006 have been determined assuming the same scope of consolidation (ie. excluding the figures of the RC Group for the period October-December 2006).

The consolidated figures reconcile with the individual segment results after eliminating certain transactions between the two segments. Such transactions accounted for €26.8 million in revenues in 2006 and €10.1 million in revenues in 2005.
The impact of such transactions on EBITDA was €0.1 million in both 2006 and 2005.

Household

Assuming the same scope of consolidation, this division reported a major increase in revenues on 2005 (+Euro 102.1 million or +10.5%) and a large growth in market share. This result reflected strong performance by coffee machines, which are becoming increasingly important for the group's growth, small domestic appliances and portable heating units, despite the particularly mild winter in 2006. This growth was dictated by the principal markets of Russia, the United States and Japan, and benefited from the achievement of full-swing production at the Chinese factory and the new factory in Russia which produces solely for the local market. Portable air conditioners performed well, thanks to the quality of the range of products manufactured in China by the joint venture with TCL, which helped boost market share in all the group's major markets. Oven sales were also higher.

Professional

The Professional division reported a double-digit increase in revenues (assuming the same scope of consolidation, revenues grew by €31.2 million or 11.5%) thanks not only to the acquisition of the RC Group, but also to the good performance of water-filled radiators and large thermo-cooling systems, while the results for wall-mounted air conditioners were basically the same as in 2005.

The increase in revenues from water-filled radiators reflected improvements on all the major markets, especially the United Kingdom, France (thanks to strong demand for electric aluminium radiators), Scandinavia and countries in the former Soviet Union, and the first sales of the new multi-column radiators produced at the factory in Moimacco (Udine).

Sales of large thermo-cooling systems did well thanks to growth on the EU market and the completion of major projects during the year in Italy and Spain.

Markets

The group's revenues are broken down below by geographical area (the pro-forma figures have been determined assuming the same scope of consolidation, thus excluding the sales of Elba S.p.A. for the period June-December 2005 from 2005 revenues and the sales of the RC Group for the period October-December 2006 from 2006 revenues):

(Euro/million)	2006	2005	Change	% change	2006 pro-forma	2005 pro-forma	Change pro-forma	% change pro-forma
Italy	329.7	307.9	21.8	7.1%	323.8	309.0	14.8	4.8%
United Kingdom	155.5	163.4	(7.9)	(4.9)%	153.8	153.2	0.6	0.4%
Rest of Europe (*)	512.1	461.2	50.8	11.0%	505.0	456.8	48.2	10.6%
United States, Canada and Mexico	123.2	97.2	25.9	26.7%	122.7	95.4	27.3	28.6%
Rest of the world (*)	242.6	228.0	14.7	6.4%	241.7	216.1	25.7	11.9%
Total	**1,363.0**	**1,257.7**	**105.3**	**8.4%**	**1,347.0**	**1,230.4**	**116.6**	**9.5%**

(*) Commencing from the 2006 half-year report, revenues from sales in Russia (and countries in the former Soviet Union) have been classified in "Rest of Europe" rather than in "Rest of the world". As a result, the 2005 comparative sales relating to this market have been reclassified to "Rest of Europe".

Sales in Italy improved thanks to kitchen and food preparation products, portable air-conditioners and large thermo-cooling systems, which more than made up for the drop in sales of wall-mounted air-conditioning units.

Assuming the same scope of consolidation, revenues in the United Kingdom were 0.4% higher in 2006 than in 2005.

The growth in the "Rest of Europe" particularly reflected strong sales of coffee machines and performance on the Russian market which benefited from the investments made in the prior year (namely the purchase of the factory for producing radiators and the opening of a commercial office).

Sales in North America were considerably higher, reporting an improvement of €25.9 million (or 26.7%) primarily thanks to increased sales of coffee machines and heating products.

Profitability

Gross profit reported in the following reclassified income statement has been redefined to include all transformation costs.

The reclassified consolidated income statement is summarized as follows:

(Euro/million)	2006	% of revenues	2005	% of revenues
Net revenues	**1,363.0**	**100.0%**	**1,257.7**	**100.0%**
Change 2006/2005	105.3	8.4%	-	-
Materials consumed & other production costs (services and production payroll costs)	(849.9)	(62.4%)	(761.6)	(60.6%)
Gross profit	**513.1**	**37.6%**	**496.0**	**39.4%**
Cost of services & other expenses	(286.3)	(21.0%)	(276.5)	(22.0%)
Value added	**226.8**	**16.6%**	**219.6**	**17.5%**
Payroll (non-industrial)	(91.6)	(6.7%)	(88.9)	(7.1%)
Provisions	(12.5)	(0.9%)	(13.3)	(1.1%)
Other income (expenses)	2.8	0.2%	(12.4)	(1.0%)
EBITDA	**125.6**	**9.2%**	**105.0**	**8.3%**
Amortization and depreciation	(40.6)	(3.0%)	(37.5)	(3.0%)
EBIT	**85.0**	**6.2%**	**67.5**	**5.4%**
Change 2006/2005	17.5	25.9%	-	-
Financial income (expenses)	(23.6)	(1.7%)	(40.0)	(3.2%)
Profit before taxes	**61.3**	**4.5%**	**27.5**	**2.2%**
Taxes	(20.9)	(1.5%)	(2.6)	(0.2%)
Profit after taxes	**40.4**	**3.0%**	**24.9**	**2.0%**
Profit (loss) pertaining to minority interests	0.7	0.0%	0.1	0.0%
Profit (loss) pertaining to the group	**39.8**	**2.9%**	**24.8**	**2.0%**

The gross profit presented above differs by €136.1 million at 31 December 2006 (€139.4 million at 31 December 2005) from the consolidated income statement, reflecting the reclassification of production-related payroll and service costs from payroll and services respectively, with the purpose of achieving a better presentation of period performance.

The six-month figures for net revenues, EBITDA and related margins are set out below:

	2006			2005		
	I HY	II HY	Total	I HY	II HY	Total
Net revenues	576.2	786.8	1,363.0	534.4	723.3	1,257.7
% of total	42.3%	57.7%	100.0%	42.5%	57.5%	100.0%
EBITDA	41.4	84.2	125.6	30.8	74.2	105.0
% of total	33.0%	67.0%	100.0%	29.3%	70.6%	100.0%
% of net revenues	7.2%	10.7%	9.2%	5.8%	10.3%	8.3%

Gross profit improved by €17.1 million from €496.0 million in 2005 to €513.1 million in 2006 (with the margin going from 39.4% to 37.6%) despite the sharp rise in raw material prices over the year and the change in the scope of consolidation.

The reduction in service and payroll costs as a percentage of revenues helped boost the growth in both EBITDA and EBIT; EBITDA improved by €20.6 million from €105.0 million to €125.6 million (with the margin going from 8.3% to 9.2%), while EBIT increased by €17.5 million from €67.5 million to €85.0 million (with the margin climbing from 5.4% to 6.2%).

Assuming the same scope of consolidation, EBITDA would have improved by €24.7 million (+24.9%).

The Household division reported EBITDA of €92.2 million in 2006 (€79.5 million in 2005); this represented an improvement of €12.7 million (+16%) or €18.6 million (+25.3%) assuming the same scope of consolidation. The improved profitability of the De'Longhi and Kenwood brands, which benefited from the introduction of new products, increased sales of certain higher margin product ranges and the policy of shifting production abroad, helped make up for the drop in profitability by the Ariete brand and the adverse trend in the cost of raw materials mentioned above.

The Professional division reported EBITDA of €33.3 million in 2006 (€25.4 million in 2005); this represented an improvement of €7.9 million (+31.1%) or €6.1 million (+24.1%) assuming the same scope of consolidation, having benefited from the good results reported by both large thermo-cooling systems and industrial heating products.

The year closed with €61.3 million in profit before taxes, an increase of €33.8 million on 2005, partly thanks to a decrease in net financial expenses from €40.0 million in 2005 to €23.6 million in 2006. This year's financial items included the capital gain of €26.4 million arising on the sale of Elba S.p.A. Other financial expenses were higher mainly due to the rise in interest rates.

Profit after taxes was €15.0 million higher than in 2005 at €39.8 million.

Review of the balance sheet

The reclassified consolidated balance sheet is summarized below:

(Euro/million)	31.12.2006	31.12.2005	Change	% change
Non-current assets	**718.9**	**730.2**	**(11.3)**	**(1.6%)**
Inventories	323.7	340.2	(16.5)	(4.8%)
Receivables	348.0	450.1	(102.1)	(22.7%)
Other current assets	39.4	31.4	8.0	25.5%
Suppliers	(327.1)	(285.9)	(41.2)	14.4%
Other current liabilities	(77.1)	(65.9)	(11.2)	16.9%
Net working capital	**307.0**	**469.8**	**(162.9)**	**(34.7%)**
Total non-current liabilities and provisions	(90.7)	(103.2)	12.5	(12.1)%
Net capital employed	**935.2**	**1,096.9**	**(161.7)**	**(14.7%)**
Net financial position (*)	**314.6**	**511.4**	**(196.8)**	**(38.5%)**
Total net equity	**620.6**	**585.5**	**35.1**	**6.0%**
Total net borrowings and equity	**935.2**	**1,096.9**	**(161.7)**	**(14.7%)**

(*) Includes €113.1 million at 31 December 2005 in amounts due to factors for receivables factored without recourse.

Investments in property, plant and equipment came to €40.9 million (€51.7 million in 2005), of which around €7 million related to the installation of the column radiator production lines at the factory in Moimacco (Udine).

As for working capital management, assuming the same scope of consolidation and ignoring the benefits of factoring receivables without recourse, the turnover of net working capital improved from 36.6% to 30.5% mostly as a result of managing customer accounts better and reducing inventories by €16.5 million despite the increase in revenues.

Cash flows for 2006 were a positive €196.8 million compared with a negative €53.4 million in 2005, resulting in a significant reduction in closing net borrowings (€314.6 million at year end compared with €511.4 million at 31 December 2005). Net cash flows for the period also benefited from new inflows of €34.6 million from extraordinary transactions (sale of Elba S.p.A. less acquisition of RC Group) and the recognition of non-recourse factoring transactions (benefiting cash flows in 2006 by €112.1 million) which, on the basis of intervening contractual amendments, have been excluded from the consolidated balance sheet since they now satisfy the IAS/IFRS requirement that their risks and rewards be substantially transferred to the factor.

The consolidated cash flow statement can be summarized as follows:

(Euro/million)	31.12.2006	31.12.2005 pro-forma (*)
Cash flow from operating activities	**57.3**	**(50.3)**
Cash flow absorbed by changes in equity accounts	(8.0)	(3.0)
Cash flow generated by deconsolidating Marka Finance S.A. and factoring receivables without recourse	112.9	-
Cash flow from sale of Elba S.p.A.	76.6	-
Cash flow to acquire RC Group	(42.0)	-
Cash flow for the period	**196.8**	**(53.4)**
Opening net financial position	(511.4)	(458.0)
Closing net financial position	**(314.6)**	**(511.4)**

(*) The opening net financial position in the pro-forma cash flow statement at 31 December 2005 includes €58.9 million in payables due to factors for receivables factored without recourse.

Human resources and organization

The De'Longhi Group had 6,813 employees at 31 December 2006 (7,467 in 2005).

The following table summarizes the average number of employees during 2006 compared with 2005:

	2006	%	2005	%	Difference
Blue collar	5,008	66%	5,163	66%	(155)
White collar	2,520	33%	2,542	33%	(22)
Executives	117	1%	118	1%	(1)
Total	**7,645**	**100%**	**7,823**	**100%**	**(178)**

	2006	%	2005	%	Difference
Household	6,389	84%	6,702	86%	(313)
Professional	1,256	16%	1,121	14%	135
Total	**7,645**	**100%**	**7,823**	**100%**	**(178)**

The group had an average of 7,645 employees during 2006, down from 7,823 in 2005. This reduction was the product of different trends between the Household and Professional divisions.

The number of employees in the Household division fell from 6,702 in 2005 to 6,389 in 2006. This mainly reflected continued restructuring of the production platform of De'Longhi S.p.A., a process commencing at the start of 2005 with the application to access the special state-funded redundancy fund for a period of two years, a reduction in personnel at Kenwood after outsourcing the finished product warehouse and reorganizing internally, the deconsolidation of Elba S.p.A. with effect from 1 June 2006 and year-end staff cuts at the Chinese factories.

In contrast, the number of employees in the Professional division rose from 1,121 in 2005 to 1,258 in 2006, following the acquisition of the RC Group and the increase in business.

The growth in operations in China in recent years means that there are now more employees in this country than in Italy, with 42% of the group's entire workforce employed in China at the end of December 2006.

Industrial plan

The industrial plan involving reorganization of the Italian production activities of De'Longhi S.p.A. continued throughout 2006. The Ministry of Employment issued Decree 39182 on 9 August 2006 in which it extended access to the special state-funded redundancy scheme, initially granted for one year from 11 April 2005, for another twelve months and so until 10 April 2007. As regards the lay-off programme, a total of 238 employees had left the company at 31 December 2006, while another 155 were drawing benefits under the state-funded redundancy scheme, making a total of 393 (of whom over 96% on a voluntary basis).
The number of lay-offs at December 2006 was lower than the total of 504 agreed with the trade unions in 2005 (coming down to 459 in the event of transferring staff to part-time contracts or employment in other group companies); this number will come down even more as a result of having to recall several dozen employees to service in 2007 (rather than terminating them) due to strong demand for the coffee machines, particularly fully automatic ones, produced by the Treviso factory of De'Longhi S.p.A.
In addition, in order to soften the industrial plan's social impact, De'Longhi has developed in partnership with the employment agency "Unimpiego Confindustria" a programme for the orientation and outplacement of redundant staff. This programme was approved by the Veneto regional authorities on 20 December 2005 and will terminate on 23 May 2007. The programme started in February 2006 and has involved 100 workers, through individual interviews, group orientation meetings and other activities helping them to search for new employment. This programme had helped 32 people find new work as of 31 January 2007.

Management of human resources and organization

Numerous initiatives were undertaken for the professional and managerial development of human resources in Italy and abroad, involving specialized instruction, training in project management, communication and general management.
Work continued on strengthening management structures in the different Italian and foreign companies (particularly in China), involving outside recruitment and opportunities for internal career development, including internationally. The establishment of the Chinese operations in the Household and Professional divisions has been fostered by the local presence of a group of European managers who are overseeing some of the principal company functions, while helping achieve the group's growth plans and contributing to the professional development and growth of local management.
Lastly, the group undertook some important internal communication initiatives such as those relating to policies to foster involvement, motivation and retention of key personnel.

As regards the stock option plan introduced at the time of the parent company's stockmarket listing, this expired on 28 February 2006 without anyone having exercised any options.

Information systems

Information system services provided within the De'Longhi Group have continued on the basis of the original strategic decision to adopt SAP as the software product of choice for the system's current and future operation. During 2006 we continued to invest in managing SAP at the Chinese companies and in implementing it at the Japanese company.

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 2006 development activities permitted the market launch of numerous products - both those designed and manufactured in-house and those purchased from outside.

Research and development activities involving air treatment and heating products focused in 2006 on the start up of the Chinese factory which manufactures portable air conditioning units and dehumidifiers. Close collaboration and co-operation between the technical offices in Italy and China made it possible to carry out several projects, the main ones of which related to the new portable water-cooled air-conditioner and the compact portable air-conditioner. The related patents were registered directly in China in order to protect these new products.
The products produced in the new factory are of higher quality than those manufactured in Italy, comply with European directives and have been certified by third-party organizations.
The Chinese authorities also started to show considerable interest in our ecological conditioners that use propane as the cooling gas.

The cooking and food preparation division was actively involved in developing numerous projects for manufacturing new products both in-house and in partnership with outsiders, resulting in the completion and launch of many new products in the principal product categories (electric and microwave ovens, coffee machines, fryers, kettles and toasters).
Intense activity was devoted to completing the process of moving production abroad. This involved revising the technical documentation and upgrading part of the equipment to comply with Chinese manufacturing standards.
The process of replacing parts purchased in Europe, where possible, with Chinese equivalents was also completed, thereby achieving a related reduction in costs.

Quality

We continued our quality policy in 2006, aimed at achieving customer satisfaction by monitoring the quality of finished products, particularly with regard to the principal products/markets, and by submitting reports on product quality to the technical offices for the purposes of adopting specific quality plans.
We carried on developing documentation for use by the group's inspectors when controlling the quality of bought-in finished products, enabling them to adopt standard methods, principles and ways of recording the results when visiting suppliers. Continued technical and managerial support was also provided to the Chinese sites for the testing of parts in collaboration with the technical offices in Italy.

Marketing and communication

Advertising activities focused on launching and establishing products in the coffee sector as well as maintaining the spotlight on other product segments for which campaigns had been conducted in the past.
The new campaigns concentrated on the launch of the new fully automatic espresso coffee machines: Magnifica and Primadonna.

Other initiatives in Italy also focused on supporting portable conditioners and the Planos wall-mounted conditioning unit and on launching the new Alicia Perle De'Longhi, the first electric moka coffee machine using capsules.

Supply chain

Work continued on the project started in 2005 to overhaul and reorganize the group's supply chain New rules of management and operation were devised, some of which implemented during 2006 with benefits for both working capital and the operating costs of the logistics sector.
The full benefits will be felt after implementing the new information system in support of the supply chain, whose installation is due to be completed by the end of summer 2007.

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).

Corporate Governance

During 2006 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) in the manner described in last year's corporate governance report; during the year the Board of Directors undertook a detailed review of the Code of Conduct's new edition (published in March 2006: the "New Code"), and approved related resolutions in its meeting of 1 March 2007 to adopt and implement the recommendations contained therein.

The Board of Directors passed a resolution on 20 February 2006 to update its "Guidelines" for identifying particularly significant transactions and those with related parties.

The Board of Directors passed a resolution on 27 March 2006 approving, in compliance with new statutory and regulatory requirements concerning market abuse (a) a new set of internal dealing rules, pursuant to paragraph 8, letter a) of article 152 octies of CONSOB Regulation 11971/99; (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 (2002 edition); 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.

As part of the process of optimizing its internal control system, De'Longhi S.p.A. passed a resolution on 27 March 2006 to adopt the "Organizational Model" required by Decree 231/2001. During 2006 the company started to update the existing Model, ending up with the adoption of a new version of the same on 1 March 2007.

Having adopted the New Code, on 1 March 2007 the Board of Directors reviewed the non-executive and independence status of its members, in compliance with articles 2 and 3 of the New Code (March 2006 edition). Since the Board of Directors consists of more than seven members, it also checked that at least two of them met the independence requirements contained in article 147 quater of Decree 58/98 and article 148.3 of Decree 58/98 and also confirmed compliance with the provisions introduced by Law 262/2005 (known as the "Investor Protection Act"), as amended by Decree 303/2006 (known as the "Pinza Decree").

In the same meeting of 1 March 2007 the Board of Directors also checked that all its members continued to satisfy the "integrity" requirements as defined in article 147 quinquies of Decree 58/98, also introduced by the Investor Protection Act.

For more information concerning corporate governance, reference should be made to the report prepared in accordance with article IA 2.14 of the Instructions to the Italian Stock Exchange Regulations, in which the Board of Directors of De' Longhi S.p.A. has provided full details of the company's corporate governance system, making reference not only to the principles contained in the previous Code of Conduct, but also to those introduced in the new edition of March 2006.
This report has been filed, together with the annual report, at the company's registered office and with the Italian Stock Exchange.

Equity interests held by directors and statutory auditors

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

Name	Name of company in which interest held	No. shares held at 31.12.05 (*)	Purchases in 2006	Sales in 2006	No. shares held at 31.12.06 (*)
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.	227,800	-	-	227,800
Massimo Lanfranchi (standing statutory auditor)	De'Longhi S.p.A.	750	-	-	750

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

Related-party transactions

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

Stock performance

During 2006 the De'Longhi share price varied between a minimum of €2.30 and a maximum of €4.612. The average price per share over the year was €3.024; an average of over 113,000 shares were traded per day during 2006.

Subsequent events

There have been no significant events since the end of the financial year.

Outlook for the current year

The upward trend in revenues by both the group's divisions in 2006 is expected to continue in 2007, also thanks to the positive economic climate.

Treviso, 16 March 2007
for the Board of Directors
Vice Chairman and CEO
Fabio De'Longhi

Consolidated financial statements

Consolidated income statement

Consolidated balance sheet

Consolidated cash-flow statement

Statement of changes in consolidated net equity

Consolidated income statement

	Notes	31.12.2006	31.12.2005
Revenues from sales and services	1	1,334,690	1,233,628
Other operating income and revenues	1	28,285	24,070
Total consolidated net revenues		**1,362,975**	**1,257,698**
Raw and ancillary materials, consumables and goods	2	(709,085)	(657,489)
Change in inventories of finished products and work in progress	3	(2,612)	36,795
Change in inventories of raw and ancillary materials, consumables and goods	3	(2,054)	(1,571)
Materials consumed		**(713,751)**	**(622,265)**
Payroll costs	4	(164,633)	(168,619)
Services and other operating expenses	5	(349,325)	(336,164)
Contingency and other provisions	6	(12,520)	(13,258)
Other non-recurring income (expenses)	7	2,825	(12,426)
Amortization and depreciation	8	(40,617)	(37,502)
EBIT		**84,954**	**67,464**
Financial income (expenses) from equity investments	9	24,980	150
Exchange gains (losses)	9	(1,606)	553
Other financial income (expenses)	9	(47,006)	(40,679)
Financial income (expenses)		**(23,632)**	**(39,976)**
Earnings before tax (EBT)		**61,322**	**27,488**
Taxes	10	(20,876)	(2,618)
Profit (loss) from ordinary operations before minority interests		**40,446**	**24,870**
Profit (loss) pertaining to minority interests	26	670	50
Profit (loss) pertaining to the group		**39,776**	**24,820**
Earnings per share		**0.27**	**0.17**

Attachment 2 reports the effect of related-party transactions on the income statement, as required by CONSOB Resolution 15519 of 27 July 2006.

Consolidated balance sheet

ASSETS

	Notes	31.12.2006	31.12.2005
NON-CURRENT ASSETS			
INTANGIBLE ASSETS		414,158	418,779
- Goodwill	11	223,679	219,239
- Other intangible assets	12	190,479	199,540
PROPERTY, PLANT AND EQUIPMENT		255,183	263,842
- Land, property, plant and machinery	13	213,522	218,139
- Other tangible assets	14	41,661	45,703
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		11,317	8,865
- Equity investments (in associated companies)	15	6,476	6,496
- Equity investments (in other companies)	15	731	221
- Receivables	16	1,610	2,148
- Other securities	17	2,500	
DEFERRED TAX ASSETS	18	41,332	40,022
TOTAL NON-CURRENT ASSETS		**721,990**	**731,508**
CURRENT ASSETS			
INVENTORIES	19	323,733	340,210
TRADE RECEIVABLES	20	348,014	450,064
CURRENT TAX ASSETS	21	20,530	12,338
OTHER RECEIVABLES	22	18,865	19,062
CURRENT FINANCIAL RECEIVABLES AND ASSETS	23	994	1,662
CASH AND CASH EQUIVALENTS	24	112,952	177,031
TOTAL CURRENT ASSETS		**825,088**	**1,000,367**
TOTAL ASSETS		**1,547,078**	**1,731,875**

Consolidated balance sheet

NET EQUITY AND LIABILITIES

		31.12.2006	31.12.2005
NET EQUITY			
GROUP PORTION OF NET EQUITY		615,568	583,781
- Share capital	25	448,500	448,500
- Reserves	26	127,292	110,461
- Profit (Loss) pertaining to the group		39,776	24,820
MINORITY INTERESTS	26	5,037	1,754
TOTAL NET EQUITY		**620,605**	**585,535**
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES		209,648	234,477
- Bank loans and borrowings (long-term portion)	27	191,919	217,823
- Other financial payables (long-term portion)	28	17,729	16,654
DEFERRED TAX LIABILITIES	18	20,461	16,715
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		70,236	86,435
- Employee benefits	29	42,009	42,824
- Other provisions	30	28,227	43,611
TOTAL NON-CURRENT LIABILITIES		**300,345**	**337,627**
CURRENT LIABILITIES			
TRADE PAYABLES	31	327,088	285,932
FINANCIAL PAYABLES		221,975	456,885
- Bank loans and borrowings (short-term portion)	27	203,898	313,751
- Other financial payables (short-term portion)	28	18,077	143,134
CURRENT TAX LIABILITIES	32	21,154	25,149
OTHER PAYABLES	33	55,911	40,747
TOTAL CURRENT LIABILITIES		**626,128**	**808,713**
TOTAL NET EQUITY AND LIABILITIES		**1,547,078**	**1,731,875**

Attachment 2 reports the effect of related-party transactions on the balance sheet, as required by consob resolution 15519 of 27 july 2006.

Consolidated cash flow statement

(in terms of cash and cash equivalents)

	Notes	31.12.2006	31.12.2005
Profit (loss) pertaining to the group		39,776	24,820
Capital (gains) losses on disposal of equity investments and deconsolidation of Marka Finance		(25,083)	-
Amortization and depreciation		40,617	37,502
Net change in provisions and writedowns		(5,532)	(11,232)
Cash flow generated (absorbed) by current operations (A)		**49,778**	**51,090**
Change in assets and liabilities for the year:			
Trade receivables (pre-factoring)		(9,503)	(36,432)
Difference from factoring receivables without recourse		2,545	-
Inventories		14,293	(44,894)
Trade payables		40,142	20,200
Other current assets and liabilities		(1,934)	20,562
Cash flow generated (absorbed) by movements in working capital (B)		**45,543**	**(40,564)**
Cash flow generated (absorbed) by current operations and movements in working capital (A+B)		**95,321**	**10,526**
Investment activities			
Net investments in intangible assets		(12,245)	(11,698)
Net investments in property, plant and equipment		(25,103)	(47,579)
Net investments in equity investments and other financial assets		(684)	(1,568)
Cash flow from sale of Elba S.p.A.		76,637	-
Cash flow for acquisition of RC Group (*)		(42,042)	-
Cash flow generated (absorbed) by investment activities (C)		**(3,437)**	**(60,845)**
Changes in net equity for IAS 32 and 39		(1,294)	(1,119)
Payment of dividends		(2,990)	(8,970)
Change in currency translation reserve		(4,446)	6,983
Increase (decrease) in minority interests in capital and reserves		740	65
Net change in other sources of finance		(147,973)	113,596
Cash flow generated by changes in equity accounts (D)		**(155,963)**	**110,555**
Increase (decrease) in cash and cash equivalents (A+B+C+D)		**(64,079)**	**60,236**
Opening cash and cash equivalents	**24**	**177,031**	**116,795**
Increase (decrease) in cash and cash equivalents (A+B+C+D)		(64,079)	60,236
Closing cash and cash equivalents	**24**	**112,952**	**177,031**

(*) This effect has been calculated on the basis of the RC Group's net equity at 30 September 2006, which included net borrowings of €10.9 million (€6.9 million at 31 December 2006).

Consolidated cash flow statement

(in terms of net financial position)

	Notes	31.12.2006	31.12.2005 pro-forma (*)	31.12.2005
Profit (loss) pertaining to the group		39,776	24,820	24,820
Capital (gains) losses on disposal of equity investments and deconsolidation of marka finance		(25,083)	-	-
Amortization and depreciation		40,617	37,502	37,502
Net change in provisions and writedowns		(5,532)	(11,232)	(11,232)
Cash flow generated (absorbed) by current operations (A)		**49,778**	**51,090**	**51,090**
Change in assets and liabilities for the year:				
Trade receivables		(6,958)	(36,432)	(36,432)
Inventories		14,293	(44,894)	(44,894)
Trade payables		40,142	20,200	20,200
Other current assets and liabilities		(1,934)	20,562	20,562
Cash flow generated (absorbed) by movements in working capital (B)		**45,543**	**(40,564)**	**(40,564)**
Cash flow generated (absorbed) by current operations and movements in working capital (A+B)		**95,321**	**10,526**	**10,526**
Investment activities				
Net investments in intangible assets		(12,245)	(11,698)	(11,698)
Net investments in property, plant and equipment		(25,103)	(47,579)	(47,579)
Net investments in equity investments and other financial assets		(684)	(1,568)	(1,568)
Cash flow from sale of elba s.P.A.		76,637	-	-
Cash flow for acquisition of rc group (**)		(42,042)	-	-
Cash flow generated (absorbed) by investment activities (C)		**(3,437)**	**(60,845)**	**(60,845)**
Changes in net equity for ias 32 and 39		(1,294)	(1,119)	(1,119)
Payment of dividends		(2,990)	(8,970)	(8,970)
Change in currency translation reserve		(4,446)	6,983	6,983
Increase (decrease) in minority interests in capital and reserves		740	65	65
Cash flow generated by changes in equity accounts (D)		**(7,990)**	**(3,041)**	**(3,041)**
Effect of factoring receivables without recourse (E)		**112,900**	**-**	**(58,900)**
Cash flow for the year (A+B+C+D+E)		**196,794**	**(53,360)**	**(112,260)**
Opening net financial position	**28**	**(511,398)**	**(458,038)**	**(399,138)**
Cash flow for the year (A+B+C+D+E)		196,794	(53,360)	(112,260)
Closing net financial position	**28**	**(314,604)**	**(511,398)**	**(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.
(**) This effect has been calculated on the basis of the rc group's net equity at 30 september 2006, which included net borrowings of €10.9 Million (€6.9 Million at 31 december 2006).

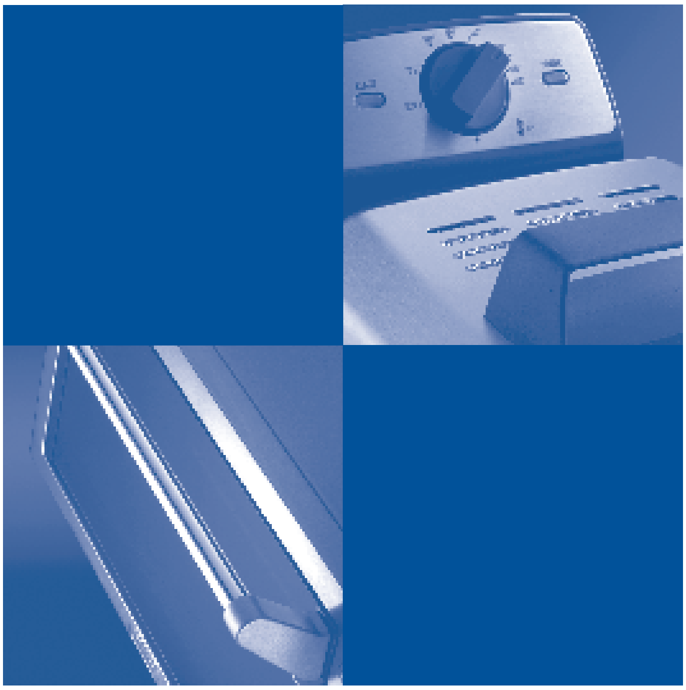
Statement of changes in consolidated net equity

	Share capital	Share premium reserve	Legal reserve	Other reserves	Fair value reserve	Profit (loss) carried forward	Profit (loss) pertaining to group	Group portion of net equity
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 reserves of effects of 2004 adoption of IAS/IFRS	-	-	-	-	-	20,339	(20,339)	-
Changes in reserves for application of IAS	-	-	-	-	887	(54)	-	833
Difference from conversion of foreign companies' financial statements into euro	-	-	-	-	-	6,983	-	6,983
Profit pertaining to the group	-	-	-	-	-	-	24,820	24,820
Balance at 31 December 2005	**448,500**	**325**	**5,393**	**43,384**	**(620)**	**61,979**	**24,820**	**583,781**
Allocation of 2005 result as per AGM resolution of 27 April 2006								
- payment of dividends	-	-	-	-	-	-	(2,990)	(2,990)
- allocation to reserves	-	-	200	808	-	20,822	(21,830)	-
Changes in reserves for application of IAS	-	-	-	-	(905)	351	-	(554)
Difference from conversion of foreign companies' financial statements into euro	-	-	-	-	-	(4,445)	-	(4,445)
Profit pertaining to the group	-	-	-	-	-	-	39,776	39,776
Balance at 31 December 2006	**448,500**	**325**	**5,593**	**44,192**	**(1,525)**	**78,707**	**39,776**	**615,568**

Statement of gains (losses) recognized in consolidated net equity

	31.12.2006	31.12.2005
Gains (losses) recognized directly in fair value reserve	(905)	887
Gains (losses) recognized directly in currency translation reserve	(4,445)	6,983
Other gains (losses)	351	(54)
Total gains (losses) recognized directly in net equity	**(4,999)**	**7,816**
Profit (loss) from ordinary operations before minority interests	40,446	24,870
Total gains (losses) recognized in the year	**35,447**	**32,686**
Attributable to:		
Group	34,777	32,636
Minority interests	670	50

Explanatory notes



Group business

De'Longhi S.p.A., which has its registered office in Treviso, is the operational holding company to a group organized into the two divisions of "Professional products" and "Household products" and which are leaders in the household appliances market for air cooling and treatment, heating, food preparation, domestic cleaning and ironing .

The "Household" division includes all the types of product not included in the "Professional" division and which are distributed mainly through the retail channel under the trademarks of De'Longhi, Kenwood and Ariete.

The "Professional" division includes large cooling systems (Climaveneta and the RC Group), water-filled 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.

Accounting standards

The De'Longhi Group's consolidated financial statements at 31 December 2006 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 2006), 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 accounting policies and measurement bases used for preparing the financial statements at 31 December 2006 are the same as those used for preparing the consolidated financial statements at 31 December 2005.

During 2005 a new financial reporting standard was issued "IFRS 7 - Financial instruments: disclosures" and an amendment to "IAS 1 - Presentation of financial statements: additional information about capital". Both documents apply as from 1 January 2007. During 2006 the IASB issued IFRS 8 (which will replace "IAS 14 - Segment reporting" as from 1 January 2009). The group is evaluating the effects of adopting these standards.

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.

As regards the comparative periods, it is reported that for the purposes of consistent comparison, a number of immaterial income statement and balance sheet reclassifications have been made to the figures previously published at 31 December 2005, which have not however affected the profit for the year or the group's portion of net equity. Details can be found in notes 2. *Raw and ancillary materials, consumables and goods and 5. Services and other operating expenses.*

This report is presented in thousands of euro, which is the functional 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 and measurement bases (except for the parent company, the statutory financial statements of the group's Italian companies, prepared under local GAAP, have been adjusted to make them compliant with IAS/IFRS).
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.

Subsidiary companies

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 show the group's portion 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.

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		2006 Year-end exchange rate (*)	2006 Average exchange rate (*)	2005 Year-end exchange rate (*)	2005 Average exchange rate (*)
US dollar	USD	1.3170	1.25560	1.17970	1.24409
British pound	GBP	0.6715	0.68173	0.68530	0.68380
Hong Kong dollar	HKD	10.2409	9.75454	9.14740	9.67682
Chinese Renminbi (Yuan)	CNY	10.2793	10.00960	9.52040	10.19640
Australian dollar	AUD	1.6691	1.66681	1.61090	1.63196
Canadian dollar	CAD	1.5281	1.42369	1.37250	1.50873
Japanese yen	JPY	156.9300	146.01500	138.90000	136.84900
Malaysian ringgit	MYR	4.6490	4.60437	4.45840	4.71161
New Zealand dollar	NZD	1.8725	1.93732	1.72700	1.76595
Polish zloty	PLN	3.8310	3.89586	3.86000	4.02302
South African rand	ZAR	9.2124	8.53118	7.46420	7.91834
Singapore dollar	SGD	2.0202	1.99415	1.96280	2.07024
Russian rouble	RUB	34.6800	34.11170	33.92000	35.18600
Turkish lira	TRY	1.8640	1.80898	1.59240	1.67708

(*) source: UIC (Italian Exchange Office)

Change in the scope of consolidation

The following changes took place in the scope of consolidation during 2006:

- In June 2006, the group sold 100% of Elba S.p.A., a company which manufactures and sells cooking products including free-standing cookers, built-in ovens and hobs. This company was deconsolidated commencing from 1 June 2006 since the effects of the sale ran from 31 May 2006.
  The report on operations presents the principal performance indicators (revenues and margins) assuming the same scope of consolidation and so excluding Elba's figures for the period June-December 2005 from the 2005 comparative results.
  The interest in Elba S.p.A. was sold to a white goods manufacturing group from New Zealand, which is listed on the Australian and New Zealand stock exchanges. Under the terms of the sale agreement the De'Longhi Group will carry on distributing De'Longhi and Elba branded cooking products in New Zealand and Australia and will also maintain an ongoing strategic partnership with Elba S.p.A..
  The company was sold for a figure of €72.1 million, net of its financial payables of €6.1 million at 31 May 2006 and gross of the related selling costs. The sale generated a net capital gain of €26.4 million and a reduction of €78.2 million in borrowings, gross of the related selling costs.

- The terms of contracts relating to the factoring and securitization of receivables were renegotiated with particular reference to establishing stricter rules for managing commercial dilutions and subscriptions by financial institutions to the junior notes. As a result of this renegotiation, the risks and rewards relating to such receivables are now substantially transferred to the assignee, allowing the special purpose vehicle (Marka Finance S.A.) to be deconsolidated.
  This company, although not controlled by De'Longhi S.p.A., was consolidated at 31 December 2005 on the basis of SIC 12 which requires special purpose entities to be consolidated if all the risks and rewards of the securitized receivables are not deemed to have been transferred. As a result, the securitized receivables were reinstated in the balance sheet against a corresponding increase in net borrowings. The consolidation of the special purpose entity had also given rise to an adjustment to consolidated net equity in relation to this company's accumulated earnings on transition to IAS/IFRS and in periods thereafter. The deconsolidation of Marka Finance S.A. has given rise to a post-tax loss of €1.3 million.

- A new company, DL Professional S.A., was formed during 2006. It will act as a sub-holding company for the group's professional-segment investments specializing in the manufacture and sale of air conditioning and heating products distributed through the professional channel.

- During the month of October, De'Longhi purchased 83.3% of the RC Group, a leading manufacturer and seller of equipment for cooling mobile radio stations, for the precision cooling of computer and fixed telephony rooms, of liquid refrigeration systems and heat pumps. The RC Group has been consolidated with effect from 1 October 2006.

The report on operations presents the principal performance indicators assuming the same scope of consolidation.

- During 2006 three new trading companies were started up in Russia (De'Longhi LLC), in China (De'Longhi Trading (Shenzen) Company Ltd.) and in Turkey (De'Longhi Bosphorus Ev Aletleri Ticaret A.S.) for the sale of the Household division's products on these markets.

- Elle S.r.l. was opened in July 2006 to manage the retail operations at the Franciacorta Outlet Village known as "Living De'Longhi Store", and the "Alicia Perle" project involving the sale of capsules for electric moka coffee machines.

Segment reporting

Segment information is provided by business segment and geographical area as required by IAS 14 "Segment reporting".

The primary reporting format consists of the "household" and "professional" business segments, 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; the segment information (for the primary reporting format) relating to EBIT and the balance sheet can be found in note 38. Segment reporting.

Principal accounting policies

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.

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.

Capitalized 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 ranging between three and 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 machinery

Buildings, plant and equipment owned by the group are recorded at purchase or production cost and systematically depreciated over their residual useful lives. The land pertaining to buildings is not depreciated. The group adopted 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, whereby 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 under 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.

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

Trade receivables:

Trade receivables are initially recorded at fair value. They are not subsequently measured at amortized cost because they refer to short-term assets without transaction costs. Trade receivables are discounted to present value if their payment terms are longer than the average ones generally granted.

The group has factored and securitized its trade receivables. Trade receivables factored without recourse, whose assignment results in the substantial transfer of the related risks and rewards, are eliminated from the balance sheet at the time of their transfer. Receivables whose assignment does not result in the substantial transfer of the related risks and rewards, are retained in the balance sheet.

Since 2002 the parent company and certain group companies have conducted a five-year securitization of trade receivables. This has involved the revolving monthly transfer of a portfolio of trade receivables without recourse.

Receivables are assigned without recourse to a factor, which then transfers them to a special purpose entity which finances the purchase of the receivables by issuing asset-backed securities; the repayment of these securities, placed on the market and all subscribed by institutional investors, as well as the related interest, depends on the cash flow generated by the portfolio of securitized receivables. Receivables are sold at their face value, less a discount that mostly reflects credit risk and the transaction's financial costs.

De'Longhi S.p.A. and its subsidiaries act as servicers for the special purpose entity.

The renegotiation of the contractual terms has resulted in the substantial transfer of the risks and rewards relating to the assigned receivables (see the earlier note on the "Scope of consolidation") and their consequent removal from the balance sheet.

Financial assets

All financial assets are initially measured at cost, corresponding to the amount paid plus transaction costs. They are recognized on the trade date, meaning the date when the group makes a commitment to buy or sell the asset. Financial assets are derecognized only when all the associated risks and rewards are substantially transferred together with the assets, or, even if such risks and rewards are not substantially transferred, when the group no longer retains control of the assets.

The way financial assets are classified determines how they are subsequently measured:

Financial assets at fair value through profit or loss:

This category includes assets acquired mainly for the purpose of selling them in the near term, those designated at fair value upon initial recognition if so permitted, or those for which the fair value option may be exercised. Financial assets in this category are measured 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); the related changes in fair value during the period of ownership are recorded in the income statement. Financial instruments in this category as classified as current assets if they are "held for trading" or if they are expected to be sold within twelve months of the balance sheet date. Derivatives are treated as assets or liabilities depending on whether their fair value is positive or negative respectively; positive and negative fair values relating to transactions with the same counterparty are offset when contractually allowed.

Loans and receivables:

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets, except for those contractually due after more than twelve months from the balance sheet date, which are classified as non-current assets. These assets are measured at amortized cost using the effective interest method. Receivables which are due after more than one year and which bear no interest or interest at a rate below the market one, are discounted to present value using market rates. If there is objective evidence that an asset is impaired, its carrying amount is reduced to the present value of the estimated future cash flows. Impairment losses are recognized in the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the carrying amount of the asset is reinstated but to no more than what its amortized cost would have been had the impairment not been recognized.

Available-for-sale financial assets:

This category includes non-derivative financial assets that are designated as available for sale and are not classified in any of the previous categories. Financial assets in this category are measured at fair value; the related changes in fair value during the period of ownership are recognized in net equity.

The group's financial assets are classified as both current and non-current assets.
Non-current equity investments and other financial assets include equity investments in other companies, non-current loans and receivables and other non-current available-for-sale financial assets.
Current financial assets include trade receivables, other current financial assets, the positive fair value of derivatives and 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.

Financial liabilities

Financial payables are initially recognized at cost, corresponding to 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 highly probable forecast transaction which 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.

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").

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 on 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 period 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 2006, that have a material effect on the group's financial statements.

Comments on the income statement

1. Revenues

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

Revenues by business segment:

	2006	2005	Change	% change
Professional	317,756	270,636	47,120	17.4%
Household	1,071,993	997,149	74,844	7.5%
Intrasegment transactions	(26,774)	(10,087)	(16,687)	
Total	**1,362,975**	**1,257,698**	**105,277**	**8.4%**

Revenues by geographical area:

	2006	2005	Change	%change
Italy	329,670	307,874	21,796	7.1%
United Kingdom	155,456	163,399	(7,943)	(4.9%)
Rest of Europe*	512,058	461,237	50,821	11.0%
United States, Canada and Mexico	123,169	97,233	25,936	26.7%
Rest of the world*	242,622	227,955	14,667	6.4%
Total	**1,362,975**	**1,257,698**	**105,277**	**8.4%**

(*) Commencing from the 2006 half-year report, revenues from sales in Russia (and countries in the former Soviet Union) have been classified in "Rest of Europe" rather than in "Rest of the world". As a result, the 2005 comparative sales relating to this market have been reclassified to "Rest of Europe".

The related trends are discussed in the report on operations.

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

	2006	2005	Change
Freight reimbursement	8,461	8,708	(247)
Commercial rights	2,099	1,304	795
Out-of-period gains	4,449	4,650	(201)
Damage reimbursement	1,146	295	851
Operating grants	827	21	806
Other income	11,303	9,092	2,211
Total	**28,285**	**24,070**	**4,215**

2. Raw and ancillary materials, consumables and goods

The breakdown is as follows:

	2006	2005	Change
Raw materials	192,475	184,874	7,601
Parts	195,543	173,283	22,260
Finished products	310,183	287,347	22,836
Other purchases	10,884	11,985	(1,101)
Total	**709,085**	**657,489**	**51,596**

The figure for 2005 differs from the previously published one after reclassifying €1,583 thousand to "Services and other operating expenses" for the purpose of consistent comparison with 2006.

3. Change in inventories

The breakdown is as follows:

	2006	2005	Change
Change in inventories of finished products and work in progress	(2,612)	36,795	(39,407)
Change in inventories of raw and ancillary materials, consumables and goods	(2,054)	(1,571)	(483)

4. Payroll costs

The breakdown is as follows:

	2006	2005	Change
Employee wages and salaries	158,061	163,843	(5,782)
Temporary workers	6,572	4,776	1,796
Total	**164,633**	**168,619**	**(3,986)**

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

5. Services and other operating expenses

These are detailed as follows:

	2006	2005	Change
Transport (for purchases and sales)	76,677	80,060	(3,383)
Advertising	32,570	35,416	(2,846)
Promotional expenses	43,948	39,673	4,275
Subcontracted work	20,409	17,951	2,458
Commissions	26,233	24,198	2,035
Technical support	14,063	13,904	159
Travel	13,173	13,496	(323)
Insurance	4,481	5,142	(661)
Storage and warehousing	17,350	17,611	(261)
Consulting services	11,747	11,235	512
Power	9,859	8,662	1,197
Postage, telegraph and telephones	4,648	4,817	(169)
Maintenance	4,896	3,730	1,166
Other services	23,545	21,477	2,068
Rentals and leasing	22,105	21,565	540
Total services	**325,704**	**318,937**	**6,767**
Out-of-period losses	2,127	1,178	949
Sundry taxes	17,180	13,783	3,397
Bad debts	23	257	(234)
Other	4,291	2,009	2,282
Total other operating expenses	**23,621**	**17,227**	**6,394**
Total services and other operating expenses	**349,325**	**336,164**	**13,161**

“Rentals and leasing” consist of premises rental (€16,772 thousand), operating lease payments (€888 thousand), royalties (€1,674 thousand) and equipment hire (€2,821 thousand).

The figure for 2005 differs from the previously published one after reclassifying €1,583 thousand from “Raw and ancillary materials, consumables and goods” for the purpose of consistent comparison with 2006.

6. Contingency and other provisions

These include €7,647 thousand in increases in provisions for contingencies and charges as discussed in note *30. Other non-current provisions for contingencies and other charges*.

This amount also includes €3,949 thousand in increases to the provision for doubtful accounts (see note *20. Trade receivables*), €300 thousand in increases to the defined benefit plan of the subsidiary DL Japan Corp. and €624 thousand for writing down the cost of certain intangible assets (mainly development costs capitalized in the past for projects that are not yet complete).

7. Other non-recurring income (expenses)

The breakdown is as follows:

	2006	2005	Change
Restructuring costs	-	(6,257)	6,257
Other income (expenses)	2,825	(6,169)	8,994
Total	**2,825**	**(12,426)**	**15,251**

These mainly refer to income (expenses) recognized in the period as a result of non-recurring events.

8. Amortization and depreciation

These are detailed as follows:

	2006	2005	Change
Amortization of intangible assets	13,204	11,362	1,842
Depreciation of property, plant and equipment	27,413	26,140	1,273
Total amortization and depreciation	**40,617**	**37,502**	**3,115**

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

The amortization of intangible assets includes the effect of redefining the remaining useful life of certain new product development costs.

9. Financial income (expenses)

Net financial income and expenses are broken down below:

	2006	2005	Change
Net capital gain on sale of Elba S.p.A.	26,430	-	26,430
Effect of deconsolidating Marka Finance S.A.	(1,501)	-	(1,501)
Other income from equity investments	51	150	(99)
Financial income (expenses) from equity investments	**24,980**	**150**	**24,830**
Exchange gains (losses)	**(1,606)**	**553**	**(2,159)**
Interest expense and other bank charges	(36,883)	(31,501)	(5,382)
Financial discounts	(10,090)	(9,249)	(841)
Other financial income (expenses)	(33)	71	(104)
Other financial income (expenses)	**(47,006)**	**(40,679)**	**(6,327)**
Net financial income (expenses)	**(23,632)**	**(39,976)**	**16,344**

"Interest expense and other bank charges" include not only bank interest on the group's financial debt but also the cost of factoring receivables without recourse and of leases, as well as adjustments arising under IAS to calculate the amortized cost of bank loans and borrowings and hedging instruments.

Despite the decrease in net borrowings since 2005, debt-related costs have increased by €5,382 thousand in 2006, reflecting the significant rise in interest rates over the year which has more than offset the benefits of lower debt.

10. Income taxes for the year

These are made up as follows:

	2006	2005	Change
Current income taxes:			
- IRES and other income taxes	14,480	18,672	(4,192)
- IRAP	4,836	5,128	(292)
Deferred income taxes	(502)	(21,182)	20,680
Taxes relating to prior years	2,062	-	2,062
Total	**20,876**	**2,618**	**18,258**

"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 likely to be used in the future.

"Taxes relating to prior years" refer to the costs arising under a tax assessment of a subsidiary (more details can be found in note 36. *Tax position*).

The actual and theoretical tax charge are reconciled as follows:

	2006	%	2005	%
Profit before taxes	61,322	100%	27,488	100%
Theoretical taxes	20,236	33%	9,071	33%
Reversal of deferred tax assets	-	-	(10,265)	(37%)
Non-taxable income	(8,250)	(13%)	-	-
Other (*)	1,992	3%	(1,316)	(5%)
Taxes relating to prior years	2,062	3%	-	-
Total income taxes	**16,040**	**26%**	**(2,510)**	**(9%)**
IRAP	4,836	8%	5,128	19%
Actual taxes	**20,876**	**34%**	**2,618**	**10%**

(*) Mostly refers to the tax effect of permanent differences and of different tax rates applied abroad relative to the theoretical ones applied in Italy.

Comments on the balance sheet: assets

Non-current assets

11. Goodwill

	31.12.2006		31.12.2005		
	Gross	Net	Gross	Net	Change
Goodwill	252,006	223,679	249,363	219,239	4,440

The change in goodwill mainly reflects the combined effect of transactions during the year, namely the sale of Elba S.p.A (which left the scope of consolidation) and the acquisition of the RC Group (involving the first-time consolidation of three new companies).

Goodwill is not 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 (CGU) 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 De'Longhi Group has two principal business segments: the Household and Professional divisions. These segments represent the main way in which the group is analyzed, both for management reporting purposes and for the disclosure of segment information in the notes to the consolidated financial statements.
Six CGUs have been identified within each segment. Individual companies are generally attributable to a specific CGU, meaning that CGU results and balance sheets can be derived by subconsolidating the legal entities concerned. The results of some companies, however, are attributable to several CGUs: in this case their results and balance sheets are split by business unit, each one of which is allocated to the CGU concerned.
Most of the group's goodwill (accounting for 84% of the total) refers to the Professional segment.
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. The discount rate used of 6.8% reflects current market assessments of the time value of money and takes account of the risks specific to the individual cash generating units.
The cash flows discounted to present value do not include tax receipts or payments (in keeping with the discount rate which is a pre-tax one).

The impairment test carried out at the end of 2006 did not reveal any significant evidence that goodwill might have suffered an impairment loss. No events of significance have occurred so far in 2007 such as might suggest that the carrying amounts of goodwill may have suffered an impairment loss.

12. Other intangible assets

The breakdown is as follows:

	31.12.2006		31.12.2005		
	Gross	Net	Gross	Net	Change
New product development costs	25,875	11,756	20,179	12,585	(829)
Patents	25,921	3,669	24,434	3,771	(102)
Trademarks and similar rights	218,766	165,339	223,440	174,138	(8,799)
Work in progress and advances	8,282	7,992	6,235	6,235	1,757
Other	14,972	1,723	13,150	2,811	(1,088)
Total	**293,816**	**190,479**	**287,438**	**199,540**	**(9,061)**

The following table reports movements in the main asset categories during 2006:

	New product development costs	Patents	Trademarks and similar rights	Work in progress and advances	Other	Total
Net opening balance	**12,585**	**3,771**	**174,138**	**6,235**	**2,811**	**199,540**
Additions	3,376	1,376	7	6,074	662	11,495
Amortization	(5,529)	(1,634)	(4,149)	-	(1,892)	(13,204)
Translation difference	19	(8)	-	-	(44)	(33)
First-time consolidation	135	226	-	1	-	362
Deconsolidation	(989)	(166)	(4,651)	(718)	-	(6,524)
Other movements (*)	2,159	104	(6)	(3,600)	186	(1,157)
Net closing balance	**11,756**	**3,669**	**165,339**	**7,992**	**1,723**	**190,479**

(*) The amounts reported as “Other movements” mostly refer to reclassifications and the writedown of certain intangible assets.

With reference to “New product development costs”, which report an increase of €3,376 thousand, these costs have been capitalized by virtue of their estimated future utility, based on detailed reporting and analysis of the costs incurred. The change in “Work in progress and advances” also refers to newly capitalized development costs for projects that had not been completed at the balance sheet date.

“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. The review of the De’Longhi and Climaveneta trademarks carried out upon IFRS transition 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.

The impairment test carried out at the end of 2006 on the basis of discount rates reflecting current market assessments of the time value of money and the risks specific to the individual cash generating units, did not reveal any significant evidence that these assets might have suffered an impairment loss. No events of significance have occurred so far in 2007 such as might suggest that the carrying amounts of trademarks may have suffered an impairment loss.

13. Land, property, plant and machinery

These are detailed as follows:

	31.12.2006		31.12.2005		
	Gross	Net	Gross	Net	Change
Land and buildings	162,072	147,496	164,423	152,793	(5,297)
Plant and machinery	205,089	66,026	223,266	65,346	680
Total	**367,161**	**213,522**	**387,689**	**218,139**	**(4,617)**

The following table reports movements during 2006:

	Land and buildings	Plant and machinery	Total
Net opening balance	**152,793**	**65,346**	**218,139**
Additions	4,398	15,740	20,138
Disposals	(461)	(4,350)	(4,811)
Depreciation	(4,431)	(6,826)	(11,257)
Translation difference	(445)	(1,344)	(1,789)
First-time consolidation	12,734	1,087	13,821
Deconsolidation	(16,366)	(2,876)	(19,242)
Other movements	(726)	(751)	(1,477)
Net closing balance	**147,496**	**66,026**	**213,522**

The additions to “Land and buildings” mainly refer to investments by the parent company, by the subsidiary Kenwood Ltd. and by the joint venture TCL-De’Longhi Home Appl. (Zhongshan) Co.Ltd. in the new factory completed during 2006.

The additions to “Plant and machinery” include €7 million in investments made in Italy for the new column radiator production lines, other investments for upgrading lines producing “fully automatic” coffee machines and in the factories that manufacture oil-filled radiators in Russia and China.

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

	31.12.2006	31.12.2005	Change
Buildings	11,984	16,230	(4,246)
Plant and equipment	13,311	4,846	8,465
Other	148	122	26
Total	**25,443**	**21,198**	**4,245**

The net book value of plant and equipment under finance lease has increased mainly as a result of the new column radiator production lines at the factory in Moimacco (Udine).

Information on the financial liability arising under the related lease agreements can be found in note 28. Other financial payables.

14. Other tangible assets

Details of other tangible assets are as follows:

	31.12.2006		31.12.2005		
	Gross	Net	Gross	Net	Change
Industrial and commercial equipment	165,073	26,440	168,905	28,003	(1,563)
Other	40,565	11,770	37,808	10,667	1,103
Work in progress and advances	3,451	3,451	7,033	7,033	(3,582)
Total	**209,089**	**41,661**	**213,746**	**45,703**	**(4,042)**

The following table reports movements during 2006:

	Industrial and commercial equipment	Other	Work in progress and advances	Total
Net opening balance	**28,003**	**10,667**	**7,033**	**45,703**
Additions	13,279	4,392	3,044	**20,715**
Disposals	(1,717)	(277)	(1,364)	**(3,358)**
Depreciation	(12,799)	(3,357)	-	**(16,156)**
Translation differences	(301)	(354)	(539)	**(1,194)**
First-time consolidation	4	589	-	**593**
Deconsolidation	(1,212)	(132)	(81)	**(1,425)**
Other movements (*)	1,183	242	(4,642)	**(3,217)**
Net closing balance	**26,440**	**11,770**	**3,451**	**41,661**

(*) These include 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 (particularly fully-automatic coffee machines and Kenwood and Ariete products).

15. Equity investments

	31.12.2006	31.12.2005	Change
Associated companies	6,476	6,496	(20)
Other companies	731	221	510
Total	**7,207**	**6,717**	**490**

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

Financial asset	31.12.2006	31.12.2005	Change
Associated companies:			
Top Clima S.L.	3,847	3,799	48
Effegici S.r.l.	-	71	(71)
Emer S.p.A.	2,629	2,626	3
Total associated companies	**6,476**	**6,496**	**(20)**

The equity investment in Omas S.r.l. was sold (with a buyback option) during 2006 to the ultimate parent company De’Longhi Soparfi S.A. for €50 thousand, based on a valuation prepared by independent experts.

Equity investments in other companies amount to €731 thousand (€221 thousand at 31 December 2005). The increase reflects the conversion into shares of Banca Popolare di Vicenza bonds, classified as other securities at 31 December 2005. More details can be found in note 23. *Current financial receivables and assets.*

16. Other non-current receivables

The balance at 31 December 2006 includes €1,036 thousand in security deposits (€877 thousand at 31 December 2005), €550 thousand for a five-year loan to the minority shareholder in the Chinese subsidiary Promised Success Ltd (€1,271 thousand at 31 December 2005) and €24 thousand in other non-current receivables.

17. Other non-current securities

These relate to the subscription by DL Radiators S.p.A. to a bond (2006-2011) issued by Edifriuli S.p.A. which carries floating rate annual interest corresponding to the European Central Bank's rate plus two-thirds (5.8% at the end of December 2006).

18. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are detailed as follows at 31 December 2006:

	31.12.2006	31.12.2005	Change
Deferred tax assets	41,332	40,022	1,310
Deferred tax liabilities	(20,461)	(16,715)	(3,746)
Net asset balance	**20,871**	**23,307**	**(2,436)**

"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 likely to be used in the future.

Details of the net balance are as follows:

	31.12.2006	31.12.2005	Change
- Temporary differences	1,652	4,628	(2,976)
- Tax losses	19,219	18,679	540
Net asset balance	**20,871**	**23,307**	**(2,436)**

The net asset balance reflects €5,022 thousand in increases for the deconsolidation of Elba S.p.A. and €1,973 thousand in decreases for the first-time consolidation of the RC Group, as well as €387 thousand in amounts booked to net equity in the "Fair value reserve".

It is also reported that no deferred taxes have been recognized on €15.1 million in carried forward tax losses reported by certain group companies.

Current assets

19. Inventories

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

	31.12.2006	31.12.2005	Change
Raw, ancillary and consumable materials	69,211	64,311	4,900
Work in progress and semi-finished products	26,142	27,240	(1,098)
Finished products and goods	228,150	248,659	(20,509)
Advances	230	-	230
Total	**323,733**	**340,210**	**(16,477)**

The value of inventories is adjusted by a provision for obsolete or slow-moving goods totalling €24,081 thousand (€27,983 thousand at 31 December 2005), in relation to products and raw materials no longer deemed to be of strategic interest. The amount of this provision has decreased as a result of the large amount of slow-moving/obsolete finished products and parts sold by the parent company in 2006 and the deconsolidation of Elba S.p.A.

If inventories had been valued on a current cost basis the valuation would not have been significantly different.

20. Trade receivables

These are made up as follows:

	31.12.2006	31.12.2005	Change
Trade receivables			
- due within 12 months	362,089	347,439	14,650
Provision for doubtful accounts	(14,075)	(10,493)	(3,582)
Total	**348,014**	**336,946**	**11,068**
Assigned receivables	-	113,118	(113,118)
Total	**348,014**	**450,064**	**(102,050)**

Trade receivables have gone down by €102,050 thousand, partly reflecting the different accounting treatment adopted at December 2006 relative to December 2005 for the assignment of receivables without recourse (ie. securitizations and without recourse assignments to factors). These receivables (totalling €117,028 thousand at 31 December 2006) have been derecognized as a result of intervening contractual amendments resulting in the substantial transfer of the risks and rewards of the receivables to the assignee, thus meeting the IAS/IFRS derecognition criteria.

In accordance with the disclosure required by CONSOB Circular 3369 of 9 April 1997, we report that the total amount of receivables securitized by the parent company and its subsidiaries (under Law 52/1991 known as the Factoring Law) in the period from January to the end of December 2006 was €268,945 thousand.

Trade receivables are stated net of a provision for doubtful accounts of €14,075 thousand, representing a reasonable estimate of the expected risk at the reporting date. Provisions are made against a number of disputed receivables or those whose collection is otherwise in doubt, taking account of the fact that a significant proportion of the receivables are covered by insurance policies with major insurers.

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

	31.12.2005	Increases	Utilization	First-time consolidation	Translation difference and other movements	31.12.2006
Provision for doubtful accounts	10,493	3,949	(2,287)	1,929	(9)	14,075

The group has received €1,723 thousand in customer guarantees (mainly in the form of sureties) against commercial transactions.

Trade receivables are broken down by geographical area as follows:

Geographical area	31.12.2006	%	31.12.2005	%
Italy	93,284	26.8%	171,743	38.1%
United Kingdom	32,464	9.3%	41,823	9.3%
Rest of Europe	133,130	38.3%	117,803	26.2%
United States, Canada, Mexico	16,286	4.7%	27,321	6.1%
Rest of the world	72,850	20.9%	91,374	20.3%
Total	**348,014**	**100.0%**	**450,064**	**100.0%**

21. Current tax assets

"Current tax assets" are detailed below:

	31.12.2006	31.12.2005	Change
VAT	11,502	3,068	8,434
Tax payments on account	4,907	7,501	(2,594)
Direct taxes	1,551	808	743
Tax refunds requested	2,517	861	1,656
Other tax receivables	53	100	(47)
Total current tax assets	**20,530**	**12,338**	**8,192**

"VAT" is reporting a temporary increase at 31 December 2006. Measures have already been taken in 2007 to reduce this balance.

"Tax payments on account" mostly refer to the tax paid on account of 2006 income by the parent company and other Italian companies that exceeds the amount of income tax payable for the period.
"Tax refunds requested" include the amount requested for additional VAT deductions on the purchase of motor vehicles and related costs, following the Court of Justice's sentence of 14 September 2006, and the refund requested for duties on mineral oils paid upon the import of oil-filled radiators into Italy, subsequently re-exported or sold in another EU state.
The amount of current tax assets due beyond 12 months is €382 thousand (€610 thousand at 31 December 2005).

22. Other receivables

"Other receivables" are broken down as follows:

	31.12.2006	31.12.2005	Change
Advances to suppliers	4,871	3,061	1,810
Factors	75	5,641	(5,566)
Employees	412	598	(186)
Advertising and insurance costs	877	983	(106)
Other	12,630	8,779	3,851
Total other receivables	**18,865**	**19,062**	**(197)**

The increase in "Other" mostly refers to amounts due from social security institutions in respect of the manufacturing reorganization plan and the parent company's tax-related receivables relating to Elba S.p.A. arising upon this company's departure from the tax group. The latter amount will be paid in May 2007, as agreed under contract.
None of the other receivables is due beyond 12 months.

23. Current financial receivables and assets

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

	31.12.2006	31.12.2005	Change
Other financial receivables	975	1,006	(31)
Other securities	19	656	(637)
Total financial receivables and assets	**994**	**1,662**	**(668)**

"Other securities" included €500 thousand at 31 December 2005 in respect of 4,902 Banca Popolare di Vicenza convertible bonds purchased by the parent company to invest its surplus cash. These bonds were converted into shares during 2006 and reclassified to "Equity investments in other companies". See note *15. Equity investments*.

24. 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 €74.8 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 €69.5 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 workings of the international cash pooling system, the positive and negative cash balances have been netted against one another in the consolidated balance sheet, as allowed by IAS 32. 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.

Current accounts totalling €1,333 thousand carry restrictions at 31 December 2006. These include €971 thousand in bank deposits by certain Chinese subsidiaries given as security to the customs authorities against the temporary import of raw materials. These deposits will be released shortly; a bank surety has been agreed instead of the bank deposits to act as security against new imports of raw materials.

Comments on the balance sheet: net equity and liabilities

Net equity

"Net equity" is made up as follows:

	31.12.2006	31.12.2005	Change
Group portion	615,568	583,781	31,787
Minority interests	5,037	1,754	3,283
Total net equity	**620,605**	**585,535**	**35,070**

The annual general meeting (AGM) of De'Longhi S.p.A. held on 27 April 2006 declared a dividend totalling €2,990 thousand.

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

25. 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.

26. Reserves

These are broken down as follows:

	31.12.2006	31.12.2005	Change
Share premium reserve	325	325	-
Legal reserve	5,593	5,393	200
Other reserves			
- Extraordinary reserve	44,192	43,384	808
- Fair value reserve	(1,525)	(620)	(905)
- Profit (loss) carried forward	78,707	61,979	16,728
Total reserves	**127,292**	**110,461**	**16,831**

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

The "Legal reserve" had a balance of €5,393 thousand at 31 December 2005. The intervening increase of €200 thousand is due to the allocation of the profit for 2005, as approved by the above AGM of De'Longhi S.p.A..

The “Extraordinary reserve” is €808 thousand higher than at 31 December 2005 due to the parent company’s allocation of profit for 2005, as approved by the above AGM.

The “Fair value reserve” is stated net of €701 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 against the exposure of future revenues and costs to exchange rate fluctuations.
This reserve also includes the net result of measuring “available for sale” financial assets at fair value.
The reduction of €905 thousand in the fair value reserve during 2006 reflects the post-tax effect of valuing cash flow hedges.

“Profit (loss) carried forward” includes the retained earnings of the consolidated companies and the effects of making accounting policy and consolidation adjustments and €15.3 million in exchange differences arising on the translation of foreign company financial statements into euro.

Minority interests in net equity amount to €5,037 thousand. The interests held by minority interests and their corresponding share of net equity and results for the year ended 31 December 2006 are summarized below:

Company	% interest	Net equity	Profit (loss) for the year
E-Services S.r.l.	49%	1,086	643
Promised Success Ltd. - On Shiu (Zhongshan) Electrical Appliance Company Ltd.	33%	1,078	-
De’Longhi Bosphorus Ev Aleteri Ticaret Anonim Sirketi	30%	195	(78)
RC Group	16.7%	2,620	77
Zass Alabuga LLC	7.2%	58	28
Total		**5,037**	**670**

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

	Net equity 31.12.2006	Profit for year 2006	Net equity 31.12.2005	Profit for year 2005
De'Longhi S.p.A. financial statements	**525,189**	**13,846**	**514,195**	**9,147**
Share of subsidiaries' equity and results for period attributable to the group, after deducting carrying value of the investments	9,167	62,475	(4,400)	87,916
Adjustment of writedowns made for statutory purposes and intercompany profits on investments and reversal of dividends	-	(36,067)	-	(61,643)
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	119,562	(1,816)	112,105	(6,015)
Elimination of intercompany profits	(26,265)	6,055	(33,336)	(5,827)
Other adjustments	(7,048)	(4,047)	(3,029)	1,292
Group portion of consolidated net equity	**620,605**	**40,446**	**585,535**	**24,870**
Minority interests	(5,037)	(670)	(1,754)	(50)
Consolidated net equity	**615,568**	**39,776**	**583,781**	**24,820**

Non-current liabilities

27. 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 31.12.2006	Balance 31.12.2005	Change
Overdrafts	16,174			16,174	4,474	11,700
Short-term loans in euro or foreign currency	87,218			87,218	117,587	(30,369)
Advances	152			152	-	152
Long-term loans (current portion)	100,354			100,354	191,690	(91,336)
Total short-term bank loans and borrowings	**203,898**			**203,898**	**313,751**	**(109,853)**
Long-term loans	-	167,417	24,502	191,919	217,823	(25,904)
Total bank loans and borrowings	**203,898**	**167,417**	**24,502**	**395,817**	**531,574**	**(135,757)**

Long-term loans comprise the following:

Loans (including short-term portion)	Balance 31.12.2006	Balance 31.12.2005
Loan from Intesa-San Paolo	60,655	150,289
Loans from Banca Popolare di Verona e Novara	112,137	137,703
Loan from BNP Paribas	100,868	99,836
Loan from Banca Nazionale del Lavoro	-	8,007
Loan from Banca Antoniana Popolare Veneta	-	5,773
Loan from Mediocredito del Friuli Venezia Giulia	2,016	3,225
Loan from Banca di Roma	2,045	-
Loan from Banca Popolare di Sondrio	2,452	-
Loan from Banca Popolare Commercio e Industria	2,781	-
Loan from Cariparma	783	-
Loan from Unicredit	2,318	-
Loan from IMI (Law 46)	2,278	2,419
Other minor loans	3,940	2,261
Total long-term loans	**292,273**	**409,513**

During 2006 De'Longhi S.p.A. repaid two loans early, one from Banca Nazionale del Lavoro and the other from Banca Antoniana Popolare Veneta. This early repayment was reported in the explanatory notes to the financial statements at 31 December 2005, having been formally notified before the date of approving the annual report. Also during the year, €30 million in principal was repaid early against the syndicated loan arranged by Intesa San Paolo maturing in March 2008. During the first quarter of 2007 the remainder of this loan was repaid in full, since its cost was deemed to be excessive. No penalties were incurred for this early repayment.
The full amount of this particular loan was reclassified as current at 31 December 2005, as required by IAS 1, after the group failed to observe a financial covenant. Subsequent to the reporting date of 31 December 2005 De'Longhi S.p.A. requested a waiver from the agent bank, which was duly granted on 12 April 2006.

The syndicated loan arranged by BNP Paribas calls for the observance of financial covenants on a six-monthly basis.

Financial covenants have been observed in accordance with contract at 31 December 2006.

28. Other financial payables

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

	Balance 31.12.2006	Balance 31.12.2005	Change
Payables for assigned receivables	-	125,049	(125,049)
Payables to lease companies (short-term portion)	3,512	2,663	849
Ministry of Industry loans (short-term portion)	835	822	13
Payables for the purchase of equity investments	6,200	386	5,814
Other short-term financial payables	7,530	14,214	(6,684)
Total short-term payables	**18,077**	**143,134**	**(125,057)**
Payables to lease companies (long-term portion)	13,950	12,040	1,910
Ministry of Industry loans (long-term portion)	3,779	4,614	(835)
Total long-term payables	**17,729**	**16,654**	**1,075**
Total other financial payables	**35,806**	**159,788**	**(123,982)**

This balance mostly refers to finance leases of €17,462 thousand (€14,703 thousand at 31 December 2005) and low-interest loans from the Ministry of Industry of €4,614 thousand (€5,436 thousand at 31 December 2005).
The balance at 31 December 2005 included liabilities for receivables assigned without recourse.
Even if the ownership of these receivables had been legally transferred, IFRS required that €113,118 thousand in such receivables be reinstated in the balance sheet at 31 December 2005 with a corresponding adjustment to the net financial position in order to recognize the liability to the factor.
Intervening contractual amendments have made it possible to exclude these receivables from the balance sheet since the risks and rewards have now been substantially transferred to the assignee, thus meeting the IFRS/IAS condition for derecognition.
"Payables for the purchase of equity investments" include the remaining purchase price of the RC Group, acquired in October 2006, which will be paid during 2007.

Summary of net financial position

Details of the net financial position are as follows:

	Balance 31.12.2006	Balance 31.12.2005	Change
A. Cash	1,034	1,077	(43)
B. Cash equivalents	111,918	175,954	(64,036)
C. Securities	19	656	(637)
D. Total liquidity (A+B+C)	112,971	177,687	(64,716)
E 1. Current financial receivables	975	1,006	(31)
E 2. Non-current financial receivables and other securities (*)	3,074	1,271	1,803
F. Current bank loans and borrowings	(103,545)	(122,061)	18,516
G. Current portion of non-current debt (**)	(100,354)	(191,690)	91,336
H. Other current financial payables	(18,077)	(143,134)	125,057
I. Current financial debt (F+G+H)	(221,976)	(456,885)	234,909
J. Net current financial debt (I +E 1 + E 2+D)	(104,956)	(276,921)	171,964
K. Non-current bank loans and borrowings	(191,919)	(217,823)	25,904
L. Bonds	-	-	-
M. Other non-current payables	(17,729)	(16,654)	(1,075)
N. Non-current financial debt (K+L+M)	(209,648)	(234,477)	24,829
Total	**(314,604)**	**(511,398)**	**196,794**

(*) This amount differs from the non-current receivables reported in the balance sheet (€1,610 thousand at 31 December 2006 and €2,148 thousand at 31 December 2005) because the balance sheet amount includes €1,036 thousand in non-financial receivables (€877 thousand at 31 December 2005).
(**) The amount at 31 December 2005 includes €95,223 thousand reclassified from non-current liabilities as required by IAS 1 (see the comment in note 27. Bank loans and borrowings).

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

29. Employee benefits

These are made up as follows:

	31.12.2006	31.12.2005	Change
Provision for severance indemnities	26,326	25,551	775
Other employee benefits	15,683	17,273	(1,590)
Total employee benefits	**42,009**	**42,824**	**(815)**

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	31.12.2006	31.12.2005	Change
Defined benefit obligations	26,326	25,551	775

Net cost charged to income	31.12.2006	31.12.2005	Change
Current service cost	3,542	4,466	(924)
Interest cost on obligations	879	1,012	(133)
Total	**4,421**	**5,478**	**(1,057)**

Change in present value of obligations	31.12.2006	31.12.2005	Change
Present value at 1 January	**25,551**	**26,243**	**(692)**
Current service cost	3,542	4,466	(924)
Deconsolidation	(2,781)	-	(2,781)
First-time consolidation	3,048	-	3,048
Benefits paid	(3,742)	(6,361)	2,619
Interest cost on obligations	876	1,012	(136)
Other changes	(168)	191	(359)
Present value at 31 December 2006	**26,326**	**25,551**	**775**

The Finance Act for 2007 and related decrees that implement it have introduced major changes as from 1 January 2007 to the rules on severance indemnity, including the requirement for employees to choose how their severance indemnity accruing as from the start of this year should be treated. More specifically, employees may opt to have new severance indemnities paid into selected pension funds or retained in the company (in which case the latter will pay them over to a special account opened with the Italian social security authorities (INPS)). At the present date, the uncertainty over interpreting this recently issued law, the number of potentially different interpretations of how new severance indemnities should be treated under IAS 19 and the consequent changes in the actuarial calculation of severance indemnities accrued to date, as well as the impossibility of forecasting how employees will decide their new severance indemnity should be treated (they have up until 30 June 2007 to decide) make it premature to amend the actuarial calculation of severance indemnity accruing up to 31 December 2006.

Other benefit plans

Movements in the year are as follows:

Net cost charged to income	31.12.2006	31.12.2005	Change
Current service cost	271	308	(37)
Return on plan assets	(1,481)	(1,331)	(150)
Interest cost on obligations	2,041	1,974	67
Total	**831**	**951**	**(120)**

Change in present value of obligations	31.12.2006	31.12.2005	Change
Present value at 1 January	17,273	18,487	(1,214)
Net cost charged to income	831	951	(120)
Benefits paid	(1,952)	(1,300)	(652)
Other movements	(564)	(180)	(384)
Translation difference	95	(685)	780
Total	**15,683**	**17,273**	**(1,590)**

The amount includes €14,581 thousand in respect of Kenwood Ltd. and €1,102 thousand for De'Longhi Japan Corp.

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

Assumptions used	Severance indemnity 2006	Severance indemnity 2005	Other plans 2006	Other plans 2005
Discount rate	4.25%	4.0%	2.3-5.1%	2.0-4.7%
Future salary increases	2.0-2.8%	2.0-2.8%	0.0-2.3%	0.0-2.0%
Inflation rate	2.0%	2.0%	0.0-3.1%	0.0-2.9%

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

	31.12.2006	Average 2006	31.12.2005	Average 2005
Blue collar	4,154	5,008	4,844	5,163
White collar	2,537	2,520	2,504	2,542
Executives	122	117	119	118
Total	**6,813**	**7,645**	**7,467**	**7,823**

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

These are broken down as follows:

	31.12.2006	31.12.2005	Change
Agents' leaving indemnity provision and other retirement provisions	**6,415**	**5,941**	**474**
Product warranty provision	9,290	9,427	(137)
Provision for contingencies and other risks	6,622	11,692	(5,070)
Provision for restructuring	5,900	16,551	(10,651)
Other provisions	**21,812**	**37,670**	**(15,858)**
Total	**28,227**	**43,611**	**(15,384)**

The agents' leaving indemnity provision 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 2006:

	31.12.2005	Utilization	Increases	First-time consolidation	Deconsolidation	Other	31.12.2006
Agents' leaving indemnity provision	5,727	(249)	580	155	(29)	8	6,192
Other retirement provisions	214	9	-	-	-	-	223
Total	**5,941**	**(240)**	**580**	**155**	**(29)**	**8**	**6,415**

Other provisions reported the following movements:

	31.12.2005	Utilization	Increases	Translation difference	Deconsolidation	Other (*)	31.12.2006
Product warranty provision	9,427	(6,028)	6,038	(2)	(200)	55	9,290
Provision for contingencies and other risks	11,692	(5,694)	1,029	(63)	(250)	(74)	6,640
Provision for restructuring	16,551	(10,667)	-	-	-	(2)	5,882
Total	**37,670**	**(22,389)**	**7,067**	**(65)**	**(450)**	**(21)**	**21,812**

(*) Mostly reclassifications

The "Product warranty provision" has been established, for certain consolidated companies, on the basis of estimated under-warranty repair and replacement costs for sales taking place by 31 December 2006. It takes account of the provisions of Decree 24/2002 and of European Community law.

The “Provision for contingencies and other risks” includes:

- the provision for insurance deductibles of €2,033 thousand (€2,211 thousand at 31 December 2005), which covers the group’s insurance liability (limited to the deductible) in the case of liabilities arising from complaints;
- a provision of €4,590 thousand against potential contractual risks that could give rise to liabilities for the parent company and certain subsidiaries.

This provision was utilized in 2006 to pay an amount due under contract.

The “Provision for restructuring” includes provisions for the costs of moving production abroad, most of which refer to costs for reorganizing the workforce and the risk of impairment of components and certain plant and machinery that may no longer be used in production.
In terms of reorganizing the workforce, the provision was utilized in 2006 to absorb the cost of redundancies. Furthermore, as described in the group’s report on operations, the number of redundancies forecast in the industrial plan is lower than expected and so part of the provision made in the past has been released.
In terms of the risk of impairment of components and certain plant and machinery, the restructuring provision was utilized in 2006 to absorb the cost of retiring such assets.

Current liabilities

31. Trade payables

The balance represents the amount owed by the group to third parties for the provision of goods and services.

Trade payables are broken down by geographical area as follows:

Geographical area	31.12.2006	%	31.12.2005	%
Italy	166,721	51.0%	142,615	49.9%
United Kingdom	21,398	6.5%	16,561	5.8%
Rest of Europe	50,898	15.6%	55,788	19.5%
United States, Canada, Mexico	8,856	2.7%	8,261	2.9%
Rest of the world	79,215	24.2%	62,707	21.9%
Total	**327,088**	**100.0%**	**285,932**	**100.0%**

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

32. Current tax liabilities

These are broken down as follows:

	31.12.2006	31.12.2005	Change
Direct taxes	8,796	14,777	(5,981)
Indirect taxes	3,624	4,048	(424)
Withholdings payable	4,303	4,388	(85)
Other taxes	4,431	1,936	2,495
Total current tax liabilities	**21,154**	**25,149**	**(3,995)**

Direct taxes include payables for current income tax less payments on account and any tax credits.
Tax liabilities due beyond 12 months amount to €734 thousand.

33. Other payables

These are detailed as follows:

	31.12.2006	31.12.2005	Change
Social security institutions	6,888	6,897	(9)
Sundry payables	49,023	33,850	15,173
Total other payables	**55,911**	**40,747**	**15,164**

“Social security institutions” include €5,671 thousand in payables to social security agencies, €141 thousand in payables to Italy’s industrial accident insurer and €1,076 thousand to other welfare agencies.

“Sundry payables” are detailed as follows:

	31.12.2006	31.12.2005	Change
Employees	20,550	23,627	(3,077)
Advances	2,669	2,564	105
Other	25,804	7,659	18,145
Total sundry payables	**49,023**	**33,850**	**15,173**

The increase in “Other” includes €12,920 thousand for the deferral of income arising upon the sale of Elba S.p.A. relating to the right to use the “De’Longhi” and “Kenwood” trademarks over a period of twenty years as agreed under contract (just in certain markets and for certain product categories). This balance also includes €3,400 thousand in incentives received in 2006 by Kenwood Limited, which are being recognized over the term of the related lease agreement.

34. Commitments

These are broken down as follows:

	31.12.2006	31.12.2005	Change
Guarantees given:			
- for the benefit of third parties	13,125	736	12,389
Other commitments	4,380	5,256	(876)
Total	**17,505**	**5,992**	**11,513**

The guarantees given for the benefit of third parties include those given to the Italian tax authorities for VAT credits.

“Other commitments” mainly consist of €4.1 million in contractual obligations by the subsidiary De’Longhi America Inc..

In connection with the sale of Elba S.p.A.:

- De’Longhi Finance S.A. (the seller) has given a warranty against any pre-acquisition costs.
- De’Longhi S.p.A (the seller’s shareholder) has given a first-call warranty for €30 million against any pre-acquisition costs that might emerge in the twenty-four months after signing the sale agreement. If, at the end of the twenty-fourth month a claim for reimbursement is still unsettled, the warranty may be extended for another twelve months but only for the amount of the claim (plus a maximum margin of 30%).

There is also a mortgage over a property belonging to RC Group S.p.A. valued at €65 thousand in the balance sheet.

35. 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 adequate 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 functional currency;
- interest rate risk, relating to the cost of the group's borrowings.

Credit risk

Credit risk consists of the group's exposure to potential losses arising from failure by a counterparty to fulfil its obligations.

Commercial credit risk is associated with the normal conduct of trade and is monitored using formal procedures for assessing customers and extending them credit.

Positions are written down when there is objective evidence that they will be partially or entirely uncollected, bearing in mind that a significant proportion of receivables are covered by insurance policies with major insurers.

As far as financial risk is 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 functional 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 by a special team of staff on the basis of information obtained from a structured reporting system, 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 and 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 intervenes 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 2006 is provided below:

- for hedging the 2007 budget (forward agreements):

	Notional amount/000		
Currency	**Purchases**	**Sales**	**Fair value Euro/000**
GBP vs/EUR	-	4,000	(21)
GBP vs/EUR	-	2,000	(49)
NZD vs/EUR	-	2,300	(46)
NZD vs/GBP	-	2,350	(34)
USD vs/EUR (*)	(150,000)	-	(2,606)
USD vs/GBP	(60,000)	-	(1,187)
Total fair value	**-**	**-**	**(3,943)**

(*) This figure includes an agreement for a notional USD 15,000,000, which was booked in the income statement during the year as required by IAS 39.

- for hedges against foreign currency receivables and payables (forward agreements):

Currency	Notional amount/000		Fair value Euro/000
	Purchases	Sales	
AUD vs/EUR	(11,000)	29,092	(72)
AUD vs/GBP	-	7,075	(19)
CAD vs/EUR	-	8,580	-
CHF vs/EUR	-	2,098	-
CHF vs/GBP	-	344	-
CZK vs/EUR	-	6,858	(2)
CZK vs/GBP	-	2,324	-
DKK vs/GBP	-	4,562	(1)
EUR vs/GBP	-	29,912	(39)
EUR vs/RUB	(237)	-	-
EUR vs/USD	(4,657)	-	14
GBP vs/EUR	(114)	49,807	89
HKD vs/EUR	(4,442)	-	(2)
JPY vs/EUR	-	2,746,010	135
NOK vs/EUR	-	1,738	-
NOK vs/GBP	-	19,539	(5)
NZD vs/EUR	-	3,784	(3)
NZD vs/GBP	-	1,578	-
PLN vs/EUR	-	20,487	(11)
SEK vs/GBP	-	2,380	1
TRY vs/EUR	-	1,100	(2)
USD vs/EUR	(15,511)	65,667	112
USD vs/GBP	-	1,557	3
EUR vs/AUD	(365)	-	(5)
EUR vs/NZD	(1,132)	-	(31)
USD vs/AUD	(579)	-	(2)
USD vs/NZD	(1,084)	-	(48)
ZAR vs/EUR	-	11,303	(42)
Total fair value	**-**	**-**	**70**

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 as financial assets and liabilities held for trading with changes in their fair value through profit or loss. These instruments offset the risk being hedged (already recorded in the financial statements).

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 2006 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 2006 there was just one outstanding hedge for €3.2 million expiring in the first quarter of 2008.

The fair value of this hedge at 31 December 2006 was as follows:

Company	Counterparty	Type of hedge	Maturity	Notional amount/000	Fair value Euro/000
Ariete S.p.A.	B. Pop. Verona e Novara	I.R.S.	14-Mar-2008	3,200	(33)
Total fair value					**(33)**

At 31 December 2006 the derivatives hedging this risk have been recorded as financial assets and liabilities held for trading with changes in their fair value through profit or loss.

36. Tax position

During 2006 the tax authorities carried out the following inspections at companies within the De'Longhi Group as part of their programme of periodic audits of large taxpayers:

De'Longhi S.p.A.: a general tax inspection for tax year 2003 by the Veneto regional tax office. A preliminary notice of findings was issued on 3 February 2006. On 20 November 2006 the company presented its defence and proposals, supporting its position in another memorandum presented on 15 December 2006. The Treviso tax office has not yet expressed any opinion.

Ariete S.p.A.: a general tax inspection for tax years 2003 and 2004 by the Tuscany regional tax office. A preliminary notice of findings was issued on 14 June 2006. To date, all the findings regarding direct taxes for 2003 have been settled, with the assessment duly signed on 14 December 2006, while the assessment for 2004 has been agreed and will be signed in coming months.

The related cost of these assessments has already been reflected in the financial statements.

As regards the VAT findings, the company presented its defence and proposals on 8 February 2007. The Prato tax office has not yet expressed any opinion.

37. Transactions and balances with related parties

Attachment 2 contains the information concerning transactions and balances with related parties required by CONSOB Circulars 97001574 dated 20 February 1997, 98015375 dated 27 February 1998 and DEM/2064231 dated 30 September 2002. All such transactions fall within the group's normal operations, except as otherwise stated in these notes, and are settled under arm's-length conditions.
The effects of transactions and balances with related parties on the consolidated income statement and balance sheet are also reported, as required by CONSOB Resolution 15519 of 27 July 2006.

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.

38. Segment reporting

Segment information is presented below (using the primary reporting format):

	31.12.2006				31.12.2005			
	Professional	Household	Eliminations	Consolidated total	Professional	Household	Eliminations	Consolidated total
Total revenues	317,756	1,071,993	(26,774)	1,362,975	270,636	997,149	(10,087)	1,257,698
EBITDA	**33,281**	**92,220**	**70**	**125,571**	**25,379**	**79,499**	**89**	**104,967**
Amortization and depreciation	(6,369)	(34,248)	-	(40,617)	(4,982)	(32,520)	-	(37,502)
EBIT	**26,912**	**57,972**	**70**	**84,954**	**20,397**	**46,978**	**89**	**67,464**
Financial income (expenses)	-	-	-	(23,632)	-	-	-	(39,976)
Profit before taxes	**-**	**-**	**-**	**61,322**	**-**	**-**	**-**	**27,488**
Taxes	-	-	-	(20,876)	-	-	-	(2,618)
Profit (loss) after taxes	**-**	**-**	**-**	**40,446**	**-**	**-**	**-**	**24,870**
Profit (loss) pertaining to minority interests	-	-	-	670	-	-	-	50
Profit (loss) pertaining to the group	**-**	**-**	**-**	**39,776**	**-**	**-**	**-**	**24,820**
Total assets	**525,158**	**1,106,950**	**(85,030)**	**1,547,078**	**450,434**	**1,349,493**	**(68,052)**	**1,731,875**
Total liabilities	**(392,100)**	**(619,413)**	**85,041**	**(926,473)**	**(326,434)**	**(887,969)**	**68,063**	**(1,146,340)**

39. Subsequent events

There have been no significant events since the end of the financial year.

Treviso, 16 March 2007
De'Longhi S.p.A.
Vice Chairman and CEO
Fabio De'Longhi

Attachments

These attachments contain additional information to that reported in the Notes to the consolidated 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 related parties:
   a) Income statement and balance sheet
   b) Summary by company
3. Emoluments of directors and statutory auditors.

Attachment 1

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

Company name	Registered office	Currency	Share capital (1)	Interest held at 31.12.2006	
				Directly	Indirectly
DE'LONGHI AMERICA INC.	Saddle Brook	USD	9,100,000	100%	-
DE'LONGHI FRANCE S.A.R.L.	Clichy	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	2.510,000	100%	-
DE'LONGHI CAPITAL SERVICES S.R.L. (2)	Treviso	EUR	53,000,000	11.32%	88.68%
LA SUPERCALOR S.P.A.	Seregno (MI)	EUR	520,000	100%	-
E- SERVICES S.R.L.	Treviso	EUR	50,000	51%	-
DE'LONGHI LTD.	Wellingborough	GBP	4,000,000	100%	-
DE'LONGHI NEDERLAND B.V.	Breda	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	CNY	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	-	100%
DE'LONGHI FINANCE S.A.	Luxembourg	EUR	181,730,990	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	18,000,001	-	100%
DE'LONGHI NEW ZEALAND LTD.	Auckland	NZD	6,000,000	-	100%
CLIMAVENETA HOME SYSTEM 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%
DL TRADING (SHENZEN) COMPANY CO LTD.	Shenzen	USD	363,000	-	100%
KENWOOD APPLIANCES LTD.	Havant	GBP	4,586,001	-	100%
KENWOOD APPLIANCES LUXEMBOURG S.A.	Luxembourg	EUR	1,000,000	-	100%
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

Company name	Registered office	Currency	Share capital (1)	Interest held at 31.12.2006	
				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%
DL PROFESSIONAL S.A.	Luxembourg	EUR	200,000	100%	-
R.C. GROUP S.P.A.	Valle Salimbene	EUR	10,680,000	-	83.3%
R.C. LUX S.A.	Luxembourg	EUR	6,959,773	-	83.3%
R.C. AIR CONDITIONING AND REFRIGERATION (WUHAN) CO. LTD.	Wuhan	CNY	1,708,875	-	83.3%
ELLE SRL	Treviso	EUR	10,000	100%	-
DE'LONGHI BOSPHORUS EV ALETLERI TICARET ANONIM SIRKETI	Istanbul	TRY	1,700,000	70%	-

List of companies consolidated under the proportional method

Company name	Registered office	Currency	Share capital (1)	Interest held at 31.12.2006 Directly	Indirectly
CHAT UNION CLIMAVENETA COMPANY LTD.	Hong Kong	HKD	10,000		50%
CLIMAVENETA CHAT UNION REFRIGERATION EQUIPMENT (SHANGHAI) 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

Company name	Registered office	Currency	Share capital (4)	Interest held at 31.12.2006 Directly	Indirectly
Associated companies:					
Effegici S.r.l.	Gorgo al Monticano (TV)	EUR	244,400	25%	
Top Clima SL	Barcelona	EUR	1,606,000		25%
Emer S.p.A.	Monza	EUR	520,000	40%	

Other subsidiaries (in liquidation or dormant)

Name	Registered office	Currency	Share capital
Subsidiary companies: (5)			
Kenwood Appliances (Australia) Pty Limited	Sydney	AUD	15,000
Kenwood Appliances Inc.	Havant	USD	25,000

(1) Figures at 31 December 2006, unless otherwise specified.
(2 The articles of association, approved by the extraordinary shareholders' meeting held on 29 December 2004, give special rights to De'Longhi S.p.A. (holding 89% of the voting rights) for ordinary resolutions (approval of financial statements, declaration of dividends, nomination of directors and statutory auditors, purchase and sale of companies, grant of loans to third parties); voting rights are proportional as far as other resolutions are concerned, 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 2005.
(5) Dormant companies or companies in liquidation, whose balance sheets are unavailable.

Attachment 2

Consolidated income statement

(pursuant to CONSOB Resolution 15519 of 27 July 2006)

	31.12.2006	of which with related parties	31.12.2005	of which with related parties
Revenues from sales and services	1,334,690	16,020	1,233,628	16,459
Other operating income and revenues	28,285	678	24,070	204
Total consolidated net revenues	**1,362,975**		**1,257,698**	**-**
Raw and ancillary materials, consumables and goods	(709,085)	(2,263)	(657,489)	(681)
Change in inventories of finished products and work in progress	(2,612)	-	36,795	-
Change in inventories of raw and ancillary materials, consumables and goods	(2,054)	-	(1,571)	-
Materials consumed	**(713,751)**	**-**	**(622,265)**	**-**
Payroll costs	(164,633)	-	(168,619)	-
Services and other operating expenses	(349,325)	(1,389)	(336,164)	-
Contingency and other provisions	(12,520)	-	(13,258)	-
Other non-recurring income (expenses)	2,825	-	(12,426)	-
Amortization and depreciation	(40,617)	-	(37,502)	-
EBIT	**84,954**	**-**	**67,464**	**-**
Financial income (expenses) from equity investments	24,980	-	150	-
Exchange gains (losses)	(1,606)	-	553	-
Other financial income (expenses)	(47,006)	-	(40,679)	-
Financial income (expenses)	**(23,632)**	**-**	**(39,976)**	**-**
Earnings before tax (EBT)	**61,322**	**-**	**27,488**	**-**
Taxes	(20,876)	-	(2,618)	-
Profit (loss) from ordinary operations before minority interests	**40,446**	**-**	**24,870**	**-**
Profit (loss) pertaining to minority interests	670	-	50	-
Profit (loss) pertaining to the group	**39,776**	**-**	**24,820**	**-**

Consolidated balance sheet

(Pursuant to consob resolution 15519 of 27 july 2006)

ASSETS

	31.12.2006	of which with related parties	31.12.2005	of which with related parties
NON-CURRENT ASSETS				
INTANGIBLE ASSETS	414,158	-	418,779	-
- Goodwill	223,679	-	219,239	-
- Other intangible assets	190,479	-	199,540	-
PROPERTY, PLANT AND EQUIPMENT	255,183	-	263,842	-
- Land, property, plant and machinery	213,522	-	218,139	-
- Other tangible assets	41,661	-	45,703	-
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS	11,317	-	8,865	-
- Equity investments (in associated companies)	6,476	-	6,496	-
- Equity investments (in other companies)	731	-	221	-
- Receivables	1,610	-	2,148	-
- Other securities	2,500	-	-	-
DEFERRED TAX ASSETS	41,332	-	40,022	-
TOTAL NON-CURRENT ASSETS	**721,990**	**-**	**731,508**	**-**
CURRENT ASSETS				
INVENTORIES	323,733	-	340,210	-
TRADE RECEIVABLES	348,014	6,721	450,064	6,328
CURRENT TAX ASSETS	20,530	-	12,338	-
OTHER RECEIVABLES	18,865	1,020	19,062	423
CURRENT FINANCIAL RECEIVABLES AND ASSETS	994	-	1,662	-
CASH AND CASH EQUIVALENTS	112,952	-	177,031	-
TOTAL CURRENT ASSETS	**825,088**	**-**	**1,000,367**	**-**
TOTAL ASSETS	**1,547,078**	**-**	**1,731,875**	**-**

Consolidated balance sheet

(Pursuant to consob resolution 15519 of 27 july 2006)

NET EQUITY AND LIABILITIES

	31.12.2006	of which with related parties	31.12.2005	of which with related parties
NET EQUITY				
GROUP PORTION OF NET EQUITY	615,568	-	583,781	-
- Share capital	448,500	-	448,500	-
- Reserves	127,292	-	110,461	-
- Profit (Loss) pertaining to the group	39,776	-	24,820	-
MINORITY INTERESTS	5,037	-	1,754	-
TOTAL NET EQUITY	**620,605**	**-**	**585,535**	**-**
NON-CURRENT LIABILITIES				
FINANCIAL PAYABLES	209,648	-	234,477	-
- Bank loans and borrowings (long-term portion)	191,919	-	217,823	-
- Other financial payables (long-term portion)	17,729	-	16,654	-
DEFERRED TAX LIABILITIES	20,461	-	16,715	-
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES	70,236	-	86,435	-
- Employee benefits	42,009	-	42,824	-
- Other provisions	28,227	-	43,611	-
TOTAL NON-CURRENT LIABILITIES	**300,345**	**-**	**337,627**	**-**
CURRENT LIABILITIES				
TRADE PAYABLES	327,088	1,751	285,932	236
FINANCIAL PAYABLES	221,975	-	456,885	-
- Bank loans and borrowings (short-term portion)	203,898	-	313,751	-
- Other financial payables (short-term portion)	18,077	-	143,134	-
CURRENT TAX LIABILITIES	21,154	-	25,149	-
OTHER PAYABLES	55,911	-	40,747	-
TOTAL CURRENT LIABILITIES	**626,128**	**-**	**808,713**	**-**
TOTAL NET EQUITY AND LIABILITIES	**1,547,078**	**-**	**1,731,875**	**-**

Transactions and balances with related parties

Summary by company

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 2006:

(Euro/million)	Revenues	Raw material and other costs	Trade and other receivables	Trade payables
Associated companies: (1)				
Top Clima SA	14.8	(0.9)	6.1	(0.5)
Effegici S.r.l.	-	-	-	(0.1)
Total associated companies	**14.8**	**(0.9)**	**6.1**	**(0.7)**
Ultimate parent companies:				
De'Longhi Soparfi S.A. (2)	0.6	-	1.0	-
Total ultimate parent companies	**0.6**	**-**	**1.0**	**-**
Related companies:				
Omas S.r.l.	1.2	(1.3)	0.6	(0.2)
Max Information S.r.l.	-	(1.1)	-	(0.4)
Mokarabia S.p.A.	0.1	(0.4)	-	(0.4)
Total related companies	**1.3**	**(2.8)**	**0.6**	**(1.0)**
Total related parties	**16.7**	**(3.7)**	**7.7**	**(1.7)**

(1) These mostly refer to dealings of a commercial nature.
(2) These refer to receivables for the recharge of services rendered and for the sale of the equity investment in Omas S.r.l.

Other than the above, there are no transactions with related parties except for the fees for professional services paid to the legal firm of Biscozzi Nobili (see attachment 3).

The equity investment in Omas S.r.l. was sold (with a buyback option) during 2006 to the ultimate parent company De'Longhi Soparfi S.A. for €50 thousand, based on a valuation prepared by independent experts.

The effects of the above transactions on cash flow are not material.

Emoluments of directors and statutory auditors

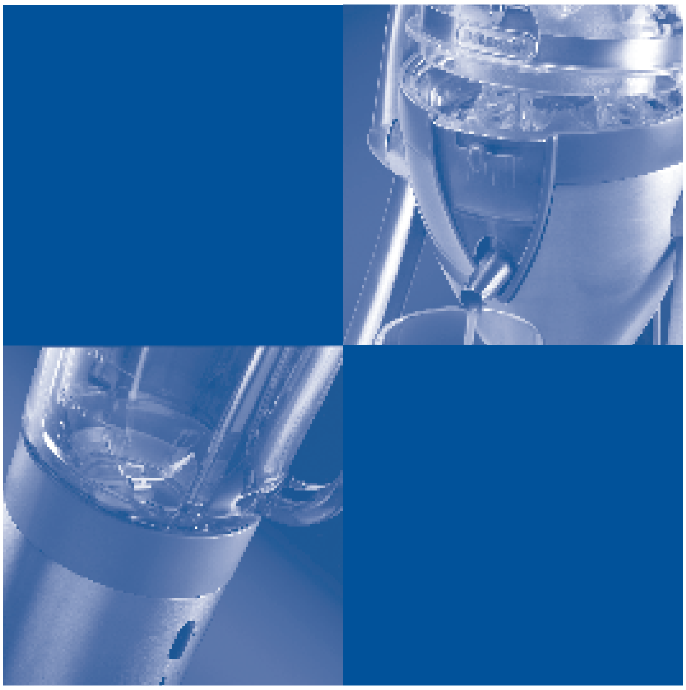
(article 78 of CONSOB Regulation approved in Resolution 11971 of 14 May 1999)
(in thousands of euro)

	Details of office held			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	-	-	11 (1)
Fabio De'Longhi	Vice Chairman and Chief Executive Officer	01.01.04/31.12.06	Approval annual report 2006	604 (2)	-	-	14 (3)
Dario Melò	Director and Chief Operating Officer	27.06.05/31.12.06	Approval annual report 2006	424 (4)	-	-	29 (1) 16 (3)
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 (5)
Renato Corrada	Director	01.01.04/31.12.06	Approval annual report 2006	21	-	-	2 (5)
Giovanni Tamburi	Director	01.01.04/31.12.06	Approval annual report 2006	21	-	-	3 (5)
Alberto Clò	Director	01.01.04/31.12.06	Approval annual report 2006	21	-	-	1 (5)
Silvio Sartori	Director	14.11.05/31.12.06	Approval annual report 2006	21	-	-	18 (1)
Gianluca Ponzellini	Chairman of the Board of Statutory Auditors	01.01.04/31.12.06	Approval annual report 2006	63	-	-	-
Giuliano Saccardi	Standing member	01.01.04/31.12.06	Approval annual report 2006	41	-	-	-
Massimo Lanfranchi	Standing member	01.01.04/31.12.06	Approval annual report 2006	41	-	-	-
Key management personnel	-	-	-	1,710	-	-	-

(1) Emoluments relating to offices held in other subsidiaries.
(2) The amount also includes remuneration received as an executive of De'Longhi S.p.A.
(3) Emoluments relating to offices held in other subsidiaries transferrable back to De'Longhi S.p.A..
(4) The amount also includes remuneration received as Chief Operating Officer.
(5) 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 €310 thousand in fees from the company during 2006.

Auditors' report



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 2006, 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.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB (the National Commission for Companies and the Stock Exchange). 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 misstatements 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.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to our report dated 11 April 2006.

3 In our opinion, the consolidated financial statements of De'Longhi SpA as of 31 December 2006 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; 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, 2 April 2007

PricewaterhouseCoopers SpA

Signed by Nicola Piovan
(Partner)

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

Individual annual report and financial statements 2006

Report on operations

Review of the balance sheet and income statement

Review of the income statement

Gross profit has been redefined in the income statement reported below to include all transformation costs.

(Euro/million)	2006	% of revenues	2005	% of revenues
Net revenues	**510.7**	**100.0%**	**517.6**	**100.0%**
Change 2006/2005	(6.9)	1.3%		
Materials consumed & other production costs (services and production payroll costs)	(362.1)	(70.9%)	(356.8)	(68.9%)
Gross profit	**148.6**	**29.1%**	**160.8**	**31.1%**
Cost of services & other expenses	(110.5)	(21.7%)	(123.7)	(23.9%)
Value added	**38.1**	**7.5%**	**37.1**	**7.2%**
Payroll (non-industrial)	(25.8)	(5.1%)	(19.5)	(3.8%)
Provisions	(6.4)	(1.3%)	(9.1)	(1.8%)
Other income (expenses)	3.9	0.8%	(7.7)	(1.5%)
EBITDA	**9.8**	**1.9%**	**0.7**	**0.1%**
Amortization and depreciation	(13.7)	(2.7%)	(13.1)	(2.5%)
EBIT	**(3.9)**	**(0.8%)**	**(12.3)**	**(2.4%)**
Change 2006/2005	8.4	68.3%		
Financial income (expenses)	12.6	2.5%	15.2	2.9%
Profit before taxes	**8.7**	**1.7%**	**2.9**	**0.6%**
Taxes	5.1	1.0%	6.2	1.2%
Profit (loss) after taxes	**13.8**	**2.7%**	**9.1**	**1.8%**

The gross profit presented above differs by €42.4 million at 31 December 2006 (€59.1 million at 31 December 2005) from the statutory income statement, reflecting the reclassification of production-related payroll and service costs from payroll and services respectively, with the purpose of achieving a better presentation of period performance.

The comparison of results between the two years has been affected by the transfer in September 2005 of the 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 means that the 2005 figures include the results of this business for the first nine months of that year.

The decrease of €6.9 million in revenues is mostly attributable to the business transfer described above. Revenues earned by this business in the first nine months of 2005 amounted to €41.6 million; the absence of these revenues in 2006 was almost entirely absorbed by the increase in other lines of business.

Gross profit decreased by €12.3 million from €160.8 million in 2005 to €148.6 million in 2006 (with the margin going from 31.1% to 29.1%).
If the results of the transferred business are excluded from the 2005 figure, then gross profit would have been largely the same in the two years being compared.

The reduction in service and payroll costs as a percentage of revenues helped boost the growth in both EBITDA and EBIT; EBITDA improved by €9.1 million from €0.7 million to €9.8 million (with the margin going from 0.1% to 1.9%), while EBIT increased by €8.4 million from a loss of €12.3 million to a loss of €3.9 million (with the negative margin going from 2.4% to 0.8%). The business transfer described above had no significant impact on EBITDA and EBIT for the year.

The year closed with €8.7 million in profit before taxes, an increase of €5.8 million on 2005, partly thanks to the positive contribution of net financial income of €12.6 million in 2006 and €15.2 million in 2005. The decrease in financial income is mainly due to the net effect of €4.4 million in higher dividends and €7.1 million in higher financial charges.

Profit (loss) after taxes was €4.7 million higher than in 2005 at €13.8 million.

Review of the balance sheet

The reclassified balance sheet is summarized below:

(Euro/million)	31.12.2006	31.12.2005	Change	% change
Non-current assets	**539.9**	**543.7**	**(3.8)**	**(0.7%)**
- Inventories	96.7	112.7	(16.0)	(14.2%)
- Receivables	184.2	275.5	(91.3)	(33.1%)
- Other current assets	23.1	42.6	(19.5)	(45.7%)
- Suppliers	(131.2)	(148.3)	17.1	(11.5%)
- Other current liabilities	(40.4)	(50.5)	10.0	(19.9%)
Net working capital	**132.4**	**232.0**	**(99.6)**	**(42.9%)**
Total non-current liabilities and provisions	(31.1)	(43.6)	12.5	(28.6%)
Net capital employed	**641.2**	**732.1**	**(90.9)**	**(12.4%)**
Net financial position (*)	**116.0**	**217.9**	**(101.9)**	**(46.8%)**
Total net equity	**525.2**	**514.2**	**11.0**	**2.1%**

(*) Includes €65.1 million at 31 December 2005 in amounts due to factors for receivables factored without recourse.

The cash flow statement can be summarized as follows:

(Euro/million)	31.12.2006	31.12.2005 pro-forma (*)
Cash flow from operating activities	**39.6**	**31.5**
Cash flow generated by factoring receivables without recourse	65.1	-
Cash flow absorbed by changes in equity accounts	(2.8)	(10.4)
Cash flow for the period	**101.9**	**21.1**
Opening net financial position	(217.9)	(239.0)
Closing net financial position	**(116.0)**	**(217.9)**

(*) The opening net financial position in the pro-forma cash flow statement at 31 December 2005 includes €104.6 million in payables due to factors for receivables factored without recourse.

Cash flows for 2006 were a positive €101.9 million compared with €21.1 million in 2005. Net cash flows for the period benefited from the recognition of non-recourse factoring transactions (with a positive impact of €65.1 million on cash flows in 2006) which, on the basis of intervening contractual amendments, have been excluded from the balance sheet since they now satisfy the IAS/IFRS requirement that their risks and rewards be substantially transferred to the factor.

As for working capital management, ignoring the benefits of factoring receivables without recourse, net working capital improved by €34.5 million mostly as a result of reducing trade receivables by €26.2 million and inventories by €16.0 million.

Reconciliation of net equity and profit (loss) for the year

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

	Net equity 31.12.2006	Profit for year 2006	Net equity 31.12.2005	Profit for year 2005
De'Longhi S.p.A. financial statements	**525,189**	**13,846**	**514,195**	**9,147**
Share of subsidiaries' net equity and results for period attributable to the group, after deducting carrying value of the investments	9,167	62,475	(4,440)	87,916
Adjustment of writedowns made for statutory purposes and intercompany profits on investments and reversal of dividends	-	(36,067)	-	(61,643)
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	119,562	(1,816)	112,105	(6,015)
Elimination of intercompany profits	(26,265)	6,055	(33,336)	(5,827)
Other adjustments	(7,050)	(4,047)	(3,029)	1,292
Group portion of consolidated net equity	**620,603**	**40,446**	**585,535**	**24,870**
Minority interests	(5,037)	(670)	(1,754)	(50)
Consolidated net equity	**615,566**	**39,776**	**583,781**	**24,820**

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. These investments have enabled the company to achieve competitive benefits and consolidate them over time.
During 2006 development activities permitted the market launch of numerous products - both those designed and manufactured in-house and those purchased from outside.

Research and development activities by the air treatment and heating divisions focused in 2006 on the start up of the Chinese factory which manufactures portable air conditioning units and dehumidifiers. Close collaboration and co-operation between the technical offices in Italy and China made it possible to carry out several projects, the main ones of which related to the new portable water-cooled air-conditioner and the compact portable air-conditioner. The related patents were registered directly in China in order to protect these new products.
The products produced in the new factory are of higher quality than those manufactured in Italy, comply with European directives and have been certified by third-party organizations.
The Chinese authorities also started to show considerable interest in our ecological conditioners that use propane as the cooling gas.

The cooking and food preparation division was actively involved in developing numerous projects for manufacturing new products both in-house and in partnership with outsiders, resulting in the completion and launch of many new products in the principal product categories (electric and microwave ovens, coffee machines, fryers, kettles and toasters).
Intense activity was devoted to completing the process of moving production abroad. This involved revising the technical documentation and upgrading part of the equipment to comply with Chinese manufacturing standards.
The process of replacing parts purchased in Europe, where possible, with Chinese equivalents was also completed, thereby achieving a related reduction in costs.

Risk coverage

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

Principal subsidiaries

Climaveneta S.p.A.

This company manufactures large machines for the air-conditioning segment.

Its revenues increased from €109.1 million in 2005 to €124.2 million in 2006; EBITDA was €18.3 million.

The company has controlling interests in Climaveneta Home System S.r.l. and in foreign companies specializing in the distribution of large thermo-cooling systems in France and Germany, and a 50% stake in Chat Union Climaveneta Company Ltd. The latter owns 100% of Climaveneta Chat Union Refrigeration Equipment Co. Ltd. (a company which manufactures large thermo-cooling systems for the Chinese market) and 100% of Climaveneta Chat Union Trading Co. Ltd. (a company which sells the group's products on the Chinese market), both of which are based in Shanghai.

De'Longhi Finance S.A.

De'Longhi Finance S.A. continued to pursue its activities during 2006. 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 and some of the group's brands centrally.

The group's insurance activities relating to product risk management were also fully centralized under this company.

DL Radiators S.p.A.

This company manufactures and sells radiators for central heating systems, including through some of its foreign subsidiaries.

It reported net revenues of €111.5 million at 31 December 2006. EBITDA was €11.7 million.

De'Longhi Japan Corp.

This company carries out product distribution activities on the Japanese market.

It reported net revenues of JPY 6,937 million at 31 December 2006, an increase of JPY 888 million on 2005 (+14.7%). EBITDA increased from JPY 364 million to JPY 403 million.

De'Longhi Australia Pty Ltd – De'Longhi New Zealand Ltd

De'Longhi Australia reported AUD 74.1 million in revenues in 2006 (AUD 62.0 million in 2005), while De'Longhi New Zealand Ltd. reported NZD 24.5 million in revenues in 2006 (NZD 22.4 million in 2005).

Kenwood Ltd

Kenwood Ltd reported an 8.3% increase in revenues in 2006 to GBP 176.7 million (+13.6 million) and GBP 9.5 million in EBITDA.

R.C. Group S.p.A.

The subsidiary De'Longhi Professional S.A. purchased 83.3% of the R.C. Group in October 2006. This group is a leading manufacturer and seller of equipment for cooling mobile radio stations, for the precision cooling of computer and fixed telephony rooms, of liquid refrigeration systems and heat pumps.

R.C. Group S.p.A. reported €54.6 million in revenues in 2006 and €5.4 million in EBITDA.

De'Longhi America Inc.

This company carries out commercial activities on the American market.

It reported a 30% increase in net revenues in 2006 to USD 123.3 million.

De'Longhi France SARL

This company distributes De'Longhi and Kenwood products on the French market. It reported €59.7 million in revenues in 2006, a decrease of €3 million on the prior year (-4.8%).

De'Longhi Deutschland GMBH

This company sells De'Longhi and Kenwood products on the German market. It reported €56.5 million in revenues in 2006, an increase of €10.2 million on the prior year (+22%).

De'Longhi Electròdomesticos Espana S.L.

This company, set up in 2003, sells products on the Spanish market. It reported €28.6 million in revenues in 2006, an increase of €3.3 million on 2005 (+13.0%).

De'Longhi Nederland B.V.

This company not only sells the group's products on the Dutch market, it also acts as a sub-holding company for some of the group's equity investments; in 2002 it took over control of activities located in Hong Kong and Guang Dong (China) for the production of small domestic appliances by acquiring the investment in DL Trading Ltd. During 2003 it acquired control of a new company, Promised Success Limited, which purchased - through the subsidiary On Shiu (Zhongshan) Electrical Appliance Company Limited - three factories for the production of oil-filled radiators in Zhongshan, in the province of Guang Dong.

Equity interests held by directors and statutory auditors

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

Name	Name of company in which interest held	No. shares held at 31.12.05 (*)	Purchases in 2006	Sales in 2006	No. shares held at 31.12.06 (*)
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.	227,800	-	-	227,800
Massimo Lanfranchi (standing statutory auditor)	De'Longhi S.p.A.	750	-	-	750

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

Related-party transactions

The effects of transactions by De'Longhi S.p.A. with ultimate parent companies, subsidiary companies, associated companies and related parties are summarized in the notes to the financial statements.

Subsequent events

There have been no significant events since the end of the financial year.

Outlook for the current year

The upward trend in earnings seen in 2006 is expected to continue in 2007, also thanks to the positive economic climate.

Proposed allocation of profit

Shareholders,

We are submitting the annual report and financial statements for 2006 for your approval. In so doing we propose that the profit of €13,846,585 be allocated as follows:

- €692,330 to the legal reserve;
- €4,184,255 to the extraordinary reserve;
- €8,970,000 to the shareholders, corresponding to a gross dividend of €0.06 for each of the 149,500,000 outstanding shares.

Treviso, 16 March 2007
for the Board of Directors
Vice Chairman and CEO
Fabio De'Longhi

Individual financial statements

Income statement

Balance sheet

Cash-flow statement

Statement of changes in net equity

Income statement (*)

	Notes	31.12.2006	31.12.2005
Revenues from sales and services	1	480,787	489,491
Other operating income and revenues	1	29,924	28,135
Total net revenues		**510,711**	**517,626**
Raw and ancillary materials, consumables and goods	2	(304,814)	(316,737)
Change in inventories of finished products and work in progress	3	(11,706)	20,408
Change in inventories of raw and ancillary materials, consumables and goods	3	(3,162)	(1,444)
Materials consumed		**(319,682)**	**(297,773)**
Payroll costs	4	(48,653)	(57,076)
Services and other operating expenses	5	(130,140)	(145,173)
Contingency and other provisions	6	(6,409)	(9,111)
Other non-recurring income (expenses)	7	3,934	(7,750)
Amortization and depreciation	8	(13,623)	(13,090)
EBIT		**(3,862)**	**(12,347)**
Other financial income (expenses)	9	12,568	15,246
Earnings before tax (EBT)		**8,706**	**2,899**
Taxes	10	5,140	6,248
Profit (loss) for the year		**13,846**	**9,147**
Earnings per share		**0.09**	**0.06**

(*) Attachment 2 reports the effect of related-party transactions on the income statement, as required by CONSOB Resolution 15519 of 27 July 2006.

Balance sheet (*)

ASSETS

	Notes	31.12.2006	31.12.2005
NON-CURRENT ASSETS			
INTANGIBLE ASSETS		105,260	105,278
- Goodwill	11	4,771	4,771
- Other intangible assets	11	100,489	100,507
PROPERTY, PLANT AND EQUIPMENT		107,872	116,835
- Land, property, plant and machinery	13	92,102	101,279
- Other tangible assets	14	15,770	15,556
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		326,589	325,515
- Equity investments (in subsidiary companies)	15	319,033	314,351
- Equity investments (in associated companies)	15	3,025	3,226
- Equity investments (in other companies)	15	605	97
- Receivables	16	3,926	7,841
DEFERRED TAX ASSETS	17	4,100	3,878
TOTAL NON-CURRENT ASSETS		**543,821**	**551,506**
CURRENT ASSETS			
INVENTORIES	18	96,707	112,676
TRADE RECEIVABLES	19	184,191	275,504
CURRENT TAX ASSETS	20	9,407	3,702
OTHER RECEIVABLES	21	13,729	38,866
CURRENT FINANCIAL RECEIVABLES AND ASSETS	22	38,305	132,708
CASH AND CASH EQUIVALENTS	23	25,629	14,077
TOTAL CURRENT ASSETS		**367,968**	**577,533**
TOTAL ASSETS		**911,789**	**1,129,039**

Balance sheet (*)

NET EQUITY AND LIABILITIES

		31.12.2006	31.12.2005
NET EQUITY			
NET EQUITY		525,189	514,195
- Share capital	24	448,500	448,500
- Reserves	25	62,843	56,548
- Profit (loss) for the year		13,846	9,147
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES		98,302	207,470
- Bank loans and borrowings (long-term portion)	26	88,958	196,977
- Other financial payables (long-term portion)	27	9,344	10,493
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		31,147	43,609
- Employee benefits	28	13,684	13,621
- Other provisions	29	17,463	29,988
TOTAL NON-CURRENT LIABILITIES		**129,449**	**251,079**
CURRENT LIABILITIES			
TRADE PAYABLES	30	131,184	148,303
FINANCIAL PAYABLES		85,534	164,981
- Bank loans and borrowings (short-term portion)	26	75,104	87,977
- Other financial payables (short-term portion)	27	10,430	77,004
CURRENT TAX LIABILITIES	31	2,560	5,924
OTHER PAYABLES	32	37,873	44,557
TOTAL CURRENT LIABILITIES		**257,151**	**363,765**
TOTAL NET EQUITY AND LIABILITIES		**911,789**	**1,129,039**

(*) Attachment 2 reports the effect of related-party transactions on the balance sheet, as required by consob resolution 15519 of 27 july 2006.

Cash flow statement
(in terms of Cash and cash equivalents)

	Notes	31.12.2006	31.12.2005
Profit (loss) for the year		13.846	9.147
Amortization and depreciation		13.623	13.090
Net change in provisions and writedowns		(13.348)	(11.793)
Cash flow generated (absorbed) by current operations (A)		**14.121**	**10.444**
Change in assets and liabilities:			
Trade receivables		25.698	(1.824)
Inventories		15.968	13.036
Trade payables		(17.119)	16.723
Other current assets and liabilities		9.374	15.663
Cash flow generated (absorbed) by movements in working capital (B)		**33.921**	**43.598**
Investment activities			
Net investments in intangible assets		(4.952)	(17.912)
Net investments in property, plant and equipment		922	(6.590)
Net investments in equity investments and other financial assets		(4.445)	1.976
Cash flow generated (absorbed) by investment activities (C)		**(8.475)**	**(22.526)**
Changes in net equity for IAS 32 and 39		206	(1.443)
Payment of dividends		(2.990)	(8.970)
Net change in other sources of finance		(25.231)	(18.558)
Cash flow generated by financing activities and changes in equity accounts (D)		**(28.015)**	**(28.971)**
Increase (decrease) in cash and cash equivalents (A+B+C+D)		**11.552**	**2.545**
Opening cash and cash equivalents	**23**	**14.077**	**11.532**
Increase (decrease) in cash and cash equivalents (A+B+C+D)		11.552	2.545
Closing cash and cash equivalents	**23**	**25.629**	**14.077**

Cash flow statement
(in terms of Net Financial Position)

	Notes	31.12.2006	31.12.2005 pro-forma (*)	31.12.2005
Profit (loss) for the year		13,846	9,147	9,147
Amortization and depreciation		13,623	13,090	13,090
Net change in provisions and writedowns		(13,348)	(11,793)	(11,793)
Cash flow generated (absorbed) by current operations (A)		**14,121**	**10,444**	**10,444**
Change in assets and liabilities:				
Trade receivables		25,698	(1,824)	(1,824)
Inventories		15,968	13,036	13,036
Trade payables		(17,119)	16,723	16,723
Other current assets and liabilities		9,373	15,663	15,663
Cash flow generated (absorbed) by movements in working capital (B)		**33,920**	**43,598**	**43,598**
Investment activities				
Net investments in intangible assets		(4,952)	(17,912)	(17,912)
Net investments in property, plant and equipment		922	(6,590)	(6,590)
Net investments in equity investments and other financial assets		(4,445)	1,976	1,976
Cash flow generated (absorbed) by investment activities (C)		**(8,475)**	**(22,526)**	**(22,526)**
Changes in net equity for IAS 32 and 39		206	(1,443)	(1,443)
Payment of dividends		(2,990)	(8,970)	(8,970)
Cash flow generated by changes in equity accounts (D)		**(2,784)**	**(10,413)**	**(10,413)**
Effect of factoring receivables without recourse (E)		**65,074**	**0**	**(104,561)**
Cash flow for the year (A+B+C+D+E)		**101,857**	**21,103**	**21,103**
Opening net financial position	**27**	**(217,882)**	**(238,985)**	**(134,424)**
Cash flow for the year (A+B+C+D+E)		101,857	21,103	(83,458)
Closing net financial position	**27**	**(116,025)**	**(217,882)**	**(217,882)**

(*) The opening net financial position in the 2005 pro-forma cash flow statement includes €104.6 million in payables to factors for receivables factored without recourse (figure at 31/12/2004).

Statement of changes in net equity of De'Longhi S.p.A.

	Share capital	Share premium reserve	Legal reserve	Other reserves	Fair value reserve	Profit (loss) carried forward	Profit (loss) for the year	Total
Balance at 1 January 2005 (IAS)	**448.500**	**325**	**4.839**	**41.833**	**(2.842)**	**19.160**	**-**	**511.815**
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	-	(2.105)	-	-
Profit (loss) for the year	-	-	-	-	-	-	9.147	9.147
Change in fair value reserve	**-**	**-**	**-**	**-**	**2.203**	**-**	**-**	**2.203**
Balance at 31 December 2005 (IAS)	**448.500**	**325**	**5.393**	**43.384**	**(639)**	**8.085**	**9.147**	**514.195**
Allocation of 2005 result as per AGM resolution of 27 April 2006								
- payment of dividends	-	-	-	-	-	-	(2.990)	(2.990)
- allocation to reserves	-	-	200	808	-	5.149	(6.157)	-
Change in fair value reserve	**-**	**-**	**-**	**-**	**138**	**-**	**-**	**138**
Profit (loss) for the year	**-**	**-**	**-**	**-**	**-**	**-**	**13.846**	**13.846**
Balance at 31 December 2006	**448.500**	**325**	**5.593**	**44.192**	**(501)**	**13.234**	**13.846**	**525.189**

Statement of gains (losses) recognized in net equity of De'Longhi S.p.A.

	Notes	31.12.2006	31.12.2005
Gains recognized directly in fair value reserve (for cash flow hedges)	(25)	138	2.203
Total gains (losses) recognized directly in net equity		**138**	**2.203**
Profit (loss) for the year		13.846	9.147
Total gains (losses) recognized in the year		**13.984**	**11.350**

Notes to financial statements

Group business

De'Longhi S.p.A., which has its registered office in Treviso, is the operational holding company to a group organized into the two divisions of "Professional products" and "Household products" and which are leaders in the household appliances market for air cooling and treatment, heating, food preparation, domestic cleaning and ironing .

The "Household" division includes all the types of product not included in the "Professional" division and which are distributed mainly through the retail channel under the trademarks of De'Longhi, Kenwood and Ariete.

The "Professional" division includes large cooling systems (Climaveneta and the RC Group), water-filled 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.

Accounting standards

The financial statements of De'Longhi S.p.A. at 31 December 2006 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 2006), 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 parent company has adopted these standards with effect from the date of the current report with 1 January 2005 as the IFRS transition date.

The comparative figures for the corresponding period in 2005 have been restated under the new accounting standards; the reconciliations of net equity and profit for the period relating to the year ending 31 December 2005 and of net equity at the transition date of 1 January 2005 are provided in the appendix.

The accounting policies used for preparing the financial statements at 31 December 2006 are the same as those used for preparing the financial statements under IFRS on the transition date of 1 January 2005.
During 2005 a new financial reporting standard was issued "IFRS 7 - Financial instruments: disclosures" and an amendment to "IAS 1 - Presentation of financial statements: additional information about capital". Both documents apply as from 1 January 2007. During 2006 the IASB issued IFRS 8 (which will replace "IAS 14 - Segment reporting" as from 1 January 2009).
The group is evaluating the effects of adopting these standards.

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 company's performance.

This report is presented in thousands of euro, which is the company's functional currency.
The financial statements have been prepared on the historical cost basis, adjusted as required for the valuation of certain financial instruments.

Segment reporting

Segment information is reported only with reference to the consolidated financial statements, as allowed by IAS 14.

Principal accounting policies

Intangible assets

Goodwill

Goodwill is recognized as an asset when, in accordance with IAS 38 – Intangible assets, it is probable that the future economic benefits attributable to its use will flow to the company and when its cost can be reliably measured.
Such an asset has an indefinite useful life and so is not amortized but reported at cost as adjusted for any impairment losses.

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 company 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 company is recorded at purchase or production cost and systematically depreciated over their residual useful lives. The land pertaining to buildings is not depreciated.

The company adopted deemed cost as the value of certain assets on the IFRS transition date of 1 January 2005. 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, whereby all the risks and rewards incident to ownership are substantially transferred to the company, are recognized among the company'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 under 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.

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

Trade receivables are initially recorded at fair value. They are not subsequently measured at amortized cost because they refer to short-term assets without transaction costs. Trade receivables are discounted to present value if their payment terms are longer than the average ones generally granted.
A provision for doubtful accounts is recorded when there is objective evidence that the company will not be able to collect the full amount of the original receivable.

The company has factored and securitized its trade receivables. Trade receivables factored without recourse, whose assignment results in the substantial transfer of the related risks and rewards, are eliminated from the balance sheet at the time of their transfer. Receivables whose assignment does not result in the substantial transfer of the related risks and rewards, are retained in the balance sheet.
Since 2002 the company has conducted a five-year monthly revolving securitization of trade receivables without recourse.
Receivables are assigned without recourse to a factor, which then transfers them to a special purpose entity which finances the purchase of the receivables by issuing asset-backed securities; the repayment of these securities, placed on the market and all subscribed by institutional investors, as well as the related interest, depends on the cash flow generated by the portfolio of securitized receivables. Receivables are sold at their face value, less a discount that mostly reflects credit risk and the transaction's financial costs.
De'Longhi S.p.A. acts as servicer for the special purpose entity.
The terms of contracts relating to the factoring and securitization of receivables have been renegotiated with particular reference to establishing stricter rules for managing commercial dilutions and subscriptions by financial institutions to the junior notes. As a result of this renegotiation, the risks and rewards relating to such receivables are now substantially transferred to the assignee, allowing them to be removed from the balance sheet.

Financial assets

All financial assets are initially measured at cost, corresponding to the amount paid plus transaction costs. They are recognized on the trade date, meaning the date when the company makes a commitment to buy or sell the asset. Financial assets are derecognized only when all the associated risks and rewards are substantially transferred together with the assets, or, even if such risks and rewards are not substantially transferred, when the company no longer retains control of the assets.

The way financial assets are classified determines how they are subsequently measured:

Financial assets at fair value through profit or loss:

This category includes assets acquired mainly for the purpose of selling them in the near term, those designated at fair value upon initial recognition if so permitted, or those for which the fair value option may be exercised.
Financial assets in this category are measured 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); the related changes in fair value during the period of ownership are recorded in the income statement. Financial instruments in this category as classified as current assets if they are "held for trading" or if they are expected to be sold within twelve months of the balance sheet date. Derivatives are treated as assets or liabilities depending on whether their fair value is positive or negative respectively; positive and negative fair values relating to transactions with the same counterparty are offset when contractually allowed.

Loans and receivables:

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets, except for those contractually due after more than twelve months from the balance sheet date, which are classified as non-current assets. These assets are measured at amortized cost using the effective interest method. Receivables which are due after more than one year and which bear no interest or interest at a rate below the market one, are discounted to present value using market rates. If there is objective evidence that an asset is impaired, its carrying amount is reduced to the present value of the estimated future cash flows. Impairment losses are recognized in the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the carrying amount of the asset is reinstated but to no more than what its amortized cost would have been had the impairment not been recognized.

Available-for-sale financial assets:

This category includes non-derivative financial assets that are designated as available for sale and are not classified in any of the previous categories. Financial assets in this category are measured at fair value; the related changes in fair value during the period of ownership are recognized in net equity.

Equity investments in subsidiary and associated companies:

Equity investments in subsidiary and associated companies are recorded at cost less any impairment losses. These equity investments are tested for impairment once a year, or more often if necessary. If there is evidence that these equity investments are impaired, the impairment loss is recognized in the income statement as a writedown. If the company's share of losses in an equity investment exceeds the book value of the investment, and the company has an obligation to answer for them, the value of the equity investment is reduced to zero and the company's share of additional losses is recognized as a provision on the liability side of the balance sheet. If the impairment loss subsequently disappears or is reduced, the value of the equity investment is reinstated through the income statement but to no more than its original cost.

The company's financial assets are classified as both current and non-current assets.
Non-current equity investments and other financial assets include equity investments, non-current loans and receivables and other non-current financial assets.
Current financial assets include trade receivables, other current financial assets, the positive fair value of derivatives and 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.

Financial liabilities

Financial payables are initially recognized at cost, corresponding to 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 highly probable forecast transaction which 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.

Employee benefits

Net obligations relating to employee benefit plans, chiefly the provision for severance indemnities, are recorded at the expected future value of the benefits that will be received and which have accrued at the balance sheet date. The company'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").

Provisions for contingencies and other charges

The company 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 company 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 company 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 company'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. 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.

Dividends

Dividends paid by the company to third parties represent a movement in equity in the period 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 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 company 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 2006, that have a material effect on the company's financial statements.

Comments on the income statement

1. Revenues

Revenues comprise revenues from sales and services and other operating income and revenues.

"Revenues from sales and services" include €200,453 thousand in income from group companies, as reported in attachment 2.

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

	2006	2005	Change
Freight reimbursement	7,032	8,616	(1,584)
Capital gains	3,059	2,837	222
Commercial rights	2,302	1,717	585
Out-of-period gains	2,277	2,202	75
Rental income	528	222	306
Damage reimbursement	206	268	(62)
Customs duty refunds	90	218	(128)
Other income	14,430	12,055	2,375
Total	**29,924**	**28,135**	**1,789**

"Other operating income and revenues" includes €18,064 thousand in income from group companies, as reported in attachment 2.

"Other income" includes €12,248 in revenues from group companies.

"Freight reimbursement" includes the recharge of transport costs to customers.

2. Raw and ancillary materials, consumables and goods

These are broken down as follows:

	2006	2005	Change
Finished products	200,214	198,484	1,730
Parts	86,046	98,355	(12,309)
Raw materials	16,709	18,476	(1,767)
Other purchases	1,845	1,422	423
Total	**304,814**	**316,737**	**(11,923)**

"Raw and ancillary materials, consumables and goods" includes €175,661 thousand in costs from group companies (see attachment 2 for details by individual company).

3. Change in inventories

The breakdown is as follows:

	2006	2005	Change
Change in inventories of finished products and work in progress	11,706	(20,408)	32,114
Change in inventories of raw and ancillary materials, consumables and goods	3,162	1,444	1,718

4. Payroll costs

These are made up as follows:

	2006	2005	Change
Employee wages and salaries	48,646	57,076	(8,430)
Temporary workers	7	-	7
Total	**48,653**	**57,076**	**(8,423)**

The figures relating to the cost of benefit plans provided by the company are reported in the note on provisions.

5. Services and other operating expenses

These are detailed as follows:

	2006	2005	Change
Transport (for purchases and sales)	25,470	29,485	(4,015)
Promotional expenses	17,747	17,008	739
Advertising	17,053	22,067	(5,014)
Commissions	9,301	10,516	(1,215)
Subcontracted work	8,708	8,076	632
Rentals and leasing	6,191	7,250	(1,059)
Consulting services	5,765	4,826	939
Technical support	5,327	6,739	(1,412)
Travel and entertaining	5,240	5,717	(477)
Storage and warehousing	3,290	3,553	(263)
Power	1,929	2,041	(112)
Maintenance	1,225	1,026	199
Postage, telegraph and telephones	1,210	1,436	(226)
Insurance	1,200	2,362	(1,162)
Other services	9,905	13,284	(3,379)
Total services	**119,561**	**135,386**	**(15,825)**
Sundry taxes	5,284	5,682	(398)
Out-of-period losses	1,486	820	666
Bad debts	-	181	(181)
Other	3,809	3,104	705
Total other operating expenses	**10,579**	**9,787**	**792**
Total services and other operating expenses	**130,140**	**145,173**	**(15,033)**

"Services and other operating expenses" include €30,138 thousand in costs from group companies, as reported in attachment 2.

"Rentals and leasing" consist of premises rental (€4,082 thousand), royalties (€1,322 thousand), equipment hire (€785 thousand) and user licences (€2 thousand).

6. Provisions for contingencies

These mostly refer to increases in product warranty provisions (€4,372 thousand), provisions for contingencies (€276 thousand) and the agents' leaving indemnity provision (€214 thousand), which are discussed in note 29. *Non-current provisions for contingencies and other charges.*

This amount also includes €1,547 thousand in increases to the provision for doubtful accounts (see note *19. Trade receivables*).

7. Other non-recurring income (expenses)

These mainly refer to income (expenses) recognized in the period as a result of non-recurring events.

The breakdown is as follows:

	2006	2005	Change
Restructuring costs	-	(6,257)	6,257
Other non-recurring income (expenses)	3,934	(1,493)	5,427
Total	**3,934**	**(7,750)**	**11,684**

8. Amortization and depreciation

These are detailed as follows:

	2006	2005	Change
Depreciation of property, plant and equipment	8,655	9,286	(631)
Amortization of intangible assets	4,968	3,804	1,164
Total	**13,623**	**13,090**	**533**

The amortization of intangible assets includes the effect of redefining the remaining useful life of certain new product development costs.

9. Financial income and expenses

Net financial income and expenses are broken down below:

	2006	2005	Change
Dividends	33,052	28,668	4,384
Equity investment impairment loss reversal	2,510	-	2,510
Capital gains on disposal of equity investments	50	5,487	(5,437)
Equity investment impairment losses	(1,985)	(1,933)	(52)
Financial income (expenses) from equity investments	**33,627**	**32,222**	**1,405**
Gains (losses) on currency hedging transactions	2,638	(1,585)	4,223
Exchange gains (losses)	(3,988)	1,160	(5,148)
Exchange gains (losses)	**(1,350)**	**(425)**	**(925)**
Interest income from loans	1,049	802	247
Bank interest income	176	75	101
Financial income	**1,225**	**877**	**348**
Factor's fees and other costs of assigning receivables	(5,628)	(4,455)	(1,173)
Interest expense on long-term loans and borrowings	(10,540)	(7,707)	(2,833)
Financial charges	**(16,168)**	**(12,162)**	**(4,006)**
Financial discounts	(1,644)	(1,636)	(8)
Other sundry income (expenses)	(3,122)	(3,630)	508
Other financial income (expenses)	**(4,766)**	**(5,266)**	**500**
Financial income (expenses)	**12,568**	**15,246**	**(2,678)**

The increase in interest expense on long-term loans and borrowings is mainly due to the rise in market interest rates over the year.

10. Income taxes for the year

These are made up as follows:

	2006	2005	Change
Current income taxes	(1,486)	(3,974)	2,488
Deferred income taxes	6,626	10,222	(3,596)
Total	**5,140**	**6,248**	**(1,108)**

The company has exercised the option to present a group tax return for companies based in Italy, as allowed by article 117 et seq of the Income Tax Consolidation Act (Presidential Decree 917/86).
Current income taxes consist of €1,275 thousand in IRAP (Italy's regional business tax) compared with €1,941 thousand in 2005, and €105 thousand for the separate taxation of income under article 168 of Presidential Decree 917/86.
Deferred taxes include €10,491 thousand in respect of recognizing the tax benefit of current year losses incurred by the parent company, most of which is offset against the taxable income of companies belonging to the national tax group. More details can be found in note *17.Deferred tax assets and deferred tax liabilities*.

Comments on the balance sheet: assets

11. Intangible assets

The breakdown is as follows:

	31.12.2006		31.12.2005		
	Gross	Net	Gross	Net	Change
New product development costs	12,421	5,425	9,323	5,515	(90)
Patents	19,986	2,621	19,307	2,782	(161)
Trademarks and similar rights	115,985	88,251	115,985	89,187	(936)
Goodwill	5,527	4,771	5,527	4,771	-
Other intangible assets	3,067	-	3,067	-	-
Work in progress and advances	4,192	4,192	3,023	3,023	1,169
Total	**161,178**	**105,260**	**156,232**	**105,278**	**(18)**

The following table reports movements in the main asset categories during 2006:

	New product development costs	Patents	Trademarks and similar rights	Goodwill	Work in progress and advances	Total
Net opening balance	**5,515**	**2,782**	**89,187**	**4,771**	**3,023**	**105,278**
Additions	1,234	576	-	-	3,242	**5,052**
Amortization	(3,187)	(845)	(936)	-	-	**(4,968)**
Other movements (*)	1,863	108	-	-	(2,073)	**(102)**
Net closing balance	**5,425**	**2,621**	**88,251**	**4,771**	**4,192**	**105,260**

(*) 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 increase of €18 thousand in intangible assets is mainly the product of €5,052 thousand in additions during the year less €4,968 thousand in amortization.

With reference to "New product development costs", which report an increase of €1,234 thousand, these costs have been capitalized by virtue of their estimated future utility, based on detailed reporting and analysis of the costs incurred. The increase of €3,242 thousand in "Work in progress and advances" also refers to newly capitalized development costs for projects that had not been completed at the balance sheet date.

"Patents" mostly refer to internal development costs, 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. The review of the De'Longhi trademark supports the thesis that it has an indefinite useful lives. This conclusion was based on its brand notoriety, its economic performance, the characteristics of its particular market, the specific brand strategies and the level of investment in brand support.

"Goodwill" is not being amortized because it is considered to have an indefinite useful life. Instead, it is tested for impairment at least once a year.

The impairment tests carried out at the end of 2006 on goodwill and the "De'Longhi" trademark were performed on the basis of discount rates reflecting current market assessments of the time value of money and the risks specific to the individual cash generating units. These tests did not reveal any significant evidence that these assets might have suffered an impairment loss. The discount rate used was 6.8%. The cash flows discounted to present value did not include tax receipts or payments (in keeping with the discount rate which was a pre-tax one).
No events of significance have occurred so far in 2007 such as might suggest that the carrying amounts of these assets may have suffered an impairment loss.

13. Land, property, plant and machinery

These are detailed as follows:

	31.12.2006		31.12.2005		
	Gross	Net	Gross	Net	Change
Land and buildings	85,443	79,971	84,694	81,242	(1,271)
Plant and machinery	46,834	12,131	89,280	20,037	(7,906)
Total	**132,277**	**92,102**	**173,974**	**101,279**	**(9,177)**

The following table reports movements during 2006:

	Land and buildings	Plant and machinery	Total
Net opening balance	**81,242**	**20,037**	**101,279**
Additions	1,384	2,125	**3,509**
Disposals	(229)	(9,396)	**(9,625)**
Depreciation	(2,392)	(588)	**(2,980)**
Other movements	(34)	(47)	**(81)**
Net closing balance	**79,971**	**12,131**	**92,102**

The net decrease of €9,177 thousand mostly reflects the combined effect of €3,509 thousand in additions, €2,980 thousand in depreciation and €9,625 thousand in disposals.

The additions to "Land and buildings" refer to completion of the new office building serving as the Treviso head office.

The additions to "Plant and machinery" mostly relate to investments in the Treviso factory for building and expanding the line producing "fully automatic" coffee machines.
The disposals of "Plant and machinery" relate to production lines transferred to group companies and the sale of assets no longer used in the production process.

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

	31.12.2006	31.12.2005	Change
Buildings	8,442	8,847	(405)
Plant and equipment	955	1,081	(126)
Other	(1)	(2)	1
Total	**9,396**	**9,926**	**(530)**

Information on the financial liability arising under the related lease agreement can be found in note *27.Other financial payables*.

14. Other tangible assets

Details of other tangible assets are as follows:

	31.12.2006		31.12.2005		
	Gross	Net	Gross	Net	Change
Industrial and commercial equipment	86,078	13,498	87,480	13,440	58
Other	12,450	1,699	12,934	1,734	(35)
Work in progress and advances	573	573	381	382	191
Total	**99,101**	**15,770**	**100,795**	**15,556**	**214**

The following table reports movements during 2006:

	Industrial and commercial equipment	Other	Work in progress and advances	Total
Net opening balance	**13,440**	**1,734**	**382**	**15,556**
Additions	7,669	635	713	**9,017**
Disposals	(2,855)	(30)	(129)	**(3,014)**
Depreciation	(5,085)	(590)	-	**(5,675)**
Other movements (*)	329	(50)	(393)	**(114)**
Net closing balance	**13,498**	**1,699**	**573**	**15,770**

(*) These include certain reclassifications from "Work in progress and advances" to specific asset categories and "New product development costs".

The net change of €214 thousand mostly reflects the combined effect of €9,017 thousand in additions, €5,675 thousand in depreciation and €3,014 thousand in retirements mainly as a result of moving production abroad.

The additions to "Industrial and commercial equipment" mostly refer to the purchase of moulds for manufacturing new products, particularly fully-automatic coffee machines.

15. Equity investments

The breakdown is as follows:

Equity investments in subsidiary companies	31.12.2006	31.12.2005	Change
De'Longhi Finance S.A.	241,737	241,737	-
Climaveneta S.p.A.	30,005	30,005	-
De'Longhi America Inc.	18,836	16,326	2,510
De'Longhi Nederland B.V.	7,681	7,681	-
De'Longhi Capital Services S.r.l.	6,005	6,005	-
De'Longhi Deutschland GMBH	5,429	5,419	10
La Supercalor S.p.A.	2,933	2,933	-
De'Longhi France S.a.r.l.	2,440	2,440	-
De'Longhi Professional S.A.	1,200	-	1,200
De'Longhi Electrodomesticos Espana S.L.	1,179	510	669
De'Longhi Canada Inc.	762	1,215	(453)
De'Longhi Bosphorus EV	636	-	636
Elle S.r.l.	110	-	110
Clim.Re S.A.	54	54	-
E-Services S.r.l.	26	26	-
Alabuga International S.A.	-	-	-
De'Longhi Ltd	-	-	-
Total	**319,033**	**314,351**	**4,682**

Equity investments in associated companies	31.12.2006	31.12.2005	Change
Emer S.p.A.	3,025	3,025	-
Omas S.r.l.	-	-	-
Effegici S.r.l.	-	201	(201)
Total	**3,025**	**3,226**	**(201)**

Equity investments in other companies	31.12.2006	31.12.2005	Change
Other minor investments	605	97	508
Total	**605**	**97**	**508**

Total equity investments	322,663	317,674	4,989

The list of subsidiary and associated companies and details of changes in equity investments during 2006 can be found in attachment 1 to the notes to the financial statements.

The increase of €4,989 thousand is the result of:

- €2,510 thousand for reinstating the value of the investment in De'Longhi America Inc. mostly due to its positive results posted at 31 December 2006;
- €2,000 thousand in payments to De'Longhi Eletrodomesticos Espana S.L. on account of capital increases and €1,331 thousand in impairment losses in respect of the loss for 2006 reported by this company;
- €453 thousand in impairment losses in respect of the investment in De'Longhi Canada Inc.;
- €1,200 thousand for forming De'Longhi Professional S.A.. This company will act as a sub-holding company for the group's professional-segment investments specialized in the manufacture and sale of air conditioning and heating products distributed through the professional channel;
- €636 thousand for forming a trading company in Turkey under the name of De'Longhi Bosphorus E.V.;
- €110 thousand for forming Elle S.r.l., a company which manages the retail operations at the Franciacorta Outlet Village known as "Living De'Longhi Store", and the "Alicia Perle" project involving the sale of capsules for electric moka coffee machines.

The equity investment in Omas S.r.l. was sold (with a buyback option) to the ultimate parent company De'Longhi Soparfi S.A. for €50 thousand, based on a valuation prepared by independent experts.

16. Other non-current receivables

This balance is analyzed as follows:

Receivables	31.12.2006	31.12.2005	Change
Subsidiary companies	3,889	7,785	(3,896)
Security deposits	37	52	(15)
Other	-	4	(4)
Total	**3,926**	**7,841**	**(3,915)**

Attachment 2 to these notes contains details of this balance. The receivables are financial in nature and earn interest at market rates.

17. Deferred tax assets and deferred tax liabilities

"Deferred tax assets" reflect the recognition of taxes calculated on temporary differences arising between the accounting values of assets and liabilities and the corresponding tax base (particularly for taxed provisions). They also include the benefits arising from the carryforward of unused tax losses which are likely to be used in the future.

The breakdown is as follows:

	2006			2005			Effect on
[Euro/000]	Taxable amount	Tax rate %	Total tax	Taxable amount	Tax rate %	Total tax	income statement
Provisions for contingencies and other charges	(19,557)	37	7,220	(27,775)	37	10,325	(3,105)
Provisions for contingencies and other charges (only for IRES purposes)	(5,329)	33	1,758	(8,318)	33	2,745	(987)
Fair value of derivatives	(2,243)	33	740	(1,140)	33	376	364
Adjustments to value of current assets	(11,513)	37	4,289	(15,257)	37	5,683	(1,394)
Equity investment impairment losses	(217)	33	72	(810)	33	267	(195)
Other temporary differences	(5,600)	33-37.25	2,033	(5,741)	33-37.25	2,123	(90)
Total deferred tax assets	**(44,459)**	**-**	**16,112**	**(59,041)**	**-**	**21,519**	**(5,407)**
Different values for tax	35,238	37	(13,132)	35,760	37	(13,328)	196
Uncollected dividends	300	33	(99)	-	33	-	(99)
Other temporary differences	40,753	33-37.25	(15,175)	44,643	33-37.25	(16,621)	1,446
Total deferred tax liabilities	**76,291**	**-**	**(28,406)**	**80,403**	**-**	**(29,949)**	**1,543**
Net deferred tax liabilities (assets)	**31,832**	**-**	**(12,294)**	**21,362**	**-**	**(8,430)**	**(3,864)**
Tax loss	(21,677)	33	7,153	-	33	-	7,153
Current year tax loss	(5,998)	33	1,980	(21,677)	33	7,153	(5,173)
Utilization of current tax losses for group tax return	(25,790)	33	8,511	-	33	-	8,511
Total deferred tax assets on tax losses	**(53,465)**	**-**	**17,644**	**(21,677)**	**-**	**7,153**	**10,491**
Net total before net equity movements	**(21,633)**	**-**	**5,350**	**(315)**	**-**	**(1,277)**	**6,627**
Fair value of derivatives	-	-	(67)	-	-	-	-
Transfer of deferred taxes within tax group	-	-	(1,183)	-	-	5,155	-
Net total	**-**	**-**	**4,100**	**-**	**-**	**3,878**	**-**

Current assets

18. Inventories

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

	31.12.2006	31.12.2005	Change
Finished products and goods	64,951	75,712	(10,761)
Raw, ancillary and consumable materials	21,503	25,766	(4,263)
Work in progress and semi-finished products	10,253	11,198	(945)
Total	**96,707**	**112,676**	**(15,969)**

The value of inventories is adjusted by a provision for obsolete and slow-moving goods totalling €11,513 thousand (€13,029 thousand at 31 December 2005), in relation to products and raw materials no longer deemed to be of strategic interest. The amount of this provision has decreased as a result of the large amount of slow-moving/obsolete finished products and parts sold in 2006.

If inventories had been valued on a current cost basis the valuation would not have been significantly different.

19. Trade receivables

These are made up as follows:

	31.12.2006	31.12.2005	Change
Trade receivables due within 12 months	188,449	214,146	(25,697)
Provision for doubtful accounts	(4,258)	(3,716)	(542)
Total	**184,191**	**210,430**	**(26,239)**
Assigned receivables	-	65,074	(65,074)
Total	184,191	275,504	(91,313)

Trade receivables have gone down by €91,313 thousand, partly reflecting the different accounting treatment adopted at December 2006 relative to December 2005 for the assignment of receivables without recourse (ie. securitizations and without recourse assignments to factors). These receivables have been derecognized as a result of intervening contractual amendments resulting in the substantial transfer of the risks and rewards of the receivables to the assignee, thus meeting the IAS/IFRS derecognition criteria.

In accordance with the disclosure required by CONSOB Circular 3369 of 9 April 1997, we report that the total amount of receivables securitized by De'Longhi S.p.A. (under Law 52/1991 known as the Factoring Law) in the period from January to the end of December 2006 was €184,738 thousand, while the outstanding amount of such receivables at 31 December 2006, collectable on their natural due date, was €54,869 thousand.

Trade receivables are stated net of a provision for doubtful accounts of €4,258 thousand, representing the estimated risk at the reporting date. A prudent provision has been made against a number of disputed receivables or those whose collection is otherwise in doubt, taking account of the fact that a significant proportion of the receivables are covered by insurance policies with major insurers.

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

	31.12.2005	Increases	Utilization	31.12.2006
Provision for doubtful accounts	3,716	1,547	(1,005)	4,258

The company has received €1,114 thousand in customer guarantees (mainly in the form of sureties) against commercial transactions.

"Trade receivables" include €127,037 thousand in amounts due from group companies, as reported in attachment 2.

Trade receivables are broken down by geographical area as follows:

Geographical area	31.12.2006	31.12.2005	Change	% change
Rest of Europe	60,160	80,584	(20,424)	(25.3%)
Italy	50,484	119,512	(69,028)	(57.7%)
Rest of the world	28,082	31,738	(3,656)	(11.5%)
Japan	17,698	7,577	10,121	133.6%
United States, Canada, Mexico	16,731	16,298	433	2.7%
United Kingdom	11,036	19,795	(8,759)	(44.2%)
Total	**184,191**	**275,504**	**(91,313)**	**(33.1%)**

20. Current tax assets

"Current tax assets" are detailed below:

	31.12.2006	31.12.2005	Change
VAT	6,502	-	6,502
Tax refunds requested	1,902	93	1,809
Direct taxes	991	26	965
Tax payments on account	-	3,513	(3,513)
Other tax receivables	12	70	(58)
Total current tax assets	**9,407**	**3,702**	**5,705**

For the purposes of optimizing the financial management of its tax affairs, during 2006 the company took up the option to file a group tax return (for its Italian companies) as allowed by Chapter II Section II of Presidential Decree 917/86, as well as the option to pay VAT on a group basis, as allowed by the Ministerial Decree dated 13 December 1979.
As regards "VAT", measures have already been taken in 2007 to reduce this balance.
"Tax refunds requested" include €881 thousand in foreign VAT credits, requested for refund from the different EU member tax authorities (under article 271 of the VIII Directive 79/1072/CEE), €270 thousand in additional VAT deductions on the purchase of motor vehicles and related costs, following the Court of Justice's sentence of 14 September 2006, and €700 thousand in applications for refunds of duties on mineral oils paid upon the import of oil-filled radiators into Italy, subsequently re-exported or sold in another EU state.
"Direct taxes" includes €876 thousand for the excess of payments on account of IRAP (Italy's regional business tax) over the related tax due for the current year and €115 thousand in withholding taxes incurred by members of the Italian tax group.

21. Other receivables

"Other receivables" are broken down as follows:

	31.12.2006	31.12.2005	Change
Advances to suppliers	421	2,004	(1,583)
Factors	75	3,134	(3,059)
Employees	116	131	(15)
Other	13,117	33,597	(20,480)
Total other receivables	**13,729**	**38,866**	**(25,137)**

None of the other receivables is due beyond 12 months.

"Other receivables" include €7,915 in amounts due from group companies, as reported in attachment 2.

22. Current financial receivables and assets

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

	31.12.2006	31.12.2005	Change
Other financial receivables	38,305	132,208	(93,903)
Other securities	-	500	(500)
Total financial receivables and assets	**38,305**	**132,708**	**(94,403)**

"Other financial receivables" mostly refer to €22,835 thousand in amounts owed by De'Longhi Capital Services S.r.l. as part of the centralized treasury service (€116,668 thousand in 2005) and €8,072 thousand in loans given to De'Longhi Finance SA and €6,000 thousand in dividends receivable from the same company.
"Other securities" included €500 thousand at 31 December 2005 in respect of 4,902 Banca Popolare di Vicenza convertible bonds purchased by the company to invest its surplus cash and held for trading.
After these bonds were converted into shares during 2006, they were reclassified to "Equity investments in other companies".

23. Cash and cash equivalents

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

Comments on the balance sheet: net equity and liabilities

Net equity

Movements in the equity accounts are reported in one of the earlier 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

The breakdown is as follows:

	31.12.2006	31.12.2005	Change
Share premium reserve	325	325	-
Legal reserve	5,593	5,393	200
Other reserves			
- Fair value reserve	(501)	(639)	138
- Extraordinary reserve	44,192	43,385	807
- Profit (loss) carried forward	13,234	8,084	5,150
Total reserves	**62,843**	**56,548**	**6,295**

The “Share premium reserve” was set up following the public offering accompanying the company’s flotation on the Milan stock exchange on 23 July 2001. The residual amount of this reserve is €325 thousand.

The “Legal reserve” has a balance of €5,593 thousand at 31 December 2006. The increase of €200 thousand since 31 December 2005 is due to the allocation of the profit for 2005, as approved by the Annual General Meeting (AGM) held on 27 April 2006.

The “Extraordinary reserve” amounts to €44,192 thousand. The increase of €807 thousand since 31 December 2005 is due to the allocation of profit for 2005, as approved by the above AGM.

The "Fair value reserve" is stated net of €247 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 against the exposure of future revenues and costs to exchange rate fluctuations.
The change of €138 thousand in the fair value reserve over the course of 2006 solely relates to changes in the valuation of cash flow hedges.

The following table provides information on the permitted distribution of reserves:

Nature / Description	Amount	Permitted use	Available amount
Share capital	448,500	-	-
Capital reserves:		(1)	
- share premium reserve	325	A, B	-
Earnings reserves:			
- legal reserve	5,593	B	-
- fair value reserve	(501)	-	-
- extraordinary reserve	44,192	A, B, C	44,192
- profit (loss) carried forward	13,234	-	-
Total	**511,343**	**-**	**44,192**
Undistributable amount	-	-	9,617
Distributable amount	-	-	34,575

Key:
A: increases in share capital
B: coverage of losses
C: distribution to shareholders

(1) As allowed by article 2431 of the Italian Civil Code, the full amount of this reserve may be distributed only if the legal reserve has reached the limit set in article 2430 of the Italian Civil Code.

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 31.12.2006	Balance 31.12.2005	Change
Overdrafts	262	-	-	262	1,082	(820)
Long-term loans (current portion)	74,842	-	-	74,842	86,895	(12,053)
Total short-term bank loans and borrowings	**75,104**	**-**	**-**	**75,104**	**87,977**	**(12,873)**
Long-term loans	-	88,731	227	88,958	196,977	(108,019)
Total bank loans and borrowings	**75,104**	**88,731**	**227**	**164,062**	**284,954**	**(120,892)**

Loans and borrowings are made up as follows:

Loans (including short-term portion)	Balance 31.12.2006	Balance 31.12.2005
Syndicated loan arranged by BNP Paribas	100,867	99,836
Syndicated loan arranged by Intesa San Paolo	60,655	150,289
Loan from IMI (Law 46)	2,278	2,419
Loan from Banca Popolare di Verona e Novara	-	17,549
Loan from BNL	-	8,006
Loan from Banca Antoniana Popolare Veneta	-	5,773
Total long-term loans	**163,800**	**283,872**

During 2006 the company repaid two loans early, one from Banca Nazionale del Lavoro and the other from Banca Antoniana Popolare Veneta. This early repayment was reported in the explanatory notes to the financial statements at 31 December 2005, having been formally notified before the date of approving the annual report.

Also during the year, €30 million in principal was repaid early against the syndicated loan arranged by Intesa San Paolo maturing in March 2008. During the first quarter of 2007 the remainder of this loan was repaid in full, since its cost was deemed to be excessive. No penalties were incurred for this early repayment.
The full amount of this particular loan was reclassified as current at 31 December 2005, as required by IAS 1, after the group failed to observe a financial covenant. Subsequent to the reporting date of 31 December 2005 De'Longhi S.p.A. requested a waiver from the agent bank, which was duly granted on 12 April 2006.

The syndicated loan arranged by BNP Paribas calls for the observance of financial covenants on a six-monthly basis.

Financial covenants have been observed in accordance with contract at 31 December 2006.

27. Other financial payables

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

	Balance 31.12.2006	Balance 31.12.2005	Change
Payables to lease companies (short-term portion)	337	561	(224)
Payables for the purchase of equity investments	319	-	319
Payables for assigned receivables	-	65,074	(65,074)
Ministry of Industry loans (short-term portion)	835	823	12
Other short-term financial payables	8,939	10,546	(1,607)
Total short-term payables	**10,430**	**77,004**	**(66,574)**
Payables to lease companies (long-term portion)	5,565	5,879	(314)
Ministry of Industry loans (long-term portion)	3,779	4,614	(835)
Other long-term financial payables	-	-	-
Total long-term payables	**9,344**	**10,493**	**(1,149)**
Total other financial payables	**19,774**	**87,497**	**(67,723)**

This balance mostly refers to €5,902 thousand in payables recognized for finance leases (€6,440 thousand at 31 December 2005) and €4,614 thousand in low-interest loans from the Ministry of Industry (€5,437 thousand at 31 December 2005).

The payables for assigned receivables at 31 December 2005 included the consideration received from factors for the transfer of trade receivables without recourse. Even if the ownership of these receivables had been legally transferred, IFRS required that such receivables be reinstated in the balance sheet with a corresponding adjustment to the net financial position in order to recognize the liability to the factor.
Intervening contractual amendments have made it possible to exclude these receivables from the balance sheet since the risks and rewards have now been transferred to the assignee, thus meeting the IFRS/IAS condition for derecognition.

Details of the net financial position are as follows:

	31.12.2006	31.12.2005	Change
A. Cash	29	75	(46)
B. Cash equivalents	25,600	14,002	11,598
C. Securities	-	500	(500)
D. Total liquidity (A+B+C)	25,629	14,577	11,052
E 1. Current financial receivables (*)	38,293	132,208	(93,915)
E 2. Non-current financial receivables (**)	3,889	7,784	(3,895)
F. Current bank loans and borrowings	(262)	(1,082)	820
G. Current portion of non-current debt	(74,842)	(86,895)	12,053
H. Other current financial payables	(10,430)	(77,004)	66,574
I. Current financial debt (F+G+H)	(85,534)	(164,981)	79,447
J. Net current financial debt (D+E1+E2+I)	(17,723)	(10,412)	(7,331)
K. Non-current bank loans and borrowings	(88,958)	(196,977)	108,019
L. Bonds	-	-	-
M. Other non-current payables	(9,344)	(10,493)	1,149
N. Non-current financial debt (K+L+M)	(98,302)	(207,470)	109,168
Total	**(116,025)**	**(217,882)**	**101,857**

(*) This amount differs from the current financial receivables reported in the balance sheet at 31 December 2006 because the latter includes €12 thousand in non-financial receivables.
(**) This amount differs from the non-current receivables reported in the balance sheet (€3,926 thousand at 31 December 2006 and €7,841 thousand at 31 December 2005) because the balance sheet amount includes €37 thousand in non-financial receivables (€57 thousand at 31 December 2005).

For a better understanding of changes in the company's net financial position, reference should be made to the cash flow statement and the summary table in the report on operations.

28. Employee benefits

These are made up as follows:

	31.12.2006	31.12.2005	Change
Provision for severance indemnities	13,684	13,621	63
Total employee benefits	**13,684**	**13,621**	**63**

The provision for severance indemnities payable to the company's employees falls into the category of defined benefit plans governed by IAS 19 "Employee benefits".

This plan is 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 Finance Act for 2007 and related decrees that implement it have introduced major changes as from 1 January 2007 to the rules on severance indemnity, including the requirement for employees to choose how their severance indemnity accruing as from the start of this year should be treated. More specifically, employees may opt to have new severance indemnities paid into selected pension funds or retained in the company (in which case the latter will pay them over to a special account opened with the Italian social security authorities (INPS)). At the present date, the uncertainty over interpreting this recently issued law, the number of potentially different interpretations of how new severance indemnities should be treated under IAS 19 and the consequent changes in the actuarial calculation of severance indemnities accrued to date, as well as the impossibility of forecasting how employees will decide their new severance indemnity should be treated (they have up until 30 June 2007 to decide) make it premature to amend the actuarial calculation of severance indemnity accruing up to 31 December 2006.

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	**31.12.2006**	**31.12.2005**	**Change**
Defined benefit obligations	13,684	13,621	63

Net cost charged to income	**31.12.2006**	**31.12.2005**	**Change**
Current service cost	1,856	2,602	(746)
Interest cost on obligations	501	588	(87)
Total	**2,357**	**3,190**	**(883)**

Change in present value of obligations	**31.12.2006**	**31.12.2005**	**Change**
Present value at 1 January	13,621	15,296	(1,675)
Current service cost	1,856	2,602	(746)
Benefits paid	(2,540)	(4,745)	2,205
Interest cost on obligations	501	588	(87)
Other changes	246	(120)	366
Total	**13,684**	**13,621**	**63**

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

Assumptions used	Severance indemnity 2006	Severance indemnity 2005
Discount rate	4.25%	4.0%
Future salary increases	2.0-2.75%	2.0-2.75%
Inflation rate	2.0%	2.0%

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

	31.12.2006	Average	31.12.2005	Average
Blue collar	822	865	920	1,125
White collar	495	504	505	563
Executives	35	38	38	41
Total	**1,352**	**1,407**	**1,463**	**1,729**

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

These are broken down as follows:

	31.12.2006	31.12.2005	Change
Agents' leaving indemnity provision and other retirement provisions	**1,736**	**1,592**	**144**
Product warranty provision	5,697	5,228	469
Provision for contingencies	4,130	7,667	(3,537)
Provision for restructuring	5,900	15,501	(9,601)
Other provisions	**15,727**	**28,396**	**(12,669)**
Total	**17,463**	**29,988**	**(12,525)**

The agents' leaving indemnity provision 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 reported the following movements during 2006:

	31.12.2005	Utilization	Increases	31.12.2006
Agents' leaving indemnity provision	1,592	(70)	214	1,736
Total	**1,592**	**(70)**	**214**	**1,736**

Other provisions reported the following movements:

	31.12.2005	Utilization	Increases	31.12.2006
Product warranty provision	5,228	(3,903)	4,372	5,697
Provision for contingencies	7,667	(3,813)	276	4,130
Provision for restructuring	15,501	(9,601)	-	5,900
Total	**28,396**	**(17,317)**	**4,648**	**15,727**

The “Product warranty provision” has been established on the basis of estimated under-warranty repair and replacement costs for sales taking place by 31 December 2006. It takes account of the provisions of Decree 24/2002 and of European Community law.

The “Provision for contingencies” includes:

- the provision for insurance deductibles of €2,034 thousand (€2,212 thousand at 31 December 2005), which covers the company’s insurance liability (limited to the deductible) in the case of liabilities arising from complaints;
- a provision of €2,096 thousand against potential contractual risks that could give rise to liabilities for the company.

This provision was mainly utilized in 2006 to pay an amount due under contract.

The “Provision for restructuring” includes provisions for the costs of moving production abroad, most of which refer to costs for reorganizing the workforce and the risk of impairment of components and certain plant and machinery that may no longer be used in production.
In terms of reorganizing the workforce, the provision was utilized in 2006 to absorb the cost of redundancies.
Furthermore, as described in the group’s report on operations, the number of redundancies forecast in the industrial plan is lower than expected and so part of the provision made in the past has been released.
In terms of the risk of impairment of components and certain plant and machinery, the restructuring provision was utilized in 2006 to absorb the cost of retiring such assets.

Current liabilities

30. Trade payables

This balance of €131,184 thousand represents the amount owed by the company to third parties and group companies for the provision of goods and services.

Trade payables are broken down by geographical area as follows:

Geographical area	31.12.2006	31.12.2005	Change	% change
Italy	80,604	80,344	260	0.3%
United Kingdom	5,688	10,916	(5,228)	(47.9%)
Rest of Europe	16,050	31,296	(15,246)	(48.7%)
United States, Canada, Mexico	1,547	2,433	(886)	(36.4%)
Rest of the world	27,295	23,314	3,981	17.1%
Total	**131,184**	**148,303**	**(17,119)**	**(11.5%)**

31. Current tax liabilities

These are broken down as follows:

	31.12.2006	31.12.2005	Change
Direct taxes	210	2,328	(2,118)
Indirect taxes	-	1,196	(1,196)
Withholdings payable	2,346	2,399	(53)
Other taxes	4	1	3
Total current tax liabilities	**2,560**	**5,924**	**(3,364)**

“Direct taxes” relate to €105 thousand in taxes associated with the additional VAT deduction on the purchase of motor vehicles and related expenses, and €105 thousand in taxes for the separate taxation of income under article 168 of Presidential Decree 917/86.
“Withholdings payable” relate to withholdings made by the company and payable to the tax authorities after the balance sheet date.

32. Other payables

These are detailed as follows:

	31.12.2006	31.12.2005	Change
Social security institutions	2,444	2,768	(324)
Sundry payables	35,429	41,789	(6,360)
Total other payables	**37,873**	**44,557**	**(6,684)**

"Social security institutions" include €2,155 thousand in payables to Italy's principal social security agency (INPS), €90 thousand in payables to Italy's social security institution for agents (Enasarco), €85 thousand in payables to pension funds and €114 thousand in amounts owed to other welfare agencies.

"Sundry payables" are detailed as follows:

	31.12.2006	31.12.2005	Change
Group companies	12,316	16,433	(4,117)
Employees	9,182	10,968	(1,786)
Advances	292	1,459	(1,167)
Other	13,639	12,929	710
Total sundry payables	**35,429**	**41,789**	**(6,360)**

"Group companies" mostly refer to amounts owed as a result of the company's decision to adopt a group tax election, under Chapter II Section II of Presidential Decree 917/86, and to pay VAT on a group basis, under the Ministerial Decree dated 13 December 1979, as described in note *20. Current tax assets*.

"Other" includes €11,400 thousand for the deferral of income arising upon the sale of Elba S.p.A. relating to the right to use the "De'Longhi" trademark over a period of twenty years as agreed under contract (just in certain markets and for certain product categories).

Commitments

These are broken down as follows:

	31.12.2006	31.12.2005	Change
Personal guarantees:			
- For the benefit of subsidiary companies	566,753	662,678	(95,925)
- For the benefit of third parties (*)	10,787	653	10,134
Total guarantees	**577,540**	**663,331**	**(85,791)**

(*) The guarantees given for the benefit of third parties include those given to the Italian tax authorities for VAT credits.

"Personal guarantees for the benefit of subsidiary companies" are analyzed as follows:

Guarantees given for the benefit of:	31.12.2006	31.12.2005	Change
De'Longhi Capital Services S.r.l.	437,275	566,744	(129,469)
DL Trading Ltd	60,740	55,259	5,481
DL Radiators S.p.A.	20,712	7,648	13,064
De' Longhi Japan Corp.	15,612	8,999	6,613
Zass Alabuga LLC	11,389	-	11,389
Ariete S.p.A.	4,197	-	4,197
TCL De'Longhi Home Appliances Zhongshan Co. Ltd	3,891	-	3,891
DL Canada Inc.	2,618	2,914	(296)
Kenwood Home Appliances Pty Ltd. SA – South Africa	2,450	2,450	-
De' Longhi America Inc.	2,278	2,544	(266)
On Shiu Zhongshan Electrical Appliance Co. Ltd	1,946	-	1,946
Kenwood Hellas Sole partner Ltd Liability Co.	1,000	-	1,000
Climaveneta S.p.A.	1,180	-	1,180
La Supercalor S.p.A.	852	852	-
Climaveneta Home System S.r.l.	500	-	500
Kenwood Appliances Singapore Pte Ltd	100	-	100
Ariete Hispania S.L.	13	13	-
Kenwood Ltd	-	8,755	(8,755)
Elba Spa (*)	-	6,500	(6,500)
Total	**566,753**	**662,678**	**(95,925)**

(*) This company was sold in June 2006. The guarantees given for its benefit have been classified as "Personal guarantees for the benefit of third parties" at 31 December.

Risk management

The company 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 adequate 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 company's functional currency;
- **interest rate risk,** relating to the cost of the company's borrowings.

Credit risk

Credit risk consists of the company's exposure to potential losses arising from failure by a counterparty to fulfil its obligations.

Commercial credit risk is associated with the normal conduct of trade and is monitored using formal procedures for assessing customers and extending them credit.

Positions are written down when there is objective evidence that they will be partially or entirely uncollected, bearing in mind that a significant proportion of receivables are covered by insurance policies with major insurers.

As far as financial risk is concerned, it is the company'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 company complies with specific group 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 company is exposed to the risk of fluctuations in currencies (other than its functional 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 by a special team of staff within De'Longhi Capital Services S.r.l. on the basis of information obtained from a structured reporting system, 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 and 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 intervenes 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 company has exposures to the major international currencies (US dollar, GB pound and Yen), to other minor currencies and those in emerging countries. The company's outstanding currency derivatives at 31 December 2006, taken out in the form of forward agreements, are as follows:

- for hedging the 2007 budget:

Currency	Notional amount/000 Sales/(Purchases)	Fair value (Euro/000)
GBP vs/EUR	4,000	(21)
NZD vs/EUR	2,300	(46)
USD vs/EUR (*)	(115,666)	(2,384)
Total fair value		**(2,451)**

(*) This figure includes an agreement for a notional USD 15 million, which was booked in the income statement during the year as required by IAS 39.

- for hedges against foreign currency receivables and payables:

Currency	Notional amount/000 Sales/(Purchases)	Fair value (Euro/000)
AUD vs/EUR	14,777	(64)
CAD vs/EUR	8,580	-
CHF vs/EUR	2,098	-
CZK vs/EUR	6,858	(2)
EUR vs/RUB	(236)	-
EUR vs/USD	(4,657)	14
GBP vs/EUR	8,283	(18)
HKD vs/EUR	(4,442)	(2)
JPY vs/EUR	2,746,010	135
NOK vs/EUR	1,738	-
NZD vs/EUR	3,195	(2)
TRY vs/EUR	1,100	(2)
USD vs/EUR	38,465	98
ZAR vs/EUR	10,000	(42)
Total fair value		**115**

Derivatives that hedge the budget 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 as financial assets and liabilities held for trading with changes in their fair value through profit or loss. These instruments offset the risk being hedged (already recorded in the financial statements).

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.

At 31 December 2006 all of the company's financial debt was at floating rates and there were no outstanding interest rate hedges.

Tax position

During 2006 the Veneto regional tax office carried out a general audit of tax year 2003 at De'Longhi S.p.A. as part of the tax authorities' programme of periodic inspections of large taxpayers. A preliminary notice of findings was issued on 3 February 2006.

On 20 November 2006 the company presented its defence and proposals, supporting its position in another memorandum presented on 15 December 2006.

The Treviso tax office has not yet expressed any opinion.

Transactions and balances with related parties

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

Emoluments of directors and statutory auditors

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

Subsequent events

There have been no significant events since the end of the financial year.

Treviso, 16 March 2007
De'Longhi S.p.A.
Vice Chairman and CEO
Fabio De'Longhi

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

Introduction

De'Longhi S.p.A. is preparing its individual financial reports in accordance with international accounting and financial reporting standards (IAS/IFRS) commencing from 2006, as required by EU Regulation 1606 of 19 July 2002.

We shall now present the following information:

a) the reconciliations between Italian GAAP and IAS/IFRS for net equity at 1 January 2005 (IFRS transition date) and 31 December 2005 and the results for 2005;

b) a description of the reconciling items between Italian GAAP and IAS/IFRS.

a) Reconciliation between Italian GAAP and IAS/IFRS for net equity at 1 January 2005 and 31 December 2005 and the results for 2005.

	Net equity 01.01.2005	Profit (Loss) 2005	Other effects	Payment of dividends	Net equity 31.12.2005
Balance under Italian GAAP	**521,248**	**3,998**	**-**	**(8,970)**	**516,276**
1) Reversal of intangible assets	(4,962)	3,019	-	-	(1,943)
2) Amortization reversal for trademarks with indefinite life	5,061	5,061	-	-	10,122
3) Reversal of goodwill and related amortization	297	297	-	-	594
4) Deemed cost of buildings	7,432	682	-	-	8,114
5) Recognition of hedging transactions	(4,971)	545	3,287	-	(1,139)
6) Employee benefits	182	(363)	-	-	(181)
7) Other effects	3,148	(1,189)	-	-	1,959
8) Recognition of deferred taxes	(15,620)	(2,903)	(1,084)	-	(19,607)
Total IAS/IFRS adjustments	(9,433)	5,149	2,203	-	(2,081)
Balance under IAS/IFRS	**511,815**	**9,147**	**2,203**	**(8,970)**	**514,195**

b) Description of the reconciling items between Italian GAAP and IAS/IFRS for net equity at 1 January 2005 and 31 December 2005 and the results for 2005.

The main IAS/IFRS adjustments made to the figures reported under Italian GAAP are discussed below; information is also provided on certain effects which, although not impacting net 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 the transition date under specified circumstances, may no longer be capitalized under IAS 38; the net book values at the transition date have been reversed, causing net equity to decrease by €4,962 thousand at 1 January 2005.

This change has resulted in a reduction in amortization charges of €3,019 thousand in 2005.

2- Trademarks

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

IAS/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 regarded as having an indefinite life if “based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset will generate net inflows for the entity”.

On transition to IAS/IFRS it was considered that the company’s principal trademark of “De’Longhi” satisfied the requirements for being treated as having an indefinite life, particularly bearing in mind its recognition, performance, the characteristics of its market, the specific brand strategies and the level of investment supporting it.

This change has resulted in a reduction in amortization charges of €5,061 thousand in 2005.

The impairment test carried out at the end of 2005 on the basis of discount rates reflecting current market assessments of the time value of money and the risks specific to the individual cash generating units, did not reveal any significant evidence that these assets might have suffered an impairment loss. No events of significance have occurred in 2006 such as might suggest that the carrying amounts of trademarks may have suffered an impairment loss.

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 a reduction in amortization charges of €297 thousand in 2005.

The impairment test carried out at the end of 2005 has not revealed any significant evidence that goodwill might have suffered an impairment loss. No events of significance have occurred in 2006 such as might suggest that the carrying amount of goodwill may have suffered an impairment loss.

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 IAS/IFRS property, plant and equipment are valued at cost or fair value.

The company has decided to use the principle of cost and to restate at the transition date some of its buildings 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 IAS/IFRS.

This change has resulted in:

- an increase of €7,432 thousand in net equity at 1 January 2005;
- lower depreciation charges of €682 thousand in 2005.

Under Italian GAAP the land pertaining to buildings was depreciated together with the buildings themselves, while under IAS/IFRS it must be classified separately and no longer depreciated. The company already started to apply this policy in 2004 to its financial statements under Italian GAAP; as a result, the effect of this change on IAS/IFRS net equity and results for the year has not been significant.

5- Hedging transactions

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 the fair value of 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. Changes in the fair value of fair value hedges of assets and liabilities are recognized in the income statement and offset the changes in value of the underlying hedged items. These procedures reflect the indications contained in IAS 39 and IAS 21.

The application of the method envisaged by IAS 39 has had the following effects:

- on first-time application (1 January 2005) a reduction of €4,971 thousand in net equity;
- a positive effect of €545 thousand on the income statement and an increase of €3,287 thousand in "Other reserves" in 2005, with an overall negative effect on net equity at 31 December 2005 of €1,139 thousand.

6- Employee benefits (IAS 19)

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 provision for severance indemnities qualifies as a defined benefit plan to be accounted for in accordance with IAS 19 using the projected unit credit method; this plan is valued on an actuarial basis in order to express the present value of the benefit accruing to employees at the balance sheet date.

The application of IAS 19 has resulted in:

- an increase of €182 thousand in net equity at 1 January 2005;
- a reduction of €363 thousand in the results for the year ended 31 December 2005.

7- Other effects

These mostly include the effects of:

a) Discounting payables and provisions for contingencies to present value

IAS/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 €560 thousand in net equity at 1 January 2005. The effect on the income statement for 2005 was a positive €12 thousand.

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 net equity to go down by €269 thousand. The effect on the income statement for 2005 was a negative €225 thousand.

c) Valuation of advertising material in inventories

International accounting standards do not allow advertising material to be reported in inventories; the result is to reduce net equity by €1,293 thousand at 1 January 2005. The impact on the results for 2005 was a negative €191 thousand.

d) Long-term financial liabilities

IAS/IFRS rules call for application of the amortized cost method based on the principle of effective interest. Application of this method has increased net equity by €660 thousand at the date of transition to IAS 39 (1 January 2005), but reduced the result for 2005 by €977 thousand.

e) Finance leases

IAS 17 requires that assets held under finance lease, whereby all the risks and rewards incident to ownership are substantially transferred to the company, are recognized among the company'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.

The first-time application of IAS 17 has caused net equity to increase by €3,490 thousand at 1 January 2005. The effect on the income statement for 2005 was a positive €192 thousand.

8- Recognition of deferred taxes

This includes the following tax effects arising from the application of IAS/ IFRS:

- a negative effect of €15,620 thousand on net equity at 1 January 2005;
- a negative effect of €2,903 thousand on the 2005 income statement;
- a decrease of €1,084 thousand in "Other reserves";
- a negative effect of €19,607 thousand on net equity at 31 December 2005.

9- Derecognition of financial assets for assigned receivables

Without recourse securitization

Since 2002 the company has 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. De'Longhi S.p.A. acts as servicer for the special purpose entity. Under Italian GAAP these receivables are eliminated from the balance sheet against a corresponding increase in the bank balance.

Following the application of IAS/IFRS and specifically in the absence of substantial transfer of the risks and rewards relating to assigned receivables, the above transactions have been reversed, meaning that the related trade receivables have been retained on the asset side of the balance sheet. As a result trade receivables have been increased by €52,296 thousand at 31 December 2005, matched by a corresponding increase in debt (bank loans and borrowings less cash and financial 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; for the purposes of IAS, the transfer may give rise to the derecognition of receivables in the transferor's balance sheet provided all the risks and rewards are substantially transferred. For IAS/IFRS transition purposes the company has adopted an accounting treatment for factoring transactions (in which the assignor continues to be involved with the assigned customers) that involves retaining the receivables factored without recourse in the balance sheet even though legally assigned.

These receivables, amounting to €12,778 thousand at 31 December 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.

10- Share-based payments (stock option plan)

IFRS 2 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.

11-Income statement reclassifications

Non-recurring income and expenses

Under IAS/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 company 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 subsidiary and associated companies and changes in equity investments.
2. Transactions and balances with related parties:
   a) Income statement and balance sheet.
   b) Summary by company.
3. Emoluments of directors and statutory auditors.

List of equity investments in subsidiary and associated companies (*)
(pursuant to article 2427 of the Italian Civil Code)

Company name	Registered office		
Subsidiary companies			
De'Longhi Finance S.A.	Luxembourg (L)	Eur	
Climaveneta S.p.A.	Treviso	Eur	
Alabuga International S.A. (1)	Luxembourg (L)	Eur	
De'Longhi America Inc.	Saddle Brook (USA)	Usd	
De'Longhi Nederland B.V.	Leiden (NL)	Eur	
De'Longhi Capital Services S.r.l. (2)	Treviso	Eur	
De'Longhi Deutschland GMBH	Seligenstadt (D)	Eur	
La Supercalor S.p.A.	Seregno (MI)	Eur	
De'Longhi France S.a.r.l.	Asnieres Cedex (F)	Eur	
De'Longhi Electrodomesticos Espana S.L.	Barçelona (E)	Eur	
De'Longhi Canada Inc.	Mississauga – Ontario (CAN)	Cad	
Clim.Re S.A. (3)	Luxembourg (L)	Eur	
E-Services S.r.l.	Treviso	Eur	
De'Longhi Ltd	Wellingborough (GB)	Gbp	
De'Longhi Professional S.A.	Luxembourg (L)	Eur	
Elle S.r.l.	Treviso	Eur	
De'Longhi Bosphorus Ev Aletleri Ticaret Anonim Sirketi	Istanbul (TR)	Try	
Total			
Associated companies			
Emer S.p.A. (4)	Monza (MI)	Eur	
Effegici S.r.l. (5)	Gorgo al Monticano (TV)	Eur	
Total			

(*) Figures relating to the financial statements at 31 December 2006 drawn up under international accounting standards and used for consolidation purposes, unless otherwise specified.
(1) The other 99.5% interest is held indirectly.
(2) The articles of association, approved by the extraordinary shareholders' meeting held on 29 December 2004, give special rights to De'Longhi S.p.A. (holding 89% of the voting rights) for ordinary resolutions (approval of financial statements, declaration of dividends, nomination of directors and statutory auditors, purchase and sale of companies, grant of loans to third parties); voting rights are proportional as far as other resolutions are concerned.
(3) The other 96% interest is held indirectly.
(4) Figures relating to the financial statements at 31 December 2005.
(5) Figures relating to the financial statements at 31 December 2005.

Share capital		Net equity		Latest reported profit or (loss)	Interest held (directly)	Book value
						in Euro/000
181,730,990	Eur	248,876,443	Eur	40,039,770	100%	241,737
10,000,000	Eur	52,169,466	Eur	6,246,312	100%	30,005
200,000	Eur	(537,963)	Eur	(440,355)	0.05%	0.1
9,100,000	Usd	22,275,536	Usd	4,834,262	100%	18,836
226,890	Eur	10,495,743	Eur	(867,847)	100%	7,681
53,000,000	Eur	66,959,122	Eur	2,773,310	11.32%	6,005
2,100,000	Eur	8,841,103	Eur	1,732,683	100%	5,429
520,000	Eur	1,605,841	Eur	(64,964)	100%	2,933
2,737,500	Eur	4,759,497	Eur	508,273	100%	2,440
2.510,000	Eur	909,858	Eur	(1,490,724)	100%	1,179
1	Cad	1,112,934	Cad	(893,520)	100%	762
1,239,468	Eur	2,688,505	Eur	348,961	4%	54
50,000	Eur	1,653,918	Eur	750,442	51%	26
4,000,000	Gbp	38,551	Gbp	0	100%	0
200,000	Eur	1,091,657	Eur	(108,343)	100%	1,200
10,000	Eur	49,633	Eur	(60,367)	100%	110
1,700,000	Try	1,354,301	Try	(345,699)	70%	636
-		-		-	-	**319,033**
520,000	Eur	6,115,886	Eur	23,743	40%	3,025
244,400	Eur	362,848	Eur	(15,080)	25%	0
-		-		-	-	**3,025**

Changes in equity investments

(amount in thousand of Euro)

Equity investments	Book value at 31 December 2005	Acquisitions, subscriptions and recapitalizations	Disposals, demergers and reclassifications	Net impairment losses and reversals	Book value at 31 December 2006
Subsidiary companies					
De'Longhi Finance S.A.	241,737			-	241,737
Climaveneta S.p.A.	30,005	-	-	-	30,005
Alabuga International S.A.	0.1	-	-	-	0.1
De'Longhi Nederland B.V.	7,681	-	-	-	7,681
De'Longhi Deutschland GMBH	5,419	10	-	-	5,429
La Supercalor S.p.A.	2,933	-	-	-	2,933
De'Longhi France S.a.r.l.	2,440	-	-	-	2,440
De'Longhi Electrodomesticos Espana S.L.	510	2,000	-	(1,331)	1,179
De'Longhi Canada Inc.	1,215	-	-	(453)	762
De'Longhi Ltd	-	-	-	-	0
De'Longhi Capital Services S.r.l.	6,005	-	-	-	6,005
Clim.Re S.A.	54	-	-	-	54
E-Services S.r.l.	26	-	-	-	26
De'Longhi America Inc.	16,326	-	-	2,510	18,836
De'Longhi Professional S.A.	-	1,200			1,200
Elle S.r.l.	-	110			110
De'Longhi Bosphorus Ev Aletleri Ticaret Anonim Sirketi	-	636			636
Total subsidiary companies	**314,351**	**3,956**		**726**	**319,033**
Associated companies					
Emer S.p.A.	3,025	-	-	-	3,025
Omas S.r.l. (*)	-	-	-	-	-
Effegici S.r.l.	201	-	-	(201)	-
Total associated companies	**3,226**	**-**	**-**	**(201)**	**3,025**
Other companies					
Other minor investments	97	508	-	-	605
Total other companies	**97**	**508**	**-**	**-**	**605**
Total	**317,674**	**4,464**		**525**	**322,663**

(*) This company was sold to the ultimate parent company De'Longhi Soparfi S.A. during 2006.

Transactions and balances with related parties
Income statement
(pursuant to CONSOB Resolution 15519 of 27 July 2006)

	31.12.2006	of which with related parties	31.12.2005	of which with related parties
Revenues from sales and services	480,787	200,543	489,491	189,930
Other operating income and revenues	29,924	18,064	28,135	16,807
Total net revenues	**510,711**	**-**	**517,626**	**-**
Raw and ancillary materials, consumables and goods	(304,814)	(175,673)	(316,797)	(180,010)
Change in inventories of finished products and work in progress	(11,706)	-	20,408	-
Change in inventories of raw and ancillary materials, consumables and goods	(3,162)	-	(1,444)	-
Materials consumed	**(319,682)**	**-**	**(297,773)**	**-**
Payroll costs	(48,653)	-	(57,076)	-
Services and other operating expenses	(130,140)	(30,160)	(145,173)	(33,924)
Contingency and other provisions	(6,409)	-	(9,111)	-
Other non-recurring income (expenses)	3,934	-	(7,750)	-
Amortization and depreciation	(13,623)	-	(13,090)	-
EBIT	**(3,862)**	**-**	**(12,347)**	**-**
Other financial income (expenses)	12,568	35,127	15,246	31,977
Earnings before tax (EBT)	**8,706**	**-**	**2,899**	**-**
Taxes	5,140	-	6,248	-
Profit (loss) for the year	**13,846**	**-**	**9,147**	**-**

Balance sheet

(Pursuant to consob resolution 15519 of 27 july 2006)

ASSETS

	31.12.2006	of which with related parties	31.12.2005	of which with related parties
NON-CURRENT ASSETS				
INTANGIBLE ASSETS	105,260	-	105,278	-
- Goodwill	4,771	-	4,771	-
- Other intangible assets	100,489	-	100,507	-
PROPERTY, PLANT AND EQUIPMENT	107,872	-	116,835	-
- Land, property, plant and machinery	92,102	-	101,279	-
- Other tangible assets	15,770	-	15,556	-
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS	326,589	-	325,515	-
- Equity investments (in subsidiary companies)	319,033	-	314,351	-
- Equity investments (in associated companies)	3,025	-	3,226	-
- Equity investments (in other companies)	605	-	97	-
- Receivables	3,926	3,889	7,841	7,785
DEFERRED TAX ASSETS	4,100	-	3,878	-
TOTAL NON-CURRENT ASSETS	**543,821**	**-**	**551,506**	**-**
CURRENT ASSETS				
INVENTORIES	96,707	-	112,676	-
TRADE RECEIVABLES	184,191	127,048	275,504	146,831
CURRENT TAX ASSETS	9,407	-	3,702	-
OTHER RECEIVABLES	13,729	7,915	38,866	31,623
CURRENT FINANCIAL RECEIVABLES AND ASSETS	38,305	38,293	132,708	132,208
CASH AND CASH EQUIVALENTS	25,629	-	14,077	-
TOTAL CURRENT ASSETS	**367,968**	**-**	**577,533**	**-**
TOTAL ASSETS	**911,789**	**-**	**1,129,039**	**-**

Balance sheet

(Pursuant to consob resolution 15519 of 27 july 2006)

NET EQUITY AND LIABILITIES

	31.12.2006	of which with related parties	31.12.2005	of which with related parties
NET EQUITY				
NET EQUITY	525,189	-	514,195	-
- Share capital	448,500	-	448,500	-
- Reserves	62,843	-	56,548	-
- Profit (loss) for the year	13,846	-	9,147	-
NON-CURRENT LIABILITIES		-		-
FINANCIAL PAYABLES	98,302	-	207,470	-
- Bank loans and borrowings (long-term portion)	88,958	-	196,977	-
- Other financial payables (long-term portion)	9,344	-	10,493	-
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES	31,147	-	43,609	-
- Employee benefits	13,684	-	13,621	-
- Other provisions	17,463	-	29,988	-
TOTAL NON-CURRENT LIABILITIES	**129,449**	**-**	**251,079**	**-**
CURRENT LIABILITIES				
TRADE PAYABLES	131,184	52,947	148,303	70,221
FINANCIAL PAYABLES	85,534	-	164,981	-
- Bank loans and borrowings (short-term portion)	75,104	-	87,977	-
- Other financial payables (short-term portion)	10,430	5,687	77,004	5,053
CURRENT TAX LIABILITIES	2,560	-	5,924	-
OTHER PAYABLES	37,873	-	44,557	28,433
TOTAL CURRENT LIABILITIES	**257,151**	**-**	**363,765**	**-**
TOTAL NET EQUITY AND LIABILITIES	**911,789**	**-**	**1,129,039**	**-**

Transactions and balances with related parties

Summary by company

(Amounts in millions of euro)	Revenues from sales and services	Other operating income and revenues	Raw and ancillary materials, consumables and goods and Services (4)	Financial income and (expenses)	Non-current financial receivables	Trade and other receivables (5)	Current financial receivables	Trade payables	Current financial payables
Ultimate parent companies:									
De' Longhi Soparfi S.A.	-	0.6	-	-	-	1.0	-	-	-
Total ultimate parent companies	**-**	**0.6**	**-**	**-**	**-**	**1.0**	**-**	**-**	**-**
Subsidiary companies: (1)									
De'Longhi America Inc.	12.9	-	(0.9)	2.5	-	9.2	-	(0.8)	-
De'Longhi Japan Corporation	23.2	-	(0.4)	0.1	0.2	17.8	-	(0.2)	-
De'Longhi Finance S.A.	-	-	(1.9)	33.0	-	0.9	14.0	(1.9)	-
De'Longhi Canada Inc.	6.8	-	(0.7)	(0.5)	-	6.0	-	(0.4)	-
De'Longhi France S.a.r.l.	19.8	-	(2.3)	-	-	8.2	-	(0.8)	-
De'Longhi Deutschland GMBH	26.9	0.1	(6.8)	-	-	15.9	-	(1.7)	-
La Supercalor S.p.A.	3.0	0.3	-	-	-	4.5	-	-	-
De'Longhi Nederland B.V.	10.3	-	(2.2)	0.3	-	3.6	-	(0.1)	-
Elba S.p.A.	0.3	0.3	(6.2)	-	-	-	-	-	-
Ariete S.p.A.	-	0.2	(0.1)	-	-	0.5	0.4	(0.4)	-
DL Radiators S.p.A.	2.1	1.9	-	-	1.9	6.4	-	(0.5)	-
De'Longhi LLC	1.5	-	-	-	-	0.7	-	-	-
Climaveneta S.p.A.	-	0.2	(0.1)	-	-	3.4	-	(0.8)	-
Climaveneta Home System S.r.l.	2.3	2.3	(4.7)	-	-	3.0	1.0	(1.7)	-
Chat Union Climaveneta Co. Ltd	-	-	-	-	-	-	-	-	-

	Revenues from sales and services	Other operating income and revenues	Raw and ancillary materials, consumables and goods and Services (4)	Financial income and (expenses)	Non-current financial receivables	Trade and other receivables (5)	Current financial receivables	Trade payables	Current financial payables
E-Services S.r.l.	-	0.5	(1.5)	-	-	1.0	-	(0.2)	-
Elle S.r.l.	-	-	-	-	-	0.1	-	-	-
De'Longhi Capital Services S.r.l.	-	0.1	-	0.8	-	1.6	22.9	(7.3)	(3.8)
DL Trading (Shenzen) Co. Ltd	0.8	-	-	-	-	0.8	-	-	-
DL Trading Limited	0.5	2.9	(116.8)	0.3	0.5	2.3	-	(16.1)	-
Tricom Ind. Co. Ltd.	2.2	0.5	(38.7)	-	-	1.3	-	(6.6)	-
Promised Success Ltd	5.0	2.5	(1.4)	-	0.1	8.7	-	-	-
On Shiu (Zhongshan) Electrical Appl. Co. Ltd	0.1	-	(0.1)	-	-	1.0	-	-	-
Kenwood Manufacturing Gmbh	-	-	(1.5)	-	-	-	-	(0.8)	-
Kenwood Plc Singapore Pte Ltd	0.4	-	(0.1)	-	-	0.2	-	(0.1)	-
Kenwood Appliances Malaysia	0.1	-	-	-	-	-	-	-	-
De' Longhi Eletrodomesticos Espana	18.8	(0.1)	(1.5)	(1.3)	-	16.0	-	(1.2)	-
DL New Zealand Limited	2.3	0.2	(0.2)	-	-	1.3	-	(0.2)	-
DL Australia PTY Limited	12.2	0.2	(1.5)	0.1	0.1	7.5	-	(1.3)	-
De'Longhi Bosphorus	0.2	-	(0.1)	-	-	0.2	-	(0.1)	-
Kenwood Limited	45.5	5.3	(13.1)	-	-	10.8	-	(8.4)	-
Clim. Re. S.A.	-	-	-	(0.1)	-	-	-	-	(1.9)
Zass Alabuga LLC	0.2	0.1	-	-	-	0.3	-	-	-
Kenwood South Africa	1.9	-	(0.1)	0.1	1.1	0.3	-	(0.1)	-
Total subsidiary companies	**199.3**	**17.5**	**(202.9)**	**35.3**	**3.9**	**133.5**	**38.3**	**(51.7)**	**(5.7)**

Transactions and balances with related parties

Summary by company

	Revenues from sales and services	Other operating income and revenues	Raw and ancillary materials, consumables and goods and Services (4)	Financial income and (expenses)	Non-current financial receivables	Trade and other receivables (5)	Current financial receivables	Trade payables	Current financial payables
Associated companies: (2)									
Omas S.r.l. (3)	1.0	-	(1.3)	-	-	0.5	-	(0.2)	-
Effegici S.r.l.	-	-	-	(0.2)	-	-	-	(0.1)	-
Total associated companies	**1.0**	**-**	**(1.3)**	**(0.2)**	**-**	**0.5**	**-**	**(0.3)**	**-**
Total subsidiary and associated companies	**200.3**	**17.5**	**(204.2)**	**35.1**	**3.9**	**134.0**	**38.3**	**(52.0)**	**(5.7)**
Related companies:									
Max Information S.r.l.	-	-	(1.1)	-	-	-	-	(0.5)	-
Top Clima S.A.	0.1	-	-	-	-	-	-	-	-
Mokarabia S.p.A.	0.1	-	(0.5)	-	-	-	-	(0.4)	-
Total	**0.2**	**-**	**(1.6)**	**-**	**-**	**-**	**-**	**(0.9)**	**-**
Total ultimate parent, subsidiary, associated and related companies	**200.5**	**18.1**	**(205.8)**	**35.1**	**3.9**	**135.0**	**38.3**	**(52.9)**	**(5.7)**

(1) These mostly refer to dealings of a commercial nature and the supply of administrative services by company employees.
(2) These mostly refer to dealings of a commercial nature.
(3) The equity investment in Omas S.r.l. was sold (with a buyback option) during 2006 to the ultimate parent company De'Longhi Soparfi S.A. for €50 thousand, based on a valuation prepared by independent experts.
(4) This consists of €175,673 thousand in "Raw and ancillary materials, consumables and goods" and €30,160 thousand in "Services and other operating expenses".
(5) This consists of €127,048 thousand in "Trade receivables" and €7,915 thousand in "Other receivables".
In addition to the amounts reported above the following other transactions took place with related parties: rent of €14,993 was paid to Immobiliare S.Giuseppe S.r.l. while professional fees were paid to the firm of Biscozzi e Nobili for legal and tax advice provided in 2006. More information can be found in attachment 3 "Emoluments of directors and statutory auditors".

Emoluments of directors and statutory auditors

(article 78 of CONSOB Regulation approved in Resolution 11971 of 14 May 1999)
(in thousands of euro)

	Details of office held			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	-	-	11 (1)
Fabio De'Longhi	Vice Chairman and Chief Executive Officer	01.01.04/31.12.06	Approval annual report 2006	604 (2)	-	-	14 (3)
Dario Melò	Director and Chief Operating Officer	27.06.05/31.12.06	Approval annual report 2006	424 (4)	-	-	29 (1) 16 (3)
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 (5)
Renato Corrada	Director	01.01.04/31.12.06	Approval annual report 2006	21	-	-	2 (5)
Giovanni Tamburi	Director	01.01.04/31.12.06	Approval annual report 2006	21	-	-	3 (5)
Alberto Clò	Director	01.01.04/31.12.06	Approval annual report 2006	21	-	-	1 (5)
Silvio Sartori	Director	14.11.05/31.12.06	Approval annual report 2006	21	-	-	18 (1)
Gianluca Ponzellini	Chairman of the Board of Statutory Auditors	01.01.04/31.12.06	Approval annual report 2006	63	-	-	-
Giuliano Saccardi	Standing member	01.01.04/31.12.06	Approval annual report 2006	41	-	-	-
Massimo Lanfranchi	Standing member	01.01.04/31.12.06	Approval annual report 2006	41	-	-	-
Key management personnel	-	-	-	1,710	-	-	-

(1) Emoluments relating to offices held in other subsidiaries.
(2) The amount also includes remuneration received as a company executive.
(3) Emoluments relating to offices held in other subsidiaries transferrable back to De'Longhi S.p.A..
(4) The amount also includes remuneration received as Chief Operating Officer.
(5) Emoluments relating to membership of the Compensation Committee and Internal Auditing and Corporate Governance Committee.

Carlo Garavaglia is a partner in the legal and tax firm of Biscozzi Nobili, which received €310 thousand in fees from the company during 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 financial statements of De'Longhi SpA as at 31 December 2006, comprising the balance sheet, income statement, statement of changes in shareholders' equity, statement of cashflows and related notes. These financial statements are the responsibility of the Directors of De'Longhi SpA. Our responsibility is to express an opinion on these financial statements based on our audit. The aforementioned 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 (the National Commission for Companies and the Stock Exchange). Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatements and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

The financial statements show as comparatives the corresponding amounts of the prior year determined in accordance with the same accounting principles. Moreover, the appendix to the notes to the financial statements illustrates the effects of the transition to the International Financial Reporting Standards as adopted by the European Union and includes information relating to the reconciliation schedules required by IFRS 1, previously approved by the Board of Directors of De'Longhi SpA and published as an appendix to the interim financial reporting for the period ended 30 June 2006, which we examined and on which we issued our auditors' report on 20 October 2006.

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3 In our opinion, the financial statements of De'Longhi SpA as of 31 December 2006 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/2005; 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 SpA for the year then ended.

Padua, 2 April 2007

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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