Annual report at 31 december 2007

ANNUAL REPORT AT 31 DECEMBER 2007

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Company officers

Company officers*

Board of Directors

Giuseppe De'Longhi	Chairman
Fabio De'Longhi	Vice Chairman and Chief Executive Officer
Alberto Clò **	Director
Renato Corrada **	Director
Silvia De'Longhi	Director
Carlo Garavaglia	Director
Giorgio Sandri	Director
Silvio Sartori	Director
Giovanni Tamburi**	Director

Board of Statutory Auditors

Gianluca Ponzellini	Chairman
Massimo Lanfranchi	Standing member
Giuliano Saccardi	Standing member
Roberto Cortellazzo-Wiel	Alternate member
Enrico Pian	Alternate member

External auditors

PricewaterhouseCoopers S.p.A. ***

Internal Auditing and Corporate Governance Committee

Renato Corrada **
Carlo Garavaglia
Giovanni Tamburi **

Compensation Committee

Alberto Clò **
Carlo Garavaglia
Giovanni Tamburi **

* The company officers were elected at the shareholders' meeting of 18 April 2007 for the period 2007-2009; Dario Melò resigned as a director on 12 July 2007 with Silvia De'Longhi being co-opted to the Board on the same date.
** Independent directors.
*** Extension of audit engagement to financial years 2007-2008-2009 approved by the shareholders' meeting of 18 April 2007.

Letter from the Chairman

Letter from the Chairman

The results for 2007 reported good growth in revenues and margins. This confirmed the positive trend starting in 2006 thanks to the numerous measures adopted by the group on the industrial front.

Our factories abroad are becoming more efficient, while our marketing, research, development and design staff are creating products which are enjoying growing success in the different markets; the position of the group's principal brands and its major investment in advertising have helped it improve margins and capture new market share.

Despite the inflationary environment due to higher raw material prices and despite the crisis in certain financial sectors, resulting in lower consumption, the group's revenues reached a record level of €1,491 million.

I believe that, despite uncertainties over consumption in certain parts of the world, the group will be able to continue growing in 2008 in line with its objectives.

Group annual report and financial statements

Report on operations

The results for 2007 reported good growth in revenues and margins. This confirmed the positive trend starting in 2006 thanks to the decision to move production abroad, enlarge the commercial network and add new product ranges despite inflationary tendencies due to higher raw material prices and despite the crisis in certain financial sectors, which risks depressing consumption.

The learning curve by our factories abroad is resulting in greater efficiency, while our marketing, research, development, and design staff are creating products which are enjoying growing success in the different markets. This year's results are even more significant when account is taken of the fire affecting the Treviso factory. The company reacted in a rapid, determined fashion, with the commitment and dedication of all its employees helping to minimize the repercussions both internally and on the market and to normalize production, which restarted in record time in another of the group's factories.

Net revenues came to €1,490.9 million, an increase of €127.9 million (+9.4%) on 2006. The growth in net revenues at constant exchange rates was 11.5%.

These results were achieved thanks to growth by both divisions: Household and Professional; the latter with a more accentuated trend, thanks to its historic businesses, the acquisition of control of Top Clima, a distributor of large thermo-cooling systems in Spain, and the consolidation of RC Group for a full twelve months.

In terms of individual market performance, sales in Europe were higher with a particular improvement in Germany, France and other West European countries thanks to strong, continued growth in coffee machine sales, and in Russia, where the group benefited from prior year investments (acquisition of the factory manufacturing oil-filled radiators and opening of a commercial office) and in other East European countries.

Gross profit was €586.4 million, with the margin improving by 1.7 percentage points from 37.6% in 2006 to 39.3% last year, reflecting product mix and the benefits of a stronger euro in view of the fact that most of the group's costs are in dollar-zones, while revenues are predominantly earned in the euro-zone.

EBITDA, before non-recurring expenses, came to €156.3 million, up 27.3% on 2006 and reporting an improvement in margin from 9.0% in 2006 to 10.5% in 2007.

Non-recurring expenses mostly referred to the fire and reorganization of some of the group's activities.

EBIT increased by 22.1% to €103.7 million, with the margin climbing from 6.2% in 2006 to 7.0% in 2007 despite the adverse impact of the fire.

Net financial expenses were affected by the rise in interest rates and the costs of starting up a new without-recourse factoring programme.

The result after taxes was a profit of €30.6 million, an improvement of €15.7 million on 2006, ignoring the extraordinary financial income arising on the sale of Elba.

The net financial position reported net borrowings of €355.9 million, €41.3 million more than at 31 December 2006. This increase reflected not only €23.9 million in equity investments purchased during 2007 (inclusive of the related debt and recognition of call options) but also €19.4 million in extraordinary expenditure, not fully covered by insurance, to restore production capacity after the fire. Ordinary operating activities generated €24.4 million in cash flows despite the financial resources needed to support the strong growth in 2007.

The Household division reported a 3.6% increase in revenues (5.6% assuming the same scope of consolidation. ie. ignoring Elba's sales in 2006). Among the various brands, De'Longhi and Kenwood were particularly in evidence.
EBITDA, before non-recurring expenses, increased by 28.3%, with the margin improving from 8.3% in 2006 to 10.3% in 2007; fourth-quarter performance contributed to this improvement, with EBITDA climbing from 10.8% in 2006 to 12.0% in 2007 despite the generally tense situation on markets.

The Professional division reported a 27.8% increase in revenues, reflecting not only the change in the scope of consolidation, but also excellent results for large thermo-cooling systems, which enjoyed strong growth on the major markets.
Assuming the same scope of consolidation, ie. ignoring the contribution of RC Group (12 months in 2007 and 3 months in 2006) and Top Clima (6 months in 2007), revenue growth would have been 11.3%.
EBITDA, before non-recurring expenses, improved by 25.4%, with the margin going from 10.5% in 2006 to 10.3% in 2007. The EBITDA margin was affected by lower fourth-quarter sales of water-filled radiators, following a slowdown on real estate markets in certain European countries on which part of this business's sales depend.
EBITDA, before non-recurring expenses, reported a fourth-quarter margin of 6.3% (10.1% in the same period of 2006).

Consolidated income statement - highlights

Key figures from the consolidated income statement are presented below.

(€/million)	2007	% of revenues	2006	% of revenues	Change	% change
Revenues	1,490.9	100.0%	1,363.0	100.0%	127.9	9.4%
Gross profit	586.4	39.3%	513.1	37.6%	73.3	14.3%
EBITDA before non-recurring income/expenses	156.3	10.5%	122.7	9.0%	33.5	27.3%
EBITDA	145.4	9.7%	125.6	9.2%	19.8	15.8%
EBIT	103.7	7.0%	85.0	6.2%	18.7	22.1%
Profit for the period pertaining to the group	30.6	2.1%	39.8	2.9%	(9.2)	(23.2%)
Profit pertaining to the group before extraordinary income from equity investments	30.6		14.9		15.7	

Consolidated balance sheet - highlights

(€/million)	31.12.2007	31.12.2006
Net working capital	363.4	307.0
Net capital employed	986.5	935.2
Net financial position	(355.9)	(314.6)
Net working capital/net revenues	24.4%	22.5%
Net working capital/net revenues (pro-forma) (*)	31.5%	31.6%

(*) Assuming same scope of consolidation, ignoring effects of fire and gross of benefits arising from factoring of receivables without recourse.

Macroeconomic scenario

The macroeconomic scenario in 2007 was dominated by the sharp increase in energy and food raw material prices and, in the second half of the year, by the US subprime loans crisis, whose effect is still being felt with a big impact on world growth and the stability of financial markets.
The world economy grew by 4.9% as a whole in 2007, particularly thanks to the contribution of emerging countries which grew at a rate of 7.8% (11.4% for China).

Italy closed 2007 on a decelerating note, with fourth-quarter industrial output down on previous quarters and consumption looking weaker. There were, however, positive signs in terms of higher employment and lower public borrowing.

Interest rates

Interest rates followed a divergent pattern on the two sides of the Atlantic: in the USA, the bursting of the loan bubble forced the Fed to cut the official discount rate from 5.25% to its current level of 3% (it was 4.25% at 31 December 2007) in order to give some relief to the financial sector; in Europe on the other hand, the risk of inflation from raw material prices caused the ECB to raise the discount rate to 4% (from 3.5% at the end of 2006), subsequently leaving it unchanged for the rest of the year.
In the United Kingdom, where monetary policy is heavily influenced by the real estate sector, the official rate was raised from 5% to 5.75%, and then cut to 5.25% in response to signs of contagion from the US loans crisis.

Currency markets

Two events marked 2007 with both an actual and symbolic impact: on the one hand, the euro's appreciation against all the major currencies, on the other, the accelerating revaluation of the yuan (or reminbi) against the US dollar.
On the basis of average exchange rates in the year, the euro appreciated by 8.4% against the US dollar and by 9.4% against the Japanese yen, while staying generally stable against the British pound for most of the year, only to head up sharply in the last quarter (- 4% on average).
In general, currency flows reflected the widespread flight from dollars and the US financial market and the expectation that the European economy would fare better than either the American or British ones.

Results by business segment

Household

(€/million)	2007	2006	Change 2007/2006	2006 pro-forma	Change 2007/ 2006 pro-forma
Net revenues (*)	1,111.1	1,072.0	39.0	1,052.5	58.6
% change			3.6%		5.6%
EBITDA before non-recurring expenses	114.7	89.4	25.3	86.7	28.0
% of revenues	10.3%	8.3%		8.2%	

(*) Consolidated revenues reflect the aggregate figures of the two segments after eliminating intersegment transactions. Such transactions accounted for €26.3 million in revenues in 2007 and €26.8 million in revenues in 2006.

The Household division reported a 3.6% increase in revenues on 2006; assuming the same scope of consolidation, revenues would have risen by 5.6% mostly thanks to sales of portable air-conditioners, De'Longhi coffee machines (particularly fully automatic ones and the "Lattissima Nespresso" machine), and Kenwood food processors, which more than made up for poor sales of heating products.

EBITDA before non-recurring expenses was €114.7 million (€89.4 million in 2006); the increase in 2007 was €25.3 million (+28.3%), becoming €28.0 million (+32.3%) assuming the same scope of consolidation.

Professional

(€/million)	2007	2006	Change 2007/2006	2007 pro-forma	Change 2007 pro-forma/ 2006
Net revenues (*)	406.2	317.7	88.4	353.6	35.9
% change			27.8%		11.3%
EBITDA before non-recurring expenses	41.7	33.2	8.5	35.8	2.6
% of revenues	10.3%	10.5%		10.1%	

(*) Consolidated revenues reflect the aggregate figures of the two segments after eliminating intersegment transactions. Such transactions accounted for €26.3 million in revenues in 2007 and €26.8 million in revenues in 2006.

The Professional division enjoyed a 27.8% increase in sales; organic growth, ie. excluding the contribution of RC Group purchased at the end of September 2006 and of Top Clima, was 11.3% thanks to strong performance by large thermo-cooling systems on the principal markets.
Although sales of water-filled radiators were 7% up on 2006, they slowed in the last quarter, mainly as a result of conditions on the European heating market, where the crisis in certain financial sectors depressed the real estate market, on which part of this business's sales depend.

EBITDA before non-recurring expenses was €41.7 million in 2007 (€33.2 million in 2006); the increase of €8.5 million (+25.4%) was €2.6 million (+7.8%) assuming the same scope of consolidation, and reflects the above trend on the radiators market which resulted in strong price pressure especially in the last few months of the year.

Markets

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

(€/million)	2007	2006	Change	% change
Italy	318.7	329.7	(11.0)	(3.3%)
United Kingdom	146.9	155.5	(8.5)	(5.5%)
Rest of Europe	656.6	512.1	144.6	28.2%
United States, Canada and Mexico	119.3	123.2	(3.8)	(3.1%)
Rest of the world	249.3	242.6	6.7	2.8%
Total	**1,490.9**	**1,363.0**	**127.9**	**9.4%**

Sales on the Italian market reported a growth in large thermo-cooling systems and a contraction in portable heating products due to the adverse winter season.

The United Kingdom reported a growth in sales by the Professional division, while the Household division was affected by poor portable heating sales and the deconsolidation of Elba.

Sales in the “Rest of Europe” grew, especially in Germany, France and other West European countries, thanks to continued, strong sales of coffee machines, in Russia, which benefited from investments in previous years (acquisition of a factory manufacturing oil-filled radiators and opening of a commercial office) and in other East European countries.

After enjoying strong growth in 2006, 2007 was a year for consolidating results in North America in an environment of greater economic uncertainty and lower consumption.

Sales in the “Rest of the world” did well, especially in Oceania.

Group results

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:

(€/million)	2007	% of revenues	2006	% of revenues
Net revenues	1,490.9	100.0%	1,363.0	100.0%
Change 2007/2006	127.9	9.4%		
Materials consumed & other production costs (services and production payroll costs)	(904.5)	(60.7%)	(849.9)	(62.4%)
Gross profit	**586.4**	**39.3%**	**513.1**	**37.6%**
Services & other expenses	(307.4)	(20.6%)	(286.3)	(21.0%)
Value added	**279.0**	**18.7%**	**226.8**	**16.6%**
Payroll (non-production)	(108.4)	(7.3%)	(91.6)	(6.7%)
Provisions	(14.3)	(1.0%)	(12.5)	(0.9%)
EBITDA before non-recurring income/expenses	**156.3**	**10.5%**	**122.7**	**9.0%**
Change 2007/2006	33.5	27.3%		
Other non-recurring income (expenses)	(10.9)	(0.7%)	2.8	0.2%
EBITDA	**145.4**	**9.7%**	**125.6**	**9.2%**
Amortization and depreciation	(41.7)	(2.8%)	(40.6)	(3.0%)
EBIT	**103.7**	**7.0%**	**85.0**	**6.2%**
Change 2007/2006	18.7	22.1%		
Financial income (expenses)	(49.4)	(3.3%)	(47.0)	(3.4%)
Exchange gains (losses)	(0.6)	(0.0%)	(1.6)	(0.1%)
Financial expenses for new without-recourse receivables factoring programme	(1.3)	(0.1%)	-	-
Extraordinary income (expenses) from equity investments	-	-	25.0	1.8%
Profit before taxes	**52.4**	**3.5%**	**61.3**	**4.5%**
Taxes	(21.1)	(1.4%)	(20.9)	(1.5%)
Profit (loss) after taxes	**31.3**	**2.1%**	**40.4**	**3.0%**
Profit (loss) pertaining to minority interests	0.7	0.0%	0.7	0.0%
Profit (loss) pertaining to the group	**30.6**	**2.1%**	**39.8**	**2.9%**
Profit (loss) pertaining to the group before extraordinary income/expenses from equity investments	**30.6**		**14.9**	

The gross profit presented above differs by €136.8 million at 31 December 2007 (€136.1 million at 31 December 2006) 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.

Gross profit improved by €73.3 million from €513.1 million in 2006 to €586.4 million in 2007 (with the margin going from 37.6% to 39.3%), benefiting from a good product mix and a weaker dollar. The number of hours worked at the Italian factory making coffee machines increased sharply in the last quarter of 2007 relative to the same period in 2006, in order to cope with higher demand; fourth-quarter payroll costs rose as a result. The benefits of this work will be particularly visible in the first quarter of 2008, when these products are delivered to market.

Non-production payroll costs were €16.9 million higher, going from 6.7% of revenues in 2006 to 7.3% in 2007; this change reflects the new scope of consolidation and the provision for a one-off payment to the group's Italian employees as a result of renewing the industry's collective bargaining contract.

EBITDA before non-recurring expenses came to €156.3 million, up 27.3% on 2006 and reporting an improvement in margin from 9.0% in 2006 to 10.5% in 2007 (assuming the same scope of consolidation, ie. excluding Elba in 2006 and RC Group and Top Clima in 2007, the margin would have increased from 8.9% to 10.5%).

The growth in EBITDA before non-recurring expenses reflects the improvement in gross profit by over 1.7 percentage points, as well as lower service and operating costs. The group also increased its spending on advertising and promotions (from €76.5 million to €84.5 million) to support the launch and development of new products in keeping with its medium-term strategic goals.

Non-recurring income (expenses) report a negative €10.9 million, most of which relates to expenses referring to the fire for which the insurance claim is still unsettled, to the insurance receipts, to costs for reorganizing corporate structure and some of the group's activities and to the gain from adjusting severance indemnity to comply with new supplementary pensions laws.

Net financial expenses increased by €2.7 million mainly as a result of higher interest rates but also as a result of fully expensing €1.3 million in upfront fees in 2007 in relation to the new without-recourse receivables factoring programme starting up in March 2007 under a master agreement expiring in 2012.

Taxes came to €21.1 million (€20.9 million in 2006).

After tax, the profit pertaining to the group was €30.6 million, having increased by €15.7 million on 2006 ignoring the gain on the sale of Elba in 2006 and despite the costs of the fire.

Review of the balance sheet and financial position

The reclassified consolidated balance sheet is summarized below:

(€/million)	31.12.2007	31.12.2006	Change 31.12.07-31.12.06	% change
Non-current assets (*)	**709.4**	**718.9**	**(9.5)**	**(1.3%)**
Inventories	335.2	323.7	11.5	3.5%
Trade receivables	378.0	348.0	30.0	8.6%
Other current assets	63.8	39.4	24.4	61.9%
Trade payables	(333.7)	(327.1)	(6.6)	2.0%
Other current liabilities	(79.9)	(77.1)	(2.9)	3.7%
Net working capital	**363.4**	**307.0**	**56.4**	**18.4%**
Total non-current liabilities and provisions	(86.2)	(90.7)	4.5	(4.9%)
Net capital employed	**986.5**	**935.2**	**51.3**	**5.5%**
Net financial position (**)	**355.9**	**314.6**	**41.3**	**13.1%**
Total net equity	**625.2**	**615.6**	**9.7**	**1.6%**
Total net borrowings and equity	**986.5**	**935.2**	**51.3**	**5.5%**

(*) Includes €6.5 million in "Non-current assets held for sale".
(**) Of which €18.2 million for the fair value measurement of hedging derivatives and for recognizing a call option relating to an equity investment.

The decrease of €9.5 million in non-current assets reflects the writedown of fixed assets destroyed in the fire (€19.5 million), not yet completely replaced, the utilization of deferred tax assets (€6.5 million) mainly to offset taxable income of certain group companies and the increase in goodwill mainly arising from the purchase of commercial operations (€8.7 million).

Investments in property, plant and equipment (ignoring the cost of replacing assets destroyed in the fire) amounted to €35.9 million (€40.9 million in 2006); these particularly referred to improvements to buildings, completion of the purchase of new column radiator production lines and the development of new product moulds during 2007.

The increase of €56.4 million in working capital reflects €22.5 million in relation to the fire, €17.1 million for purchasing commercial operations as well as the capital required to fund actual sales growth and that expected in the first quarter of 2008. Assuming the same scope of consolidation and ignoring the fire and the benefits of factoring receivables without recourse, net working capital turnover went from 31.6% of revenues in 2006 to 31.5% in 2007.

Trade receivables were 8.6% higher at €378.0 million (6% assuming the same scope of consolidation and before factoring receivables without recourse).

Net inventories were 3.5% higher at €335.2 million; this increase would have been 1% assuming the same scope of consolidation and ignoring the effects of the fire, reflecting the effectiveness of measures taken in 2007 to keep inventory levels in check.

The net financial position reported net borrowings of €355.9 million, €41.3 million more than at 31 December 2006. This increase reflected €18.2 million for the fair value measurement of derivatives and the call option relating to equity investments (€3.9 million in 2006).

The cash flow statement, in a condensed format, can be summarized as follows:

(€/million)	2007	2006
Cash flow generated by current operations	86.4	49.8
Cash flow generated (absorbed) by other changes in working capital	(21.3)	45.5
Cash flow generated by current operations and changes in working capital	**65.1**	**95.3**
Cash flow absorbed by ordinary investment activities	(40.6)	(38.0)
Cash flow generated by operating activities	**24.4**	**57.3**
Cash flow generated (absorbed) by extraordinary investment activities	(23.9)	34.6
Cash flow absorbed by the fire	(19.4)	-
Cash flow absorbed by changes in equity accounts	(22.3)	(8.0)
Cash flow generated by factoring receivables without recourse	-	112.9
Cash flow for the period	**(41.3)**	**196.8**
Opening net financial position	(314.6)	(511.4)
Closing net financial position	**(355.9)**	**(314.6)**

Ignoring the effects of the fire and acquisition of subsidiaries in 2007, cash flow generated by current operations came to €65.1 million as a result of financing the major growth in 2007.

Cash flow generated by operating activities amounted to €24.4 million after making €40.6 million in ordinary investments (€38 million in 2006).

Cash flow was affected by €23.9 million in extraordinary investments for acquiring equity investments (compared with a net inflow of €34.6 million in 2006 following the sale of Elba and purchase of RC Group) and by €19.4 million in expenditure relating to the fire which should be subsequently reimbursed by insurance.

Cash flow absorbed by changes in equity accounts was a negative €22.3 million (€8 million in 2006) mainly as a result of accounting for hedging derivatives (€7 million), of negative changes in the currency translation reserve (€6.8 million) and the dividend payment (€9.0 million).

Rationalization of the group's structure

Corporate reorganization

A plan was approved in June to reorganize the group's structure, which has involved its separation into the two distinct business sectors in which it operates (Household and Professional) in order to improve its market positioning and competitiveness.

The reasons for this reorganization were as follows:

- the need to have a corporate structure that corresponds to the two divisions characterizing the group's business;
- the opportunity to create a system of governance that responds to the need for a more efficient, effective management of the individual businesses and the possibility of optimizing the human resources common to both the Professional and Household divisions by centralizing certain services under the parent company; De'Longhi S.p.A. will therefore be left as a holding company, with the role of setting strategy, controlling, coordinating and managing centralized activities and resources;
- the prospect of more easily developing synergies and joint ventures with other players in either sector;
- the opportunity to communicate the positioning of De'Longhi S.p.A. correctly to investors, informing them of the existence of the two different business areas.

The reorganization has taken place by creating two sub-holding companies, one for the Professional division and one for the Household division, and through a number of corporate actions involving:

- the transfer of the investment in DL Radiators (a company which produces and sells terminal units for fixed heating systems) to the sub-holding company De'Longhi Professional and the transfer from De'Longhi S.p.A. to De'Longhi Professional of the entire investment currently held in Climaveneta (a company specialized in the production of large thermo-cooling systems for commercial and industrial use);
- the spin-off from De'Longhi S.p.A., completed in July 2007, to a wholly-owned subsidiary (De'Longhi Appliances) of the business represented by the Household division, inclusive of its numerous foreign subsidiaries and investments.

All these operations have been carried out on a tax-neutral basis and have not had any impact on consolidated net equity, financial position or EBITDA.

An information circular was filed on 16 July 2007 at the company's registered office and with Borsa Italiana S.p.A. containing information for the market on the group's reorganization process. This circular reports on the nature of the corporate actions (between group companies and with no effect on consolidated net equity, financial position or EBITDA), and was drawn up in accordance with articles 71 and 71-bis and Appendix 3B (format 4) of CONSOB Regulation 11971 dated 14 May 1999 and subsequent amendments and additions thereto (the "Issuer Regulations").

Distribution structure

The group continued to invest during 2007 in enlarging its distribution network; new commercial operations were formed or acquired:

In the Household division:

Kenwood Swiss

On 23 July Kenwood Swiss AG, a wholly-owned subsidiary of the group, purchased the De'Longhi and Kenwood distribution business in Switzerland, which reported sales of around CHF 25 million in financial year 2006/2007; this transaction was completed at a value of CHF 5 million for acquiring CHF 2.2 million in net equity (with an impact on net financial position of €4.6 million, inclusive of the related debt).
The acquisition will make it possible to integrate these distribution activities within the De'Longhi Group in an ever more competitive, globalized market.

De' Longhi Prague

The new company for distributing De'Longhi and Kenwood products in the Czech Republic started operating in the early part of 2007.

In the Professional division:

Top Clima S.L.

During the year the group acquired 40% of the share capital in Top Clima, the current distributor in Spain for Climaveneta, a group company which produces and distributes large thermo-cooling systems; this acquisition gave the group a 65% controlling interest in Top Clima.
Top Clima reported €30.5 million in sales in 2006 and has €7 million in net equity; the transaction was completed at a value of €5.3 million, inclusive of a positive price adjustment for the purchase of the previous shares; the purchase agreement also includes a call option over the remaining 35% minority interest.
This acquisition had an impact of €19.3 million on the group's net financial position, inclusive of the related debt on the acquisition date of €8.4 million and recognition of €6.2 million for the call option.
Control of this company will make it possible to be more competitive in one of the most important European markets for large thermo-cooling systems.

Industrial plan and development and organization activities

The plan for reorganizing the production activities of De'Longhi S.p.A. was completed during 2007.
This plan involved accessing the special state-funded redundancy fund, with authorization by the Ministry of Employment initially given for a year and subsequently extended for another year until 10 April 2007, under Decree 39182 dated 9 August 2006.

Overall the plan has involved terminating 386 employees compared with the initial estimate of 650 redundancies and 504 agreed with the trade unions in 2005. These redundancies (of which 96% on a voluntary basis) involved using incentives to resign, placement in the state-funded mobility scheme (with or without accessing the special state-funded redundancy fund), and transfers to other group companies in Italy.

The positive results of the scheme to help workers find new jobs, run in partnership with the employment agency "Unimpiego Confindustria" with the Veneto Region's approval, helped limit the social impact of restructuring, as did investments in enlarging the Treviso factory (prior to the fire on 18 April) and after the fire in restarting production at the site in Mignagola (a few kilometres from Treviso).

The events of 18 April 2007 had a major impact on all manufacturing activity during 2007; the loss of certain strategic plant at the historic factory in Treviso accelerated the phasing out of certain products and the shift of production of other product ranges abroad. At the same time, the Treviso manufacturing activities restarted in Mignagola, with the implementation of 9 new lines to assemble fully automatic coffee machines and built-in microwave ovens. The new manufacturing facility was fully operational by September with a total of 680 employees. The Mignagola factory, which was fitted out and started production in record time thanks to the commitment and professionalism of all the company's staff, is now almost entirely devoted to manufacturing De'Longhi automatic coffee machines and "Nespresso" coffee machines, developed as a result of the partnership with the Swiss multinational. Production capacity at the new factory is more than double that of the site originally manufacturing these products.

Following the fire which affected the head office and other offices in Treviso, it was necessary to relocate certain activities/departments within the company's existing structure. In particular, all the Research and Development, Design, Laboratory and Quality Assurance units were concentrated in Treviso, allowing them to work closely with the Sales and Marketing offices, while the After-Sales Service and Spare Parts Store were moved to specific, modern premises in Gorgo al Monticano.

After De'Longhi S.p.A. spun off the Household business to De'Longhi Appliances S.r.l., it became apparent in the last part of 2007 that it was no longer possible to justify maintenance of the commercial unit in Seregno for managing the "La Supercalor" business.
As a result all of the commercial activity relating to "La Supercalor" was reorganized with a view to raising competitiveness through lower operating costs and better efficiency by optimizing existing services; this was achieved by moving all the existing commercial, logistics and service units to the headquarters in Treviso. This reorganization has resulted in the decision to close the offices in Seregno (due to be completed by the end of March 2008), with ten employees being made redundant.

Despite the problems emerging after the April fire, activities continued throughout the year for strengthening the group's management team in Italy and abroad, as well as for developing the professional and management skills of internal resources.

The more significant measures included the development of commercial structures in major existing and potential markets, particularly the United Kingdom, Russia and China (both as regards the Household and Professional divisions) and the recruitment of new management in the USA.

Manufacturing by the factories in China and Russia

This was a year when the Chinese factory producing oil-filled radiators basically consolidated its manufacturing activities, with a heavy emphasis on improving efficiency. A number of investments were made for verticalizing certain processes with benefits in terms of costs and control over material flows.
Reorganization of the factories has helped recover space, which will be used for starting up new production in 2008.

The value of production at the Chinese factory making small domestic appliances increased considerably on the prior year after rationalizing product ranges by phasing out the production of low-value goods and reallocating the associated space and resources to higher value products.

The production of oil-filled radiators at the Russian factory was verticalized during 2007, by starting to manufacture front panels and other related parts, which were previously imported from China.

Significant events

Fire at the Treviso headquarters

On 18 April 2007 a fire broke out in the company's headquarters in Treviso.
The fire affected the factory, the production lines, the press and tooling department, the technical offices and the warehouse for parts/raw materials and finished products. No one was hurt, either employees, firefighters or police.
The fire did not affect computer equipment or the supply chain, which remained intact with no interruption to their operation, while the accounting and commercial offices resumed business as usual just a few days later.
A company task force immediately drew up an extraordinary action plan, involving the activation of new production lines at the factory in Mignagola (Treviso) in place of those destroyed.
As regards the associated effects on the consolidated financial statements relating to the "Buildings" and "Production plant" of De'Longhi S.p.A. that were destroyed, the estimated net book value of these assets of €19.5 million is adequately covered by the property all-risks plan with Assicurazioni Generali.
As for inventories, the damage incurred (inclusive of samples, prototypes and consumable materials) amounted to around €19.5 million and is also covered by insurance.
The group also has adequate insurance for the reimbursement of all the extra costs that have been incurred for restarting production and getting back to previous levels of production.
During the month of June Assicurazioni Generali paid the sum of €15 million as an advance on the total claim, in accordance with the terms of the insurance policy.
The pre-tax impact on the consolidated income statement of the costs incurred following the fire, less the related insurance reimbursement, has been estimated at €9.4 million. This amount is classified in the income statement under "Other non-recurring income (expenses)", as detailed in the explanatory notes. It is not final because it does not take account of the right to receive additional compensation on top of the book value of the assets destroyed and the entitlement to reimbursement for indirect expenses (amongst which the loss of earnings and recovery of extra costs incurred for restarting production), which will be recognized when the claim is finally settled.

After the fire, Assicurazioni Generali immediately paid out the maximum sum insured against the damage incurred.
The loss adjusters appointed by the group and by Assicurazioni Generali continued to meet during the second half of the year and a large number of technical reports were requested and prepared for the purposes of reaching a final quantification of the damage and the compensation payable.
The claim for direct damages should be settled reasonably soon, while the claim for indirect damages should be finalized by the end of 2008.

New without-recourse receivables factoring programme 2007 - 2012

A new without-recourse receivables factoring programme was agreed on 20 March 2007 and falls within the scope of Law 52/91 (known as the Factoring Law). The purpose of these new arrangements was to replace those adopted since September 2002; the previous arrangements were such that the adoption of IAS/IFRS led to a steady reduction in the amount factored, making it necessary to redesign them in order to restore this benefit to above its original level (a maximum amount of €100 million) by reincluding without-recourse factoring carried out on a non-recurring basis. This increase in receivables qualifying for derecognition was also achieved by including the factoring of receivables from foreign customers and adopting a system of factoring receivables gross of any credit notes.
The operation was arranged by BNP Paribas and Finanziaria Internazionale (both of whom were the arrangers of the previous operation), while the companies involved are De'Longhi Appliances S.r.l., DL Radiators S.p.A and Ariete S.p.A..
The one-off costs of this operation, which include upfront arrangers fees and placement fees (for placing the mezzanine and junior notes, for the credit line and the legal costs for structuring the deal), amount to €1.5 million and have been expensed in full to the consolidated income statement. The without-recourse factoring of receivables is carried out by the Italian branch of BNP Paribas, while the non-senior notes issued, split into three tranches (mezzanine A, mezzanine B and Junior notes) with an increasing degree of risk, have been subscribed by banks and/or institutional investors.

Research and development - new products

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 has over 300 staff working on R&D at a total cost of some €29 million in 2007 (of which €8.1 million capitalized as new product development costs). These investments have enabled it to achieve competitive benefits and consolidate them over time.

During 2007 development activities permitted the market launch of numerous products, those designed and manufactured in-house and purchased from outside.
The introduction of numerous new product features was fundamental to strengthening the group's leadership as a multi-specialist in the various markets in which it operates.

Quality

We continued our quality policy in 2007, 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.

The most important project, involving all the group's manufacturing companies, related to the "Food Contact Compliance" regulations on the production of products containing parts which come into contact with food.

Human resources and organization

The De'Longhi Group had 7,113 employees at 31 December 2007 (6,813 in 2006).

The following table summarizes the average number of employees during 2007 compared with 2006:

	2007	%	2006	%	Difference
Blue collar	4,820	63%	5,008	66%	(188)
White collar	2,661	35%	2,520	33%	141
Executives	126	2%	117	1%	9
Total	**7,607**	**100%**	**7,645**	**100%**	**(38)**

	2007	**%**	**2006**	**%**	**Difference**
Household	5,998	79%	6,389	84%	(391)
Professional	1,609	21%	1,256	16%	353
Total	**7,607**	**100%**	**7,645**	**100%**	**(38)**

The group had an average of 7,607 employees during 2007, down from 7,645 in 2006. This reduction was the product of different trends between the Household and Professional divisions.

The average number of employees in the Household division fell from 6,389 in 2006 to 5,998 in 2007. This reflected completion of restructuring of the De'Longhi S.p.A. production platform, 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 (ending on 10 April 2007), and the deconsolidation of Elba S.p.A., consolidated for part of 2006. There was an increase in personnel at the commercial companies, as a result of opening/acquiring operations in new countries.

The average number of employees in the Professional division rose from 1,256 in 2006 to 1,609 in 2007 as a result of growth in both the heating and thermo-cooling businesses. In particular, the thermo-cooling business reflects the acquisition of Top Clima and the full-year impact of staff at RC Group (who were counted only for the last quarter of 2006).

There was continued consolidation of the operations in China, meaning that in recent years the number of local employees has surpassed those employed in other countries where the group operates (43% of the group's entire workforce was employed in Chinese operations at year end, with an average of 47% over the year).

In terms of policies to develop, motivate and retain the group's key resources, the various initiatives included training and management involvement, the development of incentive schemes designed to secure the loyalty of and retain key people, (focusing the attention of those involved on medium and long-term success factors) and internal communication.
Both the group's Household and Professional divisions started an Assessment programme in 2007 for certain potential and key people, forming part of the wider project to develop management skills; this is based on assessing existing and expected skills in order to design the best career paths for the group's key resources.

Training in economic and financial matters was given to various people in the Marketing and Sales department, while specialist training was given particularly to those in technical areas (involving around 40 designers and lab technicians) and in production areas (with training on products and quality-related issues, as well as development of management skills).

Corporate Governance

The De'Longhi Group has adopted and complies with the Code of Conduct for Listed Companies, published in March 2006 (the "Code").
In compliance with applicable laws and regulations, as well as the Italian stockmarket's Regulations, an annual Corporate Governance Report is prepared, which not only provides a general description of the system of corporate governance adopted by the group, but also contains the information on ownership structure required by paragraph 2, article 123-bis of Consob Regulation 11971/99 and on adoption of the Code and observance of the related undertakings.
This report is available on the website www.delonghi.com, in the section "Corporate" → "Investor Relations" → "Corporate information" → Corporate Governance.
The key points will be now be summarized for the purposes of the Report on operations.

Direction and Co-ordination

De'Longhi S.p.A. is not under the direction and co-ordination of its parent De' Longhi Soparfi S.A., or of any of any party, as defined by articles 2497 et seq. of the Italian Civil Code, and directs and co-ordinates its own subsidiaries.
In compliance with the Code of Conduct's principles, transactions of particular importance strategically, or for the balance sheet, results and financial position of the De'Longhi Group must be examined and approved solely by the Board of Directors of the issuer De'Longhi S.p.A., which contains 3 directors qualifying as non-executive and independent, based on the guidelines established by the Code's article 3.
It should nonetheless be noted – as communicated to the issuer – that the business purpose of the parent De'Longhi Soparfi S.A. set out in its articles of associations forbids it from interfering in the management of any of the companies in which it has an interest.

Board of Directors

The Board of Directors currently in office was appointed by the shareholders' meeting of 18 April 2007 (except for one director who was co-opted on 12 July 2007), which set the total number of directors at 9 (nine). This Board will end its term in office at the shareholders' meeting called to approve the annual report at 31 December 2009.
In compliance with article 147-ter of Italy's Financial Markets Consolidation Act, the articles of association of De'Longhi S.p.A. establish that the Board of Directors is elected using the list voting mechanism, with one director elected from the list obtaining the second highest number of votes (the other members all being taken from the majority list). Shareholders who own an interest at least equal to that determined by Consob pursuant to law and regulations are entitled to present lists of candidates for the office of director.

Since its meeting on 1 March 2007 the Board of Directors of De'Longhi S.p.A. has adopted a series of resolutions designed to implement the principles contained in the Code, with such resolutions duly implemented during 2007. Details of these resolutions can be found in the Corporate Governance Report.

In its meeting on 13 November 2007 the Board of Directors of De'Longhi S.p.A. identified its "strategically important subsidiaries" as De'Longhi Appliances S.r.l., Ariete S.p.A., Climaveneta S.p.A., De'Longhi Capital Services S.r.l. and DL Radiators S.p.A., all Italian registered companies, as well as Kenwood Ltd, a British registered company.

The Board of Directors periodically reviews whether its members qualify as executive/non-executive and independent/non-independent in compliance with the principles established by articles 2 and 3 of the Code.
The Board has two executive directors - the Chairman and the Chief Executive Officer - and seven non-executive directors, who have no authority or managerial functions in the company or the group, of whom three qualify as independent.
In its meeting on 12 March 2008, the Board confirmed that the directors Alberto Clò, Renato Corrada and Giovanni Tamburi all satisfied the stated requirements of independence; what is more, since the Board has more than seven members, it was verified that at least two of them satisfied the independence requirements contained in article 147-quater and article 148.3 of Decree 58/98.

Some of the current directors hold appointments in other listed or relevant companies. The list of the more significant appointments can be found in the Corporate Governance Report.

In implementation of the above principles, the Board of Directors has approved "Guidelines on particularly significant transactions and with related parties", which contain precise criteria for identifying transactions requiring Board approval, significant transactions with third parties or with related parties, including through subsidiaries; these Guidelines are annexed to the Corporate Governance Report.

The Board of Directors has decided to adopt the recommendation relating to the appointment of a lead independent director with the functions suggested by the Code.

Committees set up by the Board of Directors

In its meeting on 1 March 2007, and then after its reappointment on 18 April 2007, the Board of Directors voted to confirm the establishment of two sub-committees, namely:

- the Compensation Committee and
- the Internal Auditing and Corporate Governance Committee.

Details of the powers and operation of these two committees can be found in the Corporate Governance Report.

Internal controls

In its meeting on 1 March 2007 the Board of Directors also approved:

- the adoption of a framework document entitled "Internal control policies of the De'Longhi Group" ("Policies"), also to improve and optimize the internal controls of the company and the group;
- the allocation of all the functions specified in the Policies to the Internal Control Officer;
- the revision of the Decree 231/2001 Organizational Model for intervening changes in laws and regulations.

The Board of Directors appointed the Financial Reporting Officer in its meeting on 21 June 2007.
In accordance with article 28-bis of the articles of association, the Financial Reporting Officer is selected, after consulting the Board of Statutory Auditors, from persons with at least three years of senior-level experience in accounting or administration, in a listed or nonetheless large company.

Board of Statutory Auditors

Following the resolutions adopted by the shareholders' meeting of 18 April 2007, the Board of Statutory Auditors comprises Gianluca Ponzellini, its chairman, and Giuliano Saccardi and Massimo Lanfranchi, both standing members. Their term in office expires with the approval of the annual report at 31 December 2009.

Article 14 of the articles of association is designed to ensure that the Chairman of the Board of Statutory Auditors is appointed by the minority, by taking him from the list obtaining the second highest number of votes.

Shares 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 shares held by directors and statutory auditors in De'Longhi S.p.A. and its subsidiaries.

Name	Name of company in which shares held	No. shares held at 31.12.2006 (*)	Purchases in 2007	Sales in 2007	No. shares held at 31.12.2007 (*)
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	De'Longhi S.p.A.	750	-	-	750

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

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

The reconciliation between the net equity and profit reported by the parent company, De'Longhi S.p.A., and the corresponding consolidated amounts can be found in the explanatory notes.

Related-party transactions

The transactions and balances arising from dealings by group companies with ultimate parent companies, associated companies and other related parties are summarized in the explanatory notes.

Subsequent events

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

Outlook for the current year

The group believes that it will be able to achieve its forecast growth targets despite having to operate in a more difficult economic environment.

Treviso, 12 March 2008
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

(€/000)	Notes	31.12.2007	31.12.2006
Revenues from sales and services	1	1,462,920	1,334,690
Other operating income and revenues	1	27,976	28,285
Total consolidated net revenues		**1,490,896**	**1,362,975**
Raw and ancillary materials, consumables and goods	2	(799,322)	(709,085)
Change in inventories of finished products and work in progress	3	18,962	(2,612)
Change in inventories of raw and ancillary materials, consumables and goods	3	12,664	(2,054)
Materials consumed		**(767,696)**	**(713,751)**
Payroll costs	4	(179,717)	(164,633)
Services and other operating expenses	5	(372,886)	(349,325)
Contingency and other provisions	6	(14,322)	(12,520)
Other non-recurring income (expenses)	7	(10,920)	2,825
Amortization and depreciation	8	(41,666)	(40,617)
EBIT		**103,689**	**84,954**
Financial income (expenses) from equity investments	9	3	24,980
Other financial income (expenses)	9	(51,300)	(48,612)
Financial income (expenses)		**(51,297)**	**(23,632)**
EARNINGS BEFORE TAX (EBT)		**52,392**	**61,322**
Income taxes for the year	10	(21,140)	(20,876)
PROFIT (LOSS) AFTER TAXES		**31,252**	**40,446**
Profit (loss) pertaining to minority interests	27	688	670
PROFIT (LOSS) PERTAINING TO THE GROUP		**30,564**	**39,776**
EARNINGS PER SHARE (*)			
- basic		**0.20**	**0.27**
- diluted		**0.20**	**0.27**

(*) The writedown of buildings held for sale has had an immaterial effect on earnings per share.
Appendix 3 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

(€/000)	Notes	31.12.2007	31.12.2006
NON-CURRENT ASSETS			
INTANGIBLE ASSETS		421,437	414,158
- Goodwill	11	232,410	223,679
- Other intangible assets	12	189,027	190,479
PROPERTY, PLANT AND EQUIPMENT		241,835	255,183
- Land, property, plant and machinery	13	202,573	213,522
- Other tangible assets	14	39,262	41,661
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		7,373	11,317
- Equity investments (in associated companies)	15	2,628	6,476
- Equity investments (in other companies)	15	731	731
- Receivables	16	1,469	1,610
- Other non-current financial assets	17	2,545	2,500
DEFERRED TAX ASSETS	18	34,804	41,332
TOTAL NON-CURRENT ASSETS		**705,449**	**721,990**
CURRENT ASSETS			
INVENTORIES	19	335,194	323,733
TRADE RECEIVABLES	20	377,982	348,014
CURRENT TAX ASSETS	21	22,067	20,530
OTHER RECEIVABLES	22	41,710	18,865
CURRENT FINANCIAL RECEIVABLES AND ASSETS	23	8,186	1,761
CASH AND CASH EQUIVALENTS	24	107,368	112,952
TOTAL CURRENT ASSETS		**892,507**	**825,855**
NON-CURRENT ASSETS HELD FOR SALE	25	6,519	-
NON-CURRENT ASSETS HELD FOR SALE		**6,519**	**-**
TOTAL ASSETS		**1,604,475**	**1,547,845**

Consolidated balance sheet

Net equity and liabilities

(€/000)	Notes	31.12.2007	31.12.2006
NET EQUITY			
GROUP PORTION OF NET EQUITY		625,220	615,568
- Share capital	26	448,500	448,500
- Reserves	27	146,156	127,292
- Profit (Loss) pertaining to the group		30,564	39,776
MINORITY INTERESTS	27	5,458	5,037
TOTAL NET EQUITY		**630,678**	**620,605**
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES		171,870	209,648
- Bank loans and borrowings (long-term portion)	28	141,026	191,919
- Other financial payables (long-term portion)	29	30,844	17,729
DEFERRED TAX LIABILITIES	18	19,181	20,461
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		67,051	70,236
- Employee benefits	30	35,721	42,009
- Other provisions	31	31,330	28,227
TOTAL NON-CURRENT LIABILITIES		**258,102**	**300,345**
CURRENT LIABILITIES			
TRADE PAYABLES	32	333,669	327,088
FINANCIAL PAYABLES		302,099	222,742
- Bank loans and borrowings (short-term portion)	28	273,219	203,898
- Other financial payables (short-term portion)	29	28,880	18,844
CURRENT TAX LIABILITIES	33	24,286	21,154
OTHER PAYABLES	34	55,641	55,911
TOTAL CURRENT LIABILITIES		**715,695**	**626,895**
TOTAL NET EQUITY AND LIABILITIES		**1,604,475**	**1,547,845**

Appendix 3 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)

(€/000)	Notes	31.12.2007	31.12.2006
Profit (loss) pertaining to the group		30,564	39,776
Net capital losses relating to the fire		5,934	-
Capital (gains) losses on disposal of equity investments and deconsolidation of Marka Finance		-	(25,083)
Amortization and depreciation	8	41,666	40,617
Net change in provisions and writedowns		8,235	(5,532)
Cash flow generated (absorbed) by current operations (A)		**86,399**	**49,778**
Change in assets and liabilities for the period:			
Trade receivables		(20,928)	(6,958)
Inventories		(3,455)	14,293
Trade payables		3,471	40,142
Other current assets and liabilities		(429)	(1,934)
Cash flow generated (absorbed) by movements in working capital (B)		**(21,341)**	**45,543**
Cash flow generated (absorbed) by current operations and movements in working capital (A+B)		**65,058**	**95,321**
Investment activities:			
Investments in intangible assets	12	(10,330)	(11,495)
Other cash flows from investments in intangible assets		(790)	(750)
Investments in property, plant and equipment	13, 14	(35,892)	(40,853)
Proceeds from sale of property, plant and equipment and other cash flows		6,610	15,750
Net investments in equity investments and other financial assets		(212)	(684)
Cash flow generated (absorbed) by ordinary investment activities (C)		**(40,614)**	**(38,032)**
Effect on cash flow of selling Elba S.p.A.		-	76,637
Effect on cash flow of acquiring RC Group		-	(23,177)
Effect on cash flow of acquiring Top Clima and KW Swiss		(5,185)	-
Cash flow generated (absorbed) by investment activities (C)		**(45,799)**	**15,428**
Fair value and cash flow hedge reserves	27	(7,024)	(1,294)
Dividends paid		(8,970)	(2,990)
Change in currency translation reserve		(6,759)	(4,445)
Increase (decrease) in minority interests in capital and reserves		421	739
New loans		8,400	7,200
Repayment of loans and other net changes in sources of finance		8,527	(174,038)
Cash flow generated by changes in equity accounts and by financing activities (D)		**(5,405)**	**(174,828)**
Cash flow absorbed by the fire (E)		**(19,438)**	**-**
Increase (decrease) in cash and cash equivalents (A+B+C+D+E)		**(5,584)**	**(64,079)**
Opening cash and cash equivalents	**24**	**112,952**	**177,031**
Increase (decrease) in cash and cash equivalents (A+B+C+D+E)		(5,584)	(64,079)
Closing cash and cash equivalents	**24**	**107,368**	**112,952**

Consolidated cash flow statement
(in terms of Net financial position)

(€/000)	Notes	31.12.2007	31.12.2006
Profit (loss) pertaining to the group		30,564	39,776
Net capital losses relating to the fire		5,934	-
Capital (gains) losses on disposal of equity investments and deconsolidation of Marka Finance		-	(25,083)
Amortization and depreciation	8	41,666	40,617
Net change in provisions and writedowns		8,235	(5,532)
Cash flow generated (absorbed) by current operations (A)		**86,399**	**49,778**
Change in assets and liabilities for the period:			
Trade receivables		(20,928)	(6,958)
Inventories		(3,455)	14,293
Trade payables		3,471	40,142
Other current assets and liabilities		(429)	(1,934)
Cash flow generated (absorbed) by movements in working capital (B)		**(21,341)**	**45,543**
Cash flow generated (absorbed) by current operations and movements in working capital (A+B)		**65,058**	**95,321**
Investment activities:			
Investments in intangible assets	12	(10,330)	(11,495)
Other cash flows from investments in intangible assets		(790)	(750)
Investments in property, plant and equipment	13, 14	(35,892)	(40,853)
Proceeds from sale of property, plant and equipment and other cash flows		6,610	15,750
Net investments in equity investments and other financial assets		(212)	(684)
Cash flow generated (absorbed) by ordinary investment activities		**(40,614)**	**(38,032)**
Effect on cash flow of selling Elba S.p.A.		-	76,637
Effect on cash flow of acquiring RC Group		-	(42,042)
Effect on cash flow of acquiring Top Clima and KW Swiss		(23,936)	-
Cash flow generated (absorbed) by investment activities (C)		**(64,550)**	**(3,437)**
Fair value and cash flow hedge reserves	27	(7,024)	(1,294)
Dividends paid		(8,970)	(2,990)
Change in currency translation reserve		(6,759)	(4,445)
Increase (decrease) in minority interests in capital and reserves		421	739
Cash flow generated by changes in equity accounts (D)		**(22,332)**	**(7,990)**
Cash flow absorbed by the fire (E)		**(19,438)**	
Effect of factoring receivables without recourse (F)		**-**	**112,900**
Cash flow for the period (A+B+C+D+E+F)		**(41,262)**	**196,794**
Opening net financial position	**29**	**(314,604)**	**(511,398)**
Cash flow for the period (A+B+C+D+E+F)		(41,262)	196,794
Closing net financial position	**29**	**(355,866)**	**(314,604)**

Statement of changes in consolidated net equity at 31 december 2007 and 31 december 2006

(€/000)	SHARE CAPITAL	SHARE PREMIUM RESERVE	LEGAL RESERVE
Balance at 31 December 2005	**448,500**	**325**	**5,393**
Allocation of 2005 result as per AGM resolution of 27 April 2006			
- payment of dividends			
- allocation to reserves			200
Changes in reserves for application of IAS			
Difference from conversion of foreign companies' financial statements into euro			
Changes in minority interests in net equity for changes in scope of consolidation			
Profit for the year			
Balance at 31 December 2006	**448,500**	**325**	**5,593**
Allocation of 2006 result as per AGM resolution of 18 April 2007			
- payment of dividends			
- allocation to reserves			692
Movement in fair value and cash flow hedge reserves			
Difference from conversion of foreign companies' financial statements into euro			
Changes in minority interests in net equity for changes in scope of consolidation			
Profit for the year			
Balance at 31 December 2007	**448,500**	**325**	**6,285**

OTHER RESERVES	FAIR VALUE AND CASH FLOW HEDGE RESERVES	PROFIT (LOSS) CARRIED FORWARD	PROFIT (LOSS) PERTAINING TO GROUP	GROUP PORTION OF NET EQUITY	MINORITY INTERESTS	TOTAL NET EQUITY
43,384	**(620)**	**61,979**	**24,820**	**583,781**	**1,754**	**585,535**
			(2,990)	(2,990)		(2,990)
808		20,822	(21,830)	-		-
	(905)	351		(554)		(554)
		(4,445)		(4,445)		(4,445)
					2,613	2,613
			39,776	39,776	670	40,446
44,192	**(1,525)**	**78,707**	**39,776**	**615,568**	**5,037**	**620,605**
			(8,970)	(8,970)		(8,970)
4,184		25,930	(30,806)	-		-
	(5,183)			(5,183)		(5,183)
		(6,759)		(6,759)	(86)	(6,845)
					(181)	(181)
			30,564	30,564	688	31,252
48,376	**(6,708)**	**97,878**	**30,564**	**625,220**	**5,458**	**630,678**

Explanatory notes

Group business

De'Longhi S.p.A., which has its registered office in Treviso, is the holding company for a group organized into two divisions.

The "Household" division operates in the domestic appliances market with products for air cooling and treatment, heating, food preparation and cooking, domestic cleaning and ironing, which are distributed mainly through the retail channel under the De'Longhi, Kenwood and Ariete trademarks.

The "Professional" division operates in the markets for large thermo-cooling systems (Climaveneta and RC Group), water-filled radiators (DL Radiators) and fixed air-conditioning units for the professional channel (Climaveneta Home System). These types of product are distributed mainly through the professional channel.

The De'Longhi Group's structure was reorganized during 2007, involving its separation into the two distinct business sectors in which it operates.

The corporate actions involved in this process can be summarized as follows:

- transfer of the investment in DL Radiators (a company which produces and sells terminal units for fixed heating systems) to the sub-holding company De'Longhi Professional and transfer from De'Longhi S.p.A. to De'Longhi Professional of the entire investment held in Climaveneta (a company specialized in the production of large thermo-cooling systems for commercial and industrial use);
- spin-off from De'Longhi S.p.A. to a wholly-owned subsidiary (De'Longhi Appliances) of the business represented by the Household division, inclusive of its numerous foreign subsidiaries and investments.

All these operations have been carried out on a tax-neutral basis and have not had any impact on consolidated net equity, financial position or EBITDA.

More details about the group's reorganization can be found in the report on operations.

Accounting standards

The De'Longhi Group's consolidated financial statements at 31 December 2007 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 2007), pursuant to EC Regulation 1606 of 19 July 2002.

The following documents have been used for interpretation and application purposes even though not endorsed 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 2007 are the same as those used for preparing the consolidated financial statements at 31 December 2006.

The following international financial reporting and accounting standards became effective from 1 January 2007 and have not had any effect on the measurement or classification of items in the financial statements, but have required more disclosures:

- "IFRS 7 - Financial instruments: disclosures", which requires disclosure about the nature and type of instruments used by the company to manage credit, liquidity and market risks.
- A complementary amendment to "IAS 1 - Presentation of financial statements: additional information about capital", which requires the disclosure of information about capital allowing users of the financial statements to evaluate the company's objectives, policies and processes for managing capital.
- IFRIC 8 – "Scope of IFRS 2".
- IFRIC 9 – "Reassessment of embedded derivatives".
- IFRIC 10 – "Interim financial reporting and impairment".
- IFRIC 11 – "IFRS 2 - Group and treasury share transactions".

During 2006 the IASB issued IFRS 8, which was endorsed by the EU by 31 December 2007. This standard will be effective from 1 January 2009 and supersedes "IAS 14 - Segment reporting".

The following documents already issued by the IASB are expected to be endorsed during 2008:

- IAS 1 (revised) – "Presentation of financial statements".
- IAS 23 (revised) – "Borrowing costs".
- IFRIC 12 – "Service concession agreements".
- IFRIC 13 – "Customer loyalty programmes".
- IFRIC 14 – " IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction".

The group is evaluating the effects of adopting these standards, if applicable.

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.
The cash flow statement has been prepared using the "indirect method" allowed by IAS 7.

As regards the comparative periods, it is reported that for the purposes of consistent comparison a number of minor balance sheet reclassifications have been made to the figures previously published at 31 December 2006, which have not however affected the profit for the year or the group's portion of net equity. Details can be found in note *23. Current financial receivables and assets and in note 29. Other financial payables*.

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.

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 includes the parent company, De'Longhi S.p.A., and its subsidiaries at 31 December 2007, meaning those companies in which the parent directly or indirectly owns the majority of share capital or shares with voting rights, or over which the parent 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 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 have been used:

Currency		31.12.2007 Year-end exchange rate (*)	31.12.2007 Average exchange rate (*)	31.12.2006 Year-end exchange rate (*)	31.12.2006 Average exchange rate (*)
US dollar	USD	1.47210	1.37048	1.31700	1.25560
British pound	GBP	0.73335	0.68434	0.67150	0.68173
Hong Kong dollar	HKD	11.48000	10.69120	10.24090	9.75454
Chinese renminbi (Yuan)	CNY	10.75240	10.41780	10.27930	10.00960
Australian dollar	AUD	1.67570	1.63484	1.66910	1.66681
Canadian dollar	CAD	1.44490	1.46785	1.52810	1.42369
Japanese yen	JPY	164.93000	161.25300	156.93000	146.01500
Malaysian ringgit	MYR	4.86820	4.70757	4.64900	4.60437
New Zealand dollar	NZD	1.90240	1.86273	1.87250	1.93732
Polish zloty	PLN	3.59350	3.78370	3.83100	3.89586
South African rand	ZAR	10.02980	9.65959	9.21240	8.53118
Singapore dollar	SGD	2.11630	2.06355	2.02020	1.99415
Russian rouble	RUB	35.98600	35.01830	34.68000	34.11170
Turkish lira	TRY	1.71700	1.78648	1.86400	1.80898
Czech koruna	CZK	26.62800	27.76560	27.48500	28.3417
Swiss franc	CHF	1.65470	1.64272	1.60690	1.57288

(*) source: UIC (Italian Exchange Office)

Change in the scope of consolidation

The scope of consolidation has changed as a result of a number of acquisitions made during 2007, as discussed below:

- In July Kenwood Swiss AG, a wholly-owned subsidiary of the group, purchased the third-party distributor for De'Longhi and Kenwood in Switzerland, which reported sales of around CHF 25 million in financial year 2006/2007.
  The acquisition has made it possible to integrate these distribution activities within the De'Longhi Group in an ever more competitive, globalized market.
  This transaction was completed at a value of CHF 5 million for acquiring CHF 2.2 million in net equity (with an overall impact on net financial position of €4.6 million, inclusive of the related debt of €1.5 million).

This acquisition has involved recognizing €337 thousand in goodwill, determined as follows:

Total transaction value (*)	3,148
(Fair value of assets and liabilities acquired)	(2,811)
Goodwill	337

(*) Includes €120 thousand in related acquisition costs.

The value of the assets and liabilities determined under IFRS on the acquisition date is as follows:

	Book value	**Value recognized under IFRS**
Other non-current assets	1,778	1,778
Current assets	4,048	4,048
Total assets	**5,826**	**5,826**
Liabilities	3,015	3,015
Contingent liabilities	-	-
Total liabilities	**3,015**	**3,015**
Net assets	**2,811**	**2,811**

- During the second half of the year the group made two successive acquisitions of shares (totalling 40%) in Top Clima S.L., the current Climaveneta distributor in Spain, giving it a 65% controlling interest in this company; this acquisition will allow the group to be more competitive in one of the most important European markets for large thermo-cooling systems.
  Top Clima reported €32.5 million in revenues in 2007 and €0.7 million in net profit, the post-acquisition share of which has been included in the group's results, with an impact of €8.1 million on consolidated revenues; the contribution to consolidated net profit in 2007 was negligible.
  This company, classified as an associate at 31 December 2006, has been consolidated line-by-line starting from the second half of 2007.
  At the same time as the acquisition, an agreement was made with the company's historic shareholders, involving a series of put and call options to buy/sell the remaining 35% interest as from January 2011. As required by IAS 32 the call option over the remaining shares has been recognized in "Other financial payables" (note 29) at an estimated value of €6,217 thousand.
  The overall value of transactions in 2007, including a positive price adjustment for the purchase of the previous shares, had an impact of €19.3 million on cash flow, including the portion of the company's net debt of €8.4 million and the aforesaid call option.

The positive difference between the purchase cost and fair value of the net assets acquired has given rise to €7.4 million in goodwill, determined as follows:

Total transaction value (*)	14,613
(Fair value of assets and liabilities acquired)	(7,248)
Goodwill	7,365

(*) Includes €6,217 thousand for the valuation of the call option over the remaining shares.

The value of the assets and liabilities determined under IFRS on the acquisition date is as follows:

	Book value	Value recognized under IFRS
Other non-current assets	1,961	2,611
Current assets	22,793	22,793
Total assets	**24,754**	**25,404**
Liabilities	18,156	18,156
Contingent liabilities	-	-
Total liabilities	**18,156**	**18,156**
Net assets	**6,598**	**7,248**

In view of the corporate actions carried out in 2006 and 2007, the principal results from the income statement have been reported on a consistent comparative basis in the report on operations, ie. assuming the same scope of consolidation.

As part of the process of reorganizing the group's corporate structure, already described in the report on operations, a number of corporate actions were commenced during 2007, which have involved the transfer of the investment in DL Radiators (a company which produces and sells terminal units for fixed heating systems) to De'Longhi Professional and the transfer from De'Longhi S.p.A. to De'Longhi Professional of the entire investment held in Climaveneta (a company specialized in the production of large thermo-cooling systems for commercial and industrial use).

In addition, the subsidiary DL Trading Ltd., which serves as a holding company for the group's manufacturing and sourcing activities in China for the Household division, was transferred under the direct control of De'Longhi Household S.A.. This transaction took place at a market price on the basis of a valuation prepared by an independent expert.

All these operations have been carried out on a tax-neutral basis and have not had any impact on consolidated net equity, financial position or EBITDA.

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 39. Segment reporting.
Comments on the results by business segment and geographical area can be found in the report on operations.

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, identified in the “Trademarks” category, 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 in the balance sheet 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.

Non-current assets held for sale

Non-current assets held for sale refer to assets whose value will be recovered through sale; they are stated at the lower of net book value and fair value less costs to sell.

Impairment of non-financial assets

The group tests, at least once a year, whether the book value of intangible assets and property, plant and equipment reported in the balance sheet has suffered any impairment loss. If there is evidence of impairment, book value is written down to the related recoverable amount.
If it is not possible to estimate the recoverable amount of an individual asset, the group assesses whether the cash generating unit to which it belongs is impaired.
In the case of goodwill and other intangible assets with indefinite useful lives, the impairment test must be carried out at least once a year, and whenever there is an indication that an intangible asset may be impaired.

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.

Financial instruments

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 group reviews at every balance sheet date whether a financial asset or group of financial assets has suffered any impairment. If there is objective evidence of impairment, the related loss is recognized in the income statement.

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 has been 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 are 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. The latter 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.

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.

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.

If the fair value cannot be determined, these assets are reported at cost, as adjusted for any impairment.

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 that 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.

Factoring of trade receivables

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 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 factored receivables and their consequent removal from the balance sheet.

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 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").

The provision for severance indemnities was treated like a defined benefit plan up until 31 December 2006. Law 296 of 27 December 2006 (the "2007 Finance Act") and subsequent decrees and regulations have introduced major changes to the severance indemnity rules as from 1 January 2007, 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, Italian group companies with more than fifty employees pay them over to a special account opened with the Italian social security authorities (INPS)).

In view of these changes in legislation, the group has made the following distinction:

- *Severance indemnity accruing from 1 January 2007:* this is a "Defined Contribution Plan" both in the case of opting for payment into a supplementary pension fund and in the case of paying it into the special account with INPS. The accounting treatment is therefore the same as that applying to other kinds of contributory payment.
- *Severance indemnity accrued up to 31 December 2006 (and not yet paid at the balance sheet date):* this continues to be a "Defined Benefit Plan" with the consequent need to perform actuarial calculations, which unlike those carried out until now (and reflected in the financial statements for the year ended 31 December 2006) exclude the component relating to future salary increases.

The difference arising from the new calculation, together with actuarial gains and losses previously not recognized in application of the corridor method, has been treated like a curtailment, as defined in paragraph 109 *et seq* of IAS 19, and accordingly recognized in the income statement for 2007 as non-recurring income.

Long-term liabilities for employee benefits are reported at the present value of the defined benefit obligation at the balance sheet date.

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 past trends.

Revenues from services are recognized when the service is rendered.

Costs and expenses

Costs and expenses are accounted for on an accrual basis.

Dividends

Dividends payable 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.

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 whose amortization cannot be deducted 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.

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.
Details of book value can be found in the individual explanatory notes.

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:

	31.12.2007	31.12.2006	Change	% change
Household	1,111,073	1,071,993	39,080	3.6%
Professional	406,161	317,756	88,405	27.8%
Intersegment transactions	(26,338)	(26,774)	436	(1.6%)
Total	**1,490,896**	**1,362,975**	**127,921**	**9.4%**

Revenues by geographical area:

	31.12.2007	31.12.2006	Change	% change
Italy	318,656	329,670	(11,014)	(3.3%)
United Kingdom	146,940	155,456	(8,516)	(5.5%)
Rest of Europe	656,637	512,058	144,579	28.2%
United States, Canada and Mexico	119,329	123,169	(3,840)	(3.1%)
Rest of the world	249,334	242,622	6,712	2.8%
Total	**1,490,896**	**1,362,975**	**127,921**	**9.4%**

The related trends are discussed in the report on operations.

“Other operating income and revenues” are broken down as follows:

	31.12.2007	31.12.2006	Change
Freight reimbursement	7,946	8,461	(515)
Commercial rights	3,417	2,099	1,318
Out-of-period gains	4,141	4,449	(308)
Damages reimbursed	560	1,146	(586)
Operating grants	-	827	(827)
Other income	11,912	11,303	609
Total	**27,976**	**28,285**	**(309)**

2. Raw and ancillary materials, consumables and goods

The breakdown is as follows:

	31.12.2007	31.12.2006	Change
Raw materials	224,273	192,475	31,798
Parts	233,064	195,543	37,521
Finished products	328,240	310,183	18,057
Other purchases	13,745	10,884	2,861
Total	**799,322**	**709,085**	**90,237**

3. Change in inventories

The breakdown is as follows:

	31.12.2007	31.12.2006	Change
Change in inventories of finished products and work in progress	18,962	(2,612)	21,574
Change in inventories of raw and ancillary materials, consumables and goods	12,664	(2,054)	14,718

4. Payroll costs

The breakdown is as follows:

	31.12.2007	31.12.2006	Change
Employee wages and salaries	171,175	158,061	13,114
Temporary workers	8,542	6,572	1,970
Total	**179,717**	**164,633**	**15,084**

The figures relating to the cost of employee benefits 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:

	31.12.2007	31.12.2006	Change
Transport (for purchases and sales)	81,151	76,677	4,474
Advertising and promotional expenses	84,480	76,518	7,962
Subcontracted work	19,990	20,409	(419)
Commissions	28,928	26,233	2,695
Technical support	16,058	14,063	1,995
Travel	14,121	13,173	948
Insurance	4,619	4,481	138
Storage and warehousing	18,321	17,350	971
Consulting services	12,434	11,747	687
Power	9,591	9,859	(268)
Postage, telegraph and telephones	4,759	4,648	111
Maintenance	4,467	4,896	(429)
Directors' emoluments	1,792	1,280	512
Statutory auditors' emoluments	405	407	(2)
Other services	22,285	21,858	427
Rentals and leasing	21,555	22,105	(550)
Total services	**344,956**	**325,704**	**19,252**
Out-of-period losses	2,352	2,127	225
Sundry taxes	20,789	17,180	3,609
Bad debts	228	23	205
Other	4,561	4,291	270
Total other operating expenses	**27,930**	**23,621**	**4,309**
Total services and other operating expenses	**372,886**	**349,325**	**23,561**

"Rentals and leasing" at 31 December 2007 consist of premises rental (€16,585 thousand), operating lease payments (€889 thousand), royalties (€1,274 thousand) and equipment hire (€2,807 thousand).

6. Contingency and other provisions

These include €10,446 thousand in increases in provisions for contingencies and charges (exclusive of €5,705 thousand reclassified to non-recurring expenses) as discussed in note *31. Non-current provisions for contingencies and other charges.*

This amount also includes €2,733 thousand in increases to the provision for doubtful accounts (exclusive of €825 thousand reclassified to non-recurring expenses), €145 thousand in increases to the defined benefit plan of the subsidiary DL Japan Corp. and €998 thousand for writing down the cost of certain intangible assets (exclusive of €671 thousand reclassified to non-recurring expenses), mainly development costs capitalized in the past for projects that have not yet been completed.

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:

	31.12.2007	31.12.2006	Change
Non-recurring expenses relating to inventories destroyed (*)	(17,094)	-	(17,094)
Capital losses on property, plant and equipment (**)	(18,613)	-	(18,613)
Other costs relating to the fire	(11,165)	-	(11,165)
Insurance reimbursements	37,468	-	37,468
Total net non-recurring expenses relating to the fire	**(9,404)**	**-**	**(9,404)**
Non-recurring income (Law 296 of 27.12.2006)	3,126	-	3,126
Restructuring costs	(3,379)	-	(3,379)
Other non-recurring income (expenses)	(1,263)	2,825	(4,088)
Total non-recurring income (expenses)	**(10,920)**	**2,825**	**(13,745)**

(*) these expenses do not include samples, prototypes and uncoded consumables, which were already expensed to income for the period and which were physically present in inventories at the time of the fire.
(**) net of the income earned from selling ferrous material.

The "Net non-recurring expenses relating to the fire" refer to the estimated costs of the fire at the factory in Treviso on 18 April 2007, net of related insurance receipts. The expenses relate to the losses arising on the destruction of property, plant and equipment (buildings and plant), the destruction of inventories and to the costs directly related to the fire. The "Insurance reimbursements" relate to the reimbursement for damages, under the terms and conditions of current insurance policies. This amount, reported under "Other receivables" in current assets, net of €15,000 thousand in advances already paid against the claim by Assicurazioni Generali, is not final because it does not take account of the right to receive additional compensation on top of the book value of the assets destroyed or the entitlement to reimbursement for indirect expenses, which will be recognized when the claim is finally settled.

"Non-recurring income" of €3,126 thousand is the result of applying Law 296 of 27 December 2006 ("2007 Finance Act") and subsequent decrees and regulations on the treatment of severance indemnity.

"Restructuring costs" mostly refer to the costs incurred for restructuring/reorganizing the commercial operations in Seregno which used to manage the "La Supercalor" brand, for ending the distribution of "Elba" products in Italy, and for transferring the offices of Ariete and Climaveneta Deutschland.

"Other non-recurring income (expenses)" mostly refer to costs incurred outside the normal course of business, including those for starting up a new without-recourse receivables programme, those for reorganizing corporate structure and for writing down the building held for sale belonging to the subsidiary Kenwood Ltd. by €209 thousand before tax.

8. Amortization and depreciation

These charges comprise:

	31.12.2007	31.12.2006	Change
Amortization of intangible assets	12,635	13,204	(569)
Depreciation of property, plant and equipment	29,031	27,413	1,618
Total amortization and depreciation	**41,666**	**40,617**	**1,049**

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 revising the remaining useful life of certain new product development costs.

9. Financial income (expenses)

Net financial income and expenses are broken down as follows:

	31.12.2007	31.12.2006	Change
Net capital gain on sale of Elba S.p.A.	-	26,430	(26,430)
Effect of deconsolidating Marka Finance	-	(1,501)	1,501
Other income from equity investments	3	51	(48)
Financial income (expenses) from equity investments	**3**	**24,980**	**(24,977)**
Exchange gains (losses) on currency hedges	**2,009**	**(544)**	**2,553**
Exchange gains (losses) on consolidation	**(2,613)**	**(1,062)**	**(1,551)**
Extraordinary financial expenses for without-recourse factoring of receivables	**(1,278)**	**-**	**(1,278)**
Interest expense and other bank charges	(38,911)	(36,883)	(2,028)
Financial discounts	(10,451)	(10,090)	(361)
Other financial income (expenses)	(56)	(33)	(23)
Other financial income (expenses)	**(49,418)**	**(47,006)**	**(2,412)**
Total financial income (expenses)	**(51,297)**	**(23,632)**	**(27,665)**

"Interest expense and other bank charges" include not only bank interest on the group's financial debt but also the financial 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 the forward component of currency hedging instruments.
No net gains or losses on financial instruments have been recognized in the year apart from interest and dividends which have been reported separately.

10. Income taxes for the year

These are made up as follows:

	31.12.2007	31.12.2006	Change
Current income taxes:			
- Income taxes	18,894	14,480	4,414
- IRAP	5,697	4,836	861
Deferred income taxes	(3,451)	(502)	(2,949)
Taxes relating to prior years	-	2,062	(2,062)
Total	**21,140**	**20,876**	**264**

The total tax charge for 2007 is € 21.1 million, of which €5,697 thousand relates to IRAP (Italy's regional business tax).

The group's tax rate for 2007 is 29.5% (26% in 2006).

"Deferred income taxes" include the taxes calculated on the temporary differences arising between the book 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.

The actual and theoretical tax charge are reconciled as follows:

	31.12.2007	%	31.12.2006	%
Profit before taxes	52,392	100.0%	61,322	100.0%
Theoretical taxes	17,289	33.0%	20,236	33.0%
Non-taxable income	-	-	(8,250)	(13.5%)
Other (*)	(1,846)	(3.5%)	1,992	3.2%
Taxes relating to prior years	-	-	2,062	3.4%
Total income taxes	**15,443**	**29.5%**	**16,040**	**26.2%**
IRAP	5,697	10.9%	4,836	7.9%
Actual taxes	**21,140**	**40.3%**	**20,876**	**34.0%**

(*) Mostly refers to the tax effect of permanent differences, of different tax rates applied abroad relative to the theoretical ones applied in Italy and of the new tax rate used by the group's Italian companies for calculating deferred tax assets and liabilities.

Comments on the balance sheet

Non-current assets

11. Goodwill

	31.12.2007		31.12.2006		
	Gross	Net	Gross	Net	Change
Goodwill	260,737	232,410	252,006	223,679	8,731

The change in goodwill mainly reflects the acquisition during the year of Top Clima S.L. (€7,365 thousand) and of the Kenwood and De'Longhi distribution business in Switzerland by Kenwood Swiss A.G. (€337 thousand).

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 these segments. 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 7.5% 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 2007 has not revealed any significant evidence that goodwill might have suffered an impairment loss. No events of significance have occurred so far in 2008 such as might suggest that the carrying amount of goodwill could be impaired.

12. Other intangible assets

The breakdown is as follows:

	31.12.2007		31.12.2006		
	Gross	Net	Gross	Net	Change
New product development costs	34,944	14,770	25,875	11,756	3,014
Patents	27,358	3,522	25,921	3,669	(147)
Trademarks and similar rights	220,564	163,047	218,766	165,339	(2,292)
Work in progress and advances	7,711	6,645	8,282	7,992	(1,347)
Other	15,343	1,043	14,972	1,723	(680)
Total	**305,920**	**189,027**	**293,816**	**190,479**	**(1,452)**

The following table reports movements in the main asset categories during 2007:

	New product development costs	Patents	Trademarks and similar rights	Work in progress and advances	Other	Total
Net opening balance	**11,756**	**3,669**	**165,339**	**7,992**	**1,723**	**190,479**
Additions	3,156	1,345	73	5,027	729	10,330
Amortization	(5,914)	(1,581)	(4,089)	-	(1,051)	(12,635)
Translation difference	(171)	(2)	-	-	(15)	(188)
First-time consolidation	538	95	1,723	-	-	2,356
Other movements (*)	5,405	(4)	1	(6,374)	(343)	(1,315)
Net closing balance	**14,770**	**3,522**	**163,047**	**6,645**	**1,043**	**189,027**

(*) 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 €3,156 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" also 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 2007 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 2008 such as might suggest that the carrying amount of trademarks could be impaired.

13. Land, property, plant and machinery

These are detailed as follows:

	31.12.2007		31.12.2006		
	Gross	Net	Gross	Net	Change
Land and buildings	152,075	133,561	162,072	147,496	(13,935)
Plant and machinery	194,668	69,012	205,089	66,026	2,986
Total	**346,743**	**202,573**	**367,161**	**213,522**	**(10,949)**

The following table reports movements during 2007:

	Land and buildings	Plant and machinery	Total
Net opening balance	**147,496**	**66,026**	**213,522**
Additions (*)	8,033	16,788	24,821
Disposals	(80)	(1,541)	(1,621)
Depreciation	(4,509)	(7,414)	(11,923)
Translation difference	(882)	(977)	(1,859)
First-time consolidation	1,508	164	1,672
Capital losses (assets destroyed in fire)	(11,778)	(6,315)	(18,093)
Other movements	292	2,281	2,573
Reclassification to non-current assets held for sale	(6,519)	-	(6,519)
Net closing balance	**133,561**	**69,012**	**202,573**

(*) Also include investments for replacing assets destroyed in the fire.

The additions to “Land and buildings” include €1,137 thousand in investments for replacing assets destroyed in the fire on 18 April 2007 as well as investments by certain subsidiaries for improving and extending their own as well as rented property.

The additions to “Plant and machinery” include €5,627 thousand in investments made to date for replacing plant destroyed in the fire on 18 April 2007; they also include investments in Italy for completing the new column radiator production lines (€4 million), for developing and upgrading lines producing “fully automatic” coffee machines, and in the factories that manufacture oil-filled radiators in Russia and China.

The reclassification from “Land and buildings” to “Non-current assets held for sale” refers to two buildings, one held by De’Longhi S.p.A. and the other by the subsidiary Kenwood Limited, which were sold early in 2008 and so reclassified separately as required by international financial reporting standards. The De’Longhi S.p.A. building, reported at a value of €5,858 thousand, was held under a finance lease, for which a payable of €5,575 thousand has been recognized under “Other financial payables”. This lease was redeemed at the start of 2008 and the building was subsequently sold for more than its net book value, which has nonetheless been retained for reporting purposes at 31 December 2007. As for the building owned by the subsidiary Kenwood Limited, reported at a value of €870 thousand, this was sold early in 2008 for less than its book value, so the financial statements for 2007 include a pre-tax writedown of €209 thousand, as required by international financial reporting standards and classified in “Non-recurring income (expenses)”.

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

	31.12.2007	31.12.2006	Change
Buildings	9,788	11,984	(2,196)
Plant and equipment	17,710	13,311	4,399
Other	169	148	21
Total	**27,667**	**25,443**	**2,224**

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 *29. Other financial payables*.

14. Other tangible assets

Details of other tangible assets are as follows:

	31.12.2007		31.12.2006		
	Gross	Net	Gross	Net	Change
Industrial and commercial equipment	160,044	24,491	165,073	26,440	(1,949)
Other	42,246	12,291	40,565	11,770	521
Work in progress and advances	2,480	2,480	3,451	3,451	(971)
Total	**204,770**	**39,262**	**209,089**	**41,661**	**(2,399)**

The following table reports movements during 2007:

	Industrial and commercial equipment	Other	Work in progress and advances	Total
Net opening balance	**26,440**	**11,770**	**3,451**	**41,661**
Additions (*)	12,962	5,014	3,205	21,181
Disposals	(152)	(336)	(796)	(1,284)
Depreciation	(13,447)	(3,661)	-	(17,108)
Translation difference	(181)	(261)	(87)	(529)
First-time consolidation	248	369	-	617
Capital losses (assets destroyed in fire)	(923)	(434)	(66)	(1,423)
Other movements (**)	(456)	(170)	(3,227)	(3,853)
Net closing balance	**24,491**	**12,291**	**2,480**	**39,262**

(*) Also include €3,346 thousand in investments made to date for replacing assets destroyed in the fire.
(**) These include certain reclassifications from "Work in progress and advances" to specific asset categories and to development costs.

The additions to "Industrial and commercial equipment" mostly refer to the purchase of moulds for manufacturing new products (particularly De'Longhi fully-automatic coffee machines and Kenwood and Ariete products).

15. Equity investments

	31.12.2007	31.12.2006	Change
Associated companies	2,628	6,476	(3,848)
Other companies	731	731	-
Total equity investments	**3,359**	**7,207**	**(3,848)**

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

	31.12.2007	31.12.2006	Change
Associated companies			
Top Clima	-	3,847	(3,847)
Emer S.p.A.	2,628	2,629	(1)
Total associated companies	**2,628**	**6,476**	**(3,848)**

Equity investments in other companies amount to €731 thousand (€731 thousand at 31 December 2006) and refer to available-for-sale financial assets. The balance is unchanged since the prior year, despite writing down available-for-sale securities held by the subsidiary De'Longhi Japan Corp. by €13 thousand, recognized in equity net of the related tax effect.

16. Other non-current receivables

The balance at 31 December 2007 includes €1,455 thousand in security deposits (€1,036 at 31 December 2006) and €14 thousand in other non-current receivables.

17. Other non-current financial assets

This reports financial assets classified as "Loans and receivables".
These assets include €2,500 thousand for the 2006-2011 bond issued by Edifriuli S.p.A. subscribed by the subsidiary DL Radiators S.p.A., carrying floating rate annual interest at a rate two-thirds higher than the European Central Bank's rate (6.67% at the end of December 2007).
The rest of the balance (€45 thousand) refers to bonds held by the subsidiary Kenwood Swiss.

18. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are detailed as follows at 31 December 2007:

	31.12.2007	31.12.2006	Change
Deferred tax assets	34,804	41,332	(6,528)
Deferred tax liabilities	(19,181)	(20,461)	1,280
Net asset balance	**15,623**	**20,871**	**(5,248)**

"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.
"Deferred tax assets" have decreased by €6,528 thousand mainly as a result of using them to offset taxable income earned in 2007 by the parent company and subsidiaries and as a result of the new tax rate applying to Italian companies.

Details of the net balance are as follows:

	31.12.2007	31.12.2006	Change
- Temporary differences	2,059	1,652	407
- Tax losses	13,564	19,219	(5,655)
Net asset balance	**15,623**	**20,871**	**(5,248)**

The net asset balance reflects €1,841 thousand in amounts booked to net equity in the "Fair value and cash flow hedge reserve".

It is also reported that no deferred taxes have been recognized on €15.4 million in carried forward tax losses reported by certain group companies, since these are unlikely to be recovered in the future.

Current assets

19. Inventories

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

	31.12.2007	31.12.2006	Change
Raw, ancillary and consumable materials	68,982	69,211	(229)
Work in progress and semi-finished products	23,609	26,142	(2,533)
Finished products and goods	242,519	228,150	14,369
Advances	84	230	(146)
Total	**335,194**	**323,733**	**11,461**

The value of inventories is adjusted by a provision for obsolete or slow-moving goods totalling €27,008 thousand (€24,081 thousand at 31 December 2006), in relation to products and raw materials no longer deemed to be of strategic interest.

20. Trade receivables

These are made up as follows:

	31.12.2007	31.12.2006	Change
Trade receivables			
- due within 12 months	395,771	362,089	33,682
- due beyond 12 months	6	-	6
Provision for doubtful accounts	(17,795)	(14,075)	(3,720)
Total	**377,982**	**348,014**	**29,968**

A new without-recourse receivables factoring programme was agreed on 20 March 2007 and falls within the scope of Law 52/91 (known as the Factoring Law). The purpose of these new arrangements was to replace those adopted since September 2002; the previous arrangements were such that the adoption of IAS/IFRS led to a steady reduction in the amount factored, making it necessary to redesign them in order to restore this benefit to above its original level (a maximum amount of €100 million) by reincluding without-recourse factoring carried out on a non-recurring basis. This increase in receivables qualifying for derecognition was also achieved by including the factoring of receivables from foreign customers and adopting a system of factoring receivables gross of any credit notes.

The operation was arranged by BNP Paribas and Finanziaria Internazionale (both of whom were the arrangers of the previous operation). In addition to the parent company De'Longhi S.p.A., the companies assigning their receivables are the subsidiaries De'Longhi Appliances S.r.l., DL Radiators S.p.A and Ariete S.p.A..

The one-off costs of this operation, which include upfront arrangers fees and placement fees (for placing the mezzanine and junior notes, and the legal costs for structuring the deal), amount to €1.5 million and have been expensed in full to the consolidated income statement at 31 December 2007.

The without-recourse factoring of receivables is carried out by the Italian branch of BNP Paribas, while the non-senior notes issued, split into three tranches (mezzanine A, mezzanine B and Junior notes) with an increasing degree of risk, have been subscribed by banks and/or institutional investors.
In accordance with the disclosure required by CONSOB Circular 3369 of 9 April 1997, we report that the total amount of receivables factored without recourse by the parent company and its subsidiaries (under Law 52/1991 known as the Factoring Law) during 2007 was €301,937 thousand.
Trade receivables are stated net of a provision for doubtful accounts of €17,795 thousand, representing a reasonable estimate of the expected risk at the reporting date. The provision refers to a number of disputed receivables or those whose collection is otherwise in doubt and takes 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:

	31.12.2006	Increases	Utilization	First-time consolidation	Translation difference and other movements	31.12.2007
Provision for doubtful accounts	14,075	3,558	(1,445)	(614)	2,221	17,795

The group has received €2,122 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	31.12.2007	%	31.12.2006	%
Italy	84,592	22.4%	93,284	26.8%
United Kingdom	25,949	6.9%	32,464	9.3%
Rest of Europe	183,449	48.5%	133,130	38.3%
United States, Canada, Mexico	16,573	4.4%	16,286	4.7%
Rest of the world	67,419	17.8%	72,850	20.9%
Total	**377,982**	**100.0%**	**348,014**	**100.0%**

Trade receivables do not include any amounts due beyond 12 months.

21. Current tax assets

"Current tax assets" are detailed below:

	31.12.2007	31.12.2006	Change
VAT	12,099	11,502	597
Tax payments on account	5,425	4,907	518
Direct taxes	711	1,551	(840)
Tax refunds requested	3,073	2,517	556
Other tax receivables	759	53	706
Total current tax assets	**22,067**	**20,530**	**1,537**

"Tax payments on account" mostly refer to the tax paid on account of 2007 income by the parent company and other Italian companies.

"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 credit 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 €420 thousand (€382 thousand at 31 December 2006).

22. Other receivables

"Other receivables" are broken down as follows:

	31.12.2007	31.12.2006	Change
Advances to suppliers	5,038	4,871	167
Factors	1,760	75	1,685
Employees	479	412	67
Advertising and insurance costs	962	877	85
Other	33,471	12,630	20,841
Total other receivables	**41,710**	**18,865**	**22,845**

"Other" receivables at 31 December 2007 include €22,468 thousand in insurance reimbursements receivable after the fire. This receivable, stated net of the €15,000 thousand advanced by Assicurazioni Generali against the claim, does not include the right to receive additional compensation on top of the book value of the assets destroyed or the entitlement to reimbursement for indirect expenses (amongst which the loss of earnings and the refund of costs incurred after the fire), which will be recognized when the claim is finally settled.

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:

	31.12.2007	31.12.2006	Change
Other financial receivables	2,498	975	1,523
Other securities	2,602	19	2,583
Fair value of derivatives	3,086	767	2,319
Total financial receivables and assets (*)	**8,186**	**1,761**	**6,425**

(*) the amount at 31 December 2006 differs from that previously published as a result of reclassifying 767 thousand from "Other financial payables" in relation to the positive fair value of currency hedges.

"Other securities" mostly refer to short-term securities purchased by a Chinese subsidiary for investing surplus cash. These are available-for-sale financial assets which were repaid in January 2008.

More details on the fair value of derivative financial instruments can be found in note 36. Risk management.

24. Cash and cash equivalents

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

Some of the group's foreign companies have a total of €102.9 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 €97.2 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.

25. Non-current assets held for sale

This balance refers to buildings sold in 2008, held by companies in the Household segment (the parent company De'Longhi S.p.A. and the subsidiary Kenwood Ltd). More details can be found in note *13. Land, property, plant and machinery.*

Comments on the balance sheet: net equity and liabilities

Net equity

"Net equity" is made up as follows:

	31.12.2007	31.12.2006	Change
Group portion	625,220	615,568	9,652
Minority interests	5,458	5,037	421
Total net equity	**630,678**	**620,605**	**10,073**

The annual general meeting (AGM) of De'Longhi S.p.A. held on 18 April 2007 declared a dividend totalling €8,970 thousand.

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

26. 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.

27. Reserves

These are broken down as follows:

	31.12.2007	31.12.2006	Change
Share premium reserve	325	325	-
Legal reserve	6,285	5,593	692
Other reserves			
- Extraordinary reserve	48,376	44,192	4,184
- Fair value and cash flow hedge reserve	(6,708)	(1,525)	(5,183)
- Profit (loss) carried forward	97,878	78,707	19,171
Total reserves	**146,156**	**127,292**	**18,864**

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 €5,593 thousand at 31 December 2006. The intervening increase of €692 thousand is due to the allocation of the profit for 2006, as approved by the above AGM of De'Longhi S.p.A..

The “Extraordinary reserve” is €4,184 thousand higher than at 31 December 2006 due to the parent company’s allocation of profit for 2006, as approved by the above AGM.
The “Fair value and cash flow hedge” reserve is stated net of €2,542 thousand in tax effects. 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 €5,183 thousand in the Fair value and cash flow hedge reserve during 2007 is mostly due to changes in the fair value of cash flow hedges, net of the related tax effect.

“Profit (loss) carried forward” includes the retained earnings of the consolidated companies, the effects of making accounting policy and consolidation adjustments and €22.1 million in exchange differences arising on the translation of foreign company financial statements into euro.

Minority interests in net equity amount to €5,458 thousand. The interests held by minority interests and their corresponding share of net equity and results for the year ended 31 December 2007 are summarized below:

Company	% interest	Net equity	Profit (loss) for the year
E-Services S.r.l.	49%	1,089	184
Promised Success Ltd. - On Shiu (Zhongshan) Electrical Appliance Company Ltd.	33%	979	-
De’Longhi Bosphorus Ev Aleteri Ticaret Anonim Sirketi	30%	87	(125)
RC Group	16.7%	3,233	613
Zass Alabuga LLC	7.2%	70	16
Total		**5,458**	**688**

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 31.12.2007	Profit for 2007	Net equity 31.12.2006	Profit for 2006
De’Longhi S.p.A. financial statements	**519,087**	**2,913**	**525,189**	**13,846**
Share of subsidiaries’ equity and results for period attributable to the group, after deducting carrying value of the investments	364	128,296	9,167	62,475
Reversal of dividends	517	(106,687)	-	(36,067)
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	138,978	9,859	119,562	(1,816)
Elimination of intercompany profits	(26,197)	(1,366)	(26,265)	6,055
Other adjustments	(2,071)	(1,763)	(7,048)	(4,047)
Group portion	**630,678**	**31,252**	**620,605**	**40,446**
Minority interests	(5,458)	(688)	(5,037)	(670)
Consolidated financial statements	**625,220**	**30,564**	**615,568**	**39,776**

Non-current liabilities

28. 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 31.12.2007	Within one year	One to five years	Beyond five years	Balance 31.12.2006	Change
Overdrafts	24,545			24,545	16,174	-	-	16,174	8,371
Short-term loans in euro or foreign currency	190,295			190,295	87,218	-	-	87,218	103,077
Advances	4,858			4,858	152	-	-	152	4,706
Long-term loans (current portion)	53,521			53,521	100,354	-	-	100,354	(46,833)
Total short-term bank loans and borrowings	**273,219**			**273,219**	**203,898**	**-**	**-**	**203,898**	**69,321**
Long-term loans	-	132,955	8,071	141,026	-	167,417	24,502	191,919	(50,893)
Total bank loans and borrowings	**273,219**	**132,955**	**8,071**	**414,245**	**203,898**	**167,417**	**24,502**	**395,817**	**18,428**

Long-term loans comprise the following:

Loans (including short-term portion)	**31.12.2007**	**31.12.2006**
Loan from Intesa-San Paolo	-	60,655
Loans from Banca Popolare di Verona e Novara	95,195	112,137
Loan from BNP Paribas	86,989	100,868
Loan from Mediocredito del Friuli Venezia Giulia	682	2,016
Loan from Banca di Roma	1,045	2,045
Loan from Banca Popolare di Sondrio	838	2,452
Loan from Banca Popolare Commercio e Industria	1,822	2,781
Loan from Cariparma	-	783
Loan from Unicredit	1,734	2,318
Loan from IMI (Law 46)	1,877	2,278
Other minor loans	4,365	3,940
Total long-term loans	**194,547**	**292,273**

During 2007 the balance of €60 million outstanding at 31 December 2006 against the syndicated loan arranged by Intesa San Paolo was repaid in full without any penalties in advance of its natural maturity of March 2008 since its cost was no longer viewed as economic.

The syndicated loan arranged by BNP Paribas calls for the observance of financial covenants on a six-monthly basis. Such covenants have been observed in accordance with contract at 31 December 2007.

The other loans do not call for the observance of financial covenants.

All the loans carry floating-rate interest, meaning that interest is based on a benchmark rate (usually 1 or 3-month Libor/Euribor) plus a spread, which depends on the nature of the loan and its due date. As a result, the fair value of loans, obtained by discounting expected future interest payments at current market rates, is not materially different from the value reported in the balance sheet. This is based on the fact that forecasts of future interest payments use an interest rate which reflects current market conditions (both in terms of benchmark and spreads), since any other assumption regarding interest rates is purely arbitrary. Note 36 contains the results of analyzing sensitivity to changes in interest rates.

29. Other financial payables

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

	31.12.2007	31.12.2006	Change
Payables to lease companies (short-term portion)	3,784	3,512	272
Ministry of Industry loans (short-term portion)	696	835	(139)
Payables for the purchase of equity investments	1,732	6,200	(4,468)
Other short-term financial payables	9,183	3,742	5,441
Negative fair value of derivatives (short-term portion)	13,485	4,555	8,930
Total short-term payables	**28,880**	**18,844**	**10,036**
Payables to lease companies (long-term portion)	19,756	13,950	5,806
Ministry of Industry loans (long-term portion)	3,223	3,779	(556)
Other financial payables (long-term portion)	6,218	-	6,218
Negative fair value of derivatives (long-term portion)	1,647	-	1,647
Total long-term payables	**30,844**	**17,729**	**13,115**
Total other financial payables (*)	**59,724**	**36,573**	**23,151**

(*) The amount at 31 December 2006 differs from that previously published as a result of reclassifying €767 thousand to "Current financial receivables and assets" in relation to the positive fair value of currency hedges.

More details on the fair value of derivative financial instruments can be found in note 36. Risk management.

This balance mostly refers to finance leases of €23,540 thousand (€17,462 thousand at 31 December 2006) and low-interest loans from the Ministry of Industry of €3,919 thousand (€4,614 thousand at 31 December 2006).
"Other financial payables (long-term portion)" includes €6,217 thousand for the value of the call option over the remaining shares in Top Clima.

All the principal other financial payables (mostly consisting of recently-entered finance leases) carry floating-rate interest, meaning that interest is based on a benchmark rate (usually 1 or 3-month Libor/Euribor) plus a spread, which depends on the nature of the payable and its due date. As a result, the fair value of loans, obtained by discounting expected future interest payments at current market rates, is not materially different from the value reported in the balance sheet. This is based on the fact that forecasts of future interest payments use an interest rate which reflects current market conditions (both in terms of benchmark and spreads), since any other assumption regarding interest rates is purely arbitrary. Note 36 contains the results of analyzing sensitivity to changes in interest rates.

Net financial position

Details of the net financial position are as follows:

	31.12.2007	31.12.2006	Change
A. Cash	182	1,034	(852)
B. Cash equivalents	107,186	111,918	(4,732)
C. Securities	2,602	19	2,583
D. Total liquidity (A+B+C)	**109,970**	**112,971**	**(3,001)**
E 1. Current financial receivables	**5,584**	**1,742**	**3,842**
Of which: Fair value of derivatives	*3,172*	*767*	*2,405*
E 2. Non-current financial receivables and other securities (*)	**2,549**	**3,074**	**(525)**
F. Current bank loans and borrowings	(219,698)	(103,545)	(116,153)
G. Current portion of non-current debt	(53,521)	(100,354)	46,833
H. Other current financial payables	(28,880)	(18,844)	(10,036)
Of which: Fair value of derivatives	*(13,485)*	*(4,555)*	*(8.930)*
I. Current financial debt (F+G+H)	**(302,099)**	**(221,976)**	**(80,123)**
J. Net current financial debt (I +E 1 + E 2+D)	**(183,996)**	**(104,956)**	**(79,040)**
K. Non-current bank loans and borrowings	(141,026)	(191,919)	(50,893)
L. Bonds	-	-	-
M. Other non-current payables	(30,844)	(17,729)	(13,115)
Of which: Top Clima option Fair value of derivatives	*(6,217)* *(1,647)*	- -	*(6,217)* *(1,647)*
N. Non-current financial debt (K+L+M)	**(171,870)**	**(209,648)**	**37,778**
Total	**(355,866)**	**(314,604)**	**(41,262)**

(*) This amount differs from the non-current receivables reported in the balance sheet (€1,469 thousand at 31 December 2007 and €1,610 thousand at 31 December 2006) because the balance sheet amount includes €1,465 thousand in non-financial receivables (€1,036 thousand at 31 December 2006).

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

More details on the fair value of derivative financial instruments can be found in note *36. Risk management*.

Details of financial receivables and payables with related parties are reported in appendix 3.

30. Employee benefits

These are made up as follows:

	31.12.2007	31.12.2006	Change
Provision for severance indemnities	20,019	26,326	(6,307)
Defined benefit plans	13,800	15,683	(1,883)
Long-term benefits	1,902	-	1,902
Total employee benefits	**35,721**	**42,009**	**(6,288)**

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 in order 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	**31.12.2007**	**31.12.2006**	**Change**
Defined benefit obligations	20,019	26,326	(6,307)

Net cost charged to income	**31.12.2007**	**31.12.2006**	**Change**
Current service cost	434	3,542	(3,108)
Application of new law	(3,126)	-	(3,126)
Interest cost on obligations	940	879	61
Total	**(1,752)**	**4,421**	**(6,173)**

Change in present value of obligations	31.12.2007	31.12.2006	Change
Present value at 1 January	**26,326**	**25,551**	**775**
Current service cost	434	3,542	(3,108)
Utilization of provision	(4,555)	(3,742)	(813)
Interest cost on obligations	940	879	61
Application of new law	(3,126)	-	(3,126)
Deconsolidation	-	(2,781)	2,781
First-time consolidation	-	3,048	(3,048)
Other changes	-	(171)	171
Present value at 31 December	**20,019**	**26,326**	**(6,307)**

The Finance Act for 2007 and related decrees that implement it have introduced major changes to the severance indemnity rules as from 1 January 2007, including the requirement for employees to choose how their severance indemnity accruing as from the start of this year should be treated. More specifically, people working in companies with more than 50 employees may opt to have new severance indemnities paid into selected pension funds or retained in the company (in which case the latter pays them over to a special account opened with the Italian social security authorities (INPS)). As a result the provision for severance indemnities represents the group's remaining obligation recognized up until 31 December 2006 for companies with more than 50 employees, and the indemnity due to employees over the course of their employment in companies with less than 50 employees.

Defined benefit plans:

Movements in the year are as follows:

Net cost charged to income	**31.12.2007**	**31.12.2006**	**Change**
Current service cost	169	271	(102)
Return on plan assets	(1,578)	(1,481)	(97)
Interest cost on obligations	2,080	2,041	39
Total	**671**	**831**	**(160)**

Change in present value of obligations	**31.12.2007**	**31.12.2006**	**Change**
Present value at 1 January	15,683	17,273	(1,590)
Net cost charged to income	671	831	(160)
Benefits paid	(1,929)	(1,952)	23
Other movements	534	(564)	1,098
Translation difference	(1,159)	95	(1,254)
Total	**13,800**	**15,683**	**(1,883)**

The amount includes €12,082 thousand in respect of Kenwood Ltd. and €1,718 thousand for De'Longhi Japan Corp.

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

Assumptions used	Severance indemnity 2007	Severance indemnity 2006	Other plans 2007	Other plans 2006
Discount rate	4.6%	4.25%	1.7-5.7%	2.3-5.1%
Future salary increases	2.0-2.75%	2.0-2.8%	0.0-2.50%	0.0-2.3%
Inflation rate	2.0%	2.0%	0.0-3.5%	0.0-3.1%

The composition of the group's workforce is analyzed in the following table:

	31.12.2007	Average 2007 (*)	31.12.2006	Average 2006 (*)
Blue collar	4,273	4,820	4,154	5,008
White collar	2,714	2,661	2,537	2,520
Executives	126	126	122	117
Total	**7,113**	**7,607**	**6,813**	**7,645**

(*) The average includes 281 employees of companies consolidated with the proportionate method (172 in 2006).

31. Non-current provisions for contingencies and other charges

These are broken down as follows:

	31.12.2007	31.12.2006	Change
Agents' leaving indemnity provision and other retirement provisions	**6,801**	**6,415**	**386**
Product warranty provision	11,692	9,290	2,402
Provisions for contingencies and other charges	12,837	12,522	315
Other provisions	**24,529**	**21,812**	**2,717**
Total	**31,330**	**28,227**	**3,103**

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" have reported the following movements during 2007:

	31.12.2006	Utilization	Increases	Other	31.12.2007
Agents' leaving indemnity provision	6,192	(485)	835	(3)	6,539
Other retirement provisions (*)	223		39	-	262
Total	**6,415**	**(485)**	**874**	**(3)**	**6,801**

(*) Increases in these provisions are reported in payroll costs.

Other provisions reported the following movements:

	31.12.2006	Utilization	Increases	Translation difference	First-time consolidation	Other (*)	31.12.2007
Product warranty provision	9,290	(5,849)	7,159	(78)	761	409	11,692
Provisions for contingencies and other charges	12,522	(7,673)	8,157	(182)	-	13	12,837
Total	**21,812**	**(13,522)**	**15,316**	**(260)**	**761**	**422**	**24,529**

(*) Mainly reclassifications and the effect of discounting the product warranty provision.

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 2007. It takes account of the provisions of Decree 24/2002 and of European Community law.

The "Provision for contingencies and other charges" includes:
- the provision for insurance deductibles of €1,522 thousand (€2,033 thousand at 31 December 2006), which covers the group's insurance liability (limited to the deductible) in the case of liabilities arising from complaints;
- the parent company's provision of €3,470 thousand against costs associated with the fire and of €3,166 thousand for a dispute;
- a provision of €4,679 thousand against contingencies and charges facing certain subsidiaries.

Current liabilities

32. 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	31.12.2007	%	31.12.2006	%
Italy	166,104	49.8%	166,721	51.0%
United Kingdom	14,169	4.2%	21,398	6.5%
Rest of Europe	74,257	22.3%	50,898	15.6%
United States, Canada, Mexico	9,079	2.7%	8,856	2.7%
Rest of the world	70,060	21.0%	79,215	24.2%
Total	**333,669**	**100.0%**	**327,088**	**100.0%**

Trade payables do not include any amounts due beyond 12 months.

33. Current tax liabilities

These are broken down as follows:

	31.12.2007	31.12.2006	Change
Direct taxes	9,988	8,796	1,192
Indirect taxes	4,196	3,624	572
Withholdings payable	4,898	4,303	595
Other taxes	5,204	4,431	773
Total current tax liabilities	**24,286**	**21,154**	**3,132**

"Direct taxes" report payables for current income tax.

"Other taxes" include €1,211 thousand for the amount owed by Ariete S.p.A. after agreeing the assessment for tax year 2003.

Tax liabilities due beyond 12 months amount to €16 thousand.

34. Other payables

These are detailed as follows:

	31.12.2007	31.12.2006	Change
Social security institutions	8,028	6,888	1,140
Sundry payables	47,613	49,023	(1,410)
Total other payables	**55,641**	**55,911**	**(270)**

“Social security institutions” include €6,277 thousand in payables to social security agencies, €108 thousand in payables to Italy’s industrial accident insurer and €1,643 thousand to other welfare agencies.

“Sundry payables” are detailed as follows:

	31.12.2007	31.12.2006	Change
Employees	23,002	20,550	2,452
Advances	2,694	2,669	25
Other	21,917	25,804	(3,887)
Total sundry payables	**47,613**	**49,023**	**(1,410)**

35. Commitments

These are broken down as follows:

	31.12.2007	31.12.2006	Change
Guarantees given:			
- to third parties	2,260	13,125	(10,865)
Other commitments	6,433	4,380	2,053
Total	**8,693**	**17,505**	**(8,812)**

“Other commitments” mainly refer to €3.5 million in contractual obligations by the subsidiary De’Longhi America Inc and €1.9 million in guarantees given to Chinese subsidiaries for the import of raw materials.

There is also a mortgage on a building owned by RC Group S.p.A., with a book value of €65 thousand, and a mortgage on a building owned by Top Clima S.L., with a book value of €314 thousand.

At 31 December 2007 there were still commitments in connection with the sale of Elba S.p.A., as already reported at 31 December 2006.

- De'Longhi Household 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%).

36. Risk management

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

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

The group's maximum exposure to credit risk is €426,923 thousand at 31 December 2007 (€365,705 thousand at 31 December 2006). The book value of trade receivables, before the provision for doubtful accounts, is less than this amount as a result of offsetting provisions and adjustments, which basically mitigate the overall credit risk.

The amount of insured or guaranteed receivables at 31 December 2007 is €192,119 thousand (€150,663 thousand at 31 December 2006).

The remaining uninsured or unguaranteed amount includes €184,314 thousand in current receivables (€166,230 thousand at 31 December 2006) and €50,490 thousand in past due receivables (€48,812 thousand at 31 December 2006), of which €26,986 thousand past due by less than 90 days (€30,537 thousand at 31 December 2006) and €23,504 thousand by more than 90 days (€18,275 thousand at 31 December 2006).

The group has a provision for doubtful accounts of €17,795 thousand against such amounts (€14,076 thousand at 31 December 2006).

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.

The group has medium-term credit lines with banks in relation to the lending arrangements described in this report, and short-term credit lines (typically renewed on an annual basis), for financing working capital and other operating needs (issue of guarantees, currency transactions etc.). Most of these credit lines are used for financing working capital and amount to around €500 million at 31 December 2007 (€450 million at 31 December 2006). These credit lines, along with cash flow generated by operations, are considered sufficient to allow the group to satisfy its annual funding requirements for working capital, investments and settlement of payables on their natural due dates.

In view of the situation on financial markets since last August, following the subprime loans crisis, the group has not suffered increased spreads or reductions in the agreed facilities, meaning that any alternative scenarios are limited to the subsequent sensitivity analyses forming part of this note.

More details on the due dates of the group's financial assets and payables can be found in notes *17. Other non-current financial assets, 20. Trade receivables, 28. Bank loans and borrowings* (including the fair value of derivatives), *29. Other financial payables and 32. Trade payables.*

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 detailed reporting system, using instruments and policies that comply with international accounting standards. The purpose of hedging is to protect - at individual company level - the future revenues/costs contained in budgets and/or long-term plans and trade and financial receivables/payables.

Purpose of hedging: hedging is carried out with two goals:
a) to hedge cash flows of budgeted or planned amounts up until the time of invoicing, with a time horizon that rarely goes beyond 24 months;
b) to hedge the monetary amounts of receivables and payables originating from invoicing and financing transactions.
The principal currencies to which the group is exposed are:
- the US dollar (mainly the EUR/USD and GBP/USD exchange rates), being the currency in which a significant part of the cost of raw materials, parts and finished products is denominated;
- the British pound (EUR/GBP exchange rate), for sales on the UK market;
- the Japanese yen (EUR/JPY exchange rate), for sales on the Japanese market.

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.

Outstanding transactions at 31 December 2007

A list of outstanding currency derivatives at 31 December 2007 is provided below:

Forward agreements to hedge 2008 budget

Currency	Type of agreement	Notional amount/000			Fair value (€/000)	
		Purchases	Sales	Total	Asset	Liability
AUD/EUR(*)	Forward		12,930	12,930	237	
AUD/GBP	Forward		4,000	4,000		(66)
CAD/EUR	Forward		13,000	13,000		(40)
JPY/EUR	Forward		1,000,000	1,000,000	166	
USD/EUR (**)	Forward	(235,000)		(235,000)		(11,061)
USD/GBP	Forward	(60,000)		(60,000)	385	(6)
				Total fair value	**788**	**(11,173)**

(*) This figure includes the positive fair value of €38 thousand of certain agreements with a notional amount of AUD 2,130,000, which have been recognized in profit or loss in 2007 in accordance with IAS 39.
(**) This figure includes the negative fair value of €2,816 thousand of certain agreements with a notional amount of USD 15,000,000, which have been recognized in profit or loss in 2006 and 2007 in accordance with IAS 39.

Forward agreements to hedge 2009 budget

Currency	Type of agreement	Notional amount/000			Fair value (€/000)	
		Purchases	Sales	Total	Asset	Liability
USD/EUR	Forward	(40,000)		(40,000)		(1,647)
				Total fair value		**(1,647)**

A negative cash flow hedge reserve of €6,711 thousand has been recorded in net equity in relation to these hedges (after the related tax of €2,542 thousand).

During 2007 the group reversed the cash flow hedge reserve at 31 December 2006 amounting to €1,537 thousand (stated net of the related tax of €702 thousand) from net equity to the income statement.
This amount was reported in the following lines of the income statement in 2007:

Reduction in net revenues	149
Reduction in materials consumed	2,090
Taxes	(702)
Total recognized in income statement	**1,537**

Hedges against foreign currency receivables and payables:

	Notional amount/000			Fair value (€/000)	
Currency	**Purchases**	**Sales**	**Total**	**Asset**	**Liability**
AUD/EUR	(772)	14,864	14,092	3	(13)
AUD/GBP		3,842	3,842		(89)
CAD/EUR	(1,475)	9,992	8,517		(85)
CHF/EUR		5,086	5,086	1	(4)
CHF/GBP		538	538		(10)
CZK/EUR		33,778	33,778	11	(0)
CZK/GBP		11,503	11,503		(13)
DKK/GBP		4,754	4,754		(27)
EUR/GBP		28,616	28,616		(895)
EUR/HKD	(1,500)		(1,500)	33	
EUR/CNY	(1,037)		(1,037)	12	
GBP/EUR	(32,021)	53,539	21,518	1,391	(519)
HKD/EUR	(2,553)	1,227	(1,326)		(5)
JPY/EUR	(488,966)	1,872,900	1,383,934	99	(12)
NOK/EUR		5,123	5,123		(2)
NOK/GBP		14,760	14,760		(67)
NZD/EUR	(93)	644	551		(2)
NZD/GBP		1,713	1,713		(30)
PLZ/EUR	(3,279)	22,414	19,135	6	(63)
SEK/GBP		2,595	2,595		(8)
SKK/GBP		3,109	3,109		(3)
TRY/EUR		1,773	1,773		(6)
USD/EUR	(808)	58,906	58,098	725	(58)
USD/GBP	(1,328)		(1,328)	16	
USD/HKD		10,963	10,963		(2)
USD/RUB	(38,127)	5,431	(32,696)		(319)
EUR/AUD	(133)		(133)	3	(0)
USD/AUD	(4,606)		(4,606)	35	(24)
EUR/NZD	(4)		(4)	-	(0)
USD/NZD	(1,397)		(1,397)		(44)
ZAR/EUR		10,000	10,000		(11)
ZAR/USD	(3,000)		(3,000)	50	
Total fair value				**2,384**	**(2,312)**

Derivatives that hedge cash flow are treated 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).

Sensitivity analysis

When assessing the potential impact, in terms of change in fair value, of a hypothetical, immediate +/-5% change in year-end exchange rates, it is necessary to distinguish between the risk associated with expected future revenues/costs and the risk associated with foreign currency balance sheet amounts at 31 December 2007:

(a) the risk associated with future expected revenues/costs (as estimated in budgets and/or long-term plans) is countered by related hedges at 31 December 2007, whose fair value, in accordance with IAS, is reported in equity, as described in the earlier section of these explanatory notes on *Accounting policies – Financial instruments*; a +/- 5% change in year-end exchange rates of the principal exposed currencies (USD, GBP and JPY) is estimated to produce a change of around +/- €10.3 million before tax (+/- €6.7 million before tax at 31 December 2006). This amount would affect the income statement only in the year in which the hedged revenues/costs are reported in income;

(b) as for the risk associated with balance sheet amounts expressed in foreign currency, the estimate looks at only unhedged receivables/payables, since the impact of any hedges is assumed to be equal and opposite to that produced by the hedged items. A +/- 5% change in year-end exchange rates of the principal exposed currencies (USD, GBP and JPY) would produce a change in fair value of around +/-€3.2 million before tax (+/- €7.0 million before tax at 31 December 2006).

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 2007 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.

Outstanding transactions at 31 December 2007

There were no interest rate hedges at 31 December 2007.

Sensitivity analysis

When estimating the potential impact of a hypothetical, instantaneous material change in interest rates (+/- 1% in market rates) on the cost of the group's debt, only those items forming part of net financial position which earn/incur interest have been considered and not any others (meaning a total net liability in 2007 of €337.7 million out of a total of €355.9 million and a total net liability in 2006 of €304.5 million out of a total of €314.6 million).
The group's debt is currently all at a floating rate and so, in the absence of hedges, any change in market rates has a direct impact on its total cost, in terms of higher/lower interest payments.
A +/- 1% change in interest rates would produce €3.4 million in higher/lower financial expenses respectively, before tax, all of which reported in the income statement (+/- €3.05 million before tax at 31 December 2006).

37. Tax position

During 2007 the competent tax authorities carried out the following inspections at companies within the De'Longhi Group as part of their programme of periodic taxpayer audits:

De'Longhi S.p.A.: a general tax inspection for tax year 2004 by the Veneto regional tax office.
A preliminary notice of findings was issued on 25 January 2008.
The company has stated that it will demonstrate before the competent bodies that these findings are unfounded, although the tax authorities have not yet issued any notice of assessment.

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. All the matters regarding direct taxes for 2003 were settled on 14 December 2006, while those relating to 2004 were settled on 20 November 2007. 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; no agreement was reached with the Prato tax office and so the company presented an appeal on 10 May 2007, which it filed with the Prato Provincial Tax Commission on 7 June 2007. The case is due to be heard on 14 April 2008.

Kenwood Appliances Ltd. and Kenwood Ltd.: an audit of the tax returns for 2004 and 2005.
Information was requested about the transfer of the Kenwood trademark to another group company not resident in the United Kingdom. The company confirmed that the transfer took place at a market price supported by a valuation prepared by an independent expert. Given the absence of specific feedback, it is currently not possible to estimate whether there is a contingent liability in this regard. Information was also requested about certain intercompany transactions that the group considers to have been conducted on the basis of policies supported by strong, defensible assumptions.

38. Transactions and balances with related parties

Appendix 3 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 transactions fall within the group's normal operations and are settled under arm's-length terms and conditions.

Transactions and balances between the parent company and subsidiaries are not reported since these have been eliminated upon consolidation.

39. Segment reporting

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

Income statement data

	31.12.2007				31.12.2006			
	Professional	**Household**	**Eliminations**	**Consolidated total**	**Professional**	**Household**	**Eliminations**	**Consolidated total**
Total revenues	406,161	1,111,072	(26,337)	1,490,896	317,756	1,071,993	(26,774)	1,362,975
EBITDA	**40,904**	**104,623**	**(172)**	**145,355**	**33,281**	**92,220**	**70**	**125,571**
Amortization and depreciation	(8,050)	(33,616)	-	(41,666)	(6,369)	(34,248)	-	(40,617)
EBIT	**32,854**	**71,007**	**(172)**	**103,689**	**26,912**	**57,972**	**70**	**84,954**
Financial income (expenses)				(51,297)				(23,632)
Profit before taxes				**52,392**				**61,322**
Taxes				(21,140)				(20,876)
Profit (loss) after taxes				**31,252**				**40,446**
Profit (loss) pertaining to minority interests				688				670
Profit (loss) pertaining to the group				**30,564**				**39,776**

Balance sheet data

	31.12.2007				31.12.2006			
	Professional	**Household**	**Eliminations**	**Consolidated total**	**Professional**	**Household**	**Eliminations**	**Consolidated total**
Total assets	**566,429**	**1,141,466**	**(103,420)**	**1,604,475**	**525,158**	**1,107,717**	**(85,030)**	**1,547,845**
Total liabilities	**(424,450)**	**(652,624)**	**103,277**	**(973,797)**	**(392,100)**	**(620,180)**	**85,040**	**(927,240)**

Information in accordance with the secondary format can be found in notes *1. Revenues, 20. Trade receivables and 32. Trade payables.*

40. Subsequent events

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

Treviso, 12 March 2008
De'Longhi S.p.A.
Vice Chairman and CEO
Fabio De'Longhi

Appendices

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

This information is contained in the following appendices:

1. Certification of the consolidated financial statements pursuant to art. 81-ter of CONSOB Regulation 11971 dated 14 May 1999 and subsequent amendments and additions.
2. List of consolidated companies.
3. Transactions and balances with related parties:
   a) Income statement and balance sheet
   b) Summary by company
4. Emoluments of directors and statutory auditors.
5. Fees paid to the external auditors.
6. External auditors’ report on the consolidated financial statements.

Certification of the consolidated financial statements

pursuant to art. 81-ter of CONSOB Regulation 11971 dated 14 May 1999 and subsequent amendments and additions.

The undersigned Fabio De'Longhi, Chief Executive Officer, and Stefano Biella, Financial Reporting Officer of De'Longhi S.p.A., attest, also taking account of the provisions of paragraphs 2, 3 and 4, art. 154-bis of Decree 58 dated 24 February 1998:

- that the accounting and administrative processes for preparing the consolidated financial statements during 2007 are adequate in relation to the enterprise's characteristics and
- have been effectively applied.

It is also certified that the consolidated financial statements at 31 December 2007:

- Correspond to the underlying accounting records and books of account;
- Have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union and with the measures implementing art. 9 of Decree 38/2005, and, based on our knowledge, are able to provide a true and fair view of the issuer's balance sheet, results of operations and financial position and of all the companies included in the consolidation.

Fabio De'Longhi
Chief Executive Officer

Stefano Biella
Financial Reporting Officer

List of consolidated companies

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

Company name	Registered office	Currency	Share capital (1)	Interest held at 31.12.2007	
				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	5,510,000		100%
DE'LONGHI CAPITAL SERVICES S.R.L. (2)	Treviso	EUR	53,000,000	11.32%	88.68%
DE'LONGHI APPLIANCES S.R.L.	Treviso	EUR	200,000,000	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	55,112,118		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 HOUSEHOLD S.A.	Luxembourg	EUR	181,730,990	100%	
DE'LONGHI JAPAN CORPORATION	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	28,800,001		100%
DE'LONGHI NEW ZEALAND LTD.	Auckland	NZD	18,857,143		100%
CLIMAVENETA HOME SYSTEM S.R.L.	Treviso	EUR	5,000,000		100%
ALABUGA INTERNATIONAL S.A.	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%

Appendix 2

Company name	Registered office	Currency	Share capital (1)	Interest held at 31.12.2007	
				Directly	Indirectly
KENWOOD APPLIANCES LTD.	Havant	GBP	30,586,001		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%
KENWOOD APPL. (MALAYSIA) SDN.BHD.	Petaling Jaya	MYR	3		100%
KENWOOD MANUFACTURING GMBH	Wr Neudorf	EUR	36,336		100%
KENWOOD HOME APPL. PTY LTD.	Maraisburg	ZAR	40,000		100%
KENWOOD HELLAS SOLE PARTNER LTD. LIABILITY COMPANY	Athens	EUR	48,000		100%
ARIETE S.P.A.	Campi Bisenzio	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. S.A.	Luxembourg	EUR	1,239,468	4%	96%
DL PROFESSIONAL S.A.	Luxembourg	EUR	30,205,000	99.95%	0.05%
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	3,509,922		83.3%
ELLE SRL	Treviso	EUR	10,000		100%
DE'LONGHI BOSPHORUS EV ALETLERI TICARET ANONIM SIRKETI	Istanbul	TRY	1,700,000		70%
DE'LONGHI PRAGA S.RO	Prague	CZK	200,000		100%
TOP CLIMA S.L.	Barcelona	EUR	1,606,000		65%
KENWOOD SWISS A.G.	Baar	CHF	1,000,000		100%

List of companies consolidated under the proportionate method

Company name	Registered office	Currency	Share capital (1)	Interest held at 31.12.2007	
				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	USD	5,000,000	-	50%
TCL-DE'LONGHI HOME APPLIANCES (ZHONGSHAN) CO.LTD.	Zhongshan	USD	5,000,000	-	50%

List of companies consolidated under the equity method

Company name	Registered office	Currency	Share capital (4)	Interest held at 31.12.2007	
				Directly	Indirectly
Associated companies:					
Effegici S.r.l.	Gorgo al Monticano (TV)	EUR	244,400		25%
Emer S.p.A.	Monza	EUR	520,000		40%

Other subsidiaries (in liquidation or dormant)

Company 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 2007, 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 2006.
(5) Dormant companies or companies in liquidation, whose balance sheets are unavailable.

Transactions and balances with related parties

Consolidated income statement

pursuant to CONSOB Resolution 15519 of 27 July 2006

(€/000)	31.12.2007	of which with related parties	31.12.2006	of which with related parties
Revenues from sales and services	1,462,920	7,843	1,334,690	16,020
Other operating income and revenues	27,976	411	28,285	678
Total consolidated net revenues	**1,490,896**		**1,362,975**	
Raw and ancillary materials, consumables and goods	(799,322)	(1,483)	(709,085)	(2,263)
Change in inventories of finished products and work in progress	18,962		(2,612)	
Change in inventories of raw and ancillary materials, consumables and goods	12,664		(2,054)	
Materials consumed	**(767,696)**		**(713,751)**	
Payroll costs	(179,717)		(164,633)	
Services and other operating expenses	(372,886)	(1,339)	(349,325)	(1,389)
Contingency and other provisions	(14,322)		(12,520)	
Other non-recurring income (expenses)	(10,920)		2,825	
Amortization and depreciation	(41,666)		(40,617)	
EBIT	**103,689**		**84,954**	
Financial income (expenses) from equity investments	3		24,980	
Other financial income (expenses)	(51,300)	3	(48,612)	
Financial income (expenses)	**(51,297)**		**(23,632)**	
EARNINGS BEFORE TAX (EBT)	**52,392**		**61,322**	
Income taxes for the year	(21,140)		(20,876)	
PROFIT (LOSS) AFTER TAXES	**31,252**		**40,446**	
Profit (loss) pertaining to minority interests	688		670	
PROFIT (LOSS) PERTAINING TO THE GROUP	**30,564**		**39,776**	

Transactions and balances with related parties

Consolidated balance sheet

pursuant to CONSOB Resolution 15519 of 27 July 2006

Assets

(€/000)	Notes	31.12.2007	of which with related parties	31.12.2006	of which with related parties
NON-CURRENT ASSETS					
INTANGIBLE ASSETS		421,437		414,158	
- Goodwill		232,410		223,679	
- Other intangible assets		189,027		190,479	
PROPERTY, PLANT AND EQUIPMENT		241,835		255,183	
- Land, property, plant and machinery		202,573		213,522	
- Other tangible assets		39,262		41,661	
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		7,373		11,317	
- Equity investments (in associated companies)		2,628		6,476	
- Equity investments (in other companies)		731		731	
- Receivables		1,469		1,610	
- Other non-current financial assets		2,545		2,500	
DEFERRED TAX ASSETS		34,804		41,332	
TOTAL NON-CURRENT ASSETS		**705,449**		**721,990**	
CURRENT ASSETS					
INVENTORIES		335,194		323,733	
TRADE RECEIVABLES		377,982	770	348,014	6,721
CURRENT TAX ASSETS		22,067		20,530	
OTHER RECEIVABLES		41,710	378	18,865	1,020
CURRENT FINANCIAL RECEIVABLES AND ASSETS		8,186	71	1,761	67
CASH AND CASH EQUIVALENTS		107,368		112,952	
TOTAL CURRENT ASSETS		**892,507**		**825,855**	
NON-CURRENT ASSETS HELD FOR SALE		6,519		-	-
NON-CURRENT ASSETS HELD FOR SALE		**6,519**		**-**	**-**
TOTAL ASSETS		**1,604,475**		**1,547,845**	**-**

Consolidated balance sheet
pursuant to CONSOB Resolution 15519 of 27 July 2006

Net equity and liabilities

(€/000)	Notes	31.12.2007	of which with related parties	31.12.2006	of which with related parties
NET EQUITY					
GROUP PORTION OF NET EQUITY		625,220		615,568	
- Share capital		448,500		448,500	
- Reserves		146,156		127,292	
- Profit (Loss) pertaining to the group		30,564		39,776	
MINORITY INTERESTS		5,458		5,037	
TOTAL NET EQUITY		**630,678**		**620,605**	
NON-CURRENT LIABILITIES					
FINANCIAL PAYABLES		171,870		209,648	
- Bank loans and borrowings (long-term portion)		141,026		191,919	
- Other financial payables (long-term portion)		30,844		17,729	
DEFERRED TAX LIABILITIES		19,181		20,461	
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		67,051		70,236	
- Employee benefits		35,721		42,009	
- Other provisions		31,330		28,227	
TOTAL NON-CURRENT LIABILITIES		**258,102**		**300,345**	
CURRENT LIABILITIES					
TRADE PAYABLES		333,669	684	327,088	1,751
FINANCIAL PAYABLES		302,099		222,742	
- Bank loans and borrowings (short-term portion)		273,219		203,898	
- Other financial payables (short-term portion)		28,880		18,844	
CURRENT TAX LIABILITIES		24,286		21,154	
OTHER PAYABLES		55,641		55,911	
TOTAL CURRENT LIABILITIES		**715,695**		**626,895**	
TOTAL NET EQUITY AND LIABILITIES		**1,604,475**		**1,547,845**	

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 2007:

(€/million)	Revenues	Raw material and other costs	Trade, other and financial receivables	Trade payables
Associated companies: (1)				
Top Clima SA (2)	7.6	(0.7)	-	-
Total associated companies	**7.6**	**(0.7)**	**-**	**-**
Ultimate parent companies:				
De'Longhi Soparfi S.A.	0.4	-	0.4	-
Total ultimate parent companies	**0.4**	**-**	**0.4**	**-**
Related companies: (1)				
Omas S.r.l.	0.2	(0.4)	0.7	(0.1)
Max Information S.r.l.	-	(1.0)	-	(0.4)
Mokarabia S.p.A.	0.1	(0.6)	0.1	(0.1)
Total related companies	**0.3**	**(2.0)**	**0.8**	**(0.6)**
TOTAL RELATED PARTIES	**8.3**	**(2.8)**	**1.2**	**(0.6)**

(1) These mostly refer to dealings of a commercial nature.
(2) These refer to commercial dealings in the first half of 2007 before purchasing additional shares in this company, resulting in its line-by-line consolidation.

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 appendix 4).
In addition, the parent company De'Longhi S.p.A. recharged €0.4 million to Giuseppe De'Longhi (Chairman of the Board of Directors) for the cost of services incurred.

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)

(€/000)

Name	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	01.01.07/31.12.09	Approval annual report 2009	505	-	-	14 (1)
Fabio De'Longhi	Vice Chairman and Chief Executive Officer	01.01.07/31.12.09	Approval annual report 2009	629 (2)	-	-	17 (3)
Dario Melò	Director and Chief Operating Officer	01.01.07/12.07.07	/	220 (5)	-	-	267 (1) 4 (3)
Alberto Clò	Director	01.01.07/31.12.09	Approval annual report 2009	40	-	-	2 (6)
Renato Corrada	Director	01.01.07/31.12.09	Approval annual report 2009	40	-	-	2 (6)
Silvia De'Longhi	Director	12.07.07/31.12.09	Approval annual report 2009	20 (4)	-	-	-
Carlo Garavaglia	Director	01.01.07/31.12.09	Approval annual report 2009	40	-	-	6 (6)
Giorgio Sandri	Director	01.01.07/31.12.09	Approval annual report 2009	40	-	-	-
Silvio Sartori	Director	01.01.07/31.12.09	Approval annual report 2009	40	-	-	18 (1)
Giovanni Tamburi	Director	01.01.07/31.12.09	Approval annual report 2009	40	-	-	5 (6)
Gianluca Ponzellini	Chairman of the Board of Statutory Auditors	01.01.07/31.12.09	Approval annual report 2009	60	-	-	-
Giuliano Saccardi	Standing member	01.01.07/31.12.09	Approval annual report 2009	40	-	-	-
Massimo Lanfranchi	Standing member	01.01.07/31.12.09	Approval annual report 2009	40	-	-	-
Key management personnel				2,029	-	-	-

(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 transferable back to De'Longhi S.p.A..
(4) This amount relates to the period July-December 2007.
(5) This amount relates to the period in which Dario Melò held office in De'Longhi S.p.A.. Mr. Melò was subsequently appointed as Chief Executive Officer of De'Longhi Appliances S.r.l..
(6) Attendance fees relating to membership of the Compensation Committee and/or Internal Auditing and Corporate Governance Committee.

Carlo Garavaglia is a partner in the legal and tax firm of Biscozzi Nobili, which received €400 thousand in fees from the company during 2007.

Fees paid to the external auditors

Disclosure pursuant to art. 149-duodecies of the CONSOB Issuer Regulations

(€/000)

Type of service	Party performing the service	Recipient	Fees earned in 2007
Auditing	PricewaterhouseCoopers S.p.A.	De'Longhi Spa (parent company)	196
	PricewaterhouseCoopers S.p.A.	Italian subsidiaries	544
	Network of parent company auditor	Foreign subsidiaries	688
Other services (*)	Network of parent company auditor	Foreign subsidiaries	586

(*) Include due diligence, tax advice and other services.

External auditors' report on the consolidated financial statements

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 2007, which comprise the income statement, the balance sheet, statement of changes in equity, cash flow statement 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. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our audit 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 2 April 2007.

3 In our opinion, the consolidated financial statements of De'Longhi SpA as of 31 December 2007 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 equity and cash flows of De'Longhi Group for the year then ended.

Padua, 4 April 2008

PricewaterhouseCoopers SpA

Signed by
Nicola Piovan
(Partner)

This report has been translated from the original which was issued in accordance with Italian legislation. We have not examined the translation of the financial statements referred to in this report.

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Individual annual report and financial statements at 31 December 2007

Report on operations

Introduction

A plan was approved in June to reorganize the group's structure, which has involved its separation into the two distinct business sectors in which it operates (Household and Professional) in order to improve its market positioning and competitiveness. De'Longhi S.p.A. has spun-off to a wholly-owned subsidiary (De'Longhi Appliances S.r.l.) the business represented by the Household division, inclusive of its numerous foreign subsidiaries and investments. De'Longhi S.p.A. has therefore become a holding company for the two divisions, with the role of setting strategy, controlling, co-ordinating and managing centralized activities and resources.

The Household division's spin-off from De'Longhi S.p.A. to De'Longhi Appliances S.r.l. involved increasing the latter's share capital by €199,480,000 at par plus a premium of €40,265,000 pursuant to article 2481-bis of the Italian Civil Code. This capital increase, reserved for De'Longhi S.p.A. as the sole shareholder, was approved by the extraordinary shareholders' meeting of De'Longhi Appliances S.r.l. on 25 June 2007 pursuant to articles 2481-bis and 2464.5 of the Italian Civil Code.

The subject of the spin-off was the parent company's business comprising the assets, rights, obligations, human resources and contracts of De'Longhi relating to the Household segment, excluding the assets and liabilities relating to holding company services or nonetheless not related to the Household business, and the buildings, which remained the property of De'Longhi S.p.A..
In particular, the spin-off related to the entire "operating business" managed by the parent company, including the equity investments held in companies carrying out production or distribution activities.
De'Longhi S.p.A. has kept assets and liabilities: (i) that are not directly associated with the Household division's specific business (for example the buildings and group management structures), which stayed in the parent company for the purposes of strategically managing and co-ordinating the group's two divisions; (ii) that must remain in the parent company by law or for operational simplicity (deferred tax assets on tax losses, disputed balances and others).

When making the spin-off agreement, De'Longhi and De'Longhi Appliances agreed that any positive or negative differences in the amount of balances transferred, as reported on 1 July 2007 (the spin-off's effective date), relative to the amount shown in the sworn report, would give rise to appropriate adjustments between transferor and transferee; the amounts payable and receivable by each party were agreed by 31 October 2007.
The parties also undertook that any amounts owing as a result of this process would be paid to the other company within thirty days of being finalized.

The book value of the assets and liabilities spun off was reported as €239,949,439 in the balance sheet on the spin-off date of 1 July 2007.
The resulting difference relative to the sworn report gave rise to a receivable of €204,439 in favour of De'Longhi S.p.A.; this receivable was collected by 31 December 2007.

The comments on the balance sheet also refer to the effects of this spin-off on the balance sheet.

Review of the balance sheet and income statement

Review of the income statement

The comparison between the two years is affected by the above spin-off of the Household division, inclusive of several of its foreign subsidiaries and investments.

For comparison purposes, a pro-forma income statement has been prepared for De'Longhi S.p.A. at 31 December 2007, which includes the results of the business spun-off and so is consistent with the figures presented at 31 December 2006.

The subsequent comments refer to the pro-forma figures.

(€/million)	2007	% of revenues	2007 pro-forma	% of revenues	2006	% of revenues
Net revenues	**229.4**	**100.0%**	**536.8**	**100.0%**	**510.7**	**100.0%**
Change 2007 pro-forma / 2006			26.1	5.1%		
Materials consumed & other production costs (services and production payroll costs)	(154.7)	(67.4%)	(375.4)	(69.9%)	(362.1)	(70.9%)
Gross profit	**74.7**	**32.6%**	**161.4**	**30.1%**	**148.6**	**29.1%**
Services & other expenses	(51.9)	(22.6%)	(107.3)	(20.0%)	(110.5)	(21.6%)
Value added	**22.8**	**9.9%**	**54.1**	**10.1%**	**38.1**	**7.5%**
Payroll (non-production)	(16.4)	(7.1%)	(28.3)	(5.3%)	(25.8)	(5.1%)
Provisions	(3.7)	(1.6%)	(7.7)	(1.4%)	(6.4)	(1.3%)
EBITDA before non-recurring income (expenses)	**2.7**	**1.2%**	**18.1**	**3.4%**	**5.9**	**1.2%**
Change 2007 pro-forma / 2006			12.2	206.8%		
Other non-recurring income (expenses)	(6.0)	(2.6%)	(7.4)	(1.4%)	3.9	0.8%
EBITDA	(3.3)	(1.4%)	10.7	2.0%	9.8	1.9%
Amortization and depreciation	(6.9)	(3.0%)	(13.1)	(2.4%)	(13.7)	(2.7%)
EBIT	**(10.2)**	**(4.4%)**	**(2.4)**	**(0.4%)**	**(3.9)**	**(0.8)%**
Change 2007 pro-forma / 2006			1.5	38.5%		
Financial income (expenses)	5.4	2.4%	61.5	11.5%	12.6	2.5%
Profit before taxes	**(4.8)**	**(2.1%)**	**59.1**	**11.1%**	**8.7**	**1.7%**
Taxes	7.7	3.4%	3.6	0.7%	5.1	1.0%
Profit (loss) after taxes	**2.9**	**1.3%**	**62.7**	**11.7%**	**13.8**	**2.7%**

Gross profit reported in the following reclassified income statement has been redefined to include all transformation costs.
The gross profit presented above differs by €18.1 million at 31 December 2007 (€42.4 million at 31 December 2006) 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 pro-forma revenues for 2007 report an increase of €26.1 million on 2006 (+5.1%).
Gross profit was also €12.8 million higher, up from €148.6 million in 2006 to €161.4 million in 2007.

Control over the cost of services and payroll costs as a percentage of revenues helped boost EBITDA and EBIT; EBITDA before non-recurring income (expenses) improved by €12.2 million, from €5.9 million to €18.1 million (with the margin going from 1.2% to 3.4%), while EBIT increased by €1.5 million, going from a loss of €3.9 million to a loss of €2.4 million (with the margin improving from a negative 0.8% to a negative 0.4%).

The profit after tax of De'Longhi S.p.A. was influenced by the above spin-off, which also made it impossible in this first year of activity, for the principal subsidiary De'Longhi Appliances to be able to distribute a dividend. De'Longhi Appliances will be able to distribute earnings reserves to its parent during 2008.

For the sake of greater clarity, the results in 2007 and 2006 are now presented by half-year, in view of the fact that only the first-half income statement is comparable for these two years:

	1st half				2nd half			
(€/million)	1st half 2007	% of revenues	1st half 2006	% of revenues	2nd half 2007	% of revenues	2nd half 2006	% of revenues
Net revenues	224.1	100.0%	207.7	100.0%	5.3	100.0%	303.0	100.0%
EBITDA before non-recurring income (expenses)	4.7	2.1%	(5.0)	(2.4%)	(2.1)	(39.6%)	10.9	3.6%
EBITDA	0.2	0.1%	(3.1)	(1.5%)	(3.6)	(67.9%)	12.9	4.3%
EBIT	(5.4)	(2.4%)	(9.6)	(4.6%)	(4.9)	(92.5%)	5.7	1.9%

The activity of De'Longhi S.p.A. is best represented by the income statement for the second half of 2007, which contains the revenues earned from its new core business (as a holding company which provides its subsidiaries with centralized services and which manages industrial premises let to subsidiaries for use in their business).

Review of the balance sheet and financial position

The reclassified balance sheet is summarized below; the spin-off described earlier has had a major impact on the balance-sheet comparison for the two years, and so its effects are separately reported in the column "Effect of spin-off".

(€/million)	31.12.2007	31.12.2006	Change	% change	Effect of spin-off
Non-current assets (*)	**673.7**	**539.9**	**133.8**	**24.8%**	**71.1**
-Inventories	-	96.7	(96.7)	(100.0%)	(99.5)
-Receivables	6.5	184.2	(177.7)	(96.5%)	(181.4)
-Other current assets	43.0	23.1	19.9	86.1%	(5.5)
-Suppliers	(3.9)	(131.2)	127.3	(97.0%)	114.3
-Other current liabilities	(13.0)	(40.4)	27.4	(67.8%)	32.3
Net working capital	**32.6**	**132.4**	**(99.8)**	**(75.4%)**	**(139.8)**
Total non-current liabilities and provisions	(10.4)	(31.1)	20.7	(66.6%)	16.1
Net capital employed	**695.9**	**641.2**	**54.7**	**8.5%**	**(52.6)**
Net financial position	**176.8**	**116.0**	**60.8**	**52.4%**	**(52.6)**
Total net equity	**519.1**	**525.2**	**(6.1)**	**(1.2%)**	**-**

(*) The figure at 31 December 2007 includes €5.9 million in non-current assets held for sale.

The cash flow statement can be summarized as follows:

(€/million)	31.12.2007	31.12.2006
Cash flow generated (absorbed) by current operations	3.2	(18.9)
Cash flow generated (absorbed) by changes in working capital	(36.3)	33.9
Cash flow generated (absorbed) by investment activities	(71.3)	24.6
Cash flow from operating activities	**(104.4)**	**39.6**
Cash flow generated by spin-off	52.6	-
Cash flow generated by factoring receivables without recourse	-	65.1
Cash flow absorbed by changes in equity accounts	(9.0)	(2.8)
Cash flow for the period	**(60.8)**	**101.9**
Opening net financial position	(116.0)	(217.9)
Closing net financial position	**(176.8)**	**(116.0)**

Non-current assets have increased by €133.8 million, of which €71.1 million due to the spin-off.
The value of equity investments has also increased as a result of paying €80 million in capital into De'Longhi Professional as part of the corporate reorganization described earlier.

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:

(€/000)	Net equity 31.12.2007	Profit for 2007	Net equity 31.12.2006	Profit for 2006
De'Longhi S.p.A. financial statements	**519,087**	**2,913**	**525,189**	**13,846**
Share of subsidiaries' equity and results for period attributable to the group, after deducting carrying value of the investments	364	128,296	9,167	62,475
Reversal of dividends	517	(106,687)	-	(36,067)
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	138,978	9,859	119,562	(1,816)
Elimination of intercompany profits	(26,197)	(1,366)	(26,265)	6,055
Other adjustments	(2,071)	(1,763)	(7,048)	(4,047)
Group portion	**630,678**	**31,252**	**620,605**	**40,446**
Minority interests	(5,458)	(688)	(5,037)	(670)
Consolidated financial statements	**625,220**	**30,564**	**615,568**	**39,776**

Principal subsidiaries

De'Longhi Capital Services S.r.l.

This company's purpose is to provide loans, payment, currency brokerage, financial co-ordination and treasury management services, to arrange and manage currency hedges and provide financial and technical advice within the De'Longhi Group.

It closed 2007 with a profit of €3.4 million (€2.8 million in 2006).

E-Services S.r.l.

This company provides IT services to companies in the De'Longhi Group and to third-party customers.

E-Services reported €6.7 million in revenues in 2007 (€6.1 million in 2006) and €2.2 million in EBITDA (€1.9 million in 2006).

Household Division

- De'Longhi Appliances S.r.l.

This is the De'Longhi group company to which De'Longhi S.p.A. spun off its household business.

It reported €300.1 million in revenues in 2007; EBITDA (before non-recurring income and expenses) was €15.5 million.

The results achieved in 2007 by the principal companies controlled by De'Longhi Appliances S.r.l. are reported below:

- De'Longhi America Inc.

This company carries out commercial activities on the American market.

It reported USD 111.7 million in net revenues in 2007 (USD 123.3 million in 2006) and USD 2.5 million in EBITDA.

- De'Longhi France SARL

This company distributes De'Longhi and Kenwood products on the French market. It reported €67.5 million in revenues in 2007 (€59.7 million in 2006), an increase of €7.8 million on the prior year (+13.1%). EBITDA was €3.1 million.

- De'Longhi Deutschland GMBH

This company sells De'Longhi and Kenwood products on the German market. It reported €71.7 million in revenues in 2007 (€56.5 million in 2006), an increase of €15.2 million on the prior year (+26.9%). EBITDA was €5.5 million.

- De'Longhi Electròdomesticos Espana S.L.

This company, set up in 2003, sells products on the Spanish market.

It reported €31.1 million in revenues in 2007, an increase of €2.5 million (+8.7%) on the figure of €28.6 million posted in 2006. EBITDA was €0.2 million.

- 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; for the purposes of rationalizing the group's equity investments, this company transferred control of DL Trading to De'Longhi Household during 2007.

It reported €19.6 million in revenues in 2007 (€17.9 million in 2006), an increase of €1.7 million on the prior year (+9.5%). EBITDA was €1.5 million.

- De'Longhi Household S.A.

De'Longhi Finance S.A. changed its name to De'Longhi Household S.A. on 29 September 2007, thus becoming the group's sub-holding company for the Household division.

The results achieved in 2007 by the principal companies controlled by De'Longhi Household S.A. are reported below.

- De'Longhi Japan Corp.

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

It reported net revenues of JPY 7,178 million at 31 December 2007, an increase of JPY 241 million on 2006 (+3.5%). EBITDA went from JPY 403 million to JPY 341 million.

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

De'Longhi Australia reported AUD 80.8 million in revenues in 2007 (AUD 74.1 million in 2006) and negative EBITDA of AUD 5.6 million, while its subsidiary De'Longhi New Zealand Ltd. reported NZD 29.3 million in revenues in 2007 (NZD 24.5 million in 2006) and negative EBIDTA of NZD 14.4 million.

- Kenwood Ltd

Kenwood Ltd reported an 8.0% increase in revenues in 2007 to GBP 190.9 million (+14.2 million) and GBP 13.8 million in EBITDA.

Professional Division

- De'Longhi Professional S.A.

This company acts as a sub-holding company for the Professional division.

The results achieved in 2007 by the principal companies controlled by De'Longhi Professional S.A. are reported below:

- Climaveneta S.p.A.

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

Its revenues increased from €124.2 million in 2006 to €143.1 million in 2007; EBITDA was €25.7 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 in the Chinese market), both of which are based in Shanghai.

- 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 €117.6 million at 31 December 2007 (€111.5 million at 31 December 2006).

EBITDA was €6.5 million.

- R.C. Group S.p.A.

R.C. manufactures and sells liquid refrigeration systems, heat pumps, equipment for cooling mobile radio stations and for the precision cooling of computer and fixed telephony rooms.

R.C. Group S.p.A. reported €61.6 million in revenues in 2007 and €7.5 million in EBITDA.

Shares 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 shares held by directors and statutory auditors in De'Longhi S.p.A. and its subsidiaries.

Name	Name of company in which shares held	No. shares held at 31.12.2006 (*)	Purchases in 2007	Sales in 2007	No. shares held at 31.12.2007 (*)
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.

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

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 explanatory notes to the financial statements.

Compliance with personal data protection laws

As the party responsible for personal data use, De'Longhi S.p.A. declares that it has updated its Personal Data Protection Plan for De'Longhi S.p.A. in compliance with Decree 196 of 30 June 2003.

Subsequent events

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

Outlook for the current year

The company believes that it will be able to achieve its forecast growth targets despite having to operate in a more difficult economic environment.

Proposed allocation of profit

Shareholders,

We are submitting the annual report and financial statements for 2007 for your approval. In so doing we propose that the profit of €2,912,922 be allocated as follows:

- €145,646 to the legal reserve;

- €2,767,276 to the extraordinary reserve.

It is also proposed that €8,970,000 be distributed out of the extraordinary reserve to shareholders, corresponding to a gross dividend of €0.06 for each of the 149,500,000 outstanding shares.

Treviso, 12 March 2008
for the Board of Directors
Vice Chairman and CEO
Fabio De'Longhi

Individual financial statements of De'Longhi S.p.A.

Income statement

Balance sheet

Cash flow statement

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

Income statement

(€/000)	Notes	31.12.2007	31.12.2006
Revenues from sales and services	(1)	211,172	480,787
Other operating income and revenues	(1)	18,264	29,924
Total net revenues		**229,436**	**510,711**
Raw and ancillary materials, consumables and goods	(2)	(154,600)	(304,814)
Change in inventories of finished products and work in progress	(3)	5,717	(11,706)
Change in inventories of raw and ancillary materials, consumables and goods	(3)	12,245	(3,162)
Materials consumed		**(136,638)**	**(319,682)**
Payroll costs	(4)	(25,749)	(48,653)
Services and other operating expenses	(5)	(60,715)	(130,140)
Contingency and other provisions	(6)	(3,668)	(6,409)
Other non-recurring income (expenses)	(7)	(5,952)	3,934
Amortization and depreciation	(8)	(6,897)	(13,623)
EBIT		**(10,183)**	**(3,862)**
Financial income (expenses)	(9)	5,395	12,568
EARNINGS BEFORE TAX (EBT)		**(4,788)**	**8,706**
Income taxes for the year	(10)	7,701	5,140
PROFIT (LOSS) FOR THE YEAR		**2,913**	**13,846**

Appendix 3 reports the effect of related-party transactions on the income statement, as required by CONSOB Resolution 15519 of 27 July 2006.

Balance sheet

Assets

(€/000)	Notes	31.12.2007	31.12.2006
NON-CURRENT ASSETS			
INTANGIBLE ASSETS	(11)	-	105,260
- Goodwill		-	4,771
- Other intangible assets		-	100,489
PROPERTY, PLANT AND EQUIPMENT		63,167	107,872
- Land, property, plant and machinery	(12)	62,347	92,102
- Other tangible assets	(13)	820	15,770
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		603,509	326,589
- Equity investments (in subsidiary companies)	(14)	601,705	319,033
- Equity investments (in associated companies)		-	3,025
- Equity investments (in other companies)		-	605
- Receivables	(15)	1,804	3,926
DEFERRED TAX ASSETS	(16)	3,034	4,100
TOTAL NON-CURRENT ASSETS		**669,710**	**543,821**
CURRENT ASSETS			
INVENTORIES	(17)	-	96,707
TRADE RECEIVABLES	(18)	6,485	184,191
CURRENT TAX ASSETS	(19)	10,658	9,407
OTHER RECEIVABLES	(20)	32,371	13,729
CURRENT FINANCIAL RECEIVABLES AND ASSETS	(21)	-	38,861
CASH AND CASH EQUIVALENTS	(22)	368	25,629
TOTAL CURRENT ASSETS		**49,882**	**368,524**
NON-CURRENT ASSETS HELD FOR SALE	(23)	5,858	-
NON-CURRENT ASSETS HELD FOR SALE		**5,858**	**-**
TOTAL ASSETS		**725,450**	**912,345**

Balance sheet

Net equity and liabilities

(€/000)	Notes	31.12.2007	31.12.2006
NET EQUITY		519,087	525,189
- Share capital	(24)	448,500	448,500
- Reserves	(25)	67,674	62,843
- Profit (loss) for the year		2,913	13,846
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES		**62,381**	**98,302**
- Bank loans and borrowings (long-term portion)	(26)	59,158	88,958
- Other financial payables (long-term portion)	(27)	3,223	9,344
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		10,438	31,147
- Employee benefits	(28)	2,381	13,684
- Other provisions	(29)	8,057	17,463
TOTAL NON-CURRENT LIABILITIES		72,819	129,449
CURRENT LIABILITIES			
TRADE PAYABLES	**(30)**	**3,896**	**131,184**
FINANCIAL PAYABLES		116,619	86,090
- Bank loans and borrowings (short-term portion)	(26)	29,872	75,104
- Other financial payables (short-term portion)	(27)	86,747	10,986
CURRENT TAX LIABILITIES	(31)	1,923	2,560
OTHER PAYABLES	(32)	11,106	37,873
TOTAL CURRENT LIABILITIES		**133,544**	**257,707**
TOTAL NET EQUITY AND LIABILITIES		**725,450**	**912,345**

Appendix 3 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)

(€/000)	Notes	31.12.2007	31.12.2006
Profit (loss) for the year		2,913	13,846
Net capital losses relating to the fire		13,388	-
Income from dividend receipts	(9)	(17,933)	(33,052)
Amortization and depreciation	(8)	6,897	13,623
Net change in provisions and writedowns		(2,030)	(13,348)
Cash flow generated (absorbed) by current operations (A)		**3,235**	**(18,931)**
Change in assets and liabilities:			
Trade receivables		(4,333)	25,698
Inventories		(19,851)	15,968
Trade payables		(13,971)	(17,119)
Other current assets and liabilities		1,865	9,374
Cash flow generated (absorbed) by movements in working capital (B)		**(36,290)**	**33,921**
Investment activities			
Investments in intangible assets	(11)	(2,205)	(5,052)
Investments in property, plant and equipment	(12) (13)	(11,407)	(12,526)
Proceeds from sale of property, plant and equipment and other cash flows		4,394	13,548
Net investments (disposals) in equity investments and other financial assets		(80,027)	(4,445)
Dividend receipts		17,933	33,052
Cash flow generated (absorbed) by investment activities (C)		**(71,312)**	**24,577**
Change in cash flow hedge reserve		(45)	206
Dividends paid		(8,970)	(2,990)
Net change in other sources of finance		113,677	(25,231)
Cash flow generated by changes in equity accounts and by financing activities (D)		**104,662**	**(28,015)**
Effect of spin-off (E)		**(25,555)**	**-**
Increase (decrease) in cash and cash equivalents (A+B+C+D+E)		**(25,260)**	**11,552**
Opening cash and cash equivalents	**(22)**	**25,629**	**14,077**
Increase (decrease) in cash and cash equivalents (A+B+C+D+E)		(25,260)	11,552
Closing cash and cash equivalents	**(22)**	**369**	**25,629**

Cash flow statement
(in terms of Net financial position)

(€/000)	Notes	31.12.2007	31.12.2006
Profit (loss) for the year		2,913	13,846
Net capital losses relating to the fire		13,388	-
Income from dividend receipts	(9)	(17,933)	(33,052)
Amortization and depreciation	(8)	6,897	13,623
Net change in provisions and writedowns		(2,030)	(13,348)
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Dividend receipts		17,933	33,052
Cash flow generated (absorbed) by investment activities (C)		**(71,312)**	**24,577**
Change in cash flow hedge reserve		(45)	206
Dividends paid		(8,970)	(2,990)
Cash flow generated by changes in equity accounts (D)		**(9,015)**	**(2,784)**
Effect of factoring receivables without recourse (E)		**-**	**65,074**
Effect of spin-off (F)		**52,580**	**-**
Cash flow for the period (A+B+C+D+E+F)		**(60,802)**	**101,857**
Opening net financial position	**(27)**	**(116,025)**	**(217,882)**
Cash flow for the period (A+B+C+D+E+F)		(60,802)	101,857
Closing net financial position	**(27)**	**(176,828)**	**(116,025)**

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

(€/000)	SHARE CAPITAL	SHARE PREMIUM RESERVE
Balance at 1 January 2006 (IAS)	448,500	325
Allocation of 2005 result as per AGM resolution of 27 April 2006		
- payment of dividends	-	-
- allocation to reserves	-	-
Change in cash flow hedge reserve	-	-
Profit (loss) for the year	-	-
Balance at 31 December 2006 (IAS)	**448,500**	**325**
Allocation of 2006 result as per AGM resolution of 18 April 2007		
- payment of dividends	-	-
- allocation to reserves	-	-
Change in cash flow hedge reserve	-	-
Profit (loss) for the year	-	-
Balance at 31 December 2007 (IAS)	**448,500**	**325**

LEGAL RESERVE	OTHER RESERVES	CASH FLOW HEDGE RESERVE	PROFIT (LOSS) CARRIED FORWARD	PROFIT (LOSS) FOR THE YEAR	TOTAL
5,393	43,384	(639)	8,085	9,147	514,195
-	-	-	-	(2,990)	(2,990)
200	808	-	5,149	(6,157)	-
-	-	138	-	-	138
-	-	-	-	13,846	13,846
5,593	**44,192**	**(501)**	**13,234**	**13,846**	**525,189**
-	-	-	-	(8,970)	(8,970)
692	4,184	-	-	(4,876)	-
-	-	501	(546)	-	(45)
-	-	-	-	2,913	2,913
6,285	**48,376**	**-**	**12,688**	**2,913**	**519,087**

Explanatory notes

Company business

De'Longhi S.p.A., which has its registered office in Treviso, is the holding company for a group organized into two divisions.

The "Household" division operates in the domestic appliances market with products for air cooling and treatment, heating, food preparation and cooking, domestic cleaning and ironing, which are distributed mainly through the retail channel under the De'Longhi, Kenwood and Ariete trademarks.

The "Professional" division operates in the markets for large thermo-cooling systems (Climaveneta and RC Group), water-filled radiators (DL Radiators) and fixed air-conditioning units for the professional channel (Climaveneta Home System). These types of product are distributed mainly through the professional channel.

Significant events

Group reorganization

The De'Longhi Group's structure was reorganized during 2007, involving its separation into the two distinct business sectors in which it operates.
The corporate actions involved in this process can be summarized as follows:

- transfer of the investment in DL Radiators (a company which produces and sells terminal units for fixed heating systems) to the sub-holding company De'Longhi Professional and transfer from De'Longhi S.p.A. to De'Longhi Professional of the entire investment held in Climaveneta (a company specialized in the production of large thermo-cooling systems for commercial and industrial use);
- spin-off from De'Longhi S.p.A. to a wholly-owned subsidiary (De'Longhi Appliances) of the business represented by the Household division, inclusive of its numerous foreign subsidiaries and investments.

All these operations have been carried out on a tax-neutral basis and have not had any impact on consolidated net equity, financial position or EBITDA.

More details about the group's reorganization can be found in the report on operations.

After spinning off the Household division, this year's income statement figures are not entirely comparable with those of the prior year. The company performed production activities for all twelve months of 2006, but for only the first six months of 2007, with the second half of the year spent as a provider of holding company services.
For the purposes of comparing income statement data for the two years, the report on operations contains pro-forma figures for 2007 (which include the second-half results of the division spun-off) and presents the income statement by half year for both years concerned.

The spin-off has also had a major impact on several lines in the balance sheet. The following table provides details of the balances spun off:

DE'LONGHI S.P.A. BALANCE SHEET	01.07.2007 Spin-off/transfer	01.07.2007 Equity investment recognition	01.07.2007 Total effect of spin-off on balance sheet
INTANGIBLE ASSETS	(105,463)	-	(105,463)
PROPERTY, PLANT AND EQUIPMENT	(23,151)	-	(23,151)
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS	(42,906)	239,745	196,839
DEFERRED TAX ASSETS	-	-	-
TOTAL NON-CURRENT ASSETS	**(171,520)**	**239,745**	**68,225**
INVENTORIES	(99,465)	-	(99,465)
TRADE RECEIVABLES	(181,474)	-	(181,474)
CURRENT TAX ASSETS	-	-	-
OTHER RECEIVABLES	(5,507)	204	(5,303)
CURRENT FINANCIAL RECEIVABLES AND ASSETS	(2,829)	-	(2,829)
CASH AND CASH EQUIVALENTS	(25,555)	-	(25,555)
TOTAL CURRENT ASSETS	**(314,830)**	**204**	**(314,626)**
TOTAL ASSETS	**(486,350)**	**239,949**	**(246,401)**
NET EQUITY	**(239,949)**	**239,949**	**-**
DEFERRED TAX LIABILITIES	1,839	-	1,839
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES	(17,980)	-	(17,980)
TOTAL NON-CURRENT LIABILITIES	**(16,141)**	**-**	**(16,141)**
TRADE PAYABLES	(114,288)	-	(114,288)
FINANCIAL PAYABLES	(83,827)	-	(83,827)
OTHER PAYABLES	(32,145)	-	(32,145)
TOTAL CURRENT LIABILITIES	**(230,260)**	**-**	**(230,260)**
TOTAL LIABILITIES	**(486,350)**	**239,949**	**(246,401)**

Accounting standards

The financial statements of De'Longhi S.p.A. at 31 December 2007 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 2007), pursuant to EC Regulation 1606 of 19 July 2002.
The following documents have been used for interpretation and application purposes even though not endorsed 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 adopted these standards with effect from its annual report at 31 December 2006, with 1 January 2005 as the IFRS transition date.

The following international financial reporting and accounting standards became effective from 1 January 2007 and have not had any effect on the measurement or classification of items in the financial statements, but have required more disclosures:

- "IFRS 7 - Financial instruments: disclosures", which requires disclosure about the nature and type of instruments used by the company to manage credit, liquidity and market risks.
- A complementary amendment to "IAS 1 - Presentation of financial statements: additional information about capital", which requires the disclosure of information about capital allowing users of the financial statements to evaluate the company's objectives, policies and processes for managing capital.
- IFRIC 8 – "Scope of IFRS 2".
- IFRIC 9 – "Reassessment of embedded derivatives".
- IFRIC 10 – "Interim financial reporting and impairment".
- IFRIC 11 – "IFRS 2 - Group and treasury share transactions".

During 2006 the IASB issued IFRS 8, which was endorsed by the EU by 31 December 2007. This standard will be effective from 1 January 2009 and supersedes "IAS 14 - Segment reporting".
The following documents already issued by the IASB are expected to be endorsed during 2008:

- IAS 1 (revised) - "Presentation of financial statements";
- IAS 23 (revised) - "Borrowing costs";
- IFRIC 12 – "Service concession agreements";
- IFRIC 13 – "Customer loyalty programmes";
- IFRIC 14 – " IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction".

The company is evaluating the effects of adopting these standards, if applicable.

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. The cash flow statement has been prepared using the indirect method allowed by IAS 7.

As regards the comparative periods, it is reported that for the purposes of consistent comparison a number of minor balance sheet reclassifications have been made to the figures previously published at 31 December 2006, which have not however affected the profit for the year or the company's net equity. Details can be found in note *21. Current financial receivables and assets* and in note *27. Other financial payables*.

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, identified in the "Trademarks" category, 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 company are 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 in the balance sheet 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.

Non-current assets held for sale

Non-current assets held for sale refer to assets whose value will be recovered through sale; they are stated at the lower of net book value and fair value less costs to sell.

Impairment of non-financial assets

The company tests, at least once a year, whether the book value of intangible assets and property, plant and equipment reported in the balance sheet has suffered any impairment loss. If there is evidence of impairment, book value is written down to the related recoverable amount.

If it is not possible to estimate the recoverable amount of an individual asset, the company assesses whether the cash generating unit to which it belongs is impaired.

In the case of goodwill and other intangible assets with indefinite useful lives, the impairment test must be carried out at least once a year, and whenever there is an indication that an intangible asset may be impaired.

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.

Financial instruments

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 company reviews at every balance sheet date whether a financial asset or group of financial assets has suffered any impairment. If there is objective evidence of impairment, the related loss is recognized in the income statement.

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 has been 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 are 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. The latter 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.

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.

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.

If the fair value cannot be determined, these assets are reported at cost, as adjusted for any impairment.

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 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 that 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.

Factoring of trade receivables

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 and some of its subsidiaries 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 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 factored receivables and their consequent removal from the balance sheet.

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").

The provision for severance indemnities was treated like a defined benefit plan up until 31 December 2006. Law 296 of 27 December 2006 (the "2007 Finance Act") and subsequent decrees and regulations have introduced major changes to the severance indemnity rules as from 1 January 2007, 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, Italian group companies with more than fifty employees pay them over to a special account opened with the Italian social security authorities (INPS)).
In view of these changes in legislation, the company has made the following distinction:

- *Severance indemnity accruing from 1 January 2007:* this is a "Defined Contribution Plan" both in the case of opting for payment into a supplementary pension fund and in the case of paying it into the special account with INPS. The accounting treatment is therefore the same as that applying to other kinds of contributory payment.
- *Severance indemnity accrued up to 31 December 2006 (and not yet paid at the balance sheet date):* this continues to be a "Defined Benefit Plan" with the consequent need to perform actuarial calculations, which unlike those carried out until now (and reflected in the financial statements for the year ended 31 December 2006) exclude the component relating to future salary increases.

The difference arising from the new calculation, together with actuarial gains and losses previously not recognized in application of the corridor method, has been treated like a curtailment, as defined in paragraph 109 et seq of IAS 19, and accordingly recognized in the income statement for 2007 as non-recurring income.

Long-term liabilities for employee benefits are reported at the present value of the defined benefit obligation at the balance sheet date.

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 past trends.
Revenues from services are recognized when the service is rendered.

Costs and expenses

Costs and expenses are accounted for on an accrual basis.

Dividends

Dividends payable to third parties represent a movement in equity in the period in which they are declared by the shareholders in general meeting.

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, except for goodwill whose amortization cannot be deducted 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.

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 taxation.

Details of book value can be found in the individual explanatory notes.

Comments on the income statement

The comparison of figures in the income statement has been affected by the spin-off.
The first-half figures for 2007 include the results of holding company activities as well as manufacturing and commercial activities, while the second-half figures refer to just holding company activities ("Corporate activities" involving the provision of centralized services and property management services, with rent recharged for premises used by group companies).
The income statement data for 2006 report the results of both holding company and manufacturing and commercial activities for the entire year.

For the purposes of comparing income statement data for the two years, the report on operations contains pro-forma figures for 2007 (which include the second-half results of the division spun-off) and presents the income statement by half year for both years concerned.

1. Revenues

Revenues comprise revenues from sales and services and other operating income and revenues.
"Revenues from sales and services" include €90,644 thousand in income from group companies, as reported in appendix 3.

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

	2007	2006	Change
Freight reimbursement	2,636	7,032	(4,396)
Capital gains	1,281	3,059	(1,778)
Commercial rights	1,224	2,302	(1,078)
Out-of-period gains	1,165	2,277	(1,112)
Rental income	2,825	528	2,297
Damages reimbursed	459	206	253
Customs duty refunds	-	90	(90)
Other income	8,674	14,430	(5,756)
Total	**18,264**	**29,924**	**(11,660)**

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

"Other operating income and revenues" includes €11,608 thousand in income from group companies, as reported in appendix 3; in particular, "Other income" includes €7,774 thousand in revenues from group companies.

2. Raw and ancillary materials, consumables and goods

The breakdown is as follows:

	2007	2006	Change
Finished products	100,870	200,214	(99,344)
Parts	44,694	86,046	(41,352)
Raw materials	7,900	16,709	(8,809)
Other purchases	1,136	1,845	(709)
Total	**154,600**	**304,814**	**(150,214)**

"Raw and ancillary materials, consumables and goods" include €89,488 thousand in costs from group companies (see appendix 3 for details by individual company).

3. Change in inventories

The breakdown is as follows:

	2007	2006	Change
Change in inventories of finished products and work in progress	(5,717)	11,706	(17,423)
Change in inventories of raw and ancillary materials, consumables and goods	(12,245)	3,162	(15,407)

4. Payroll costs

These are made up as follows:

	2007	2006	Change
Employee wages and salaries	25,739	48,646	(22,907)
Temporary workers	10	7	3
Total	**25,749**	**48,653**	**(22,904)**

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:

	2007	2006	Change
Transport (for purchases and sales)	10,736	25,470	(14,734)
Advertising	7,044	17,053	(10,009)
Promotional expenses	8,637	17,747	(9,110)
Commissions	3,868	9,301	(5,433)
Subcontracted work	3,455	8,708	(5,253)
Rentals and leasing	2,990	6,191	(3,201)
Consulting services	3,619	5,765	(2,146)
Technical support	2,365	5,327	(2,962)
Travel and entertaining	3,570	5,240	(1,670)
Storage and warehousing	1,544	3,290	(1,746)
Directors' emoluments	1,082	925	157
Power	799	1,929	(1,130)
Maintenance	524	1,225	(701)
Postage, telegraph and telephones	636	1,210	(574)
Insurance	794	1,200	(406)
Statutory auditors' emoluments	140	159	(19)
Other services	3,770	8,821	(5,051)
Total services	**55,573**	**119,561**	**(63,988)**
Sundry taxes	3,171	5,284	(2,113)
Out-of-period losses	1,051	1,486	(435)
Bad debts	1	-	1
Other	919	3,809	(2,890)
Total other operating expenses	**5,142**	**10,579**	**(5,437)**
Total services and other operating expenses	**60,715**	**130,140**	**(69,425)**

"Services and other operating expenses" include €11,777 thousand in costs from group companies, as reported in appendix 3.

6. Contingency and other provisions

These mostly refer to increases in product warranty provisions (€1,951 thousand), in the agents' leaving indemnity provision (€98 thousand) and in other provisions (€1,000 thousand), which are discussed in note *29. Non-current provisions for contingencies and other charges.*

This amount also includes €619 thousand in increases to the provision for doubtful accounts (see note *18. 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:

	2007	2006	Change
Non-recurring expenses relating to inventories destroyed (*)	(17,094)	-	(17,094)
Capital losses on property, plant and equipment	(18,613)	-	(18,613)
Other costs relating to the fire	(11,165)	-	(11,165)
Insurance reimbursements	37,468	-	37,468
Total net non-recurring expenses relating to the fire	**(9,404)**	**-**	**(9,404)**
Non-recurring income (Law 296 of 27.12.2006)	2,034	-	2,034
Other non-recurring income (expenses)	1,418	3,934	(2,516)
Total net non-recurring income	**3,452**	**3,934**	**(482)**
Total	**(5,952)**	**3,934**	**(9,886)**

(*) These expenses do not include samples, prototypes and uncoded consumables, which were already expensed to income for the period and which were physically present in inventories at the time of the fire.

The "Net non-recurring expenses relating to the fire" refer to the estimated costs of the fire at the factory in Treviso on 18 April 2007, net of related insurance receipts. The expenses relate to the losses arising on the destruction of property, plant and equipment (buildings and plant), the destruction of inventories and to the costs directly related to the fire. The "Insurance reimbursements" relate to the reimbursement for damages, under the terms and conditions of current insurance policies. This amount, reported under "Other receivables" in current assets, net of €15,000 thousand in advances already paid against the claim by Assicurazioni Generali, is not final because it does not take account of the right to receive additional compensation on top of the book value of the assets destroyed or the entitlement to reimbursement for indirect expenses, which will be recognized when the claim is finally settled.

"Non-recurring income" of €2,034 thousand is the result of applying Law 296 of 27 December 2006 ("2007 Finance Act") and subsequent decrees and regulations on the treatment of severance indemnity.

"Other non-recurring income (expenses)" include €3,243 thousand in costs from group companies, as reported in appendix 3.

8. Amortization and depreciation

These charges comprise:

	2007	2006	Change
Depreciation of property, plant and equipment	4,981	8,655	(3,674)
Amortization of intangible assets	1,916	4,968	(3,052)
Total	**6,897**	**13,623**	**(6,726)**

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

9. Financial income and expenses

Net financial income and expenses are broken down as follows:

	2007	2006	Change
Dividends	17,933	33,052	(15,119)
Equity investment impairment loss reversal	-	2,510	(2,510)
Capital gains on disposal of equity investments	-	50	(50)
Equity investment impairment losses	(771)	(1,985)	1,214
Financial income (expenses) from equity investments	**17,162**	**33,627**	**(16,465)**
Gains (losses) on currency hedging transactions	(381)	2,638	(3,019)
Exchange gains (losses)	419	(3,988)	4,407
Exchange gains (losses)	**38**	**(1,350)**	**1,388**
Interest income from loans	998	1,049	(51)
Bank interest income	121	176	(55)
Financial income	**1,119**	**1,225**	**(106)**
Factor's fees and other costs of assigning receivables	(3,810)	(5,628)	1,818
Interest expense on long-term loans and borrowings	(7,160)	(10,540)	3,380
Financial expenses	**(10,970)**	**(16,168)**	**5,198**
Financial discounts	(771)	(1,644)	873
Other sundry income (expenses)	(1,183)	(3,122)	1,939
Other financial income (expenses)	**(1,954)**	**(4,766)**	**2,812**
Financial income (expenses)	**5,395**	**12,568**	**(7,173)**

Dividends relate to amounts declared and paid by the subsidiaries De'Longhi Capital Services S.r.l., E-Services S.r.l., De'Longhi Household S.A. and De'Longhi Professional S.A.
The spin-off of the Household division has made it impossible for De'Longhi Appliances S.r.l., the company's principal subsidiary, to declare a dividend for this first year of operation.

"Factor's fees and other costs of assigning receivables" include the upfront fees for the new without-recourse receivables factoring programme which started in March 2007 under a master agreement expiring in 2012; the full amount of these fees of €1,278 thousand has been expensed in 2007.
No net gains or losses on financial instruments have been recognized in the year apart from interest and dividends which have been reported separately.

"Financial income (expenses)" includes €15,017 thousand in income from group companies, as reported in appendix 3.

10. Income taxes for the year

These are made up as follows:

	2007	2006	Change
Current income taxes	(587)	(1,486)	899
Deferred income taxes	8,288	6,626	1,662
Total	**7,701**	**5,140**	**2,561**

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 €771 thousand in IRAP (Italy's regional business tax) compared with €1,275 thousand in 2006, and €9 thousand for the separate taxation of income under article 168 of Presidential Decree 917/86, net of €193 thousand in tax credits under art. 1.6.c) of Law 244/2007.
"Deferred income taxes" include the taxes calculated on the temporary differences arising between the book 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 as a result of the change in tax rate.
More details on deferred taxes can be found in note *16. Deferred tax assets and deferred tax liabilities*.

Comments on the balance sheet: assets

11. Intangible assets

The breakdown is as follows:

	31.12.2007		31.12.2006		
	Gross	Net	Gross	Net	Change
New product development costs	-	-	12,421	5,425	(5,425)
Patents	-	-	19,986	2,621	(2,621)
Trademarks and similar rights	-	-	115,985	88,251	(88,251)
Goodwill	-	-	5,527	4,771	(4,771)
Other intangible assets	-	-	3,067	-	-
Work in progress and advances	-	-	4,192	4,192	(4,192)
Total	**-**	**-**	**161,178**	**105,260**	**(105,260)**

All the intangible assets were transferred as part of the spin-off of the Household division from De'Longhi S.p.A. to De'Longhi Appliances S.r.l., as explained in the note on "Significant events".

The following table reports movements in the main asset categories during 2007:

	New product development costs	Patents	Trademarks and similar rights	Goodwill	Work in progress and advances	Total
Net opening balance	**5,425**	**2,621**	**88,251**	**4,771**	**4,192**	**105,260**
Additions	315	274	1	-	1,615	2,205
Disposals	-	(2)	-	-	-	(2)
Amortization	(1,035)	(414)	(468)	-	-	(1,917)
Other movements (*)	-	(9)	-	-	(74)	(83)
Spin-off to De'Longhi Appliances S.r.l.	(4,705)	(2,470)	(87,784)	(4,771)	(5,733)	(105,463)
Net closing balance	**-**	**-**	**-**	**-**	**-**	**-**

(*) The amounts reported as "Other movements" include €74 thousand to write down "Work in progress and advances".

With reference to "New product development costs", which report an increase of €315 thousand in the period prior to the spin-off, 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 €1,615 thousand in "Work in progress and advances" also refers to newly capitalized development costs for projects that had not been completed at the spin-off 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.

12. Land, property, plant and machinery

These are detailed as follows:

	31.12.2007		31.12.2006		
	Gross	Net	Gross	Net	Change
Land and buildings	69,677	62,347	85,443	79,971	(17,624)
Plant and machinery	-	-	46,834	12,131	(12,131)
Total	**69,677**	**62,347**	**132,277**	**92,102**	**(29,755)**

All the assets reported in the "Plant and machinery" category were spun-off to De'Longhi Appliances S.r.l..

The following table reports movements during 2007:

	Land and buildings	Plant and machinery	Total
Net opening balance	**79,971**	**12,131**	**92,102**
Additions	1,731	4,603	6,334
Disposals	(53)	(1,729)	(1,782)
Depreciation	(2,007)	(242)	(2,249)
Capital loss (fire on 18.04.2007)	(11,778)	(6,167)	(17,945)
Other movements	341	(341)	-
Spin-off to De'Longhi Appliances S.r.l.	-	(8,255)	(8,255)
Reclassification to assets held for sale	(5,858)	-	(5,858)
Net closing balance	**62,347**	**-**	**62,347**

The net change of €29,755 thousand is the combined effect of capital losses arising after the fire on 18 April 2007, destroying the factory building and plant in Via Seitz, Treviso, and the spin-off of plant to De'Longhi Appliances S.r.l.. In addition, new investments amounted to €6,334 thousand, depreciation to €2,249 thousand, disposals to €1,782 thousand, while €5,858 thousand was reclassified to Assets held for sale, corresponding to the book value of a building later sold in 2008 (see note *23. Non-current assets held for sale*).

The additions to "Land and buildings" include €1,137 thousand in investments for replacing assets destroyed in the fire on 18 April 2007.
The additions to "Plant and machinery", in the first half of the year and subsequently transferred to De'Longhi Appliances S.r.l., mainly refer to investments in the Treviso factory for developing and upgrading lines producing "fully automatic" coffee machines.

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

	31.12.2007	31.12.2006	Change
Buildings	2,330	8,442	(6,112)
Plant and equipment	-	955	(955)
Other	-	(1)	1
Total	**2,330**	**9,396**	**(7,066)**

The decrease in "Buildings" mostly reflects the reclassification at 31 December 2007 of a building purchased by De'Longhi S.p.A. under finance lease from "Land and buildings" to "Non-current assets held for sale", as reported in the table of movements.
Assets in other categories purchased under finance lease have all been spun off to De'Longhi Appliances S.r.l..

Information on the financial liability relating to the lease agreement can be found in note *27. Other financial payables*.

13. Other tangible assets

Details of other tangible assets are as follows:

	31.12.2007		31.12.2006		
	Gross	Net	Gross	Net	Change
Industrial and commercial equipment	3	-	86,078	13,498	(13,498)
Other	115	53	12,450	1,699	(1,646)
Work in progress and advances	767	767	573	573	194
Total	**885**	**820**	**99,101**	**15,770**	**(14,950)**

The following table reports movements during 2007:

	Industrial and commercial equipment	Other	Work in progress and advances	Total
Net opening balance	**13,498**	**1,699**	**573**	**15,770**
Additions	3,665	443	965	5,073
Disposals	(885)	(12)	-	(897)
Depreciation	(2,547)	(185)	-	(2,732)
Capital loss (fire on 18.04.2007)	(922)	(434)	(66)	(1,422)
Other movements	-	(76)	-	(76)
Spin-off to De'Longhi Appliances S.r.l.	(12,809)	(1,382)	(705)	(14,896)
Net closing balance	**-**	**53**	**767**	**820**

The net change of €820 thousand is the combined effect of capital losses arising after the fire on 18 April 2007 and the spin-off of assets to De'Longhi Appliances S.r.l.. Prior to the spin-off, new investments amounted to €5,073 thousand, depreciation to €2,732 thousand and disposals to €897 thousand.

The additions to "Industrial and commercial equipment" mostly refer to moulds for manufacturing new products (particularly De'Longhi fully-automatic coffee machines) purchased in the first half of the year and subsequently transferred to De'Longhi Appliances S.r.l. under the spin-off.

14. Equity investments

The breakdown is as follows:

Equity investments in subsidiary companies	**31.12.2007**	**31.12.2006**	**Change**
De'Longhi Appliances S.r.l.	242,678	2,933	239,745
De'Longhi Household S.A.	241,737	241,737	-
De'Longhi Professional S.A.	111,205	1,200	110,005
De'Longhi Capital Services S.r.l.	6,005	6,005	-
Clim.Re S.A.	54	54	-
E-Services S.r.l.	26	26	-
Climaveneta S.p.A.	-	30,005	(30,005)
De'Longhi America Inc.	-	18,836	(18,836)
De'Longhi Nederland B.V.	-	7,681	(7,681)
De'Longhi Deutschland GMBH	-	5,429	(5,429)
De'Longhi France S.a.r.l.	-	2,440	(2,440)
De'Longhi Electrodomesticos Espana S.L.	-	1,179	(1,179)
De'Longhi Canada Inc.	-	762	(762)
De'Longhi Bosphorus EV	-	636	(636)
Elle S.r.l.	-	110	(110)
Total	**601,705**	**319,033**	**282,672**
Equity investments in associated companies			
Emer S.p.A.	-	3,025	(3,025)
Total	**-**	**3,025**	**(3,025)**
Equity investments in other companies			
Other minor investments	-	605	(605)
Total	**-**	**605**	**(605)**
Total equity investments	**601,705**	**322,663**	**279,042**

The list of subsidiary and associated companies and details of changes in equity investments during 2007 can be found in appendix 2.

The changes in equity investments are due to the group's reorganization, discussed earlier. In particular the increase is due to:

- the effects of spinning off the Household division: producing an increase of €239,745 thousand in the investment in De'Longhi Appliances S.r.l. and a corresponding reduction of €39,974 thousand in equity investments transferred to this company at the same time;
- the transfer of the entire investment in Climaveneta S.p.A. to De'Longhi Professional S.A. at a value of €30,005 thousand and payment of €80,000 thousand in capital to De'Longhi Professional S.A.

The equity investment in Elle S.r.l. was written down by €145 thousand (with the recognition of €35 thousand in provisions for equity investment impairment losses), while the investment in De'Longhi Electrodomesticos Espana S.L. was written down by €626 thousand in the period preceding the spin-off.

15. Other non-current receivables

This balance is analyzed as follows:

Receivables	31.12.2007	31.12.2006	Change
Subsidiary companies	1,804	3,889	(2,085)
Security deposits	-	37	(37)
Total	**1,804**	**3,926**	**(2,122)**

Appendix 3 contains details of "Receivables from subsidiary companies". The receivables are financial in nature and earn interest at market rates.

16. Deferred tax assets and deferred tax liabilities

"Deferred tax assets" reflect the recognition of taxes calculated on temporary differences arising between the carrying amount 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:

(€/000)	2007 Taxable amount	2007 Tax rate	2007 Total tax	2006 Taxable amount	2006 Tax rate	2006 Total tax	Effect on income statement
Provisions for contingencies and other charges	(8,057)	31	2,530	(19,557)	37	7,220	(4,690)
Provisions for contingencies and other charges (only for IRES purposes)	(1,569)	27	431	(5,329)	33	1,758	(1,327)
Fair value of derivatives	-	31	-	(2,243)	33	740	(740)
Adjustments to value of current assets	-	31	-	(11,513)	37	4,289	(4,289)
Equity investment impairment losses	-	27	-	(217)	33	72	(72)
Other temporary differences	(8,167)	31-27	2,301	(5,600)	33-37	2,034	267
Total deferred tax assets	**(17,793)**	**-**	**5,262**	**(44,459)**	**-**	**16,113**	**(10,851)**
Different values for tax	45,555	31	(14,304)	35,238	37	(13,132)	(1,172)
Uncollected dividends	-	27	-	300	33	(99)	99
Other temporary differences	284	31-27	(90)	40,753	33-37	(15,243)	15,153
Total deferred tax liabilities	**45,839**	**-**	**(14,394)**	**76,291**	**-**	**(28,474)**	**14,080**
Deferred tax (assets) liabilities on temporary differences	**28,046**	**-**	**(9,132)**	**31,832**	**-**	**(12,361)**	**3,229**
Total deferred tax assets on tax losses and group tax election adjustments	**(67,204)**	**-**	**19,744**	**(53,465)**	**-**	**16,460**	**3,284**
Total net deferred tax liabilities (assets)	**(39,158)**	**-**	**10,612**	**(21,633)**	**-**	**4,100**	**6,513**
Effect on income statement of net equity movements in year	-	-	-	-	-	-	1,775
Net equity movements from group tax election	22,964	33	(7,578)	-	-	-	-
Net total	**-**	**-**	**3,034**	**-**	**-**	**4,100**	**(8,288)**

It is also reported that no deferred taxes have been recognized on €2,309 thousand in carried forward tax losses, since these are unlikely to be recovered in the future.

Current assets

17. Inventories

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

	31.12.2007	31.12.2006	Change
Finished products and goods	-	64,951	(64,951)
Raw, ancillary and consumable materials	-	21,503	(21,503)
Work in progress and semi-finished products	-	10,253	(10,253)
Total	**-**	**96,707**	**(96,707)**

De'Longhi S.p.A. transferred all its inventories to De'Longhi Appliances S.r.l. under the spin-off described in the note on "Significant events".

18. Trade receivables

These are made up as follows:

	31.12.2007	31.12.2006	Change
Trade receivables due within 12 months	8,154	188,449	(180,295)
Provision for doubtful accounts	(1,669)	(4,258)	2,589
Total	**6,485**	**184,191**	**(177,706)**
Factored receivables	-	-	-
Total	**6,485**	**184,191**	**(177,706)**

The change in trade receivables also reflects the spin-off.
In accordance with the disclosure required by CONSOB Circular 3369 of 9 April 1997, we report that the total amount of receivables factored without recourse by De'Longhi S.p.A. in the period from January to June 2007 was €83,979 thousand.

Trade receivables are stated net of a provision for doubtful accounts of €1,669 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:

	31.12.2006	Increases	Utilization	Spin-off	31.12.2007
Provision for doubtful accounts	4,258	619	(54)	(3,154)	1,669

"Trade receivables" include €5,711 thousand in amounts due from group companies, as reported in appendix 3.
Trade receivables do not include any amounts due beyond 12 months.

Trade receivables are broken down by geographical area as follows:

Geographical area	31.12.2007	31.12.2006	Change	% change
Rest of Europe	1,445	60,160	(58,715)	(97.60)
Italy	4,321	50,484	(46,163)	(91.44)
Rest of the world	544	28,082	(27,538)	(98.06)
Japan	-	17,698	(17,698)	(100.00)
United States, Canada, Mexico	4	16,731	(16,727)	(99.98)
United Kingdom	171	11,036	(10,865)	(98.45)
Total	**6,485**	**184,191**	**(177,706)**	**(96.48)**

19. Current tax assets

"Current tax assets" are detailed below:

	31.12.2007	31.12.2006	Change
VAT	7,966	6,502	1,464
Tax refunds requested	1,223	1,902	(679)
Direct taxes	1,435	991	444
Other tax receivables	34	12	22
Total current tax assets	**10,658**	**9,407**	**1,251**

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 2008 to reduce this balance.
"Tax refunds requested" include €178 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), €254 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 €790 thousand in 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, of which €700 thousand has already been collected in 2008.
"Direct taxes" include €1,234 thousand for payments on account of IRAP (Italy's regional business tax) and €144 thousand in payments on account for the separate taxation of income under article 168 of Presidential Decree 917/86.

20. Other receivables

"Other receivables" are broken down as follows:

	31.12.2007	31.12.2006	Change
Advances to suppliers	284	421	(137)
Factors	-	75	(75)
Employees	2	116	(114)
Other	32,085	13,117	18,968
Total other receivables	**32,371**	**13,729**	**18,642**

"Other" receivables at 31 December 2007 include €22,468 thousand in insurance reimbursements receivable after the fire.
"Other receivables" include €9,385 thousand in amounts due from group companies, as reported in appendix 3.

None of the other receivables is due beyond 12 months.

21. Current financial receivables and assets

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

	31.12.2007	31.12.2006	Change
Other financial receivables	-	38,861	(38,861)
Total financial receivables and assets	**-**	**38,861**	**(38,861)**

"Other financial receivables" in 2006 mostly referred to amounts owed by De'Longhi Capital Services S.r.l. as part of the centralized treasury service. This year's corresponding balance with this subsidiary is a payable, classified under "Current financial payables".

22. Cash and cash equivalents

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

23. Non-current assets held for sale

This balance refers to a building sold early in 2008 and so reclassified separately as required by international financial reporting standards. This building was held under a finance lease for which a short-term payable of €5,575 thousand was reported at year end. This lease was redeemed at the start of 2008 and the building was subsequently sold for more than its net book value, which has nonetheless been retained for reporting purposes at 31 December 2007.

Comments on the balance sheet: net equity and liabilities

Net equity

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

24. Share capital

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

25. Reserves

These are broken down as follows:

	31.12.2007	31.12.2006	Change
Share premium reserve	325	325	-
Legal reserve	6,285	5,593	692
Other reserves			
- Cash flow hedge reserve	-	(501)	501
- Extraordinary reserve	48,376	44,192	4,184
- Profit (loss) carried forward	12,688	13,234	(546)
Total reserves	**67,674**	**62,843**	**4,831**

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 €6,285 thousand at 31 December 2007. The increase of €692 thousand since 31 December 2006 is due to the allocation of the profit for 2006, as approved by the Annual General Meeting (AGM) held on 18 April 2007.

The "Extraordinary reserve" amounts to €48,376 thousand. The increase of €4,184 thousand since 31 December 2006 is due to the allocation of profit for 2006, as approved by the above AGM.

The reduction of €546 thousand in "Profit (loss) carried forward" reflects the cancellation of the "Cash flow hedge reserve" following the spin-off.

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

Nature / Description	Amount	Permitted use	Available amount
Share capital	448,500		-
Capital reserves:			
- share premium reserve	325 (1)	A, B	-
Earnings reserves:			
- legal reserve	6,285	B	
- fair value reserve	-		
- extraordinary reserve	48,376	A, B, C	48,376
- profit (loss) carried forward	12,688	A, B, C	4,114
Total	**516,174**		**52,490**
Undistributable amount			35,174
Distributable amount			17,316

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

(1) As allowed by article 2430 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	Balance 31.12.2007	Within one year	One to five years	Beyond five years	Balance 31.12.2006	Change
Overdrafts	164	-	164	262	-	-	262	(98)
Long-term loans (current portion)	29,708	-	29,708	74,842	-	-	74,842	(45,134)
Total short-term bank loans and borrowings	**29,872**	**-**	**29,872**	**75,104**	**-**	**-**	**75,104**	**(45,232)**
Long-term loans	-	59,158	59,158	-	88,731	227	88,958	(29,800)
Total bank loans and borrowings	**29,872**	**59,158**	**89,030**	**75,104**	**88,731**	**227**	**164,062**	**(75,032)**

Loans and borrowings are made up as follows:

Loans (including short-term portion)	31.12.2007	31.12.2006
Syndicated loan arranged by BNP Paribas	86,989	100,867
Syndicated loan arranged by Intesa San Paolo	-	60,655
Loan from IMI (Law 46)	1,877	2,278
Total long-term loans	**88,866**	**163,800**

During 2007 the balance of €60 million outstanding at 31 December 2006 against the syndicated loan arranged by Intesa San Paolo was repaid in full without any penalties in advance of its natural maturity of March 2008 since its cost was no longer viewed as economic.

The syndicated loan arranged by BNP Paribas calls for the observance of financial covenants on a six-monthly basis. Such covenants have been observed in accordance with contract at 31 December 2007.

The other loans do not call for the observance of financial covenants.

All the loans carry floating-rate interest, meaning that interest is based on a benchmark rate (usually 1 or 3-month Libor/Euribor) plus a spread, which depends on the nature of the loan and its due date. As a result, the fair value of loans, obtained by discounting expected future interest payments at current market rates, is not materially different from the value reported in the balance sheet. This is based on the fact that forecasts of future interest payments use an interest rate which reflects current market conditions (both in terms of benchmark and spreads), since any other assumption regarding interest rates is purely arbitrary. Note 34 contains the results of analyzing sensitivity to changes in interest rates.

27. Other financial payables

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

	31.12.2007	31.12.2006	Change
Payables to lease companies (short-term portion)	5,575	337	5,238
Payables for the purchase of equity investments	-	319	(319)
Ministry of Industry loans (short-term portion)	556	835	(279)
Other short-term financial payables	80,616	9,495	71,121
Total short-term payables	**86,747**	**10,986**	**75,761**
Payables to lease companies (long-term portion)	-	5,565	(5,565)
Ministry of Industry loans (long-term portion)	3,223	3,779	(556)
Total long-term payables	**3,223**	**9,344**	**(6,121)**
Total other financial payables	**89,970**	**20,330**	**69,640**

"Other short-term financial payables" include €80,601 thousand for the balance owed to De'Longhi Capital Services S.r.l. under its centralized treasury services. At 31 December 2006, the corresponding balance with this subsidiary was a receivable, duly classified under "Current financial receivables".

Details of the net financial position are as follows:

	31.12.2007	31.12.2006	Change
A. Cash	12	29	(17)
B. Cash equivalents	356	25,600	(25,244)
C. Securities	-	-	-
D. Total liquidity (A+B+C)	**368**	**25,629**	**(25,261)**
E 1. Current financial receivables (*)	**-**	**38,293**	**(38,293)**
E 2. Non-current financial receivables (**)	**1,804**	**3,889**	**(2,085)**
F. Current bank loans and borrowings	(164)	(262)	98
G. Current portion of non-current debt	(29,708)	(74,842)	45,134
H. Other current financial payables	(86,747)	(10,430)	(76,317)
I. Current financial debt (F+G+H)	**(116,619)**	**(85,534)**	**(31,085)**
J. Net current financial debt (D+E1+E2+I)	**(114,447)**	**(17,723)**	**(96,724)**
K. Non-current bank loans and borrowings	(59,158)	(88,958)	29,800
L. Bonds	-	-	-
M. Other non-current payables	(3,223)	(9,344)	6,121
N. Non-current financial debt (K+L+M)	**(62,381)**	**(98,302)**	**35,921**
Total	**(176,828)**	**(116,025)**	**(60,803)**

(*) 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.
(**) The amount at 31 December 2006 differs from that reported in the balance sheet (€3,926 thousand) because the balance sheet amount includes €37 thousand in non-financial receivables.

Details of financial receivables and payables with related parties are reported in appendix 3.

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.

All the principal other financial payables (mostly consisting of recently-entered finance leases) carry floating-rate interest, meaning that interest is based on a benchmark rate (usually 1 or 3-month Libor/Euribor) plus a spread, which depends on the nature of the payable and its due date. As a result, the fair value of loans, obtained by discounting expected future interest payments at current market rates, is not materially different from the value reported in the balance sheet. This is based on the fact that forecasts of future interest payments use an interest rate which reflects current market conditions (both in terms of benchmark and spreads), since any other assumption regarding interest rates is purely arbitrary. Note 34 contains the results of analyzing sensitivity to changes in interest rates.

28. Employee benefits

These are made up as follows:

	31.12.2007	31.12.2006	Change
Provision for severance indemnities	479	13,684	(13,205)
Long-term employee benefits	1,902	-	1,902
Total employee benefits	**2,381**	**13,684**	**(11,303)**

Provision for severance indemnities

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". Severance indemnity, as a self-financed obligation, does not have any assets servicing it.

This plan is valued on an actuarial basis in order 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 to the severance indemnity rules as from 1 January 2007, 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)).

Movements in the year are summarized below:

Severance indemnity obligations	31.12.2007	31.12.2006	Change
Defined benefit obligations	479	13,684	(13,205)

Net cost charged to income	31.12.2007	31.12.2006	Change
Current service cost	136	1,856	(1,720)
Application of new law	(2,034)	-	(2,034)
Interest cost on obligations	237	501	(264)
Total	**(1,661)**	**2,357**	**(4,018)**

Change in present value of obligations	31.12.2007	31.12.2006	Change
Present value at 1 January	13,684	13,621	63
Current service cost	136	1,856	(1,720)
Benefits paid	(1,857)	(2,540)	683
Interest cost on obligations	237	501	(264)
Application of new law	(2,034)	-	(2,034)
Spin-off to De'Longhi Appliances S.r.l.	(9,687)	-	(9,687)
Other changes	-	246	(246)
Total	**479**	**13,684**	**(13,205)**

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

Assumptions used	Severance indemnity 2007	Severance indemnity 2006
Discount rate	4.6%	4.25%
Future salary increases	2.0-2.75%	2.0-2.75%
Inflation rate	2.0%	2.0%

The composition of the company's workforce is analyzed in the following table:

	31.12.2007	Average 2007	31.12.2006	Average 2007
Blue collar	5	382	822	865
White collar	27	259	495	504
Executives	11	23	35	38
Total	**43**	**664**	**1,352**	**1,407**

29. Non-current provisions for contingencies and other charges

These are broken down as follows:

	31.12.2007	31.12.2006	Change
Agents' leaving indemnity provision and other retirement provisions	**-**	**1,736**	**(1,736)**
Product warranty provision	-	5,697	(5,697)
Provision for sundry contingencies	8,057	10,030	(1,973)
Other provisions	**8,057**	**15,727**	**(7,670)**
Total	**8,057**	**17,463**	**(9,406)**

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 2007:

	31.12.2006	Utilization	Increases	Spin-off	31.12.2007
Agents' leaving indemnity provision	1,736	(286)	98	(1,548)	-
Total	**1,736**	**(286)**	**98**	**(1,548)**	**-**

Other provisions reported the following movements:

	31.12.2006	Utilization	Increases	Spin-off	31.12.2007
Product warranty provision	5,697	(1,853)	1,951	(5,795)	-
Provision for sundry contingencies	10,030	(5,607)	4,470	(836)	8,057
Total	**15,727**	**(7,460)**	**6,421**	**(6,631)**	**8,057**

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 sundry contingencies" includes at 31 December 2007:

- the provision for insurance deductibles of €1,421 thousand (€2,033 thousand at 31 December 2006), which covers the company's insurance liability (limited to the deductible) in the case of liabilities arising from complaints;
- the provision of €3,166 thousand for contingencies relating to a dispute;
- the provision of €3,470 thousand in relation to the fire on 18 April 2007.

Current liabilities

30. Trade payables

This balance of €3,896 thousand represents the amount owed by the company to third parties and group companies for the provision of goods and services. Details of amounts owed to group companies are reported in appendix 3.

Trade payables are broken down by geographical area as follows:

Geographical area	31.12.2007	31.12.2006	Change	% change
Italy	3,639	80,604	(76,965)	(95.49)
United Kingdom	-	5,688	(5,688)	(100.00)
Rest of Europe	3	16,050	(16,047)	(99.98)
United States, Canada, Mexico	253	1,547	(1,294)	(83.65)
Rest of the world	1	27,295	(27,294)	(100.00)
Total	**3,896**	**131,184**	**(127,288)**	**(97.03)**

Trade payables do not include any amounts due beyond 12 months.

31. Current tax liabilities

These are broken down as follows:

	31.12.2007	31.12.2006	Change
Direct taxes	649	210	439
Withholdings payable	633	2,346	(1,713)
Other taxes	641	4	637
Total current tax liabilities	**1,923**	**2,560**	**(637)**

"Direct taxes" mostly relate to IRAP (Italian regional business tax) for the year of €771 thousand, less €122 thousand in tax credits.
"Withholdings payable" relate to withholdings made by the company and payable to the tax authorities after the balance sheet date.
"Other taxes" include the amount agreed for tax assessments received by companies in the Italian tax group which must be paid by the head of the tax group.

32. Other payables

These are detailed as follows:

	31.12.2007	31.12.2006	Change
Social security institutions	378	2,444	(2,066)
Sundry payables	10,728	35,429	(24,701)
Total other payables	**11,106**	**37,873**	**(26,767)**

"Social security institutions" include €318 thousand in payables to Italy's principal social security agency (INPS), €4 thousand in payables to Italy's social security institution for agents (Enasarco), €14 thousand in payables to pension funds and €42 thousand in amounts owed to other welfare agencies.

"Sundry payables" are detailed as follows:

	31.12.2007	31.12.2006	Change
Group companies	8,999	12,316	(3,317)
Employees	857	9,182	(8,325)
Advances	-	292	(292)
Other	872	13,639	(12,767)
Total sundry payables	**10,728**	**35,429**	**(24,701)**

"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 *19. Current tax assets*.

"Other" in 2006 included €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). This amount has now been transferred to De'Longhi Appliances S.r.l. under the spin-off.

33. Commitments

These are broken down as follows:

	31.12.2007	31.12.2006	Change
Personal guarantees:			
- For the benefit of subsidiary companies	606,610	566,753	39,857
- For the benefit of third parties (*)	-	3,806	(3,806)
Total guarantees	**606,610**	**570,559**	**36,051**

(*) In 2006 the guarantees given for the benefit of third parties included 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:	31.12.2007	31.12.2006	Change
De'Longhi Capital Services S.r.l.	470,641	437,275	33,366
DL Trading Ltd	61,281	60,740	541
DL Radiators S.p.A.	26,720	20,712	6,008
De' Longhi Japan Corp.	14,855	15,612	(757)
Zass Alabuga LLC	13,586	11,389	2,197
Climaveneta S.p.A.	4,124	1,180	2,944
DL Canada Inc.	2,768	2,618	150
Climaveneta Home System S.r.l.	2,500	500	2,000
Ariete S.p.A.	2,000	4,197	(2,197)
TCL De'Longhi Home Appliances Zhongshan Co. Ltd	1,860	3,891	(2,031)
On Shiu Zhongshan Electrical Appliance Co. Ltd	1,860	1,946	(86)
Kenwood Home Appliances Pty Ltd. SA – South Africa	1,500	2,450	(950)
Kenwood Hellas Sole partner Ltd Liability Co.	1,000	1,000	-
De'Longhi Electrodomesticos Espana S.L.	950	-	950
De'Longhi Appliances S.r.l. (Ex - La Supercalor S.p.A.)	852	852	-
Kenwood Appliances Singapore Pte Ltd	100	100	-
Ariete Hispania S.L.	13	13	-
De' Longhi America Inc.	-	2,278	(2,278)
Total	**606,610**	**566,753**	**39,857**

34. Risk management

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

- **credit risk**, arising from commercial activities and from 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.

Following the spin-off of the Household division to De'Longhi Appliances S.r.l., De'Longhi S.p.A. no longer has a significant credit risk at 31 December 2007 since most of its exposures are to group companies at this date.

As far as financial credit 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.

As a holding company, De'Longhi S.p.A. is the ultimate guarantor of all the credit facilities granted to group companies (excluding outstanding medium-term loans to Climaveneta S.p.A., DL Radiators S.p.A. and RC Group S.p.A.).
The group has medium-term credit lines with banks in relation to the lending arrangements described in this report, and short-term credit lines (typically renewed on an annual basis), for financing working capital and other operating needs (issue of guarantees, currency transactions etc.). Most of these credit lines are used for financing working capital and amount to around €500 million at 31 December 2007 (€450 million at 31 December 2006). These credit lines, along with cash flow generated by operations, are considered sufficient to allow the group to satisfy its annual funding requirements for working capital, investments and settlement of payables on their natural due dates.
In view of the situation on financial markets since last August, following the subprime loans crisis, the group has not suffered increased spreads or reductions in the agreed facilities, meaning that any alternative scenarios are limited to the subsequent sensitivity analyses forming part of this note.

More details on the due dates of the company's financial assets and payables can be found in notes *15. Other non-current receivables, 18. Trade receivables, 21. Current financial receivables and assets, 26. Bank loans and borrowings, 27. Other financial payables and 30. Trade payables.*

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:

The spin-off of the Household division to De'Longhi Appliances S.r.l. has made the company less sensitive to exchange rate fluctuations, having transferred the core business to this subsidiary.
There is still a small risk, mainly in relation to holding company services provided to group companies.

Details of the hedging policies adopted by the group can be found in the notes to the consolidated financial statements.

Interest rate risk

The company 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 company's financial debt at 31 December 2007 was at floating rates following the decision to obtain the maximum benefit from the continued low level of interest rates; there are currently no interest rate hedges.
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.

Sensitivity analysis:

When estimating the potential impact of a hypothetical, instantaneous material change in interest rates (+/- 1% in market rates) on the cost of the company's debt, only those items forming part of net financial position which earn/incur interest have been considered and not any others.
The company's debt is currently all at a floating rate and so, in the absence of hedges, any change in market rates has a direct impact on its total cost, in terms of higher/lower interest payments.
A +/- 1% change in interest rates would produce €1.8 million in higher/lower financial expenses respectively, all of which reported in the income statement (+/- €1.3 million at 31 December 2006).

Tax position

During 2007 the Veneto regional tax office carried out a general audit of tax year 2004 at De'Longhi S.p.A. as part of the tax authorities' programme of periodic taxpayer audits. A preliminary notice of findings was issued on 25 January 2008.

The company has stated that it will demonstrate before the competent bodies that these findings are unfounded, although the tax authorities have not yet issued any notice of assessment.

Transactions and balances with related parties

Appendix 3 contains the information concerning transactions and balances between group companies and related parties required by CONSOB Regulations 97001574 dated 20 February 1997, 98015375 dated 27 February 1998 and DEM/2064231 dated 30 September 2002. All such transactions fall within the group's normal operations, except as otherwise stated in these notes, and are settled under arm's-length terms and conditions.

Emoluments of directors and statutory auditors

Appendix 4 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, 12 March 2008
De'Longhi S.p.A.
Vice Chairman and CEO
Fabio De'Longhi

Appendices

These appendices contain additional information to that reported in the explanatory notes, of which they form an integral part.

This information is contained in the following appendices:

1. Certification of the financial statements pursuant to art. 81-ter of CONSOB Regulation 11971 dated 14 May 1999 and subsequent amendments and additions.
2. List of subsidiary and associated companies and changes in equity investments.
3. Transactions and balances with related parties:
   a) Income statement and balance sheet;
   b) Summary by company.
4. Emoluments of directors and statutory auditors.
5. Fees paid to the external auditors.
6. External auditors' report on the financial statements.

Certification of the financial statements

pursuant to art. 81-ter of CONSOB Regulation 11971 dated 14 May 1999 and subsequent amendments and additions

The undersigned Fabio De'Longhi, Chief Executive Officer, and Stefano Biella, Financial Reporting Officer of De'Longhi S.p.A., attest, also taking account of the provisions of paragraphs 2, 3 and 4, art. 154-bis of Decree 58 dated 24 February 1998:

- that the accounting and administrative processes for preparing the financial statements during 2007 are adequate in relation to the enterprise's characteristics and
- have been effectively applied.

It is also certified that the financial statements at 31 December 2007:

- correspond to the underlying accounting records and books of account;
- have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union and with the measures implementing art. 9 of Decree 38/2005, and, based on our knowledge, are able to provide a true and fair view of the issuer's balance sheet, results of operations and financial position.

Fabio De'Longhi	Stefano Biella
Chief Executive Officer	Financial Reporting Officer

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

Company name	Registered office		Share capital		Net equity		Latest reported profit or (loss)	Interest held (directly)	Book value
Subsidiary companies									€/000
De'Longhi Appliances S.r.l.	Treviso	Eur	200,000,000	Eur	296,147,299	Eur	59,860,256	100%	242,678
De'Longhi Household S.A.	Luxembourg (L)	Eur	181,730,990	Eur	246,662,088	Eur	7,485,645	100%	241,737
De'Longhi Professional S.A.	Luxembourg (L)	Eur	30,205,000	Eur	111,736,922	Eur	5,140,264	100%	111,205
De'Longhi Capital Services S.r.l. (1)	Treviso	Eur	53,000,000	Eur	67,722,701	Eur	3,397,627	11.32%	6,005
Clim.Re S.A. (2)	Luxembourg (L)	Eur	1,239,468	Eur	3,109,784	Eur	421,279	4%	54
E-Services S.r.l.	Treviso	Eur	50,000	Eur	2,222,271	Eur	938,353	51%	26
Total									**601,705**

(*) Figures relating to the financial statements at 31 December 2007 drawn up under international accounting standards and used for consolidation purposes, unless otherwise specified.

(1) 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.
(2) The other 96% interest is held indirectly.

Changes in equity investments

Equity investments	Book value at 31 December 2006	Acquisitions, subscriptions and recapitalizations	Transfer to De'Longhi Professional S.A.	Net impairment losses and reversals	Spin-off to De'Longhi Appliances S.r.l.	Book value at 31 December 2007
Subsidiary companies						
De'Longhi Appliances S.r.l. (ex La Supercalor S.p.A.)	2,933	239,745	-	-	-	242,678
De'Longhi Household S.A.	241,737	-	-	-	-	241,737
De'Longhi Professional S.A.	1,200	80,000	30,005	-	-	111,205
De'Longhi Capital Services S.r.l.	6,005	-	-	-	-	6,005
Clim.Re S.A.	54	-	-	-	-	54
E-Services S.r.l.	26	-	-	-	-	26
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	5,429	-	-	-	(5,429)	-
De'Longhi France S.a.r.l.	2,440	-	-	-	(2,440)	-
De'Longhi Electrodomesticos Espana S.L.	1,179	-	-	(626)	(553)	-
De'Longhi Canada Inc.	762	-	-	-	(762)	-
De'Longhi Ltd	-	-	-	-	-	-
De'Longhi America Inc.	18,836	-	-	-	(18,836)	-
Elle S.r.l.	110	-	-	(110)	-	-
De'Longhi Bosphorus Ev Aletleri Ticaret Anonim Sirketi	636	-	-	-	(636)	-
De'Longhi Praha S.r.o.	-	7	-	-	(7)	-
Total subsidiary companies	**319,033**	**319,752**	**-**	**(736)**	**(36,344)**	**601,705**
Associated companies						
Emer S.p.A.	3,025	-	-	-	(3,025)	-
Effegici S.r.l.	-	-	-	-	-	-
Total associated companies	**3,025**	**-**	**-**	**-**	**(3,025)**	**-**
Other companies						
Other minor investments	605	-	-	-	(605)	-
Total other companies	**605**	**-**	**-**	**-**	**(605)**	**-**
Total	**322,663**	**319,752**	**-**	**(736)**	**(39,974)**	**601,705**

Transactions and balances with related parties

Income statement
pursuant to CONSOB Resolution 15519 of 27 July 2006

(€/000)		31.12.2007	of which with related parties	31.12.2006	of which with related parties
Revenues from sales and services	(1)	211,172	90,644	480,787	200,453
Other operating income and revenues	(1)	18,264	11,608	29,924	18,064
Total net revenues		**229,436**		**510,711**	
Raw and ancillary materials, consumables and goods	(2)	(154,600)	(89,488)	(304,814)	(175,673)
Change in inventories of finished products and work in progress	(3)	5,717		(11,706)	
Change in inventories of raw and ancillary materials, consumables and goods	(3)	12,245		(3,162)	
Materials consumed		**(136,638)**		**(319,682)**	
Payroll costs	(4)	(25,749)		(48,653)	
Services and other operating expenses	(5)	(60,715)	(11,777)	(130,140)	(30,160)
Contingency and other provisions	(6)	(3,668)		(6,409)	
Other non-recurring income (expenses)	(7)	(5,952)	(3,243)	3,934	
Amortization and depreciation	(8)	(6,897)		(13,623)	
EBIT		**(10,183)**		**(3,862)**	
Financial income (expenses)	(8)	5,395	15,017	12,568	35,127
EARNINGS BEFORE TAX (EBT)		**(4,788)**		**8,706**	
Income taxes for the year	(10)	7,701		5,140	
PROFIT (LOSS) AFTER TAXES		**2,913**		**13,846**	

Balance sheet
pursuant to CONSOB Resolution 15519 of 27 July 2006

Assets

(€/000)	Notes	31.12.2007	of which with related parties	31.12.2006	of which with related parties
NON-CURRENT ASSETS					
INTANGIBLE ASSETS	(11)	-	-	105,260	-
- Goodwill		-	-	4,771	-
- Other intangible assets		-	-	100,489	-
PROPERTY, PLANT AND EQUIPMENT		63,167	-	107,872	-
- Land, property, plant and machinery	(12)	62,347	-	92,102	-
- Other tangible assets	(13)	820	-	15,770	-
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		603,509	-	326,589	-
- Equity investments (in subsidiary companies)	(14)	601,705	-	319,033	-
- Equity investments (in associated companies)		-	-	3,025	-
- Equity investments (in other companies)		-	-	605	-
- Receivables	(15)	1,804	1,804	3,926	3,889
DEFERRED TAX ASSETS	(16)	3,034	-	4,100	-
TOTAL NON-CURRENT ASSETS		**669,710**	**-**	**543,821**	**-**
CURRENT ASSETS					
INVENTORIES	(17)	-	-	96,707	-
TRADE RECEIVABLES	(18)	6,485	5,711	184,191	127,048
CURRENT TAX ASSETS	(19)	10,658	-	9,407	-
OTHER RECEIVABLES	(20)	32,371	9,385	13,729	7,915
CURRENT FINANCIAL RECEIVABLES AND ASSETS	(21)	-	-	38,861	38,849
CASH AND CASH EQUIVALENTS	(22)	368	-	25,629	-
TOTAL CURRENT ASSETS		**49,882**	**-**	**368,524**	**-**
NON-CURRENT ASSETS HELD FOR SALE	(23)	5,858	-	-	-
NON-CURRENT ASSETS HELD FOR SALE		**5,858**	**-**	**-**	**-**
TOTAL ASSETS		**725,450**	**-**	**912,345**	**-**

Balance sheet
pursuant to CONSOB Resolution 15519 of 27 July 2006

Net equity and liabilities

(€/000)		31.12.2007	of which with related parties	31.12.2006	of which with related parties
NET EQUITY					
NET EQUITY		519,087	-	525,189	-
- Share capital	(24)	448,500	-	448,500	-
- Reserves	(25)	67,674	-	62,843	-
- Profit (loss) for the year		2,913	-	13,846	-
NON-CURRENT LIABILITIES					
FINANCIAL PAYABLES		62,381	-	98,302	-
- Bank loans and borrowings (long-term portion)	(26)	59,158	-	88,958	-
- Other financial payables (long-term portion)	(27)	3,223	-	9,344	-
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		10,438	-	31,147	-
- Employee benefits	(28)	2,381	-	13,684	-
- Other provisions	(29)	8,057	-	17,463	-
TOTAL NON-CURRENT LIABILITIES		**72,819**	**-**	**129,449**	**-**
CURRENT LIABILITIES					
TRADE PAYABLES	(30)	3,896	323	131,184	52,947
FINANCIAL PAYABLES		116,619	-	86,090	-
- Bank loans and borrowings (short-term portion)	(26)	29,872	-	75,104	-
- Other financial payables (short-term portion)	(27)	86,747	80,616	10,986	6,243
CURRENT TAX LIABILITIES	(31)	1,923	-	2,560	-
OTHER PAYABLES	(32)	11,106	8,999	37,873	-
TOTAL CURRENT LIABILITIES		**133,544**	**-**	**257,707**	**-**
TOTAL NET EQUITY AND LIABILITIES		**725,450**	**-**	**912,345**	**-**

Transactions and balances with related parties

Summary by company

(€/million)	Revenues from sales and services	Other operating income and revenues	Raw and ancillary materials, consumables, goods and services (3)	Other non-recurring income (expenses)
Ultimate parent companies:				
De' Longhi Soparfi S.A.	-	0.4	-	-
Total ultimate parent companies (a)	**-**	**0.4**	**-**	**-**
Subsidiary companies: (1)				
De'Longhi America Inc.	2.5	-	(0.3)	(0.1)
De'Longhi Japan Corporation	3.8	-	(0.1)	-
De'Longhi Household S.A.	-	-	(1.0)	-
De'Longhi Canada Inc.	7.0	-	(0.2)	-
De'Longhi France S.a.r.l.	12.6	-	(0.7)	-
De'Longhi Deutschland GMBH	16.9	(0.2)	(3.0)	-
De'Longhi Appliances S.r.l.	0.5	3.3	(0.2)	(3.0)
De'Longhi Professional S.A.	-	-	-	-
De'Longhi Nederland B.V.	7.2	-	(0.9)	-
Ariete S.p.A.	-	0.2	(0.1)	0.1
DL Radiators S.p.A.	1.1	0.8	-	-
De'Longhi LLC	3.1	-	-	-
Climaveneta S.p.A.	-	0.2	-	-
Climaveneta Home System S.r.l.	2.4	1.3	(0.8)	(0.1)
E-Services S.r.l.	-	0.5	(1.1)	(0.1)
Elle S.r.l.	0.3	0.1	-	-
De'Longhi Capital Services S.r.l.	-	0.1	(0.8)	-
DL Trading (Shenzen) Co. Ltd	0.3	-	-	-
DL Trading Limited	0.3	1.4	(69.2)	-
Tricom Ind. Co. Ltd.	2.2	0.4	(12.8)	-
Promised Success Ltd	0.3	0.7	(0.1)	-
Kenwood Manufacturing Gmbh	-	-	(0.8)	-
Kenwood Plc Singapore Pte Ltd	0.2	-	-	-
R.C. Group S.p.A.	-	-	-	-
De'Longhi Eletrodomesticos Espana	8.9	(0.2)	(0.1)	-
DL New Zealand Limited	2.6	-	(0.1)	-
DL Australia PTY Limited	7.0	-	(0.8)	-
DL – TCL Holdings (HK) Ltd	-	-	(0.5)	-

Financial income and expenses	Non-current financial receivables	Trade and other receivables (4)	Current financial receivables	Trade and other payables (5)	Current financial payables
-	-	0.2	-	-	-
-	**-**	**0.2**	**-**	**-**	**-**
-	-	-	-	-	-
0.1	0.2	-	-	-	-
13.3	-	0.9	-	-	-
-	0.1	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	2.8	-	(3.1)	-
4.5	-	-	-	-	-
-	-	-	-	-	-
(0.2)	0.2	1.5	-	-	-
(0.1)	0.1	0.3	-	(0.9)	-
-	-	-	-	-	-
-	-	4.9	-	(0.2)	-
-	-	0.5	-	(0.8)	-
0.2	-	0.8	-	-	-
(0.2)	-	-	-	-	-
(2.5)	-	-	-	(4.2)	(80.6)
-	-	-	-	-	-
0.3	0.7	0.2	-	-	-
-	-	0.1	-	-	-
-	0.1	0.2	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	1.9	-	-	-
(0.6)	-	-	-	-	-
-	0.1	-	-	-	-
0.1	0.1	-	-	-	-
-	-	-	-	-	-

Transactions and balances with related parties

Summary by company

(€/million)	Revenues from sales and services	Other operating income and revenues	Raw and ancillary materials, consumables, goods and services (3)	Other non-recurring income (expenses)	Fin
De'Longhi Bosphorus	0.6	-	(0.1)	-	
Kenwood Limited	8.9	2.4	(6.4)	-	
Clim. Re. S.A.	-	-	-	-	
Alabuga International S.A.	-	-	-	-	
Zass Alabuga LLC	0.1	0.2	-	-	
Kenwood South Africa	1.7	-	(0.1)	-	
Total subsidiary companies (b)	**90.5**	**11.6**	**(100.2)**	**(3.2)**	
Total associated companies (c)	**-**	**-**	**-**		
Total subsidiary and associated companies (b+c)	**90.5**	**11.6**	**(100.2)**	**(3.2)**	
Related companies:					
Omas S.r.l. (2)	-	-	(0.3)	-	
Max Information S.r.l.	-	-	(0.4)	-	
Mokarabia S.p.A.	0.1	-	(0.4)	-	
Total related companies (d)	**0.1**	**-**	**(1.1)**	**-**	
Total ultimate parent, subsidiary, associated and related companies (a+b+c+d)	**90.6**	**11.6**	**(101.3)**	**(3.2)**	

(1) These mostly refer to dealings of a commercial nature and the supply of administrative services by company employees.
(2) 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 €0.05 million, based on a valuation prepa
(3)This consists of €89.5 million in "Raw and ancillary materials, consumables and goods" and €11.8 million in "Services and other operating expenses".
(4)This consists of €5.7 million in "Trade receivables" and €9.4 million in "Other receivables".
(5)This consists of €0.3 million in "Trade payables" and €9.0 million in "Other payables".
In addition to the amounts reported above the following other transactions took place with related parties: professional fees were paid to the firm of Biscozzi e Nobili for legal and tax advic
€0.4 million to Giuseppe De'Longhi (Chairman of the Board of Directors) for the cost of services incurred.

ancial income and expenses	Non-current financial receivables	Trade and other receivables (4)	Current financial receivables	Trade and other payables (5)	Current financial payables
-	-	-	-	-	-
-	-	0.8	-	-	-
(0.1)	-	-	-	-	-
0.1	0.1	-	-	-	
-	-	-	-	-	-
0.1	0.1		-	-	-
15.0	**1.8**	**15.1**	**-**	**(9.2)**	**(80.6)**
-	**-**	**-**	**-**	**-**	**-**
15.0	**1.8**	**15.1**	**-**	**(9.2)**	**(80.6)**
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	(0.1)	-
-	**-**	**-**	**-**	**(0.1)**	**-**
15.0	**1.8**	**15.1**	**-**	**(9.3)**	**(80.6)**

ared by independent experts.

e provided in 2007. More information can be found in appendix 3 to the explanatory notes: "Emoluments of directors and statutory auditors". Also during the year, the company recharged

Emoluments of directors and statutory auditors

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

(€/000)

Name	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	01.01.07/31.12.09	Approval annual report 2009	505	-	-	14 (1)
Fabio De'Longhi	Vice Chairman and Chief Executive Officer	01.01.07/31.12.09	Approval annual report 2009	629 (2)	-	-	17 (3)
Dario Melò	Director and Chief Operating Officer	01.01.07/12.07.07	/	220 (5)	-	-	267 (1) 4 (3)
Alberto Clò	Director	01.01.07/31.12.09	Approval annual report 2009	40	-	-	2 (6)
Renato Corrada	Director	01.01.07/31.12.09	Approval annual report 2009	40	-	-	2 (6)
Silvia De'Longhi	Director	12.07.07/31.12.09	Approval annual report 2009	20 (4)		-	-
Carlo Garavaglia	Director	01.01.07/31.12.09	Approval annual report 2009	40	-	-	6 (6)
Giorgio Sandri	Director	01.01.07/31.12.09	Approval annual report 2009	40	-	-	-
Silvio Sartori	Director	01.01.07/31.12.09	Approval annual report 2009	40	-	-	18 (1)
Giovanni Tamburi	Director	01.01.07/31.12.09	Approval annual report 2009	40	-	-	5 (6)
Gianluca Ponzellini	Chairman of the Board of Statutory Auditors	01.01.07/31.12.09	Approval annual report 2009	60	-	-	-
Giuliano Saccardi	Standing member	01.01.07/31.12.09	Approval annual report 2009	40	-	-	-
Massimo Lanfranchi	Standing member	01.01.07/31.12.09	Approval annual report 2009	40	-	-	-
Key management personnel				2,029	-	-	-

(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 transferable back to De'Longhi S.p.A..
(4) This amount relates to the period July-December 2007.
(5) This amount relates to the period in which Dario Melò held office in De'Longhi S.p.A.. Mr. Melò was subsequently appointed as Chief Executive Officer of De'Longhi Appliances S.r.l..
(6) Attendance fees relating to membership of the Compensation Committee and/or 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 2007.

Stock options granted to directors

(article 78 CONSOB Regulation 11971 of 14 May 1999)

The exercise period for the stock option plan expired on 28 February 2006 without anyone having exercised their related options.

Fees paid to the external auditors

Disclosure pursuant to art. 149-duodecies of the CONSOB Issuer Regulations

(€/000)

Type of service	Party performing the service	Recipient	Fees earned in 2007
Auditing	PricewaterhouseCoopers S.p.A.	De'Longhi Spa (parent company)	196
	PricewaterhouseCoopers S.p.A.	Italian subsidiaries	544
	Network of parent company auditor	Foreign subsidiaries	688
Other services (*)	Network of parent company auditor	Foreign subsidiaries	586

(*) Include due diligence, tax advice and other services.

External auditors' report on the financial statements

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 of 31 December 2007, which comprise the income statement, the balance sheet, statement of changes in equity, cash flow statement 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.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our audit opinion.

For the opinion on the financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to our report dated 2 April 2007.

3 In our opinion, the financial statements of De'Longhi SpA as of 31 December 2007 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 equity and cash flows of De'Longhi SpA for the year then ended.

Padua, 4 April 2008

PricewaterhouseCoopers SpA

Signed by
Nicola Piovan
(Partner)

This report has been translated from the original which was issued in accordance with Italian legislation We have not examined the translation of the financial statements referred to in this report

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