De'Longhi S.p.A.

Annual report at 31 december 2008

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Contents

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.
The shareholders' meeting of 22 April 2008 appointed Silvia De'Longhi as a director, having been co-opted to the Board on 12 July 2007.
** 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 global economy experienced a great lack of continuity in 2008.
Before this the world had undergone cycles of enormous change, although always accompanied by growth and development, investment and optimism.
Now, in the space of just a few months, the global scenario has completely changed, leaving no nation, market, sector or business unaffected.
Falling demand, pessimism, fear and tight credit are impacting profit and loss accounts, business plans and levels of investment; all of a sudden the drive for growth has been transformed into the opposite.
While De'Longhi will not be immune to this situation, the company will confront it with the knowledge that its past efforts will allow it to face the current scenario with the greatest possible tranquillity and optimism.
In the past three years De'Longhi has reduced its net debt to a record low (-€246,5 million), completed investments in its manufacturing bases in China and Russia and finished building the factory in Treviso which makes automatic coffee and Nespresso machines; its sales have climbed by €275 million to exceed €1,530 million; not only has it boosted operating profitability from €80 million to €110 million, but above all it has consolidated its world leadership in portable heating and air conditioning and achieved leadership in food preparation with the Kenwood brand and in expresso coffee machines with the De'Longhi brand, while the Professional division has maintained its number one position in Europe in the production of centralized thermo-cooling machines under the Climaveneta brand. Most of all, it boasts its strongest range of products and innovations ever. The Group will therefore focus even more attention on long-term objectives: growth, margins, controlling working capital and optimizing investments.
Particular emphasis will be placed on cost control, organizational agility, production efficiency and product distribution, allowing the Group to get through the crisis and be ready to restart with even more drive and energy as soon as the economy shows signs of improvement.

Group annual report and financial statements

Report on operations

The economic and financial context in 2008 was dominated by the deepening of the crisis which started in the United States and subsequently spread to Europe and the rest of the world, giving rise to uncertainty in every sector of the economy and a general fall in consumption in our major markets.
Despite this uncertainty, the De'Longhi Group closed the year with revenues of €1,533.4 million, reporting an increase of €42.5 million (+2.9%) on 2007 or €85.2 million (+5.7%) at constant exchange rates.
EBITDA was €162.9 million (€145.4 million in 2007), of which €151.1 million from ordinary operations and €11.8 million from non-recurring items.

The Group faced this difficult market by focusing on its established leadership and brand notoriety as well as the quality of its product range which, thanks to research, offers the very latest in technology and design; most of the revenues came from businesses in which the Group has an established leadership position, namely espresso coffee machines and other small kitchen appliances for food preparation and cooking.

Revenues continued to perform well in the fourth quarter of 2008, although growth was lower than in the twelve months as a whole, reflecting greater instability in consumption; fourth-quarter profits were affected by the depreciation of certain currencies in which the Group operates and the negative trend in the price of raw materials.

In terms of individual market performance, sales in Europe were higher with a particular improvement in Germany, Holland, Spain and other West and East European countries thanks to continued strong demand for coffee machines; even sales in the "Rest of the world" were up thanks to kitchen and food preparation products (coffee machines, food processors and other small domestic appliances) and cleaning products.

These results were achieved thanks to growth by both the Professional division and the Household division; of the two the latter was the stronger performer thanks to double-digit growth by coffee machines, seemingly impervious to economic conditions, and good results for small kitchen appliances, mostly by the Kenwood brand.

The Household division reported €1,136.8 million in revenues, posting an increase of €25.8 million (+2.3%) or €65.1 million (+5.9%) at constant exchange rates; on a consistent comparative basis and so ignoring the Corporate division (which was set up only from July 2007), revenue growth at actual exchange rates was 2.8%.
EBITDA before non-recurring expenses increased by €5.0 million to €119.7 million (+4.4%), reporting a margin of 10.5%, up from 10.3% in 2007 (or 10.1% if adjusted to include the Corporate division's results).

The Professional division reported €411.2 million in revenues, posting an increase of 1.2% despite the adverse effect of exchange rates due to depreciation of the British pound (revenue growth was 2.1% at constant exchange rates).
EBITDA before non-recurring expenses came to €36 million, with the margin slipping from 10.3% in 2007 to 8.8% in 2008 mainly because of lower profits at the subsidiary which produces and distributes water-filled radiators due to depreciation of the British pound and a rise in the price of raw materials.

Consolidated EBIT came to €111.3 million (with the margin climbing from 7.0% to 7.3%) and includes impairment losses of €6.8 million recognized against the goodwill allocated to the cash-generating unit of the subsidiary which produces and distributes water-filled radiators and of €2.3 million recognized against property, plant and equipment after reorganizing certain Group companies.

The result after taxes was a profit of €40.2 million, an improvement of €9.6 million on 2007.

The Group's net financial position reported net borrowings of €246.5 million at year end, €109.4 million lower than at 31 December 2007. This improvement reflected the Group's strategies for reducing its financial exposure, involving a reduction in working capital and the sale of certain assets no longer regarded as strategic to its core business.

Financial highlights

Highlights from the consolidated income statement and balance sheet will now be presented.

Consolidated income statement - highlights

(€/million)	2008	% of revenues	2007	% of revenues	Change	% change
Revenues	1,533.4	100.0%	1,490.9	100.0%	42.5	2.9%
Revenues at constant exchange rates (*)	1,576.1		1,490.9		85.2	5.7%
Gross profit	603.5	39.4%	586.4	39.3%	17.1	2.9%
EBITDA before non-recurring income/expenses	151.1	9.9%	156.3	10.5%	(5.2)	(3.3%)
EBITDA (**)	162.9	10.6%	145.4	9.7%	17.6	12.1%
EBIT (**)	111.3	7.3%	103.7	7.0%	7.6	7.3%
Profit for the period pertaining to the Group	40.2	2.6%	30.6	2.1%	9.6	31.4%

(*) Revenues at constant exchange rates have been determined by translating 2008 revenues in currencies other than the Euro at the average rates for 2007.
(**) This document contains a number of alternative performance indicators, presented to help better evaluate the Group's performance. EBIT reports earnings before interest and tax, while EBITDA reports EBIT before depreciation, amortization and impairment.

Consolidated balance sheet - highlights

(€/million)	31.12.2008	31.12.2007
Net working capital	356.3	363.4
Net capital employed	908.7	986.5
Net financial position	(246.5)	(355.9)
Net financial position/Net equity	37.2%	56.4%
Net working capital/net revenues	23.2%	24.4%

The figures contained in this document, including some of the percentages, have been rounded relative to their full Euro amount. As a result, some of the totals in the tables may differ from the sum of the individual amounts presented.

Macroeconomic scenario

The macroeconomic scenario in 2008 was dominated by the deepening economic and financial crisis which started in the United States and subsequently spread to Europe and the rest of the world.
The US economy reported a steep contraction in domestic demand especially after the collapse of Lehman Brothers and resulting intensification of the credit crunch. The crisis in consumption was accompanied by a collapse in stock markets and in property prices and a rise in unemployment.

GDP growth in Italy turned negative (the estimated annual average change in 2008 was -0.6%), and even forecasts for 2009 are not positive, even though the lower indebtedness of Italian households relative to other countries (above all the USA and UK) could help moderate the intensity of economic slowdown.

Interest rates

Central banks have responded to the crisis by adopting an expansionary monetary policy.
The Federal Reserve cut the Fed Funds Target rates from 4.25% to between 0% and 0.25%. Similarly the Bank of England cut its base rate from 5.50% to 2.00%.
After the rate cuts in October and November, the European Central Bank decided to reduce its minimum refinancing rate still further, from 3.25% to 2.50% (and now to 1.5%).

Euro-zone money market rates also reported a falling trend, especially in the fourth quarter: 3-month Euribor hit a peak of 5.4% in October, only to slide to 2.9% at year end, and continuing to head down in 2009 to under 2%.

Currency markets

The first six months of 2008 witnessed a sharp appreciation of the Euro against the US dollar, with the exchange rate staying firmly above 1.50, subsequently sliding back to a range of 1.25 – 1.30 (except for a brief period at 1.40 towards year end). The British pound continued the depreciation started at the end of 2007, with a sharp acceleration in the fourth quarter when it reached a record low of 0.98 against the euro.
As far as Asian currencies were concerned, the deepening global crisis caused the Japanese yen to appreciate - because of the repatriation of capital held by Japanese investors abroad – and the Chinese yuan (or renminbi) to stop appreciating against the US dollar, which will affect economic relations between these two countries and hence also the dynamics of world trade.

Rationalization of the Group's structure

An operation was completed on 28 August 2008 to spin off the "property" activities of De'Longhi S.p.A. to a specific company, Gamma S.r.l., a wholly-owned subsidiary which approved an increase in capital to service this transfer.
This operation formed part of the De'Longhi Group's reorganization process started in 2007. This stage of the project sought to "demerge" from the parent company the operations represented by its property-related assets and liabilities, basically associated with the management and maintenance of three industrial buildings let to other Group companies.

In December the interest in Gamma S.r.l. was sold to a company classified as a related party. This sale helped optimize the Group's financial resources at a time of particular financial market distress by improving its net financial position, realizing a capital gain and disposing of a non-core business.
This transaction made reference to the consultation document "Rules for implementing article 2391–bis of the Italian Civil Code concerning related-party transactions"; under these rules significant transactions that require the approval of the Board of Directors must be conducted under procedures that ensure a key role for the independent directors both at the approval stage and in the negotiation and evaluation stage, in order to ensure the substantial fairness of such transactions and stronger internal control.
The sale of this investment generated an overall net cash benefit of €67.2 million for the consolidated financial position.
The consolidated income statement includes a gross capital gain of €5.9 million from this sale or €4.6 million after tax.

Receipt from insurance company of claim relating to the fire in April 2007

In September 2008 the loss adjusters appointed by De'Longhi and Assicurazioni Generali prepared their final reports on the claim resulting from the fire on 18 April 2007; the claim was settled on 9 September 2008 with the payment of €39 million, on top of the advance received in 2007.

Results by business segment

Following the Group's reorganization, its Household and Professional divisions have been joined by the Corporate division, which principally comprises the activities of the parent company De'Longhi S.p.A. and certain subsidiaries which provide the Group with corporate services.
The Group's results of operations by segment are summarized in the following table:

	2008				2007		
(€/million)	Household	Professional	Corporate	Consolidated total	Household	Professional	Consolidated total
Revenues	1,136.8	411.2	17.3	**1,533.4**	1,111.1	406.2	**1,490.9**
Change 2008/2007	*25.8*	*5.0*					
% change	*2.3%*	*1.2%*					
Revenues at constant exchange rates	1,176.2	414.5	17.3	1,576.1	1,111.1	406.2	1,490.9
Change 2008/2007 at constant exchange rates	*65.1*	*8.4*					
% change	*5.9%*	*2.1%*					
EBITDA before non-recurring expenses	119.7	36.0	(3.9)	151.1	114.7	41.7	156.3
Change 2008/2007	*5.0*	*(5.7)*					
% of revenues	*10.5%*	*8.8%*		*9.9%*	*10.3%*	*10.3%*	*10.5%*
EBITDA	111.8	35.3	16.6	162.9	104.6	40.9	145.4
Change 2008/2007	*7.2*	*(5.7)*					
% of revenues	*9.8%*	*8.6%*		*10.6%*	*9.4%*	*10.1%*	*9.7%*
EBIT	78.7	19.3	13.9	111.3	71.0	32.9	103.7
Change 2008/2007	*7.7*	*(13.5)*					
% of revenues	*6.9%*	*4.7%*		*7.3%*	*6.4%*	*8.1%*	*7.0%*

Total segment revenues are reconciled to the consolidated figures by eliminating certain intersegment transactions, amounting to €32.0 million in 2008 and €26.3 million in 2007. Segment EBITDA and EBIT are reconciled to the consolidated figures by eliminating certain intersegment transactions, amounting to €0.7 million in 2008 and €0.2 million in 2007.

Household

This division's revenues were 2.3% higher than in 2007 (+2.8% considering that the Household division's 2007 results also included those of the Corporate division); this was primarily thanks to double-digit sales growth for De'Longhi espresso coffee machines and to sales of small kitchen appliances, mostly Kenwood ones, which proved their resistance to the adverse market conditions.
Revenue growth would have been €65.1 million at constant exchange rates (+5.9% on 2007).

The Household division's sales of air-conditioning and heating products were affected by unfavourable weather conditions; as a result, the incidence of seasonal products decreased significantly, with their sales accounting for 21% of consolidated revenues in 2008 compared with 25% in 2007.

EBITDA before non-recurring expenses was €119.7 million, posting an improvement of €5.0 million (+4.4%) on the figure of €114.7 million in 2007. Movements by the major currencies generated a net positive result over the year as a whole, although this was considerably reduced in the fourth quarter largely because of devaluation of the British pound.

Professional

This division reported a 1.2% increase in revenues thanks to the contribution of large thermo-cooling systems despite the negative impact caused by devaluation of the British pound; revenue growth at constant exchange rates would have been 2.1%.

EBITDA before non-recurring expenses was €36 million in 2008 (€41.7 million in 2007); this was particularly affected by performance in the radiators market, which suffered the negative effects of devaluation by the British pound and of 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)	2008	2007	Change	% change
Italy	300.2	318.7	(18.4)	(5.8%)
United Kingdom	133.6	146.9	(13.4)	(9.1%)
Rest of Europe	734.5	656.6	77.9	11.9%
United States, Canada and Mexico	99.5	119.3	(19.8)	(16.6%)
Rest of the world	265.6	249.3	16.3	6.5%
Total	**1,533.4**	**1,490.9**	**42.5**	**2.9%**

De'Longhi continued to expand in its principal European markets, while also entering new ones; Italy continued to be the top market although its share of total revenues came down to 19.6% from 21.4% in 2007.

Sales in Italy reflected growth in espresso coffee machines and industrial heating products, thanks to the launch of a new range of column radiators, but contraction in portable air-conditioning and heating units due to adverse weather conditions.

Sales in the United Kingdom were affected by the depreciation of the local currency and would have reported 3.7% growth at constant exchange rates.

Sales in the "Rest of Europe" grew in double digits, especially thanks to continued, strong demand for coffee machines in Germany, Holland, Spain and other West and East European countries, to sales of small domestic appliances in Russia and to increased sales of electric radiators in France.

Sales in North America were affected by the negative economic climate and adverse trends in exchange rates.

Sales in the "Rest of the world" were higher, particularly thanks to coffee machines, small domestic appliances and large thermo-cooling systems on the Chinese market.

Group results

The reclassified consolidated income statement is presented below:

(€/million)	2008	% of revenues	2007	% of revenues
Revenues	**1,533.4**	**100.0%**	**1,490.9**	**100.0%**
Change 2008/2007	*42.5*	*2.9%*		
Materials consumed & other production costs (services and production payroll costs)	(929.9)	(60.6%)	(904.5)	(60.7%)
Gross profit	**603.5**	**39.4%**	**586.4**	**39.3%**
Services & other expenses	(321.0)	(20.9%)	(307.4)	(20.6%)
Value added	**282.5**	**18.4%**	**279.0**	**18.7%**
Payroll (non-production)	(115.5)	(7.5%)	(108.4)	(7.3%)
Provisions	(15.9)	(1.0%)	(14.3)	(1.0%)
EBITDA before non-recurring income/expenses	**151.1**	**9.9%**	**156.3**	**10.5%**
Change 2008/2007	*(5.2)*	*(3.3%)*		
Other non-recurring income (expenses) (*)	11.8	0.8%	(10.9)	(0.7%)
EBITDA	**162.9**	**10.6%**	**145.4**	**9.7%**
Amortization and depreciation	(42.6)	(2.8%)	(41.7)	(2.8%)
Non-recurring impairment losses (*)	(9.1)	(0.6%)	-	-
EBIT	**111.3**	**7.3%**	**103.7**	**7.0%**
Change 2008/2007	*7.6*	*7.3%*		
Financial income (expenses)	(52.6)	(3.4%)	(51.3)	(3.4%)
Profit before taxes	**58.6**	**3.8%**	**52.4**	**3.5%**
Taxes	(18.3)	(1.2%)	(21.1)	(1.4%)
Profit (loss) after taxes	**40.4**	**2.6%**	**31.3**	**2.1%**
Profit (loss) pertaining to minority interests	0.2	0.0%	0.7	0.0%
Profit (loss) pertaining to the Group	**40.2**	**2.6%**	**30.6**	**2.1%**

(*) Net non-recurring income reported in different lines of the income statement totals €2.7 million in 2008.

The gross profit reported in the reclassified income statement differs by €139.4 million at 31 December 2008 (€136.8 million at 31 December 2007) from the consolidated income statement because of the reclassification of production-related payroll and service costs from payroll and services respectively in order to achieve a better presentation of period performance.

Gross profit improved by €17.1 million from €586.4 million in 2007 to €603.5 million in 2008 (with the margin going from 39.3% to 39.4%, confirming the significant improvement already achieved in 2007), demonstrating the Group's ability to maintain its earnings even at less favourable times like at present; this result benefited from the product mix and the positive effect of currency movements (especially by the US dollar); the currency benefit, however, was considerably diminished in the last quarter due to the devaluation of the British pound.

Non-production payroll costs were €7.0 million higher, going from 7.3% of revenues in 2007 to 7.5% in 2008; this change primarily reflects a different scope of consolidation and the costs of renewing the collective contract for the Group's Italian employees.

EBITDA before non-recurring expenses came to €151.1 million, with the margin slipping from 10.5% in 2007 to 9.9% in 2008, reflecting €87.9 million in advertising and promotions (€84.5 million in 2007) in support of the launch and development of new products in keeping with medium-term strategic goals.

Other non-recurring income (expenses) report a net positive €11.8 million, most of which refers to the capital gain on the spin-off and subsequent sale of property operations, and the insurance refund relating to the fire in 2007, as partially offset by non-recurring costs for restructuring certain production and commercial activities.

Impairment losses of €9.1 million include the recognition of €6.8 million in impairment to the goodwill allocated to the cash-generating unit of the subsidiary which produces and distributes water-filled radiators; this company's negative and lower-than-expected results in 2008 have caused its forecasts to be prudently revised down, resulting in lower expected cash flows and reduced ability to cover its capital employed. However, this company is still thought to have a valid business model, based on the technical and industrial know-how deriving from past major investments and on its extensive presence on international markets.
The impairment losses also include €2.3 million in lower value for assets of certain subsidiaries recognized as a result of their reorganization in 2008.

EBIT amounted to €111.3 million, up €7.6 million (+7.3%) on 2007.

Net financial expenses were €1.3 million higher at €52.6 million, reflecting higher average interest rates than in the prior year, wider spreads applied by banks due to the liquidity crisis and larger exchange losses.

Taxes came to €18.3 million, of which €5.2 million for IRAP, Italy's regional business tax (€5.7 million in 2007) and €7.3 million in benefits arising from the realignment of certain tax and accounting values in the year by De'Longhi S.p.A. and some of its Italian subsidiaries.

After tax, the profit pertaining to the Group was €40.2 million, an increase of €9.6 million on 2007.

Review of the balance sheet and financial position

The reclassified consolidated balance sheet is presented below:

(€/million)	31.12.2008	31.12.2007	Change	% change
Intangible assets	414.5	421.4	(7.0)	(1.7%)
Property, plant and equipment	178.5	248.4	(69.9)	(28.1%)
Financial assets	5.0	4.8	0.1	2.8 %
Deferred tax assets	42.2	34.8	7.3	21.1%
Non-current assets	**640.1**	**709.4**	**(69.4)**	**(9.8%)**
Inventories	320.5	335.2	(14.7)	(4.4%)
Trade receivables	367.2	378.0	(10.8)	(2.9%)
Other current assets	38.0	63.8	(25.8)	(40.4%)
Trade payables	(286.2)	(333.7)	47.5	(14.2%)
Other current liabilities	(83.1)	(79.9)	(3.2)	4.0 %
Net working capital	**356.3**	**363.4**	**(7.0)**	**(1.9%)**
Total non-current liabilities and provisions	(87.7)	(86.2)	(1.4)	1.7 %
Net capital employed	**908.7**	**986.5**	**(77.8)**	**(7.9%)**
Net financial position (*)	**246.5**	**355.9**	**(109.4)**	**(30.7%)**
Total net equity	**659.9**	**625.2**	**34.7**	**5.6 %**
Total net borrowings and equity	**908.7**	**986.5**	**(77.8)**	**(7.9%)**

(*) Net financial position includes €5.0 million in net financial assets (€18.2 million in net financial liabilities at 31 December 2007) relating to the change in the fair value of derivatives and to the recognition of a call option relating to an equity investment.

The decrease of €69.4 million in non-current assets reflects the sale of assets no longer forming part of the Group's core business under the transactions described earlier. Investments in property, plant and equipment and intangible assets amounted to €44.8 million (€46.2 million in 2007).

The decrease of €7.0 million in net working capital (€4.2 million net of factoring receivables without recourse) benefited from the Group's actions to reduce inventories and manage trade receivables effectively as well as from the receipt of the insurance claim for the fire in 2007. Net working capital turnover went from 24.4% of revenues in 2007 to 23.2% in 2008 (ignoring the benefits of factoring receivables without recourse, this ratio went from 32.9% in 2007 to 31.7% in 2008).

Trade receivables amounted to €367.2 million, 2.9% lower than at 31 December 2007.

Inventories amounted to €320.5 million, down €14.7 million on the end of 2007.

The net financial position reported net borrowings of €246.5 million at 31 December 2008, €109.4 million less than at the end of 2007 thanks to the Group's strategies for reducing its financial exposure, involving a reduction in working capital (inventories and receivables) and the sale of certain assets no longer regarded as strategic to its core business; in fact, the net cash benefit of selling the subsidiary which manages some of the Group's industrial buildings was €67.2 million (more details can be found in the earlier paragraph on rationalization of the Group's structure).

The Group obtained new long-term finance for €55 million in 2008, extending the life of its borrowings which comprised €85.2 million in short-term positions at 31 December 2008 (€184 million in 2007) and €161.3 million in long-term positions (€171.9 million in 2007).

The cash flow statement is summarized in a condensed format as follows:

(€/million)	**2008**	**2007**
Cash flow generated (absorbed) by current operations	91.0	101.7
Cash flow generated (absorbed) by other changes in working capital	(39.6)	(36.6)
Cash flow generated (absorbed) by current operations and changes in working capital	**51.3**	**65.1**
Cash flow absorbed by ordinary investment activities	(42.7)	(40.6)
Cash flow generated (absorbed) by operating activities	**8.7**	**24.4**
Non-recurring cash flow (*)	103.2	(43.4)
Cash flow generated (absorbed) by changes in equity accounts	(2.5)	(22.3)
Cash flow for the period	**109.4**	**(41.3)**
Opening net financial position	(355.9)	(314.6)
Closing net financial position	**(246.5)**	**(355.9)**

(*) Includes cash flow generated (absorbed) by extraordinary investment activities and effects relating to the fire on 18 April 2007.

Cash flow generated by current operations and changes in working capital amounted to €51.3 million (€65.1 million in 2007).

Cash flow generated by operating activities amounted to €8.7 million (€24.4 million in 2007) after making €44.8 million in ordinary gross investments (€46.2 million in 2007).

Cash flow was affected by €103.2 million in non-recurring events relating to the sale of assets no longer forming part of the Group's core business, net of acquisitions of new equity investments, plus the receipt of the insurance claim in connection with the fire.

Changes in equity accounts absorbed €2.5 million in cash flow (€22.3 million in 2007) mainly as a result of the dividend payment (€9.0 million).

Organizational changes

Distribution structure

The Group continued to diversify its markets in 2008 by enhancing its distribution capacity and entering new markets. A new commercial office was opened in Croatia, while the new office in Brazil will start operating in the first quarter of 2009.

As for the Italian market, some major changes were made in the Household division relative to the past; the distribution structure was simplified, going from four separate agent networks by brand and product category, to a single commercial organization, responsible for managing the entire brand and product portfolio for the Italian market.
The back offices for Italy were combined as a result and market monitoring activities stepped up with the introduction of the new trade marketing function.

Production structure

During 2008 both the operations area at the Mignagola factory, specializing in the production of high-end coffee machines, and the subsidiary which produces and sells water-filled radiators, both started experimenting with the Kaizen continual improvement approach in order to achieve more process synergies.
These projects entailed specific training both for management and operations staff in the concepts of continual improvement and lean manufacturing, with the goal of reducing waste and achieving greater process synergies, involving a change not only in cultural terms but also in industrial method and model.
Following initial training, work on the production lines and in other operational areas was started, with the related teams comprising staff with a variety of different skills from many areas of the business, productive and otherwise.
At the same time, staff in the operations area received training in leadership, conflict management and motivational skills, as well as product updates in order to focus the attention of all staff on the issue of quality.

The process of rationalization started in the prior year at the Chinese heating and cooking appliance factories continued in 2008, with improved efficiency and cost savings partly making up for the sharp increase in raw material prices in the year.
Space and resources freed up as a result of this rationalization were used to start production of new types of products: electric barbecues at one plant and ironing systems at another.

The Russian factory started manufacturing food preparation appliances in 2008, resulting in better utilization of space and resources, which were heavily influenced in the past by the seasonality of producing just oil-filled radiators.

Industrial plan and development and organization activities

During 2008 the subsidiary De'Longhi Appliances started redundancy proceedings at the plant in Gorgo al Monticano as a result of having to reorganize in the face of ever tougher international competition; certain cleaning appliance production lines were terminated, while the ironing system lines were transferred to other plants in the Group; it was also decided to centralize all the injection-moulding-screen, printing and assembly activities for sub-Groups at the factory in Mignagola (Treviso), in order to consolidate these stages of production with the assembly ones already performed at this principal factory.

Other Group companies reorganized in 2008 to make their operations more efficient; the subsidiary Ariete reorganized activities at its Campi Bisenzio office in the Florence area with the goal of reducing fixed overheads; it was also decided to reorganize the activities of the Group's distribution offices for the Household division in Portugal and Spain, by centralizing certain functions.

Research and development - new products - communication

The Group continued to invest in research and development in 2008. The Group has over 300 staff working on R&D at a total cost of some €32 million in 2008 (€29 million in 2007), of which €9.3 million capitalized as new product development costs.

This activity is performed by R&D units working on innovation and quality control. These units have worked 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 products match up to market expectations.
The introduction of numerous new product features has been fundamental to strengthening the Group's leadership as a multi-specialist in the various markets in which it operates.
During 2008 development activities permitted the market launch of numerous products, both designed and manufactured in-house and purchased from outside.

Communication activities in 2008 focused heavily on De'Longhi products; the Nespresso "Lattissima" coffee machine completed its launch on international markets during the year; the new "Perfecta" series in the fully-automatic range was launched in 2008, while the new "Prima Donna Avant" debuted in Germany and Austria, supported by a major TV advertising campaign in the last part of the year.

Quality

We continued our quality policy in 2008, aimed at achieving customer satisfaction by monitoring the quality of finished products, particularly with regard to the principal products/markets, and by ensuring that technical offices are suitably informed about product quality in order to allow specific quality plans to be adopted.

Human resources and organization

The De'Longhi Group had 6,738 employees at 31 December 2008 (7,113 at 31 December 2007).

The following table summarizes the average number of employees during 2008 compared with 2007:

	2008	%	2007	%	Difference
Blue collar	4,491	60%	4,820	63%	(329)
White collar	2,847	38%	2,661	35%	186
Executives	122	2%	126	2%	(4)
Total	**7,460**	**100%**	**7,607**	**100%**	**(147)**

	2008	%	2007 pro-forma (*)	%	Difference
Household	5,639	76%	5,914	78%	(275)
Professional	1,735	23%	1,609	21%	126
Corporate	86	1%	84	1%	2
Total	**7,460**	**100%**	**7,607**	**100%**	**(147)**

(*) The segment figures have been restated in view of the revision of the segments in 2007.

The Group had an average of 7,460 employees during 2008, 147 fewer than the year before. This reduction was the product of different trends in the Group's various divisions.

The average number of employees in the Household division fell from 5,914 in 2007 to 5,639 in 2008 after completing the restructuring of the De'Longhi Appliances production platform, which had commenced at the start of 2005 with the application to access the special state-funded redundancy fund for two-year period (ending on 10 April 2007). The operations in China reduced their headcount by an average of over 220 employees, partly as a result of consolidating local organization and continual process improvements, while the number of staff in the UK subsidiary and in the commercial offices both increased after enhancing existing structures and opening/acquiring operations in new countries.

The average number of employees in the Professional division rose from 1,609 in 2007 to 1,735 in 2008, mostly as a result of changes in the scope of consolidation in the thermo-cooling business following the acquisition of Top Clima.

The Group continued to invest in developing organization and key competencies, arranging various people development initiatives with the goal of improving collaboration and open communication between superiors and staff, and between different areas of the business, and of having a team of motivated, competent people who know how to be part of and work as a team, which are key success factors in difficult economic and market circumstances like at present.

Still with reference to the development of human resources, the Group's various Italian businesses undertook team building exercises as well as specific training in economic and financial matters for various people in the Marketing and Sales department; technical staff received specialist training with the goal of improving their mould design skills, while management skills training was given to the Group's executives (management of staff / performance evaluation interviews and feedback), and to intermediate heads of production.

The assessment programme continued in 2008 for certain key people and others with potential; this programme, which is based on assessing existing and expected competencies, is designed to define career paths for the Group's key resources, supported by targeted work experience, coaching and training.

Formal performance appraisal was started for executives and middle management, particularly in the Group's Italian companies.
This process, introduced with a specific training programme, is part of the wider project to develop and motivate the Group's key people and is designed to promote a continuous process of target-setting and performance measurement and evaluation, accompanied by feedback, career development and discussion between staff and superiors.

Environment

The Group's goal is to pursue its business strategies in harmony with the environment in order to ensure the sustainable development of its activities in line with the best expectations of both the global and local community; ever more complex market demands have been satisfied in absolute respect for people and the environment, by offering the community increasingly eco-friendly products and services and by organizing production activities so as to ensure environmental compatibility and safety.
In order to achieve this goal, the Group has adopted an environmental policy, involving all those who work directly and indirectly with the business, starting from the top; this policy has been implemented through the technology selected for products, processes and investments, through continual improvement activities, through observance of laws and regulations, through active response to technical guidance provided by the authorities by contributing to their implementation and effective application and through continuous training programmes.
Group companies have long been active in spreading their environmental message; their efforts have been rewarded with the receipt of prestigious awards from authoritative institutional organisms for European hi-tech businesses.
De'Longhi is a full member of the European Committee of Domestic Equipment Manufacturers (CECED) and has adopted its Code of Conduct under which it has committed to comply with all applicable environmental regulations wherever it operates.
The De'Longhi Group's intention has been communicated to all stakeholders by the Board of Directors in the Ethical Code adopted by the parent company in 2003, point 7 of whose specific principles ("Environmental protection") states: "T*he company's business is based on the principle of safeguarding the environment and public health, in compliance with specific applicable regulations*."

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 para. 2, art. 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 other 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 three 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 appointed by the shareholders' meeting of 22 April 2008), which set the total number of directors at 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 art. 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.

During 2008 the Board of Directors:
- approved an updated version of the internal dealing procedures pursuant to para. 8a), art.152-*octies* of the CONSOB Regulation 11971/99 and to the Code of Conduct for Listed Companies;
- approved a revision of the General Part of the Organization and Management Model under Decree 231 dated 8 June 2001;
- approved the Special Part of the Organization and Management Model under Decree 231 dated 8 June 2001.

In its meeting on 13 November 2008 the Board of Directors of De'Longhi S.p.A. also renewed the list of "strategically important subsidiaries" identifying them as De'Longhi Appliances S.r.l., Ariete S.p.A., Climaveneta S.p.A., De'Longhi Capital Service S.r.l., DL Radiators S.p.A. and RC Group 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 2009, 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 art. 147-*quater* and art. 148-*ter* 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. This document is 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 Internal Auditing and Corporate Governance Committee and
- the Compensation Committee.

The Internal Auditing and Corporate Governance Committee met six times in 2008, with average attendance by 83% of its members. These meetings were also attended by the Chairman of the Board of Statutory Auditors or, if absent, by another standing statutory auditor, while the committee also extended invitations, according to its agenda, to the internal control officer and other members of the internal audit department, the financial reporting officer and the head of corporate affairs.

The Compensation Committee held one meeting in 2008 which was attended by all its members.
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 appointment of an executive director to supervise the functionality of the internal control system, who was granted the following powers:

a) to identify the principal business risks (taking account of the type of business conducted by the company and its subsidiaries) and to submit such risks to the periodic review of the Board;
b) to implement the "Guidelines" approved by the Board, seeing to the design, implementation and management of internal controls, and to constantly check their overall adequacy, effectiveness and efficiency in compliance with the "Guidelines"; to revise such controls for operating conditions and changes in the legislative and regulatory framework;
c) to submit for Board approval the nomination, revocation and remuneration of the internal control officers.

The Board of Directors has also appointed a Financial Reporting Officer.
In accordance with art. 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.

Art. 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.

Compliance with Part VI of the regulations on market discipline implementing Decree 58 of 24 February 1998 ("Market Regulations").

De'Longhi S.p.A. has direct or indirect control over seven companies established and regulated under the law of non-EU countries, qualifying as material for the purposes of para. 2, art. 36 of the Market Regulations.
With reference to the requirements of art. 36 of the Market Regulations, it is reported as follows:
-in the Issuer's opinion, these companies have suitable accounting and reporting systems for regularly providing management and the auditors of De'Longhi S.p.A. with the income statement, balance sheet and financial data needed to prepare the consolidated financial statements;
- the auditors of De'Longhi S.p.A. have been provided with the information needed to audit its interim and annual financial statements;
- the issuer keeps the articles of association of the aforementioned companies and details of their company officers and related powers, which are constantly updated for any changes in the same;
- the financial statements of such companies, prepared for the purposes of the De'Longhi Group's consolidated financial statements, have been made available in the manner and terms established by existing law.

Principal risks and uncertainties facing the Group

The principal risks and uncertainties facing the Group are described below.

Macroeconomic risk

The Group's results of operations, balance sheet and financial position are also affected by macroeconomic trends such as: the trend in consumption, the cost of raw materials, the trend in interest rates and exchange rates.
The economic statistics (Source: Confindustria) indicate a negative trend in global GDP both for European countries and emerging ones. Some of the indicators for February reveal an even steeper decline in business activity than in December.
Interest rates continue to fall and there will be further cuts in the official rate, considering the continued decline in inflation and the euro-zone's persistently deep recession.
The picture emerging from this situation is therefore an uncertain one; if this situation should protract considerably, the Group's strategies and outlook could be affected with a consequent impact on its financial and economic performance.

Market risks

The Group operates predominantly on international markets, including emerging ones and through joint venture agreements; it is therefore exposed to local economic conditions and policies, the introduction of limitations or restrictions on foreign investment and related restrictions on repatriation of capital, on imports and exports.
The emergence of adverse political and economic events in such markets could have a negative impact on the Group's results and balance sheet, which could be sustained thanks to the diversification of its product range and its markets.

Interest rate and exchange rate risks

Transaction 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 is carried out centrally by a special team 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.

The principal currencies to which the Group is exposed are the US dollar, being the currency in which a significant part of the cost of raw materials, parts and finished products is denominated, the British pound for sales on the UK market and the Japanese yen (EUR/JPY rate) for sales on the Japanese market.

Translation exchange rate risk

The Group has controlling equity interests in companies which prepare their financial statements in currencies other than the euro; the Group is therefore exposed to a translation risk associated with the impact on consolidated net equity caused by fluctuations in exchange rates by certain currencies against the consolidation currency. The principal exposures are monitored but such risks are not hedged under the Group's current policies.

Any unforeseen fluctuations in exchange rates could have a negative impact on the Group's results, balance sheet and financial position.

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 2008 was at floating rates following the decision to obtain the maximum benefit from the downward trend in interest rates.

Any increase in interest rates could have a negative impact on the Group's economic and financial performance; to date, rates have nonetheless followed a declining trend, which is not expected to reverse in 2009.

Financial market risks

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 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 the centralized management of financial payables and cash, the raising of medium and long-term finance on capital markets and the obtaining of short-term credit lines such as to ensure wide room for manoeuvre when managing working capital and cash flows.

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.

Credit risk

The Group is exposed to credit risk both on its trading relationships and on its liquidity investment activities. Commercial credit risk is monitored using formal procedures for selecting and assessing customers, for defining credit limits, for monitoring expected receipts and for their possible recovery.
Credit risk is partly mitigated by insurance policies with major insurers, and in certain cases by additional guarantees required of customers, principally in the form of sureties.

The current annual report has been prepared on a going concern basis. The uncertainties associated with the current macroeconomic context and the problems relating to the risks described above have been judged not significant and in any case not such as to cast significant doubt on the business's ability to continue as a going concern.

More details on the Group's risk management can be found in the Explanatory notes.

Shares held by directors, statutory auditors, general managers and key management personnel (Art. 79 CONSOB Regulations approved in Resolution 11971 of 14.5.1999)

As required by article 79 of the CONSOB Regulations approved in Resolution 11971 of 14 May 1999, the following information relates to shares held by directors, statutory auditors, general managers and key management personnel of De'Longhi S.p.A. and its subsidiaries.

Name	Name of company in which shares held	No. shares held at 31.12.2007 (*)	Purchases in 2008	Sales in 2008	No. shares held at 31.12.2008 (*)
Fabio De'Longhi	De'Longhi S.p.A.	447,570	-	-	447,570
Giorgio Sandri	De'Longhi S.p.A.	30,750	-	-	30,750
Massimo Lanfranchi	De'Longhi S.p.A.	750	-	-	750
Key management personnel	De'Longhi S.p.A.	10,600	-	-	10,600

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

Related-party transactions

Related-party transactions fall within the normal course of business by Group companies, except for the property spin-off described earlier in this report.

Information on related-party transactions is summarized in Appendix 3 to the Explanatory notes.

Subsequent events

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

Outlook for the current year

The global economic recession and the limited visibility for an upturn dictate extreme caution.
However, the Group believes that it can rely on its leadership in various segments and on its constant drive for innovation, as well as benefit from a stronger balance sheet after reducing its debt.

Treviso, 12 March 2009

For the Board of Directors
Vice Chairman and Chief Executive Officer
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	31.12.2008	of which non-recurring	31.12.2007
Revenues from sales and services	1	1,503,592		1,462,920
Other revenues	1	29,809		27,976
Total consolidated net revenues		**1,533,401**		**1,490,896**
Raw and ancillary materials, consumables and goods	2	(786,599)	(21)	(799,322)
Change in inventories of finished products and work in progress	3	3,073	(109)	18,962
Change in inventories of raw and ancillary materials, consumables and goods	3	(6,958)	-	12,664
Materials consumed		**(790,484)**	**(130)**	**(767,696)**
Payroll costs	4	(190,347)	(389)	(179,717)
Services and other operating expenses	5	(389,666)	(3,555)	(372,886)
Provisions	6	(22,424)	(6,567)	(14,322)
Other income (expenses)	7	22,461	22,461	(10,920)
Amortization, depreciation and impairment	8	(51,689)	(9,082)	(41,666)
EBIT		**111,252**	**2,738**	**103,689**
Financial income (expenses)	9	(52,607)		(51,297)
PROFIT (LOSS) BEFORE TAXES		**58,645**		**52,392**
Income taxes for the year	10	(18,256)		(21,140)
PROFIT (LOSS) AFTER TAXES		**40,389**		**31,252**
Profit (loss) pertaining to minority interests		229		688
PROFIT (LOSS) PERTAINING TO THE GROUP		**40,160**		**30,564**
EARNINGS PER SHARE				
- basic		**0.27**		**0.20**
- diluted		**0.27**		**0.20**

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	31.12.2008	31.12.2007
NON-CURRENT ASSETS			
INTANGIBLE ASSETS		414,462	421,437
- Goodwill	11	228,716	232,410
- Other intangible assets	12	185,746	189,027
PROPERTY, PLANT AND EQUIPMENT		178,488	241,835
- Land, property, plant and machinery	13	135,768	202,573
- Other tangible assets	14	42,720	39,262
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		7,532	7,373
- Equity investments (in associated companies)	15	2,628	2,628
- Equity investments (in other companies)	15	714	731
- Receivables	16	1,623	1,469
- Other non-current financial assets	17	2,567	2,545
DEFERRED TAX ASSETS	18	42,153	34,804
TOTAL NON-CURRENT ASSETS		**642,635**	**705,449**
CURRENT ASSETS			
INVENTORIES	19	320,464	335,194
TRADE RECEIVABLES	20	367,180	377,982
CURRENT TAX ASSETS	21	17,174	22,067
OTHER RECEIVABLES	22	20,842	41,710
CURRENT FINANCIAL RECEIVABLES AND ASSETS	23	18,203	8,186
CASH AND CASH EQUIVALENTS	24	109,162	107,368
TOTAL CURRENT ASSETS		**853,025**	**892,507**
NON-CURRENT ASSETS HELD FOR SALE	25	-	6,519
NON-CURRENT ASSETS HELD FOR SALE		**-**	**6,519**
TOTAL ASSETS		**1,495,660**	**1,604,475**

Consolidated balance sheet

Net equity and liabilities

(€/000)	Notes	31.12.2008	31.12.2007
NET EQUITY			
GROUP PORTION OF NET EQUITY		659,929	625,220
- Share capital	26	448,500	448,500
- Reserves	27	171,269	146,156
- Profit (Loss) pertaining to the group		40,160	30,564
MINORITY INTERESTS	27	2,346	5,458
TOTAL NET EQUITY		**662,275**	**630,678**
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES		161,289	171,870
- Bank loans and borrowings (long-term portion)	28	143,514	141,026
- Other financial payables (long-term portion)	29	17,775	30,844
DEFERRED TAX LIABILITIES	18	21,501	19,181
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		66,170	67,051
- Employee benefits	30	30,502	35,721
- Other provisions	31	35,668	31,330
TOTAL NON-CURRENT LIABILITIES		**248,960**	**258,102**
CURRENT LIABILITIES			
TRADE PAYABLES	32	286,177	333,669
FINANCIAL PAYABLES		215,103	302,099
- Bank loans and borrowings (short-term portion)	28	197,350	273,219
- Other financial payables (short-term portion)	29	17,753	28,880
CURRENT TAX LIABILITIES	33	30,502	24,286
OTHER PAYABLES	34	52,643	55,641
TOTAL CURRENT LIABILITIES		**584,425**	**715,695**
TOTAL NET EQUITY AND LIABILITIES		**1,495,660**	**1,604,475**

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	31.12.2008	31.12.2007 (**)
Profit (loss) pertaining to the group		40,160	30,564
Income taxes for the year		18,256	21,140
Capital gain on sale of equity investments	7	(5,929)	-
Net capital losses (gains) relating to the fire		(14,941)	5,934
Amortization, depreciation and impairment	8	51,689	41,666
Net change in provisions		1,729	2,375
Cash flow generated (absorbed) by current operations (A)		**90,964**	**101,679**
Change in assets and liabilities for the period:			
Trade receivables	20	9,588	(20,928)
Inventories	19	14,730	(3,455)
Trade payables		(45,912)	3,471
Other current assets and liabilities		3,866	(764)
Payment of income taxes		(21,908)	(14,945)
Cash flow generated (absorbed) by movements in working capital (B)		**(39,636)**	**(36,621)**
Cash flow generated (absorbed) by current operations and movements in working capital (A+B)		**51,328**	**65,058**
Investment activities:			
Investments in intangible assets	12	(11,302)	(10,330)
Other cash flows for intangible assets		(576)	(790)
Investments in property, plant and equipment	13, 14	(33,518)	(35,892)
Other cash flows for property, plant and equipment		216	6,610
Net investments in equity investments and other financial assets		(145)	(212)
Cash flow generated (absorbed) by ordinary investment activities (C)		**(45,325)**	**(40,614)**
Proceeds from sale of property activities and buildings held for sale		73,740	-
of which cash flows with related parties		*67,221*	
Other non-recurring cash flows (*)		29,469	(24,623)
Total non-recurring cash flows (D)		**103,209**	**(24,623)**
Dividends paid	27	(8,970)	(8,970)
Change in currency translation reserve	27	(3,672)	(6,759)
Increase (decrease) in minority interests in capital and reserves		244	421
New loans		55,186	8,400
Repayment of loans and other net changes in sources of finance		(150,206)	1,503
Cash flow generated (absorbed) by changes in equity accounts and by financing activities (E)		**(107,418)**	**(5,405)**
Increase (decrease) in cash and cash equivalents (A+B+C+D+E)		**1,794**	**(5,584)**
Opening cash and cash equivalents	**24**	**107,368**	**112,952**
Increase (decrease) in cash and cash equivalents (A+B+C+D)		1,794	(5,584)
Closing cash and cash equivalents	**24**	**109,162**	**107,368**

Consolidated cash flow statement

(in terms of Net financial position)

(€/000)	Notes	31.12.2008	31.12.2007 (**)
Profit (loss) pertaining to the group		40,160	30,564
Income taxes for the year		18,256	21,140
Capital gain on sale of equity investments	7	(5,929)	-
Net capital losses (gains) relating to the fire		(14,941)	5,934
Amortization, depreciation and impairment	8	51,689	41,666
Net change in provisions		1,729	2,375
Cash flow generated (absorbed) by current operations (A)		**90,964**	**101,679**
Change in assets and liabilities for the period:			
Trade receivables	20	9,588	(20,928)
Inventories	19	14,730	(3,455)
Trade payables		(45,912)	3,471
Other current assets and liabilities		3,866	(764)
Payment of income taxes		(21,908)	(14,945)
Cash flow generated (absorbed) by movements in working capital (B)		**(39,636)**	**(36,621)**
Cash flow generated (absorbed) by current operations and movements in working capital (A+B)		**51,328**	**65,058**
Investment activities:			
Investments in intangible assets	12	(11,302)	(10,330)
Other cash flows for intangible assets		2,093	(790)
Investments in property, plant and equipment	13, 14	(33,518)	(35,892)
Other cash flows for property, plant and equipment		216	6,610
Net investments in equity investments and other financial assets		(145)	(212)
Cash flow generated (absorbed) by ordinary investment activities (C)		**(42,656)**	**(40,614)**
Proceeds from sale of property activities and buildings held for sale		73,740	-
of which cash flows with related parties		*67,221*	
Other non-recurring cash flows (*)		29,469	(43,374)
Total non-recurring cash flows (D)		**103,209**	**(43,374)**
Fair value and cash flow hedge reserves		9,927	(7,024)
Dividends paid	27	(8,970)	(8,970)
Change in currency translation reserve	27	(3,672)	(6,759)
Increase (decrease) in minority interests in capital and reserves		244	421
Cash flow generated (absorbed) by changes in equity accounts (E)		**(2,471)**	**(22,332)**
Cash flow for the period (A+B+C+D+E)		**109,410**	**(41,262)**
Opening net financial position	**29**	**(355,866)**	**(314,604)**
Cash flow for the period (A+B+C+D+E)		109,410	(41,262)
Closing net financial position	**29**	**(246,456)**	**(355,866)**

(*) These include cash flows for acquiring equity investments and the effects of the fire on 18 April 2007. These amounts were presented separately in the previously published cash flow statement at 31 December 2007.
(**) For the purposes of standardizing the classification criteria, some reclassifications have been made within the cash flows from ordinary operations and movements in working capital in order to highlight cash flows relating to income taxes.

Statement of changes in consolidated net equity at 31 december 2008 and 31 december 2007

(€/000)	Share capital	Share premium reserve	Legal reserve	Other Reserves
Balance at 31 December 2006	**448,500**	**325**	**5,593**	**44,192**
Allocation of 2006 result as per AGM resolution of 18 April 2007				
- payment of dividends				
- allocation to reserves			692	4,184
Movements from transactions with shareholders	**-**	**-**	**692**	**4,184**
Movement in fair value and cash flow hedge reserve				
Difference from conversion of foreign companies' financial statements into euro				
Gains (losses) recognized directly in net equity	**-**	**-**	**-**	**-**
Profit for the year				
Balance at 31 December 2007	**448,500**	**325**	**6,285**	**48,376**
Allocation of 2007 result as per AGM resolution of 22 April 2008				
- payment of dividends				(8,970)
- allocation to reserves			145	2,767
Change in scope of consolidation				
Movements from transactions with shareholders	**-**	**-**	**145**	**(6,203)**
Movement in fair value and cash flow hedge reserve				
Difference from conversion of foreign companies' financial statements into euro				
Gains (losses) recognized directly in net equity	**-**	**-**	**-**	**-**
Profit for the year				
Balance at 31 December 2008	**448,500**	**325**	**6,430**	**42,173**

	Fair value and cash flow hedge reserve	Translation differences	Profit (loss) carried forward	Profit (loss) pertaining to group	Group portion of net equity	Minority interests	Total net equity
	(1,525)	**(15,346)**	**94,053**	**39,776**	**615,568**	**5,037**	**620,605**
				(8,970)	(8,970)	(181)	(9,151)
			25,930	(30,806)	-		-
	-	**-**	**25,930**	**(39,776)**	**(8,970)**	**(181)**	**(9,151)**
		(5,183)			(5,183)		(5,183)
		(6,759)			(6,759)	(86)	(6,845)
	(5,183)	**(6,759)**	**-**	**-**	**(11,942)**	**(86)**	**(12,028)**
				30,564	30,564	688	31,252
	(6,708)	**(22,105)**	**119,983**	**30,564**	**625,220**	**5,458**	**630,678**
					(8,970)	(230)	(9,200)
			27,652	(30,564)	-		-
					-	(3,356)	(3,356)
	-		**27,652**	**(30,564)**	**(8,970)**	**(3,586)**	**(12,556)**
		7,192				7,192	
		(3,673)			(3,673)	245	(3,428)
	7,192	**(3,673)**	**-**	**-**	**3,519**	**245**	**3,764**
				40,160	40,160	229	40,389
	484	**(25,778)**	**147,635**	**40,160**	**659,929**	**2,346**	**662,275**

Explanatory notes

Group business

The De'Longhi Group is headed up by De'Longhi S.p.A., a company with its registered office in Treviso whose shares are listed on the Italian stock exchange run by Borsa Italiana.
The companies included in the scope of consolidation are listed in Appendix 2 to the Explanatory Notes.

The Group was reorganized during 2007 in order to improve its market positioning and competitiveness; as a result, its two traditional Household and Professional divisions have been joined by the Corporate division, which principally comprises the activities of the parent company De'Longhi S.p.A. and other subsidiaries providing the Group with corporate services.
De'Longhi S.p.A. has therefore become a holding company for the two divisions, with the functions of setting strategy, of control, co-ordination and management of centralized activities and resources.

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.

Accounting standards

The De'Longhi Group's consolidated financial statements at 31 December 2008 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 2008), 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 to complement 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 2008 are the same as those used for preparing the consolidated financial statements at 31 December 2007.

In October 2008 the IASB issued an amendment to IAS 39 – "Financial instruments: recognition and measurement" and to IFRS 7 – "Financial instruments: disclosures", allowing the possibility of reclassifying certain financial instruments. This amendment, endorsed by the European Union and applicable from 1 July 2008, has not had any impact on the present financial statements because the Group has not made any of the permitted reclassifications.

IFRIC 14 – "IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction" was endorsed in December 2008 and is applicable from 1 January 2008. Its application has not had any impact on the measurement or classification of the contents of the financial statements.

The Group is evaluating the impact, if any, of adopting certain new standards, which will be applicable from 1 January 2009:

- IAS 1 (revised) – "Presentation of financial statements"
- IAS 23 (revised) – "Borrowing costs"
- IAS 27 (revised) – "Consolidated and separate financial statements - Cost of investments in subsidiaries, joint ventures and associates"
- IAS 32 (revised) – "Financial instruments: presentation"
- IFRS 2 (revised) – "Share-based payment"
- IFRS 8 – "Operating segments", in replacement of "IAS 14 - Segment reporting"
- IFRIC 13 – "Customer loyalty programmes".

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 reclassifications have been made to the previously published cash flow statement for 2007, details of which can be found in the footnotes to this statement.

This report is presented in euro, with all amounts rounded to thousands of euro, unless otherwise indicated.

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 2008, 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.
Minority interests represent the portion of profit or loss and of net equity not held by the Group and are reported separately in the income statement and in the balance sheet, where they are presented as part of equity but separately from the Group portion.

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.

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:

		31.12.2008		31.12.2007		Change	
Currency		Year-end exchange rate (*)	Average exchange rate (*)	Year-end exchange rate (*)	Average exchange rate (*)	Year-end exchange rate (*)	Average exchange rate (*)
US dollar	USD	1.39170	1.47076	1.47210	1.37048	(5.5%)	7.3%
British pound	GBP	0.95250	0.79629	0.73335	0.68434	29.9%	16.4%
Hong Kong dollar	HKD	10.78580	11.45410	11.48000	10.69120	(6.0%)	7.1%
Chinese renminbi (yuan)	CNY	9.49560	10.22360	10.75240	10.41780	(11.7%)	(1.9%)
Australian dollar	AUD	2.02740	1.74162	1.67570	1.63484	21.0%	6.5%
Canadian dollar	CAD	1.69980	1.55942	1.44490	1.46785	17.6%	6.2%
Japanese yen	JPY	126.14000	152.45400	164.93000	161.25300	(23.5%)	(5.5%)
Malaysian ringgit	MYR	4.80480	4.88933	4.86820	4.70757	(1.3%)	3.9%
New Zealand dollar	NZD	2.41910	2.07695	1.90240	1.86273	27.2%	11.5%
Polish zloty	PLN	4.15350	3.51210	3.59350	3.78370	15.6%	(7.2%)
South African rand	ZAR	13.06670	12.05900	10.02980	9.65959	30.3%	24.8%
Singapore dollar	SGD	2.00400	2.07619	2.11630	2.06355	(5.3%)	0.6%
Russian rouble	RUB	41.28300	36.42070	35.98600	35.01830	14.7%	4.0%
Turkish lira	TRY	2.14880	1.90639	1.71700	1.78648	25.1%	6.7%
Czech koruna	CZK	26.87500	24.94630	26.62800	27.76560	0.9%	(10.2%)
Croatian kuna	HRK	7.35550	7.22389	7.33080	7.33756	0.3%	(1.5%)
Brazilian real	BRL	3.24360	2.67373	2.61078	2.66379	24.2%	0.4%
Swiss franc	CHF	1.48500	1.58739	1.65470	1.64272	(10.3%)	(3.4%)

(*) source: Bank of Italy

Change in the scope of consolidation

The principal changes in the scope of consolidation are as follows:

Spin-off of property activities to Gamma S.r.l. and subsequent sale to third parties

An operation was completed on 28 August 2008 to spin off the "property" activities of De'Longhi S.p.A, comprising the assets and liabilities involved in managing and maintaining three industrial buildings let to other Group companies, to a specific company, Gamma S.r.l., a wholly-owned subsidiary which approved an increase in capital to service this transfer.

This operation formed part of the De'Longhi Group's reorganization process started in 2007. This stage of the project sought to "demerge" from the parent company the operations represented by its assets and liabilities, basically associated with the management and maintenance of three industrial buildings let to other Group companies.

In December the interest in Gamma S.r.l. was sold for €14.7 million to a company classified as a related party, being owned through nominees by members of the De'Longhi family with a minority interest held by De'Longhi Soparfi SA., the majority shareholder of De'Longhi S.p.A..
This sale helped optimize the Group's financial resources at a time of particular financial market distress by improving its net financial position and realizing a capital gain while disposing of a non-core business.

This transaction, qualifying as a related-party transaction, made reference to the consultation document "Rules for implementing article 2391–*bis* of the Italian Civil Code concerning related-party transactions"; under these rules significant transactions that require the approval of the Board of Directors must be conducted under procedures that ensure a key role for the independent directors both at the approval stage and in the negotiation and evaluation stage, in order to ensure the substantial fairness of such transactions and stronger internal control.
The Board of Directors of De'Longhi S.p.A. therefore appointed one of the independent directors to manage this process and the negotiations with the assistance of an independent expert to provide an opinion on the transaction's value; the transaction was also presented for evaluation by the Internal Auditing and Corporate Governance Committee, comprising non-executive directors the majority of whom are independent.

The sale transaction was then approved by the Board of Directors of De'Longhi S.p.A., taking into account the proposals by the independent director in charge of the negotiations, as supported by the valuation by the independent expert, and the favourable opinion of the Internal Auditing and Corporate Governance Committee.
The consolidated income statement for the Corporate segment includes a gross capital gain of €5,929 thousand, classified in "Other income (expenses)".

The overall benefit for the net financial position was €67,221 thousand, comprising the sale price of €14,700 thousand, received in full on the transaction date, and full repayment of the loan contracted by Gamma S.r.l. with the De'Longhi Group for €53,647 thousand, net of the company's cash and cash equivalents of €1,126 thousand on the sale date.

The main effects of this transaction on the balance sheet are as follows:

Balance sheet impact of property spin-off (€/000)	
Property, plant and equipment	(65,558)
Non-current assets	**(65,558)**
Current tax assets	(137)
Other receivables	(15)
Cash and cash equivalents	13,575
Current assets	**13,423**
Total assets	**(52,135)**
Net equity (*)	**5,929**
Deferred tax liabilities	(1,954)
Provisions for contingencies and other charges	(52)
Financial payables	(53,647)
Non-current liabilities	**(55,653)**
Trade payables	(1,580)
Other payables	(831)
Non-current liabilities	**(2,411)**
Total liabilities	**(52,135)**

(*) This amount refers to the capital gain realized on the spin-off and subsequent sale of the equity investment and excludes the associated tax of €1,318 thousand.

Acquisition of remaining shares in the RC Group:

During 2008 De'Longhi purchased from third parties the remaining shares in the RC Group, a manufacturer and seller of equipment for cooling mobile radio stations, for the precision cooling of computer and fixed telephony rooms, of liquid refrigeration systems and heat pumps.
This Group was already 83.3% controlled and has been consolidated line-by-line since 1 October 2006.

The value of this transaction was €5,350 thousand, for €764 thousand in net assets acquired (with an overall impact of €7,940 thousand on net financial position, including the related borrowings of €2,590 thousand).

This acquisition has involved recognizing €4,586 thousand in goodwill, determined as follows:

Total transaction value (*)	5,350
(Fair value of assets and liabilities acquired)	(764)
Goodwill	4,586

(*) This refers to the purchase of the equity interest; the transaction also involved repaying a shareholder loan of €2,650 thousand.

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

	Book value	Value recognized under IFRS
Equity investments	3,000	3,356
Cash and cash equivalents	60	60
Total assets	**3,060**	**3,416**
Liabilities	2,652	2,652
Contingent liabilities	-	-
Total liabilities	**2,652**	**2,652**
Net assets	**408**	**764**

Equity investments in joint ventures

The Group holds 50% interests in a number of joint ventures, listed in Appendix 2, whose assets, liabilities, revenues and expenses are consolidated in proportion to the interest held.

The portion of assets, liabilities, revenues and expenses of joint ventures included in the consolidated financial statements at 31 December 2008 and 2007 is as follows:

(€/000)	31.12.2008	31.12.2007
Current assets	16,335	14,815
Non-current assets	6,946	5,676
Total assets	**23,281**	**20,491**
Current liabilities	10,310	11,346
Non-current liabilities	15	243
Total liabilities	**10,325**	**11,589**
Net assets	**12,956**	**8,902**
Operating revenues	29,329	26,295
Operating costs	(26,481)	(24,083)
Financial expenses	362	1,010
Taxes	(362)	(149)
Profit after tax	**2,848**	**3,073**

Segment reporting

The primary reporting format consists of the Corporate, 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, the Group has the intention and resources to complete them, the technical feasibility of completing them is such that they will be available for use, and the 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 as incurred.

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, if they have a finite life, on a straight-line basis over their estimated useful life, generally between 10 and 20 years.

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

These 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. Allowances 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 recognized at fair value, corresponding to the consideration paid plus all directly attributable acquisition 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; if such risks and rewards are not substantially transferred or retained, the Group derecognizes the assets when it no longer has control of them.

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 financial assets acquired mainly for the purpose of selling them in the near term, those designated at fair value upon initial recognition if so permitted, or those for which the fair value option may be exercised.
Financial assets in this category are measured at fair value (or at cost, if they are unlisted or if the fair value is not reliable or cannot be determined, as adjusted for any impairment losses calculated in accordance with IAS 39); the related changes in fair value during the period of ownership are recorded in the income statement. Financial instruments in this category 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. Trade receivables are discounted to present value if their payment terms are longer than the average ones generally granted.
If there is objective evidence that an asset is impaired, its carrying amount is reduced to the present value of the estimated future cash flows. Impairment losses are recognized in the income statement. If, in a subsequent period, the amount of the impairment loss decreases, the carrying amount of the asset is reinstated but to no more than what its amortized cost would have been had the impairment not been recognized.

Available-for-sale financial assets:
This category includes non-derivative financial assets that are designated as available for sale and are not classified in any of the previous categories. Financial assets in this category are measured at fair value; the related changes in fair value during the period of ownership are recognized in net equity.
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 fair value, 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 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 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 some of 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.
The Group has entered a five-year agreement for the factoring of trade receivables, involving the revolving monthly transfer of a portfolio of trade receivables without recourse.
The receivables are assigned without recourse to a bank, 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. The Group acts as servicer for the special purpose entity.
The contractual terms of this operation involve the substantial transfer of the risks and rewards relating to the securitized receivables and their consequent decognition from the balance sheet.

Employee benefits
Net obligations relating to employee benefit plans, chiefly the provision for severance indemnities (for the portion retained in Group companies) 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").

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 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 in subsidiaries 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, costs, revenues and contingent liabilities at the balance sheet date. These estimates are based on past experience and assumptions considered to be reasonable and realistic, based on the information available at the time of making the estimate.
The assumptions relating to these estimates are periodically reviewed and the related effects reflected in the income statement in the same period: actual results could therefore differ from these estimates.

The following paragraph discusses the principal assumptions used for estimation purposes and the principal sources of uncertainty, that have a risk of causing material adjustment to the book value of assets and liabilities in the future; details of book value can be found in the individual explanatory notes.

Allowance for doubtful accounts

The allowance for doubtful accounts reflects estimated expected losses on trade receivables recognized in the balance sheet and not covered by insurance. It is determined on the basis of past experience, by analyzing current and historic past due amounts and the quality of credit.
The changed economic environment could cause the performance of some of the Group's customers to deteriorate, with an impact on the recoverability of trade receivables, to the extent uninsured.

Recoverable amount of non-current assets

The Group reviews all its non-financial assets at every balance sheet date for any evidence of impairment.
Goodwill and other intangible assets with an indefinite useful life are tested annually for impairment.
The recoverable amount of non-current assets is usually determined with reference to value in use, being the present value of the future cash flows expected from an asset's continuing use. The test also involves selecting a suitable discount rate for calculating the present value of the expected cash flows.

For the purposes of this year's impairment testing, the Group has revised its original plans for 2009 and thereafter to take account of the current economic and financial crisis and the new market conditions.

Employee benefits

The cost of defined benefit pension plans is determined using actuarial valuations, based on statistical assumptions regarding discount rates, expected returns on investments, future salary growth and death rates.
Interest rate curves were highly volatile in 2008; the Group believes the rates estimated by its actuaries to be reasonable for the year-end valuations, but cannot rule out that large future changes in rates could have a material impact on the liabilities recognized in the balance sheet.

Recoverability of deferred tax assets

Deferred tax assets include those relating to carryforward tax losses to the extent that there is likely to be sufficient future taxable income against which such losses can be recovered.
Management must use their discretion when determining the amount of deferred tax assets that can be recognized in the balance sheet. They must estimate the likely timing of reversal and the amount of future taxable income, as well as the future tax planning strategy.

Provisions for contingencies

The Group makes several provisions against disputes or risks of various kinds relating to different matters falling under the jurisdiction of different countries. The determination, probability and quantification of these liabilities involve estimation processes that are often very complex, for which management uses all the available information at the date of preparing the financial statements, including with the support of legal and tax advisors.

Product warranty provisions

The Group makes provisions for the estimated cost of product warranties. Management establishes the amount of these provisions on the basis of past trends relating to the frequency and average cost of under-warranty repairs and replacement.

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:

	31.12.2008	31.12.2007	Change	% change
Corporate	17,334	-	17,334	-
Household	1,136,849	1,111,073	25,776	2.3%
Professional	411,204	406,161	5,043	1.2%
Intersegment transactions	(31,986)	(26,338)	(5,648)	21.4%
Total	**1,533,401**	**1,490,896**	**42,505**	**2.9%**

Revenues by geographical area:

	31.12.2008	31.12.2007	Change	% change
Italy	300,207	318,656	(18,449)	(5.8%)
United Kingdom	133,577	146,940	(13,363)	(9.1%)
Rest of Europe	734,496	656,637	77,859	11.9%
United States, Canada and Mexico	99,518	119,329	(19,811)	(16.6%)
Rest of the world	265,603	249,334	16,269	6.5%
Total	**1,533,401**	**1,490,896**	**42,505**	**2.9%**

The related trends are discussed in the report on operations.

“Other revenues” are broken down as follows:

	31.12.2008	31.12.2007	Change
Freight reimbursement	7,505	7,946	(441)
Commercial rights	1,385	3,417	(2,032)
Out-of-period gains	6,920	4,141	2,779
Damages reimbursed	211	560	(349)
Other income	13,788	11,912	1,876
Total	**29,809**	**27,976**	**1,833**

2. Raw and ancillary materials, consumables and goods

The breakdown is as follows:

	31.12.2008	31.12.2007	Change
Raw materials	191,732	224,273	(32,541)
Parts	222,081	233,064	(10,983)
Finished products	361,825	328,240	33,585
Other purchases	10,961	13,745	(2,784)
Total	**786,599**	**799,322**	**(12,723)**

3. Change in inventories

The breakdown is as follows:

	31.12.2008	31.12.2007	Change
Change in inventories of finished products and work in progress	3,073	18,962	(15,889)
Change in inventories of raw and ancillary materials, consumables and goods	(6,958)	12,664	(19,622)

4. Payroll costs

The breakdown is as follows:

	31.12.2008	31.12.2007	Change
Employee wages and salaries	181,598	171,175	10,423
Temporary workers	8,749	8,542	207
Total	**190,347**	**179,717**	**10,630**

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.

The shareholders approved a share-based compensation scheme (Phantom Stock Option Plan) during 2008; this entitles beneficiaries to cash payments based on the growth in the company's ordinary share price.
De'Longhi S.p.A. has prepared an information circular in regard to this plan, pursuant to art. 84 *bis* of the Issuer Regulations, which has been drawn up in compliance with Appendix 3, format 7 of the Issuer Regulations, and been filed with Borsa Italiana and published on the company's website.
During the year the Board of Directors allotted a total of 700,000 Phantom Stock Options to beneficiaries of this plan; the allotment value is €4.00 and the cash payment will be made in relation to the increase in the value of the De'Longhi stock.
Under the plan, 50% of the Phantom Stock Options can be exercised (and so give right to receipt of the above payment) from 1 May 2010, while the remaining 50% can be exercised from 1 October 2011; the options must be exercised by 31 December 2012 at the very latest.

The cost of these instruments, reported in the income statement under payroll costs, and the associated liability are recognized over the vesting period. For as long as the liability exists, the fair value is recalculated at each balance sheet date and at the actual payment date, with all changes in fair value going through the income statement.
The fair value of options is measured using mathematical financial models, which take account of the terms and conditions of granting the options.

The cost of adopting this Phantom Stock Option Plan has had an immaterial impact on the consolidated financial statements at 31 December 2008.

5. Services and other operating expenses

These are detailed as follows:

	31.12.2008	31.12.2007	Change
Advertising and promotional expenses	87,945	84,480	3,465
Transport (for purchases and sales)	80,787	81,151	(364)
Commissions	26,166	28,928	(2,762)
Rentals and leasing	22,817	21,555	1,262
Subcontracted work	20,351	19,990	361
Technical support	18,008	16,058	1,950
Storage and warehousing	17,121	18,321	(1,200)
Travel	16,046	14,121	1,925
Consulting services	14,896	12,434	2,462
Power and other utilities	12,112	11,411	701
Other third-party services	9,186	7,461	1,725
Insurance	6,912	4,619	2,293
Maintenance	4,682	4,467	215
Postage, telegraph and telephones	4,421	4,759	(338)
Directors' emoluments	2,587	1,792	795
Credit insurance	2,392	2,665	(273)
Statutory auditors' emoluments	489	405	84
Other sundry services	11,511	10,339	1,172
Total services	**358,429**	**344,956**	**13,473**
Sundry taxes	19,810	20,789	(979)
Other	6,903	4,561	2,342
Out-of-period losses	4,430	2,352	2,078
Bad debts	94	228	(134)
Total other operating expenses	**31,237**	**27,930**	**3,307**
Total services and other operating expenses	**389,666**	**372,886**	**16,780**

"Rentals and leasing" at 31 December 2008 consist of premises rental (€18,078 thousand), operating lease payments (€938 thousand), royalties (€649 thousand) and equipment hire (€3,152 thousand).

At 31 December 2008 services and other operating expenses include €3,555 thousand in non-recurring services mainly relating to restructuring and reorganization costs as detailed in note *7. Other income (expenses)*.

6. Provisions

These include €17,882 thousand in increases in provisions for contingencies and charges as discussed in note *31. Non-current provisions for contingencies and other charges* and €4,129 thousand in increases to the allowance for doubtful accounts.

Provisions also include non-recurring amounts of €6,567 thousand at 31 December 2008, mostly relating to restructuring and reorganization costs as discussed in note *7. Other income (expenses)*.

7. Other income (expenses)

"Other income (expenses)" report €22,461 thousand in income at 31 December 2008 and relate to the receipt of the insurance claim for the fire and the capital gain on the spin-off and subsequent sale of property activities. This income has been classified in a separate line of the income statement because of its atypical nature relative to the rest of the consolidated revenues.

The principal components of non-recurring income and expenses are as follows:

	31.12.2008	31.12.2007	Change
Capital gain on sale of property activities	5,929	-	5,929
Non-recurring income (Law 296 of 27.12.2006)	-	3,126	(3,126)
Other non-recurring income	**5,929**	**3,126**	**2,803**
Net income (expenses) relating to fire	**15,109**	**(9,404)**	**24,513**
Restructuring costs - Italy	(1,889)	(3,379)	1,490
Reorganization costs - foreign operations	(3,938)	-	(3,938)
Reorganization costs - Italian commercial network	(1,953)	-	(1,953)
Goodwill impairment	(6,800)	-	(6,800)
Other non-recurring expenses	(3,720)	(1,263)	(2,457)
Non-recurring expenses	**(18,300)**	**(4,642)**	**(13,658)**
Total non-recurring income (expenses)	**2,738**	**(10,920)**	**13,658**

The "capital gain on sale of property activities" refers to the overall effect of the property demerger transactions, involving the initial spin-off of property activities from De'Longhi S.p.A. into its subsidiary Gamma S.r.l. and the subsequent sale of its interest in this company.
More details can be found in the paragraph on the "Change in scope of consolidation" and in the "Report on operations".

“Net income (expenses) relating to fire” include receipt of the insurance claim for the fire at the Treviso factory on 18 April 2007, net of the costs incurred.
In September 2008 the loss adjusters appointed by De’Longhi and Assicurazioni Generali prepared their final reports on the claim; the claim was settled on 9 September 2008 with the payment of €39 million, on top of the advance received in 2007.
The settlement of this claim has given rise to a net gain of €15,109 thousand relative to the amount estimated for insurance reimbursement at 31 December 2007; this gain has been recognized as non-recurring income in the financial statements for 2008. The insurance reimbursement recognized in 2007 was based on partial recovery of the costs of the fire, in anticipation of determining the final amount of the claim.

“Restructuring costs - Italy” mainly refer to costs incurred for restructuring/reorganizing certain manufacturing and commercial operations by the Group’s Italian companies, primarily at the factory in Gorgo al Monticano (Treviso) and at the offices of the subsidiary Ariete in Campi Bisenzio (Florence).

“Restructuring costs - Italian commercial network” relate to the project for simplifying distribution structure, involving the consolidation of the previous four separate agent networks by brand and product category into a single commercial organization.

“Reorganization costs - foreign operations” primarily refer to the reorganization of distribution activities by companies in the Household division in Spain and Portugal.
This amount also includes the impairment of assets after terminating a commercial activity at the Japanese subsidiary and the impairment of certain assets at the UK subsidiary which have no future use.

“Goodwill impairment” of €6,800 thousand relates to impairment of the goodwill allocated to the cash generating unit which produces and sells water-filled radiators; this company’s negative and lower-than-expected results in 2008 have caused its forecasts to be prudently revised down, resulting in lower expected cash flows and reduced ability to cover its capital employed. However, this company is still thought to have a valid business model, based on the technical and industrial know-how deriving from major past investments and on its extensive presence on international markets.
More details can be found in note *11. Goodwill*.

8. Amortization, depreciation and impairment

These charges comprise:

	31.12.2008	31.12.2007	Change
Amortization of intangible assets	13,807	12,635	1,172
Depreciation of property, plant and equipment	28,800	29,031	(231)
Impairment losses	9,082	-	9,082
Total amortization, depreciation and impairment	**51,689**	**41,666**	**10,023**

More details about amortization and depreciation can be found in the tables reporting movements in intangible assets and property, plant and equipment.
"Impairment losses" comprise €6,800 thousand for the impairment of goodwill of the cash generating unit which produces and sells radiators and €2,282 thousand in impairment recognized against the property, plant and equipment of the Japanese subsidiary and the British subsidiary as described in note *7. Other income (expenses)*.

9. Financial income (expenses)

Net financial income and expenses are broken down as follows:

	31.12.2008	31.12.2007	Change
Exchange differences	**(3,929)**	**(4,654)**	**725**
Exchange gains (losses) on currency hedges (*)	**(816)**	**2,791**	**(3,607)**
Extraordinary financial expenses for without-recourse factoring of receivables	**-**	**(1,278)**	**1,278**
Interest expense and other bank charges	(31,532)	(33,040)	1,508
Financial discounts	(11,612)	(10,451)	(1,161)
Other financial income (expenses)	(4,718)	(4,665)	(53)
Other financial income (expenses)	**(47,862)**	**(48,156)**	**294**
Total financial income (expenses)	**(52,607)**	**(51,297)**	**(1,310)**

(*) These include the effects of rate differentials on derivatives that hedge exchange rate risk.

"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, as well as adjustments arising under IAS to calculate the amortized cost of bank loans and borrowings.
This amount also includes €1,457 thousand in interest accruing on defined benefit plans in favour of Group employees.

"Other financial income and expenses" include €12 thousand in dividends from available-for-sale financial assets.

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:

	31.12.2008	31.12.2007	Change
Current income taxes:			
- Income taxes	24,025	18,894	5,131
- IRAP	5,156	5,697	(541)
- Flat-rate tax	6,106	-	6,106
Deferred income taxes	(17,031)	(3,451)	(13,580)
Total	**18,256**	**21,140**	**(2,884)**

"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 Group's average tax rate for 2008 was 31.1% (40.3% in 2007) and reflects the effect of booking a flat-rate tax on corporate actions under Law 244/2007 of €6,106 thousand and of consequently releasing €13,435 thousand in deferred tax liabilities no longer needed, generating a net benefit of €7,329 thousand.

The actual tax charge and theoretical tax charge are reconciled as follows:

	31.12.2008	%	31.12.2007	%
Profit before taxes	58,645	100.0%	52,392	100.0%
Theoretical taxes	16,127	27.5%	17,289	33.0%
Disallowable goodwill impairment	1,870	3.2%	-	-
Tax on corporate actions	(7,329)	(12.5%)	-	-
Other (*)	2,432	4.1%	(1,846)	(3.5%)
Total income taxes	**13,100**	**22.3%**	**15,443**	**29.5%**
IRAP	5,156	8.8%	5,697	10.9%
Actual taxes	**18,256**	**31.1%**	**21,140**	**40.3%**

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

Comments on the balance sheet: assets

Non-current assets

11. Goodwill

	31.12.2008		31.12.2007		
	Gross	Net	Gross	Net	Change
Goodwill	257,043	228,716	260,737	232,410	(3,694)

The change in goodwill includes €4,586 thousand for the purchase of 16.7% of the RC Group in the year, taking the total interest to 100%. More details about this acquisition can be found in the paragraph on the "Change in the scope of consolidation".
In addition, impairment losses of €6,800 thousand have been recognized in 2008 against the value of goodwill relating to the cash generating unit which produces and sells water-filled radiators; this was the result of year-end impairment testing, as described below.

Movements in the year are as follows:

	Goodwill
Net opening balance	**232,410**
Additions	4,586
Impairment losses	(6,800)
Other movements (*)	(1,480)
Net closing balance	**228,716**

(*) Other movements, comprising a reduction of €1,480 thousand, mainly refer to the change in valuation of an equity investment call option.

Goodwill is not amortized but 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 (CGUs) 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 method used for impairment testing at 31 December 2008 is the same as that used in prior years.

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 cash generating units (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.

The majority of goodwill refers to the Professional segment, with a total value of €189,253 thousand, while goodwill relating to the Household segment amounts to €39,463 thousand.

The Group has performed the impairment tests assuming realistic scenarios based on the information available at the balance sheet date, also including the budget approved for 2009 and the three-year forecasts for the Group.
The growth rate in terminal values used for projecting beyond the planning period was 2% for all the CGUs.
The cash flows and discount rate were determined net of tax. The discount rate of 6.8%, used for all the CGUs, reflects current market assessments of the time value of money and takes account of the risks specific to the sector.

The impairment tests carried out at the end of 2008 have resulted in the recognition of an impairment loss of €6.8 million in the value of goodwill allocated to the CGU which produces and sells water-filled radiators; this loss has been recognized in the income statement in "Amortization, depreciation and impairment".
Apart from the impairment relating to this CGU, the impairment tests carried out at the end of 2008 have not revealed any other evidence of goodwill impairment; this conclusion has also been confirmed in a sensitivity test based on the assumption of a zero growth rate.

Lastly, it should be noted that management determined the estimates and budget figures to which the above parameters were applied on the basis of past experience and expectations of growth in the Group's markets. Given the current market conditions produced by the economic and financial crisis, management has reassessed the expected growth in revenues and margins incorporated in the business plan approved in previous years and revised this plan on a more conservative basis. These revisions involve slower achievement of the sales targets incorporated in the old plan, without however giving rise to the risk of material impairment of goodwill recognized in the balance sheet, apart from that already adjusted above.

No events of significance have occurred in the first few months of 2009 such as might indicate any further impairment in the carrying amount of goodwill.
However, the estimate of the recoverable amount of the CGUs involves the use of discretion and estimates by management. In fact, several factors associated with developments in the difficult market context could make it necessary to redetermine the value of goodwill. The Group will be constantly monitoring those circumstances and events that might require the performance of new impairment tests.

12. Other intangible assets

The breakdown is as follows:

	31.12.2008		31.12.2007		
	Gross	Net	Gross	Net	Change
New product development costs	42,380	14,494	34,944	14,770	(276)
Patents	28,892	3,484	27,358	3,522	(38)
Trademarks and similar rights	220,718	159,040	220,564	163,047	(4,007)
Work in progress and advances	9,095	7,953	7,711	6,645	1,308
Other	15,574	775	15,343	1,043	(268)
Total	**316,659**	**185,746**	**305,920**	**189,027**	**(3,281)**

The following table reports movements in the main asset categories during 2008:

	New product development costs	Patents	Trademarks and similar rights	Work in progress and advances	Other	Total
Net opening balance	**14,770**	**3,522**	**163,047**	**6,645**	**1,043**	**189,027**
Additions	4,324	1,581	149	4,958	290	11,302
Amortization	(7,626)	(1,572)	(4,161)	-	(448)	(13,807)
Translation difference	(451)	(10)	1	-	4	(456)
Other movements (*)	3,477	(37)	4	(3,650)	(114)	(320)
Net closing balance	**14,494**	**3,484**	**159,040**	**7,953**	**775**	**185,746**

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

With reference to "New product development costs", which report an increase of €4,324 thousand, these costs have been capitalized by virtue of their estimated future utility, based on detailed reporting and analysis of the costs incurred. The increase in "Work in progress and advances" reflects newly capitalized development costs for projects that had not been completed at the balance sheet date.
The Group has incurred some €32 million in research and development costs during 2008.

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

"Trademarks and similar rights" include €113.8 million in trademarks viewed as having an indefinite useful life under the criteria specified in IAS 38 (of which €79.8 million for the "De'Longhi" trademark and €34 million for the "Climaveneta" trademark). 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 2008 has not revealed any significant evidence that these assets might have suffered an impairment loss. No events of significance have occurred so far in 2009 such as might suggest that the carrying amount of trademarks could be impaired.
The method used to test impairment involves discounting to present value the royalties that the Group would be able to earn from permanently granting third parties the right to use the trademarks in question.
This method, which is based on royalty receipts and reasonably estimated sales volumes, is the most commonly used for company valuation purposes since it is able to provide a suitable expression of the relationship between the strength of the trademark and business profitability.
The discount rate of 6.8% (net of tax) reflects current market assessments of the time value of money. The cash flows discounted to present value are stated net of tax (in keeping with the discount rate).

13. Land, property, plant and machinery

These are detailed as follows:

	31.12.2008		31.12.2007		
	Gross	**Net**	**Gross**	**Net**	**Change**
Land and buildings	86,159	70,511	152,075	133,561	(63,050)
Plant and machinery	188,189	65,257	194,668	69,012	(3,756)
Total	**274,348**	**135,768**	**346,743**	**202,573**	**(66,805)**

The following table reports movements during 2008:

	Land and buildings	Plant and machinery	Total
Net opening balance	**133,561**	**69,012**	**202,573**
Additions	5,803	7,065	12,868
Disposals	-	(155)	(155)
Depreciation and impairment	(5,793)	(8,252)	(14,045)
Translation difference	392	1,034	1,426
Change in scope of consolidation	(64,854)	-	(64,854)
Other movements (*)	1,402	(3,447)	(2,045)
Net closing balance	**70,511**	**65,257**	**135,768**

(*) These include reclassifications to other categories such as industrial and commercial equipment, other and work in progress and advances.

The net decrease in "Land and buildings" mostly refers to the spin-off of the property activities of De'Longhi S.p.A., already described earlier and in the report on operations. This effect is reported in the "Change in scope of consolidation", which reflects the spin-off of assets to the subsidiary Gamma S.r.l. and this company's subsequent sale.
Additions in the year refer to investments by the parent company, before the spin-off, and by several subsidiaries in improvements and extensions to own and leased buildings.

The additions to "Plant and machinery" mainly refer to investments at the Mignagola factory for the manufacture of coffee machines.

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

	31.12.2008	31.12.2007	Change
Buildings (*)	3,699	9,788	(6,089)
Plant and equipment	16,671	17,710	(1,039)
Other	68	169	(101)
Total	**20,438**	**27,667**	**(7,229)**

(*) The value of buildings under finance lease at 31 December 2007 also included the buildings held for sale that were sold in 2008, details of which can be found in note 25. Non-current assets held for sale.

Information on the financial liability and the future cash payments relating to these leases can be found in note *29. Other financial payables* and note *37. Risk management*.

14. Other tangible assets

Details of other tangible assets are as follows:

	31.12.2008		31.12.2007		
	Gross	Net	Gross	Net	Change
Industrial and commercial equipment	167,420	26,154	160,044	24,491	1,663
Other	45,532	13,488	42,246	12,291	1,197
Work in progress and advances	3,078	3,078	2,480	2,480	598
Total	**216,030**	**42,720**	**204,770**	**39,262**	**3,458**

The following table reports movements during 2008:

	Industrial and commercial equipment	Other	Work in progress and advances	Total
Net opening balance	**24,491**	**12,291**	**2,480**	**39,262**
Additions	12,691	4,801	3,158	20,650
Disposals	(362)	(289)	(97)	(748)
Depreciation and impairment	(13,073)	(3,963)	-	(17,036)
Translation difference	(356)	(127)	(80)	(563)
Change in the scope of consolidation	-	(6)	(699)	(705)
Other movements (*)	2,763	781	(1,684)	1,860
Net closing balance	**26,154**	**13,488**	**3,078**	**42,720**

(*) These include reclassifications from other categories such as industrial and commercial equipment, other and work in progress and advances.

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

15. Equity Investments

	31.12.2008	31.12.2007	Change
Associated companies	2,628	2,628	-
Other companies	714	731	(17)
Total	**3,342**	**3,359**	**(17)**

Equity investments in associated companies refer to Emer S.p.A.

16. Other non-current receivables

The balance at 31 December 2008 includes €1,609 thousand in security deposits (€1,455 at 31 December 2007) and €14 thousand in other non-current receivables.

17. Other non-current financial assets

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.
The remaining balance of €67 thousand refers to bonds held by subsidiaries.

18. Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are detailed as follows:

	31.12.2008	31.12.2007	Change
Deferred tax assets	42,153	34,804	7,349
Deferred tax liabilities	(21,501)	(19,181)	(2,320)
Net asset balance	**20,652**	**15,623**	**5,029**

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

Details of the net balance are as follows:

	31.12.2008	31.12.2007	Change
- Temporary differences	11,683	2,059	9,624
- Tax losses	8,969	13,564	(4,595)
Net asset balance	**20,652**	**15,623**	**5,029**

The increase in the balance of €5,029 thousand reflects the realignment described in note *10. Income taxes for the year,* against which €13,435 thousand in deferred tax liabilities were released since no longer required.

The change in the net asset balance also reflects a reduction of €2,735 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 €7.6 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

Inventories are broken down as follows:

	31.12.2008	31.12.2007	Change
Raw, ancillary and consumable materials	70,446	75,744	(5,298)
Work in progress and semi-finished products	22,143	24,601	(2,458)
Finished products and goods	256,420	261,773	(5,353)
Advances	106	84	22
Inventory writedown allowance	(28,651)	(27,008)	(1,643)
Total	**320,464**	**335,194**	**(14,730)**

The value of inventories is stated after deducting an allowance for obsolete or slow-moving goods totalling €28,651 thousand (€27,008 thousand at 31 December 2007), in relation to products and raw materials no longer deemed to be of strategic interest.

20. Trade receivables

These are made up as follows:

	31.12.2008	31.12.2007	Change
Trade receivables			
- due within 12 months	386,186	395,771	(9,585)
- due beyond 12 months	3	6	(3)
Gross total	**386,189**	**395,777**	**(9,588)**
Allowance for doubtful accounts	(19,009)	(17,795)	(1,214)
Total	**367,180**	**377,982**	**(10,802)**

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 and outstanding at the balance sheet date amount to €129,860 thousand at 31 December 2008. The total amount of receivables factored in 2008 (under Law 52/1991 known as the Factoring Law) was €373,631 thousand.

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

	31.12.2007	Increases	Utilization	Translation difference and other movements	31.12.2008
Allowance for doubtful accounts	17,795	4,129	(2,835)	(80)	19,009

The Group has received €972 thousand in sureties and €6,950 thousand in letters of patronage from customers as guarantees against trade balances; in addition, a significant proportion of the receivables are covered by insurance polices with major insurers. More details can be found in note *37. Risk management*.

Trade receivables are broken down by geographical area as follows:

Geographical area	31.12.2008	%	31.12.2007	%
Italy	70,915	19.3%	84,592	22.4%
United Kingdom	24,751	6.7%	25,949	6.9%
Rest of Europe	179,197	48.8%	183,449	48.5%
United States, Canada, Mexico	13,889	3.8%	16,573	4.4%
Rest of the world	78,428	21.4%	67,419	17.8%
Total	**367,180**	**100.0%**	**377,982**	**100.0%**

21. Current tax assets

"Current tax assets" are detailed below:

	31.12.2008	31.12.2007	Change
VAT	5,839	12,099	(6,260)
Tax payments on account	4,775	5,425	(650)
Direct taxes	3,116	711	2,405
Tax refunds requested	3,012	3,073	(61)
Other tax receivables	432	759	(327)
Total current tax assets	**17,174**	**22,067**	**(4,893)**

"Tax refunds requested" include the VAT refunds requested from various EU tax authorities (under art. 271 of the VIIIth Directive (no. 79/1072/CEE) and amounts 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; tax refunds requested also include 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 €429 thousand (€420 thousand at 31 December 2007).

22. Other receivables

"Other receivables" are broken down as follows:

	31.12.2008	31.12.2007	Change
Prepaid insurance costs	4,905	899	4,006
Advances to suppliers	4,306	5,038	(732)
Factors	-	1,760	(1,760)
Employees	410	479	(69)
Other	11,221	33,534	(22,313)
Total other receivables	**20,842**	**41,710**	**(20,868)**

The increase in "Prepaid insurance costs" reflects new insurance contracts entered by the Group relating to future periods.

The decrease in "Other" receivables reflects €22,468 thousand for the receipt of the insurance claim relating to the fire.

Other receivables include €39 thousand in amounts due beyond 12 months.

23. Current financial receivables and assets

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

	31.12.2008	31.12.2007	Change
Fair value of derivatives	11,660	3,172	8,488
Other financial receivables	6,499	2,412	4,087
Other securities	44	2,602	(2,558)
Total financial receivables and assets	**18,203**	**8,186**	**10,017**

More details on the fair value of derivative financial instruments can be found in note *37. Risk management*.

"Other financial receivables" mainly refer to receivables arising from the without-recourse factoring of receivables.

"Other securities" at 31 December 2008 refer to Banca Popolare di Vicenza bonds purchased by the subsidiary De'Longhi Appliances S.r.l. for investing surplus cash.

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 €119.8 million in cash on current accounts held at the same bank. These cash balances form part of the international cash pooling system and are partially offset by €117.5 million in overdrafts held by certain other foreign companies with the same bank. This bank therefore acts as a "clearing house" for the Group's positive and negative cash balances. Considering the substance of the transactions and technical workings of the international cash pooling system, the positive and negative cash balances have been netted against one another in the consolidated balance sheet, as allowed by IAS 32. The bank in question has been given a lien over all the cash balances within the international cash pooling system in respect of this service.

The cash balances at 31 December 2008 include €1,117 thousand in restricted deposits by a Chinese subsidiary given in guarantee to the customs authorities for the temporary import of raw materials. These deposits will be released shortly and replaced with a bank guarantee for new imports of raw materials.

25. Non-current assets held for sale

At 31 December 2007 this balance included two buildings that were sold during 2008, one owned by the parent company and the other by the subsidiary Kenwood Ltd.
These sales gave rise to a capital gain of €199 thousand, recognized in the income statement under "Other revenues".

Comments on the balance sheet: net equity and liabilities

Net equity

"Net equity" is made up as follows:

	31.12.2008	31.12.2007	Change
Group portion	659,929	625,220	34,709
Minority interests	2,346	5,458	(3,112)
Total net equity	**662,275**	**630,678**	**31,597**

The primary objective of the Group's capital management is to maintain a solid credit rating and adequate capital ratios in order to support its business and maximize value for shareholders.

The annual general meeting (AGM) of De'Longhi S.p.A. held on 22 April 2008 declared a dividend totalling €8,970 thousand.

Movements in the equity accounts are reported in one of the earlier schedules forming part of the consolidated 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:

	31.12.2008	31.12.2007	Change
Share premium reserve	325	325	-
Legal reserve	6,430	6,285	145
Other reserves			
- Extraordinary reserve	42,173	48,376	(6,203)
- Fair value and cash flow hedge reserve	484	(6,708)	7,192
- Translation differences	(25,778)	(22,105)	(3,673)
- Profit (loss) carried forward	147,635	119,983	27,652
Total reserves	**171,269**	**146,156**	**25,113**

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" had a balance of €6,285 thousand at 31 December 2007. The intervening increase of €145 thousand is due to the allocation of the profit for 2007, as approved by the above AGM of De'Longhi S.p.A..

The “Extraordinary reserve” has gone down due to the combined effect of the parent company’s allocation of profit for 2007 and the dividends declared by the above AGM.

The “Fair value and cash flow hedge reserve” is stated net of €193 thousand in tax.
This reserve has been recognized under IAS 39, adopted with effect from 1 January 2005, and includes the effective portion of net gains and losses on financial instruments designated as cash flow hedges against the exposure of future revenues and costs to exchange rate fluctuations.
This reserve also includes the net result of measuring “available for sale” financial assets at fair value.
The increase of €7,192 thousand in the “Fair value and cash flow hedge reserve” during 2008 is mainly due to changes in the fair value of cash flow hedges, net of the related tax effect.

“Translation differences” comprise €25,778 thousand in exchange differences arising on the translation of foreign company financial statements into euro.

“Profit (loss) carried forward” includes the retained earnings of the consolidated companies and the effects of consolidation adjustments and adjustments to comply with Group accounting policies.

Minority interests in net equity amount to €2,346 thousand. The decrease of €3,112 thousand since 31 December 2007 is mainly because of the purchase of the remaining interest in the RC Group, already described in the note on “Change in the scope of consolidation”. The interests held by minority interests and their corresponding share of net equity and results for the year ended 31 December 2008 are summarized below:

Company	% interest	Net equity	Profit (loss) for the year
E-Services S.r.l.	49%	1,378	519
Promised Success Ltd. - On Shiu (Zhongshan) Electrical Appliance Company Ltd.	33%	1,222	-
De’Longhi Bosphorus Ev Aleteri Ticaret Anonim Sirketi	30%	(92)	(169)
RC Group (*)	-	-	128
Zass Alabuga LLC	7.2%	(162)	(249)
Total		**2,346**	**229**

(*) The remaining 16.7% of RC Group was purchased in April 2008; the profit (loss) pertaining to minority interests therefore refers to the period before this purchase.

Below is a summary 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 31.12.2008	Profit for 2008	Net equity 31.12.2007	Profit for 2007
De'Longhi S.p.A. financial statements	**537,053**	**26,936**	**519,087**	**2,913**
Share of subsidiaries' equity and results for period attributable to the Group, after deducting carrying value of the investments	19,466	23,461	881	21,609
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	137,310	(7,745)	138,978	9,859
Elimination of intercompany profits	(30,164)	(2,934)	(26,197)	(1,366)
Other adjustments	(1,390)	671	(2,071)	(1,763)
Consolidated financial statements	**662,275**	**40,389**	**630,678**	**31,252**
Minority interests	(2,346)	(229)	(5,458)	(688)
Group portion	**659,929**	**40,160**	**625,220**	**30,564**

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 31.12.2008	Within one year	One to five years	Beyond five years	Balance 31.12.2007	Change
Overdrafts	31,334			31,334	24,545	-	-	24,545	6,789
Short-term loans in euro or foreign currency	109,468			109,468	190,295	-	-	190,295	(80,827)
Advances	3,650			3,650	4,858	-	-	4,858	(1,208)
Long-term loans (current portion)	52,898			52,898	53,521	-	-	53,521	(623)
Total short-term bank loans and borrowings	**197,350**			**197,350**	**273,219**			**273,219**	**(75,869)**
Long-term loans		139,879	3,635	143,514	-	132,955	8,071	141,026	2,488
Total bank loans and borrowings	**197,350**	**139,879**	**3,635**	**340,864**	**273,219**	**132,955**	**8,071**	**414,245**	**(73,381)**

Long-term loans comprise the following:

Loans (including short-term portion)	Balance at 31.12.2008	Balance at 31.12.2007
Loans from Banca Popolare di Verona e Novara	76,642	95,195
Loan from BNP Paribas	58,444	86,989
Loan from Banca Popolare di Sondrio	30,059	838
Loan from Banca Popolare Friuladria	14,415	-
Loan from Banca di Cividale	9,981	-
Loan from IMI (Law 46)	1,357	1,877
Loan from Unicredit	1,121	1,734
Loan from Banca Popolare Commercio e Industria	802	1,822
Loan from Banca di Roma	-	1,045
Loan from Mediocredito del Friuli Venezia Giulia	-	682
Other minor loans	3,591	4,365
Total long-term loans	**196,412**	**194,547**

New long-term loans for €55 million were obtained in 2008 from prime banks. The new loans mature in 2012-2013 and carry interest that is indexed to Euribor.

The loan arranged by BNP Paribas calls for the observance of financial covenants (the ratios between consolidated net debt and net equity and consolidated net debt and EBITDA), compliance with which is verified on a six-monthly basis. Such covenants have been observed in accordance with contract at 31 December 2008.

The loan from Banca Popolare Friuladria calls for the observance of financial covenants (the ratios between consolidated net debt and net equity and consolidated net debt and EBITDA), from 2009 with reference to the prior year financial statements.

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 (in terms of benchmark interest rates). Note 37 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:

	Balance at 31.12.2008	Balance at 31.12.2007	Change
Payables to lease companies (short-term portion)	4,405	3,784	621
Ministry of Industry loans (short-term portion)	535	696	(161)
Payables for the purchase of equity investments	162	1,732	(1,570)
Other short-term financial payables	9,754	9,183	571
Negative fair value of derivatives (short-term portion)	2,897	13,485	(10,588)
Total short-term payables	**17,753**	**28,880**	**(11,127)**
Payables to lease companies (one to five years)	7,125	15,014	(7,889)
Ministry of Industry loans (one to five years)	2,186	2,174	12
Other financial payables (one to five years)	3,729	6,218	(2,489)
Negative fair value of derivatives (one to five years)	-	1,647	(1,647)
Total long-term payables (one to five years)	**13,040**	**25,053**	**(12,013)**
Payables to lease companies (beyond five years)	4,233	4,742	(509)
Ministry of Industry loans (beyond five years)	502	1,049	(547)
Total long-term payables (beyond five years)	**4,735**	**5,791**	**(1,056)**
Total other financial payables	**35,528**	**59,724**	**(24,196)**

More details on the fair value of derivative financial instruments can be found in note *37. Risk management*.

This balance mostly refers to finance leases of €15,763 thousand (€23,540 thousand at 31 December 2007) and low-interest loans from the Ministry of Industry of €3,223 thousand (€3,919 thousand at 31 December 2007).
"Other financial payables (one to five years)" of €3,729 thousand at 31 December 2008 refer to the value of the call option over the remaining shares in Top Clima, a Spanish subsidiary.

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 (in terms of benchmark interest rates). Note 37 contains the results of analyzing sensitivity to changes in interest rates.

Net financial position

Details of the net financial position are as follows:

	Balance at 31.12.2008	Balance at 31.12.2007	Change
A. Cash	247	182	65
B. Cash equivalents	108,915	107,186	1,729
C. Securities	44	2,602	(2,558)
D. Total liquidity (A+B+C)	**109,206**	**109,970**	**(764)**
E 1. Current financial receivables	**18,158**	**5,584**	**12,574**
Of which: Fair value of derivatives	*11,660*	*3,172*	*8,488*
E 2. Non-current financial receivables and other securities	**2,572**	**2,549**	**23**
F. Current bank loans and borrowings	(144,452)	(219,698)	75,246
G. Current portion of non-current debt	(52,898)	(53,521)	623
H. Other current financial payables	(17,753)	(28,880)	11,127
Of which: Fair value of derivatives	*(2,897)*	*(13,485)*	*10,588*
I. Current financial debt (F+G+H)	**(215,103)**	**(302,099)**	**86,996**
J. Net current financial debt (I +E 1 + E 2+D)	**(85,167)**	**(183,996)**	**98,829**
K. Non-current bank loans and borrowings	(143,514)	(141,026)	(2,488)
L. Bonds	-	-	-
M. Other non-current payables	(17,775)	(30,844)	13,069
Of which: Top Clima option Fair value of derivatives	*(3,729)* *0*	*(6,217)* *(1,647)*	*2,488* *1,647*
N. Non-current financial debt (K+L+M)	**(161,289)**	**(171,870)**	**10,581**
Total	**(246,456)**	**(355,866)**	**109,410**

The net financial position has improved by €109.4 million, with net debt coming down from €355.9 million to €246.5 million thanks to the sale of certain non-core assets and to cash flow from operations.
These effects, together with the new loans, have helped reduce current financial debt from €184.0 million at 31 December 2007 to €85.2 million at 31 December 2008. The Group has significant credit lines, of which around 15% have been transformed into committed facilities.

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 *37. 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:

	31.12.2008	31.12.2007	Change
Provision for severance indemnities	18,363	20,019	(1,656)
Defined benefit plans	9,268	13,800	(4,532)
Long-term benefits	2,871	1,902	969
Total employee benefits	**30,502**	**35,721**	**(5,219)**

The provision for severance indemnities includes amounts payable to employees of the Group's Italian companies and not transferred to supplementary pension schemes or the pension fund set up by INPS (Italy's national social security agency). This provision has been classified as a defined benefit plan, governed as such by IAS 19 "Employee benefits".

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	**2008**	**2007**	**Change**
Defined benefit obligations	18,363	20,019	(1,656)

Net cost charged to income	**2008**	**2007**	**Change**
Current service cost	68	434	(366)
Application of new law		(3,126)	3,126
Interest cost on obligations	986	940	46
Total	**1,054**	**(1,752)**	**2,806**

Change in present value of obligations	**2008**	**2007**	**Change**
Present value at 1 January	**20,019**	**26,326**	**(6,307)**
Current service cost	68	434	(366)
Utilization of provision	(2,668)	(4,555)	1,887
Interest cost on obligations	986	940	46
Application of new law	-	(3,126)	3,126
Deconsolidation	(52)	-	(52)
Other changes	10	-	10
Present value at 31 December	**18,363**	**20,019**	**(1,656)**

Defined benefit plans:

Movements in the year are as follows:

Net cost charged to income	2008	2007	Change
Current service cost	234	169	65
Return on plan assets	(1,545)	(1,578)	33
Interest cost on obligations	2,016	2,080	(64)
Total	**705**	**671**	**34**

Change in present value of obligations	2008	2007	Change
Present value at 1 January	13,800	15,683	(1,883)
Net cost charged to income	705	671	34
Benefits paid	(2,960)	(1,929)	(1,031)
Other movements	-	534	(534)
Translation difference	(2,277)	(1,159)	(1,118)
Present value at 31 December	**9,268**	**13,800**	**(4,532)**

The present value at 31 December 2008 includes €6,866 thousand in respect of Kenwood Ltd. and €2,402 thousand for De'Longhi Japan Corp.

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

Assumptions used	Severance indemnity 2008	Severance indemnity 2007	Other plans 2008	Other plans 2007
Discount rate	4.8%	4.6%	1.75-6.2%	1.7-5.7%
Future salary increases	2.2-2.95%	2.0-2.75%	0.0-2.5%	0.0-2.50%
Inflation rate	2.2%	2.0%	0.0-2.7%	0.0-3.5%

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

	31.12.2008	Average 2008 (*)	31.12.2007	Average 2007 (*)
Blue collar	3,768	4,491	4,273	4,820
White collar	2,847	2,847	2,714	2,661
Executives	123	122	126	126
Total	**6,738**	**7,460**	**7,113**	**7,607**

(*) The average includes 340 employees of companies consolidated with the proportional method (281 in 2007).

31. Non-current provisions for contingencies and other charges

These are broken down as follows:

	31.12.2008	31.12.2007	Change
Agents' leaving indemnity provision and other retirement provisions	**7,271**	**6,801**	**470**
Product warranty provision	14,991	11,692	3,299
Provisions for contingencies and other charges	13,406	12,837	569
Other provisions	**28,397**	**24,529**	**3,868**
Total	**35,668**	**31,330**	**4,338**

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 2008:

	31.12.2007	Utilization	Increases	Other	31.12.2008
Agents' leaving indemnity provision	6,539	(559)	1,029	(9)	7,000
Other retirement provisions (*)	262	-	9	-	271
Total	**6,801**	**(559)**	**1,038**	**(9)**	**7,271**

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

Other provisions have reported the following movements:

	31.12.2007	Utilization	Increases	Translation difference	Other (*)	31.12.2008
Product warranty provision	11,692	(6,573)	9,947	(328)	253	14,991
Provisions for contingencies and other charges	12,837	(6,446)	6,906	191	(82)	13,406
Total	**24,529**	**(13,019)**	**16,853**	**(137)**	**171**	**28,397**

(*) 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 2008. 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 uninsured liabilities arising from product complaints (limited to policy deductibles) of €2,372 thousand (€1,522 thousand at 31 December 2007);
- the provision of €3,592 thousand for restructuring and reorganization in Italy and abroad;
- provisions of €7,442 thousand by the parent company and certain subsidiaries against various contingencies and liabilities relating to legal disputes and cases likely to be settled.

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	31.12.2008	%	31.12.2007	%
Italy	138,618	48.4%	166,104	49.8%
United Kingdom	9,056	3.2%	14,169	4.2%
Rest of Europe	64,532	22.5%	74,257	22.3%
United States, Canada, Mexico	5,702	2.0%	9,079	2.7%
Rest of the world	68,269	23.9%	70,060	21.0%
Total	**286,177**	**100.0%**	**333,669**	**100.0%**

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

33. Current tax liabilities

These are broken down as follows:

	31.12.2008	31.12.2007	Change
Direct taxes	10,770	9,988	782
Indirect taxes	4,971	4,196	775
Withholdings payable	5,014	4,898	116
Other taxes	9,747	5,204	4,543
Total current tax liabilities	**30,502**	**24,286**	**6,216**

Tax liabilities due beyond 12 months amount to €2,528 thousand at 31 December 2008 (€16 thousand at 31 December 2007).

34. Other payables

These are detailed as follows:

	31.12.2008	31.12.2007	Change
Social security institutions	6,699	8,028	(1,329)
Sundry payables	45,944	47,613	(1,669)
Total other payables	**52,643**	**55,641**	**(2,998)**

“Social security institutions” include €4,695 thousand in payables to social security agencies, €208 thousand in payables to Italy’s industrial accident insurer and €1,796 thousand to other welfare agencies.

"Sundry payables" are detailed as follows:

	31.12.2008	31.12.2007	Change
Employees	23,632	23,002	630
Advances	2,343	2,694	(351)
Other	19,969	21,917	(1,948)
Total sundry payables	**45,944**	**47,613**	**(1,669)**

35. Commitments

These are broken down as follows:

	31.12.2008	31.12.2007	Change
Guarantees given:			
- to third parties	537	2,260	(1,723)
Other commitments	6,918	6,433	485
Total	**7,455**	**8,693**	**(1,238)**

"Other commitments" mainly refer to €2.9 million in contractual obligations by the subsidiary De'Longhi America Inc and €2.1 million in guarantees given to Chinese subsidiaries for the import of raw materials.

36. IFRS 7 classification of financial assets and liabilities

Financial assets and liabilities are classified below in accordance with IFRS 7, using the categories identified in IAS 39.

		Assets		
31.12.2008	**Book value**	**Loans and receivables**	**Available for sale**	**Derivatives**
Non-current assets				
- Equity investments (other)	714		714	
- Receivables	1,623	1,623		
- Other non-current financial assets	2,567	2,500	67	
Current assets				
- Trade receivables	367,180	367,180		
- Current tax assets	17,174	17,174		
- Other receivables	20,842	20,842		
- Current financial receivables and assets	18,203	6,499	44	11,660
- Cash and cash equivalents	109,162	109,162		

31.12.2008	Book value	Liabilities Loans	Derivatives
Non-current liabilities			
- Bank loans and borrowings (long-term portion)	(143,514)	(143,514)	
- Other financial payables (long-term portion)	(17,775)	(17,775)	
Current liabilities			
- Trade payables	(286,177)	(286,177)	
- Bank loans and borrowings (short-term portion)	(197,350)	(197,350)	
- Other financial payables (short-term portion)	(17,753)	(14,856)	(2,897)
- Current tax liabilities	(30,502)	(30,502)	
- Other payables	(52,643)	(52,643)	

		Assets		
31.12.2007	**Book value**	**Loans and receivables**	**Available for sale**	**Derivatives**
Non-current assets				
- Equity investments (other)	731		731	
- Receivables	1,469	1,469		
- Other non-current financial assets	2,545	2,500	45	
Current assets				
- Trade receivables	377,982	377,982		
- Current tax assets	22,067	22,067		
- Other receivables	41,710	41,710		
- Current financial receivables and assets	8,186	2,413	2,601	3,172
- Cash and cash equivalents	107,368	107,368		

31.12.2007	Book value	Liabilities Loans	Derivatives
Non-current liabilities			
- Bank loans and borrowings (long-term portion)	(141,026)	(141,026)	
- Other financial payables (long-term portion)	(30,844)	(29,197)	(1,647)
Current liabilities			
- Trade payables	(333,669)	(333,669)	
- Bank loans and borrowings (short-term portion)	(273,219)	(273,219)	
- Other financial payables (short-term portion)	(28,880)	(15,395)	(13,485)
- Current tax liabilities	(24,286)	(24,286)	
- Other payables	(55,641)	(55,641)	

37. 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.
Trade credit risk is associated with the normal conduct of trade and is monitored using formal procedures for selecting and assessing customers, for defining credit limits, for monitoring expected receipts and for their possible recovery.
Credit risk is partly mitigated by insurance policies with major insurers, with the goal of insuring against the risk of default by a number of customers selected together with the insurer, who then undertakes to pay an indemnity in the event of default.
In some cases customers are required to provide guarantees, principally in the form of sureties.
Although there is a certain concentration of risk associated with the size of some of the principal buying Groups, this is counterbalanced by the fact that the exposure is spread across counterparties operating in different geographical areas.

Positions are written down when there is objective evidence that they will be partially or entirely uncollected; such writedowns are based on historic data and information about the counterparty's solvency, taking account of insurance and any other guarantees as described above.

The Group's maximum exposure to credit risk is equal to the book value of trade receivables before the allowance for doubtful accounts, which is €386,189 thousand at 31 December 2008 (€395,777 thousand at 31 December 2007).
This amount corresponds to the gross balance of trade receivables of €422,704 thousand at 31 December 2008 (€426,923 thousand at 31 December 2007), net of deductions and accounting offsets, which reduce the overall credit risk, mainly in relation to credit notes and other documents not yet issued to customers.
The following analysis of credit risk, carried out on the basis of receivables ageing and the reports used for credit management, refers to the trade balances before these deductions because the documents awaiting issue cannot be specifically allocated to the ageing categories.

Trade receivables of €422,704 thousand at 31 December 2008 comprise €344,818 thousand in current balances and €77,886 thousand in past due amounts, of which €50,202 thousand past due by less than 90 days and €27,684 thousand past due by more than 90 days.

The amount of insured or guaranteed receivables at 31 December 2008 is €193,337 thousand, of which €165,656 thousand is current, €21,426 thousand past due by less than 90 days and €6,255 thousand past due by more than 90 days.
The Group has set aside €19,009 thousand in allowances for doubtful accounts against unguaranteed receivables, which amount to €229,368 thousand (of which €28,777 thousand past due by less than 90 days and €21,429 thousand past due by more than 90 days).
Trade receivables of €426,923 thousand at 31 December 2007 included €192,119 thousand in insured or guaranteed receivables.
The uninsured or unguaranteed balance in 2007 included €184,314 thousand in current receivables and €50,490 thousand in past due receivables, of which €26,986 thousand past due by less than 90 days and €23,504 thousand by more than 90 days.
The Group's allowance for doubtful accounts against such amounts was €17,795 thousand in 2007.

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 temporary investment of surplus resources or for the negotiation of derivatives.
The maximum credit risk in the event of counterparty default relating to the Group's other financial assets, whose classification is presented in note *36. IFRS 7 classification of financial assets and liabilities*, is equal to the book value of these assets.

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 both 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.).
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.

Note 36 presents the book value of financial assets and liabilities, in accordance with the categories identified by IAS 39.

The following table summarizes the due dates of the Group's financial liabilities at 31 December 2008 and 31 December 2007 on the basis of undiscounted contractual payments.

	Undiscounted cash flows at 31.12.2008	Within one year	One to five years	Beyond five years	Undiscounted cash flows at 31.12.2007	Within one year	One to five years	Beyond five years
Bank loans and borrowings (*)	(360,891)	(205,403)	(151,623)	(3,865)	(435,968)	(281,008)	(146,687)	(8,273)
Other financial payables (**)	(39,921)	(17,364)	(17,290)	(5,267)	(65,308)	(34,204)	(23,875)	(7,229)
Trade payables	(286,177)	(286,177)	-	-	(333,669)	(333,669)	-	-
Current tax liabilities and other payables (***)	(83,310)	(80,731)	(2,579)	-	(79,927)	(79,911)	(16)	-

(*) The corresponding balance in the accounts is €340,864 thousand at 31 December 2008 and €414,245 thousand at 31 December 2007, which refers to long-term loans inclusive of the short-term portion.
(**) The corresponding balance in the accounts is €35,528 thousand at 31 December 2008 and €59,724 thousand at 31 December 2007, which refers to the long-term payables (inclusive of the short-term portion) relating to leases and loans from the Ministry of Industry.
(***) The corresponding balance in the accounts is €83,145 thousand at 31 December 2008.

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 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., a Group 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 2008

A list of outstanding currency derivatives at 31 December 2008 is provided below:

Forward agreements to hedge 2009 budget:

	Notional amount			Fair value (€/000)	
Currency	**Purchases**	**Sales**	**Total**	**Asset**	**Liability**
CHF/JPY	(964,000)	-	(964,000)	55	-
JPY/EUR	-	1,400,000,000	1,400,000,000	813	(360)
NZD/EUR	-	4,400,000	4,400,000	189	-
USD/EUR	(141,250,000)	-	(141,250,000)	3,309	(1,623)
USD/JPY	(508,000)	-	(508,000)	-	(1)
				4,366	**(1,984)**

A positive cash flow hedge reserve of €488 thousand has been recorded in net equity at 31 December 2008 in relation to these hedges, after €197 thousand in related tax; this same reserve was a negative €6,711 thousand at 31 December 2007, after the related tax of €2,542 thousand.

During 2008 the Group reversed a net amount of €5,517 thousand (net of €2,089 thousand in tax) from the cash flow hedge reserve at 31 December 2007 to the income statement.

This amount was reported in the following lines of the income statement:

	2008	2007
Increase (reduction) in revenues	260	(149)
(Increase) reduction in materials consumed	(7,866)	(2,090)
Taxes	2,089	702
Total recognized in income statement	**(5,517)**	**(1,537)**

Hedges against foreign currency receivables and payables:

	Notional amount			Fair value (€/000)	
Currency	**Purchases**	**Sales**	**Total**	**Asset**	**Liability**
AUD/EUR	(4,924,168)	28,538,587	23,614,419	32	(11)
AUD/GBP	-	5,103,600	5,103,600	-	(40)
CAD/EUR	(3,433,100)	11,167,100	7,734,000	219	-
CHF/EUR	(1,278,550)	3,827,967	2,549,417	28	(133)
CHF/GBP	-	1,417,000	1,417,000	-	(37)
CZK/EUR	-	52,271,100	52,271,100	52	-
CZK/GBP	-	9,895,100	9,895,100	4	-
DKK/GBP	-	1,816,700	1,816,700	-	(2)
EUR/CAD	(169,000)	-	(169,000)	1	-
EUR/HKD	(1,419,000)	-	(1,419,000)	32	-
EUR/CNY	(1,458,700)	-	(1,458,700)	19	-
EUR/GBP	-	36,128,152	36,128,152	-	(353)
GBP/EUR	(4,199,400)	34,518,931	30,319,531	3,465	(8)
HKD/EUR	(2,628,900)	1,880,860	(748,040)	12	(8)
JPY/EUR	(933,266,200)	2,015,556,700	1,082,290,500	695	-
NOK/EUR	-	4,738,100	4,738,100	21	-
NOK/GBP	-	11,442,400	11,442,400	-	(25)
NZD/EUR	(362,094)	1,300,253	938,159	2	(7)
NZD/GBP	-	1,200,400	1,200,400	-	(7)
PLN/EUR	-	13,469,600	13,469,600	144	-
SEK/GBP	-	1,015,000	1,015,000	-	(1)
TRY/EUR	-	5,698,200	5,698,200	21	-
USD/EUR	(8,003,676)	55,187,879	47,184,203	997	(99)
USD/CAD	(5,680,000)	4,086,000	(1,594,000)	16	(55)
USD/GBP	-	11,281,600	11,281,600	-	(73)
USD/HKD	(1,509,000)	27,422,000	25,913,000	-	(6)
USD/RUB	(44,309,200)	-	(44,309,200)	1,506	-
ZAR/EUR	-	16,749,446	16,749,446	2	-
USD/AUD	(432,600)	-	(432,600)	-	(14)
USD/NZD	(123,603)	-	(123,603)	1	-
EUR/AUD	(333,279)	-	(333,279)	25	(1)
EUR/NZD	(27,322)	-	(27,322)	-	(1)
USD/ZAR	(1,000,000)	-	(1,000,000)	-	(32)
				7,294	**(913)**

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 2008:
(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 2008, 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 +/- €4.4 million before tax (+/- €10.3 million before tax at 31 December 2007). 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 +/-€3.1 million before tax (+/- €3.2 million before tax at 31 December 2007).

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 2008 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 2008
There were no interest rate hedges at 31 December 2008.

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 of €253.7 million out of a total of €246.5 million at 31 December 2008 and a total net liability in 2007 of €337.7 million out of a total of €355.9 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 €2.5 million in more/less pre-tax financial expenses respectively at 31 December 2008, reported through the income statement (+/- €3.4 million before tax at 31 December 2007).

38. Tax position

The competent tax authorities have carried out the following inspections at companies within the De'Longhi Group as part of their programme of periodic taxpayer audits, the status of which is described below:

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.

A general tax inspection for tax year 2005 by the tax police's Treviso division.
The preliminary notice of findings was issued on 16 September 2008, in respect of which the company has made the election under art. 5-bis of Decree 218 dated 19 June 1997, as amended by art.83.18 of Decree 112 dated 25 June 2008.

In the case of both inspections, 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 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 have now been settled. The related cost has already been reflected in the financial statements.
As regards the VAT findings, since no agreement was reached with the Prato tax office, the company presented an appeal to the Prato Provincial Tax Commission, which ruled in the company's favour on 8 July 2008.

DL Radiators S.p.A.

A general tax inspection for tax year 2005 by the Treviso tax office.
A preliminary notice of findings was issued on 18 December 2008; the company has not made the election under art. 5-bis of Decree 218 dated 19 June 1997, as amended by art.83.18 of Decree 112 dated 25 June 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.

Climaveneta S.p.A:

A general tax inspection for tax year 2005 by the Treviso tax office.
A preliminary notice of findings was issued on 31 December 2008; the company has not made the election under art. 5-bis of Decree 218 dated 19 June 1997, as amended by art.83.18 of Decree 112 dated 25 June 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.

Fisher & Paykel Appliances S.p.A. (ex Elba S.p.A.)
A general tax inspection for tax year 2005 by the Montebelluna (Treviso) tax office.
A preliminary notice of findings was issued on 23 December 2008.

The company inspected is no longer part of the De'Longhi Group, having been sold to third parties in 2006. However, in the year audited Elba S.p.A was a member of the De'Longhi tax Group for income tax and VAT purposes headed up by De'Longhi S.p.A..
As a result, De'Longhi S.p.A. could be called upon to respond within the direct and indirect extent and limits envisaged by prevailing law governing the functions and responsibilities of tax Group heads.
The tax authorities have not yet issued any notice of assessment.

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 and 98015375 dated 27 February 1998 and DEM/2064231 dated 30 September 2002; all transactions have fallen within the Group's normal operations and have been settled under arm's-length terms and conditions, except as described earlier in relation to the spin-off of the property activities.

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

	31.12.2008					31.12.2007			
	Professional	Household	Corporate	Eliminations	Consolidated total	Professional	Household	Eliminations	Consolidated total
Total revenues	411,204	1,136,849	17,334	(31,986)	1,533,401	406,161	1,111,073	(26,338)	1,490,896
EBITDA	**35,253**	**111,796**	**16,573**	**(682)**	**162,941**	**40,904**	**104,623**	**(172)**	**145,355**
Amortization, depreciation and impairment	(15,924)	(33,082)	(2,683)	-	(51,689)	(8,050)	(33,616)	-	(41,666)
EBIT	**19,330**	**78,714**	**13,890**	**(682)**	**111,252**	**32,854**	**71,007**	**(172)**	**103,689**
Financial income (expenses)					(52,607)				(51,297)
Profit before taxes					**58,645**				**52,392**
Taxes					(18,256)				(21,140)
Profit (loss) after taxes					**40,389**				**31,252**
Profit (loss) pertaining to minority interests					229				688
Profit (loss) for the year					**40,160**				**30,564**

Balance sheet data

	31.12.2008					31.12.2007			
	Professional	Household	Corporate	Eliminations	Consolidated total	Professional	Household	Eliminations	Consolidated total
Total assets	**571,248**	**913,759**	**216,008**	**(205,355)**	**1,495,660**	**566,429**	**1,141,466**	**(103,420)**	**1,604,475**
Total liabilities	**(433,877)**	**(380,955)**	**(223,720)**	**205,167**	**(833,385)**	**(424,450)**	**(652,624)**	**103,277**	**(973,797)**

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 2009

De'Longhi S.p.A.
Vice Chairman and Chief Executive Officer
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 2008 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 2008:

- have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union under Regulation (EC) 1606/2002 of the European Parliament and Council dated 19 July 2002 and with the measures implementing art. 9 of Decree 38/2005;
- correspond to the underlying accounting records and books of account;
- are able to provide a true and fair view of the issuer's balance sheet, results of operations and financial position and of the Group of companies included in the consolidation.

The report on operations contains a reliable account of performance and of the results of operations and of the situation of the issuer and the Group of companies included in the consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

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

List of consolidated companies

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

Company name	Registered office	Country	Currency	Share capital (1)	Interest held at 31.12.2008	
					Directly	Indirectly
DE'LONGHI APPLIANCES S.R.L.	Treviso	Italy	EUR	200,000,000	100%	
DE'LONGHI AMERICA INC.	Saddle Brook	United States	USD	9,100,000		100%
DE'LONGHI FRANCE S.A.R.L.	Clichy	France	EUR	2,737,500		100%
DE'LONGHI CANADA INC.	Mississauga	Canada	CAD	1		100%
DE'LONGHI DEUTSCHLAND GMBH	Seligenstadt	Germany	EUR	2,100,000		100%
DE'LONGHI ELECTRODOMESTICOS ESPANA S.L.	Barcelona	Spain	EUR	5,510,000		100%
DE'LONGHI CAPITAL SERVICES S.R.L. (2)	Treviso	Italy	EUR	53,000,000	11.32%	88.68%
E- SERVICES S.R.L.	Treviso	Italy	EUR	50,000	51%	
DE'LONGHI LTD.	Wellingborough	United Kingdom	GBP	4,000,000		100%
DE'LONGHI NEDERLAND B.V.	Breda	Netherlands	EUR	226,890		100%
DL TRADING LIMITED	Hong Kong	Hong Kong	HKD	73,010,000		100%
TRICOM INDUSTRIAL CO. LTD.	Hong Kong	Hong Kong	HKD	4,500,000		100%
PROMISED SUCCESS LTD.	Hong Kong	Hong Kong	HKD	28,000,000		67%
ON SHIU (ZHONGSHAN) ELECTRICAL APPLIANCE COMPANY LTD.	Zhongshan City	People's Republic of China	CNY	55,112,118		67%
DONG GUAN DE'LONGHI-KENWOOD APPLIANCES CO.LTD.	Qing Xi Town	People's Republic of China	CNY	4,251,440		100%
CLIMAVENETA S.P.A.	Treviso	Italy	EUR	10,000,000		100%
CLIMAVENETA DEUTSCHLAND GMBH	Nordstedt	Germany	EUR	306,775		100%
CLIMAVENETA FRANCE SAS	Epone	France	EUR	150,000		100%
DE'LONGHI HOUSEHOLD S.A.	Luxembourg	Luxembourg	EUR	181,730,990	100%	
DE'LONGHI JAPAN CORPORATION	Tokyo	Japan	JPY	50,000,000		100%
DL RADIATORS S.P.A.	Treviso	Italy	EUR	5,000,000		100%
DE'LONGHI CLIMA POLSKA SP.ZO.O	Warsaw	Poland	PLN	597,000		100%
Company controlled through nominee company (3)	Nuremberg	Germany	EUR	26,000		100%
DL RADIATORS FRANCE S.A.R.L.	Paris	France	EUR	150,000		100%
DE'LONGHI AUSTRALIA PTY LTD.	Prestons	Australia	AUD	28,800,001		100%
DE'LONGHI NEW ZEALAND LTD.	Auckland	New Zealand	NZD	18,857,143		100%
CLIMAVENETA HOME SYSTEM S.R.L.	Treviso	Italy	EUR	5,000,000		100%
ALABUGA INTERNATIONAL S.A.	Luxembourg	Luxembourg	EUR	200,000	0.05%	99.95%
ZASS ALABUGA LLC	Elabuga	Russian Federation	RUB	95,242,767		92.8%
DE'LONGHI LLC	Elabuga	Russian Federation	RUB	6,000,000		100%
DL TRADING (SHENZEN) COMPANY CO LTD.	Shenzen	People's Republic of China	USD	363,000		100%
KENWOOD APPLIANCES LTD.	Havant	United Kingdom	GBP	30,586,001		100%

Appendix 2

Company name	Registered office	Country	Currency	Share capital (1)	Interest held at 31.12.2008	
					Directly	Indirectly
KENWOOD APPLIANCES LUXEMBOURG S.A.	Luxembourg	Luxembourg	EUR	1,000,000		100%
KENWOOD LIMITED	Havant	United Kingdom	GBP	25,050,000		100%
KENWOOD INTERNATIONAL LTD .	Havant	United Kingdom	GBP	20,000,000		100%
KENWOOD APPL. (SINGAPORE) PTE LTD .	Singapore	Singapore	SGD	500,000		100%
KENWOOD APPL. (MALAYSIA) SDN.BHD.	Petaling Jaya	Malaysia	MYR	3		100%
KENWOOD MANUFACTURING GMBH	Wr Neudorf	Austria	EUR	36,336		100%
KENWOOD HOME APPL. PTY LTD.	Maraisburg	Republic of South Africa	ZAR	40,000		100%
KENWOOD HELLAS SOLE PARTNER LTD. LIABILITY COMPANY	Athens	Greece	EUR	48,000		100%
ARIETE S.P.A.	Campi Bisenzio	Italy	EUR	8,272,000		100%
ARIETE HISPANIA S.L.	Madrid	Spain	EUR	3,066		100%
ARIETE HELLAS EPE	Athens	Greece	EUR	18,000		100%
ARIES LUSITANIA ELECTRODOMESTICOS LDA	Maia	Portugal	EUR	5,000		100%
ARIETE DEUTSCHLAND GMBH	Dusseldorf	Germany	EUR	25,000		100%
ARIETE FRANCE ELECTROMENAGER SARL	Paris	France	EUR	30,000		100%
CLIM.RE. S.A.	Luxembourg	Luxembourg	EUR	1,239,468	4%	96%
DL PROFESSIONAL S.A.	Luxembourg	Luxembourg	EUR	30,205,000	99.95%	0.05%
R.C. GROUP S.P.A.	Valle Salimbene	Italy	EUR	10,680,000		100%
R.C. LUX S.A.	Luxembourg	Luxembourg	EUR	6,959,773		100%
ELLE SRL	Treviso	Italy	EUR	10,000		100%
DE'LONGHI BOSPHORUS EV ALETLERI TICARET ANONIM SIRKETI	Istanbul	Turkey	TRY	1,700,000		70%
DE'LONGHI PRAGA S.RO	Prague	Czech Republic	CZK	200,000		100%
Top Clima S.L.	Barcelona	Spain	EUR	1,606,000		65%
KENWOOD SWISS A.G.	Baar	Switzerland	CHF	1,000,000		100%
DE'LONGHI HRVATSKA D.O.O.	Zagreb	Croatia	HRD	370,000		100%
DE'LONGHI BRASIL - COMÉRCIO E IMPORTAÇÃO Ltda	São Paulo	Brazil	BRL	528,100		100%
SOMORA ASESORES SL	Barcelona	Spain	EUR	303,005		100%
SATER MANTENIMIENTO SL	Madrid	Spain	EUR	250,000		99.99%
GS LUX	Luxembourg	Luxembourg	EUR	377,000		100%
FOSHAN RC AIR CONDITIONING R.E. CO. LTD.	Foshan City	People's Republic of China	CNY	4,307,090		100%

List of companies consolidated under the proportional method

Company name	Registered office	Country	Currency	Share capital (1)	Interest held at 31.12.2008	
					Directly	Indirectly
CHAT UNION CLIMAVENETA COMPANY LTD.	Hong Kong	Hong Kong	HKD	10,000		50%
CLIMAVENETA CHAT UNION REFRIGERATION EQUIPMENT (SHANGHAI) CO.LTD.	Shanghai	People's Republic of China	USD	2,500,000		50%
CLIMAVENETA CHAT UNION TRADING (SHANGHAI) CO.LTD.	Shanghai	People's Republic of China	USD	600,000		50%
DL-TCL HOLDINGS (HK) LTD.	Hong Kong	Hong Kong	USD	5,000,000		50%
TCL-DE'LONGHI HOME APPLIANCES (ZHONGSHAN) CO.LTD.	Zhongshan	People's Republic of China	USD	5,000,000		50%

List of companies consolidated under the equity method

Company name	Registered office	Country	Currency	Share capital (4)	Interest held at 31.12.2008	
					Directly	Indirectly
Associated companies:						
Effegici S.r.l.	Gorgo al Monticano (TV)	Italy	EUR	244,400		25%
Emer S.p.A.	Monza	Italy	EUR	520,000		40%

Other subsidiaries (in liquidation or dormant)

Company name	Registered office	Country	Currency	Share capital
Subsidiary companies: (5)				
Kenwood Appliances Inc.	Havant	United Kingdom	USD	25,000

(1) Figures at 31 December 2008, 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 Ltd.
(3) A distributor of heating products in Germany, the interest in which is held through a nominee 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 2007.
(5) Dormant companies, whose balance sheets are unavailable.

Transactions and balances with related parties

Consolidated income statement

pursuant to CONSOB Resolution 15519 of 27 July 2006

(€/000)	31.12.2008	of which with related parties	31.12.2007	of which with related parties
Revenues from sales and services	1,503,592	139	1,462,920	7,843
Other revenues	29,809	2	27,976	411
Total consolidated net revenues	**1,533,401**		**1,490,896**	
Raw and ancillary materials, consumables and goods	(786,599)	(113)	(799,322)	(1,483)
Change in inventories of finished products and work in progress	3,073		18,962	
Change in inventories of raw and ancillary materials, consumables and goods	(6,958)		12,664	
Materials consumed	**(790,484)**		**(767,696)**	
Payroll costs	(190,347)		(179,717)	
Services and other operating expenses	(389,666)	(692)	(372,886)	(1,339)
Provisions	(22,424)		(14,322)	
Other income (expenses)	22,461	5,929	(10,920)	
Amortization, depreciation and impairment	(51,689)		(41,666)	
EBIT	**111,252**		**103,689**	
Financial income (expenses)	(52,607)	4	(51,297)	3
PROFIT (LOSS) BEFORE TAXES	**58,645**		**52,392**	
Income taxes for the year	(18,256)		(21,140)	
PROFIT (LOSS) AFTER TAXES	**40,389**		**31,252**	
Profit (loss) pertaining to minority interests	229		688	
PROFIT (LOSS) PERTAINING TO THE GROUP	**40,160**		**30,564**	

Transactions and balances with related parties

Consolidated balance sheet

pursuant to CONSOB Resolution 15519 of 27 July 2006

Assets

(€/000)	31.12.2008	of which with related parties	31.12.2007	of which with related parties
NON-CURRENT ASSETS				
INTANGIBLE ASSETS	414,462		421,437	
- Goodwill	228,716		232,410	
- Other intangible assets	185,746		189,027	
PROPERTY, PLANT AND EQUIPMENT	178,488		241,835	
- Land, property, plant and machinery	135,768		202,573	
- Other tangible assets	42,720		39,262	
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS	7,532		7,373	
- Equity investments (in associated companies)	2,628		2,628	
- Equity investments (in other companies)	714		731	
- Receivables	1,623		1,469	
- Other non-current financial assets	2,567		2,545	
DEFERRED TAX ASSETS	42,153		34,804	
TOTAL NON-CURRENT ASSETS	**642,635**		**705,449**	
CURRENT ASSETS				
INVENTORIES	320,464		335,194	
TRADE RECEIVABLES	367,180	820	377,982	770
CURRENT TAX ASSETS	17,174		22,067	
OTHER RECEIVABLES	20,842	420	41,710	378
CURRENT FINANCIAL RECEIVABLES AND ASSETS	18,203	74	8,186	71
CASH AND CASH EQUIVALENTS	109,162		107,368	
TOTAL CURRENT ASSETS	**853,025**		**892,507**	
NON-CURRENT ASSETS HELD FOR SALE	-		6,519	
NON-CURRENT ASSETS HELD FOR SALE	**-**		**6,519**	
TOTAL ASSETS	**1,495,660**		**1,604,475**	

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

Net equity and liabilities

(€/000)	31.12.2008	of which with related parties	31.12.2007	of which with related parties
NET EQUITY				
GROUP PORTION OF NET EQUITY	659,929		625,220	
- Share capital	448,500		448,500	
- Reserves	171,269		146,156	
- Profit (Loss) pertaining to the group	40,160		30,564	
MINORITY INTERESTS	2,346		5,458	
TOTAL NET EQUITY	**662,275**		**630,678**	
NON-CURRENT LIABILITIES				
FINANCIAL PAYABLES	161,289		171,870	
- Bank loans and borrowings (long-term portion)	143,514		141,026	
- Other financial payables (long-term portion)	17,775		30,844	
DEFERRED TAX LIABILITIES	21,501		19,181	
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES	66,170		67,051	
- Employee benefits	30,502		35,721	
- Other provisions	35,668		31,330	
TOTAL NON-CURRENT LIABILITIES	**248,960**		**258,102**	
CURRENT LIABILITIES				
TRADE PAYABLES	286,177	448	333,669	684
FINANCIAL PAYABLES	215,103		302,099	
- Bank loans and borrowings (short-term portion)	197,350		273,219	
- Other financial payables (short-term portion)	17,753		28,880	
CURRENT TAX LIABILITIES	30,502		24,286	
OTHER PAYABLES	52,643		55,641	
TOTAL CURRENT LIABILITIES	**584,425**		**715,695**	
TOTAL NET EQUITY AND LIABILITIES	**1,495,660**		**1,604,475**	

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 2008:

(€/million)	Revenues	Other income	Raw material and other costs	Trade, other and financial receivables	Trade payables
Related companies: (1)					
Gamma S.r.l.	-	5.9	-	0.5	-
Omas S.r.l.	-	-	-	0.7	-
Effegici S.r.l.	-	-	-	-	(0.1)
Max Information S.r.l.	-	-	(0.7)	-	(0.3)
Mokarabia S.p.A.	0.1	-	(0.1)	-	-
Total related companies	**0.1**	**5.9**	**(0.8)**	**1.3**	**(0.4)**
TOTAL RELATED PARTIES	**0.1**	**5.9**	**(0.8)**	**1.3**	**(0.4)**

(1) These mostly refer to dealings of a commercial nature.

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 €0.9 million in 2008 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, except for those relating to the sale of the equity investment in company Gamma S.r.l. already described in the explanatory notes.

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	600			310(1)
Fabio De'Longhi	Vice Chairman and Chief Executive Officer	01.01.07/31.12.09	Approval annual report 2009	622 (2)			78 14(3)
Alberto Clò	Director	01.01.07/31.12.09	Approval annual report 2009	40			1 (4)
Renato Corrada	Director	01.01.07/31.12.09	Approval annual report 2009	40			3 (4)
Silvia De'Longhi	Director	01.01.08/31.12.09	Approval annual report 2009	40			
Carlo Garavaglia	Director	01.01.07/31.12.09	Approval annual report 2009	40			5 (4)
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			3 (4)
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				2,369			

(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) 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 €380 thousand in fees from the company during 2008.

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 2008
Auditing	PricewaterhouseCoopers S.p.A.	De'Longhi Spa (parent company)	244
	PricewaterhouseCoopers S.p.A.	Italian subsidiaries	467
	Network of parent company auditor	Foreign subsidiaries	881
Other services (*)	Network of parent company auditor	Foreign subsidiaries	458

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

External auditors’ report on the consolidated 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 consolidated financial statements of De'Longhi SpA and its subsidiaries ("De'Longhi Group") as of 31 December 2008, which comprise the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and related explanatory notes. The directors of De'Longhi SpA are responsible for the preparation of these consolidated financial statements in compliance 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. 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 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, reference is made to our report dated 4 April 2008.

3 In our opinion, the consolidated financial statements of De'Longhi SpA as of 31 December 2008 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 period then ended.

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P. IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob – Altri Uffici: **Bari** 70124 Via Don Luigi Guanella 17 Tel. 0805640211 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 – **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 08136181 – **Padova** 35138 Via Vicenza 4 Tel. 049873481 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38100 Via Grazioli 73 Tel. 0461237004 – **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 – **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel. 0458002561

4 The directors of De'Longhi SpA are responsible for the preparation of the Report on Operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the Report on Operations with the financial statements, as required by art. 156, paragraph 4-bis, letter d), of the Legislative Decree no. 58/98. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion the Report on Operations is consistent with the consolidated financial statements of De'Longhi SpA as of 31 December 2008.

Padua, 3 April 2009

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.

Individual annual report and financial statements at 31 December 2008

Report on operations

Introduction

An operation was completed on 28 August 2008 to spin off the "property" activities of De'Longhi S.p.A. to a specific company, Gamma S.r.l., a wholly-owned subsidiary which approved an increase in capital to service this transfer.

This operation formed part of the De'Longhi Group's reorganization process started in 2007. This stage of the project sought to "demerge" from the parent company the operations represented by its property-related assets and liabilities, basically associated with the management and maintenance of three industrial buildings let to other Group companies.

The spin-off from De'Longhi S.p.A. to Gamma S.r.l. involved increasing the latter's share capital by €4,990,000 at par plus a premium of €9,010,000 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 Gamma S.r.l. on 24 July 2008 pursuant to articles 248-*bis* and 2464.5 of the Italian Civil Code.

In December the interest in Gamma S.r.l. was sold to a company classified as a related party. This sale helped optimize the Group's financial resources at a time of particular financial market distress by improving its net financial position, realizing a capital gain and disposing of a non-core business.

This transaction made reference to the consultation document "Rules for implementing article 2391-*bis* of the Italian Civil Code concerning related-party transactions"; under these rules significant transactions that require the approval of the Board of Directors must be conducted under procedures that ensure a key role for the independent directors both at the approval stage and in the negotiation and evaluation stage, in order to ensure the substantial fairness of such transactions and stronger internal control.

The Explanatory notes to the financial statements contain a summary of the effects of this spin-off on the income statement and balance sheet, which are also discussed in the Group annual report and financial statements.

Review of the balance sheet and income statement

Review of the income statement

The comparative figures in the income statement have been affected by the spin-off and subsequent sale of property activities in 2008 and by the spin-off of the Household division in 2007.

The income statement for 2007 includes the manufacturing and marketing activities of De'Longhi products in the first six months of the year, with the second-half figures referring to activities by just the Corporate division. The second half of 2007 also includes the property management activities which are no longer included in the income statement of De'Longhi S.p.A. from 1 September 2008.

(€/million)	2008	% of revenues	2007	% of revenues
Revenues	**9.6**	**100.0%**	**229.4**	**100.0%**
Change 2008/2007	*(219.8)*	*(95.8%)*		
Materials consumed & other production costs (services and production payroll costs)	(0.1)	(1.0%)	(154.7)	(67.4%)
Gross profit	**9.5**	**99.0%**	**74.7**	**32.6%**
Services & other expenses	(11.6)	(120.8%)	(51.9)	(22.6%)
Value added	**(2.1)**	**(21.9%)**	**22.8**	**9.9%**
Payroll (non-production)	(5.5)	(57.3%)	(16.4)	(7.1%)
Provisions	(1.6)	(16.7%)	(3.7)	(1.6%)
EBITDA before non-recurring income (expenses)	**(9.2)**	**(95.8)%**	**2.7**	**1.2%**
Change 2008/2007	*(11.9)*	*(440.7%)*		
Other non-recurring income (expenses)	22.3	232.3%	(6.0)	(2.6%)
EBITDA	**13.1**	**136.5%**	**(3.3)**	**(1.4%)**
Amortization and depreciation	(1.3)	(13.5%)	(6.9)	(3.0%)
EBIT	**11.8**	**122.9%**	**(10.2)**	**(4.4%)**
Change 2008/2007	*22.0*	*215.7%*		
Financial income (expenses)	12.0	125.0%	5.4	2.4%
Profit before taxes	**23.8**	**247.9%**	**(4.8)**	**(2.1%)**
Taxes	3.1	32.3%	7.7	3.4%
Profit after taxes	**26.9**	**280.2%**	**2.9**	**1.3%**

Gross profit reported in the reclassified income statement for 2007 has been restated to include all transformation costs. The gross profit presented above differs by €18.1 million at 31 December 2007 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.

For the sake of greater clarity, the principal results in 2008 and 2007 are now presented by half-year. The first-half figures in both years are not comparable because of the spin-off in 2007. For ease of comparison with the second half of 2008, pro-forma figures have been presented for the second half of 2007, adjusted to exclude the results of property management activities in the last four months of that year.

(€/million)	1st half 2008	% of revenues	1st half 2007	% of revenues	2nd half 2008	% of revenues	2nd half 2007 pro-forma	% of revenues	Total 2008	Total 2007 pro-forma
	1st half				2nd half					
	(a)		(b)		(c)		(d)		(a+c)	(b+d)
Revenues	5.4	100.0%	224.1	100.0%	4.2	100.0%	3.6	100.0%	9.6	227.7
EBITDA before non-recurring income (expenses)	(4.1)	(75.9%)	4.7	2.1%	(5.1)	(121.4%)	(3.5)	(97.2%)	(9.2)	1.2
EBITDA	(4.1)	(75.9%)	0.2	0.1%	17.2	409.5%	(4.1)	(113.9%)	13.1	(3.9)
EBIT	(5.0)	(92.6%)	(5.4)	(2.4%)	16.8	400.0%	(4.7)	130.6%)	11.8	(10.1)

The activity of De'Longhi S.p.A. is best represented by the income statement for the second half of 2008, which contains the revenues earned from its new core business (as a holding company which manages and provides its subsidiaries with centralized services).

The non-recurring income (relating to the capital gain on the spin-off of the property activities plus subsequent sale of the beneficiary company and the receipt of the insurance claim relating to the fire in 2007) means that EBITDA has closed with a positive €13.1 million, while EBIT has improved by €22.0 million, going from a loss of €10.2 million in 2007 to a profit of €11.8 million in 2008.

The profit after tax of De'Longhi S.p.A. is €26.9 million, representing an increase of €24.0 million on 2007.

Review of the balance sheet and financial position

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

(€/million)	31.12.2008	31.12.2007	Change	% change	Effect of spin-off and sale
-Property, plant and equipment	0.1	69.0	(68.9)	(99.9%)	(65.2)
-Financial assets	601.7	601.7	-	-	-
-Deferred tax assets	9.3	3.0	6.3	210.0%	-
Non-current assets (*)	**611.1**	**673.7**	**(62.6)**	**(9.3%)**	**(65.2)**
-Trade receivables	4.6	6.5	(1.9)	(29.2%)	(1.0)
-Other current assets	18.7	43.0	(24.3)	(56.5%)	-
-Trade payables	(5.3)	(3.9)	(1.4)	(35.9%)	1.4
-Other current liabilities	(14.5)	(13.0)	(1.5)	(11.5%)	1.1
Net working capital	**3.5**	**32.6**	**(29.1)**	**(89.3%)**	**1.5**
Total non-current liabilities and provisions	(8.9)	(10.4)	1.5	14.4%	2.2
Net capital employed	**605.7**	**695.9**	**(90.2)**	**(13.0%)**	**(61.5)**
Net financial position	**68.6**	**176.8**	**(108.2)**	**(61.2%)**	**(67.4)**
Total net equity	**537.1**	**519.1**	**18.0**	**3.5%**	**5.9**

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

Property, plant and equipment have decreased by €68.9 million, of which €65.2 million due to the property spin-off described earlier.

Financial assets are unchanged, with the increases due to the acquisition of the interest in Gamma S.r.l. and its subsequent increase in value after spinning-off the property activities offset by the decrease consequent upon selling the interest in this company.

Net working capital has improved partly because of the receipt of the insurance claim relating to the fire on 18 April 2007.

The net financial position has improved by €108.2 million due to the effects of selling the investment in Gamma, the beneficiary of the property spin-off, with a consequent reduction of €68.4 million in net borrowings, and due to the receipt of dividends.

The cash flow statement can be summarized as follows:

(€/million)	**31.12.2008**	**31.12.2007**
Cash flow generated (absorbed) by current operations	(21.7)	3.2
Cash flow generated (absorbed) by changes in working capital	10.4	(36.3)
Cash flow generated (absorbed) by investment activities	22.7	(71.3)
Cash flow generated (absorbed) by operating activities	**11.4**	**(104.4)**
Non-recurring cash flow (*)	105.8	52.6
Cash flow generated (absorbed) by changes in equity accounts	(9.0)	(9.0)
Cash flow for the period	**108.2**	**(60.8)**
Opening net financial position	(176.8)	(116.0)
Closing net financial position	**(68.6)**	**(176.8)**

(*) Includes cash flow generated by spin-offs and receipt of the insurance claim.

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

Below is a summary 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 31.12.2008	Profit for 2008	Net equity 31.12.2007	Profit for 2007
De'Longhi S.p.A. financial statements	**537,053**	**26,936**	**519,087**	**2,913**
Share of subsidiaries' equity and results for period attributable to the Group, after deducting carrying value of the investments	19,466	23,461	881	21,609
Allocation of goodwill arising on consolidation and related amortization and reversal of goodwill recognized for statutory purposes	137,310	(7,745)	138,978	9,859
Elimination of intercompany profits	(30,164)	(2,934)	(26,197)	(1,366)
Other adjustments	(1,390)	671	(2,071)	(1,763)
Group portion	**662,275**	**40,389**	**630,678**	**31,252**
Minority interests	(2,346)	(229)	(5,458)	(688)
Consolidated financial statements	**659,929**	**40,160**	**625,220**	**30,564**

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.

Human resources and organization

The company had 38 employees at 31 December 2008 (43 at 31 December 2007).

The following table summarizes the average number of employees during 2008 compared with 2007:

	2008	%	2007	%	Difference
Blue collar	1	2%	382	58%	(381)
White collar	31	72%	259	39%	(228)
Executives	11	26%	23	3%	(12)
Total	**43**	**100%**	**664**	**100%**	**(621)**

The change in the average number of employees reflects the effect of the spin-off in 2007 to De'Longhi Appliances S.r.l.

Environment

The company's goal is to pursue its business strategies in harmony with the environment in order to ensure the sustainable development of its activities in line with the best expectations of both the global and local community; ever more complex market demands have been satisfied in absolute respect for people and the environment, by offering the community increasingly eco-friendly products and services and by organizing production activities so as to ensure environmental compatibility and safety.

In order to achieve this goal, the company has adopted an environmental policy, involving all those who work directly and indirectly with the business, starting from the top; this policy has been implemented through the technology selected for products, processes and investments, through continual improvement activities, through observance of laws and regulations, through active response to technical guidance provided by the authorities by contributing to their implementation and effective application and through continuous training programmes.

Group companies have long been active in spreading their environmental message; their efforts have been rewarded with the receipt of prestigious awards from authoritative institutional organisms for European hi-tech businesses.

De'Longhi is a full member of the European Committee of Domestic Equipment Manufacturers (CECED) and has adopted its Code of Conduct under which it has committed to comply with all applicable environmental regulations wherever it operates.

The company's intention has been communicated to all stakeholders by the Board of Directors in the Ethical Code adopted in 2003, point 7 of whose specific principles ("Environmental protection") states: "*The company's business is based on the principle of safeguarding the environment and public health, in compliance with specific applicable regulations*."

Principal risks and uncertainties facing the company

The principal risks and uncertainties facing the company are described below.

Macroeconomic risk

The company's results of operations, balance sheet and financial position are also affected by macroeconomic trends such as: the trend in consumption, the cost of raw materials, the trend in interest rates and exchange rates.

The economic statistics (Source: Confindustria) indicate a negative trend in global GDP both for European countries and emerging ones. Some of the indicators for February reveal an even steeper decline in business activity than in December.

Interest rates continue to fall and there will be further cuts in the official rate, considering the continued decline in inflation and the euro-zone's persistently deep recession.

The picture emerging from this situation is therefore an uncertain one; if this situation should protract considerably, the company's strategies and outlook could be affected with a consequent impact on its financial and economic performance.

Interest rate and exchange rate risks

Transaction 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 company adopts a suitable hedging policy that eschews speculative ends; hedging is carried out centrally by a special team 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 the future revenues/costs contained in budgets and/or long-term plans and trade and financial receivables/payables.

Any unforeseen fluctuations in exchange rates could have a negative impact on the company's results, balance sheet and financial position.

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 2008 was at floating rates following the decision to obtain the maximum benefit from the downward trend in interest rates.

Any increase in interest rates could have a negative impact on the company's economic and financial performance; to date, rates have nonetheless followed a declining trend, which is not expected to reverse in 2009.

Financial market risks

As far as financial risk is concerned, it is the company's policy to maintain a sufficiently large portfolio of counterparties of high international repute for the purposes of satisfying its financing and hedging needs.
Liquidity risk 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 uses specific policies and procedures for the purposes of monitoring and managing this risk, including the centralized management of financial payables and cash, the raising of medium and long-term finance on capital markets and the obtaining of short-term credit lines such as to ensure wide room for manoeuvre when managing working capital and cash flows.

The company 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.

The current annual report has been prepared on a going concern basis. The uncertainties associated with the current macroeconomic context and the problems relating to the risks described above have been judged not significant and in any case not such as to cast significant doubt on the business's ability to continue as a going concern.

More details on the company's risk management can be found in the Explanatory notes.

Shares held by directors, statutory auditors, general managers and key management personnel (Art. 79 Consob Regulations approved in Resolution 11971 of 14.5.1999)

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, statutory auditors, general managers and key management personnel of De'Longhi S.p.A. and its subsidiaries.

Name	Name of company in which shares held	No. shares held at 31.12.2007 (*)	Purchases in 2008	Sales in 2008	No. shares held at 31.12.2008 (*)
Fabio De'Longhi	De'Longhi S.p.A.	447,570	-	-	447,570
Giorgio Sandri	De'Longhi S.p.A.	30,750	-	-	30,750
Massimo Lanfranchi	De'Longhi S.p.A.	750	-	-	750
Key management personnel		10,600	-	-	10,600

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

Related-party transactions

Related-party transactions fall within the normal course of business by Group companies, except for the property spin-off and subsequent sale of the interest in Gamma S.r.l. described earlier in this report.
Information on related-party transactions is summarized in Appendix 3 to the Explanatory notes.

Subsequent events

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

Proposed allocation of profit

Shareholders,

We are submitting the annual report and financial statements for 2008 for your approval. In so doing we propose that the profit of €26,935,855 be allocated as follows:

- €1,346,793 to the legal reserve;
- €8,970,000 to the shareholders, corresponding to a gross dividend of €0.06 for each of the 149,500,000 outstanding shares;
- €16,619,062 to the extraordinary reserve.

Treviso, 12 March 2009

for the Board of Directors
Vice Chairman and Chief Executive Officer
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	31.12.2008	of which non-recurring	31.12.2007
Revenues from sales and services		-	-	211,172
Other revenues	(1)	9,656	-	18,264
Total net revenues		**9,656**		**229,436**
Raw and ancillary materials, consumables and goods	(2)	(127)	-	(154,600)
Change in inventories of finished products and work in progress	(3)	-	-	5,717
Change in inventories of raw and ancillary materials, consumables and goods	(3)	-	-	12,245
Materials consumed		**(127)**		**(136,638)**
Payroll costs	(4)	(5,545)	-	(25,749)
Services and other operating expenses	(5)	(11,665)	(704)	(60,715)
Provisions	(6)	(1,560)	(1,419)	(3,668)
Other income (expenses)	(7)	22,379	22,379	(5,952)
Amortization, depreciation and impairment	(8)	(1,320)	-	(6,897)
EBIT		**11,818**	**20,256**	**(10,183)**
Financial income (expenses)	(9)	11,971	-	5,395
PROFIT (LOSS) BEFORE TAXES		**23,789**		**(4,788)**
Income taxes for the year	(10)	3,147	-	7,701
PROFIT (LOSS) FOR THE YEAR		**26,936**		**2,913**

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	31.12.2008	31.12.2007
NON-CURRENT ASSETS			
INTANGIBLE ASSETS		42	-
- Goodwill		-	-
- Other intangible assets	(11)	42	-
PROPERTY, PLANT AND EQUIPMENT		61	63,167
- Land, property, plant and machinery	(12)	-	62,347
- Other tangible assets	(13)	61	820
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		604,058	603,509
- Equity investments (in subsidiary companies)	(14)	601,705	601,705
- Equity investments (in associated companies)		-	-
- Equity investments (in other companies)		-	-
- Receivables	(15)	2,353	1,804
DEFERRED TAX ASSETS	(16)	9,339	3,034
TOTAL NON-CURRENT ASSETS		**613,500**	**669,710**
CURRENT ASSETS			
INVENTORIES		-	-
TRADE RECEIVABLES	(17)	4,622	6,485
CURRENT TAX ASSETS	(18)	3,860	10,658
OTHER RECEIVABLES	(19)	13,980	32,371
CURRENT FINANCIAL RECEIVABLES AND ASSETS	(20)	44,872	-
CASH AND CASH EQUIVALENTS	(21)	551	368
TOTAL CURRENT ASSETS		**67,885**	**49,882**
NON-CURRENT ASSETS HELD FOR SALE	(22)	-	5,858
NON-CURRENT ASSETS HELD FOR SALE		**-**	**5,858**
TOTAL ASSETS		**681,385**	**725,450**

Balance sheet

Net equity and liabilities

(€/000)	Notes	31.12.2008	31.12.2007
NET EQUITY			
NET EQUITY		537,053	519,087
- Share capital	(23)	448,500	448,500
- Reserves	(24)	61,617	67,674
- Profit (loss) for the year		26,936	2,913
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES		79,264	62,381
- Bank loans and borrowings (long-term portion)	(25)	76,576	59,158
- Other financial payables (long-term portion)	(26)	2,688	3,223
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		8,904	10,438
- Employee benefits	(27)	3,267	2,381
- Other provisions	(28)	5,637	8,057
TOTAL NON-CURRENT LIABILITIES		**88,168**	**72,819**
CURRENT LIABILITIES			
TRADE PAYABLES	(29)	5,370	3,896
FINANCIAL PAYABLES		37,130	116,619
- Bank loans and borrowings (short-term portion)	(25)	36,551	29,872
- Other financial payables (short-term portion)	(26)	579	86,747
CURRENT TAX LIABILITIES	(30)	4,887	1,923
OTHER PAYABLES	(31)	8,777	11,106
TOTAL CURRENT LIABILITIES		**56,164**	**133,544**
TOTAL NET EQUITY AND LIABILITIES		**681,385**	**725,450**

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	31.12.2008	31.12.2007(**)
Profit (loss) for the year		26,936	2,913
Income taxes for the year		(3,147)	(7,701)
Net capital losses (gains) relating to the fire		(14,941)	13,388
Income from dividend receipts	(9)	(20,294)	(17,933)
Amortization, depreciation and impairment	(8)	1,320	6,897
Net change in provisions		(11,593)	(2,030)
Cash flow generated (absorbed) by current operations (A)		**(21,719)**	**(4,466)**
Change in assets and liabilities for the period:			
Trade receivables		996	(4,333)
Inventories		-	(19,851)
Trade payables		2,832	(13,971)
Other current assets and liabilities		8,523	10,078
Payment of income taxes		(2,000)	(512)
Cash flow generated (absorbed) by movements in working capital (B)		**10,351**	**(28,589)**
Investment activities:			
Investments in intangible assets	(11)	(42)	(2,205)
Investments in property, plant and equipment	(12) (13)	(3,342)	(11,407)
Proceeds from sale of property, plant and equipment and other cash flows		5,824	4,394
Net investments (disposals) in equity investments and other financial assets		-	(80,027)
Dividend receipts	(9)	20,294	17,933
Cash flow generated (absorbed) by investment activities (C)		**22,734**	**(71,312)**
Dividends paid	(24)	(8,970)	(8,970)
New loans		49,500	-
Net change in other sources of finance		(104,869)	113,631
Cash flow generated (absorbed) by changes in equity accounts and by financing activities (D)		**(64,339)**	**104,661**
Non-recurring cash flows (E) (*)		**53,156**	**(25,555)**
of which cash flows with related parties		*15,747*	
Increase (decrease) in cash and cash equivalents (A+B+C+D+E)		**183**	**(25,261)**
Opening cash and cash equivalents	**(21)**	**368**	**25,629**
Increase (decrease) in cash and cash equivalents (A+B+C+D+E)		183	(25,261)
Closing cash and cash equivalents	**(21)**	**551**	**368**

(*) These include cash flows from spin-offs and sale of equity investments and the effects of the fire on 18 April 2007.

(**) For the purposes of standardizing the classification criteria, some reclassifications have been made within the cash flows from ordinary operations and movements in working capital in order to highlight cash flows relating to income taxes.

Cash flow statement

(in terms of Net financial position)

(€/000)	Notes	31.12.2008	31.12.2007(**)
Profit (loss) for the year		26,936	2,913
Income taxes for the year		(3,147)	(7,701)
Net capital losses (gains) relating to the fire		(14,941)	13,388
Income from dividend receipts	(8)	(20,294)	(17,933)
Amortization, depreciation and impairment	(7)	1,320	6,897
Net change in provisions		(11,593)	(2,030)
Cash flow generated (absorbed) by current operations (A)		**(21,719)**	**(4,466)**
Change in assets and liabilities:			
Trade receivables		996	(4,333)
Inventories		-	(19,851)
Trade payables		2,832	(13,971)
Other current assets and liabilities		8,523	10,077
Payment of income taxes		(2,000)	(512)
Cash flow generated (absorbed) by movements in working capital (B)		**10,351**	**(28,590)**
Investment activities:			
Investments in intangible assets	(10)	(42)	(2,205)
Investments in property, plant and equipment	(11) (12)	(3,342)	(11,407)
Proceeds from sale of property, plant and equipment and other cash flows		5,824	4,394
Net investments (disposals) in equity investments and other financial assets		-	(80,027)
Dividend receipts	(8)	20,294	17,933
Cash flow generated (absorbed) by investment activities (C)		**22,734**	**(71,312)**
Change in cash flow hedge reserve		-	(45)
Dividends paid	(24)	(8,970)	(8,970)
Cash flow generated (absorbed) by changes in equity accounts (D)		**(8,970)**	**(9,015)**
Non-recurring cash flows (E) (*)		**105,815**	**52,580**
of which cash flows with related parties		*68,406*	
Cash flow for the period (A+B+C+D+E)		**108,211**	**(60,803)**
Opening net financial position	**(25)**	**(176,828)**	**(116,025)**
Cash flow for the period (A+B+C+D+E)		108,211	(60,803)
Closing net financial position	**(25)**	**(68,617)**	**(176,828)**

(*) These include cash flows from spin-offs and sale of equity investments and the effects of the fire on 18 April 2007.

(**) For the purposes of standardizing the classification criteria, some reclassifications have been made within the cash flows from ordinary operations and movements in working capital in order to highlight cash flows relating to income taxes.

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

(€/000)	Share capital	Share premium reserve	Legal reserve	Other reserves	Cash flow hedge reserve	Profit (loss) carried forward	Profit (loss) for the year	Total
Balance at 31 December 2006	**448,500**	**325**	**5,593**	**44,192**	**(501)**	**13,234**	**13,846**	**525,189**
Allocation of 2006 result as per AGM resolution of 18 April 2007:								
- payment of dividends							(8,970)	(8,970)
- allocation to reserves			692	4,184			(4,876)	-
Movements from transactions with shareholders	**-**	**-**	**692**	**4,184**	**-**	**-**	**(13,846)**	**(8,970)**
Movement in cash flow hedge reserve					501	(546)		(45)
Gains (losses) recognized directly in net equity	**-**	**-**	**-**	**-**	**501**	**(546)**	**-**	**(45)**
Profit for the year							2,913	2,913
Balance at 31 December 2007	**448,500**	**325**	**6,285**	**48,376**	**-**	**12,688**	**2,913**	**519,087**
Allocation of 2007 result as per AGM resolution of 22 April 2008:								
- payment of dividends				(8,970)				(8,970)
- allocation to reserves			146	2,767			(2,913)	-
Movements from transactions with shareholders	**-**	**-**	**146**	**(6,203)**	**-**	**-**	**(2,913)**	**(8,970)**
Movement in cash flow hedge reserve								
Gains (losses) recognized directly in net equity	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Profit for the year							26,936	26,936
Balance at 31 December 2008	**448,500**	**325**	**6,431**	**42,173**	**-**	**12,688**	**26,936**	**537,053**

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 the following 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 "Corporate" division which mainly provides corporate services to the group with the functions of setting strategy, of control, co-ordination and management of centralized activities and resources.

Significant events

Group reorganization

An operation was completed on 28 August 2008 to spin off the "property" activities of De'Longhi S.p.A. to a specific company, Gamma S.r.l., a wholly-owned subsidiary which approved an increase in capital to service this transfer.

This operation formed part of the De'Longhi Group's reorganization process started in 2007. This stage of the project sought to "demerge" from the parent Company the operations represented by its assets and liabilities, basically associated with the management and maintenance of three industrial buildings let to other group companies.

De'Longhi S.p.A. and Gamma S.r.l. agreed that any positive or negative differences in the balances spun off, as reported at 1 September 2008 (effective date of the spin-off), relative to those contained in the sworn report, would give rise to appropriate adjustments between the parties; the amounts payable and receivable by each party were agreed by December 2008.
The parties also undertook that any amounts owing as a result of this process would be paid to the other company within three months of being finalized.
The book value of the assets and liabilities spun off was reported as €9,900 thousand in the balance sheet on the spin-off date of 1 September 2008. The resulting difference relative to the sworn report gave rise to a final receivable of €1,057 thousand in favour of De'Longhi S.p.A.; this receivable was collected within the agreed term.

In December the interest in Gamma S.r.l. was sold for €14.7 million to a company classified as a related party. More details about the group's reorganization can be found in the report on operations.

After spinning off the property activities in 2008 and the Household division in 2007 to De'Longhi Appliances S.r.l., this year's income statement figures are not entirely comparable with those of the prior year. More specifically, the first half of 2007 includes the results of the manufacturing business; during the second half of 2007 and the first eight months of 2008 the company provided holding company services, including management of the property portfolio; these holding company services no longer included property management in the last four months of 2008.
For the purposes of comparing income statement data for the two years, the report on operations contains pro-forma figures for the second half of 2007 for easier comparison with the second half of 2008.

The spin-off in 2008 has also had an impact on some lines in the balance sheet. The following table provides details of the balances spun off:

DE'LONGHI S.P.A. BALANCE SHEET (€/000)	**31.08.2008 Spin-off**
INTANGIBLE ASSETS	-
PROPERTY, PLANT AND EQUIPMENT	(65,179)
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS	-
DEFERRED TAX ASSETS	-
TOTAL NON-CURRENT ASSETS	**(65,179)**
INVENTORIES	-
TRADE RECEIVABLES	(981)
CURRENT TAX ASSETS	-
OTHER RECEIVABLES (*)	1,035
CURRENT FINANCIAL RECEIVABLES AND ASSETS	-
CASH AND CASH EQUIVALENTS	-
TOTAL CURRENT ASSETS	**54**
TOTAL ASSETS	**(65,125)**
NET EQUITY	**(8,843)**
DEFERRED TAX LIABILITIES	(2,170)
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES	(52)
TOTAL NON-CURRENT LIABILITIES	**(2,222)**
TRADE PAYABLES	(1,358)
FINANCIAL PAYABLES	(52,660)
OTHER PAYABLES	(42)
TOTAL CURRENT LIABILITIES	**(54,060)**
TOTAL LIABILITIES	**(65,125)**

(*) These include the final receivable balance of €1,057 thousand owed to De'Longhi S.p.A.

Accounting standards

The financial statements of De'Longhi S.p.A. at 31 December 2008 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 2008), 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 to complement 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 2008 are the same as those used for preparing the financial statements at 31 December 2007.

In October 2008 the IASB issued an amendment to *IAS 39 – "Financial instruments: recognition and measurement"* and to *IFRS 7 – "Financial instruments: disclosures"*, allowing the possibility of reclassifying certain financial instruments. This amendment, endorsed by the European Union and applicable from 1 July 2008, has not had any impact on the present financial statements because the company has not made any of the permitted reclassifications.
IFRIC 14 – *"IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction"* was endorsed in December 2008 and is applicable from 1 January 2008. Its application has not had any impact on the measurement or classification of the contents of the financial statements.

The company is evaluating the impact, if any, of adopting certain new standards, which will be applicable from 1 January 2009:

- IAS 1 (revised) - "Presentation of financial statements"
- IAS 23 (revised) – "Borrowing costs"
- IAS 27 (revised) – "Consolidated and separate financial statements - Cost of investments in subsidiaries, joint ventures and associates"
- IAS 32 (revised) – "Financial instruments: presentation"
- IFRS 2 (revised) – "Share-based payment"
- IFRS 8 – "Operating segments", in replacement of "IAS 14 - Segment reporting"
- IFRIC 13 – "Customer loyalty programmes".

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 reclassifications have been made to the previously published cash flow statement for 2007, details of which can be found in the footnotes to this statement.

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

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.

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.

Financial instruments

Financial assets

All financial assets are initially recognized at fair value, corresponding to the consideration paid plus all directly attributable acquisition 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; if such risks and rewards are not substantially transferred or retained, the company derecognizes the assets when it no longer has control of them.

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 and non-current loans and receivables.
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 fair value, 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 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 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.

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 exclude however the component relating to future salary increases.

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 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 in subsidiaries 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, costs, revenues and contingent liabilities at the balance sheet date. These estimates are based on past experience and assumptions considered to be reasonable and realistic, based on the information available at the time of making the estimate.
The assumptions relating to these estimates are periodically reviewed and the related effects reflected in the income statement in the same period; actual results could therefore differ from these estimates.

The following paragraph discusses the principal assumptions used for estimation purposes and the principal sources of uncertainty, that have a risk of causing material adjustment to the book value of assets and liabilities in the future; details of book value can be found in the individual explanatory notes.

Employee benefits

The cost of defined benefit pension plans is determined using actuarial valuations, based on statistical assumptions regarding discount rates, expected returns on investments, future salary growth and death rates.
Interest rate curves were highly volatile in 2008; the company believes the rates estimated by its actuaries to be reasonable for the year-end valuations, but cannot rule out that large future changes in rates could have a material impact on the liabilities recognized in the balance sheet.

Recoverability of deferred tax assets

Deferred tax assets include those relating to carryforward tax losses to the extent that there is likely to be sufficient future taxable income against which such losses can be recovered.
Management must use their discretion when determining the amount of deferred tax assets that can be recognized in the balance sheet. They must estimate the likely timing of reversal and the amount of future taxable income, as well as the future tax planning strategy.

Provisions for contingencies

The company makes several provisions against disputes or risks of various kinds relating to different matters falling under the jurisdiction of different countries. The determination, probability and quantification of these liabilities involve estimation processes that are often very complex, for which management uses all the available information at the date of preparing the financial statements, including with the support of legal and tax advisors.

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 for 2008 includes the results of property management services only for the first eight months of the year.

1. Revenues

Revenues from sales and services in 2007 include those from manufacturing activities in the first half of the year, prior to their spin-off to De'Longhi Appliances S.r.l.

"Other revenues" are broken down as follows:

	2008	2007	Change
Rental income	3,235	2,825	410
Capital gains	706	1,281	(575)
Out-of-period gains	548	1,165	(617)
Damages reimbursed	20	459	(439)
Freight reimbursement	-	2,636	(2,636)
Commercial rights	-	1,224	(1,224)
Other income	5,147	8,674	(3,527)
Total	**9,656**	**18,264**	**(8,608)**

"Other revenues" include €7,498 thousand in income from group companies, as reported in Appendix 3; in particular, "Other income" includes €4,265 thousand in revenues from group companies.

2. Raw and ancillary materials, consumables and goods

The breakdown is as follows:

	2008	2007	Change
Finished products	-	100,870	(100,870)
Parts	-	44,694	(44,694)
Raw materials	28	7,900	(7,872)
Other purchases	99	1,136	(1,037)
Total	**127**	**154,600**	**(154,473)**

3. Change in inventories
The breakdown is as follows:

	2008	2007	Change
Change in inventories of finished products and work in progress	-	5,717	(5,717)
Change in inventories of raw and ancillary materials, consumables and goods	-	12,245	(12,245)

4. Payroll costs
These are made up as follows:

	2008	2007	Change
Employee wages and salaries	5,545	25,739	(20,194)
Temporary workers	-	10	(10)
Total	**5,545**	**25,749**	**(20,204)**

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

The shareholders approved a share-based compensation scheme (Phantom Stock Option Plan) during 2008; this entitles beneficiaries to cash payments based on the growth in the company's ordinary share price.
De'Longhi S.p.A. has prepared an information circular in regard to this plan, pursuant to art. 84 *bis* of the Issuer Regulations, which has been drawn up in compliance with Appendix 3, format 7 of the Issuer Regulations, and been filed with Borsa Italiana and published on the company's website.
During the year the Board of Directors allotted a total of 700,000 phantom stock options to beneficiaries of this plan; the allotment value is €4.00 and the cash payment will be made in relation to the increase in the value of the De'Longhi stock.
Under the plan, 50% of the phantom stock options can be exercised (and so give right to receipt of the above payment) from 1 May 2010, while the remaining 50% can be exercised from 1 October 2011; the options must be exercised by 31 December 2012 at the very latest.

The cost of these instruments, reported in the income statement under payroll costs, and the associated liability are recognized over the vesting period. For as long as the liability exists, the fair value is recalculated at each balance sheet date and at the actual payment date, with all changes in fair value going through the income statement.
The fair value of options is measured using mathematical financial models, which take account of the terms and conditions of granting the options.

The cost of adopting this Phantom Stock Option Plan has had an immaterial impact on the financial statements at 31 December 2008.

5. Services and other operating expenses

These are detailed as follows:

	2008	2007	Change
Travel and entertaining	3,538	3,570	(32)
Consulting services (*)	2,897	3,619	(722)
Insurance	1,379	794	585
Directors' emoluments	1,197	1,082	115
Rentals and leasing	313	2,990	(2,677)
Statutory auditors' emoluments	141	140	1
Postage, telegraph and telephones	119	636	(517)
Maintenance (*)	88	524	(436)
Promotional expenses	32	8,637	(8,605)
Advertising	20	7,044	(7,024)
Transport (for purchases and sales)	-	10,736	(10,736)
Commissions	-	3,868	(3,868)
Subcontracted work	-	3,455	(3,455)
Technical support	-	2,365	(2,365)
Storage and warehousing	-	1,544	(1,544)
Power	-	799	(799)
Other sundry services (*)	1,194	3,770	(2,576)
Total services	**10,918**	**55,573**	**(44,655)**
Sundry taxes	302	3,171	(2,869)
Out-of-period losses	189	1,051	(862)
Bad debts	-	1	(1)
Other (*)	256	919	(663)
Total other operating expenses	**747**	**5,142**	**(4,395)**
Total services and other operating expenses	**11,665**	**60,715**	**(49,050)**

(*) These include €704 thousand in non-recurring costs incurred in 2008 in relation to the fire on 18 April 2007.

"Services and other operating expenses" include €1,256 thousand in costs from group companies, as reported in Appendix 3.

6. Provisions

These include €1,419 thousand in increases in contingency provisions, €61 thousand in provisions for legal disputes (see note *28. Non-current provisions for contingencies and other charges*) and €80 thousand in additions to the allowance for doubtful accounts (see note *17. Trade receivables*).

7. Other income (expenses)

"Other income (expenses)" refer to the receipt of the insurance claim for the fire on 18 April 2007 and the capital gain on the property spin-off to Gamma S.r.l. and subsequent sale of this equity investment.

Non-recurring income and expenses, which include the above income, are classified in different lines of the income statement and are identified as follows:

	2008	2007	Change
Income (expenses) relating to claim of 18 April 2007	15,109	(9,404)	24,513
Capital gain on property spin-off	5,157	-	5,157
Capital gain on sale of equity investment	690	-	690
Impact of new law on severance indemnity (Law 296/2006)	-	2,034	(2,034)
Other income (expenses)	(700)	1,418	(2,118)
Total non-recurring income (expenses)	**20,256**	**(5,952)**	**26,208**

8. Amortization, depreciation and impairment

These charges comprise:

	2008	2007	Change
Depreciation of property, plant and equipment	1,320	4,981	(3,661)
Amortization of intangible assets	-	1,916	(1,916)
Total	**1,320**	**6,897**	**(5,577)**

9. Financial income (expenses)

Net financial income and expenses are broken down as follows:

	2008	2007	Change
Dividends	20,294	17,933	2,361
Equity investment impairment losses	-	(771)	771
Financial income (expenses) from equity investments	**20,294**	**17,162**	**3,132**
Gains (losses) on currency hedging transactions	(27)	(381)	354
Exchange gains (losses)	(52)	419	(471)
Exchange gains (losses)	**(79)**	**38**	**(117)**
Interest income from loans	11	998	(987)
Bank interest income	19	121	(102)
Financial income	**30**	**1,119**	**(1,089)**
Interest expense on long-term loans and borrowings	(8,620)	(7,160)	(1,460)
Factor fees and other costs of assigning receivables	-	(3,810)	3,810
Financial expenses	**(8,620)**	**(10,970)**	**2,350**
Financial discounts	-	(771)	771
Other sundry income (expenses)	346	(1,183)	1,529
Other financial income (expenses)	**346**	**(1,954)**	**2,300**
Total financial income (expenses)	**11,971**	**5,395**	**6,576**

Dividends relate to amounts declared and paid by the subsidiaries De'Longhi Capital Services S.r.l., E-Services S.r.l. and De'Longhi Appliances S.r.l.
"Financial income (expenses)" includes €22,309 thousand in income from group companies, as reported in Appendix 3.

10. Income taxes for the year

These are made up as follows:

	2008	2007	Change
Current income taxes	(5,587)	(587)	(5,000)
Deferred income taxes	8,734	8,288	446
Total	**3,147**	**7,701**	**(4,554)**

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:
- €310 thousand in IRAP (Italy's regional business tax) compared with €579 thousand in 2007, net of a tax credit of €192 thousand under art. 1.6.c) of Law 244/2007;
- €2 thousand for the separate taxation of income under art. 168 of Presidential Decree 917/86 (€9 thousand in 2007);
- €288 thousand for the flat-rate tax under art. 1, paras. 33, 34, 48 and 51 of Law 244/2007;
- €4,705 thousand for the flat-rate tax under art. 1, paras. 46 and 47 of Law 244/2007;
- €466 thousand in IRES (Italy's corporate income tax);
- €183 thousand in income for tax refunds requested in prior years.

"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.
More details on deferred taxes can be found in note *16. Deferred tax assets and deferred tax liabilities.*

The actual tax charge and theoretical tax charge are reconciled as follows:

	31.12.2008	%
Profit before taxes	23,789	100.0%
Theoretical taxes	(6,542)	(27.5%)
Tax on corporate actions	5,583	23.5%
Permanent tax differences (untaxable dividends, net of disallowable costs)	3,281	13.8%
Other	515	2.2%
Total income taxes	**2,837**	**11.9%**
IRAP	310	1.3%
Actual taxes	**3,147**	**13.2%**

The actual tax rate for 2008 reflects the impact of a flat-rate tax on corporate actions and the related release of €10,576 thousand in associated deferred tax liabilities, generating a net benefit of €5,583 thousand (net of the flat-rate tax concerned).

Comments on the balance sheet: assets

11. Intangible assets

The breakdown is as follows:

	31.12.2008		31.12.2007		
	Gross	Net	Gross	Net	Change
Patents	42	42	-	-	42
Total	**42**	**42**	**-**	**-**	**42**

The following table reports movements during 2008:

	Patents	Total
Net opening balance	**-**	**-**
Additions	42	42
Disposals	-	-
Amortization	-	-
Net closing balance	**42**	**42**

12. Land, property, plant and machinery

These are detailed as follows:

	31.12.2008		31.12.2007		
	Gross	Net	Gross	Net	Change
Land and buildings	-	-	69,677	62,347	(62,347)
Total	**-**	**-**	**69,677**	**62,347**	**(62,347)**

All the assets in the “Land and buildings” category have been spun off to Gamma S.r.l.

The following table reports movements during 2008:

	Land and buildings
Net opening balance	**62,347**
Additions	2,644
Depreciation	(1,293)
Other changes	866
Spin-off to Gamma S.r.l.	(64,564)
Net closing balance	**-**

In the period prior to the spin-off (meaning the first eight months of 2008), additions amounted to €2,644 thousand, the depreciation charge to €1,293 thousand, while €817 thousand was reclassified from "Work in progress and advances".

13. Other tangible assets

Details of other tangible assets are as follows:

	31.12.2008		31.12.2007		
	Gross	Net	Gross	Net	Change
Industrial and commercial equipment	4	-	3	-	-
Other	194	61	161	53	8
Work in progress and advances	-	-	767	767	(767)
Total	**198**	**61**	**931**	**820**	**(759)**

The following table reports movements during 2008:

	Industrial and commercial equipment	Other	Work in progress and advances	Total
Net opening balance	**-**	**53**	**767**	**820**
Additions	1	33	664	698
Depreciation	(1)	(25)	-	(26)
Spin-off to Gamma S.r.l.	-	-	(614)	(614)
Other movements	-	-	(817)	(817)
Net closing balance	**-**	**61**	**-**	**61**

The net decrease of €759 thousand mainly refers to the spin-off of assets to Gamma S.r.l. Additions in the period prior to spin-off amounted to €698 thousand, while the depreciation charge was €26 thousand.

14. Equity investments

The breakdown is as follows:

Equity investments in subsidiary companies	31.12.2008	31.12.2007	Change
De'Longhi Appliances S.r.l.	242,678	242,678	-
De'Longhi Household S.A.	241,737	241,737	-
De'Longhi Professional S.A.	111,205	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	-
Total	**601,705**	**601,705**	**-**

The list of subsidiary and associated companies and details of changes in equity investments during 2008 can be found in Appendix 2.

The only movement since the prior year relates to Gamma S.r.l. This operation, forming part of the group's overall reorganization process, was structured as follows:

- acquisition of the investment in Gamma S.r.l. for €10 thousand;
- spin-off of property activities to Gamma S.r.l. with an increase of €14,000 thousand in the value of the equity investment;
- sale of the equity investment to a company classified as a related party for €14,700 thousand, with the realization of a capital gain of €690 thousand.

More details about this transaction can be found in the discussion of changes in the scope of consolidation contained in the explanatory notes to the consolidated financial statements.

15. Other non-current receivables

This balance is analyzed as follows:

Receivables	31.12.2008	31.12.2007	Change
Subsidiary companies	2,353	1,804	549
Total	**2,353**	**1,804**	**549**

Appendix 3 contains details of "Receivables from subsidiary companies". These receivables are all financial in nature.

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]	2008			2007			Effect on income statement
	Taxable amount	Tax rate	Total tax	Taxable amount	Tax rate	Total tax	
Provisions for contingencies and other charges	4,937	31.4%	1,550	8,057	31.4%	2,530	(980)
Provisions for contingencies and other charges (only for IRES purposes)	5,032	27.5%	1,384	1,570	27.5%	432	952
Other temporary differences	2,471	31.4/27.5%	708	8,167	31.4/27.5%	2,296	(1,588)
Total deferred tax assets	**12,440**		**3,642**	**17,794**		**5,258**	**(1,616)**
Accounting/tax differences for fixed assets	(29)	31.4%	(9)	(45,556)	31.4%	(14,305)	12,126
Other temporary differences	-	-	-	(285)	31.4%	(86)	86
Total deferred tax liabilities	**(29)**		**(9)**	**(45,841)**		**(14,391)**	**12,212**
Deferred tax assets on tax losses	**20,750**	**27.5%**	**5,706**	**44,243**	**27.5%**	**12,167**	**(1,861)**
Net total	**33,161**		**9,339**	**16,196**		**3,034**	**8,735**

The change in the net balance reflects the effects reported through the income statement in the year as well as the following movements through net equity:

- transfers of €2,170 thousand in deferred tax liabilities following the property spin-off;
- €4,600 thousand in deferred tax assets set off against taxable income transferred from subsidiaries under the group tax election.

Current assets

17. Trade receivables

These are made up as follows:

	31.12.2008	31.12.2007	Change
Trade receivables due within 12 months	6,177	8,154	(1,977)
Allowance for doubtful accounts	(1,555)	(1,669)	114
Total	**4,622**	**6,485**	**(1,863)**

Trade receivables are stated net of an allowance for doubtful accounts of €1,555 thousand, representing the estimated risk at the reporting date. A prudent allowance 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 allowance for doubtful accounts are shown in the following table:

	31.12.2007	Increase	Utilization	31.12.2008
Allowance for doubtful accounts	1,669	80	(194)	1,555

"Trade receivables" include €3,725 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	31.12.2008	31.12.2007	Change	% change
Rest of Europe	13	1,445	(1,432)	(99.10%)
Italy	3,126	4,321	(1,195)	(27.65%)
Rest of the world	906	544	362	66.54%
Japan	-	-	-	-
United States, Canada, Mexico	57	4	53	1,325.00%
United Kingdom	520	171	349	204.09%
Total	**4,622**	**6,485**	**(1,863)**	**(28.72%)**

18. Current tax assets

"Current tax assets" are detailed below:

	31.12.2008	31.12.2007	Change
VAT	1,899	7,966	(6,067)
Direct taxes	1,456	1,435	21
Tax refunds requested	486	1,223	(737)
Other tax receivables	19	34	(15)
Total current tax assets	**3,860**	**10,658**	**(6,798)**

For the purposes of optimizing the financial management of its tax affairs, the company opted to file for income tax on a group basis in 2008 as allowed by Chapter II Section II of Presidential Decree 917/86, and also to pay VAT on a group basis, as allowed by the Ministerial Decree dated 13 December 1979.
The decrease in "VAT" reflects the measures adopted in 2008 to reduce this balance.

"Direct taxes" mainly comprise:

- €155 thousand in credits for IRAP (Italy's regional business tax);
- €135 thousand in credits for payments on account of separate taxation of income under article 168 of Presidential Decree 917/86;
- €502 thousand in credits for higher payments of flat-rate tax;
- €337 thousand in tax credits for research and development;
- €137 thousand in credits for IRES (Italian corporate income tax) in relation to withholding taxes incurred by the company or its subsidiaries;
- €182 thousand in other credits for sundry taxes.

"Tax refunds requested" include €146 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) and €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.

19. Other receivables

"Other receivables" are broken down as follows:

	31.12.2008	31.12.2007	Change
Advances to suppliers	54	284	(230)
Employees	2	2	-
Other	13,924	32,085	(18,161)
Total other receivables	**13,980**	**32,371**	**(18,391)**

"Other" receivables include €13,349 thousand in amounts due from group companies, as reported in Appendix 3.

"Other" receivables at 31 December 2007 included €22,468 thousand for the insurance claim relating to the fire.

None of the other receivables is due beyond 12 months.

20. Current financial receivables and assets

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

	31.12.2008	31.12.2007	Change
Financial receivables	44,857	-	44,857
Fair value of derivatives	15	-	15
Total financial receivables and assets	**44,872**	**-**	**44,872**

Financial receivables in 2008 mostly refer to amounts owed by De'Longhi Capital Services S.r.l. as part of the centralized treasury service. The corresponding balance with this subsidiary in 2007 was a payable and therefore classified under "Current financial payables".

21. Cash and cash equivalents

This balance consists of surplus liquidity on bank current accounts.

22. Non-current assets held for sale

The balance in 2007 referred to a building sold early in 2008 and so was 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 had been 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 was nonetheless retained for reporting purposes at 31 December 2007. Following the sale, a capital gain of €199 thousand was recognized in "Other revenues".

Comments on the balance sheet: net equity and liabilities

Net equity

The primary objective of the company's capital management is to maintain a solid credit rating and adequate capital ratios in order to support its business and maximize value for shareholders.

The annual general meeting (AGM) of De'Longhi S.p.A. held on 22 April 2008 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.

23. 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.

24. Reserves

The breakdown is as follows:

	31.12.2008	31.12.2007	Change
Share premium reserve	325	325	-
Legal reserve	6,431	6,285	146
Other reserves:			
- Cash flow hedge reserve	-	-	-
- Extraordinary reserve	42,173	48,376	(6,203)
- Profit (loss) carried forward	12,688	12,688	-
Total reserves	**61,617**	**67,674**	**(6,057)**

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 €6,431 thousand at 31 December 2008. The increase of €146 thousand since 31 December 2007 is due to the allocation of the profit for 2007, as approved by the Annual General Meeting (AGM) held on 22 April 2008.

The "Extraordinary reserve" amounts to €42,173 thousand. The decrease of €6,203 thousand since 31 December 2007 reflects €2,767 thousand for the allocation of profit for 2007 and €8,970 thousand for the dividends declared by the above AGM.

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

Nature / Description	Amount		Permitted use	Available amount
Share capital	448,500	(2)		-
Capital reserves:				
- share premium reserve	325	(1)	A, B	-
Earnings reserves:				
- legal reserve	6,431		B	
- fair value reserve	-			
- extraordinary reserve	42,173		A, B, C	42,173
- profit (loss) carried forward	12,688		A, B, C	4,114
Total	**510,117**	**(3)**		**46,287**
Undistributable amount				-
Distributable amount				46,287

(1) As allowed by article 2431 of the Italian Civil Code, the full amount of this reserve may be distributed only if the legal reserve has reached the limit set in article 2430 of the Italian Civil Code.
(2) There is a tax restriction of €5,277 thousand following a bonus increase in capital in 1997 using tax-suspended reserves.
(3) There are tax restrictions relating to the realignment of tax and accounting values carried out in 2000 and 2005 as follows: €99,934 thousand relating to share capital, €2,324 thousand relating to the legal reserve and €34,628 thousand relating to the extraordinary reserve.

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

Non-current liabilities

25. 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 31.12.2008	Within one year	One to five years	Beyond five years	Balance 31.12.2007	Change
Overdrafts	3,693	-	-	3,693	164	-	-	164	3,529
Long-term loans (current portion)	32,858	-	-	32,858	29,708	-	-	29,708	3,150
Total short-term bank loans and borrowings	**36,551**	**-**	**-**	**36,551**	**29,872**	**-**	**-**	**29,872**	**6,679**
Long-term loans	-	73,681	2,895	76,576	-	59,158	227	59,158	17,418
Total bank loans and borrowings	**36,551**	**73,681**	**2,895**	**113,127**	**29,872**	**59,158**	**227**	**89,030**	**24,097**

Bank loans are made up as follows:

Loans (including short-term portion)	31.12.2008	31.12.2007	Change
Syndicated loan arranged by BNP Paribas	58,444	86,989	(28,545)
Unsecured loan from Banca Popolare di Sondrio Spa	25,236	-	25,236
Loan from Banca Popolare Friuladria Spa	14,415	-	14,415
Loan from Banca di Cividale Spa	9,981	-	9,981
Loan from IMI (Law 46)	1,358	1,877	(519)
Total long-term loans	**109,434**	**88,866**	**20,568**

New long-term loans for €49,500 thousand were obtained in 2008 (of which €49,632 thousand valued at amortized cost). The new loans mature in five/six years and entail quarterly/six-monthly repayments (although repayment of the loan from Banca Popolare Friuladria is delayed to the start of 2010).

The loan from Banca Popolare Friuladria calls for the observance of financial covenants (the ratios between consolidated net debt and net equity and consolidated net debt and EBITDA), from 2009 with reference to the prior year financial statements.

The loan arranged by BNP Paribas calls for the observance of financial covenants (the ratios between consolidated net debt and net equity and consolidated net debt and EBITDA), compliance with which is verified on a six-monthly basis. Such covenants have been observed in accordance with contract at 31 December 2008.

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 (in terms of benchmark interest rates). Note 33 contains the results of analyzing sensitivity to changes in interest rates.

26. Other financial payables

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

	31.12.2008	31.12.2007	Change
Payables to lease companies (short-term portion)	-	5,575	(5,575)
Ministry of Industry loans (short-term portion)	535	556	(21)
Other short-term financial payables	44	80,616	(80,572)
Total short-term payables	**579**	**86,747**	**(86,168)**
Ministry of Industry loans (one to five years)	2,186	2,174	12
Ministry of Industry loans (beyond five years)	502	1,049	(547)
Total long-term payables	**2,688**	**3,223**	**(535)**
Total other financial payables	**3,267**	**89,970**	**(86,703)**

"Other short-term financial payables" included €80,601 thousand in 2007 for the balance owed to De'Longhi Capital Services S.r.l. under its centralized treasury services. At 31 December 2008, the corresponding balance with this subsidiary is a receivable, duly classified under "Current financial receivables".

Details of the net financial position are as follows:

	31.12.2008	31.12.2007	Change
A. Cash	9	12	(3)
B. Cash equivalents	542	356	186
C. Securities	-	-	-
D. Total liquidity (A+B+C)	**551**	**368**	**183**
E 1. Current financial receivables	**44,872**	**-**	**44,872**
E 2. Non-current financial receivables	**2,353**	**1,804**	**549**
F. Current bank loans and borrowings	(3,693)	(164)	(3,529)
G. Current portion of non-current debt	(32,858)	(29,708)	(3,150)
H. Other current financial payables	(579)	(86,747)	86,168
I. Current financial debt (F+G+H)	**(37,130)**	**(116,619)**	**79,489**
J. Net current financial debt (D+E1+E2+I)	**10,646**	**(114,447)**	**125,093**
K. Non-current bank loans and borrowings	(76,575)	(59,158)	(17,417)
L. Bonds	-	-	-
M. Other non-current payables	(2,688)	(3,223)	535
N. Non-current financial debt (K+L+M)	**(79,263)**	**(62,381)**	**(16,882)**
Total	**(68,617)**	**(176,828)**	**108,211**

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.

27. Employee benefits

These are made up as follows:

	31.12.2008	31.12.2007	Change
Provision for severance indemnities	396	479	(83)
Long-term employee benefits	2,871	1,902	969
Total employee benefits	**3,267**	**2,381**	**886**

Provision for severance indemnities

The provision for severance indemnities includes amounts payable to the company's employees and not transferred to supplementary pension schemes or the pension fund set up by INPS (Italy's national social security agency). This provision has been classified as a defined benefit plan, governed as such 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.

Movements in the period are summarized below:

Severance indemnity obligations	31.12.2008	31.12.2007	Change
Defined benefit obligations	396	479	(83)

Net cost charged to income	31.12.2008	31.12.2007	Change
Current service cost	-	136	(136)
Application of new law	-	(2,034)	2,034
Interest cost on obligations	22	237	(215)
Total	**22**	**(1,661)**	**1,683**

Change in present value of obligations	31.12.2008	31.12.2007	Change
Present value at 1 January	479	13,684	(13,205)
Current service cost	-	136	(136)
Benefits paid	(71)	(1,857)	1,786
Interest cost on obligations	22	237	(215)
Application of new law	-	(2,034)	2,034
Spin-off to De'Longhi Appliances S.r.l.	-	(9,687)	9,687
Spin-off to Gamma S.r.l.	(52)	-	(52)
Other changes	18	-	18
Total	**396**	**479**	**(83)**

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

Assumptions used	Severance indemnity 2008	Severance indemnity 2007
Discount rate	4.8%	4.6%
Future salary increases	2.2-2.95%	2.0-2.75%
Inflation rate	2.2%	2.0%

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

	31.12.2008	Average 2008	31.12.2007	Average 2007
Blue collar	-	1	5	382
White collar	27	31	27	259
Executives	11	11	11	23
Total	**38**	**43**	**43**	**664**

28. Non-current provisions for contingencies and other charges

Movements are as follows:

	31.12.2007	Increases	Utilization	Release	31.12.2008
Provision for uninsured liabilities	1,420	61	(125)	-	1,356
Other provisions for contingencies	6,637	1,419	(3,521)	(254)	4,281
Total	**8,057**	**1,480**	**(3,646)**	**(254)**	**5,637**

The "provision for uninsured liabilities" relates to the risk of liabilities arising from certain complaints (limited to insurance policy deductibles).

"Other provisions for contingencies" mainly refer to costs associated with certain legal disputes and cases likely to be settled.

Current liabilities

29. Trade payables

This balance of €5,370 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	31.12.2008	31.12.2007	Change
Italy	4,618	3,639	979
United Kingdom	39	-	39
Rest of Europe	628	3	625
United States, Canada, Mexico	83	253	(170)
Rest of the world	2	1	1
Total	**5,370**	**3,896**	**1,474**

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

30. Current tax liabilities

The breakdown is as follows:

	31.12.2008	31.12.2007	Change
Direct taxes	720	649	71
Withholdings payable	638	633	5
Other taxes	3,529	641	2,888
Total current tax liabilities	**4,887**	**1,923**	**2,964**

"Direct taxes" relate to 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.
"Withholdings payable" relate to withholdings made by the company and payable to the tax authorities after the balance sheet date.
"Other taxes" relate to the flat-rate tax payable under art. 1, paras. 33, 34, 48 and 51 of Law 244/2007 and the flat-rate tax payable under art. 1, paras. 46 and 47 of Law 244/2007.

Tax liabilities due beyond 12 months amount to €1,498 thousand.

31. Other payables

These are detailed as follows:

	31.12.2008	31.12.2007	Change
Social security institutions	233	378	(145)
Sundry payables	8,544	10,728	(2,184)
Total other payables	**8,777**	**11,106**	**(2,329)**

“Social security institutions” include €170 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 €45 thousand in amounts owed to other welfare agencies.

“Sundry payables” are detailed as follows:

	31.12.2008	31.12.2007	Change
Group companies	7,429	8,999	(1,570)
Employees	787	857	(70)
Advances	1	-	1
Other	327	872	(545)
Total sundry payables	**8,544**	**10,728**	**(2,184)**

“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 *18. Current tax assets*.

32. Commitments

These are broken down as follows:

Guarantees given for the benefit of:	31.12.2008	31.12.2007	Change
De'Longhi Capital Services S.r.l.	505,044	470,641	34,403
DL Trading Ltd	59,445	61,281	(1,836)
DL Radiators S.p.A.	27,791	26,720	1,071
De'Longhi Japan Corp.	19,423	14,855	4,568
Zass Alabuga LLC	14,371	13,586	785
Climaveneta S.p.A.	4,124	4,124	-
On Shiu Zhongshan Electrical Appliance Co. Ltd	2,949	1,860	1,089
Climaveneta Home System S.r.l.	2,500	2,500	-
TCL De'Longhi Home Appliances Zhongshan Co. Ltd	2,106	1,860	246
Kenwood Home Appliances Pty Ltd. SA – South Africa	1,500	1,500	-
Kenwood Hellas Sole partner Ltd Liability Co.	1,000	1,000	-
De'Longhi Appliances S.r.l. (Ex - La Supercalor S.p.A.)	1,166	852	314
De'Longhi Electrodomesticos Espana S.L.	950	950	-
Elle S.r.l.	507	-	507
Kenwood Appliances Singapore Pte Ltd	100	100	-
Ariete Hispania S.L.	13	13	-
De'Longhi Canada Inc.	-	2,768	(2,768)
Ariete S.p.A.	-	2,000	(2,000)
Total	**642,989**	**606,610**	**36,379**

All the guarantees have been given in the interests of group companies; no guarantees have been given in the interests of third parties.
The above guarantees refer to credit lines partially drawn down by group companies and to short-term loans; no elements of risk as defined by IAS 37 have been perceived to date.

33. 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.

Trade 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 business to De'Longhi Appliances S.r.l. in 2007, this is no longer a significant risk for De'Longhi S.p.A., whose principal exposure is now to group companies.

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 company 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.). These credit lines, along with cash flow generated by operations, are considered sufficient to allow the company to satisfy its annual funding requirements for working capital, investments and settlement of payables on their natural due dates.

The following table summarizes the due dates of financial liabilities at 31 December 2008 on the basis of undiscounted contractual payments.

(€/000)	Undiscounted cash flows at 31.12.2008	Within one year	One to five years	Beyond five years	Undiscounted cash flows at 31.12.2007	Within one year	One to five years	Beyond five years
Bank loans and borrowings(*)	(124,320)	(41,295)	(80,016)	(3,009)	(96,097)	(33,634)	(62,463)	-
Other financial payables (**)	(3,443)	(636)	(2,303)	(504)	(90,216)	(86,817)	(2,335)	(1,064)
Trade payables	(5,370)	(5,370)	-	-	(3,896)	(3,896)	-	-
Current tax liabilities and other payables	(13,770)	(11,508)	(2,262)	-	(13,029)	(13,029)	-	-
Total	**(146,903)**	**(58,809)**	**(84,581)**	**(3,513)**	**(203,238)**	**(137,376)**	**(64,798)**	**(1,064)**

(*) The corresponding balance in the accounts is €113,127 thousand at 31 December 2008 and €89,030 thousand at 31 December 2007, which refers to long-term loans inclusive of the short-term portion.
(**) The corresponding balance in the accounts is €3,267 thousand at 31 December 2008 and €89,970 thousand at 31 December 2007, which refers to the long-term payables (inclusive of the short-term portion) relating to leases and loans from the Ministry of Industry.

More details on the due dates of the company's financial assets and payables can be found in notes 15. *Other non-current receivables, 17. Trade receivables, 20. Current financial receivables and assets, 25. Bank loans and borrowings, 26. Other financial payables and 29.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. in 2007 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 group's policies relating to hedging instruments and hedged items can be found in the notes to the consolidated financial statements.

Outstanding transactions at 31 December 2008

Outstanding currency derivatives that hedge foreign currency receivables and payables at 31 December 2008 are as follows:

	Notional amount						Fair value (in Euro)	
Currency	**Group**			**Third party**				
	Purchases	**Sales**	**Total**	**Purchases**	**Sales**	**Total**	**Group**	**Third party**
USD/EUR	(132,000)	-	(132,000)	-	-	-	(2,844)	-
GBP/EUR	-	136,900	136,900	-	-	-	9,076	-
CAD/EUR	-	74,200	74,200	-	-	-	1,146	-
NZD/EUR	-	106,400	106,400	-	-	-	(660)	-
AUD/EUR	-	163,900	163,900	-	-	-	(4)	-
JPY/EUR	-	17,584,600	17,584,600	-	-	-	4,958	-
Total fair value							**11,672**	**-**

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 2008 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 €0.7 million in more/less financial expenses respectively at 31 December 2008, reported through the income statement (+/- €1.8 million before tax at 31 December 2007).

34. Tax position

The competent tax authorities have carried out the following inspections as part of their programme of periodic taxpayer audits, the status of which is described below:

- 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.

- A general tax inspection for tax year 2005 by the tax police's Treviso division.
  The preliminary notice of findings was issued on 16 September 2008, in respect of which the company has not made the election under art. 5-bis of Decree 218 dated 19 June 1997, as amended by art. 83.18 of Decree 112 dated 25 June 2008.

In the case of both inspections, 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.

35. 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.

36. Emoluments of directors and statutory auditors

Appendix 4 contains the information required by CONSOB Regulation 11971 dated 14 May 1999.

37. Subsequent events

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

Treviso, 12 March 2009

De'Longhi S.p.A.
Vice Chairman and Chief Executive Officer
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. External auditors' report on the financial statements.

Certification of the financial statements

pursuant to art. 81-*ter* of CONSOB Regulation 11971 dated 14 May 5 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 2008 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 2008:
  - have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union under Regulation (EC) 1606/2002 of the European Parliament and Council dated 19 July 2002 and with the measures implementing art. 9 of Decree 38/2005;
  - correspond to the underlying accounting records and books of account;
  - are able to provide a true and fair view of the issuer's balance sheet, results of operations and financial position.

- the report on operations contains a reliable account of performance and of the results of operations and of the situation of the issuer, together with a description of the principal risks and uncertainties to which it is exposed.

Fabio De'Longhi
Chief Executive Officer

Stefano Biella
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	286,481,738	Eur	4,261,347	100%	242,678
De'Longhi Household S.A.	Luxembourg	Eur	181,730,990	Eur	249,772,262	Eur	3,110,174	100%	241,737
De'Longhi Professional S.A.	Luxembourg	Eur	30,205,000	Eur	111,161,017	Eur	(575,905)	100%	111,205
De'Longhi Capital Services S.r.l. (1)	Treviso	Eur	53,000,000	Eur	68,354,427	Eur	3,859,472	11.32%	6,005
Clim.Re S.A. (2)	Luxembourg	Eur	1,239,468	Eur	3,109,784	Eur	421,279	4%	54
E-Services S.r.l.	Treviso	Eur	50,000	Eur	2,812,960	Eur	1,059,689	51%	26
Total									**601,705**

(*) Figures relating to the financial statements at 31 December 2008 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 2008	Acquisitions, subscriptions and recapitalizations	Disposals	Net impairment losses and reversals	Book value at 31 December 2008
in subsidiary companies					
De'Longhi Appliances S.r.l. (ex La Supercalor S.p.A.)	242,678		-	-	242,678
De'Longhi Household S.A.	241,737	-	-	-	241,737
De'Longhi Professional S.A.	111,205		-		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
Gamma S.r.l.	-	14,010	(14,010)	-	-
Total	**601,705**	**14,010**	**(14,010)**	**-**	**601,705**

Transactions and balances with related parties

Income statement
pursuant to CONSOB Resolution 15519 of 27 July 2006

(€/000)	Notes	31.12.2008	of which with related parties	31.12.2007	of which with related parties
Revenues from sales and services		-		211,172	90,644
Other revenues	(1)	9,656	7,498	29,134	10,870
Total net revenues		**9,656**		**240,306**	
Raw and ancillary materials, consumables and goods	(2)	(127)		(154,600)	(89,488)
Change in inventories of finished products and work in progress	(3)	-		5,717	
Change in inventories of raw and ancillary materials, consumables and goods	(3)	-		12,245	
Materials consumed		**(127)**		**(136,638)**	
Payroll costs	(4)	(5,545)		(25,749)	
Services and other operating expenses	(5)	(11,665)	(1,257)	(75,735)	(15,020)
Provisions	(6)	(1,560)		(3,668)	
Other income (expenses)	(7)	22,379	5,157	-	
Amortization, depreciation and impairment	(8)	(1,320)		(6,897)	
EBIT		**11,818**		**(8,381)**	
Financial income (expenses)	(9)	11,971	17,153	5,395	15,017
PROFIT (LOSS) BEFORE TAXES		**23,789**		**(2,986)**	
Income taxes for the year	(10)	3,147		7,701	
PROFIT (LOSS) FOR THE YEAR		**26,936**		**4,715**	

Appendix 3

Balance sheet
pursuant to CONSOB Resolution 15519 of 27 July 2006

Assets

(€/000)	Notes	31.12.2008	of which with related parties	31.12.2007	of which with related parties
NON-CURRENT ASSETS					
INTANGIBLE ASSETS		42		-	
- Goodwill		-		-	
- Other intangible assets	(10)	42		-	
PROPERTY, PLANT AND EQUIPMENT		61		63,167	
- Land, property, plant and machinery	(11)	-		62,347	
- Other tangible assets	(12)	61		820	
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		604,058		603,509	
- Equity investments (in subsidiary companies)	(13)	601,705		601,705	
- Equity investments (in associated companies)		-		-	
- Equity investments (in other companies)		-		-	
- Receivables	(14)	2,353	2,353	1,804	1,804
DEFERRED TAX ASSETS	(15)	9,339		3,034	
TOTAL NON-CURRENT ASSETS		**613,500**		**669,710**	
CURRENT ASSETS					
INVENTORIES		-		-	
TRADE RECEIVABLES	(16)	4,622	3,725	6,485	5,711
CURRENT TAX ASSETS	(17)	3,860		10,658	
OTHER RECEIVABLES	(18)	13,980	13,349	32,371	9,385
CURRENT FINANCIAL RECEIVABLES AND ASSETS	(19)	44,872	44,872	-	
CASH AND CASH EQUIVALENTS	(20)	551		368	
TOTAL CURRENT ASSETS		**67,885**		**49,882**	
NON-CURRENT ASSETS HELD FOR SALE	(21)	-		5,858	
NON-CURRENT ASSETS HELD FOR SALE		**-**		**5,858**	
TOTAL ASSETS		**681,385**		**725,450**	

Balance sheet
pursuant to CONSOB Resolution 15519 of 27 July 2006

Net equity and liabilities

(€/000)	Notes	31.12.2008	of which with related parties	31.12.2007	of which with related parties
NET EQUITY					
NET EQUITY		537,053		519,087	
- Share capital	(22)	448,500		448,500	
- Reserves	(23)	61,617		67,674	
- Profit (loss) for the year		26,936		2,913	
NON-CURRENT LIABILITIES					
FINANCIAL PAYABLES		79,264		62,381	
- Bank loans and borrowings (long-term portion)	(24)	76,576		59,158	
- Other financial payables (long-term portion)	(25)	2,688		3,223	
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		8,904		10,438	
- Employee benefits	(26)	3,267		2,381	
- Other provisions	(27)	5,637		8,057	
TOTAL NON-CURRENT LIABILITIES		**88,168**		**72,819**	
CURRENT LIABILITIES					
TRADE PAYABLES	(28)	5,370	2,403	3,896	323
FINANCIAL PAYABLES		37,130		116,619	
- Bank loans and borrowings (short-term portion)	(24)	36,551		29,872	
- Other financial payables (short-term portion)	(25)	579	44	86,747	80,616
CURRENT TAX LIABILITIES	(29)	4,887		1,923	
OTHER PAYABLES	(30)	8,777	7,429	11,106	8,999
TOTAL CURRENT LIABILITIES		**56,164**		**133,544**	
TOTAL NET EQUITY AND LIABILITIES		**681,385**		**725,450**	

Transactions and balances with related parties

Summary by company

(€/million)	Other revenues	Costs for services	Other income (expenses)	Financial income and expenses	Non-current financial receivables	Trade and other receivables (2)	Current financial receivables	Trade and other payables (3)
Subsidiary companies: (1)								
De'Longhi Appliances S.r.l.	3.9	(0.4)	-	20.0	-	3,7	-	(1.6)
Climaveneta Home System S.r.l.	0.7	(0.1)	-	-	-	0.1	-	(1.5)
Kenwood Limited	0.5	-	-	-	-	0,9	-	-
E-Services S.r.l.	0.4	(0.1)	-	0.2	-	0.8	-	(0.1)
DL Radiators S.p.A.	0.4	-	-	-	0.1	0.2	-	(3.5)
DL Trading Limited	0.4	-	-	0.3	1.0	0.4	-	-
Climaveneta S.p.A.	0.3	-	-	-	-	4.1	-	-
Promised Success Ltd	0.3	-	-	-	0.1	0.3	-	-
Ariete S.p.A.	0.2	-	-	-	0.2	4.2	-	-
Tricom Ind. Co. Ltd.	0.2	-	-	-	-	0.2	-	-
De'Longhi America Inc.	0.1	-	-	-	0.1	0.1	-	-
De'Longhi Household S.A.	-	(0.6)	-	-	-	-	-	(0.6)
De'Longhi Capital Services S.r.l.	-	-	-	(3.6)	-	-	44.9	(2.5)
De'Longhi Japan Corporation	-	-	-	0.1	0.3	-	-	-
Alabuga International S.A.	-	-	-	0.1	0.1	-	-	-
De'Longhi Canada Inc.	-	-	-	-	0.1	-	-	-
R.C. Group S.p.A.	-	-	-	-	-	1.6	-	-
De'Longhi New Zealand Limited	-	-	-	-	0.1	-	-	-
De'Longhi Australia PTY Limited	-	-	-	0.1	0.1	-	-	-
Kenwood Home Appl. PTY Limited	-	-	-	-	0.1	-	-	-
Total subsidiary companies (a)	**7.4**	**(1.2)**	**-**	**17.2**	**2.3**	**16.6**	**44.9**	**(9.8)**

Transactions and balances with related parties

Summary by company -cont'd

(€/million)	Other revenues	Costs for services	Other income (expenses)	Financial income and expenses	Non-current financial receivables	Trade and other receivables (2)	Current financial receivables	Trade and other payables (3)
Related companies:								
Gamma S.r.l.	0.1	(0.1)	5.2	-	-	0.4	-	-
Total related companies (b)	**0.1**	**(0.1)**	**5.2**	**-**	**-**	**0.4**	**-**	**-**
Total subsidiary and related companies (a+b)	**7.5**	**(1.3)**	**5.2**	**17.2**	**2.3**	**17.0**	**44.9**	**(9.8)**

(1) These mostly refer to dealings of a commercial nature and the supply of administrative services by company employees.
(2) This consists of €3.7 million in "Trade receivables" and €13.3 million in "Other receivables".
(3) This consists of €2.4 million in "Trade payables" and €7.4 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 advice provided in 2008. More information can be found in Appendix 4 to the explanatory notes: "Emoluments of directors and statutory auditors". Also during the year, the company recharged €0.9 million to Giuseppe De'Longhi (Chairman of the Board of Directors) for the cost of services incurred.

Emoluments of directors and statutory auditors

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

(€/000)

	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	600	-	-	310 (1)
Fabio De'Longhi	Vice Chairman and Chief Executive Officer	01.01.07/31.12.09	Approval annual report 2009	622(2)	-	-	78 14 (3)
Alberto Clò	Director	01.01.07/31.12.09	Approval annual report 2009	40	-	-	1 (4)
Renato Corrada	Director	01.01.07/31.12.09	Approval annual report 2009	40	-	-	3 (4)
Silvia De'Longhi	Director	12.07.07/31.12.09	Approval annual report 2009	40	-	-	-
Carlo Garavaglia	Director	01.01.07/31.12.09	Approval annual report 2009	40	-	-	5 (4)
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	-	-	3 (4)
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				2,369	-	-	-

(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) 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 €380 thousand in fees from the company during 2008.

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 2008, which comprise the income statement, the balance sheet, the cash flow statement, the statement of changes in equity, and related explanatory notes. The directors of De'Longhi SpA are responsible for the preparation of these financial statements in compliance 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. 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, reference is made to our report dated 4 April 2008.

3 In our opinion, the financial statements of De'Longhi SpA as of 31 December 2008 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 for the period then ended.

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P. IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob – Altri Uffici: **Bari** 70124 Via Don Luigi Guanella 17 Tel. 0805640211 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 – **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 08136181 – **Padova** 35138 Via Vicenza 4 Tel. 049873481 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38100 Via Grazioli 73 Tel. 0461237004 – **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 – **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel. 0458002561

4 The directors of De'Longhi SpA are responsible for the preparation of the Report on Operations in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the Report on Operations with the financial statements, as required by art. 156, paragraph 4-bis, letter d), of the Legislative Decree no. 58/98. For this purpose, we have performed the procedures required under Auditing Standard n. 001 issued by the Italian Accounting Profession (CNDCEC) and recommended by CONSOB. In our opinion the Report on Operations is consistent with the financial statements of De'Longhi SpA as of 31 December 2008.

Padua, 3 April 2009

PricewaterhouseCoopers SpA

Signed by
Nicola Piovan
(Partner)

This report has been translated into the English language from the original which was issued in Italian, solely for the convenience of international readers.
We have not examined the translation of the financial statements referred to in this report.

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project: design associati