Half-year report at June 30, 2005

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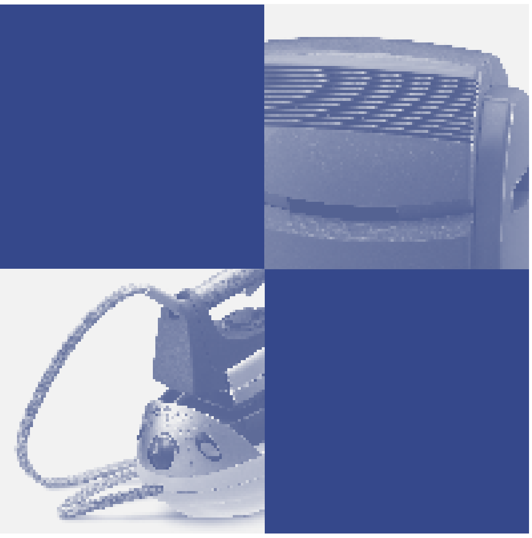
Company officers



Company officers

Board of Directors

Giuseppe De'longhi*	Chairman
Fabio De'longhi*	Vice Chairman and Chief Executive Officer
Stefano Beraldo	Director
Alberto Clò**	Director
Renato Corrada**	Director
Carlo Garavaglia**	Director
Dario Melò*	Director and Chief Operating Officer
Giorgio Sandri	Director
Giovanni Tamburi**	Director

Board of Statutory Auditors

Gianluca Ponzellini	Chairman
Massimo Lanfranchi	Standing members
Giuliano Saccardi	Standing members
Roberto Cortellazzo-wiel	Alternate auditors
Alberto Lanfranchi	Alternate auditors

External auditors

Pricewaterhousecoopers S.p.a.***

Internal Auditing and Corporate Governance Committee

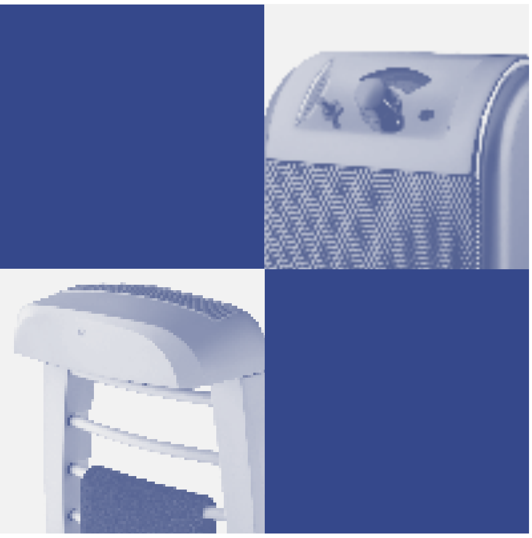
Renato Corrada**
Carlo Garavaglia**
Giovanni Tamburi**

Compensation Committee

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

* The current officers were elected at the shareholders' meeting of April 28, 2004. During the Board of Directors meeting of June 27, 2005, Fabio De'Longhi was named Chief Executive Officer to replace resigning CEO Stefano Beraldo. Mr. Beraldo is still a member of the Board of Directors. On the same date, Dario Melò was co-opted to the Board of Directors to replace resigning member Silvio Sartori.
** Independent directors
*** Engaged by the shareholders' meeting of April 28, 2004 to audit the 2004, 2005 and 2006 financial statements.

Directors' report on operations



Introduction

The De'Longhi Group has opted for the transitional system offered by Art. 81 bis of CONSOB Regulation 11971 on Issuers of Public Stock (as amended) and has therefore drawn up its half-year accounts according to Italian accounting standards. The consolidated financial statements at December 31, 2005 and the quarterly report at September 30, 2005 will be prepared on the basis of IAS/IFRS.

In their half-year reports, groups are in any case required to provide a reconciliation between figures based on Italian accounting standards and those calculated according to IAS/IFRS (at the transition date of January 1, 2004, at December 31, 2005 and at June 30, 2005). For details please see the appendix to this report.

Results for the first six months

During the first half of 2005, the group suffered from a lackluster air conditioning season and from ongoing difficulties in some of its geographical markets. Consolidated revenues were down by 12.7% (from € 614.2 million to € 536.2 million), caused mainly by a decrease in sales of air conditioning and air treatment systems and to a lesser degree by the loss of business with an OEM customer. Note that the comparison suffers from a significant 20% increase in air conditioning and air treatment sales between the first half of 2003 and the same period in 2004.

Despite the decline in sales, against a general backdrop of weak consumption, the group increased its market shares in the main product categories. There were also major signs of recovery in some areas, such as small appliance sales in Italy, and the group enjoyed continued success with its coffee makers (especially the automatic model).

The gross profit (*), at € 214.5 million (€ 250.0 million for the first half of 2004), was held back by the smaller contribution to revenues of air conditioning products—whose profitability is higher than the group average.

EBITDA, amounting to € 35.9 million (€ 64.4 million for the first half of 2004) or 6.7% of sales (10.5% the previous year), was affected not only by the decline in revenues but by non-recurring costs for internationalizing the production process and by the increase in transport on purchase costs as a percentage of net sales.

As a result, the pre-tax result went from a profit of Euro 13.2 million in 2004 to a loss of € 15.8 million.

The net financial position, excluding the effects of the securitisation, went from € 401.2 million at June 30, 2004 to € 462.0 million due to the increase in net working capital, caused primarily by the greater stocks of air conditioning products and the decrease in trade payables as a result of the shorter payment terms for goods bought in China as compared with those purchased in Europe. Net of the securitisation, debt rose from € 305.5 million to € 399.1 million (use of the of securitisation arrangement decreased by € 32.8 million during the period).

(*) To ensure an accurate representation of performance, in the reclassified income statement the gross profit includes all transformation costs, including the portion previously classified among service and payroll costs. The gross profit is defined as revenues net of consumption, industrial labor costs, temporary employment, outsourcing, power, maintenance, and transport on purchases.

Transition to IAS

The reconciliation between the financial statements prepared according to Italian and international accounting standards shows that:

- consolidated shareholders' equity at January 1, 2004 went from € 560.7 million to € 541.2 million, a decrease of € 19.5 million;
- consolidated net income for 2004 rose by € 20.3 million, from € 15 million to € 35.3 million;
- the pre-tax group result at 30 June 2005 went from a loss of € 15.8 million to close to the breakeven point (loss of € 0.1 million), improving by € 15.7 million.

Significant events

Purchase of a radiator factory in Russia for sales in the local market

In April, De'Longhi finalized the purchase of 92.8% of the factory's owner, Zass Alabuga LLC.

The new production activities in Russia are going through the start-up phase on schedule. The move will give De'Longhi a sharper competitive edge in this important market.

Joint venture with TCL

On April 28, 2005, the group signed a joint venture agreement with TCL, a leading Chinese manufacturer and distributor of air conditioners, telephone products, and televisions that is listed on the Hong Kong and Shanghai Stock Exchanges. The deal will allow the group to produce air conditioners and dehumidifiers at its own factories in China. More generally, it has strengthened our industrial presence in China and paved the way for commercial development in one of the largest markets in the world.

The new factory is located in Nangtu in the Zongshang/Guangdong province, where De'Longhi already has a production unit for heating products.

The agreement will bolster our commercial position in China and the Far East, thanks to our partner's expertise and distribution capacity, and by strengthening our hold in the major international markets constitutes the final step in the overhaul of our production arrangements.

Reclassified consolidated income statement for the first half of 2005

In Euro/000	2005 First half	% of sales	2004 First half	% of sales
Net revenues	**536,192**	**100.0%**	**614,170**	**100.0%**
Change	(77,978)	(12.7%)		
Consumption and industrial costs (services and industrial labor)	(321,716)	(60.0%)	(364,172)	(59.3%)
Gross profit (*)	**214,476**	**40.0%**	**249,998**	**40.7%**
Cost of services & other expenses	(126,056)	(23.5%)	(130,253)	(21.2%)
Value added	**88,420**	**16.5%**	**119,745**	**19.5%**
Payroll (non-industrial)	(47,066)	(8.8%)	(45,407)	(7.4%)
Provisions	(5,398)	(1.0%)	(9,894)	(1.6%)
EBITDA	**35,956**	**6.7%**	**64,444**	**10.5%**
Change	(28,488)	(44.2%)		
Amortisation and depreciation	(31,477)	(5.9%)	(32,973)	(5.4%)
EBIT	**4,479**	**0.8%**	**31,471**	**5.1%**
Change	(26,992)	(85.8%)		
Financial income (expenses)	(14,987)	(2.8%)	(14,087)	(2.3%)
Exchange gains (losses)	(979)	(0.2%)	(3,095)	(0.5%)
Non-recurring income (expenses)	(3,964)	(0.7%)	(698)	(0.1%)
Profit before taxes	**(15,451)**	**(2.9%)**	**13,591**	**2.2%**
Income pertaining to minority interests	317	0.1%	378	0.1%
Group's share of pre-tax profit	**(15,768)**	**(2.9%)**	**13,213**	**2.2%**

(*) To ensure an accurate representation of performance, in the reclassified income statement the gross profit includes all transformation costs, including the portion previously classified among service and payroll costs. The gross profit is defined as revenues net of consumption, industrial labor costs, temporary employment, outsourcing, power, maintenance, and transport on purchases.

Sales performance

Sales were down for the first six months of the year, due largely to the weaker contribution of air conditioning and air treatment revenues and (to a lesser degree) reduced sales of cleaning and ironing systems, due to the loss of an OEM customer.

Consolidated net sales came to Euro 536.2 million, a decrease of 12.7% compared with the first half of 2004.

Performance by business line

Trends in net revenues by business line are shown in the tables below:

(in Euro/mn)	first half 2005	first half 2004	change	% change at current exchange rates
Business line				
Cooking and food preparation	242.8	242.8	(0.1)	(0.0%)
Air conditioning and air treatment	164.3	220.7	(56.3)	(25.5%)
Heating	60.6	59.5	1.2	1.9%
Cleaning and ironing systems	48.0	63.6	(15.6)	(24.5%)
Other (*)	20.5	27.6	(7.2)	(26.0%)
Total	**536.2**	**614.2**	**(78.0)**	**(12.7%)**

(*) "Other" includes revenues from the sale of accessories, parts, raw materials, semi-finished products and scrap, as well as service revenues, casual gains and other income.

Cooking and food preparation

Sales by this line were consistent with those for the first half of 2004. Coffee machines continued their fine performance, thanks especially to the automated models, and food processors also sold well. Sales of deep fryers and mini-ovens declined. The launch of a new line of compact ovens for the North American market and the rollout in Europe of a new deep fryer range should help improve results for these two categories.

Air conditioning and air treatment

Sales were hurt by poor weather conditions in Europe during the second quarter of the year, which discouraged distributors from re-ordering wall-mounted and portable air conditioners.

Although it was not a good air conditioning season, the group is still sharply focused on innovation for the A/C market, as witnessed by the new Pinguino portable model and the original Planos wall-mounted unit. De'Longhi believes that the market for portable and wall-mounted air conditioners still has good prospects for growth, given what is still a low rate of ownership in Europe.

Large thermo-cooling machines enjoyed healthy sales growth during the first six months, due in part to expanded business in the Far East.

Cleaning and ironing systems

Sales by this line were not as high as they were during the first half of 2004. Ironing systems performed in line with H104, but the family of cleaning products suffered from comparison with some extraordinary sales that took place during the first quarter of 2004.

Heating

Although the first half of the year is less significant for sales of heating systems, results did improve compared with the same period in 2004. The order book is higher than it was this time last year.

Sales of hot water radiators were consistent with those in H104.

Markets

The group's sales trend is broken down below by geographical area:

(in Euro/mn)	first half 2005	first half 2004	change	% change at current exchange rates
Area				
Italy	152.8	199.1	(46.3)	(23.3%)
United Kingdom	68.9	75.9	(7.0)	(9.3%)
Rest of Europe	189.8	202.3	(12.5)	(6.2%)
USA, Canada, Mexico	30.2	40.6	(10.4)	(25.6%)
Japan	9.7	11.6	(1.9)	(16.1%)
Rest of the world	84.8	84.7	0.1	0.2%
Total	**536.2**	**614.2**	**(78.0)**	**(12.7%)**

Net revenues in the Italian market were lower than during the first six months of 2004, due entirely to the decline in air conditioner sales. Products for cooking and food preparation enjoyed significant sales growth thanks mainly to coffee makers, food processors and small appliances in general.

Sales in the U.K. market were hurt by flagging consumption.

In the rest of Europe, performance was good in the principal markets (including France and Spain) but declined in Greece and Germany, as a result of market conditions.

Sales in North America suffered from a less vigorous performance by cooking and food preparation products and by portable air conditioners.

The modest growth in the rest of the world owes to strong results in South America and Russia.

Results

Group profitability was held back not only by the decline in sales, but by non-recurring costs for the process of internationalizing production and by the increase in fixed costs (especially transport on purchases) as a percentage of net revenues.

The gross profit, at Euro 214.5 million (Euro 250 million for the first half 2004) or 40.0% of sales (down from 40.7%), was hurt by an unfavorable mix—i.e. a smaller contribution by air conditioners, which are more profitable than the group's average product—and by higher transport costs on purchases. The latter was caused by the greater volume of finished products the group bought during the first half of 2005 in comparison with H104, in order to build up the additional stocks needed in connection with the process of transferring production abroad.

That process continued during the first six months of the year, with the production/purchase of Chinese-made goods now accounting for nearly 50% of the total.

Breaking down the gross profit, the labor cost component decreased by € 5.1 million even though it has not yet benefited from the industrial plan agreement, which calls for personnel cuts at the parent company starting in the second quarter of 2005. This will produce the expected savings as from the second half of the year and will have an even greater impact on income statements for the years to come.

EBITDA was penalized by the reduction in sales and also by the higher incidence of service and non-industrial payroll costs, which rose from 28.6% to 32.3% of sales, and by non-recurring costs for moving production activities abroad.

As a result, EBITDA came in at Euro 36.0 million (Euro 64.4 million for the first half of 2004), or 6.7% of sales (10.5% the previous year).

Amortisation and depreciation totaled € 31.5 million, down from € 33.0 million in H104.

EBIT was € 4.5 million (€ 31.5 million the previous year).

Financial operations produced net interest expense in line with the first six months of last year, and net exchange losses of € 1.0 million (€ 3.1 million in 2004).

The pre-tax result went from a profit of € 13.2 million for the first six months of last year to a loss of € 15.8 million.

Key balance sheet figures

Reclassified consolidated balance sheet

in Euro/000	30/06/05	31/12/04	Change 30/06/05 31/12/04	30/06/04	Change 30/06/05 30/06/04
Intangible assets	396,229	406,999	(10,770)	418,098	(21,869)
Tangible assets	230,408	226,671	3,737	227,512	2,896
Financial fixed assets	10,291	7,544	2,747	8,044	2,247
Total fixed assets	**636,928**	**641,214**	**(4,286)**	**653,654**	**(16,726)**
Trade receivables (*)	277,339	275,944	1,395	285,112	(7,773)
Net inventory	394,714	290,877	103,837	357,523	37,191
Trade payables	(294,449)	(267,187)	(27,262)	(338,174)	43,725
Other current assets (liabilities)	23,960	32,864	(8,904)	14,002	9,958
Net working capital	**401,564**	**332,498**	**69,066**	**318,463**	**83,101**
Employee severance indemnity	(26,523)	(26,490)	(33)	(25,234)	(1,289)
Reserve for deferred taxes	(17,544)	(17,335)	(209)	(29,291)	11,747
Reserves for risks and charges	(50,185)	(53,655)	3,470	(42,695)	(7,490)
Total non-current liabilities and reserves	**(94,252)**	**(97,480)**	**3,228**	**(97,220)**	**2,968**
Net capital employed	**944,240**	**876,232**	**68,008**	**874,897**	**69,343**
Net debt (*)	**399,070**	**313,254**	**85,816**	**305,460**	**93,610**
Total shareholders' equity	**545,170**	**562,978**	**(17,808)**	**569,437**	**(24,267)**
Total net debt and shareholders' equity	**944,240**	**876,232**	**68,008**	**874,897**	**69,343**

(*) Including securitisation transactions worth € 62.9 million for the first half of 2005 and € 95.8 million for H104.

The cash flow statement can be summarized as follows:

(in Euro/mn)	30/06/05 (6 months)	30/06/04 (6 months)	31/12/04 (12 months)
Cash flows generated (absorbed) by operating activities (*)	13.0	46.0	78.1
Cash flows generated (absorbed) by changes in working capital and investment activities	(69.6)	(85.0)	(111.0)
Net operating cash flow	**(56.6)**	**(39.0)**	**(32.9)**
Cash flows generated by changes in shareholders' equity items	(2.0)	(5.9)	(14.1)
Cash flow for the period pre-securitisation	**(58.6)**	**(44.9)**	**(47.0)**
Securitisation	(27.2)	(13.4)	(19.0)
Cash flow for the period post-securitisation	**(85.8)**	**(58.3)**	**(66.0)**
Opening net financial position	(313.3)	(247.2)	(247.2)
Closing net financial position	**(399.1)**	**(305.5)**	**(313.3)**

(*) Including the pre-tax result (net result for 31/12/04), depreciation & amortisation and net provisions.

The net financial position, excluding the effects of the securitisation, went from € 401.2 million at June 30, 2004 to € 462.0 million due to the rise in net working capital, which was caused mainly by greater stocks of air conditioners resulting from the negative selling season for those products and from the prudent accumulation of stocks in connection with the process of moving production to China.

The decrease in trade payables, caused by the shorter payment deadlines required by Chinese suppliers with respect to their counterparts in Europe, was partially offset by better management of trade receivables.

Net of the securitisation, debt rose from € 305.5 million to € 399.1 million (use of the of securitisation arrangement decreased by € 32.8 million during the period).

There was also a significant decrease in tax payables due to payment during the year of the charge due under the amnesty scheme and of the substitute tax for extraordinary operations performed in 2003.

Related party transactions

The effects of De'Longhi S.p.A.'s and other group companies' transactions with parent companies, non-consolidated subsidiaries, associated companies and related parties are reported in the explanatory notes.

Subsequent events

There are no significant events to report.

Outlook for the rest of 2005

Revenues enjoyed a reversal of trend in July and August that is likely to continue for the rest of the year. Therefore, although the first half was especially weak, we expect the year to close with an improvement on the results achieved thus far.

When 2005 comes to a close we will have finished the bulk of the transfer process, and seen the last of the non-recurring costs that have hurt profitability for the last several years.

Treviso, September 12, 2005
for the Board of Directors
Fabio De'Longhi
Vice President and CEO

Consolidated financial statements

Balance sheet

Assets

	30.06.2005		31.12.2004		30.06.2004	
	Partial	Total	Partial	Total	Partial	Total
A) SHAREHOLDER CONTRIBUTIONS DUE		-		-		-
B) FIXED ASSETS						
I - INTANGIBLE FIXED ASSETS		396.228		406.998		418.099
II - TANGIBLE FIXED ASSETS		230.408		226.670		227.512
III - FINANCIAL FIXED ASSETS		12.282		9.201		11.114
TOTAL FIXED ASSETS		**638.918**		**642.869**		**656.725**
C) CURRENT ASSETS						
I - INVENTORIES		394.714		290.876		357.523
II - RECEIVABLES						
1) Trade receivables		270.077		275.939		285.052
3) Due from associated companies		7.286		85		81
4) Due from parent companies		423		423		-
4-bis) Tax credits		16.188		23.024		27.398
4-ter) Deferred tax assets		42.910		42.966		35.422
5) Due from others		10.671		11.251		9.499
TOTAL RECEIVABLES		**347.555**		**353.688**		**357.452**
III - FINANCIAL ASSETS NOT HELD AS FIXED ASSETS		31.270		36.680		38.882
IV - CASH AND BANKS		44.575		100.847		76.246
TOTAL CURRENT ASSETS		**818.114**		**782.091**		**830.103**
D) ACCRUED INCOME AND PREPAYMENTS		**5.917**		**4.157**		**5.147**
TOTAL ASSETS		**1.462.949**		**1.429.117**		**1.491.975**

Balance Sheet
Liabilities

	30.06.2005		31.12.2004		30.06.2004	
	Partial	Total	Partial	Total	Partial	Total
A) SHAREHOLDERS' EQUITY						
I - SHARE CAPITAL		448.500		448.500		448.500
II - SHARE PREMIUM RESERVE		15.000		15.000		15.000
III - REVALUATION RESERVE		-		-		-
IV - LEGAL RESERVE		5.393		4.839		4.839
V - RESERVE FOR PURCHASE OF TREASURY STOCK		-		-		-
VI - STATUTORY RESERVES		-		-		-
VII - OTHER RESERVES		30.845		23.337		31.484
VIII - PROFITS (LOSSES) CARRIED FORWARD		58.538		54.623		54.623
PROFIT (LOSS) FOR THE PERIOD/YEAR		(15.768)		14.990		13.211
TOTAL GROUP'S PORTION OF SHAREHOLDERS' EQUITY		**542.508**		**561.289**		**567.657**
X - MINORITY INTEREST IN SHARE CAPITAL AND RESERVES		2.343		1.501		1.402
XI - MINORITY INTEREST IN PROFIT (LOSS)		317		188		378
TOTAL SHAREHOLDERS' EQUITY		**545.168**		**562.978**		**569.437**
B) RESERVES FOR CONTINGENCIES AND OTHER CHARGES						
1) Indemnity and retirement reserves		5.202		5.835		5.404
2) For taxes						
-deferred		17.544		17.335		29.291
3) Other		44.983		47.819		37.291
TOTAL RESERVES FOR CONTINGENCIES AND OTHER CHARGES		**67.729**		**70.989**		**71.986**
C) RESERVE FOR SEVERANCE INDEMNITIES		**26.523**		**26.490**		**25.234**
D) PAYABLES						
4) Due to banks		448.192		421.164		389.170
5) Due to other sources of finance		11.792		12.718		14.331
6) Advances		3.713		1.164		1.992
7) Trade payable		294.348		267.005		338.096
8) Bonds		2		2		-
9) Due to subsidiaries		1.754		1.711		1.668
10) Due to associated companies		102		181		71
11) Due to parent companies		-		-		11
12) Tax payable		9.109		14.882		24.946
13) Due to social security institutions		6.187		6.596		4.286
14) Other payables		44.165		39.115		46.768
TOTAL PAYABLES		**819.364**		**764.538**		**821.339**
E) ACCRUED LIABILITIES AND DEFERRED INCOME		**4.165**		**4.122**		**3.979**
TOTAL LIABILITIES		**917.781**		**866.139**		**922.538**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**1.462.949**		**1.429.117**		**1.491.975**
MEMORANDUM ACCOUNTS		**7.011**		**9.643**		**9.583**

Income Statement

	30.06.2005		30.06.2004		31.12.2004	
	Partial	Total	Partial	Total	Partial	Total
A) VALUE OF PRODUCTION						
1) Revenues from sales and services		526.528		604.807		1.266.193
2) Change in inventory of work in progress, semi-finished and finished products		84.305		78.142		31.329
4) Increase in capitalised assets		1.025		1.358		2.542
5) Other revenues and income						
- miscellaneous	9.654		9.251		20.581	
- advances in the period	10	9.664	112	9.363	264	20.845
TOTAL VALUE OF PRODUCTION		**621.522**		**693.670**		**1.320.909**
B) COST OF PRODUCTION						
6) For raw & ancillary materials, consumables and goods		344.858		383.062		667.366
7) For services		141.684		149.936		311.349
8) For rentals and leasing		10.241		10.045		20.365
9) Personnel expenses		83.405		85.876		164.042
10) Amortisation, depreciation and write-downs		33.220		34.700		67.071
11) Change in inventory of raw & ancillary materials,consumables and goods		(5.423)		(15.201)		(2.801)
12) Provisions for contingencies and other charges		3.656		8.167		8.918
13) Other provisions						
14) Other operating expenses		5.401		5.615		10.621
TOTAL COST OF PRODUCTION		**617.042**		**662.200**		**1.246.931**
DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION (A-B)		**4.480**		**31.470**		**73.978**
C) FINANCIAL INCOME AND EXPENSES						
15) Income from equity investments		-		106		209
16) Other financial income		2.046		1.001		2.035
17) Interest and other financial expenses		(16.933)		(15.071)		(34.279)
17-bis) Exchanges gains (losses)	(979)	(979)		(3.095)	(9.956)	(9.956)
TOTAL FINANCIAL INCOME AND EXPENSES		**(15.866)**		**(17.059)**		**(41.991)**
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS						
18) Revaluations:		-		47		-
19) Writedowns:		(101)		(170)		(599)
TOTAL ADJUSTMENTS TO FINANCIAL ASSETS		**(101)**		**(123)**		**(599)**
E) NON-RECURRING INCOME AND EXPENSES						
20) Income		170		1.105		11.222
21) Expenses		(4.134)		(1.804)		(22.872)
TOTAL NON-RECURRING INCOME AND EXPENSES		**(3.964)**		**(699)**		**(11.650)**
PRE-TAX PROFIT (LOSS)		**(15.451)**		**13.589**		**19.738**
22) Income tax for the period/year		-		-		(4.560)
PROFIT (LOSS) FOR THE PERIOD/YEAR		**(15.451)**		**13.589**		**15.178**
Profit (loss) pertaining to minority interests		**(317)**		**(378)**		**(188)**
PROFIT (LOSS) PERTAINING TO THE GROUP		**(15.768)**		**13.211**		**14.990**

Consolidated statement of changes in financial position the periods ended on 30 June 2005, 30 June 2004 and 31 December 2004

	30-06-2005 6 months	30-06-2004 6 months	31-12-2004 12 months
Net profit (loss) for the year/period	(15.768)	13.211	14.990
Amortisation and depreciation	31.477	32.973	63.213
Net change in reserves and writedowns	(2.728)	(232)	(139)
Cash flows generated (absorbed) by current operations (A)	**12.981**	**45.952**	**78.064**
Changes in assets and liabiliites during the period/year:		0	
Trade receivables	25.259	28.310	41.233
Inventories	(103.837)	(97.085)	(30.439)
Trade payables	27.262	29.609	(41.379)
Other current assets and liabilities	8.906	(20.521)	(36.757)
Cash flows generated (absorbed) by changes in working capital (B)	**(42.410)**	**(59.687)**	**(67.341)**
Investment activities		**0**	
Net investments in intangible fixed assets	(7.797)	(5.558)	(13.950)
Net investments in tangible fixed assets	(16.647)	(19.735)	(29.783)
Net investments in financial fixed assets	(2.746)	5	78
Cash flows generated (absorbed) by investment activities (C)	**(27.190)**	**(25.288)**	**(43.655)**
Changes in shareholders' equity	0	0	0
Payment of dividends	(8.970)	(8.970)	(8.970)
Change in currency translation reserve	5.956	2.674	(5.472)
Increase(Decrease) in minority interests in share capital	971	418	326
Cash flows generated (absorbed) by changes in sharehol-ders' equity (D)	**(2.043)**	**(5.878)**	**(14.117)**
Securitisation (E)	**(27.153)**	**(13.353)**	**(18.999)**
Cash flow for the year/period (A+B+C+D+E)	**(85.815)**	**(58.254)**	**(66.048)**
Opening net financial position	(313.254)	(247.206)	(247.206)
Cash flow for the year/period (A+B+C+D+E)	(85.815)	(58.254)	(66.048)
Closing net financial position	**(399.070)**	**(305.460)**	**(313.254)**

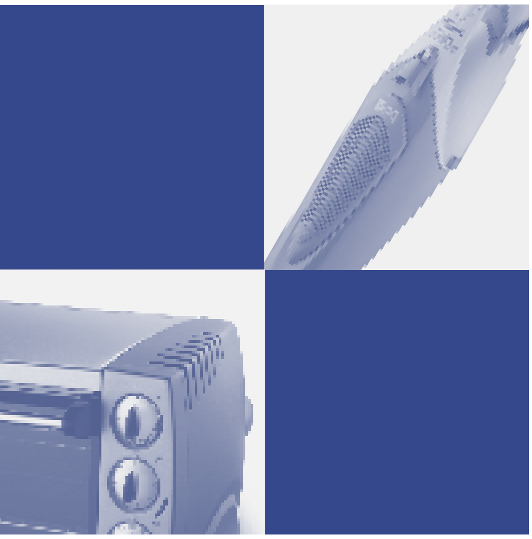
The figure at 30 June 2005 includes Euro 75,844 thousand in cash and banks and other financial assets due within 12 months.

Financial payables include the net interest-bearing financial exposure towards banks for Euro 448,192 thousand of which Euro 275,700 thousand due beyond 12 months) and towards others for Euro 26,722 thousand (of which Euro 9,83 thousand beyond 12 months).

Statement of changes in shareholders' equity

	Share capital	Share premium reserve	Legal reserve	Other reserves	Currency translation reserve	Profits (losses) carried forward	Net profit (loss) for the period	Total
Balance at 1 January 2005	**448.500**	**15.000**	**4.839**	**41.833**	**(18.496)**	**54.623**	**14.990**	**561.289**
Allocation of 2004 result as per AGM resolution of 28 April 2005								
- payment of dividends	-	-	-	-	-	-	(8.970)	(8.970)
- allocation to reserves	-	-	554	1.551	-	3.915	(6.020)	-
Difference from conversion of foreign companies' financial statements in Euro	-	-	-	-	5.957	-	-	5.957
Pre-tax profit (loss) for the period	-	-	-	-	-	-	(15.768)	(15.768)
Balance at 30 June 2005	**448.500**	**15.000**	**5.393**	**43.384**	**(12.539)**	**58.538**	**(15.768)**	**542.508**

Explanatory notes



Form and content of the consolidated and parent company's financial statements at 30 june 2005

The consolidated financial statements at 30 June 2005 include the consolidated balance sheet, income statement and these notes and have been drawn up in accordance with Legislative Decree 127/91 and the Italian Civil Code, as supplemented by the principles upheld by the Italian Accounting Profession. They take account of CONSOB regulations and the provisions introduced by Legislative Decree 58/1998 (the Draghi Consolidated Act) and subsequent decrees issued for the purpose of implementing and supplementing it.
The half-year financial information also takes account of the provisions introduced under Legislative Decree 6 of 17 January 2003 and subsequent amendments.

The balance sheet and income statement items from the consolidated and the parent company's financial statements have been combined, as permitted by Regulation 11971 approved by CONSOB on 14 May 1999 (as amended), to show in the balance sheet only those items preceded by Roman numerals — with the exception of receivables, payables and reserves for risks and charges which are presented in greater detail — and in the income statement only those items preceded by Arabic numerals.

All omitted figures, if significant, are presented in these notes, whose purpose is to illustrate and supplement the figures contained in the consolidated balance sheet and income statement, and to present the information required by CONSOB Regulation 11971/1999 and all complementary data necessary for fair and truthful disclosure even if not required by specific legislation.

The financial statements (consolidated financial statements and those of the parent company) are presented before taxes, as allowed by article 81-bis of CONSOB Regulation 11971/1999 for preparing half-year reports.

The figures shown in the balance sheet, income statement and notes are expressed in thousands of euros.

Transition to international accounting standards (IAS/IFRS)

Article 81 of the Issuers' Regulations (CONSOB Regulation 11971 of 14 May 1999, as amended by CONSOB Resolution 14990 of 14 April 2005) requires that half-year financial reports be prepared in accordance with IAS/IFRS, while article 81-bis offers an alternative transitional approach that allows companies to continue using the former accounting standards used to prepare the prior year consolidated financial statements.
In this case, companies must provide the following information:
(i) a reconciliation of shareholders' equity at the transition date (1 January 2004), at 31 December 2004 and at 1 January 2005 and of the result for 2004 calculated under the previous rules with the corresponding amounts determined under IFRS;
(ii) a reconciliation of shareholders' equity and results at 30 June 2005, calculated under the standards applying to the prior year consolidated financial statements, with the corresponding amounts determined under IAS/IFRS.

The De'Longhi Group has decided to opt for the transitional regime allowed by article 81-bis, meaning that it has prepared its half-year financial report under the former rules; the consolidated financial statements at 31 December 2005 and quarterly report at 30 September 2005 will be prepared in accordance with international accounting standards.
The two reconciliations together with the notes explaining the methods of preparation and reconciling items are found in an appendix to these notes.

Scope of consolidation

The scope of consolidation includes the financial statements of the parent company, De'Longhi S.p.A., and of the companies of which, at 30 June 2005, it directly or indirectly owned the majority of share capital or shares with voting rights.

During the first half of 2005, the scope of consolidation expanded due to the acquisition of the production site located in the Republic of Tatarstan (Russia) which manufactures oil radiators for sale on the Russian market. The acquisition was completed in April 2005 with the purchase of 92.8% of Zass Alabuga LLC, the company owning the production plant.
The company was also recapitalized by making a cash payment and by conferring plant formerly used for production in Italy.
The consolidation of this company has not had a significant impact on the group's balance sheet and results since the Russian company's activities have so far been limited due to the seasonal nature of sales most of which are concentrated in the second half of the year.

In June, two companies were set up in Hong Kong and China, as joint ventures with TCL, a Chinese company listed on the Hong Kong and Shanghai stock exchange and leader in the production and distribution of air conditioners, telephony products and televisions.
The group's investment was USD 2,500,000.

The list of companies consolidated as of 30 June 2005 (on a line-by-line basis, under the proportional method and under the equity method) is provided in an attachment.

Consolidation methods and accounting policies

The accounting policies and bases of valuation used in the half-year report at 30 June 2005 are the same as those used to prepare the consolidated financial statements at 31 December 2004, except for the fact that income taxes are not provided in either of the six month periods ended 30 June 2005 and 30 June 2004.

Translation of foreign currency financial statements into euro

The financial statements of foreign subsidiaries are translated into euros as follows:
- at period-end exchange rates for assets and liabilities;
- at average exchange rates for the half-year for items in the income statement;
- at historical exchange rates for the individual components of shareholders' equity.

The exchange differences arising from this method are booked directly to the "currency translation reserve" under consolidated shareholders' equity.

The following exchange rates were used:

		30.06.2005		30.06.2004	
Currency		Period-end exchange rate (*)	Average exchange rate (*)	Period-end exchange rate (*)	Average exchange rate (*)
Australian dollar	AUD	1.58850	1.66343	1.75540	1.66100
Canadian dollar	CAD	1.49000	1.58825	1.63430	1.64300
British pound	GBP	0.67420	0.68609	0.67070	0.67360
Hong Kong dollar	HKD	9.39900	10.01887	9.48030	9.55880
Japanese yen	JPY	133.95000	136.24017	132.40000	133.07600
Malaysian ringgit	MYR	4.59600	4.88484	4.61820	4.66390
New Zealand dollar	NZD	1.73870	1.79502	1.92100	1.88440
Polish zloty	PLN	4.03880	4.07830	4.52360	4.73420
Chinese Renmimbi (Yuan)	RMB	10.00790	10.64185	10.06430	10.16360
Russian rouble	RUB	34.63700	35.94315	35.3281	35.3061
Singapore dollar	SGD	2.03770	2.11714	2.09010	2.08500
US dollar	USD	1.20920	1.28552	1.21550	1.22750
South African rand	ZAR	8.02540	7.97837	7.61770	8.21840

(*) source: UIC (Italian Exchange Office)

Comments on the balance sheet: assets

B) Fixed assets

I – Intangible fixed assets

These can be broken down as follows:

	30.06.2005		31.12.2004		
	Gross	Net	Gross	Net	Change
Start-up and expansion costs	16,930	2,370	16,880	3,995	(1,625)
Research, development and advertising costs	14,846	9,366	14,178	9,876	(510)
Patents	23,959	3,309	23,340	3,446	(137)
Licenses, trademarks and similar rights	255,112	166,507	252,250	170,411	(3,904)
Goodwill	254,466	199,769	252,212	204,437	(4,668)
Work in progress and advances	8,383	8,383	5,630	5,630	2,753
Other	19,885	6,524	21,174	9,203	(2,679)
Total	**593,581**	**396,228**	**585,664**	**406,998**	**(10,770)**

Movements in the main intangible fixed asset categories during the first half of 2005 were as follows:

	Start-up and expansion costs	Research and development costs	Patents	Licenses, trademarks and similar rights	Goodwill	Work in progress and advances	Other	Total
Net opening balance	**3,995**	**9,876**	**3,446**	**170,411**	**204,437**	**5,630**	**9,203**	**406,998**
Additions		1,262	608		-	2,769	1,537	6,176
Change in scope of consolidation					1,134			1,134
Disposals	-	(498)					(336)	(834)
Amortization	(1,643)	(1,365)	(706)	(6,219)	(6,811)	-	(1,824)	(18,568)
Exchange diff. &								
other movements	18	91	(39)	2,315	1,009	(16)	(2,056)	1,322
Net closing balance	**2,370**	**9,366**	**3,309**	**166,507**	**199,769**	**8,383**	**6,524**	**396,228**

The reduction in the balance of intangible fixed assets is the combined effect of € 6,176 thousand in additions and € 18,568 thousand in amortization.

The most significant addition (€ 4,029 thousand) concerns the capitalization of development costs. In fact, starting from the second half of 2003 new procedures have made it possible to account for and analyze the costs incurred and to capitalize the portion of costs with an estimated useful future life.

Of the development costs capitalized in the first half of 2005 € 1,262 thousand has been recorded as "Research and development costs" and € 2,769 thousand as "Work in progress and advances".

The increase in "Goodwill" relates to the acquisition of the Russian company (for more information, please refer to the section on the "Scope of consolidation").

Other additions to intangible fixed assets mostly refer to costs for purchasing and upgrading software, to leasehold improvements and other costs of long-term benefit.

The revaluations made in the past by the parent company and some of the Italian subsidiaries to intangible fixed assets still held at 30 June 2005 amount to € 119,353 thousand.

II – Tangible fixed assets

In detail:

	30.06.2005		31.12.2004		
	Gross	Net	Gross	Net	Change
Land and buildings	171,134	120,290	169,045	120,408	(118)
Plant and machinery	229,714	61,902	224,413	59,608	2,294
Industrial equipment	165,814	28,713	159,206	29,260	(547)
Other	38,544	10,336	36,334	10,269	67
Work in progress and advances	9,167	9,167	7,125	7,125	2,042
Total	**614,373**	**230,408**	**596,123**	**226,670**	**3,738**

Movements in the main tangible fixed assets during the first half of 2005 were as follows:

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other	Work in progress and advances	Total
Net opening balance	**120,408**	**59,608**	**29,260**	**10,269**	**7,125**	**226,670**
Additions	1,210	3,253	5,499	1,466	2,500	13,928
Change in scope of consolidation		430			36	466
Disposals	(132)	28		(38)	(441)	(583)
Depreciation	(2,142)	(2,730)	(6,282)	(1,755)	-	(12,909)
Translation diff. & other movements	946	1,313	236	394	(53)	2,836
Net closing balance	**120,290**	**61,902**	**28,713**	**10,336**	**9,167**	**230,408**

The increase in the balance of tangible fixed assets is the combined effect of € 13,928 thousand in additions and € 12,209 thousand in depreciation.

Additions mostly refer to "Plant and machinery" and "Equipment" involving the purchase of new production lines and moulds, particularly for the factories in Treviso and those in China.

Tangible fixed assets include leased assets, as detailed below (net of accumulated depreciation):

	30.06.2005	31.12.2004	Change
Buildings	5,004	5,107	(103)
Plant and equipment	5,383	5,717	(334)
Other	89	109	(20)
Total	**10,476**	**10,933**	**(457)**

The revaluations made by the parent company and some of the Italian subsidiaries to tangible fixed assets still held at 30 June 2005 amount to € 123,085 thousand.

III – Financial fixed assets

These can be broken down as follows:

	30.06.2005	31.12.2004	Change
Equity investments	9,423	6,655	2,768
Receivables	2,859	2,546	313
Total	**12,282**	**9,201**	**3,081**

1- Equity investments

	30.06.2005	31.12.2004	Change
Subsidiaries	2,067	2,067	-
Associated companies	7,280	3,638	3,642
Other companies	76	950	(874)
Total	**9,423**	**6,655**	**2,768**

Details of companies valued under the equity method are as follows:

Subsidiaries:	**Carrying value**
Clim.Re S.A.	2,067
Associated companies:	
Omas S.r.l.	1,118
Effegici S.r.l.	70
Top Clima S.L	3,643
Interest held through trust company	2,449
Total associated companies	**7,280**

The increase in “Equity investments” is mostly attributable to the purchase for € 2,740 thousand of a 16.66% interest in Top Clima SL, the Spanish distributor for the subsidiary Climaveneta S.p.A..

2- Receivables

This balance is analyzed as follows:

	30.06.2005	31.12.2004	Change
Due from others			
- within 12 months	872	853	19
- beyond 12 months	1,987	1,693	294
Total	**2,859**	**2,546**	**313**

This balance mostly refers to security deposits and a five-year loan for € 1,985 thousand, bearing interest at a market rate, given to the minority shareholder in the Chinese subsidiary Promised Success Limited.

C) Current assets

I – Inventories

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

	30.06.2005	31.12.2004	Change
Raw materials	73,198	65,888	7,310
Semi-finished products	30,480	20,830	9,650
Finished products	291,036	204,158	86,878
Total	**394,714**	**290,876**	**103,838**

The value of inventories is adjusted by a reserve for obsolete and slow-moving goods totalling € 23,269 thousand (€ 21,263 thousand at 31 December 2004), in relation to products and raw materials no longer deemed to be of strategic interest.

The valuation of inventories on a current cost basis would have produced no significant differences.

II – Receivables

Receivables are made up as follows:

	30.06.2005	31.12.2004	Change
Trade receivables	270,077	275,939	(5,862)
Due from associated companies	7,286	85	7,201
Due from parent companies	423	423	-
Tax credits	16,188	23,024	(6,836)
Deferred tax assets	42,910	42,966	(56)
Due from others	10,671	11,251	(580)
Total	**347,555**	**353,688**	**(6,133)**

Receivables falling due beyond 12 months amount to € 44,005 thousand as follows: € 12 thousand in trade receivables (€ 84 thousand at 31 December 2004), € 629 thousand in tax credits (€ 230 thousand at 31 December 2004), € 42,656 thousand in deferred tax assets (€ 42,966 thousand at 31 December 2004) and € 708 thousand in amounts due from others (€ 653 thousand at 31 December 2004).

1- Trade receivables

Receivables are made up as follows:

	30.06.2005	31.12.2004	Change
Trade receivables			
- within 12 months	279,848	285,138	(5,290)
- beyond 12 months	12	84	(72)
Reserve for doubtful accounts	(9,783)	(9,283)	(500)
Total	**270,077**	**275,939**	**(5,862)**

Down by € 5,862 thousand with respect to 31 December 2004, trade receivables were affected by the monthly securitization of trade receivables on a revolving, without recourse basis.

Excluding the effects of this transaction, the breakdown of trade receivables would be as follows:

	30.06.2005	31.12.2004	Change
Trade receivables	279,860	285,222	(5,362)
Effect of securitization	62,971	90,124	(27,153)
Total	**342,831**	**375,346**	**(32,515)**

Pursuant to CONSOB Circular no. 3369 of 9 April 1997, we report that in the context of the securitization conducted by the parent company and one of its subsidiaries, the transferred receivables that will be collected at their natural expiration date (outstanding) amount to €62,971 thousand, net of “contractual dilution”. The total amount of receivables securitized from January to end-June 2005 (turnover) is € 115,460 thousand.

The group periodically factors its receivables without recourse to factoring companies. These receivables, which are almost entirely covered by insurance, have been reversed from the balance sheet at the time of their assignment, in accordance with Italian GAAP.

The reserve for doubtful accounts represents a reasonable estimate of risk at the reporting date. Provisions are made for the sake of prudence against disputed receivables or those whose collection is otherwise in doubt, taking account of the fact that a significant portion of the receivables is covered by major insurers.

The parent company and some subsidiaries have received customer guarantees (mainly sureties) totalling €2,566 thousand, to cover commercial transactions.

3- Due from associated companies

This balance relates to commercial receivables due from Omas S.r.l. (€ 60 thousand) and Top Clima S.A. (€ 7,226 thousand), classified under trade receivables in 2004. During 2005 the investment in Top Clima S.A. has been reclassified from "Equity investments in other companies" to "Equity investments in associated companies" after the group's interest in this company reached 25%.

4- Due from parent companies

This balance relates to commercial receivables due to De'Longhi S.p.A. from its own parent De'Longhi Soparfi S.A. for services performed in 2004.

4-bis- Tax credits

This balance mostly consists of credits for payments on account of € 7,627 thousand (€ 6,783 thousand at 31 December 2004), direct taxes of € 445 thousand (€ 897 thousand at 31 December 2004), indirect taxes of € 6,891 thousand (€ 14,493 thousand at 31 December 2004) and other taxes of € 1,225 thousand (€ 851 thousand at 31 December 2004).

4-ter- Deferred tax assets

Deferred tax assets are calculated on temporary differences arising between the book values of assets and liabilities and their corresponding values for fiscal purposes, and on fiscally recognized losses.

The change with respect to 31 December 2004 is largely due to translation differences on the deferred tax assets booked by certain foreign companies.

As required by article 2427 of the Italian Civil Code, the geographical breakdown of receivables is presented below:

	Trade receivables	%
Italy	101,447	37.6%
United Kingdom	24,315	9.0%
Rest of Europe	91,164	33.7%
United States, Canada, Mexico	8,973	3.3%
Japan	2,667	1.0%
Rest of the world	41,511	15.4%
Total	**270,077**	**100.0%**

III – Financial assets not held as fixed assets

This balance includes bonds and equities acquired for the purposes of investing surplus liquidity, and short-term securities (monthly maturity) issued by Marka Finance S.A. as part of the securitization programme described earlier and amounting to € 35,913 thousand at 30 June 2005.

These securities have monthly maturities, are renewed each month for the duration of the programme, and earn interest at a rate linked to the EURIBOR (2.9% for the batch assigned in June 2005).

IV – Cash And Banks

This item consists of excess balances on current accounts at banks, arising mainly from customer payments received at period end.

D) Accrued income and prepayments

These can be broken down as follows:

	30.06.2005	31.12.2004	Change
Accrued income:			
Financial	184	302	(118)
Other	997	23	974
Total accrued income	**1,181**	**325**	**856**
Prepayments:			
Advertising and insurance costs	391	1,314	(923)
Other	4,345	2,518	1,827
Total	**4,736**	**3,832**	**904**
Total accrued income and prepayments	**5,917**	**4,157**	**1,760**

Comments on the balance sheet: liabilities

A) Shareholders' equity

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

Movements in shareholders' equity accounts are shown in an attachment; below are comments on the main components and their changes.

I– 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.

II – Share premium reserve

A share premium reserve of € 15,000 thousand was set up following the public offering accompanying the company's flotation on the Milan stock exchange on 23 July 2001.

IV- Legal reserve

As of 30 June 2005 this reserve had a balance of € 5,393 thousand. The increase of € 554 thousand is due to the allocation of the profit for the year, as approved by the above AGM.

VII– Other reserves

These are made up as follows:

	30.06.2005	31.12.2004	Change
Extraordinary reserve	43,384	41,833	1,551
Currency translation reserve	(12,549)	(18,496)	5,947
Total other reserves	**30,835**	**23,337**	**7,498**

Extraordinary reserve

The extraordinary reserve increased by € 1,551 thousand with respect to 31 December 2004, due to the allocation of the parent company's 2004 net profit as approved by the above AGM.

Currency translation reserve

This relates to the conversion into euro of foreign companies' financial statements.

VIII - Profits (losses) carried forward

These consist of profits carried forward by consolidated companies and the effects of adjustments made to the accounting policies and consolidation methods.

X-XI – Minority interests in shareholders' equity

Minority interests in shareholders' equity amount to € 2,660 thousand. The interest held by minority shareholders and their corresponding share of net equity and profit for the period are summarized below:

Company	% interest	Shareholders' equity	Profit for the period
E-Services S.r.l.	49%	679	239
Promised Success Limited	33%	1,222	(69)
On Shiu (Zhongstan) El. Appl. Co. Ltd.	33%	215	137
Climaveneta France Sas	24%	66	(4)
Zass Alabuga LLC	7.2%	478	14
Total		**2,660**	**317**

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

	Shareholders' equity	Shareholders' equity	1st half results	Full year results
	30.06.2005	31.12.2004	2005	2004
De'Longhi S.p.A. financial statements	**491,787**	**521,248**	**(20,491)**	**11,075**
Share of subsidiaries' net equity and results for period attributable to the group, after deducting carrying value of the investments and intercompany dividends	(90,956)	(97,597)	11,796	138,257
Adjustment of writedowns made for statutory purposes and intercompany profits on investments and reversal of dividends	28,247-	11,582	6,148	(75,344)
Allocation of goodwill and related amortization and reversal of merger deficits and goodwill recognized for statutory purposes	146,470	148,145	(4,900)	(2,020)
Elimination of intercompany profits	(52,280)	(40,600)	(9,054)	(37,199)
Other adjustments	19,240	18,511	733	(19,779)
Group's portion	**542,508**	**561,289**	**(15,768)**	**14,990**
Minority interests	2,660	1,689	317	188
Consolidated financial statements	**545,168**	**562,978**	**(15,451)**	**15,178**

B) Reserves for contingencies and other charges

These can be broken down as follows:

	30.06.2005	31.12.2004	Change
Agents' leaving indemnity reserve and other retirement reserves	**5,202**	**5,835**	**(633)**
Reserve for deferred taxation	**17,544**	**17,335**	**209**
Product warranty reserve	7,418	7,541	(123)
Reserve for returns	2,678	3,394	(716)
Reserve for contingencies	18,155	18,236	(81)
Reserve for restructuring	13,536	14,196	(660)
Other	3,196	4,452	(1,256)
Other reserves	**44,983**	**47,819**	**(2,836)**
Total	**67,729**	**70,989**	**(3,260)**

The product warranty reserve has been established, for certain consolidated companies, on the basis of a prudent estimate of under-warranty repair and replacement costs for sales taking place by 30 June 2005. It takes account of the provisions of Legislative Decree 24/2002 and of European Community law.

The reserve for returns covers the cost of merchandise sold by 30 June 2005 that is expected to be returned.

The reserve for contingencies includes the following:

- a provision deriving from the consolidation of Kenwood which, at the time of acquisition, involved the recognition of contingencies for certain potential liabilities (relating to the Kenwood pension fund); the figure at 30 June 2005 is € 11,530 thousand.
- the reserve for insurance deductibles of € 1,301 thousand (€ 1,360 thousand at 31 December 2004), which covers the group's insurance liability (limited to the deductible) in the case of liabilities arising from complaints.
- a prudent provision of € 5,324 thousand against potential contractual risks and other reserves against potential liabilities at the parent company and certain subsidiaries.

The reserve for restructuring has been provided by the parent company and its subsidiaries against the cost of globalizing its production. It mostly refers to costs for reorganizing the workforce and to the risk of impairment of certain tangible fixed assets that may no longer be used for production.
Other reserves include the pension fund provided by one of the group's foreign subsidiaries.

C) Reserve for severance indemnities

Movements during the half-year are shown below by category:

	Executives	White collar	Blue collar	Total
Opening balance 01.01.05	**2,516**	**9,802**	**14,172**	**26,490**
Provision	390	1,141	1,475	3,006
Indemnities paid	(644)	(939)	(1,386)	(2,969)
Reclassifications	21	(12)	(13)	(4)
Net closing balance 30.06.05	**2,283**	**9,992**	**14,248**	**26,523**

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

	30.06.2005	30.06.2004
Blue collar	5,390	4,656
White collar	2,652	2,661
Executives	118	124
Total	**8,160**	**7,441**

D) Payables

4- Due to banks

This balance is analyzed as follows:

	Within one year	One to five years	Beyond five years	Balance 30.06.05	Balance 31.12.04
Overdrafts	442			442	21,871
Short-term loans in euro or foreign currency	109,521			109,521	160,789
Long-term loans (current portion)	62,506			62,506	43,444
Total short-term payables to banks	**172,469**			**172,469**	**226,104**
Medium-term loans		230,581	45,142	275,723	195,060
Total due to banks	**172,469**	**230,581**	**45,152**	**448,192**	**421,164**

At 30 June 2005 there are no payables due to banks secured by mortgages on tangible fixed assets (the figure at 30 June 2004 was € 35 thousand).

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

Medium-term loans have increased after two Italian subsidiaries obtained two loans totalling € 120 million. These loans, which are not secured against property or guarantees, last for 8 years and carry interest with a spread of less than one percentage point.

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

5- Due to other sources of finance

This balance mostly refers to finance leases of € 4,019 thousand (€ 5,072 thousand at 31 December 2004) and low-interest loans from the Ministry of Industry and Trade of € 5,361 thousand (€ 5,925 thousand at 31 December 2004).

7- Trade payables

These are amounts due to third parties for the provision of goods and services.

9- Due to subsidiaries

This balance relates to a loan from the subsidiary Clim.Re S.A., which is not consolidated on a line-by-line basis.

10- Due to associated companies

These relate to trade payables due to Omas S.r.l. for € 5 thousand, to the investment held through a trust company for € 16 thousand and to Top Clima S.A. for € 81 thousand.

14- Other payables

These are detailed as follows:

	30.06.2005	31.12.2004	Change
Due to personnel	26,712	21,571	5,141
Other	17,453	17,544	(91)
Total other payables	**44,165**	**39,115**	**5,050**

Payables due to personnel refer to compensation accrued but not yet paid as of the reporting date.
"Other" includes € 11,693 thousand in financial payables recorded by the parent company and certain subsidiaries for customer payments received at period end in their role as servicers and owing to the special purpose entity.

As required by article 2427 of the Italian Civil Code, the geographical breakdown of payables is presented below:

	Trade payables	%
Italy	157,362	53.5%
United Kingdom	14,186	4.8%
Rest of Europe	44,017	15.0%
United States, Canada, Mexico	5,464	1.9%
Japan	1,027	0.3%
Rest of the world	72,292	24.5%
Total	**294,348**	**100%**

E) Accrued liabilities and deferred income

These can be broken down as follows:

	30.06.2005	31.12.2004	Change
Accrued liabilities:			
Expenses for interest rate and exchange rate hedging transactions	1,335	1,409	(74)
Other accrued liabilities	2,291	2,296	(5)
Total accrued liabilities	*3,626*	*3,705*	*(79)*
Total deferred income:	539	417	122
Total accrued liabilities and deferred income	**4,165**	**4,122**	**43**

Memorandum accounts

These can be broken down as follows:

	30.06.2005	31.12.2004	Change
Guarantees given:			
- to third parties	1,051	1,359	(308)
Other commitments	5,960	8,284	(2,324)
Total	**7,011**	**9,643**	**(2,632)**

"Guarantees given to third parties" include unsecured guarantees issued to third parties mostly by the parent company and certain subsidiaries.

"Other commitments" consist of € 4,709 thousand in contractual obligations by the subsidiary De'Longhi America Inc. They have gone down since 31 December 2004 mostly as a result of Climaveneta S.p.A. acquiring a further interest in Top Clima S.A. (see the comments on "Equity investments") which was recorded as a purchase commitment last year.

Hedging instruments and derivatives

To reduce the risk of commercial and financial transactions caused by fluctuating exchange rates and interest rates, the group has established hedging contracts within the limits defined by normal operational needs.

Exchange rate derivatives: these are hedging transactions that ensure a given exchange rate on the various currencies for the group's incoming or outgoing payments. They include both forward transactions and structured and simple options for the main currencies in which the group does business.

As of 30 June 2005, the nominal amounts of these transactions (net of any offsetting by opposite-sign contracts) were as follows:

Description	Currency	Amount
AUD sold against EUR	AUD	19,299,000.00
CAD net sales against EUR	CAD	5,550,000.00
CHF sold against EUR	CHF	2,223,000.00
GBP net sales against EUR	GBP	59,459,920.30
JPY sold against EUR	JPY	1,435,925,000.00
NZD sold against EUR	NZD	7,659,000.00
PLN sold against EUR	PLN	26,380,000.00
ZAR sold against EUR	ZAR	10,000,000.00
USD bought against GBP	USD	40,000,000.00
USD net purchases against USD	USD	37,337,000.00
CNY bought against USD	CNY	25,000,000.00
HKD bought against USD	HKD	85,000,000.00
GBP bought against AUD	GBP	260,000.00
USD bought against AUD	USD	1,715,000.00
EUR bought against AUD	EUR	193,000.00
GBP bought against NZD	GBP	59,482.30
USD bought against NZD	USD	487,000.00
EUR bought against NZD	EUR	42,985.04
USD bought against ZAR	USD	6,000,000.00

Interest rate derivatives: these are instruments that the group uses to pre-establish a maximum cost (in terms of the benchmark interbank rate) for part of its financial debt.
They usually have durations of several years and can be linked to specific fund-raising operations on the market. As of 30 June 2005 they amounted to € 18,693 thousand, of which € 15,493 thousand will expire by 2006 and the remaining € 3,200 thousand by 2008.

Comments on the income statement

A) Value of production

Revenues for the half-year are broken down below:

Revenues by product line:

	30.06.2005	30.06.2004
Cooking and food preparation	242,762	242,845
Air conditioning and air treatment	164,342	220,665
Floor cleaning and ironing	48,018	63,588
Heating	60,648	59,493
Other (*)	20,422	27,579
Total	**536,192**	**614,170**

(*) "Other" includes revenues from the sale of accessories, parts, raw materials, semi-finished products and scrap, as well as service revenues, casual gains and other income.

Revenues by geographical area:

	30.06.2005	30.06.2004
Italy	152,807	199,136
United Kingdom	68,872	75,902
Rest of Europe	189,765	202,297
USA, Canada, Mexico	30,213	40,632
Japan	9,749	11,621
Rest of the world	84,786	84,582
Total	**536,192**	**614,170**

Comments on these trends are provided in the directors' report on operations.

5- Other revenues and income

These are made up as follows:

	30.06.2005	30.06.2004	Change
Freight reimbursement	3,929	5,173	(1,244)
Casual gains	2,091	1,555	536
Damage reimbursement	185	181	4
Rental income	382	351	31
Other income	3,077	2,103	974
Total	**9,664**	**9,363**	**301**

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

"Other income" includes an insurance refund and sundry income relating to ancillary activities.

B) Cost of production

6- Raw and ancillary materials, consumables and goods

These can be broken down as follows:

	30.06.2005	30.06.2004	Change
Raw materials	92,952	122,899	(29,947)
Parts	96,961	110,410	(13,449)
Finished products	150,601	146,025	4,576
Other purchases	4,344	3,728	616
Total	**344,858**	**383,062**	**(38,204)**

7- Services

In detail:

	30.06.2005	30.06.2004	Change
Transport (for purchases and sales)	37,217	38,956	(1,739)
Subcontracted work	9,245	13,213	(3,968)
Commissions	10,611	12,246	(1,635)
Advertising and promotions	34,025	35,774	(1,749)
Storage and warehousing	7,861	8,213	(352)
Travel and entertaining	7,128	6,164	964
Consulting services	5,245	5,517	(272)
Power	3,805	4,363	(558)
Temporary staff	1,791	3,278	(1,487)
Other	24,756	22,212	2,544
Total	**141,684**	**149,936**	**(8,252)**

"Other" includes technical service costs (Euro 4,710 thousand), insurance costs (Euro 2,415 thousand), postage costs (Euro 2,470 thousand) and maintenance costs (Euro 2,156 thousand).

8- Rentals and leasing

This mostly consists of rented premises (€ 8,353 thousand) and equipment (€ 1,362 thousand).

10- Amortization, depreciation and writedowns

In detail:

	30.06.2005	30.06.2004	Change
Amortization of goodwill	6,811	6,745	66
Amortization of other intangible fixed assets	11,757	11,024	733
Depreciation of tangible fixed assets	12,910	15,204	(2,294)
Total amortization and depreciation	*31,478*	*32,973*	*(1,495)*
Writedowns	1,742	1,727	15
Total amortization, depreciation and writedowns	**33,220**	**34,700**	**(1,480)**

Depreciation of tangible fixed assets has come down since the first half of 2004 largely as a result of lower charges booked by the parent company. The reduction is due to the parent company's application of a different depreciation charge to its "Moulds" that, based on valuations by independent experts, better reflects their remaining useful lives. The decision to review the remaining useful lives of the principal categories of asset is based on the fact that, using the original depreciation rates, the net value of these assets would be nil in a few years even though production capacity would be largely unchanged relative to the past; as a result, it has been decided to apply the new depreciation rates in order to provide a better representation of the remaining value of these moulds.

For further details of amortization and depreciation, see the tables showing movements in tangible and intangible fixed assets.

Writedowns refer to provisions for doubtful accounts.

12- Provisions for contingencies and other charges

These mainly consist of provisions to the product warranty reserve, the reserve for returns and the agents' leaving indemnity reserve as discussed in the section "Other reserves".

14- Other operating expenses

These can be broken down as follows:

	30.06.2005	30.06.2004	Change
Casual losses	612	1,266	(654)
Sundry taxes	3,182	2,765	417
Losses on receivables	3	129	(126)
Other	1,604	1,455	149
Total	**5,401**	**5,615**	**(214)**

C) Financial income and expenses

Net financial income and expenses are broken down below by type:

	30.06.2005	30.06.2004	Change
Income from equity investments	-	106	(106)
Total interest expense and securitization charges (*)	(9,076)	(7,682)	(1,394)
Exchange gains (losses) and profits (losses) on exchange rate hedging transactions	(979)	(3,095)	2,116
Financial discounts	(3,936)	(4,213)	277
Other financial income (expenses)	(1,875)	(2,175)	300
Total financial income (expenses)	**(15,866)**	**(17,059)**	**1,193**

Interest expense and securitization charges include:

	30.06.2005	30.06.2004	Change
- interest on long-term loans	(3,376)	(3,817)	441
- interest on payables to banks	(3,641)	(2,028)	(1,613)
- securitization charges	(2,059)	(1,837)	(222)
Total interest expense and securitization charges	**(9,076)**	**(7,682)**	**(1,394)**

(*) These include the financial costs of the securitization as well as additional charges.

Other financial expenses mostly refer to bank charges.

D) Adjustments to the value of financial assets

These mainly consist of the valuation of equity investments under the equity method. See the section on financial fixed assets for additional information.

E) Non-recurring income and expenses

These are detailed as follows:

	30.06.2005	30.06.2004	Change
Non-recurring gains on disposal of fixed assets	52	215	(163)
Prior years' taxes	(107)	(29)	(78)
Other non-recurring income (expenses)	(3,909)	(885)	(3,024)
Total	**(3,964)**	**(699)**	**(3,265)**

"Other non-recurring income (expenses)" mostly consists of movements pertaining to prior years.

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

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

All transactions fall within the group's normal operations, except as otherwise stated in these notes, and are settled at arm's-length conditions.

Transactions with associated companies and related parties are mostly of a commercial nature (purchase/sale of finished products and/or services).

	Income from sales and services	Other income	Raw material and other costs	Financial income (expenses)	Non-recurring income (expenses)	Trade and other receivables	Financial payables	Trade payables
Subsidiaries: (2)								
Clim.Re S.A.							(1.8)	
Total subsidiaries	-	-	-	-	-	-	***(1.8)***	-
Associated companies: (1)								
Omas S.r.l.						0.1		
Interest held through trust company "Comitalia Compagnia Fiduciaria S.p.A."			(0.1)					(0.4)
Top Clima S.L	9.6		(0.1)			7.2		(0.1)
Total associated companies	**9.6**	-	**(0.2)**	-	-	**7.3**	-	**(0.5)**
Total subsidiaries and associated companies	**9.6**	-	**(0.2)**	-	-	**7.3**	**(1.8)**	**(0.5)**
Parent companies:								
De'Longhi Soparfi S.A.						0.4		
Total parent companies	-	-	-	-	-	**0.4**	-	-
Related parties:								
Max Information S.r.l. (3)			(0.5)					(0.3)
Liguria Assicurazioni S.p.A.			(0.1)					
Mokarabia S.p.A.	0.1		(0.1)					
Total related parties	**0.1**	-	**(0.7)**	-	-	-	-	**(0.3)-**

(1) These mostly refer to dealings of a commercial nature.
(2) See the section "Financial fixed assets - Equity investments".
(3) These refer to advertising services; Max Information S.r.l. is a company in which Mr. G. Sandri, a director of De'Longhi S.p.A., serves as the managing director.

Other than the above, there are no transactions with related parties except for the professional fees paid to the firm of Biscozzi e Nobili during the first half of 2005.

Subsequent events

See the directors' report on operations.

Treviso, 12 September 2005

for the Board of Directors

Stefano Beraldo

Fabio De'Longhi

List of consolidated companies at 30 June 2005 (Attachment n.1)

(Including equity investments of over 10% pursuant to CONSOB Resolution n.11971 of 14/05/1999)

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

				Interest held at 30/06/2005	
Name	Head Office	Currency	Share capital (1)	Directly	Indirectly
DE'LONGHI CAPITAL SERVICES S.R.L. (2)	Treviso	EUR	53.000.000	11,32%	88,68%
DE'LONGHI LTD.	Wellingborough	GBP	4.000.000	100%	
DE'LONGHI AMERICA INC.	Saddle Brook	USD	9.100.000	100%	
DE'LONGHI FRANCE S.A.R.L.	Asnieres Cedex	EUR	2.737.500	100%	
DE'LONGHI CANADA INC.	Mississauga	CAD	1	100%	
DE'LONGHI DEUTSCHLAND GMBH	Seligenstadt	EUR	2.100.000	100%	
DE'LONGHI ELECTRODOMESTICOS ESPANA S.L.	Barcellona	EUR	510.000	100%	
LA SUPERCALOR S.P.A.	Seregno (MI)	EUR	520.000	100%	
E- SERVICES S.R.L.	Treviso	EUR	50.000	51%	
DE'LONGHI NEDERLAND B.V.	Leiden	EUR	226.890	100%	
DL TRADING LIMITED	Hong Kong	HKD	73.010.000		100%
TRICOM INDUSTRIAL CO. LTD	Hong Kong	HKD	4.500.000		100%
PROMISED SUCCESS LTD.	Hong Kong	HKD	28.000.000		67%
ON SHIU (ZHONGSHAN) ELECTRICAL APPLIANCE COMPANY LTD.	Zhongshan City	CNY	39.034.400		67%
DONG GUAN DE'LONGHI-KENWOOD APPLIANCES CO.LTD.	Qing Xi Town	HKD	4.000.000		100%
CLIMAVENETA S.P.A.	Treviso	EUR	10.000.000	100%	
CLIMAVENETA DEUTSCHLAND GMBH	Nordstedt	EUR	306.775		100%
CLIMAVENETA FRANCE SAS	Montesson	EUR	150.000		76%
DE'LONGHI FINANCE S.A.	Luxembourg	EUR	181.730.990	100%	
ELBA S.P.A.	Treviso	EUR	15.000.000		100%
DE'LONGHI JAPAN CORP.	Tokyo	JPY	50.000.000		100%
DL RADIATORS S.P.A.	Treviso	EUR	5.000.000		100%
DE'LONGHI CLIMA POLSKA SP.ZO.O	Varsavia	PLN	597.000		100%
Società controllata tramite Società Fiduciarie (3)	Norimberga	EUR	26.000		100%
DL RADIATORS FRANCE S.A.R.L.	Parigi	EUR	150.000		100%
DE'LONGHI AUSTRALIA PTY LTD.	Sydney	AUD	7.000.000		100%
DE'LONGHI NEW ZEALAND LTD.	Auckland	NZD	6.000.000		100%
ALABUGA INTERNATIONAL S.A.	Luxembourg	EUR	200.000		100%
ZASS ALABUGA LLC	Alabuga (Repubblica del Tatarstan)	RUB	95.246.000		100%
KENWOOD APPLIANCES PLC	Havant	GBP	4.586.000		100%
KENWOOD MARKS LIMITED	Havant	GBP	2		100%
KENWOOD APPLIANCES LUXEMBOURG S.A.	Luxembourg	EUR	1.000.000	0,01%	99,99%
KENWOOD LIMITED	Havant	GBP	25.050.000		100%
KENWOOD INTERNATIONAL LTD .	Havant	GBP	20.000.000		100%
KENWOOD APPL. (SINGAPORE) PTE LTD .	Singapore	SGD	500.000		100%

Name	Head Office	Currency	Share capital (1)	Interest held at 30/06/2005	
				Directly	Indirectly
KENWOOD APPL. (MALAYSIA) SDN.BHD.	Petaling Jaya	MYR	3		100%
KENWOOD MANUFACTURING GMBH	Wr Neudorf	EUR	36.336		100%
KENWOOD HOME APPL. PTY LTD.	Industria West	ZAR	40.000		100%
ARIETE S.P.A.	Prato	EUR	8.272.000		100%
ARIETE HISPANIA S.L.	Madrid	EUR	3.066		100%
ARIETE HELLAS EPE	Atene	EUR	18.000		100%
ARIES LUSITANIA ELECTRODOMESTICOS LDA	Maia	EUR	5.000		100%
ARIETE FRANCE ELECTROMENAGER SARL	Parigi	EUR	30.000		100%

List of companies consolidated under the proportional method

Name	Head Office	Currency	Share capital (1)	Interest held at 30/06/2005	
				Directly	Indirectly
CHAT UNION CLIMAVENETA COMPANY LTD.	Hong Kong	HKD	10.000		50%
CLIMAVENETA CHAT UNION REFRIGERATION EQUIPMENT (SHANGAI) CO.LTD.	Shangai	USD	2.500.000		50%
CLIMAVENETA CHAT UNION TRADING (SHANGAI) CO.LTD.	Shangai	USD	600.000		50%
DL-TCL HOLDINGS (HONG KONG) LTD.	Hong Kong	USD	5.000.000		50%

List of companies consolidated under the net equity method

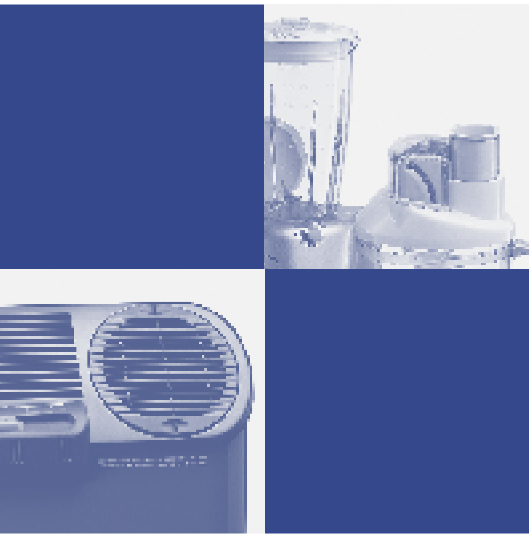
Name	Head Office	Currency	Share capital (1)	Interest held at 30/06/2005	
				Directly	Indirectly
Subsidiaries:					
Clim.Re S.A.	Luxembourg	EUR	1.239.468	4%	96%
Associated companies:					
Omas S.r.l. (4)	Gualtieri (RE)	EUR	364.000	40%	
Effegici S.r.l. (4)	Gorgo al Monticano (TV)	EUR	244.400	25%	
Partecipazione detenuta tramite Società Fiduciaria		EUR	520.000	40%	
Top Clima S.A.	Barcellona	EUR	1.606.000		25%

Other subsidiaries (in liquidation or dormant)

Name	Head Office	Currency	Share capital
Subsidiaries: (5)			
Kenwood Appliances (Australia) Pty Limited	Sydney	AUD	15.000
Kenwood Appliances Limited	Auckland	NZD	1.002.650
Kenwood Appliances Inc.	Havant	USD	25.000

(1) Figures at 30 June 2005, unless otherwise specified.
(2) The By-laws approved by the extraordinary shareholders' meeting held on 29 December 2004, provides for special rights for De'Longhi S.p.A. (holding 89% of the voting rights) for ordinary resolutions (approval of financial statements, payment of dividends, nomination of directors and statutory auditorsi, purchase and sale of companies, loans to third parties); for other resolution voting rights are proportional.
(3) A firm held through trust companies that distributes heating products in Germany.
As permitted by law, we have omiitted the company's name to protect its interests and those of the group.
di non arrecare danno alla stessa o al Gruppo.
(4) Figures at 31 December 2004.
(5) Dormant companies or companies in liquidation, whose balance sheets are unavailable.

Parent company’s financial statements



Balance sheet

Assets

	30.06.2005	31.12.2004	30.06.2004
A) SHAREHOLDER CONTRIBUTIONS DUE	**0**	**0**	**0**
B) FIXED ASSETS			
I - INTANGIBLE FIXED ASSETS	85.596	89.661	92.694
II - TANGIBLE FIXED ASSETS	103.860	107.023	108.017
III - FINANCIAL FIXED ASSETS	325.600	380.545	370.104
TOTAL FIXED ASSETS	**515.056**	**577.229**	**570.815**
C) CURRENT ASSETS			
I - INVENTORIES	172.723	124.579	145.182
II - RECEIVABLES			
1) Trade receivables	73.253	60.254	81.522
2) Due from subsidiaries	145.684	170.109	213.492
3) Due from associated companies	60	85	81
4) Due from parent companies	423	423	0
4-bis) Tax credits	5.823	14.146	15.823
4-ter) Deferred tax assets	7.957	7.957	7.396
5) Due from others	3.792	5.785	5.087
TOTAL RECEIVABLES	**236.992**	**258.759**	**323.401**
III - FINANCIAL ASSETS NOT HELD AS FIXED ASSETS	500	500	1.153
IV - CASH AND BANKS	11.970	11.532	17.863
TOTAL CURRENT ASSETS	**422.185**	**395.370**	**487.599**
D) ACCRUED INCOME AND PREPAYMENTS	**396**	**1.581**	**656**
TOTAL ASSETS	**937.637**	**974.180**	**1.059.070**

Balance Sheet

Liabilities

	30.06.2005	31.12.2004	30.06.2004
A) SHAREHOLDERS' EQUITY			
I - SHARE CAPITAL	448.500	448.500	448.500
II - SHARE PREMIUM RESERVE	15.000	15.000	15.000
III - REVALUATION RESERVE	0	0	0
IV - LEGAL RESERVE	5.393	4.839	4.839
V - RESERVE FOR THE PURCHASE OF TREASURY STOCK	0	0	0
VI - STATUTORY RESERVES	0	0	0
VII - OTHER RESERVES	43.385	41.834	41.834
VIII - PROFIT (LOSSES) CARRIED FORWARD	0	0	0
IX - PROFIT (LOSS) FOR THE PERIOD/YEAR	(20.491)	11.075	25.450
TOTAL SHAREHOLDERS' EQUITY	**491.787**	**521.248**	**535.623**
B) RESERVE FOR CONTINGENCIES AND OTHER CHARGES	**29.299**	**29.894**	**22.629**
C) RESERVE FOR SEVERANCE INDEMNITIES	**15.218**	**15.477**	**14.814**
D) PAYABLES			
4) Due to banks	214.632	237.581	254.388
5) Due to other sources of financei	5.361	5.925	6.092
6) Advances	909	551	1.380
7) Trade payables	99.344	93.083	139.854
9) due to subsidiaries	50.450	42.792	49.142
10) Due to associated companies	5	155	71
11) Due to parent companies	0	0	11
12) Tax payables	32	2.627	2.382
13) Due to social security institutions	3.112	3.099	1.751
14) Altri debiti	26.466	20.381	29.742
TOTAL PAYABLES	**400.311**	**406.194**	**484.813**
E) ACCRUED LIABLITIES AND DEFERRED INCOME	**1.022**	**1.367**	**1.191**
TOTAL LIABILITIES	**445.850**	**452.932**	**523.447**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**937.637**	**974.180**	**1.059.070**
MEMORANDUM ACCOUNTS	**769.344**	**699.999**	**615.230**

Income statement

	30.06.2005	30.06.2004	31.12.2004
A) VALUE OF PRODUCTION			
1) Revenues from sales and services	225.128	285.689	547.733
2) Change in inventories of work in progress, semi-finished and finished products	44.857	34.273	19.663
4) Increase in capitalised assets	845	950	1.863
5) Other revenues and income	12.195	12.360	27.222
TOTAL VALUE OF PRODUCTION	**283.025**	**333.272**	**596.481**
B) COST OF PRODUCTION			
6) Raw and ancillary materials, consumables and goods	174.138	189.405	335.557
7) For services	63.602	70.280	149.389
8) Rentals and leasing	3.907	3.828	7.511
9) Personnel expenses	31.638	36.149	64.631
10) Amortisation, deprecation and writedowns	12.376	14.092	24.564
11) Change in inventories of raw and ancillary materials, consumables and goods	(2023)	(5060)	574
12) Provisions for contingencies	2.645	6.112	6.158
14) Other operating expenses	2.375	2.428	4.458
TOTAL COST OF PRODUCTION	**288.658**	**317.234**	**592.842**
DIFFERENCE BETWEEN VALUE AND COST OF PRODUCTION (A-B)	**(5.633)**	**16.038**	**3.639**
C) FINANCIAL INCOME AND EXPENSES			
15) Income from equity investments	0	30	22.753
16) Other financial income	1.187	1.689	2.903
17) Interest and other financial expenses	(6.948)	(7.383)	(15.445)
17-bis) Exchange gains (losses)	(1.540)	1.200	(925)
TOTAL FINANCIAL INCOME AND EXPENSES	**(7.301)**	**(4.464)**	**9.286**
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS			
18) Revaluation of investments	0	47	0
19) Writedowns	(5.700)	(3.717)	(9.720)
TOTAL ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS	**(5.700)**	**(3.670)**	**(9.720)**
E) NON-RECURRING INCOME AND EXPENSES			
20) Incomei	0	28.709	28.308
21) Charges	(1.857)	(11.163)	(23.362)
TOTAL NON-RECURRING INCOME AND EXPENSES	**(1.857)**	**17.546**	**4.946**
PRE-TAX PROFIT (LOSS)	**(20.491)**	**25.450**	**8.151**
22) Income taxes for the period/year	-	0	2.924,00
PROFIT (LOSS) FOR THE PERIOD/YEAR	**(20.491)**	**25.450**	**11.075**

Appendix - Transition to International Accounting Standards (IAS/IFRS)

Appendix - Transition to International Accounting Standards (IAS/IFRS)

Introduction

Under EU Regulation 1606/2002 European listed companies must adopt international accounting and reporting standards (IAS/IFRS) for their consolidated financial reporting as of 31 December 2005.
Article 18 of the Issuers' Regulations (Consob resolution 11971 of 14 May 1999, as amended by Consob resolution 14990 of 14 April 2005) requires that half-year financial reports be prepared in accordance with IAS/IFRS, while article 18bis offers an alternative transitional approach that allows companies to continue using the former accounting standards used to prepare the prior year consolidated financial statements.
In this case, companies must provide the following information:
(i) a reconciliation of shareholders' equity at the transition date (1 January 2004), at 31 December 2004 and at 1 January 2005 and of the result for 2004 calculated under the previous rules with the corresponding amount determined under IFRS, complete with explanatory notes (ii) a reconciliation of shareholders' equity and results at 30 June 2005, calculated under the standards applying to the prior year consolidated financial statements, with the corresponding amounts determined under IAS/IFRS.

The De'Longhi Group has decided to opt for the transitional regime allowed by article 81-bis, meaning that it has prepared its half-year financial report under the former rules; the consolidated financial statements at 31 December 2005 and quarterly report at 30 September 2005 will be prepared in accordance with international accounting standards.

This report contains the two required reconciliations and accompanying notes explaining the reconciling items.

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

It should also be noted that the reconciliations could change in order to reflect any new interpretations or positions by the European Commission or any new IASB or IFRIC pronouncements which might become applicable by 31 December 2005.
These reconciliations might therefore undergo the necessary changes resulting from any amendments to the international accounting standards.

De'Longhi S.p.A. has appointed PricewaterhouseCoopers S.p.A. to perform a full audit of the IFRS reconciliations at 1 January 2004, 31 December 2004 and 1 January 2005.

We shall now present the following information: (a) the elections made on first-time adoption of IFRS, (b) the reconciliations between Italian GAAP and IFRS for consolidated shareholders' equity at 1 January 2004, 31 December 2004, 1 January 2005 and 30 June 2005 and the consolidated results for 2004 and the first six months of 2005 (pre-tax in the latter's case), (c) a description of the reconciling items between Italian GAAP and IFRS,

(d) the principal accounting policies used for preparing the reconciliations (presumably to be adopted for the consolidated financial statements at 31 December 2005).

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

General principles

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

- Business combinations:

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

- Currency translation reserve:

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

- Employee benefits:

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

(b) Reconciliations between Italian GAAP and IFRS for consolidated shareholders' equity at 1 January 2004, 31 December 2004 , 1 January 2005 and 30 June 2005 and the consolidated results for 2004 and the first six months of 2005.

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

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

Reconciliation between Italian GAAP and IFRS for consolidated shareholders' equity at 30 June 2005.

	Sharehol-ders' equity 01.01.2005	Profit (Loss) Ist half 2005	Dividend distributed	Currency translation reserve	Other effects 2005	Sharehol-ders' equity 30.06.2005
Balance pertaining to the Group under Italian GAAP	**561.3**	**(15.8)**	**(9.0)**	**6.0**	**-**	**542.5**
1) Reversal of intangible fixed assets	(6.5)	1.5				(5.0)
2) Amortization reversal for trademarks with indefinite life	7.7	3.8				11.6
3) Reversal of goodwill and related amortization	12.6	6.8				19.4
4) Deemed cost of buildings	12.8	0.2				13.0
5) Securitizations	1.0	(0.3)				0.7
6) Recognition of hedging transactions	(3.5)	4.3			2.0	2.8
7) Employee benefits	(5.9)	0.2		0.1		(5.6)
8) Other effects	(0.8)	(0.8)				(1.6)
9) Recognition of deferred taxes	(18.5)	-				(18.5)
Total IFRS adjustments	(1.1)	15.7		0.1	2.0	16.6
Balance pertaining to the Group under IFRS	**560.2**	**(0.1)**	**(9.0)**	**6.0**	**2.0**	**559.1**

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

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

1-Intangible fixed assets

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

This change has resulted in lower amortization charges of € 3.6 million in 2004 and € 1.5 million in the first half of 2005.

2-Trademarks

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

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

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

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

This change has resulted in lower amortization charges of € 7.7 million in 2004 and € 3.9 million in the first half of 2005.

3-Goodwill

This is no longer being systematically amortized since considered to have an indefinite useful life. Instead, it is tested at least once a year for any impairment. This change has resulted in:

- lower shareholders' equity at the transition date of € 0.9 million after reversing certain minor amounts of goodwill considered, under the more restrictive rules envisaged by IFRS, as being no longer recognizable in the balance sheet;
- lower amortization charges of € 13.5 million in 2004 and € 6.8 million in the first half of 2005.

4-Tangible fixed assets

Under Italian GAAP tangible fixed assets are valued at cost, as revalued in certain cases in accordance with specific laws.

Under IFRS tangible fixed assets are valued at cost or fair value.

The Group has decided to use the principle of cost and, at the transition date of 1 January 2004, to restate some of the buildings of the parent company and other Italian companies at their fair value (based on expert appraisals) and to treat this value as the deemed cost at that date.

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

This change has resulted in:

- an increase of € 12.1 million in shareholders' equity at 1 January 2004;
- higher depreciation charges of € 0.3 million in 2004 and € 0.2 million in the first half of 2005.

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

5-Securitizations

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

Under IFRS and, specifically SIC 12, the special purpose entity, even if not controlled by De'Longhi, must be consolidated since the subscription to subordinated securities by the assignor, meaning that all the risks and benefits of the assigned receivables have not been transferred, implies in substance that the assignor has control of the special purpose entity; this accounting treatment has involved (i) reversing the above-mentioned transactions and leaving the trade receivables as they were in the balance sheet, and (ii), as already seen in previous financial statements, decreasing the net financial position (bank and other loans and borrowings less cash and financial receivables) by € 109 million at 1 January 2004 , by € 90.1 million at 31 December 2004 and by € 63 million at 30 June 2005 and increasing trade receivables by a corresponding amount.

In addition this has involved:

- higher shareholders' equity of € 1.2 million on the transition date (due to accumulated earnings from the consolidation of the special purpose entity);
- higher financial charges of € 0.3 million in 2004 and € 0.3 million in the first half of 2005 (reflecting the special purpose entity's results).

The accounting treatment described above could change in the event of any amendments to reflect new interpretations or new positions adopted by the European Commission or any new pronouncements by the IASB or IFRIC or contractual changes to the securitization that might occur by 31 December 2005.

6-Recognition and measurement of financial assets and liabilities

a) Derivatives

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

The first-time application (on 1 January 2005) of the method envisaged by IAS 39 has resulted in:

- a reduction of € 3.5 million in shareholders' equity at 1 January 2005
- an increase of € 2.8 million in shareholders' equity at 30 June 2005 and a reduction of € 4.3 million in financial charges in the first six months of 2005.

b) Long-term financial liabilities

IFRS rules call for application of the amortized cost method based on the principle of effective interest. Application of this method has increased shareholders' equity by € 0.7 million at the date of transition to IAS 39 (1 January 2005) while causing financial charges to fall by € 0.2 million.

7-Employee benefits (IAS 19)

a- Severance indemnities

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

b- Other benefits

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

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

The application of IAS 19 has resulted in:

- a decrease of € 5.9 million in shareholders' equity on the transition date of 1 January 2004 (of which € 5.4 million relating to the cumulative actuarial loss at Kenwood);
- a reduction of € 0.1 million in the results at 31 December 2004 but an improvement of € 0.2 million in the six months to 30 June 2005.

8- Other effects

These mostly include the effects of:

a) Discounting payables and reserves for contingencies to present value

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

The effect on the income statements for 2004 and first half of 2005 has not been material.

b) Discounting trade receivables to present value

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

The first-time application of this IAS on 1 January 2005 has caused shareholders' equity to go down by € 0.6 million, while producing higher costs of € 0.2 million charged against income in the first half of 2005.

c) Valuation of advertising material in inventories

IFRS do not allow advertising material to be reported in inventories; the result is a reduction of € 1.5 million in shareholders' equity at the transition date. The impact on the results for 2004 and the first half of 2005 was not significant.

d) Scope of consolidation

IFRS include stricter rules on consolidating subsidiary companies; as a result, in addition to the change described in point 5, the subsidiary Clim.Re Sa has also been consolidated on transition; this company performs limited insurance services for certain group companies.

The consolidation of this investment using the equity method, in accordance with Italian GAAP, has not had a material impact on consolidated shareholders' equity or results.

The consolidation of this investment has however improved the net financial position by € 1.6 million not only at the transition date, but also at the end of 2004 and at 30 June 2005.

9-Recognition of deferred taxes

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

10-Derecognition of financial assets for factored receivables

Without recourse factoring contracts

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

These receivables, amounting to € 58.9 million at 1 January 2005 and € 44.2 million at 30 June 2005, have been recorded on the asset side of the balance sheet as "receivables assigned to factors" with a corresponding financial liability recognized for the sum collected.

11-Equity-based remuneration (stock option plan)

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

12-Income statement reclassifications

Non-recurring income and expenses

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

Restructuring costs

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

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

(d) Principal accounting policies used for preparing the reconciliations (presumably to be adopted for the consolidated financial statements at 31 December 2005)

Introduction

The accounting policies summarized below are the principal ones that will be adopted for preparing the first IFRS consolidated financial statements and which have also been adopted for presenting the reconciliations prepared for transitional purposes.

The consolidated financial statements of the De'Longhi Group are presented in millions of euros.

When preparing the IFRS financial statements and related explanatory notes it is necessary to use estimates and assumptions that affect the value of assets and liabilities and the disclosures relating to potential assets and liabilities at the balance sheet date. The actual figures could differ from these estimates. The estimates and assumptions are periodically reviewed and the effects of any changes recorded immediately in the income statement.

Consolidation procedures

Subsidiaries

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

Associated companies

These are companies over which the Group has a significant influence regarding their financial and operating policies and which are neither subsidiaries nor joint ventures. The consolidated financial statements include the Group's 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 portion 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 shareholders' equity.

Transactions eliminated upon consolidation

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

Transactions in foreign currency

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

Intangible fixed assets

Goodwill

In the case of business acquisitions, the identifiable assets, liabilities and potential liabilities acquired are recognized at their fair value on the date of acquisition. Any positive difference between the cost of acquisition and the Group's interest in the fair value of these assets and liabilities is classified as goodwill and reported under intangible fixed assets. Any negative difference (negative goodwill) is booked to the income statement at the time of acquisition.

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

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

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

Research costs are also expensed to income.

Other intangible assets
Other intangible assets purchased or internally generated are recognized as assets in accordance with IAS 38 – Intangible assets, when it is probable that the future economic benefits attributable to their use will flow to the Group and when the cost of the asset can be reliably measured.

These assets are valued at purchase or production cost and amortized on a straight-line basis over their estimated useful life if this is finite. Intangible assets with an indefinite useful life, particularly trademarks, are not amortized but tested for impairment once a year or more often, any time there are signs that their value might be impaired.

Tangible fixed assets
Property, plant and equipment is recorded at purchase or production cost and systematically depreciated over its residual useful life. The cost of assets qualifying for capitalization also includes the financial charges directly attributable to the acquisition, construction or purchase 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.

Tangible fixed assets under finance lease

Assets held under finance lease, under which all the risks and rewards incident to ownership are substantially transferred to the Group, are recognized among the Group's assets at the lower of the asset's fair value or the present value of the minimum lease payments. The corresponding liability due to the lessor is reported under financial payables. The assets are depreciated using the method and rates indicated below.

Leases in which the lessor substantially keeps 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.

Trade receivables

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

Inventories

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

Financial liabilities

Financial payables are stated at their fair value, less any additional charges, and are valued using the method of "amortized cost".

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 (i) at the inception of the hedge there is formal documentation of the hedging relationship, (ii) the hedge is expected to be highly effective, (iii) the effectiveness of the hedge can be reliably measured and (iv) the hedge has been highly effective throughout the different financial reporting periods for which it was taken out.

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 income, 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 net profit or loss.

Cash flow hedge – If a derivative instrument is designated as a hedge of the exposure to variability in cash flows attributable to a recognized asset or liability or a highly probable expected transaction and that will affect net profit or loss, the effective portion of the gains or losses on the hedging instrument is recognized directly in equity. The cumulative gains or losses are reversed from equity and charged to net profit or loss in the same period in which the hedged transaction is reported in the income statement. Gains or losses associated with a hedge or part thereof that has become ineffective are reported in net profit or loss. 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 net profit or loss at the same time as the hedged transaction occurs. If the hedged transaction is no longer expected to occur, the unrealized gains or losses reported directly in equity are immediately released to the income statement.

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

Employee benefits

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

Reserves for contingencies and charges

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

Revenue recognition

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

Revenues from services are recognized when the service is rendered.

Taxes

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

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

Deferred taxes for reserves of distributable earnings in subsidiaries are recognized only if it is probable they will be distributed.