Half-year report at 30 June, 2006

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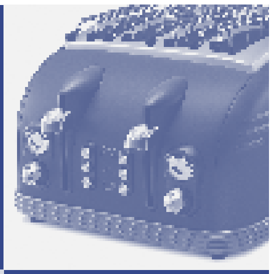

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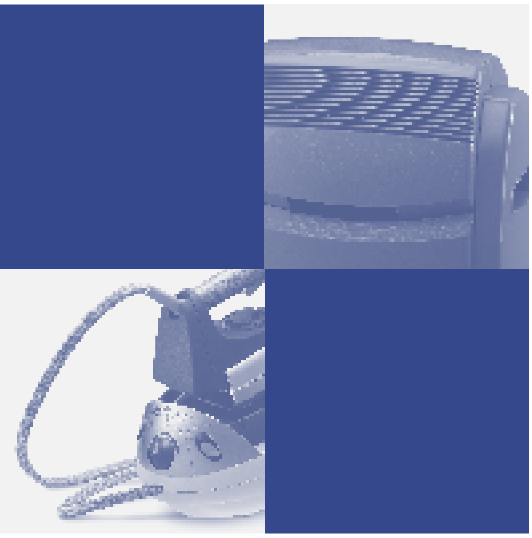
Company officers



Company officers*

Board of Directors

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

Board of Statutory Auditors

Gianluca Ponzellini	Chairman
Massimo Lanfranchi	Standing member
Giuliano Saccardi	Standing member
Roberto Cortellazzo-wiel	Alternate auditor
Alberto Lanfranchi	Alternate auditor

External auditors

Pricewaterhousecoopers S.p.a.***

Internal Auditing and Corporate Governance Committee

Renato Corrada**

Carlo Garavaglia**

Giovanni Tamburi**

Compensation Committee

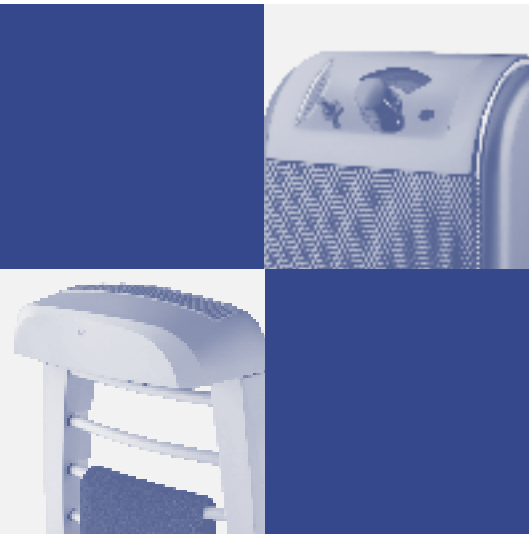
Alberto Clò**

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

This half-year report has been prepared in accordance with CONSOB Regulation 11971 of 14 May 1999 and subsequent amendments.

The figures for the period have been prepared in accordance with international accounting and financial reporting standards and specifically on the basis of the provisions of IAS 34 – Interim Financial Reporting; as a result, the comparative amounts for the corresponding period in 2005 have been restated under the new standards.

Overview of the group's results in 1st half 2006

The first half of 2006 closed with net revenues of € 576.2 million, having increased by 7.8% on the same period in 2005 thanks to the good performance of the group's principal product categories and markets. Had the scope of consolidation been the same, the growth in revenues would have been around 9.6%.

The Household segment reported a strong, steady growth in sales of coffee machines and good demand for small electrical cooking appliances and heating products. Sales of air conditioning units were satisfactory with a higher sell out than in the same period of 2005, which helped absorb stocks still held by the trade from 2005; this fact bodes well for sales in 2007.

The Professional segment reported solid growth for both its industrial heating products and large thermo-cooling systems.

As far as the individual markets were concerned, the US market recovered, while the principal markets in Europe and the rest of the world also did well, except for the United Kingdom, where demand continued to be weak, and Italy, due to lower sales of wall-mounted air-conditioning units.

Gross profit climbed from € 212.9 million to € 218.9 million (with the margin going from 39.8% to 38.0%) despite the negative trend in exchange rates and raw material prices in the first six months of the year.

The reduction in service and payroll costs as a percentage of revenues helped produce a more than proportionate rise in EBITDA and EBIT relative to the increase in sales; EBITDA improved from € 30.8 million to € 41.4 million (with the margin rising from 5.8% to 7.2%), while EBIT increased from € 12.7 million to € 22.3 million (with the margin climbing from 2.4% to 3.9%).

Profit pertaining to the group came in at € 24.3 million, compared with € 0.3 million in the same period of 2005, having benefited from the capital gain realized on the sale of Elba S.p.A

The net financial position reported net borrowings of €360.6 million at period end, having improved by € 150.8 million on the figure of € 511.4 million reported at 31 December 2005. Net borrowings at 30 June 2006 also benefited from € 78.2 million in proceeds from the sale of Elba S.p.A. and from the recognition of € 70.9 million in receivables factored without recourse which, on the basis of intervening contractual amendments, have been excluded from the consolidated balance sheet since they now satisfy the IAS/IFRS requirement that their risks and rewards be substantially transferred to the factor. The trend in the working capital and investment cycles also contributed to the improved financial position, having absorbed less cash in the first half of 2006 than in the same period of 2005, even though the first half of the year has traditionally been an absorber of cash.

Consolidated income statement - highlights

(€/million)	1st half 2006	% of revenues	1st half 2005	% of revenues	Change	% change
Total revenues	576.2	100%	534.4	100%	41.8	7.8%
Gross profit	218.9	38.0%	212.9	39.8%	6.0	2.8%
EBITDA	41.4	7.2%	30.8	5.8%	10.6	34.5%
EBIT	22.3	3.9%	12.7	2.4%	9.6	75.5%
Profit (loss) for the period pertaining to the group	24.3	4.2%	0.3	0.1%	24.1	-

Consolidated balance sheet - highlights

(€/million)	30.06.2006	31.12.2005	30.06.2005
Net working capital	362.2	469.8	458.7
Net capital employed	963.5	1,096.9	1,069.4
Net financial position	(360.6)	(511.4)	(508.5)

Significant events

Sale of Elba S.p.A.

Elba S.p.A., a company which produces and sells ovens and hobs, was sold in June 2006 to a white goods manufacturing group from New Zealand. Elba was the only white goods company within the De'Longhi Group and the proceeds from its sale will foster both internally-led growth and acquisitions in the small domestic appliances and professional segments. The company was sold for a figure of € 72.1 million, net of its financial payables of € 6.1 million at 31 May 2006. Under the sale agreement the De'Longhi Group will carry on distributing De'Longhi branded cooking products in New Zealand, Australia and Italy as part of an ongoing strategic partnership with Elba.

Group results

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

The figure presented below differs by € 66.7 million (€ 67.5 million at 30 June 2005) relative to the consolidated income statement, reflecting the reclassification of production-related payroll and service costs from payroll and services respectively, with the purpose of achieving a better presentation of period performance.

The reclassified consolidated income statement is summarized as follows:

(€/million)	1st half 2006	% of revenues	1st half 2005	% of revenues
Net revenues	**576.2**	**100.0%**	**534.4**	**100.0%**
Change	41.8	7.8%		
Materials consumed & production costs (services and production payroll costs)	(357.3)	(62.0%)	(321.5)	(60.2%)
Gross profit	**218.9**	**38.0%**	**212.9**	**39.8%**
Cost of services & other expenses	(126.5)	(22.0%)	(127.5)	(23.9%)
Payroll (non-industrial)	(48.0)	(8.3%)	(45.8)	(8.6%)
Provisions	(5.4)	(0.9%)	(5.4)	(1.0%)
Other income (expenses)	2.4	0.4%	(3.4)	(0.6%)
EBITDA	**41.4**	**7.2%**	**30.8**	**5.8%**
Change	10.6	34.5%		
Amortization and depreciation	(19.1)	(3.3%)	(18.1)	(3.4%)
EBIT	22.3	3.9%	12.7	2.4%
Change	9.6	75.5%		
Financial income (expenses)	2.4	0.4%	(12.4)	(2.3%)
Profit before taxes	**24.7**	**4.3%**	**0.3**	**0.1%**
Taxes	(0.1)	(0.0%)	0.3	0.1%
Profit (loss) for the period	**24.6**	**4.3%**	**0.6**	**0.1%**
Profit (loss) pertaining to minority interests	0.2	0.0%	0.3	0.1%
Profit (loss) pertaining to the group	**24.3**	**4.2%**	**0.3**	**0.1%**

Revenues

The group's net revenues came to € 576.2 million in the first half of 2006, an increase of 7.8% on the same period in 2005.

Results by business segment

Household

(€/million)	1st half 2006	1st half 2005	Change	% change
Net revenues	435.2	402.0	33.2	8.3%
EBITDA	25.0	16.9	8.2	48.4%
% of revenues	5.7%	4.2%		

Professional

(€/million)	1st half 2006	1st half 2005	Change	% change
Net revenues	141.0	132.4	8.6	6.5%
EBITDA	16.4	13.9	2.5	17.7%
% of revenues	11.6%	10.5%		

Household

The Household division reported a major increase in first-half sales (+8.3% compared with the same period in 2005) mainly thanks to growth by coffee machines, small kitchen appliances and heating products.

Air-conditioner sales did well in the portable segment, while wall-mounted conditioners suffered from the high level of stocks held by the trade at the start of the year.

Professional

The Professional division posted a significant increase in sales of water-filled radiators and large thermo-cooling systems, which more than made up for lower sales of wall-mounted air conditioners.

Markets

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

(€/million)	1st half 2006	%	1st half 2005	%	% change
Geographical area					
Italy	146.3	25.4%	149.5	28.0%	(2.2%)
United Kingdom	63.6	11.0%	68.9	12.9%	(7.7%)
Rest of Europe (*)	209.9	36.4%	195.5	36.6%	7.4%
North America	42.5	7.4%	30.2	5.7%	40.7%
Japan	9.7	1.7%	9.6	1.8%	0.7%
Rest of the world (*)	104.2	18.1%	80.6	15.1%	29.3%
Total	**576.2**	**100.0%**	**534.4**	**100.0%**	**7.8%**

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

All the group's markets reported a positive sales performance, except for the United Kingdom, where demand continued to be weak especially for kitchen appliances, and Italy due to lower sales of wall-mounted air-conditioning units.

Europe performed well, particularly Russia and Germany. The group's principal business segments also reported higher sales in North America and countries in the rest of the world.

Profitability

Gross profit, which improved from € 212.9 million in the first half of 2005 to € 218.9 million this year, managed to absorb the negative first-half trend in exchange rates and raw material prices and the low margins realized on sales designed to shift certain slow-moving products.

The reduction in service and payroll costs as a percentage of revenues helped boost the growth in both EBITDA and EBIT; EBITDA improved from € 30.8 million to €41.4 million (with the margin going from 5.8% to 7.2%), while EBIT increased from € 12.7 million to € 22.3 million (with the margin climbing from 2.4% to 3.9%).

As for the results by business segment, the Household segment reported six-month EBITDA of €25 million, representing 5.7% of revenues, having improved from €16.9 million in the first half of 2005 (with a margin of 4.2%). This improvement reflected good profitability on product categories reporting higher sales.

EBITDA in the Professional segment was € 16.4 million in the first six months of 2006, representing 11.6% of revenues, having increased from € 13.9 million in the first half of 2005 (with a margin of 10.5%). Profitability benefited first and foremost from the good results reported by large thermo-cooling systems.

EBIT was € 22.3 million (€ 12.7 million in 2005).

The first half of the year closed with € 24.3 million in profit for the period compared with a profit of € 0.3 million in the same period of 2005. This year's result particularly benefited from net financial income of €2.4 million in the first half of 2006 compared with net financial expense of € 12.4 million in the same period of 2005. This year's financial items included the capital gain arising on the sale of Elba S.p.A. and € 0.9 million in exchange losses, compared with exchange gains of € 5.4 million in the first half of 2005 mainly due to the benefits of dollar hedges taken out at the time of the US currency's maximum depreciation early in 2005.
Other financial expenses were up from € 17.7 million to € 21.6 million mainly due to the rise in interest rates and higher average borrowings.

It should be noted that first-half profitability is generally lower than that of the full year because sales and EBIDTA in the first six months represent around 40% and 30% of the annual total respectively.

Review of the balance sheet and financial position

The following reclassified balance sheet presents the relevant information by distinguishing the capital employed by the group from financial balances (summarized in the net financial position) and the group's net equity. Details of the net financial position are provided in the explanatory notes to the financial statements.
The non-current assets reported in this format differ by € 1.1 million from those shown in the actual balance sheet (€ 1.3 million at 31 December 2005) as a result of reclassifying non-current financial receivables to the net financial position.

The reclassified consolidated balance sheet is summarized below:

(€/million)	30.06.2006	31.12.2005	Change 30.06.06 - 31.12.05	30.06.2005	Change 30.06.06 - 30.06.05
Non-current assets	692.6	730.2	(37.7)	721.3	(28.8)
-Inventories	386.4	340.2	46.2	397.7	(11.2)
-Receivables	294.4	450.1	(155.7)	382.4	(88.0)
-Suppliers	(281.3)	(285.9)	4.6	(293.7)	12.4
-Other	(37.3)	(34.5)	(2.8)	(27.7)	(9.6)
Net working capital	**362.2**	**469.8**	**(107.6)**	**458.7**	**(96.5)**
Total non-current liabilities and provisions	(91.3)	(103.1)	11.9	(110.6)	19.3
Net capital employed	**963.5**	**1,096.9**	**(133.4)**	**1,069.4**	**(105.9)**
Net financial position	**360.6**	**511.4**	**(150.8)**	**508.5**	**(147.8)**
Total net equity	**602.8**	**585.5**	**17.3**	**561.0**	**41.9**
Total net borrowings and equity	**963.5**	**1,096.9**	**(133.4)**	**1,069.4**	**(105.9)**

The cash flow statement can be summarized as follows:

(€/million)	1st half 2006	1st half 2005 pro-forma (*)	31.12.2005 pro-forma (*)
Net cash flow from current operations	(11.5)	(21.9)	10.5
Net cash flow for investment activities (property, plant and equipment, intangible and non-current financial assets)	(15.0)	(25.4)	(60.8)
Cash flow from operating activities	**(26.5)**	**(47.3)**	**(50.2)**
Cash flow generated by changes in equity accounts	(8.2)	(3.2)	(3.0)
Cash flow generated by deconsolidating Marka Finance S.A. and factoring receivables without recourse	107.2	-	-
Cash flow from sale of Elba S.p.A.	78.2	-	-
Cash flow for the period	**150.8**	**(50.4)**	**(53.4)**
Opening net financial position	(511.4)	(458.0)	(458.0)
Closing net financial position	**(360.6)**	**(508.5)**	**(511.4)**

(*) The opening net financial position in the pro-forma cash flow statements at 31 December 2005 and 30 June 2005 includes €58.9 million in payables due to factors for receivables factored without recourse.

Net investments came to € 15.0 million (€ 25.4 million in the same period of 2005), of which € 6.5 million related to the installation of the column radiator production lines at the factory in Moimacco (Udine).

Assuming the same scope of consolidation and treatment of factored receivables, working capital represented a smaller proportion of revenues than in the same period of 2005.

The net financial position reported net borrowings of € 360.6 million at period end, having improved by € 150.8 million on the figure of € 511.4 million reported at 31 December 2005. Net borrowings at 30 June 2006 also benefited from € 78.2 million in proceeds from the sale of Elba S.p.A. and from the factoring of € 107.2 million in receivables without recourse which, on the basis of intervening contractual amendments, have been excluded from the consolidated balance sheet since they now satisfy the IAS/IFRS requirement that their risks and rewards be substantially transferred to the factor. The trend in the working capital cycle and fewer net investments also helped improve the net financial position by absorbing less cash than in the same period of 2005, even though the first half of the year has traditionally been an absorber of cash.

The reconciliation of the parent company's net equity and profit for the period with the corresponding consolidated amounts can be found in the explanatory notes to the financial statements.

Related party transactions

The effects of transactions by De'Longhi S.p.A. and other group companies with ultimate parent companies, associated companies and related parties are reported in Attachment 2.

Subsequent events

There are no significant subsequent events to report.

Outlook for the rest of 2006

Based on its positive first-half results, the group confirms its objective of increasing its revenues this year.

Treviso, 12 September 2006
for the Board of Directors
Vice Chairman and CEO
Fabio De'Longhi

Consolidated financial statements

Consolidated income statement

	Notes	30.06.2006	30.06.2005	31.12.2005
NET REVENUES				
Revenues from sales and services	(1)	562.306	524.695	1.233.628
Other operating income and revenues	(1)	13.868	9.670	24.070
Total consolidated net revenues		**576.174**	**534.365**	**1.257.698**
Raw and ancillary materials, consumables and goods	(2)	(356.757)	(343.822)	(659.072)
Change in inventories of finished products and work in progress	(3)	54.266	84.387	36.795
Change in inventories of raw and ancillary materials, consumables and goods	(3)	11.934	5.423	(1.571)
Raw materials and goods consumed		**(290.557)**	**(254.012)**	**(623.848)**
Payroll costs	(4)	(84.452)	(83.978)	(168.619)
Services and other operating expenses	(5)	(156.744)	(156.863)	(334.581)
Provision for contingencies and other provisions	(6)	(5.411)	(5.381)	(13.258)
Other income (expenses)	(7)	2.390	(3.350)	(12.426)
Amortization and depreciation	(8)	(19.115)	(18.081)	(37.502)
EBIT		**22.285**	**12.700**	**67.464**
Financial income (expenses) from equity investments	(9)	24.941	-	150
Exchange gains (losses)	(9)	(860)	5.375	(3.632)
Other financial income (expenses)	(9)	(21.642)	(17.739)	(36.494)
Financial income (expenses)		**2.439**	**(12.364)**	**(39.976)**
Earnings before tax (EBT)		**24.724**	**336**	**27.488**
Taxes	(10)	(147)	273	(2.618)
PROFIT (LOSS) BEFORE MINORITY INTERESTS		**24.577**	**609**	**24.870**
Profit (loss) pertaining to minority interests	(25)	228	317	50
PROFIT (LOSS) PERTAINING TO THE GROUP		**24.349**	**292**	**24.820**
EARNINGS PER SHARE		**0,16**	**0,00**	**0,17**

Consolidated balance sheet

Assets

	Notes	30.06.2006	31.12.2005	30.06.2005
NON-CURRENT ASSETS				
INTANGIBLE ASSETS		395.927	418.779	418.978
- Goodwill	(11)	203.779	219.239	217.835
- Other intangible assets	(12)	192.148	199.540	201.143
PROPERTY, PLANT AND EQUIPMENT		239.823	263.842	246.389
- Land, property, plant and machinery	(13)	201.006	218.139	198.123
- Other tangible assets	(14)	38.817	45.703	48.266
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		8.743	8.865	10.698
- Equity investments (in associated companies)	(15)	6.428	6.496	7.763
- Equity investments (other)	(15)	204	221	76
- Receivables	(16)	2.111	2.148	2.859
DEFERRED TAX ASSETS	(17)	49.184	40.022	47.269
TOTAL NON-CURRENT ASSETS		**693.677**	**731.508**	**723.334**
CURRENT ASSETS				
INVENTORIES	(18)	386.435	340.210	397.655
TRADE RECEIVABLES	(19)	294.353	450.064	382.358
CURRENT TAX ASSETS	(20)	18.947	12.338	16.499
OTHER RECEIVABLES	(21)	16.226	19.062	14.215
CURRENT FINANCIAL RECEIVABLES AND ASSETS	(22)	1.951	1.662	32.219
CASH AND CASH EQUIVALENTS	(23)	145.100	177.031	86.141
TOTAL CURRENT ASSETS		**863.012**	**1.000.367**	**929.087**
TOTAL ASSETS		**1.556.689**	**1.731.875**	**1.652.421**

Consolidated balance sheet

Net equity and liabilities

	Notes	30.06.2006	31.12.2005	30.06.2005
NET EQUITY				
GROUP PORTION OF NET EQUITY		600.987	583.781	558.484
- Share capital	(24)	448.500	448.500	448.500
- Reserves	(25)	128.138	110.461	109.692
- Profit (Loss) for the period		24.349	24.820	292
MINORITY INTERESTS		1.860	1.754	2.469
TOTAL NET EQUITY		**602.847**	**585.535**	**560.953**
NON-CURRENT LIABILITIES				
FINANCIAL PAYABLES		278.043	234.477	288.839
- Bank loans and borrowings (long-term portion)	(26)	266.704	217.823	275.727
- Other financial payables (long-term portion)	(27)	11.339	16.654	13.112
DEFERRED TAX LIABILITIES	(17)	14.783	16.715	31.099
PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		76.489	86.435	79.516
- Employee benefits	(28)	38.893	42.824	43.897
- Other provisions	(29)	37.596	43.611	35.619
TOTAL NON-CURRENT LIABILITIES		**369.315**	**337.627**	**399.454**
CURRENT LIABILITIES				
TRADE PAYABLES	(30)	281.319	285.932	293.676
FINANCIAL PAYABLES		230.768	456.885	339.970
- Bank loans and borrowing (short-term portion)	(26)	204.730	313.751	181.912
- Other financial payables (short-term portion)	(27)	26.038	143.134	158.058
CURRENT TAX LIABILITIES	(31)	18.917	25.149	18.149
OTHER PAYABLES	(32)	53.523	40.747	40.219
TOTAL CURRENT LIABILITIES		**584.527**	**808.713**	**692.014**
TOTAL NET EQUITY AND LIABILITIES		**1.556.689**	**1.731.875**	**1.652.421**

Consolidated cash flow statement

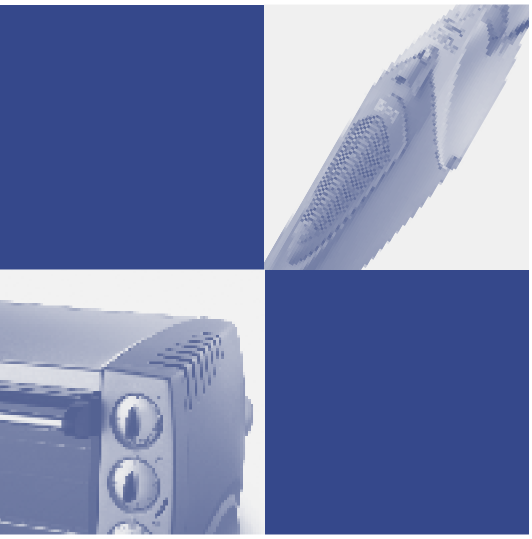
	30-06-2006 6 months	30-06-2005 pro-forma 6 months
Profit (loss) for the period	24.349	292
Capital (gains) losses on disposal of equity investments and deconsolidation of Marka Finance	(25.083)	0
Amortization and depreciation	19.115	18.081
Net change in provisions and writedowns	(12.073)	(12.190)
Cash flow generated (absorbed) by current operations (A)	**6.308**	**6.183**
Change in assets and liabilities for the period: Trade receivables	26.696	32.613
Inventories	(59.778)	(102.338)
Trade payables	18.116	27.945
Other current assets and liabilities	(2.878)	13.714
Cash flow generated (absorbed) by movements in working capital (B)	**(17.844)**	**(28.066)**
Investment activities		
Net investments in intangible assets	(4.936)	(6.005)
Net investments in property, plant and equipment	(9.925)	(16.513)
Net investments in equity investments and other financial assets	(116)	(2.851)
Cash flow from sale of Elba S.p.A.	78.222	
Cash flow generated (absorbed) by investment activities (C)	**63.245**	**(25.369)**
Changes in net equity for IAS 32 and 39	(3.418)	(691)
Payment of dividends	(2.990)	(8.970)
Change in currency translation reserve	(1.864)	5.711
Increase (Decrease) in minority interests in share capital	106	780
Cash flow generated by changes in equity accounts (D)	**(8.166)**	**(3.170)**
Effect of factoring receivables without recourse (E)	**107.207**	
Cash flow for the period (A+B+C+D+E)	**150.750**	**(50.422)**
Opening net financial position (*)	**(511.398)**	**(458.039)**
Cash flow for the period (A+B+C+D+E)	150.750	(50.422)
Closing net financial position	**(360.648)**	**(508.461)**

(*) The opening net financial position in the pro-forma cash flow statement at 30 June 2005 includes € 58.9 million in payables to factors for receivables factored without recourse.

Statement of changes in consolidated net equity

	Share capital	Share premium reserve	Legal reserve	Other reserves	Fair value reserve	Profit (loss) carried forward	Profit (loss) for the period	Total
Balance at 1 January 2005	**448.500**	**325**	**4.839**	**41.834**	**(1.507)**	**30.795**	**35.329**	**560.115**
Allocation of 2004 result as per AGM resolution of 28 April 2005								
- payment of dividends							(8.970)	(8.970)
- allocation to reserves			554	1.551		3.915	(6.020)	-
Allocation to reserves of effects of 2004 adoption of IAS/IFRS						20.339	(20.339)	-
Change in fair value reserve					887			887
Adoption of IAS 19						(54)		(54)
Difference from conversion of foreign companies' financial statements into euro						6.983		6.983
Profit for the year							24.820	24.820
Balance at 31 December 2005	**448.500**	**325**	**5.393**	**43.385**	**(620)**	**61.978**	**24.820**	**583.781**
Allocation of 2005 result as per AGM resolution of 27 April 2006								
- payment of dividends							(2.990)	(2.990)
- allocation to reserves			200	808		20.822	(21.830)	-
Change in fair value reserve					(2.289)			(2.289)
Difference from conversion of foreign companies' financial statements into euro						(1.864)		(1.864)
Profit for the period							24.349	24.349
Balance at 30 June 2006	**448.500**	**325**	**5.593**	**44.193**	**(2.909)**	**80.936**	**24.349**	**600.987**

Explanatory notes



Half-year report at 30 June 2006

Accounting standards

This half-year report has been prepared in accordance with CONSOB Regulation 11971 of 14 May 1999 and subsequent amendments.

The figures for the period have been prepared on the basis of the international accounting and financial reporting standards issued by the International Accounting Standards Board (IASB), including the SIC and IFRIC interpretations, as adopted to date by the European Commission, pursuant to EC Regulation 1606 of 19 July 2002.

The following documents have been used for interpretation and application purposes even though not adopted by the European Commission:

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

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

As a result, the comparative amounts for the corresponding period in 2005 have been restated under the new standards.

The reconciliation of Italian GAAP consolidated net equity and six-month profit at 30 June 2005 with the corresponding figures under IAS/IFRS was presented in the half-year report at 30 June 2005.

The financial statements contained in the half-year report at 30 June 2005 were presented before six-month tax, as allowed by Article 81 of CONSOB Regulation 11971 with regard to half-year reports. The figures contained in the reconciliation therefore differ from the comparative ones presented in this year's report which are shown after deducting tax for the period.

This has involved increasing the results in the first half of 2005 by € 0.4 million relative to those reported in the reconciliation accompanying the 2005 half-year report. The overall effect is to reduce net equity at 30 June 2005 by € 0.6 million after recording decreases of € 0.3 million and € 0.7 million in the currency translation reserve and fair value reserve respectively.

The accounting policies and measurement bases are the same as those used for preparing the consolidated financial statements at 31 December 2005.

Based on the provisions of IAS 34, the interim financial report is presented in a condensed format and does not include all the information required in annual financial reports.

Furthermore, interim financial statements require using valuation processes that are generally carried out more completely when preparing the annual financial report.

This report is expressed in thousands of euro, which is the reporting currency of the parent company and the group's principal companies.

Consolidation procedures

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

Subsidiaries

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

Associated companies

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

Joint ventures

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

Consolidation of foreign companies

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

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

Transactions eliminated upon consolidation

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

Transactions in foreign currency

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

The following exchange rates have been used for translating financial statements reported in foreign currency:

		30/06/2006		30/06/2005	
Currency		Period-end exchange rate (*)	Average exchange rate (*)	Period-end exchange rate (*)	Average exchange rate (*)
Australian dollar	AUD	1.71170	1.65457	1.5885	1.6634
Canadian dollar	CAD	1.41320	1.39967	1.4900	1.5883
British pound	GBP	0.69210	0.68715	0.6742	0.6861
Hong Kong dollar	HKD	9.87450	9.53619	9.3990	10.0189
Japanese yen	JPY	145.75000	142.15717	133.9500	136.2402
Malaysian ringgit	MYR	4.67140	4.53026	4.5960	4.8848
New Zealand dollar	NZD	2.08640	1.91247	1.7387	1.7950
Polish zloty	PLN	4.05460	3.88951	4.0388	4.0783
South African rand	ZAR	9.18480	7.76677	8.0254	7.9784
Singapore dollar	SGD	2.01370	1.97667	2.0377	2.1171
US dollar	USD	1.27130	1.22921	1.2092	1.2855
Russian rouble	RUB	34.24000	34.00032	34.6370	35.9432
Chinese renminbi (Yuan)	CNY	10.16480	9.87209	10.0079	10.6419

(*) source: UIC (Italian Exchange Office)

Scope of consolidation

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

- In June 2006, the group sold 100% of Elba S.p.A., a company which manufactures and sells cooking products including free-standing cookers, built-in ovens and hobs. The company was deconsolidated commencing from 1 June 2006 since the effects of the sale ran from 31 May 2006.

The effects of this disposal on the consolidated balance sheet and income statement are summarized below:

2005 figures	Elba S.p.A.	Consolidation	% share
Total assets	40.5	1,731.9	2.3%
Net financial position	(8.6)	(511.4)	1.7%
Net revenues	45.5	1,257.7	3.6%
EBITDA	9.5	105	9.0%

This company was sold to a white goods group from New Zealand, which is listed on the Australian and New Zealand stock exchanges. Under the terms of the sale agreement the De'Longhi Group will carry on distributing De'Longhi and Elba branded cooking products in New Zealand, Australia and Italy and will also maintain an ongoing strategic partnership with Elba S.p.A..

The company was sold for a figure of € 72.1 million, net of its financial payables of €6.1 million at 31 May 2006 and gross of the related selling costs.

The sale generated a net capital gain of € 26.4 million and a reduction of € 78.2 million in borrowings.

- The renegotiation of the contractual terms relating to the securitization of receivables was completed in the first half of 2006. This has resulted in the substantial transfer of the risks and rewards relating to securitized receivables to the assignee, allowing the special purpose vehicle (Marka Finance S.A.) to be deconsolidated at 30 June 2006.

  This company, although not controlled by De'Longhi S.p.A., was consolidated at 31 December 2005 on the basis of SIC 12 which requires special purpose entities to be consolidated if all the risks and rewards of the securitized receivables are not deemed to have been transferred.

  As a result, the securitized receivables were reinstated in the balance sheet against a corresponding increase in net borrowings. The consolidation of the special purpose entity had also given rise to an adjustment to consolidated net equity in relation to this company's accumulated earnings on transition to IAS/IFRS and in periods thereafter.
- A new company, DL Professional S.A., was formed during the first half of the year. It will act as a sub-holding company for the group's professional-segment investments specialized in the manufacture and sale of air conditioning and heating products distributed through the professional channel.

Principal accounting policies

Segment reporting

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

The primary reporting format consists of the "household" and "professional" business segments, while the secondary reporting format refers to geographical areas. This distinction is based on the nature of the risks and returns relating to the group's business and reflects its internal organizational structure and the management reporting system. The notes on the income statement contain a breakdown of revenues by business segment and geographical area.

Intangible assets

Goodwill

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

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

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

Research and development costs

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

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

Research costs are also expensed to income.

Other intangible assets

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

These assets are valued at purchase or production cost and amortized on a straight-line basis over their estimated useful life if this is finite.

Intangible assets with an indefinite useful life, particularly trademarks, are not amortized but tested for impairment once a year or more often, any time there are signs that their value might be impaired.

Property, plant and equipment

Land, property, plant and machinery

Buildings, plant and equipment owned by the group are recorded at purchase or production cost and systematically depreciated over their residual useful lives. The land pertaining to buildings is not depreciated. The group adopted deemed cost as the value of certain assets on the transition date of 1 January 2004. This value was based on expert appraisals.

The cost of assets qualifying for capitalization also includes the financial charges directly attributable to the acquisition, construction or production of the asset itself.

Subsequent expenditure is capitalized only if it increases the future economic benefits flowing to the enterprise. All other costs are expensed to income as incurred.

The depreciation rates used are as follows:

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

Property, plant and equipment under finance lease

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

Leases under which the lessor substantially retains all the risks and rewards incident to ownership of the asset are classified as operating leases. The costs relating to operating leases are recognized as an expense in the income statement on a straight-line basis over the lease term.

Financial instruments

Equity investments

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

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

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

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

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

Securities other than equity investments

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

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

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

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

Loans and receivables

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

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

Cash and cash equivalents

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

Inventories

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

Trade receivables

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

Securitization and without recourse factoring contracts

Since 2002 the parent company and certain group companies have conducted a five-year securitization of trade receivables, under Law 52/1991 (law on factoring). This has involved the revolving monthly transfer of a portfolio of trade receivables without recourse, which has then been securitized by issuing securities to the market.
De'Longhi S.p.A. and its subsidiaries act as servicers for the special purpose entity.
The renegotiation of the contractual terms of the receivables securitization has resulted in the substantial transfer of the risks and rewards relating to the assigned receivables (see the earlier note on the "Scope of consolidation") and their consequent removal from the balance sheet.

Similarly, trade receivables assigned without recourse to factors, whose transfer satisfies the conditions for decognition contained in IAS 39, are eliminated from the balance sheet at the time of their transfer, while receivables assigned without recourse which do not satisfy all the conditions required by IAS 39 for the derecognition of financial assets, are retained in the balance sheet.

Financial liabilities

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

Derivatives

Derivatives are used solely for hedging purposes, in order to reduce exposures to currency and interest rate risk.
As allowed by IAS 39, derivatives may qualify for special hedge accounting only when, at the inception of the hedge, the following conditions are satisfied:
- there is a formal designation that the instrument is a hedging one;
- there is formal documentation of the hedging relationship, which is expected to be highly effective;
- the effectiveness of the hedge can be reliably measured;
- the hedge is highly effective throughout the different financial reporting periods for which it was designated.

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

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

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

Employee benefits

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

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

Provisions for contingencies and other charges

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

Revenue recognition

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

Taxes

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

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

Dividends

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

Earnings per share

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

Estimates and assumptions

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

New accounting standards

No new accounting standards or interpretations have been issued or old ones amended, applicable as from 1 January 2006, that have a material effect on the group's financial statements.

Comments on the income statement

1. Revenues

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

Revenues by business segment:

	30/06/2006	30/06/2005	Change	% change
Professional	140,954	132,390	8,564	6.5%
Household	435,220	401,975	33,245	8.3%
Total	**576,174**	**534,365**	**41,809**	**7.8%**

Revenues by geographical area:

	30/06/2006	30/06/2005	Change	% change
Italy	146,251	149,546	(3,294)	(2.2%)
United Kingdom	63,561	68,872	(5,311)	(7.7%)
Rest of Europe (*)	209,936	195,508	14,428	7.4%
North America	42,518	30,213	12,305	40.7%
Japan	9,694	9,623	71	0.7%
Rest of the world (*)	104,214	80,605	23,609	29.3%
Total	**576,174**	**534,365**	**41,809**	**7.8%**

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

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

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

	30/06/2006	30/06/2005	Change
Freight reimbursement	4,160	3,929	231
Commercial rights	1,192	409	783
Out-of-period gains	2,942	2,091	851
Damage reimbursement	129	185	(56)
Operating grants	827	10	817
Rental income	196	382	(186)
Customs duty refunds	50	19	31
Capital gains	373	163	210
Other income	3,999	2,482	1,517
Total	**13,868**	**9,670**	**4,198**

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

2. Raw and ancillary materials, consumables and goods

The breakdown is as follows:

	30/06/2006	30/06/2005	Change
Raw materials	101,617	92,956	8,661
Parts	100,098	96,961	3,137
Finished products	149,539	149,561	(22)
Other purchases	5,503	4,344	1,159
Total	**356,757**	**343,822**	**12,935**

3. Change in inventories

The breakdown is as follows:

	30/06/2006	30/06/2005	Change
Change in inventories of finished products and work in progress	54,266	84,387	(30,121)
Change in inventories of raw and ancillary materials, consumables and goods	11,934	5,423	6,511

4. Payroll costs

The breakdown is as follows:

	30/06/2006	30/06/2005	Change
Employee wages and salaries	81,329	82,187	(858)
Temporary workers	3,123	1,791	1,332
Total	**84,452**	**83,978**	**474**

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

5. Services and other operating expenses

These are detailed as follows:

	30/06/2006	30/06/2005	Change
Transport (for purchases and sales)	34,277	37,222	(2,945)
Advertising	11,180	15,266	(4,086)
Promotional expenses	18,673	18,759	(86)
Subcontracted work	10,689	9,102	1,587
Commissions	10,828	10,585	243
Technical support	6,978	4,706	2,272
Travel and entertaining	6,824	7,128	(304)
Insurance	2,118	2,415	(297)
Storage and warehousing	8,070	7,861	209
Consulting services	5,262	6,100	(838)
Power	4,992	3,805	1,187
Postage, telegraph and telephones	2,288	2,470	(182)
Maintenance	2,068	2,156	(88)
Other services	14,394	13,580	814
Rentals and leasing	11,229	10,241	988
Total services	**149,870**	**151,396**	**(1,526)**
Out-of-period losses	993	637	356
Sundry taxes	4,059	3,185	874
Bad debts	11	3	8
Other	1,811	1,642	169
Total other operating expenses	**6,874**	**5,467**	**1,407**
Total services and other operating expenses	**156,744**	**156,863**	**(119)**

“Rentals and leasing” at 30 June 2006 consist of premises rental (€ 8,779 thousand), operating lease payments (€ 461 thousand), royalties (€ 584 thousand) and equipment hire (€ 1,405 thousand).

6. Contingency and other provisions

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

7. Other income (expenses)

These mainly consist of income (expenses) recognized in the period in relation to non-recurring events or prior periods.

8. Amortization and depreciation

These are detailed as follows:

	30/06/2006	30/06/2005	Change
Amortization of intangible assets	5,832	5,456	376
Depreciation of property, plant and equipment	13,283	12,625	658
Total amortization and depreciation	**19,115**	**18,081**	**1,034**

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

9. Financial income and expenses

Net financial income and expenses are broken down below:

	30/06/2006	30/06/2005	Change
Net capital gain on sale of Elba S.p.A.	26,430	-	26,430
Effect of deconsolidating Marka Finance	(1,501)	-	(1,501)
Other income from equity investments	12	-	12
Financial income (expenses) from equity investments	**24,941**	**-**	**24,941**
Exchange gains (losses)	**(860)**	**5,375**	**(6,235)**
Interest expense and other bank charges	(15,845)	(12,335)	(3,510)
Financial discounts	(4,365)	(3,936)	(429)
Other financial income (expenses)	(1,432)	(1,468)	36
Other net financial income (expenses)	**(21,642)**	**(17,739)**	**(3,903)**
Net financial income (expenses)	**2,439**	**(12,364)**	**14,803**

10. Income taxes for the period

These are made up as follows:

	30/06/2006	30/06/2005	Change
Current income taxes	(2,835)	(9,030)	6,195
Deferred income taxes	2,688	9,303	(6,615)
Total	**(147)**	**273**	**(420)**

Current income taxes include €950 thousand in corporate income tax and €1,885 thousand in IRAP (Italy's regional business tax).

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

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

	30.06.2006		31.12.2005		
	Gross	Net	Gross	Net	Change
Goodwill	232,106	203,779	249,363	219,239	(15,460)

The decrease mostly relates to the deconsolidation of Elba S.p.A.

Goodwill is not amortized since it is considered to have an indefinite useful life. Instead, it is tested for impairment at least once a year to identify any evidence of loss in value.
The objective of the test is to determine the value in use of the cash generating units to which the goodwill refers, meaning the present value of the future cash flows expected to be derived from the ongoing use of the assets; any cash flows arising from extraordinary events are therefore ignored. The main assumptions adopted for the test relate to the discount and growth rates, which are also based on the group's plans and budgets for the next three years. The discount rates used reflect current market assessments of the time value of money and take account of the risks specific to the individual cash generating units. These rates range between 6.4% and 9.3%. The impairment test carried out at the end of 2005 did not reveal any significant evidence that goodwill might have suffered an impairment loss. No events of significance have occurred in the first half of 2006 such as might suggest that the carrying amounts of goodwill have suffered any impairment loss.

12. Other intangible assets
The breakdown is as follows:

	30.06.2006		31.12.2005		
	Gross	Net	Gross	Net	Change
New product development costs	21,592	11,864	20,179	12,585	(721)
Patents	24,972	3,670	24,434	3,771	(101)
Trademarks and similar rights	218,732	167,356	223,440	174,138	(6,782)
Work in progress and advances	7,026	7,026	6,235	6,235	791
Other	13,381	2,232	13,150	2,811	(579)
Total	**285,703**	**192,148**	**287,438**	**199,540**	**(7,392)**

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

	New product development costs	Patents	Trademarks and similar rights	Work in progress and advances	Other	Total
Net opening balance	**12,585**	**3,771**	**174,138**	**6,235**	**2,811**	**199,540**
Additions	1,451	825	4	3,121	280	5,681
Amortization	(2,162)	(718)	(2,128)	-	(824)	(5,832)
Translation difference	(53)	(8)	-	-	(37)	(98)
Change in scope of consolidation	(989)	(166)	(4,651)	(718)	-	(6,524)
Other movements (*)	1,031	(31)	(7)	(1,612)	-	(619)
Net closing balance	**11,863**	**3,673**	**167,356**	**7,026**	**2,230**	**192,148**

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

The net decrease of € 7,392 thousand in intangible assets is mostly attributable to the sale of Elba S.p.A.

With reference to “New product development costs”, which report an increase of €1,451 thousand, these costs have been capitalized by virtue of their estimated future utility, based on detail reporting and analysis of the costs incurred.

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

“Trademarks and similar rights” include trademarks viewed as having an indefinite useful life under the criteria specified in IAS 38. The review of the De’Longhi and Climaveneta trademarks carried out upon IFRS transition supported the thesis that they have indefinite useful lives. This conclusion was based on their brand notoriety, their economic performance, the characteristics of their particular markets, the specific brand strategies and the level of investment in brand support.
The impairment test carried out at the end of 2005 on the basis of discount rates reflecting current market assessments of the time value of money and the risks specific to the individual cash generating units, did not reveal any significant evidence that these assets might have suffered an impairment loss. No events of significance have occurred in the first half of 2006 such as might suggest that the carrying amounts of trademarks have suffered any impairment loss.

The change in “Work in progress and advances” refers to newly capitalized development costs for projects that had not been completed at the balance sheet date.

13. Land, property, plant and machinery

These are detailed as follows:

	30.06.2006		31.12.2005		
	Gross	Net	Gross	Net	Change
Land and buildings	146,250	133,851	164,423	152,793	(18,942)
Plant and machinery	206,617	67,155	223,266	65,346	1,809
Total	**352,867**	**201,006**	**387,689**	**218,139**	**(17,133)**

The following table reports movements during 2006:

	Land and buildings	Plant and machinery	Total
Net opening balance	**152,793**	**65,346**	**218,139**
Additions	2,188	9,374	11,562
Disposals	(187)	(1,210)	(1,397)
Depreciation	(2,151)	(3,133)	(5,284)
Translation difference	(543)	(1,141)	(1,684)
Change in scope of consolidation	(16,366)	(2,876)	(19,242)
Other movements	(1,883)	795	(1,088)
Net closing balance	**133,851**	**67,155**	**201,006**

The net decrease of € 17,133 thousand is mainly attributable to the sale of Elba S.p.A.

The additions to “Plant and machinery” include €6.5 million in investments made in Italy for the new column radiator production lines.

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

	30.06.2006	31.12.2005	Change
Buildings	11,016	16,230	(5,214)
Plant and equipment	11,937	4,846	7,091
Other	102	122	(20)
Total	**23,055**	**21,198**	**1,857**

14. Other tangible assets

Details of other tangible assets are as follows:

	30.06.2006		31.12.2005		
	Gross	Net	Gross	Net	Change
Industrial and commercial equipment	157,667	25,900	168,905	28,003	(2,103)
Other	37,564	10,444	37,808	10,667	(223)
Work in progress and advances	2,473	2,473	7,033	7,033	(4,560)
Total	**197,704**	**38,817**	**213,746**	**45,703**	**(6,886)**

The net decrease of € 6,886 thousand is mainly the result of booking € 7,999 thousand in depreciation charges.

The following table reports movements during 2006:

	Industrial and commercial equipment	Other	Work in progress and advances	Total
Net opening balance	**28,003**	**10,667**	**7,033**	**45,703**
Additions	4,984	1,578	96	6,658
Disposals	(27)	(32)	(1)	(60)
Depreciation	(6,328)	(1,671)	0	(7,999)
Translation differences	242	(347)	(220)	(325)
Change in scope of consolidation	(1,212)	(132)	(80)	(1,424)
Other movements (*)	238	381	(4,355)	(3,736)
Net closing balance	**25,900**	**10,444**	**2,473**	**38,817**

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

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

15. Equity investments

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

	30.06.2006	31.12.2005	Change
Associated companies:			
Top Clima S.L.	3,799	3,799	-
Effegici S.r.l.	-	71	(71)
Investment held through trust company	2,629	2,626	3
Omas S.r.l.	-	-	-
Total associated companies	**6,428**	**6,496**	**(68)**

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

Equity investments in other companies amount to € 204 thousand (€ 221 thousand at 31 December 2005).

16. Other non-current receivables

This balance is analyzed as follows:

	30.06.2006	31.12.2005	Change
Due from others			
- within 12 months	999	877	122
- beyond 12 months	1,112	1,271	(159)
Total	**2,111**	**2,148**	**(37)**

The balance at 30 June 2006 includes € 997 thousand in security deposits (€ 877 thousand at 31 December 2005), € 1,091 thousand for a five-year loan to the minority shareholder in the Chinese subsidiary Promised Success Ltd (€ 1,271 thousand at 31 December 2005) and € 23 thousand in other non-current receivables.

17. Deferred tax assets and deferred tax liabilities

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

	30.06.2006	31.12.2005	Change
Deferred tax assets	49,184	40,022	9,162
Deferred tax liabilities	(14,783)	(16,715)	1,932
Net asset balance	**34,401**	**23,307**	**11,094**

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

Details of the net balance are as follows:

	30.06.2006	31.12.2005	Change
- Temporary differences (net)	9,594	(936)	10,530
- Tax losses	24,807	24,243	564
Net asset balance	**34,401**	**23,307**	**11,094**

The increase in the net asset balance reflects € 5,022 thousand relating to the deconsolidation of Elba S.p.A. and € 1,124 thousand in amounts booked to net equity in the "Fair value reserve".

It is also reported that no deferred taxes have been recognized on €14.1 million in carried forward tax losses and temporary differences reported by certain group companies.

Current assets

18. Inventories

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

	30.06.2006	31.12.2005	Change
Raw, ancillary and consumable materials	70,188	64,311	5,877
Work in progress and semi-finished products	31,430	27,240	4,190
Finished products and goods	284,817	248,659	36,158
Total	**386,435**	**340,210**	**46,225**

The value of inventories is adjusted by a provision for obsolete or slow-moving goods totalling € 26,001 thousand (€ 27,983 thousand at 31 December 2005), in relation to products and raw materials no longer deemed to be of strategic interest.

19. Trade receivables

These are made up as follows:

	30.06.2006	31.12.2005	Change
Trade receivables			
- due within 12 months	298,311	347,410	(49,099)
- due beyond 12 months	25	29	(4)
Provision for doubtful accounts	(9,676)	(10,493)	817
Total	**288,660**	**336,946**	**(48,286)**
Assigned receivables (*)	5,693	113,118	(107,425)
Total	**294,353**	**450,064**	**(155,711)**

(*) These refer to receivables factored without recourse whose risks and rewards have not been substantially transferred to the factor. As a result, they continue to be reported in the balance sheet.

Trade receivables have gone down by € 155,711 thousand, reflecting the different accounting treatment adopted at June 2006 relative to December 2005 for the assignment of receivables without recourse (ie. securitizations and without recourse assignments to factors). These receivables (totalling € 70,911 thousand at 30 June 2006) have been derecognized as a result of intervening contractual amendments resulting in the substantial transfer of the risks and rewards of the receivables to the assignee, as required by IAS/IFRS.

In accordance with the disclosure required by CONSOB Circular 3369 of 9 April 1997, we report that the total amount of receivables securitized by the parent company and its subsidiaries in the period from January to the end of June 2006 was € 96,321 thousand.

Trade receivables are stated net of a provision for doubtful accounts of € 9,676 thousand, representing a reasonable estimate of the expected risk at the reporting date. Provisions are made against a number of disputed receivables or those whose collection is otherwise in doubt, taking account of the fact that a significant portion of the receivables is covered by major insurers.

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

	31.12.2005	Increases	Utilization	Translation difference and other movements	30.06.2006
Provision for doubtful accounts	10,493	1,118	(1,813)	(122)	9,676

The group has received € 3,215 thousand in customer guarantees (mainly in the form of sureties) against commercial transactions.

Trade receivables include € 5,370 thousand in amounts due from associated companies. Attachment 2 contains a summary of the transactions and balances with associated companies, ultimate parent companies and related parties.

Trade receivables are broken down by geographical area as follows:

Geographical area	Amount at 30.06.2006	%
Italy	102,445	34.8%
United Kingdom	25,121	8.5%
Rest of Europe	91,226	31.0%
North America	19,029	6.5%
Japan	2,670	0.9%
Rest of the world	53,862	18.3%
Total	**294,353**	**100.0%**

20. Current tax assets

"Current tax assets" are detailed below:

	30.06.2006	31.12.2005	Change
VAT	10,833	3,068	7,765
Tax payments on account	5,584	7,501	(1,917)
Direct taxes	814	808	6
Tax refunds requested	1,547	861	686
Other tax receivables	169	100	69
Total current tax assets	**18,947**	**12,338**	**6,609**

The amount of current tax assets due beyond 12 months is € 210 thousand (€ 610 thousand at 31 December 2005).)

"Tax payments on account" mostly refer to the tax paid on account of 2006 income by the parent company and other Italian companies that exceeds the amount of income tax payable for the period.

21. Other receivables

"Other receivables" are broken down as follows:

	30.06.2006	31.12.2005	Change
Advances to suppliers	5,247	3,061	2,186
Factors	1,853	5,641	(3,788)
Employees	663	598	65
Other	8,209	8,779	(570)
Advertising and insurance costs	254	983	(729)
Total other receivables	**16,226**	**19,062**	**(2,836)**

The amount of other receivables due beyond 12 months is € 6 thousand.

22. Current financial receivables and assets

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

	30.06.2006	31.12.2005	Change
Other financial receivables	1,386	1,006	380
Other securities	565	656	(91)
Total financial receivables and assets	**1,951**	**1,662**	**289**

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

"Other financial receivables" include €544 thousand in respect of the fair value of derivatives.

23. Cash and cash equivalents

This balance consists of surplus liquidity on bank current accounts, mostly relating to customer payments received at period end; at 30 June 2006 it also includes a part of the proceeds from the sale of Elba S.p.A.

Some of the group's foreign companies have a total of € 39.0 million in cash on current accounts held at the same bank. These cash balances form part of the international cash pooling system and are partially offset by € 32.6 million in overdrafts held by certain other foreign companies with the same bank. This bank therefore acts as a "clearing house" for the group's positive and negative cash balances. Considering the substance of the transactions and technical workings of the international cash pooling system, the positive and negative cash balances which net against one another within it have not been included in the consolidated balance sheet. The bank in question has been given a lien over all the cash balances within the international cash pooling system in respect of this service.

Certain current accounts carry restrictions at 30 June 2006 totalling € 2,445 thousand. These mostly relate to bank deposits of certain Chinese subsidiaries given as security to the customs authorities against the temporary import of raw materials. These deposits will be released by November 2006; a bank surety has been agreed for new imports of raw materials which will replace the restriction on the bank deposits.

Comments on the balance sheet: net equity and liabilities

Net equity

"Net equity" is made up as follows:

	30.06.2006	31.12.2005	Change
Group portion	600,987	583,781	17,206
Minority interests	1,860	1,754	106
Total net equity	**602,847**	**585,535**	**17,312**

The annual general meeting (AGM) of 27 April 2006 declared a dividend totalling € 2,990 thousand.

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

24. Share capital

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

25. Reserves

These are broken down as follows:

	30.06.2006	31.12.2005	Change
Share premium reserve	325	325	-
Legal reserve	5,593	5,393	200
Other reserves			
- Extraordinary reserve	44,193	43,385	808
- Fair value reserve	(2,909)	(620)	(2,289)
- Currency translation reserve	(12,730)	(10,866)	(1,864)
- Profits (losses) carried forward	93,666	72,844	20,822
Total reserves	**128,138**	**110,461**	**17,677**

The "legal reserve" had a balance of € 5,393 thousand at 31 December 2005. The intervening increase of €200 thousand is due to the allocation of the profit for the year, as approved by the above AGM.

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

The "fair value reserve" is stated net of € 1,442 thousand in tax. This reserve has been recognized under IAS 39, adopted with effect from 1 January 2005, and includes the effective portion of net gains and losses on financial

instruments designated as cash flow hedges.
This reserve also includes the net result of measuring "available for sale" financial assets at fair value.
The reduction of € 2,289 thousand in the fair value reserve in the first half of 2006 reflects the post-tax effect of valuing cash flow hedges.

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

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

Minority interests in net equity amount to € 1,860 thousand. The interests held by minority interests and their corresponding share of net equity and results for the period ended 30 June 2006 are summarized below:

Company	% interest	Net equity	Profit (loss) for the period
E-Services S.r.l.	49%	704	261
Climaveneta France Sas	24%	102	22
Promised Success Ltd.	33%	840	-
On Shiu (Zhongshan) Electrical Appliance Company Ltd.	33%	238	-
Zass Alabuga LLC	7.2%	(24)	(55)
Total		**1,860**	**228**

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

	Net equity 30.06.2006	Profit (loss) for the 6 months ended 30.06.2006
De'Longhi S.p.A. IAS/IFRS financial statements	**505.117**	**(4,377)**
Share of subsidiaries' equity and results for period attributable to the group, after deducting carrying value of the investments	27,262	52,572
Adjustment of writedowns made for statutory purposes and intercompany profits on investments and reversal of dividends	-	(15,021)
Allocation of goodwill and related amortization and reversal of merger deficits and goodwill recognized for statutory purposes	101,515	(1,142)
Elimination of intercompany profits	(27,575)	3,638
Other adjustments	(3,472)	(11,093)
Group portion	**602,847**	**24,577**
Minority interests	(1,860)	(228)
Consolidated financial statements	**600,987**	**24,349**

Non-current liabilities

26. Bank loans and borrowings

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

	Within one year	One to five years	Beyond five years	Balance 30.06.2006	Balance 31.12.2005	Change
Overdrafts	9,637			9,637	4,474	5,163
Short-term loans in Euro or foreign currency	105,185			105,185	117,587	(12,402)
Long-term loans (current portion)	89,908			89,908	191,690	(101,782)
Total short-term bank loans and borrowings	**204,730**			**204,730**	**313,751**	**(109,021)**
Long-term loans		231,171	35,533	266,704	217,823	48,881
Total bank loans and borrowings	**204,730**	**231,171**	**35,533**	**471,434**	**531,574**	**(60,140)**

Long-term loans comprise the following:

Loans (including short-term portion)	Balance 30.06.2006	Balance 31.12.2005
Syndicated loan (with Istituto San Paolo as agent bank) maturing 2008	120,674	150,289
Loan from Banca Popolare di Verona e Novara maturing 2013	105,130	105,154
Syndicated loan (with BNP Paribas as agent bank) maturing 2010	100,037	99,836
Loan from Banca Popolare di Verona e Novara maturing 2013	14,967	15,000
Loan from Banca Popolare di Verona e Novara maturing 2006	6,795	13,437
Loan from Banca Nazionale del Lavoro maturing 2007	-	8,007
Loan from Banca Ant. Popolare Veneta maturing 2007	-	5,773
Loan from Banca Popolare di Verona e Novara maturing 2006	2,083	4,112
Loan from Mediocredito del Friuli Venezia Giulia maturing 2008	2,635	3,225
Other minor loans (*)	4,291	4,680
Total medium/long-term loans	**356,612**	**409,513**

(*) The loan of €1,922 thousand from Akbars Bank to Zass Alabuga LLC is secured by a lien for a corresponding amount on this company's inventories.

During the first half of 2006 two loans to De'Longhi S.p.A. from Banca Nazionale del Lavoro and Banca Antoniana Popolare Veneta were repaid early. This early repayment was reported in the explanatory notes to the financial statements at 31 December 2005, having been formally notified before the date of approving the annual report. These loans were therefore classified as current bank loans and borrowings at 31 December 2005.

Certain loans call for the observance of financial covenants.
With regard to the syndicated loan (in which Istituto S. Paolo acts as the agent bank), the full amount of this loan was reclassified as current at 31 December 2005, as required by IAS 1, due to failure to observe a financial covenant.

Subsequent to the reporting date of 31 December 2005 De'Longhi S.p.A. requested a waiver from the agent bank, which was duly granted on 12 April 2006. As a result, the portion of this loan due beyond twelve months, amounting to € 60.5 million, has now been classified under non-current loans and borrowings.
The terms of this loan require observance of the financial covenants to be verified only once a year with reference to the annual financial statements.

The loan from BNP Paribas calls for the observance of financial covenants on a six-monthly basis. Based on the terms of the loan agreement, the financial covenants have been observed at 30 June 2006.

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

27. Other financial payables

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

	Balance 30.06.2006	Balance 31.12.2005	Change
Payables for receivables assigned without recourse	(5,693)	(125,049)	119,356
Payables to lease companies (short-term portion)	(2,274)	(2,663)	389
Ministry of Industry loans (short-term portion)	(828)	(822)	(6)
Payables for the purchase of equity investments	(291)	(386)	95
Other short-term financial payables	(16,952)	(14,214)	(2,738)
Total short-term payables	**(26,038)**	**(143,134)**	**117,096**
Payables to lease companies (long-term portion)	(7,387)	(12,040)	4,653
Ministry of Industry loans (long-term portion)	(3,952)	(4,614)	662
Total long-term payables	**(11,339)**	**(16,654)**	**5,315**
Total other financial payables	**(37,377)**	**(159,788)**	**122,411**

This balance mostly refers to finance leases of € 9,661 thousand (€ 14,703 thousand at 31 December 2005) and low-interest loans from the Ministry of Industry of € 4,780 thousand (€ 5,436 thousand at 31 December 2005).
It also includes payables for receivables assigned without recourse to factors and for trade receivables assigned under the securitization programme. Even if the ownership of these receivables had been legally transferred, IFRS required that € 113,118 thousand in such receivables be reinstated in the balance sheet at 31 December 2005 with a corresponding adjustment to the net financial position in order to recognize a payable due to the factor. Intervening contractual amendments have made it possible to exclude these receivables from the balance sheet since the risks and rewards have now been substantially transferred to the assignee, thus meeting the IFRS/IAS condition for derecognition. This applied to all except € 5,693 thousand in receivables assigned under the old terms and conditions, which have been retained in the balance sheet.

The net financial position, including the effect of assigning receivables at 31 December 2005, is detailed as follows:

	Balance30.06.2006	Balance 31.12.2005	Change
A. Cash	977	1,077	(100)
B. Cash equivalents	144,123	175,954	(31,831)
C. Securities	565	656	(91)
D. Total liquidity (A+B+C)	**145,665**	**177,687**	**(32,022)**
E 1. Current financial receivables	**1,386**	**1,006**	**380**
E 2. Non-current financial receivables (*)	**1,112**	**1,271**	**(159)**
F. Current bank loans and borrowings	(114,822)	(122,061)	7,239
G. Current portion of non-current debt (**)	(89,908)	(191,690)	101,782
H. Other current financial payables	(26,038)	(143,134)	117,096
I. Current financial debt (F+G+H)	**(230,768)**	**(456,885)**	**226,117**
J. Net current financial debt (I +E 1 + E 2+D)	**(82,605)**	**(276,921)**	**194,316**
K. Non-current bank loans and borrowings	(266,704)	(217,823)	(48,881)
L. Bonds	-	-	-
M. Other non-current payables	(11,339)	(16,654)	5,315
N. Non-current financial debt (K+L+M)	**(278,043)**	**(234,477)**	**(43,566)**
Total	**(360,648)**	**(511,398)**	**150,750**

(*) This amount differs from that reported in the balance sheet (€ 2,111 thousand at 30 June 2006 and € 2,148 thousand at 31 December 2005) because the balance sheet amount includes €999 thousand in non-financial receivables (€ 877 thousand at 31 December 2005).
(**) The amount at 31 December 2005 includes €95,223 thousand reclassified from non-current liabilities as required by IAS 1 (see the comment in note 26. Bank loans and borrowings).

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

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

28. Employee benefits

These are made up as follows:

	30.06.2006	31.12.2005	Change
Provision for severance indemnities	23,317	25,551	(2,234)
Other employee benefits	15,576	17,273	(1,697)
Total employee benefits	**38,893**	**42,824**	**(3,931)**

The provision for severance indemnities payable to employees of the group's Italian companies falls into the category of defined benefit plans governed by IAS 19 "Employee benefits".
Some of the group's foreign companies provide defined benefit plans for their employees.

Some of these plans have assets servicing them, but severance indemnities, as a self-financed obligation, do not.
These plans are valued on an actuarial basis to express the present value of the benefit payable at the end of service that employees have accrued at the balance sheet date.

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

Provision for severance indemnities:
Movements in the period are summarized below:

Severance indemnity obligations	**30.06.2006**	**31.12.2005**	**Change**
Defined benefit obligations	23,317	25,551	(2,234)

Net cost charged to income	**30.06.2006**	**31.12.2005**	**Change**
Current service cost	1,911	4,466	(2,555)
Interest cost on obligations	467	1,012	(545)
Total	**2,378**	**5,478**	**(3,100)**

Change in present value of obligations	**30.06.2006**	**31.12.2005**	**Change**
Present value at 1 January	25,551	26,243	(692)
Current service cost	1,911	4,466	(2,555)
Change in scope of consolidation	(2,781)	-	(2,781)
Benefits paid	(1,831)	(6,170)	4,339
Interest cost on obligations	467	1,012	(545)
Present value at 30 June 2006	**23,317**	**25,551**	**(2,234)**

Other benefit plans:

Net cost charged to income	**30.06.2006**	**31.12.2005**
Current service cost	139	308
Return on plan assets	-	(1,331)
Interest cost on obligations	263	1,974
Total	**402**	**951**

Change in present value of obligations	**30.06.2006**	**31.12.2005**	**Change**
Present value at 1 January	17,273	18,487	(1,214)
Net cost charged to income	402	951	(549)
Benefits paid	(1,882)	(1,475)	(407)
Translation difference	(217)	(690)	473
Total	**15,576**	**17,273**	**(1,697)**

The amount includes € 13,900 thousand in respect of Kenwood Ltd. and € 1,676 thousand for De'Longhi Japan Corp.
The assumptions used for determining the obligations under these plans are the same as those used in the financial statements at 31 December 2005.

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

	30.06.2006	31.12.2005	Average 2005
Total workforce	8,029	7,467	7,823

Stock option plans

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

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

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

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

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

These are broken down as follows:

	30.06.2006	31.12.2005	Change
Agents' leaving indemnity provision and other retirement provisions	**6,069**	**5,941**	**128**
Product warranty provision	8,528	9,427	(899)
Provision for contingencies	7,699	8,441	(742)
Provision for restructuring	12,539	16,551	(4,012)
Other	2,761	3,251	(490)
Other provisions	**31,527**	**37,670**	**(6,143)**
Total	**37,596**	**43,611**	**(6,015)**

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

The agents' leaving indemnity provision and other retirement provisions reported the following movements during 2006:

	31.12.2005	Utilization	Increases	Change in scope of consolidation	Other	30.06.2006
Agents' leaving indemnity provision	5,727	(41)	208	(29)	(9)	5,856
Other retirement provisions	214	-	-	-	(1)	213
Total	**5,941**	**(41)**	**208**	**(29)**	**(10)**	**6,069**

Other provisions reported the following movements:

	31.12.2005	Utilization (*)	Increases	Translation difference	Change in scope of consolidation	Other	30.06.2006
Product warranty provision	9,427	(3,259)	2,408	(21)	(200)	173	8,528
Provision for contingencies	8,441	(1,144)	654	-	(250)	(2)	7,699
Provision for restructuring	16,551	(4,012)	-	-	-	-	12,539
Other	3,251	(530)	221	(104)	-	(77)	2,761
Total	**37,670**	**(8,945)**	**3,283**	**(125)**	**(450)**	**94**	**31,527**

(*) Also includes the partial release of the restructuring provision after a diminution in the risk of the related liability.

The product warranty provision has been established, for certain consolidated companies, on the basis of estimated under-warranty repair and replacement costs for sales taking place by 30 June 2006. It takes account of the provisions of Legislative Decree 24/2002 and of European Community law.

The provision for contingencies includes the following:

- the provision for insurance deductibles of € 2,829 thousand (€ 2,211 thousand at 31 December 2005), which covers the group's insurance liability (limited to the deductible) in the case of liabilities arising from complaints;
- a provision of €4,870 thousand against potential contractual risks that could give rise to liabilities for the parent company and certain subsidiaries.

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

Current liabilities

30. Trade payables

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

The balance includes € 349 thousand in trade payables due to associated companies. Attachment 2 contains a summary of the transactions and balances with associated companies, ultimate parent companies and related parties.

Trade payables are broken down by geographical area as follows:

Geographical area	Amount at 30.06.2006	%
Italy	144,724	51.4%
United Kingdom	16,886	6.0%
Rest of Europe	38,390	13.7%
North America	6,506	2.3%
Japan	1,395	0.5%
Rest of the world	73,418	26.1%
Total	**281,319**	**100.0%**

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

31. Current tax liabilities

These are broken down as follows:

	30.06.2006	31.12.2005	Change
Direct taxes	14,050	14,777	(727)
Indirect taxes	1,631	4,048	(2,417)
Withholdings payable	2,144	4,388	(2,244)
Other taxes	1,092	1,936	(844)
Total current tax liabilities	**18,917**	**25,149**	**(6,232)**

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

32. Other payables

These are detailed as follows:

	30.06.2006	31.12.2005	Change
Social security institutions	5,006	6,897	(1,891)
Sundry payables	48,517	33,850	14,667
Total other payables	**53,523**	**40,747**	**12,776**

"Social security institutions" include € 3,850 thousand in payables to social security agencies, €146 thousand in payables to Italy's industrial accident insurer and € 1,010 thousand to other agencies.

"Sundry payables" are detailed as follows:

	30.06.2006	31.12.2005	Change
Employees	22,202	23,627	(1,425)
Advances	4,152	2,564	1,588
Other	22,163	7,659	14,504
Total sundry payables	**48,517**	**33,850**	**14,667**

The increase in "Other" mostly refers to the deferral of income arising upon the sale of Elba S.p.A. relating to the right to use the "De'Longhi" and "Kenwood" trademarks for a period of twenty years (just in certain markets and for certain product categories).

Commitments

These are broken down as follows:

	30.06.2006	31.12.2005	Change
Guarantees given:			
- to third parties	1,318	736	582
Other personal guarantees			
- to third parties	-	-	-
Total personal guarantees given	1,318	736	582
Other commitments	4,935	5,256	(321)
Total	**6,253**	**5,992**	**261**

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

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

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

Risk management

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

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

Credit risk

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

Liquidity risk

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

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

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

Exchange rate risk

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

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

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

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

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

The group has exposures to the major international currencies (US dollar, GB pound and Yen), to other minor currencies and those in emerging countries. A list of outstanding currency derivatives at 30 June 2006 is provided below:
- for hedging the 2006 and 2007 budgets

		Notional amount		
Currency	**Type of hedge**	**Purchases**	**Sales**	**Fair value €**
CAD vs/EUR	Forward agreement	-	5,000	(96)
GBP vs/EUR	Forward agreement	-	7,000	67
USD vs/EUR	Forward agreement	90,000	-	(2,185)
USD vs/GBP	Forward agreement	42,000	-	(742)
USD vs/EUR	Synthetic forward	15,000	-	(1,415)
Total fair value				**(4,371)**

- for hedging receivables and payables in foreign currency:

Currency	Type of hedge	Notional amount		Fair value
		Purchases	Sales	
AUD vs/EUR	Forward agreement	-	18,536	182
AUD vs/GBP	Forward agreement	-	3,535	1
CAD vs/EUR	Forward agreement	-	9,131	85
CHF vs/EUR	Forward agreement	-	2,124	11
CHF vs/GBP	Forward agreement	-	714	-
CZK vs/GBP	Forward agreement	-	1,843	-
DKK vs/GBP	Forward agreement	-	1,987	-
EUR vs/GBP	Forward agreement	-	21,784	(21)
EUR vs/RUB	Forward agreement	237	-	(3)
GBP vs/EUR	Forward agreement	1,121	48,280	440
HKD vs/EUR	Forward agreement	6,821	-	(6)
JPY vs/EUR	Forward agreement	-	311,138	26
NOK vs/GBP	Forward agreement	-	5,845	2
NZD vs/EUR	Forward agreement	-	5,941	146
NZD vs/GBP	Forward agreement	-	886	3
PLN vs/EUR	Forward agreement	-	13,712	47
RUB vs/EUR	Forward agreement	2,877	-	(1)
SEK vs/GBP	Forward agreement	-	1,125	-
USD vs/EUR	Forward agreement	4,272	32,892	298
USD vs/GBP	Forward agreement	-	570	7
ZAR vs/EUR	Forward agreement	-	10,000	256
GBP vs/AUD	Forward agreement	206	-	AUD (2)
EUR vs/AUD	Forward agreement	241	-	AUD (2)
USD vs/AUD	Forward agreement	4,324	-	AUD (6)
GBP vs/NZD	Forward agreement	45	-	NZD (1)
EUR vs/NZD	Forward agreement	8	-	NZD (0)
USD vs/ZAR	Forward agreement	4,500	-	ZAR 4,995

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

Interest rate risk

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

All of the group's financial debt at 30 June 2006 was at floating rates following the decision to obtain the maximum benefit from the continued low level of interest rates.

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

At 30 June 2006 there was just one outstanding hedge for € 3.2 million expiring in the first quarter of 2008.

The fair value of this hedge at 30 June 2006 was a negative € 67 thousand:

Company	Counterparty	Type of hedge	Maturity	Notional amount	Fair value
Ariete S.p.A.	B. Pop. Verona e Novara	I.R.S.	14-Mar-2008	3,200	(67)
Total fair value					**(67)**

At 30 June 2006 the derivatives hedging this risk have been recorded as financial assets and liabilities held for trading with changes in their fair value through profit or loss.

Tax position

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

De'Longhi S.p.A.: a general tax inspection for tax year 2003 by the Veneto regional tax office. A preliminary notice of findings was issued on 3 February 2006. The tax authorities have not yet raised any assessment.

Ariete S.p.A.: a general tax inspection for tax year 2003 by the Tuscany regional tax office. A preliminary notice of findings was issued on 14 June 2006. The tax authorities have not yet raised any assessment.

In both bases the companies have decided to demonstrate to the competent authorities that the findings contained in the preliminary notices are unjustified.

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

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

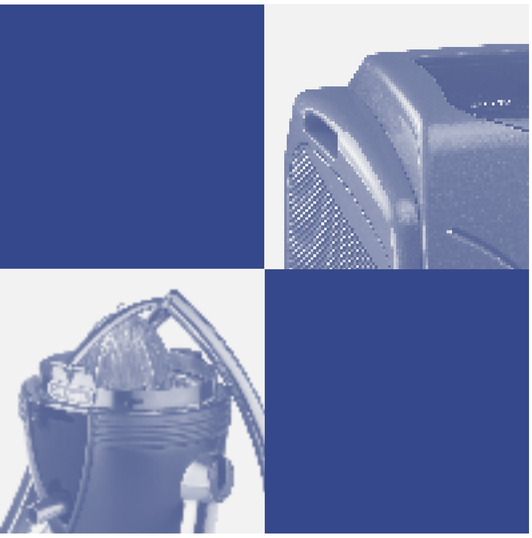
Transactions and balances between the parent company and subsidiaries are not reported since these have already been disclosed in the individual financial statements of De'Longhi S.p.A. and eliminated upon consolidation.

Subsequent events

See the directors' report on operations.

Treviso, 12 September 2006
De'Longhi S.p.A.
Vice Chairman and CEO
Fabio De'Longhi

Attachments



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

This information is contained in the following attachments:

1. List of consolidated companies.
2. Transactions and balances with associated companies, ultimate parent companies and related parties.

Attachment 1

List of consolidated companies

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

Name	Registered office	Currency	Share capital	Interest held at 30/06/2006	
				Directly	Indirectly
DE'LONGHI AMERICA INC.	Saddle Brook	USD	9,100,000	100%	
DE'LONGHI FRANCE S.A.R.L.	Clichy	EUR	2,737,500	100%	
DE'LONGHI CANADA INC.	Mississauga	CAD	1	100%	
DE'LONGHI DEUTSCHLAND GMBH	Seligenstadt	EUR	2,100,000	100%	
DE'LONGHI ELECTRODOMESTICOS ESPANA S.L.	Barcelona	EUR	510,000	100%	
DE'LONGHI CAPITAL SERVICES S.R.L. (2)	Treviso	EUR	53,000,000	11.32%	88.68%
LA SUPERCALOR S.P.A.	Seregno (MI)	EUR	520,000	100%	
E- SERVICES S.R.L.	Treviso	EUR	50,000	51%	
DE'LONGHI LTD.	Wellingbo-rough	GBP	4,000,000	100%	
DE'LONGHI NEDERLAND B.V.	Breda	EUR	226,890	100%	
DL TRADING LIMITED	Hong Kong	HKD	73,010,000		100%
TRICOM INDUSTRIAL CO. LTD	Hong Kong	HKD	4,500,000		100%
PROMISED SUCCESS LTD.	Hong Kong	HKD	28,000,000		67%
ON SHIU (ZHONGSHAN) ELECTRICAL APPLIANCE COMPANY LTD.	Zhongshan City	CNY	39,034,400		67%
DONG GUAN DE'LONGHI-KENWOOD APPLIANCES CO.LTD.	Qing Xi Town	HKD	4,251,440		100%
CLIMAVENETA S.P.A.	Treviso	EUR	10,000,000	100%	
CLIMAVENETA DEUTSCHLAND GMBH	Nordstedt	EUR	306,775		100%
CLIMAVENETA FRANCE SAS	Montesson	EUR	150,000		76%
DE'LONGHI FINANCE S.A.	Luxembourg	EUR	181,730,990	100%	
DE'LONGHI JAPAN CORP.	Tokyo	JPY	50,000,000		100%
DL RADIATORS S.P.A.	Treviso	EUR	5,000,000		100%
DE'LONGHI CLIMA POLSKA SP.ZO.O	Warsaw	PLN	597,000		100%
Company controlled through trust company (3)	Nuremberg	EUR	26,000		100%
DL RADIATORS FRANCE S.A.R.L.	Paris	EUR	150,000		100%
DE'LONGHI AUSTRALIA PTY LTD.	Sydney	AUD	7,000,000		100%
DE'LONGHI NEW ZEALAND LTD.	Auckland	NZD	6,000,000		100%
CLIMAVENETA HOME SYSTEM S.R.L.	Treviso	EUR	5,000,000		100%
ALABUGA INTERNATIONAL SA	Luxembourg	EUR	200,000	0.05%	99.95%
ZASS ALABUGA LLC	Elabuga	RUB	95,242,767		92.8%
DE'LONGHI LLC	Elabuga	RUB	6,000,000		100%
DL TRADING (SHENZEN) COMPANY CO LTD.	Shenzen	USD	363,000		100%
KENWOOD APPLIANCES PLC	Havant	GBP	4,586,000		100%
KENWOOD APPLIANCES LUXEMBOURG S.A.	Luxembourg	EUR	1,000,000		100%
KENWOOD LIMITED	Havant	GBP	25,050,000		100%
KENWOOD INTERNATIONAL LTD .	Havant	GBP	20,000,000		100%

Attachment 1

Name	Registered office	Currency	Share capital	Interest held at 30/06/2006	
				Directly	Indirectly
KENWOOD APPL. (SINGAPORE) PTE LTD .	Singapore	SGD	500,000		100%
KENWOOD APPL. (MALAYSIA) SDN.BHD.	Petaling Jaya	MYR	3		100%
KENWOOD MANUFACTURING GMBH	Wr Neudorf	EUR	36,336		100%
KENWOOD HOME APPL. PTY LTD.	Industria West	ZAR	40,000		100%
KENWOOD HELLAS SOLE PARTNER LTD. LIABILITY COMPANY	Athens	EUR	18,000		100%
ARIETE S.P.A.	Prato	EUR	8,272,000		100%
ARIETE HISPANIA S.L.	Madrid	EUR	3,066		100%
ARIETE HELLAS EPE	Athens	EUR	18,000		100%
ARIES LUSITANIA ELECTRODOMESTICOS LDA	Maia	EUR	5,000		100%
ARIETE DEUTSCHLAND GMBH	Dusseldorf	EUR	25,000		100%
ARIETE FRANCE ELECTROMENAGER SARL	Paris	EUR	30,000		100%
CLIM.RE. SA	Luxembourg	EUR	1,239,468	4%	96%
DL PROFESSIONAL S.A.	Luxembourg	EUR	200,000	100%	

List of companies consolidated under the proportional method

Name	Registered office	Currency	Share capital (1)	Interest held at 30/06/2006	
				Directly	Indirectly
CHAT UNION CLIMAVENETA COMPANY LTD.	Hong Kong	HKD	10,000		50%
CLIMAVENETA CHAT UNION REFRIGERATION EQUIPMENT (SHANGHAI) CO.LTD.	Shanghai	USD	2,500,000		50%
CLIMAVENETA CHAT UNION TRADING (SHANGHAI) CO.LTD.	Shanghai	USD	600,000		50%
DL-TCL HOLDINGS (HK) LTD.	Hong Kong	EUR	5,000,000		50%
TCL-DE'LONGHI HOME APPLIANCES (ZHONGSHAN) CO.LTD.	Zhongshan	USD	2,500,000		50%

List of companies consolidated under the equity method

Name	Registered office	Currency	Share capital (1)	Interest held at 30/06/2006	
				Directly	Indirectly
Associated companies:					
Omas S.r.l.	Gualtieri (RE)	EUR	364,000	40%	
Effegici S.r.l.	Gorgo al Monticano (TV)	EUR	244,400	25%	
Top Clima SL	Barcelona	EUR	1,606,000		25%
Ayre SA	Parets del Valles	EUR	2,500,000		25%
Investment held through trust company		EUR	520,000	40%	

Other subsidiaries (in liquidation or dormant)

Name	Registered office	Currency	Share capital
Subsidiaries: (5)			
Kenwood Appliances (Australia) Pty Limited	Sydney	AUD	15,000
Kenwood Appliances Limited	Auckland	NZD	1,002,650
Kenwood Appliances Inc.	Havant	USD	25,000

(1) Figures at 31 December 2005, unless otherwise specified.
(2) The articles of association, approved by the extraordinary shareholders' meeting held on 29 December 2004, give special rights to De'Longhi S.p.A. (holding 89% of the voting rights) for ordinary resolutions (approval of financial statements, declaration of dividends, nomination of directors and statutory auditors, purchase and sale of companies, grant of loans to third parties); voting rights are proportional as far as other resolutions are concerned, except for the preferential right to receive dividends held by the shareholder Kenwood Appliances Plc.
(3) A distributor of heating products in Germany, the interest in which is held through a trust company. As permitted by law, we have omitted the company's name to protect its interests and those of the group.
(4) Dormant companies or companies in liquidation, whose balance sheets are unavailable.

Transactions and balances with associated companies, ultimate parent companies and related parties (in millions of Euro)

In compliance with the guidelines and methods for identifying significant transactions, especially those with related parties covered by De'Longhi S.p.a.'s rules on corporate governance, we shall now present the following information concerning transactions with associated companies, ultimate parent companies and related parties during the first half of 2006:

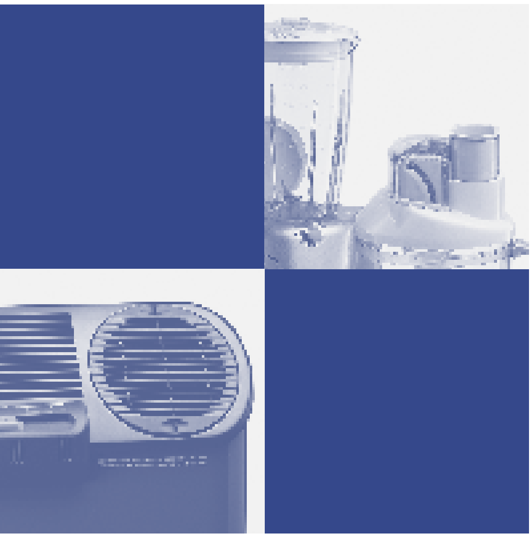
	Revenues from sales	Raw material and other costs	Trade receivables and other receivables	Trade payables
Associated companies: (1)				
Top Clima SA	7.2	(0.1)	5.1	(0.2)
AYRE SA	-	(0.1)	-	-
Omas S.r.l.	-	(0.1)	0.2	(0.1)
Total associated companies	**7.2**	**(0.3)**	**5.3**	**(0.3)**
Ultimate parent companies:				
De'Longhi Soparfi S.A. (2)	0.1	-	0.6	-
De'Longhi Holding SA	-	-	0.1	-
Total ultimate parent companies	**0.1**	**-**	**0.7**	**-**
Related parties:				
Liguria Vita S.p.A.	-	(0.1)	-	-
Mokarabia S.p.A.	-	(0.1)	-	(0.1)
Total related parties	**-**	**(0.2)**	**-**	**(0.1)**

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

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

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

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



Income statement

	30.06.2006	30.06.2005	31.12.2005
NET REVENUES			
Revenues from sales and services	193.138	224.934	489.491
Other operating income and revenues	14.583	12.195	28.135
Total net revenues	**207.721**	**237.129**	**517.626**
Raw and ancillary materials, consumables and goods	(143.289)	(174.042)	(315.270)
Change in inventories of finished products and work in progress	17.447	44.636	20.408
Change in inventories of raw and ancillary materials, consumables and goods	1.443	2.023	(1.444)
Raw materials, consumables and finished products consumed	**(124.399)**	**(127.383)**	**(296.306)**
Payroll costs	(25.442)	(30.834)	(58.543)
Services and other operating expenses	(59.490)	(69.830)	(145.173)
Contingency and other provisions	(3.421)	(3.560)	(9.111)
Other income (expenses)	1.924	(1.563)	(7.756)
Amortization and depreciation	(6.468)	(6.962)	(13.090)
EBIT	**(9.575)**	**(3.003)**	**(12.353)**
Financial income (expenses)	(340)	(13.249)	15.252
Earnings before tax (EBT)	**(9.915)**	**(16.252)**	**2.899**
Taxes	5.538	976	6.248
PROFIT (LOSS) FOR THE PERIOD	**(4.377)**	**(15.276)**	**9.147**
EARNINGS PER SHARE	**-**	**-**	**0,06**

Balance sheet

Assets

	30.06.2006	31.12.2005	30.06.2005
NON-CURRENT ASSETS			
INTANGIBLE ASSETS	105.429	105.278	90.157
- Goodwill	4.771	4.771	4.771
- Other intangible assets	100.658	100.507	85.386
PROPERTY, PLANT AND EQUIPMENT	112.182	116.835	115.704
- Land, property, plant and machinery	97.316	101.279	95.387
- Other tangible assets	14.866	15.556	20.317
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS	321.853	325.515	326.058
- Equity investments (in subsidiary companies)	311.983	314.351	311.257
- Equity investments (in associated companies)	3.025	3.226	3.226
- Equity investments (other)	97	97	1.430
- Receivables	6.748	7.841	10.145
DEFERRED TAX ASSETS	8.722	3.878	-
TOTAL NON-CURRENT ASSETS	**548.186**	**551.506**	**531.919**
CURRENT ASSETS			
INVENTORIES	131.566	112.676	173.634
TRADE RECEIVABLES	194.667	275.504	269.681
CURRENT TAX ASSETS	12.610	3.702	5.823
OTHER RECEIVABLES	40.353	54.406	8.423
CURRENT FINANCIAL RECEIVABLES AND ASSETS	16.764	117.168	26.968
CASH AND CASH EQUIVALENTS	32.126	14.077	11.970
TOTAL CURRENT ASSETS	**428.086**	**577.533**	**496.499**
TOTAL ASSETS	**976.272**	**1.129.039**	**1.028.418**

Balance sheet

Net equity and liabilities

	30.06.2006	31.12.2005	30.06.2005
NET EQUITY			
NET EQUITY	505.117	514.195	489.669
- Share capital	448.500	448.500	448.500
- Reserves	60.994	56.548	56.445
- Profit (Loss) for the period	(4.377)	9.147	(15.276)
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES	171.447	207.470	175.370
- Bank loans and borrowings (long-term portion)	161.810	196.977	170.593
- Other financial payables (long-term portion)	9.637	10.493	4.777
DEFERRED TAX LIABILITIES		-	6.489
PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES	40.725	43.609	42.147
- Employee benefits	13.797	13.621	14.889
- Other provisions	26.928	29.988	27.258
TOTAL NON-CURRENT LIABILITIES	**212.172**	**251.079**	**224.006**
CURRENT LIABILITIES			
TRADE PAYABLES	116.429	160.303	144.789
FINANCIAL PAYABLES	83.796	164.981	145.090
- Bank loans and borrowings (short-term portion)	70.789	87.977	43.478
- Other financial payables (short-term portion)	13.007	77.004	101.612
CURRENT TAX LIABILITIES	4.372	5.924	1.264
OTHER PAYABLES	54.386	32.557	23.600
TOTAL CURRENT LIABILITIES	**258.983**	**363.765**	**314.743**
TOTAL NET EQUITY AND LIABILITIES	**976.272**	**1.129.039**	**1.028.418**

Cash flow statement

	30/06/2006 6 months	30/06/2005 pro-forma 6 months
Profit (loss) for the period	(4.377)	(15.276)
Amortization and depreciation	6.468	6.962
Net change in provisions and writedowns	(4.369)	3.262
Cash flow generated (absorbed) by current operations (A)	**(2.278)**	**(5.052)**
Change in assets and liabilities:		
Trade receivables	18.179	3.931
Inventories	(18.890)	(47.923)
Trade payables	(31.873)	13.210
Other current assets and liabilities	13.423	18.209
Cash flow generated (absorbed) by movements in working capital (B)	**(19.161)**	**(12.573)**
Investment activities		
Net investments in intangible assets	(2.038)	(2.216)
Net investments in property, plant and equipment	261	(1.931)
Net investments in equity investments and other financial assets	(207)	(29)
Cash flow generated (absorbed) by investment activities (C)	**(1.984)**	**(4.176)**
Changes in net equity for IAS 32 and 39	(2.552)	(1.838)
Payment of dividends	(2.990)	(8.970)
Cash flow generated by changes in equity accounts (D)	**(5.542)**	**(10.808)**
Effect of factoring receivables without recourse (E)	**62.729**	**0**
Cash flow for the period (A+B+C+D+E)	**33.764**	**(32.609)**
Opening net financial position	**(233.422)**	**(238.824)**
Cash flow for the period (A+B+C+D+E)	33.764	(32.609)
Closing net financial position	**(199.658)**	**(271.433)**

Statement of changes in net equity

	Share capital	Share premium reserve	Legal reserve	Other reserves	Fair value reserve	Profit (loss) carried forward	Profit (loss) for the period	Total
Balance at 31 December 2005 (Italian GAAP)	448.500	15.000	5.393	43.385	-	-	3.998	516.276
Effects of IAS		(14.675)			(639)	8.084	5.149	(2.081)
Balance at 31 December 2005 (IAS)	448.500	325	5.393	43.385	(639)	8.084	9.147	514.195
Allocation of 2005 result as per AGM resolution of 27 April 2006								
- payment of dividends							(2.990)	(2.990)
- allocation to reserves			200	808		5.149	(6.157)	-
Change in fair value reserve					(1.711)			(1.711)
Profit (loss) for the period							(4.377)	(4.377)
Balance at 30 June 2006	448.500	325	5.593	44.193	(2.350)	13.233	(4.377)	505.117

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

Introduction

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

We shall now present the following information:

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

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

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

	Net equity 01.01.2005	Profit (Loss) 2005	Other effects	Payment of dividends	Net equity 31.12,2005
Balance under Italian GAAP	**521,248**	**3,998**	**-**	**(8,970)**	**516,276**
1) Reversal of intangible assets	(4,962)	3,019			(1,943)
2) Amortization reversal for trademarks with indefinite life	5,061	5,061			10,122
3) Reversal of goodwill and related amortization	297	297			594
4) Deemed cost of buildings	7,432	682			8,114
5) Recognition of hedging transactions	(4,971)	545	3,287		(1,139)
6) Employee benefits	182	(363)			(181)
7) Other effects	3,148	(1,189)			1,959
8) Recognition of deferred taxes	(15,620)	(2,903)	(1,084)		(19,607)
Total IAS/IFRS adjustments	(9,433)	5,149	2,203		(2,081)
Balance under IAS/IFRS	**511,815**	**9,147**	**2,203**	**(8,970)**	**514,195**

The results for 2005 and net equity at 31 December 2005 prepared under IAS/IFRS differ from those reported in the reconciliation of consolidated net equity and results at 31 December 2005 with those of the parent company De'Longhi S.p.A. This is because of the allocation of certain consolidation adjustments to the parent company's financial statements.

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

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

1- Intangible assets

Certain types of deferred cost (mainly start-up and expansion costs relating to the stock listing process and other long-term costs), which were capitalized prior to 1 January 2004 under specified circumstances, may no longer be capitalized under IAS 38; the net book values at the transition date have been reversed, causing net equity to decrease by € 4,962 thousand at 1 January 2005.
This change has resulted in a reduction in amortization charges of € 3,019 thousand in 2005.

2- Trademarks

The accounting standards require intangible assets to be amortized over the period they are expected to benefit.
IAS/IFRS require that trademarks and goodwill with an indefinite life are no longer amortized but tested at least once a year for impairment.
IAS 38 states that an intangible asset is regarded as having an indefinite life if "based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset will generate net inflows for the entity".

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

This change has resulted in a reduction in amortization charges of € 5,061 thousand in 2004 and 2005.

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

3- Goodwill

This is no longer being systematically amortized since considered to have an indefinite useful life. Instead, it is tested at least once a year for any impairment. This change has resulted in a reduction in amortization charges of €297 thousand in 2004 and 2005.
The impairment test carried out at the end of 2005 has not revealed any significant evidence that goodwill might have suffered an impairment loss. No events of significance have occurred in the first half of 2006 such as might suggest that the carrying amounts of goodwill have suffered any impairment loss.

4- Property, plant and equipment

Under Italian GAAP property, plant and equipment are valued at cost, as revalued in certain cases in accordance with specific laws.

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

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

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

This change has resulted in:

-an increase of € 7,432 thousand in net equity at 1 January 2005;

-lower depreciation charges of €682 thousand in 2005.

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

5- Hedging transactions

Derivatives

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

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

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

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

6- Employee benefits (IAS 19)

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

The application of IAS 19 has resulted in:

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

7- Other effects

These mostly include the effects of:

a) Discounting payables and provisions for contingencies to present value

IAS/IFRS require liabilities for contingencies whose expected financial outlays extend beyond one year to be discounted to present value. This accounting treatment has produced an increase of € 560 thousand in net equity at 1 January 2005. The effect on the income statement for 2005 was a positive € 12 thousand.

b) Discounting trade receivables to present value

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

The first-time application of this IAS on 1 January 2005 has caused net equity to go down by € 269 thousand. The effect on the income statement for 2005 was a negative €225 thousand.

c) Valuation of advertising material in inventories

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

d) Long-term financial liabilities

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

e) Finance leases

IAS 17 requires that assets held under finance lease, whereby all the risks and rewards incident to ownership are substantially transferred to the company, are recognized among the company's assets at the lower of the asset's fair value or the present value of the minimum lease payments. The corresponding liability due to the lessor is reported under financial payables.

Leases in which the lessor substantially retains all the risks and rewards incident to ownership of the asset are classified as operating leases. The costs relating to operating leases are recognized as an expense in the income statement on a straight-line basis over the lease term.

The first-time application of IAS 17 on 1 January 2005 has resulted in an increase of €3,490 thousand in net equity. The effect on the 2005 income statement was a positive €192 thousand.

8- Recognition of deferred taxes

This includes the following tax effects arising from the application of IAS/ IFRS:
- a negative effect of € 15,620 thousand on net equity at 1 January 2005;
- a negative effect of € 2,903 thousand on the 2005 income statement;
- a decrease of € 1,084 thousand in "Other reserves";
- a negative effect of € 19,607 thousand on net equity at 31 December 2005.

9- Derecognition of financial assets for assigned receivables

Securitization

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

Following the application of IAS/IFRS and specifically in the absence of substantial transfer of the risks and rewards relating to assigned receivables, the above transactions have been reversed, meaning that the related trade receivables have been retained on the asset side of the balance sheet. As a result trade receivables have been increased by € 52,296 thousand at 31 December 2005, matched by a corresponding increase in debt (bank loans and borrowings less cash and financial receivables).

Without recourse factoring contracts

The adoption of IAS 39 involves a more restrictive interpretation of the circumstances in which the factoring of receivables without recourse may be recognized; Italian GAAP allows receivables factored without recourse to be eliminated from the balance sheet if the factoring transactions meet certain legal requirements; for the purposes of IAS, the transfer may give rise to the derecognition of receivables in the transferor's balance sheet provided all the risks and rewards are substantially transferred. For IAS/IFRS transition purposes the company has adopted an accounting treatment for factoring transactions (in which the assignor continues to be involved with the assigned customers) that involves retaining the receivables factored without recourse in the balance sheet even though legally assigned.

These receivables, amounting to €12,778 thousand at 31 December 2005, have been recorded on the asset side of the balance sheet as "receivables assigned to factors" with a corresponding financial liability recognized for the consideration received.

10- Share-based payments (stock option plan)

IFRS 2 has not been applied since the stock option plan was approved on 12 January 2002, ie. before the date from which the new IFRS starts to apply.

11-Income statement reclassifications

Non-recurring income and expenses

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

Restructuring costs

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

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