

ANNEX

Illustrative report as per Article 2506-*ter* of the Civil Code drafted by the Board of Directors of De'Longhi S.p.A. regarding the partial and proportional Demerger of De'Longhi S.p.A. in favour of De'Longhi Clima S.p.A.



**REPORT BY THE BOARD OF DIRECTORS OF DE' LONGHI S.P.A.
ON THE PLAN FOR THE PARTIAL AND PROPORTIONAL DEMERGER OF
DE' LONGHI S.P.A. TO DE' LONGHI CLIMA S.P.A.**

pursuant to and in accordance with Articles 2501-quinquies, 2506-ter of the Civil Code
and Article 70, subsection 2 of the Regulation adopted by Consob with Resolution n° 11971 dated 14 May
1999, as subsequently modified ("Issuers' Regulation")

Treviso, 21 July 2011

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Report by the Board of Directors of De' Longhi S.p.A. regarding the partial and proportional demerger plan of De' Longhi S.p.A. to De' Longhi Clima S.p.A., pursuant to and in accordance with Articles 2501-quinquies, 2506-ter of the Civil Code and Article 70 (2) of the Issuers' Regulation.

Dear Shareholders,

We would like you to examine and approve the plan for the partial and proportional demerger of De' Longhi S.p.A. (hereinafter, “**De' Longhi**” or “**Demerging Company**”), to the company De' Longhi Clima S.p.A. (hereinafter, “**DL Clima**” or “**Beneficiary Company**”) drafted, filed and registered in accordance with the law based on the financial situation of De' Longhi at 30 June 2011 and DL Clima at 20 July 2011 (hereinafter “**Demerger Plan**”).

This report (hereinafter the “**Report**”) intends to illustrate the Demerger Plan, from a legal and economic perspective, in accordance with that provided under Articles 2501-quinquies and 2506-ter of the Civil Code and Article 70, subsection 2 of the Issuers' Regulation.

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1. ILLUSTRATION AND RATIONALE OF THE TRANSACTION WITH PARTICULAR REGARD TO THE OPERATIONAL OBJECTIVES OF THE COMPANIES PARTY TO THE DEMERGER AND THE PROGRAMMES DEVELOPED TO ACHIEVE THEM

1.1 Description of the Companies party to the Demerger

De' Longhi S.p.A., with registered office in Via L. Seitz 47, Treviso, tax code and Companies Register of Treviso n° 11570840154, Treviso Economic and Administrative Business Register n° 224758 at the Chamber of Commerce of Treviso.

At the Date of this Report, the fully subscribed and paid-in share capital is equal to Euro 448,500,000.00 (four hundred and forty-eight million five hundred thousand) represented by 149,500,000 (one hundred and forty-nine million five hundred thousand) shares each with a par value of Euro 3.00 (three).

De' Longhi Clima S.p.A., with registered office in Via L. Seitz 47, Treviso, tax code and Companies Register of Treviso n° 06830580962, Treviso Economic and Administrative Business Register n° 352567.

On the date of the Demerger Plan, the Articles of Association of DL Clima has a share capital of Euro 120,000.00 (one hundred and twenty thousand) divided into 40,000 (forty thousand) shares each with a par value of Euro 3.00 (three).

The share capital of the Beneficiary Company is, at the date of this Report, wholly owned by De' Longhi.

1.2 Rationale and objectives of the Demerger

The transaction submitted for approval is the partial and proportional demerger of De'Longhi to the wholly-owned company DL Clima, in accordance with Articles 2506 and following of the Italian Civil Code, by means of the assignment of shares in the Beneficiary Company to the shareholders of De'Longhi proportional to their share in the Demerging Company (hereinafter, "**Demerger**" or "**Transaction**").

The objective of the Demerger is primarily industrial and consists in the separation of the activities from two distinct business areas the De'Longhi Group currently operates in, and in particular the separation of the activities involving the manufacturing and marketing of machines for air conditioning and refrigeration systems in ICT (Information Communication Technology) processes for industrial purposes, and water-filled radiators (under the Professional Division), from the production and marketing of small household appliances and portable air conditioning (under the so-called Household Division).

In particular, the principal objective of the Demerger is that of allowing the independent development of the two separate businesses heading each of the two divisions, which lack operational synergies. The decision to bring this Demerger to your attention lies principally in the consideration that the Professional Division (subject of the Demerger) has characteristics which are substantially different to those of the Household Division in terms of clients and core market and also different profiles of potential investors.

The business under the Household Division concerns the manufacturing and marketing of small household appliances for the preparation of food, cooking, home cleaning and ironing, portable air conditioning and heating, distributed through 'business-to-consumer' retail channels, chiefly with the brands De'Longhi, Kenwood and Ariete. Such business is aimed particularly towards a highly competitive but not cyclical market.

The business under the Professional Division, however, concerns the manufacture and marketing of machines for air conditioning systems, heating technology, heat pumps and climate control in industrial processes and in data centres and mobile telecommunications, distributed through the professional channel, using 'business-to-business'. The reference market for this business, as opposed to that for the Household Division products, is characterized by more marked cyclical demand and the presence of operators competing on levels of technology and product processes.

Two distinct groups will result from the Demerger, each focused on its core business and with well-defined targets that can be clearly identified and understood by the market.

We expect that the two groups, when provided with the necessary autonomy and efficiency, will have the potential to improve strategic development and, in particular, they will have the freedom of movement and a very precise operational profile which will allow them to fully express their worth which otherwise could be partially unexpressed.

On one hand, De'Longhi, with the small electrical appliance business, will have the opportunity to express the unexpressed value of the Household Division by focusing and simplifying the equity story, and positioning itself as world leader in the production of high-end coffee makers.

On the other, DL Clima will have the opportunity to seize the role as global competitor in the sector of high energy efficiency products and act as consolidator of the *Heating, Ventilation and Air Conditioning* (HVAC) market.

As a result of the Demerger, each De'Longhi shareholder will hold, in place of each existing De'Longhi share, two shares representing the two main business areas (Household and Professional) which make up the company's activity today, and which will allow them and all their potential investors, to choose whether to invest in both the business areas or to focus on just one.

1.3 Legal profiles of the Demerger

From the statutory perspective, the transaction is a demerger executed in accordance with Articles 2506 and following of the Italian Civil Code, in the manner and according to the terms and conditions contained in the Demerger Plan approved by the Boards of Directors of De'Longhi and DL Clima on 21 July 2011.

In particular, the Demerger, if approved, will consist in the partial and proportional demerger of De'Longhi to the Beneficiary Company and it will be executed by the transfer by De'Longhi of a portion of its assets and liabilities represented by the 100% shareholding held in DL Professional S.A. better described in section 2.1 below.

Against the allocation of the assets subject to the Demerger, the De'Longhi shareholders will be assigned shares in the Beneficiary Company, without consideration and at the rate of 1 (one) share for 1 (one) share.

The transaction submitted for the approval of De'Longhi shareholders therefore constitutes a partial and proportional demerger and will be implemented on the basis of De'Longhi's financial statement at 30 June 2011, approved by the Board of Directors pursuant to Article 2501-*quater* of the Italian Civil Code (as referred to in Article 2506-*ter* (1) of the Italian Civil Code) and made available to the shareholders together with the subsequent relevant documentation in accordance with the law.

As the Demerger entails a transfer of assets and liabilities to a company that, at the date of this Report, is wholly owned by the Demerging Company and will continue to be until the effective date of the Demerger, the Demerger will not result in any change in the value of

shares held by shareholders of the Demerging Company and, therefore, the conditions exist - consistent also with the opinion expressed by the Milan Council of Notaries in *Massima* 23 of 18 March 2004, issued by the *Commissione Società del Consiglio Notarile di Milano* - for the exemption pursuant to Article 2506-ter (3) of the Italian Civil Code from the requirement for a report from an independent expert under Article 2501-sexies of the Italian Civil Code.

As a result of the Demerger, the share capital and reserves of the Demerging Company will be reduced by an amount equivalent to the net value of the assets and liabilities transferred.

The share capital will be reduced through a proportional reduction in the par value per De'Longhi share; therefore such value will be reduced from Euro 3.00 to Euro 1.50.

Completion of the Demerger is conditional upon the issuance, by Borsa Italiana S.p.A. (hereinafter "**Borsa Italiana**"), of the admission of shares in the Beneficiary Company to listing, and the decision from Consob, pursuant to Article 57 (1.d) of the Issuers' Regulation, concerning the equivalence of the Information Document and subsequent amendments, pursuant to said Article 57.

Therefore, admission to trading on the Mercato Telematico Azionario (hereinafter "**MTA**"), organized and managed by Borsa Italiana, will be requested for shares in the Beneficiary Company.

Subsequent to the Deed of Demerger being filed with the relevant Companies Register, but prior to the Effective Date of the Demerger, Borsa Italiana will provide formal notification of the initial date for trading of shares in the Beneficiary Company on the MTA, starting from which the Demerger will have effect (probably 1 January 2012).

1.3.1 Modifications to the Articles of Association of the Demerging Company

The Articles of Association of the Demerging Company, annexed to the Demerger Plan, will not be subjected to amendment as a result of the Demerger, except for:

(i) for the amendments that will be made to Article 5 (“*Share Capital*”), which reflect the reduction in the Demerging Company's share capital following completion of the Demerger, in the amount indicated in the following section 2.2 of this Report.

In particular, following completion of the Demerger, the new Article 5 of the Demerging Company's Articles of Association will be amended as follows: "*The share capital is Euro 224,250,000.00 (two hundred and twenty-four million two hundred and fifty thousand) divided into 149,500,000 (one hundred and forty-nine million five hundred thousand) shares each with a par value of Euro 1.50 (one euro fifty cents).*" At the date of this Report the par value of the Demerging Company's shares is equal to Euro 3.00 and will decrease to Euro 1.50;

(ii) for the introduction of Article 13-ter, which exempts directors of the Demerging Company from observing the non-competition obligation contained in Article 2390 of the Italian Civil Code - states that: "*Members of the Board of Directors are not subject to the non-competition obligation contained in Article 2390 of the Italian Civil Code.*".

Such amendment allows the Demerging Company and the Beneficiary Company to take advantage of the contribution of those people who have developed significant experience in both sectors that the De'Longhi Group S.p.A. has operated in until now. Departing from the prohibition on competition established in Article 2390 of the Italian Civil Code, directors will be able to hold such a position in both the Demerging Company and the Beneficiary Company.

1.3.2 Modifications to the Articles of Association of the Beneficiary Company

A prerequisite and essential condition of the Demerger is that the shares in the Beneficiary Company, at the moment of their allotment to shareholders of De'Longhi, be admitted to trading on the MTA, organized and managed by Borsa Italiana.

Consequently, the Shareholders' Meeting of the DL Clima, called to approve the Demerger, shareholders will also be called to vote on the adoption, with effect from the Effective Date of the Demerger, of Articles of Association that conform to the requirements for listed companies established by Legislative Decree 58 of 24 February 1998 (hereafter the "**Consolidated Finance Law**") and related implementing regulations. The Board of Directors has assessed the opportunity to modify the name of the Beneficiary Company contained in Article 1 of the Articles of Association which will come into force on the Date of the Demerger, from De'Longhi Clima S.p.A. to DelClima S.p.A.; the verifications in progress on the feasibility of said modification have not allowed, at the Date of this Report, the question to be settled. Therefore, the decision concerning this modification will be decided directly by the shareholders at the Meeting for the approval of the Demerger.

The aforementioned Articles of Association, annexed to the Demerger Plan in Annex B, reproduces exactly those of De'Longhi post Demerger, except for Article 1 ("*Name*") and Article 5 ("*Share Capital*"), which as a consequence of the Demerger will be changed to implement (i) the share capital increase of Euro 224,250,000.00 from Euro 120,000.00 to Euro 224,370,000.00, and (ii) the division of the current 40,000 shares each with a par value of Euro 3.00 into 80,000 shares each with a par value of Euro 1.50.

Following the coming into effect of the Demerger, the share capital of the Beneficiary Company will therefore be equal to Euro 224,370,000.00 constituted by 149,580,000 shares each with a par value of Euro 1.50, 149,500,000 of which will be assigned proportionally to the shareholders of De'Longhi.

Therefore, following the Demerger, Article 5 (“*Share Capital*”) of the Beneficiary Company's Articles of Association will provide that “*The share capital is Euro 224,370,000.00 (two hundred and twenty-four million three hundred and seventy thousand), divided into 149,580,000 (one hundred and forty-nine million five hundred and eighty thousand) shares each with a par value of Euro 1.50 (one Euro fifty cents)*”.

2. DESCRIPTION OF THE ASSETS AND LIABILITIES TO BE TRANSFERRED TO THE BENEFICIARY COMPANY

2.1 Assets and liabilities to be transferred

As a result of the Demerger, the entire shareholding held by De'Longhi in the company DL Professional S.A., with registered office in the Grand Duchy of Luxembourg, registered in the Companies Register with number B 116737, share capital equal to Euro 30,205,000.00 (thirty million two hundred and five thousand) (hereinafter "**DL Professional**") will be transferred to the Beneficiary Company, the carrying amount of which in the financial statements of De'Longhi at 30 June 2011 is Euro 261,205,300.00.

With regard to DL Professional, it is specified that the same holds the following direct shareholdings at the date of this Report:

- 100% shareholding in the company *Climaveneta S.p.A.* (hereinafter also "**Climaveneta**") with registered office in Via Seitz 47, Treviso, registered with the Companies Register of Treviso with number 02603430139, share capital equal to Euro 10,000,000.00 (ten million), specialized in the manufacture of large equipment for commercial and industrial climate control; Climaveneta in turn holds (i) 80.88% of the operating company *Climaveneta Polska S.P. ZOO*; (ii) 100% of the share capital in *Climaveneta Deutschland GMBH*, *Climaveneta France SAS*, *Climaveneta UK Limited*, and 100% control through options in *Climaveneta Climate Technologies Private Limited* and *Top Clima S.L.*, specialized in the distribution of large climate control systems in Germany, France, UK, India and Spain respectively; (iii) 50% of the share capital in *Chat Union Climaveneta*

Company Limited, in turn 100% owner of two companies that distribute the group's products in the Chinese market, *Climaveneta Chat Union Refrigeration Equipment (Shanghai) CO.LTD.* - that holds a 100% shareholding in *Chat Union Climaveneta Trading (Shanghai) CO.LTD.* - and in *Climaveneta Chat Union Trading (Shanghai) CO.LTD.*;

- 100% shareholding in *R.C. Group S.p.A.* (hereinafter also "**RC Group**") with registered office in Valle Salimbene (PV), registered with the Companies Register of Pavia, with the number 01744470186 and share capital equal to Euro 10,680,000.00 (ten million six hundred and eighty thousand), is active in the production and marketing of equipment for climate control in mobile radio communication stations, precision climate control in computer rooms and land-line telephone rooms, liquid chillers and heat pumps. RC Group is in turn the owner of the whole share capital of *Foshan RC Air Conditioning R.E. CO. LTD.*;
- 100% shareholding in the company *DL Radiators S.p.A.* (hereinafter also "**DL Radiators**") with registered office in Treviso, Via L. Seitz 47, registered with the Companies Register of Treviso, with the number 00730970266, share capital equal to Euro 5,000,000.00 (five million) active in the production and marketing of thermal units for fixed heating systems. DL Radiators is in turn the owner of the whole share capital of *De'Longhi Clima Polska S.P.ZO.O.* and another German company controlled through a trust.

2.2 Variations to the net equity of De'Longhi and capital increase of the Beneficiary Company

As a consequence of the Demerger, the equity of the Demerging Company will be proportionally reduced by Euro 261,205,300.00, through a reduction in share capital of Euro 224,250,000.00 and in reserves of Euro 36,955,300.00. More specifically, the legal reserve will be reduced to Euro 4,847,229.00; the share premium reserve will be reduced to Euro 162,545.00; the extraordinary reserve/other reserves will be reduced to Euro 29,351,399.00 and therefore by Euro 31,945,526.00.

The reduction in share capital owing to the Demerger will take place without cancellation of shares in the Demerging Company, but rather through a reduction in par value per De'Longhi share. The par value of Euro 3.00 prior to the Demerger will be reduced to Euro 1.50 pursuant to the Demerger.

The Euro 1.50 per share reduction in the par value of shares in the Demerging Company (corresponding to the pro rata reduction in net assets resulting from the Demerger) will be fully offset by the issue of new shares in the Beneficiary Company, with a par value of Euro 1.50 each, equivalent in number to the shares in the Demerging Company at the date of the Demerger and having identical rights as De'Longhi shares.

Pursuant to the Demerger, the book equity of the Beneficiary Company will be increased by Euro 261,205,300.00, through an increase in the share capital of Euro 224,250,000.00 from the current Euro 120,000.00 to Euro 224,370,000.00 through the issue of 149,500,000 new shares with a par value of Euro 1.50 each.

Furthermore, the equity of the Beneficiary Company will further increase by Euro 36,955,300.00 which will be attributed to the reserves following the reduction in equity of the Demerging Company. More specifically, the legal reserve will be increased by Euro 4,847,229.00; the share premium reserve will be increased by Euro 162,545.00; the extraordinary reserve/other reserves will increase to Euro 31,952,439.00, and therefore by Euro 31,945,526.00.

The following is a summary of the impacts already recorded on the equity of both the Demerging Company and Beneficiary Company. In particular, the first column reports values for the equity of the Demerging Company at 30 June 2011. The second and third columns show the composition of those items for the Beneficiary Company and the Demerging Company, respectively, following completion of the Demerger.

	De'Longhi S.p.A. prior to demerger	De'Longhi Clima S.p.A. post demerger	De'Longhi S.p.A. post demerger
Share Capital	448,500,000.00	*224,370,000.00	224,250,000.00
Legal reserve	9,694,458.00	4,847,229.00	4,847,229.00
Share premium reserve	325,090.00	162,545.00	162,545.00
Extraordinary Reserve/Other Reserves	61,296,925.00	31,952,439.00	29,351,399.00
Reserve for unrealised foreign currency gains	129,080.00	0	129,080.00
Profits carried forward from the IAS/IFRS transition	12,686,589.00	0	12,686,589.00
Profit (loss) after taxes at 30 June 2011**	4,348,924.00	(3,842.00)	4,348,924.00
TOTAL	536,981,066.00	261,328,371.00	275,775,766.00

* Including Euro 120,000.00 of the share capital prior to Demerger.

** Profit (loss) after taxes of De'Longhi Clima S.p.A. at 20 July 2011.

It is specified that any differences in the book values of the asset to be transferred, owing to corporate dynamics that may occur between 30 June 2011 and the effective date of the Demerger, will not entail cash adjustments, remaining either a credit or a debt respectively.

2.3 Actual values of the net equity transferred to the Beneficiary Company and the net equity that will remain in the Demerging Company.

Pursuant to Article 2506-ter (2) of the Italian Civil Code, it is declared that: (i) the actual value of the net equity that will be transferred to the Beneficiary Company as a result of the Demerger is not lower than the related carrying value (which at 30 June 2011 is equal to Euro 261,205,300.00); (ii) the actual value of the net equity that will remain with the Demerging Company is not lower than the related carrying value (which at 30 June 2011 is equal to Euro 275,775,766.00).

3. ALLOTMENT OF SHARES TO THE BENEFICIARY COMPANY AND MANNER OF ALLOTMENT

As already mentioned above, it is anticipated that as a result of the Demerger all the shareholders of the Demerging Company will be assigned shares in the Beneficiary Company based on a criteria of proportional allotment. In particular, the shareholders of the Demerging Company will be allotted a share in the Beneficiary Company for each share held in the Demerging Company.

Therefore, no cash adjustment is anticipated.

Shares in the Beneficiary Company will be allotted to those having entitlement, through authorized intermediaries and in dematerialized form, from the effective date of the Demerger, within the period and in the manner to be announced in the appropriate notice.

At the moment of allocation, the shares of the Beneficiary Company will be admitted for trading on the MTA, organized and managed by Borsa Italiana. Borsa Italiana will set the commencement date for trading of the DL Clima shares in the notice.

4. RIGHT OF WITHDRAWAL

A pre-condition for the Demerger is the listing of the Beneficiary Company's shares on the MTA to ensure liquidity for those shares. The Demerger is, in fact, subject inter alia to admission of the Beneficiary Company's shares to listing on the MTA. As such, the pre-conditions necessary for De'Longhi S.p.A. shareholders to exercise the right of withdrawal stipulated under Article 2437-*quinques* of the Italian Civil Code exist.

Neither do the pre-conditions for the right of withdrawal stipulated under Article 2437 of the Italian Civil Code exist. In particular, with reference to Article 2437 (1)(a) of the Italian Civil Code, it should be noted that, subsequent to the Demerger, the corporate purpose of the Demerging Company will remain unchanged and the Beneficiary Company will adopt the same company purpose.

5. FORECASTED COMPOSITION OF THE SHAREHOLDING OF THE DEMERGING COMPANY AND THE BENEFICIARY COMPANY FOLLOWING THE DEMERGER

As already mentioned, the transaction submitted for the approval of the De'Longhi shareholders constitutes a partial and proportional demerger. Therefore:

- a) following the conclusion of the Demerger, no variations to the shareholder structure of the Demerging companies are anticipated;
- b) the shareholders in the Demerging Company will become shareholders in the Beneficiary Company proportionally to the shares held in the Demerging Company; the Beneficiary Company's shareholding will reflect the actual composition of that of the Demerging Company.

The list of shareholders in the Demerging Company which, according to the shareholders' book and communications received and other information available to De'Longhi at the date of this Report, currently possess, either directly or indirectly, shares in the Demerging Company which amount to more than 2% of the share capital with voting rights is listed below.

De Longhi shareholders	Number of shares	% of Share capital
The Long e Trust Indirectly through De'Longhi Soparfi S.A.	112,134,660	75.006

Source: Consob and De'Longhi S.p.A.

6. EFFECTS OF THE DEMERGER ON ANY SHAREHOLDER AGREEMENTS

At the date of this Report , as far as the Demerging Company is aware, no shareholder agreements exist, as defined under Article 122 of the Consolidated Finance Law, that concern De'Longhi shares.

7. DESCRIPTION OF THE RIGHTS ATTACHED TO THE SHARES TO BE TRANSFERRED TO THE SHAREHOLDERS OF THE DEMERGING COMPANY

The shareholders of the Demerging Company will be allotted shares in the Beneficiary Company in the amount and according to the allotment criteria illustrated in section 3.

It is expected that only ordinary shares in the Beneficiary Company will be issued.

Shareholders of the Demerging Company will be allotted shares in the Beneficiary Company with entitlement to the Beneficiary Company's profits from the effective date of the Demerger.

8. EFFECTIVE DATE OF THE DEMERGER

Pursuant to Article 2506-*quater* of the Italian Civil Code, the Demerger shall have effect for third parties from the date indicated in the Deed of Demerger, to be subsequent to the date of the last registration of the Deed with the competent Companies Register, having

given warning that the Deed of Demerger may be executed provided that the following conditions are fulfilled:

- a) admission by Borsa Italiana of all the classes of shares in the Beneficiary Company to listing on the MTA; and
- b) decision from Consob, pursuant to Article 57 (1.d) of Consob Regulation n° 11971/1999, as to the equivalence to a listing prospectus of the information provided by the Information Document and its subsequent integrations, pursuant to said Article 57.

Subsequent to the Deed of Demerger being filed with the relevant Companies Register, but prior to the Effective Date of the Demerger, Borsa Italiana will provide formal notification of the initial date for trading of shares in the Beneficiary Company on the MTA, starting from which the Demerger will take effect.

Bearing in mind the above, the effective date of the Demerger is expected to be 1 January 2012.

Fiscal and accounting effects of the Demerger shall start from the date stated in the Deed of Demerger.

9. INCENTIVE PLANS

The Demerging Company has a "*Phantom Stock Option Plan*" (hereinafter the "**Incentive Plan**"), decided by the General Meeting of Shareholders on 22 April 2008 which grants the current Chief Executive Officer of De'Longhi and that of Climaveneta (current beneficiaries of the Incentive Plan), the right to the payment of monies corresponding to the growth of the share value of De'Longhi S.p.A. traded on the MTA, which is organized and managed by Borsa Italiana (hereinafter the "**Right**"). The Demerging Company's Board of Directors will adopt, with regard to the Incentive Plan and pursuant to the authorization granted it by the *Phantom Stock Option Plan* rules (hereinafter the "**Rules**") in a future meeting which will be held before stipulation of the Deed of Demerger, the minimum adjustments necessary, to allow incentive instruments to continue to achieve the purposes for which they were adopted, also in the context of the Demerger.

10. TAX IMPLICATIONS OF THE TRANSACTION

For the purposes of direct taxation and pursuant to Article 173 (1) of Presidential Decree 917 of 22 December 1986 (the Consolidated Law on Income Taxes, hereinafter the "TUIR"), the Demerger is tax neutral and therefore does not constitute either a realized or distributed gain or loss for the Demerging Company's assets and liabilities being transferred.

The Demerging Company's assets and liabilities to be transferred to the Beneficiary Company will keep the same tax values as those recognized in the Demerging Company.

All tax positions of the Demerging Company and related commitments are attributed to the Beneficiary Company and Demerging Company in proportion to the respective portion of equity transferred or retained, except where they specifically related to a transferred asset or liability or group of assets and/or liabilities and, as such, follow said elements to their respective owners.

Tax losses generated by the Demerging Company will be attributed to the Beneficiary Company in proportion to their respective portions of the equity to be transferred or retained, and the provisions shall apply of Article 172 (7) of the Consolidated Law on Income Tax regarding mergers, referred to in Article 172 (10), referring the provisions concerning merging or incorporating companies to the Demerging Company and those concerning the company resulting from the merger or absorbed company to the Beneficiary Company.

In relation to the effects of the Demerger for the shareholders of the Demerging Company, the Demerger is tax neutral and does not constitute either a realized or distributed gain or loss, nor entailing the achievement of revenues. However, with regard to the tax cost of the Demerging Company's shares, this is divided between the shares of the Demerging Company and those of the Beneficiary Company in proportion to the respective portions of equity transferred or retained.

Shareholders of the Demerging Companies who are not resident in Italy should verify their status with the tax advisors in their country of residence.

For everything not expressly indicated for the purposes of income taxes, the provisions contained in Article 173 of the Consolidated Law on Income Taxes apply.

For the purposes of indirect taxation, the demerger transaction is exempt from the application of VAT pursuant to Article 2 (3) (f) of Presidential Decree n° 633 of 26 October 1972 and is subject to fixed stamp duty as per part one of Article 4 (b) of the schedule of tariffs attached to Presidential Decree 131/1986. Fixed mortgage and cadastral duties are due where applicable.

Treviso, 21 July 2011

For the Board of Directors

CHIEF EXECUTIVE OFFICER

(Fabio De' Longhi)

ANNEX

Report of the Board of Directors of De'Longhi Clima S.p.A. on the partial and proportional Demerger of De'Longhi S.p.A. to De'Longhi Clima S.p.A., prepared pursuant to Article 2506-ter of the Italian Civil Code.

De'Longhi Clima S.p.A.

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and Article 70, subsection 2 of the Regulation adopted by Consob with Resolution n° 11971 dated 14 May
1999, as subsequently modified ("Issuers' Regulation")

Treviso, 21 July 2011

De'Longhi Clima S.p.A. single-member company, with registered office in Treviso, Via L. Seitz 47
Share Capital Euro 120,000.00 - Register of Companies of Treviso & Tax Identification Code 06830580962 -
Treviso Economic and Administrative Business Register n° 352567

SUMMARY

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Report by the Board of Directors of De'Longhi Clima S.p.A. on the partial and proportional Demerger Plan of De'Longhi S.p.A. to De'Longhi Clima S.p.A., pursuant to and in accordance with Articles 2501-quinquies, 2506-ter of the Civil Code and Article 70 (2) of the Issuers' Regulation.

Dear Shareholders,

We would like you to examine and approve the plan for the partial and proportional demerger of De' Longhi S.p.A. (hereinafter "**De'Longhi**" or the "**Demerging Company**"), to De'Longhi Clima S.p.A. (hereinafter, "**DL Clima**" or "**Beneficiary Company**") drafted, filed and registered in accordance with the law based on the financial situation of De' Longhi at 30 June 2011 and DL Clima at 20 July 2011 (hereinafter "**Demerger Plan**").

This report (hereinafter the "**Report**") intends to illustrate the Demerger Plan, from a legal and economic perspective, in accordance with that provided under Articles 2501-*quinquies* and 2506-*ter* of the Civil Code and Article 70, subsection 2 of the Issuers' Regulation.

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1. ILLUSTRATION AND RATIONALE OF THE TRANSACTION WITH PARTICULAR REGARD TO THE OPERATIONAL OBJECTIVES OF THE COMPANIES PARTY TO THE DEMERGER AND THE PROGRAMMES DEVELOPED TO ACHIEVE THEM

1.1 Description of the Companies party to the Demerger

De' Longhi Clima S.p.A., with registered office in Via L. Seitz 47, Treviso, tax code and Companies Register of Treviso n° 06830580962, Treviso Economic and Administrative Business Register n° 352567.

On the date of the Demerger Plan, the Articles of Association of DL Clima has a share capital of Euro 120,000.00 (one hundred and twenty thousand) divided into 40,000 (forty thousand) shares each with a par value of Euro 3.00 (three).

The share capital of the Beneficiary Company is, at the date of this Report, wholly owned by De' Longhi.

De' Longhi S.p.A., with registered office in Via L. Seitz 47, Treviso, tax code and Companies Register of Treviso n° 11570840154, Treviso Economic and Administrative Business Register n° 224758 at the Chamber of Commerce of Treviso.

At the Date of this Report, the fully subscribed and paid-in share capital is equal to Euro 448,500,000.00 (four hundred and forty-eight million five hundred thousand) represented by 149,500,000 (one hundred and forty-nine million five hundred thousand) shares each with a par value of Euro 3.00 (three).

1.2 Rationale and objectives of the Demerger

The transaction submitted for approval is the partial and proportional demerger of De'Longhi to the wholly-owned company DL Clima, in accordance with Articles 2506 and following of the Italian Civil Code, by means of the assignment of shares in the Beneficiary Company to the shareholders of De'Longhi proportional to their share in the Demerging Company (hereinafter, "**Demerger**" or "**Transaction**").

The objective of the Demerger is primarily industrial and consists in the separation of the activities from two distinct business areas the De'Longhi Group currently operates in, and in particular the separation of the activities involving the manufacturing and marketing of machines for air conditioning and refrigeration systems in ICT (Information Communication Technology) processes for industrial purposes, and water-filled radiators (under the Professional Division), from the production and marketing of small household appliances and portable air conditioning (under the so-called Household Division).

In particular, the principal objective of the Demerger is that of allowing the independent development of the two separate businesses heading each of the two divisions, which lack operational synergies. The decision to bring this Demerger to your attention lies principally

in the consideration that the Professional Division (subject of the Demerger) has characteristics which are substantially different to those of the Household Division in terms of clients and core market and also different profiles of potential investors.

The business under the Household Division concerns the manufacturing and marketing of small household appliances for the preparation of food, cooking, home cleaning and ironing, portable air conditioning and heating, distributed through 'business-to-consumer' retail channels, chiefly with the brands De'Longhi, Kenwood and Ariete. Such business is aimed particularly towards a highly competitive but not cyclical market.

The business under the Professional Division, however, concerns the manufacture and marketing of machines for air conditioning systems, heating technology, heat pumps and climate control in industrial processes and in data centres and mobile telecommunications, distributed through the professional channel, using 'business-to-business'. The reference market for this business, as opposed to that for the Household Division products, is characterized by more marked cyclical demand and the presence of operators competing on levels of technology and product processes. Two distinct groups will result from the Demerger, each focused on its core business and with well-defined targets that can be clearly identified and understood by the market.

We expect that the two groups, when provided with the necessary autonomy and efficiency, will have the potential to improve strategic development and, in particular, they will have the freedom of movement and a very precise operational profile which will allow them to fully express their worth which otherwise could be partially unexpressed.

On one hand, De'Longhi, with the small electrical appliance business, will have the opportunity to express the unexpressed value of the Household Division by focusing and simplifying the equity story, and positioning itself as world leader in the production of high-end coffee makers.

On the other, DL Clima will have the opportunity to seize the role as global competitor in the sector of high energy efficiency products and act as consolidator of the *Heating, Ventilation and Air Conditioning* (HVAC) market.

As a result of the Demerger, each De'Longhi shareholder will hold, in place of each existing De'Longhi share, two shares representing the two main business areas (Household and Professional) which make up the company's activity today, and which will allow them and all their potential investors, to choose whether to invest in both the business areas or to focus on just one.

1.3 Legal profiles of the Demerger

From the statutory perspective, the transaction is a demerger executed in accordance with Articles 2506 and following of the Italian Civil Code, in the manner and according to the terms and conditions contained in the Demerger Plan approved by the Boards of Directors of De'Longhi and DL Clima on 21 July 2011.

In particular, the Demerger, if approved, will consist in the partial and proportional demerger of De'Longhi to the Beneficiary Company and it will be executed by the transfer to DL Clima by De'Longhi of a portion of its assets and liabilities represented by the 100% shareholding held in DL Professional better described in section 2.1.

Against the allocation of the assets subject to the Demerger, the De'Longhi shareholders will be assigned shares in the Beneficiary Company, without consideration and at the rate of 1 (one) share for 1 (one) share.

The transaction submitted for the approval of De'Longhi Clima shareholders therefore constitutes a partial and proportional demerger and will be implemented on the basis of the relevant data resulting from the financial statement of De'Longhi at 30 June 2011, approved by the Board of Directors of the Demerging Company pursuant to Article 2501-*quater* of the Italian Civil Code (as referred to in Article 2506-*ter* (1) of the Italian Civil

Code) and made available to the shareholders together with the subsequent relevant documentation in accordance with the law.

As the Demerger entails a transfer of assets and liabilities to a company that, at the date of this Report, is wholly owned by the Demerging Company and will continue to be until the effective date of the Demerger, the Demerger will not result in any change in the value of shares held by shareholders of the Demerging Company and, therefore, the conditions exist - consistent also with the opinion expressed by the Milan Council of Notaries in *Massima* 23 of 18 March 2004, issued by the *Commissione Società del Consiglio Notarile di Milano* - for the exemption pursuant to Article 2506-ter (3) of the Italian Civil Code from the requirement for a report from an independent expert under Article 2501-sexies of the Italian Civil Code.

As a result of the Demerger, the share capital and reserves of the Beneficiary Company will be increased by an amount equivalent to the net value of the assets and liabilities transferred.

Completion of the Demerger is conditional upon the issuance, by Borsa Italiana S.p.A. (hereinafter "**Borsa Italiana**"), of the admission of shares in the Beneficiary Company to listing, and the decision from Consob, pursuant to Article 57 (1.d) of the Issuers' Regulation, concerning the equivalence of the Information Document and subsequent amendments, pursuant to said Article 57.

Therefore, admission to trading on the Mercato Telematico Azionario (hereinafter "**MTA**"), organized and managed by Borsa Italiana, will be requested for shares in the Beneficiary Company.

Subsequent to the Deed of Demerger being filed with the relevant Companies Register, but prior to the Effective Date of the Demerger, Borsa Italiana will provide formal notification of the initial date for trading of shares in the Beneficiary Company on the MTA, starting from which the Demerger will have effect (probably 1 January 2012).

1.3.1 Modifications to the Articles of Association of the Demerging Company

The Articles of Association of the Demerging Company, annexed to the Demerger Plan, will not be subjected to amendment as a result of the Demerger, except for:

(i) for the amendments that will be made to Article 5 (“*Share Capital*”), which reflect the reduction in the Demerging Company's share capital following completion of the Demerger, in the amount indicated in the following section 2.2 of this Report.

In particular, following the completion of the Demerger, the new Article 5 of the Articles of Association of the Demerging Company shall be amended as follows: "*The share capital is 224,250,000.00 Euros (two hundred and twenty-four million two hundred and fifty thousand), divided into 149,500,000 (one hundred and forty-nine million five hundred thousand) shares each with a par value of 1.50 Euro (one euro fifty cents).*" At the date of this Report the par value of the Demerging Company's shares is equal to Euro 3.00 and will decrease to Euro 1.50;

(ii) for the introduction of Article 13-ter, which exempts directors of the Demerging Company from observing the non-competition obligation contained in Article 2390 of the Italian Civil Code - states that: "*Members of the Board of Directors are not subject to the non-competition obligation contained in Article 2390 of the Italian Civil Code.*".

Such amendment allows the Demerging Company and the Beneficiary Company to take advantage of the contribution of those people who have developed significant experience in both sectors that the De'Longhi Group S.p.A. has operated in until now. Departing from the prohibition on competition established in Article 2390 of the Italian Civil Code, directors will be able to hold such a position in both the Demerging Company and the Beneficiary Company.

1.3.2 Modifications to the Articles of Association of the Beneficiary Company

A prerequisite and essential condition of the Demerger is that the shares in the Beneficiary Company, at the moment of their allotment to shareholders of De'Longhi, be admitted to trading on the MTA, organized and managed by Borsa Italiana.

Consequently, the Shareholders' Meeting of the DL Clima, called to approve the Demerger, shareholders will also be called to vote on the adoption, with effect from the Effective Date of the Demerger, of Articles of Association that conform to the requirements for listed companies established by Legislative Decree 58 of 24 February 1998 (hereafter the "**Consolidated Finance Law**") and related implementing regulations. The Board of Directors has assessed the opportunity to modify the name of the Beneficiary Company contained in Article 1 of the Articles of Association which will come into force on the Date of the Demerger, from De'Longhi Clima S.p.A. to DelClima S.p.A.; the verifications in progress on the feasibility of said modification have not allowed, at the Date of this Report, the question to be settled. Therefore, the decision concerning this modification will be decided directly by the shareholders at the Meeting for the approval of the Demerger.

The aforementioned Articles of Association, annexed to the Demerger Plan in Annex B, reproduces exactly those of De'Longhi post Demerger, except for Article 1 ("*Name*") and Article 5 ("*Share Capital*"), which as a consequence of the Demerger will be changed to implement (i) the share capital increase of Euro 224,250,000.00 from Euro 120,000.00 to Euro 224,370,000.00, and (ii) the division of the current 40,000 shares each with a par value of Euro 3.00 into 80,000 shares each with a par value of Euro 1.50.

Following the coming into effect of the Demerger, the share capital of the Beneficiary Company will therefore be equal to Euro 224,370,000.00 constituted by 149,580,000 shares each with a par value of Euro 1.50, 149,500,000 of which will be assigned proportionally to the shareholders of De'Longhi.

Therefore, following the Demerger, Article 5 ("*Share Capital*") of the Beneficiary Company's Articles of Association will provide that "*The share capital is Euro*

224,370,000.00 (two hundred and twenty-four million three hundred and seventy thousand), divided into 149,580,000 (one hundred and forty-nine million five hundred and eighty thousand) shares each with a par value of Euro 1.50 (one Euro fifty cents)".

2. DESCRIPTION OF THE ASSETS AND LIABILITIES TO BE TRANSFERRED TO THE BENEFICIARY COMPANY

2.1 Assets and liabilities to be transferred

As a result of the Demerger, the entire shareholding held by De'Longhi in the company DL Professional S.A., with registered office in the Grand Duchy of Luxembourg, registered in the Companies Register with number B 116737, share capital equal to Euro 30,205,000.00 (thirty million two hundred and five thousand) (hereinafter "**DL Professional**") will be transferred to the Beneficiary Company, the carrying amount of which in the financial statements of De'Longhi at 30 June 2011 is Euro 261,205,300.00.

With regard to DL Professional, it is specified that the same holds the following direct shareholdings at the date of this Report:

- 100% shareholding in the company *Climaveneta S.p.A.* (hereinafter also "**Climaveneta**") with registered office in Via Seitz 47, Treviso, registered with the Companies Register of Treviso with number 02603430139, share capital equal to Euro 10,000,000.00 (ten million), specialized in the manufacture of large equipment for commercial and industrial climate control; Climaveneta in turn holds (i) 80.88% of the operating company *Climaveneta Polska S.P. ZOO*; (ii) 100% of the share capital in *Climaveneta Deutschland GMBH*, *Climaveneta France SAS*, *Climaveneta UK Limited*, and 100% control through put/call options in *Climaveneta Climate Technologies Private Limited* and *Top Clima S.L.*, specialized in the distribution of large climate control systems in Germany, France, UK, India and Spain respectively; (iii) 50% of the share capital in *Chat Union Climaveneta Company Limited*, in turn 100% owner of two companies that produce and distribute air conditioners and refrigerators to the Chinese market, *Climaveneta*

- Chat Union Refrigeration Equipment (Shanghai) CO.LTD.* - that holds a 100% shareholding in *Chat Union Climaveneta Trading (Shanghai) CO.LTD.* - and in *Climaveneta Chat Union Trading (Shanghai) CO.LTD.*;
- 100% shareholding in *R.C. Group S.p.A.* (hereinafter also "**RC Group**") with registered office in Valle Salimbene (PV), registered with the Companies Register of Pavia, with the number 01744470186 and share capital equal to Euro 10,680,000.00 (ten million six hundred and eighty thousand), is active in the production and marketing of equipment for climate control in mobile radio communication stations, precision climate control in computer rooms and land-line telephone rooms, liquid chillers and heat pumps. RC Group is in turn the owner of the whole share capital of *Foshan RC Air Conditioning R.E. CO. LTD.*;

 - 100% shareholding in the company *DL Radiators S.p.A.* (hereinafter also "DL Radiators") with registered office in Treviso, Via L. Seitz 47, registered with the Companies Register of Treviso, with the number 00730970266, share capital equal to Euro 5,000,000.00 (five million) active in the production and marketing of thermal units for fixed heating systems. DL Radiators is in turn the owner of the whole share capital of *De'Longhi Clima Polska S.P.ZO.O.* and another German company controlled through a trust.

2.2 Variations to the net equity of De'Longhi and capital increase of the Beneficiary Company

As a consequence of the Demerger, the equity of the Demerging Company will be proportionally reduced by Euro 261,205,300.00, through a reduction in share capital of Euro 224,250,000.00 and in reserves of Euro 36,955,300.00. More specifically, the legal reserve will be reduced to Euro 4,847,229.00; the share premium reserve will be reduced to Euro 162,545.00; the extraordinary reserve/other reserves will be reduced to Euro 29,351,399.00 and therefore by Euro 31,945,526.00.

The reduction in share capital owing to the Demerger will take place without cancellation of shares in the Demerging Company, but rather through a reduction in par value per De'Longhi share. The par value of Euro 3.00 prior to the Demerger will be reduced to Euro 1.50 pursuant to the Demerger.

The Euro 1.50 per share reduction in the par value of shares in the Demerging Company (corresponding to the pro rata reduction in net assets resulting from the Demerger) will be fully offset by the issue of new shares in the Beneficiary Company, with a par value of Euro 1.50 each, equivalent in number to the shares in the Demerging Company at the date of the Demerger and having identical rights as De'Longhi shares.

Pursuant to the Demerger, the book equity of the Beneficiary Company will be increased by Euro 261,205,300.00, through an increase in the share capital of Euro 224,250,000.00 from the current Euro 120,000.00 to Euro 224,370,000.00 through the issue of 149,500,000 new shares with a par value of Euro 1.50 each.

Furthermore, the equity of the Beneficiary Company will further increase by Euro 36,955,300.00 which will be attributed to the reserves following the reduction in equity of the Demerging Company. More specifically, the legal reserve will be increased by Euro 4,847,229.00; the share premium reserve will be increased by Euro 162,545.00; the extraordinary reserve/other reserves will increase to Euro 31,952,439.00, and therefore by Euro 31,945,526.00.

The following is a summary of the impacts already recorded on the equity of both the Demerging Company and Beneficiary Company. In particular, the first column reports values for the equity of the Demerging Company at 30 June 2011. The second and third columns show the composition of those items for the Beneficiary Company and the Demerging Company, respectively, following completion of the Demerger.

	De'Longhi S.p.A. prior to demerger	De'Longhi Clima S.p.A. post demerger	De'Longhi S.p.A. post demerger
Share Capital	448,500,000.00	*224,370,000.00	224,250,000.00
Legal reserve	9,694,458.00	4,847,229.00	4,847,229.00
Share premium reserve	325,090.00	162,545.00	162,545.00
Extraordinary Reserve/Other Reserves	61,296,925.00	31,952,439.00	29,351,399.00
Reserve for unrealised foreign currency gains	129,080.00	0	129,080.00
Profits carried forward from the IAS/IFRS transition	12,686,589.00	0	12,686,589.00
Profit (loss) after taxes at 30 June 2011**	4,348,924.00	(3,842.00)	4,348,924.00
TOTAL	536,981,066.00	261,328,371.00	275,775,766.00

* Including Euro 120,000.00 of the share capital prior to Demerger.

** Profit (loss) after taxes of De'Longhi Clima S.p.A. at 20 July 2011.

It is specified that any differences in the book values of the asset to be transferred, owing to corporate dynamics that may occur between 30 June 2011 and the effective date of the Demerger, will not entail cash adjustments, remaining either a credit or a debt respectively.

2.3 Actual values of the net equity transferred to the Beneficiary Company and the net equity that will remain in the Demerging Company.

Pursuant to Article 2506-ter (2) of the Italian Civil Code, it is declared that: (i) the actual value of the net equity that will be transferred to the Beneficiary Company as a result of the Demerger is not lower than the related carrying value (which at 30 June 2011 is equal to Euro 261,205,300.00); (ii) the actual value of the net equity that will remain with the Demerging Company is not lower than the related carrying value (which at 30 June 2011 is equal to Euro 275,775,766.00).

3. ALLOTMENT OF SHARES TO THE BENEFICIARY COMPANY AND MANNER OF ALLOTMENT

As already mentioned above, it is anticipated that as a result of the Demerger all the shareholders of the Demerging Company will be assigned shares in the Beneficiary Company based on a criteria of proportional allotment. In particular, the shareholders of the Demerging Company will be allotted a share in the Beneficiary Company for each share held in the Demerging Company.

Therefore, no cash adjustment is anticipated.

Shares in the Beneficiary Company will be allotted to those having entitlement, through authorized intermediaries and in dematerialized form, from the effective date of the Demerger, within the period and in the manner to be announced in the appropriate notice.

At the moment of allocation, the shares of the Beneficiary Company will be admitted for trading on the MTA. Borsa Italiana will set the commencement date for trading of the DL Clima shares in the notice.

4. FORECASTED COMPOSITION OF THE SHAREHOLDING OF THE DEMERGING COMPANY AND THE BENEFICIARY COMPANY FOLLOWING THE DEMERGER

As already mentioned, the transaction submitted for the approval of the DL Clima shareholders constitutes a partial and proportional demerger. Therefore:

a) following the conclusion of the Demerger, no variations to the shareholder structure of the Demerging companies are anticipated;

b) the shareholders in the Demerging Company will become shareholders in the Beneficiary Company proportionally to the shares held in the Demerging Company; the Beneficiary Company's shareholding will reflect the actual composition of that of the Demerging Company.

The list of shareholders in the Demerging Company which, according to the shareholders' book and communications received and other information available to De'Longhi at the date of this Report, currently possess, either directly or indirectly, shares in the Demerging Company which amount to more than 2% of the share capital with voting rights is listed below.

De Longhi shareholders	Number of shares	% of Share capital
The Long e Trust Indirectly through De'Longhi Soparfi S.A.	112,134,660	75.006

Source: Consob and De'Longhi S.p.A.

5. EFFECTS OF THE DEMERGER ON ANY SHAREHOLDER AGREEMENTS

At the date of this Report DL Clima has one sole shareholder.

6. DESCRIPTION OF THE RIGHTS ATTACHED TO THE SHARES TO BE TRANSFERRED TO THE SHAREHOLDERS OF THE DEMERGING COMPANY

The shareholders of the Demerging Company will be allotted shares in the Beneficiary Company in the amount and according to the allotment criteria illustrated in section 3.

It is expected that only ordinary shares in the Beneficiary Company will be issued.

Shareholders of the Demerging Company will be allotted shares in the Beneficiary Company with entitlement to the Beneficiary Company's profits from the effective date of the Demerger.

7. EFFECTIVE DATE OF THE DEMERGER

Pursuant to Article 2506-*quater* of the Italian Civil Code, the Demerger shall have effect for third parties from the date indicated in the Deed of Demerger, to be subsequent to the date of the last registration of the Deed with the competent Companies Register, having given warning that the Deed of Demerger may be executed provided that the following conditions are fulfilled:

- a) admission by Borsa Italiana of all the classes of shares in the Beneficiary Company to listing on the MTA; and
- b) decision from Consob, pursuant to Article 57 (1.d) of Consob Regulation n° 11971/1999, as to the equivalence to a listing prospectus of the information provided by the Information Document and its subsequent integrations, pursuant to said Article 57.

Subsequent to the Deed of Demerger being filed with the relevant Companies Register, but prior to the Effective Date of the Demerger, Borsa Italiana will provide formal notification of the initial date for trading of shares in the Beneficiary Company on the MTA, starting from which the Demerger will take effect.

Bearing in mind the above, the effective date of the Demerger is expected to be 1 January 2012.

Fiscal and accounting effects of the Demerger shall start from the date stated in the Deed of Demerger.

8. INCENTIVE PLANS

The Beneficiary Company does not have any incentive plans in place for directors or employees.

9. TAX IMPLICATIONS OF THE TRANSACTION

For the purposes of direct taxation and pursuant to Article 173 (1) of Presidential Decree 917 of 22 December 1986 (the Consolidated Law on Income Taxes, hereinafter the "TUIR"), the Demerger is tax neutral and therefore does not constitute either a realized or distributed gain or loss for the Demerging Company's assets and liabilities being transferred.

The Demerging Company's assets and liabilities to be transferred to the Beneficiary Company will keep the same tax values as those recognized in the Demerging Company.

All tax positions of the Demerging Company and related commitments are attributed to the Beneficiary Company and Demerging Company in proportion to the respective portion of equity transferred or retained, except where they specifically related to a transferred asset or liability or group of assets and/or liabilities and, as such, follow said elements to their respective owners.

Tax losses generated by the Demerging Company will be attributed to the Beneficiary Company in proportion to their respective portions of the equity to be transferred or retained, and the provisions shall apply of Article 172 (7) of the Consolidated Law on Income Tax regarding mergers, referred to in Article 172 (10), referring the provisions concerning merging or incorporating companies to the Demerging Company and those concerning the company resulting from the merger or absorbed company to the Beneficiary Company.

In relation to the tax cost of the Demerging Company's shares, this is divided between the shares of the Demerging Company and those of the Beneficiary Company in proportion to the respective portions of equity transferred or retained.

For everything not expressly indicated for the purposes of income taxes, the provisions contained in Article 173 of the Consolidated Law on Income Taxes apply.

For the purposes of indirect taxation, the demerger transaction is exempt from the application of VAT pursuant to Article 2 (3) (f) of Presidential Decree n° 633 of 26 October 1972 and is subject to fixed stamp duty as per part one of Article 4 (b) of the schedule of tariffs attached to Presidential Decree 131/1986. Fixed mortgage and cadastral duties are due where applicable.

Treviso, 21 July 2011

For the Board of Directors
CHIEF EXECUTIVE OFFICER
(Carlo Grossi)

ANNEX

Demerger Plan pursuant to Article 2506-bis of the Italian Civil Code.

**PARTIAL AND PROPORTIONAL DEMERGER PLAN
OF DE'LONGHI S.p.A.
TO THE WHOLLY-OWNED COMPANY
DE' LONGHI CLIMA S.P.A.**

Pursuant to Articles 2506-bis and 2501-ter of the Italian Civil Code

De' Longhi S.p.A. – Registered office in Treviso, Via L. Seitz 47
Share Capital Euro 448,500,000.00 fully paid-in – Treviso Companies Register
Tax Code 11570840154

De'Longhi Clima S.p.A. single-member company - Registered office in Treviso, Via L. Seitz
47
Share Capital Euro 120,000 fully paid-in – Treviso Companies Register
Tax Code 06830580962

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INTRODUCTION

The Boards of Directors of De'Longhi S.p.A. (hereinafter also “**De’Longhi**” or “**Demerging Company**”) – company listed on the Mercato Telematico Azionario (“**MTA**”) organized and managed by Borsa Italiana S.p.A. (“**Borsa Italiana**”) – and of De’ Longhi Clima S.p.A. (hereinafter also “**DL Clima**” or “**Beneficiary Company**”) – whose entire share capital is held by De’ Longhi – have drafted and prepared the following partial and proportional demerger plan pursuant to Article 2506-*bis* of the Italian Civil Code (hereinafter the “**Demerger Plan**”; the demerger transaction, subject of the Demerger Plan, is hereinafter defined the “**Demerger**”).

The objective of the Demerger is primarily industrial and consists in the separation of the activities from the two distinct business areas De'Longhi currently operates in, and in particular the separation of the activities involving the manufacturing and marketing of machines for air conditioning and refrigeration systems in ICT (Information Communication Technology) processes for industrial purposes and water-filled radiators (under the Professional Division) from the manufacturing and marketing of small household appliances and portable air conditioning units (under the Household Division).

The transaction which is the subject of this Demerger Plan consists in the partial and proportional demerger of De'Longhi to the Beneficiary Company and, if approved, it will be executed by the transfer by De'Longhi of a portion of its assets and liabilities, represented in particular by the 100% shareholding held by the Demerging Company in De'Longhi Professional S.A., with registered office in the Grand Duchy of Luxembourg, registered in the Companies Register of the Grand Duchy of Luxembourg with the number B 116737, share capital equal to Euro 30,205,000.00 (thirty million two hundred and five thousand) (hereinafter “**DL Professional**”).

As a consequence of the Demerger, each De'Longhi shareholder will be allotted, without consideration, an equal number of shares in the Beneficiary Company as they hold in the Demerging Company.

DL Clima will request the authorities and competent bodies for admission to listing of its shares on the MTA; said admission to the listing is a prerequisite and essential condition for the Demerger.

In addition to the applicable provisions of the Italian Civil Code, execution of the Deed of Demerger is, therefore, conditional upon:

- (i) admission by Borsa Italiana of all the classes of shares in the Beneficiary Company to listing on the Mercato Telematico Azionario (hereinafter the “**MTA**”) organized and managed by Borsa Italiana S.p.A. (hereinafter “**Borsa Italiana**”); and
- (ii) decision from Consob, pursuant to Article 57 (1.d) of Consob Regulation n° 11971/1999, as to the equivalence to a listing prospectus of the information provided by the Information Document and its subsequent amendments, pursuant to said Article 57.

Subsequent to the Deed of Demerger being filed with the relevant Companies Register, Borsa Italiana will provide formal notification of the initial date for trading of shares in the Beneficiary Company on the MTA, starting from which the Demerger will take effect (probably 1 January 2012).

1. TYPE, NAME AND REGISTERED OFFICE OF THE COMPANIES PARTY TO THE DEMERGER

1.1 Demerging Company

De'Longhi S.p.A., with registered office in Treviso, Via L. Seitz 47, Treviso, tax code and Companies Register of Treviso n° 11570840154, Treviso Economic and Administrative Business Register n° 224758.

At the date of this Demerger Plan, the Articles of Association of De'Longhi indicates a share capital which is fully subscribed and paid in of Euro 448,500,000.00 (four hundred and forty-eight million five hundred thousand) represented by 149,500,000 (one hundred and forty-nine million five hundred thousand) shares each with a par value of Euro 3.00 (three).

De'Longhi shares are listed on the MTA organized and managed by Borsa Italiana.

1.2 Beneficiary Company

De'Longhi Clima S.p.A., with registered office in Treviso, Via L. Seitz 47, Treviso, tax code and Companies Register of Treviso n° 06830580962, Treviso Economic and Administrative Business Register n° 352567.

At the date of this Demerger Plan, the Articles of Association of De'Longhi Clima indicates a share capital of Euro 120,000.00 (one hundred and twenty thousand) divided into 40,000 (forty thousand) shares each with a par value of Euro 3.00 (three), entirely held by De'Longhi.

2. ARTICLES OF ASSOCIATION OF THE DEMERGING COMPANY AND THE BENEFICIARY COMPANY

2.1 Articles of the Demerging Company

The Articles of Association of the Demerging Company, annexed to the Demerger Plan and which are an integral and essential part of the same (**Annex A**), will not be subjected to amendment as a result of the Demerger, except for:

- (i) for the amendments that will be made to Article 5 ("*Share Capital*"), which reflect the reduction in the Demerging Company's share capital following completion of the Demerger, in the amount indicated in the following section 3.2 of this Demerger Plan.

In particular, following completion of the Demerger, the new Article 5 of the Demerging Company's Articles of Association will be amended as follows: "*The share capital is Euro 224,250,000.00 (two hundred and twenty-four million two hundred and fifty thousand) divided into 149,500,000 (one hundred and forty-nine million five hundred thousand) shares each with a par value of Euro 1.50 (one euro fifty cents).*" At the date of this Demerger Plan the par value of the Demerging Company's shares is equal to Euro 3.00 and will decrease to Euro 1.50;

- (ii) for the introduction of Article 13-ter which exempts directors of the Demerging Company from observing the non-competition obligation contained in Article 2390 of the Italian Civil Code, and states that: "Members of the Board of Directors are not subject to the non-competition obligation contained in Article 2390 of the Italian Civil Code."

2.2 Articles of Association of the Beneficiary Company

A prerequisite and essential condition of the Demerger is that the shares in the Beneficiary Company, at the moment of their allotment to shareholders of De'Longhi, be admitted to trading on the MTA, organized and managed by Borsa Italiana.

Consequently, the Shareholders' Meeting of the DL Clima, called to approve the Demerger, shareholders will also be called to vote on the adoption, with effect from the Effective Date of the Demerger, of Articles of Association that conform to the requirements for listed companies established by Legislative Decree 58 of 24 February 1998 (hereafter the "**Consolidated Finance Law**") and related implementing regulations. At the same General Meeting of the Beneficiary Company shareholders may decide to modify, starting from the effective date the Demerger, the actual name of De'Longhi Clima S.p.A. indicated in Article 1 of the Articles of Association.

Said Articles, annexed to the Demerger Plan and which are an integral and essential part of the same (**Annex B**), reproduces exactly those of De' Longhi post Demerger, except for Article 1 ("*Name*") and Article 5 ("*Share Capital*"), which as a consequence of the Demerger will be changed to implement (i) the share capital increase of Euro 224,250,000.00 from Euro 120,000.00 to Euro 224,370,000.00, and (ii) the division of the current 40,000 shares each with a par value of Euro 3.00, into 80,000 shares each with a par value of Euro 1.50.

Following the coming into effect of the Demerger, the share capital of the Beneficiary Company will therefore be equal to Euro 224,370,000.00 constituted by 149,580,000 shares each with a par value of Euro 1.50, 149,500,000 of which will be assigned proportionally to the shareholders of De'Longhi.

Therefore, following the Demerger, Article 5 ("*Share Capital*") of the Beneficiary Company's Articles of Association will provide that "*The share*

capital is Euro 224,370,000.00 (two hundred and twenty-four million three hundred and seventy thousand), divided into 149,580,000.00 (one hundred and forty-nine million five hundred and eighty thousand) shares each with a par value of Euro 1.50 (one Euro fifty cents)."

3. ASSETS AND LIABILITIES SUBJECT TO THE DEMERGER

3.1. Type of demerger and the financial statements

The partial and proportional Demerger of De'Longhi to De'Longhi Clima (a pre-existing company that, at the date of the Demerger Plan, is wholly owned by De'Longhi) will involve the transfer to the Beneficiary Company of an asset represented by the entire 100% shareholding held by the Demerging Company in DL Professional, better described in section 3.2 below.

As the Demerger entails a transfer of assets and liabilities to a company that, at the date of the Demerger Plan, is wholly owned by the Demerging Company and will continue to be until the effective date of the Demerger, the transaction will not result in any change in the value of shares held in total by shareholders of the Demerging Company and, therefore, the conditions exist - consistent also with the opinion expressed by the Milan Council of Notaries in *Massima* 23 of 18 March 2004, issued by the *Commissione Società del Consiglio Notarile di Milano* - for the exemption pursuant to Article 2506-ter (3) of the Italian Civil Code from the requirement for a report from an independent expert under Article 2501-sexies of the Italian Civil Code.

In accordance with the combined provisions of Articles 2506-ter and 2501-*quater* of the Italian Civil Code, the following have been drafted: (i) the financial statements for De'Longhi S.p.A. as at 30 June 2011 and (ii) the financial statements for the Beneficiary Company as at 20 July 2011, approved by the respective Boards of Directors on 21 July 2011.

3.2. Assets and liabilities to be transferred under the Demerger

Pursuant to the Demerger, the whole shareholding held by De'Longhi in De'Longhi Professional will be transferred to the Beneficiary Company, the carrying value of which in the De'Longhi financial statements at 30 June 2011 is Euro 261,205,300.00.

The above shareholding will be transferred by the Demerging Company to the Beneficiary Company at book value.

It is specified that any differences in the book values of the asset to be transferred, owing to corporate dynamics that may occur between 30 June 2011 and the effective date of the Demerger, will not entail cash adjustments, remaining either a credit or a debt respectively.

The net value of the asset to be transferred, amounting to Euro 261,205,300.00 at 30 June 2011, corresponds to the value of the shareholding in DL Professional recorded in De'Longhi S.p.A.'s books.

3.3. Equity effects of the Demerger on the financial situations of the companies party to the Demerger

As a consequence of the Demerger, the equity of the Demerging Company will be proportionally reduced by Euro 261,205,300.00, through a reduction in share capital of Euro 224,250,000.00 and in reserves of Euro 36,955,300.00. More specifically, the legal reserve will be reduced to Euro 4,847,229.00; the share premium reserve will be reduced to Euro 162,545.00; the extraordinary reserve/other reserves will be reduced to Euro 29,351,399.00 and therefore by Euro 31,945,526.00.

The reduction in share capital owing to the Demerger will take place without cancellation of shares in the Demerging Company, but rather through a reduction in par value per De'Longhi share. As explained above, the par value

of the Demerging Company's shares, before the Demerger is equal to Euro 3.00 and, owing to the Demerger, will decrease to Euro 1.50.

The Euro 1.50 per share reduction in the par value of shares in the Demerging Company (corresponding to the pro rata reduction of the share capital) will be fully offset by the issue of new shares in the Beneficiary Company, with a par value of Euro 1.50 each, equivalent in number to the shares held in the Demerging Company at the date of the Demerger and having identical rights as De'Longhi shares.

Therefore, pursuant to the Demerger the share capital of the Beneficiary Company will be represented by a total of 149,580,000 shares with a par value of Euro 1.50 each, of which (i) 149,500,000 new shares issued by DL Clima against the capital increase consequent to the Demerger; and (ii) 80,000 recovered from the division of 40,000 with a par value of Euro 3.00 each representing the share capital of the Beneficiary Company at the Date of this Demerger Plan.

The following is a summary of the impacts already recorded on the equity of both the Demerging Company and Beneficiary Company. In particular, the first column reports values for the equity of the Demerging Company at 30 June 2011. The second and third columns show the composition of those items for the Beneficiary Company and the Demerging Company, respectively, following completion of the Demerger.

	De'Longhi S.p.A. prior to demerger	De'Longhi Clima S.p.A. post demerger	De'Longhi S.p.A. post demerger
Share Capital	448,500,000.00	*224,370,000.00	224,250,000.00
Legal reserve	9,694,458.00	4,847,229.00	4,847,229.00
Share premium reserve	325,090.00	162,545.00	162,545.00
Extraordinary Reserve/Other Reserves	61,296,925.00	31,952,439.00	29,351,399.00
Reserve for unrealised foreign currency gains	129,080.00	0	129,080.00
Profits carried forward from the IAS/IFRS transition	12,686,589.00	0	12,686,589.00
Profit (loss) after taxes at 30 June 2011**	4,348,924.00	(3,842.00)	4,348,924.00
TOTAL	536,981,066.00	261,328,371.00	275,775,766.00

* Including Euro 120,000.00 of the share capital prior to Demerger.

** Profit (loss) after taxes of De'Longhi Clima S.p.A. at 20 July 2011.

4. EXCHANGE RATIO AND ANY CASH ADJUSTMENT

The Beneficiary Company's shareholders will have a shareholding in the same in the same proportion as their shareholding in the Demerging Company.

All the Demerging Company's shareholders will be allotted shares in the Beneficiary Company on the basis of one share in the Beneficiary Company for one share in the Demerging Company.

No cash adjustment is anticipated.

5. ALLOTMENT OF SHARES IN THE BENEFICIARY COMPANY

Allotment of the shares in the Beneficiary Company to shareholders of the Demerging Company will take place through authorized intermediaries and in dematerialized form, from the effective date of the Demerger, within the period and in the manner to be announced in the appropriate notice in at least one national daily newspaper.

At the moment of allocation, formal notification will show that shares in the Beneficiary Company are listed for trading on the MTA, which is organized and managed by Borsa Italiana.

6. DATE OF PROFIT PARTICIPATION OF THE SHARES IN THE BENEFICIARY COMPANY.

Shares in the Beneficiary Company allotted to the shareholders of the Demerging Company will entitle them to participate in the Beneficiary Company's profits, starting from the effective date of the Demerger, as per section 7 of this Demerger Plan.

7. EFFECTIVE DATE OF THE DEMERGER

The Demerger shall have effect for third parties, pursuant to Article 2506-*quater* of the Italian Civil Code, from the date indicated in the Deed of Demerger, to be subsequent to the date of the last registration of the Deed with the competent Companies Register, having given warning that the Deed of Demerger may be executed provided that the following conditions are fulfilled:

- a) admission by Borsa Italiana of all the classes of shares in the Beneficiary Company to listing on the MTA; and
- b) decision from Consob, pursuant to Article 57 (1.d) of Consob Regulation n° 11971/1999, as to the equivalence to a listing prospectus of the information provided by the Information Document and subsequent amendments, pursuant to said Article 57.

Subsequent to the Deed of Demerger being filed with the relevant Companies Register, but prior to the Effective Date of the Demerger, Borsa Italiana will

provide formal notification of the initial date for trading of shares in the Beneficiary Company on the MTA, starting from which the Demerger will take effect.

Bearing in mind the above, the effective date of the Demerger is expected to be 1 January 2012.

Fiscal and accounting effects of the Demerger shall start from the date stated in the Deed of Demerger.

8. TREATMENT RESERVED TO PARTICULAR CATEGORIES OF SHAREHOLDERS

The Demerging Company has only issued ordinary shares.

9. PARTICULAR ADVANTAGES FOR DIRECTORS

No particular advantages are envisaged for directors of the companies party to the Demerger.

* * *

This is without prejudice to any variations requested by the competent Authorities and numerical updates connected and/or consequent to that provided in this Demerger Plan, as well as any modifications that do not impact on the rights of the shareholders or third parties, pursuant to Article 2502 (2) of the Italian Civil Code.

ANNEXES

Annex A: Articles of Association of De' Longhi S.p.A. *post Demerger*;

Annex B: Articles of Association of De' Longhi Clima S.p.A. *post Demerger*.

Treviso, 21 July 2011

For the Demerging Company De' Longhi S.p.A.

CHIEF EXECUTIVE OFFICER

(Fabio De' Longhi)

For the Beneficiary Company De' Longhi Clima S.p.A.

CHIEF EXECUTIVE OFFICER

(Carlo Grossi)

**ARTICLES OF ASSOCIATION
"DE' LONGHI S.P.A."**

TITLE I NAME - REGISTERED OFFICE - DURATION - CORPORATE PURPOSE

Art. 1 - Name

The company is named "DE' LONGHI S.P.A."

Art. 2 - Registered Office

The Company's registered office is in Treviso, Italy.

The Company may establish and close subsidiaries, branches, agencies and representative offices elsewhere in Italy and abroad.

Art. 3 - Duration

The duration of the Company is set until 31 December 2100 and may be extended by a resolution of the extraordinary general shareholders' meeting.

Art. 4 - Corporate Purpose

The Company has as its purpose: the activities of construction, light engineering and trading, including without limitation, the design, development, manufacture, assembly, purchase, trading and sale of household appliances, electric and electronic appliances, air conditioning systems for civil and/or industrial use, also by contracting out such activities to third parties.

Such activities may be executed both directly and by acquiring shareholdings in other companies operating in the sector; the wholesale and retail trading of the products, subject of the Company's activities referred to in the first paragraph; the management, both in the name of the Company and on behalf of third parties, of retail outlets and stores for the products, subject of the activities referred to in the first paragraph, in Italy and abroad; the execution of activities related or in any case useful for the pursuit of the corporate purpose, including advertising, IT, telecommunications and multimedia, and generally commercial, financial, real estate, research, training and consultant activities connected with the activities referred to in previous paragraphs; the acquiring of shareholdings in general, not for their transfer, including the acquisition, holding and management of the rights, represented or not represented by shares, over the capital of other companies, and the technical and financial coordination of the entities in which shareholdings have been acquired; the activity of financing, which may only be practiced to parent, subsidiary or affiliated companies pursuant to Art. 2359 of the Italian Civil Code and controlled by the same parent and however part of the group, including the said activity of financing comprising the issuing of guarantees as a substitute for financing and the underwriting of financial undertakings including operations for the acquisition of credit, issuing guarantees and sureties, opening of documentary credit, acceptance of bills of exchange, endorsements and commitments to grant credit.

The company may also conclude all commercial, financial, industrial, personal and real property operations, grant guarantees, sureties and guarantees in general, also in favour of third parties, and all the operations the company deems essential for the achievement of the corporate purpose.

The corporate purpose strictly excludes the practice of financial operations involving the general public pursuant to Art. 106 of Legislative Decree 385/93, the subscription of savings from the general public and the practice of credit activities and those activities reserved solely to members registered with professional chartered bodies.

TITLE II SHARE CAPITAL - SHARES

Art. 5 - Share capital

The share capital is 224,250,000.00 Euros (two hundred and twenty-four million two hundred and fifty thousand), divided into 149,500,000 (one hundred and forty-nine million five hundred thousand) shares each with a nominal value of 1.50 Euro (one euro fifty cents).

Art. 5 bis

The share capital may be increased more than once as allowed by law, also with the issuing of shares with different rights from those already in circulation.

The issuing of new ordinary shares or also shares with different rights from ordinary shares, having the same characteristics as the shares already in circulation, shall not require further approvals from the special meetings of shareholders of the different categories.

The meeting that decides on the capital increase may, in observance of the terms and methods provided by the law, exclude or limit the option rights when the interest of the Company requires it, when the newly issued shares must be freed by contributions in kind, and within the limit of ten percent of the pre-existing share capital pursuant to Art. 2441, subsection 4 of the Italian Civil Code.

The extraordinary shareholders' meeting may delegate to the Board of Directors, pursuant to Art. 2443 of the Italian Civil Code, the faculty to increase the share capital, also with the exclusion of the option rights, observing the methods and within the limits provided by the same Art. 2443 of the Italian Civil Code.

The shares are nominative and indivisible.

Each share shall carry the right to one vote, unless the shareholders' meeting resolves to issue shares without voting rights or with limited voting rights.

Art. 5 ter

The company may issue bonds, also bonds that are convertible into shares, and participative financial instruments provided by the law, in observance and within the limits set by the regulations in force at the time of issue.

The issue of bonds that are not convertible into shares shall be the competence of the administrative body in accordance with the law. The issue of bonds that are convertible into shares shall be the competence of the extraordinary shareholders' meeting in accordance with the law.

The extraordinary shareholders' meeting may delegate to the Board of Directors the faculty to decide to issue bonds that are convertible into shares, one or more times, also excluding option rights, observing and within the limits set by law.

Art. 6 - Share transferability

Shares may be freely transferred both in the event of death and by act between living persons.

TITLE III GENERAL SHAREHOLDERS' MEETING**Art. 7 - Formalities for calling the meeting, right of attendance and representation**

Calling the General Annual and Extraordinary Shareholders' Meeting, which may be held at the company's registered office and elsewhere provided this is within the European Union, the right of attendance and the representation at the meeting as well as the constitutional majorities and those for carrying resolutions are governed by the law and regulations in force at the time.

Proxy to represent a shareholder at the General Shareholders' Meeting may be granted also electronically in observance of the law and regulations in force at the time, and may be notified to the Company by certified e-mail sent to the address indicated in the notice of call, in observance of the applicable provisions and regulations in force.

The Company shall not designate representatives that the shareholders can appoint proxy with voting instructions.

The General Shareholders' Meeting must be held at least once a year within 120 (one hundred and twenty) days from the end of the company's financial year. The General Shareholders' Meeting may however be held with the extended term of 180 (one hundred and eighty) days from the end of the company's financial year in one of the following cases:

- when the Company must approve the consolidated financial statements;
- when there are particular requirements connected to new fiscal, accounting or company legislation, or when new bookkeeping systems require it. In these cases the directors shall give the reasons for this postponement in the report provided by Art. 2428 of the Italian Civil Code.

Art. 7 bis - General Shareholders' Meeting by videoconference

The meeting may also be held by videoconference; in this case the Directors must indicate, in the Notice of Call, the audio/video locations, connected by the Company, where it is possible to participate.

In any case, the following must be permitted:

- the Chairperson of the Meeting, also availing him/herself of the Chairperson's Office, is able to ascertain the identity and legitimisation of the persons present, verify whether the Meeting is duly convened and the correct number of shareholders is present to carry a resolution, manage and regulate the discussion, set the order and procedures for the voting and announce the result;
- the person taking the minutes is able to adequately perceive the meeting events to be minuted;
- all the attendees are able to participate in the discussion and simultaneously vote on the topics on the agenda, as well as view, receive and transmit documents.

The meeting is deemed as being held in the place where both the Chairperson of the Meeting and the person taking the minutes of the meeting are in attendance together.

Art. 8 - Chairperson of the Meeting

The Shareholders' Meeting shall be chaired by, in this order, the Chairperson of the Board of Directors, the Vice Chairperson, if nominated, or in their absence by a person appointed by the attendees.

The Chairperson shall be assisted by a Secretary, nominated by the Shareholders' Meeting, who may also be someone who is not a shareholder. The assistance of the Secretary shall not be necessary when the minutes of the Shareholders' Meeting are recorded by a notary. The Chairperson of the Meeting shall be responsible for ascertaining the identity and legitimisation of the persons present, verifying whether the Meeting is duly convened and the correct number of shareholders is present to carry a resolution, managing and regulating the discussion, establishing the order and procedures for voting and announcing the result.

The resolutions carried by the Shareholders' Meeting must be recorded in the minutes signed by the Chairperson and the Secretary, or by the notary if nominated.

Art. 8 bis

The competences of the annual general and extraordinary shareholders' meetings shall be those set by the law, unless otherwise provided in these Articles of Association.

TITLE IV COMPANY ADMINISTRATION

Art. 9 - Administrative Body

The company shall be administered by a Board of Directors consisting of a minimum of three and a maximum of thirteen members. The Shareholders' Meeting shall determine the number of members constituting the Board of Directors, which shall remain unaltered until otherwise amended by a resolution, and shall fix the annual remuneration, without prejudice to the provisions of Art. 2389, subsection 3 of the Italian Civil Code.

The Board of Directors shall remain in office for the term established at the time of their appointment by the Shareholders' Meeting, and in any case shall not exceed three financial years. Board Members may be re-elected. Should more than half of the Directors appointed by the Shareholders' Meeting fall from office, due to resignation or for any other cause whatsoever, the entire Board of Directors shall be deemed expired with immediate effect. The Board of Directors must be urgently convened by the Board of Statutory Auditors, which may in the meantime perform all the actions of ordinary administration.

Appointment of the directors shall be carried out based on the lists presented by the shareholders.

Shareholders possessing a holding equal to at least that determined by Consob shall have the faculty to present lists of candidates, in accordance with the law and regulations.

Each candidate may only be indicated on one single list or shall be deemed ineligible. Candidates who do not possess the requisites required by law, by these Articles of Association or other applicable provisions for their respective offices may not be included in the lists (without prejudice to any other cause of ineligibility or forfeiture). Each list shall contain a number of candidates up to a maximum of thirteen, listed using sequential numbers. At least two candidates, always indicated at least at the second and seventh place of each list, must possess the requirements of independence established by Art. 147 *ter* of Legislative Decree no. 58/98.

The lists submitted by the shareholders must be filed at the Company's registered office in the manner and within the terms provided by the law and regulations in force at the time. The following documents must be filed, together with each list, at the Company's registered office: (i) the special certificate issued by an authorised intermediary in accordance with the law proving ownership of the number of shares necessary to present the list; (ii) a curriculum vitae of each candidate included in the list, containing a detailed description of the candidates' personal and professional characteristics; and (iii) the statement in which each candidate accepts candidacy and certifies, at their own responsibility and under penalty of being excluded from the list, that there is no known impediment preventing election or incompatibility with the office of director and that the requisites required by the law in force and by these Articles of Association have been met, and that they possess the requirements of independence established by Art. 147 *ter* of Legislative Decree no. 58/98 (and subsequent amendments).

The certificate issued by an authorised intermediary proving ownership of the number of shares necessary to present the lists may also be submitted after filing, provided that it is submitted within the term provided by the law and regulations in force at the time concerning the publications of the lists by the Company.

Any list which does not observe the rules referred to above shall be deemed as not submitted.

The following procedure shall determine which candidates are elected to the office of director:

- a) all the directors except one are taken from the list which has obtained the greatest number of votes from the shareholders, respecting the sequential order of the candidates as they appear on the list itself;
- b) the remaining director is taken from the list which obtained the second greatest number of votes from the shareholders and who is not connected in any way, not even indirectly, with the shareholders who have submitted or voted for the list referred to in point a).

In the event that only one list is submitted or admitted to the vote, the candidates of said list will be nominated directors, respecting the sequential order of the candidates as they appear on the list itself.

Should it not be possible to nominate the directors using this list method, the Shareholders' Meeting shall resolve with a legal majority, without observing the procedure above.

Art. 10 - Powers of the Board of Directors

The Board of Directors is vested with the widest powers for the general and extraordinary administration of the Company, without any restrictions, with the faculty to execute and implement all the acts it deems necessary to meet the corporate purpose, excepting only those actions that the law and these Articles of Association assign to the Shareholders' Meeting.

In particular, the Board of Directors shall have exclusive authority, in addition to the non-delegable functions assigned to members by the law,

- to approve budgets and three-year plans,
- to fix the criteria for the drafting and amending of company bylaws,
- the appointment and removal of general managers. For the execution of its own resolutions and management of the Company, the Board of Directors, within the limits of the law, may:
 - establish an Executive Committee, determining its powers, the number of members and its working methods,
 - delegating appropriate powers, determining the limits of this authority, to one or more directors,
 - nominate one or more Committees with advisory functions, also with the purpose of bringing the company management system in line with the corporate governance recommendations,
 - appoint one or more managing directors, determining their functions and powers,
 - appoint, or grant directors the power to appoint managers, deputy managers, attorneys in fact and, in general, agents, for the fulfilment of certain acts or categories of acts or for certain operations.

The Board of Directors also shall have the authority to resolve on:

- mergers in the cases provided by Articles 2505 and 2505 *bis* of the Italian Civil Code;
- establishing and closing subsidiaries;
- reduction of capital in the event of withdrawal of shareholders;
- bringing the Articles of Association into line with the provisions of law;
- transfer of the company offices within the national territory.

Transactions with related parties are concluded in observance of the procedures approved by the Board of Directors in application of the law and regulations in force at the time.

In cases of urgency - also if connected to situations of company crisis - the procedures may provide for particular methods to conclude transactions with related parties, departing from the ordinary rules, and in observance of the terms set by the law and regulations applicable at the time.

Art. 10 bis - Information

The Chairperson and/or the managing directors, report to the Board of Directors and to the Board of Statutory Auditors on the activity carried out, on the general progress of management and its foreseeable evolution, and on the transactions of greater economic, financial and equity importance, concluded by the Company or by its subsidiaries; in particular they report on those transactions involving a potential conflict of interest, always in observance of the provisions set out in Article 2391 of the Italian Civil Code. This communication is carried out in a timely manner and in any case at least every quarter, at the meetings of the Board of Directors or by written report addressed to each director and to the Chairperson of the Board of Statutory Auditors.

Art. 11 - Functioning of the Board of Directors

The Board of Directors shall elect a Chairperson from among its members - where this has not been implemented by the Shareholders' Meeting - and may appoint a Vice Chairperson. Both may be re-elected.

The meetings of the Board of Directors shall be chaired by the Chairperson, or the Vice Chairperson in the case of absence or impediment of the Chairperson. In the absence of the Vice Chairman, the meeting is chaired by the director nominated by those present.

The Board of Directors shall appoint a Secretary who may also be a person who is not a member of the Board.

Art. 12 - Validity of Board resolutions

For the validity of the resolutions carried by the Board of Directors the majority of the directors in office must be present.

Resolutions are carried by an open vote and by the absolute majority of the voters, therefore excluding abstentions from the counting of the vote. While in the case of an equal number of votes the Chairman shall have the casting vote.

Art. 13 - Calling the Board Meetings

Without prejudice to the calling powers provided by specific provisions of law, the Chairperson, or acting Chairperson, shall call the meeting of the Board of Directors at the registered office or elsewhere (in Italy or in the European Union or in the United States of America), each time he/she deems it appropriate for the company's interest or in the case that a written request is made indicating the topics to be discussed by the majority of officers in office or by the Board of Statutory Auditors, or by at least one of its members, and an agenda is prepared.

The notice of call shall indicate the date of the meeting, the time and place as well as the topics to be discussed.

Said notice shall be given by registered letter, telegram, telex or fax or e-mail with read receipt sent at least five days before the meeting, except in cases of urgency when such term may be reduced to a minimum of twenty-four hours. Notice of the meeting shall also be given to the Board of Statutory Auditors within the terms.

The meetings of the Board of Directors may be validly held in audiovideoconference, or just audioconference, provided that the Chairperson is able to establish the exact identification of the persons present and their legitimisation to attend, all the attendees are able to participate verbally, in real time, on all the topics, as well as view, receive and transmit the documentation. The meeting of the Board of Directors is deemed as being held in the place where both the Chairperson and the Secretary of the meeting are in attendance together.

Art. 13 bis - Manager responsible for the drafting of the company accounts

The Board of Directors shall nominate, subject to the obligatory opinion of the Board of Statutory Auditors, a Manager responsible for the drafting of the company accounts and discharging of the duties provided by the provisions of law and regulations in force, choosing from among those persons who have

at least three years qualified experience in accounting or administration of a listed company or large company.

Article 13 *ter* - Exception to the non-competition obligation

Members of the Board of Directors are not subject to the non-competition obligation contained in Article 2390 of the Italian Civil Code.

TITLE V THE BOARD OF STATUTORY AUDITORS

Art. 14 - The Board of Statutory Auditors

The Board of Statutory Auditors shall be composed of three statutory auditors and two substitute auditors who possess the requisites provided by law and the regulations in force; to this end specialisation in the subject matters and areas of activity strictly related to those of the company indicated in the corporate purpose, with particular reference to companies or entities operating in the industrial, commercial, property, IT finance sectors and the services sector in general shall be taken into consideration.

The General Shareholders' Meeting shall elect the Board of Statutory Auditors and establish their remuneration. Minority shareholders shall have the right to elect one statutory auditor and one substitute auditor. The appointment of the Board of Statutory Auditors shall be carried out, except in the case provided by the penultimate paragraph of this article, based on the lists submitted by the shareholders in which the candidates are listed using sequential numbers. Each list contains a number of candidates which is not greater than the number of members to be elected. Shareholders possessing a holding equal to at least that determined by Consob shall have the faculty to present a list for the appointment of directors in accordance with the law and regulations.

The lists of candidates, signed by those shareholders submitting them, must be filed at the Company's registered office within the terms provided by the law and regulations in force at the time. Each list shall be accompanied by the information required in accordance with the provisions of law and regulations in force at the time, including a description of the curriculum vitae of each candidate and the statements in which each candidate accepts candidacy and certifies, at their own responsibility, that there is no known impediment preventing election or incompatibility with the office and that the requisites required by the law and regulations in force and by these Articles of Association have been met.

Each candidate may only be indicated on one single list or shall be deemed ineligible. Candidates who do not possess the requisites required by the applicable laws or who do not observe the limits to the number of offices held as established by the applicable laws and the related implementation rules in force at the time may not be elected auditors.

A shareholder may not submit or vote for more than one list, even through a third party or trust company; shareholders belonging to the same group and shareholders who are party to a shareholder agreement concerning Company shares may not submit or vote for more than one list, even through a third party or trust company.

Lists which do not observe the provisions above shall be deemed as not submitted.

In the event that at the date the term referred to in paragraph three expires only one list has been filed, or lists have been submitted only by shareholders who are connected to each other as per the provisions of law and regulations in force, further lists may be submitted until the subsequent term provided by the rules

and regulations in force at the time. In this case the thresholds provided in accordance with paragraph two are reduced by half.

Appointment of the members of the Board of Statutory Auditors shall be carried out as follows:

- two statutory auditors and one substitute auditor are taken from the list which has obtained the greatest number of votes at the shareholders' meeting, respecting the sequential order of the candidates as they appear on the list itself;
- the remaining statutory auditor and second substitute auditor are taken from the list which obtained the second greatest number of votes from shareholders, who are not connected in any way, not even indirectly, with the shareholders who have submitted or voted for the list with the greatest number of votes, respecting the sequential order of the candidates as they appear on the list itself.

- in the event that more than one list has obtained the same number of votes, these lists must be put to a second ballot by the shareholders at the meeting, and the candidates on the list that obtains a simple majority of votes shall be elected.

The Chairperson of the Board of Statutory Auditors shall be the statutory auditor taken from the list with the second greatest number of votes.

In the event of the death, resignation or forfeiture of a statutory auditor, the office shall be taken by the substitute on the same list of the member no longer in office. In the event that it is the Chairperson of the Board of Statutory Auditors who should be replaced, the office of chairperson is taken by the member substituting the chairperson no longer in office. Should it not be possible to proceed to the substitution according to the above criteria, a shareholders' meeting shall be called to elect the required number of members for the Board of Statutory Auditors which shall be carried by a relative majority vote. When the Shareholders' Meeting must, pursuant to the dispositions of the previous paragraph, appoint the statutory and/or substitute auditors necessary to integrate the requisite number for the Board of Statutory Auditors, the following procedure shall be followed:

- when the substitution of auditors concerns those elected from the majority list, appointment is by relative majority vote without list restrictions;

- when, however, the substitution of auditors concerns those elected from the minority list, the shareholders' meeting substitutes them by relative majority vote, choosing, where possible, from among the candidates indicated on the list with the name of the auditor to be substituted, and in any case in such a way that the principal of minority representation is observed.

In the event that only one list is submitted, the shareholders' meeting shall vote on this list; in the event this list obtains a relative majority, the first three candidates indicated, respecting the sequential order, shall be elected statutory auditors, and the fourth and fifth candidate shall be elected substitute auditors. The Chairperson is the candidate indicated in first place on the list submitted; in the event of the death, resignation or forfeiture of a statutory auditor, and in the event of substitution of the Chairperson of the Board of Statutory Auditors, the offices shall be taken by the substitute auditor and the statutory auditor, respectively, in the sequential order indicated in the list itself.

In the event no lists are submitted, the Board of Statutory Auditors and its Chairman are nominated by the Shareholders' Meeting by legal majority.

Auditors coming to the end of their office may be re-elected.

Art. 14 bis

The meetings of the Board of Statutory Auditors may be validly held in audiovideoconference, or just audioconference, provided that the Chairperson is able to establish the exact identification of the persons present and their legitimisation to attend, all the attendees are able to participate verbally, in real time, on all the topics, as well as view, receive and transmit the documentation. The meeting of the Board of Statutory Auditors is deemed as being held at the place the Chairperson is in attendance.

TITLE VI LEGAL REPRESENTATION AND THE AUTHORITY TO SIGN ON BEHALF OF THE COMPANY

Art. 15 - Legal representation

Legal representation of the Company and the authority to sign on behalf of the company, with all the powers these functions entail, including those of acting before all levels of the courts and jurisdictions and the faculty to appoint legal counsel or attorneys, also with general powers of attorney, shall be the responsibility of the Chairperson of the Board of Directors and, if nominated, by the Vice Chairperson and the directors who have been vested with these specific powers, within the limits of the authority assigned to them by the Board of Directors.

Each of the representatives above shall have the power to act singly, and shall have the power to grant legal representation and signing on behalf of the company to legal counsel or attorneys for certain acts and operations or for categories of acts and operations.

TITLE VII FINANCIAL STATEMENTS AND PROFITS

Art. 16 - Company's financial year and financial statements

The Company's financial year shall end on 31 December of each year.

Art. 17 - Allocation of profits

After tax profits resulting from the balance sheet shall be allocated as follows:

- the legal reserve, for a share equal to 5% until the same reaches one fifth of the share capital;
- the remaining after tax profits shall be placed at the disposal of the Shareholders' Meeting which may allocate them to shareholders or to increasing company reserves, or both.

Dividends that are not claimed within five years from the day that they are collectable shall be reclaimed by the Company. Advances on dividends may be made in accordance with the law.

TITLE VIII FINAL PROVISIONS

Art. 18 - Winding up and liquidation

At any time and for any reason whatsoever, the winding up of the Company shall be decided by the shareholders' meeting, which shall establish the liquidation procedures.

The shareholders' meeting shall also nominate one or more receivers and shall establish their functions and remuneration.

Art. 18 bis - Right of Withdrawal

The right of withdrawal is expressly excluded for those shareholders who have not voted approval of the resolutions concerning:

- the extension of the Company's duration;
- the introduction, modification or removal of restrictions to the circulation of shares.

Art. 19 - Governing law

For any provision not made in these Articles of Association, reference is made to the Italian Civil Code and the applicable laws governing the subject matter.

**ARTICLES OF ASSOCIATION
"DE' LONGHI CLIMA S.P.A."**

TITLE I NAME - REGISTERED OFFICE - DURATION - CORPORATE PURPOSE

Art. 1 - Name

The company is named "DE' LONGHI CLIMA S.P.A."

Art. 2 - Registered Office

The Company's registered office is in Treviso, Italy.

The Company may establish and close subsidiaries, branches, agencies and representative offices elsewhere in Italy and abroad.

Art. 3 - Duration

The duration of the Company is set until 31 December 2100 and may be extended by a resolution of the extraordinary general shareholders' meeting.

Art. 4 - Corporate Purpose

The Company has as its purpose: the activities of construction, light engineering and trading, including without limitation, the design, development, manufacture, assembly, purchase, trading and sale of household appliances, electric and electronic appliances, air conditioning systems for civil and/or industrial use, also by contracting out such activities to third parties.

Such activities may be executed both directly and by acquiring shareholdings in other companies operating in the sector; the wholesale and retail trading of the products, subject of the Company's activities referred to in the first paragraph; the management, both in the name of the Company and on behalf of third parties, of retail outlets and stores for the products, subject of the activities referred to in the first paragraph, in Italy and abroad; the execution of activities related or in any case useful for the pursuit of the corporate purpose, including advertising, IT, telecommunications and multimedia, and generally commercial, financial, real estate, research, training and consultant activities connected with the activities referred to in previous paragraphs; the acquiring of shareholdings in general, not for the their transfer, including the acquisition, holding and management of the rights, represented or not represented by shares, over the capital of other companies, and the technical and financial coordination of the entities in which shareholdings have been acquired; the activity of financing, which may only be practiced to parent, subsidiary or affiliated companies pursuant to Art. 2359 of the Italian Civil Code and controlled by the same parent and however part of the group, including the said activity of financing comprising the issuing of guarantees as a substitute for financing and the underwriting of financial undertakings including operations for the acquisition of credit, issuing guarantees and sureties, opening of documentary credit, acceptance of bills of exchange, endorsements and commitments to grant credit.

The company may also conclude all commercial, financial, industrial, personal and real property operations, grant guarantees, sureties and guarantees in general, also in favour of third parties, and all the operations the company deems essential for the achievement of the corporate purpose.

The corporate purpose strictly excludes the practice of financial operations involving the general public pursuant to Art. 106 of Legislative Decree 385/93, the subscription of savings from the general public and the practice of credit activities and those activities reserved solely to members registered with professional chartered bodies.

TITLE II SHARE CAPITAL - SHARES

Art. 5 - Share capital

The share capital is Euro 224,370,000.00 (two hundred and twenty-four million three hundred and seventy thousand), divided into 149,580,000 (one hundred and forty-nine million five hundred and eighty thousand)

shares each with a par value of Euro 1.50 (one Euro fifty cents).

The share capital may be increased more than once as allowed by law, also with the issuing of shares with different rights from those already in circulation.

The issuing of new ordinary shares or also shares with different rights from ordinary shares, having the same characteristics as the shares already in circulation, shall not require further approvals from the special meetings of shareholders of the different categories.

The meeting that decides on the capital increase may, in observance of the terms and methods provided by the law, exclude or limit the option rights when the interest of the Company requires it, when the newly issued shares must be freed by contributions in kind, and within the limit of ten percent of the pre-existing share capital pursuant to Art. 2441, subsection 4 of the Italian Civil Code.

The extraordinary shareholders' meeting may delegate to the Board of Directors, pursuant to Art. 2443 of the Italian Civil Code, the faculty to increase the share capital, also with the exclusion of the option rights, observing the methods and within the limits provided by the same Art. 2443 of the Italian Civil Code.

The shares are nominative and indivisible.

Each share shall carry the right to one vote, unless the shareholders' meeting resolves to issue shares without voting rights or with limited voting rights.

Art. 6 - Bonds

The company may issue bonds, also bonds that are convertible into shares, and participative financial instruments provided by the law, in observance and within the limits set by the regulations in force at the time of issue.

The issue of bonds that are not convertible into shares shall be the competence of the administrative body in accordance with the law. The issue of bonds that are convertible into shares shall be the competence of the extraordinary shareholders' meeting in accordance with the law.

The extraordinary shareholders' meeting may delegate to the Board of Directors the faculty to decide to issue bonds that are convertible into shares, one or more times, also excluding option rights, observing and within the limits set by law.

Art. 7 - Share transferability

Shares may be freely transferred both in the event of death and by act between living persons.

TITLE III GENERAL SHAREHOLDERS' MEETING

Art. 8 - Formalities for calling the meeting, right of attendance and representation

Calling the General Annual and Extraordinary Shareholders' Meeting, which may be held at the company's registered office and elsewhere provided this is within the European Union, the right of attendance and the representation at the meeting as well as the constitutional majorities and those for carrying resolutions are governed by the law and regulations in force at the time.

Proxy to represent a shareholder at the General Shareholders' Meeting may be granted also electronically in observance of the law and regulations in force at the time, and may be notified to the Company by certified e-mail sent to the address indicated in the notice of call, in observance of the applicable provisions and regulations in force.

The Company shall not designate representatives that the shareholders can appoint proxy with voting instructions.

The General Shareholders' Meeting must be held at least once a year within 120 (one hundred and twenty) days from the end of the company's financial year. The General Shareholders' Meeting may however be held with the extended term of 180 (one hundred and eighty) days from the end of the company's financial year in one of the following cases:

- when the Company must approve the consolidated financial statements;

- when there are particular requirements connected to new fiscal, accounting or company legislation, or when new bookkeeping systems require it. In these cases the directors shall give the reasons for this postponement in the report provided by Art. 2428 of the Italian Civil Code.

The meeting may also be held by videoconference; in this case the Directors must indicate, in the Notice of Call, the audio/video locations, connected by the Company, where it is possible to participate.

In any case, the following must be permitted:

- the Chairperson of the Meeting, also availing him/herself of the Chairperson's Office, is able to ascertain the identity and legitimisation of the persons present, verify whether the Meeting is duly convened and the correct number of shareholders is present to carry a resolution, manage and regulate the discussion, set the order and procedures for the voting and announce the result;

- the person taking the minutes is able to adequately perceive the meeting events to be minuted;

- all the attendees are able to participate in the discussion and simultaneously vote on the topics on the agenda, as well as view, receive and transmit documents.

The meeting is deemed as being held in the place where both the Chairperson of the Meeting and the person taking the minutes of the meeting are in attendance together.

Art. 9 - Chairperson of the Meeting

The Shareholders' Meeting shall be chaired by, in this order, the Chairperson of the Board of Directors, the Vice Chairperson, if nominated, or in their absence by a person appointed by the attendees.

The Chairperson shall be assisted by a Secretary, nominated by the Shareholders' Meeting, who may also be someone who is not a shareholder. The assistance of the Secretary shall not be necessary when the minutes of the Shareholders' Meeting are recorded by a notary. The Chairperson of the Meeting shall be responsible for ascertaining the identity and legitimisation of the persons present, verifying whether the Meeting is duly convened and the correct number of shareholders is present to carry a resolution, managing and regulating the discussion, establishing the order and procedures for voting and announcing the result.

The resolutions carried by the Shareholders' Meeting must be recorded in the minutes signed by the Chairperson and the Secretary, or by the notary if nominated.

Art. 10 - Competences of the Meeting

The competences of the annual general and extraordinary shareholders' meetings shall be those set by the law, unless otherwise provided in these Articles of Association.

TITLE IV COMPANY ADMINISTRATION

Art. 11 - Administrative Body

The company shall be administered by a Board of Directors consisting of a minimum of three and a maximum of thirteen members. The Shareholders' Meeting shall determine the number of members constituting the Board of Directors, which shall remain unaltered until otherwise amended by a resolution, and shall fix the annual remuneration, without prejudice to the provisions of Art. 2389, subsection 3 of the Italian Civil Code.

The Board of Directors shall remain in office for the term established at the time of their appointment by the Shareholders' Meeting, and in any case shall not exceed three financial years. Board Members may be re-elected. Should more than half of the Directors appointed by the Shareholders' Meeting fall from office, due to resignation or for any other cause whatsoever, the entire Board of Directors shall be deemed expired with immediate effect. The Board of Directors must be urgently convened by the Board of Statutory Auditors, which may in the meantime perform all the actions of ordinary administration.

Appointment of the directors shall be carried out based on the lists presented by the shareholders.

Shareholders possessing a holding equal to at least that determined by Consob shall have the faculty to present lists of candidates, in accordance with the law and regulations.

Each candidate may only be indicated on one single list or shall be deemed ineligible. Candidates who do not possess the requisites required by law, by these Articles of Association or other applicable provisions for their respective offices may not be included in the lists (without prejudice to any other cause of ineligibility or forfeiture). Each list shall contain a number of candidates up to a maximum of thirteen, listed using sequential numbers. At least two candidates, always indicated at least at the second and

seventh place of each list, must possess the requirements of independence established by Art. 147 *ter* of Legislative Decree no. 58/98.

The lists submitted by the shareholders must be filed at the Company's registered office in the manner and within the terms provided by the law and regulations in force at the time. The following documents must be filed, together with each list, at the Company's registered office: (i) the special certificate issued by an authorised intermediary in accordance with the law proving ownership of the number of shares necessary to present the list; (ii) a curriculum vitae of each candidate included in the list, containing a detailed description of the candidates' personal and professional characteristics; and (iii) the statement in which each candidate accepts candidacy and certifies, at their own responsibility and under penalty of being excluded from the list, that there is no known impediment preventing election or incompatibility with the office of director and that the requisites required by the law in force and by these Articles of Association have been met, and that they possess the requirements of independence established by Art. 147 *ter* of Legislative Decree no. 58/98 (and subsequent amendments).

The certificate issued by an authorised intermediary proving ownership of the number of shares necessary to present the lists may also be submitted after filing, provided that it is submitted within the term provided by the law and regulations in force at the time concerning the publications of the lists by the Company.

Any list which does not observe the rules referred to above shall be deemed as not submitted.

The following procedure shall determine which candidates are elected to the office of director:

- a) all the directors except one are taken from the list which has obtained the greatest number of votes from the shareholders, respecting the sequential order of the candidates as they appear on the list itself;
- b) the remaining director is taken from the list which obtained the second greatest number of votes from the shareholders and who is not connected in any way, not even indirectly, with the shareholders who have submitted or voted for the list referred to in point a).

In the event that only one list is submitted or admitted to the vote, the candidates of said list will be nominated directors, respecting the sequential order of the candidates as they appear on the list itself.

Should it not be possible to nominate the directors using this list method, the Shareholders' Meeting shall resolve with a legal majority, without observing the procedure above.

Art. 12 - Powers of the Board of Directors

The Board of Directors is vested with the widest powers for the general and extraordinary administration of the Company, without any restrictions, with the faculty to execute and implement all the acts it deems necessary to meet the corporate purpose, excepting only those actions that the law and these Articles of Association assign to the Shareholders' Meeting.

In particular, the Board of Directors shall have exclusive authority, in addition to the non-delegable functions assigned to members by the law,

- to approve budgets and three-year plans,
- to fix the criteria for the drafting and amending of company bylaws,
- the appointment and removal of general managers. For the execution of its own resolutions and management of the Company, the Board of Directors, within the limits of the law, may:
 - establish an Executive Committee, determining its powers, the number of members and its working methods,
 - delegating appropriate powers, determining the limits of this authority, to one or more directors,
 - nominate one or more Committees with advisory functions, also with the purpose of bringing the company management system in line with the corporate governance recommendations,
 - appoint one or more managing directors, determining their functions and powers,
 - appoint, or grant directors the power to appoint managers, deputy managers, attorneys in fact and, in general, agents, for the fulfilment of certain acts or categories of acts or for certain operations.

The Board of Directors also shall have the authority to resolve on:

- mergers in the cases provided by Articles 2505 and 2505 *bis* of the Italian Civil Code;
- establishing and closing subsidiaries;
- reduction of capital in the event of withdrawal of shareholders;
- bringing the Articles of Association into line with the provisions of law;
- transfer of the company offices within the national territory.

Transactions with related parties are concluded in observance of the procedures approved by the Board of Directors in application of the law and regulations in force at the time.

In cases of urgency - also if connected to situations of company crisis - the procedures may provide for particular methods to conclude transactions with related parties, departing from the ordinary rules, and in observance of the terms set by the law and regulations applicable at the time.

Art. 13 - Information

The Chairperson and/or the managing directors, report to the Board of Directors and to the Board of Statutory Auditors on the activity carried out, on the general progress of management and its foreseeable evolution, and on the transactions of greater economic, financial and equity importance, concluded by the Company or by its subsidiaries; in particular they report on those transactions involving a potential conflict of interest, always in observance of the provisions set out in Article 2391 of the Italian Civil Code. This communication is carried out in a timely manner and in any case at least every quarter, at the meetings of the Board of Directors or by written report addressed to each director and to the Chairperson of the Board of Statutory Auditors.

Art. 14 - Functioning of the Board of Directors

The Board of Directors shall elect a Chairperson from among its members - where this has not been implemented by the Shareholders' Meeting - and may appoint a Vice Chairperson. Both may be re-elected.

The meetings of the Board of Directors shall be chaired by the Chairperson, or the Vice Chairperson in the case of absence or impediment of the Chairperson. In the absence of the Vice Chairman, the meeting is chaired by the director nominated by those present.

The Board of Directors shall appoint a Secretary who may also be a person who is not a member of the Board.

Art. 15 - Validity of Board resolutions

For the validity of the resolutions carried by the Board of Directors the majority of the directors in office must be present.

Resolutions are carried by an open vote and by the absolute majority of the voters, therefore excluding abstentions from the counting of the vote. While in the case of an equal number of votes the Chairman shall have the casting vote.

Art. 16 - Calling the Board Meetings

Without prejudice to the calling powers provided by specific provisions of law, the Chairperson, or acting Chairperson, shall call the meeting of the Board of Directors at the registered office or elsewhere (in Italy or in the European Union or in the United States of America), each time he/she deems it appropriate for the company's interest or in the case that a written request is made indicating the topics to be discussed by the majority of officers in office or by the Board of Statutory Auditors, or by at least one of its members, and an agenda is prepared.

The notice of call shall indicate the date of the meeting, the time and place as well as the topics to be discussed.

Said notice shall be given by registered letter, telegram, telex or fax or e-mail with read receipt sent at least five days before the meeting, except in cases of urgency when such term may be reduced to a minimum of twenty-four hours. Notice of the meeting shall also be given to the Board of Statutory Auditors within the terms.

The meetings of the Board of Directors may be validly held in audiovideoconference, or just audioconference, provided that the Chairperson is able to establish the exact identification of the persons present and their legitimisation to attend, all the attendees are able to participate verbally, in real time, on all the topics, as well as view, receive and transmit the documentation. The meeting of the Board of Directors is deemed as being held in the place where both the Chairperson and the Secretary of the meeting are in attendance together.

Article 17 - Exception to the non-competition obligation

Members of the Board of Directors are not subject to the non-competition obligation contained in Article 2390 of the Italian Civil Code.

Art. 18 - Manager responsible for the drafting of the company accounts

The Board of Directors shall nominate, subject to the obligatory opinion of the Board of Statutory Auditors, a Manager responsible for the drafting of the company accounts and discharging of the duties provided by the provisions of law and regulations in force, choosing from among those persons who have at least three years qualified experience in accounting or administration of a listed company or large company.

TITLE V THE BOARD OF STATUTORY AUDITORS

Art. 19 - The Board of Statutory Auditors

The Board of Statutory Auditors shall be composed of three statutory auditors and two substitute auditors who possess the requisites provided by law and the regulations in force; to this end specialisation in the subject matters and areas of activity strictly related to those of the company indicated in the corporate purpose, with particular reference to companies or entities operating in the industrial, commercial, property, IT finance sectors and the services sector in general shall be taken into consideration.

The General Shareholders' Meeting shall elect the Board of Statutory Auditors and establish their remuneration. Minority shareholders shall have the right to elect one statutory auditor and one substitute auditor. The appointment of the Board of Statutory Auditors shall be carried out, except in the case provided by the penultimate paragraph of this article, based on the lists submitted by the shareholders in which the candidates are listed using sequential numbers. Each list contains a number of candidates which is not greater than the number of members to be elected. Shareholders possessing a holding equal to at least that determined by Consob shall have the faculty to present a list for the appointment of directors in accordance with the law and regulations.

The lists of candidates, signed by those shareholders submitting them, must be filed at the Company's registered office within the terms provided by the law and regulations in force at the time. Each list shall be accompanied by the information required in accordance with the provisions of law and regulations in force at the time, including a description of the curriculum vitae of each candidate and the statements in which each candidate accepts candidacy and certifies, at their own responsibility, that there is no known impediment preventing election or incompatibility with the office and that the requisites required by the law and regulations in force and by these Articles of Association have been met.

Each candidate may only be indicated on one single list or shall be deemed ineligible. Candidates who do not possess the requisites required by the applicable laws or who do not observe the limits to the number of offices held as established by the applicable laws and the related implementation rules in force at the time may not be elected auditors.

A shareholder may not submit or vote for more than one list, even through a third party or trust company; shareholders belonging to the same group and shareholders who are party to a shareholder agreement concerning Company shares may not submit or vote for more than one list, even through a third party or trust company.

Lists which do not observe the provisions above shall be deemed as not submitted.

In the event that at the date the term referred to in paragraph three expires only one list has been filed, or lists have been submitted only by shareholders who are connected to each other as per the provisions of law and regulations in force, further lists may be submitted until the subsequent term provided by the rules

and regulations in force at the time. In this case the thresholds provided in accordance with paragraph two are reduced by half.

Appointment of the members of the Board of Statutory Auditors shall be carried out as follows:

- two statutory auditors and one substitute auditor are taken from the list which has obtained the greatest number of votes at the shareholders' meeting, respecting the sequential order of the candidates as they appear on the list itself;
- the remaining statutory auditor and second substitute auditor are taken from the list which obtained the second greatest number of votes from shareholders, who are not connected in any way, not even indirectly, with the shareholders who have submitted or voted for the list with the greatest number of votes, respecting the sequential order of the candidates as they appear on the list itself.

- in the event that more than one list has obtained the same number of votes, these lists must be put to a second ballot by the shareholders at the meeting, and the candidates on the list that obtains a simple majority of votes shall be elected.

The Chairperson of the Board of Statutory Auditors shall be the statutory auditor taken from the list with the second greatest number of votes.

In the event of the death, resignation or forfeiture of a statutory auditor, the office shall be taken by the substitute on the same list of the member no longer in office. In the event that it is the Chairperson of the Board of Statutory Auditors who should be replaced, the office of chairperson is taken by the member substituting the chairperson no longer in office. Should it not be possible to proceed to the substitution according to the above criteria, a shareholders' meeting shall be called to elect the required number of members for the Board of Statutory Auditors which shall be carried by a relative majority vote. When the Shareholders' Meeting must, pursuant to the dispositions of the previous paragraph, appoint the statutory and/or substitute auditors necessary to integrate the requisite number for the Board of Statutory Auditors, the following procedure shall be followed:

- when the substitution of auditors concerns those elected from the majority list, appointment is by relative majority vote without list restrictions;

- when, however, the substitution of auditors concerns those elected from the minority list, the shareholders' meeting substitutes them by relative majority vote, choosing, where possible, from among the candidates indicated on the list with the name of the auditor to be substituted, and in any case in such a way that the principal of minority representation is observed.

In the event that only one list is submitted, the shareholders' meeting shall vote on this list; in the event this list obtains a relative majority, the first three candidates indicated, respecting the sequential order, shall be elected statutory auditors, and the fourth and fifth candidate shall be elected substitute auditors. The Chairperson is the candidate indicated in first place on the list submitted; in the event of the death, resignation or forfeiture of a statutory auditor, and in the event of substitution of the Chairperson of the Board of Statutory Auditors, the offices shall be taken by the substitute auditor and the statutory auditor, respectively, in the sequential order indicated in the list itself.

In the event no lists are submitted, the Board of Statutory Auditors and its Chairman are nominated by the Shareholders' Meeting by legal majority.

Auditors coming to the end of their office may be re-elected.

Art. 20 - Meetings of the Board of Statutory Auditors

The meetings of the Board of Statutory Auditors may be validly held in audiovideoconference, or just audioconference, provided that the Chairperson is able to establish the exact identification of the persons present and their legitimisation to attend, all the attendees are able to participate verbally, in real time, on all the topics, as well as view, receive and transmit the documentation. The meeting of the Board of Statutory Auditors is deemed as being held at the place the Chairperson is in attendance.

TITLE VI LEGAL REPRESENTATION AND THE AUTHORITY TO SIGN ON BEHALF OF THE COMPANY

Art. 21 - Legal representation

Legal representation of the Company and the authority to sign on behalf of the company, with all the powers these functions entail, including those of acting before all levels of the courts and jurisdictions and the faculty to appoint legal counsel or attorneys, also with general powers of attorney, shall be the responsibility of the Chairperson of the Board of Directors and, if nominated, by the Vice Chairperson and the directors who have been vested with these specific powers, within the limits of the authority assigned to them by the Board of Directors.

Each of the representatives above shall have the power to act singly, and shall have the power to grant legal representation and signing on behalf of the company to legal counsel or attorneys for certain acts and operations or for categories of acts and operations.

TITLE VII FINANCIAL STATEMENTS AND PROFITS

Art. 22 - Company's financial year and financial statements

The Company's financial year shall end on 31 December of each year.

Art. 23 - Allocation of profits

After tax profits resulting from the balance sheet shall be allocated as follows:

- the legal reserve, for a share equal to 5% until the same reaches one fifth of the share capital;
- the remaining after tax profits shall be placed at the disposal of the Shareholders' Meeting which may allocate them to shareholders or to increasing company reserves, or both.

Dividends that are not claimed within five years from the day that they are collectable shall be reclaimed by the Company. Advances on dividends may be made in accordance with the law.

TITLE VIII FINAL PROVISIONS

Art. 24 - Winding up and liquidation

At any time and for any reason whatsoever, the winding up of the Company shall be decided by the shareholders' meeting, which shall establish the liquidation procedures.

The shareholders' meeting shall also nominate one or more receivers and shall establish their functions and remuneration.

Art. 25 - Right of Withdrawal

The right of withdrawal is expressly excluded for those shareholders who have not voted approval of the resolutions concerning:

- the extension of the Company's duration;
- the introduction, modification or removal of restrictions to the circulation of shares.

Art. 26 - Governing law

For any provision not made in these Articles of Association, reference is made to the Italian Civil Code and the applicable laws governing the subject matter.

ANNEX

Financial Statements pursuant to Article 2506-ter of the Italian Civil Code.

Financial Statements

of

De'Longhi S.p.A.

at 30 June 2011

(pursuant to Article 2506-ter of the Italian Civil Code)

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INCOME STATEMENT

(€/000)	Notes	1st half 2011	of which non-recurring	1st half 2010 ^(*)	of which non-recurring
Other revenues	1	3,015		2,295	
Total revenues		3,015		2,295	
Raw and ancillary materials, consumables and goods	2	(28)		(31)	
Materials consumed		(28)		(31)	
Payroll costs	3	(3,876)		(774)	
Services and other operating expenses	4	(5,704)	(625)	(4,556)	
Provisions	5	91		81	
Amortization, depreciation and impairment	6	(19)		(27)	
EBIT		(6,521)		(3,012)	
Financial income (expenses)	7	9,069		16,019	
PROFIT (LOSS) BEFORE TAXES		2,548		13,007	
Income taxes	8	1,801		(23)	
PROFIT (LOSS) AFTER TAXES		4,349		12,984	

STATEMENT OF COMPREHENSIVE INCOME

(€/000)	1st half 2011	1st half 2010 ^(*)
Profit (loss) after taxes	4,349	12,984
Other components of comprehensive income		
Total comprehensive income (loss)	4,349	12,984

^(*) not audited data

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

STATEMENT OF FINANCIAL POSITION

ASSETS (€/000)	Notes	30.06.2011	31.12.2010
NON-CURRENT ASSETS			
INTANGIBLE ASSETS		20	26
- Other intangible assets	9	20	26
PROPERTY, PLANT AND EQUIPMENT		60	88
- Other tangible assets	10	60	88
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		753,729	603,479
- Equity investments (in subsidiary companies)	11	751,715	601,705
- Receivables	12	2,014	1,774
DEFERRED TAX ASSETS	13	2,673	2,253
TOTAL NON-CURRENT ASSETS		756,482	605,846
CURRENT ASSETS			
INVENTORIES		-	-
TRADE RECEIVABLES	14	4,989	4,063
CURRENT TAX ASSETS	15	7,727	1,419
OTHER RECEIVABLES	16	25,830	18,220
CURRENT FINANCIAL RECEIVABLES AND ASSETS	17	22,053	18,475
CASH AND CASH EQUIVALENTS	18	81	98
TOTAL CURRENT ASSETS		60,680	42,275
TOTAL ASSETS		817,162	648,121
NET EQUITY AND LIABILITIES (€/000)			
NET EQUITY			
NET EQUITY		536,981	554,459
- Share capital	19	448,500	448,500
- Reserves	20	84,132	81,371
- Profit (loss) for the year		4,349	24,588
TOTAL NET EQUITY		536,981	554,459
NON-CURRENT LIABILITIES			
FINANCIAL PAYABLES		54,893	53,532
- Bank loans and borrowings (long-term portion)	21	53,854	51,947
- Other financial payables (long-term portion)	22	1,039	1,585
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		10,483	6,476
- Employee benefits	23	5,320	4,204
- Other provisions	24	5,163	2,272
TOTAL NON-CURRENT LIABILITIES		65,376	60,008
CURRENT LIABILITIES			
TRADE PAYABLES	25	3,780	2,773
FINANCIAL PAYABLES		191,698	20,060
- Bank loans and borrowings (short-term portion)	21	191,096	19,416
- Other financial payables (short-term portion)	22	602	644
CURRENT TAX LIABILITIES	26	10,552	5,885
OTHER PAYABLES	27	8,775	4,936
TOTAL CURRENT LIABILITIES		214,805	33,654
TOTAL NET EQUITY AND LIABILITIES		817,162	648,121

Appendix 2 reports the effect of related party transactions on the statement of financial position, as required by CONSOB Resolution 15519 of 27 July 2006.

STATEMENT OF CASH FLOWS

(€/000)	Notes	1st half 2011	1st half 2010 (*)
Profit (loss) after taxes		4,349	12,984
Income taxes for the period	8	(1,801)	23
Income from dividend receipts	7	(10,000)	(16,264)
Amortization, depreciation and impairment	6	19	27
Net change in provisions		3,586	3,351
Cash flow generated (absorbed) by current operations (A)		(3,847)	121
<u>Change in assets and liabilities for the period:</u>			
Trade receivables		(926)	(2,465)
Trade payables		1,007	(270)
Other current assets and liabilities		(3,523)	(7,674)
Payment of income taxes		(88)	(1,337)
Cash flow generated (absorbed) by movements in working capital (B)		(3,530)	(11,746)
Cash flow generated (absorbed) by current operations and movements in working capital (A+B)		(7,377)	(11,625)
<u>Investment activities:</u>			
Investments in tangible assets		-	(1)
Proceeds from sale of property, plant and equipment and other cash flows	10	16	-
Net investments in equity investments		(150,000)	-
Dividend receipts	7	10,000	16,264
Cash flow generated (absorbed) by ordinary investment activities (C)		(139,994)	16,263
Dividends paid		(21,827)	(11,960)
New loans	21	12,000	32,817
Interest paid		(1,080)	(857)
Repayment of loans and other net changes in sources of finance		158,261	(24,641)
Cash flow generated (absorbed) by changes in net equity and by financing activities (D)		147,354	(4,641)
Cash flow for the period (A+B+C+D)		(17)	(3)
Opening cash and cash equivalents	18	98	201
Increase (decrease) in cash and cash equivalents (A+B+C+D)		(17)	(3)
Closing cash and cash equivalents	18	81	198

(*) not audited data

STATEMENT OF CHANGES IN EQUITY OF DE'LONGHI S.p.A.

(€/000)	SHARE CAPITAL	SHARE PREMIUM RESERVE	LEGAL RESERVE	EXTRAORDINARY RESERVE	PROFIT (LOSS) CARRIED FORWARD	PROFIT (LOSS) FOR THE YEAR	TOTAL	
Balance at 31 December 2009	448,500	325	7,778	58,792	-	12,688	541,831	
Allocation of 2009 result as per AGM resolution of 21 April 2010								
- distribution of dividends						(11,960)	(11,960)	
- allocation to reserves			687	1,101		(1,788)	-	
Movements from transactions with shareholders	-	-	687	1,101	-	(13,748)	(11,960)	
Comprehensive income (loss)							12,984	12,984
Balance at 30 June 2010 (*)	448,500	325	8,465	59,893	-	12,688	542,855	

(€/000)	SHARE CAPITAL	SHARE PREMIUM RESERVE	LEGAL RESERVE	EXTRAORDINARY RESERVE	RESERVE FOR UNREALISED FOREIGN CURRENCY GAINS	PROFIT (LOSS) CARRIED FORWARD	PROFIT (LOSS) FOR THE YEAR	TOTAL
Balance at 31 December 2010	448,500	325	8,465	59,893	-	12,688	24,588	554,459
Allocation of 2010 result as per AGM resolution of 12 April 2011								
- distribution of dividends							(21,827)	(21,827)
- allocation to reserves			1,229	1,403	129		(2,761)	-
Movements from transactions with shareholders	-	-	1,229	1,403	129	-	(24,588)	(21,827)
Comprehensive income (loss)							4,349	4,349
Balance at 30 June 2011	448,500	325	9,694	61,296	129	12,688	4,349	536,981

(*) not audited data

EXPLANATORY NOTES

ACCOUNTING STANDARDS

The Statement of Financial Position of De'Longhi S.p.A. at 30 June 2011 has been prepared pursuant to and in accordance with the combined provisions of Articles 2506-*ter* and 2501-*quater* of the Italian Civil Code, for the purposes of the partial and proportional demerger of De'Longhi S.p.A. to the wholly owned company De'Longhi Clima S.p.A.

This Statement of Financial Position has been drafted according to the internal accounting principles issued by the International Accounting Standards Board ("IASB"), including the related interpretations (SIC/IFRIC) as adopted by the EU (until 30 June 2011), in accordance to EC Regulation n° 1606 of 19 July 2002. For interpretation and application the following documents have been used, though not adopted by the European Commission:

- *Framework for the Preparation and Presentation of Financial Statements of the International Accounting Standards Board* (issued by the IASB in 2001);
- *Implementation Guidance, Basis for Conclusions, IFRIC* and any other documents prepared by the IASB or IFRIC complementing the accounting principles issued;
- Interpretation documents on the application of IAS/IFRS in Italy prepared by the Italian Accounting Body (OIC).

The drafting of this statement has been based on the recommendations of IAS 34 - *Interim Financial Reporting*, the accounting principles and the measurement basis applied comply with those adopted for the financial statements at 31 December 2010, to which reference is made.

This statement comprises the income statement, the statement of comprehensive income, the statement of financial position, the statement of cash flows, and the statement of changes in equity and these Explanatory Notes. For comparison, the data related to the first half of 2011 are shown alongside data for the first half of 2010, for which there is no obligation to prepare an interim financial report; said data have not been checked by an independent auditor.

The Statement of Financial Position has been prepared according to the criteria of distinguishing between current and non-current items.

The Income Statement is presented on the basis of the nature of expense, which is considered suitable for faithfully representing the Company's economic situation.

The Statement of Cash Flows has been prepared by using the "indirect method", as permitted by IAS 7.

These financial statements have been presented in Euro (the Company's functional currency) and all the values are rounded to thousands of Euro, unless otherwise indicated.

The financial statements have been prepared according to the principle of historical cost, adjusted as required for the valuation of certain financial instruments, and under the assumption of a going concern.

The adjustments made to the international accounting principles applicable starting from the financial statements at 31 December 2011, and therefore also to these Financial Statements at 20 June 2011, are illustrated below and have not had any significant impact on the Company's accounts.

Relevant new amendments and accounting standards applied by the Company for the first time

In February 2011 several "Improvements to International Financial Reporting Standards" have been adopted at European level, which have not had any significant impact on these financial statements.

New amendments and interpretations not yet applicable

On 12 May 2011 the IASB published IFRS 10 - *Consolidated Financial Statements* with the objective of proposing a new standard on consolidated financial statements that substitutes the current version of IAS 27 (*Consolidated and Separate Financial Statements*) and incorporates, in the text, also the contents of SIC 12 (*Special Purpose Entities*). On the same date the IFRS 11 - *Joint arrangements* was published which abrogates and substitutes IAS 31 and IFRS 12 - *Disclosure of interests in Other Entities*, which establishes what information needs to be provided in the notes to the financial statements when IFRS 10 and IFRS 11 apply.

Also IFRS 12 - *Fair value measurement* was issued which provides certain guidelines on the methods of determining fair value.

On 16 June 2011, the IASB published the revised version of IAS 19 *Employee Benefits*, which contains certain amendments to the manner of entering employee benefits in the accounts and amendment to IAS 1 - *Presentation of Items of Other Comprehensive Income* (OCI).

At the date of these Financial Statements, the competent bodies of the European Union had not yet completed the endorsement process needed for the application of these new principles.

COMMENTS ON THE INCOME STATEMENT

1. OTHER REVENUES

The breakdown is as follows:

	1st half 2011	1st half 2010	Change
Damages reimbursed	96	7	89
Out-of-period gains	21	49	(28)
Other income	2,898	2,239	659
Total	3,015	2,295	720

"Other income" includes revenues to related parties for Euro 2,851,000, as highlighted in Annex 2, principally related to the parent company recharges of services to its subsidiaries.

2. RAW AND ANCILLARY MATERIALS, CONSUMABLES AND GOODS

The breakdown is as follows:

	1st half 2011	1st half 2010	Change
Raw materials	6	11	(5)
Other purchases	22	20	2
Total	28	31	(3)

3. PAYROLL COSTS

The increase in payroll costs compared to the first half of 2010 derives principally from the funds for variable items and long-term employee benefits.

The figures relating to the cost of defined benefit plans and other long-term benefits provided by the company are reported in the note on provisions.

4. SERVICES AND OTHER OPERATING EXPENSES

These are detailed as follows:

	1st half 2011	1st half 2010	Change
Consulting services ^(*)	1,408	696	712
Travel and entertaining	1,362	1,707	(345)
Insurance	1,290	506	784
Directors' emoluments	793	785	8
Rentals and leasing	161	150	11
Advertising and promotional activities	139	128	11
Statutory auditors' emoluments	75	76	(1)
Telecommunication costs	75	55	20
Other sundry services	265	272	(7)
Total services	5,568	4,375	1,193
Out-of-period losses	20	29	(9)
Sundry taxes	27	42	(15)
Other	89	110	(21)
Total other operating expenses	136	181	(45)
Total services and other operating expenses	5,704	4,556	1,148

^(*) Data related to first half 2011 include non recurring expenses for Euro/000 625, related to Group re-organisation consulting expenses.

The item "Services and other operating expenses" includes costs from related parties of Euro 422 thousand, as indicated in Annex 2.

5. PROVISIONS

This item refers to the partial release of the provisions for legal disputes, owing to the disputes closed during the half year for Euro 91 thousand (see comment to paragraph 24 - *Other Funds*).

6. AMORTIZATION, DEPRECIATION AND IMPAIRMENT

These are detailed as follows:

	1st half 2011	1st half 2010	Change
Depreciation of property, plant and equipment	13	22	(9)
Amortization of intangible	6	5	1
Total	19	27	(8)

7. FINANCIAL INCOME (EXPENSES)

Net financial income and expenses are broken down as follows:

	1st half 2011	1st half 2010	Change
Dividends	10,000	16,264	(6,264)
financial income (expenses) from equity investments	10,000	16,264	(6,264)
Exchange gains (losses)	(136)	323	(459)
Gains (losses) on currency hedging transactions	119	(279)	398
Exchange gains (losses)	(17)	44	(61)
Interest income from loans	82	50	32
Bank interest income	2	-	2
Financial income	84	50	34
Interest expense on long-term loans and borrowings	(1,083)	(582)	(501)
Interest expense on short-term loans and borrowings	(63)	(10)	(53)
Financial expenses	(1,146)	(592)	(554)
Other sundry income (expenses)	148	253	(105)
Other financial income (expenses)	148	253	(105)
Financial income (expenses)	9,069	16,019	(6,950)

The dividends of the first half of 2011 are related to amounts decided upon and paid by the subsidiary De'Longhi Appliances S.r.l.

The item "Other financial income (expenses)" includes income from Group companies for Euro 10,506 thousand, as indicated in Annex 2.

8. TAXES

These are composed as follows:

	1st half 2011	1st half 2010	Change
Current income taxes	1,381	1,505	(124)
Deferred income tax liabilities (assets)	420	(1,528)	1,948
Total	1,801	(23)	1,824

The Company has exercised the option for the national fiscal consolidation regime, governed by Article 117 and following of the Presidential Decree 917/86.

The item "Deferred income tax liabilities (assets)" 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).

For further details regarding deferred taxes reference is made to Paragraph 13. *Deferred tax assets*.

COMMENTS ON THE STATEMENT OF FINANCIAL POSITION: ASSETS

NON-CURRENT ASSETS

9. INTANGIBLE ASSETS

The breakdown is as follows:

	30.06.2011		31.12.2010		Change
	Gross	Net	Gross	Net	
Patents	49	20	49	26	(6)

The reduction of the balance during the first half of 2011, equal to Euro 6 thousand, derives from the amortization over the period.

10. PROPERTY, PLANT AND EQUIPMENT

The breakdown is as follows:

	30.06.2011		31.12.2010		Change
	Gross	Net	Gross	Net	
Industrial and commercial equipment	8	-	9	-	-
Other	192	60	227	88	(28)
Total	200	60	236	88	(28)

The following table reports movements during the first half of 2011:

	Other
Net opening balance	88
Decrease	(16)
Depreciation	(12)
Net closing balance	60

The net variation of Euro 28 thousand derives from sales for Euro 16 thousand and depreciation for Euro 12 thousand.

11. EQUITY INVESTMENTS IN SUBSIDIARY COMPANIES

The breakdown is as follows:

Equity investments in subsidiary companies	30.06.2011	31.12.2010	Change
De'Longhi Appliances S.r.l.	242,678	242,678	-
De'Longhi Household S.A.	241,737	241,737	-
De'Longhi Professional S.A.	261,205	111,205	150,000
De'Longhi Capital Services S.r.l.	6,005	6,005	-
Clim.Re S.A.	54	54	-
E-Services S.r.l.	26	26	-
De'Longhi Clima S.p.A. (*)	10	-	10
De'Longhi Polska Sp.Zo.o.	-	-	-
Total	751,715	601,705	150,010

(*) Company name changed following the extraordinary shareholders' meeting on 18 July 2011 which also resolved to transform the company from "VVZ S.r.l." (private limited company) into "De'Longhi Clima S.p.A." (joint stock company). During the first half year the interest previously held through fiduciary companies have been transferred to De'Longhi S.p.A.

The list of subsidiary and associated companies and details of changes in equity investments during the first half of 2011 is summarized in Annex 1.

With regard to the changes over the half year period, the capital contribution of Euro 150 million to the subsidiary company De'Longhi Professional S.A., carried out to reduce the negative financial position of the company operating in the Division of the Group that operates in the manufacture and marketing of large thermo-cooling systems and heating products. Furthermore, during the half year period, De'Longhi S.p.A. acquired the shareholding held by De'Longhi Household S.A. in De'Longhi Professional S.A. for Euro 400, thus becoming direct parent company with 100% of the aforementioned shareholding.

12. NON-CURRENT RECEIVABLES

The balance refers to:

	30.06.2011	31.12.2010	Change
Receivables from subsidiary companies	2,014	1,774	240

Annex 2 details the item "Receivables from subsidiary companies".

13. DEFERRED TAX ASSETS

The item "Deferred tax assets" reflect the recognition of taxes calculated on temporary differences arising between the accounting values of assets and liabilities and the corresponding tax base (particularly for taxed provisions).

The breakdown is as follows:

	30.06.2011			31.12.2010			Effect on income statement
	Taxable amount	Tax rate	Total tax	Taxable amount	Tax rate	Total tax	
Provisions for contingencies and other charges	7,178	27.5%	1,974	6,178	27.5%	1,699	
Provisions for contingencies and other charges (only for IRES purposes)	-	-	-	-	-	-	
Other temporary differences	2,543	27.5%	699	2,013	27.5%	554	
Total deferred tax assets			2,673	8,191		2,253	
Deferred tax assets on tax losses	-	-	-	-	-	-	
Net total			2,673			2,253	420

CURRENT ASSETS

14. TRADE RECEIVABLES

The balance is detailed as follows:

	30.06.2011	31.12.2010	Change
Trade receivables due within 12 months	6,090	5,164	926
Allowance for doubtful accounts	(1,101)	(1,101)	-
Total	4,989	4,063	926

Trade receivables are stated net of an allowance for doubtful accounts of Euro 1,101 thousand, representing the estimated risk at the reporting date. The fund derives from a prudent provision against a number of disputed receivables or those whose collection is otherwise in doubt, taking account of the fact that a significant proportion of the receivables are covered by insurance policies with major insurers.

The item "Trade receivables" includes amounts due from related parties for Euro 4,978 thousand as indicated in Annex 2. The item does not include any amounts due beyond 12 months.

The Trade receivables are broken down by geographical area as follows:

	30.06.2011	%	31.12.2010	%
Italy	3,986	79.9%	3,235	79.6%
United Kingdom	855	17.1%	723	17.8%
Rest of Europes	6	0.1%	-	-
Rest of the world	142	2.9%	105	2.6%
Total	4,989	100.0%	4,063	100.0%

15. CURRENT TAX ASSETS

The item is broken down as follows:

	30.06.2011	31.12.2010	Change
VAT	6,875	670	6,205
Direct taxes	487	375	112
Tax refunds requested	256	256	-
Other tax receivables	109	118	(9)
Total current tax assets	7,727	1,419	6,308

For the purposes of optimizing the financial management of its tax affairs, the company has filed for income tax on a group basis in the first half of 2011 as allowed by Chapter II Section II of Presidential Decree 917/86, and also settled VAT on a group basis, as allowed by the Ministerial Decree dated 13/12/1979.

The item "Tax refunds requested" includes Euro 2 thousand in foreign VAT credits, requested for refund from the different EU member tax authorities (under Article 271 of the VIII Directive 79/1072/CEE) and Euro 254 thousand in additional VAT deductions on the purchase of motor vehicles and related costs, following the Court of Justice's sentence of 14 September 2006.

16. OTHER RECEIVABLES

The item is broken down as follows:

	30.06.2011	31.12.2010	Change
Prepaid costs	569	1,100	(531)
Advances to suppliers	45	32	13
Employees	6	6	-
Other	25,210	17,082	8,128
Total other receivables	25,830	18,220	7,610

Prepaid costs mainly refer to the payment of insurance premiums relating to the second half of 2011.

Other receivables include Euro 25,143 thousand in amounts due from related parties, as reported in Annex 2.

None of the other receivables is due beyond 12 months.

17. CURRENT FINANCIAL RECEIVABLES AND ASSETS

The item is broken down as follows:

	30.06.2011	31.12.2010	Change
Financial receivables	22,023	18,465	3,558
Fair value of derivatives	30	10	20
Total current financial receivables and assets	22,053	18,475	3,578

Financial receivables refer to amounts owed by De'Longhi Capital Services S.r.l. in connection with the centralized treasury service for Euro 2,023 thousand and by the short-term financing owed by De'Longhi Professional S.A. for Euro 20,000 thousand; said financing, disbursed in June 2011, bears interest at market rates.

18. CASH AND CASH EQUIVALENTS

This balance consists of surplus liquidity on bank current accounts.

COMMENTS ON THE STATEMENT OF FINANCIAL POSITION: NET EQUITY

NET EQUITY

Changes in net equity are reported as part of the financial statements; comments on the main components and their changes are provided below.

The Annual General Meeting of De'Longhi S.p.A. held on 12 April 2011 declared a dividend totalling €21,827 thousand.

19. SHARE CAPITAL

The share capital made up of 149,500,000 ordinary shares with a par value of Euro 3 for a total of Euro 448,500 thousand.

20. RESERVES

The breakdown is as follows:

	30.06.2011	31.12.2010	Change
Share premium reserve	325	325	-
Legal reserve	9,694	8,465	1,229
Other reserves:			
- Extraordinary reserve	61,296	59,893	1,403
- Profit (loss) carried forward	12,688	12,688	-
- Reserve for unrealized foreign currency gains	129	-	129
Total reserves	84,132	81,371	2,761

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

The "Legal reserve" has a balance of Euro 9,694 thousand at 30 June 2011. The increase of Euro 1,229 thousand compared to 31 December 2010 is due to the allocation of profit for 2010, as approved by the above Annual General Meeting on 12 April 2011.

The "Extraordinary reserve" amounts to Euro 61,296 thousand. The increase of Euro 1,403 thousand compared to 31 December 2010 is due to the allocation of profit for the financial year, as approved by the above Annual General Meeting on 12 April 2011.

The "Reserve for unrealized profit" amounts to Euro 129 thousand and is made up as decided by the Annual General Meeting on 12 April 2011.

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

Nature / Description:	Amount	Permitted use	Available amount
Share capital	448,500 ⁽¹⁾		
Capital reserves:			
- Share premium reserve	325 ⁽²⁾	A, B	
Earnings reserves:			
- Legal reserve	9,694	B	
- Extraordinary reserve	61,296	A, B, C	61,296
- Profit (loss) carried forward	12,688	A, B, C	4,114
- Reserve for unrealized foreign currency gains	129		
Total	532,632 ⁽³⁾		65,410
Undistributable amount			-
Distributable amount			65,410

⁽¹⁾ There is a tax restriction over Euro 5,277 thousand following a bonus increase in capital in 1997 using tax-suspended reserves.

⁽²⁾ Pursuant to Article 2431 of the Italian Civil Code, the full amount of this reserve may be distributed only if the legal reserve has reached the amount established by Article 2430 of the Italian Civil Code.

⁽³⁾ There are tax restrictions relating to the realignment of tax and accounting values carried out in 2000 and 2005 as follows: Euro 99,934 thousand (share capital), Euro 2,324 thousand (legal reserve) and Euro 34,628 thousand (extraordinary reserve).

Key:

A: to increase share capital

B: to cover losses

C: distribution to shareholders

COMMENTS ON THE STATEMENT OF FINANCIAL POSITION: LIABILITIES

NON-CURRENT LIABILITIES

21. 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 30.06.2011	Within one year	One to five years	Beyond five years	Balance 31.12.2010	Change
Overdrafts ^(*)	161,456	-	-	161,456	35	-	-	35	161,421
Short-term loans	10,000	-	-	10,000	-	-	-	-	10,000
Long-term loans (current portion)	19,640	-	-	19,640	19,381	-	-	19,381	259
total short-term bank loans and borrowings	191,096	-	-	191,096	19,416	-	-	19,416	171,680
Long term loans	-	46,550	7,304	53,854	-	44,728	7,219	51,947	1,907
Total bank loans and borrowings	191,096	46,550	7,304	244,950	19,416	44,728	7,219	71,363	173,587

^(*)Including International cash pooling balance for the amount of Euro 160 million at 30 June 2011

Total bank loans and borrowings has increased by Euro 173.6 million due mainly to the capital contribution to the subsidiary company De'Longhi Professional S.A. commented on previously.

Bank loans and borrowings are analyzed as follows:

Loans (including short-term portion)	30.06.2011	31.12.2010	Change
Centrobanca S.p.A. (finanziamento in <i>pool</i> con Banca Popolare di Vicenza S.C.p.A.)	29,862	17,865	11,997
Banca Popolare di Sondrio S.C.p.A.	14,748	17,776	(3,028)
Banca Popolare Friuladria S.p.A.	10,060	11,480	(1,420)
KBC Bank N.V., succursale italiana	8,321	12,475	(4,154)
Banca di Cividale S.p.A.	5,372	6,338	(966)
Banca Popolare di Vicenza S.C.p.A.	4,987	4,983	4
IMI L.46	144	411	(267)
Total long-term loans	73,494	71,328	2,166

During the first half of the year the second part of the club loan obtained during the previous financial year was received from Centrobanca-Banca di Credito Finanziario e Mobiliare S.p.A. together with Banca Popolare di Vicenza S.C.p.A., equal to Euro 12,000 thousand.

For the loans from Banca Popolare Friuladria, KBC Bank, Centrobanca-Banca di Credito Finanziario e Mobiliare S.p.A. and Banca Popolare di Vicenza S.C.p.A. call for annual compliance with financial covenants (the ratios between net financial position and net equity and between net financial position and consolidated EBITDA).

The company was in compliance with these covenants at 31 December 2011.

The other loans do not call for compliance with financial covenants.

All the loans carry floating-rate interest, meaning that interest is based on a benchmark rate (usually 1 or 3-month Libor/Euribor) plus a spread, which depends on the nature of the loan and its maturity. As a result, the fair value of loans, obtained by discounting expected future interest payments at current market rates, is not materially different from the value reported in the financial statements. This is based on the fact that forecasts of future interest payments use an interest rate which reflects current market conditions (in terms of benchmark interest rates).

22. OTHER FINANCIAL PAYABLES

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

	30.06.2011	31.12.2010	Change
Ministry of Industry loans (short-term portion)	563	557	6
Negative fair value of derivatives (short-term portion)	4	6	(2)
Other short-term financial payables	35	81	(46)
Total short-term payables	602	644	(42)
Ministry of Industry loans (one to five years)	1,039	1,585	(546)
Total long-term payables	1,039	1,585	(546)
Total other financial payables	1,641	2,229	(588)

The item "Other short-term financial payables" related to payables to Group companies, as reported in Annex 2.

Net financial position

Details of the net financial position are as follows:

	30.06.2011	31.12.2010	Change
A. Cash	13	10	3
B. Cash equivalents	68	88	(20)
C. Securities	-	-	-
D. total liquidity (A+B+C)	81	98	(17)
E. Current financial receivables and other securities	24,066	20,249	3,817
<i>of which:</i>			
Fair value of derivatives	30	10	
F. Current bank loans and borrowings	(171,456)	(35)	(171,421)
G. Current portion of non-current debt	(19,640)	(19,382)	(258)
H. Other current financial payables	(602)	(644)	42
<i>of which:</i>			
Fair value of derivatives	(4)	(6)	
I. Current financial debt (F+G+H)	(191,698)	(20,061)	(171,637)
J. Net current financial debt (I + E + D)	(167,551)	286	(167,837)
K. Non-current bank loans and borrowings	(53,854)	(51,947)	(1,907)
L. Bonds	-	-	-
M. Other non-current payables	(1,039)	(1,585)	546
N. Non-current financial debt (K+L+M)	(54,893)	(53,532)	(1,361)
Total net financial debt (J+N)	(222,444)	(53,246)	(169,198)

Details of financial receivables and payables with related parties are reported in Annex 2.

23. EMPLOYEE BENEFITS

These are composed as follows:

	30.06.2011	31.12.2010	Change
Provision for severance indemnities	322	314	8
Long-term benefits and Phantom Stock Option plan	4,998	3,890	1,108
Total employees benefits	5,320	4,204	1,116

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

	30.06.2011	Average 1st Half 2011	31.12.2010	Average 2010
White collar	29	28	30	28
Senior managers	8	8	8	8
Total	37	36	38	36

Provision for severance indemnities

The provision for severance indemnities includes amounts payable to the Company's employees and not transferred to alternative pension schemes or the pension fund set up by INPS (Italian National Social Security Agency). This provision has been classified as a defined benefit plan governed by IAS 19 - Employee benefits. Severance indemnity, as an unfunded obligation, does not have any assets servicing it.

This plan is valued on an actuarial basis to express the present value of the benefit payable at the end of service that employees have accrued at year end.

Movements in the year are summarized as follows:

Severance indemnity obligations	30.06.2011	31.12.2010	Change
Defined benefit obligations	322	314	8

Net cost charged to income	1st Half 2011	2010	Change
Current service cost	-	-	-
Interest cost on obligations	8	16	(8)
Total	8	16	(8)

Change in present value of obligations	30.06.2011	31.12.2010	Change
Present value at 1 January	314	314	-
Current service cost	-	-	-
Utilization of provision	-	(7)	7
Interest cost on obligations	8	16	(8)
Other changes	-	(9)	9
Present value at reporting date	322	314	8

The principal assumptions used for determining the obligations under the plan described are illustrated below:

Assumptions used:	Severance indemnity at 30 June 2011	Severance indemnity at 30 June 2010
Discount rate	4.3%	4.3%
Future salary increases	2.0% – 4.0%	2.0% – 4.0%
Inflation rate	2.0%	2.0%

During 2008, the Annual General Meeting resolved on a Phantom Stock Option Plan which envisages, for the beneficiaries, recognition of a right to the payment of monies, with regard to the growth of the Company's ordinary share value.

For this plan De'Longhi S.p.A. prepared the Information Document, in accordance with Article 84-bis of the Issuers' Regulation, prepared in accordance with Annex 3, Schedule 7 of the Issuers' Regulation, filed with Borsa Italiana and published on the Company's internet site.

During 2008, the Board of Directors assigned a total of 700,000 Phantom Stock Options to the beneficiaries of the Plan. At 30 June 2011, the number of exercisable options is equal to 500,000.

The value assigned is Euro 4.00 and the disbursement in money will be carried out in relation to the increase of the De'Longhi share value.

Under the Plan, 50% of the Phantom Stock Options can be exercised (and therefore grant the right to receipt of the above payment) from 1 May 2010, while the remaining 50% can be exercised from 1 October 2011. The options must be exercised by 31 December 2012 at the very latest.

The cost of these instruments, reported in the income statement under payroll costs, and the associated liabilities are recognized over the vesting period. For as long as the liability exists, the fair value is recalculated at each reporting date and at the actual payment date, with all changes in fair value going through the income statement.

The fair value of options is measured by taking account of the terms and conditions under which such rights are granted, and using estimates based on market values.

At 30 June 2011 the half-year cost of adopting the Phantom Stock Option Plan is equal to Euro 1,808 thousand.

24. OTHER PROVISIONS

Movements are as follows:

	31.12.2010	Utilization	Increases	Release	30.06.2011
Provision for uninsured liabilities	417	(18)	-	(91)	308
Other provisions for contingencies	1,855	-	3,000	-	4,855
Total	2,272	(18)	3,000	(91)	5,163

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

"Other provisions for contingencies" mainly refer to costs associated with certain legal and tax disputes.

CURRENT LIABILITIES

25. TRADE PAYABLES

This balance of Euro 3,780 thousand represents the amount owed by the company (to third parties and Group companies) for the provision of goods and services. Details of amounts owed to Group companies are reported in Annex 2.

Trade payables are broken down by geographical area as follows:

	30.06.2011	%	31.12.2010	%
Italy	3,516	93.0%	2,469	89.0%
United States, Canada, Mexico	225	6.0%	262	9.5%
Rest of Europe	39	1.0%	38	1.4%
United Kingdom	-	-	4	0.1%
Total	3,780	100.0%	2,773	100.0%

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

26. CURRENT TAX LIABILITIES

The breakdown is as follows:

	30.06.2011	31.12.2010	Change
Direct taxes	10,366	4,862	5,504
Withholdings payables	151	988	(837)
Other taxes	35	35	-
Total current tax liabilities	10,552	5,885	4,667

“Direct taxes” relate to the amount due for the group tax filing under Chapter II, Section II of Presidential Decree 917/86.

“Withholdings payable” relate to withholdings made by the company and payable to the tax authorities after the year end.

There are no current tax liabilities due beyond 12 months.

27. OTHER PAYABLES

These are made up as follows:

	30.06.2011	31.12.2010	Change
Social security institutions	145	372	(227)
Sundry payables	8,630	4,564	4,066
Total other payables	8,775	4,936	3,839

“Social security institutions” include Euro 89 thousand in payables to INPS, Euro 7 thousand in payables to pension funds and Euro 49 thousand in amounts owed to other welfare agencies.

“Sundry payables” are detailed as follows:

	30.06.2011	31.12.2010	Change
Group companies	7,812	3,261	4,551
Employees	753	898	(145)
Other	65	405	(340)
Total sundry payables	8,630	4,564	4,066

“Group companies” mostly refer to amounts owed as a result of the Company’s decision to adopt a group tax consolidation, under Chapter II Section II of Presidential Decree 917/86, and to pay VAT on a group basis, under the Ministerial Decree dated 13/12/1979, as described in paragraph 15. *Current tax assets.*

28. COMMITMENTS

The composition and comparison with the previous financial period is as follows:

	30.06.2011	31.12.2010	Change
Guarantees given for the benefit of:			
De'Longhi Capital Services S.r.l.	409,155	397,677	11,478
DL Trading Ltd	80,818	83,718	(2,900)
DL Radiators S.p.A.	29,040	24,742	4,298
De'Longhi Japan Corp.	20,731	26,783	(6,052)
De'Longhi Australia PTY Ltd	17,798	18,270	(472)
Kenwood Ltd	17,000	19,000	(2,000)
De'Longhi Appliances S.r.l.	11,364	9,381	1,983
De'Longhi Deutschland Gmbh	10,000	10,000	-
De'Longhi France S.A.	7,100	7,100	-
De'Longhi New Zeland Ltd	6,584	6,686	(102)
De'Longhi Electrodomesticos Espana S.L.	6,012	5,513	499
Climaveneta S.p.A.	5,950	5,950	-
On Shiu Zhongshan Electrical Appliance Co. Ltd	2,997	3,174	(177)
Kenwood Home Appliances Pty Ltd. SA – South Africa	2,029	2,000	29
Dong Guan De'Longhi Kenwood Appliances Co. Ltd	1,152	1,220	(68)
DL Ukraine LLC	1,090	-	1,090
Climaveneta Polska Sp.Zo.o.	551	553	(2)
Elle S.r.l.	507	507	-
De'Longhi Brasil Ltda	119	121	(2)
De'Longhi Kenwood Hellas Ltd	102	1,000	(898)
E-Services S.r.l.	13	13	-
Kenwood Appliances Singapore Pte Ltd	-	100	(100)
De'Longhi LLC	-	3,742	(3,742)
Zass Alabuga LLC	-	3,742	(3,742)
Total	630,112	630,992	(880)

All the guarantees have been given in the interests of group companies; no guarantees have been given in the interests of third parties

The above guarantees refer to credit lines partially drawn down by Group companies and to short-term loans; no elements of risk as defined by IAS 37 have been noted to date.

29. TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Annex 2 contains the information concerning transactions and balances with companies in the Group and with related parties required by CONSOB Circulars 97001574 dated 20/02/97, 98015375 dated 27/02/98 and DEM/2064231 dated 30/09/2002; all the transactions have fallen within the Group's normal operations, except for that already specified in this note, and have been settled under market terms and conditions

30. SUBSEQUENT EVENTS

On 18 July 2011, the Extraordinary General Meeting of the subsidiary company VVZ S.r.l. resolved to transform the company from an S.r.l. to an S.p.A., and change the company name (to De'Longhi Clima S.p.A.) and the registered office and increase in share capital to Euro 120,000.

The manager charged with preparing the company's financial and corporate reports, Stefano Biella, in accordance with Article 154-bis (2) of Legislative Decree n° 58 of 24 February 1998, declares the conformity of the information provided in this document against document results, books and accounts records.

*Treviso, 21 July 2011
De'Longhi S.p.A.
Vice-Chairman and Chief Executive Officer
Fabio De'Longhi*

ANNEXES

These annexes contain additional information to that reported in the Explanatory Notes, of which they form an integral part.

This information is contained in the following annexes:

1. List of subsidiary and associated companies and changes in equity investments.
2. Transactions and balances with related parties
 - a) *Income statement and statement of financial position*
 - b) *Summary by company*

List of equity investments in subsidiaries pursuant to Article 2427 of the Italian Civil Code

(Appendix 1 to the Explanatory Notes)^(*)

Company name	Registered office	Share capital		Net equity		Latest reported profit or (loss)	Interest held (directly)	Book value	
Subsidiary companies								<i>in €/000</i>	
De'Longhi Appliances S.r.l.	Treviso	Eur	200,000,000	Eur	276,866,979	Eur	27,590,147	100%	242,678
De'Longhi Household S.A.	Luxembourg	Eur	181,730,990	Eur	255,182,030	Eur	5,409,769	100%	241,737
De'Longhi Professional S.A.	Luxembourg	Eur	30,205,000	Eur	118,263,808	Eur	7,088,109	100%	261,205
De'Longhi Capital Services S.r.l. ⁽¹⁾	Treviso	Eur	53,000,000	Eur	63,474,153	Eur	(1,376,389)	11.32%	6,005
Clim.Re S.A. ⁽²⁾	Luxembourg	Eur	1,239,468	Eur	1,483,658	Eur	16,240	4%	54
E-Services S.r.l.	Treviso	Eur	50,000	Eur	3,676,151	Eur	961,545	51%	26
De'Longhi Clima S.p.A. ⁽³⁾	Milano	Eur	10,000	Eur	6,913	Eur	(3,087)	100%	10
De'Longhi Polska Sp.Zo.o.	Warsaw	Pln	50,000	Pln	3,578,884	Pln	1,768,868	0.1%	-
Total									751,715

^(*) Figures from statutory financial statements at 31 December 2010. For De'Longhi Household S.A. e De'Longhi Professional S.A. data relate to the statutory financial statements at 31 December 2009.

⁽¹⁾ The articles of association, approved by the extraordinary shareholders' meeting held on 29 December 2004, give special rights to De'Longhi S.p.A. (holding 89% of the voting rights) for ordinary resolutions (approval of financial statements, declaration of dividends, nomination of directors and statutory auditors, purchase and sale of companies, grant of loans to third parties); voting rights are proportional as far as other resolutions are concerned.

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

⁽³⁾ The name assumed by the company VVZ S.r.l. following the transformation from S.r.l. in S.p.A. approved on July 18, 2011.

Changes in equity investments

(Appendix 1 to the Explanatory Notes - *cont'd*)

<i>Equity investments</i>	Book value at 31 December 2010	Acquisitions, subscriptions and recapitalizations	Disposals	Net impairment losses and reversals	Book value at 30 June 2011
<i>in subsidiary companies</i>					
De'Longhi Appliances S.r.l.	242,678	-	-	-	242,678
De'Longhi Household S.A.	241,737	-	-	-	241,737
De'Longhi Professional S.A.	111,205	150,000	-	-	261,205
De'Longhi Capital Services S.r.l.	6,005	-	-	-	6,005
Clim.Re S.A.	54	-	-	-	54
E-Services S.r.l.	26	-	-	-	26
De'Longhi Clima S.p.A. ⁽¹⁾	-	10	-	-	10
De'Longhi Clima Polka Sp.Zo.o.	-	-	-	-	-
Total	601,705	150,010	-	-	751,715

⁽¹⁾The name assumed by the company VVZ S.r.l. following the transformation from S.r.l. in S.p.A. approved on July 18, 2011. During the first half year the interest previously held through fiduciary companies have been transferred to De'Longhi S.p.A.

Transactions and balances with related parties

(Appendix 2 to the Explanatory Notes)

INCOME STATEMENT (pursuant to CONSOB Resolution 15519 of 27 July 2006) (€/000)	Notes	1st half 2011		1st half 2010 (*)	
			of which with related parties		of which with related parties
Other revenues	1	3,015	2,851	2,295	2,059
Total revenues		3,015		2,295	
Raw and ancillary materials, consumables and goods	2	(28)		(31)	
Materials consumed		(28)		(31)	
Payroll costs	3	(3,876)		(774)	
Services and other operating expenses	4	(5,704)	(422)	(4,556)	(152)
Provisions	5	91		81	
Amortization, depreciation and impairment	6	(19)		(27)	
EBIT		(6,521)		(3,012)	
Financial income (expenses)	7	9,069	10,506	16,019	16,265
PROFIT (LOSS) BEFORE TAXES		2,548		13,007	
Income taxes	8	1,801		(23)	
PROFIT (LOSS) AFTER TAXES		4,349		12,984	

(*) not audited data

Transactions and balances with related parties
(Appendix 2 to the Explanatory Notes - *cont'd*)

STATEMENT OF FINANCIAL POSITION (pursuant to CONSOB Resolution 15519 of 27 July 2006)					
	<i>Notes</i>	30.06.2011	of which with related parties	31.12.2010	of which with related parties
ASSETS					
(€/000)					
NON-CURRENT ASSETS					
INTANGIBLE ASSETS		20		26	
- Other intangible assets	9	20		26	
PROPERTY, PLANT AND EQUIPMENT		60		88	
- Other tangible assets	10	60		88	
EQUITY INVESTMENTS AND OTHER FINANCIAL ASSETS		753,729		603,479	
- Equity investments (in subsidiary companies)	11	751,715		601,705	
- Receivables	12	2,014	2,014	1,774	1,774
DEFERRED TAX ASSETS	13	2,673		2,253	
TOTAL NON-CURRENT ASSETS		756,482		605,846	
CURRENT ASSETS					
INVENTORIES		-		-	
TRADE RECEIVABLES	14	4,989	4,978	4,063	3,518
CURRENT TAX ASSETS	15	7,727		1,419	
OTHER RECEIVABLES	16	25,830	25,143	18,220	17,012
CURRENT FINANCIAL RECEIVABLES AND ASSETS	17	22,053	22,053	18,475	18,475
CASH AND CASH EQUIVALENTS	18	81		98	
TOTAL CURRENT ASSETS		60,680		42,275	
TOTAL ASSETS		817,162		648,121	
STATEMENT OF FINANCIAL POSITION (pursuant to CONSOB Resolution 15519 of 27 July 2006)					
	<i>Notes</i>	30.06.2011	of which with related parties	31.12.2010	of which with related parties
NET EQUITY AND LIABILITIES					
(€/000)					
NET EQUITY					
NET EQUITY		536,981		554,459	
- Share capital	19	448,500		448,500	
- Reserves	20	84,132		81,371	
- Profit (loss) for the year		4,349		24,588	
TOTAL NET EQUITY		536,981		554,459	
NON-CURRENT LIABILITIES					
FINANCIAL PAYABLES		54,893		53,532	
- Bank loans and borrowings (long-term portion)	21	53,854		51,947	
- Other financial payables (long-term portion)	22	1,039		1,585	
NON-CURRENT PROVISIONS FOR CONTINGENCIES AND OTHER CHARGES		10,483		6,476	
- Employee benefits	23	5,320		4,204	
- Other provisions	24	5,163		2,272	
TOTAL NON-CURRENT LIABILITIES		65,376		60,008	
CURRENT LIABILITIES					
TRADE PAYABLES	25	3,780	309	2,773	442
FINANCIAL PAYABLES		191,698		20,060	
- Bank loans and borrowings (short-term portion)	21	191,096		19,416	
- Other financial payables (short-term portion)	22	602	39	644	87
CURRENT TAX LIABILITIES	26	10,552		5,885	
OTHER PAYABLES	27	8,775	7,812	4,936	3,261
TOTAL CURRENT LIABILITIES		214,805		33,654	
TOTAL NET EQUITY AND LIABILITIES		817,162		648,121	

Transactions and balances with related parties Summary by company

(Appendix 2 to the Explanatory Notes - *cont'd*)

(€/million)	Other revenues	Costs for services	Financial income and expenses	Non-current financial receivables	Current financial receivables	Other receivables ⁽²⁾	Other payables ⁽³⁾
Subsidiary companies⁽¹⁾							
De'Longhi Appliances S.r.l.	1.2	(0.1)	10.0	-	-	14.9	(0.1)
Climaveneta S.p.A.	0.4	-	-	-	-	4.6	-
De'Longhi Kenwood A.P.A. Ltd	0.4	-	0.2	0.7	-	0.5	-
DL Radiators S.p.A.	0.3	-	-	-	-	0.2	(7.8)
Kenwood Limited	0.2	-	-	-	-	1.0	-
E-Services S.r.l.	0.2	-	-	-	-	1.1	-
Tricom Industrial Co. Ltd	0.1	-	-	-	-	0.1	-
De'Longhi America Inc.	-	(0.2)	-	-	-	-	(0.2)
De'Longhi Capital Services S.r.l.	-	-	0.2	-	2.1	5.9	-
De'Longhi Australia PTY Limited	-	-	0.1	0.5	-	-	-
De'Longhi New Zeland Limited	-	-	-	0.2	-	-	-
Alabuga International S.A.	-	-	-	0.2	-	-	-
De'Longhi Japan Corporation	-	-	-	0.1	-	-	-
De'Longhi Canada Inc.	-	-	-	0.1	-	-	-
Kenwood Home Appl. PTY Limited	-	-	-	0.1	-	-	-
Promised Success Ltd	-	-	-	0.1	-	-	-
De'Longhi Professional S.A.	-	-	-	-	20.0	-	-
R.C. Group S.p.A.	-	-	-	-	-	0.8	-
De'Longhi Deutschland Gmbh	-	-	-	-	-	0.3	-
De'Longhi France S.A.R.L.	-	-	-	-	-	0.1	-
De'Longhi Electrodomesticos Espana S.	-	-	-	-	-	0.1	-
Total subsidiary companies (a)	2.8	(0.3)	10.5	2.0	22.1	29.6	(8.1)
Related companies							
De'Longhi Giuseppe	-	-	-	-	-	0.5	-
Gamma S.r.l.	-	(0.1)	-	-	-	-	-
Total related companies (b)	-	(0.1)	-	-	-	0.5	-
Total subsidiary and related companies (a+b)	2.8	(0.4)	10.5	2.0	22.1	30.1	(8.1)

⁽¹⁾ These mostly refer to dealings of a commercial nature and the supply of administrative services by company employees.

⁽²⁾ These consist of €5.0 million in "Trade receivables" and €25.1 million in "Other receivables".

⁽³⁾ These consist of €0.3 million in "Trade payables" and €7.8 million in "Other payables".

AUDIT REPORT E&Y

Financial Statements
Of
De'Longhi Clima S.p.A.
at 20 July 2011

(pursuant to Article 2506-ter of the Italian Civil Code)

STATEMENT OF FINANCIAL POSITION

(€ amount)

ASSETS	20.07.2011	31.12.2010
A) AMOUNTS RECEIVABLE FROM SHAREHOLDERS -	-	-
B) FIXED ASSETS		
I - INTANGIBLE FIXED ASSETS		
1) Start-up and expansion expenses	-	3,200
TOTAL INTANGIBLE FIXED ASSETS	-	3,200
II - TANGIBLE FIXED ASSETS	-	-
III - FINANCIAL FIXED ASSETS	-	-
TOTAL FIXED ASSETS	-	3,200.00
C) CURRENT ASSETS		
I - INVENTORIES	-	-
II - ACCOUNTS RECEIVABLE		
4-bis) current tax assets	921	602
4-ter) Deferred tax assets	2,324	867
TOTAL ACCOUNTS RECEIVABLE	3,245	1,469
III - CURRENT FINANCIAL ASSETS	-	-
IV - LIQUID FUNDS		
1) Cash and banks	120,429	4,648
TOTAL LIQUID FUNDS	120,429	4,648
TOTAL CURRENT ASSETS	123,674	6,117
D) ACCRUED INCOME AND PREPAID EXPENSES	-	-
TOTAL ASSETS	123,674	9,317

LIABILITIES	20.07.2011	31.12.2010
A) NET SHAREHOLDERS' EQUITY		
I - SHARE CAPITAL	120,000	10,000
II - ADDITIONAL PAID-IN CAPITAL (Share premium reserve)	-	-
III - REVALUATION RESERVES	-	-
IV - LEGAL RESERVE	-	-
V - TREASURY STOCK RESERVE	-	-
VI - STATUTORY RESERVES	-	-
VII - OTHER RESERVES	10,000	-
V VIII - RETAINED EARNINGS (LOSSES CARRIED FORWARD)	(3,087)	-
IX - NET INCOME (LOSS) FOR THE YEAR	(3,842)	(3,087)
TOTAL NET SHAREHOLDERS' EQUITY	123,071	6,913
B) RESERVES FOR RISKS AND CHARGES	-	-
C) RESERVE FOR STAFF SEVERANCE INDEMNITIES	-	-
D) ACCOUNTS PAYABLE		
7) Trade payable	-	1,801
14) Other payable	603	603
TOTAL ACCOUNTS PAYABLE	603	2,404
E) ACCRUED LIABILITIES AND DEFERRED INCOME	-	-
TOTAL LIABILITIES	603	2,404
TOTAL LIABILITIES & NET SHAREHOLDERS' EQUITY	123,674	9,317
MEMORANDUM ACCOUNTS	-	-

INCOME STATEMENT

(€ amount)

INCOME STATEMENT	al 20.07.2011		al 20.07.2010	
	Sub-total	total	Sub-total	total
A) PRODUCTION VALUE		-		-
B) PRODUCTION COSTS				
7) Services		1,591		238
10) Amortisation, depreciation and write-downs				
a) Amortisation of intangible fixed assets	3,200	3,200	220	220
14) Other operating expenses		511		915
TOTAL PRODUCTION COSTS		5,302		1,373
DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS (A-B)		(5,302)		(1,373)
C) FINANCIAL INCOME AND EXPENSES				
16) Other financial income				
d) Income other than the above:				
- other	3	3	-	-
17) Interest and other financial expenses				
c) other		-	(102)	(102)
TOTAL FINANCIAL INCOME AND EXPENSES		3		(102)
D) ADJUSTMENTS TO VALUE OF FINANCIAL ASSETS		-		-
E) EXTRAORDINARY INCOME AND EXPENSES		-		-
PRE-TAX INCOME		(5,299)		(1,475)
22) income tax for the year				
- current taxes		-		-
- deferred advances taxes		1,457		406
TOTAL INCOME TAX FOR THE YEAR		1,457		406
NET INCOME (LOSS) FOR THE YEAR		(3,842)		(1,069)

STATEMENT OF CHANGES IN EQUITY OF DE'LONGHI CLIMA S.p.A.

(€ amount)	SHARE CAPITAL	LEGAL RESERVE	OTHER RESERVE	PROFIT (LOSS) CARRIED FORWARD	PROFIT (LOSS) FOR THE YEAR	TOTAL
Balance at 1st January 2010	-	-	-	-	-	-
Capital contribution	10,000	-	-	-	-	10,000
Profit (loss) 2010	-	-	-	-	(3,087)	(3,087)
Balance at 31 December 2010	10,000	-	-	-	(3,087)	6,913
Capital contribution	110,000	-	10,000	-	-	120,000
Allocation of 2010 result as per AGM resolution of 28 May 2011	-	-	-	(3,087)	3,087	-
Income (loss) of the period	-	-	-	-	(3,842)	(3,842)
Balance at 20 July 2011	120,000	-	10,000	(3,087)	(3,842)	123,071

Statement of availability and possible distribution of equity items at 20 July 2011

Nature/Description	Amount	Permitted use	Available amount
Share capital	120,000		
Earnings reserves			
- Legal reserve	-	B	-
- Other reserve	10,000	B	10,000
- Profit (loss) carried forward	(3,087)	A, B, C	-
		Total	10,000
		Undistributable amount	-
		Distributable amount	10,000

Key:

A: to increase share capital

B: to cover losses

C: distribution to shareholders

EXPLANATORY NOTES

ACCOUNTING STANDARDS

The Statement of Financial Position of De'Longhi Clima S.p.A. at 20 July 2011 has been prepared pursuant to and in accordance with the combined provisions of Articles 2506-ter and 2501-quater of the Italian Civil Code, for the purposes of the partial and proportional demerger of the parent company De'Longhi S.p.A. to De'Longhi Clima S.p.A..

Preliminarily, it must be noted that on 18 July 2011 as per Notary Public's deed (Notary Cavallotti in Milan), the Extraordinary General Meeting the Company resolved on transforming the Company from an S.r.l. into an S.p.A., modification of the registered office and the company name and the increase in share capital.

The financial statements were drafted in compliance with Italian accounting principles, in continuity with the same accounting principles and measurement basis adopted in the drafting of the financial statements at 31 December 2010, to which reference is made. In particular, the directors have drafted the statement of financial position at 20 July with reference to that provided by accounting principle OIC (Italian Accounting Body) 30 "Interim financial statements".

The Directors have considered the possibility to avail themselves of the right to draft the financial statements at 31 December 2011 in accordance with the IFRS, as provided by Article 4 (4) of Legislative Decree 38/2005. In this sense they expect that the transition to international accounting principles will have no significant effects on the net income for 2011 and equity at 31 December 2011.

These financial statements are presented in Euro, which is the Company's functional currency.

ILLUSTRATION OF THE STATEMENT OF FINANCIAL POSITION AND INCOME STATEMENT

B) INTANGIBLE ASSETS

I- Intangible assets

The breakdown is as follows:

	20.07.2011		31.12.2010		Change
	Gross	Net	Gross	Net	Net
Start-up expenses	4,000	-	4,000	3,200	(3,200)
Total	4,000	-	4,000	3,200	(3,200)

During 2011, it was considered appropriate to write down the net residual book value of plant costs.

C) CURRENT ASSETS

II- Receivables

4-bis- Tax receivables

The breakdown is as follows:

	20.07.2011	31.12.2010	Change
VAT	919	601	318
Other tax receivables	2	1	1
Total current tax assets	921	602	319

There are no receivables due beyond 12 months.

4-ter- Deferred taxes

The breakdown is as follows:

	20.07.2011			31.12.2010			Effect on income statement
	Taxable amount	Tax rate	Total tax	Taxable amount	Tax rate	Total tax	
Deferred tax assets on tax losses	8,453	27.5%	2,324	3,154	27.5%	867	1,457
Net total			2,324			867	1,457

IV- Cash and cash equivalents

The amount recorded in the financial statement shows a balance of Euro 120,429 (Euro 4,648 at 31 December 2010). The item is made up of the surplus in the current account.

COMMENTS ON THE LIABILITIES

A) NET EQUITY

Changes in net equity are reported as part of the financial statements; comments on the main components and their changes are provided below.

SHARE CAPITAL

The share capital made up of 40,000 ordinary shares with a par value of Euro 3 for a total of Euro 120,000.

The initial share capital, equal to Euro 10,000, has been increased during 2011 following the irrevocable contribution for the capital increase following the company transformation of Euro 110,000, effected on 14 July 2011.

RESERVES

The breakdown is as follows:

	20.07.2011	31.12.2010	Change
Legal reserve	-	-	-
Other reserves:			
- Capital contribution	10,000	-	10,000
- Profit (loss) carried forward	(3,087)	-	(3,087)
Total reserves	6,913	-	6,913

D) PAYABLES

7- Trade payables

The breakdown is as follows:

	20.07.2011	31.12.2010	Change
Invoices to be receives	-	1,801	(1,801)
Total trade payables	-	1,801	(1,801)

14- Other payables

The breakdown of other payables is the following:

	20.07.2011	31.12.2010	Change
Other payables	603	603	-
Total other payables	603	603	-

There are no payables with a residual duration beyond twelve months or backed by real guarantees on company assets.

COMMENTS ON THE INCOME STATEMENT

B) PRODUCTION COSTS

7- For services

These are detailed as follows:

	at 20th July 2011	at 20th July 2010	Change
Third-party services	1,591	238	1,353
Total services	1,591	238	1,353

10- Amortization, depreciation and impairment

The item includes the write-down of plant costs which have been recorded in the income statement at the residual amount of Euro 3,200.

14- Other operating expenses

"Other operating expenses" are residual in nature and include each negative component of income which cannot be entered in the previous items, or those destined to include expenses of a financial or extraordinary nature.

The breakdown is as follows:

	at 20th July 2011	at 20th July 2010	Change
Out-of-period losses	1	-	1
Sundry taxes	510	915	(405)
Total other operating expenses	511	915	(404)

C) FINANCIAL INCOME AND EXPENSES

Net financial income and expenses are broken down as follows:

	at 20th July 2011	at 20th July 2010	Change
Bank interest income	3	-	3
Financial income	3	-	3
Other sundry income (expenses)	-	(102)	102
Other financial income (expenses)	-	(102)	102
Financial income (expenses)	3	(102)	105

Income taxes

These are composed as follows:

	at 20th July 2011	at 20th July 2010	Change
Deferred income tax liabilities (assets)	1,457	406	1,051
Total	1,457	406	1,051

The item "Deferred income tax liabilities (assets)" includes the benefit on the losses over the financial period.

OTHER INFORMATION

The Company does not have any existing transactions with related parties. The Company does not possess any shareholdings in subsidiary or associated companies. Furthermore, the Company does not possess any shares in parent companies, neither through trust companies or intermediaries. During the financial period no shares in parent companies, also through trust companies or intermediaries, have been purchased or alienated.

SUBSEQUENT EVENTS

There have been no other significant events after the date of this Statement of Financial Position.

These Financial Statements at 20 July 2011, made up of the Statement of Financial Position, Income Statements and Explanatory Notes, are the true and fair representation of the Company's equity and financial situation and the profit or loss of the financial period and correspond to that shown in the accounting records.

Treviso, 21 July 2011
De'Longhi Clima S.p.A.
Chairman
Giuseppe De'Longhi

AUDIT REPORT E&Y

ANNEX

Auditor's Report on the pro forma Consolidated Financial Statements of the Demerging Company De'Longhi S.p.A. and its subsidiaries (De'Longhi Group Post Demerger) for the year ended 31 December 2010.

ANNEX

Auditor's Report on the pro forma Consolidated Financial Statements of the Demerging Company De'Longhi S.p.A. and its subsidiaries (De'Longhi Group Post Demerger) for the half year ended 30 June 2011.

ANNEX

Auditor's Report on the pro forma Consolidated Financial Statements of the Beneficiary Company De'Longhi Clima S.p.A. and its subsidiaries (De'Longhi Clima Group) for the year ended 31 December 2010.

ANNEX

Auditor's Report on the pro forma Consolidated Financial Statements of the Beneficiary Company De'Longhi Clima S.p.A. and its subsidiaries (De'Longhi Group Post Demerger) for the half year ended 30 June 2011.