Quarterly report for the quarter ending on March 31st 2005

De'Longhi SpA – Registered HQ: Via L. Seitz 47 – 31100 Treviso – Italy
Share Capital: EUR 448,500,000.00
Tax Code and Company Register no.: 11570840154
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1. Corporate bodies and officers

Board of Directors

President	GIUSEPPE DE'LONGHI *
Vice President	FABIO DE'LONGHI *
Managing Director	STEFANO BERALDO *
Director	ALBERTO CLÒ **
Director	RENATO CORRADA **
Director	CARLO GARAVAGLIA **
Director	GIORGIO SANDRI
Director	SILVIO SARTORI
Director	GIOVANNI TAMBURI **

Board of Statutory Auditors

President	GIANLUCA PONZELLINI
Standing auditors	MASSIMO LANFRANCHI
	GIULIANO SACCARDI
Substitute auditors	ROBERTO CORTELLAZZO-WIEL
	ALBERTO LANFRANCHI

Independent Auditors

PRICEWATERHOUSECOOPERS SPA ***

Internal Audit and Corporate Governance committee

RENATO CORRADA **
CARLO GARAVAGLIA **
GIOVANNI TAMBURI **

Remuneration Committee

ALBERTO CLÒ **
CARLO GARAVAGLIA **
GIOVANNI TAMBURI **

* The present corporate bodies were appointed by the Shareholders' Meeting held on April 28th 2004 for the period 2004-2006. At its meeting on April 28th 2004 the Board of Directors renewed delegation of executive powers, supplementing them with the limits envisaged by law, as well as by the company's Guidelines & Criteria for Identification of Significant Transactions and, in particular, Transactions with Related Parties and by its Code of Ethics.
** Independent directors.
*** The assignment for auditing the financial statements of FYs 2004-2005-2006 was awarded by the Shareholders' Meeting held on April 28th 2004.

2. 1st Quarter 2005 – Key business and financial indicators

- Net sales in the 1st quarter of 2005 (1Q05) decreased by –13.2%. This trend should be read bearing in mind that 1Q05 featured net sales more in line with the seasonality trend of the De'Longhi Group. The 1st quarter of 2004 (1Q04) had in fact benefited from early orders by distributors, which led to a big net sales increase – particularly in the air conditioning area (+47% YoY) and, overall, to an increase of some 8% YoY. A further feature was the disappearance of sales to a German OEM customer in the cleaning & ironing segment. We trust that these can be at least partly made up during 2005 by other OEM deals in other product segments.

- Gross margin (*), which amounted to € 94.3 million (mn) and was down by € 17.9 mn vs. 1Q04 (with incidence decreasing from 41.4% in 2004 to 40.1% in 1Q05), felt the effects of lower contribution to net sales by air conditioner products – a category featuring profitability higher than the group average.

- As a consequence of the sales decrease mentioned above, EBITDA, which totalled € 16 mn (vs. € 28.8 mn in 1Q04) with margin decreasing from 10.6% to 6.8%, was negatively impacted by the greater burden of overheads (costs for services and non-manufacturing labour).

- Reduction of margins led to a pre-tax loss of € 9.9 mn (vs. pre-tax income of €1.2 mn in 1Q04)

- The net financial position went from debt of € 322 mn as at March 31st 2004 to debt of€ 376.3 mn due to less use of securitisation (accounting for € 14.0 mn) and to the increase in net working capital following higher product inventory and a decrease in taxes payable. We highlight, as a positive element, in a quarter typically featuring negative cash flows due to the building up of stocks that will be sold in the next quarter, the improvement of 1Q05 cash flow over that of 1Q04 (shifting from cash absorption, pre-securitisation, of € 31.3 mn for the period January 1st-March 31st 2004 to cash absorption of € 24.6 mn in the period January 1st-March 31st 2005).

- In view of the heavy impact of the seasonality factor, we do not think the downturn in sales and margin shrinkage in 1Q05 are indicative of the full-year trend.

(*) In order to assure better representation of the period's operating trend, we have deemed it appropriate to present a restated income account in which gross margin reflects all processing costs – thus including the part previous classified among service and payroll costs. The definition of gross margin is: net sales less materials, manufacturing labour costs, temporary agency factory workers, outsourced processing, motive power, maintenance, and procurement transport costs.

Consolidated income-statement highlights

(€ millions)	**1st Quarter 2005**	**1st Quarter 2004**	**Outright Change**	**% change at actual exchange rates**	**% change at constant exchange rates**
Net sales	234.9	270.7	(35.8)	(13.2%)	(12.4%)
Gross margin	**94.3**	**112.1**	**(17.9)**	**(16.0%)**	
EBITDA	**16.0**	**28.8**	**(12.8)**	**(44.3%)**	
% on net sales	*6.8%*	*10.6%*			
EBIT	**0.3**	**11.7**	**(11.4)**	**(97.1%)**	
% on net sales	*0.1%*	*4.3%*			
Pre-tax income (loss)	**(9.9)**	**1.2**	**(11.2)**		

Consolidated balance-sheet highlights

(€ millions)	**31/03/2005**	**31/03/2004**	**Outright Change**	**% Change**	**31/12/2004**
Net working capital	387.4	330.2	57.2	17.3%	332.5
Net capital employed	931.6	888.9	42.6	4.8%	876.2
Net financial position	(376.3)	(322.0)	(54.3)	16.9%	(313.3)
NWC as % of net sales (12 months)	**31.0%**	**25.4%**			**25.9%**

3. Directors' report

3.1 Policy for preparation of the quarterly report

The quarterly report for the quarter ending on March 31st 2005 has been prepared according to Article 82 of the regulation approved by CONSOB (Italian listed company & stock market surveillance commission) resolution 11971 of May 14th 1999, in application of Italian Legislative Decree no. 58/1998 concerning issuers. The report includes restated financial statements, prepared using the same accounting and consolidation policies used to prepare FY2004 consolidated year-end financial statements, and directors' comments.

Accounting schedules are presented on a pre-tax basis, as per the faculty contemplated by Article 81, paragraph 7 of the aforementioned CONSOB regulation for the preparation of first-half interim reports, which is also applicable to preparation of quarterly reports.

In order to assure better representation of the operating trend, we have deemed it appropriate to present a restated income account in which gross margin reflects all processing costs – thus including the part previous classified among service and payroll costs. The definition of gross margin is: net sales less materials, manufacturing labour costs, temporary agency factory workers, outsourced processing, motive power, maintenance, and procurement transport costs.

Foreign subsidiaries' financial statements have been converted into euro as per the criteria used for preparation of annual consolidated financial statements.

The exchange rates applied for conversion of non-Eurozone currencies are as follows:

Currency		31/03/2005		31/03/2004	
		Final x-rate (*)	**Average x-rate (*)**	**Final x-rate (*)**	**Average x-rate (*)**
Australian dollar	AUD	1.67630	1.68743	1.60520	1.63350
Canadian dollar	CAD	1.57370	1.60838	1.59790	1.64930
British pound	GBP	0.68850	0.69356	0.66590	0.68010
Hong Kong dollar	HKD	10.11100	10.22453	9.52280	9.72710
Japanese yen	JPY	138.44000	137.00533	126.97000	134.01170
Malaysian ringitt	MYR	4.92632	4.98188	4.64450	4.75180
New Zealand dollar	NZD	1.82370	1.82977	1.83650	1.85260
Polish zloty	PLN	4.08070	4.02611	4.73360	4.77800
Chinese renminbi (yuan)	RMB	10.73410	10.85620	10.12140	10.35520
Singapore dollar	SGD	2.13770	2.14500	2.04590	2.11920
US dollar	USD	1.29640	1.31114	1.22240	1.25070
South African rand	ZAR	8.08980	7.87860	7.77880	8.48900

(*) Source: UIC (Ufficio Italiano Cambi – Italian Foreign Exchange Office)

3.2 Restated consolidated income statement and balance sheet

Restated consolidated income statement for 1st quarter

(€ '000)	*1st Quarter 2005*	*% on sales*	*1st Quarter 2004*	*% on sales*	*FY 2004*	*% on sales*
Net sales	**234,906**	**100.0%**	**270,662**	**100.0%**	**1,287,038**	**100%**
YoY change	*(35,756)*	*(13.2%)*				
Cost of materials	(140,654)	(59.9%)	(158,521)	(58.6%)	(778,838)	(60.5%)
Gross margin	**94,252**	**40.1%**	**112,141**	**41.4%**	**508,200**	**39.5%**
Service and other operating expenses	(52,505)	(22.4%)	(58,178)	(21.5%)	(270,142)	(21.0%)
Value Added	**41,747**	**17.8%**	**53,963**	**19.9%**	**238,058**	**18.5%**
Non-manufacturing labour costs	(22,737)	(9.7%)	(21,704)	(8.0%)	(88,091)	(6.8%)
Provisions	(2,988)	(1.3%)	(3,479)	(1.3%)	(12,776)	(1.0%)
EBITDA	**16,022**	**6.8%**	**28,780**	**10.6%**	**137,191**	**10.7%**
YoY change	*(12,758)*	*(44.3%)*				
Depreciation & amortisation	(15,677)	(6.7%)	(17,084)	(6.3%)	(63,212)	(4.9%)
EBIT	**345**	**0.1%**	**11,696**	**4.3%**	**73,979**	**5.7%**
YoY change	*(11,351)*	*(97.1%)*				
Financial income (charges)	(6,585)	(2.8%)	(6,677)	(2.5%)	(32,635)	(2.5%)
Foreign exchange gains (losses)	(3,285)	(1.4%)	(3,267)	(1.2%)	(9,965)	(0.8%)
Extraordinary income (expenses)	(392)	(0.2%)	(221)	(0.1%)	(11,651)	(0.9%)
Pre-tax income (loss) before minorities	**(9,917)**	**(4.2%)**	**1,531**	**0.6%**	**19,737**	**1.5%**
Minorities	0	0%	(291)	(0.1%)	188	0.0%
Group pre-tax income (loss)	**(9,917)**	**(4.2%)**	**1,240**	**0.5%**	**19,549**	**1.5%**

Restated consolidated balance sheet

(€ '000)	*31/03/2005*	*31/03/2004*	*31/12/2004*
Intangible fixed assets	402,083	425,197	406,999
Tangible fixed assets	227,416	222,063	226,671
Financial fixed assets	10,767	8,032	7,544
Total fixed assets	**640,266**	**655,292**	**641,214**
Trade receivables	252,815	292,216	275,944
Inventories	354,081	338,576	290,877
Trade payables	(253,897)	(317,135)	(267,187)
Other current assets (liabilities)	34,369	16,537	32,864
Net working capital	**387,368**	**330,194**	**332,498**
Employee severance indemnity reserve	(26,620)	(24,907)	(26,490)
Deferred tax reserve	(17,369)	(29,291)	(17,335)
Reserve for risks and charges	(52,086)	(42,338)	(53,655)
Total non-current liabilities and reserves	**(96,075)**	**(96,536)**	**(97,480)**
Net capital employed	**931,559**	**888,950**	**876,232**
Liquid funds	(82,254)	(74,359)	(100,847)
Other non-current financial assets	(1,782)	(3,047)	(1,657)
Other current financial assets in working capital	(25,922)	(26,184)	(37,032)
Short-term financial debt	299,413	190,121	246,351
Medium-/long-term financial debt	186,856	235,507	206,439
Net financial position	**376,311**	**322,038**	**313,254**
Total shareholders' equity	**555,248**	**566,912**	**562,978**
Total sources of finance	**931,559**	**888,950**	**876,232**

Cash flow is summarised below:

(€ millions)	*31/03/05 (3 mths.)*	*31/03/04 (3 mths.)*	*31/12/04 (12 mths.)*
Cash flow generated (absorbed) by operations (*)	4.4	22.0	78.1
Cash flow generated (absorbed) by changes in NWC and investment activities	(31.1)	(53.2)	(111.0)
Free cash flow	**(26.8)**	**(31.2)**	**(32.9)**
Working capital for new commercial subsidiaries		(3.7)	
Cash flow generated by changes in net equity	2.2	3.6	(14.1)
Cash flow in period before securitisation	**(24.6)**	**(31.3)**	**(47.0)**
Securitisation	(38.4)	(43.5)	(19.0)
Cash flow in period after securitisation	**(63.1)**	**(74.8)**	**(66.0)**
Initial net financial position	(313.3)	(247.2)	(247.2)
End-of-period net financial position	**(376.3)**	**(322.0)**	**(313.3)**

(*) Includes pre-tax income (net for the year ending on 31/12/04), depreciation & amortisation, and net provisions.

3.3 Operating performance

Albeit still in the presence of adverse external conditions in our main markets – such as residual pressure on selling prices for some product categories and the strength of the euro, which continued to dampen De'Longhi exports – the 13.2% decrease in sales (from € 270.7 mn to € 234.9 mn) was substantially ascribable to factors of a seasonal nature.

The 2004 air conditioning season in fact featured earlier orders from distributors than usual due to the effect of the excellent performance of the previous summer season. This phenomenon, which had triggered strong demand caused by (a) expectations of market growth and (b) retail stock-outs, was accentuated by a markedly downward price trend. The sell-out season (June-July) then featured seasonal temperatures well below average. This penalised the market, causing higher sales returns in larger quantities than in previous years and high inventories also in the trade channel.

The current season instead appears to be based on behaviour in line with established habits. The price trend seems to be stationary. Indeed, the trade's excellent reception of our "Planos" air conditioner – a new-generation product currently being aired on TV – has (a) caused sales to be shifted to the second quarter and (b) led to expectations of improvement of margins in the second quarter.

We also note, as a further factor, the disappearance of sales to a German OEM customer in the cleaning & ironing segment. We trust that these can be at least partly made up during 2005 by other OEM deals in other product segments.

The first quarter of the FY is the least important one of the year in terms of contribution to group sales and profitability. Consequently, the reduction of net sales in the period January-March 2005, set against overheads substantially in line with those of 1Q04, caused a downturn in group profitability in 1Q05.

Gross margin, which amounted to € 94.3 mn, with a decrease of € 17.9 mn vs. 1Q04 (with incidence decreasing from 41.4% in 2004 to 40.1% in 1Q05), felt the effects of lower contribution to net sales by air conditioner products – a category featuring profitability higher than the group average.

The reduction in non-manufacturing service costs, albeit major (€ 5.6 mn), was not sufficient to offset the loss of margin.

Within gross margin, we highlight the fact that labour costs decreased by € 3.2 mn, even although not yet benefiting from the effects of the agreement relating to the business plan signed on March 17th 2005 with trade union organisations for headcount reduction. This agreement, which envisages reduction of the operating parent company's headcount as from the second quarter of 2005, will lead to the expected cost benefits as from the same quarter.

Due to the factors described above, EBITDA amounted to € 16.0 mn (vs. € 28.8 mn in 1Q04) with a 6.8% margin on sales as compared with a 10.6% margin in 1Q04).

Depreciation & amortisation totalled € 15.7 mn, down versus 1Q04 (€ 17.1 mn).

EBIT amounted to € 0.3 mn (vs. € 11.7 mn in 1Q04).

Financial charges featured interest expenses in line with 1Q04 and foreign exchange losses of € 3.3 mn. These losses, which were the result of hedging policies applied at the end of 2003, were caused by the difference between the exchange rates of hedging designed to protect the budget and current exchange rates. This phenomenon, limited in scope since it applies to only a minimum part of our projected 2005 USD requirements should fade away because it is limited to the first few months of the year.

There was a pre-tax loss of € 9.9 mn (vs. pre-tax income of €1.2 mn in 1Q04)

The net financial position went from debt of € 322 mn as at March 31st 2004 to debt of € 376.3 mn as at March 31st 2005. This increase was caused not only by less use of securitisation (accounting for € 14.0 mn) but also and above all by the increase in net working capital following higher product inventory stemming from (a) prudent stock-piling consistent with the process of transfer to China and (b) a less than favourable 2004 season for air conditioning products.
We highlight, as a positive element, in a quarter typically featuring negative cash flows due to the building up of stocks that will be sold in the next quarter, the improvement of 1Q05 cash flow over that of 1Q04 (shifting from cash absorption, pre-securitisation, of € 31.3 mn for the period January 1st-March 31st 2004 to cash absorption of € 24.6 mn in the period January 1st-March 31st 2005).
Reduction of taxes payable also had a significant impact, due to payment in FY2004 of the amount owed for the tax amnesty and of substitute tax on extraordinary operations completed in 2003.

The manufacturing internationalisation plan moved ahead satisfactorily. The two Chinese factories are producing according to planned levels. During 1Q05 production started at the Tricom Chinese factory of our 12-litre electric oven – a product of new design and fundamental for recovery of market share in the US market, where De’Longhi used to be leader but where competition from US companies with products made in China had caused us to lose competitiveness. In addition, new models of electric ovens are being prepared and will be presented at the next Las Vegas trade show.

Start-up of the new Russian manufacturing activities is proceeding as expected. Production of radiators in Russia will enable De’Longhi to gain commercial competitiveness in this major market.

3.4 Business segments

The following table details net sales by business segment:

(€ millions)	1st Quarter 2005	1st Quarter 2004	Outright Change	% change at actual exchange rates	% change at constant exchange rates
Business segment					
Cooking & food preparation	115.4	120.9	(5.5)	(4.5%)	(3.4%)
Air conditioning & treatment	59.0	75.1	(16.1)	(21.5%)	(20.8%)
Heating	26.4	28.9	(2.5)	(8.6%)	(8.6%)
Home cleaning & ironing	23.6	33.3	(9.7)	(29.1%)	(28.8%)
Other (*)	10.4	12.4	(2.0)	(16.1%)	(15.2%)
Total	**234.9**	**270.7**	**(35.8)**	**(13.2%)**	**(12.4%)**

(*)The "Other" segment includes revenues from the sale of accessories, spare parts, commodities, semi-processed products and scrap, as well as revenues relating to provision of services, incidental income, and other sundry revenue items.

Cooking & Food Preparation
The good performance of coffee makers continued – also thanks to the major contribution of automatic coffee machine models. Hobs and automatic food processors also produced good results, confirming the sales of 1Q04, which had featured significant YoY increases. There was instead a decrease in fryers and electric ovens – the latter, in particular, were the last product category involved in the manufacturing internationalisation project. The category – which was the one most affected due to this, particularly in the US market – is awaiting revamping of the range, mentioned earlier, which will for the first time come from the Chinese factory. This new production should enable us to position these products at price levels more consistent with those of the main competitors.

Air Conditioning & Treatment
The segment had suffered from different timing of orders by distributors vs. normal seasonality (in 1Q04 the air conditioner segment increased by 47% YoY). The current season instead seems to be based on behaviour in line with established habits.
During the 3-month period thermo-cooling systems featured a satisfactory rate of growth.

Heating
The slack trend in 1Q05 – with the first quarter typically being the final part of the winter season – was due to lack of customer re-orders. The winter season was in fact affected by weather conditions featuring higher than average temperatures in November and December, leading to high trade inventories. The season continued with good sell-out in the following months – too late to generate re-orders but positive inasmuch as it depleted trade inventories.
Water-filled radiators featured slowdown after a period of strong growth in the last few years.

Home Cleaning & Ironing
Sales were down above all in the cleaning segment because some extraordinary sales made in 1Q04 mainly to a German OEM customer were not repeated.

3.5 Geographical markets

The trend in net sales by geographical area is summarised in the following table:

(€ millions)	**1st Quarter 2005**	**1st Quarter 2004**	**Outright Change**	**% change at actual exchange rates**	**% change at constant exchange rates**
Geographical area					
Italy	64.3	82.0	(17.7)	(21.6%)	(21.4%)
UK	35.9	37.8	(1.9)	(5.0%)	(3.3%)
Rest of Europe	81.2	85.3	(4.1)	(4.8%)	(4.8%)
USA, Canada and Mexico	13.6	18.5	(4.8)	(26.2%)	(23.3%)
Japan	5.2	6.5	(1.2)	(18.9%)	(16.9%)
Rest of the world	34.7	40.7	(6.0)	(14.9%)	(13.2%)
Total	**234.9**	**270.7**	**(35.8)**	**(13.2%)**	**(12.4%)**

The Italian market featured net sales down vs. 1Q04. The decrease was entirely due to lower net sales in the air conditioner segment.

Sales in the UK market were affected by a decrease in the heating and in the cooking & food preparation segments.

In the main markets in the rest of Europe the positive sales trend in France continued whereas there was a decrease in Germany (due to the absence of some extraordinary sales of cleaning products vs. 1Q04) and in Greece.

In North America the start of the year was weak. Market conditions continue to be challenging, also considering the group’s necessarily prudent strategy due to the weak USD and to products still manufactured in Italy at less than competitive manufacturing costs.

Net sales in the rest of the world were dampened by lower sales of cleaning and of cooking & food preparation products.

3.6 Consolidation area

The consolidation area includes the financial statements as at March 31st 2005 of the operating parent company De’Longhi SpA and of its subsidiaries in which the operating parent company owns, directly or indirectly, the majority of share capital or of voting stock.

3.7 Significant events after quarter-end

On April 8th 2005 we completed acquisition of a manufacturing site located in the Republic of Tatarstan (Russia) and dedicated to the production of oil-filled radiators for sale in the Russian market with the purchase of 92.8% of Zass Alabuga LLC, the company owning the manufacturing facility, at a price of USD 580,000 (plus a variable price of USD 650,000 payable upon achievement of certain production targets) and with receipt of the necessary authorisations by local authorities.

In addition, the company was recapitalised by means of payments in cash and kind, via the contribution of plants previously used for production in Italy, of USD 2,150,000.
We point out that consolidation would in any case not have materially changed the Group's balance sheet and income statement because the Russian company's operations in the first few months of 2005 were not significant.
To give a basic indication, we note that the newly acquired company's sales should total about USD 6-8 mn in 2005.

On April 28th 2005 the Group finalised a joint-venture agreement with TCL, a Chinese company listed on the Hong Kong & Shanghai stock exchange and leader in the production and sale of air conditioners, telephony products, and TV sets. We have thus strengthened our manufacturing presence in China and the foundations for commercial development in one of the world's most important markets.
The agreement will enable the Group to produce air conditioners and dehumidifiers in its own factories in China.
The new manufacturing facilities will be located in Nangtu in the province of Zongshang/Guandong (where De'Longhi already has a manufacturing unit dedicated to heating products) and will be operational as from November 2005, in a total covered area of some 20,000 sqm. Group forecasts indicate that, when fully on-stream (during FY2007), annual manufacturing capacity will reach about 1 million units, earmarked for the Chinese market and for the Group's main markets.
TCL will look after distribution in China and in other Far Eastern countries, where the De'Longhi Group will be able to count on its extensive distribution network. De'Longhi will manage all phases of product development and will distribute products on an exclusive basis in the Rest of the World. The investment planned totals some USD 5 mn.
The agreement will enable us to strengthen our commercial presence in China and in Far Eastern countries, thanks to our partner's expertise and distribution capacity, and will strengthen our positioning in the main international markets, marking the final step in redesign of the Group's manufacturing set-up.

3.8 Outlook and expected business progress

Historically speaking, the first quarter of the year is not very indicative of business and financial performance in the rest of the year. Given this, thus far management believes that the objective of achieving moderate net sales growth and significant improvement of profitability in the current year is still possible, as long as there is a positive season for portable and fixed air conditioners.

Treviso, May 12th 2005

On Behalf of the Board of Directors

Stefano Beraldo
Managing Director