# Indesit Company

# annual report
2005

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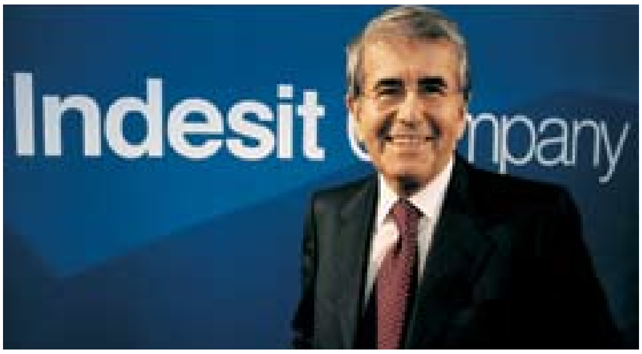
## summary

**‘We are global actors engaged in radical change. And as such we are ideally placed to consolidate our position in the global scenario.’**




Shareholders,

2005 saw an appreciable rise in steel prices and a downturn in the UK market that together penalized the entire white goods industry. The effects of those events were partially offset, however, by a recovery in the second half and good growth on Eastern European and Russian markets. For our Company 2005 was also an important turning point. **We took on a new identity, one that is closer in tune with our development plans, and a new name – Indesit Company.**

We closed the year with a decent level of profits and an appreciable increase in market share, to become Europe's no. 2 white goods manufacturer. As is our custom, **we continued to invest with confidence and with the aim of continually improving our competitiveness.** Our investments over the last six years amount to two billion euro and were made without increasing net indebtedness.

The fruits of this considerable commitment are to be seen in the high quality of new products and the success they enjoy on the market. Special mention must be made, in this context, of the Aqualtis, which is setting benchmarks for Europe's washing machines of the future. In the built-in segment, the new Scholtès line is also gaining wide consensus. Its launch was seen by clients as the key event at the recent Eurocucine, one of the biggest furniture exhibition in Europe.

**This year too and in spite of the problems external contingencies have caused us, we will distribute the same dividend that you, the shareholders, received in previous years – a tangible expression of our confidence in the future.**

In thirty years of constant growth, what was a small Italian venture has gradually taken on the stature of a large European Company. Research and development, the culture of quality, innovative branding policies and now our new name, Indesit Company, have raised our profile and extended our capacity to compete with the major global groups. This is all reflected in the response from the market, which is handsomely rewarding our commitment and determination.

*Chairman*
**Vittorio Merloni**

# managing director's foreword

2005 was two different stories, the first half being very difficult and the second, in which Indesit's sales volumes and market shares regained the peaks of two years ago, very competitive. We are proceeding according to plan both in terms of procurement savings and relocation. Our objectives are still those of the 2005-2008 three-year plan and we are confident we will achieve them. By 2008, over 60% of total hours worked will be done in low-cost countries and this is why we must work towards fully deploying the production capacity we have in Eastern Europe by boosting output in our facilities in Poland, Russia and Turkey.

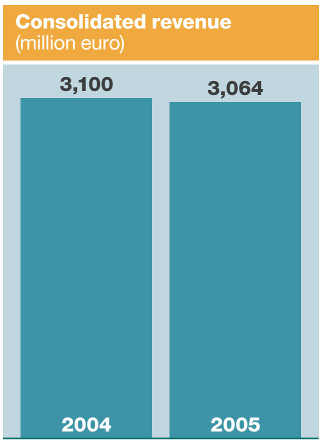
Over the year we carried forward re-organization to create a more integrated and result-focused management and invested in research to develop even more innovative, higher quality products. To consolidate our leadership in Russia and guarantee customers there the best possible service we opened Europe's biggest white goods logistics pole, in Lipetzk. Further, we negotiated the purchase price of raw materials for 2006, thus reducing the impact of any new rises on the market.

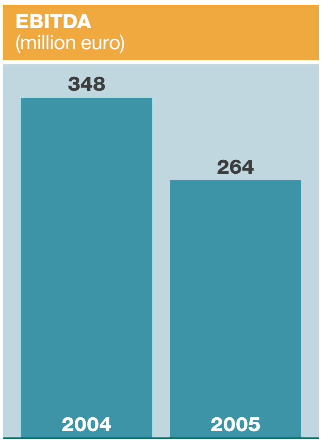
Net profits for 2005 were 50.7 million euro, down 49% on 2004. Revenues in the last quarter, up 3.5% to 841 million euro, enabled the Company to recoup on the downturn recorded in the first half. Total sales amounted to 3,064.2 million euro, with a gross operating margin of 263.7 million euro and an operating margin of 122.3 million euro, while the net financial position was more or less stable at 517.5 million euro. The dividend we intend to pay out for 2005 is substantially in line with the one paid for 2004.

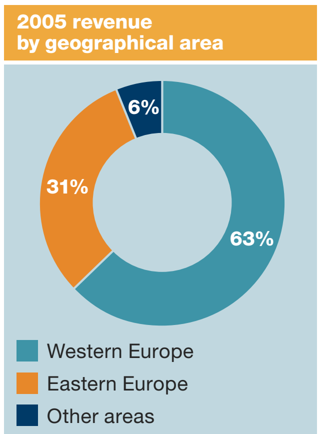
Regarding external growth, the Group is ready to consider any opportunities that arise, especially joint ventures. We have started operations in China, are looking at India too and will certainly not overlook opportunities elsewhere. Joint ventures and co-operation and co-manufacturing agreements with other companies will be the approach rather than the big acquisitions of the past.

We will intensify our efforts to improve the quality and reliability of our products, partly by learning to look at them through the eyes of our consumers. We will continue to draw strength from knowing that Indesit Company is a Company made up of people, the key factor underpinning our competitive edge and differentiating us on the market.

*Managing Director*
**Marco Milani**



# 2005 events

## january

- On the day the Company is 30 years old, it also changes name and becomes Indesit Company.
- Indesit Company looks to China and makes a new acquisition, in an alliance with WLS, the biggest Chinese manufacturer of washing appliances.

## february

- Vittorio Merloni hands over "Integrated University Masters" degrees.

## march

- President of the Italian Republic Carlo Azeglio Ciampi and Indesit Company Chairman Vittorio Merloni donate Duilio Cambellotti's "Magister Equitum" to the City of London.

## april

- Marco Milani takes part in the Investment Advisory Council in Istanbul, an annual consultation the Turkish government organizes for major multinational enterprises.

## may

- Vittorio Merloni receives the Gei Award "in recognition and appreciation of work in favour of major industrial sectors".

## june

- Indesit Company opens an exhibition at the Foreign Association – "Demine Croatia" – a collection of art works by students from Croatian art and design schools.


## july

- Squares in dozens of cities are alive with interest in the Show Trailer and the new Indesit Company ranges on display.

## august

- Indesit Company signs a new supplementary agreement with around 4,500 employees in Lipetzk.

## september

- Indesit is the Title Sponsor of the European Volleyball Championship, thus confirming its close ties with entertainment and leisure.

## october

- Indesit Company opens Russia's first logistics pole, the biggest in the white goods industry in Europe.
- Indesit Company consolidates its leadership in the field of innovation by launching its Aqualtis washing machine.
- Indesit Company is the "case history" chosen this year for the Philip Morris Award, which focuses on the theme of internationalization.

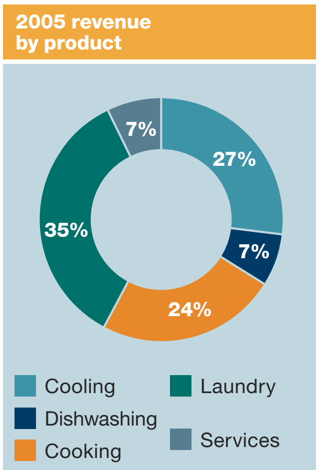
## november

- Indesit Company declares Roger Federer no. 1 in the Indesit ATP Race 2005, live on world TV, during the Chinese leg of the ATP circuit.

## december

- Vittorio Merloni and Marco Milani receive Industry Minister Claudio Scajola on his visit to the Albacina plant.

# production




## cooling

In 2005 most of our cooling production was done in Carinaro, both free-standing and built-in, with over 1.5 million units coming off the line. The Łódz plant also put in excellent results, having produced 290,000 units in its first year thanks to a new platform that makes it possible to develop and efficiently produce different types of fridge for different markets.
This platform was used to make the first Ariston fridge with a Touch Control display and an integrated Ever fresh system, a revolutionary vacuum food preservation technology. Of the built-in cooling products, the drawer fridge is the most innovative model in terms of design, functions and optimum energy consumption performance.
The cooling products sector is strategically located with production plants located over a vast area, from West to East, and accounts for around a third of the Group's total production.


## dishwashers

Indesit Company's production of dishwashers is concentrated in None (Turin) and, since last year, Wuxi (Shanghai). The None plant produces free-standing and built-in dishwashers for all the Group's brands and has doubled its output over the last five years – a notable achievement. To meet the need to make a special category of dishwasher, the 45 centimetre size, Wuxi was upgraded with an innovative automatic inspection system and a new IT system enabling production to be tracked right from the initial design stages. In line with its environmental policy, Indesit Company has also improved the energy efficiency of its dishwashers. The new generation machines can deliver more functions and use less water, detergent and electricity – with savings of over 30%.

## cookers

Indesit Company produces over 3.5 million ovens, hobs and cookers in its Albacina, Refrontolo, Łódz and Blythe Bridge plants, all with Class A certification. Recent innovations have further improved the ergonomic aspects and ease of use thanks to special studies of consumers' needs. The Touch Control system provides instant dialogue with the oven using easy to understand symbols.
Ovens clean themselves with the Fast Clean pyrolytic system that reaches 500° C and disintegrates all residues. Of the built-in hobs, the 75 cm Multi-Role model offers different cooking solutions on the same hob.


## washing machines

Indesit Company makes around five million washing machines a year. Production is geared to consumers' needs, environmental protection and compliance with user safety regulations. The development of appliances that can guarantee top performance with minimum consumption of energy, water and time and with scrupulous attention to the needs of the laundry too, is priority for around 4,000 people in the various production units. In 2005, Indesit Company launched Ariston's Aqualtis washing machine, which packs into a single product all the innovative technologies generated in over ten years of constant research and development. Wash cycle flexibility, super-ergonomic design, environmental concern and extreme care of even the most delicate items (SuperEco function and Woolmark Platinum Care certification) are just some of Aqualtis's credentials.

## dryers

All Indesit Company's dryer production is at Yate, one of its four UK plants and the biggest dryer production facility in Europe. It has 700 employees and reached an output of around one million units this year thanks to heavy investment in new product lines in 2005.

# inside figures

With a slight drop in sales (1.2% to 3,064.2 million euro) due mainly to contraction of volumes and the effect of the price/mix, the challenge in 2005 centred on the cost of materials (up 3.5% on 2005) and measures to contain such increases. The Group duly intervened to improve production efficiency (by cutting product/process costs, redistributing production outputs and procurement sources and reviewing supply costs). The re-distribution of production already initiated prior to 2005 has enabled the Company cut labour costs by 6% and, as a percentage of sales, from 17.0% in 2004 to 16.2% in 2005. 2005 also saw the start of a re-organization of corporate staff functions to contain general and administrative expenses. Although substantial results are expected to arise from such measures in the course of the next three years, there was already in 2005 a reduction of the impact on sales from 4.8% to 4.7%.

**Stockmarket data** (as of 31/12)

| | 2004 | **2005** |
|---|---|---|
| EBITDA by share (euro) | 3.55 | **2.62** |
| Basic EPS (euro) | 1.00 | **0.50** |
| Diluted EPS (euro) | 1.00 | **0.50** |
| Average no. of ordinary shares used for basic EPS calculation (thousand) | 98,033.1 | **100,514.3** |
| Average no. of ordinary shares used for diluted EPS calculation (thousand) | 99,946.3 | **101,161.5** |
| Cash flow * (euro) | 2.56 | **1.91** |
| Dividend (euro) | 0.361 | **0.360** |
| Year average share price (euro) | 13.83 | **10.45** |
| Price per share/basic EPS | 13.83 | **20.90** |
| Book value per share ** | 4.50 | **5.16** |
| Price per share/Net equity per share | 3.07 | **4.05** |
| Pay out ratio (%) | 31.6 | **73.6** |
| Dividend per share/price per share (%) | 2.6 | **3.5** |
| Share capital (thousand euro) | 91.1 | **92.2** |
| Market capitalization (million euro) | 1,356 | **1,066** |
| Debt + Equity/Revenue (%) ** | 0.31 | **0.34** |
| Debt + Equity/EBITDA | 2.74 | **3.93** |

These factors led on one hand to a downturn in EBITDA, from 348.4 million euro to 263.7 million euro (and from 11.2% to 8.6% as a percentage of sales), and on the other to a controlled decrease in EBIT from 198.8 million euro to 122.3 million euro (from 6.4% to 4% as a percentage of sales).

Lower financial charges (29.3 million euro against 33.9 million euro in 2004), higher gains of foreign currency exchange and lower writedowns combined to limit the decrease in PBT and net profits, which amounted to 92.8 and 50.4 million euro respectively (159.6 and 101 million euro in 2004). The tax rate rose from 36.7% to 45.7%, reflecting increased tax charges, due above all to the higher impact of IRAP (regional tax on production activities) on PBT. Basic EPS dropped from 1 euro to 0.50 euro per share.

Data for ordinary shares only.

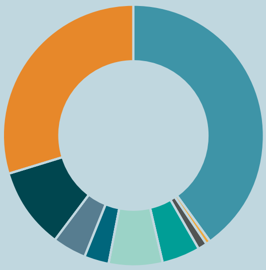
* Total net profits + amortization and depreciation.

** Figures for 2004 are stated using the balance sheet figures at 01/01/2005, the date IAS 32 and IAS 39 came into force.

# two years of IFRS results

| **Income statement** (million euro) | 2004 | **2005** |
|---|---|---|
| Revenue | 3,100 | **3,064** |
| EBITDA | 348 | **264** |
| EBIT | 199 | **122** |
| Profit before taxation | 160 | **93** |
| Total net profit | 101 | **50** |
| Tax rate (%) | 37 | **46** |

**Share capital breakdown**



| | |
|---|---|
| Fineldo S.p.A. | **38.941%** |
| Vittorio Merloni | **1.503%** |
| Merloni Progetti | **0.967%** |
| Ester Merloni | **4.462%** |
| Fines S.p.A. | **6.562%** |
| M. Cecilia Lazzarini | **2.900%** |
| Francesco Merloni | **3.995%** |
| Azioni proprie | **9.770%** |
| Flottante | **30.899%** |

| **Balance sheet statement** (million euro) | 01/01/2005 | **31/12/2005** |
|---|---|---|
| Net working capital | 93 | **78** |
| Non-current operating assets | 1,233 | **1,269** |
| Other current assets and liabilities and non-current liabilities | (370) | **(310)** |
| **Net invested capital** | **956** | **1,037** |
| Net financial indebtedness | 512 | **517** |
| Equity attributable to the Group | 433 | **505** |
| Minority interests | 11 | **14** |
| **Equity and financial liabilities** | **956** | **1,036** |

| **Cash flow statement** (million euro) | 2004 | **2005** |
|---|---|---|
| Cash flows from operating activities | 227 | **192** |
| Cash flows from investing activities | (219) | **(167)** |
| Cash flows from financing activities | (169) | **(37)** |
| Net cash flows | (161) | **(12)** |

Financially, the year was very positive. Net indebtedness at the year-end was more or less stable (517.5 million euro against 512 in 2004) thanks to tight management of working capital (down from 3% of sales at 1 January 2005 to 2.5% at 31 December 2005) and investments. Of investments in tangible fixed assets, around 124 million euro, a substantial portion (around 25% and scheduled to rise in coming years) was for new product development. Over a third of total investments was for the purposes of eastward relocation of production (including the first logistics pole in Russia – around 30 million euro). Investments in intangible fixed assets amounted to around 32 million euro, of which 22 million euro in capitalization of development costs.

# reports and consolidated financial statements

as of 31 December 2005

# report on operations during the year ended 31 december 2005

**Managing Director's discussion**

In overall terms, the sector was influenced by both significantly higher prices for the principal raw materials and lack-lustre market conditions during 2005. The UK market was especially weak in terms of sell-in (or Industry Shipments), together with the majority of the East European markets throughout the first half of the year, if not longer. In addition, the new European Directive on the disposal of waste electrical and electronic equipment (WEEE) came into force in August 2005 in a number of member states. The individual member states have not adopted this directive on a consistent basis and the impact on manufacturers has been somewhat limited, this year.

Higher prices for raw materials, components and processing have increased the Indesit Group's product costs by about 3.5% with respect to last year. Accordingly, the principal focus during the year was on the actions needed to offset these additional costs, both via pricing policy and via work to contain procurement and production costs.

In the first area, the pricing policies applied by the Group varied during the year. Prices were raised in the principal markets during the first quarter, with good results in terms of unit average revenues which, however, were accompanied by a marked contraction in volume due, in part, to strong competitive action by leading adversaries. Commencing from the second quarter and throughout the rest of the year, the Group adopted a defensive approach to market share by implementing a more aggressive pricing policy that resulted in the recovery of sales volumes, particularly during the last quarter. Furthermore, astute management of the product mix helped to contain the reduction in the unit average price to 0.7% during the year (1.1% without the exchange rate effect). Market shares at year end were in line with the record levels achieved in 2004.

With reference to production costs, the reduction programmes were implemented as planned and on schedule, achieving the expected results. In particular, purchasing of raw materials and components from the so-called "low cost" nations has increased from 16% to 24% due to the ongoing rationalisation of the supplier base. At the same time, the volume of production has risen further at the factories opened during 2004, Łódz (Poland) and Lipetzk (Russia), which are nearing full capacity operating levels. The plan to redistribute production has also continued, with the final closure of the factories in Portugal and completion of the plant shutdown in France. The direct labour hours dedicated to production in Eastern Europe (including Russia) represented 34% of the total at the end of 2005 (26% in 2004).

This redistribution, which commenced prior to 2005, has lowered payroll costs by 6.0%, representing a decrease as a percentage of revenues from 17.0% in 2004 to 16.2% in 2005. In addition, the reorganisation of staff functions began in 2005 in order to contain the level of general and administrative expenses. The results of this work are expected over the next three years. Even so, it was still possible to reduce the incidence of this caption as a percentage of 2005 revenues to 4.7%, from 4.8% previously.

The results of financial management were very good and, despite the reduction in profitability, the level of borrowing was essentially unchanged at year end. This result was achieved via the careful management of working capital and control over capital investment.

Additions to property, plant and equipment amounted to about 124 million euro during the year. A significant portion of this (about 25%) related to the development of new products, and the percentage is due to rise in the next few years. More than one third of total capital investment related to the redistribution of production towards Eastern Europe and, in this context, the efforts made to establish the Group's first logistics hub in Russia, at a cost of about 30 million euro, are particularly noteworthy.

The investment in intangible assets, about 32 million euro, includes the capitalisation of development costs totalling 22 million euro.
The strategy to strengthen capabilities in the area of product innovation has seen major progress with the creation and activation of the new “Innovation and Technology” Department which focuses on medium/long-term technological innovation across product lines, with a view to seizing the escalating opportunities offered by technology and transforming them rapidly into new product features and performance.
There was a continual flow of new products during 2005 and the Group also entered into new market segments. Examples include the drawer refrigerator available for the 90 cm built-in modules and the new “Extendia” line of large products (such as the 70 cm refrigerator with built-in vacuum and home bar and the new washing machine with a capacity of 8.5 kg). The laundry segment was further strengthened during the first half of the year by the introduction of the new standard-size washing machines with a capacity of 7 kg and the start of local production for the CIS markets of the new “superslim” which is only 33 cm deep. The Experience range has been completed in the built-in segment, with elements that coordinate well with the minimalist style of the kitchens.
In the refrigeration segment, all Group brands have introduced the new 60 cm platform with excellent features for the category, such as A++ energy rating, integrated vacuum system, full no-frost technology, touch control panel and freezer compartment with adjustable temperature. The second half of 2005 was marked by the launch of the new range of Aqualtis washing machines, which creates a new benchmark for the washing machine segment. Such distinctive features as flexibility (with a load capacity of 7.5 kg within standard dimensions and three different levels of graphic interface), comfort (thanks to the easy opening system, large raised drum access, the tilted drum and availability of a built-in laundry drawer) and care for the environment and delicate clothes (the Super Eco function for energy-saving wash cycles and a Woolmark Platinum Care certified wool cycle) contributed to the success of Aqualtis right from the start. The launch of Aqualtis was preceded by both an internal communications campaign, designed to involve the various parts of the Group, and an event held in Marrakech in October, where representatives of leading customers from all over the world were able to admire the new features of this range. Indesit also launched the new On time range: a washing machine and a dishwasher incorporating an innovative programme selection system that combines ease of use with an opportunity to select the completion time for the wash cycle.
In addition to creation of the Innovation Department mentioned above, a number of other important organisational changes were made during the year. An Industrial Technical Department was created in order to achieve better coordination and integration between the technical development of product and production processes. To achieve this, Product and Industrial Area Technical Departments have been established which report to the same Technical Director. The first have product line responsibility (Cooking, Dishwashing, Cooling, Laundry), each with their own R&D, Engineering and Product Quality units. The second, which cluster factories by geographical area, are intended to improve production processes and release any proximity-related organisational synergies.
Secondly, a Global Product Planning function has been established, which reports directly to the Managing Director. This department is responsible for the short, medium and long-term management of the product portfolio and, more specifically, for the allocation of capital investment, the innovation content of products, the value proposition, consistency with brand values, timing, costs and quality.
The Sourcing and Logistics Departments have been combined within the new Supply Chain Department. Finally in this area, the Quality Department now reports directly to the Managing Director, with a wider brief and an increased investment budget.
The Human Resources Department consolidated the PMS (Performance Management System) during 2005, which has been computerised and made available on-line. This system enables employees to set goals agreed with their manager, complete a self as-

sessment and propose a plan for their personal development.
At the same time, work began on the classification of jobs within the Group via a global grading project that, initially, will cover the top 200 positions. The advantages of this grading include more incisive benchmarking against comparable firms, so that career paths can be created that are competitive having regard for market conditions.
With regard to the Group's incentive plans, conditions have been created for a migration from earnings-related incentive systems to value-creation systems. NOCF (Net Operating Cash Flow), together with EBITDA, will be used as the reference parameter for the development of MBO policies in 2006, as well as the long-term incentive plan (L-TIP) for the period 2006-2008.
Lastly, a new approach to communications was established in 2005, partly with a view to improving relations with investors and the financial press. The principal event following this reorganisation was the first-ever presentation of the Indesit Group's three-year plan, covering 2006-2008, to the financial community and the press.

## Sales of household appliances in Europe

The volume of sales of white goods to retailers (industry shipment) declined by 1.6% in Western Europe and by 0.2% in Eastern Europe during 2005, but rose by 6.0% in CIS. Within Western Europe, the performance of the UK market was especially bad (-12.3%).
Prices eased both in Western and Eastern Europe, with reductions of 0.6% and 2.6% respectively.

## Currency markets

The average exchange rate (*) for the euro against the UK pound and the US dollar remained essentially stable during 2005, with respect to 2004, but declined against all the other principal currencies in which Indesit Company works, depreciating by 1.7% against the rouble, by 5.5% against the Turkish pound and by 11.2% against the zloty.

## Significant events during the year and subsequent to year end

In January 2005, following the signing of a commercial joint venture agreement with WLS (Wuxi Little Swan Company, China's leading producer of laundry products), a new company called WUXI Indesit Home Appliances Co. Ltd, was formed in which Indesit Company holds a 70% interest (WLS, 30%). This joint venture has acquired a line of business for the production of dishwashers from WLS. Initial production, which started during the second half of 2005, will mainly be exported.
A further 8% of the share capital of General Domestic Appliances Holdings Ltd was acquired in March 2005, raising the Group's interest in this company to 76%.
The shareholders' meeting of Indesit Company S.p.A. held in May 2005 approved the optional conversion of 2,502,844 non-convertible savings shares into ordinary shares. A total of 1,991,562 shares were converted, representing about 80% of all savings shares.
In September 2005, Indesit Company S.p.A. sold its interest in MPE S.p.A. (33% of share capital) to Fineldo S.p.A. for 11.5 million euro (based on an independent appraisal since this was a related-party transaction), realising a capital gain of 3.8 million euro.
The new warehouse in Lipetzk (Russia) was completed and inaugurated in October 2005, as the logistics hub for product distribution throughout the CIS. The total investment was about 30 million euro.
The closure of the Thionville factory in France was completed during December 2005.
Following negotiations with the social partners concerned, the decision to downsize the Carinaro and Teverola factories was taken in January 2006, with a reduction in employment by about 200 persons. The consequent redundancy agreement will give rise to restructuring costs of about 5.4 million euro in 2006. Similarly, action has been taken to reorganise production at the Kinmel Park, Blythe Bridge, Peterborough and Yate factories in the UK, with the loss of about 300 jobs and total restructuring costs of 4.8 million

(*) Determined with reference to the average monthly rates reported by the Italian Exchange Office.

euro in 2006.
In March 2006, the decision was taken and announced to close access to the defined-benefit pension scheme for UK employees and to start a defined-contribution pension plan for new members.

## Accounting policies and adoption of international financial reporting standards – IFRSs™

The consolidated financial statements of the Indesit Company Group have been prepared in accordance with International Financial Reporting Standards – IFRSs™ (hereafter referred to as either IFRS or IAS) endorsed by the European Union. The financial statements prepared up to 31 December 2004 have been prepared in accordance with Italian accounting standards. Accordingly, the comparative information as of 31 December 2004 has been restated in accordance with the new international accounting standards. See the explanatory notes to the consolidated financial statements for further information including, in particular, paragraph 11 FTA Appendix – First-Time Adoption – Transition to international financial reporting standards (IFRSs™), hereafter referred to as the FTA Appendix.

## Approach taken

All amounts are stated in millions of euro. All comparisons in the remainder of this report and in the consolidated financial statements have been made with respect to information for the prior year (indicated within brackets). Percentages (margins and changes) are determined with reference to amounts stated in thousands of euro. The Group reporting to Indesit Company S.p.A. is hereafter referred to "Indesit Company" or simply the "Group". When the commentary relates to the parent company or individual subsidiaries, their names and legal form are stated in full.

## Summary of consolidated results

The Group's principal economic indicators are reported in the following table.

| **Key operating indicators and statistics** (million euro) | | | | | | |
|---|---|---|---|---|---|---|
| | **2005** | | 2004 | | Change | |
| | **Euro m** | **%** | Euro m | % | Euro m | % |
| Revenue | **3,064.2** | **100.0%** | 3,100.3 | 100.0% | (36.0) | (1.2%) |
| Gross operating profit | **263.7** | **8.6%** | 348.4 | 11.2% | (84.8) | (24.3%) |
| Operating profit | **122.3** | **4.0%** | 198.8 | 6.4% | (76.5) | (38.5%) |
| Profit before taxation | **92.8** | **3.0%** | 159.6 | 5.1% | (66.8) | (41.8%) |
| Group profit | **50.4** | **1.6%** | 101.0 | 3.3% | (50.6) | (50.1%) |

There was a 1.2% reduction in revenue to 3,064.2 million euro (3,100.3 million euro). The sales of finished products decreased by 1.7%, mainly due to the lower volume of finished products sold and, to a lesser extent, to the price/mix effect. Sales of services rose by 7.0%.

The gross operating profit (EBITDA[1]) of 263.7 million euro (348.4 million euro) represents 8.6% (11.2%) of revenue. Apart from the contraction in sales mentioned above, the reduction in EBITDA was mainly due to the significant rise in the cost of the principal raw materials. This was only partially offset by production efficiencies deriving from the reduction in product/process costs, the redistribution of production and "sourcing" activities.

The operating profit (EBIT[2]) of 122.3 million euro (198.8 million euro) represents 4.0% (6.4%) of revenue. In addition to the information provided in relation to EBITDA, the change in EBIT also benefited from the revision in depreciation rates decided in 2005 and described in the explanatory notes.

Profit before taxation (PBT) was 92.8 million euro (159.6 million euro) in 2005, representing 3.0% (5.1%) of revenue. The reduction in PBT, due to the effects described above, benefited from the decrease in net financial charges, which were offset by greater exchange gains and smaller write-downs of associates.

Total net profit was 50.4 million euro (101.0 million euro). The tax charge for 2005 was 42.4 million euro (58.6 million euro). The effective tax rate for 2005 was 45.7% (36.7%). This increase was principally due to the higher incidence of taxes (including IRAP) that are not directly proportional to the results for the year, and to the losses incurred by companies operating abroad for which the related deferred tax assets have not been recorded.

1. EBITDA: operating margin reported in the income statement, stated gross of depreciation and amortisation.

2. EBIT: operating margin reported in the consolidated income statement.

## Results by geographical area

| Information by geographical area (million euro) | Revenue | | | Segment result | | | % sales | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2005** | 2004 | Change | **2005** | 2004 | Change | **2005** | 2004 | Change |
| Western Europe | **1,922.4** | 1,998.1 | (75.8) | **109.7** | 141.5 | (31.8) | **5.7%** | 7.1% | (1.4%) |
| Eastern Europe | **943.5** | 886.7 | 56.9 | **158.9** | 171.4 | (12.5) | **16.8%** | 19.3% | (2.5%) |
| Other areas | **198.3** | 215.5 | (17.1) | **20.7** | 29.3 | (8.6) | **10.4%** | 13.6% | (3.2%) |
| **Total** | **3,064.2** | **3,100.3** | **(36.0)** | **289.3** | **342.2** | **(52.8)** | **9.4%** | **11.0%** | **(1.6%)** |

Sales in Western Europe fell by 3.8% in 2005. There was a 4.1% reduction in the sales of finished products. The performance of the British market was especially poor, with an overall contraction of 12.3%. The results of Indesit Company were satisfactory in this context, with a drop in sales of 8.8%. Elsewhere in Western Europe, the Italian and French markets performed well with a return to sales growth. The results of the segment fell from 7.1% to 5.7% of sales.
Sales in Eastern Europe rose by 6.4% in 2005. There was an 8.2% rise in the sales of finished products. This growth, particularly concentrated in the last quarter of the year, was achieved due to both the excellent performance of the CIS and the turnaround in the other Eastern European markets which, following the retrenchment of sales during the first half of 2005, achieved a significant increase in the last quarter of 2005. Continuing strong competitive pressure on prices in this area is squeezing margins which, however, remain above average.

## Summary of the consolidated financial position

| Key information and financial indicators (million euro) | **31/12/2005** | 01/01/2005 | 31/12/2004 | **31/12/2005** |
|---|---|---|---|---|
| Trade receivables | **555.2** | 625.8 | 511.5 | **552.2** |
| Inventories | **342.8** | 330.5 | 330.5 | **377.7** |
| Trade payables | **(820.3)** | (863.4) | (863.4) | **(783.3)** |
| **Net working capital** | **77.7** | **92.9** | **(21.4)** | **149.5** |
| Non-current operating assets | **1,269.3** | 1,233.0 | 1,202.6 | **1,197.8** |
| Other current assets and liabilities and non-current liabilities | **(310.5)** | (369.8) | (360.1) | **(265.3)** |
| **Net invested capital** | **1,036.6** | **956.1** | **821.2** | **1,082.0** |
| Net financial indebtedness | **517.5** | 512.0 | 211.0 | **517.5** |
| Equity attributable to the Group | **504.6** | 433.2 | 472.4 | **480.8** |
| Minority interests | **14.4** | 10.9 | 137.8 | **15.5** |
| **Equity and financial liabilities** | **1,036.6** | **956.1** | **821.2** | **1,013.8** |
| **Cash flows from operating activities** | **191.8** | **n.a.** | **226.9** | **(142.0)** |
| Net working capital / Sales (12 months) | **2.5%** | 3.0% | n.a. | **n.a.** |
| Net financial indebtedness / equity | **1.0** | 1.2 | n.a. | **1.0** |

Cash flows from operating activities, before investment, during the year from 1 January 2005 to 31 December 2005 was 191.8 million euro (226.9 million euro). The decrease was principally due to the decline in gross operating profit described above, although this effect was contained by a reduction in net working capital from 3.0% of sales at 1 January 2005 to 2.5% of sales at 31 December 2005. The above comparisons have been made with respect to 1 January 2005 since the balances at 31 December 2004 are not directly comparable due to the effect of applying IAS 32 and IAS 39 from 1 January 2005,

with a significant effect on both the net financial position and net working capital. These effects are detailed in the FTA Appendix presented in paragraph 11 of the notes to the financial statements.
Cash flows from operating activities resulted in the self financing of capital investment and dividend payments, so that the net financial position is essentially unchanged.

**Intercompany and related-party transactions**

Transactions between Group companies are settled on arms'-length terms, having regard for the quality of the goods and services provided. Paragraph 10 of the notes to the consolidated financial statements describes the nature of the principal transactions arranged by the parent and other Group companies with related parties including, in particular, associates and parent companies and subsidiaries controlled by these latter. This section also contains the detailed information required by IAS 24.
Further information on the procedures adopted by the Group with regard to significant related-party transactions can be found in the Corporate Governance report of Indesit Company S.p.A. (posted on the Company's website).

## Information on Company bodies

Directors and officers are listed below.

### Board of Directors

| | | |
|---|---|---|
| *Chairman* | Vittorio Merloni | |
| *Managing Director* | Marco Milani | |
| *Directors* | Innocenzo Cipolletta<br>Adriano De Maio<br>Alberto Fresco<br>Mario Greco<br>Carl H. Hahn<br>Hugh Malim | Andrea Merloni<br>Antonella Merloni<br>Ester Merloni<br>Luca Cordero di Montezemolo<br>Roberto Ruozi |

### Board of Statutory Auditors

| | |
|---|---|
| *Chairman* | Angelo Casò |
| *Auditors* | Demetrio Minuto<br>Paolo Omodeo Salè |
| *Alternate Auditors* | Maurizio Paternò di Montecupo<br>Serenella Rossano |

### Human Resources Committee

| | | |
|---|---|---|
| *Chairman* | Alberto Fresco | |
| | Mario Greco<br>Carl H. Hahn | Marco Milani |

### Audit Committee

| | | |
|---|---|---|
| *Chairman* | Roberto Ruozi | |
| | Innocenzo Cipolletta<br>Hugh Malim | Vittorio Merloni |

### Innovation and Technology Committee

| | | |
|---|---|---|
| *Chairman* | Adriano De Maio | |
| *Members who are directors* | Andrea Merloni<br>Vittorio Merloni<br>Marco Milani | |
| *Members who are not directors* | Valerio Aisa<br>Enrico Cola<br>Silvio Corrias<br>Marco Iansiti<br>Adriano Mencarini | Davide Milone<br>Pasquale Pistorio<br>Massimo Rosini<br>Giuseppe Salvucci<br>Andrea Uncini *(Secretary)* |

### Representative of the savings shareholders

Adriano Gandola

### Independent Auditory

KPMG S.p.A.

The remuneration of the Directors comprises attendance fees of 10,000 euro for each Board meeting and 5,000 euro for each Committee meeting.
The remuneration of the Chairman is fixed at 20,000 euro for each Board meeting and 5,000 euro for each Committee meeting.
The remuneration of the Board of Statutory Auditors totals 140,000 euro, of which 60,000 euro for the Chairman and 40,000 euro for each of the Auditors standing.
Further information is provided in the Attachments to this report.

## Information on stock option plans

The stock option plans are described in the notes to the consolidated financial statements (paragraph 8.33), which describes the plans and provides the information required by law and the relevant Consob communications.

## Corporate Governance

The system of Corporate Governance adopted by Indesit Company is consistent with the principles established in the version of the "Code of Conduct for Listed Companies" issued in July 2002 (hereafter, the "Code"), and with international best practice. On 23 March 2006, the Board of Directors approved the Annual Report on Corporate Governance, which provides a complete description of the governance model adopted by the Company and reports on the implementation of the Code.
The Parent Company has adopted the ordinary model of administration and control (envisaged under Italy law), with the presence of a Board of Directors, a Board of Statutory Auditors and Independent Auditor. The Directors and officers are appointed at the Shareholders' Meeting and remain in office for a period of three years. The significant presence of Independent Directors, as defined in the Code, and the important role they play on both the Board and Board Committees (Human Resources Committee, Audit Committee and Innovation and Technology Committee), ensures that the interests of all shareholders are appropriately balanced and guarantees a high level of discussion at Board meetings.
Further information is available in the Annual Report on Corporate Governance and in the attachments to this report. Borsa Italiana has recently approved the New Code of Conduct and the Group is currently assessing the principal effects this will have on the system of Corporate Governance.

## WEEE and RoHS Directives

The European Union adopted the WEEE (Waste Electrical and Electronic Equipment) Directive in December 2002, which makes manufacturers responsible at a European level for the recovery and disposal of waste products.
The Directive describes the following levels of responsibility.

### Old waste (regarding products put on the market before 13 August 2005)

The costs of disposal are paid for by one or more systems financed proportionally (e.g. based on market share) by all the manufacturers present on the market at the time such costs are incurred. This approach identifies the collective responsibility of the manufacturers and the regulations establish, for a transitional period of 10 years from the time the Directive comes into force, that consumers may be informed at the time of sale about the collection, processing and disposal costs (the visible fee), where envisaged by local legislation.

### New waste (regarding products put on the market after 13 August 2005)

Each manufacturer is responsible for financing the collection, processing, recovery and disposal of the waste deriving from its products. The manufacturer may elect to fulfill this obligation directly or by joining a collective system. The Directive also requires manufacturers to provide adequate guarantees (e.g. by participating in suitable management systems, insurance etc.) to cover disposal costs relating to producers that are no longer present on the market. In this case, the Directive forbids the separate indication to the consumer of the visible fee.

Based on these instructions, the costs of disposal under the old waste regime must be covered by the visible fee, while operation of the new waste regime requires provisions to be recorded to cover the future disposal costs of products put on the market after 13 August 2005.

At this time, certain major EU nations (principally the United Kingdom, in terms of Group operations) have not yet completed the process of adopting these EU regulations. Other nations have adopted them, establishing transition periods of, typically, one or two years during which these regulations will not be effective (principally Italy and Poland).

The European Council and Parliament also adopted Directive 2002/95/EC (known as the RoHS – Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Directive) in December 2002. This Directive states that new electrical and electronic equipment put on the market from 1 July 2006 must not contain any certain polluting materials. Indesit Company has acted to ensure compliance with this Directive by informing all suppliers that components which are not compliant with RoHS will not be accepted from July 2005; work to schedule the phase-out of non-compliant production is currently in progress. No problems have emerged regarding the realisable value of inventories at 31 December 2005.

### Treasury shares and shares in the parent company

Indesit Company S.p.A. did not acquire or sell any treasury shares or shares in the parent company during the year, whether directly or via intermediaries. Information about the own shares held by Indesit Company is provided in the notes to the financial statements of that company.

### Financial instruments

Information on the policies adopted for the management of financial risks is provided in paragraph 9 of these notes.

### Forecast for operations

The easing of the upward pressure on the prices for certain raw materials, signs of recovery in a number of markets, especially in Eastern Europe from the last part of 2005, and the healthy results achieved by the Group during the second half of the year provide the grounds for refound optimism concerning 2006. The first part of the three-year plan announced at the end of 2005 will be implemented during 2006, with important actions in both the industrial and commercial arenas. The Group has great faith in the new products due to be launched: not least, the presentation throughout Europe of the new "Aqualtis" washing machines, as well as the new Scholtès range of built-in products. The investment in new products will be increased.
Despite expectations of a further, albeit contained, contraction of the UK market, the Group believes that volumes, sales and profitability will all grow in 2006.

23 March 2006

for the Board of Directors
The Chairman
**Vittorio Merloni**

# attachments to the report on operations

**Attachment 1. Investments held by Directors, Statutory Auditors and General Managers – 31/12/2005**

| **Name and surname** | Company held | Nature of holding | Number of shares held at the end of the prior year | Number of shares acquired | Number of shares sold | Number of shares held at the end of the current year | Notes |
|---|---|---|---|---|---|---|---|
| **Vittorio Merloni** | Indesit Company S.p.A. – ordinary shares | held in trust by Sirefid S.p.A. | 698,300 | – | 698,300 | – | 2 |
| | | direct | – | 1,698,300 | – | 1,698,300 | 1, 2 |
| | | indirect via Fineldo S.p.A. | 43,957,969 | 50,060 | 6,000 | 44,002,029 | |
| | | indirect via Merloni Progetti S.p.A. | 416,787 | – | 259,000 | 157,787 | |
| | | indirect via Merloni Progetti Int. S.A. | 934,995 | – | – | 934,995 | |
| | | indirect via Indesit Company S.p.A., own shares without voting rights at general meetings | 11,039,750 | – | – | 11,039,750 | |
| | | via Franca Carloni, wife, held in trust by Sirefid S.p.A. | 254,840 | – | 254,840 | – | 2 |
| | | via Franca Carloni, wife | – | 254,840 | – | 254,840 | 2 |
| | Indesit Company S.p.A. – savings shares | indirect via Fineldo S.p.A. | 50,060 | – | 50,060 | – | |
| | Indesit Company France S.A. | direct | 1 | – | – | 1 | |
| **Ester Merloni** | Indesit Company S.p.A. – ordinary shares | indirect via Fines S.p.A. | 7,415,190 | – | – | 7,415,190 | |
| | | direct | 5,042,400 | – | – | 5,042,400 | |
| **Andrea Merloni** | Indesit Company S.p.A. – ordinary shares | held in trust by Sirefid S.p.A. | 254,840 | – | 254,840 | – | 2 |
| | | direct | 795 | 254,840 | – | 255,635 | 2 |
| **Antonella Merloni** | Indesit Company S.p.A. – ordinary shares | held in trust by Sirefid S.p.A. | 254,840 | – | 254,840 | – | 2 |
| | | direct | 5,490 | 258,840 | – | 264,330 | 2 |
| **Carl H. Hahn** | Indesit Company S.p.A. – ordinary shares | direct | – | 100,000 | 100,000 | – | 1 |
| **Andrea Sasso** | Indesit Company S.p.A. – ordinary shares | direct | – | 10,000 | 10,000 | – | 1 |

1. The changes in 2005 derive from the exercise of stock options plans.
2. The shares held in trust by Sirefid S.p.A. became directly owned during 2005.

**Attachment 2. List of positions held by Directors of Indesit Company S.p.A. in other listed companies, finance companies, banks, insurance companies and other large companies**

| Director | Position | Company |
|---|---|---|
| **Vittorio Merloni** | Chairman | Fineldo S.p.A. |
| **Innocenzo Cipolletta** | Chairman | UBS Corporate Finance S.p.A.<br>Il Sole 24 ore |
| | Director | Biesse S.p.A.<br>Ericsson Italia S.p.A. |
| **Adriano De Maio** | Chairman | Dike Aedifica S.p.A. |
| | Director | Saes Getters S.p.A.<br>Telecom Italia Media S.p.A.<br>TXT e-solution S.p.A. |
| **Alberto Fresco** | Director | Ca.Ri.Ge. Assicurazioni S.p.A. |
| **Carl H. Hahn** | Director | Hawesko Holding AG<br>Perot Systems Corporation |
| **Mario Greco** | Managing Director | Assicurazioni Internazionali di Previdenza (AIP) S.p.A.<br>Eurizon Financial Group S.p.A. |
| | Director | Fideuram S.p.A.<br>Fastweb S.p.A. |
| **Hugh Malim** | Chairman | Barclays Financial Services Italia S.p.A.<br>Iveco Finanziaria S.p.A. |
| | Deputy Chairman | Barclays Private Equity S.p.A. |
| | Managing Director | Barclays Capital/Investment Banking |
| | Director | Gabetti Holding S.p.A. |
| **Andrea Merloni** | Director | Fineldo S.p.A. |
| **Antonella Merloni** | Chairman | Faber Factor S.p.A. |
| | Director | Fineldo S.p.A. |
| **Ester Merloni** | Sole Director | Fines S.p.A. |
| | Director | Fineldo S.p.A.<br>MerloniTermoSanitari S.p.A. |
| **Luca Cordero di Montezemolo** | Chairman and Managing Director | Ferrari S.p.A. |
| | Chairman | Fiat S.p.A. |
| | Director | Tod's S.p.A.<br>PPR-Pinault/Printemps Redoute<br>Le Monde |
| **Roberto Ruozi** | Chairman | Palladio Finanziaria S.p.A.<br>Retelit S.p.A.<br>Polis Fondi SGR S.p.A.<br>AXA Interlife S.p.A.<br>AXA Assicurazioni S.p.A.<br>AXA Sim S.p.A.<br>UAP VITA S.p.A.<br>Mediolanum S.p.A. |
| | Director | Mediaset S.p.A.<br>Gewiss S.p.A.<br>Data Service S.p.A.<br>L'Oréal Italia S.p.A.<br>Air Liquide S.p.A.<br>Finanziaria F.lli Cerruti S.p.A.<br>Cinefund S.A.<br>Efibanca S.p.A.<br>Convergenza S.A. |
| | Chairman of the Board of Statutory Auditors | Borsa Italiana S.p.A.<br>Monte Titoli S.p.A. |

## Attachment 3. Composition of the Board of Directors and Committees

| Board of Directors | | | | | | | Audit Committee[1] | | Human Resources Committee | | Innovation and Technology Committee | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Position | Member | Executive | Non-executive | Independent | *** | Number of other positions * | ** | *** | ** | *** | ** | *** |
| Chairman | Merloni Vittorio | • | | | 100% | 1 | • | 100% | | | • | 100% |
| Managing Director | Milani Marco | • | | | 100% | – | | | • | 100% | • | 100% |
| Director | Cipolletta Innocenzo | | • | • | 80% | 4 | • | 33% | | | | |
| Director | De Maio Adriano | | • | • | 80% | 4 | | | | | • | 100% |
| Director | Fresco Alberto | | • | • | 100% | 1 | | | • | 100% | | |
| Director | Greco Mario | | • | • | 80% | 4 | | | • | 100% | | |
| Director | Hahn Carl H. | | • | • | 80% | 2 | | | • | 100% | | |
| Director | Malim Hugh | | • | • | 100% | 5 | • | 100% | | | | |
| Director | Merloni Andrea | | • | | 100% | 1 | | | | | • | 100% |
| Director | Merloni Antonella | | • | | 100% | 2 | | | | | | |
| Director | Merloni Ester | | • | | 80% | 3 | | | | | | |
| Director | Montezemolo Luca Cordero | | • | • | 20% | 5 | | | | | | |
| Director | Ruozi Roberto | | • | • | 80% | 19 | • | 66% | | | | |

| | | | | |
|---|---|---|---|---|
| Number of meetings held during the year | Board: 5 | Audit Committee: 3 | Human Resources Committee: 4 | Innovation and Technology Committee: 2 |

1. Summary of the reasons why the composition differs from the Code recommendations: although the Chairman is an Executive Director, he is on the Committee due to its focus on identifying the business risks associated with operations. His participation provides assurance for all stakeholders.
* This column indicates the number of directorships or positions as Statutory Auditor held by the person concerned in other companies listed in Italian and foreign regulated markets, finance companies, banks, insurance companies and other large companies. These appointments are listed in detail in attachment 2.
** This column marks with a "•" the Director's membership of the Committee.
*** This column indicates in percentage terms the attendance of the Directors at Board and Committee meetings.

## Attachment 4. Composition of the Board of Statutory Auditors

| Position | Member | Percentage attendance at Board meetings | Number of other positions** |
|---|---|---|---|
| Chairman | Casò Angelo | 88% | 4 |
| Auditor * | Minuto Demetrio | 88% | – |
| Auditor | Salè Paolo Omodeo | 88% | – |
| Alternate Auditor | Rossano Serenella | | |
| Alternate Auditor * | Paternò di Montecupo Maurizio | | |

| | |
|---|---|
| Number of meetings held during the year: 8 | Quorum required for the presentation by minority shareholders of lists for the election of one or more standing Auditors (pursuant to art. 148 of the consolidated finance law): 2% |

*The asterisk indicates if the Auditor was appointed from lists presented by minority shareholders

** This column indicates the number of directorships or positions as Statutory Auditor held by the person concerned in other companies listed in Italian regulated markets.

| Attachment 5. Other recommendations contained in the Code of Self-Regulation | YES | NO |
| --- | --- | --- |
| **Delegations of powers and transactions with related parties** | | |
| Has the Board delegated powers, establishing: | | |
| a) limits | • | |
| b) how they should be exercised | • | |
| c) and periodic reporting? | • | |
| Has the Board reserved the power to examine and approve significant economic and financial transactions (including transactions with related parties)? | • | |
| Has the Board established guidelines and criteria for identifying "significant" transactions? | • | |
| Are these guidelines and criteria described in the report on Corporate Governance? | • | |
| Has the Board established specific procedures for examining and approving transactions with related parties? | • | |
| Are the procedures for the approval of related-party transactions described in the report on Corporate Governance? | • | |
| **Procedures adopted on the most recent appointment of Directors and Statutory Auditors** | | |
| Were the nominations for the position of Director presented at least 10 days beforehand? | • | |
| Were the nominations for the position of Director accompanied by full information? | • | |
| Were the nominations for the position of Director accompanied by information on suitability as an Independent Director? | • | |
| Were the nominations for the position of Statutory Auditor presented at least 10 days beforehand? | • | |
| Were the nominations for the position of Statutory Auditor accompanied by full information? | • | |
| **Shareholders' Meetings** | | |
| Has the Company approved Meeting Regulations? | • | |
| Are the Regulations attached to the report (or is it stated where to obtain/download them)? | • | |
| **Internal control** | | |
| Has the Company appointed internal audit managers?[1] | • | |
| Are these managers independent, in reporting terms, of the managers of operational areas? | • | |
| **Investor relations** | | |
| Has the Company appointed an investor relations manager?[2] | • | |

1. The Internal Audit Manager (art. 9.3 of the Code) is the Group Chief Internal Auditor.

2. Investor Relations Officer: Elisabetta Vilizzi – Viale Certosa 247 – 20151 Milan investor.relations@indesitcompany.com

## Attachment 6. Remuneration paid to Directors, Statutory Auditors and General Managers in 2005

| Name and surname | Position | Period in office during the year | Duration of mandate | Remunerations for position in company preparing the financial statements | Non-cash benefits | Bonuses and other incentives | Other remuneration | Notes |
|---|---|---|---|---|---|---|---|---|
| Vittorio Merloni | Chairman of the Board | 01/01/2005–31/12/2005 | 2006 financial statements | 1,030,000.00 | | _ | 90,000.00 | 1 |
| Marco Milani | Managing Director | 01/01/2005–31/12/2005 | 2006 financial statements | 480,000.00 | 5,172.02 | _ | 440,732.98 | 2 |
| Innocenzo Cipolletta | Board Director | 01/01/2005–31/12/2005 | 2006 financial statements | 50,000.00 | | _ | | |
| Luca Cordero di Montezemolo | Board Director | 01/01/2005–31/12/2005 | 2006 financial statements | 20,000.00 | | _ | | |
| Adriano De Maio | Board Director | 01/01/2005–31/12/2005 | 2006 financial statements | 50,000.00 | | _ | | |
| Alberto Fresco | Board Director | 01/01/2005–31/12/2005 | 2006 financial statements | 70,000.00 | | _ | | |
| Mario Greco | Board Director | 01/01/2005–31/12/2005 | 2006 financial statements | 60,000.00 | | _ | | |
| Carl H. Hahn | Board Director | 01/01/2005–31/12/2005 | 2006 financial statements | 60,000.00 | | _ | 4,740.72 | 3 |
| Hugh Charles Blagden Malin | Board Director | 01/01/2005–31/12/2005 | 2006 financial statements | 70,000.00 | | _ | | |
| Andrea Merloni | Board Director | 01/01/2005–31/12/2005 | 2006 financial statements | 60,000.00 | | _ | 80,000.00 | 4 |
| Antonella Merloni | Board Director | 01/01/2005–31/12/2005 | 2006 financial statements | 50,000.00 | | _ | | |
| Ester Merloni | Board Director | 01/01/2005–31/12/2005 | 2006 financial statements | 40,000.00 | | _ | | |
| Roberto Ruozi | Board Director | 01/01/2005–31/12/2005 | 2006 financial statements | 55,000.00 | | _ | | |
| Angelo Casò | Chairman of the Board of Statutory Auditors | 01/01/2005–31/12/2005 | 2007 financial statements | 58,638.32 | | _ | 2,764.42 | 3 |
| Demetrio Minuto | Auditor | 01/01/2005–31/12/2005 | 2007 financial statements | 37,838.32 | | _ | 2,853.36 | 3 |
| Paolo Omodeo Salè | Auditor | 01/01/2005–31/12/2005 | 2007 financial statements | 37,838.32 | | _ | 1,560.00 | 3 |
| Giovanni Carlino | General Manager | 01/01/2005–30/05/2005 | Resigned in 2005 | | 1,410.00 | _ | 1,053,059.00 | 5 |
| Andrea Sasso | General Manager | 01/01/2005–31/12/2005 | Indefinite | | 11,616.19 | _ | 459,191.81 | 2 |

1. Flat payment to cover expenses.
2. Remuneration as an executive of Indesit Company.
3. Reimbursement of expenses.
4. Remuneration as Chairman of the Board of Directors of WRAP S.p.A.
5. Remuneration as an executive of Indesit Company, including termination indemnity.

# consolidated financial statements

**Consolidated income statement for the year ended 31/12/2005** (million euro)

| | Note | **31/12/2005** | 31/12/2004 |
|---|---|---|---|
| Revenue | 8.1 | **3,064.2** | 3,100.3 |
| Cost of sales | 8.2 | **(2,311.1)** | (2,249.5) |
| Selling and distribution expenses | 8.3 | **(493.5)** | (507.8) |
| General and administrative expenses | 8.4 | **(143.9)** | (147.8) |
| Other income | 8.5 | **7.6** | 8.8 |
| Other expenses | 8.6 | **(1.1)** | (5.3) |
| **Operating profit** | **8.7** | **122.3** | **198.8** |
| Net financial expenses | 8.8 | **(29.3)** | (33.9) |
| Share of profit (losses) of associates | 8.9 | **(0.1)** | (5.4) |
| **Profit before tax** | | **92.8** | **159.6** |
| Income tax expenses | 8.10 | **(42.4)** | (58.6) |
| **Profit for the year** | | **50.4** | **101.0** |
| of which: | | | |
| Attributable to minority interests | 8.11 | **(0.3)** | 0.9 |
| Attributable to the Group | | **50.7** | 100.0 |
| | | | |
| **Basic earnings per share** (euro) | 8.23 | **0.50** | **1.00** |
| **Diluted earnings per share** (euro) | 8.23 | **0.50** | **0.98** |

**Consolidated balance sheet as of 31/12/2005** (million euro)

| | Note | **31/12/2005** | 01/01/2005 | 31/12/2004 |
|---|---|---|---|---|
| **Assets** | | | | |
| Property, plant and equipment | 8.12 | **776.9** | 746.1 | 746.1 |
| Goodwill and other intangible assets with an indefinite useful life | 8.13 | **318.9** | 310.9 | 247.6 |
| Other intangible assets with a finite life | 8.14 | **106.7** | 99.1 | 99.1 |
| Investments in associates | 8.15 | **21.7** | 26.6 | 26.6 |
| Other investments | 8.16 | **2.3** | 4.5 | 37.5 |
| Deferred tax assets | 8.17 | **42.9** | 45.8 | 45.8 |
| Other non-current financial assets | 8.25 | **89.3** | 74.4 | 72.7 |
| **Total non-current assets** | | **1,358.7** | **1,307.4** | **1,275.4** |
| Inventories | 8.18 | **342.8** | 330.5 | 330.5 |
| Trade receivables | 8.19 | **555.2** | 625.8 | 511.5 |
| Current financial assets | 8.25 | **6.7** | 9.8 | 33.2 |
| Tax receivables | 8.20 | **66.2** | 44.3 | 44.3 |
| Other receivables and current assets | 8.21 | **31.0** | 28.7 | 31.2 |
| Cash and cash equivalents | 8.25 | **199.7** | 212.2 | 212.2 |
| Assets held for sale | 8.22 | **5.9** | – | – |
| **Total current assets** | | **1,207.4** | **1,251.2** | **1,162.8** |
| **Total assets** | | **2,566.1** | 2,558.6 | 2,438.2 |
| **Equity** | | | | |
| Share capital | | **92.2** | 91.1 | 101.0 |
| Reserves | | **259.2** | 164.7 | 187.8 |
| Retained earnings | | **102.5** | 77.3 | 83.5 |
| Profit attributable to the Group | | **50.7** | 100.0 | 100.0 |
| **Equity attributable to the Group** | 8.23 | **504.6** | **433.2** | **472.4** |
| Minority interests | 8.24 | **14.4** | 10.9 | 137.8 |
| **Total equity** | | **519.1** | 444.1 | 610.1 |
| **Liabilities** | | | | |
| Medium and long-term interest-bearing loans and borrowings | 8.25 | **494.1** | 521.1 | 396.0 |
| Employee benefits | 8.26 | **108.6** | 109.8 | 109.8 |
| Provisions for risks and charges | 8.27 | **42.2** | 39.6 | 39.6 |
| Deferred tax liabilities | 8.28 | **73.2** | 91.2 | 86.0 |
| Other non-current liabilities | 8.29 | **27.0** | 20.9 | 20.9 |
| **Total non-current liabilities** | | **745.2** | **782.7** | **652.4** |
| Banks and other financial payables | 8.25 | **319.1** | 287.3 | 133.2 |
| Provisions for risks and charges | 8.27 | **26.6** | 29.9 | 29.9 |
| Trade payables | 8.30 | **820.3** | 863.4 | 863.4 |
| Tax payables | 8.31 | **57.7** | 65.6 | 65.6 |
| Other payables | 8.32 | **78.2** | 85.6 | 83.6 |
| **Total current liabilities** | | **1,301.8** | **1,331.9** | **1,175.7** |
| **Total liabilities** | | **2,047.0** | **2,114.5** | **1,828.1** |
| **Total equity and liabilities** | | **2,566.1** | 2,558.6 | 2,438.2 |

| **Statement of consolidated cash flows for the year ended 31/12/2005** (million euro) | Note | **31/12/2005** | 31/12/2004 |
|---|---|---|---|
| Total profit | | **50.4** | 101.0 |
| Income taxes | | **42.4** | 58.6 |
| Depreciation and amortisation | | **141.4** | 149.6 |
| Other non-monetary income and expenses, net | | **41.6** | 31.6 |
| Change in trade receivables | | **70.7** | (24.0) |
| Change in inventories | | **(12.3)** | (46.9) |
| Change in trade payables | | **(23.8)** | 47.7 |
| Change in other assets and liabilities | | **(34.7)** | (10.3) |
| Income taxes | | **(57.2)** | (61.5) |
| Interest paid | | **(32.6)** | (25.1) |
| Interest received | | **5.9** | 6.3 |
| **Cash flows from operating activities** | | **191.8** | **226.9** |
| Acquisition of property, plant and equipment | 8.34 | **(142.1)** | (123.0) |
| Proceeds from sale of property, plant and equipment | | **3.5** | 0.6 |
| Acquisition of intangible assets | | **(34.7)** | (38.7) |
| Disposal of intangible assets | | **–** | – |
| Goodwill paid | 8.35 | **–** | (52.9) |
| Proceeds from sale of non-current financial assets | 8.36 | **11.4** | 4.2 |
| Acquisition of non-current financial and other investments | 8.37 | **(4.9)** | (9.3) |
| **Cash flows from (used in) investing activities** | | **(166.8)** | **(219.1)** |
| Proceeds from share capital increases | 8.38 | **6.3** | 7.4 |
| Dividends paid | | **(36.7)** | (36.2) |
| New medium/long-term payables | | **12.0** | 304.8 |
| Prepayment of borrowing for acquisition of GDAH | 8.35 | **(48.7)** | – |
| Other repayments of medium/long-term financial payables | | **(29.1)** | (150.0) |
| Change in current financial payables | | **58.8** | (295.2) |
| **Cash flows from (used in) financing activities** | | **(37.4)** | **(169.1)** |
| **Net cash flows** | | **(12.5)** | **(161.3)** |
| Cash and cash equivalents, start of year | | **212.2** | 373.5 |
| Cash and cash equivalents, end of year | | **199.7** | 212.2 |
| **Total change in cash and cash equivalents** | | **(12.5)** | **(161.3)** |

## Statement of changes in consolidated equity for the year ended 31/12/2005 (million euro)

| | Balances as of 31/12/2004 under IFRS | Total effects of IAS 32 and IAS 39 | Balances as of 01/01/2005 | Measurement of derivatives | Measurement of stock options | Total direct effects on equity | Allocation of profit for the year | Changes in scope of consolidation | Translation of foreign currency financial statements | Profit for the year | Payment of dividends | Exercise of stock options | Total effect of transactions with shareholders | **Balances as of 31/12/2005** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Share capital | 101.0 | (9.9) | 91.1 | – | – | – | – | – | – | – | – | 1.1 | 1.1 | **92.2** |
| Share premium reserve | 26.1 | – | 26.1 | – | – | – | – | – | – | – | – | 5.2 | 5.2 | **31.3** |
| Legal reserve | 11.6 | – | 11.6 | – | – | – | 3.7 | – | – | – | – | – | – | **15.3** |
| Translation reserve | 6.6 | 0.3 | 6.9 | – | – | – | – | – | 48.8 | – | – | – | – | **55.7** |
| Other reserves | 143.5 | (23.4) | 120.1 | 0.4 | 2.0 | 2.4 | 34.4 | – | – | – | – | – | – | **156.9** |
| Retained earnings | 83.5 | (6.2) | 77.3 | – | – | – | 61.9 | – | – | – | (36.7) | – | (36.7) | **102.5** |
| Profit attributable to the Group | 100.0 | – | 100.0 | – | – | – | (100.0) | – | – | 50.7 | – | – | – | **50.7** |
| **Equity attributable to the Group** | **472.4** | **(39.2)** | **433.2** | **0.4** | **2.0** | **2.4** | **(0.0)** | **–** | **48.8** | **50.7** | **(36.7)** | **6.3** | **(30.3)** | **504.6** |
| Minority interests | 137.8 | (126.9) | 10.9 | – | – | – | – | 3.2 | 0.6 | (0.3) | – | – | – | **14.4** |
| **Total equity** | **610.1** | **(166.1)** | **444.1** | **0.4** | **2.0** | **2.4** | **(0.0)** | **3.2** | **49.4** | **50.4** | **(36.7)** | **6.3** | **(30.3)** | **519.1** |

## Statement of changes in consolidated equity for the year ended 31/12/2004 (million euro)

| | Balances as of 31/12/2003 under Italian GAAP | Balances as of 01/01/2004 under IFRS | Measurement of derivatives | Measurement of stock options | Total direct effects on equity | Allocation of profit for the year | Minority interests acquired by the Group | Translation of foreign currency financial statements | Other changes | Profit for the year | Payment of dividends | Exercise of stock options | Total effect of transactions with shareholders | **Balances as of 31/12/2004** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Share capital | 99.9 | 99.9 | – | – | – | – | – | – | – | – | – | 1.2 | 1.2 | **101.0** |
| Share premium reserve | 20.7 | 20.7 | – | – | – | – | – | – | – | – | – | 5.4 | 5.4 | **26.1** |
| Legal reserve | 9.6 | 9.6 | – | – | – | 2.0 | – | – | – | – | – | – | – | **11.6** |
| Translation reserve | (54.9) | – | – | – | – | – | – | 6.6 | – | – | – | – | – | **6.6** |
| Other reserves | 128.9 | 128.7 | – | 1.2 | 1.2 | 1.4 | – | – | 12.2 | – | – | – | – | **143.5** |
| Retained earnings | 157.0 | 11.6 | – | – | – | 117.0 | – | – | (8.9) | – | (36.2) | – | (36.2) | **83.5** |
| Profit attributable to the Group | 120.3 | 120.3 | – | – | – | (120.3) | – | – | – | 100.0 | – | – | – | **100.0** |
| **Equity attributable to the Group** | **481.4** | **390.8** | **–** | **1.2** | **1.2** | **–** | **–** | **6.6** | **3.3** | **100.0** | **(36.2)** | **6.5** | **(29.6)** | **472.4** |
| Minority interests | 35.9 | 166.5 | – | – | – | – | (29.5) | (0.1) | – | 0.9 | – | – | – | **137.8** |
| **Total equity** | **517.3** | **557.3** | **–** | **1.2** | **1.2** | **–** | **(29.5)** | **6.5** | **3.3** | **101.0** | **(36.2)** | **6.5** | **(29.6)** | **610.1** |

# explanatory notes

1. Group structure and activities
2. Approval of the consolidated financial statements at 31 December 2005
3. Subsequent events
4. Statement of compliance with IFRS™ and transition to IFRS™
5. Changes in accounting policies, changes in accounting estimates and reclassifications
6. Changes in the scope of consolidation
7. Segment reporting
8. Notes to the consolidated income statement, balance sheet and statement of cash flows
9. Financial instruments
10. Disclosure required by IAS 24 on the remuneration of management and on the related parties
11. FTA Appendix – First-Time Adoption – Transition to international financial reporting standards (IFRS™)

# 1. Group structure and activities

Indesit Company is a Group led by Indesit Company S.p.A., an Italian company based in Fabriano (near Ancona), which is active in the production and sale of white goods, namely household appliances for the cooking sector (cookers, ovens and hobs), the refrigeration sector (refrigerators and freezers), the laundry sector (washing machines, dryers and combined washer-dryers) and the dishwashing sector.
The Group operates mainly in Western and Eastern Europe, Turkey and Russia with 18 factories.
The primary and secondary segments of reporting, as defined by IAS 14, are represented respectively by the geographical segment (Western Europe, Eastern Europe and Other nations) and by the cooking, refrigeration, laundry and dishwasher business segment.
The household appliances sector is highly seasonal, which affects all the main economic and financial parameters. The reporting by business segment required by IAS 14 is provided later in this report.

# 2. Approval of the consolidated financial statements at 31 December 2005

The consolidated financial statements at 31 December 2005 were approved by the Board of Directors on 23 March 2006 and have been audited.

# 3. Subsequent events

Following negotiations with the social partners concerned, the decision to downsize the Carinaro and Teverola factories was taken in January 2006, with a reduction in employment by about 200 persons. The consequent redundancy agreement will give rise to restructuring costs of about 5.4 million euro. Similarly, action has been taken to reorganise production at the Kinmel Park, Blythe Bridge, Peterborough and Yate factories in the UK, with the loss of about 300 jobs and total restructuring costs of 4.8 million euro.
In March 2006, the decision was taken and announced to close access to the defined-benefit pension scheme for UK employees and to start a defined-contribution pension plan for new members.

# 4. Statement of compliance with IFRS™ and transition to IFRS™

European Parliament and Commission Regulation EC 1606/2002 has come into force and has been adopted in Italy in Decree 38/2005. Accordingly, the consolidated financial statements of the Indesit Company Group have been prepared for the first time in accordance with the International Financial Reporting Standards – IFRSs™ (hereafter referred to as IFRS or IAS) issued by the International Accounting Standards Board (IASB), as interpreted by the International Financial Reporting Interpretations Committee (IFRIC), formerly the Standing Interpretations Committee (SIC), and adopted by the European Union.

The consolidated financial statements at 31 December 2005 are presented on a comparative basis and comprise the balance sheet, the income statement, the statement of cash flows, the statement of changes in consolidated equity and these notes. The income statement format adopted by the Group classifies costs based on function, while the format of the balance sheet distinguishes between current and non-current assets and liabilities. The statement of cash flows is presented using the indirect method.

The financial statements issued until 31 December 2004 were prepared in accordance with Legislative Decree no. 127/1991 as supplemented, for matters not specifically covered in the decree, by the accounting standards issued by the Italian Accounting Profession or, in the absence thereof, by the International Accounting Standards Board (IASB) and the Financial Accounting Standards Board (FASB). Account was also taken of the reporting instructions introduced by Legislative Decree no. 58/1998 and subsequent implementation and amending decrees, CONSOB recommendations and Document 1 issued by the OIC, which modified and supplemented Italian accounting standards to reflect application of Legislative Decree no. 6/2003.

Accordingly, the figures at 31 December 2004 presented for comparative purposes have been restated in accordance with the new accounting standards. An analysis of this restatement and the effects of the first-time adoption of IFRS is presented in paragraph 11 which contains the FTA Appendix – First-Time Adoption – Transition to International Financial Reporting Standards (IFRSs™), hereafter referred to as the FTA Appendix. This document was previously published together with the half-yearly report at 30 June 2005 and audited by the Auditors of the separate and consolidated financial statements.

With respect to the version published together with the half-yearly report at 30 June 2005, certain reclassifications have been made to the balance sheet and income statement attached to the FTA Appendix. Such reclassifications are described in paragraph 11.1 Introduction to the FTA Appendix, later on in these notes.

In addition, the figures presented as of 31 December 2004 are not directly comparable with those at 31 December 2005 due to the application from 1 January 2005 of IAS 32 and IAS 39, regarding the recognition and presentation of financial instruments. This is described in more detail in the FTA Appendix presented in paragraph 11. Accordingly, for the sake of clarity, the balance sheet and the tables included in the notes present the related balances at 31 December 2004 and 1 January 2005 and, where necessary, information on the effects of applying IAS 32 and IAS 39 is also provided.

## Principal accounting policies

### Basis of preparation

The presentation currency of the consolidated financial statements is the euro, and the financial statement balances are stated in millions of euro (except where stated otherwise). The consolidated financial statements are prepared on an historical cost basis, except with regard to derivative financial instruments, financial assets held for sale and financial instruments classified as available for sale, which are stated at their fair value. The accounting policies are applied on a consistent basis by all Group companies. There are no financial assets held to maturity. Financial transactions are recorded with reference to the trade date.
The accounting policies adopted for the preparation of the consolidated financial statements at 31 December 2005 have also been applied on a consistent basis to all the comparative financial information, except with regard to the application of IAS 32 and IAS 39 on the recognition and presentation of financial instruments, the effects of which, determined on a retrospective basis, are presented as from 1 January 2005, as allowed by IFRS 1. The comparative figures for such financial instruments at 31 December 2004 were determined in accordance with Italian GAAP.

### Accounting estimates

The preparation of consolidated financial statements involves making assumptions and estimates that affect the amount of assets and liabilities and the related disclosure, as well as the amount of contingent assets and liabilities at the balance sheet date. These estimates are used to measure the property, plant and equipment and intangible assets subject to impairment, as well as to recognise provisions for doubtful accounts, inventory obsolescence, depreciation and amortisation and the write-down of assets, employee benefits, taxation, and risks and charges. The estimates and underlying assumptions are based on historical experience and other various factors that are believed to be reasonable under the circumstances. Estimates and assumptions are reviewed regularly and, if later estimates differ from those made initially, the effects are immediately reflected in the income statement. If the changes in estimate relate to both the current and future periods, their effects are reflected in the income statements for the periods concerned.

### Basis of consolidation

#### Subsidiaries

Subsidiaries are entities over which Indesit Company S.p.A. exercises control by virtue of the power to govern, directly or indirectly, their financial and operating policies and to obtain benefits from their activities. In general, companies in which Indesit Company holds more than 50% of the voting rights, considering any potential voting rights that may be exercised at the time, are deemed to be subsidiaries. The financial statements of subsidiaries are consolidated on a line-by-line basis from the time that control commences until the date on which control ceases. Significant transactions between Group companies are eliminated in full. Unrealised gains and losses on transactions with subsidiaries are eliminated in full. The equity and results attributable to minority interests are determined with reference to their voting rights, without considering any potential voting rights. Any surplus arising on the elimination of investments against the book value of the related equity at the time of initial consolidation is allocated as an increase in the carrying amount of the assets, liabilities and contingent liabilities concerned; any residual amounts are classified as goodwill. The balance sheet date of all Group companies is 31 December.
This list of companies consolidated on a line-by-line basis is presented in Attachment 1 to the Notes.

#### Associates

Associates are those entities over which Indesit Company S.p.A. exercises significant influence, but does not control their financial and operating policies or obtain benefits from their activities. In general, companies in which Indesit Company holds directly or indirectly between 20% and 50% of the share capital or voting rights, considering any potential voting rights that may be exercised or converted, are deemed to be associates.
Associates are measured using the equity method from the time that significant influence commences over their operations until the date on which such influence ceases. If the Group's share of losses exceeds its interest in an associate the Group's carrying amount is reduced to nil and recognition of further losses is recognised in a specific provision to the extent that Indesit Company has incurred obligation to cover the losses or to make payments on behalf of the associate. Unrealised gains and losses on transactions with associates are eliminated in proportion to the interest held.

#### Investments in other companies

Investments in other companies in which, in general, the Group holds less than 20% of the share capital or voting rights are initially measured at cost and subsequently adjusted to fair value through the income statement. Where fair value cannot be reliably determined these investments are measured at cost as adjusted to reflect any impairment losses. Dividends are recognised as financial income from investments when the right to collect them is established, which generally coincides with the shareholders' resolution.

## Treatment of foreign currency transactions

### Foreign currency transactions
All transactions are recorded in the functional currency of the principal operating environment in which each Group company operates. Transactions not carried out in the functional currency of the Group companies are translated using the exchange rates ruling at the time of the related transactions. Monetary assets and liabilities are translated using the exchange rates ruling at the balance sheet date and any exchange differences are recognised in the income statement. Non-monetary assets and liabilities recorded at historical cost in foreign currencies are translated using the historical rates applying at the time of the related transactions. Non-monetary assets and liabilities measured at fair value in foreign currencies are translated using the exchange rates ruling at the time that their fair value was determined.

### Translation of financial statements
The financial statements of companies whose functional currency differs from that used to prepare the consolidated financial statements (euro) and which do not operate in hyper-inflationary economies, are translated as follows:

**a.** assets and liabilities, including goodwill and fair value adjustments arising on consolidation, are translated using the exchange rates ruling at the balance sheet date;

**b.** revenues and expenses are translated using the monthly average exchange rate for the year, which is deemed to approximate the exchange rates ruling at the dates when the individual transactions took place;

**c.** the translation differences are recognised in a specific equity reserve.

On the disposal differences of the economic entity from which the translation differences (if any) arose, the cumulative translation differences are reclassified from equity to the income statement. The cumulative translation differences were reclassified to other reserves on the first-time adoption of IFRS, accordingly the gains and losses deriving from future disposals will only include the translation differences arising from 1 January 2004 onwards.

The financial statements of foreign operations in hyper-inflationary economies whose functional currency differs from that used to prepare the consolidated financial statements (euro) are translated using the exchange rates ruling at the balance sheet date, after restating the non-monetary balances in the balance sheet and the income statement using a general price index.

### Net investments in foreign operations
The exchange differences arising from the translation of net investments in functional currencies other than the euro, generally comprising intercompany loans, are taken to the translation reserve. Such differences are released to the income statement upon disposal.

## Derivative financial instruments
If the conditions established in IAS 39 regarding the formal designation of derivative financial instruments as hedges are met and these instruments are shown to be highly effective, both ex ante when the transaction is arranged and ex post during subsequent accounting periods, then they are recorded on a hedge accounting basis, as described below.

### Fair Value Hedges (hedges of assets and liabilities)
If a derivative financial instrument is designated to hedge the risk of changes in the

fair value of a recognised asset or liability (the underlyings), the gain or loss from subsequent fair value adjustments to the hedging instrument is recognised in the income statement together with the gain or loss deriving from the measurement of the related underlyings.

### Cash Flow Hedges

If a derivative financial instrument is designated to hedge the risk of the variability in cash flows of a recognised asset or liability or a highly probable forecasted transaction, the effective part of gains or losses on such financial instrument is recognised in the cash flow hedging reserve, within equity, while the ineffective portion (if any) is taken to the income statement. If the hedge of a forecasted transaction subsequently results in the recognition of a non-financial asset or liability, the cash flow hedging reserve is removed from equity and included in the initial cost of such non-financial asset or liability. If the hedge of a forecasted transaction subsequently results in the recognition of a financial asset or liability, the cash flow hedging reserve is recognised to the income statement in the period when the asset acquired or liability assumed has an effect on the income statement. In other cases, the cash flow hedging reserve is recognised to the income statement in a manner consistent with the hedged transaction i.e. when its economic effects are recognised. If a hedging instrument expires, is sold or terminated early with respect to the timing of the hedged transaction and the latter is no longer expected to take place, the related cash flow hedging reserve is released immediately to the income statement. If a hedging instrument expires, is sold or is terminated early with respect to the timing of the hedged forecast transaction, but the latter is still expected to occur, the cumulative gain or loss remains in equity and treated on the basis described above.

### Hedge of a net investment in a foreign operation

If a derivative financial instrument is designated to hedge a net investment in a foreign operation, the gains or losses deriving from the related measurement of fair value are recognised directly in equity, to the extent that the hedge is deemed to be effective, while the ineffective portion (if any) is recognised in the income statement.
If on the other hand financial instruments do not meet the requirements for the application of hedge accounting, they are stated at fair value and the related effects are recognised directly in the income statement.

## Property, plant and equipment

### Owned assets

Property, plant and equipment are stated at cost or, if self-constructed, at production cost, comprising the cost of materials, labour and a reasonable portion of overheads and related charges, less accumulated depreciation and impairment of value determined on the basis described below. If necessary and significant, the cost of property, plant and equipment includes an initial estimate of dismantling and removal costs. Ordinary maintenance expenses are charged to the income statement, while the costs of replacing certain parts of property, plant and equipment and extraordinary maintenance costs are capitalised when it is probable that they will generate measurable economic benefits in the future. The financial expenses incurred to finance the purchase or production of property, plant and equipment are capitalised when the related loans relate solely to such assets of property, plant and equipment.

### Finance leases

Property, plant and equipment held under finance leases, in relation to which Indesit Company has assumed substantially all the risks and rewards of ownership, are recognised at fair value at inception of the lease or, if lower, at the present value of the minimum lease payments, depreciated over their estimated useful lives and adjusted for any impairment loss determined on the basis described below. The liability to the lessor is classified among financial payables in the balance sheet.

### Depreciation

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives. Significant parts of plant and machinery with different useful lives are depreciated separately. Useful lives are monitored on a constant basis, having regard for changes in the intensity with which these assets are used. Any changes in the depreciation schedules are applied on a prospective basis.
Carrying amount is verified with reference to the estimated present value of expected future cash flows and adjusted, where necessary, every time events suggest that the carrying amount of property, plant and equipment may be impaired, or when there is a marked decrease in their market value, significant technological changes or evidence of significant obsolescence. The impairment is reversed if the reasons for recognition cease to apply. Land, whether or not used for the construction of civil or industrial buildings, is not depreciated since it is deemed to have an indefinite useful life.
The useful lives of property, plant and equipment are grouped into the following categories:

| Category | Useful lives |
|---|---|
| Buildings and temporary constructions | from 10 to 33 years |
| Plant and machinery | from 5 to 10 years |
| Industrial and commercial equipment | from 3 to 10 years |
| Other assets: | |
| vehicles and internal transport | from 3 to 6 years |
| furniture, IT and office machines | from 3 to 8 years |

### Intangible assets

Intangible assets are stated at cost, determined on the basis described for property, plant and equipment, when it is likely that the use of such assets will generate economic benefits and their cost can be determined reliably. Intangible assets with a finite useful life are amortised and stated net of the related accumulated amortisation, calculated on a straight-line basis over their estimated useful lives, and any impairment loss over the period during which they are expected to generate economic benefits. Intangible assets with an indefinite useful life, comprising certain brands and goodwill, are not amortised but tested for impairment annually, or more frequently if specific events suggest that they be impaired. Subsequent expenditures on capitalised intangible assets are capitalised only if they increase the future economic benefits emobodied in the specific asset to which they relate; otherwise, they are charged to the income statement as incurred. The financial expenses incurred to finance the purchase or production of a specific intangible asset are only capitalised if the loans concerned relate solely to that asset.

### Goodwill

Goodwill is an intangible asset with an indefinite life, deriving from business combinations recognised using the purchase method, and is recorded to reflect the positive difference between purchase cost and the Group's interest at the time of acquisition, after having recognised all assets, liabilities and identifiable contingent liabilities attributable to both the Group and third parties at their full fair value. This method of accounting applies to all acquisitions made subsequent to 31 December 2002. The value of goodwill deriving from earlier acquisitions was determined by using the amount recorded in accordance with Italian GAAP.
Goodwill is tested with reference to the cash generating units that benefit from the synergies deriving from the acquisition. The expected cash flows are discounted at the cost of capital, having regard for the specific risks associated with the unit concerned. Impairment is recognised if the recoverable amount, represented by

the discounted cash flows, is less than the related carrying amount.
The gains and losses arising on the disposal of businesses or lines of business that were acquired with the payment of goodwill are determined taking into account the residual amount of such goodwill. Any impairment losses in goodwill charged to the income statement are not reversed even if the related reasons cease to apply.

### Research and development expenses

Expenditure on research activities, undertaken with the prospect of gaining new knowledge are charged to the income statement as incurred. Expenditure on development activities incurred to create new products or improve existing products, or to develop and improve production processes, are capitalised if the innovations made result in technically and commercially feasible processes or products, on condition that there is an intention to complete the development project, sufficient resources are available for such completion, and the economic costs and benefits deriving from such innovations can be measured reliably. Capitalised expenditure includes both internal and external design costs (including payroll and materials) and the portion of general production costs reasonably attributable to the projects concerned. Capitalised development expenditure is treated as an intangible asset with a finite life and is amortised over the expected period of economic benefit, which is generally taken to be five years. Adjustments are recorded to reflect any impairment losses subsequent to initial recognition. Other development expenditures are charged to the income statement in the year incurred.

### Other intangible assets

Other intangible assets expected to generate measurable economic benefits are deemed to have a finite life and are stated at cost. They are amortised on a straight-line basis over the period of expected economic benefit, which is deemed to be 20 years for brands with a finite life and between five and 10 years for other assets. Adjustments are recorded to reflect any impairment losses subsequent to the initial recognition.

## Trade receivables

Trade receivables, generally due within one year, are stated at the fair value of the initial consideration, increased by the related transaction costs. Subsequently, they are stated at amortised cost, adjusted to reflect any impairment losses represented by the difference between carrying amount and the estimated future cash flows. If the impairment loss decreases in a later period, the loss previously recorded is partly or fully reversed and the value of the receivable is restored to an amount that does not exceed the amortised cost that would have been reported had the loss not been recognised.
Trade receivables sold with or without recourse for which the conditions established in IAS 39 for the derecognition of financial assets do not apply continue to be reported in the balance sheet, while receivables sold without recourse which satisfy all the conditions of IAS 39 for the derecognition of financial assets are derecognised at the time of disposal.

## Other current and non-current financial assets

Held-to-maturity securities are initially measured at cost, increased by the transaction costs incurred to acquire these financial assets. Subsequently, they are measured at amortised cost using the effective interest method, net of any impairment loss.
Financial assets held for trading are classified as current assets and measured at fair value, with recognition of any gains or losses in the income statement.
Securities and other financial assets classified as available for sale are stated at their fair value. Gains and losses deriving from fair value measurement are recognised directly in equity, except for impairment losses and exchange rate losses which are charged to the income statement. The deferred gains and losses recognised in equity

are released to the income statement at the time of sale.
Receivables due after one year that do not earn interest or which earn interest at below market rates are discounted using market rates.
The interest earned on financial assets, determined using the effective interest method, is credited to the income statement. The fair value of financial assets held for trading and those available for sale is represented by their market price at the balance sheet date.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a weighted-average cost basis and includes purchasing-related expenses, inclusive of indirect charges, and the costs of converting products and bringing them to their present location and condition. Net realisable value is determined with reference to market prices after deducting completion costs and selling expenses. Obsolete and slow-moving materials and finished products are written down to reflect their estimated realisable value.

### Cash and cash equivalents

Cash and cash equivalents, stated at nominal value, comprise cash on hand, bank and postal deposits and similar assets that can be converted into cash (three months) and are not subject to significant fluctuations in value.

### Impairment of assets

At each balance sheet date, the carrying amounts of the Group's assets with an indefinite life, goodwill and intangible assets in progress are tested for impairment, on the basis described in the relevant paragraphs. With the exclusion of inventories and deferred tax assets and except as discussed in relation to property, plant and equipment, other assets are tested for impairment if events suggest that they may have incurred an impairment loss. If the test shows that the recognised assets or a cash-generating unit (CGU) have incurred an impairment loss, their recoverable amount is estimated and the excess carrying amount is charged to the income statement. The loss in value of a CGU is allocated first against the related goodwill, if any, and then against the value of other assets. The recoverable value of investments in securities held to maturity and receivables recorded at amortised cost is represented by the present value of future cash flows, discounted using the effective interest rate determined at the time of initial recognition. Current receivables are not discounted and the recoverable amount of other assets is represented by the greater of their net selling price and value in use determined by discounting estimated future cash flows using a market rate. Any impairment losses of securities held to maturity and receivables stated at amortised cost are reversed if any subsequent increases in their recoverable amount can be determined on an objective basis. Losses in the value of goodwill are not reversed.
An impairment loss in respect of an individual asset cannot be determined, the Group identifies the loss in respect of the CGU to which it belongs.

### Share capital

Share capital, including the portion represented by savings shares, is stated at nominal value. The buy-back of treasury shares, stated at cost including related charges, is recorded as a change in equity; the nominal value of treasury shares is deducted from share capital, while the difference between cost and nominal value is deducted from the equity reserves. Dividends are recognised as a liability in the year in which they are declared. Treasury shares held at 31 December 2004 are recognised in accordance with Italian GAAP and, accordingly, are classified among Other investments.

## Financial liabilities

Financial liabilities are initially recognised at their fair value, net of related charges, and subsequently measured at amortised cost using the effective interest method. The difference between amortised cost and repayment value is recorded in the income statement over the life of the liability in proportion to the related interest accrued. Where hedge accounting applies, the financial liabilities hedged by derivative instruments are measured on a basis consistent with the hedging instrument.

## Trade payables and other payables

Trade payables and other payables due on normal commercial terms, generally within one year, are recorded at the fair value of the initial consideration, increased by the related transaction costs. Following initial recognition, they are stated at amortised cost and any differences are reflected in the income statement over the life of the liability using the effective interest method. Trade payables and other payables, generally due within one year, are not discounted.

## Employee benefits

Obligation for contributions to defined contribution plans and similar benefits are charged to the income statement on an accruals basis. The net obligation in respect of defined benefit plans, principally represented by severance indemnities in Italy and pension funds the UK, is recognised at the expected amount of the future benefits that employees will earn and have earned in the current and prior years. These benefits are discounted and the resulting obligation is stated net of the fair value of any plan assets. The net obligation is determined separately for each plan using actuarial assumptions and is calculated each year, or more frequently, with the support of an independent actuary using the projected unit credit method. The benefits are discounted using the rate for a bond with an AA rating and a maturity date that is consistent with the timing of the related payments to employees. The actuarial gains and losses arising subsequent to 1 January 2004, the IFRS transition date, are recognised in the income statement on a straight-line basis over the residual working lives of employees, to the extent that their cumulative net value exceeds 10% of the greater of the obligation arising under defined benefit plans and the fair value of the plan assets servicing these plans (corridor method) at the end of the prior year.

## Stock options

The remuneration recognised to employees and directors by the granting of stock options is charged to the income statement with a matching entry in equity. Such cost is determined with reference to the fair value of the options at the time they are granted. The cost of stock options, determined on the above basis, is charged to the income statement over the related vesting period. The fair value of the options at the grant date is determined using financial models that take account of the terms and conditions under which such options were granted.

## Provisions for risks and charges

The provisions for risks and charges are recognised to cover the Group's obligations, of a legal or constructive nature (under contracts or for other reasons), deriving from past events. Provisions for risks and charges are recognised if it is probable that an outflow of economic benefits will be required to settle the obligation and the amounts concerned can be estimated reliably. If the settlement of such obligations is expected to take place after more than one year and the effects of this are significant, they are discounted using a rate that takes account of the time value of money and the risks specific to the liabilities. Any changes in the estimated amount of provisions are reflected in the income statement in the year identified. In the event of discounting, the increase in the provision due to the passage of time and the effect of any changes in the discounting rate are recognised as a financial expense. The principal liabilities covered by provisions are described below.

### Warranties
Provisions for legally-required and voluntary warranty costs are recognised when the underlying products are sold. The provision is determined with reference to the call rate for the products still under warranty cover, the period of time between sell in and sell out (start of the warranty period) and the average unit cost of the work performed.

### Restructuring
Provisions for restructuring are recognised at the time constructive obligation arises, such as when the Group informs interested parties about the restructuring plan or makes sufficiently specific announcements which induce interest parties to believe that the related obligation will be met.

### Onerous contracts
Provisions for onerous contracts are recognised when the expected are lower than the related costs. They are accrued in a specific provision in the year in which the losses become known and measurable.

### Product disposal (WEEE)
The European Union adopted the WEEE (Waste Electrical and Electronic Equipment) Directive in December 2002, which makes manufacturers responsible at a European level for the recovery and disposal of waste products.
The Directive describes the following levels of responsibility:

**a.** old waste (regarding products put on the market before 13 August 2005): the costs of disposal are incurred collectively by the manufacturers which contribute in proportion to their market share;

**b.** new waste (regarding products put on the market after 13 August 2005): each manufacturer is responsible for the disposal of its own products put on the market.

At this time, certain major EU nations (principally the United Kingdom) have not yet completed the process of adopting this directive. Other nations have adopted it, establishing transition periods of, typically, one or two years during which the regulations will not be effective (principally Italy and Poland). The Group only makes provisions to the extent that local legislation has adopted the directive concerned and confirms the principle of individual responsibility laid down in the community regulations.
Provisions are therefore recorded to cover the charges deriving from the application of the WEEE regulations in relation to new waste arising in the nations that have already adopted the Directive. The costs relating to old waste are charged to the income statement in the year they are incurred. In this regard, the Directive allows manufacturers to increase the selling price of goods by a visible fee, for a period of about eight years, to cover the related disposal costs. The amounts collected for this reason are subsequently paid over to the consortia, established in most of the nations in which the Directive applies, responsible for the disposal of the waste products.

### Other provisions
Provisions are recorded for other future charges deriving from court cases, disputes and other obligations when the requirements for the recognition of a liability are met, being in the accounting period in which such charges become known and measurable reliably.

## Revenue

### Goods sold and services rendered
Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. Revenue from the sale of goods is generally recognised when they are handed over to the transport firms which, under the terms

of current contracts, marks the time when the above risks and rewards are transferred. Revenue is not recognised if its recoverability is considered to be uncertain.
Revenue is stated net of discounts, allowances, rebates and returns, and does not include the proceeds from the disposal of raw materials and scrap. Revenue from services is recorded in the income statement based on the stage of completion at the balance sheet date, determined with reference to the work performed or, alternatively, to the percentage of completion with respect to the total.

### Dividends

Collectible dividends are recognised as revenue when they are declared at the related shareholders' meeting.

### Grants

Grants from the Government or other bodies, recognised in the form of direct payments or tax benefits, are recognised as deferred income in the balance sheet, among other liabilities, at the time their collection become reasonably certain and when compliance with all the requirements to obtain them is assured. They are recognised as revenue in the income statement on a systematic basis in order to match the accounting recognition of the costs for which such grants were made.
Grants related to income are taken to the income statement at the time the requirements for their recognition are met, and when it becomes certain that they will be recognised in order to offset the eligible costs.

### Other income

Other income includes all forms of non-financial revenue not covered above and is recognised on the basis described in relation to revenue from goods sold and services rendered.

## Expenses

The costs of purchasing goods and services are recognised when the amounts concerned can be determined reliably. The costs of purchasing goods are recognised on delivery which, under the terms of current contracts, marks the time when the related risks and rewards are transferred. The costs of services are recognised on an accruals basis with reference to the time they are received.

### Cost of sales

Cost of sales includes all the costs of manufacturing finished products, comprising raw materials, the purchase of components, the cost of direct and indirect, internal and external processing, industrial depreciation, all production-related charges, and the provisions for costs to be incurred in relation to products sold.

### Selling, distribution, general and administrative expenses

Selling, distribution, general and administrative expenses comprise all the costs incurred to commercialise products and provide services, the costs of distributing products to the Group's warehouses and to customers, general and administrative expenses and related charges, as well as all the other non-financial expenses that are not part of core business.

### Operating and finance lease payments

Payments made under operating leases are expensed on an accruals basis to match the economic benefits deriving from the leased assets. If such economic benefits are lower than the related charges, falling under the category of onerous contracts, the difference between the discounted charges and benefits is recorded as an expense in the income statement.
Finance leases give rise to the recognition of depreciation on the assets recognised and of financial charges representing interest on the loan obtained under the lease.
Financial charges are spread over the term of the leases in order to produce a constant interest rate on the remaining balance of the liability.

### Net financing costs

Net financing costs include the interest payable on the borrowings, cash discounts allowed to customers for early payments with respect to the agreed terms of sale, financial income from cash and cash equivalents, dividends, and exchange gains and losses, as well as the economic effects recorded in the income statement of measuring the transactions that hedge interest-rate and exchange-rate risks.

### Share of profits (losses) from associates

Share of profits (losses) from associates includes the effects deriving from application of the equity method and the dividends declared by these companies.

### Income taxes

Income taxes is recognised in the income statement, except for that relating to transactions recognised directly in equity, in which case it is also recognised in equity. Income tax includes current and deferred tax. Current tax is based on an estimate of the amount that Indesit Company expects to pay, using for all Group companies the tax rate in force at the balance sheet date in each of the nations concerned.
Deferred tax is provided using the liability method, considering all the temporary differences that emerge between the tax value of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax is not recognised in respect of goodwill or those assets and liabilities that do not affect taxable income. Income taxes deriving from the distribution of dividends are recognised at the time the related payable is recognised. The recoverability of deferred tax assets is verified at the end of every year and any amounts for which recovery is no longer likely are charged to the income statement.
Deferred taxation is recognised using the tax rates expected to be in force in the nations concerned for the tax periods in which the related temporary differences are forecast to reverse.
Deferred tax assets are recognised to the extent it is probable that future taxable income will be available to recover such taxes. Current and deferred tax assets and liabilities are offset when due to the same tax authority, if the periods of reversal are the same and a legal right of offset exists.
Deferred taxation is recognised in relation to the distributable profits of subsidiaries if there is an intention to distribute such profits.

### Non-current assets held for sale and discontinued operations

Assets held for sale are measured at the lower of their carrying amount at the time their sale was decided and their fair value, net of estimated selling costs. All costs, income and write-downs, if any, are recognised in the income statement and reported separately. Operating activities that represent a separate major line of business or geographical area of operations are classified separately in the income statement and the balance sheet at the time of disposal, or when they meet the conditions for classification as assets held for sale.

### Earnings per share

Basic earnings per share is calculated with reference to the profit for the year of the Group and the weighted average number of shares outstanding during the year. Own treasury shares are excluded from this calculation. Diluted earnings per share is determined by adjusting the basic earnings per share to take account of the theoretical conversion of all potential shares, being all financial instruments that are potentially convertible into ordinary shares, with a diluting effect.

## 5. Changes in accounting policies, changes in accounting estimates and reclassifications

Apart from the matters described in the FTA Appendix concerning the adoption of international financial reporting standards and in the earlier paragraph 4 "Statement of compliance with IFRS and transition to IFRS", the Group has not made any changes to the accounting policies applied to the comparative information at 31 December 2004 and 31 December 2005. Furthermore, no revised or new accounting standards have been issued by the International Accounting Standards Board (IASB) or interpretations released by the International Financial Reporting Interpretations Committee (IFRIC), effective from 1 January 2005, with a significant impact on the consolidated financial statements.

Following the analysis performed as part of the first-time adoption of IFRS, Indesit Company has revised the estimated useful lives of certain categories of assets. In particular, this analysis identified that certain assets classified in the category of plant and machinery have estimated residual useful lives that are longer than those determined by the depreciation rates applied until 31 December 2004. Accordingly, the related depreciation rates have been suitably revised with the effect of reducing the depreciation charged to the income statement for the year ended 31 December 2005. Had this change in accounting estimate not been made, profit before tax and the carrying amount of property, plant and equipment at 31 December 2005 would have been lower by 13.3 million euro, while total profit and equity at that date would have been lower by 9.0 million euro.

The changes in accounting policies to be applied in the periods subsequent to the date of these financial statements are described below. The Group is currently evaluating the impact of making these changes.
In December 2004, the IASB issued an amendment to IAS 19 allowing companies to elect to recognise actuarial gains and losses immediately they arise in a specific equity caption, and explaining how to allocate a Group defined benefit plan among the various Group companies. This amendment takes effect from 1 January 2006.
In April 2005, the IASB issued an amendment to IAS 39 allowing companies to qualify a financial instrument as a cash flow hedge, thus extending the application of hedge accounting to intragroup transactions, if the consolidated financial statements are exposed to exchange rate risk. This amendment takes effect from 1 January 2006.
In June 2005, the IASB issued an amendment to IAS 39 limiting the use of the fair value option to those financial instruments that meet certain criteria, essentially in order to ensure greater consistency between the measurement of financial assets and liabilities and the related hedging instruments. This amendment takes effect from 1 January 2006.
In August 2005, the IASB issued IFRS 7 on the disclosures to be made on the significance of financial instruments for an entity's performance and financial position, together with a related amendment of IAS 1 on the disclosures to be made regarding the entity's capital. IFRS 7 and the amendment to IAS 1 take effect from 1 January 2007.
In August 2005, the IASB issued an amendment to IAS 39 and IFRS 4 covering the accounting treatment of guarantees issued. This amendment takes effect from 1 January 2006.

## 6. Changes in the scope of consolidation

Indesit Company signed a commercial joint venture agreement with WLS (Wuxi Little Swan Company, China's leading producer of laundry products) in December

2004. In January 2005, following the signature of this agreement and after obtaining the necessary authorisations, a new company called WUXI Indesit Home Appliances Co. Ltd was formed in which Indesit Company holds a 70% investment (WLS, 30%). This company has therefore been included within the scope of consolidation from that time.

In September 2005, Indesit Company S.p.A. sold its entire investment in MPE S.p.A., an associate, to Fineldo S.p.A. for 11.5 million euro, realising a capital gain of 3.8 million euro. The sale price was determined with reference to an independent appraisal.

# 7. Segment reporting

### 7.1. Reporting by geographical segment (primary segment)

The primary segment comprises the geographical areas in which the Group is active. The geographical areas are classified as follows:

1. Western Europe: Italy, France, Belgium, the Netherlands, Great Britain, Germany, Spain, Portugal and other smaller nations;
2. Eastern Europe: CIS, Poland, Romania, Bulgaria, Hungary, Czech Republic, Slovak Republic and other smaller nations;
3. Other nations: Turkey, South America, North America, Africa, Australia, Middle East and Far East.

Segment revenue is calculated based on the final destination of the products and segment results take account of all the expense that can be directly allocated to the geographical areas concerned. The expense allocated to the various geographical areas does not include Corporate general and administrative expenses or restructuring charges, financial income and expense, and taxation.
Inter-segment revenue comprises the revenue earned by companies consolidated on a line-by-line basis from sales of products in markets that belong to a different geographical segment to their own. Assets, liabilities and capital investment are allocated based on the final destination of the products sold; accordingly, on a direct basis with regard to trade receivables and inventories and using indirect criteria with regard to property, plant and equipment and intangible assets, capital investment and liabilities.
The following tables present the Group's operating information analysed by geographical area based on the final destination of the products.

| **Segment reporting – Primary segment as of 31/12/2005** (million euro) | Western Europe | Eastern Europe | Other nations | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Non-Group revenue | 1,922.4 | 943.5 | 198.3 | | 3,064.2 |
| Intersegment revenue | 102.2 | 359.7 | 66.5 | (528.4) | – |
| **Total sales** | **2,024.5** | **1,303.3** | **264.8** | **(528.4)** | **3,064.2** |
| Segment results | 109.7 | 158.9 | 20.7 | – | 289.3 |
| Unallocated income and expenses | | | | | (167.1) |
| **Operating profit** | | | | | **122.3** |
| Net financial expenses | | | | | (29.3) |
| Share of profit (losses) of associates | | | | | (0.1) |
| Income tax | | | | | (42.4) |
| Profit attributable to minority interests | | | | | 0.3 |
| **Profit attributable to the Group** | | | | | **50.7** |
| **Other information** | | | | | |
| Segment non-current assets | 596.6 | 218.7 | 35.9 | | 851.3 |
| Segment current assets | 593.5 | 223.3 | 80.1 | | 896.9 |
| Tax assets | | | | | 109.0 |
| Financial assets | | | | | 295.7 |
| Other unallocated consolidated assets | | | | | 413.2 |
| **Total assets** | **1,190.1** | **442.0** | **116.0** | **–** | **2,566.1** |
| Equity | | | | | 519.1 |
| Segment non-current liabilities | 96.2 | 55.2 | 10.5 | | 161.8 |
| Segment current liabilities | 526.7 | 239.8 | 48.7 | | 815.1 |
| Tax liabilities | | | | | 130.9 |
| Financial liabilities | | | | | 813.2 |
| Other unallocated consolidated liabilities | | | | | 125.9 |
| **Total equity and liabilities** | **622.8** | **294.9** | **59.2** | **–** | **2,566.1** |
| Capital investment | 80.9 | 52.4 | 4.9 | | 138.2 |
| Unallocated capital investment | | | | | 17.2 |
| **Total capital investment** | | | | | **155.4** |
| Depreciation and amortisation | 70.0 | 39.3 | 6.0 | | 115.3 |
| Unallocated depreciation and amortisation | | | | | 26.0 |
| **Total depreciation and amortisation** | **70.0** | **39.3** | **6.0** | | **141.4** |
| Other non-monetary income and expenses | 6.8 | 10.2 | 2.0 | | 19.0 |
| Other unallocated non-monetary income and expenses | | | | | 22.6 |
| **Total non-monetary income and expenses** | **6.8** | **10.2** | **2.0** | | **41.6** |

| Segment reporting – Primary segment as of 31/12/2004 (million euro) | Western Europe | Eastern Europe | Other nations | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Third party revenue | 1,998.1 | 886.7 | 215.5 | | 3,100.3 |
| Intersegment revenue | 45.9 | 375.0 | 66.8 | (487.7) | – |
| **Total sales** | **2,044.1** | **1,261.7** | **282.3** | **(487.7)** | **3,100.3** |
| Segment results | 141.5 | 171.4 | 29.3 | | 342.2 |
| Unallocated income and expenses | | | | | (143.4) |
| **Operating profit** | | | | | **198.8** |
| Net financial expenses | | | | | (33.9) |
| Share of profit (losses) of associates | | | | | (5.4) |
| Income tax | | | | | (58.6) |
| Profit attributable to minority interests | | | | | (0.9) |
| **Profit attributable to the Group** | | | | | **100.0** |
| **Other information** | | | | | |
| Segment non-current assets | 631.5 | 192.2 | 44.3 | | 868.0 |
| Segment current assets | 496.9 | 244.6 | 95.3 | | 836.9 |
| Tax assets | | | | | 90.0 |
| Financial assets | | | | | 318.1 |
| Other unallocated consolidated assets | | | | | 325.2 |
| **Total assets** | **1,128.4** | **436.8** | **139.6** | **–** | **2,438.2** |
| Equity | | | | | 610.1 |
| Segment non-current liabilities | 100.2 | 43.0 | 10.2 | | 153.4 |
| Segment current liabilities | 541.0 | 240.1 | 66.6 | | 847.6 |
| Tax liabilities | | | | | 151.7 |
| Financial liabilities | | | | | 529.2 |
| Other unallocated consolidated liabilities | | | | | 146.2 |
| **Total equity and liabilities** | **641.2** | **283.1** | **76.8** | **–** | **2,438.2** |
| Capital investment | 78.2 | 71.2 | 6.6 | | 155.9 |
| Unallocated capital investment | | | | | 22.1 |
| **Total capital investment** | | | | | **178.0** |
| Depreciation and amortisation | 77.7 | 35.8 | 6.3 | | 119.7 |
| Unallocated depreciation and amortisation | | | | | 29.9 |
| **Total depreciation and amortisation** | **77.7** | **35.8** | **6.3** | | **149.6** |
| Other non-monetary income and expenses | 5.2 | 7.6 | 1.6 | | 14.4 |
| Other unallocated non-monetary income and expenses | | | | | 17.2 |
| **Total non-monetary income and expenses** | **5.2** | **7.6** | **1.6** | | **31.6** |

The Group's operating information analysed by the location of activities is presented below.

| **Business segment by geographical location as of 31/12/2005** (million euro) | Western Europe | Eastern Europe | Other nations | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Non-current assets | 850.2 | 314.7 | 37.6 | – | 1,202.5 |
| Current assets | 1,581.9 | 249.9 | 65.4 | (995.1) | 902.1 |
| Tax assets | | | | | 109.0 |
| Financial assets | | | | | 295.7 |
| Other consolidated assets | | | | | 56.7 |
| **Total assets** | **2,432.1** | **564.6** | **103.0** | **(995.1)** | **2,566.1** |
| **Capital investment** | **97.1** | **46.7** | **11.7** | | **155.4** |

| **Business segment by geographical location as of 31/12/2004** (million euro) | Western Europe | Eastern Europe | Other nations | Eliminations | Consolidated |
|---|---|---|---|---|---|
| Non-current assets | 804.6 | 263.0 | 25.2 | – | 1,092.8 |
| Current assets | 1,625.8 | 243.1 | 64.6 | (1,088.6) | 844.9 |
| Tax assets | | | | | 90.0 |
| Financial assets | | | | | 318.1 |
| Other consolidated assets | | | | | 92.4 |
| **Total assets** | **2,430.3** | **506.1** | **89.8** | **(1,088.6)** | **2,438.2** |
| **Capital investment** | **94.4** | **79.7** | **3.9** | | **178.0** |

## 7.2. Reporting by business segment (secondary segment)

The secondary segment comprises the Group's business segments. For the purposes of segment reporting, the Group's products are classified into the following business segments:

1. the Cooking segment comprises cookers, ovens, microwave ovens, extractors and hobs;
2. the Cooling segment comprises refrigerators and freezers;
3. the Laundry segment comprises washing machines, washer-dryers and dryers;
4. the Dishwasher segment comprises dishwashers;
5. the Services segment comprises services to customers and transport.

| **Segment reporting – Secondary segment as of 31/12/2005** (million euro) | Cooking | Cooling | Laundry | Dishwashers | Services | Consolidated |
|---|---|---|---|---|---|---|
| Third party revenue | 721.7 | 822.3 | 1,082.4 | 223.6 | 214.2 | **3,064.2** |
| **Other information** | | | | | | |
| Segment non-current assets | 176.5 | 309.3 | 317.5 | 32.0 | 16.0 | **851.3** |
| Segment current assets | 191.0 | 227.9 | 315.7 | 72.2 | 57.5 | **864.3** |
| Tax assets | | | | | | **109.0** |
| Financial assets | | | | | | **295.7** |
| Other consolidated assets | | | | | | **445.8** |
| **Total assets** | **367.4** | **537.3** | **633.3** | **104.1** | **73.5** | **2,566.1** |
| Capital investment | 28.9 | 42.8 | 49.9 | 16.6 | | **138.2** |
| Unallocated capital investment | | | | | | **17.2** |
| **Total capital investment** | **28.9** | **42.8** | **49.9** | **16.6** | **–** | **155.4** |

| Segment reporting – Secondary segment as of 31/12/2004 (million euro) | | | | | | |
|---|---|---|---|---|---|---|
| | Cooking | Cooling | Laundry | Dishwashers | Services | **Consolidated** |
| Third party revenue | 719.0 | 875.6 | 1,072.2 | 233.3 | 200.2 | **3,100.3** |
| **Other information** | | | | | | |
| Segment non-current assets | 187.9 | 319.0 | 309.9 | 33.7 | 17.4 | **868.0** |
| Segment current assets | 173.3 | 213.7 | 310.2 | 64.3 | 55.9 | **817.4** |
| Tax assets | | | | | | **90.0** |
| Financial assets | | | | | | **318.1** |
| Other consolidated assets | | | | | | **344.7** |
| **Total assets** | **361.3** | **532.7** | **620.1** | **97.9** | **73.3** | **2,438.2** |
| Capital investment | 54.1 | 53.9 | 40.7 | 7.2 | | **155.9** |
| Unallocated capital investment | | | | | | **22.1** |
| **Total capital investment** | **54.1** | **53.9** | **40.7** | **7.2** | **–** | **178.0** |

# 8. Notes to the consolidated income statement, balance sheet and statement of cash flows

## Consolidated income statement

### 8.1. Revenue

Revenue is analysed as follows:

| Revenue (million euro) | | |
|---|---|---|
| | **31/12/2005** | 31/12/2004 |
| Revenue from sale of finished products | **2,850.0** | 2,900.1 |
| Revenue from provision of services | **214.2** | 200.2 |
| **Total revenue** | **3,064.2** | **3,100.3** |

Revenue from the sale of finished products is analysed by brand below.

| Revenue by brand (million euro) | | |
|---|---|---|
| | **31/12/2005** | 31/12/2004 |
| Indesit | **1,181.3** | 1,159.3 |
| Ariston | **925.0** | 922.7 |
| Hotpoint | **467.7** | 463.4 |
| Stinol | **81.5** | 85.4 |
| Scholtès | **75.1** | 76.3 |
| Cannon | **52.4** | 57.4 |
| Other brands | **67.1** | 135.5 |
| **Total** | **2,850.0** | **2,900.1** |

Revenue from the provision of services relates to services provided to customers (transport) and to end consumers (after-sales maintenance) and to the sale of extended warranties beyond the legal minimum period.
Revenue by geographical and business segment is analysed in the tables presented in the segment reporting provided earlier.

## 8.2. Cost of sales

Cost of sales comprises the cost of raw materials and components, external processing, direct and indirect labour, the depreciation of property, plant and equipment, internal handling and logistics, inventory write-downs, provisions for product warranty and provisions for risks and charges, as well as research, development expenses that are not capitalised and all other production overheads. The following table analyses the nature of cost of sales.

| **Cost of sales** (million euro) | **31/12/2005** | 31/12/2004 |
|---|---|---|
| Change in the inventories of finished products | **(4.7)** | 29.7 |
| Purchase of raw materials, components, materials and change in inventories | **(1,698.3)** | (1,623.9) |
| Services | **(160.0)** | (167.9) |
| Payroll costs | **(351.3)** | (382.7) |
| Depreciation and amortisation | **(107.2)** | (110.1) |
| Other income and expenses | **10.4** | 5.4 |
| **Total** | **(2,311.1)** | **(2,249.5)** |

The change in the cost of sales was principally due to the significant rise in prices for the principal raw materials. This was only partially offset by production efficiencies deriving from the reduction in product/process costs, the redistribution of production and "sourcing" activities. As shown above, payroll costs have also been reduced.

The change in the cost of sales benefited from the revision of depreciation rates in 2005, as described in the "Changes in accounting policies, changes in estimates and reclassifications" paragraph.

The cost of sales includes the following charges:

- charges of 20.6 million euro (15.9 million), mainly for the reorganisation of business activities in Western Europe;
- environmental costs of 1.4 million euro recorded following the closure of the factory in Thionville (France);
- net insurance reimbursements of 4.0 million euro for indirect damage to the factory at Albacina (Italy) caused by bad weather;
- grants of 1.5 million euro received by the Polish company for investment in the special economic zone;
- elimination of government grants totalling 1.1 million euro since the requirements for obtaining them were no longer met as a consequence of events during the year;
- research expenses of 6.5 million euro (6.0 million euro).

## 8.3. Selling and distribution expenses

Selling and distribution expenses comprise all the costs incurred to commercialise products and provide services, as well as the costs of distributing products to the Group's warehouses and to customers. The following table analyses the nature of selling and distribution expenses.

| **Selling and distribution expenses** (million euro) | **31/12/2005** | 31/12/2004 |
|---|---|---|
| Purchase of raw materials, components, materials and change in inventories | **(5.8)** | (5.6) |
| Services | **(348.3)** | (362.0) |
| Payroll costs | **(99.9)** | (101.1) |
| Depreciation and amortisation | **(3.2)** | (6.8) |
| Other income and expenses | **(36,3)** | (32.2) |
| **Total** | **(493.5)** | **(507.8)** |

Services principally comprise distribution expenses of 141.2 million euro (140.7 million euro) and advertising and promotion expenses of 84.4 million euro, which were substantially lower due, in part, to the significant level of advertising carried out last year.
Receivables were written down by 13.6 million euro in 2005 (7.8 million euro).
Provisions for risks relating to the reorganisation of a commercial area totalling 1.5 million euro were released in December 2005, following a court ruling in the Group's favour in a dispute with a Belgian distributor.

## 8.4. General and administrative expenses

General and administrative expenses include all general management and administrative costs, and all expenditure not directly attributable to production or sales units or to research and development. The following table analyses the nature of general and administrative expenses.

| **General and administrative expenses** (million euro) | **31/12/2005** | 31/12/2004 |
|---|---|---|
| Purchase of raw materials, components, materials and change in inventories | **(1.0)** | (1.1) |
| Services | **(66.6)** | (69.0) |
| Payroll costs | **(44.4)** | (42.3) |
| Depreciation and amortisation | **(31.0)** | (32.7) |
| Other income and expenses | **(0.9)** | (2.8) |
| **Total** | **(143.9)** | **(147.8)** |

## 8.5. Other income

Other income is analysed as follows:

| **Other income** (million euro) | **31/12/2005** | 31/12/2004 |
|---|---|---|
| Gains on disposal of assets | **3.3** | 1.0 |
| Lease income | **1.2** | 2.6 |
| Export grants | **1.9** | 2.6 |
| Insurance reimbursements | **0.3** | 0.5 |
| Other | **0.8** | 2.0 |
| **Total other income** | **7.6** | **8.8** |

Insurance reimbursements comprise the usual coverage of minor losses. The insurance reimbursement for damage to the Italian factory at Albacina following the snowfall in January 2005, covering both loss of profits and consequential losses, amounted to 10.8 million euro. For the sake of consistency, this amount has been classified as an adjustment to cost of sales, since the write-down of assets due to the damage incurred was also recorded in that caption.
The grants for investing in the special economic zone, 1.5 million euro, collected by the Polish company have been classified within cost of sales since they relate directly to production activities.

## 8.6. Other expenses

Other expenses include losses on the disposal of assets of 0.2 million euro (4.1 million euro), a write-down of 0.7 million euro in relation to the building in Thionville (France), which is now classified as available for sale, and the write-down of an aircraft by Aermarche S.p.A., which is also classified as available for sale. These assets were written down to align their carrying amount with the agreed selling prices.

## 8.7. Operating profit

As required by IAS 1, the operating profit is analysed by type of cost in the following table.

| **Operating profit** (million euro) | **31/12/2005** | 31/12/2004 |
|---|---|---|
| Revenue | **3,064.2** | 3,100.3 |
| Change in inventories of finished products | **(4.7)** | 29.7 |
| Purchase of raw materials, components and consumables | **(1,705.1)** | (1,630.6) |
| Services | **(575.0)** | (598.9) |
| inc. stock options | **(1.7)** | (0.9) |
| Payroll costs | **(495.5)** | (526.1) |
| inc. stock options | **(0.3)** | (0.3) |
| Depreciation and amortisation | **(141.4)** | (149.6) |
| Other income and expenses | **(20.3)** | (25.9) |
| **Operating profit** | **122.3** | **198.8** |

The change in inventories is analysed by nature below:

| **Change in inventories** (million euro) | **31/12/2005** | 31/12/2004 |
|---|---|---|
| Raw materials, components and consumables | **8.9** | 17.4 |
| Finished products | **(4.7)** | 29.3 |
| **Total** | **4.3** | **46.7** |

The number of employees at 31 December 2005 is 17,306 (18,138 at the end of 2004).

| **Workforce** | **31/12/2005** | 31/12/2004 |
|---|---|---|
| Executives | **131** | 146 |
| Clerical staff | **5,449** | 5,478 |
| Factory workers | **11,726** | 12,514 |
| **Total** | **17,306** | **18,138** |

## 8.8. Net financial expenses

Net financial expenses at 31 December 2005 are analysed as follows:

| **Net financial expenses** (million euro) | **31/12/2005** | 31/12/2004 |
|---|---|---|
| Interest income | **4.7** | 6.4 |
| Interest expense | **(36.1)** | (29.6) |
| Exchange rate fluctuations | **4.9** | (6.4) |
| Commission | **(3.8)** | (4.0) |
| Other effects | **1.0** | (0.4) |
| **Net financial expenses** | **(29.3)** | **(33.9)** |

Interest income and expense include the interest on bank current accounts, the interest charged to customers and by suppliers, the interest on all forms of short and medium/long-term borrowing, and the economic effects of measuring financial derivatives that hedge the interest rate risk.

The interest expense incurred in relation to the various sources of financing is analysed in the following table.

| **Interest expense breakdown by source of financing** (million euro) | | |
|---|---|---|
| | **31/12/2005** | 31/12/2004 |
| Bond interest | **(7.9)** | (8.4) |
| Interest on medium/long-term bank loans | **(2.9)** | (3.1) |
| Interest on liability for GDAH acquisition | **(8.5)** | – |
| Interest on short-term borrowing | **(12.7)** | (13.7) |
| Other | **(4.1)** | (4.4) |
| **Total** | **(36.1)** | **(29.6)** |

The bond interest incurred in 2005 relates to the US Private Placement with institutional investors in September 2004, while the 2004 amount mainly relates to the Eurobond which expired and was repaid in November 2004.

Interest on the liability for the GDAH acquisition was not recognised in 2004, since the amount due on the acquisition of this company was only recorded from 1 January 2005, following the application of IAS 32 and IAS 39, as described further in the FTA Appendix presented in paragraph 11.

Exchange rate fluctuations include the effects of applying IAS 29 in relation to companies that operate in hyper-inflationary economies (Turkey), as well as the economic effects of measuring financial derivatives that hedge exchange rate risk.
Exchange rate fluctuations are analysed as follows:

| **Exchange rate fluctuations** (million euro) | | |
|---|---|---|
| | **31/12/2005** | 31/12/2004 |
| Realised exchange rate fluctuations, net | **4.7** | (6.1) |
| Unrealised exchange rate fluctuations, net | **0.2** | (0.2) |
| **Exchange rate fluctuations, net** | **4.9** | **(6.4)** |

The other effects include the financial component of the actuarial measurement of the defined benefit pension plans. These effects are analysed below.

| **Benefit pension plans effects** (million euro) | | | | | | |
|---|---|---|---|---|---|---|
| | **31/12/2005** | | | 31/12/2004 | | |
| | **Interest expenses** | **Expected yield on investments** | **Total** | Interest expenses | Expected yield on investments | Total |
| UK pension plans | **(15.2)** | **18.9** | **3.7** | (13.9) | 16.3 | 2.4 |
| Termination benefits | **(2.8)** | **–** | **(2.8)** | (2.8) | – | (2.8) |
| **Total** | **(17.9)** | **18.9** | **1.0** | **(16.7)** | **16.3** | **(0.4)** |

## 8.9. Share of profit (losses) from associates

Profits and losses from associates are analysed below.

| **Profits and losses from associates** (million euro) | **31/12/2005** | 31/12/2004 |
|---|---|---|
| Gain on disposal of investment in MPE | **3.8** | – |
| Impairment of the investment in Fabriano Basket | **(3.7)** | – |
| Loss on disposal of Faber Factor | **–** | (4.6) |
| Impairment of the investment in Faber Factor | **–** | (1.8) |
| Adjustment of selling price of Faber Factor | **(1.2)** | – |
| Revaluation of other equity investments | **1.0** | 1.0 |
| **Share of profit (losses) of associates** | **(0.1)** | **(5.4)** |

## 8.10. Income tax

The taxation charged to the income statement is analysed below:

| **Income tax** (million euro) | **31/12/2005** | 31/12/2004 |
|---|---|---|
| IRES | **(4.8)** | (7.5) |
| IRAP | **(11.0)** | (13.1) |
| Other direct taxes charged by nations where the Group operates | **(43.7)** | (50.6) |
| Change in deferred tax assets net | **17.0** | 12.6 |
| **Total** | **(42.4)** | **(58.6)** |

The following table reconciles the theoretical tax charge, determined using the current tax rate in Italy, with the tax charge recognised.

| **Tax charge reconciliation** (million euro) | **31/12/2005** | 31/12/2004 |
|---|---|---|
| Profit before tax | **92.8** | 159.6 |
| Theoretical tax charge (33%) | **(30.6)** | (52.7) |
| Actual tax charge | **(42.4)** | (58.6) |
| **Difference** | **(11.8)** | **(6.0)** |
| Effects relating to the Parent Company and companies based in Italy | | |
| IRAP | **(11.0)** | (13.1) |
| Taxation of dividends to be distributed by subsidiaries | **(5.6)** | (5.3) |
| Prior year items and undeductible expenses | **(1.8)** | (1.7) |
| Taxation on undeductible stock option expense | **(0.7)** | (0.4) |
| Effect of “Tecno-Tremonti” relief | **–** | 0.6 |
| Effect of untaxed gains on disposal of investments | **1.2** | (1.1) |
| Other effects | **1.8** | (0.5) |
| **Total effects relating to the Parent Company and companies based in Italy** | **(16.0)** | **(21.5)** |
| **Effects relating to companies operating in other nations and tax differentials with respect to companies based in Italy** | **4.2** | **15.6** |
| **Total differences** | **(11.8)** | **(6.0)** |

Taxation represents 45.7% (36.7%) of profit before tax (PBT). This increase in the tax burden was due to the higher incidence of taxes (IRAP) that are not directly proportional to the results for the year, and to the tax effects deriving from companies that operate abroad which are linked, in particular, with their losses since the related deferred tax assets have not been recognised. As described in paragraph 8.17 with regard to the composition of deferred tax assets, the deferred tax assets recognised in relation to prior year losses amount to 20.9 million euro (11.1 million euro), while those not recognised since recovery is not considered probable at the balance sheet date amount to 22.5 million euro (14.5 million euro). The situation is analysed in the following table.

**Deferred tax assets recognised** (million euro)

| Company | Tax losses | Duration of recoverability | Tax rate | Deferred tax assets recognised | Deferred tax assets not recognised | Total |
|---|---|---|---|---|---|---|
| Indesit Company Luxembourg S.A. | 58.9 | indefinite | 22.00% | 3.6 | 9.4 | **13.0** |
| Indesit Company UK Ltd | 46.4 | indefinite | 30.00% | 12.6 | 1.3 | **13.9** |
| Indesit Company Portugal Electrodomésticos, A.S. | 14.6 | 6 years | 27.50% | – | 4.0 | **4.0** |
| Fabrica Portugal SA | 9.5 | 6 years | 27.50% | – | 2.6 | **2.6** |
| Indesit Company Financial Services Luxembourg S.A. | 0.2 | indefinite | 22.00% | – | 0.1 | **0.1** |
| Indesit Company Magyarország Kft | 8.8 | indefinite | 16.00% | – | 1.4 | **1.4** |
| Indesit Company Deutschland GmbH | 1.5 | indefinite | 40.86% | – | 0.6 | **0.6** |
| Indesit Electrodomésticos S.A. | 17.8 | 15 years | 35.00% | 3.2 | 3.0 | **6.2** |
| Other companies | n.a. | n.a. | n.a. | 1.5 | – | **1.5** |
| **Total** | **157.8** | | | **20.9** | **22.5** | **43.3** |

The above table does not include those losses of Group companies based in the UK which are only offsettable on conditions that are particularly restrictive; it does however reflect the recognition during the year of deferred tax assets totalling 9.3 million euro, in part not recorded in prior years, which meet the criteria for recognition.
The deferred tax liability in relation to distributable reserves is only recorded to the extent that distributions are expected. In particular, deferred tax liabilities totalling 4.2 million euro have been recognised in relation to the retained earnings of Closed Joint Stock Indesit International, a Russian company.

### 8.11. Profit attributable to minority interests

Profit attributable to minority interests relates to the companies which are not wholly owned by the Indesit Group including, in particular, Indesit Portugal S.A., Aermarche S.p.A., Wuxi Indesit and Argentron. The situation is analysed in a table presented in paragraph 8.24.

## Consolidated balance sheet

### 8.12. Property, plant and equipment

The changes in property, plant and equipment are analysed in a table presented on the following page.

The change in property, plant and equipment reflects additions of 123.6 million euro and decreases of 29.0 million euro, which are broadly consistent with the level of additions and decreases during the year ended 31 December 2004. The residual change in carrying amount mainly reflects translation adjustments. The depreciation charge for the year was 115.5 million euro.

The reclassification to Assets held for sale is described in paragraph 8.22.

The carrying amounts of land and buildings, plant and machinery, and industrial and commercial equipment include 33.1 million euro and relate to the recognition at the fair value of the related assets on the acquisition of GDAH in 2002, as described further in paragraph 8.13.

The property, plant and equipment of the company operating in Turkey, a hyper-inflationary economy, have been revalued in accordance with IAS 29. The recovery through use of the carrying amount of these revalued assets was tested for impairment at 1 January 2004. As a result of this test, the need to adjust the restated value of these assets by a total of about 6.0 million euro was identified, being substantially the same as the amount of the hyper-inflation revaluation. The recoverability of these fixed assets was tested again at 31 December 2004 and 2005, without identifying the conditions required for the reversal of the impairment loss or any further adjustments.

Outstanding orders placed for the supply of property, plant and equipment amount to 10.1 million euro.

Insurance reimbursements of 6.8 million euro were collected in 2005 to cover the direct losses incurred at the Albacina factory as a result of bad weather.

**Changes in property, plant and equipment** (million euro)

| | Land and buildings | Plant and machinery | Industrial and commercial equipment | Assets under construction | Other assets | **Total** |
|---|---|---|---|---|---|---|
| at 31/12/2004 | | | | | | |
| Historical cost | 371.4 | 745.3 | 381.0 | 55.3 | 167.6 | **1,720.6** |
| Accumulated depreciation and impairment losses | (121.2) | (456.6) | (296.2) | – | (100.4) | **(974.5)** |
| **Total** | **250.2** | **288.7** | **84.7** | **55.3** | **67.2** | **746.1** |
| Changes during 2005 | | | | | | |
| Additions | 10.2 | 38.2 | 17.7 | 50.4 | 7.0 | **123.6** |
| Decreases | (5.6) | (17.4) | (1.8) | (0.1) | (4.2) | **(29.0)** |
| Use of accumulated depreciation | 1.2 | 16.5 | 0.5 | – | 2.6 | **20.9** |
| Impairment losses | (0.2) | – | – | – | (0.2) | **(0.4)** |
| Depreciation charge | (14.5) | (52.0) | (23.5) | – | (25.4) | **(115.5)** |
| Reclassifications from assets under construction | 31.7 | 8.5 | (4.8) | (46.7) | 11.3 | **–** |
| Reclassifications to assets available for sale | (4.9) | – | – | – | (1.9) | **(6.8)** |
| Exchange rate differences | 12.6 | 17.0 | 2.0 | 4.9 | 1.5 | **38.0** |
| **at 31/12/2005** | | | | | | |
| Historical cost | 415.4 | 791.7 | 394.1 | 63.9 | 181.4 | **1,846.5** |
| Accumulated depreciation and impairment losses | (134.7) | (492.1) | (319.3) | – | (123.5) | **(1,069.6)** |
| **Total** | **280.7** | **299.6** | **74.9** | **63.9** | **57.9** | **776.9** |

### Assets under finance leases

The net carrying amount of assets held under finance lease amounts to 3.3 million euro and relates to industrial and commercial buildings, 2.7 million euro, and land, 0.6 million euro.

The finance lease of industrial and commercial buildings and land relates to the building in Croissy (France) and the related land. This contract has a term of 15 years and expires in 2011; the Group expects to make the agreed end-of-lease purchase payment. The building is mortgaged for the amount of the outstanding finance lease liability.

The minimum lease payments are analysed by maturity as follows:

| **Finance leases 31/12/2005** (million euro) | |
|---|---|
| Within 1 year | 0.5 |
| Between 1 and 5 years | 1.8 |
| Beyond 5 years | 0.5 |
| **Total minimum lease payments** | **2.8** |

There is no difference between present value and the amount of these minimum lease payments.

### Non-cancellable operating leases

The minimum lease payments under non-cancellable operating leases are analysed by maturity below:

| **Non-cancellable operating leases 31/12/2005** (million euro) | |
|---|---|
| Within 1 year | 15.0 |
| Between 1 and 5 years | 39.4 |
| Beyond 5 years | 45.6 |
| **Total minimum lease payments** | **100.0** |

The principal assets held under non-cancellable operating leases comprise:

- the factory at Blythe Bridge in the UK, for which the minimum lease payments total 23.5 million euro. This contract has a term of 99 years, ending in 2069. The contract envisages adjustments to the annual lease charge every 25 years. The next adjustment will take place in 2010. The contract does not envisage renewal or the repurchase of the assets concerned;
- the warehouse at Raunds in the UK, for which two contracts have been arranged with total minimum lease payments of 26.5 and 11.6 million euro, respectively. These contracts expire in 2020 and 2021, respectively, and envisage adjustments to the annual lease charge every 5 years. The contracts do not envisage renewal or the repurchase of the assets concerned;
- the factory operated by Wuxi in China, for which the minimum lease payments amount to 3.4 million euro. This contract has a term of 10 years, ending in 2015. The contract can be renewed on expiry, with agreement from the lessor, or the Chinese company can repurchase the assets at their market value.

The income statement reflects lease charges incurred under operating leases of 16.4 million euro.

## 8.13. Goodwill and other intangible assets with an indefinite useful life

Goodwill and other intangible assets with an indefinite useful life are analysed as follows:

**Goodwill and other intangible assets with an indefinite useful life** (million euro)

| | Historical cost | Accumulated impairment losses at 31/12/2004 | Net balance at 31/12/2004 | Effect of applying IAS 32 and IAS 39 | Net balance at 01/01/2005 | Change in scope of consolidation | Exchange rate differences arising in the year | Impairment losses during the year | Historical cost | Accumulated impairment losses at 31/12/2005 | **Net balance at 31/12/2005** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Goodwill | 101.7 | (7.3) | 94.4 | 63.3 | 157.7 | 0.3 | 4.3 | – | 169.8 | (7.5) | **162.3** |
| Brands with an indefinite useful life | 165.0 | (11.8) | 153.2 | – | 153.2 | – | 3.4 | – | 168.8 | (12.1) | **156.6** |
| **Total** | **266.7** | **(19.1)** | **247.6** | **63.3** | **310.9** | **0.3** | **7.7** | **–** | **338.6** | **(19.7)** | **318.9** |

The change in the scope of consolidation during the year in relation to goodwill (0.3 million euro) relates to the purchase of a 70% investment in Wuxi Indesit Home Appliance Co. Ltd, a Chinese company.
The brand names with an indefinite useful life and the remainder of the goodwill relate to the purchase of General Domestic Appliances Holdings Ltd (GDAH), a UK company, in 2002. As described further in the FTA Appendix presented in paragraph 11, Indesit Company has not made use of the exemption allowed under IFRS 1 on first-time adoption, and has applied IFRS 3 retrospectively from 2002 in order to recognise the acquisition of GDAH using the purchase method of accounting. On allocating the acquisition price of GDAH, 160.3 million euro was attributed to brands with an indefinite useful life and 164.9 million euro to goodwill.
The brands with an indefinite useful life are Hotpoint and Cannon. These brands are deemed to have an indefinite useful life since they are strategic to the Group being, respectively, the leader of the UK market for household appliances and the leader in the ovens sector, especially double ovens. These brand names are denominated in pounds sterling and their carrying amount at 31 December 2005 reflects a positive translation effect of 3.4 million euro.

The change in the value of goodwill between 31 December 2004 and 31 December 2005 principally reflects the effect of applying IAS 32, as described further in the FTA Appendix. This goodwill is denominated in pounds sterling and, consequently, the carrying amount at 31 December 2005 reflects the positive effect, 4.5 million euro, of the translation adjustment from sterling to euro for the year from 1 January 2005 to 31 December 2005.

Intangible assets with an indefinite useful life are tested for impairment at least once every year. The test performed at 31 December 2004 and 2005 did not identify the need to adjust the carrying amount of these assets. For the purposes of this test, part of the goodwill identified at the time of acquisition and expressed at current exchange rates, 38.0 million euro, was attributed to the cash-generating unit (CGU) represented by the UK market and part, 119.0 million euro, was attributed to the Group CGUs that are expected to benefit from the synergies released as a result of the acquisition.
The recoverable amount of the CGU represented by the UK market (UK CGU) and the CGU represented by the Group (Group CGU) makes reference to the value-in-use of the assets concerned. The related calculations discount the forecast cash flows included in the business plans of the UK CGU for the next five years, and those of the Group CGU for the next three years, being the period covered by the three-year business plan. The cash flows used to estimate the recoverable amount of the CGUs are based on the medium-term plans prepared by management, having regard for past experience and forecasts for the business considering expected market trend.

The principal assumptions underpinning the business plan of the UK CGU are set out below:
1. volume of sales: annual average growth of 1.5% during the period covered by the plan;
2. price trend: annual average decrease of 0.7% during the period covered by the plan;
3. gross margin: annual average increase of 0.4% in the period covered by the plan.

The assumptions contained in the business plan of the Group CGU are those reported in the Business plan published together with the half year report as of 30 June 2005.

Forecast cash flows have been discounted using the weighted-average cost of capital (WACC) of 7.51% for the UK CGU and 7.02% for the Group CGU. The terminal value of the CGUs was determined by assuming a long-term cash flow equal to the cash flow generated in the final year of the business plan, and a nominal long-term growth factor (g) of 2%, equal to inflation, representing therefore a situation with virtually no real growth. The impairment test on the UK CGU was carried out with the assistance of an independent valuer.

## 8.14. Other intangible assets with a finite life

Other fixed assets are analysed as follows:

| **Other intangible assets with a finite life** (million euro) | 31/12/2004 | | | Changes during 2005 | | | | **31/12/2005** | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Historical cost | Accumulated amortisation and impairment losses | **Net balance at 31/12/2004** | Additions and capitalisations during the year | Decreases | Amortisation and impairment losses in the year | Exchange rate differences | **Historical cost** | **Accumulated amortisation and impairment losses** | **Total** |
| Development expenses | 50.4 | (21.7) | **28.7** | 22.0 | – | (8.3) | 0.1 | **69.5** | **(27.0)** | **42.5** |
| Licences and software | 106.7 | (62.0) | **44.7** | 8.8 | – | (16.1) | 0.9 | **105.8** | **(67.5)** | **38.3** |
| Brands with a finite useful life | 21.2 | (2.7) | **18.5** | – | – | (1.1) | 0.5 | **21.8** | **(3.8)** | **18.0** |
| Other | 8.9 | (1.8) | **7.1** | 1.0 | – | (0.1) | 0.0 | **9.7** | **(1.7)** | **8.0** |
| **Total** | **187.2** | **(88.1)** | **99.1** | **31.7** | **–** | **(25.6)** | **1.6** | **206.8** | **(100.1)** | **106.7** |

The development expenditure capitalised during 2005 totalled 22.0 million euro (17.8 million euro). The development expenditure caption includes 10.1 million euro in relation to projects for the launch of new products not yet available for sale which, accordingly, have not been amortised.

The licences and software caption comprises the capitalised internal and external cost of IT projects carried out by the Group, and the cost of software licences that will benefit future years. The average residual life of these intangible assets is three years. This caption includes capitalised projects totalling 2.5 million euro that have not yet entered into service and which, therefore, have not been amortised.

The brands with a finite useful life caption includes 18.0 million relating to the Creda brand, which was recognised on the acquisition of GDAH. This brand is regularly tested for impairment and, overall, has suffered an impairment loss of 3.8 million euro having regard for the residual useful life of the brand in the marketplace.

The other intangible assets caption principally comprises industrial patents, the most significant of which belong to WRAP and have an average residual useful life of five years.

## 8.15. Investments in associates

Investments in associates are analysed below:

| **Investments in associates** (million euro) | **31/12/2005** | 01/01/2005 | 31/12/2004 |
|---|---|---|---|
| Merloni Progetti | **7.9** | 8.0 | 8.0 |
| Merloni Progetti Energia S.p.A. | **–** | 7.7 | 7.7 |
| Haier Indesit (QuigDao) Washing Machine Co. Ltd | **8.0** | 6.4 | 6.4 |
| Haier Indesit (QuigDao) Electrical Appl. Co. Ltd | **4.9** | 3.6 | 3.6 |
| Other minor | **0.9** | 0.9 | 0.9 |
| **Total investments in associates** | **21.7** | **26.6** | **26.6** |

Key information relating to the principal associates is presented below:

| **Key information of principal associates 31/12/2005** (million euro) | Assets | Liabilities | Revenue | Profit |
|---|---|---|---|---|
| Merloni Progetti | 64.6 | 37.1 | 55.6 | 0.3 |
| Haier Indesit (QuigDao) Washing Machine Co. Ltd | 50.7 | 25.2 | 76.1 | 1.4 |
| Haier Indesit (QuigDao) Electrical Appl. Co. Ltd | 35.5 | 22.3 | 48.9 | 1.8 |

| **Key information of principal associates 31/12/2004** (million euro) | Assets | Liabilities | Revenue | Profit |
|---|---|---|---|---|
| Merloni Progetti | 64.3 | 37.2 | 36.7 | 0.3 |
| Merloni Progetti Energia S.p.A. | 51.1 | 37.2 | 121.6 | 13.6 |
| Haier Indesit (QuigDao) Washing Machine Co. Ltd | 49.0 | 27.7 | 63.4 | 0.5 |
| Haier indesit (QuigDao) Electrical Appl. Co. Ltd | 35.1 | 22.9 | 33.0 | 2.9 |

## 8.16. Other investments

Other investments comprise investments in other companies which generally represent less than 20% of their equity capital or voting rights, and other non-current financial assets.

The change mainly relates to the reclassification of treasury shares as a reduction in equity on applying IAS 32 from 1 January 2005, as discussed further in the FTA Appendix presented in paragraph 11.

The investments held by Indesit Company are not listed and their securities are not traded in a regulated market. Accordingly, their fair value cannot be determined reliably since there were no transactions involving these securities during the past year. The cost of the securities held is analysed below:

**Other investments** (million euro)

| Investment | **31/12/2005** | 01/01/2005 | 31/12/2004 |
|---|---|---|---|
| Faber Factor | **1.1** | 1.1 | 1.1 |
| Meurice Ets. | **0.5** | 0.9 | 0.9 |
| SS Fabriano Basket S.p.A. | **0.2** | 2.0 | 2.0 |
| Co. Pro. S.p.A. | **0.1** | 0.1 | 0.1 |
| Egyptian Cookers Man. | **0.1** | 0.1 | 0.1 |
| Emittente Titoli S.p.A. | **0.1** | 0.1 | 0.1 |
| Treasury shares | **–** | – | 33.0 |
| Other securities | **0.2** | 0.2 | 0.2 |
| **Total** | **2.3** | **4.5** | **37.5** |

## 8.17. Deferred tax assets

Deferred tax assets and the related changes during the year are analysed in the following table:

| **Deferred tax assets** (million euro) | Opening balance 31/12/2004 | Credited/ charged to income statement | Application of IAS 32-39 | Reclassifications | Exchange rate effect | **Closing balance 31/12/2005** |
|---|---|---|---|---|---|---|
| Property, plant and equipment | 1.1 | 0.3 | – | – | (0.1) | **1.3** |
| Intangible assets | 7.5 | (2.2) | – | – | (0.0) | **5.2** |
| Other investments | 0.2 | (0.1) | – | – | – | **0.1** |
| Inventories | 2.5 | 0.6 | – | – | 0.0 | **3.1** |
| Financial payables | – | (2.8) | 5.7 | – | – | **2.9** |
| Deferred payroll | 15.1 | (2.0) | – | – | 0.5 | **13.6** |
| Provisions for risks | 7.3 | 1.1 | – | – | 0.6 | **8.9** |
| Other | 17.2 | 3.2 | 0.2 | – | 0.5 | **21.0** |
| Tax losses carried forward | 9.9 | 10.9 | – | – | 0.1 | **20.9** |
| **Total** | **60.7** | **9.0** | **5.9** | **–** | **1.5** | **77.1** |
| Amounts offset | (15.0) | (4.2) | – | (14.3) | (0.7) | **(34.2)** |
| **Total net** | **45.8** | **4.8** | **5.9** | **(14.3)** | **0.8** | **42.9** |

The amounts offset relate to the deferred tax liabilities that reduce these deferred tax assets since they are due to the same tax authorities, are legally offsettable and relate to temporary differences that will reverse at the same time, as also indicated in paragraph 8.28.

## 8.18. Inventories

Inventories are analysed as follows:

| **Inventories** (million euro) | **31/12/2005** | 01/01/2005 | 31/12/2004 |
|---|---|---|---|
| Raw materials and semi-finished parts | **92.6** | 83.9 | 83.9 |
| Finished products | **250.2** | 249.5 | 246.5 |
| **Total inventories** | **342.8** | **330.5** | **330.5** |

The provision for inventories totals 11.8 million euro and the accrual for the year was 1.6 million euro.
The change in inventories since 31 December 2004 was principally due to an increase in raw material inventories. The change in finished products shown above, 3.7 million euro, differs from the reduction of 4.7 million euro reported in the table in paragraph 8.7 due to the effect of translating foreign currency financial statements, which amounted to 8.4 million euro.

## 8.19. Trade receivables

Trade receivables comprise amounts due from customers as a result of commercial transactions and the provision of services, stated net of accumulated impairment losses of 36.7 million euro (38.3 million euro).
Advances to suppliers for the purchase of goods at 31 December 2005 amount to 4.5 million euro (3.5 million euro).
The Group sells a portion of its trade receivables under a revolving securitisation programme. This transaction involves the without-recourse sale of a portfolio of receivables to a company that finances such purchases through the issue of securities guaranteed by

the receivables acquired. The securities are subdivided in different risk classes in relation to their rating. The higher risk classes are subscribed by the Group. In accordance with IAS 39, the receivables sold under the securitisation programme, amounting to 111.3 million euro at 31 December 2005, continue to be recognised as trade receivables in the balance sheet and securities issued amounting to 32.2 million euro at 31 December 2005 have been reclassified to this caption.
The balances at 31 December 2005 and 31 December 2004 are not comparable due to the effect of applying IAS 39 from 1 January 2005. Reinstating the receivables sold, trade receivables at 31 December 2004 would have totalled 625.8 million euro.
As of 31 December 2005, trade receivables totalling 29.2 million euro have been sold without recourse, with the transfer of all the principal risks and rewards; accordingly, they have been eliminated from the trade receivables caption.

## 8.20. Tax receivables

Tax receivables due from the tax authorities of the nations in which the Group operates relate to advance taxation and VAT. These amounts are analysed below:

| **Tax receivables** (million euro) | | | |
|---|---|---|---|
| | **31/12/2005** | 01/01/2005 | 31/12/2004 |
| Advance taxation | **21.3** | 11.3 | 11.3 |
| VAT | **29.2** | 28.2 | 28.2 |
| IRPEF on advance of termination benefits | **2.2** | 3.1 | 3.1 |
| Tax credit for Polish Economic Zone | **13.5** | 1.6 | 1.6 |
| **Total** | **66.2** | **44.3** | **44.3** |

## 8.21. Other receivables and current assets

Other receivables and current assets are analysed as follows:

| **Other receivables and current assets** (million euro) | | | |
|---|---|---|---|
| | **31/12/2005** | 01/01/2005 | 31/12/2004 |
| Due from employees | **3.6** | 4.1 | 4.1 |
| Insurance reimbursements | **3.0** | 0.7 | 0.7 |
| Grants due from public bodies | **15.7** | 16.8 | 16.8 |
| Due from social security and pension institutions | **0.7** | 0.6 | 0.6 |
| Other receivables | **7.9** | 6.5 | 9.1 |
| **Total other receivables and current assets** | **31.0** | **28.7** | **31.2** |

## 8.22. Assets held for sale

Assets available for sale principally comprise the industrial building at Thionville, which was put on sale following the closure of the factory. This asset is recognised at 4.2 million euro, determined with reference to a preliminary sale contract, net of disposal costs, that is due to be completed by 28 December 2006. This amount is 0.7 million euro lower than the amount previously recognised.
This caption also includes an aircraft owned by Aermarche S.p.A. with a carrying amount of 1.7 million euro, representing its estimated selling price after deducting disposal costs. This amount is 0.2 million euro lower than the amount previously recognised.

## 8.23. Equity attributable to the Group

The statement of changes in equity is presented in a separate schedule.
Share capital comprises ordinary shares and savings shares, as analysed as follows.

| Indesit Company share capital | | | | |
|---|---|---|---|---|
| | **Shares at end of year 2005** | | Shares at end of year 2004 | |
| | **Number** | **Euro** | Number | Euro |
| Ordinary shares | **112,995,934** | **101,696,340.60** | 109,752,372 | 98,777,134.80 |
| Savings shares | **511,282** | **460,153.80** | 2,502,844 | 2,252,559.60 |
| **Total** | **113,507,216** | **102,156,494.40** | **112,255,216** | **101,029,694.40** |

The change in share capital during the year was due to the exercise of stock options, involving the purchase of 1,252,000 shares, and to the conversion of 1,991,562 savings shares.
The number of shares in the table is stated gross of the treasury shares held. Net of the treasury shares held directly by Indesit Company S.p.A., 11,039,750, there are 102,467,466 ordinary shares outstanding at 31 December 2005.
Merloni Progetti S.p.A., an associated company, directly and indirectly holds 1,092,782 shares in Indesit Company S.p.A. at 31 December 2005.
No new stock options were granted in 2005. The total cost charged to the income statement for the year ended 31 December 2005 was 2.0 million euro.

The nominal value of the ordinary and savings shares is 0.90 euro.

The holders of ordinary shares and savings shares enjoy the ownership and participation rights granted under Italian law and the articles of association of Indesit Company S.p.A. In addition to the right to participate in the allocation of profits and the liquidation of the company assets, the ordinary shares also carry the right to vote at ordinary and extraordinary shareholders' meetings. The savings shares, on the other hand, have greater ownership rights but reduced administrative rights. The greater ownership rights comprise:
1. the right to an allocation of profit for the year (after allocating 5% to the legal reserve) representing up to 5% of the nominal value of the savings shares;
2. the right, if a dividend of less than 5% was paid in a given year, to collect this shortfall in the preference dividend in the following two years;
3. the right, if a dividend is declared at the shareholders' meeting, to receive a total dividend that is higher than that paid on the ordinary shares by 2% of the nominal value of the savings shares.

In addition, in the event of a share capital reduction to cover losses, the nominal value of the savings shares is only reduced by the amount of the losses that exceed the total nominal value of the other shares.
The lower administrative rights with respect to the ordinary shares consist of the absence of voting rights at ordinary and extraordinary shareholders' meetings.

The following table analyses the share capital structure of the Parent Company, indicating the outstanding stock options and the treasury shares held (amounts in euro).

| **Indesit Company share capital structure** (euro) | Authorised share capital* | Authorised no. of shares* | Issued and fully-paid share capital* | No. of shares issued and fully paid* |
|---|---|---|---|---|
| Share capital following the conversion of savings shares into ordinary shares in 2001 | 98,832,569.40 | 109,813,966 | 98,832,569.40 | 109,813,966 |
| 1st and 2nd stock option plans for employees authorised on 19 September 1998 and 23 October 2001 | 5,400,000.00 | 6,000,000 | 2,063,925.00 | 2,293,250 |
| 1st stock option plan for Directors authorised on 23 October 2001 | 1,260,000.00 | 1,400,000 | 1,260,000.00 | 1,400,000 |
| 2nd stock option plan for Directors authorised on 6 May 2002 | 180,000.00 | 200,000 | – | – |
| 1st stock option plan for the Chairman of the Board of Directors authorised on 5 May 2004 | 900,000.00 | 1,000,000 | – | – |
| **Total** | **106,572,569.40** | **118,413,966** | **102,156,494.40**** | **113,507,216**** |

The changes in and restrictions applying to the principal reserves are described below. The detailed analysis of these changes is presented in a separate schedule.

### Reserves

**a.** Share premium reserve: this reserve, 31.3 million euro, increased by 5.2 million euro in 2005 following the exercise of stock options. The share premium reserve includes 16.4 million euro that is tied up until 31 December 2006 in relation to industrial investment grants for the investment programme of Distretto dell'Elettrodomestico Società Consortile ar.l., pursuant to the CIPE resolution dated 15/11/2001, which requires the contribution of own capital representing 25% of the investment.

**b.** Legal reserve: this reserve, 15.3 million euro, reflects allocation of 5% of the parent company's profit each year. The increase during the year was 3.7 million euro.

**c.** Translation reserve: the translation reserve amounts to 55.7 million euro as of 31 December 2005 and reflects the exchange rate differences arising on the translation of foreign currency financial statements. On the first-time adoption of IFRS, the Group elected to reclassify the translation reserve at 1 January 2004 to the Other reserves; accordingly, the reported balance represents the translation differences arising since that date.

**d.** Other reserves, 156.9 million euro, comprise:

1. The extraordinary reserve, 120.5 million euro, which has increased by 34.4 million euro on allocation of the parent company's residual profit for 2004. This reserve includes 5.3 million euro that is tied up in relation to the investment required in the territorial agreement for the factory at Comunanza (Italy). This reserve also includes 18.9 million euro that is tied up in order to obtain tax benefits associated with investment programmes financed by government grants.
2. Reserve for government grants, 20.6 million euro, that were principally made to the parent company. This reserve was unchanged in 2005.
3. Other residual reserves of 15.8 million euro, which principally comprise the revaluation reserve of 4.2 million euro and 9.9 million euro deriving from the application of IAS 32 and 39 with effect from 1 January 2005.

### Retained earnings

Retained earnings amount to 102.5 million euro and include 5.7 million euro (3.5 million euro) relating to associates measured using the equity method. This reserve decreased by 36.7 million euro in 2005 following the distribution of dividends and increased by 61.9 million euro on the allocation of profit for 2004.

As described in the FTA Appendix, pursuant to IAS 32, treasury shares have been reclassified from assets to equity with effect from 1 January 2005, resulting in a reduction of share capital by 9.9 million euro and a decrease in the reserve for treasury shares by 23.0 million euro.

* Both ordinary and savings shares.

** Recorded on the Companies' Register as of 31/12/2005.

The dividends paid in 2005 amounted to 36.7 million euro (36.2 million euro), representing 0.36 euro per ordinary share and 0.38 euro per savings share (also 0.36 euro per ordinary share and 0.38 euro per savings share). The increase in the total dividend paid in 2005 is explained by the exercise of stock options, which raised the number of ordinary shares outstanding.

The following table shows the calculation of the basic earnings per share (Basic EPS) and the diluted earnings per share (Diluted EPS) shown in the consolidated income statement.

| Basic EPS | | |
|---|---|---|
| | **31/12/2005** | 31/12/2004 |
| Basic attributable earnings (million euro) | **50.4** | 101.0 |
| Unit earnings attributed to savings shares (euro) | **0.526** | 1.082 |
| Number of savings shares (thousand) | **511.3** | 2,502.8 |
| Earnings attributed to savings shares (million euro) | **(0.27)** | (2.71) |
| **Basic attributable earnings (million euro)** | **50.1** | **98.3** |
| Basic average number of ordinary shares (thousand) | **100,514.3** | 98,033.10 |
| **Basic EPS (euro)** | **0.50** | **1.00** |

| Diluted EPS | | |
|---|---|---|
| | **31/12/2005** | 31/12/2004 |
| Basic attributable earnings (million euro) | **50.1** | 98.3 |
| Basic average number of ordinary shares (thousand) | **100,514.3** | 98,033.1 |
| Average number of shares granted to Directors without payment (thousand) | **413.6** | 1,177.8 |
| Average number of shares granted to employees without payment (thousand) | **233.6** | 735.3 |
| **Total** | **101,161.5** | **99,946.4** |
| **Diluted EPS (euro)** | **0.50** | **0.98** |

Group consolidated equity is reconciled with the equity of Indesit Company S.p.A. in the following table. Since the equity and profit of the parent company are stated in accordance with Italian GAAP, the following reconciliation also shows the effects of applying IFRS.

| **Reconciliation with the financial statements of the Group** (million euro) | **31/12/2005** | | 31/12/2004 | |
|---|---|---|---|---|
| | **Results** | **Equity** | Results | Equity |
| Financial statements of the parent company under Italian GAAP | **92.8** | **412.2** | 74.8 | 349.8 |
| Consolidation adjustments | | | | |
| Difference between carrying amount of and equity of Group companies | **75.1** | **195.1** | 163.4 | 214.1 |
| Measurement of companies using the equity method | **(2.4)** | **(3.0)** | (4.7) | (2.6) |
| Recognition of business acquisitions (GDAH) | **4.0** | **(9.0)** | (0.7) | (45.8) |
| Effect of aligning consolidated financial statements with Group accounting | **3.6** | **(18.7)** | (11.8) | (40.4) |
| Recognition and measurement of derivative instruments and related | **(7.7)** | **(35.6)** | – | – |
| Recognition of liability for employee benefits | **2.4** | **(25.0)** | 0.9 | (18.0) |
| Recognition of grants | **2.7** | **1.3** | 1.2 | (2.5) |
| Measurement of stock options | **(2.0)** | **–** | (1.2) | – |
| Reclassification of treasury shares | **–** | **(33.0)** | – | – |
| Elimination of intercompany profits | **5.3** | **(4.6)** | (3.1) | (7.2) |
| Dividends received from subsidiaries | **(125.7)** | **–** | (123.9) | 12.4 |
| Tax effect of adjustments | **0.5** | **23.9** | 8.3 | 15.0 |
| Other minor effects | **2.2** | **1.0** | (3.2) | (2.5) |
| **Total consolidation adjustments** | **(42.1)** | **92.4** | **25.2** | **122.6** |
| **Consolidated financial statements under IFRS** | **50.7** | **504.6** | **100.0** | **472.4** |

## 8.24. Minority interests

The minority interests have decreased by 126.9 million euro since 31 December 2004 due to the application of IAS 32 from 1 January 2005, as described further in the FTA Appendix.

The minority interests are analysed in the following table:

| **Minority interests** (million euro) | **31/12/2005** | | 01/01/2005 | 31/12/2004 | |
|---|---|---|---|---|---|
| | **Equity** | **Results for the year** | Equity | Equity | Results for the year |
| WRAP S.p.A. | **3.2** | **0.1** | 3.1 | 3.1 | 0.1 |
| Wuxi Indesit Home Appliance Co. Ltd | **3.0** | **(0.5)** | – | – | – |
| Fabrica Portugal S.A. | **(0.2)** | **–** | 0.1 | 0.1 | – |
| Argentron S.A. | **1.8** | **0.3** | 1.0 | 1.0 | 0.5 |
| Aermarche S.p.A. | **6.6** | **(0.2)** | 6.8 | 6.8 | (0.1) |
| Closed Joint Stock Company Indesit International | **–** | **–** | – | 13.6 | 0.4 |
| General Domestic Appliances Holdings Ltd | **–** | **–** | – | 113.3 | – |
| **Total** | **14.4** | **(0.3)** | **10.9** | **137.8** | **0.9** |

Lastly, minority interests increased by a total of 3.5 million euro in 2005, principally due to the inclusion of Wuxi Indesit Home Appliance Co. Ltd within the scope of consolidation.

## 8.25. Net financial position

The net financial position of the Group is analysed below.

| **Net financial position** (million euro) | Paragraph | **31/12/2005** | 01/01/2005 | 31/12/2004 |
|---|---|---|---|---|
| Current financial assets | 8.25.1 | **6.7** | 9.8 | 33.2 |
| Cash and cash equivalents | 8.25.2 | **199.7** | 212.2 | 212.2 |
| Banks and other financial payables | 8.25.3 | **(319.1)** | (287.3) | (133.2) |
| **Net financial position – short term** | | **(112.8)** | **(65.3)** | **112.2** |
| Other non-current financial assets | 8.25.4 | **89.3** | 74.4 | 72.7 |
| Medium/long-term financial payables | 8.25.5 | **(494.1)** | (521.1) | (396.0) |
| **Net financial position – medium/long term** | | **(404.7)** | **(446.7)** | **(323.3)** |
| **Total net financial position** | | **(517.5)** | **(512.0)** | **(211.0)** |

### 8.25.1 Current financial assets

Current financial assets include the fair value adjustment of the current portion of derivative financial instruments, recognised in accordance with IAS 39 and analysed in paragraph 9. The change at 1 January 2005 with respect to 31 December 2004 reflects the effect deriving from the derecognition of financial assets in accordance with IAS 39 and, in particular, from the reclassification of the securities acquired to guarantee the securitisation transaction.

### 8.25.2 Cash and cash equivalents

Cash and cash equivalents include bank and postal deposits, as well as cheques and other amounts on hand. The changes in liquidity during the year are analysed in the statement of consolidated cash flows.

### 8.25.3 Banks and other financial payables

Banks and other financial payables mainly comprise amounts due within the current year. This caption is analysed below:

| **Banks and other financial payables** (million euro) | **31/12/2005** | 01/01/2005 | 31/12/2004 |
|---|---|---|---|
| Short-term advances | **122.0** | 91.6 | 91.6 |
| Short-term advances against receivables | **106.5** | 99.3 | 14.5 |
| Other short-term bank borrowings | **17.2** | 10.8 | 10.8 |
| Liability from the measurement of derivative instruments | **3.3** | 19.9 | – |
| Current portion of bonds issued | **6.0** | – | – |
| Current portion of liability from the acquisition of GDAH | **47.0** | 49.4 | – |
| Current portion of MCC loan | **16.2** | 15.5 | 15.5 |
| Current portion of other medium/long-term loans | **1.0** | 0.7 | 0.7 |
| **Total** | **319.1** | **287.3** | **133.2** |

The liability from the measurement of derivative instruments and the current portion of the liability from the acquisition of GDAH were not recognised at 31 December 2004 since IAS 32 and 39 were applied from 1 January 2005. Similarly, the short-term advances against receivables at 31 December 2004 relate solely to amounts collected on behalf of the factor and related to the securitization transaction on the balance sheet date.

The effects of applying these accounting standards are described further in the FTA Appendix presented in paragraph 11.

### 8.25.4 Other non-current financial assets

Other non-current financial assets are analysed as follows:

| **Other non-current financial assets** (million euro) | **31/12/2005** | 01/01/2005 | 31/12/2004 |
|---|---|---|---|
| Term deposits | **78.2** | 70.3 | 70.3 |
| Assets from the measurement of derivative instruments | **10.3** | 1.7 | – |
| Other assets | **0.9** | 2.4 | 2.4 |
| **Total** | **89.3** | **74.4** | **72.7** |

Term deposits of 78.2 million euro comprise 29.8 million euro to guarantee loans granted to a Group company and 48.4 million euro to guarantee a banking syndicate in relation to the payment of the last tranche of liability to complete the purchase of GDAH.

Assets from the measurement of derivative instruments include the fair value measurement of the non-current portion derivative financial instruments, recorded in accordance with IAS 39. See paragraph 9 of a more detailed analysis.

Other non-current financial assets are analysed by maturity in the following table.

| **Other non-current financial assets by maturity** (million euro) | Total long term | Due within 1 year | Due between 1 and 5 years | Due beyond 5 years |
|---|---|---|---|---|
| Term deposits | 78.2 | 29.8 | 48.4 | – |
| Assets from the measurement of derivative instruments | 10.3 | – | 8.6 | 1.6 |
| Other assets | 0.9 | – | 0.9 | – |
| **Total** | **89.3** | **29.8** | **57.9** | **1.6** |

The term deposit of 29.8 million euro is classified as a non-current asset, even though it is due within one year, since the Group may elect to renew the deposit for an indefinite period and intends to do so.

### 8.25.5 Medium/long-term financial payables

Medium/long-term financial payables are analysed as follows:

| **Medium/long-term financial payables** (million euro) | **31/12/2005** | 01/01/2005 | 31/12/2004 |
|---|---|---|---|
| Bonds | **283.4** | 258.4 | 273.9 |
| Due to banks | **104.8** | 106.9 | 106.9 |
| Due on the acquisition of GDAH | **83.7** | 98.3 | – |
| Other payables | **22.2** | 57.5 | 15.2 |
| **Total** | **494.1** | **521.1** | **396.0** |

The bonds were subscribed for by institutional investors (US Private Placement) in September 2004. They are analysed in the following table.

| Bonds subscribed by institutional investors | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Nominal value mUsd | Nominal value mEur | Adjustment to fair value | Total | Maturity | Rate | Type of hedge |
| Notes – Series A | 65.0 | 53.9 | 0.5 | 54.4 | 17/09/2009 | Fixed | CCS |
| Notes – Series B | 70.0 | 58.1 | 1.2 | 59.3 | 17/09/2011 | Fixed | CCS |
| Notes – Series C | 148.0 | 122.8 | 5.2 | 128.0 | 17/09/2014 | Fixed | CCS |
| Notes – Series E | 25.0 | 20.7 | 1.2 | 21.9 | 17/09/2016 | Fixed | CCS |
| **Total Notes issued in Usd** | **308.0** | **255.6** | **8.1** | **263.7** | | | |
| Notes – Series D | n.a. | 18.3 | 1.4 | 19.7 | 17/09/2014 | Fixed | IRS |
| **Total Notes issued in euro** | **n.a.** | **273.9** | **9.5** | **283.4** | | | |

The interest and exchange rate risks relating to the above-mentioned US Private Placement have been hedged by a Cross Currency Swap which is described in the paragraph on financial instruments below.

The amounts due to banks totalling 104.8 million euro comprise loans from Mediocredito Centrale (MCC) to finance the factories in Russia and Poland, 74.3 million euro, the last instalments on which fall due in 2013, and loans from HSBC of 30.5 million euro.

The amount due on the acquisition of GDAH relates to the non-current portion, 83.7 million euro, of the liability to General Electric for the acquisition of GDAH. This liability was not recognised at 31 December 2004 since it was recorded on 1 January 2005, on application of IAS 32. The medium/long-term portion of the amount due on the acquisition of GDAH is analysed by maturity in the following table.

| **Maturity analysis** (million euro) | | | | |
|---|---|---|---|---|
| | Amount | Maturity | Rate | Type of hedge |
| Put and Call – V tranche | 43.5 | 01/10/2007 | Fixed | Collar |
| Put and Call – VI tranche | 40.2 | 30/12/2008 | Fixed | Cash collateral and Basis swap |
| **Total** | **83.7** | | | |

Other payables are analysed as follows:

| **Other payables** (million euro) | | | |
|---|---|---|---|
| | **31/12/2005** | 01/01/2005 | 31/12/2004 |
| Due to Ministry of Industry | **1.5** | 1.7 | 1.7 |
| Lease payables | **2.1** | 2.5 | 2.5 |
| Due to Simest | **9.8** | 9.0 | 9.0 |
| Due to EBRD | **–** | 13.6 | – |
| Liability from the measurement of derivatives | **7.5** | 28.7 | – |
| Other | **1.3** | 2.0 | 2.0 |
| **Total** | **22.2** | **57.5** | **15.2** |

The Group has a syndicated, committed revolving line of credit of 115.0 million pounds sterling which expires in April 2006. This line of credit was completely unused at 31 December 2005. The Group is obliged to comply with certain financial covenants in relation to the bonds, the loans from MCC and the syndicated line of credit. The financial parameters applying at the balance sheet date are set out below:

| **Financial parameters** | |
|---|---|
| Covenants | Covenant limit |
| EBITDA / Net financial expenses | ≥ 3.5 |
| Net borrowing / EBITDA | ≤ 3.0 |
| Equity | ≥ 320 million euro |

Long-term payables are analysed by maturity in the following table.

| **Long-term payables by maturity** (million euro) | Long-term payables by maturity | Due between 1 and 5 years | Due beyond 5 years |
|---|---|---|---|
| Bonds | 283.4 | 59.5 | 223.9 |
| Due to banks | 104.8 | 60.1 | 44.8 |
| Due on the acquisition of GDAH | 83.7 | 83.7 | – |
| Other payables | 22.2 | 21.5 | 0.6 |
| **Total** | **494.1** | **224.8** | **269.3** |

## 8.26. Employee benefits

The employee benefits caption reflects the provisions recorded for the defined benefit plans established for employees, such as employee severance indemnities and the pension funds operated by Indesit Company UK Ltd, deferred bonus plans and other pension funds. The situation is analysed in the following table.

| **Employee benefits** (million euro) | **31/12/2005** | 01/01/2005 | 31/12/2004 |
|---|---|---|---|
| Employee severance indemnities | **63.8** | 61.7 | 61.7 |
| UK pension plans | **40.7** | 43.9 | 43.9 |
| Deferred bonus plans | **2.3** | 2.4 | 2.4 |
| Pension funds in other nations | **1.9** | 1.8 | 1.8 |
| **Total employee benefits** | **108.6** | **109.8** | **109.8** |

The employee severance indemnities are payable by the companies operating in Italy (Indesit Company S.p.A., WRAP S.p.A. and Aermarche S.p.A.) under art. 2120 of the Italian Civil Code which, under IAS 19, are treated as a defined benefit plan.
The UK pension plans comprise two defined benefit pension funds, one English and the other Irish, operated by Indesit Company UK Ltd. These are voluntary pension funds with 5,444 members at 31 December 2005. As mentioned in the section on events subsequent to year end, the company has decided to close access to the defined benefit pension fund for UK employees and to start a defined contribution pension plan for new members.
The deferred bonus plans relate to Indesit Company UK Ltd and represent the liability for the retirement awards that will be made when employees reach a pre-determined length of service with the company.
The pension funds in other nations relate to the companies operating in France and the Netherlands.
The employee benefits referred to above are considered to be Defined benefit plans pursuant to IAS 19, and are determined using the Projected unit credit method, under which the liability at the balance sheet date is determined in proportion to the total estimated liability deriving from an actuarial measurement. In particular, the UK pension plans and the employee severance indemnities are subjected to actuarial appraisals every year. The liabilities for the deferred bonus plans and the pension funds in other nations are determined using an actuarial methodology, with assistance from an independent expert, and are adjusted to reflect the effect of any relevant events.

The following schedule reconciles the assets and liabilities recorded in the balance sheet and the charges made to the income statement, and presents the principal actuarial assumptions concerning the employee severance indemnities and the UK pension plans.

| **Reconciliation of the assets and liabilities recorded in the balance sheet** (million euro) | Employee severance indemnities | | UK pension plans | |
|---|---|---|---|---|
| | **31/12/2005** | 31/12/2004 | **31/12/2005** | 31/12/2004 |
| Present value of the defined benefit obligation (start of year) | **64.7** | 58.9 | **288.1** | 244.8 |
| Provision for benefits earned during the year | **6.8** | 5.7 | **8.4** | 11.2 |
| Financial charges | **2.8** | 2.8 | **15.2** | 13.9 |
| Contributions from plan participants | **–** | – | **5.7** | 3.2 |
| Actuarial (gains)/losses | **(5.3)** | 3.0 | **18.0** | 24.2 |
| Benefits paid by the plan/company | **(7.5)** | (5.7) | **(10.7)** | (8.4) |
| Changes in exchange rates | **–** | – | **7.9** | (0.9) |
| **Present value of the defined benefit obligation (end of year)** | **61.5** | **64.7** | **332.6** | **288.1** |
| Fair value of plan assets (start of year) | **–** | – | **234.5** | 199.7 |
| Expected yield from plan assets | **–** | – | **18.9** | 16.3 |
| Actuarial (gains)/losses | **–** | – | **28.4** | 14.5 |
| Employer's contributions | **–** | – | **9.3** | 10.0 |
| Employees' contributions | **–** | – | **5.7** | 3.2 |
| Benefits paid | **7.5** | 5.7 | **(10.7)** | (8.4) |
| Expenses | **(7.5)** | (5.7) | **–** | – |
| Change in exchange rates | **–** | – | **6.4** | (0.9) |
| **Fair value of plan assets (end of year)** | **–** | – | **292.5** | **234.5** |
| Present value of defined benefit obligation under funded plans | **–** | – | **332.6** | 288.1 |
| Fair value of plan assets | **–** | – | **(292.5)** | (234.5) |
| **Deficit (surplus) of funded plans** | **–** | – | **40.1** | **53.6** |
| Present value of defined benefit obligation under unfunded plans | **61.5** | 64.7 | **–** | – |
| Actuarial (gains)/losses not recognised | **2.3** | (3.0) | **0.6** | (9.8) |
| Pension (cost) of unrecognised prior service | | | **–** | – |
| Unrecorded assets (limit described in para. 58b, IAS 19) | **–** | – | **–** | – |
| **Recorded net liability/(asset)** | **63.8** | **61.7** | **40.7** | **43.9** |
| Pension cost of work performed during the year | **6.8** | 5.7 | **8.4** | 11.2 |
| **Total operating costs** | **6.8** | **5.7** | **8.4** | **11.2** |
| Interest expense | **2.8** | 2.8 | **15.2** | 13.9 |
| Expected yield from plan assets | **–** | – | **(18.9)** | (16.3) |
| **Total financial charges** | **2.8** | **2.8** | **(3.7)** | **(2.4)** |
| **Total charge to the income statement** | **9.6** | **8.5** | **4.7** | **8.8** |
| Assumptions used to determine defined benefit obligations | | | | |
| Discount rate | 4.00% | 4.50% | 4.74% | 5.23% |
| Rate of pay rises | 4.00% | 4.00% | 3.02% | 3.26% |
| Inflation rate | 2.00% | 2.00% | 2.48% | 2.72% |
| Assumptions used to determine pension cost | | | | |
| Discount rate | 4.50% | 5.00% | 5.23% | 5.58% |
| Expected yield from plan assets | 0% | 0% | 7.75% | 7.76% |
| Expected rate of pay rises | 4.00% | 4.43% | 3.26% | 3.26% |
| Inflation rate | 2.00% | 2.00% | 2.72% | 2.72% |

The employee benefits charged to the income statement are recorded in the following captions:

| **Employee benefits charged to the income statement** (million euro) | | |
|---|---|---|
| | **31/12/2005** | 31/12/2004 |
| Cost of sales | **(13.7)** | (14.8) |
| Selling and distribution expenses | **(1.0)** | (1.2) |
| General and administrative expenses | **(0.4)** | (0.9) |
| Net financial charges | **0.9** | (0.4) |
| **Total** | **(14.3)** | **(17.3)** |

## 8.27. Provisions for risks and charges

The provisions for risks and charges cover estimated current and non-current liabilities the exact timing or extent of which cannot be determined. This caption is analysed as follows:

| **Provisions for risks and charges** (million euro) | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Opening balance | Provisions | Utilisations | Effect of discounting | **Closing balance** | Current portion | Non-current portion |
| Provision for warranties | 43.7 | 10.2 | (6.3) | (0.3) | **47.3** | 19.0 | 28.4 |
| Provision for agents' termination indemnities | 1.0 | 0.4 | (0.2) | – | **1.3** | – | 1.3 |
| Provisions for restructuring | 10.8 | 6.8 | (11.3) | – | **6.3** | 6.3 | – |
| Provision for WEEE | – | 0.8 | – | – | **0.8** | – | 0.8 |
| Provision for onerous contracts | 5.2 | 1.1 | (1.5) | – | **4.8** | – | 4.8 |
| Provision for disputes | 7.1 | 3.4 | (5.4) | (0.1) | **5.0** | 1.4 | 3.7 |
| Other provisions | 1.7 | 0.7 | 0.8 | – | **3.2** | – | 3.2 |
| **Total** | **69.5** | **23.4** | **(23.8)** | **(0.4)** | **68.8** | **26.6** | **42.2** |

The provision for warranties represents the estimated costs to be incurred for work under warranty on products sold. The provision is determined with reference to the call rate for the products still under warranty cover, the period of time between sell in and sell out (start of the warranty period) and the average unit cost of the work performed. The provision is discounted with reference to the expected time distribution of the work to be performed.

The provision for agents' termination indemnities represents the estimated liability for payments to agents should their mandates be terminated by Indesit Company S.p.A.

The provision for restructuring relates to the reorganisation plans of Indesit Company France S.A. and Indesit Company Portugal Electrodomésticos S.A. The accrual for the year related entirely to the French company, while utilisations related to Indesit Company Portugal Electrodomésticos S.A., 8.0 million euro (including 1.5 million euro released as not required), and to Indesit Company France S.A., 3.3 million euro.

The provision for WEEE covers the charges deriving from application of the product disposal regulations, with sole reference to new waste. The accrual is recognised in nations where the regulations in force envisage the individual responsibility of each manufacturer. The calculation takes account of the visible fee established in each nation, as well as the benefits deriving from the steady increase in the efficiency of product disposal processes and the greater disposability of the products concerned. The liability has been discounted using a reference rate over a period of time that represents the life cycles of the products concerned.

The provision for onerous contracts includes 3.7 million euro recorded by Indesit Company UK Ltd, in relation to an operating lease which, following the interruption in the use of the building, led to the discounting of the liability for future payments, and 1.2 million euro recorded by Indesit Company Polska Sp.zo.o. in similar circumstances with regard to an operating lease. This last amount did not change during 2005, except for the effects of the translation to euro.

The provision for disputes reflects the best possible estimate of the likely liability for disputes and contingencies based on the information available. The provision covers the following principal risks:

- 1.2 million euro for price adjustments on the sale of a 40% investment in Faber Factor. This liability was recognised in 2005;
- 1.0 million euro for disputes with employees and social security institutions;
- 0.8 million euro for disputes concerning defective products;
- 1.4 million euro for an environmental liability in France recognised following the closure of the factory in Thionville and the inspections performed prior to selling the building.

A provision of 1.5 million euro was written off during 2005. This was recognised in 2004 in relation to a dispute with an exclusive distributor following the reorganisation of a commercial area. The provision was written off since the first-level court ruled against the counterparty and recognised a contingent asset for Indesit Company, which has not been recognised in accordance with IAS 37.
The provision was utilised in 2005, 1.6 million euro, to cover the replacement of damaged products delivered to customers.

Except as described above, the estimates made in relation to outstanding liabilities have not changed at 31 December 2005 with respect to the situation at 31 December 2004.

### 8.28. Deferred tax liabilities

Deferred tax liabilities and the related changes during the year are analysed in the following table:

**Deferred tax liabilities** (million euro)

| | Opening balance 31/12/2004 | Credited/charged to income statement | Application of IAS 32-39 | Reclassifications | Exchange rate effect | **Closing balance 31/12/2005** |
|---|---|---|---|---|---|---|
| Property, plant and equipment | 32.9 | (2.2) | – | – | 1.2 | **31.9** |
| Intangible assets with a useful finite life | 56.8 | (2.5) | – | – | 1.5 | **55.8** |
| Inventories | 2.1 | 2.8 | – | – | 0.1 | **5.0** |
| Medium/long-term financial payables | – | (2.6) | 6.0 | – | 0.2 | **3.6** |
| Employee benefits | 2.4 | (0.1) | – | – | – | **2.2** |
| Government grants | 0.8 | (0.2) | – | – | – | **0.6** |
| Provisions for risks and charges | 0.5 | 0.0 | – | – | – | **0.5** |
| Other | 0.5 | (2.3) | 5.1 | – | 0.4 | **3.6** |
| Distributable retained earnings | 5.0 | (0.8) | – | – | – | **4.2** |
| **Total** | **101.0** | **(8.0)** | **11.1** | **–** | **3.4** | **107.4** |
| Amounts offset | (15.0) | (4.2) | – | (14.3) | (0.7) | **(34.2)** |
| **Total, net** | **86.0** | **(12.2)** | **11.1** | **(14.3)** | **2.7** | **73.2** |

The amounts offset relate to the deferred tax liabilities that reduce deferred tax assets since they are due to the same tax authorities, are legally offsettable and relate to temporary differences that will reverse at the same time.

### 8.29. Other non-current liabilities

Other non-current liabilities solely relate to deferred government grants and other bodies. These grants are analysed by nation below:

| **Other non-current liabilities** (million euro) | | | |
|---|---|---|---|
| | **31/12/2005** | 01/01/2005 | 31/12/2004 |
| Italy | **15.3** | 20.7 | 20.7 |
| Poland | **11.3** | – | – |
| Other countries | **0.4** | 0.2 | 0.2 |
| **Total** | **27.0** | **20.9** | **20.9** |

Deferred government grants totalling 3.5 million euro in Italy and 1.5 million euro in Poland were credited to the income statement during the year.
The grants received in Italy related to:
- 12.1 million euro for planned investment by Distretto dell'Elettrodomestico Società Consortile ar.l. These grants are subject to restrictions that are currently respected;
- 2.6 million euro for the factories at Melano and Albacina (Law 488). Access to these grants is subject to restrictions that are currently respected;
- 0.4 million euro for a territorial agreement in the province of Ascoli Piceno. Access to these grants is subject to restrictions that are currently respected;
- 0.1 million euro for research incentives (Law 140/97). Access to these grants is not subject to restrictions.

The grants received in Poland principally related to tax credits for investment to build a factory in the Łódz special economic zone. Access to these grants is subject to certain restrictions that are currently respected. The accounting treatment of these tax credits has involved, in accordance with IAS 20, the recognition of non-current liabilities that will be released to the income statement to match the depreciation charged on the capital investment concerned.

### 8.30. Trade payables

Trade payables comprise all the amounts due for the purchase of goods and services from the Group's suppliers. Payables are stated at the nominal value. All payables fall due within one year. No amounts have been discounted. The amounts due to suppliers reported among trade payables comprise without distinction the amounts due to both suppliers of raw materials and suppliers of plant. These amounts have been separately identified in order to prepare the statement of cash flows, so that the cash flows from operating activities can be distinguished from the cash flows from investing activities.
For the sake of clarity, the following table distinguishes between the amounts due to suppliers of capital goods from those due to suppliers of raw materials, components and services.

| **Trade payables** (million euro) | | | |
|---|---|---|---|
| | **31/12/2005** | 01/01/2005 | 31/12/2004 |
| Due for raw materials, components and services | **772.5** | 797.6 | 797.6 |
| Due for capital investment | **47.8** | 65.7 | 65.7 |
| **Total** | **820.3** | **863.4** | **863.4** |

### 8.31. Tax payables

Tax payables comprise the liability for current taxes and other tax payables.

| **Tax payables** (million euro) | **31/12/2005** | 01/01/2005 | 31/12/2004 |
|---|---|---|---|
| Current taxes payable | **12.6** | 9.2 | 9.2 |
| Amounts withheld from employees, professionals and freelance workers | **17.7** | 18.4 | 18.4 |
| VAT payable | **26.2** | 36.4 | 36.4 |
| Capital taxes | **0.3** | 1.1 | 1.1 |
| Environmental taxes | **0.5** | 0.3 | 0.3 |
| Other taxes | **0.4** | 0.2 | 0.2 |
| **Total** | **57.7** | **65.6** | **65.6** |

### 8.32. Other payables

Other payables are analysed as follows:

| **Other payables** (million euro) | **31/12/2005** | 01/01/2005 | 31/12/2004 |
|---|---|---|---|
| Due to social security and pension institutions | **34.8** | 36.2 | 36.2 |
| Due to employees | **30.9** | 35.9 | 35.9 |
| Other payables | **12.5** | 13.4 | 11.4 |
| **Total** | **78.2** | **85.6** | **83.6** |

### 8.33. Share-based payment (stock options)

#### Stock option plan for Group executives and managers

The resolutions adopted at the extraordinary meetings held on 16 September 1998 (as modified at the meetings held on 5 May 2000 and 7 May 2001) and on 23 October 2001 authorised, pursuant to art. 2441.8 of the Italian Civil Code, two increases in share capital by up to 2,700,000 euro each, via the issue of a combined maximum of 6,000,000 ordinary shares, par value 0.90 euro each, to service the stock option plan for Group managers and supervisors. The Board of Directors, in the person of the Chairman, determines the number of options to be granted each year and identifies – on the recommendation of the Managing Director – the beneficiaries of the options. The options granted subsequent to 24 July 2003 envisage a vesting period of three years for the first 50% and four years for the remaining 50%, while the options granted previously envisaged a vesting period of two years and three years respectively.

The Managing Director, as an employee of Indesit Company S.p.A., benefits from a stock option plan linked to his continuity in office during the period 2004-2006 and to the achievement, during that period, of the sales and profitability objectives established in the MTP (medium-term plan) approved by the Board of Directors in October 2003. This plan involves the granting of 900,000 options (300,000 each year) to purchase 900,000 (ordinary) shares in the Company. In order to service this plan, 900,000 treasury shares have been reserved out of the 11,039,750 treasury shares held by Indesit Company S.p.A. Each tranche is granted at the end of each year. The strike price for the options granted in each tranche is the average of the official market prices for the Company's ordinary shares during the period of 30 days prior to 31 December each year. The strike price for the 2005 options, 8.60 euro, exceeds the carrying value of these treasury shares (Table 1). To date, the parameters for this last stock option plan, concerning the continuity in office and the achievement of the objectives set out in the 2004-2006 medium-term plan (MTP), have not been respected.

## Stock option plan for Directors with significant duties who are not employees

The extraordinary meetings held on 23 October 2001 and 6 May 2002 authorised two share capital increases, by the issue of a maximum of 1,600,000 new shares, to service a stock option plan for the Directors of the Company who perform significant duties. The options granted are exercisable from 31 March 2004 (until no later than 31 March 2006). The strike price is 4.76 euro for the 1,400,000 options granted in 2001 (all exercised) and 9.70 euro for the 200,000 options granted in 2002 (Table 3).

The meeting held on 5 May 2004 approved a new increase in share capital by up to 1,000,000 ordinary shares reserved for the exercise of options granted to the Chairman of the Company's Board of Directors. This plan is linked to his continuity in office and to the achievement of the profitability objectives established in the MTP for 2004-2006. The strike price is 14.70 euro. To date, the parameters for this last stock option plan, concerning the continuity in office and the achievement of the objectives set out in the 2004-2006 MTP, have not been respected.
No new plans were authorised during 2005 and no stock options were granted, except for those described in relation to the Managing Director.
The parameters used to determine the fair value of stock options are set out in the following table.

**Parameters used to determine the fair value of stock options** (euro)

| Parameters | Managing Director | Chairman | Executives |
|---|---|---|---|
| Strike price | 12.56 | 14.70 | 12.65 |
| Expected volatility | 27.77% | 29.7% | 31.39% |
| Grant date | 27/07/2004 | 05/05/2004 | 24/07/2003 |
| No. of options | 900,000 | 1,000,000 | 405,000 |
| Duration of options (years) | 2.67 | 2.90 | 3.50 |
| Expected dividends | 2.61% | 2.61% | 2.97% |
| Risk-free interest rate | 3.00% | 2.78% | 4.00% |
| Fair value of stock options (million euro) | 0.8 | 0.9 | 0.3 |

The stock option plans are analysed in the following tables.

**Table 1. Stock options granted to Directors and General Managers – 2005**

| | | Options held at start of year | | | Options granted during the year | | | Options exercised during the year | | | Options expiring in the year | Options held at end of year | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| (A) | (B) | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) |
| Name and surname | Position held | Number of options | Average exercise price (euro) | Average expiry | Number of options | Average exercise price (euro) | Average expiry | Number of options | Average exercise price (euro) | Average market price on exercise (euro) | Number of options | Number of options (=1+4 -7-10) | Average exercise price (euro) | Average expiry |
| Vittorio Merloni | Chairman | 2,000,000 | 9.73 | 2008 | – | – | | 1,000,000 | 4.76 | 10.31 | – | 1,000,000 | 14.70 | 2009 |
| Marco Milani | Managing Director | 475,000 | 9.71 | 2008 | 300,000 | 8.60 | 2008 | – | – | – | – | 775,000 | 9.28 | 2008 |
| Andrea Sasso | General Manager | 20,000 | 7.93 | 2012 | – | – | | 10,000 | 7.93 | 10.86 | – | 10,000 | 7.93 | 2012 |
| Hugh Malim | Board Director | 100,000 | 9.70 | 2006 | – | – | | – | 0.00 | 0.00 | – | 100,000 | 9.70 | 2006 |
| Carl H. Hahn | Board Director | 100,000 | 4.76 | 2006 | – | – | | 100,000 | 4.76 | 12.37 | – | – | – | 2006 |
| Alberto Fresco | Board Director | 100,000 | 9.70 | 2006 | – | – | | – | – | – | – | 100,000 | 9.70 | 2006 |
| | | **2,795,000** | | | **300,000** | | | **1,110,000** | | | | **1,985,000** | | |

## Table 2. Stock options granted to Group executives and managers

| | 2005 | | | 2004 | | | 2003 | | | 2002 | | | 2001 | | | 2000 | | | 1999 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of options | Average price (euro) | Market price (euro) | Number of options | Average price (euro) | Market price (euro) | Number of options | Average price (euro) | Market price (euro) | Number of options | Average price (euro) | Market price (euro) | Number of options | Average price (euro) | Market price (euro) | Number of options | Average price (euro) | Market price (euro) | Number of options | Average price (euro) | Market price (euro) |
| Options outstanding as of 1/1 | 1,031,250 | | 12.61 | 2,193,500 | | 14.86 | 2,460,250 | | 10.07 | 2,527,500 | | 5.82 | 1,372,500 | | 4.70 | 665,000 | 4.66 | 4.14 | | | |
| New options granted during the year | – | | | – | | 13.83 | 405,000 | 12.65 | 12.15 | 700,000 | 7.93 | 9.59 | 1,192,500 | 4.81 | 4.74 | 762,500 | | 4.85 | 740,000 | 4.66 | 4.15 |
| *Details* | | | | | | | | | | | | | | | | 635,000 | 4.49 | | | | |
| | | | | | | | | | | | | | | | | 127,500 | 4.88 | | | | |
| Options exercised during the year | 152,000 | | 10.46 | 987,250 | | 13.83 | 466,750 | | 12.15 | 682,250 | | 9.59 | 5,000 | 4.66 | 4.74 | | | | | | |
| *Details* | *28,750* | *4.81* | | *145,000* | *4.66* | | *40,000* | *4.66* | | *420,000* | *4.66* | | | | | | | | | | |
| | *5,000* | *4.88* | | *152,250* | *4.49* | | *174,250* | *4.49* | | *38,750* | *4.88* | | | | | | | | | | |
| | *118,250* | *7.93* | | *3,750* | *4.88* | | *42,500* | *4.88* | | *223,500* | *4.49* | | | | | | | | | | |
| | | | | *548,750* | *4.81* | | *210,000* | *4.81* | | | | | | | | | | | | | |
| | | | | *137,500* | *7.93* | | | | | | | | | | | | | | | | |
| Options expiring during the year | | | | | | | | | | | | | | | | | | | | | |
| Options lapsing during the year | 35,000 | | 10.46 | 175,000 | | 13.83 | 205,000 | | 12.15 | 85,000 | | 9.59 | 32,500 | | 4.74 | 55,000 | | 4.85 | 75,000 | 4.66 | |
| *Details* | *5,000* | *7.93* | | *2,500* | *4.49* | | *5,000* | *4.66* | | *25,000* | *4.49* | | *12,500* | *4.66* | | *37,500* | *4.66* | | | | |
| | *30,000* | *12.65* | | *47,500* | *4.83* | | *10,000* | *4.49* | | *10,000* | *4.88* | | *15,000* | *4.49* | | *12,500* | *4.49* | | | | |
| | | | | *80,000* | *7.93* | | *5,000* | *4.88* | | *50,000* | *4.81* | | *5,000* | *4.88* | | *5,000* | *4.88* | | | | |
| | | | | *45,000* | *12.65* | | *60,000* | *4.81* | | | | | | | | | | | | | |
| | | | | | | | *120,000* | *7.93* | | | | | | | | | | | | | |
| | | | | | | | *5,000* | *12.65* | | | | | | | | | | | | | |
| Options outstanding at year end | 844,250 | | 8.79 | 1,031,250 | | 12.61 | 2,193,500 | | 14.86 | 2,460,250 | | 10.07 | 2,527,500 | | 5.82 | 1,372,500 | | 4.70 | 665,000 | 4.66 | 4.14 |
| inc. vested at year end | 519,250 | | | 495,000 | | | 607,250 | | | 242,750 | | | 332,500 | 4.66 | | | | | | | |

## Table 3. Stock option plans of non-executive Directors

| | 2005 | | 2004 | | 2003 | | 2002 | | 2001 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Number of options | Strike price (euro) | Number of options | Strike price (euro) | Number of options | Strike price (euro) | Number of options | Strike price (euro) | Number of options | Strike price (euro) |
| Options outstanding as of 1/1 | 1,300,000 | | 1,600,000 | | 1,600,000 | | 1,400,000 | 4.76 | – | – |
| *Details* | *1,100,000* | *4.76* | *1,400,000* | *4.76* | *1,400,000* | *4.76* | | | | |
| | *200,000* | *9.70* | *200,000* | *9.70* | *200,000* | *9.70* | | | | |
| New options granted during the year | – | – | – | – | – | – | 200,000 | 9.70 | 1,400,000 | 4.76 |
| Options exercised during the year | 1,100,000 | 4.76 | 300,000 | 4.76 | – | – | – | – | – | – |
| Options expiring during the year | – | – | – | – | – | – | – | – | – | – |
| Options lapsing during the year | – | – | – | – | – | – | – | – | – | – |
| Options outstanding at year end | 200,000 | | 1,300,000 | | 1,600,000 | | 1,600,000 | | 1,400,000 | 4.76 |
| *Details* | *200,000* | *9.70* | *1,100,000* | *4.76* | *1,400,000* | *4.76* | *1,400,000* | *4.76* | | |
| | | | *200,000* | | *200,000* | *9.70* | *200,000* | | | |
| inc. vested at year end | 200,000 | | 1,300,000 | | – | – | – | – | – | – |
| *Details* | *200,000* | *9.70* | *1,100,000* | *4.76* | | | | | | |
| | | | *200,000* | | | | | | | |

## Statement of cash flows

The cash flows reported in the statement of cash flows have been determined, for the sake of clarity, with reference to the amounts reported in the opening balance sheet prepared as of 1 January 2005, on the adoption of IAS 32 and IAS 39 which had a significant effect on the financial balances.

### 8.34. Acquisition of property, plant and equipment

The cash flows from the acquisition of property, plant and equipment reflects routine additions for the replacement of plant. In this context, there were also changes in payables and in advances to suppliers of property, plant and equipment. In particular, the settlement during 2005 of payables relating to construction in 2004 of the warehouse in Lipetzk represented a notable financial commitment.

### 8.35. Goodwill paid

The change in the 2004 goodwill caption of 52.9 million euro related to the payment to General Electric of 8% of General Domestic Appliances Co. Ltd. Had IAS 32 been applied retrospectively from 1 January 2004, the statement of cash flows would not have shown the above change in goodwill, but just the reduction in borrowing in relation to the acquisition of GDAH. This approach would have affected the cash flow generated/(used in) by financing activities, as reported as of 31 December 2005 in relation to the payment for a further 8% of the company concerned, which is classified in the "Payment for acquisition of GDAH" row. The treatment of the acquisition of GDAH on the first-time adoption of IFRS is described in more detail in the FTA Appendix.

### 8.36. Proceeds from sale of non-current financial assets

The proceeds from the sale of non-current financial assets in 2005 relate to the sale of MPE S.p.A., an associate, while in 2004 they related to the sale of 40% of Faber Factor.

### 8.37. Acquisition of non-current financial assets and other investments

The acquisition of non-current financial assets and other investments in 2005 related to Fabriano Basket and Wuxi, while in 2004 they related to Aermarche S.p.A.

### 8.38. Proceeds from share capital increases

The increase in the share capital of Indesit Company S.p.A. relates to the exercise of stock options by the Directors and management of the Company.

The change in current financial payables includes the change in short-term bank borrowing since this represents a technical form of indebtedness.

# 9. Financial instruments

**Risk management policies**

The Group uses derivative financial instruments as part of the management of interest-rate and exchange-rate risks and of changes in the prices of certain types of raw materials (commodities).

The policy for managing the risk of changes in the market prices for raw materials principally consists in fixing the prices by signing contracts with suppliers. In certain cases, commodity options are arranged.

The policy for managing the risk of changes in exchange rates consists in hedging just the settlement risk when using currencies other than the functional currencies adopted by Group companies, to the maximum extent of the net exposure.

In particular, this risk is hedged by options, forward and currency swaps.

With regard to the risk of changes in interest rates, the Group generally borrows in euro at a floating rate. In view of likely future rises in interest rates, the Group decided to convert part of its medium/long-term borrowing to a fixed rate during 2005. This borrowing is hedged via interest rate swaps, or cross currency swaps if the borrowing is not denominated in euro.

All the hedging transactions were arranged with leading domestic and international banks in order to minimise the credit risk.

The transactions open at 31 December 2005 and their fair values are shown in the table below, which also indicates the change in the value of the underlyings, where applicable.

**Transactions open at 31/12/2005**

| | | | | | | Classification as of 31/12/2005 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Financial instruments | Nature of risk hedged | Fair value of derivatives as of 31/12/2005 | Fair value of derivatives as of 01/01/2005 | Change in fair value of underlyings as of 31/12/2005 | Change in fair value of underlyings as of 01/01/2005 | Other non-current financial assets | Current financial assets | Medium/ long-term financial payables | Banks and other financial payables | Total |
| **Cash flow hedges** | | | | | | | | | | |
| Nickel options | Price | – | 1.5 | n.a. | n.a. | | | | | – |
| Currency options | Currency | 0.9 | – | n.a. | n.a. | | 0.9 | | | 0.9 |
| IRS on loans | Interest rate | (1.5) | (2.6) | n.a. | n.a. | | | (0.9) | (0.6) | (1.5) |
| **Total** | | **(0.7)** | **(1.1)** | **–** | **–** | **–** | **0.9** | **(0.9)** | **(0.6)** | **(0.7)** |
| **Fair value hedges** | | | | | | | | | | |
| CCS on bonds | Currency/ Interest rate | 11.5 | (20.9) | (13.6) | 19.3 | 8.0 | 3.5 | | | 11.5 |
| IRS on bonds | Interest rate | 1.9 | 1.4 | (1.9) | (1.2) | 1.6 | 0.3 | | | 1.9 |
| **Total** | | **13.3** | **(19.5)** | **(15.5)** | **18.1** | **9.5** | **3.8** | **–** | **–** | **13.3** |
| **Other hedges** | | | | | | | | | | |
| Forward and Currency Swap | Currency | 0.6 | 1.8 | n.a. | n.a. | | 0.7 | | (0.2) | 0.6 |
| Collar on GDAH acquisition | Currency | (5.8) | (24.0) | n.a. | n.a. | 0.7 | 0.2 | (4.2) | (2.5) | (5.8) |
| Basis Swap on GDAH acquisition | Interest rate | (2.3) | (0.7) | n.a. | n.a. | | | (2.3) | | (2.3) |
| IRS on bonds | Interest rate | (0.1) | – | n.a. | n.a. | | | (0.1) | | (0.1) |
| **Total** | | **(7.7)** | **(22.9)** | **–** | **–** | **0.7** | **0.9** | **(6.6)** | **(2.7)** | **(7.7)** |
| **Grand total** | | **5.0** | **(43.5)** | **(15.5)** | **18.1** | **10.3** | **5.6** | **(7.5)** | **(3.3)** | **5.0** |

The nickel options were acquired to hedge possible rises in the price of steel (AISI 304).
The currency options were mainly acquired to hedge the risk of exchange rate fluctuations against sterling.
The interest rate swaps on loans were arranged to hedge two loans from MCC S.p.A. with a residual nominal value of 50.4 million euro.
The cross currency swap was arranged to hedge the interest-rate and exchange-rate risks deriving from commitments in relation to the US Private Placement of bonds with a nominal value of 308 million dollars. This transaction converted the fixed-rate US dollar bonds into floating rate euro.
The interest rate swap on the bonds relates to the euro tranche of the US Private Placement, 18.3 million euro, and was arranged to hedge the interest rate risk which was swapped from fixed to floating.
The forward transactions and currency swaps were arranged to hedge the exchange-rate risk associated with currency exposures. In particular, these comprise three currency swap buy, 60 million pounds sterling, a forward sell, 24.1 million Turkish lira, and two forward sell, 3,820.0 million Hungarian forints.
The Collar, represented by two purchased options Call Usd/Put euro (totalling 114.2 million dollars and 103.9 million euro) expiring on 30 June 2006 and 1 October 2007, respectively, and two sold options Call euro/Put Usd (totalling 114.2 million dollars and 99.7 million euro) expiring on 30 June 2006 and 1 October 2007, respectively, was arranged to hedge the exchange-rate risk on the amount due for the acquisition of GDAH.
The basis swap was arranged to hedge the interest-rate risk on the deposit of 57.1 million dollars made by Indesit Company UK Holdings Ltd to guarantee payment of the final installment on the amount due for the acquisition of GDAH.
The interest rate swaps on bonds with a nominal value of 220.9 million euro, representing 80% of the US Private Placement, were arranged as part of the Group policy, described above, to transform part of the cost of long-term borrowing from floating rate to a fixed rate, ahead of expected interest rate rises.

# 10. Disclosure required by IAS 24 on the remuneration of management and on related parties

## 10.1. Remuneration of management

In addition to the executive and non-executive Directors and the Statutory Auditors, the managers with strategic responsibility for operations, planning and control include the Commercial General Manager, the Financial Manager, the Industrial Technical Manager and the Supply Chain Manager. The remuneration of the above persons is shown below.

**Remuneration of management** (thousands euro)

| | Short-term benefits | Long-term benefits | Stock options |
|---|---|---|---|
| Directors | 2,185 | – | 1,720 |
| Statutory Auditors | 140 | – | – |
| Executives | 2,066 | 118 | 29 |
| **Total** | **4,391** | **118** | **1,749** |

### 10.2. List of related parties

The principal related parties with which commercial or financial transactions were carried out on arms'-length terms during 2005 are listed below, indicating the type of relationship.

| List of related parties | |
|---|---|
| Faber Factor S.p.A. | Held by Group parent |
| Faber Factor International S.àr.l. | Held by Group parent |
| Fineldo S.p.A. [3] | Group parent of Indesit Company |
| MCP Eventi S.r.l. | Related to a Director of the Group |
| Merloni Partecipazioni e Servizi S.r.l. | Controlled by a Director of the Group |
| Nautica Due S.p.A. | Related to several Directors of the Group |
| Centro Energia Teverola S.p.A. | Controlled by an associates of the Group |
| Distretto dell'Elettrodomestico soc. cons. | Held by Indesit Company S.p.A. |
| Adria Lab S.r.l. | Associate |
| M&B Marchi & Brevetti S.r.l. | Associate |
| MPE S.p.A. [4] | Associate |
| Merloni Progetti S.p.A. | Associate |
| Sofarem S.àr.l. | Associate |
| Fabriano Basket | Non-consolidated subsidiary |

### 10.3. Nature of relations with the principal related parties

#### M&B Marchi & Brevetti

M&B Marchi & Brevetti S.r.l., 50% held, owns the Ariston brand name which is licenced to Indesit Company for a fee that covers the brand management costs incurred by M&B Marchi & Brevetti S.r.l.

#### The Merloni Progetti group

The Merloni Progetti group (and, in particular, Merloni Progetti S.p.A. and Protecno S.A.) obtains contracts for the construction of plant and leases property to Indesit Company. Merloni Progetti S.p.A. was awarded a contract by Indesit Company for the construction of a warehouse in the industrial district of Lipetzk (Russia).

#### The Faber Factor group

The Faber Factor group (in particular, via Faber Factor S.p.A. and Faber Factor International S.àr.l.) provided financial services – mainly factoring services – until 30 June 2005. The financial flows were settled via a current account contract. Until 30 June 2005, the Faber Factor group, in which Indesit Company has a 10% interest, also acquired trade receivables from Indesit Company. Commencing from 1 July 2005, the financial and service relationship between Faber Factor and Indesit Company has ceased due to the sale by Faber Factor of its factoring business to independent third parties.

3. Company belonging to Vittorio Merloni.

4. Company included among the associates in this caption because considered as associates until the date it was sold in September 2005.

## 10.4. Tables summarising the transactions with related parties

The balances and transactions with the above related parties are summarised below. Amounts of less than 50 thousand euro are grouped in the Others caption.

| **Revenue** (million euro) | | |
|---|---|---|
| Related party | **31/12/2005** | Counterparty |
| Faber Factor S.p.A. | **0.2** | Indesit Company S.p.A. |
| MCP Eventi S.r.l. | **0.1** | Indesit Company S.p.A. |
| **Total related parties** | **0.3** | |
| Associates | | |
| Sofarem S.àr.l. | **4.3** | Indesit Company International Business S.A. |
| **Total associate** | **4.3** | |
| Parent Company | | |
| Fineldo S.p.A. | **0.3** | Indesit Company S.p.A. |
| **Total Parent Company** | **0.3** | |

| **Cost of sales** (million euro) | | |
|---|---|---|
| Associates | **31/12/2005** | Counterparty |
| MPE S.p.A. | **(8.8)** | Indesit Company S.p.A. |
| Merloni Progetti S.p.A. | **(7.2)** | Indesit Company S.p.A. |
| **Total associates** | **(16.0)** | |
| Related party | | |
| Centro Energia Teverola S.p.A. | **(0.5)** | Indesit Company S.p.A. |
| Faber Factor S.p.A. | **(1.1)** | Indesit Company S.p.A. |
| **Total related parties** | **(1.6)** | |

| **General and administrative expenses** (million euro) | | |
|---|---|---|
| Associates | **31/12/2005** | Counterparty |
| Adria Lab S.r.l. | **(0.5)** | Indesit Company S.p.A. |
| Merloni Progetti S.p.A. | **(0.8)** | Indesit Company S.p.A. |
| Merloni Progetti S.p.A. | **(0.5)** | Indesit Company France S.A. |
| **Total associates** | **(1.8)** | |
| Related party | | |
| MCP Eventi S.r.l. | **(2.4)** | Indesit Company S.p.A. |
| Nautica Due | **(0.6)** | Indesit Company S.p.A. |
| **Total related parties** | **(3.0)** | |

| **Financial expenses** (million euro) | | |
|---|---|---|
| Related party | **31/12/2005** | Counterparty |
| Faber Factor S.p.A. | **0.3** | Indesit Company S.p.A. |
| **Total related parties** | **0.3** | |
| Parent Company | | |
| Fineldo S.p.A. | **(0.4)** | Indesit Company S.p.A. |
| **Total Parent Company** | **(0.4)** | |

| **Non-current assets** (million euro) | | |
|---|---|---|
| Associates | **31/12/2005** | Counterparty |
| Merloni Progetti S.p.A. | **24.2** | CJSC Indesit International |
| M&B Marchi & Brevetti S.r.l. | **0.2** | Indesit Company S.p.A. |
| Adria Lab S.r.l. | **0.5** | Indesit Company S.p.A. |
| **Total associates** | **24.9** | |

| **Current financial assets** (million euro) | | |
|---|---|---|
| Related party | **31/12/2005** | Counterparty |
| Distretto dell'Elettrodomestico | **0.2** | Indesit Company S.p.A. |
| **Total related parties** | **0.2** | |
| Associates | | |
| Adria Lab S.r.l. | **0.2** | Indesit Company S.p.A. |
| **Total associates** | **0.2** | |

| **Trade receivables** (million euro) | | |
|---|---|---|
| Related party | **31/12/2005** | Counterparty |
| Faber Factor S.p.A. | **0.4** | Indesit Company S.p.A. |
| MCP Eventi S.r.l. | **0.1** | Indesit Company Polska |
| **Total related parties** | **0.5** | |
| Associates | | |
| M&B Marchi & Brevetti S.r.l. | **0.2** | Indesit Company S.p.A. |
| MPE S.p.A. | **0.2** | Indesit Company S.p.A. |
| Merloni Progetti S.p.A. | **1.1** | Indesit Company France S.A. |
| Sofarem S.àr.l. | **1.7** | Indesit Company International Business S.A. |
| **Total associates** | **3.2** | |
| Parent Company | | |
| Fineldo S.p.A. | **0.2** | Indesit Company S.p.A. |
| **Total Parent Company** | **0.2** | |

| **Trade payables** (million euro) | | |
|---|---|---|
| Associates | **31/12/2005** | Counterparty |
| Adria Lab S.r.l. | **(0.5)** | Indesit Company S.p.A. |
| MPE S.p.A. | **(5.3)** | Indesit Company S.p.A. |
| Merloni Progetti S.p.A. | **(6.0)** | Indesit Company S.p.A. |
| Merloni Progetti S.p.A. | **(1.6)** | CJSC Indesit International |
| Merloni Progetti S.p.A. | **(1.2)** | Wuxi Indesit Home Appliance Co. Ltd |
| M&B Marchi & Brevetti S.r.l | **(0.3)** | Indesit Company S.p.A. |
| **Total associates** | **(14.8)** | |
| Related party | | |
| Centro Energia Teverola S.p.A. | **(0.1)** | Indesit Company S.p.A. |
| MCP Eventi S.r.l. | **(0.6)** | Indesit Company S.p.A. |
| Faber Factor S.p.A. | **(0.1)** | Indesit Company S.p.A. |
| **Total related parties** | **(0.9)** | |
| Parent Company | | |
| Fineldo S.p.A. | **0.2** | Indesit Company S.p.A. |
| **Total Parent Company** | **0.2** | |

With reference to the transactions with Fabriano Basket, Indesit Company has covered the losses accumulated at 31 December 2005 and, as a consequence, has written down the investment by 3.7 million euro, as shown in the table presented in paragraph 8.9.

# 11. FTA Appendix – First-Time Adoption – Transition to international financial reporting standards (IFRSs™)

## 11.1. Preface

Following the introduction of international accounting standards, the Indesit Company Group published the FTA Appendix required by law and the related regulations together with the publication of the half-year report as of 30 June 2005. For the sake of completeness, the FTA Appendix published previously is presented in full below, commencing from paragraph 11.2.

Certain reclassifications have been made to the balance sheets as of 31 December 2004 and 1 January 2005 included in the reconciliation of the consolidated balance sheets as of 1 January 2004, 31 December 2004 and 1 January 2005, and to the 2004 income statement included in the reconciliation of the consolidated income statement for the year ended 31 December 2004, contained in the FTA Appendix published together with the half-year report as of 30 June 2005. These reclassifications have had no effect on the profit and equity reported previously. The reclassification related to the reduction of selling and distribution expenses and the increase in cost of sales by 22.2 million euro, the reduction of net financial expenses and the increase in share of profit (losses) from associates by 0.7 million euro, and the reduction in property, plant and equipment and the increase in other intangible assets with a finite useful life by 5.2 million euro.

## 11.2. Introduction

The Indesit Company Group has applied International Financial Reporting Standards – IAS/IFRS from the preparation of the half-year report as of 30 June 2005, with 1 January 2004 as date of transition. In accordance with paragraphs 39 and 40 of IFRS 1, adopted in accordance with the procedure established in art. 6 of EC Regulation 1606/2002 and the Issuers' Regulation 11971 dated 14 May 1999, as modified by Consob resolution 14990 dated 14 April 2005, this Appendix presents the reconciliations of the consolidated balance sheet as of 1 January 2004, 31 December 2004 and 1 January 2005, the reconciliation schedule of the consolidated income statement for the year ended 31 December 2004 and the reconciliation schedules of the consolidated shareholders' equity as of 1 January 2004, 31 December 2004 and 1 January 2005, as well as the consolidated net profit for 2004.

The above reconciliation schedules have been prepared solely as part of transitional work to prepare the first full set of consolidated financial statements under the IFRS endorsed by the European Commission and, accordingly, they are not accompanied by all the comparative figures and explanatory notes that would be required for a complete presentation of the consolidated financial position and results of operations of Indesit Company in full compliance with IFRS.

The above reconciliation schedules have been prepared in accordance with the current international financial reporting standards issued by the International Accounting Standards Board (IASB), including the interpretations provided by the International Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC), endorsed by the European Commission, on the assumption that such standards will also be in force as of 31 December 2005. However the criteria adopted for the preparation of these schedules might not be consistent with the IFRS in force as of 31 December 2005, due to possible changes in the European Commission's policy on the endorsement of international financial reporting standards or to the issue of new standards and interpretations subsequent to the publication of this half-year report. Accordingly, the amounts reported in the reconciliation schedules for use as comparative information contained in the first consolidated IFRS financial statements as of 31 December 2005 might be subject to change.

In addition to the attached schedules, this Appendix includes paragraphs describing the principal elections made regarding exemptions allowed by IFRS 1, the classification of captions within the balance sheet and income statement formats envisaged by IAS 1 with respect to the balance sheet and income statement captions envisaged by arts. 2424 and 2425 of the Italian Civil Code, and the principal reconciling items between Italian GAAP and IFRS.

**Reconciliation of consolidated balance sheets as of 01/01/2004, 31/12/2004 and 01/01/2005** (million euro)

| | 01/01/2004 | | | | 31/12/2004 | | | | 01/01/2005 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Italian GAAP[1] | Adj. | Reclass. | IFRS | Italian GAAP[1] | Adj. | Reclass. | Italian GAAP[1] | Effect of IAS 32 and 39 | IFRS |
| **Assets** | | | | | | | | | | |
| Property, plant and equipment | 698.5 | 12.6 | (6.4) | 704.7 | 746.3 | 7.8 | (8.0) | 746.1 | – | 746.1 |
| Goodwill and other intangible assets with an indefinite useful life | – | – | 219.2 | 219.2 | – | – | 247.6 | 247.6 | 63.3 | 310.9 |
| Other intangible assets with a finite life | 161.8 | 141.0 | (212.7) | 90.0 | 230.1 | 107.2 | (238.2) | 99.1 | – | 99.1 |
| Investments in associates | 46.6 | (0.4) | – | 46.2 | 26.5 | 0.1 | – | 26.6 | – | 26.6 |
| Other investments | 34.8 | – | – | 34.8 | 37.5 | – | – | 37.5 | (33.0) | 4.5 |
| Deferred tax assets | – | 15.7 | 16.0 | 31.8 | – | 21.2 | 24.6 | 45.8 | – | 45.8 |
| Other non-current financial assets | 70.9 | – | 5.7 | 76.6 | 71.1 | – | 1.6 | 72.7 | 1.7 | 74.4 |
| **Total non-current assets** | **1,012.6** | **168.9** | **21.8** | **1,203.3** | **1,111.5** | **136.3** | **27.6** | **1,275.4** | **32.0** | **1,307.4** |
| Inventories | 284.6 | (2.7) | 1.6 | 283.5 | 330.9 | (3.1) | 2.7 | 330.5 | – | 330.5 |
| Trade receivables | 485.4 | (0.0) | 2.0 | 487.5 | 508.0 | (0.0) | 3.5 | 511.5 | 114.3 | 625.8 |
| Current financial assets | 33.5 | – | – | 33.5 | 33.2 | – | – | 33.2 | (23.4) | 9.8 |
| Tax receivables | 78.5 | (0.0) | (34.2) | 44.2 | 81.5 | 1.1 | (38.3) | 44.3 | – | 44.3 |
| Other receivables and current assets | 37.7 | (13.3) | 11.8 | 36.1 | 40.8 | (16.6) | 7.0 | 31.2 | (2.5) | 28.7 |
| Cash and cash equivalents | 373.6 | (0.2) | – | 373.5 | 212.2 | – | – | 212.2 | – | 212.2 |
| **Total current assets** | **1,293.3** | **(16.2)** | **(18.8)** | **1,258.3** | **1,206.6** | **(18.6)** | **(25.1)** | **1,162.8** | **88.4** | **1,251.2** |
| **Total assets** | **2,305.9** | **152.8** | **2.9** | **2,461.6** | **2,318.1** | **117.7** | **2.5** | **2,438.2** | **120.4** | **2,558.6** |
| Share capital | 99.9 | – | – | 99.9 | 101.0 | – | – | 101.0 | (9.9) | 91.1 |
| Reserves | 104.3 | 54.7 | – | 159.0 | 129.4 | 58.4 | – | 187.8 | (23.0) | 164.7 |
| Retained earnings | 157.0 | (145.4) | – | 11.6 | 229.2 | (145.7) | – | 83.5 | (6.2) | 77.3 |
| Profit attributable to the Group | 120.3 | – | – | 120.3 | 116.0 | (16.0) | – | 100.0 | – | 100.0 |
| **Equity attributable to the Group** | **481.4** | **(90.6)** | **–** | **390.8** | **575.6** | **(103.3)** | **–** | **472.4** | **(39.2)** | **433.2** |
| Minority interests | 35.9 | 130.6 | – | 166.5 | 30.9 | 106.9 | – | 137.8 | (126.9) | 10.9 |
| **Total equity** | **517.3** | **40.0** | **–** | **557.3** | **606.5** | **3.6** | **–** | **610.1** | **(166.1)** | **444.1** |
| **Liabilities** | | | | | | | | | | |
| Medium and long-term interest-bearing loans and borrowings | 135.3 | 0.1 | 29.6 | 165.0 | 394.0 | 0.1 | 1.9 | 396.0 | 125.1 | 521.1 |
| Employee benefits | 63.8 | 40.1 | 3.8 | 107.7 | 67.6 | 39.2 | 3.1 | 109.8 | – | 109.8 |
| Provisions for risks and charges | 42.6 | (3.7) | – | 38.9 | 38.1 | 1.5 | – | 39.6 | – | 39.6 |
| Deferred tax liabilities | 10.6 | 79.0 | – | 89.6 | 17.0 | 69.1 | – | 86.0 | 5.2 | 91.2 |
| Other non-current liabilities | – | 3.6 | 22.3 | 25.9 | – | 2.5 | 18.4 | 20.9 | – | 20.9 |
| **Total non-current liabilities** | **252.3** | **119.1** | **55.7** | **427.1** | **516.7** | **112.3** | **23.4** | **652.4** | **130.3** | **782.7** |
| Banks and other financial payables | 534.3 | – | (25.6) | 508.7 | 133.2 | – | – | 133.2 | 154.1 | 287.3 |
| Provisions for risks and charges | 23.2 | – | – | 23.2 | 29.9 | – | – | 29.9 | – | 29.9 |
| Trade payables | 791.9 | (0.0) | 6.6 | 798.5 | 857.7 | (1.0) | 6.7 | 863.4 | – | 863.4 |
| Tax payables | 69.5 | (7.6) | – | 61.9 | 65.6 | – | – | 65.6 | – | 65.6 |
| Other payables | 117.4 | 1.3 | (33.8) | 84.9 | 108.4 | 2.8 | (27.6) | 83.6 | 2.0 | 85.6 |
| **Total current liabilities** | **1,536.3** | **(6.2)** | **(52.8)** | **1,477.3** | **1,194.9** | **1.8** | **(20.9)** | **1,175.7** | **156.1** | **1,331.9** |
| **Total liabilities** | **1,788.6** | **112.8** | **2.9** | **1,904.4** | **1,711.6** | **114.1** | **2.5** | **1,828.1** | **286.4** | **2,114.5** |
| **Total equity and liabilities** | **2,305.9** | **152.8** | **2.9** | **2,461.6** | **2,318.1** | **117.7** | **2.5** | **2,438.2** | **120.4** | **2,558.6** |

1. Reported balances have been grouped together in order to classify the balance sheet in accordance with Italian GAAP. The approach taken to the grouping of balances is described in the "Classification of captions using the balance sheet and income statement formats adopted in accordance with IAS 1 and the balance sheet and income statement captions laid down in arts. 2424 and 2425 of the Italian Civil Code" section of the FTA Appendix.

1. Reported balances have been grouped together in order to classify the balance sheet in accordance with Italian GAAP. The approach taken to the grouping of balances is described in the "Classification of captions using the balance sheet and income statement formats adopted in accordance with IAS 1 and the balance sheet and income statement captions laid down in arts. 2424 and 2425 of the Italian Civil Code" section of the FTA Appendix.

2. In addition to the effects on the equity balances reported under Italian GAAP (see the statement of changes in shareholders' equity), the other effects without impact on the income statement relate to the translation differences arising on the balances reported under IFRS and, with specific reference to IFRS 2 and IAS 39, to the recognition of the fair value of stock options and cash flow hedges as a direct adjustment of shareholders' equity.

**Reconciliation of consolidated income statement for the year ended 2004** (million euro)

| | 2004 | | | |
|---|---|---|---|---|
| | Italian GAAP [1] | Adj. | Reclass. | IFRS |
| Revenue | 3,177.0 | 1.4 | (78.1) | 3,100.3 |
| Cost of sales | (2,981.6) | (4.2) | 736.3 | (2,249.5) |
| Selling and distribution expenses | – | (9.8) | (497.9) | (507.8) |
| General and administrative expenses | – | (3.4) | (144.5) | (147.8) |
| Other income | 52.5 | 0.6 | (44.3) | 8.8 |
| Other expenses | – | (1.3) | (3.9) | (5.3) |
| **Operating profit** | **247.9** | **(16.7)** | **(32.4)** | **198.8** |
| Net financial expenses | (25.6) | (8.3) | 0.0 | (33.9) |
| Share of profit (losses) of associates | (0.8) | – | (4.6) | (5.4) |
| Non-operating expense | (43.1) | – | 43.1 | – |
| Non-operating income | 6.1 | – | (6.1) | – |
| **Profit before tax** | **184.5** | **(25.0)** | **–** | **159.6** |
| Income tax expenses | (66.9) | 8.3 | – | (58.6) |
| **Profit for the year** | **117.6** | **(16.7)** | **–** | **101.0** |
| of which: | | | | |
| Attributable to minority interests | 1.6 | (0.6) | – | 0.9 |
| Attributable to the Group | 116.0 | (16.0) | 0.0 | 100.0 |

**Reconciliation of consolidated equity as of 01/01/2004 and 01/01/2005 and consolidated profit for the year ended 31/12/2004** (million euro)

| | | Equity 01/01/2004 | Net profit 2004 | Other effects 2004 [2] | Equity 31/12/2004 | Effects IAS 32, IAS 39 | Equity 01/01/2005 |
|---|---|---|---|---|---|---|---|
| **Group balances under Italian GAAP** | | **481.4** | **116.0** | **(21.8)** | **575.6** | **–** | **575.6** |
| Business combination for GDAH | A | (45.2) | (0.7) | – | (45.8) | 20.9 | (24.9) |
| Adjustment to tangible assets and relevant depreciation and other minor effects of applying IAS 29 | B | (22.1) | 3.1 | 2.2 | (16.9) | – | (16.9) |
| Adjustment to intangible assets and relevant amortization | C | (5.6) | (17.7) | 0.3 | (23.1) | – | (23.1) |
| Employee benefit | D | (18.9) | 0.9 | (0.0) | (18.0) | – | (18.0) |
| Measurement of inventories | E | (1.6) | (2.6) | – | (4.1) | – | (4.1) |
| Government grants | F | (3.6) | 1.2 | – | (2.5) | – | (2.5) |
| Stock options | G | – | (1.2) | 1.2 | – | – | – |
| Reclassification of treasury shares | H | – | – | – | – | (33.0) | (33.0) |
| Recognition and valuation of derivative instruments and related underlyings | I | – | – | – | – | (27.9) | (27.9) |
| Minor effects | M | 1.0 | (3.2) | (0.4) | (2.5) | – | (2.5) |
| Tax effects | N | 5.5 | 4.2 | – | 9.7 | 0.8 | 10.5 |
| **Group balances under IFRS** | | **390.8** | **100.0** | **(18.5)** | **472.4** | **(39.2)** | **433.2** |
| **Minority balances under Italian GAAP** | | **35.9** | **1.6** | **(6.5)** | **30.9** | **–** | **30.9** |
| Business combination for GDAH | A | 130.6 | (0.6) | (23.1) | 106.9 | (113.3) | (6.4) |
| Recognition of financial liabilities on security transactions of subsidiaries | J | – | – | – | – | (13.6) | (13.6) |
| **Minority balances under IFRS** | | **166.5** | **0.9** | **(29.6)** | **137.8** | **(126.9)** | **10.9** |
| **Total balances under Italian GAAP** | | **517.3** | **117.6** | **(28.4)** | **606.5** | **–** | **606.5** |
| Total adjustments on first-time adoption of IFRS | | 40.0 | (16.7) | (19.8) | 3.6 | (166.1) | (162.5) |
| **Total balances under IFRS** | | **557.3** | **101.0** | **(48.1)** | **610.1** | **(166.1)** | **444.1** |

### 11.3. Principal elections made regarding exemptions allowed by IFRS 1

On the first-time adoption of IFRS, Indesit Company has elected to apply some of the exemptions allowed by IFRS 1 (First-time adoption of IFRS), as described below.

#### Business combinations

On the first-time adoption of IFRS, an entity may elect to apply IFRS 3 (Business combinations) prospectively commencing from the date of transition (1 January 2004). Notwithstanding this exemption allowed by IFRS 1, Indesit Company has decided to provide better information on the financial position and results by applying IFRS 3 retrospectively from the end of 2002, date of acquiring control over General Domestic Appliances Holdings Ltd, in order to account for this business combination correctly using the purchase method.

#### Property, plant and equipment and intangible assets

On the first-time adoption of IFRS, the historical cost of property, plant and equipment and intangible assets can be replaced by their fair value or their restated value as of 1 January 2004, which becomes their deemed cost at that date. Restated value can be used if, at the time of the revaluation, it was representative of the fair value or amortized cost of the assets concerned. Indesit Company has used original cost as the deemed cost of these assets.

#### Actuarial valuation of the Defined Benefit Plans

Under IFRS, an entity may elect to use a "corridor" approach in respect of its Defined Benefit Plans (whereby actuarial gains and losses are recognised as income or expense if the net cumulative actuarial gains and losses exceed 10% of the present value of the defined benefit obligation or, if greater, 10% of the fair value of any plan assets). However a first-time adopter may elect to recognise all cumulative actuarial gains and losses at the date of transition to IFRS, even if it uses the corridor approach for subsequent actuarial gains and losses. Indesit Company made this election and recorded its liability for employee benefits based on an actuarial appraisal at the date of transition. The corridor approach has been adopted commencing from 1 January 2004.

#### Cumulative translation differences

As an exemption to IAS 21, a first-time adopter may elect to reclassify the cumulative translation adjustment at the transition date to other retained earnings. Indesit Company made this election and therefore reclassified the cumulative translation differences to other reserves at the transition date.

#### Comparative presentation of the effects of IAS 32 and IAS 39

IAS 32 and IAS 39 are applicable from 1 January 2005, although earlier application was encouraged. Indesit Company has applied the provisions of IAS 32 and IAS 39 as from 1 January 2005.

#### Derecognition of financial assets and liabilities

A first-time adopter may apply the derecognition requirements of IAS 39 only prospectively in relation to financial assets and liabilities arising on or after 1 January 2004. Indesit Company made this election and has only stated in the balance sheet the financial assets and liabilities that arose subsequent to 1 January 2004.

### 11.4. Accounting policies

The accounting policies and consolidation principles adopted are presented in the "Principal accounting policies" section of the half-year report and are an integral part of this Appendix.
As already mentioned, Indesit Company has applied the provisions of IAS 32 and

IAS 39 as from 1 January 2005. Accordingly, the classification and valuation of financial instruments in the IFRS balance sheets as of 1 January 2004 and 31 December 2004, and in the IFRS income statement for 2004, have been determined in accordance with Italian GAAP.

### 11.5. Classification of captions using the balance sheet and income statement formats adopted in accordance with IAS 1 and the balance sheet and income statement captions laid down in arts. 2424 and 2425 of the Italian Civil Code

The above schedules present the reconciliations of the balance sheet and income statement required by IFRS 1. The formats adopted by Indesit Company in accordance with IAS 1 differ from those laid down in arts. 2424 and 2425 of the Italian Civil Code and, for the sake of clarity and ease of presentation, both the balance sheet and the income statement prepared under Italian GAAP have been classified in the formats adopted for IFRS purposes. In order to understand how the amounts determined under Italian GAAP have been classified for IFRS purposes, the following notes describe the link between the balance sheet and income statement captions laid down in arts. 2424 and 2425 of the Italian Civil Code and those contained in the IFRS formats.

#### Balance sheet

Tangible fixed assets (B.I.) are now reported as Property, plant and equipment.
The Goodwill and other intangible assets with indefinite useful life and Other intangible assets with a finite life caption contains the Intangible fixed assets (B.II.). Equity investments (B.III.1) are classified as Other investments, except for Investments in associates (B.III.1b) which are shown separately as Investments in associates. The long-term portion of Receivables (B.III.2) is reported as Other non-current financial assets. Prepaid taxes are now classified as deferred tax assets. Inventories (C.I.) are classified as Inventories. Financial assets not held as fixed assets (C.III.) are included in the Current financial assets caption. The Trade receivables caption includes the amounts Due from customers (C.II.1), Due from subsidiaries (C.II.2), Due from associates (C.II.3) and Due from parent companies (C.II.4). Liquid assets (C.IV.) are contained in the Cash and cash equivalents caption. The Other receivables and current assets caption includes the amounts Due from others (C.II.5) and Tax Receivables (C.II.4 bis), while Accrued income and prepaid expenses (D.) are now allocated to the specific balance sheet accounts concerned.
The long-term portions of Bonds (D.1), Convertible bonds (D.2) and amounts Due from banks and Due from other providers of finance are included in the medium and long-term interest-bearing loans and borrowings caption. The provisions for pensions and similar obligations (B.1) and Employee severance indemnities (C.) are grouped in the Employee benefits caption. The Provisions on consolidation for risks and charges (B.2bis) and other provisions for risks and charges (B.3) are included in the Provisions for risks and charges caption (split into current and non-current). The Provisions for taxation, included deferred taxes (B.2) are included in the Deferred tax liabilities caption.
The current portions of Bonds (D.1), Convertible bonds (D.2) and amounts Due from banks and Due from other financial institutions are included in the Banks and other financial payables caption. Advances (D.6), amounts Due to suppliers (D.7), Notes payable (D.8) and amounts Due to subsidiary companies (D.9), associated companies (D.10) and parent companies (D.11) are included in Trade payables. Tax Payables (D.12), Due to social security and pension institutions (D.13), Other payables (D.14) are included in the same caption.
Share capital (A.I.) is contained in the Share capital caption. The Share premium (A.II.), the Revaluation reserves (A.III.), the Legal reserve (A.IV.), the Statutory reserves (A.V.), the Reserve for own shares held (A.VI.) and the Other reserves (A.VII.) are included in the Reserves caption. Retained earnings (A.VIII.) are reported in the Retained earnings caption. Net profit (loss) attributable to the Group is contained in the Profit attributable to the Group caption. The Minority interests caption includes the Minority interests in share capital and reserves (B.X.) and the minority interests in net profit (loss) for the period.

### Income statement

The IFRS income statement is presented by function, by contrast with the income statement prepared in the format required by art. 2425 of the Italian Civil Code, which is presented by nature. Classification by function has involved allocating income and expenses to the various lines in the income statement in a manner consistent with the Group's cost centres, following the operational logic used to establish the centres of responsibility. In particular, the changes in inventories (both finished products – A.2 and raw, ancillary and consumable materials – B.11) are included in cost of sales, other revenues and income are contained in other operating income or deducted from the charges allocated to the various cost centres to which they are related if, in accordance with IAS 1, this offset reflects the substance of the transaction. Similarly, all the costs in caption B. (costs of production) have been allocated to cost of sales, selling and distribution expenses or general and administrative expenses, depending on the cost centres concerned. Financial income and expense is contained in the same caption of the IFRS income statement, and non-operating income and expense have been reclassified to the various lines of the income statement depending on the cost centres to which they are related.

## 11.6. Description of the principal reconciling items between Italian GAAP and IFRS

The principal first-time adoption adjustments to the consolidated financial statements of Indesit Company prepared under Italian GAAP are described in the following paragraphs. The paragraph letter of each note refers to the content of the reconciliations presented above.
The version of the "Reconciliation of consolidated shareholders' equity as of 1 January 2004, 31 December 2004 and 1 January 2005 and consolidated net profit for the year ended 31 December 2004" published as an attachment to the report on the second quarter of 2005 has been changed regarding the accounting treatment of both the effects of applying IAS 29 and the tax effects of acquiring GDAH, a UK company. The impact of these changes on shareholders' equity and net profit was not significant in relation to the amounts reported in the consolidated financial statements.

### A. Business combination for GDAH

The acquisition of General Domestic Appliances Holdings Ltd (GDAH), a UK company, is taking place in stages with the initial purchase of a 50% interest from Marconi followed by the acquisition of the remaining shares from General Electric under a Put and Call agreement which gives each of the parties the right to buy/sell and obliges the counterpart to sell/buy fixed blocks of shares in GDAH for established amounts at pre-determined intervals.
Under Italian GAAP, this acquisition was recorded with reference to the equity interest actually held at each balance sheet date (60% as of 1 January 2004, 68% as of 1 January 2005).
In the consolidated financial statements of Indesit Company prepared under Italian GAAP, the additional price paid with respect to the interest in equity held at period end has been allocated to the value of the brands, tangible fixed assets and, residually, goodwill.
In addition, the carrying value of such brands, tangible fixed assets and goodwill has been subjected to depreciation and amortisation over their estimated useful lives.
In relation to its commitment under the Put and Call agreement, Indesit Company has lodged a restricted bank deposit of about Usd 57.1 million as cash collateral for the settlement of the final tranche of the above Put and Call plan. For reporting purposes under Italian GAAP, the exchange gains arising on the translation of this cash collateral have been recorded as deferred income.
As mentioned earlier, Indesit Company did not make the election for exemption allowed by IFRS 1 on the first-time adoption of IFRS and has applied the provisions of IFRS 3 (Business combinations) retrospectively from the time control was acquired

over General Domestic Appliances Holdings Ltd.
The acquisition effectively took place at the end of 2002 when, given the above Put & Call agreement, Indesit Company obtained control over GDAH.
For the purposes of first-time adoption, this involved the reallocation of the additional price paid with respect to the equity interest acquired not only to the assets mentioned above, but also to other intangible assets previously identified specifically by appraisals and to the liability for defined benefit plans in favour of employees. All these entries were made using the full fair value approach envisaged by IFRS 3 (except for goodwill), attributing the related interests to the Group and the minority shareholders.
In this regard, commencing from 1 January 2005 on the application of IAS 32, the minority interest in equity has been reclassified to financial payables, as described further in paragraph I.
Furthermore, commencing from the date of acquisition, the value of goodwill has not been amortised but subjected to a periodic impairment test. The value of brands has been amortised solely with reference to those which do not meet the conditions to qualify as intangible assets with an indefinite life. Similarly, the additional intangible assets identified have been amortised in relation to the expected period of economic benefit.
The reopening of this business combination, as described above, therefore increased the carrying amount of property, plant and equipment by 34.4 million euro as of 1 January 2004 and 25.6 million euro as of 31 December 2004 and 1 January 2005, and of intangible assets by 146.6 million euro as of 1 January 2004, 130.9 million euro as of 31 December 2004 and 192.2 million euro as of 1 January 2005.
The increase in the carrying amount of property, plant and equipment and intangible assets (other than brands) has resulted in the recognition of additional depreciation and amortisation, as partially offset by the elimination of the amortisation of goodwill from the income statement, with a net effect of 2.5 million euro as of 31 December 2004.
Similarly, other receivables and current assets have been adjusted by 13.3 million euro as of 1 January 2004 and 16.6 million euro as of 31 December 2004 and 1 January 2005 to eliminate the deferred income deriving from the translation of the cash collateral lodged to guarantee the last put payment. Commencing from the IFRS transition date, exchange fluctuations are recorded in the income statement as financial expense; they amounted to 3.3 million euro in the year ended 31 December 2004.
In addition, as of 1 January 2005 on the first-time adoption of IAS 32, and as explained further in note I, long-term financial payables were increased by 147.6 million euro (comprising 114.5 million euro in long-term payables and 33.1 million euro in short-term payables). In addition, medium to long-term financial payables of 16 million euro and short-term financial payables of 8.7 million euro were also recorded at the same date in relation to derivatives hedging payables. The liability for defined benefit plans in favour of employees was increased by 21.2 million euro as of 1 January 2004, 31 December 2004 and 1 January 2005. In addition, provisions for risks and charges of 0.7 million euro were recognised as of 1 January 2004.
Lastly, the deferred tax liabilities recognised in relation to the property, plant and equipment and intangible assets recorded above (therefore without impact on equity), amounted to 61.8 million euro as of 1 January 2004 and 57.7 million euro as of 31 December 2004 and as of 1 January 2005.
Overall, this restatement of the business combination resulted in adjustments to equity (gross of tax effect) of 45.2 million euro as of 1 January 2004, 45.8 million euro as of 31 December 2004 and 24.9 million euro as of 1 January 2005, with an adverse effect on the 2004 income statement (gross of tax effect) of 0.7 million euro.

### B. Adjustment to tangible assets and relevant depreciation and other minor effects of applying IAS 29

As allowed or required by specific national laws, certain tangible assets have been revalued in the financial statements prepared under Italian GAAP. These revaluations have been eliminated on the first-time adoption of IFRS. In addition, the value of land on which buildings are situated, depreciated together with the latter under Italian GAAP, has been classified separately and the related accumulated depreciation has been eliminated. In addition to the above, the adjustment of tangible fixed assets also includes the effects of applying the provisions of IAS 29 concerning the accounting for companies that operate in highly-inflationary economies. In particular, the previous financial statements of Indesit Company prepared under Italian GAAP applied FAS 52 rather than IAS 29 in relation to the companies operating in Turkey and, until 2003, to Closed Joint Stock Company Indesit International, a Russian company. The companies operating in hyper-inflationary economies, specifically Turkey, restated their accounts in accordance with IAS 29 on the first-time adoption of IFRS, while the company operating in Russia restated its accounts in accordance with IAS 29 at the end of 2003 and in accordance with IAS 21 from 2003. The new criteria adopted in relation to hyperinflation principally affect the value of tangible fixed assets, with other minor effects on other account balances.
The total adjustments to tangible fixed assets, including the effect of applying IAS 29 in relation to hyper-inflationary economies, amounted to 21.8 million euro as of 1 January 2004 and 17.1 million euro as of 31 December 2004 and 1 January 2005, with an adjustment to the depreciation charged to the 2004 income statement of 3.2 million euro. The application of IAS 29 rather than FAS 52 also had a number of minor effects on other account balances, including deferred tax liabilities (with positive adjustments of 5.9 million euro as of 1 January 2004 and 1.3 million euro as of 31 December 2004) and other payables (with a negative adjustment of 6.3 million euro as of 1 January 2004 and a positive adjustment of 1.2 million euro as of 31 December 2004). The reduction in equity due to the adjustment of tangible fixed assets and the application of IAS 29 amounted to 22.1 million euro as of 1 January 2004 and 16.9 million euro as of 31 December 2004 and 1 January 2005, with a positive effect on the 2004 income statement of 3.1 million euro.

### C. Adjustment to intangible assets and relevant amortisation

In accordance with Italian GAAP, Indesit Company capitalised intangible assets meeting certain requirements including the cost of extraordinary advertising incurred in 2004, following the decision to change the company's name, and plant start-up and expansion expenses. These costs cannot be deferred under IAS 38 and, accordingly, the above capitalisations have been eliminated. As a result of this adjustment, equity was reduced by 5.6 million euro as of 1 January 2004 and 23.1 million euro as of 31 December 2004, with an adverse effect on the 2004 income statement of 17.7 million euro.

### D. Employee benefit

In accordance with Italian GAAP, the financial statements of Indesit Company reported employee severance indemnities at their nominal value and disclosure was provided about the unfunded pension liabilities of General Domestic Appliances Holdings Ltd. On the adoption of IFRS, the liability for defined benefit plans is recorded with reference to the future payable determined by an independent actuary using the projected unit credit method. This resulted in the restatement of the liability for severance indemnities and the recognition as a payable of the underfunded pension fund liability. This adjustment to liabilities and, accordingly, equity amounted to 18.9 million euro as of 1 January 2004 and 18.0 million euro as of 31 December 2004 and 1 January 2005, with the recognition of deferred tax assets at the same dates of, respectively, 5.5 million euro and 5.2 million euro.

### E. Measurement of inventories
Indesit Company S.p.A. measures inventories on a LIFO basis, which is not allowed under IFRS. On first-time adoption, the value of inventories was restated at weighted-average cost with a marginal effect on equity and net profit.

### F. Government grants
In accordance with Italian GAAP and specific laws, Indesit Company recorded capital grants in various ways depending on the accounting and fiscal treatment required by the regulations governing the various types of grant. On the adoption of IFRS, all grants are recorded as other liabilities and released to the income statement in accordance with the matching principle, when the costs for which such grants were made are incurred. This adjustment had a marginal effect on equity and net profit.

### G. Stock options
Italian GAAP do not cover the treatment of stock options. By contrast, IFRS 2 requires that the fair value of stock options at the grant date be reported in the income statement, with a balancing entry to equity, by charging such amount to payroll costs on a straight-line basis over the period between the grant date and the vesting date. This adjustment had a marginal effect on equity and net profit.

### H. Reclassification of treasury shares
In accordance with Italian GAAP, Indesit Company recorded treasury shares in a specific asset caption within the balance sheet. The application of IFRS, specifically IAS 32, has involved the reclassification of treasury shares from assets to a reduction in equity as of 1 January 2005.

### I. Recognition of financial liabilities on the business combination
In accordance with Italian GAAP, the acquisition of General Domestic Appliances Holdings Ltd was recorded with reference to the percentage ownership held at the end of each accounting period. As explained in paragraph A, the restatement of this business combination involved redetermining the acquisition value which was allocated on a fair value basis to the purchased company's brand names, property, plant and equipment, other intangible assets and liabilities, mainly in relation to its pension fund. The minority interest was identified separately. Due to the effect of applying IAS 32 from 1 January 2005, this investment is reported in the financial statements as if Indesit Company already held 100% of its share capital; accordingly, the minority interest has been reclassified as a financial liability, represented by the present value of the exercise price of the options granted to the counterparty, and the previously unrecorded goodwill has been recognised. The effect of recognising the above loan is disclosed in paragraph A.

### J. Recognition of financial liabilities on security transactions of subsidiaries
In accordance with Italian GAAP, the sale of investments in subsidiaries to parties that are granted a related put option involves the elimination of the asset from the parent company's financial statements and the recognition of the minority interest in the consolidated financial statements. On applying IAS 32, the sale of shares in Closed Joint Stock Company Indesit International to bank that hold a put option involves the recognition of a financial liability. The effect of recognising this liability on the net financial position as of 1 January 2005 was 13.6 million euro.

### K. Derecognition of financial assets from securitisation transactions
Under Italian GAAP, the without-recourse sale of receivables, involving the securitisation of a portfolio of trade receivables which is reviewed monthly on a revolving basis, requires their elimination from the balance sheet on collection of the related payments. On applying IAS 39 and in view of the effect of subscribing for the subordinated bonds issued by the vehicle company, these trade receivables are maintained as an asset in the balance sheet and the related bonds are eliminated. As described in the consolidated financial statements as of 31 December 2004 and in the report on the second quarter of 2005, the negative effect on the net financial position of this accounting treatment was 114.3 million euro as of 1 January 2005.

### L. Recognition and valuation of derivative instruments and related underlyings

Italian GAAP requires derivative instruments to be measured in a manner consistent with the measurement of the hedged assets and liabilities, with the recognition of the related income and expense on an accruals basis. On applying IAS 39 and having regard for the hedging strategies defined, such transactions must satisfy specific criteria before they can be treated as hedges and recorded on a hedge accounting basis. The effects of the first-time adoption of IAS 39 relate to the recording of fair value hedges and the related underlyings, principally the options to hedge the exchange-rate risk on the acquisition of General Domestic Appliances Holdings Ltd and the Cross Currency Swap relating to the Usd borrowing (US Private Placement), as well as the nickel options and the forward sale of Gbp. The adjustment of equity deriving from the recognition of these financial instruments amounted to 27.9 million euro as of 1 January 2005, mainly due to the effect of measuring the forward purchase of Usd to hedge the purchase of GDAH.

### M. Minor effects

This caption includes the minor effects deriving from the first-time adoption of IFRS, principally comprising the adoption of the component approach in relation to the aircraft of Aermarche S.p.A., a subsidiary, the recognition of the liability for onerous contracts in accordance with IAS 37 and the discounting of liabilities and provisions for risks and charges with reference to their likely settlement dates. These adjustments had a marginal effect on equity and net profit.

### N. Tax effects

This caption includes the tax effect of all the adjustments described above, where applicable. As a result of recognising this tax effect, equity was increased by 5.5 million euro as of 1 January 2004, 9.7 million euro as of 31 December 2004 and 10.5 million euro as of 1 January 2005, with a positive effect on the 2004 income statement of 4.2 million euro.

## 11.7. Effect of first-time adoption of IFRS on the statement of consolidated cash flows for the year ended 31 December 2004

The financial statements of Indesit Company prepared under Italian GAAP include a statement of cash flows prepared in the standard format set out in IAS 7 (indirect method), distinguishing the cash flows generated from operating activities, investing activities and financing activities. However, this statement of cash flows reported the changes in the net financial position (comprising current and medium to long-term financial assets and liabilities) during the period, rather than the changes in cash and cash equivalents required by IAS 7. In addition, in order to simplify the preparation of this document and in the absence of a specific requirement under Italian accounting standards, certain of the requirements of IAS 7 were omitted. The principal changes made due to the first-time adoption of IFRS, with respect to the format presented in the consolidated financial statements as of 31 December 2004 prepared under Italian GAAP, are described below in relation to the principal component of the statement of cash flows.

### Cash flow from operating activities

The cash flow from operating activities determined in accordance with IFRS is less than that determined under Italian GAAP, partly due to the change in net profit, but mainly due to the reclassification of the change in payables relating to the purchase of fixed assets to the cash flow from investing activities, amounting to about 20 million euro.

### Cash flow from investing activities

The cash flow from investing activities determined in accordance with IFRS is higher than that determined under Italian GAAP, not only due to the reclassification of the change in payables relating to purchase of fixed assets described above, but also due to the application of IFRS 3 in relation to the recognition of the amount paid for goodwill on the acquisition of GDAH, amounting to about 12 million euro.

### Cash flow from financing activities

The cash flow from financing activities determined in accordance with IFRS does not differ significantly from that determined using Italian GAAP.

## Attachment 1. List of companies consolidated on a line-by-line basis

| Name | Location | Share capital | | Group interest | |
|---|---|---|---|---|---|
| | | | | Direct | Indirect |
| Indesit Company Luxembourg S.A. | Luxembourg | Eur | 100,289,985 | 99.99 | – |
| Indesit Electrodomésticos S.A. | Spain | Eur | 11,500,000.01 | 78.95 | 21.05 |
| Merloni Domestic Appliances Ltd | United Kingdom | Gbp | 90,175,500 | 19.6 | 80.4 |
| Indesit Company Portugal Electrodomésticos S.A. | Portugal | Eur | 16,825,000 | – | 99.44 |
| Indesit Company International B.V. | Netherlands | Eur | 272,270 | – | 100 |
| Indesit Pts Ltd | United Kingdom | Gbp | 1,000 | – | 100 |
| Indesit Company France S.A. | France | Eur | 17,000,000 | – | 99.99 |
| Scholtès Nederland B.V. | Netherlands | Eur | 79,412 | – | 100 |
| Fabrica Portugal S.A. | Portugal | Eur | 11,250,000 | – | 96.4 |
| Indesit Company Beyaz Esya Sanayi ve Ticaret A.S. | Turkey | Trl | 6,992,921,114,000 | – | 99.99 |
| Indesit Company Beyaz Esya Pazarlama A.S. | Turkey | Trl | 17,000,000,000 | 100 | – |
| Indesit Company Financial Services Luxembourg S.A. | Luxembourg | Eur | 5,170,000 | 99.99 | 0.01 |
| Indesit Company Deutschland GmbH | Germany | Eur | 550,000 | – | 99.75 |
| Indesit Company Ireland Reinsurance Ltd | Ireland | Usd | 750,000 | – | 100 |
| WRAP S.p.A. | Italy | Eur | 27,766,950 | 89.3 | – |
| Closed Joint Stock Company Indesit International | Russia | Rur | 1,664,165,000 | 100 | –* |
| Indesit Company Polska Sp.z o.o. | Poland | Plz | 540,876,500 | 100 | –* |
| Argentron S.A. | Argentina | Arp | 22,000,000 | | 71.18* |
| Indesit Company Magyarország Kft | Hungary | Huf | 3,283,660,000 | | 100 |
| Indesit Company Ceská S.r.o. | Czech Republic | Czk | 1,000,000 | 100 | – |
| Indesit Company International Business S.A. | Switzerland | Chf | 250,000 | | 100 |
| Indesit Company UK Finance Llp | United Kingdom | Eur | 95,750,000 | 99 | 1 |
| Indesit Company UK Holdings Ltd | United Kingdom | Eur | 163,000,000 | | 100 |
| General Domestic Appliances Holdings Ltd | United Kingdom | Gbp | 26,000,000 | | 76 |
| Aermarche S.p.A. | Italy | Eur | 25,000,000 | 70.8 | 0.26 |
| AEI Gala Ltd | United Kingdom | Gbp | 1,000 | | 76 |
| Airdum Ltd | United Kingdom | Gbp | 15,000 | | 76 |
| Cannon Industries Ltd | United Kingdom | Gbp | 1,500,000 | | 76 |
| Creda Appliances Ltd | United Kingdom | Gbp | 100 | | 76 |
| Creda Domestic Appliances Service Ltd | United Kingdom | Gbp | 1,000 | | 76 |
| Creda Ltd | United Kingdom | Gbp | 5,850,000 | | 76 |
| Fixt Ltd | United Kingdom | Gbp | 2 | | 76 |
| General Domestic Appliances International Ltd | United Kingdom | Gbp | 100,000 | | 76 |
| Hotpoint Sales Ltd | United Kingdom | Gbp | 775,000 | | 76 |
| Hotpoint UK Ltd | United Kingdom | Gbp | 50 | | 76 |
| Industrial Design Unit Ltd | United Kingdom | Gbp | 100 | | 76 |
| Jackson Appliances Ltd | United Kingdom | Gbp | 750,000 | | 76 |
| Indesit Company UK Ltd | United Kingdom | Gbp | 5,010,000 | | 76 |
| Xpelair Ltd | United Kingdom | Gbp | 825,000 | | 76 |
| Ariston Group Services Ltd | United Kingdom | Gbp | 100 | | 76 |
| RTC International Ltd | United Kingdom | Gbp | 50,000 | – | 100 |
| Wuxi Indesit Home Appliance Co. Ltd | China | Usd | 13,600,000 | | 70 |
| Indesit Company South America S.A. | Luxembourg | Eur | 800,000 | | 100* |

* Includes the percentage held subject to a resale clause.

## Attachment 2. List of investments valued using the equity method

| Name | Location | Share capital | Group interest Direct | Group interest Indirect |
|---|---|---|---|---|
| Merloni Progetti S.p.A. | Italy | Eur 10,000,000 | 33 | – |
| Haier Indest (QuigDao) Washing Machines Co. Ltd | China | Usd 24,000,000 | 30 | – |
| Haier Indesit (QuigDao) Electrical Appliances Co. Ltd | China | Usd 12,000,000 | 15 | 15 |

## Attachment 3. List of other investments in subsidiary and associated companies

| Name | Location | Share capital | Group interest Direct | Group interest Indirect |
|---|---|---|---|---|
| Adria Lab S.r.l. | Italy | Eur 150,000 | 40 | – |
| ECODOM Consorzio Italiano per il Recupero e Riciclaggio Elettrodomestici | Italy | Eur 69,000 | 43.48 | – |
| Indesit Company Bulgaria Ltd | Bulgaria | Bgn 7,805,000 | 100 | – |
| Indesit Company Domestic Appliances Hellas Mepe | Greece | Eur 18,000 | – | 100 |
| Indesit Company Norge Ltd | Norway | Nok 100,000 | – | 100 |
| Indesit Company Österreich GmbH | Austria | Eur 11,250,000 | – | 100 |
| Indesit Company Singapore Pte. Ltd | Singapore | Sgd 100,000 | – | 100 |
| M&B Marchi & Brevetti S.r.l. | Italy | Eur 20,000 | 50 | – |
| SS Fabriano Basket S.p.A. | Italy | Eur 120,000 | – | 100 |
| Sofarem S.àr.l. | La Réunion (F) | Eur 382,500 | – | 20 |
| Tradeplace B.V. | Netherlands | Eur 30,000 | 20 | – |

23 March 2006

for the Board of Directors

The Chairman
**Vittorio Merloni**

# independent auditors' report

**KPMG S.p.A.**
**Revisione e organizzazione contabile**
Via 1° Maggio, 150/A
60131 ANCONA AN

Telefono 071 2901140
Telefax 071 2916381
e-mail it-fmauditaly@kpmg.it

**(Translation from the Italian original which remains the definitive version)**

## Report of the auditors in accordance with article 156 of legislative decree no. 58 of 24 February 1998

To the shareholders of
Indesit Company S.p.A.

1 We have audited the consolidated financial statements of the Indesit Company Group as at and for the year ended 31 December 2005, comprising the balance sheet, income statement, statement of changes in equity, cash flow statement and notes thereto. These financial statements are the responsibility of Indesit Company S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit. These are the first set of consolidated financial statements prepared in accordance with the International Financial Reporting Standards endorsed by the European Union.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements present the prior year corresponding figures for comparative purposes prepared using consistent accounting policies except for the effects of the application of IAS 32 and IAS 39 which, in accordance with the option allowed by IFRS 1, have been applied from 1 January 2005. Furthermore, note 11 to the consolidated financial statements discloses the effects of the adoption of the International Financial Reporting Standards endorsed by the European Union. As disclosed in the above note, management made some reclassifications to the IFRS 1 reconciliation schedules included in the information about the effects of the adoption of IFRS, which was approved by the board of directors and published as an appendix to the half year report at 30 June 2005. We audited such schedules and issued our report thereon on 27 October 2005. We have examined the disclosure provided in note 11 to the extent that we considered to be necessary to express an opinion on the consolidated financial statements at 31 December 2005.

3 In our opinion, the consolidated financial statements of the Indesit Company Group as at and for the year ended 31 December 2005 comply with the International Financial Reporting Standards endorsed by the European Union. Therefore they are clearly stated and give a true and fair view of the financial position of the Indesit Company Group as at 31 December 2005, the results of its operations, changes in its equity and its cash flows for the year then ended.

Ancona, 7 April 2006

KPMG S.p.A.

(Signed on the original)

Luca Ferranti
Director of Audit

# glossary

**Business combination.** A set of business units or activities considered together in a single balance sheet item.

**Call rate.** Number of service requests over total products sold.

**CGU (Cash Generating Unit).** The smallest identifiable group of activities that generate incoming cash flows and are largely independent of incoming cash flows from other activities or groups of activities.

**Class A / AA / A+** European certification given to appliances combining high performance and minimum energy consumption.

**Co-manufacturing.** Assembly of semi-finished products and packaging to create ready to sell products.

**Corporate Governance.** Rules and codes of conduct disciplining the control of a company, its ownership structure and the efficiency of its management in pursuing business objectives.

**Defined benefit plan.** Fixed income pension scheme that a company must pay its retired employees.

**Defined contribution plan.** Fixed contribution pension scheme. The amount of income will depend on the contribution payments and on yields.

**EBITDA/EBIT.** Earnings before interest, taxes, depreciation and amortization (gross operating margin) / Earnings before interest and taxes (operating margin).

**EPS (Earning Per Share).** Net profits (losses) for the year over the number of shares in circulation.

**Fair value.** Price at which an asset may be traded or a liability extinguished in a free transaction between informed and consenting parties.

**Fair Value option.** The possibility of stating at fair value certain assets and liabilities with specific characteristics.

**Financial covenant.** Clauses stipulated to discipline financial events (esp. loans and credit lines).

**Hedge accounting.** A method that designates a hedging instrument, normally a derivative, as an offset to changes in the fair value or cash flows of a hedged item.

**IAS/IFRS™.** International Accounting Standards/International Financial Reporting Standards.

**Impairment test.** An assessment carried out at each balance sheet reference date to search for indications that assets may have undergone lasting loss of value and to estimate recoverable values.

**Net working capital.** The difference between short-term assets and short-term liabilities of a trade and financial nature.

**Operating Cash Flow – OCF.** Cash flows generated by operating business.

**Pay out ratio.** Ratio of last dividend paid to consolidated net profits.

**Phase out.** Gradual cutting back of production of a product.

**Playzone.** A fully modular space in Indesit fridges for storage of bottles and containers of all shapes and sizes.

**PMS (Performance Management System).** A system for assessing employees' professional performance, so they can improve and develop their careers on the basis of their aptitudes and competencies.

**Projected Unit Credit (PUCM).** An actuarial method of stating balance sheet items (esp. employee severance indemnity).

**Purchase price allocation.** Fair value statement of all the major assets and liabilities of an acquired company.

**Retirement awards.** Awards and ceremonies accorded to meritorious employees on retirement.

**RoHS.** European Community Directive disciplining the use of hazardous substances in electrical and electronic equipment.

**Securitization.** Without recourse transfer of a portfolio of receivables in exchange for an issue of securities secured by the receivables themselves.

**Sell in.** A company's sales to commercial intermediaries; goods entering a point of sale.

**Sell out.** Sales by retailers to consumers; goods leaving a point of sale.

**Sourcing.** Identification of suppliers and negotiation of prices by a company's procurement structure.

**Special economic zone.** A geographical area with laws different from those of the country to which the area belongs, usually for the purpose of attracting foreign investment.

**Stock option.** A faculty granted by enterprises to their managers whereby the latter may buy or subscribe a certain number of company shares at a favourable, predetermined price and within a limited period of time.

**Supply chain.** The organizational and IT structure that manages and co-ordinates business processes, from procurement of materials and components through to delivery of finished products.

**Touch control.** Keypad type control and regulation system on certain Indesit ovens.

**Value proposition.** Describes how an organization will differentiate itself to customers, and what particular set of values it will deliver.

**Vesting period.** The time required before options on shares can be exercised and the shares can be subscribed by the holder under a given stock option plan.

**WACC (Weighted Average Cost of Capital).** The average cost of a company's various sources of funding, including both debt and equity; usually used an indicator to track a company's operating cash flows and assess its financial position and EVA (economic value added).

**WEEE (Waste Electrical and Electronic Equipment).** EU Directive regulating the end of the life cycle of household appliances.

**WRAP (Web Ready Appliances Protocol).** An exclusive technology enabling household appliances to dialogue amongst themselves and with the outside world. Wrap is also the Group company specializing in electronics research.

# contacts

**registered office**
Indesit Company S.p.A.
Viale Aristide Merloni, 47
60044 Fabriano (AN)
Italy
Tel. +39 0732 6611

**statutory data**
Share capital €102,156,494.40
Registered with Ancona Court
companies register
Tax Code/Vat Reg:
No. 00693740425

**communication and corporate identity**
Tel. +39 0732 662356
Fax +39 0732 662380

**investor relations**
Tel. +39 0732 6611
Tel. +39 02 300 83 111

**www.indesitcompany.com**

**Austria**
Indesit Company Hausgeräte
Vertriebs. GmbH
Bundesstrasse 66
8740 Zeltweg

**Bulgaria**
Indesit Company Bulgaria Srlu
World Trade Center
36 Dragan Tsancov Blvd.
Block B, Office 412
1057 Sofia

**China**
Indesit Company
Representative Office
1901&1910 Shanghai Times Square
93 Huai Hai Road
Shanghai 200021

**Czech Republic**
Indesit Company Ceska Sro
U Nákladového nádraží, 2/1949
130 00 Praha 3

**France**
Indesit Company France S.A.
3 Bd. G. Bidault,
Croissy Beaubourg
77437 Marne La Vallée Cedex 2

**Germany**
Indesit Company Deutschland GmbH
Trakehner Strasse 7-9
D-60487 Frankfurt/Main

**Greece**
Indesit Company Domestic
Appliances Hellas Mepe
29 Michalakopoulou Street
11528 Athens

**Hungary**
Indesit Company Magyarorzag Kft
Szépvölgyi Business Park
Szépvölgyi út 35-37. A ép., II em.
H-1037 Budapest

**Italy**
Indesit Company S.p.A.
- Viale Aristide Merloni, 47
  60044 Fabriano (AN)
- Viale Certosa, 247
  20151 Milano

**Luxembourg**
Indesit Company Luxembourg S.A.
19-21 Bd. du Prince Henri
1724 Luxembourg

**Norway**
Indesit Company Norske Ltd
Norway AS
Nils Hansens Vei, 13
0667 Oslo

**Poland**
Indesit Company Polska S.p.zo.o.
Ul. Dàbrowskiego, 216
93-231 Łódz

**Portugal**
Indesit Company Portugal
Electrodomésticos S.A.
Rua Abranches Ferrão, 10-14º D
Edificio Atlanta Park II
1600-001 Lisboa

**Republic of Ireland**
Indesit Company Ireland
Reinsurance Ltd
49 Airways Industries Estate
Santry – Dublin 17

**Romania**
Indesit Company
Representative Office
Bvd Basarabiei, 28 – Sector 2
Bucharest

**Russia**
Indesit International
Business Park, WC Pavillion, 46
Prospect Mira – Moscow

**Singapore**
Indesit Company Singapore Pte Ltd
138 Cecil Street,
#08-01A Cecil Court
069538 Singapore

**Spain**
Indesit Electrodomésticos S.A.
Edificio Europa III,
C/ San Rafael n. 1
Portal 4 Bajo G
28108 Alcobendas Madrid

**Switzerland**
Indesit Company
International Business S.A.
Centro Gerre 2000
Via Pobiette 11
6928 Manno (Lugano)

**The Nederlands**
Indesit Company Nederland BV
Veldzigt 22
3454 PW De Meern

**Turkey**
Indesit Company Beyaz Esya
Pazarlama AS
Balmumcu cad. Karahasan sok.no.15
Balmumcu Besiktas
80700 Istanbul

**UK**
Indesit Company UK Ltd
Morley Way
Peterborough PE2 9JB



**Key**

▲ Group Headquarters

■ Commercial operations

Manufacturing plants:

Washing machines & dryers

Dishwashers

Cooking

Cooling

**Indesit Company**
Communications and Corporate Identity

**consultancy and coordination**
Ergon Comunicazione

**financial information**
Financial Statements Department – Indesit Company

**graphics**
Bloom Comunicazione

**photos**
Enzo Signorelli
Min Zaw Mra
Photographic archive Indesit Company

**printing**
Biemmegraf – Italy

www.indesitcompany.com