

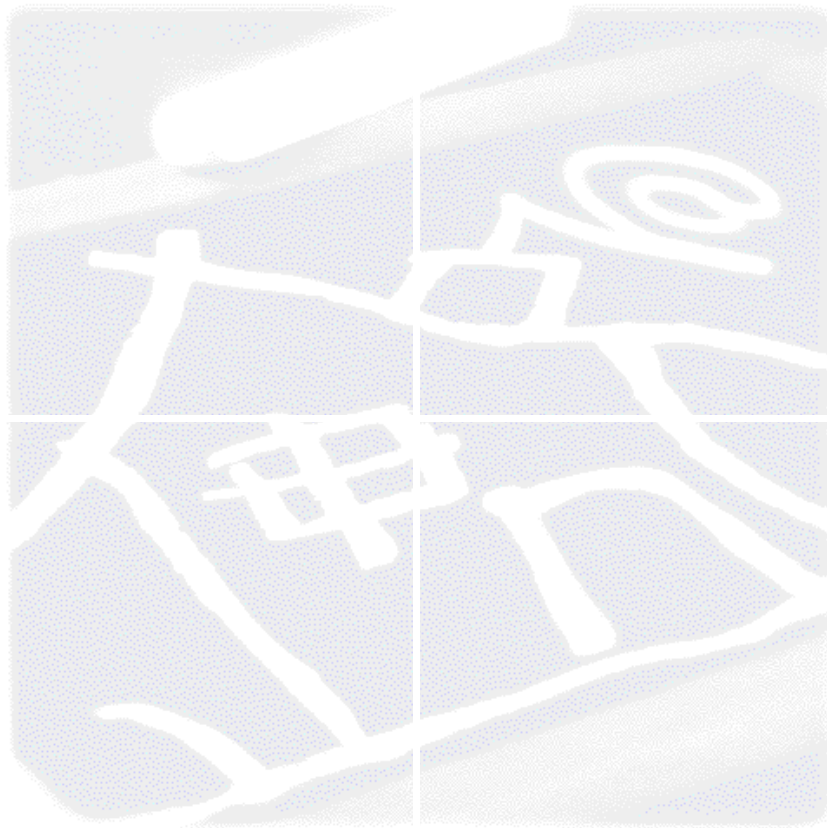


Merloni Elettrodomestici



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Merloni Elettrodomestici



**Board of Directors' report on operations
for the second quarter of 2001**

Quarterly report at 30 June 2001

Economic background

The slow down registered in economy in the first quarter of 2001 has been confirmed in the second quarter.

At a world-wide level, the increase in gross domestic product in the first six months of the year was 1.7%. American economy registered a 1.7% growth, while for EMU countries the increase was equal to 2.4%.

Currency markets

In the EU, in the second quarter of 2001, the cost of money has shown a slight decrease, passing from 4.75% to 4.50%, while in the USA the cost of money has registered a significant decrease passing from 4.25% to 3.75%.

In the first quarter of 2001, currency markets have been characterized by the average appreciation of the dollar on the euro, equal to 6% approximately. Trends in the dollar have also affected the other currencies in the markets where the Group operates. In particular, the ruble registered a 3.1% approximately appreciation on the euro and 6% the zloty; on the contrary, the Turkish lira showed a 55% depreciation approximately on the euro, as a result of the persisting financial crisis, first occurred at the beginning of 2001.

The domestic appliances market in Europe

In the second quarter of 2001, demand for domestic appliances in Europe has been negatively affected by the overall slow-down in economic growth, in western markets in particular.

In western Europe, market has been relatively steady, -0.5% on a six-monthly basis, with growth mainly concentrated in the United Kingdom (+8.5%) and in Portugal (+4.1%); Italy showed a slow-down, passing to +2.8%, while Germany registered a 7.0% decrease. In eastern Europe, the Turkish market registered a significant drop (-39.4%), following the economic-financial crisis which has also continued in the second quarter, while demand in the Russian market increased by over 20%.



The income statement

In the second quarter of 2001, sales have been equal to ITL 912 billion, +20.6% compared with the same period the prior year, while the operating margin (EBIT) has been equal to 5.9% of the value of sales, registering a 35% growth.

Consolidated income statement (ITL billion)	2Q2001*	2Q2000	FY2000
Sales	912	756	3,100
Variation	20.6%	-	-
Gross operating margin (EBITDA)	99	81	317
As a % of sales	10.9%	10.7%	10.2%
Operating margin (EBIT)	54	40	185
As % of sales	5.9%	5.3%	6.0%
Profit before taxes (PBT)	36	23	121
Variation	57%	-	-
Group profit (loss) for the year	-	-	82

(*) Includes ZAO Refrigerator Plant "Stinol"

The 20.6% increase in sales is substantially due to the growth in volumes.

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The average unit increase in prices was equal to 1.8% approximately, on a six-monthly basis.

In the second quarter, amortization and depreciation have been equal to ITL 45 billion, equal to 4.9% as a percentage of sales. Adding the figure registered in the first quarter, the total is ITL 88 billion, compared with ITL 66 billion registered in the same period in 2000.

The increase in the Ebitda in absolute value amounts to ITL 18 billion approximately, with a 22.2% variation over the second quarter of 2000, while as a percentage of sales, it amounts to 10.9%, confirming the group self-financing ability.

Despite the significant drop in demand in the Turkish market and the persisting high incidence of the cost of raw materials in the second quarter of 2001, compared with the same period the prior year, the Group has been able to register an increase in EBIT of ITL 14 billion approximately.

Profit before taxes (PBT) of ITL 36 billion, showed a 57% increase compared with the second quarter of 2000, despite the negative effect of the devaluation of the Turkish lira, which has involved additional charges of ITL 6 billion approximately in the period April-June 2001.

Quarterly report at 30 June 2001

Financial performance

Sales increased by 20.6%, with the incidence of working capital remaining unchanged and equal to 8%.

Consolidated balance sheet (ITL billion)	2Q2001*	2Q2000	FY2000
Trade receivables	822	772	753
Inventory	456	369	354
Payables to suppliers	1,025	897	968
Net working capital	253	244	139
As a % of sales (12-month rolling)	8%	8%	4.5%
Other current assets/liabilities, net value	(95)	(97)	-
Tangible and intangible fixed assets	1,254	829	1,252
Other medium/long-term assets/liabilities, net value	(239)	(193)	(369)
Total assets	1,173	783	1,022
Net financial indebtedness	495	271	439
Group Shareholders' equity (**)	647	501	555
Minority interest	31	11	28
Total shareholders' equity and liabilities	1,173	783	1,022

(*) Excluding ZAO Refrigerator Plant "Stinol"

(**) Quarterly results include the result for the period gross of taxes

Operating cash flow shows a positive result of ITL 11 billion, compared with ITL 7 billion in the second quarter of 2000.



Consolidated cash flow (ITL billion)	2Q2001*	2Q2000	1Q2001	1Q2000	FY2000
Net profit (**)	36	23	29	21	82
Amortization and depreciation	45	41	40	28	128
Financial charges (including exchange differences)	16	4	19	7	37
Variation in net working capital	(43)	(46)	(71)	(56)	8
Variation in other operating assets/liabilities and accruals	(43)	(15)	5	(15)	23
Cash flow from operations	11	7	22	(15)	278
Investments, net value (Capex)	(67)	(40)	(19)	(36)	(554)
Investments in other operations, net value	-	-	-	(1)	-
Other	-	-	-	-	8
Cash flow from investments	(67)	(40)	(19)	(37)	(546)
Dividends	(30)	(14)	-	-	(14)
Financial charges (including exchange differences)	(16)	(4)	(19)	(7)	(37)
Variation in Shareholders' equity	32	9	-	-	6
Variation in the exchange translation reserve	14	(8)	10	5	5
Other	(2)	5	10	-	48
Cash flow from financial operations	(2)	(12)	1	(2)	8
Total cash flow	(58)	(45)	4	(54)	(260)
Net opening financial indebtedness	435	232	439	178	-
Net closing financial indebtedness	493	277	435	232	439

(*) Includes ZAO Refrigerator Plant "Stinol"

(**) Quarterly results include the result for the period gross of taxes

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In the second quarter of 2001, net financial indebtedness increased by ITL 58 billion compared with 45 registered in the first quarter, mainly due to the effect of seasonality in production.

On the contrary, on a six-monthly basis, financial indebtedness increased by ITL 54 billion compared with ITL 99 in the first six months of 2000, with gearing increased by 2% compared with 74% at 31 December 2000, recalculated taking into account the related actual tax rate.

The incidence of financial charges on sales is equal to 1.75%, against 0.5% registered in the second quarter of 2000: this is mainly due to the effect of the devaluation of the Turkish lira.

Projections for the third quarter of 2001, are in line with the company's growth trend

Quarterly report at 30 June 2001

Consolidated Accounting Schedules

BALANCE SHEET (ITL billion)	30 June 2001	30 June 2000	31 December 2000
ASSETS			
Share capital issued and not yet paid	-	697	-
Fixed assets:			
- Intangible fixed assets	92,921	68,859	92,003
- Tangible fixed assets	1,031,187	641,992	1,036,347
- Financial assets	194,912	163,158	162,019
Total fixed assets	1,319,020	874,009	1,290,369
Current assets:			
- Inventory	456,227	369,244	353,729
- Trade receivables and other assets	952,933	867,088	861,002
- Financial assets	707,090	216,460	648,239
Total current assets	2,116,250	1,452,792	1,862,970
TOTAL ASSETS	3,435,270	2,327,498	3,153,339
LIABILITIES			
Shareholders' equity:			
Group Shareholders' equity	646,729*	500,637*	554,600**
Minority interest	31,285	10,729	27,787
Total	678,014	511,366	582,387
Reserve for risks and charges	141,651	88,942	131,714
Staff leaving indemnity	107,275	104,472	107,228
Financing payables	1,263,278	538,839	1,125,794
- of which, long-term portion	767,823	388,191	727,032
Trade payables and other liabilities	1,245,052	1,083,879	1,206,216
TOTAL LIABILITIES	3,435,270	2,327,498	3,153,339

(*) It includes the Group result before taxes

(**) It includes the Net Group result of Lit. 82,150 million



QUARTERLY INCOME STATEMENT

(ITL billion)	II Quarter 2001	II Quarter 2000
Sales	911,817	756,224
+ variation in inventory of products	50,077	40,758
+ capitalized costs	1,889	5,458
- cost/consumption of materials	(534,677)	(439,292)
+ other income	9,873	13,475
= added value	438,979	376,623
Cost of production		
- labour cost	146,554	126,833
- amortization and depreciation	44,858	36,318
- accruals and ordinary expenses	193,475	173,325
= operating profit	54,092	40,147
+/- financial income and charges	(16,112)	(9,672)
+/- adjustments to the value of financial operation	4,563	1,766
+/- extraordinary income and expenses	(6,426)	(9,654)
(profit) loss for the period- minority interest	210	(84)
Pre-tax profit	36,327	22,503

INCOME STATEMENT

(ITL billion)	30 June 2001	30 June 2000	31 December 2000
Sales	1,747,636	1,458,250	3,100,143
+ variation in inventory of products	92,464	67,828	20,073
+ capitalized costs	3,052	6,067	16,184
- costs/consumption of materials	(1,036,252)	(837,642)	(1,708,930)
+ other income	20,346	16,271	51,839
= added value	827,246	710,774	1,479,309
Cost of production			
- labour cost	276,355	247,804	496,139
- amortization and depreciation	84,792	65,806	131,288
- accruals and ordinary expenses	374,002	326,576	666,536
= operating profit	92,097	70,588	185,346
+/- financial income and charges	(34,882)	(16,757)	(37,121)
+/- adjustments to the value of financial operations	4,563	3,108	3,587
+/- extraordinary income and expenses	4,284	(12,813)	(30,546)
(profit) loss for the period -minority interest	(409)	(176)	64
Pre-tax profit	65,653	43,950	121,330

Quarterly report at 30 June 2001

BALANCE SHEET			
(thousands of Euro)	30 June 2001	30 June 2000	31 December 2000
ASSETS			
Share capital issued and not yet paid	-	360	-
Fixed assets:			
- Intangible fixed assets	47,990	35,563	47,516
- Tangible fixed assets	532,564	331,561	535,229
- Financial assets	100,664	84,264	83,676
Total fixed assets	681,217	451,388	666,420
Current assets:			
- Inventory	235,622	190,699	182,686
- Trade receivables and other assets	492,149	447,814	444,670
- Financial assets	365,182	111,792	334,788
Total current assets	1,092,952	750,304	962,144
TOTAL ASSETS	1,774,169	1,202,052	1,628,564
LIABILITIES			
Shareholders' equity:			
Group Shareholders' equity	334,008 *	258,557 *	286,427 **
Minority interest	16,157	5,541	14,351
Total	350,165	264,098	300,778
Reserve for risks and charges	73,157	45,935	68,025
Staff leaving indemnity	55,403	53,955	55,379
Financing payables	652,429	278,287	581,424
<i>of which, long-term portion</i>	<i>396,547</i>	<i>200,484</i>	<i>375,481</i>
Trade payables and other liabilities	643,016	559,777	622,959
TOTAL LIABILITIES	1,774,169	1,202,052	1,628,564

(*) It includes the Group result before taxes

(**) It includes the Net Group result of Lit. 42,427 thousands of Euro



QUARTERLY INCOME STATEMENT

(thousands of Euro)	II Quarter 2001	II Quarter 2000
Sales	470,914	390,557
+ variation in inventory of products	25,863	21,050
+ capitalized costs	976	2,819
- cost/consumption of materials	(276,138)	(226,875)
+ other income	5,099	6,959
= added value	226,714	194,510
Cost of production		
- labour cost	75,689	65,504
- amortization and depreciation	23,167	18,757
- accruals and ordinary expenses	99,921	89,515
= operating profit	27,936	20,734
+/- financial income and charges	(8,321)	(4,995)
+/- adjustments to the value of financial operation	2,357	912
+/- extraordinary income and expenses	(3,319)	(4,986)
(profit) loss for the period- minority interest	108	(43)
Pre-tax profit	18,761	11,622

INCOME STATEMENT

(thousands of Euro)	30 June 2001	30 June 2000	31 December 2000
Sales	902,579	753,123	1,601,090
+ variation in inventory of products	47,754	35,030	10,367
+ capitalized costs	1,576	3,133	8,358
- costs/consumption of materials	(535,179)	(432,606)	(882,589)
+ other income	10,508	8,403	26,773
= added value	427,237	367,084	763,999
Costs of production			
- labour cost	142,725	127,980	256,234
- amortization and depreciation	43,791	33,986	67,805
- accruals and ordinary expenses	193,156	168,662	344,237
= operating profit	47,564	36,456	95,723
+/- financial income and charges	(18,015)	(8,654)	(19,171)
+/- adjustments to the value of financial operations	2,357	1,605	1,853
+/- extraordinary income and expenses	2,213	(6,617)	(15,776)
(profit) loss for the period- minority interest	(211)	(91)	33
Pre-tax profit	33,907	22,698	62,662

Quarterly report at 30 June 2001

NET FINANCIAL POSITION (ITLbillion)	30 June 2001	Of which long-term portion	Of which short-term portion
Investments	65,271	65,039	232
Current assets	705,434	-	705,434
Payables	(1,263,278)	(767,823)	(495,455)
Total	(492,573)	(702,784)	210,211

	30 June 2000	Of which long-term portion	Of which short-term portion
Investments	46,302	45,964	338
Current assets	215,740	-	215,740
Payables	(538,839)	(388,191)	(150,648)
Total	(276,797)	(342,227)	65,430

	31 December 2000	Of which long-term portion	Of which short-term portion
Investments	40,029	39,797	232
Current assets	647,102	-	647,102
Payables	(1,125,794)	(727,032)	(398,762)
Total	(438,663)	(687,235)	248,572

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NET FINANCIAL POSITION (thousands of Euro)	30 June 2001	Of which long-term portion	Of which short-term portion
Investments	33,710	33,590	120
Current assets	364,326	-	364,326
Payables	(652,429)	(396,547)	(255,881)
Total	(254,393)	(362,958)	108,565

	30 June 2000	Of which long-term portion	Of which short-term portion
Investments	23,913	23,738	175
Current assets	111,420	-	111,420
Payables	(278,287)	(200,484)	(77,803)
Total	(142,954)	(176,745)	(33,792)

	31 December 2000	Of which long-term portion	Of which short-term portion
Investments	20,673	20,553	120
Current assets	334,200	-	334,200
Payables	(581,424)	(375,481)	(205,943)
Total	(226,551)	(354,927)	128,377

Notes to the accounting schedules

Group accounting principles and valuation criteria

The consolidated accounting schedules at 30 June 2001 have been prepared in accordance with accounting principles and criteria utilized for the preparation of the half-year Report, and they are consistent with those recommended by Consob (National Commission for Listed Companies and the Stock Exchange).

The Company has taken advantage of the possibility granted by Consob rules regulating the preparation of the half-year Report (Resolution No. 8195 dated 30 June 1994), applicable also for the preparation of the quarterly Report. Accordingly, result for the period is shown gross of taxes and of adjustments and accruals exclusively arising from the application of tax legislation. As a result, balance sheet values reflect this approach.

The consolidation area has changed compared with 31 December 2000, for the effect of the sale to third parties of the subsidiary Belimovel, a Portuguese real estate company and for the acquisition of an additional holding in Star Spa, from 60 per cent to 90 per cent. In addition, Merloni Elettrodomestici holding in Wrap Spa passed from 98 per cent to 89.29 due to Fineldo subscription of the share capital increase. In Poland the two operating and commercial companies have merged, thus creating a new company, Merloni Polska Spzoo.

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The following table indicates the rates of exchange applied for the translation of currencies not part of the Euro.

Currency	Opening rate of exchange	Average rate of exchange	Closing rate of exchange	Average rate of exchange for the prior year
US dollar	2,080.89	2,158.40	2,275.02	2,101.64
English Pound	3,102.50	3,107.93	3,208.40	3,182.09
Swiss Franc	1,271.18	1,264.89	1,274.45	1,243.58
PLN Merloni Elettrodomestici Poland Spzoo	502.95	-	-	483.54
PLN Merloni Indesit Polska Spzoo	502.95	536.30	574.10	484.84

Average rates of exchange have been calculated weighing average monthly rates of exchange with the company's sales, applied for the income statement.

Quarterly report at 30 June 2001

Comment to the most significant variations occurred in assets and liabilities

The growth in "Investments" is mainly due to the increase in Merloni Ariston International Sa bank deposits with international credit institutions as guarantees of loans issued by the institutions to Merloni group companies.

The balance of "Inventory" has increased by 102 billion approximately as a result of higher stock connected with production seasonality and with higher sale volumes.

The increase in "Trade receivables and other assets" of 92 billion approximately is connected with the increase in sales.

"Shareholders' equity" increased by 92 billion, of which: Lit. 66 billion for effect of result for the period; Lit. 32 billion as equalization payment regarding the conversion of Savings Shares into Ordinary Shares; Lit. 30 billion as a decrease for the amount distributed to the Shareholders as dividend for 2000 and Lit. 25 billion for the variation in the exchange translation reserve, mainly as a result of the appreciation of the Polish Zloty and of the US dollar.

The increase in the "reserves for risks and charges" is connected with trading operations, in particular with Guarantees and Extra-guarantees.

The increase in "Trade payables and other liabilities" is mainly due to increased turnover in the cost of goods sold.

The increase in net financial indebtedness is attributable to the increase in net working capital, which however remains constant as a percentage of sales, which increased by 20.6%.

Break-down of turnover per category of operation and geographical area

The break-down of turnover per category of operation can be summarized as follows:

Revenues from sales and services	30/06/2001	30/06/2000
Revenues from sales of finished products and raw materials	1,686,517	1,423,855
Revenues from services	61,119	34,395
Total	1,747,636	1,458,250

The detail of revenues from sales and services per geographical area is set out below:

Area	30/06/2001	30/06/2000
Italy	402,892	382,771
European Union	755,120	692,058
Other countries	589,624	383,421
Total	1,747,636	1,458,250

Projected evolution in operations for the current year

The growth trend registered in the first six months projects positive results also for the third quarter.

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