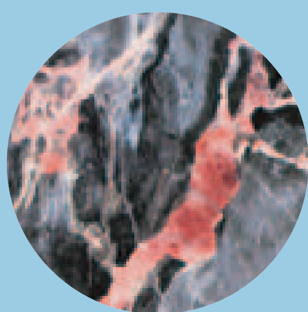
HALF YEAR REPORT
at 30th June 2006

BIESSE



BIESSE

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BIESSE S.p.A.

INTERIM CONSOLIDATED FINANCIAL REPORT FOR THE 6 MONTHS ENDED 30 JUNE 2006

Biesse Group

Group Company activities and trademarks

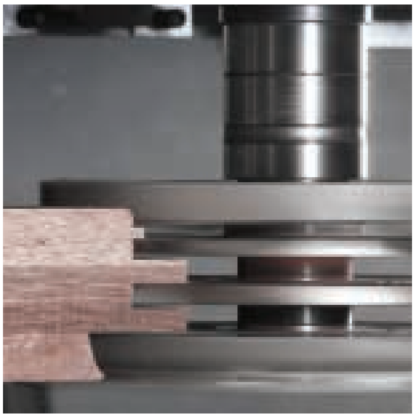
The Biesse Group's core business includes production, marketing and customer services for wood, glass and marble machines and systems. Production operations are concentrated in Italy.

Marketing and customer assistance are organised both through the actual presence of Group companies in the territory as well as through an exclusive network of importers, distributors and agents. The group is also active in other areas, including the precision machining as well as the production of mechanical, electrical, electronic and pneumodynamic components for industrial uses.

> Sky view of the Biesse Headquarters - Pesaro

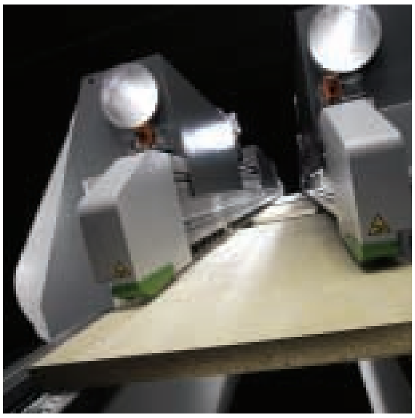
BIESSE

CNC machines and systems dedicated to panel processing, windows and doors manufacturing; CNC machining centres for milling, boring and edge banding; CNC routers



BIESSEEDGE

Edge banding machinery and systems

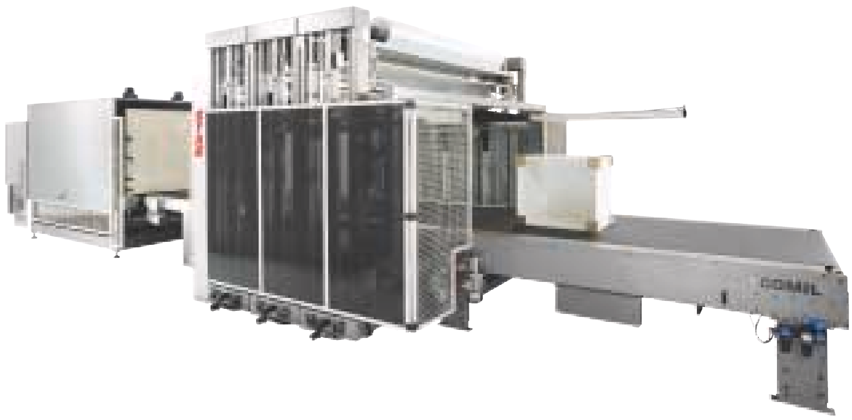


BIESSESAND

Calibrating and sanding machines

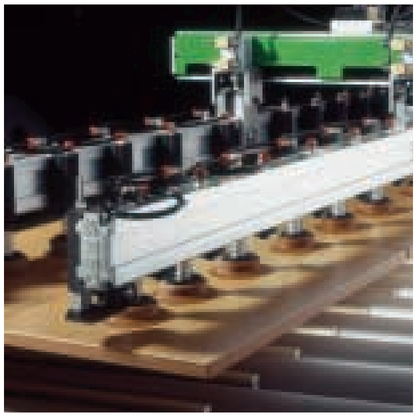
COMIL

Machinery and systems for furniture assembly and packaging



RBO

Handling systems for automated lines in the furniture industry

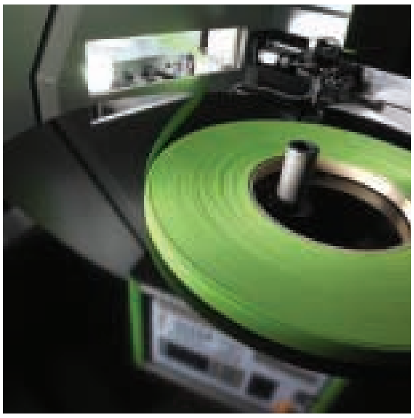


SELCO

Panel saw machinery and systems

ARTECH

Automatic and manual single sided edge banding machines; manual edge trimming machines, manual boring machines; automatic sanding and calibrating machines; vertical panel saw



BIESSE SYSTEMS

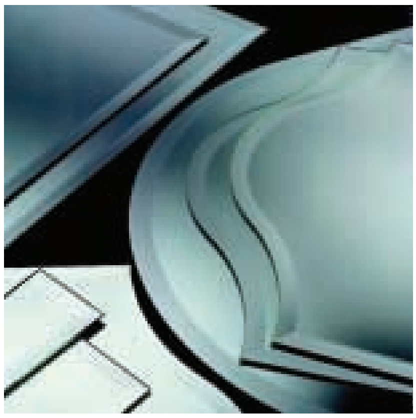
Design and consulting services for furniture industry systems

INTERMAC

Machines and systems for glass and natural/synthetic stone processing

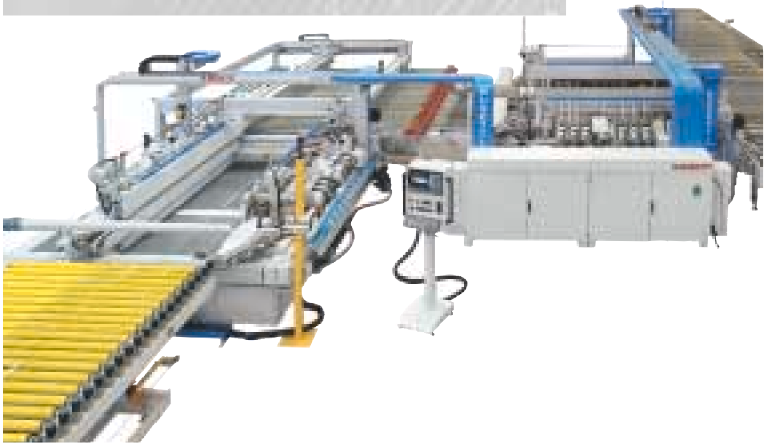
GIEFFE INTERMAC

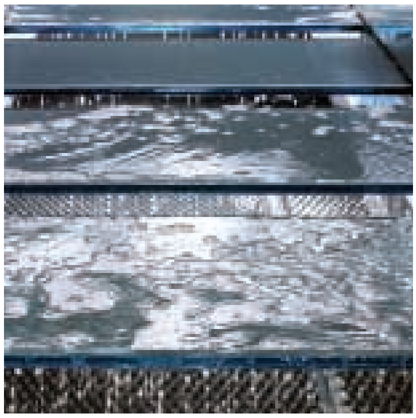
Semiautomatic machines for glass processing



BUSETTI INTERMAC

Machines and systems for glass drilling and grinding



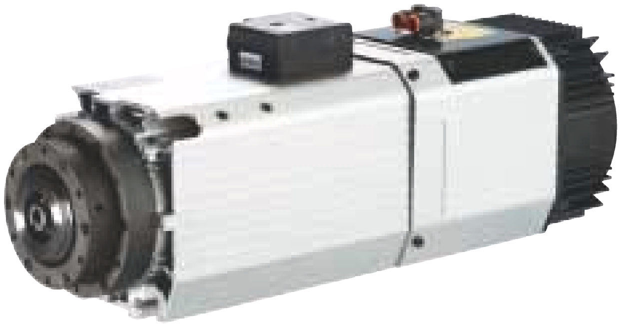


diamut

Tools for glass and natural/synthetic stone processing

HSD

Mechanical and electronic components for industrial applications



SEV

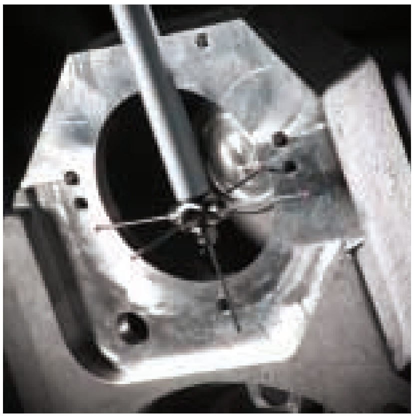
Mechanical and electronic components for industrial applications

CNI

Electronic components and software for industrial application

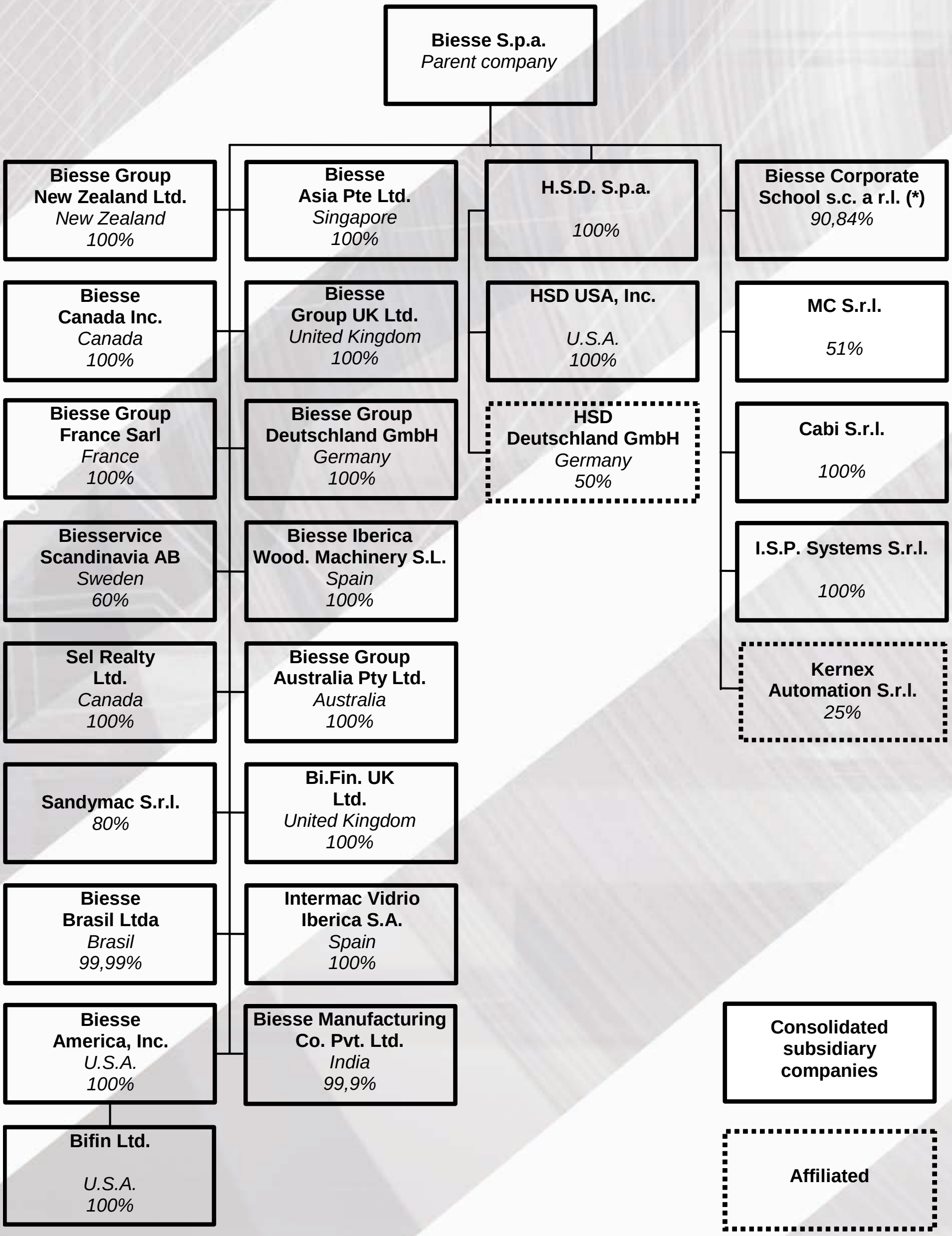
COSMEC
COSTRUZIONI MECCANICHE DI PRECISIONE

High precision machining for mechanical components



GROUP STRUCTURE

The companies belonging to the Biesse Group and included in the consolidation area are the following:



* the shareholding of 90.84% is directly held by Biesse S.p.A. for 75.83% and indirectly through Hsd S.p.a. for 15.01%

In comparison with the latest approved balance sheet, the consolidation area now includes the Indian company Biesse Manufacturing Co. Pvt. Ltd., incorporated in February, and the company ISP Systems S.r.l.., previously affiliated due to an ownership percentage of 25.93%. The former company, based in Bangalore - India, is aimed at local sourcing and the production of mechanical components as well the production of machines for the entry-level market. With reference to the latter company I.S.P. Systems S.r.l., on June 22nd 2006, the shareholders of ISP Systems S.r.l. (Bi.Fin. S.r.l. – which owned the majority of the shareholding capital – and Biesse S.p.A.) covered the accumulated losses until the end of April 2006; at the same date, Biesse S.p.A. acquired the entire capital of the company, after the previous shareholders released their options on the capital. Biesse considered the ownership of this company to be of strategic importance, due to its know-how on projects already in production and under research. For the purposes of the measurement of the effects of the acquisition, the control of the company has been valued as at June 30, 2006, since the result related to the period between the date of capital subscription and the date of the present report (8 days) is immaterial.

The investment in the affiliated company Hsd Deutschland GmbH is valued with the equity method.

Regarding the company Kernex Automation S.r.l., the investment and the receivables have been written down, due to the declaration of bankruptcy of the company.

COMPANY BODIES

Board of Directors

President and Managing Director	Roberto Selci
Managing Director	Giancarlo Selci
Director	Alessandra Parpajola
Director	Innocenzo Cipolletta
Director	Leone Sibani
Director	Giampaolo Garattoni

Board of auditors

President	Giovanni Ciurlo
Standing auditor	Adriano Franzoni
Standing auditor	Claudio Sanchioni
Substitute auditor	Daniela Gabucci
Substitute auditor	Cristina Amadori

Internal Audit Committee

Innocenzo Cipolletta

Leone Sibani

Giampaolo Garattoni

Remuneration Committee

Roberto Selci

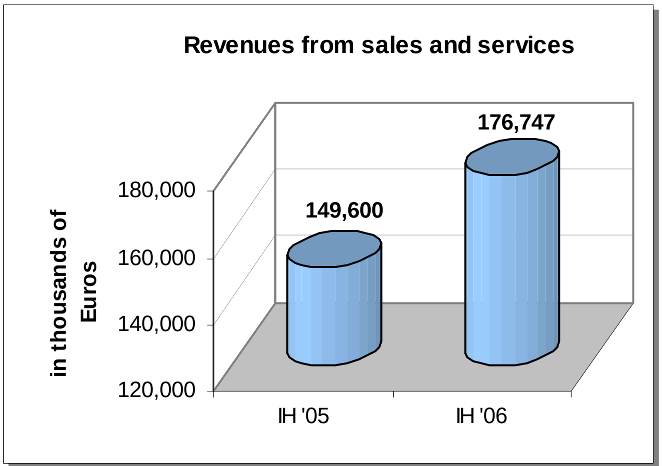
Innocenzo Cipolletta

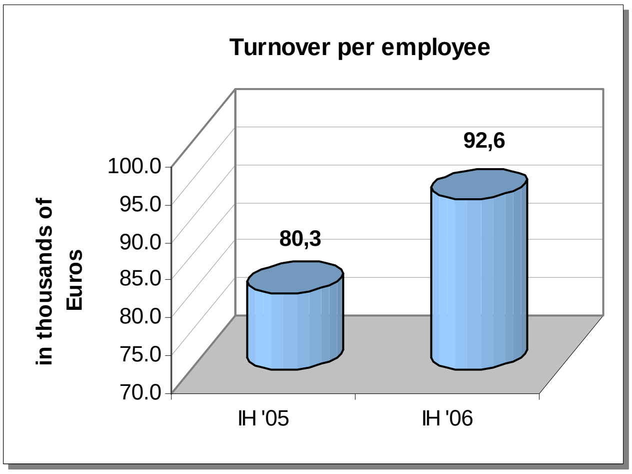
Giampaolo Garattoni

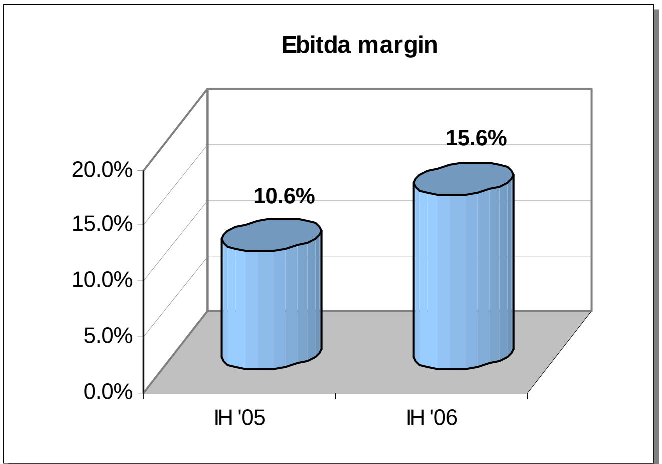
External auditing company

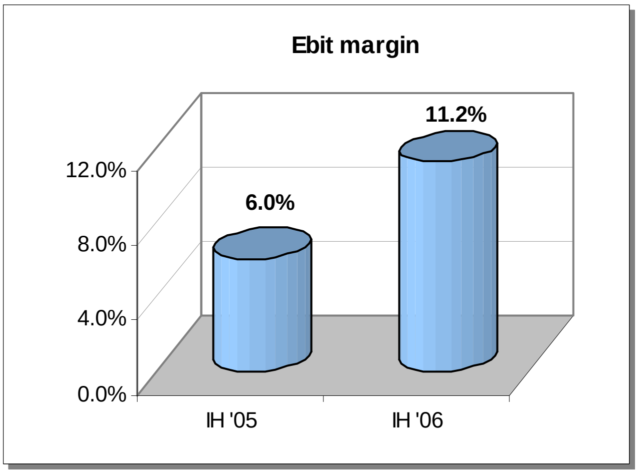
Deloitte & Touche S.p.A.

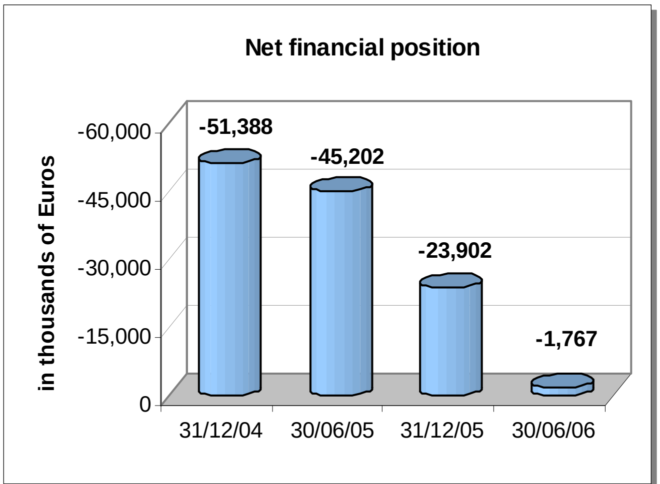
FINANCIAL HIGHLIGHTS

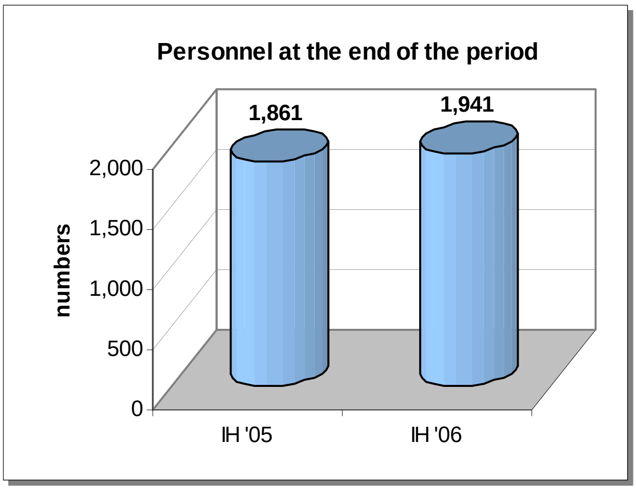












MANAGEMENT REPORT

MANAGEMENT REPORT FOR THE PERIOD ENDED 30 JUNE 2006

GENERAL ECONOMIC CONTEXT

In this semester, the world economy has continued a relatively generalised recovery in the various areas of the world. Even the most developed countries, those countries who are members of the European Unions, have returned to the sensitive growth of the Gross Domestic Product, while the data related to the investments in capital equipment have recorded stronger growth rates in comparison to the same period of the proceeding year.

The stability of this expansive cycle is in potential risk by the political uncertainties originated from the Middle East. This region determines the prices of oil and consequently, of the raw materials. Another element to be aware of is the Euro/USD exchange rate, and exchange rate decidedly over 1.30 could negatively influence the investments prosperity in the North American markets and also the emergent countries with currencies linked to the USD. However the incoming orders remain strong at a global level, which is where is impact is no than likely to impact.

BUSINESS AREA

According to the most recent figures issued by Acimall, the association of the woodworking machinery market, “the second quarter of 2006 confirms that the Italian industry of machines and utensils for wood working is on a high. Even if the dynamics have not been as good as the previous quarter, the indexes are once more showing a positive result, confirming the trend that started in the second half of 2005”

The conjuncture investigation, undertaken by analysts at Acimall, on a sample representing all types and dimensional class of the productive realities of the sector, reveals that, “from April to June the orders have grown by 5.2 percent in comparison to the same quarter in 2005, a result due to the national market demand (+23.5%) and to the substantial stability of the exports, increased by 1 percent. In the first six months of this year, according to the interviewed companies, the prices have increased by 2.1 percent. The insured production, at the end of the second quarter, has stabilized at around 3,4 months”

The qualitative forecast investigation shows, based on the opinions of the companies of the sample, that “the estimates on the next period are optimistic and these are taken with a view of prudence. The orders from the foreign countries will be stable according to the 68 percent of the sample, they will increase for the 25 percent and they will be decreased for 7 percent (positive balance +18). For the national market the indications related to the next months show a similar signs to the actual in 71 percent of the cases, a further growth of 18 percent for the interviewed ones and a decrease of 11 percent in the remaining (positive balance +7)”

HALF YEAR REPORT

Summary of economic data

Condensed consolidated income statement of the 2nd quarter 2006 (1)

€ '000	II Q 2006	% on revenues	II Q 2005	% on revenues	Δ %
Revenues from sales and services	**98,344**	**100.0%**	**86,274**	**100.0%**	**14,0%**
Variation of stocks of products being manufactured, semi finished and finished products	4,228	4.3%	4,472	5.2%	(5.5%)
Other revenue and income	1.442	1.5%	1,472	1.7%	(2.0%)
Value of production	**104.014**	**105.8%**	**92,218**	**106.9%**	**12.8%**
Raw materials, ancillary materials and consumables	(44,048)	(44.8%)	(39,989)	(46.4%)	10.2%
Other operating expenses	(21,174)	(21.5%)	(18,293)	(21.2%)	15.7%
Added value	**38.792**	**39.4%**	**33,936**	**39.3%**	**14.3%**
Personnel expenses	(22,262)	(22.6%)	(22,821)	(26.5%)	(2.4%)
Gross operating margin	**16.530**	**16,8%**	**11,115**	**12,9%**	**48.7%**
Depreciation	(2,584)	(2.6%)	(2,633)	(3.1%)	(1.9%)
Provisions	(853)	(0.9%)	(1,525)	(1.8%)	(44.1%)
Impairment loss	(515)	(0.5%)	0	0.0%	---
Non recurrent revenues and expenses	175	0.2%	0	0.0%	---
Operating result	**12.753**	**13.0%**	**6,957**	**8.1%**	**83.3%**
Financial income and expenses	(418)	(0.4%)	(675)	(0.8%)	(38.1%)
Foreign exchanges gains and losses	402	0.4%	(248)	(0.3%)	(262.1%)
Share of profit of associates	17	0.0%	(95)	(0.1%)	(117.9%)
Pre-tax income	**12.754**	**13.0%**	**5,939**	**6.9%**	**114.7%**
Taxes for the period	(3,816)	(3.9%)	(1,452)	(1.7%)	162.8%
Results for the period	**8.939**	**9.1%**	**4,487**	**5.2%**	**99.2%**

(1) Not audited

Condensed Income Statement at June 30th, 2006

€ '000	II Q 2006	% on revenues	30 June 2005	% on revenues	Δ %
Revenues from sales and services	**176,747**	**100.0%**	**149.600**	**100.0%**	**18.1%**
Variation of stocks of products being manufactured, semi finished and finished products	15,536	8.8%	11.141	7.4%	39.4%
Other revenue and income	2.593	1.5%	2.655	1.7%	(2.3%)
Value of production	**194.876**	**110.3%**	**163.396**	**109.2%**	**19.3%**
Raw materials, ancillary materials and consumables	(85,013)	(48.1%)	(71,527)	(47.8%)	18.9%
Other operating expenses	(38,210)	(21.6%)	(33,324)	(22.3%)	14.7%
Added value	**71.653**	**40.5%**	**58.544**	**39.1%**	**22.4%**
Personnel expenses	(44,131)	(25.0%)	(42,616)	(28.5%)	3,6%
Gross operating margin	**27.522**	**15.6%**	**15.928**	**10.6%**	**72.8%**
Depreciation	(5,161)	(2.9%)	(5,246)	(3.5%)	(1.6%)
Provisions	(1,846)	(1.0%)	(1,677)	(1.1%)	10.1%
Impairment loss	(888)	(0.5%)	0	0.0%	---
Non recurrent revenues and expenses	175	0.1%	0	0.0%	---
Operating result	**19.803**	**11.2%**	**9.005**	**6.0%**	**119.9%**
Financial income and expenses	(947)	(0.5%)	(1,382)	(0.9%)	(31.5%)
Foreign exchanges gains and losses	928	0.5%	(212)	(0.1%)	(537.7%)
Share of profit of associates	(245)	(0.1%)	(95)	(0.1%)	**157.9%**
Pre-tax income	**19.539**	**11.1%**	**7.316**	**4.9%**	**167.1%**
Taxes for the period	(6,560)	(3.7%)	(2,815)	(1.9%)	133.0%
Results for the period	**12.979**	**7.3%**	**4.501**	**3.0%**	**188.4%**

This first semester 2006 recorded a strong upsurge of sales (+18.1%), as well as a strong growth of the profits derived to the "operational lever" effect (Ebit + 120%). We also point out that incoming orders and sales in 2005 have been decidedly stronger in the second semester in comparison to the first one; as a consequence in the first half of 2006 the comparison with the preceding year is particularly positive.

Net sales of the first semester of 2006 are equal to € 176,747 thousand, against the € 149,600 thousand of June 30 2005, with a 18.1% growth on the preceding exercise (+ 14% quarter-to-quarter). The sales increase is generalized for all the divisions, with the Glass and Marble Division showing a particularly positive performance of sales mainly due to it being compared with a rather weak first semester 2005 (a large part of the recovery was realized in the second semester of 2005). The Mechatronics Division after two years of stability has made a very positive turn around. Regarding the geographical distribution of the sales, (details of which are given in the segment information tables of the explanatory notes), in this period of the 2006 it is evident that the trend of the incoming orders has moved away from Eastern Europe and Asia and is now tending towards Western Europe; this has happened mainly due to the return of technology investments, and the replacement of the equipment in Central Europe and in Italy, after three years of inactivity. Also underlined is the good result of North America, mainly determined by the good performance of USA branch - Biesse America -, combined with the recovery of the sales of the Canadian branch, after some years of difficulty.

The value of the production of the first semester of 2006 is equal to € 194,876 thousand, against € 163,396 thousand of June 30 2005, with a 19.3% growth on the previous result (+ 12.8% quarter-to-quarter). The Change in work in progress and semi finished goods is equal to € 15,536 thousand, over € 4,3 million more than the analogous period of the previous result, a growth necessary for covering the more greater demands of delivery of the American and Australian markets; thanks to the good course of the orders, such increases will be reabsorbed with the sales of the second semester.

For an clearer analysis of the effect of the change in stock value, we report the percentage of the raw materials on the value of production. It is still evident that the margins are under-dimensioned respect the effective comparison, due to value of the stocks that not include the mark-up on final sales.

(in thousands of Euros)	First half of 2006	%	First half of 2005	%
Value of production	**194.876**	**100.0%**	**163.396**	**100.0%**
Raw materials, ancillary materials and consumables	(85,013)	(43.6%)	(71,527)	(43.8%)
Services	(32,865)	(16.9%)	(28,175)	(17.2%)
Leases and rentals	(2,690)	(1.4%)	(2,779)	(1.7%)
Other operating expenses	(2,655)	(1.4%)	(2,370)	(1.5%)
Added value	**71.653**	**36.8%**	**58.544**	**35.8%**

Continuing the trend of the previous periods the Added Value grows by a further 1%, by virtue of the improved productivity and efficiency.

The personnel expenses of the first semester of 2006 are equal to € 44,131 thousand, against the € 42,616 of June 30 2005, with a percentage on sales decreasing from 28.5% (first semester of 2005) to 25%.

The gross operating margin of the first semester of 2006 is equal to € 27,522 thousand (15.6% on net sales), a datum in 72.8% growth in comparison to the previous result (€ 16,530 thousand in the second quarter 2006, 16.8% of the sales), while the operating margin, positive in the first semester of the previous result for € 9,005 thousand, is equal to € 19,803 thousand, with a percentage on sales that raises to 11.2% from the precedent 6%, recording a growth of 120%. This after amortizations remains substantially unchanged and after provisions for different risks of € 1,846 thousand, (provisions for bad debts, warranties on sales), and after charging € 888 thousand as impairment loss of an industrial building (and the related plants) which preliminary agreement has been signed in the first days of the current month of September; the operation will be closed within the end of the current year.

With reference to the financial management, attention should be taken to the improvement of the debtors situation of the Group (detailed analysis of which is given in the successive notes). This situation has generated a reduction in bank charges and other financial institutions for € 435 thousand, on a semester basis.

As far as currency exchange risk management is concerned, the income amount of € 928 thousand, is mainly due to the hedging operations in compliance with the Group's policy in terms of currency exchange risk management.

The share profit of associates refers to the loss of the company ISP Systems S.r.l., before the mentioned acquisition.

The pre-tax result is therefore positive for € 19,539 thousand (11.1 % on sales) grown of 167% in comparison to the first semester 2005.

The estimated taxes for the period are € 6,560 thousand, including € 4,706 thousand for current income taxes, € 1,783 thousand for IRAP and deferred income taxes positive for € 71 thousand.

The result for the period is equal to € 12,979 thousand, which has more than doubled in respect of the 2005 result.

Summary of Balance Sheet Figures

	30th of June 2006	31 December 2005
Intangible assets	24,560	23,673
Tangible assets	57,355	59.572
Other non-current assets	10,475	9.100
Non-current assets	**92,390**	**92.345**
Inventories	90,520	72.798
Sales receivables	89,007	97.960
Other receivables	9.364	7.464
Cash and cash equivalents	38,672	31.210
Current assets	**227.563**	**209.432**
TOTAL ASSETS	**319.953**	**301.777**
Group shareholders' equity	119.755	105.293
Minority interests	348	343
Total equity	**120.103**	**105.636**
Non current bank loans and obligations under finance leases	19.675	31.296
Retirement benefit obligations	15,582	15.090
Other payables	10.751	9.772
Non-current liabilities	**46.008**	**56.158**
Trade and other payables	133.078	116.167
Current bank loans and obligations under finance leases	20.764	23.816
Current liabilities	**153.842**	**139.983**
TOTAL EQUITY AND LIABILITIES	**319.953**	**301.777**

Please refer to the explanatory notes for deepest analysis on the balance sheet items and note the most relevant aspect highlighted is the increase of the current asset with respect to last December. This effect is caused by the comparison of periods that are totally different from one another in absorbing current assets with particular reference to the stock of finished products - as already explained in the note on income statement. This, during years of good market demand in particular from American countries, means a high stock value at half year, just before the major exhibitions held in the US and Australia (July-August), with reabsorption over the second half of the year, precisely in December, when the stocks are at their lowest level of the whole year.

Net financial position

(in thousands of Euros)	**30 June 2005**	**March 31 2006** [(1)]	**31 December 2005**	**June 30 2005**
Short term investments:	38,672	39,287	31.210	19.890
- Cash and cash equivalents	*38,609*	*39,224*	*31.210*	*19.890*
- Receivables from others within 12 months (immediately payable)	*63*	*63*	*0*	*0*
Short-term receivables for financial leases	(3,079)	(3,459)	(3,266)	(3,091)
Short-term bank receivables and other financial receivables	(17,685)	(21,291)	(20,550)	(26,520)
Short term net financial position	**17.908**	**14,537**	**7.394**	**(9,721)**
Medium/long term receivables for financial leases	(12,546)	(13,539)	(13,942)	(14,579)
Medium-long term payables to banks	(7,129)	(16,070)	(17,354)	(20,902)
Medium/long term net financial position	**(19,675)**	**(29,609)**	**(31,296)**	**(35,481)**
Net financial position	**(1,767)**	**(15,072)**	**(23,902)**	**(45,202)**

(1) Not audited

Concerning the net financial position, cash flow is improving constantly with a further reduction of the net debt position with respect to previous periods (about € 22 million of lower debt in respect of December 2005), despite the payment of dividends for about € 5 million, made in May 2006.

CORPORATE GOVERNANCE

The Corporate Governance system in force within BIESSE S.p.A. is based on and tends towards the standards contained in the Code for Self-Regulation of Listed Companies.

This company governance system has the goal of guaranteeing transparency of management actions and the timely notification of the market and investors.

In this sense, new versions of the Statute of BIESSE S.p.A. (first modified March 2001) have been drawn up, the latest of said modifications taking place in April 2005 and duly approved by the Special Meeting of Shareholders held on 28th April 2005.

The following is the full text of the Code for Self-Regulation to which Biesse S.p.A. refers and adheres, and which has contributed in a substantial manner to formulation of the Company Corporate Governance system.

Ownership structure

The capital stock is made up exclusively of ordinary fully paid shares and assisted by voting rights in ordinary and extraordinary shareholder's meetings. In particular the capital stock amounts to Euro 27,393,042 divided into No. 27,393,042 shares with a nominal value of 1 Euro each.

As of 22nd September 2006 the shareholders in possession of over 2% of the fully paid-up capital stock, represented by shares with voting rights, according to the information set down in the register of shareholders, integrated by notifications received and by other information made available, are as follows:

Bi.Fin S.r.l.	58.263%
Financiere de l'Echiquier (F) SA	5.004%
JPMorgan Asset Management (UK) Ltd	2.031%
AIM Advisor (USA) Inc.	2.001%

As regards the Company there are no inter-company agreements between shareholders.

Role of the Board of Directors

The company operates in accordance with the requirements of the Civil Code as regards limited companies. The Board of Directors has the power to carry out ordinary and extraordinary administration, with the option to carry out any activities it deems necessary and appropriate for reaching company aims, with the exclusion of activities that are reserved by law for the Shareholder's meeting.

The Board of Directors has been assigned a strategic and organisational role, in addition to the responsibility of verifying the existence of the controls that are needed for supervising the conduct of the company and the group as a whole.

In accordance with art. 1.2 of the Civil Code, the Board of Directors of the Company, in particular:

- supervises the general operating trend, periodically comparing the achieved results with those that were planned;
- reviews and approves the budget and the strategic, industrial and financial plans for the company and the Group;
- evaluates and approves the periodic reports required by current regulations.;
- assigns and regulates delegations to the CEOs, executive committee administrators and if necessary to one or more board members with regards to the particular appointment;
- provides the Auditing Board with reports about their activities and the main economic, financial and asset operations carried out by the company or its controlled companies, where relevant; in particular, it makes reports about operations with potential conflicts of interest; these reports are usually made during the board meetings, and at least once a quarter;

- nominates, defining the salary, one or more company General Managers, who must execute the decisions taken by the Board of Directors and under its delegation, manages the current business, making suggestions and using the standing or one-time powers granted by the Board;
- examines and approves operations with significant economic, asset and financial impact;
- verifies the suitability of the organizational and general managerial organization of the Company and the Group;
- reports to the shareholders meeting;
- determines, by proxy granted to the independent board member, which proposals to submit to the shareholder's meeting and the Board itself for the individual Board Member salaries.

The board normally meets six times a year to approve the economic and assets and liabilities situation of the relative period based upon the requirements for remaining in the Star segment of the Italian stock exchange's telematic market.

For the board meetings, the members are provided in advance with the documents and information needed by the Board in order to discuss the issues examined.

In accordance with the Statutes, and where the Shareholders' Meeting has not already provided for same, the Board of Directors will nominate a Chairman from among its members; in addition, it may nominate one or more Managing Directors, the Executive Committee and one or Directors with specific responsibilities.

Composition of the Board of Directors

As per Art. 16 of the company statutes, the Biesse Board of Directors can be composed of a variable number of Directors, from a minimum of two to a maximum of 15 members, who do not have to be partners, according to the decision of the shareholders meeting. The current Board of Directors has six members.

The current Board of Directors, originally made up of five members nominated by the Ordinary Meeting of Shareholders on 29/04/03, was increased by one new member with nomination of Ms. Alessandra Parpajola, as member, in April 2005 last. As foreseen, the Board of Directors will remain in office until the balance sheet for the year ending 31st December 2008 has been approved.

The current Board of Directors is made up of:

- Mr. Roberto Selci	Chairman and Executive Managing Director	
- Mr. Giancarlo Selci	Executive Managing Director	
- Mrs Alessandra Parpajola	Member	
- Mr. Innocenzo Cipolletta	Independent member	Non-executive
- Mr. Leone Sibani	Independent member	Non-executive
- Mr. Giampaolo Garattoni	Independent member	Non-executive

For this office, the members of the Board of Directors have elected their domicile at Biesse S.p.A registered office in Pesaro, Via della Meccanica 16. During the first semester 2006, four meetings were held.

Independent Administrators

These Administrators are those that:

- do not have, either directly or indirectly, nor have recently had, economic relations with the Company , with its controlled companies, with the Executive Administrators, with shareholders or shareholder groups controlling the Company, of extent that influences the independent nature of their opinions;

- are not owners, directly or indirectly, of shareholdings of entity that would allow them to take control or have a major interest in the Company, nor participate in anti-company agreements for the control of the Company itself;

- are not close relatives of the Executive Administrators of the Company or subjects finding themselves in the situations mentioned in the previous points

The independent nature of the Administrators is periodically assessed by the Board of Directors, taking into account information provided by those concerned.

The Board of Directors of the Company has three independent members:

- Mr. Innocenzo Cipolletta	Independent member	Non-executive
- Mr. Leone Sibani	Independent member	Non-executive
- Mr. Giampaolo Garattoni	Independent member	Non-executive

The responsibilities of the administrators in other companies quoted on controlled markets, including abroad, in finance companies, banks, insurance or large companies, are listed below:

Innocenzo Cipolletta:

- President of UBS Corporate Finance Italy
- Member of the Board of Directors of UBS Giubergia SIM
- Member of the Board of Directors of Ericsson Italia SpA, company quoted on the Milan Stock Exchange
- President of Il Sole 24 ore, publishing company not quoted though operating in the field of economic information, and as a result in a sensitive sector
- Member of the Board of Directors of Indesit (ex-Merloni) a quoted company

Leone Sibani:

- President of Sanpaolo Imi Private Equity
- Director of Sanpaolo Imi Internazionale S.p.A.
- Director of the Banca Popolare dell'Adriatico S.p.A.
- Manager of Sanpaolo Imi S.p.A.

Giampaolo Garattoni: does not cover any of the roles indicated.

The President of the Board of Directors

Unless otherwise foreseen by current regulations, meetings are normally called by the President on his own initiative or, if the President is absent or incapacitated, by the Managing Director/s, on the request of at least two thirds of the Board Members of the Board of Auditors.

The Board of Directors meeting is considered valid when the majority of its members in office are present, and resolutions will be passed with a majority vote by those present. If votes are even, the President will cast the deciding vote.

The notice of convocation must be sent by mail, telegram, telex, telefax, or other similar telematic means, provided it is legally recognized, at least five days in advance, and in case of urgency by telegram, telefax and other similar telematic means at least one day (24 hours) in advance of the date set for the meeting. The Board of Directors will in any case be considered validly met even without notice of convocation, provided that all its Members and all the Full Auditors are present.

The assembly may also be held by means of teleconferencing and/or videoconferencing on condition that all the participants can be identified, that they can follow the discussions and intervene in real time and that they can have sight of, receive and retain the documentation.

The Shareholders' Meeting, held on 29/04/03, nominated the Chairman in the person of Sig. Roberto Selci to whom, as provided for in the Statutes, all ordinary and extraordinary administration powers in addition to legal representation have been conferred.

Information on the Board of Directors

The Statute regulates the information to be provided to the Board of Auditors. In effect it is foreseen that the Directors provide the Board of Auditors in a timely manner, and at least once a quarter, with information on activities and on the operations of greatest economic, financial and equity significance carried out by the company and by subsidiaries, with particular reference to operations in which there is a potential conflict of interest.

The Directors report to the Board of Directors on a quarterly basis, except in the case of extraordinary operations.

Treatment of reserved information

The Chairman guarantees the correct management of reserved information.

All Administrators are bound to maintaining documents and information acquired during the normal execution of their duties secret.

On December 24 2002, the Biesse Spa Board of Directors approved the adoption of the code of conduct for internal dealing, in order to ensure maximum transparency and uniformity of information to the market relative to the personal conduct of "relevant individuals" within the Company who are in possession of Biesse shares, based upon their potential access to reserved information about the Company and those controlled by it.

This code came into effect on January 1, 01/01/03.

Based upon this code, the Company arranges for the timely disclosure to the market of all information regarding operations with values at or above €250,000. In addition, the company will, within 10 stock exchange trading days of the end of each quarter, inform the market about all transactions carried out by each of the relevant individuals, in the case that these reach the € 50,000 threshold.

On 29th November last, CONSOB voted (No. 15232-15233 of 29/11/05) certain modifications and amendments to the Rules for Issuing Parties and to the Market regulations, introduced and made to implement Community regulations on market abuse (D. Law 58/1998). In particular, new requirements were set up in relation to the way the "Register of persons with access to privileged information" and the "Code of internal dealing" are kept.

Biesse S.p.a. had fully observed the dispositions of the new Consob rule on market abuse (art. 152 bis and following) and on Internal Dealing.

Nomination of Directors and Nominations Committee

Under art. 16 of the Statute, nomination of the Board of Directors is the responsibility of the Ordinary Meeting of Shareholders, which must indicate in advance the number of members in the Board itself.

As set down in art. 7.1 of the Code, proposed nominations to the position of Director, accompanied by full information on the personal and professional characteristics of candidates, are filed at the company headquarters at least 10 days prior to the date foreseen for the Meeting.

The Boards of Directors, on 05/05/03, voted unanimously to forego nomination of a Committee for proposed internal nominations, and to grant all the functions of said committee to the Board of Directors itself, given the limited size of the administrative body.

Remuneration of Directors and Remuneration Committee

The Board of Directors appointed its own internal committee for the remuneration of directors.

On the expiry of the stock option plan agreed by the Shareholders Meeting of 9/10/2000, the company has instigated a retribution system with incentives linked to the economic/financial performance of top management (bonus).

On 15/05/03 the Board of Directors appointed its own internal committee for Directors Remuneration (confirmed in May 2006), made up as follows:

Roberto Selci	Chairman
Innocenzo Cipolletta	Independent Member
Giampaolo Garattoni	Independent Member

Internal Control and Internal Control Committee

The Internal Control system is the series of processes aimed at monitoring the efficiency of company operations, the reliability of financial information, compliance with laws and regulations, safeguarding of company assets. The Board of Directors is responsible for the internal control system, setting the guidelines to be used and periodically checking adequacy and actual operation.

On 15/05/03, the Board of Directors approved the composition of the Internal Control Committee, which as foreseen by art. 10 of the Code, is made up of non-executive members, the majority of which are independent members (the Committee was confirmed in May 2006):

Innocenzo Cipolletta	Independent Member
Leone Sibani	Independent Member
Giampaolo Garattoni	Independent Member

The committee, in the presence of a member of the Board of Auditors, has the task of assisting, with advisory and suggestive functions, the Board of Directors with their responsibilities related to the reliability of the accounting system and financial information, the internal audit system, the recommendations for the selection and supervision of the activities carried out by external auditors.

Operations with associated parties

Associated parties are those defined by law or by the applicable regulations.

The operations with associated parties - as defined above - are carried out in compliance with the criteria of substantial and procedural fairness, and are restricted to the Board of Directors.

In operations with associated parties the Directors who have an interest, even if only potential or indirect, in the operation:

- must inform the Board of Directors in a timely and thorough manner of the existence of said interest and on the circumstances thereof, regardless of whether or not there is a state of conflict;
- must not take part in the discussion and must abstain from voting.

Should the nature, value or other characteristics of the operation render it advisable, the Board of Directors may make use of the assistance of independent experts.

Regarding the operations with associated parties, and for any other reference, please refer to the relevant section in the Management Report.

Meetings and meeting regulations

On 21/03/01 the Meeting of Shareholders approved a Meetings regulation, to govern proper, orderly and functional carrying out of Ordinary and Special Meetings of Shareholders. This regulation can now be viewed in the relevant section of the Company's internet site (www.biessegroup.com).

Relationships with institutional investors and other shareholders

The Company, in order to uphold a constant and homogenous dialogue with the financial market, institutional investors and shareholders and to ensure the complete and timely reporting of important information related to its activities, has identified from within the company an investor relator figure, who has the responsibility of maintaining an active information flow via press announcements, meetings with the financial community and institutional investors as well as to periodically update the related section of the Company website (www.biessegroup.com).

During the first half of 2006 Biesse S.p.A. took part in all the compulsory events organised by Borsa Italiana (Milan and New York STAR event) as well as independently creating numerous occasions to meet and compare notes with the Italian and international financial community.

Board of auditors

Art. 19-bis of the Statutes specifies that the Board of Auditors shall be made up of three full auditors and two assistants elected by the Shareholders' Meeting, which also lays down the fees. The minority is entitled to elect one Full Auditor and one Assistant Auditor.

The board of auditors is appointed based upon the list presented by the shareholders.. Shareholders from voting syndicates will only be entitled to present a single list.

Only those Shareholders who, either alone or together with others, are the owners of voting Shares representing at least 2% (two percent) of the capital entitled to vote at the Ordinary Shareholders' Meeting are entitled to present lists.

No Shareholder, nor the Shareholders in the same group, may present more than one list, nor may he vote for different lists even through a nominee or fiduciary company. If this rule is broken, the vote of the Shareholder in question will not be taken into account for any of the lists presented. Each candidate may only be on one list. Failure to comply will mean ineligibility.

The professional curriculum of each candidate must be filed together with each list, within the terms indicated above, along with the declarations with which each candidate accepts candidacy and certifies, at his own responsibility, that there is no cause of ineligibility or incompatibility and that the legal and statutory requirements foreseen for the respective positions are met.

The Board of Auditors, which was nominated during the ordinary shareholders meeting of 29 April 2006 and which will be in office until the approval of the balance sheet for the year ending 31 December 2008, is composed of the following members:

Giovanni Ciurlo	Chairman
Adriano Franzoni	Statutory Auditor
Claudio Sanchioni	Statutory Auditor
Daniela Gabucci	Assistant Auditor
Cristina Amadori	Assistant Auditor

RELATIONSHIPS WITH SUBSIDIARIES, AFFILIATED AND COMPANIES SUBJECT TO CONTROL BY PARENT COMPANIES

The affiliated companies are as follows:

- Hsd Deutschland Gmbh, a German trading company, 50% owned by HSD S.p.A., which distributes products from the Mechatronics division and provides customer assistance to the German market;
- Kernex Automation S.r.l., 25% owned, declared bankrupt.

As already underlined, regarding the company Kernex Automation S.r.l., - pushed into bankruptcy from Biesse S.p.A. – no transactions have been recorded in the period ended 30 June 2006, and there are no open payables and receivables at the end of the period.

With reference to HSD Deutschland GmbH, in the period ended June 2006, the Group income were € 753 thousand and costs € 2 thousand; at June 30 2006, the receivables are € 552 thousand and the payables € 9 thousand.

As far as relations with the parent company Bi.Fin. Srl are concerned, there have been no transactions.

On the date of the balance sheet, the parent company has a receivable from the Group amounting to € 4,256 thousand and a payable for € 166 thousand; both positions are relative to the transfer of income tax and VAT payables and receivables from Biesse S.p.A., HSD S.p.A. and I.S.P. Systems S.r.l. to the parent company for the purpose of national tax consolidation, in which the tax positions of the companies Biesse S.p.A., HSD S.p.a., Cabi S.r.l., Sandymac S.r.l., I.S.P. Systems s.r.l. and Bi. Fin. S.r.l. itself were aggregated.

RELATIONS WITH OTHER AFFILIATED PARTIES

Other affiliated parties are identified as the companies Fincobi S.r.l., owned by the Selci family, and Rettifica Modenese S.a.s., of which 51% is owned by Mr. Roberto Selci, and which works in the mechanical machining sector. During the first half of the year relationships between the companies of the Biesse Group and the aforementioned company are as follows:

€ ‘000	**Costs**	**Revenues**	**Payables**	**Credits**
Rettifica Modenese S.a.s	40	0	25	3
Fincobi S.r.l.	5	1	3	1
Total	**45**	**1**	**28**	**4**

We can state that with the above reported relationships, the applied contractual conditions are no different than those that can be theoretically obtained from negotiations with third parties.

IMPORTANT EVENTS THAT HAVE OCCURRED SINCE 30 JUNE 2006 AND PERSPECTIVES FOR THE END OF THE YEAR

Important events that occurred after closing of the first part of 2006 balance sheet have been:

- since 1st August 2006, the production activity of the CNI *brand* (numerical controls), previously housed in the Alfonsine (Italy) factory, was transferred to the Pesaro factories: the operation will grant benefits, both on synergies on technological development, and on lower fixed costs and higher production efficiency;
- on the same date, it has been stipulated the agreement for acquisition of a 60% participation in BRE.MA. Brenna Macchine S.r.l. (Alzate Brianza, Como); the operation involved payment of the first installment of € 3,850,000 for acquisition of the shareholding. The remaining sum will be paid within January 2007, after calculation of the difference due; the total amount to be paid is in fact dependent on verification of thenormalised EBIT value for the company Bre.Ma. Brenna Macchine s.r.l. according tothe Financial Statement as at 31.12.2006. In any event, the final payment will not be subject to increases above the "cap" value of 7.2 million Euro. Since 1976, Bre.Ma has been designing and manufacturing numerical controlled machinery boring-milling-routing and inserting used to process wood panels for furniture, and joining Biesse S.p.A. has the aim of creating an absolute leader in this product segment. Bre.Ma. ended 2005 year with a turnover of € 12.8 million, ebitda margin of 13.5% and ebit margin of 11%, normalised to eliminate non-recurrent special components. For 2006 year, revenue is expected to increase by around 18%.

As for the perspectives for the end of the year, we confirm to be confident of the reaching of the 2006 objectives, maintenaing the attention on the value creation and the cash generation, which should allow to reset the financial position within December 2006, notwithstanding the mentioned acquisition. Also the recent important exhibition IWF (International Woodworking Machinery & Furniture Supply Fair), held in Atlanta (USA) at the end of August gave important signals in term of new order from one of the main markets of the Group.

ADDITIONAL INFORMATION

In compliance with that which was decided during the Biesse S.p.A. Shareholders Meeting on 17 December 2001 and again on 29/04/2003, the company had started a stock buyback program, which as of 31 December 2004, and as provided for by the decision in question, has expired. As at 31 December 2005, the treasury shares amount to 2,453 thousand Euro, equal to 927,202 shares at an average purchase price of € 2.65. The main part of them was sold in the stock market, while the remaining part was delivered, as a result of the exercise of the option from the ex-partner of HSD SpA (the option was connected with the acquisition of the 20% quote of HSD); therefore on the date of the balance sheet, the Biesse Group no longer possesses own shares.

It is also declared that the parent company Biesse S.p.A. does not posses stock/shares of controlling companies, nor did they possess or trade any during the course of the first semester 2006. There is not anything to disclose in relation to Art. 2428 paragraph 2 section 3 and 4 of the civil code.

Pesaro, 22/09/2006.

The President of the Board of Directors
Roberto Selci

CONDENSED CONSOLIDATED FINANCIAL STATEMENT for the period ended 30 June 2006

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2006

	NOTES	For the six months ended	
		06/30/2006	06/30/2005
Continuing operations		€ '000	€ '000
Revenues		176,747	149,600
Other operating income		2,593	2,655
Changes in inventories of finished goods and work in progress		15,536	11,141
Raw materials and consumables used		(85,013)	(71,527)
Personnel expenses		(44,131)	(42,616)
Other operating expenses		(38,210)	(33,324)
Amortisation expense		(5,161)	(5,246)
Accruals to provisions		(1,846)	(1,677)
Impairment loss	6	(888)	0
Badwill	7	175	0
Operating profit		**19,803**	**9,005**
Share of profit/loss of affiliated companies		(245)	(95)
Investment revenues		301	197
Other gains and losses		3	0
Financial expenses		(1,251)	(1,579)
Revenues and expenses on currency exchanges		928	(212)
Pre-tax income		**19,539**	**7,316**
Taxes for the period	8	(6,560)	(2,815)
Result for the period from continuing operations		12,979	4,501
Result of the period		**12,979**	**4,501**
Attributable to:			
Equity holders of the parent		12,928	4,540
Minority interest		51	(39)
		12,979	**4,501**
Earnings per share			
From continuing operations:			
Basic (€/cents)	9	47.61	17.19
Diluted (€/cents)	9	47.61	17.19

CONDENSED CONSOLIDATED BALANCE SHEET AT 30 JUNE 2006

	NOTES	As at 30 June 2006	As at 31 December 2005
		€ '000	€ '000
ASSETS			
Non-current assets			
Buildings, plants and machinery	11	50,121	52,777
Industrial equipment and other tangible assets	11	7,234	6,795
Goodwill		13,016	13,108
Other intangible assets	12	11,544	10,565
Investments in affiliated companies		117	107
Deferred tax assets		9,889	8,441
Other financial assets and non-current receivables		469	552
		92,390	92,345
Current assets			
Inventories	13	90,520	72,798
Trade receivables		88,289	96,987
Receivables from affiliated and parent companies	20	718	973
Other receivables		8,488	7,464
Derivative financial instruments		876	0
Cash and cash equivalents		38,672	31,210
		227,563	209,432
Total assets		319,953	301,777

CONDENSED CONSOLIDATED BALANCE SHEET AT 30 JUNE 2006

	NOTES	As at 30 June 2006	As at 31 December 2005
		€ '000	€ '000
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	27,393	27,393
- Own shares	14	0	(2,453)
Capital reserves		36,202	36,202
Hedging and translation reserves	15	(1,854)	(1,225)
Retained earnings	16	45,086	29,445
Result of the period		12,928	15,931
Equity attributable to equity holders of the parent		119,755	105,293
Minority interest		348	343
Total equity		120,103	105,636
Non-current liabilities			
Retirement benefit obligation		15,582	15,090
Deferred tax liabilities		8,732	7,886
Bank loans	17	7,129	17,354
Obligations under finance leases		12,546	13,942
Provisions for risks and charge		2,019	1,886
Other payables		0	0
		46,008	56,158
Current liabilities			
Trade payables		103,109	83,672
Payables to affiliated and parent companies		4,265	1,079
Other payables		17,192	19,081
Current tax liabilities		4,806	7,096
Obligations under finance leases		3,079	3,266
Bank overdrafts and loans	17	17,685	20,550
Provisions for risks and charge		3,706	4,514
Derivative financial instruments		0	725
		153,842	139,983
Total liabilities		199,850	196,141
Total equity and liabilities		319,953	301,777

CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 JUNE 2006

		NOTES	06/30/2006	06/30/2005
			€ '000	€ '000
=	**NET CASH FLOW FROM (FOR) ORDINARY ACTIVITIES**		**27,563**	**11,051**
-	Purchase of intangible assets		(1,901)	(1,588)
+	Transfer of intangible assets		0	35
-	Purchase of tangible fixed assets		(2,796)	(1,693)
+	Transfer of tangible fixed assets		105	630
	Acquisition of associated quotes	7	96	0
+/-	Purchase/transfer of other shareholdings and securities		(40)	67
=	**NET CASH FLOW FROM (FOR) INVESTING ACTIVITIES**		**(4,537)**	**(2,549)**
+/-	Increase/decrease financial receivables		25	35
+	Opening of medium/long-term bank loans	17	0	20,000
-	Repayment of medium/long-term bank loans	17	(11,296)	(12,190)
+/-	Increase/decrease bank borrowings		(1,100)	(11,238)
	Increase/decrease of payables to others		(1,580)	(2,976)
-	Payments on dividends		(4,931)	(3,170)
+	Transfer of own shares	14	3,574	(80)
=	**NET CASH FLOW FROM (FOR) FINANCING ACTIVITIES**		**(15,309)**	**(9,618)**
=	**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS**		**7,717**	**(1,116)**
	CASH AND CASH EQUIVALENT AT PERIOD START		**31,210**	**20,567**
+/-	Effect of excahnge rate changes		(256)	440
+	**CASH AND CASH EQUIVALENT AT PERIOD END**			
	Cash and cash equivalent		**38,672**	**19,890**

SCHEDULE OF MOVEMENTS IN THE SHAREHOLDERS' EQUITY

	Notes	Share Capital	- Own shares	Capital reserves	Hedging and translation reserves	Other reserves	Profit for the period	Equity attributable to equity holders of the parent	Minority interest	Total
- At 31 december 2004 - restated		**27,393**	**(2,566)**	**36,202**	**(2,020)**	**24,882**	**7,656**	**91,546**	**265**	**91,811**
Destination of the result of the financial year										0
-Dividends							(3,170)	**(3,170)**		(3,170)
-Other destinations						4,486	(4,486)	**0**	0	0
Economic items entered in equity										0
- Own shares net movements						(80)		**(80)**		(80)
-Hedging reserve adjustment					(130)			**(130)**		(130)
-Translation difference					655			**655**		655
Other variations										
- Own shares net movements								**0**		0
-Hedging reserve adjustment					231			**231**		231
-Other movements						(24)		**(24)**	(41)	(65)
Result of the period							4,540	**4,540**	(39)	4,501
- At 30 june 2005		**27,393**	**(2,566)**	**36,202**	**(1,264)**	**29,264**	**4,540**	**93,568**	**185**	**93,753**

	Notes	Share Capital	- Own shares	Capital reserves	Hedging and translation reserves	Other reserves	Profit for the period	Equity attributable to equity holders of the parent	Minority interest	Total
- At 31 december 2005		**27,393**	**(2,453)**	**36,202**	**(1,225)**	**29,446**	**15,931**	**105,293**	**343**	**105,636**
Destination of the result of the financial year										
-Dividends	10					(4,931)		**(4,931)**		(4,931)
-Other destinations						15,931	(15,931)	**0**		0
Economic items entered in equity										
- Own shares net movements	14					4,608		**4,608**		4,608
-Hedging reserve adjustment					69			**69**		69
-Translation difference					(698)			**(698)**		(698)
Other variations										
- Own shares net movements	14		2,453					**2,453**		2,453
-Hedging reserve adjustment					0			**0**		0
-Other movements						33		**33**	(46)	(13)
Result of the period							12,928	**12,928**	51	12,979
- At 30 june 2006		**27,393**	**0**	**36,202**	**(1,854)**	**45,087**	**12,928**	**119,755**	**348**	**120,103**

EXPLANATORY NOTES
as at 30 June 2006

EXPLANATORY NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AS AT 30 JUNE 2006

1. GENERAL

Biesse S.p.A. is an Italian corporation based in Pesaro. The company is quoted on the Milan stock exchange in the STAR segment.

The asset and liability statement and economic situation as at 30th June 2006 includes the balance sheet for Biesse S.p.A. and its subsidiaries which it controls either directly or indirectly (from hereon defined as “Group”) and the value of the percentage shareholdings relative to the stake in the associated companies.

The asset and liability statement and economic situation as at 30th June 2006, including Appendix A relating the financial statements of the Parent Company Biesse S.p.A. and Appendix B relating to transition of the Parent Company Biesse S.p.A. to international accounting principles (IFRS), has been approved by the Board of Directors on the present date (22nd September 2006).

List of businesses included in the consolidation area using the integral method

Name and office	Currency	Capital Stock	Direct control	Indirect control	Through	Biesse Group
Parent company						
Biesse S.p.A. Via della Meccanica, 16 Loc. Chiusa di Ginestreto (PU)	Euro	27,393,042				
Italian subsidiaries:						
HSD S.p.A. Via della Meccanica, 16 Loc. Chiusa di Ginestreto (PU)	Euro	1,000,000	100%			100%
MC S.r.l. Via Mario Ricci, 12 Pesaro	Euro	101,490	51%			51%
Cabi S.r.l. P.le Mario Coralloni, 11 Loc. Selva Grossa (PU)	Euro	40,000	100%			100%
Sandymac S.r.l. Via della Meccanica, 16 Loc. Chiusa di Ginestreto (PU)	Euro	50,000	80%			80%
Biesse Corporate School S.c.r.l. Via della Meccanica, 16 Loc. Chiusa di Ginestreto (PU)	Euro	10,920	75,83%	15,01%	HSD S.p.A.	90,84%
I.S.P. Systems S.r.l. Via F.lli Rosselli 46 – Pesaro	Euro	14,000	100%			100%
Foreign subsidiaries:						
Biesse America Inc. 4110 Meadow Oak Drive Charlotte NC 28208 – USA	US $	1,000,000	100%			100%
Biesse Canada Inc. 1845 Rue Jean Monnet – Terrebonne (Quebec) – Canada	CAN $	180,000	100%			100%
Biesse Asia Pte. Ltd. Zagro Global Hub 5 Woodlands Terr. - Singapore	S $	2,655,000	100%			100%
Biesse Group UK Ltd. Lamport Drive – Daventry Northampt. – Great Britain	£ STG	1,000	100%			100%

Name and office	Currency	Capital Stock	Direct control	Indirect control	Through	Biesse Group
Biesse Groupe France Sarl Parc d'Affaires de la Vallée de l'Ozon – Chapotin – Chaponnay – France	Euro	144,000	100%			100%
Biesse Group Deutschland GmbH Gewerberstrasse, 6 – Elchingen (Ulm) – Germany	Euro	1,432,600	100%			100%
Biesservice Scandinavia AB Maskinvagen 1 – Lindas – Sweden	SKR	200,000	60%			60%
Biesse Iberica Woodworking Machinery s.l. Cl. Pedrosa C., 9 - Barcellona – Spain	Euro	1,033,741	100%			100%
Biesse Brasil Ltda Rua Lapò, 975 - Curitiba Paranà – Brasil	Rlb	1,509,628	99,99%			99,99%
Biesse Group Australia Pty Ltd. 3 Widemere Road Wetherill Park – Australia	Aud	5,046,547	100%			100%
Biesse Group New Zealand Ltd. UNIT 7/519– Rosebank Avondale Auckland – New Zealand	Nzd	334,262	100%			100%
Hsd Usa Inc. 3764 SW 30th Avenue – Hollywood, Florida – Usa	Usd	10,000		100%	Hsd S.p.A.	100%
Intermac Vidrio Iberica S.A. C/Muntaner 531, 3-4 Barcelona – Spain	Euro	60,102	100%			100%
Biesse Manufacturing Co. Pvt. Ltd. #63, 1st Main, 2nd Stage, Yeshwantpur Indl. Suburb Bangalore -India	Inr	21,404,000	100%			100%
Sel Realty Inc. 1845 Rue Jean Monnet – Terrebonne (Quebec) – Canada	CAN $	100	100%			100%
Bi. Fin. UK Ltd. Lamport drive – Daventry Northampt. – Great Britain	£ STG	600,000	100%			100%
Bifin Ltd. 233, Peachtree St., NE – Harris Tower – Atlanta, GA 30303 (Usa)	Usd	10,000		100%	Biesse America Inc.	100%

List of shareholdings in affiliated companies, valued using the equity method

Name and office	Currency	Capital Stock	Direct control	Indirect control	Through	Biesse Group
HSD Deutschland GmbH Immenreich 6, Gingen, Fils – Germany	Euro	25,000		50%	*Hsd S.p.A.*	50%
Kernex Automation S.r.l. Via P. Nenni, 1/7 Cerese di Virgilio (MN)	Euro	46,700	25%			25%

2. REFERENCE DATA AND CONSOLIDATION AND CONVERSION PRINCIPLES

The asset and liability statement and economic situation as at 30th June consists of the obligatory consolidated account prospectuses (asset and liability statement, income statement, prospectus of the variations in shareholders' equity and cash flow statement) and the explanatory notes.

The balance sheet entry values are expressed in thousands of Euro.

The accounting principles and valuation criteria are the same as those used for the financial statements as at 31/12/2005, to which reference is made. The following is also noted:

- the half-year situation has been drawn up according to the criteria for separation of periods, according to which the reference period is considered as an independent financial year; from this point of view the half-yearly asset and liability statement reflects the economic components pertaining to the period, in compliance with the principle of temporal competence;
- the accounting situations at the root of the consolidation process are those drawn up by the subsidiary companies with reference to 30/06/2006, rectified, when necessary, to adapt them to the Group accounting principles;
- no significant amounts are given as estimated values.

The average exchange rates and those for the end of period are as follows:

Currency	30 June 2006		31 December 2005		30 June 2005	
	Average	***Final***	***Average***		***Average***	***Final***
US Dollar / Euro	1,2296	1,2713	1,2441	1,1797	1,2847	1,2092
Singapore Dollar / Euro	1,9773	2,0137	2,0702	1,9628	2,1162	2,0377
Canadian Dollar / Euro	1,3999	1,4132	1,5087	1,3725	1,5875	1,4900
Pound Sterling / Euro	0,6870	0,6921	0,6838	0,6853	0,6859	0,6742
Swedish Crown / Euro	9,3259	9,2385	9,2822	9,3885	9,1425	9,4259
Brazilian Real / Euro	2,6965	2,7575	3,0344	2,7432	3,3084	2,8476
Australian Dollar / Euro	1,6549	1,7117	1,6320	1,6109	1,6628	1,5885
New Zealand Dollar / Euro	1,9126	2,0864	1,7660	1,7270	1,7940	1,7387
Indian Rupia / Euro	55,2594	58,5514	-	-	-	-

3. EVALUATIVE CHOICES AND USE OF ESTIMATES

The preparation of the balance sheet and relative notes in the application of the IFRS accounting principles requires that the management carries out estimates and makes assumptions that would effect the values of the assets and liabilities of the balance sheet and the information relating to potential assets and liabilities as at the date of the balance sheet itself. The results totalled could be different to these estimates. The estimates are used to evaluate the tangible and intangible assets subject to *impairment tests* as described above and to determine the accruals to provision for risks and charges on credits, for warehouse obsolescence, amortisation, asset devaluation, benefits to employees, taxes and provisions to risk and charges funds. The estimates and assumptions are periodically reviewed and the effects of each variation are entered immediately in the income statement.

In particular, for the application of the accounting principles, the Group Management made a choice when applying the accounting principles to be used to value and present the call option issued in 2003 and exercised in February 2006. As already explained in the consolidated financial statements of December 2005, following the IAS 27 provisions, the value of the option at December 31st 2005, determined in € 2.2 million, was reflected in the consolidated accounts, being adequately entered under the proper items in the balance sheet, which in this case are those relating to goodwill for the debit side and the other payables for the credit side.

Fundamental assumptions regarding future events and other causes of uncertainty in making accounting estimates at the date of the interim report that may lead to significant adjustments to the carrying amounts of assets and liabilities within a year mainly relate to the possible impairment of goodwill.

At June 30, 2006, the carrying value of goodwill was Euro 13.2 million. Goodwill was subjected to an annual impairment test at December 31, 2005. At June 30, 2006, management reviewed for the existence of events or circumstances that raise doubt about the existence of potential impairment losses (impairment indicators). No such impairment indicators were identified.

4. ANALYSIS BY ACTIVITY SEGMENT AND GEOGRAPHIC SECTOR

ANALYSIS BY ACTIVITY SEGMENT

For the purposes of management control, the Group is currently organised in four operating divisions - Wood, Glass & Marble, Mechatronics, Other. These divisions form the bases used by the Group to indicate information by sector according to the primary schedule.

The main activities are as follows:
Wood - production and distribution of panel processing machines and systems,
Glass & Marble - production and distribution of glass and marble processing machines and systems,
Mechatronics - production and distribution of mechanical and electronic components for the industry,
Other - production and distribution of tools and components and other additional precision machining operations

The information on these activity segments is as follows:

€ '000	Revenues		Operating result	
	1st half-year 2006	**1st half-year 2005**	**1st half-year 2006**	**1st half-year 2005**
Wood	126,954	110,813	14,350	7,284
Glass & Marble	32,516	25,771	3,700	2,503
Mechatronics	18,795	14,280	3,700	1,173
Other	20,375	16,291	1,940	1,412
	198,640	**167,155**	23,690	12,372
Non-allocated corporate costs			(3,887)	(3,367)
Operating result			**19,803**	**9,005**

As underlined in the management report, the first half of 2006 shows a significant growth in turnover (+18.1%), along with a strong growth in profits connected to the "working lever" effect (working profit + 120%). It must also be noted that Biesse orders and turnover in 2005 were decidedly stronger in the second half as compared to the first half, so that in the first half of 2006 the comparison with the previous year is particularly good. Growth relates to all the *business* segments, with particularly high growth for the Wood sector, both in absolute terms and in percentage value, calculated on the turnover (the ebit margin has almost doubled, while sales have increased by 14%).

ANALYSIS BY GEOGRAPHIC SECTOR

€ '000	Revenues			
	1st half-year 2006	%	1st half-year 2005	%
Western Europe	90.271	51.1%	74.039	49.5%
North America	31.083	17.6%	19.961	13.3%
Eastern Europe	25.765	14.6%	24.390	16.3%
Oceania	11.388	6.4%	12.800	8.6%
Asia	10.392	5.9%	9.519	6.4%
Rest of the World	7.848	4.4%	8.891	5.9%
Group Total	**176.747**	**100.0%**	**149.600**	**100.0%**

5. SEASONALITY

The business sectors in which the Biesse Group operates are characterised by a relative seasonality, due to the fact that the demand for machine tools is normally concentrated in the second part of the year (and in particular the last quarter). This concentration is connected to the buying habits of the end customers, which are considerably influenced by the expectations of investment incentives, and by expectations on the economic situation in the reference markets.
To this, the particular structure of the Group must be added, in which the branches present in overseas nations (USA, Canada, Australia) represent approximately one fifth of the total volume of business.Given the time necessary to deliver machine tools to these markets and the presence of an end market that is particularly sensitive to the timing of deliveries with respect to purchase orders, these branches are forced to stock up their warehouses during the first half of the year in order to deal with end-of-year sales.
This seasonal factor has more of an impact on the income and expenditure than on the economic situation, determining an increase in stock and commercial receivables (connected to the increased sales at end of year), and a consequent increase in the net circulating capital, with a consequent higher absorption of Group liquid assets. The commercial payables on the other hand are less subject to fluctuation, as production is distributed in a fairly even manner throughout the year.

6. IMPAIRMENT LOSS

The value of € 888 thousand (no loss in the corresponding period of the previous year) refers to the adjustment of the historic cost of the building in San Giovanni in Marignano, used in the period by the subsidiaries Sandymac S.r.l. and I.S.P. Systems S.r.l.. Based on the preliminary transfer document signed in September 4th 2006, the building will be transferred to third parties within the end of 2006, while the companies currently housed there will be gradually transferred to other Group factories. Following valuation of the building for the purpose of transfer, a reduction in same value was found to be necessary; the reduction is a consequence of the lower tradable value of the offices area (which represents an important portion – 2,700 mt.^{2} – of the actual sale) with respect to the productive area.
It is noted that the activities of Sandymac S.r.l. will be moved during the course of next year into a new factory (for the purchase of which a preliminary purchase contract was signed in the month of September 2006), the size and location of which are more suited to the expected growth of the company itself. As regards I.S.P. Systems S.r.l., the operating headquarters were moved as of August 2006 into the Pesaro industrial complex, in order to maximise synergism with the manufacturing operations already located there, with which an increase in commercial exchanges is foreseen.

7. ACQUISITION OF SUBSIDIARIES

On 22nd June 2006 the Parent company Biesse S.p.A. increased its holding in the company I.S.P. Systems S.r.l., going from 25.93% to 100% of the partnership capital. The transaction was set down in the accounts using the *purchase method*.

The net assets acquired and details relating to the acquisition are as follows:

€ '000	Acquiree's carrying amount before combination	IAS adjustmements	Fair value
Net assets acquired			
Equipments and other tangible assets	34	0	34
Intangible assets	661	(1)	660
Deferred tax assets	642	0	642
Inventories	199	0	199
Trade receivables	1,016	0	1,016
Bank and cash balances	143	0	143
Retirement benefit obligation	(43)	(1)	(44)
Trade payables	(2,368)	0	(2,368)
Other payables	(32)	0	(32)
	251	(2)	249
- Partnership already owned (25.93%)			(64)
- Badwill			(175)
Total consideration, satisfied by cash			10

Net cash inflow arising on acquisition	
Cash consideration paid	(10)
Cash and cash equivalents acquired	106
	96

For the purpose of entering the effects of the acquisition on the financial statements, it was assumed that control of the company was taken on as of 30th June 2006, as the result relating to the period between the date on which the partnership capital was paid up and the reference date for this report (8 days) is insignificant.
Had the acquisition taken place at the start of 2006, the overall revenue for the Group would have been € 176,789 thousand and the net result € 12,300 thousand.

8. TAX

National income tax (IRES) is calculated at 33 percent (unchanged with respect to 2005) of the taxable income for the year. Tax for other jurisdictions is calculated according to the rates in force in those countries. For the purpose of calculating tax for the period, the tax rate applicable to the expected final results has been applied to the midyear profits.

9. PROFIT PER SHARE (EPS)

The basic profit per share as at 30th June 2006 is equal to Euro/cent 48.94 (17.19 in 2005) and is calculated by dividing the profit attributable to shareholders of the parent company, equal to € 13,290 thousand (€ 4,540 thousand in 2005), by the weighted average of the ordinary shares in circulation during the period, corresponding to No. 27,155,366 (No. 26,415,840 in 2005). As there were no dilatory effects, the same calculation is also applicable to the determination of the diluted profit. The explanatory prospectuses are reported below:

Profit attributable to the parent company's shareholders

€ '000	2nd quarter		period ending	
	2006	**2005**	**06/30/2006**	**06/30/2005**
Basic profit for the period	9,270	4,497	13,290	4,540
Dilutory effects on the profit for the period	0	0	0	0
Diluted profit for the period	9,270	4,497	13,290	4,540

Weighted average of the ordinary shares in circulation

in thousands of shares	2nd quarter		period ending	
	2006	**2005**	**06/30/2006**	**06/30/2005**
Weighted average number of ordinary shares used to determine the profit per basic share	27,393	27,393	27,393	27,393
Own shares effect	0	(977)	(238)	(977)
Weighted average of ordinary shares in circulation – for calculating the basic profit	27,393	26,416	27,155	26,416
Dilutory effects	0	0	0	0
Weighted average of ordinary shares in circulation – for calculating the diluted profit	27,393	26,416	27,155	26,416

As no activities ceased during the year, the profit per share is fully referable to the operating activities.

10.DIVIDENDS

On 29th May 2006 the Parent company paid shareholders a dividend of 18 Euro cents per share (total dividends amounting to 4.9 million Euro, 12 Euro cents per share in 2005, amounting to a total of 3.2 million Euro).

11.BUILDINGS, PLANTS, MACHINERY AND OTHER TANGIBLE ASSETS

In the reference period, investments of € 2,787 thousand were made. Besides the investments connected to normal replacement of working equipment, necessary for normal production operations, note must also be made of the investments made for purchases of lands/construction of the new manufacturing premises respectively for the subsidiary MC S.r.l. (€ 872 thousand, located in Pesaro, Italy) and the subsidiary Biesse Manufacturing Co. Pvt. Ltd. (€ 556 thousand, located in Bangalore, India). As regards the former company, the investment derives from the need to provide additional space to deal with the growing production capacity requirements (currently located in two different premises, one of which is the property of third parties). As regards the second company, the investment was the result of a strategic decision, aimed at local *sourcing* and the production of mechanical components; the company is currently in the start-up phase and has commenced activities, using third party manufacturing premises.
It must also be noted that starting from 01/08/2006, production activities for the CNI *brand*, previously housed in premises within the Alfonsine (Italy) factory, has been transferred to the Pesaro factory: the operation will produce benefits both in terms of the resulting business synergy, and in terms of lower fixed costs.
As indicated above in note 6, on the date of approval of this half-yearly report, two real estate agreements have been signed, the first one involving transfer of the building in San Giovanni in Marignano (for which the book value inclusive of installations as at 30/06/2006 amounts to € 6,018 thousand) and the second involving purchase of a new building to house the activities of the company Sandymac S.r.l. (with a value of approximately € 2,5 million).

12. OTHER INTANGIBLE ASSETS

The other intangible assets mainly comprise development costs. During the reference period the activities relating to design of new products continued, involving new investments amounting to € 1,745 thousand (€ 1,316 thousand in 2005).

13. INVENTORY

The obsolescence of raw materials and finished goods determined a net income charge of € 34 thousand.

14. PARTNERSHIP CAPITAL / OWN SHARES

The partnership capital of the Parent company Biesse S.p.A. is made up of No. 27,393,042 shares with a nominal value of € 1.
On the date of approval of this half-year report the Biesse Group no longer possesses own shares.
At the end of the previous year the Parent Company Biesse S.p.A. held No. 927,202 own shares, set down on the balance sheet at the historic cost of € 2,453 thousand.
With reference to them, a portion (no. 380,654, historic cost of € 1,204 thousand) was held to cover the option of the ex-partner of HSD S.p.A., as provided in the shareholding purchase contract of November 14 2003. The option was exercised in the month of February 2006. The operation (already explained in the note 3) did not determine any cash disbursement, because the liability (€ 3,487 thousand) was settled by the delivery of the shares.
The remaining treasury shares (no. 546,548, historic cost of € 1,249 thousand) were sold in the months of January and February 2006, with a cash inflow of € 4.17 million (without considering the tax effects).

15. HEDGING AND TRANSLATION RESERVES

The balance sheet value is made up as follows

€ '000	06/30/2006	12/31/2005
Hedging reserve	0	69
Translation reserve	1,854	1,156
Total	**1,854**	**1,225**

16. RETAINED EARNINGS

The balance sheet value is made up as follows:

€ '000	06/30/2006	12/31/2005
Legal Reserve	4,723	4,061
Extraordinary reserve	22,549	12,450
Retained earnings	17,452	12,934
	44,724	**29,445**

17.OVERDRAFTS AND BANK LOANS

Following the noticeable improvement in the Group's financial position (in this regard, please see the details provided in the Management Report), mainly due to normal operations, during the half year an advanced repayment of € 2 million was made against the mortgages taken out in January 2005 (nominal value of the mortgages at the date of subscription € 20 million), in addition to the normal repayments foreseen by the mortgage contracts. This repayment in advance of medium-term payables continued in the month of July 2006, with repayment of a further € 6.9 million.

18.COMMITMENTS, GUARANTEES AND POTENTIAL LIABILITIES

With reference to the Group obligations, it must be noted that the contract between Biesse S.p.A. and the minority partner of Sandymac S.r.l., foresees a Call option in favour of Biesse S.p.A. and at the same time a Put option in favour of the minority partner on the remaining shares in the company capital of the affiliate (20%). The option can be exercised within 30/05/2009 (expiry date of the contract). At the end of June 2006, basing on the characteristics of the contract, the liability relative to the exercise of the option does not determine relevant effects on the Group accounts.
Referring to the commitments, the Group has entered into several contracts for a total amount of € 4.6 million (€ 2.5 million relate to an industrial building, which will house the activity of Sandymac S.r.l., as explained in the note 11).
With regard to the guarantees, the total amount issued by the Group amounts to € 5,654 thousand. The most relevant components refer to the guarantees issued in favour of the Commune of Pesaro, in relation to the cost of urbanisation of the buildings located there (€ 1,468 thousand), the guarantees issued in favour of the subsidiaries Biesse Group Deutschland GmbH (€ 1,700 thousand) and Biesse Group Australia Pty Ltd. (€ 584 thousand).
Furthermore, the Group has € 1,769 thousand in circulating assets, and more specifically pro-solvendo assets resulting from the Sabbatini law, mainly discounted by Mediocredito Fondiario Centroitalia S.p.a., and has signed agreements of buy-back for a value of € 1,290 thousand, in favour of leasing companies, in the case of failure by certain Italian customers.
Finally, with reference to the Preliminary Claim Report, issued on 21st October 2005 from the Ancona Regional Tax Agency, in relation to tax check of the exercises 2002 and 2003 of the Parent Company Biesse S.p.A., there no updating to communicate in respect of what already said in the last financial report. We remind that, with reference to the report relating to the query on claimed inability to deduct devaluation of the holding in Schelling, amounting to € 45,118 thousand, which is of a type liable to reduce the fiscally relevant loss produced in the year 2003 subsequently used in part to compensate for the profits for the year 2004, 2005 and the current period, it is hereby notified that D.L. 273 of 30.12.2005, art. 31, paragraph 1, converted into Law No. 51 of 23.2.2006 published in Official Gazette No. 49 of 28/2/06, provides for extension of the terms for communications under art. 1, paragraph 4 D.L. 209/72.
In compliance with these provisions the Company, although in the case in question it does not consider the obligation to exist, has in any event proceeded to file the notification, the omission of which gave rise to the original query. There is thus reason to believe that valuation of the risk of suffering from this query, which was already considered "remote" based on the technical and legal opinion of a primary Tax Office in regard to its merit, is now even less likely based on the fact that omission of the notification requirement has now been remedied.

19.SUBSEQUENT EVENTS

With reference to events subsequent to the date of the balance sheet, reference is made to the relevant note in the Management Report.

20.OPERATIONS WITH ASSOCIATED PARTIES

The Group is controlled directly by Bi. Fin. S.r.l. (operating in Italy) and indirectly by Mr. Giancarlo Selci (resident in Italy).

Operations between Biesse S.p.A. and its subsidiaries, which are entities related to the Parent Company, have been eliminated from the consolidated balance sheet and are not illustrated in these notes. Details of the operations between the Group and other related entities are indicated below.

Commercial operations

During the year, the companies in the group were involved in the following commercial operations with related entities outside the consolidation area.

€ '000	Revenues		Costs	
	Period ending 06/30/2006	Period ending 06/30/2005	Period ending 06/30/2006	Period ending 06/30/2005
Parent companies				
Bi. Fin. S.r.l.	0	51	0	0
Affiliated companies				
I.S.P. Systems S.r.l. (*)	127	49	608	575
HSD Deutschland GmbH	753	571	2	15
Kernex Automation S.r.l.	0	0	0	0
Biesse China Co. Ltd. (*)	0	0	0	0
	753	620	2	590
Other related companies				
Rettifica Modenese S.r.l.	0	0	40	64
Fincobi S.r.l.	1	0	5	4
	1	0	45	68

€ '000	Credits		Payables	
	Period ending 06/30/2006	Period ending 06/30/2005	Period ending 06/30/2006	Period ending 06/30/2005
Parent companies				
Bi. Fin. S.r.l.	166	183	4.256	501
Affiliated companies				
I.S.P. Systems S.r.l. (*)	0	178	0	573
HSD Deutschland GmbH	552	612	9	4
Kernex Automation S.r.l.	0	1	0	1
Biesse China Co. Ltd. (*)	0	0	0	0
	552	791	9	578
Other related companies				
Rettifica Modenese S.r.l.	3	0	25	40
Fincobi S.r.l.	1	0	3	0
	4	0	28	40

(*) For the purposes of this half-year report, I.S.P. Systems S.r.l. as of 30/06/2006 is no longer included among the affiliated companies, following acquisition of full control of the company (in date 22nd June 2006); Biesse China Co. Ltd. is no longer included among the affiliated companies, following the sale made in the month of August 2006.

The contractual conditions granted to said related parties do not differ from those theoretically obtainable by negotiation with third parties.

It must be remembered that the parent company Bi.Fin. S.r.l. has chosen to make use of the laws relating to National Tax Consolidation for the three-year period 2005/2007; the tax consolidation area, along with Bi.Fin. itself, also comprises the companies Biesse S.p.A., HSD S.p.A., Cabi S.r.l. and I.S.P. Systems S.r.l. Receivables from Bi.Fin. S.r.l. relate to transfer of IRES tax and payments on account by the subsidiary I.S.P. Systems S.r.l., while the payables are mainly due to transfer of IRES and VAT payables by the subsidiaries Biesse S.p.A. and HSD S.p.A. (IRES: € 2,537 thousand and € 1,015 thousand, respectively; VAT: € 557 thousand and € 140 thousand, respectively).

Relations with HSD Deutschland GmbH are of a commercial nature, as they refer to transactions carried out to transfer goods and/or provide services.

The payables to related companies are sales payables and refer to transactions carried out to transfer goods and/or provide services.

APPENDICES

APPENDIX "A"

FINANCIAL STATEMENTS OF THE PARENT COMPANY BIESSE S.P.A.

INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2006

	For the six months ended	
	06/30/2006	06/30/2005
Continuing operations	€ '000	€ '000
Revenues	145.748	123.133
Other operating income	2.723	2.897
Changes in inventories of finished goods and work in progress	12.429	8.178
Raw materials and consumables used	(86.600)	(69.600)
Personnel expenses	(29.818)	(29.303)
Other operating expenses	(21.617)	(19.850)
Amortisation expense	(4.128)	(4.113)
Accruals to provisions	(1.049)	(1.527)
Impairment loss	(370)	0
Operating profit	**17.317**	**9.816**
Share of profit/loss of affiliated companies	(0)	(1.246)
Investment revenues	726	656
Other gains and losses	54	0
Financial expenses	(1.163)	(1.398)
Revenues and expenses on currency exchanges	947	(247)
Pre-tax income	**17.882**	**7.580**
Taxes for the period	(5.437)	(2.670)
Result for the period from continuing operations	12.445	4.910
Result of the period	**12.445**	**4.910**
Earnings per share		
From continuing operations:		
Basic (€/cents)	45,83	18,59
Diluted (€/cents)	45,83	18,59

CONDENSED BALANCE SHEET AT 30 JUNE 2006

	30 June 2006	31 December 2005
	€ '000	€ '000
ASSETS		
Non-current assets		
Buildings, plants and machinery	42.054	44.359
Industrial equipment and other tangible assets	3.796	3.930
Goodwill	6.247	6.247
Other intangible assets	9.759	9.254
Deferred tax assets	4.859	5.304
Other financial assets and non-current receivables	13.047	11.834
	79.762	80.928
Current assets		
Inventories	54.768	43.520
Trade receivables	55.769	58.855
Receivables from affiliated parties	65.951	64.367
Other receivables	4.447	4.070
Derivative financial instruments	876	0
Cash and cash equivalents	22.213	17.762
	204.024	188.574
Total assets	283.786	269.502

CONDENSED BALANCE SHEET AT 30 JUNE 2006

	30 June 2006	31 December 2005
	€ '000	€ '000
EQUITY AND LIABILITIES		
Capital and reserves		
Share capital	27.393	27.393
- Own shares	0	(2.453)
Capital reserves	36.202	36.202
Hedging and translation reserves	0	(69)
Retained earnings	41.653	26.004
Result of the period	12.445	15.538
Total equity	117.693	102.615
Non-current liabilities		
Retirement benefit obligation	13.558	12.895
Deferred tax liabilities	7.714	7.010
Bank loans	7.133	16.366
Obligations under finance leases	12.546	13.848
Provisions for risks and charge	2.034	1.820
	42.985	51.939
Current liabilities		
Trade payables	75.417	63.871
Payables to affiliated parties	13.186	9.298
Other payables	12.473	14.836
Current tax liabilities	1.892	3.179
Obligations under finance leases	2.836	3.038
Bank overdrafts and loans	14.700	16.435
Provisions for risks and charge	2.604	3.566
Derivative financial instruments	0	725
	123.108	114.948
Total liabilities	166.093	166.887
Total equity and liabilities	283.786	269.502

APPENDIX "B"

TRANSITION TO THE IAS/IFRS INTERNATIONAL ACCOUNTING PRINCIPLES OF THE PARENT COMPANY BIESSE S.P.A.

RECONCILIATIONS AS AT 1ST JANUARY AND 31ST DECEMBER 2005

Following the application of European Regulation n. 1606 of July 2002, companies dealing in securities in a market regulated of a member State of the European Union must, as from 2006, manage their separate financial reports in line with the international accounting principles (IAS/IFRS) issued by the International Accounting Standard Board (IASB) and approved by the Union itself.

Biesse S.p.A. adopted these principles in the preparation of the consolidated financial statement at 31st December 2005, while it will adopt them in the preparation of the separate financial statement at 31st December 2006.

This document supplies the reconciliations and the relative explanatory notes as provided for by the IFRS 1 – *First adoption of the IFRS regulations* – for the shareholders' equity and the income in line with the previous old principles (Italian accounting principles) and with the new principles:

- for the date of transition (1st January 2005) which corresponds to the start of the first period of the comparison;
- for the preceding period presented for the comparison, i.e. 31st December 2005.

As required by IFRS 1, the paragraph E of this document also reports the principles adopted for the restatement of the balance sheet at 1st January 2005 and the financial statement at 31st December 2005, that the Parent Company will adopt for the preparation of the financial statement at 31st December 2006.

As the attached reconciliation prospectuses have been prepared purely for the transition project for the preparation of the first complete financial statement drafted in accordance with the IFRS regulations approved by the European Commission (financial statement at 31st December 2006), they do not contain the comparative data or the necessary explanatory notes that would be required for fully representing the asset and liability statement - financial position and the economic performance of Biesse S.p.A. in accordance with the IFRS principles.
For the first application of the international accounting principles and in line with that provided for in particular by IFRS1, the balance sheet at 1st January 2005 has been prepared by making the necessary adjustments to the balance sheet at 31st December 2004, prepared according to the Italian accounting principles, and in particular:

- all the assets and liabilities, the registering of which is required by the IFRS regulations, including those not provided for in the application of the Italian accounting principles, have been accounted for and assessed according to the IFRS principles;
- all the assets and liabilities, the registering of which is required by the Italian accounting principles but not allowed by those of the IFRSs, have been eliminated;
- some of the balance sheet items have been reclassified in accordance with that provided for by the IFRS principles.

The effect of the adaptation of the opening balance of the assets and liabilities to the new principles has been recorded in the shareholders' equity, in an appropriate reserve net of the tax effect registered from time to time in the deferred tax liabilities or in the deferred tax assets.

For the first adoption of the IFRS regulations, for the restatement of the balance sheet on the date of transition to the new principles, as provided for from IFRS1 for the case that the separate financial statement of the Parent Company is prepared according to the IFRSs after having prepared the consolidated financial statement according to the same principles, the assets and liabilities of the Parent Company are recognised with the same amounts recognised in the consolidated financial statement, excepting the rectifications due to the consolidation procedures. In line with the first IFRS consolidated financial statement, the Company has made use of some options and/or optional exemptions provided for by IFRS 1.

The main options adopted concern:

- benefits for employees: as provided for by IAS 19, the Group has decided to adopt the “corridor method” for the actuarial profits and losses generated after 1st January 2004, IFRS transition date of the consolidated financial statement, registering all cumulated gains and losses on the date of transition to the IFRS;
- tangible and intangible assets: the historic cost has been maintained (as opposed to the *fair value*) as the assessment criterion for tangible and intangible assets subsequent to the initial registering;
- business combinations: business combinations that occurred before the date of transition to IFRSs have not been retrospectively restated, that is by the measurement of the fair values, at the date of exchange, of assets given and liabilities incurred; consequently it has been maintained the same goodwill amount measured on the transition date of the Biesse Group (1st January 2004).

In the moment of the preparation of the first IAS/IFRS financial statement (31st December 2006), some new IAS/IFRS principles and IFRIC interpretations may become effective, for which the anticipated application could be allowed. For these reasons the data presented in the successive reconciliation prospectuses could be subject to variations.

A. RECONCILIATION OF EQUITY AT 1ST JANUARY 2005 AND 31ST DECEMBER 2005 AND OF THE INCOME RESULT AT 31ST DECEMBER 2005

This section includes the reconciliation of equity at 1st January 2005 and at 31st December 2005 and also of the income result 2005, with separate indication of the rectifications and without the tax effect, where applicable.

Rectifications and reclassifications resulting from the transition to IAS/IFRS are commented in detail in the following notes, para. B and C, respectively for the effects at 1st January 2005 and at 31st December 2005.

Variations (net of tax bills)	Equity at 1/1/2005	Income result 2005	Other effects 2005	Equity at 31/12/2005
Balances as per national accounting standards	**85,729**	**13,238**	**(3,170)**	**95,797**
Capitalisation of development costs and other adjustments of intangible assets	2,974	1,652	-	4,626
Recording of leasing contracts relating to properties, machineries and equipments	1,563	602	-	2,165
Cancellation of properties revaluation	(84)	5	-	(79)
Cancellation of land depreciation	23	(23)	-	0
Goodwill	1,339	569	-	1,908
Reclassification of own shares minus the shareholders' equity	(2,359)	(308)	214	(2,453)
Employee benefits – IAS 19 impact	792	274	-	1,066
Assessment at fair value of the derivatives qualified as cash flow hedging	(207)	0	138	(69)
Assessment of investments in subsidiaries and affiliated companies	125	(477)	-	(352)
Provisions actualisation	83	5	-	88
Other variations	(130)	(1)	46	(80)
Total adjustments	***4,119***	***2,300***	***398***	***6,817***
IAS/IFRS balances	**89,848**	**15,538**	**(2,772)**	**102,614**

The column "Other effects" includes the movements of equity that do not affect the income result, such as the dividend distribution, equal to € 3,170 thousand, and the movements due to the assessment of the cash flow hedge operations and of the gains/losses on sales of own shares, recognised directly in the equity as provided for by the IAS/IFRS.

B. EFFECTS OF THE ADOPTION OF THE IFRS PRINCIPLES ON THE ASSET AND LIABILITY STATEMENT AS AT 1ST JANUARY 2005

A summary prospectus of the consolidated asset and liability statement on the date of transition is reported below. For every item the prospectus underlines:

- the balance as per financial statement at 31st December 2004, prepared according to the Italian accounting principles;
- the reclassification needed for the transition to IAS/IFRSs;
- the adjustments needed for the transition to IAS/IFRSs;
- the adjusted balances according to IAS/IFRS.

(amounts in thousands of €)	Notes	According to national principles	Effects of conversion to the IFRS principles		According to IFRS principles
			Reclassification	Adjustments	
ASSETS					
Tangible assets	1	30,085	14	21,887	51,986
Goodwill	2	4,721	0	1,526	6,247
Intangible assets	3	2,662	(14)	5,091	7,739
Financial assets (due after 12 months)	4,5	9,963	(1,204)	552	9,311
Financial assets (due before 12 months)	4	21,853	(1,362)	(400)	20,091
Deferred tax assets	10	4,980	0	53	5,032
Trade receivables		91,943	0	0	91,943
Inventories		46,224	0	(301)	45,923
Other receivables		23,553	0	(16,408)	7,145
Cash and cash equivalents		9,454	0	0	9,454
Total assets		**245,436**	**(2,566)**	**12,001**	**254,871**
LIABILITIES					
Financial debts	1,6	42,233	1,677	19,724	63,634
Trade payables and other payables	5,6,7	98,114	(1,677)	(16,347)	80,090
Retirement benefit obligations	8	13,095	0	(1,281)	11,814
Provisions for risks	9	4,333	0	(314)	4,019
Deferred tax obligations	10	1,933	0	3,534	5,467
Total liabilities		**159,707**	**0**	**5,316**	**165,023**
Total assets minus liabilities		**85,729**	**(2,566)**	**6,685**	**89,848**
Capital		27,393	0	0	27,393
Capital reserves		36,202	0	0	36,202
- Own shares	4	0	(2,566)	207	(2,359)
Hedging reserve	7	0	0	(207)	(207)
Other reserves		16,847	0	6,685	23,532
Net income		5,287	0	0	5,287
Shareholders' equity		**85,729**	**(2,566)**	**6,685**	**89,848**

1. Tangible assets
The variation in the tangible assets is influenced by the application of IAS 17 to all the assets kept in leasing contracts, by the cancellation of the cumulated land amortisations (originally purchased jointly with the buildings) and by the cancellation of properties revaluations.

According to the Italian accounting principles, the commitment towards leasing companies was entered between the potential obligations (commitments), while for the income statement, the rent charges were entered; at the end of the contract, the purchase value is entered in the tangible assets.

According to the IAS/IFRS accounting principles, the activities inherent to the leasing contracts classified as financial must be entered as tangible assets of the Group, with the registering of a financial obligation of equal value. The debt is progressively reduced on the basis of a repayment plan of the amortisation quota included in the rents, while the value of the asset is systematically depreciated in accordance with the its technical-economic life. As a consequence, net fixed assets were entered at € 21,878 thousand, payables at € 19,724 thousand and the relative obligations deferred in the amount of € 932 thousand.

As a consequence of these adjustments, the equity at 1st January 2005 increased of € 1,502 thousand, net of tax effect.

2. Goodwill
The goodwill of the financial statement of Biesse S.p.A. at 31st December 2004 is composed of amounts deriving from purchase of branches of activity and amounts deriving from the allocation of the merger difference into the goodwill, following the merger operation of fully-owned subsidiary.
According to the Italian accounting principles, the goodwill deriving from the purchase of a company, merger or incorporation and recorded only if paid, is equal to the difference between the purchase price and the value of the assets of the company. The amount is amortised on straight-line method for the period of time that will generate future economic benefits.

According to the IAS/IFRS accounting principles, the goodwill deriving from business combinations is not subject to depreciation but is subject to assessment at least once a year. The merging operations of fully-owned companies (and the goodwill recognised in the separate financial statements for accounting these operations) are not included in the IAS/IFRS specifications nor in the IFRS 3.

Therefore, with reference to the goodwill deriving from purchase of branches of activity, its amount at 1st January 2005 has been realigned to the amount recorded in the consolidated financial statement restated according to IAS/IFRS at 1st January 2004 (IAS/IFRS transition date of the Biesse Group) and subject to impairment test, with reference to the corresponding cash generating units and to the cash flows of the Parent Company. For this reason, the goodwill amount has been increased by € 757 thousand, corresponding to the amortisations of the 2004 financial statement.

With reference to the goodwill deriving from the merger operation, since there are no rules in the reference accounting principles, the Company decided to realign the amount of the goodwill of the separate financial statement to the amount recorded in the consolidated financial statement restated according to IAS/IFRS 1st January 2004 with reference to the same investment. The restated amount of the goodwill has been subject to impairment test, with reference to the corresponding CGU and to the cash flows of the Parent Company. For this reason, the goodwill amount at 1st January 2005 has been increased by € 769 thousand.

As a consequence of these adjustments, the equity at 1st January 2005 increased of € 1,339 thousand, net of tax effect where relevant.

3. Intangible assets
According to the Italian accounting principles, some of the costs relating to the incorporation of a new company can be deferred and capitalised as intangible assets to be depreciated on a straight-line basis over a period not exceeding five financial years, providing a number of conditions are satisfied. The costs relating to activities generated internally, and in this case relating to research and development activities, can be reimbursed in the income statement or, under certain conditions, capitalised and depreciated on a straight-line basis over a period not exceeding five years.

According to the IAS/IFRS principles, the costs relating to the incorporation of new companies and those relating to research activities must be entered directly in the income statement. The costs relating to development activities must be capitalised, in the presence of particular conditions and depreciated on a linear basis through the relative useful lives. As regards the first point, capitalised costs have been transferred to equity in the amount of € 3 thousand, while in the second point, new fixed assets have been entered in the amount of € 5,094 thousand.

As a consequence of these adjustments, the equity at 1st January 2005 increased of € 2,974 thousand, net of tax effect.

4. Own shares
According to the Italian principles, own shares are entered in the balance sheet as assets in either the fixed assets or current assets. depending on their nature, and evaluated at cost adjusted for permanent loss of value and the lower of the cost or market value respectively. Gains and losses deriving from their dealing and write-downs and write-ups are entered in the income statement.

According to the IAS/IFRS principles, the cost of own shares is entered in the balance sheet a deduction of the shareholders' equity. Gains and losses deriving from their dealing, net of tax effect, are entered directly in the equity.

As a consequence of these adjustments, the equity at 1st January 2005 decreased of € 2,359 thousand.

5. Investments in subsidiaries and affiliated companies
Investments in subsidiaries and affiliated companies are valued at cost, both in the separate financial statement of Biesse S.p.A. prepared according to the Italian accounting principles, both in the prospectuses prepared according to IFRS, as provided for by the IAS 28, which allows this method as an alternative to the fair value evaluation.

According to the Italian accounting principles, the cost must be decreased in case of permanent loss. Generally, in case of permanent losses, the cost of the investment is made equal to the equity of the subsidiary, for the percentage of ownership; further devaluations are allowed in case the equity does not represent appropriately the loss of value of the investment. It is also possible to make provisions to cover equity deficit of the subsidiary.

According to the IAS/IFRS principles, if there are indications of impairment, the investment must be decreased taking into consideration the greater among the value in use, determined by the present value of the future cash flows of the subsidiary, and the fair value of the subsidiary, net of sale costs, where available.

Even if not specifically provided for by the IAS 27, which states the accounting treatment of the investments in the separate financial statement, it is deemed that after the reset of the cost of the investment, any further loss of the subsidiary should be entered in the liabilities, in case there is a legal or implicit obligation of the shareholder to cover the subsidiary losses, as provided for by the IAS 28 with reference to investments valued with the equity method.

The management of the Parent Company have critically examined the positive and negative differences deriving from the application of the methods allowed by the IAS/IFRSs to the investments, in comparison with the amounts entered in the separate financial statement; the examination was carried on with prudence and taking into consideration the characteristics of the subsidiary.
In this way, there are been determined write-ups and write-downs for some subsidiaries for a positive balance of € 125 thousand, in comparison with the amounts recorded in the financial statement prepared according to the Italian accounting principles.

As a consequence of these adjustments, the equity at 1st January 2005 increased of € 125 thousand, without tax effects, since these adjustments are not tax relevant.

6. Financial debts
According to the Italian accounting principles, the trade payables handed over to factoring companies, with an agreed extension to the payment periods, are classified as commercial type operating debts.

According to the IAS/IFRS principles, these debts are considered as financing debts. The debt of € 1,677 thousand has been reallocated in the financial debts.

7. Hedging and derivative contracts
According to the Italian accounting principles, derivatives qualified as “cash flow hedge” are recognised in the financial statement with the same criterions of the hedged assets and liabilities; the related gains and losses are recorded on the accrual basis, and it not necessary the recognition of the fair value of the derivative qualified as “cash flow hedge” while

waiting for the realisation of the hedged transaction. Consequently, the existence of an IRS contract was highlighted in the commitments.

According to the IAS/IFRS principles, the criterions for qualifying a derivative as “cash flow hedge” and for using the hedge accounting are more rigorous and restrictive.
If a derivative qualified as cash flow hedge fulfils the requirements for the hedge accounting, the fair value variations of the derivative are recognised directly in an equity reserve, while the ineffective portion is recognised immediately in the income statement. Gains and losses deriving from the fair value variations of derivatives that qualify as fair value hedging or derivatives that do not fulfil the hedging accounting requirements must be recognised in the income statement.

Consequently, in line with this principle, the Company has recorded a current liability of € 335 thousand, as an offset against the entry in the shareholders' equity (net of tax effect) of the *fair value* assessment of an interest risk hedging derivate.

As a consequence of these adjustments, the equity at 1st January 2005 decreased of € 207 thousand, net of tax effects, entered in the hedging reserve.

8. Liabilities for retirement benefit obligations
According to the Italian accounting principles, the retirement and redundancy fund (TFR) is provided for net of the advance payments, on the basis of that due of the employees cease their employment on the date of the balance sheet, without therefore taking into account future redundancies and without updating the debit.

According to the IAS/IFRS principles, the obligations for benefits to employees, including the TFR, must be accounted for on the basis of the “unitary credit protection method”. The reassessment of the TFR fund with this method, supported from independent actuarial appraisal, determined a reductions of existing fund by € 1,281 thousand.

As a consequence of these adjustments, the equity at 1st January 2005 increased of the same amount, net of tax effect.

9. Provisions for risks and charges
According to the Italian accounting principles, the provisions for future liabilities are expressed without updating the debit.

According to the IAS/IFRS accounting principles, the value of the provisions must be expressed in the actual value of the flows envisaged for settling the relative obligation.

As a consequence of this principle, the liabilities relating to provisions for risks and charges have been reduced through updating to € 135 thousand, with a corresponding reduction of the equity at 1st January 2005 of € 83 thousand, net of tax effect.

10. Deferred tax assets and deferred tax obligations
This item includes all tax effects of the above-listed adjustments, where applicable.

C. EFFECTS OF THE ADOPTION OF THE IFRS PRINCIPLES ON THE ASSET AND LIABILITY STATEMENT AND THE INCOME STATEMENT AT 31ST DECEMBER 2005

A summary prospectus of the consolidated asset and liability statement and income statement on 31st December 2005 is reported below. Regarding the income statement, the Company decided to adopt the classification based on the nature of the expenses and therefore the same classification will be followed for the 2006 financial statement.
For every item the prospectus underlines:

- the balance as per financial statement at 31st December 2005, prepared according to the Italian accounting principles;
- the reclassification needed for the transition to IAS/IFRSs;
- the adjustments needed for the transition to IAS/IFRSs;
- the adjusted balances according to IAS/IFRS.

(amounts in thousands of €)	Notes	According to national principles	Effects of conversion to the IFRS principles		According to IFRS principles
			Reclassification	Adjustments	
ASSETS					
Tangible assets	1	27,232	187	20,870	48,289
Goodwill	2	3,964	0	2,283	6,247
Intangible assets	3	1,960	(187)	7,480	9,254
Financial assets (due after 12 months)	4,5	11,153	(1,204)	1,884	11,833
Financial assets (due before 12 months)	4,6	28,208	(1,249)	0	26,959
Deferred tax assets	8	5,255	0	50	5,304
Trade receivables		96,225	392	(354)	96,264
Inventories		43,969	(392)	(57)	43,520
Other receivables		18,235	0	(14,167)	4,069
Cash and cash equivalents		17,762	0	0	17,762
Total assets		**253,966**	**(2,453)**	**17,990**	**269,502**
LIABILITIES					
Financial debts	1	32,871	0	16,837	49,708
Trade payables and other payables	1,5,6	103,466	0	(11,578)	91,888
Retirement benefit obligations	8	14,487	0	(1,592)	12,895
Provisions for risks	7	5,530	0	(144)	5,386
Deferred tax obligations	9	1,815	0	5,195	7,010
Total liabilities		**158,168**	**0**	**8,719**	**166,887**
Total assets minus liabilities		**95,797**	**(2,453)**	**9,271**	**102,615**
Capital		27,393	0	0	27,393
Capital reserves		36,202	0	0	36,202
- Own shares	4	0	(2,453)	0	(2,453)
Hedging reserve		0	0	(69)	(69)
Other reserves		18,964	0	7,040	26,004
Net income		13,238	0	2,300	15,538
Shareholders' equity		**95,797**	**(2,453)**	**9,271**	**102,615**

(amounts in thousands of €)	Notes	According to national principles	Effects of conversion to the IFRS principles		According to IFRS principles
			Reclassification	Adjustments	
Revenues		270,397	(646)	0	269,751
Other operating revenues:		5,410	2	0	5,412
Finished product and semi finished product inventory variation		(1,805)	(392)	244	(1,953)
Consumption of raw materials and consumable materials		(140,841)	(24)	0	(140,865)
Other operating costs	11	(45,700)	(200)	4,374	(41,526)
Personnel expenses	12	(58,839)	(60)	3,987	(54,913)
Depreciation	10	(6,005)	0	(2,556)	(8,561)
Provisions		(2,128)	(142)	0	(2,271)
Operating profit		**20,487**	**(1,462)**	**6,049**	**25,074**
Profit share of subsidiary companies		(872)	51	(477)	(1,298)
Income and expenses from investment activities	13	1,873	(87)	(433)	1,353
Financial expenses	14	(2,037)	0	(881)	(2,918)
Exchange revenues and charges		(876)	0	0	(876)
Extraordinary items		(1,611)	2,083	(472)	0
Pre-tax profit		**16,965**	**585**	**3,786**	**21,335**
Taxes for the financial year		(3,727)	(585)	(1,486)	(5,797)
Net profit		**13,238**	**0**	**2,300**	**15,538**

1. Tangible assets
The variation in the tangible assets is influenced by the application of IAS 17 to all the assets kept in leasing contracts, by the cancellation of the cumulated land amortisations (originally purchased jointly with the buildings) and by the cancellation of properties revaluations.
According to the Italian accounting principles, the commitment towards leasing companies was entered between the potential obligations (commitments), while for the income statement, the rent charges were entered; at the end of the contract, the purchase value is entered in the tangible assets.

According to the IAS/IFRS accounting principles, the activities inherent to the leasing contracts classified as financial must be entered as tangible assets of the Group, with the registering of a financial obligation of equal value. The debt is progressively reduced on the basis of a repayment plan of the amortisation quota included in the rents, while the value of the asset is systematically depreciated in accordance with the its technical-economic life. As a consequence, net fixed assets were entered at € 20,994 thousand and payables at € 16,886 thousand.

As a consequence of these adjustments, the equity at 31st December 2005 increased of € 2,086 thousand and the result increased of € 584 thousand, both net of tax effect.

2. Goodwill
The goodwill of the financial statement of Biesse S.p.A. at 31st December 2005 is composed of amounts deriving from purchase of branches of activity and amounts deriving from the allocation of the merger difference into the goodwill, following the merger operation of fully-owned subsidiary.

According to the Italian accounting principles, the goodwill deriving from the purchase of a company, merger or incorporation and recorded only if paid, is equal to the difference between the purchase price and the value of the assets of the company. The amount is amortised on straight-line method for the period of time that will generate future economic benefits.

According to the IAS/IFRS accounting principles, the goodwill deriving from business combinations is not subject to depreciation but is subject to assessment at least once a year. The merging operations of fully-owned companies (and the goodwill recognised in the separate financial statements for accounting these operations) are not included in the IAS/IFRS specifications nor in the IFRS 3.

Therefore, with reference to the goodwill deriving from purchase of branches of activity, its amount at 1st January 2005 has been realigned to the amount recorded in the consolidated financial statement restated according to IAS/IFRS at 1st January 2004 (IAS/IFRS transition date of the Biesse Group) and subject to impairment test, with reference to the corresponding cash generating units and to the cash flows of the Parent Company. For this reason, the goodwill amount has been increased by € 1,514 thousand, corresponding to the amortisations of the 2004 and 2005 financial statements.
With reference to the goodwill deriving from the merger operation, since there are no rules in the reference accounting principles, the Company decided to realign the amount of the goodwill of the separate financial statement to the amount recorded in the consolidated financial statement restated according to IAS/IFRS 1st January 2004 with reference to the same investment. The restated amount of the goodwill has been subject to impairment test, with reference to the corresponding CGU and to the cash flows of the Parent Company. For this reason, the goodwill amount at 31st December 2005 has been increased by € 769 thousand.

As a consequence of these adjustments, the equity at 31st December 2005 increased of € 1,908 thousand and the result increased of € 569 thousand, both net of tax effect, where relevant.

3. Intangible assets
According to the Italian accounting principles, some of the costs relating to the incorporation of a new company can be deferred and capitalised as intangible assets to be depreciated on a straight-line basis over a period not exceeding five financial years, providing a number of conditions are satisfied. The costs relating to activities generated internally, and in this case relating to research and development activities, can be reimbursed in the income statement or, under certain conditions, capitalised and depreciated on a straight-line basis over a period not exceeding five years.

According to the IAS/IFRS principles, the costs relating to the incorporation of new companies and those relating to research activities must be entered directly in the income statement. The costs relating to development activities must be capitalised, in the presence of particular conditions and depreciated on a linear basis through the relative useful lives. As regards the second point, new fixed assets have been entered in the amount of € 9,426 thousand.

As a consequence of these adjustments, the equity at 31st December 2005 increased of € 4,626 thousand and the result increased of € 1,652 thousand, both net of tax effect.

4. Own shares
According to the Italian principles, own shares are entered in the balance sheet as assets in either the fixed assets or current assets. depending on their nature, and evaluated at cost adjusted for permanent loss of value and the lower of the cost or market value respectively. Gains and losses deriving from their dealing and write-downs and write-ups are entered in the income statement.

According to the IAS/IFRS principles, the cost of own shares is entered in the balance sheet a deduction of the shareholders' equity. Gains and losses deriving from their dealing, net of tax effect, are entered directly in the equity.

As a consequence of these adjustments, the equity at 31st December 2005 decreased of € 2,453 thousand, the result decreased of € 308 thousand and the reserves increased of € 214 thousand, net of tax effect, where applicable.

5. Investments in subsidiaries and affiliated companies
Investments in subsidiaries and affiliated companies are valued at cost, both in the separate financial statement of Biesse S.p.A. prepared according to the Italian accounting principles, both in the prospectuses prepared according to IFRS, as provided for by the IAS 28, which allows this method as an alternative to the fair value evaluation.

According to the Italian accounting principles, the cost must be decreased in case of permanent loss. Generally, in case of permanent losses, the cost of the investment is made equal to the equity of the subsidiary, for the percentage of ownership; further devaluations are allowed in case the equity does not represent appropriately the loss of value of the investment. It is also possible to make provisions to cover equity deficit of the subsidiary.

According to the IAS/IFRS principles, if there are indications of impairment, the investment must be decreased taking into consideration the greater among the value in use, determined by the present value of the future cash flows of the subsidiary, and the fair value of the subsidiary, net of sale costs, where available.

Even if not specifically provided for by the IAS 27, which states the accounting treatment of the investments in the separate financial statement, it is deemed that after the reset of the cost of the investment, any further loss of the subsidiary should be entered in the liabilities, in case there is a legal or implicit obligation of the shareholder to cover the subsidiary losses, as provided for by the IAS 28 with reference to investments valued with the equity method.

The management of the Parent Company have critically examined the positive and negative differences deriving from the application of the methods allowed by the IAS/IFRSs to the investments, in comparison with the amounts entered in the separate financial statement; the examination was carried on with prudence and taking into consideration the characteristics of the subsidiary.
In this way, there are been determined write-ups and write-downs for some subsidiaries for a negative balance of € 352 thousand, in comparison with the amounts recorded in the financial statement prepared according to the Italian accounting principles.

The amount of the investments of the financial statement at 31st December 2005, prepared according to the Italian accounting principles, has been also increased of € 2,235 thousand, as a consequence of the IAS/IFRS transition; the increase is offset by the payables for investments purchase and it refers to the recording of the option connected with the deferred payment of the debt deriving from the purchase of the shareholding in the subsidiary HSD. The accounting treatment is in line with that followed in the consolidated financial statement at 31st December 2005, where the greater amount of the liability deriving from the evaluation of the option has been offset with the goodwill, while in the IAS/IFRS separate financial statement the greater amount of the liability has been offset with the greater amount of the cost of the investment.

As a consequence of these adjustments, the equity at 31st December 2005 increased of € 352 thousand, without tax effects, since these adjustments are not tax relevant.

6. Hedging and derivative contracts

According to the Italian accounting principles, derivatives qualified as “cash flow hedge” are recognised in the financial statement with the same criterions of the hedged assets and liabilities; the related gains and losses are recorded on the accrual basis, and it not necessary the recognition of the fair value of the derivative qualified as “cash flow hedge” while waiting for the realisation of the hedged transaction. Consequently, the existence of an IRS contract was highlighted in the commitments.

According to the IAS/IFRS principles, the criterions for qualifying a derivative as “cash flow hedge” and for using the hedge accounting are more rigorous and restrictive.
If a derivative qualified as cash flow hedge fulfils the requirements for the hedge accounting, the fair value variations of the derivative are recognised directly in an equity reserve, while the ineffective portion is recognised immediately in the income statement. Gains and losses deriving from the fair value variations of derivatives that qualify as fair value hedging or derivatives that do not fulfil the hedging accounting requirements must be recognised in the income statement.

Consequently, in line with this principle, the Company has recorded a current liability of € 110 thousand, as an offset against the entry in the shareholders' equity (net of tax effect) of the *fair value* assessment of an interest risk hedging derivate.

As a consequence of these adjustments, the equity at 31st December 2005 decreased of € 69 thousand, net of tax effects, entered in the hedging reserve.

7. Provisions for risks and charges
According to the Italian accounting principles, the provisions for future liabilities are expressed without updating the debit.

According to the IAS/IFRS accounting principles, the value of the provisions must be expressed in the actual value of the flows envisaged for settling the relative obligation.

As a consequence of this principle, the liabilities relating to provisions for risks and charges have been reduced through updating to € 144 thousand, with a corresponding reduction of the equity at 31st December 2005 of € 88 thousand, net of tax effect.

8. Liabilities for retirement benefit obligations
According to the Italian accounting principles, the retirement and redundancy fund (TFR) is provided for net of the advance payments, on the basis of that due of the employees cease their employment on the date of the balance sheet, without therefore taking into account future redundancies and without updating the debit.

According to the IAS/IFRS principles, the obligations for benefits to employees, including the TFR, must be accounted for on the basis of the “unitary credit protection method”. The reassessment of the TFR fund with this method, supported from independent actuarial appraisal, determined a reductions of existing fund by € 1,592 thousand.

As a consequence of these adjustments, the equity at 31st December 2005 increased of the same amount, net of tax effect.

9. Deferred tax assets and deferred tax obligations
This item includes all tax effects of the above-listed adjustments, where applicable.

10. Depreciation
The depreciation item is influenced by the writing-off of the depreciation of the goodwill and from the registering of the depreciations on internally generated assets (Development costs) and on assets purchased in leasing, as previously illustrated.

11. Other operating costs
Plant and machinery
With reference to the last point regarding depreciation, costs have been written off for leasing rents in the amount of € 4,374 thousand.

12. Personnel expenses
Assets generated internally – Development costs
With reference to that described in item Depreciation, personnel costs have been written off in the amount of € 3,676 thousand.

Liabilities for retirement benefit obligations
The different accounting of employees' benefits creates a reduction in costs relating to the amounts matured by employees in the financial year, in the amount of € 311 thousand.

13. Income and expenses from investment activities
Own shares
With reference to that described in note 5, the economic effects relative to own shares were eliminated, and in particular the capital gain on the sale of own shares (€ 254 thousand) and the appreciation in value of the treasury shares (€ 206 thousand).

14. Financial expenses
Plant and machinery
With reference to the last point regarding depreciation, increased financial costs have been accounted for in the amount of € 851 thousand.

D. CASH FLOW STATEMENT

The Company decided to prepare the cash flow statement according to the indirect methodology provided for in the IAS 7 with the distinction of the cash flows generated by the ordinary activities, by the investing activities and by the financing activities. This methodology is substantially in line with that already adopted by the Company for preparing the cash flow statement according to the Italian accounting principles.

Therefore, the recorded differences among the statement at 31st December 2005 related to the financial statement prepared according to the Italian accounting principles and the statement related to the financial statement prepared according to the IAS/IFRSs are substantially referable to the rectifications and the reclassifications adopted for the purpose of the transition to the IAS/IFRSs.

E. ACCOUNTING PRINCIPLES AND EVALUATION CRITERIA

The following paragraphs report the consolidation principles and the evaluation criteria to be adopted in the preparation of the consolidated balance sheet as at 31st December 2006. The accounting principles are in line with them adopted for the preparation of the consolidated financial statement.

Acknowledgement of revenues

The sales of goods are acknowledged when the goods are despatched and the company has transferred the major risks and benefits associated to the goods to the buyer.

The interests charged are recorded by applying the reference period principle, on the basis of the amount financed and the effective applicable interest rate, which represents the rate that discounts the estimated future receipts during the expected life of the financial activity in order to restore them to the initial accountable value of the activity itself.

The dividends are recorded when the right of the shareholders to receive the payment has been established.

Operations in foreign currency

In the preparation of the balance sheets of the individual entities, operations carried out in currency other than the Euro are initially recorded at the exchange rate on the date of the operations themselves. On the same date as the balance sheet, the monetary assets and liabilities occurring in the above-mentioned currencies are re-entered at the exchange rate at that date. Non monetary assets expressed at fair value in foreign currency are converted at the exchange rate in force on the date in which said fair value was determined, while non monetary assets and liabilities in foreign currency valued at historic cost are converted using the exchange rate in force at the date of *the operat*ion, except in the case of loss of value due to the effect of the exchange rate.
The differences in the exchange rate, obtained from the adjustment in the monetary and non monetary values and from their re-exposure to current exchange rates at the end of the financial year, are entered in the income statement for that financial year, with the exception of the differences in exchange on non-monetary activities exposed in *fair value*, in which the *fair value* variations are entered directly in the shareholders' equity, as is the exchange component.

In order to cover its exposure to exchange risks, the Group has stipulated *forward* contracts and options (see later for the Group's accounting policies relating to these derived instruments).

Leasing and operating contracts

Leasing contracts are classified as such when the terms of the contract are such that transfer most of the risk and benefits of the property to the lessee. All other leasing contracts are considered as operating contracts.

The activities forming the subject of leasing contracts are recorded as tangible assets of the Group offset against a financial obligation of equal value in the liabilities. The debt is progressively reduced on the basis of a repayment plan of the amortisation quota included in the contracted rents, while the value of the asset is systematically depreciated in accordance with the its technical-economic life.

The rental costs for operating leasing contracts are entered in the income statement at constant rates according to the duration of the contract.

Income taxes

Income taxes represent the sum of the current and deferred taxes.
Income tax is determined based upon the taxable income of each consolidated company in accordance with the current tax laws of each country. Deferred taxes are allocated based upon the temporary asset and liability differences between the taxable result and the result that appears in the balance sheet of each individual company, accounted for in line with the balance sheet liability method; in addition, deferred taxes are allocated in the consolidated balance sheet for temporary differences between the taxable results of the consolidated companies and those used in the balance sheets for consolidation purposes.
The deferred taxes are calculated using the rate that was current at the moment in which the temporary differences originated. The deferred taxes are entered directly in the income statement, with the exception of items recorded directly in the shareholders' equity, in which case, the relative deferred taxes are also recorded in the shareholders' equity.

Active deferred taxes are entered in the balance sheet if the taxes are considered recoverable when considering the taxable results for the periods in which the active deferred taxes occur. The value at which active deferred taxes are entered is reviewed at the end of the year, and reduced if necessary.
Compensation between active and passive deferred taxes is only carried out for similar items, and if there is a legal right to compensate active and passive taxation; otherwise, credits and debits are set down for these titles.

Earnings per share

The basic earnings per share is calculated by dividing the gains or losses attributable to the shareholders of the parent company by the weighted mean of the ordinary shares in circulation during the period. The diluted earning per share is calculated by dividing the gain or loss attributable to the shareholders of the parent company by the weighted mean of the shares in circulation, taking into account the effects of all the potential ordinary shares with a diluting effect.

Tangible assets

The tangible assets are entered at their purchase cost or production cost inclusive of any ancillary charges, with the subsequent accumulated amortisation and devaluation due to loss in value deducted.

Ordinary maintenance costs are fully charged to the income statement. Maintenance of an incremental nature are attributed to the asset to which it refers and depreciated using the depreciation allowance that is applicable to the asset in question.

The tangible assets, with the exception of land that has not been the subject of amortisation, are systematically depreciated at a constant rate in accordance with their estimated useful life through the application of the following depreciation rates:

Factory buildings	3%
Plant and machinery	10%
Equipment	12% - 25%

The tangible assets are depreciated starting from the moment in which they are ready for use.
The item also includes goods subject to leasing, which have been entered in the tangible assets using the previously described methods.

Intangible assets

Goodwill

Goodwill deriving from the acquisition of a subsidiary or branch represents the surplus of the purchase cost with respect to the percentage due to the Group of the *fair value* of the activities, identifiable liabilities and potential liabilities of the subsidiary or branch acquired on the date of purchase.
Goodwill is not subject to depreciation but is subject to assessment at least once a year, in general on the occasion of the annual closing of the balance sheet for the financial year to check that there has not been any loss in value. Any losses in value are entered immediately in the income statement and are not subject to any subsequent recovery operations.

If a subsidiary or a jointly controlled entity is sold, the amount of the goodwill attributable to it that has not yet been depreciated is included in the determination of the capital gain or depreciation by alienation.

Goodwill deriving from acquisitions made prior to the date of the start of the transition to the IFRS accounting principles are maintained at the values resulting from the application of the Italian accounting principles on that date and are subjected to an *impairment test* starting on that date.

Assets generated internally – Research and development costs

The research costs are entered in the income statement in the period in which they were incurred.

The intangible assets generated internally deriving from the development of the Group's products (machine tools for machining wood, glass and marble) are entered in the assets only if all the following conditions have been complied with:

- the asset is identifiable (such as, for example, software or new processes);
- it is probable that the created asset will generate future economic benefits; and
- the development costs of the asset can be reliably measured.

These intangible assets are depreciated on a linear basis for the duration of the relative useful lives.

When the internally generated assets cannot be entered in the balance sheet, the development costs are entered in the income statement for the financial year in which they were sustained.

Brands and patents

Brands and patents are recorded initially at their purchase cost and are depreciated systematically at constant rate according to their useful life, and nevertheless within a space of time not exceeding that fixed by the underlying licence or purchase contract.

Loss of value of tangible and intangible assets

On each balance sheet date, the Group checks for the existence of events or circumstances that could jeopardise the recovery of the value of tangible and intangible assets with a defined useful life and, in the presence of loss indicators, estimates the recoverable value of the assets in order to determine whether there has been a loss in value.
Intangible fixed assets with an indefinite working life, including goodwill, are checked annually and every time there are indications of a possible loss of value.

In accordance with the reference accounting principles, the check is carried out referring to the individual asset, wherever possible, or to a group of assets (so-called “cash generating units”). The cash generating units have been identified coherently with the organisational and business structure of the Group as single units, which generate incoming cash flows independently through the continuous use of the assets attributable to them.

The recoverability of the values entered in the balance sheet is verified by comparing the accountable value with the larger of either the current value net of the sales costs, where there is an active market, or the usage value. The usage value is determined on the basis of the time-discounting of future cash flows expected from the use of the asset, or the group of assets, and its divestment at the end of its useful life.

In the presence of losses in value, the fixed assets are subsequently devalued while the original cost value is reinstated (with the exception of the goodwill item) if the successive financial years demonstrate a reduction in the motivation for the devaluation.

Investments

The investments in subsidiaries, in entities jointly controlled and in affiliated companies classified as held for sale are valued at cost.
At each reporting date, the Company assess whether there is any indication that the cost of the share may be impaired; in the case of existence of such indications, the Company verify the adequacy of the value of the investment, through an evaluation test disciplined by the IAS 36.
The possible reduction of value of the share is recognised in the case the recoverable amount results lower to its balance sheet amount. The recoverable amount is the most greater among the fair value of the share, net of sale costs, whereas determinable, and the value in use, represented by the present value of the future cash flows esteemed of the subsidiary submitted to test of evaluation and consequential from its sale at the end of the useful life.
In the case in which subsequently to the determination of reduction of value, they may subsist indications that the loss doesn't exist or is reduced, the value of the share is restored to reflect the smaller loss of existing value.
After having reset the cost of the share, any further loss of the subsidiaries are recorded in the liabilities, in the case the shareholder has a legal or implicit obligation to cover the most greater losses of the participated one.

Non-current assets retained for sale

Non-current assets classified as retained for sale are evaluated at the lesser of either their previous initial value or the market value net of the sales cost.
Non-current assets are classified as retained for sale when it can be seen that their initial value will become recoverable by means of a sales operation as opposed to their use in the operating assets of the company. This condition is only respected when there is a high probability of sale, the asset is available for immediate sale in its as-is condition and the management has made a commitment to sell it, which should occur within twelve months of the date of classification in this entry.

Inventory

Inventories are assessed as the lower of either the cost or the realisation value. The cost includes direct materials and, where applicable, direct labour, general production costs and other costs sustained to transfer the inventories to their current location and condition. The cost is calculated using the weighted average cost method. The net break-up value represents the estimated sale price minus the estimated completion costs and the estimated costs for completing the sale.
Stock that is obsolete or slow moving has been depreciated based upon their possible use or liquidation value.

Financial assets and liabilities

Sales receivables

The receivables are entered at their nominal value which is basically represented by their *fair value*; the nominal value is reduced by the appropriate devaluation to take into account the losses forecast on the receivables. The devaluations are determined in the amount equal to the difference between the initial value of the receivables and the actual value of the estimated future cash flows, discounted at the effective interest rate calculated for the initial entry.

Financial assets

The Financial assets are recorded and written-off from the balance sheet on the basis of the negotiation date and is initially valued at cost, inclusive of the charges directly linked to the acquisition.

On the successive dates of the balance sheet, the Financial assets that the Group intends to retain until expiry (securities kept until their expiry) are recorded at the depreciated cost according to the effective interest rate method, net of the devaluations effected to reflect a loss in value.
Financial assets other than those retained until their expiry are classified as retained for negotiation or are available for sale, and are evaluated at the end of each period at their *fair value*. When financial assets are retained for negotiation, the gains and losses deriving from variations in the *fair value* are entered in the income statement for the period. For

financial assets available for sale, the gains and losses deriving from variations in the *fair value* are entered directly in the shareholders' equity until they are sold or have suffered a loss in value; at that moment the overall gains or losses previously recorded in the shareholders' equity are entered in the income statement for the period.

Cash and equivalent funds

The item relating to cash and equivalent funds includes cash and bank current and deposit accounts payable on demand and other short-term high-return financial investments that are readily convertible in cash and are subject to negligible value variation risk.

Trade debts

The trade debts are recorded at nominal value.

Financial liabilities and representative instruments of shareholders' equity

Financial liabilities and representative instruments of shareholders' equity issued by the G are classified according to the content of the contractual agreements that generated them and in accordance with the respective definitions of the liabilities and instruments representing shareholders' equity. These latter are defined as those contracts that, freed of any incorporated liabilities, give the right to a share of the groups assets.
The accounting principles adopted for specific financial assets and shareholders' equity instruments are indicated below.

Overdrafts and loans with banks and other lenders

Bank overdrafts and loans, consisting of long-term bank loans and overdrafts and debits with other lenders, including liabilities taken on fixed assets acquired through leasing, are recorded on the basis of the amounts collected, net of the costs of the operation, and subsequently evaluated at amortised cost using the effective interest rate method.

Instruments representing shareholders' equity

The instruments representing shareholders' equity issued by the Company are recorded on the basis of the amount received net of the direct issue costs.

Own shares

Own shares are entered in the balance sheet at acquisition cost and are entered minus the value of the consolidated shareholders' equity. The gains and losses deriving from the negotiation of own shares, net of the linked taxation effects, are entered in the shareholders' equity reserves.

Derived instruments and accounting for hedging operations

The Group's assets are exposed primarily to financial risks caused by variations in the exchange rates and interest rates. The risk linked to the variations in the exchange rates is represented by possible fluctuations in the exchange value of the Euro (or net exposure in foreign currency), consisting of the algebraic result of the payable invoices issued, the orders, the invoices received, the balance of the loans in currency and the available liquidity in the currency accounts. The currencies managed are the US dollar, the Canadian dollar and the English pound. The *risk management* policy approved by the board of directors of the parent company specifies that the sum of the hedgings must never fall below 70% of the net exposure in currency and that the underlying *asset* must be identified at the start of each hedging operation. *Hedging* can be carried out using futures contracts (outright/currency swap) or even using derived instruments (currency option).
The particular nature of the Group's *business* is that the currency exposure is parcelled in many individual exchange positions (referred to the individual orders and invoices), which complicates (in addition to being anti-economic) a hedging based on points (i.e. with direct correlation between the hedging tool and the underlying *asset*): for this reason, the hedging is carried out on an aggregate basis and in particular on the *matching* of all the positions opened in currency. This hedging mode, even though effective from a management point of view, cannot be deemed as such according to the international accounting principles. For this reason, the variations in the *fair values* of the derived instruments are recorded directly in the income statement.
The interest rate risk mainly derives from medium term bank loans, given the consistent reduction in the Group's average indebtedness calculated using a variable parameter (Euribor 3 months). In spite of the change in interest rate trend, which has taken the form of a short term increase in the curve, the company continues to make no further coverage of its

debts as, in view of the expected constant cash production, the Group will be extinguishing its bank loans in advance, thus eliminating at source the need to hedge the interest rate risk. For the remainder of the exposure, company policy does not provide for hedging the interest rate risk, instead it relies on the continuing stability at least for the short-term. Use is also made of a hedging instrument designated as cash flow hedge and which refers specifically to a leasing contract.

The derived instruments are initially recorded at *fair value*, on the date of signing and then remeasured at *fair value* on the successive closing date.

The variations in the *fair value* of the derived instruments designated, and which are more effective, for future cash flow hedging, they are entered directly in the shareholders' equity, while the ineffective portion is entered immediately in the income statement.
For the financial flows that are not finalised in the recording of the assets and liabilities, the amounts recorded directly in the shareholders' equity are included in the income statement in the same period in which the hedged contractual commitment or envisaged operations have an effect on the income statement.
The variations in the *fair value* of the derived instruments that are not covered by the hedging are recorded in the income statement for the period in which they occur.
The accounting method for the hedging is abandoned when the hedging instrument reaches its expiry, is sold, terminates or is exercised, or can no longer be qualified as a hedging instrument. At that moment, the accumulated gains or losses of the hedging instrument recorded directly in the shareholders' equity are kept there until the moment in which the forecast operation is effectively carried out. If it is forecast that the operation forming the subject of the hedging will not take place, the accumulated gains and losses recorded directly in the shareholders' equity are transferred to the income statement for the period.
The implicit derivatives included in other financial instruments, or in other contracts, are treated as separate derivatives when their risks and characteristics are not closely linked to those of the contracts containing them, and these latter are not assessed at *fair value* with the relative gains and losses entered in the income statement.

Benefits to employees following termination of employment

For the defined benefits plan, to which the employee termination indemnities fund is assimilated, the relative cost of the benefits provided is determined using the *Projected Unit Credit Method*, effecting the actuary evaluations at the end of each financial year.
The actuarial gains and losses exceeding 10 per cent of the actual value of the benefit liabilities defined by the Group are depreciated for the period of the estimated average working life of the employees participating in the plan.

The liabilities for employee termination indemnities recorded in the balance sheet represent the actual value of the liabilities for the defined benefit plans adjusted to take into account the actuarial gains and losses not recorded.

Provisions for risks and charges

The provisions for risks and charges are only destined to cover losses or payables of a definite nature, which are certain or probable, but at the end of the financial year either the amount of the contingency or its date cannot be determined.
The provisions are set aside on the basis of the best estimate made by management of the costs required to fulfil the obligations on the balance sheet date, and are actualised when the effect becomes significant.
They include, amongst other things, the product guarantee fund which is allocated in the balance sheet to allow the economic effect of the guarantee costs to be anticipated according to the revenues from sales - guarantee costs correlation principle.

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AUDITORS' REVIEW REPORT ON THE INTERIM CONSOLIDATED FINANCIAL INFORMATION FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2006 PURSUANT TO ART. 81 OF CONSOB REGULATIONS APPROVED WITH RESOLUTION N. 11971 OF MAY 14, 1999 AND SUBSEQUENT MODIFICATIONS

To the Shareholders of
BIESSE S.p.A.

1. We have reviewed the accompanying interim consolidated financial statements, consisting of the consolidated balance sheet, income statement, statement of change in equity and cash flow statements (the "accounting schedules") and related explanatory notes which are included in the Interim consolidated financial information of BIESSE S.p.A. (the holding company) for the six-month period ended June 30, 2006. These interim financial information is the responsibility of the Directors of Biesse S.p.A.. Our responsibility is to issue a report on these Interim consolidated financial information based on our review. In addition, we have verified the consistency of the management discussion and analysis with the other data contained in the above Interim consolidated financial information.

2. Our review was carried out in accordance with the standards recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-yearly interim financial statements under Resolution n° 10867 of July 31, 1997. Our review consisted principally of applying analytical procedures to the underlying financial data, assessing whether accounting policies have been consistently applied and making enquiries of management responsible for financial and accounting matters. The review excluded audit procedures such as tests of controls and substantive verification procedures of the assets and liabilities and was therefore substantially less in scope than an audit performed in accordance with established auditing standards. Accordingly, unlike our report on the year-end consolidated financial statements, we do not express an audit opinion on the half-yearly Interim consolidated financial information.

3. As far as comparative figures related to the year ended December 31, 2005 and the six-month period ended June 30, 2005 are concerned, reference should be made to our auditors' report dated April 11, 2006 and our auditors' review report dated October 5, 2005, respectively.

4. Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated accounting schedules and related explanatory notes of BIESSE S.p.A., as set forth in paragraph 1 above, in order for them to be in conformity with the International Accounting Standard 34 and the criteria provided by art. 81 of Consob Regulations for the preparation of the half-yearly interim financial information approved with Resolution n° 11971 of May 14, 1999 and subsequent modifications.

DELOITTE & TOUCHE S.p.A.

Signed by
Carlo Beciani
Partner

Ancona, Italy
September 27, 2006

This report has been translated into the English language solely for the convenience of international readers.

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