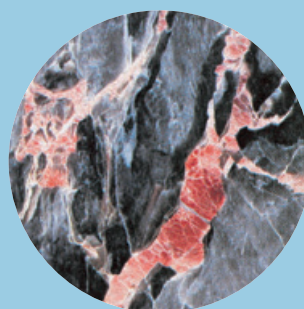
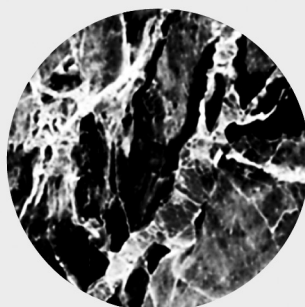


# 2005 ANNUAL REPORT





**BIESSE S.p.A.****CONSOLIDATED BALANCE SHEET FOR YEAR ENDING DECEMBER 31, 2005****THE BIESSE GROUP**

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## THE 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.

To be precise, the Biesse Group operates through the following brands:

***Biesse***

Panel machining machines and systems; numerical control milling, boring and edge banding processing centres



*Selco*

Panel saw machinery and systems



*Comil*

Machinery and systems for furniture assembly and packaging



*RBO*

Handling systems for automated lines in the furniture industry



*Artech*

Edge banding machines, trimming machines, rubber gasket insertion machines and manual, single head boring machines; automatic single-sided edge banding machines



*Biessesand*

Sanding machines



*Biesseedge*

Edge banding machinery and systems



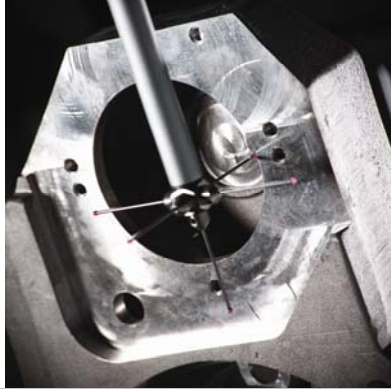
*Biesse Systems*

Design and consulting services for furniture industry systems



*Cosmec*

Precision machining



*H.S.D.*

Mechanical and electronic components for industrial purposes



*Sev*

Mechanical and electronic components for industrial purposes

*Cni*

Electronic components and software for industrial purposes



*Intermac*

Machinery and systems for glass and marble working



*Gieffe*

Glass profiling machines

*Busetti*

Machinery and systems for glass working

*Diamut*

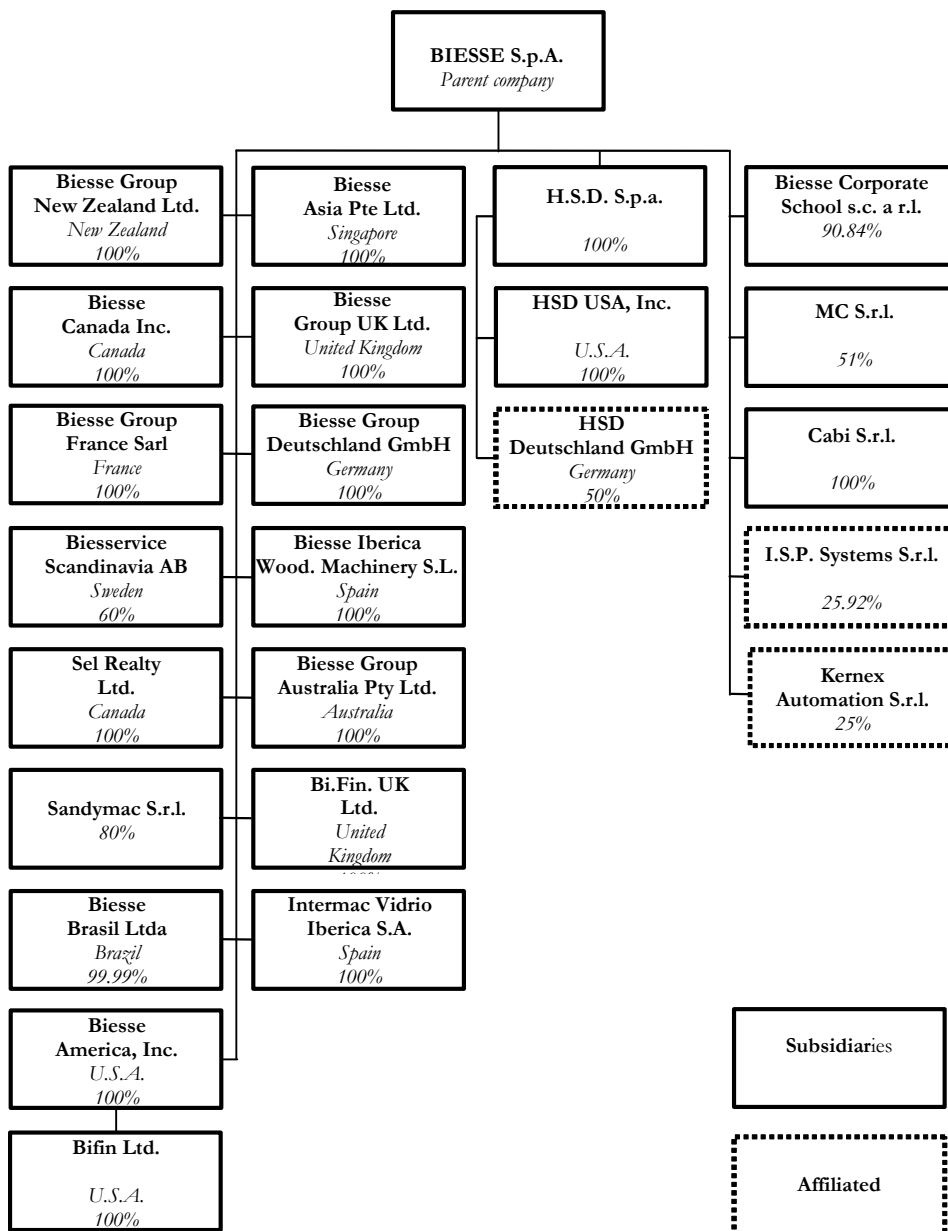
Tools for glass and marble working





**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%

Since the latest approved balance sheet, the holding in the Biesse Corporate School s.c.r.l. has been fully consolidated (previously valued using the shareholders' equity method), in compliance with the international accounting principles.

Holdings in the subsidiaries ISP Systems S.r.l. Hsd Deutschland GmbH and Kernex Automation S.r.l. are valued using the Shareholders' equity method.

## **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

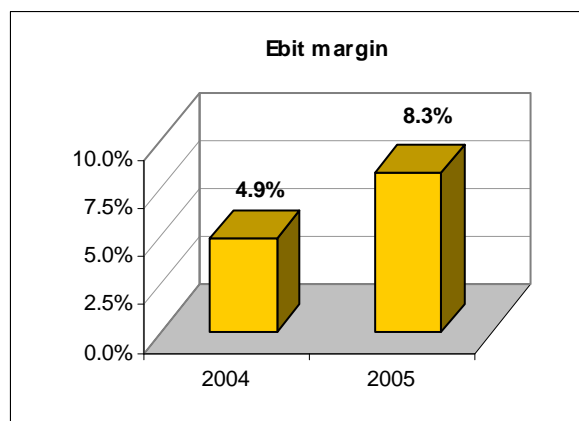
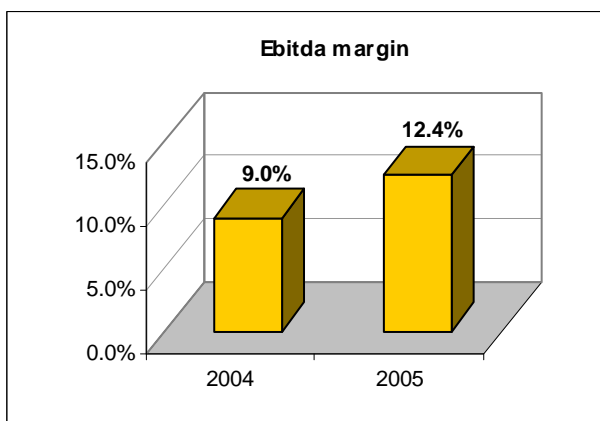
### **External auditing company**

Deloitte & Touche S.p.A.

## FINANCIAL HIGHLIGHTS

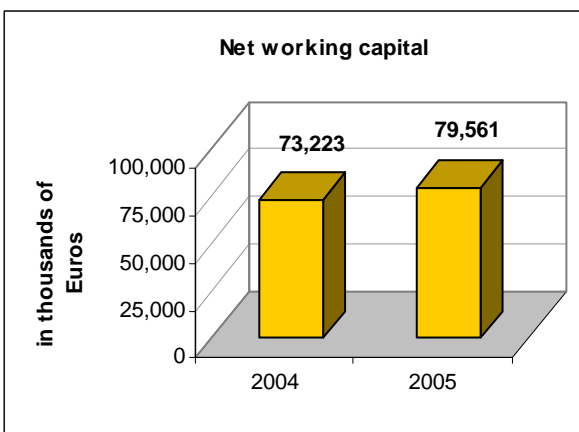
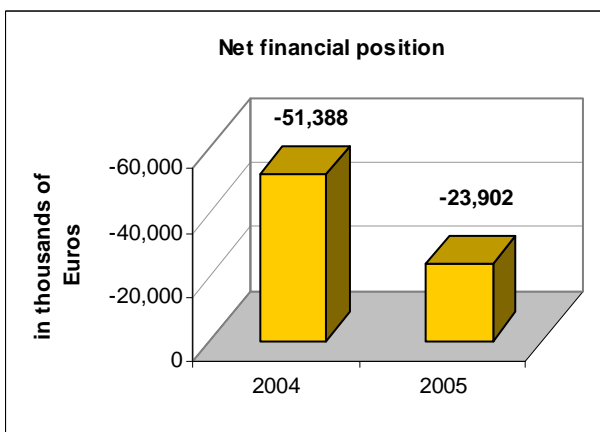
## Economic data

<i>Thousands of Euros</i>	31 December 2005	31 December 2004
Revenues from sales and services	335,011	310,672
Ebitda	41,436	27,842
Ebit	27,783	15,099
Group results for the year	16,055	7,683



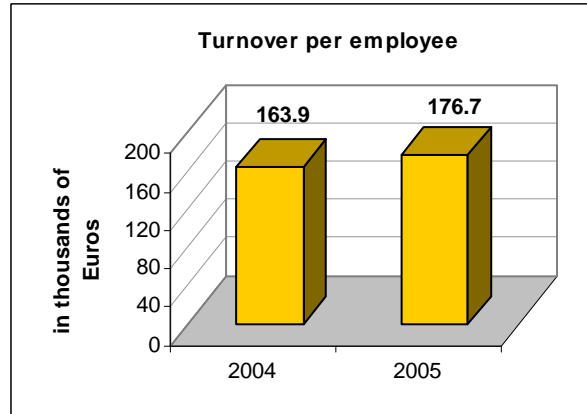
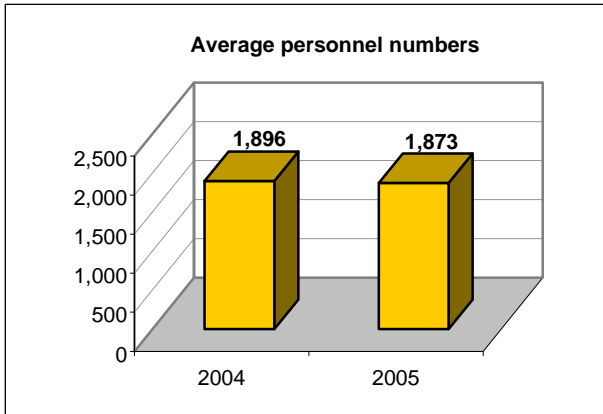
## Balance Sheet Figures

	31 December 2005	31 December 2004
Invested capital	129,538	143,199
Shareholders' equity	105,636	91,811
Net financial position	23,902	51,388
Net working capital	73,223	79,561
Gearing (NFP/Equity)	0.23	0.56
Assets coverage (Equity/Net assets)	1.25	1.09
Financial leverage (Payables/Equity)	2.15	1.86



Structural data

	31 December 2005	31 December 2004
Average personnel numbers	1,873	1,896

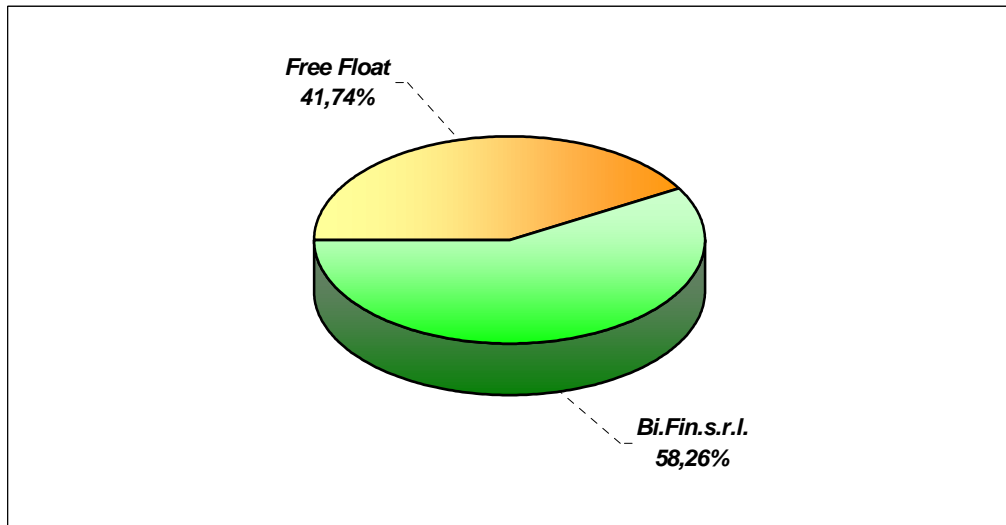


BIESSE ON THE STOCK EXCHANGE

Trend for security as at 27.3.06



Share Structure as at 27.3.06





**DIRECTORS'  
REPORT  
ON OPERATIONS**

**Consolidated  
Financial  
Statements**

## OPERATIONAL REPORT

### GENERAL ECONOMIC CONTEXT

During the year the world economy has confirmed a tendency toward gradual and more general consolidation of the recovery. The more mature western economies, particularly those of the Countries in the European Union, appear set to produce significant growth in their Gross domestic product for the two-year period 2006 - 2007. Another important factor for European exporters has been the calm on the foreign exchange front: with the Euro/Dollar exchange rate stable in the region of 1.18-1.22 it is possible to take an optimistic view of development in North American and other emerging markets with *USD-linked* currencies.

### BUSINESS AREA

According to the most recent figures issued by Acimall, - the woodworking machinery sector business association - , the last quarter of 2005 ended on a positive note; from October to December, in fact, orders increased by 7.4 percent as compared with the last quarter of 2004, confirming the [more timid] positive trend recorded for the preceding quarter.

<Orders from foreign markets - continues Acimall - grew by 5.1 percent, in the face of what was [finally] an evident growth in the domestic market, +15.4 percent, coming after two years of suffering. This is a figure that must be read in the proper light, as Italy exports over 83 percent of its production in this sector, but it is still one that leaves space for greater optimism regarding the investments made by the national furniture and woodworking industries. As regards the trend of prices, according to the companies in the sample, 2005 ended with an increase equivalent to 1.4%, with an average of 2.6 months production guaranteed>.

<The qualitative part of the investigation reveals that the last quarter of 2005 saw stationary production levels in 55 percent of the businesses interviewed, with 39 percent showing an increase and 6 percent a decrease (total +33). Inventory is stable in 71 percent of cases, decreasing in 19 percent and increasing in 10 percent (total -9). Occupation is indicated as stationary in 77 percent of the sample, decreasing in 16 percent and increasing in 7 percent (total -9)>.

<The forecast investigation shows moderate optimism on the part of businesses for the future: foreign orders will grow according to 19 percent of those interviewed, will remain stable for 71 percent and will decrease for 10 percent (positive result +9). For the internal market 77 percent of the sample foresees a situation similar to the current one, while 20 percent expects a recovery and the remaining 3 percent a contraction (positive result +17)>.



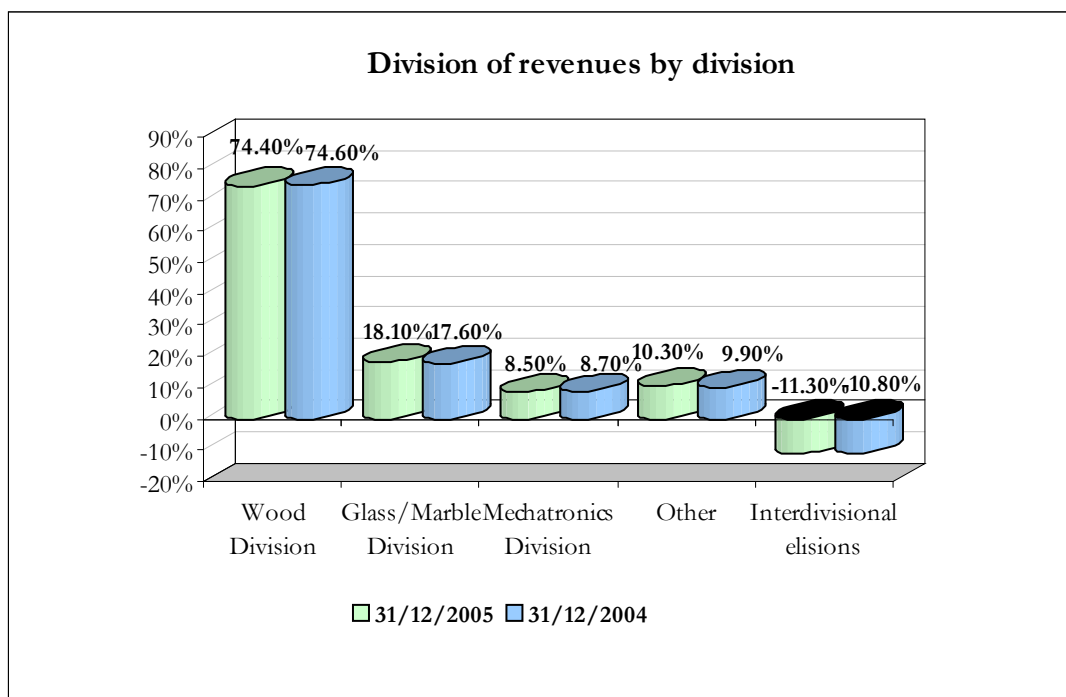
## ANNUAL REPORT

*Summary of economic data*

<i>(in Thousands of Euros)</i>	<b>31 December 2005</b>	<b>%</b>	<b>31 December 2004</b>	<b>%</b>
<b>Revenues from sales and services</b>	<b>335,011</b>	<b>100.0%</b>	<b>310,672</b>	<b>100.0%</b>
Variation of stocks of products being manufactured, semifinished and finished	(1,837)	(0.5%)	(4,546)	(1.5%)
Other operating income	5,439	1.6%	7,358	2.4%
<b>Value of production</b>	<b>338,613</b>	<b>101.1%</b>	<b>313,484</b>	<b>100.9%</b>
Raw materials, ancillary materials and consumables	(144,807)	(43.2%)	(136,648)	(44.0%)
Other operating expenses	(70,005)	(20.9%)	(69,132)	(22.3%)
<b>Added value</b>	<b>123,801</b>	<b>37.0%</b>	<b>107,704</b>	<b>34.7%</b>
Personnel expenses	(82,365)	(24.6%)	(79,862)	(25.7%)
<b>Gross operating margin</b>	<b>41,436</b>	<b>12.4%</b>	<b>27,842</b>	<b>9.0%</b>
Depreciation	(10,889)	(3.3%)	(11,156)	(3.6%)
Provisions	(2,764)	(0.8%)	(1,587)	(0.5%)
<b>Operating result</b>	<b>27,783</b>	<b>8.3%</b>	<b>15,099</b>	<b>4.9%</b>
Financial income and expenses	(2,787)	(0.8%)	(4,078)	(1.3%)
Revenues and expenses on currency exchanges	(714)	(0.2%)	(644)	(0.2%)
Share of profit/loss of affiliated companies	(279)	(0.1%)	(407)	(0.2%)
Capital gain from sales of non-instrumental assets	-	-	11,312	3.6%
<b>Pre-tax income</b>	<b>24,003</b>	<b>7.2%</b>	<b>21,282</b>	<b>6.9%</b>
Taxes for the period	(7,949)	(2.4%)	(13,599)	(4.4%)
<b>Result for the year</b>	<b>16,054</b>	<b>4.8%</b>	<b>7,683</b>	<b>2.5%</b>

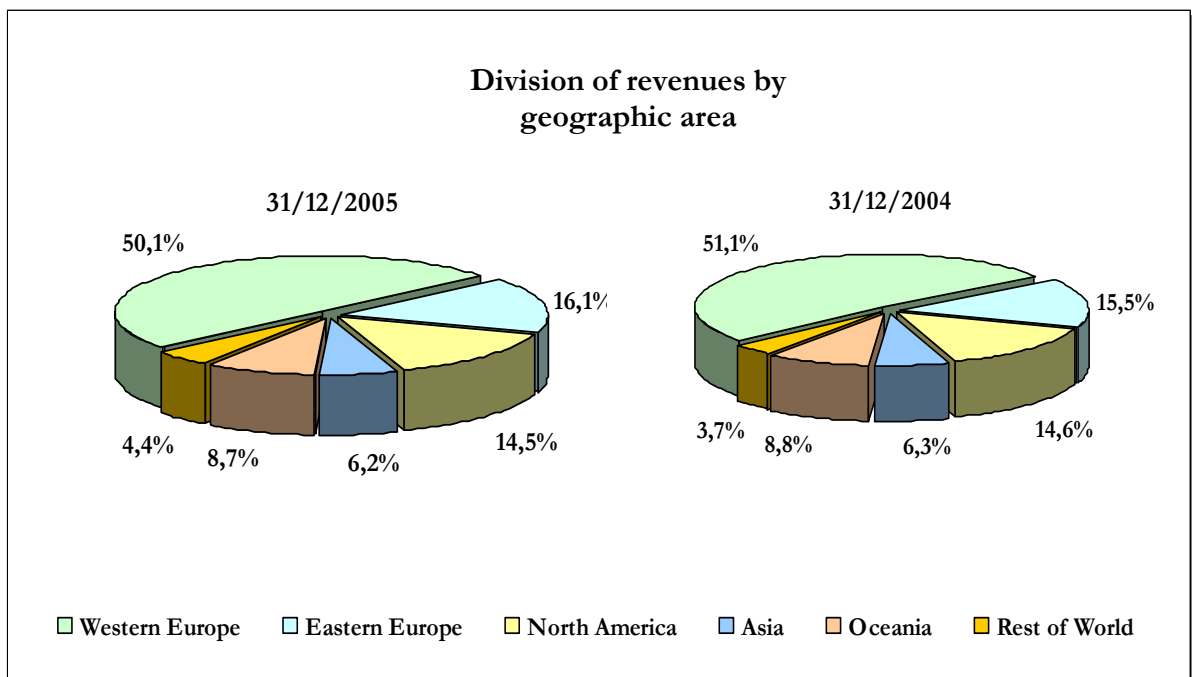
*Division of revenues by division*

<i>(in thousands of Euros)</i>	<b>31 December 2005</b>	<b>%</b>	<b>31st December 2004 - adjusted</b>	<b>%</b>	<b>Var % 2005/2004</b>
Wood Division	249,152	74.4%	231,901	74.6%	7.4%
Glass/Marble Division	60,886	18.1%	54,728	17.6%	11.3%
Mechatronics Division	28,335	8.5%	27,086	8.7%	4.6%
Other	34,438	10.3%	30,625	9.9%	12.3%
Interdivisional elisions	(37,800)	(11.3%)	(33,668)	(10.8%)	12.3%
<b>Total</b>	<b>335,011</b>	<b>100.0%</b>	<b>310,672</b>	<b>100.0%</b>	<b>7.8%</b>



*Division of revenues by geographic area*

<i>(in thousands of Euros)</i>	<b>31 December 2005</b>	<b>Weight %</b>	<b>31st December 2004 - adjusted</b>	<b>Weight %</b>	<b>Var % 2005/2004</b>
Western Europe	168,004	50.1%	158,876	51.1%	5.7%
Eastern Europe	53,826	16.1%	48,134	15.5%	11.8%
North America	48,450	14.5%	45,193	14.6%	7.2%
Asia	20,812	6.2%	19,533	6.3%	6.5%
Oceania	29,020	8.7%	27,422	8.8%	5.8%
Rest of World	14,899	4.4%	11,514	3.7%	29.4%
<b>Group Total</b>	<b>335,011</b>	<b>100.0%</b>	<b>310,672</b>	<b>100.0%</b>	<b>7.8%</b>



The introduction of new products, the widespread commercial action and the energy dedicated to improving production efficiency have resulted in a significant recovery in profitability during 2005, generating considerable cash.

The growth of revenue has contributed strongly towards absorbing the more balanced structural costs, in a market where higher demand has also in part reduced the pressure on margins, in the form of a general drop in the need to resort to discount levers. Research and innovation activities, and the simultaneous rationalisation of product ranges and industrialisation of existing ranges have further contributed to widen the gap between production and sale costs.

As opposed to what happened during the previous year, no relevant special operations have been concluded, allowing thus to justify the entire result for the year 2005 to the sole management policy of the Group.

Net revenue for the year 2005 amounts to € 335,011 thousand, increasing by 7.8% with respect to the previous period. The increase in revenue is balanced out between the various divisions, with the Glass and Marble Division recovering in full - as foreseen - the gap that had formed during the initial part of the year with respect to 2004 volumes, with a growth of 11.3%.

As regards geographic distribution of sales (details of which are given in the preceding segment information tables), the year 2005 saw the expected "awakening" of orders from Western Europe, - including Italy, although only starting from the last quarter -, after a progressive movement of the Group's revenue hinge point towards Eastern Europe and the Asia-Pacific area; this has mainly been due to the return of investments in technology, and to replacement of machinery after 3 years of immobility. All the geographic macro-areas have contributed substantially to growth, and even North America, a strategic market for the Group, has grown once more, with the figures expected to improve still more thanks also to the substantial stability of the Euro/Dollar exchange rate. The excellent performance of countries in the Mediterranean area and the Middle East (RoW) must also be noted.

The value of production for 2005 amounts to € 338,613 thousand, increasing by 8% with respect to the previous year; in order to obtain a clearer view of the Group's consolidated margins, details of the percentage incidence of costs is given below, calculated on the value of production.

<i>in thousands of Euros</i>	<b>31 December 2005</b>	<b>%</b>	<b>31 December 2004</b>	<b>%</b>
<b>Value of production</b>	<b>338,613</b>	<b>100.0%</b>	<b>313,484</b>	<b>100.0%</b>
Consumption of raw materials and goods	(144,807)	(42.76%)	(136,649)	(43.59%)
Services	(59,787)	(17.66%)	(58,684)	(18.72%)
Leases and rentals	(5,298)	(1.56%)	(4,933)	(1.57%)
Other operating expenses	(4,920)	(1.45%)	(5,514)	(1.76%)
<b>Added value</b>	<b>123,801</b>	<b>36.56%</b>	<b>107,704</b>	<b>34.36%</b>

The percentage incidence of raw materials on the Value of Production (VoP) drops by a significant 0.83%, in view of the above mentioned reduction in the use of discounts, and thanks also to a more efficient purchase policy, which has also had a positive effect on the cost of services (over 1 percent recovery); a fractional lower incidence in residual operating expenses brings the added value to € 123,801 thousand (incidence of 36.56% on VoP) as compared with € 107,704 thousand (incidence of 34.36% on VoP) in 2004, with a total recovery of 2.2 percent in Added value, which we consider extremely significant.

The cost of staff increases to € 82,365 thousand from the € 79,862 thousand in 2004, with an increase of 3.1% relating to internal merit incentives, and the one-off payment foreseen by the national labour contract recently signed and by the additional company contract.

The gross operational margin thus amounts to € 41,436 thousand compared with € 27,842 thousand in 2004, with an incidence on net revenues that goes from 9% to 12.4%, whereas the operational result, positive in the previous year by € 15,099 thousand -, reaches € 27,783 thousand with a percentage incidence on net revenues amounting to 8.3% from a previous 4.9%.

This after appropriation of € 2,764 thousand to various risk funds, an appropriation 74% higher than the one made during the past year.

With reference to the financial management, note should be taken of the debt situation of the Group (detailed analysis of which is given in the successive notes). This phenomenon has led to a reduction in the payables to banks and other financial institutions in the amount of € 1,291 thousand.

As regards management of the exchange risk, during 2005 charges amounting to € 714 thousand were recorded, mainly due to the increase in coverage operations in compliance with the provisions of the Group exchange risk management policy.

The result before tax was therefore positive by € 24,003 thousand (incidence of 7.2% on net revenue) and, as mentioned previously, this is not immediately comparable with the similar figure for 2004, which is positive by € 21,282 thousand, but contains extraordinary capital gains resulting from alienation of land and buildings, amounting to € 11,312 thousand.

The balance of tax components is negative by € 7,949 thousand in all, of which € 4,637 thousand in provisions for IRAP, € 1,754 thousand for deferred tax, and € 1,000 thousand for income tax for the period. To these must be added the appropriations made against the PVC issued by the Ancona Regional Tax Agency on 21.10.2005, relating to verification for the years 2002-2003, with reference to the parent company Biesse SpA: according to the principle of prudence these appropriations are valued at € 558 thousand (to which must be added € 142 to cover relevant fines). In this regard, - and to update the information provided in the previous quarterly reports on the notice relating to the claimed inability to deduct the devaluation of the holding in Schelling -, it is hereby notified that D.L. 273 of 30.12.2005, art. 31, paragraph 1, has extended the terms for notification under art. 1, paragraph 4 of D.L. 209/72. In compliance with this provision the Company, while it still considers this obligation non-existent, has in any case provided for filing of the notification, the supposed omission of which had resulted in the notice.

With reference to application of deferred tax on the past losses brought forward (amounting to € 23 million at the end of 2005), the Group Management has considered it advisable to continue using the same prudential criteria that has been employed since the end of 2004, so that no receivables have been set down on the balance sheet; this decision is the direct consequence of positive expectations for the immediate future, which are however based on estimates relating to the macro-economic scene that must be viewed with absolute prudence and care.

The net result is therefore € 16,054 thousand which, due to the extraordinary components mentioned above for 2004, is not immediately comparable with the figure of € 7,683 thousand recorded for the previous period.

**Summary of Balance Sheet Figures**

<i>in thousands of Euros</i>	31 December 2005	31 December 2004		31 December 2005	31 December 2004
Tangible assets	59,572	63,278	Group shareholders' equity	105,293	91,546
Goodwill	13,108	10,752	Minority interests	343	265
Other intangible assets	10,565	9,532	<b>Total Shareholders' Equity</b>	<b>105,636</b>	<b>91,811</b>
Other non-current assets	9,100	10,039	Medium/long term payables to banks and for financial locations	31,296	30,096
<b>Non-current assets</b>	<b>92,345</b>	<b>93,601</b>	Retirement benefit obligations	15,090	13,671
Inventories	72,798	74,172	Other medium-long term payables	9,772	8,156
Sales credits	97,960	90,489	<b>Total medium-long liabilities</b>	<b>56,158</b>	<b>51,923</b>
Sundry credits	7,464	10,680	Sales debits and other payables	116,167	103,916
Cash and equivalent funds	31,210	20,567	Short term payables to banks and for financial locations	23,816	41,859
<b>Current assets</b>	<b>209,432</b>	<b>195,908</b>	<b>Total short term liabilities</b>	<b>139,983</b>	<b>145,775</b>
<b>Total assets</b>	<b>301,777</b>	<b>289,509</b>	<b>Total shareholders' equity and liabilities</b>	<b>301,777</b>	<b>289,509</b>

While a fuller discussion of the various items in the asset and liability statement will be provided in the supplementary note, it is necessary to note the improvements in the balance sheet items relating to Group financing sources (cash and equivalent funds + 10.6 mln/€, payables to banks and leasing -16.9 mln/€, with the balance of short term sources to medium/long term sources being restored), the improvement in working capital, thanks to substantial stability of the warehouses, and increase of the working payables, which more than compensate the increase in credits, deriving from the increase in turnover. As regards non-current assets, particular note must be taken of the increase in goodwill, of which € 2.2 million is due to the increase in holding in relation to acquisition of the remaining portion of the share capital of the subsidiary HSD S.p.A. From the point of view of other fixed asset items, the increase in other intangible fixed assets resulting from constant efforts to develop new products and technological solutions must be noted.

**Net financial position**

<i>in thousands of Euros</i>	<b>31 December 2005</b>	<b>30 September 2005</b>	<b>30 June 2005</b>	<b>31 December 2004</b>
Short term investments:	31,210	18,716	19,890	20,567
- Current assets	<i>31,210</i>	<i>18,716</i>	<i>19,890</i>	<i>20,567</i>
Receivables for short-term financial locations	(3,266)	(3,622)	(3,091)	(3,955)
Short-term bank receivables and other financial receivables	(20,550)	(24,012)	(26,520)	(37,904)
<b>Short term net financial position</b>	<b>7,394</b>	<b>(8,918)</b>	<b>(9,721)</b>	<b>(21,292)</b>
Medium/long term receivables for financial locations	(13,942)	(14,827)	(14,579)	(16,682)
Medium-long term payables to banks	(17,354)	(18,568)	(20,902)	(13,414)
<b>Medium/long term net financial position</b>	<b>(31,296)</b>	<b>(33,395)</b>	<b>(35,481)</b>	<b>(30,096)</b>
<b>Net financial position</b>	<b>(23,902)</b>	<b>(42,313)</b>	<b>(45,202)</b>	<b>(51,388)</b>

As regards the net financial position the positive trend continues, with a further reduction of net indebtedness with respect to the previous period (approximately € 27.5 million less debt than in December 2004). The cash generated for 2005 is entirely attributable to ordinary business operations.

As far as the data item highlighted in the previous balance sheets, the IAS-IFRS effect on the net financial position of the Group is summed up here below with its major components:

<i>in thousands of Euros</i>	<b>31 December 2005</b>	<b>30 September 2005</b>	<b>30 June 2005</b>	<b>31 December 2004</b>
<b>Opening balances on the basis of previous accounting principles</b>	<b>(19,848)</b>	<b>(35,109)</b>	<b>(37,044)</b>	<b>(44,765)</b>
<b>IAS entries</b>				
<i>Rectification of treasury shares</i>	<i>(1,249)</i>	<i>(1,362)</i>	<i>(1,362)</i>	<i>(1,362)</i>
<i>Application of IAS 17a leasing on production assets</i>	<i>(2,805)</i>	<i>(2,979)</i>	<i>(2,393)</i>	<i>(3,142)</i>
<i>Reclassification of payables to financial factoring companies</i>	<i>0</i>	<i>(2,786)</i>	<i>(4,201)</i>	<i>(1,677)</i>
<i>Other variations</i>	<i>0</i>	<i>(77)</i>	<i>(202)</i>	<i>(442)</i>
<b>IAS balances</b>	<b>(23,902)</b>	<b>(42,313)</b>	<b>(45,202)</b>	<b>(51,388)</b>

The NFP figure for 31 December 2005 shows the expected reabsorption of payables to factoring companies, which peaked in June 2005.

## 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 27th March 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:

<i>Bi.Fin S.r.l.</i>	58.263%
<i>Financiere de l'Echiquier SA</i>	5.004%

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 organisational and general managerial organisation 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 Biese 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 2005 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	Non-executive
- 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 Biese S.p.A registered office in Pesaro, Via della Meccanica 16. During the 2005 financial year, six 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:

Mr. 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

Mr. 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.

Mr. 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 recognised, 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 will take action during the transitional period (01/01/06 – 31/03/06) to implement the provisions of the new CONSOB Regulations, both in terms of market abuse (art. 152 bis and following) and on the subject of 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 and for any stock option plans.

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 Administrator Remuneration, made up as follows:

Mr. Giancarlo Selci:	Chairman and Managing Director
Mr. Innocenzo Cipolletta	Independent Member
Mr. 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:

Mr. Innocenzo Cipolletta	Independent Member
Mr. Leone Sibani	Independent Member
Mr. 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.

In 2005, the Committee analysed the results of the auditing activities carried out by the function appointed to do so on the basis of the work plans presented, verifying the internal operative and administrative procedures adopted in order to guarantee proper and efficient management, and in order to identify, prevent and manage possible financial and operational risks and frauds that could damage the parent company.

Here below is a description of the activities carried out during the year 2005 by the internal examiner in collaboration with the Personnel Organisation Manager in the case of Italian-based companies.

- BRIEF ANALYSIS OF THE RESULTS OF INTERNAL CONTROL ACTIVITIES CARRIED OUT AT BIESSE SPA, HSD SPA AND OTHER ITALIAN COMPANIES IN THE GROUP

Instrument used: company Policy Document supplemented for each risk identified by a note drawn up by the persons in charge to summarise the current situation and any activity implemented or to implement in order to reduce the risk. Field inspection and interviews.

- BRIEF ANALYSIS OF THE RESULTS OF CONTROL ACTIVITIES CARRIED OUT IN BRANCHES OF THE BIESSE GROUP

Below is a list of the main verifications carried out and the results of some improvements being implemented:

Activities connected to management of spare parts: control of the spare parts warehouses continued throughout 2005. At the end of the year the policy for devaluation on the balance sheet of low rotation materials was brought into line with that of Biesse Spa.

Instruments are being introduced to manage warehouses (minimum stock, reorder points, etc.) in all the branches that use the Parent Company information system (Diapason).

#### Branch procedures and Program for the unification of Biesse group branch activities

During the third and fourth quarters of 2005 the Sales, service and branch control management drew up a project for the Unification of company procedures in use at Group branches.

This project has started, first requesting and subsequently comparing the internal procedures used by group branches in relation to their main activities.

A document was then drawn up and presented to the branch managers and to the managers of production plants, sales officers, service officers, administrative and control officers of Biesse Spa, defining, for each of the activities carried out at the branch, the responsibilities and timing for definition of common procedures to be adopted by all branches within the group.

The activities involved are those in the sales cycle (machines, spare parts and operations), operative marketing, purchase cycle, warehouse cycle, organisation and personnel cycle, edp, reporting.  
The plan document also enables immediate verification of all the activities currently carried out in a uniform manner.

The objectives are to make the procedures standard for better control, improved efficiency and performance, as well as solving some of the problems generated by the turnover.

It will be the job of the internal control officer to ensure that the operations foreseen by the unification plan are carried out by the persons responsible within the set times.

### **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](http://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](http://www.biessegroup.com)).

During 2005 Biesse S.p.A. took part in all the compulsory events organised by Borsa Italiana (Milan and London 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 appointed at the ordinary shareholders meeting of April 29 2003, and which will be in office until the approval of the balance sheet for the year ending December 31 2005, consists of the following members:

Sig. Giovanni Ciurlo	Chairman
Sig Adriano Franzoni	Statutory Auditor
Sig. Claudio Sanchioni	Standing Auditor
Sig. ra Daniela Gabucci	Assistant Auditor
Sig. ra Cristina Amadori	Assistant Auditor

### **RESEARCH AND DEVELOPMENT ACTIVITIES**

Below there is a list of the research and development activities for 2005:

#### **RESEARCH, DEVELOPMENT AND INNOVATION - WOOD DIVISION**

##### **THE BIESSE BRAND**

###### ***Range "A"***

The design of the Rover A has been completed. This machine introduces important developments requested by the market for machines in the entry level range.

###### ***Range "B"*** - Nesting Cell -

Design of the panel loader/finished piece unloader combined with the Rover B - FT range has been carried out. This provides the nesting world (particularly the United States and Australian markets) with a solution that allows interventions by the operator to be reduced to a minimum, and means they can be carried out in masked time.

###### ***Rover applications***

The first version of the Biesse applications dedicated to nesting (Biessenest 1.0) and windows (Biessewin 1.1) have been issued, and the first version of the office software WDK has also been issued.

The Kosmosoft software used to design windows for Rover C, Uniwin and Winlab has been approved.

There has also been further development of the assisted test programme which, starting with the automatic configuration of the machine software from the serial number, guides the tester through the various test phases up to the realisation of back-ups, recovery disks and test data filing in a centralised database

### ***Flexible Boring machines***

A family of line machines giving total flexibility has finally been put into full production, responding to the growing need of customers to produce in small batches. The line comprises two models: FTT800 and FHT.

#### ***FTT800***

Flexible line CNC processing centre for simultaneous machining of 2 identical or mirror panels. The machine is cross-fed and is fitted with n° 4 top operating sections installed on 2 independent processing centres to machine the top surface and the 4 sides of the panel. Each operating section in the two processing centres can change boring bits using a tool magazine: this innovative tool change function means that the boring heads can be configured with the best bits for the machining operations to be carried out, allowing an increase in productivity.

#### ***FHT***

Line CNC processing centre for horizontal boring, set up for installation of a second machining station for horizontal boring or the insertion of dowels. The machine is cross-fed and is divided into 2 independent processing centres.

### **SELCO BRAND**

#### ***Compact corner panel saw WNA600 SLC***

After introduction on the market of the model SL, Selco has perfected a new version of this machine, combining all the functions of the original model with the market's requests for a reduction in the working space involved.

Reprocessing and optimisation of certain machine components has enabled the space occupied by the system to be reduced by 25%, while safeguarding system productivity.

#### ***Panel rotation system***

Planning activities have continued to extend the number of versions offered to the market. This is a particular system that uses a straight actuator and a support frame to turn the pack of panels being machined by 90°; this operation is becoming increasingly necessary to satisfy complex cutting pattern requirements and to minimise waste.

#### ***Double Pusher***

Work on this innovative system, which increases machine productivity, has been further developed, with the aim of extending the range on offer.

#### ***"OSI" operator interface***

Selco Open Interface, the innovative Selco operator interface, introduced in 2004, has evolved still further, implementing new machine functions such as:

- double pusher
- panel rotation system
- unloading software.

### **BIESSEEDGE / ARTECH TRADE MARK: EDGEBANDING**

#### ***X-STREAM project lines***

The project - which is in the process of completion - consists of the realisation of squaring and edgbanding machines for the longitudinal and transverse passage of panels, characterised by their high speed movement.

These machines represent the response to the growing need for increased productivity that is being received from the world of industry.

#### ***"Janus" project - Door machining unit***

This project consists in the creation of a squaring and edgbanding machine used to produce doors. The machine in question is equipped with a feeder device specifically designed for doors, with a transfer structure equipped with its own stops, devices to guide and hold the door, etc. There are then a number of units - likewise specifically designed for this type of unit - which carry out finishing of the edges of the glued banding material. The complexity of these units depends on the diversity of door profiles, which differ widely from each other in terms of geometry and number of flaps.

***HSD-Rotax High Frequency Electros spindles Project***

This project - which is under completion - consists in redefining and simultaneously rationalising and engineering the high frequency motors (HSD Rotax) installed on board the working units.

***AKRON400 project***

The AKRON400 range has finally gone into production. This is Artech's single sided edgbanding machine which will go to satisfy the requests of an extensive market ranging from craftsmen to industries.

AKRON400 edgbanding machines are characterised by their extreme versatility, an excellent performance/purchase price ratio, simplicity of use and limited maintenance requirements.

***PLC-700 Project and SINTRA – LT project***

The PLC-700 project consists in the adoption of a new Programmable Logic Control (PLC) to manage the edgbanding machines in the ARTECH segment. The new PLC-700, the result of co-operation between Cni and ARTECH, summarises everything that can be asked today of a modern numerical control for edgbanding machines: flexibility of use, extreme compactness, use of a commercial CPU, ability to connect to E-net (proprietary) and Can Open bus, interface with touch screen LCD, etc.

Sintra – LT is the SW that allows the PLC-700 to dialogue with the machine operator. Intuitive, modern (Windows based) graphics, a high level of interactivity, an effective mixture of icons, symbols and short texts, high levels of integration with the PC version, etc. make this interface extremely friendly and accessible.

**COMIL BRAND**

***INSIDER KT2G – IT2G***

The innovation relates to development of a drawer guide magazine capable of direct machine-side management of "ecopack" trays, that is to say the standard for the main international level guide manufacturer.

The aim is to optimise / automate supply of hardware elements in the machine (total extraction drawer guides), by loading the trays supplied by the manufacturer directly into the machine.

Operations related to customisation of the machine side magazine and creation of a dedicated pick-up (pick & place) unit.

***INSIDER FT-KT-1300 FOR DAY AND NIGHT ENVIRONMENTS***

Innovation relates to development of a machine (derived from the Insider FT-1300) dedicated to boring / pre-assembly in the "day and night environment" sector, characterised by a high percentage of panels with a length of >1600 mm.

**RBO TRADE MARK**

***WINNER - Fast Line Project***

This project has the aim of developing automation for fast squaring and edgbanding lines, comprising a loading device and an unloading device with lifting tables and dedicated transfers guaranteeing the productivity levels required in this sector.

***Advantage - Advantage Project***

This project is aimed at offering a loading / unloading bridge, to be added to the existing range, to automate lines in the medium segment of the market.

***Overturmer***

This project is aimed at developing a new transversal belt overturning device for FTT-FHT flexible boring lines. The aim is to guarantee a level of automation suited to the new dimensional and production specifications of Biesse flexible boring machines, thus extending the range of panels that can be machined automatically.

***Biesse Supervisor SW***

The "BIESSE SUPERVISOR" project has as its main objective the ability to command and control the entire production process from a single point on an integrated production line, providing the operator with a support for the decisions to be taken during machining operations, also in order to optimise the production processes.



**RESEARCH, DEVELOPMENT AND INNOVATION - MECHATRONICS DIVISION**

**INTERMAC BRAND**

***Genius 61 LS***

Development of an automatic loader necessary to create cutting lines to form integrated machining islands. Basically speaking the machine provides for loading and movement of sheets of varying sizes, by means of a structure on which it is possible to set up one or two arms for pick-up of sheets, positioned on stands used to position stacks of glass.

***Genius LM and Genius Hart***

Development of a high range (LM) and medium range (Hart) cutting bench, to cut laminated sheets, mainly used in the building sector, comprising a structure on which it is possible to set up transport belts to move the sheet and carry out cuts of various depths.

***Master 63/65***

Evolution of processing centres in the dimensional and technical-functional range, mainly aimed at milling and grinding of sheets for the building sector, with working units that can be selected at the time of purchase, so as to configure the machine to meet the needs of customers machining structural glass. These centres still have the characteristics required to process glass for furnishing applications.

**BUSETTI BRAND**

***Vertical boring machine***

Market analysis of flat glass has underlined the need to machine large sheets of flat glass for use as structural elements in buildings. The idea of creating a vertical boring machine came from the need to satisfy this market sector, in which movement of the sheet and working dimensions favour a vertical solution. Furthermore, the same machine can be used to carry out other functions as well as boring of the glass, that is to say milling and filleting. This would allow all the functions required by structural glass to be carried out on a single machine, with obvious advantages in terms of cost for users.

**RESEARCH, DEVELOPMENT AND INNOVATION - MECHATRONICS DIVISION**

**HSD BRAND**

Extension of two-axis bi-rotational electric heads line for high range HS653 aluminium processing machines

Liquid-cooled 12 KW 4 pole 9000 rpm ES792 electrospindle with relevant electronic part, for the tool rectifying machine sector.

UL-CSA approval of the electrical wiring of the ES929 electrospindles.

**CNI BRAND**

New PLC700 Numerical Control for low range woodworking machine tools and creation of standard software for the new PLC700 Numerical control using the Windows CE operating system.

**SEV BRAND**

Study and creation of a family of roto-stators with 0.22 mm thick ferromagnetic metal sheet for high performance.

**PERSONNEL RELATIONS**

Through our Corporate School, Biesse constantly oversees improvement of staff training, in both a direct and an indirect manner.

In 2005, the widest ranging training programs concentrated on the following aspects.

***Training on cost of product***

To support the organisational actions aimed at strengthening attention to production costs, training activities in the areas of product design and industrialisation have been set up. The training, which will be taken up again and continued in greater

depth in 2006, relates in particular to the mechanical machining cycles and the criteria used to assign costs according to machining operations.

***Training of new employees and apprentices***

An initial program, set up and completed with the support of the European Social Fund, related to training of newly employed machine tool operators.

A second training program has been dedicated to professional apprentice tutors, so as to give full value to this type of contract, in compliance with regional and national guidelines.

***Commercial training***

The program set up in 2004 continued this year along two lines: product training, also in relation to the innovations introduced; sales process. A certain importance has been given to strengthening skills regarding training of the sales network by the product managers.

These programs have been assisted by carefully targeted individual retraining programs for operators in various sectors.

Relationships with the trade unions have included proper discussions about industrial policies, labour organisation and the restructuring plans undertaken.

**RELATIONS WITH SUBSIDIARIES, AFFILIATED AND COMPANIES SUBJECT TO CONTROL BY PARENT COMPANIES**

The affiliated companies are as follows:

- I.S.P. Systems S.r.l., of which 25.92% is owned, was founded in 2000 with the aim of designing innovative solutions for the woodworking machinery industry, carrying out studies, research and producing prototypes both independently and/or under orders from companies in the Biesse Group;
- 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, operating in the production of software used on machinery destined for the production of door and window frames, which for over a year has been undergoing an irrevocable management crisis;

The relationships between Biesse Group companies and the aforementioned companies are as follows:

	<b>Costs</b>	<b>Revenues</b>	<b>Payables</b>	<b>Credits</b>
I.S.P. Systems Srl	1,148	81	573	178
Hsd Deutschland GmbH	21	1,364	4	612
Kernex Automation S.r.l.	0	2	1	1
<b>Total</b>	<b>1,169</b>	<b>1,447</b>	<b>578</b>	<b>791</b>

During the year, Biesse S.p.A. paid royalties to I.S.P. for the production of a highly innovative processing centre designed for the boring operation of the panel created by I.S.P. in 2003: this machine is presently produced and successfully sold with the Biesse brand. Furthermore, the collaboration between I.S.P. and Biesse Engineering continues for the design of the special range for the production of "doors with cut-outs".

As far as relations with the parent company Bi.Fin. Srl are concerned, there have been no relevant transactions, except for the transfer of a piece of land to be considered as complement to the main sale that took place in March 2004. On the date of the balance sheet the parent company has a receivable from the Group amounting to € 501 thousand and a payable to the Group amounting to € 183 thousand, mainly relating to receivables and payables for income tax, transferred 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 2005, the relations between Biesse Group and the aforementioned companies are as follows:

	Costs	Revenues	Payables	Credits
Fincobi S.r.l.	8	1	0	0
Rettifica Modenese S.a.s.	128	0	40	35
<b>Total</b>	<b>136</b>	<b>1</b>	<b>40</b>	<b>35</b>

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.

**SHARES IN BIESSE AND/OR ITS SUBSIDIARIES, HELD DIRECTLY OR INDIRECTLY BY MEMBERS OF THE BOARD OF DIRECTORS, THE BOARD OF AUDITORS AND THE GENERAL MANAGER, AND BY THEIR RESPECTIVE SPOUSES THAT ARE NOT LEGALLY SEPARATED AND BY THEIR UNDERAGE CHILDREN**

Name and Surname Position	No. shares held directly and indirectly as at 31/12/2004	No. shares sold in 2005	No. shares purchased in 2005	No. shares held directly and indirectly as at 31/12/2005	% share capital
<b>Roberto Selci</b> President	540,850	850	0	540,000	1.97%
<b>Giancarlo Selci</b> Managing Director	15,960,000	0	0	15,960,000	58.26%
<b>Alessandra Parpajola</b> Director	600	0	0	600	0.0%
<b>Innocenzo Cipolletta</b> Independent Member	0	0	0	0	0.0%
<b>Leone Sibani</b> Independent Member	0	0	0	0	0.0%
<b>Giampaolo Garattoni</b> Independent Member	100,000	21,000	0	79,000	0.29%
<b>Giovanni Ciurlo</b> Full Auditor	0	0	0	0	0.0%
<b>Sanchioni Claudio</b> Full Auditor	200	0	0	200	0.0%
<b>Franzoni Adriano</b> Full Auditor	800	0	0	800	0.0%

**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.

It is also declared that the parent company Biesse S.p.A. does not possess stock/shares of controlling companies, nor did they possess or trade any during the course of 2004. There is not anything to disclose in relation to Art. 2428 paragraph 2 section 3 and 4 of the civil code.

**IMPORTANT EVENTS THAT OCCURRED AFTER CLOSING OF THE BALANCE SHEET AND FORESEEABLE EVOLUTION FOR THE PERIOD**

Important events that occurred after the closing of the 2005 balance sheet:

- during the months of January and February 2006 a total of 546,548 own shares were put onto the market, corresponding to a value of € 4.17 million. In the month of February 2006 Mr. Claudio Granuzzo exercised, with respect to Biesse S.p.A., the call option on Biesse shares, - contractually foreseen during transfer to Biesse S.p.A. of the minority shareholding owned by Mr. Granuzzo in HSD S.p.A. -, receiving the 380,654 shares foreseen (and held for that purpose by Biesse S.p.A.) at the agreed price of € 3.29. At the current date Biesse S.p.A. is therefore no longer in possession of own shares;
- in the month of February 2006 Biesse S.p.A. founded, in Bangalore – India, the company Biesse (India) Manufacturing Company Pvt. Ltd., aimed at local sourcing and the production of mechanical components;
- in the month of March 2006 an agreement was reached in the legal proceedings with the ex Biesse retailer in Poland, Slovakia and Czech republic, with whom legal proceedings were in course that arose in December 2004 and the first few months of 2005, consisting of an asset component in which Biesse acted to collect its credits, and a liability part where Biesse was the subject of various payment demands linked to the cessation of the distribution agreement. At the present date, Biesse is awaiting a final residual payment of 660,000 Euro, along with delivery of certain machines (to a value of 10,000 Euro), within 30/4/2006, for final completion of the agreement; this balance sheet shows the effects of these events.

With reference to the prospects for the year 2006, the objectives drawn up in the revised version of the three year plan for 2006-2008 are confirmed, with Group consolidated revenue expected to grow by 5-6% with respect to 2005. From the point of view of income, the positive trend already highlighted during the year that has just ended should be confirmed, even though these predictions are made in a macro-economic context that requires maximum caution. As regards the financial position, a further drastic decrease in net indebtedness is expected.

Pesaro, 27/03/2006.

*The President of the Board of Directors*  
*Roberto Selci*

**CONSOLIDATED  
FINANCIAL  
STATEMENTS**

**for the year ending  
December 31, 2005**

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

	<u>Notes</u>	For the year ending 31 December 2005	For the year ending 31 December 2004
		€ '000	€ '000
<b>Continuing operations</b>			
			(restated)
Revenue	6	335,011	310,672
Other operating income	6	5,439	7,358
Changes in inventories of finished goods and work in progress		(1,837)	(4,546)
Raw materials and consumables used		(144,807)	(136,648)
Personnel expenses		(82,365)	(79,862)
Other operating expenses		(70,005)	(69,132)
Amortisation expense		(10,889)	(11,156)
Accruals to provisions		(2,764)	(1,587)
<b>Operating profit</b>		<b>27,783</b>	<b>15,099</b>
Share of profit/loss of affiliated companies		(279)	(407)
Investment revenues	8	413	546
Other gains and losses		90	0
Capital gain from sales of non-instrumental assets	9	0	11,312
Financial expenses	10	(3,291)	(4,624)
Revenues and expenses on currency exchanges	11	(714)	(644)
<b>Pre-tax income</b>		<b>24,003</b>	<b>21,282</b>
Taxes for the period	12	(7,949)	(13,599)
Result for the period from continuing operations		16,054	7,683
<b>Result of the period</b>		<b>16,054</b>	<b>7,683</b>
Attributable to:			
Equity holders of the parent		15,931	7,656
Minority interest		123	27
		<b>16,054</b>	<b>7,683</b>
<b>Earnings per share</b>			
From continuing operations:			
Basic (€/cents)	13	60.28	30.01
Diluted (€/cents)	13	60.28	30.01

**CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2005**

	<u>Notes</u>	<u>As at 31 December 2005</u>	<u>As at 31 December 2004</u>
		€ '000	€ '000
<b>ASSETS</b>			(restated)
<b>Non-current assets</b>			
Property, plant and machinery	14	52,777	55,403
Industrial equipment and other tangible assets	14	6,795	7,875
Goodwill	15	13,108	10,752
Other intangible assets	16	10,565	9,532
Investments in affiliated companies	17	107	354
Deferred tax assets	32	8,441	8,753
Other financial assets and non-current receivables	18	552	932
		92,345	93,601
<b>Current assets</b>			
Inventories	19	72,798	74,172
Trade receivables	20	96,987	89,359
Receivables toward affiliated and parent companies	21	973	1,130
Other receivables	22	7,464	10,605
Derivative financial instruments	36	0	75
Cash and cash equivalents		31,210	20,567
		209,432	195,908
<b>Total assets</b>		301,777	289,509

CONSOLIDATED BALANCE SHEET AT 31 DECEMBER 2005

	<u>Notes</u>	As at 31 December 2005	As at 31 December 2004
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	23	27,393	27,393
- Own shares	23	(2,453)	(2,566)
Capital reserves	24	36,202	36,202
Hedging and translation reserves	25	(1,225)	(2,020)
Retained earnings	26	29,445	24,881
Result of the period		15,931	7,656
Equity attributable to equity holders of the parent		105,293	91,546
Minority interest		343	265
<b>Total equity</b>		<b>105,636</b>	<b>91,811</b>
<b>Non-current liabilities</b>			
Bank loans	29	17,354	13,414
Retirement benefit obligation	31	15,090	13,671
Deferred tax liabilities	32	7,886	6,068
Obligations under finance leases	30	13,942	16,682
Provisions for risks and charge	33	1,886	836
Other payables		0	1,252
		56,158	51,923
<b>Current liabilities</b>			
Trade payables	34	83,672	78,666
Payables toward affiliated and parent companies	35	1,079	1,223
Other payables	36	19,081	13,197
Current tax liabilities		7,096	7,518
Obligations under finance leases	30	3,266	3,955
Bank overdrafts and loans	29	20,550	37,904
Provisions for risks and charge	33	4,514	2,977
Derivative financial instruments	37	725	335
		139,983	145,775
<b>Total liabilities</b>		<b>196,141</b>	<b>197,698</b>
<b>Total equity and liabilities</b>		<b>301,777</b>	<b>289,509</b>



SCHEDULE OF MOVEMENTS IN THE SHAREHOLDERS' EQUITY

	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 2003 - restated	27,393	(5,040)	83,630	(1,790)	20,820	(41,274)	83,738	244	83,982
Destination of the result of the financial year									
- Dividends							0		0
- Other destinations			(47,428)		6,154	41,274	0	0	0
Economic items entered in equity									
- Own shares net movements					238		238		238
- Hedging reserve adjustment				458			458		458
- Translation difference				(397)			(397)		(397)
Other variations									0
- Payments on dividends					(2,273)		(2,273)		(2,273)
- Variation in own shares		2,474					2,474		2,474
- Hedging reserve adjustment				(291)			(291)		(291)
- Other movements					(57)		(57)	(6)	(63)
Result of the period					7,656		7,656	27	7,683
- 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									
- Dividends							(3,170)		(3,170)
- Other destinations					4,486	(4,486)	0	0	0
Economic items entered in equity									
- Own shares net movements					102		102		102
- Hedging reserve adjustment				517			517		517
- Translation difference				529			529		529
Other variations									
- Variation in own shares		113					113		113
- Hedging reserve adjustment				(251)			(251)		(251)
- Other movements					(24)		(24)	(45)	(69)
Result of the period					15,931		15,931	123	16,054
- At 31 december 2005	27,393	(2,453)	36,202	(1,225)	29,446	15,931	105,293	343	105,636

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2005

<b>Notes</b>	<b>For the year ended 12/31/2005</b>	<b>For the year ended 12/31/2004</b>
	€ '000	€ '000
<b>ORDINARY ACTIVITIES</b>		
Result of the period	16,054	7,683
Ammortisations:		
of fixed tangible assets	8,247	8,829
of intangible assets	2,642	2,327
Accruals:		
for employee termination indemnity	3,307	3,189
for bad and doubtful debts	1,023	993
for risk and charges	1,741	594
Capital gain from sales of non-instrumental assets	0	(11,312)
Foreign exchange gain/loss unrealized	386	1,575
Income tax expenses	7,949	13,599
Financial expenses	1,776	4,624
<b>Cash flow from (for) ordinary activities before variation in working capital</b>	<b>43,125</b>	<b>32,101</b>
Employee termination indemnity paid out	(1,900)	(2,072)
Use of risk fund	334	(385)
Variation in trade receivables	(6,087)	3,997
Variation in inventories	3,160	5,732
Variation in trade payables	4,168	13,291
Variation in other non-financial payables	3,961	4,063
Income tax paid	(4,999)	(1,773)
Interests paid	(2,175)	(4,413)
<b>NET CASH FLOW FROM (FOR) ORDINARY ACTIVITIES</b>	<b>39,587</b>	<b>50,542</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of intangible assets	(6,105)	(5,935)
Transfer of intangible assets	8	346
Purchase of tangible fixed assets	38 (2,842)	(2,951)
Transfer of tangible fixed assets	38 281	21,182
Variations in investments in affiliated companies represented by: intangible assets	0	(136)
Variation in other financial assets	302	147
<b>NET CASH FLOW FROM (FOR) INVESTING ACTIVITIES</b>	<b>(8,356)</b>	<b>12,653</b>
<b>FINANCING ACTIVITY</b>		
Variation in financial receivables	83	2,696
Opening/repayment of medium/long-term bank loans	3,916	4,869
Increase/decrease bank borrowings	(18,009)	(68,198)
Opening/repayment of other loans	38 (4,231)	(2,412)
Payments on dividends	(3,170)	(2,273)
Hedging reserve adjustment	225	166
Variation in own shares	214	2,712
Other movements in shareholders' equity	(68)	(62)
<b>NET CASH FLOW FROM (FOR) FINANCING ACTIVITIES</b>	<b>(21,040)</b>	<b>(62,501)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>10,191</b>	<b>693</b>
<b>CASH AND CASH EQUIVALENT AT PERIOD START</b>	<b>20,567</b>	<b>20,487</b>
Effect of exchange rate changes	452	(613)
<b>CASH AND CASH EQUIVALENT AT PERIOD END</b>	<b>31,210</b>	<b>20,567</b>
Cash and cash equivalent	31,210	20,567

**SUPPLEMENTARY  
NOTES TO THE  
CONSOLIDATED  
FINANCIAL  
STATEMENTS**

**for the year ending  
December 31, 2005**

## EXPLANATORY NOTES

## 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 31st December 2005 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 consolidated balance sheet as at 31st December 2005, including Appendix A relating to transition to International Accounting Principles (IFRS), which forms an integral part of said balance sheet, has been approved by the Board of Directors on today's date (27th March 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
<i>Parent company</i>						
<b>BIESSE S.p.A.</b> Via della Meccanica, 16 Chiusa di Ginestreto (PU)	Euro	27,393,042				
<i>Italian subsidiaries:</i>						
<b>HSD S.p.A.</b> Via della Meccanica, 16 Chiusa di Ginestreto (PU)	Euro	1,000,000	100%			100%
<b>MC S.r.l.</b> Via Mario Ricci, 12 Pesaro	Euro	101,490	51%			51%
<b>Cabi S.r.l.</b> P.le Mario Coralloni, 11 Loc. Selva Grossa (PU)	Euro	40,000	100%			100%
<b>Sandymac S.r.l.</b> Via della Meccanica, 16 Chiusa di Ginestreto (PU)	Euro	50,000	80%			80%
<b>Biesse Corporate School S.c.r.l.</b> Via della Meccanica, 16 Chiusa di Ginestreto (PU)	Euro	10,920	75.83%	15.01%	HSD S.p.a	90.84%
<i>Foreign subsidiaries:</i>						
<b>Biesse America Inc.</b> 4110 Meadow Oak Drive Charlotte NC 28208 – USA	US \$	1,000,000	100%			100%
<b>Biesse Canada Inc.</b> 1845 Rue Jean Monnet – Terrebonne (Quebec) – Canada	CAN \$	180,000	100%			100%
<b>Biesse Asia Pte. Ltd.</b> Zagro Global Hub 5 Woodlands Terr. – Singapore	S \$	2,655,000	100%			100%
<b>Biesse Group UK Ltd.</b> Lampport Drive – Daventry Northampt. – Great Britain	£ STG	1,000	100%			100%
<b>Biesse Groupe France Sarl</b> Parc d’Affaires de la Vallée de l’Ozon – Chapotin – Chaponnay – France	Euro	144,000	100%			100%
<b>Biesse Group Deutschland GmbH</b> Gewerberstrasse, 6 – Elchingen	Euro	1,432,600	100%			100%

(Ulm) – Germany						
<b>Biesservice Scandinavia AB</b> Maskinvagen 1 – Lindas – Sweden	SKR	200,000	60%			60%
<b>Biesse Iberica Woodworking Machinery s.l.</b> Cl. Pedrosa C., 9 - Barcelona – Spain	Euro	1,033,741	100%			100%
<b>Biesse Brasil Ltda</b> Rua Lapò, 975 - Curitiba Paraná – Brasil	Rlb	1,509,628	99.99%			99.99%
<b>Biesse Group Australia Pty Ltd.</b> 3 Widemere Road Wetherill Park – Australia	Au \$	5,046,547	100%			100%
<b>Biesse Group New Zealand Ltd.</b> UNIT 7/519– Rosebank Avondale Auckland – New Zealand	Nzd	334,262	100%			100%
<b>Hsd Usa Inc.</b> 3764 SW 30 <sup>th</sup> Avenue – Hollywood, Florida – USA	US \$	10,000		100%	<i>Hsd S.p.A.</i>	100%
<b>Intermac Vidrio Iberica S.A.</b> C/Muntaner 531, 3-4 Barcelona – Spain	Euro	60,102	100%			100%
<b>Sel Realty Inc.</b> 1845 Rue Jean Monnet – Terrebonne (Quebec) – Canada	CAN \$	100	100%			100%
<b>Bi. Fin. UK Ltd.</b> Lampton Drive – Daventry Northampt. – Great Britain	£ STG	600,000	100%			100%
<b>Bifin Ltd.</b> 233, Peachtree St., NE – Harris Tower – Atlanta, GA 30303 (USA)	US \$	10,000		100%	<i>Biesse America, Inc.</i>	100%

#### List of holdings in affiliated companies, valued using the Shareholders equity method

Name and office	Currency	Capital Stock	Direct control	Indirect control	Through	Biesse Group
<b>HSD Deutschland GmbH</b> Immenreich 6, Gingen, Fils – Germany	Euro	25,000		50%	<i>Hsd S.p.A.</i>	50%
<b>I.S.P. Systems S.r.l.</b> Via F.lli Rosselli 46 – Pesaro, Italy	Euro	14,000	25.93%			25.93%
<b>Kernex Automation S.r.l.</b> Via P. Nenni, 1/7 Cerese di Virgilio (MN), Italy	Euro	46,700	25%			25%

## 2. FIRST APPLICATION OF THE INTERNATIONAL ACCOUNTING PRINCIPLES

In line with the provisions of art. 81 of the Rules for issuing parties No. 11971/1999 and subsequent modifications (Consob Decision No. 14990 of 14th April 2005) the consolidated balance sheet as at 31st December 2005 has been drawn up for the first time in compliance with the International Financial Reporting Standards (IFRS) issued by IASB and approved by the European Commission.

In the balance sheet the figures are compared with the consolidated balance sheet as at 31st December 2004, which is set out again to comply with these criteria.

For a complete analysis of the effects deriving from the first application of the international accounting principles, refer to Appendix A, which reports the reconciliation prospectuses of the data according to the Italian and International accounting principles, and the explanatory notes illustrating the principal differences relative to 1st January 2004 and 31st December 2004. The reconciliations in question were approved by the board of directors on 14th September 2005.

No modifications were made to the international principles that have an impact on the reconciliation schedules that have already been approved.

The consolidated balance sheet as at 31st December 2005 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 consolidated balance sheet entry values are expressed in thousands of Euro.

In applying the IAS/IFRS principles, the Group has made use of certain options and/or choices foreseen by IFRS 1 for the purposes of transition to international accounting principles and by IFRS principles in general. The main options and choices related to the following:

#### **Choice of balance sheet schedules**

In accordance with the provisions of IAS 1, the Group Management has made the following choices as regards the balance sheet schedules. The asset and liability statement is the one that foresees separation of current assets / liabilities from non current ones; the income statement foresees distinction of costs by nature; the prospectus of the variations in shareholders' equity groups together reserves of similar nature and indicates the main changes that have taken place in them; the cash flow statement is set down using the indirect method. All the schedules comply with the minimum content foreseen by international accounting principles and by the applicable provisions foreseen by national legislation and by the body controlling companies listed on the Stock Exchange (Consob). These schedules are considered adequate for the purpose of fair representation of the Group's asset and liability, financial and economic situation and financial cash flows; in particular, the economic schedules reclassified by nature provide reliable and relevant information for the purposes of proper representation of the Group's economic trend.

#### **Choice of criteria**

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;
- associated companies: operations prior the date of transition have not been subject to retrospective revision, that is, through the redetermination of the current value of assets and liabilities at the moment of acquisition by the Group;
- tangible and intangible assets: the historic cost has been retained (as opposed to the *fair value*) as the assessment criterion for tangible and intangible assets subsequent to the initial registering;
- inventories: as provided for by IAS 2, the Group has decided to value inventories using the weighted average cost method.

### **3. CONSOLIDATION PRINCIPLES**

#### **General principles**

The consolidated balance sheet has been drawn up in compliance with International Financial Reporting Standards (IFRS).

The balance sheet has been drawn up based on the principal of historic cost, with the exception of the revaluation of certain financial instruments.

#### **Consolidation criteria**

The consolidated balance sheet as at 31st December 2005 includes the balance sheets of the parent company Biesse and the Italian and foreign companies controlled either directly or indirectly by it. A company is said to control another when it has the power to dictate the financial and operating policies of the latter in order to obtain benefits from its activities.

These balance sheets, in the case of significant differences, have been reclassified and adjusted so they conform with the parent company's accounting principles and valuation criteria.

For the compilation of the balance sheet, the asset and liability entries as well as the income and expenditure of the

companies included in the consolidation were eliminated in full.

The accountable value of the shares in a company included in the consolidation is wiped out to offset the corresponding fractions of the shareholders' equity of the shareholdings, attributing their current value on the date of acquisition to the individual elements of the assets and liabilities. Any residual difference, if positive, is entered in the non-current assets, such as goodwill, if negative, it is debited in the income statement.

The economic results of the subsidiaries bought or sold during the financial year are included in the consolidated income statement from the effective date of acquisition until the effective date of sale.

The profit-sharing of the minority shareholders in a bought company is initially valued as being equal to their share of the current values of the assets, liabilities and potential liabilities entered.

The receivables and payables, income and expenditure, profits and losses that originated from transactions between companies that included in the consolidation are removed. Also eliminated were the relationships between the companies of the Biesse Group and a financial services company outside the Group which acts as an intermediary for most of the commercial transactions between the Parent company and several of the consolidated companies.

As an exception to this general rule, considering the negligibility of the effects and the reconstruction difficulties, the profits from the sale of the stock in inventory by Hsd S.p.A. , Cabi S.r.l. and, for some productions, by MC S.r.l. to the other manufacturing companies in the Biesse Group were not removed, as they were semifinished products included in the products being manufactured.

The capital gains and losses deriving from the intracompany sale of instrumental assets were removed, where they were considered to be significant.

The amount of capital and reserves of the subsidiaries that correspond to third party holdings is entered in a shareholder's equity entry called "minority share profit-sharing"; the consolidated financial result that corresponds to third party holdings is entered separately in the entry "Net profit for the financial year attributable to minority shareholders"

For consolidated balance sheet presentation reasons, the assets and liabilities of foreign subsidiaries, the operating currencies of which are other than the Euro, are converted at the current exchange rates valid on the date of the balance sheet. The income and expenses are converted at the average exchange rate for the period. The emerging exchange differences are recorded in the shareholders' equity entry "Translation reserve". This reserve is recorded in the income statement as income and expenses for the period in which the relative subsidiary is sold.

#### Shareholdings in associated companies

An associated company is one in which the group can exercise a significant influence, though without overall or joint control, through participation in the decision-making on the financial and operating policies of the associated company.

The economic results and assets and liabilities for associated companies are set down in the consolidated balance sheet using the shareholders' equity method.

#### **4. VALUATION CRITERIA**

The following indicates the most significant valuation criteria used to draw up the consolidated balance sheet as at 31st December 2005.

##### **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.

### **Construction contracts**

When the result of a construction contract can be calculated in a reliable manner, the revenues and costs relating to the relevant job are set down as revenues and costs, respectively, according to the progress of work on the date of closure of the balance sheet, based on the ratio between the costs sustained for activities carried out up to the date of the balance sheet and the estimated total costs for the job, unless this is not considered to be representative of the actual state of progress of the job itself.

Variations to the contract, revision of prices and incentives are included to the extent they have been agreed with the customer.

When the result of a construction contract can be estimated in a reliable manner, the revenues that refer to the job in question are only set down within the limits of the costs sustained for the job that will probably be recovered. Job costs are set down as expenses for the year in which they were sustained.

When it is probable that the total costs for a job exceed the contractual revenues, the expected loss is immediately set down as a cost.

### **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 operation*, 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.

#### **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.

### Cash-flow statement

The cash-flow statement, as already indicated, has been prepared applying the indirect method. Liquid assets and equivalent means included in the cash-flow statement include the real balance of that item on the reference date. The cash flows in foreign currency have been converted at the average exchange rate for the period. The income and expenses relating to interests, dividends received and taxes on income are included in the cash flows generated by the operating management.

## 5. 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, during 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 relating to acquisition (in 2003) of the minority shareholdings in the subsidiary HSD S.p.A. (described in further detail in note 15 below). In effect, on the date this balance sheet was approved, this option has been exercised, determining a corresponding increase in the price agreed at the time of purchase of the shares, which can now be determined with absolute certainty. In compliance with the provisions of IAS 27, this higher price (equivalent to € 2.2 million), although it has not yet been paid, must be reflected in the consolidated accounts, setting it down under the proper items in the balance sheet, which in this case are goodwill for the asset portion, and sundry accounts payable for the liability portion.

It is likewise true that at the date of the balance sheet the option connected to the liabilities set down in the balance sheet, using the logic deriving from application of IAS 39, should be expressed in the balance sheet, to reflect its fair value (equal to € 1.4 million) and entering a corresponding increase in the consolidated assets (in particular goodwill). The *fair* value of the option as at 31/12/2005 and therefore the higher value of the item Goodwill is however lower than would be the case were IAS 27 to be applied (as the Biese share to which the call option is connected has increased its stock market value during the period between closure of the balance sheet and exercise of the option).

It therefore results that in both cases application of the international accounting principles will result in an increase in the value of goodwill, but with a difference in valuation between the two alternatives of 1.2 million Euro.

The Group Management has considered it more advisable to follow the accounting logic foreseen by IAS 27, as it gives a better representation of the Group's financial position.

## 6. REVENUES

Analysis of Group revenues is as follows:

	Year ending 31/12/2005	Year ending 31/12/2004 – restated
	€ '000	€ '000
Revenue from product sales	322,217	300,176
Revenues from after-sales services	12,794	10,496
<b>Total revenues</b>	<b>335,011</b>	<b>310,672</b>

Cost recovery	2,626	2,098
Other operating revenues:	2,437	4,852
Internal constructions	162	321
Contributions for operating expenses	214	87
<b>Total other operating revenues:</b>	<b>5,439</b>	<b>7,358</b>

As the company has not closed down, the above data refers exclusively to operating activities.

## 7. 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:

#### Economic data

<b>Year ending 31/12/2005</b> € '000	<b>Wood</b>	<b>Glass &amp; Marble</b>	<b>Mechatronics</b>	<b>Other</b>	<b>Elision</b>	<b>Group Total</b>
External revenues	248,782	60,886	17,770	7,573	0	335,011
Inter-segmental revenues	370	0	10,565	26,865	(37,800)	0
Total revenues	249,152	60,886	28,335	34,438	(37,800)	335,011
<b>Segment operating result</b>	<b>24,782</b>	<b>5,821</b>	<b>2,083</b>	<b>2,975</b>	<b>0</b>	<b>35,661</b>
Non-allocated ordinary costs						(7,878)
<b>Operating result</b>						<b>27,783</b>
Percentage of profit/loss of affiliated companies	(383)		104			(279)
Segment financial revenues and charges	(162)	(340)	(22)	(349)		(873)
Non-allocated financial revenues and charges						(2,628)
Pre-tax profits						24,003
Taxes for the period						(7,949)
<b>Profit for the period</b>						<b>16,054</b>

<b>Year ending 31/12/2004 – rectified</b> € '000	<b>Wood</b>	<b>Glass &amp; Marble</b>	<b>Mechatronics</b>	<b>Other</b>	<b>Elision</b>	<b>Group Total</b>
External revenues	231,668	54,728	16,751	7,524	0	310,672
Inter-segmental revenues	232	0	10,335	23,101	-33,668	0
Total revenues	231,901	54,728	27,086	30,625	-33,668	310,672
<b>Segment operating result</b>	<b>15,484</b>	<b>1,793</b>	<b>1,881</b>	<b>419</b>	<b>0</b>	<b>19,577</b>
Non-allocated ordinary costs						(4,478)
<b>Operating result</b>						<b>15,099</b>
Percentage of profit/loss of affiliated companies	(434)		27			(407)
Capital gains on non-instrumental fixed asset transfer						11,312

Segment financial revenues and charges	(371)	(543)		(206)		(1,120)
Non-allocated financial revenues and charges						(3,602)
Pre-tax profits						21,282
Taxes for the period						(13,599)
<b>Profit for the period</b>						<b>7,683</b>

**Balance Sheet Figures**

<b>Year ending 31/12/2005</b>	<b>Wood</b>	<b>Glass &amp; Marble</b>	<b>Mechatronic s</b>	<b>Other</b>	<b>Elision</b>	<b>Group Total</b>
€ '000						
Fixed assets	43,024	13,528	9,553	12,315	0	78,420
Warehouses	47,669	11,176	7,926	6,028	0	72,799
Commercial receivables and other receivables	74,204	17,475	11,105	7,111	(8,241)	101,654
Shareholdings in associated companies	0	0	107	0	0	107
<b>Total segment assets</b>	<b>164,897</b>	<b>42,179</b>	<b>28,691</b>	<b>25,454</b>	<b>(8,241)</b>	<b>252,980</b>
<b>Non-allocated assets</b>						<b>48,797</b>
<b>Total assets</b>						<b>301,777</b>
Provisions for risks	4,397	1,041	712	16	0	6,166
Retirement benefit obligations	9,108	1,751	1,584	1,749	0	14,192
Commercial payables and other payables	64,854	17,204	9,974	11,889	(8,241)	95,680
Leasing contracts liabilities	3,978	10,301	249	2,555	0	17,083
<b>Total segment liabilities</b>	<b>82,337</b>	<b>30,297</b>	<b>12,519</b>	<b>16,209</b>	<b>(8,241)</b>	<b>133,121</b>
<b>Non-allocated liabilities</b>						<b>168,656</b>
<b>Total obligations</b>						<b>301,777</b>

<b>Year ending 31/12/2004 – rectified</b>	<b>Wood</b>	<b>Glass &amp; Marble</b>	<b>Mechatronic s</b>	<b>Other</b>	<b>Elision</b>	<b>Group Total</b>
€ '000						
Fixed assets	42,265	14,567	8,043	13,173	0	78,048
Warehouses	46,379	12,073	9,685	6,035	0	74,172
Commercial receivables and other receivables	68,277	15,447	8,865	7,998	(9,878)	90,709
Shareholdings in associated companies	316	0	38	0	0	354
<b>Total segment assets</b>	<b>157,237</b>	<b>42,087</b>	<b>26,631</b>	<b>27,206</b>	<b>(9,878)</b>	<b>243,283</b>
<b>Non-allocated assets</b>						<b>46,227</b>
<b>Total assets</b>						<b>289,509</b>
Provisions for risks	2,492	737	960	38	0	4,227
Retirement benefit obligations	8,041	1,597	1,441	1,933	0	13,012
Commercial payables and other payables	56,981	13,783	10,271	13,720	(9,878)	84,877

Leasing contracts financial liabilities	4,460	12,558	437	2,705	0	20,160
<b>Total segment liabilities</b>	<b>71,974</b>	<b>28,675</b>	<b>13,109</b>	<b>18,396</b>	<b>(9,878)</b>	<b>122,276</b>
<i>Non-allocated liabilities</i>						<i>167,232</i>
<b>Total obligations</b>						<b>289,509</b>

**Additional information**

Year ending 31/12/2005 € '000	Wood	Glass & Marble	Mechatronics	Other	Non- allocated assets	Group Total
Increases in fixed assets	6,012	525	2,645	488	675	<b>10,345</b>
Depreciation of tangible and intangible fixed assets	5,194	1,349	1,136	2,305	905	<b>10,889</b>

Year ending 31/12/2004 € '000	Wood	Glass & Marble	Mechatronics	Other	Non- allocated assets	Group Total
Increases in fixed assets	5,772	1,944	1,390	1,295	766	<b>11,167</b>
Depreciation of tangible and intangible fixed assets	5,108	1,412	1,252	2,385	999	<b>11,156</b>

**ANALYSIS BY GEOGRAPHIC SECTOR****Turnover**

Geographic area	Year ending 31/12/2005	%	Year ending 31/12/2004 – restated	%
Western Europe	168,004	50.1%	158,876	51.1%
Eastern Europe	53,826	16.1%	48,134	15.5%
North America	48,450	14.5%	45,192	14.5%
Oceania	29,020	8.7%	27,422	8.8%
Asia	20,813	6.2%	19,533	6.3%
Rest of World	14,899	4.4%	11,514	3.7%
<b>Group Total</b>	<b>335,011</b>	<b>100.0%</b>	<b>310,672</b>	<b>100.0%</b>

**Segment assets**

Geographic area	Year ending 31/12/2005	%	Year ending 31/12/2004 – restated	%
Western Europe	226,180	74.9%	222,536	76.9%
North America	32,187	10.7%	26,508	9.2%
Eastern Europe	15,739	5.2%	14,020	4.8%
Oceania	15,556	5.2%	15,557	5.4%
Asia	7,753	2.6%	7,524	2.6%
Rest of World	4,362	1.4%	3,364	1.2%
<b>Group Total</b>	<b>301,777</b>	<b>100.0%</b>	<b>289,509</b>	<b>100.0%</b>



**Additional information***Increases in fixed assets*

Geographic area	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Western Europe	10,140	10,842
North America	74	170
Oceania	80	122
Asia	51	33
<b>Group Total</b>	<b>10,345</b>	<b>11,167</b>

**8. INCOME FROM INVESTMENT ACTIVITIES**

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Interest received from bank deposits	197	137
Interest received from customers	183	234
Other	33	175
<b>Total income from investment activities</b>	<b>413</b>	<b>546</b>

**9. CAPITAL GAINS ON NON-INSTRUMENTAL FIXED ASSET TRANSFER**

This item on the balance sheet had a value of € 11,312 thousand on the previous balance sheet, relating to the capital gains resulting from sale of non-instrumental land to the parent company Bi. Fin. S.r.l. in the month of March 2004 and to transfer of part of the industrial premises at San Giovanni in Marignano, completed in December 2004. The land was previously entered in the balance sheet at its historic cost and subsequently sold at the market value, backed by a surveyor's valuation, of € 20 million.

During 2005, no sales of non-instrumental goods were entered.

**10. FINANCIAL EXPENSES**

Details of the financial expenses are reported below:

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Interest payable on loans and financing	1,549	2,358
Interest payable on leasing	873	1,062
Interest payable on current account overdrafts	200	197
Financial discounts to customers	377	315
Other financial expenses	41	402
<b>Total financing costs</b>	<b>3,040</b>	<b>4,334</b>
IRS losses designated as cash-flow hedging transferred from the hedging reserve	251	290
<b>Total financial expenses</b>	<b>3,291</b>	<b>4,624</b>

**11. EXCHANGE REVENUES AND CHARGES**

The value relating to 2005, negative in the amount of € 714 thousand, (against a negative value in 2004 of € 644 thousand), is mainly due to the increase in the "flow" hedging operations in compliance with the Group's new policy for managing exchange risks. This phenomenon, in the presence of a redimensioning of the single European monetary unit, has generated more negative exchange differences offset by a more favourable valorisation of the activities expressed in foreign currency (USD-CAD-GBP) at more favourable exchange rates.

In this entry, the value relating to the balance of the non-realised gains and losses, deriving from adjustment of the credit and debit entries expressed in foreign currency to the end of period exchange rate, is negative by € 386 thousand.

The components relating to the evaluation of the derived contracts at *fair value* on the exchanges is negative in the amount of € 615 thousand.

## 12. TAXES FOR THE FINANCIAL YEAR

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Current income tax	1,003	534
Deferred income taxes	1,622	8,854
<b>Tax for the period</b>	<b>2,625</b>	<b>9,389</b>
IRAP, other lesser taxes and deferred taxes	4,781	4,210
Income tax relating to previous years	543	0
<b>Total tax for the period</b>	<b>7,949</b>	<b>13,599</b>

National income tax (IRES) is calculated at 33 percent (unchanged with respect to 2004) of the taxable income for the year. Tax for other jurisdictions is calculated according to the rates in force in those countries.

IRAP and other lesser taxes, applied in other jurisdictions and calculated using taxable bases other than profits before tax, are set down separately.

Tax relating to previous years, amounting to € 543 thousand, mainly comprise accruals (€ 558 thousand) made by the Parent Company in relation to tax for the years 2002/2003, for which a Preliminary Query Notification (PVC) has been received from the Ancona Regional Tax Office, (for further details reference is made to note 38 below), partially compensated by tax recoveries from preceding years, amounting to € 15 thousand.

The amounts set aside for tax for the year can be reconciled with the results for the period, set down on the balance sheet as follows:

€ '000	Year ending 31/12/2005		Year ending 31/12/2004 – restated	
Pre-tax profits	24,003		21,282	
Tax at the national rate of 33% (2004: 33%)	7,921	33.00%	7,025	33.00%
Fiscal effect of non deductible costs in determining income	234	0.97%	794	3.73%
Fiscal effect of the use of previously unrecognised losses	(6,856)	(28.56%)	(94)	(0.44%)
Fiscal effect on losses for the year of certain subsidiaries not set down in the asset and liability statement, and redetermination of current deferred tax	1,335	5.56%	1,749	8.21%
Effect of the different tax rates relating to subsidiaries operating in under other jurisdictions	(9)	(0.04%)	(85)	(0.40%)
<b>Income tax for the period and effective tax rate</b>	<b>2,625</b>	<b>10.94%</b>	<b>9,389</b>	<b>44.10%</b>

In 2005 the effective tax rate differed considerably from the theoretical one, due to the use of past losses that had not previously been recognised, mainly due to the Parent Company (approximately € 6.5 million). Thanks to the use of these past losses, and in spite of a pre tax profit of € 16,965 thousand, the Parent Company paid no IRES in 2005. These losses were not set down in the asset and liability statement among the deferred tax receivables, in compliance with the criteria of absolute prudence determined by uncertainty regarding forecasts for future operations.

At the end of 2005, the Group Management considered it advisable to continue to observe these criteria of prudence (both with reference to the Parent Company, and to other companies with reportable past losses), and as a consequence no deferred tax receivables were set down for the reportable losses (amounting to € 23 million at the end of 2005, whereas they amounted to € 44 million at the end of 2004); this decision was the direct consequence of the expectations for the immediate future, which were positive, but were based on estimates relating to the macro-economic scene that required to be considered with absolute prudence and care.

In addition to the tax set down in the income statement for the period, deferred tax payable amounting to € 193 thousand has been set down directly in the shareholders' equity.

**13. PROFIT PER SHARE (EPS)**

The basic profit per share as at 31st December 2005 is equal to Euro/cent 60.28 (30.,01 in 2004) and is calculated by dividing the profit attributable to shareholders of the parent company, equal to € 15,931 thousand (€ 7,656 thousand at the end of 2004), by the weighted average of the ordinary shares in circulation during the period, corresponding to No. 26,427,758 (No. 25,510,322 in 2004). 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	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Basic profit for the period	15,931	7,656
Dilatory effects on the profit for the period	0	0
Diluted profit for the period	15,931	7,656

***Weighted average of the ordinary shares in circulation***

<i>in thousands of shares</i>	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Weighted average number of ordinary shares used to determine the profit per basic share	27,393	27,393
Own shares effect	(965)	(1,883)
Weighted average of ordinary shares in circulation – for calculating the basic profit	26,428	25,510
Dilatory effects	0	0
Weighted average of ordinary shares in circulation – for calculating the diluted profit	26,428	25,510

As activities did not cease during the year, the profit per share is fully referable to the operating activities.

**14. BUILDINGS, PLANTS, MACHINERY AND OTHER TANGIBLE ASSETS**

€ '000	Property, plant and machinery	Equipment and other tangible fixed assets	Fixed assets under construction and payments in account	Total
<b><i>Historic cost</i></b>				
Value at 01/01/2004	89,034	30,070	4,491	123,595
Increases	2,831	1,591	1,291	5,713
Differences in exchange rate, reclassification and other variations	4,454	(2)	(5,476)	(1,024)
Transfers	(16,616)	(2,328)	0	(18,944)
Value at 31/12/2004	79,703	29,331	306	109,340
Increases	1,592	1,882	366	3,840
Differences in exchange rate, reclassification and other variations	1,735	471	(632)	1,574
Transfers	(525)	(1,086)	0	(1,611)
<b>Value at 31/12/2005</b>	<b>82,505</b>	<b>30,598</b>	<b>40</b>	<b>113,144</b>
<b><i>Amortisation funds</i></b>				
Value at 01/01/2004	21,103	19,624	-	40,727
Amortisation for the period	4,989	3,840	-	8,829
Differences in exchange rate, reclassification	(1,495)	(1,999)	-	(3,494)

and other variations

Value at 31/12/2004	24,597	21,465	-	46,062
Amortisation for the period	4,907	3,341	-	8,248
Differences in exchange rate, reclassification and other variations	248	(986)	-	(738)
<b>Value at 31/12/2005</b>	<b>29,752</b>	<b>23,820</b>	<b>-</b>	<b>53,572</b>

**Net accounting value**

Value at 01/01/2005	55,106	7,866	306	63,278
<b>Value at 31/12/2005</b>	<b>52,753</b>	<b>6,778</b>	<b>40</b>	<b>59,572</b>

During the reference period, there were no recorded important variations in the items in question, in that investments were made for the normal replacement of working tools required for ordinary production activities. In line with the company's activities to make better use of the production capacity and to increase the synergy between similar industrial processes, during the year, the business unit dedicated to the Artech/Polymac brand name, located in premises owned by others, was transferred to premises owned by the group. This operation will result in certain savings, both directly through termination of rental contracts (cost for 2004: € 272 thousand), and indirectly, through the efficiency produced on normal running operations as a result of the centralisation of various company functions.

It is noted that the balance sheet totals include assets acquired by means of financial leasing contracts, with a net accounting value of € 21,683 thousand (€ 22,571 thousand in 2004), depreciated by € 10,132 thousand (€ 6,628 thousand in 2004); in particular the net accounting value refers to industrial buildings to a value of € 17,062 thousand (€ 17,805 thousand at end of 2004) and machinery to a value of € 4,621 thousand (€ 4,766 thousand in 2004). During 2005, a new machine for precision mechanical machining operations was purchased, with a value of € 1.2 million, financed by leasing.

The Group has land and buildings that are mortgaged to a value corresponding to 21 million Euro (11 million in 2004) as guarantee for the mortgages granted to the Group.

## 15. GOODWILL

The balance sheet item, equal to € 13.108 thousand is made up as follows:

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Acquisition of Diamut company branch	3,940	3,940
Acquisition of 20 % of H.S.D. S.p.a.	2,939	704
Acquisition of company Selco	2,307	2,307
Acquisition of Allwood (Australia) company branch – wood sector	2,084	1,977
Acquisition of CNI company branch	1,226	1,226
Acquisition of SEV company branch	424	424
Acquisition of small company branches (Australia) – glass sector	188	174
<b>Total</b>	<b>13,108</b>	<b>10,752</b>

The balance at the end of period increases with respect to 2004, not only due to the variations in exchange rate for the Australian dollar (which results in a total increase of 121 thousand Euro), but also due to the increase in goodwill, referring to acquisition of 20% of the share capital of HSD S.p.A. from the ex-partner of said subsidiary company.

In this regard it must be specified that the original contract foresaw the right of the other party to request delivery of 380,654 shares in the parent company, in place of payment of the debt already set down on the balance sheet for 2004, amounting to 1,252 thousand Euro (reclassified under sundry payables), said option to be exercised within the end of April 2006.

As explained in note 5, the option was exercised in the month of February 2006, and the relevant payable was therefore defined exactly as € 3,488 thousand (with an increase with respect to the value already entered in December 2004 of € 2,235 thousand). Given that this higher value for the payable, in view of the contract upon which it is based, must be understood to be the higher price paid for acquisition of 20% of the shares in the subsidiary HSD S.p.A. and is

therefore to be allocated as an increase in the goodwill already set down on the balance sheet, the Group Management has considered it fair to advance the effects of the operation to 31st December 2005, in line with the provisions of IAS 27.

From the financial point of view, attention should be drawn to the fact that the Group has fully hedged the risk underlying the recognised option. On the balance sheet date, in fact, the shares subsequently handed over to the counterpart are already kept in the portfolio, even if the accounting of own shares as provided for by IAS 39 does not allow this hedging of the risk to be highlighted.

The goodwill listed is allocated, at the date of acquisition, to the cash generating units - CGU, from which benefits are to be expected as a result of aggregation.

The Group will verify the ability to recover goodwill at least once a year, or more frequently if there is any indication of a loss of value. The value recoverable by the CGUs is verified by determination of the value in use. The main assumptions used relate to the rate of discount, the rate of growth and the expected variations in price of sale and the trend for direct costs during the period being calculated. The Group Management has therefore adopted a rate of discount before tax that reflects fair market valuation of the cost of money and specific risk. The growth rates used are based on growth forecasts for the reference industrial sector. Variations in the price of sale and in direct costs are based on experience and on future market expectations.

The Group prepares operating cash flow forecasts deriving from the most recent budget approved by the Board of Directors for the next three years, and extrapolates the flows for the remaining period based on the medium/long term growth rate for the sector, equivalent to 2% in line with that of the sector. The rate of discount used to discount cash flows is 8%.

Analysis of the recoverability of goodwill and the values used by the CGUs has shown no need for any devaluation due to loss of value.

## 16. OTHER INTANGIBLE ASSETS

€ '000	Development costs	Patents, trade marks and other intangible assets	Fixed assets under construction and payments in account	Total
<b><i>Historic cost</i></b>				
Value at 01/01/2004	4,249	5,876	137	10,262
Increases	3,455	1,966	33	5,454
Differences in exchange rate, reclassification and other variations	34	(112)	(170)	(248)
Transfers	0	(254)	0	(254)
Value at 31/12/2004	7,738	7,476	0	15,214
Increases	3,818	330	122	4,270
Differences in exchange rate, reclassification and other variations	(868)	(1,944)	(64)	(2,876)
Transfers	0	(18)	0	(18)
<b>Value at 31/12/2005</b>	<b>10,688</b>	<b>5,844</b>	<b>58</b>	<b>16,590</b>
<b><i>Amortisation funds</i></b>				
Value at 01/01/2004	1,328	2,795	-	4,123
Amortisation for the period	996	1,331	-	2,327
Differences in exchange rate, reclassification and other variations	(229)	(539)	-	(768)
Value at 31/12/2004	2,095	3,587	-	5,682
Amortisation for the period	1,456	1,186	-	2,642
Differences in exchange rate, reclassification and other variations	(868)	(1,431)	-	(2,299)
<b>Value at 31/12/2005</b>	<b>2,683</b>	<b>3,342</b>	<b>-</b>	<b>6,025</b>

**Net accounting value**

Value at 01/01/2005	5,643	3,889	0	9,532
<b>Value at 31/12/2005</b>	<b>8,005</b>	<b>2,502</b>	<b>58</b>	<b>10,565</b>

The intangible fixed assets illustrated have a specified life, and are consequently depreciated during that life. The development costs refer to products, the marketing of which was started between 2004 and 2005, and it is forecast that the economic returns from these investments will take place on average within a period of 5 years. The patents, trade marks and other rights are amortised according to their working life, which is estimated on average to be five years.

**17. EQUITY INVESTMENTS IN AFFILIATED COMPANIES**

€ '000

	Year ending 31/12/2005		
	I.S.P.	HSD	Total
	Systems	Deutschland	
Cost of purchase	0	13	13
Quota part of post acquisition profits, net of dividends received	(576)	94	(482)
	(576)	107	(469)
Less: Fund for coverage of losses exceeding shareholders' equity	576	0	576
Equity investments in affiliated companies	0	107	107

€ '000

	Year ending 31/12/2004 – restated			
	I.S.P.	HSD	Biesse	Total
	Systems	Deutschl and	China	
Cost of purchase	0	13	500	513
Quota part of post acquisition profits, net of dividends received	(207)	25	(184)	(366)
	(207)	38	316	147
Accruals to fund for coverage of losses exceeding shareholders' equity	207	0	0	207
Equity investments in affiliated companies	0	38	316	354

Details of the affiliated companies belonging to the Group as at 31st December 2005 are as follows:

Name	Headquarters	Percentage capital owned	Percentage voting rights exercised	Main activity
HSD Deutschland GmbH	Germany	50%	50%	Distribution and post-sales assistance for Mechatronics Division products
I.S.P. Systems S.r.l.	ITALY	25.93%	25.93%	Design of innovative solutions for the woodworking industry
Kernex Automation S.r.l.	ITALY	25%	25%	Non operative company

The following table shows the main figures for affiliated companies.

€ '000

	Year ending 31/12/2005	Year ending 31/12/2004 – restated
<b>Asset and liability statement</b>		
Total assets	4,561	7,958

Total obligations	(5,992)	(7,175)
Total net	(1,431)	783
Pro quota attributable to the Group	(319)	397
Effect of elision entries	(150)	(250)
Pro quota attributable to the Group after elision entries	<b>(469)</b>	<b>147</b>
<b>Profit and loss account</b>		
Revenues	1,904	2,749
Net profit	(1,471)	4
Pro quota attributable to the Group	(336)	11

During the year the shareholding in the associated company Biesse China Co. Ltd. (and indirectly in its subsidiary Dongguang Biesse Machinery Co. Ltd.), was sold for a price of € 406 thousand (with a capital gain on the balance sheet value of approximately € 90 thousand). The sale is part of the current company strategy for favouring direct investment as opposed to other forms of shared management with other economic operators or in joint-ventures.

## 18. OTHER FINANCIAL ASSETS AND NON-CURRENT CREDITS

The balance sheet item is made up as follows:

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Minority shareholdings in other companies and consortia	83	83
Other receivables / Deposits – non-current value	469	849
<b>Total</b>	<b>552</b>	<b>932</b>

## 19. INVENTORY

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Raw materials	46,660	48,213
Semifinished products	6,588	8,224
Finished products and goods	19,550	17,735
<b>Total</b>	<b>72,798</b>	<b>74,172</b>

The balance sheet value is net of the obsolescence funds, amounting to € 3,880 thousand for raw materials (€ 2,622 thousand at the end of 2004) and € 1,170 thousand for finished products (€ 1,653 thousand at the end of 2004).

## 20. SALES RECEIVABLES

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Receivables from customers - within 12 months	98,169	89,724
Receivables from customers - beyond 12 months	1,772	2,364
Credit devaluation fund	(2,954)	(2,729)
<b>Total</b>	<b>96,987</b>	<b>89,359</b>

The amount of € 2,954 thousand (€ 2,729 thousand as at December 2004) was set aside to a fund for coverage of bad receivables. This fund was determined based on historic figures relating to losses on receivables. The Management considers that the book value of sales receivables is close to their *fair value*.

**21. RECEIVABLES TOWARD AFFILIATED AND PARENT COMPANIES**

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Receivables toward affiliated companies	790	920
Receivables towards parent companies	183	210
<b>Total</b>	<b>973</b>	<b>1,130</b>

The receivables toward affiliates entry is made up as follows:

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Hsd Deutschland GmbH	612	375
I.S.P. Systems S.r.l.	178	533
Kernex Automation S.r.l.	0	3
Biesse China Co. Ltd.	0	9
<b>Total</b>	<b>790</b>	<b>920</b>

The receivables towards affiliates are sales receivables and refer to transactions carried out to transfer goods and/or provide services.

The receivables towards parent companies relate to transfer of IRES withholding tax and payments on account by the subsidiary HSD S.p.A. to the parent company Bi.Fin. S.r.l., as a result of the latter's decision to adhere to National Fiscal Consolidation for the three-year period 2005 – 2007 (see note 41).

**22. SUNDRY RECEIVABLES**

The sundry receivables entry is made up as follows:

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Receivables for taxes on expenditure	2,224	2,971
Receivables for taxes on income	1,289	1,923
Other receivables from the inland revenue	32	14
Credit notes to be received, prepaid costs and advances to suppliers	1,930	3,406
Other receivables	1,989	2,292
<b>Total</b>	<b>7,464</b>	<b>10,606</b>

**Cash and equivalent funds**

These include the liquid assets held by the Group and bank deposits expiring within three months. The book value of these assets approximately represents their *fair value*.

**Credit risk**

The Group credit risk essentially relates to the amount of sales receivables. The amounts set down on the balance sheet are net of appropriations for bad debts, which have been estimated by the Group's management based on past experience and their valuation in the current economic context.

The credit risk relating to liquid assets and derived financial instruments is limited, as the other parties in question are banks with a high rating, assigned them by primary international rating agencies.

The Group does not have a particular credit risk concentration, as its credit exposure is divided between a large number of other parties and customers (the main customer represents only 3% of the Group's total receivables).



**23. PARTNERSHIP CAPITAL / OWN SHARES**

Own shares possessed by the parent company Biesse S.p.A. number 927,202, entered in the balance sheet at the historic cost of € 2,453 thousand.

With reference to the shares in portfolio, it should be pointed out that a part of these, equal to No. 380.654, is kept for option hedging recognised in favour of the ex-shareholder of the subsidiary HSD S.p.a. by virtue of the sales contract of 14th November 2003. As explained in note 5 above, the option was exercised in the month of February 2006, resulting in said shares being handed over.

The remaining number of shares in the portfolio (No. 546,548), previously maintained as treasury shares, were transferred in full in the months of January and February 2006, producing a corresponding value of € 4.17 million. Therefore, at the date of approval of the balance sheet, the Biesse Group no longer possesses own shares.

**24. CAPITAL RESERVES**

The balance sheet value, equivalent to € 36,202 thousand (unchanged with respect to 2004) refers to the reserve for paid-in surplus.

**25. COVERAGE AND TRANSLATION RESERVES**

The balance sheet value is made up as follows:

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Coverage reserves	69	335
Translation reserves	1,156	1,685
<b>Total</b>	<b>1,225</b>	<b>2,020</b>

**26. PROFITS BROUGHT FORWARD**

The balance sheet value is made up as follows:

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Legal reserve	4,061	3,797
Extraordinary reserve	12,450	10,691
Profits brought forward	12,934	10,393
	<b>29,445</b>	<b>24,881</b>

**27. RECONCILIATION BETWEEN THE PARENT COMPANY BALANCE SHEET AND THE CONSOLIDATED BALANCE SHEET**

	<i>Shareholders' equity 31/12/2005</i>	<i>Result of the Financial Year 31/12/2005</i>	<i>Shareholders' equity 31/12/2004</i>	<i>Result of the Financial Year 31/12/2004</i>
Shareholders' equity and result for the period as indicated in the parent company's balance sheet for the period according to Italian accounting principles	95,797	13,238	85,729	5,287
Capitalisation of development costs	4,625	1,651	2,974	1,645
Goodwill	1,165	569	596	836
Recording of leasing contracts relating to fixed assets, machinery and equipment	2,166	603	1,495	481

Assessment of the inventories at the weighted average cost	0	0	0	455
Employee benefits – IAS 19 impact	1,066	274	792	202
Reclassification of own shares minus the shareholders' equity	(2,453)	0	(2,566)	0
Effect of operations on own shares, net of fiscal effects	0	(308)	206	(366)
Transfer of restructuring funds	0	0	0	(409)
Other variations	9	(11)	87	14
Coverage reserve	(69)	0	(335)	0
<b>Shareholders' equity and result for the period rectified by parent company</b>	<b>102,306</b>	<b>16,016</b>	<b>88,978</b>	<b>8,145</b>
<b>Elimination of the load value of the consolidated equity investments:</b>				
Difference between stock value and pro-quota value of the shareholders' equity	9,113	0	7,147	0
Pro-quota results obtained by held companies	0	1,012	0	(2,999)
Elimination of write-downs of equity investments	0	476	0	3,091
<b>Elimination of the effects of transactions between consolidated companies:</b>				
Infra-group profits included in the value of final inventories	(5,219)	(1,493)	(3,726)	(570)
Infra-group profits on assets	(778)	0	(778)	0
<b>Valuation of the affiliated companies using the shareholders' equity method</b>				
	21	96	(75)	(11)
<b>Dividends</b>	(150)	(176)	0	0
<b>Shareholders' equity and result for the year pertaining to Group</b>	<b>105,293</b>	<b>15,931</b>	<b>91,546</b>	<b>7,656</b>
Shareholders' equity and result for the year pertaining to third parties	343	123	265	27
Shareholders' equity and result of the financial year as reported in the consolidated balance sheet	105,636	16,054	91,811	7,683

## 28. DIVIDENDS

On 24th May 2005 the Parent company paid shareholders a dividend of 12 Euro cents per share (total dividends amounting to 3.2 million Euro, 9 Euro cents per share in 2004, amounting to a total of 2.3 million Euro).

As regards the financial year that has just ended, the Directors of the Parent Company have proposed payment of a dividend of 18 Euro cents per share. This dividend is subject to the approval of the shareholders during the annual meeting, and for that reason the amount has not been included on the liabilities side of this balance sheet.

The dividend proposed for 2005 is payable to all shareholders registered on the List of Shareholders on 27th April 2006. The estimated total dividend to be paid amounts to 4.9 million Euro.

## 29. OVERDRAFTS AND BANK LOANS

The table below indicates the division of payables relating to overdrafts and bank loans.

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Bank current account overdraft and other short-term loans	15,767	33,445
Mortgages with collateral security – current value	4,541	117
Mortgages without collateral security – current value	242	4,342
<i>Current liabilities</i>	<i>20,550</i>	<i>37,904</i>
Medium-term loans	22	37
Mortgages with collateral security – non-current value	16,511	11,031
Mortgages without collateral security – non-current value	821	2,346
<i>Non-current liabilities</i>	<i>17,354</i>	<i>13,414</i>
<b>Total</b>	<b>37,904</b>	<b>51,318</b>

Secured loans are listed below:

Company	Amount	Bank	Description of the guaranty
Biesse S.p.A	9,974	Interbank Mortgage loan under art.38 decree law 385/93	Mortgage on buildings in Via della Meccanica, 16 – Chiusa di Ginestreto (PU)
Biesse S.p.A	9,975	Mortgage load Banca Popolare di Milano art.38 dlgs 385/93	Mortgage on buildings in Via della Meccanica, 16 – Chiusa di Ginestreto (PU)
MC S.r.l.	965	Loan from Mediocredito Fondiario Centroitalia mortgage	Mortgage on industrial buildings in Strada Selva Grossa, Pesaro
Sel Realty Inc.	138	Loan from BCI – Comit Canada	Mortgage on industrial building in Montreal (Canada)
<b>Total</b>	<b>21,052</b>		

Non-current liabilities are reimbursable as follows:

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
At sight or within one year	20,550	37,904
Within two years	4,781	3,686
Within three years	4,786	2,309
Within four years	4,842	2,256
Within five years	2,241	2,228
After the fifth year	705	2,935
	<b>37,905</b>	<b>51,318</b>
After deduction of the amount reimbursable within 12 months (reclassified with short term liabilities)	(20,550)	(37,904)
Amount reimbursable in over 12 months	<b>17,355</b>	<b>13,414</b>

Analysis of bank payables by currency

31/12/2005 € '000	Euro	US Dollar	Australian Dollar	Canadian Dollar	New Zealand Dollar	Other	Total
Overdrafts and short-term loans	6,527	4,354	3,414	1,172	290	10	15,767
Secured loans	20,913	0	0	139	0	0	21,052
Unsecured Loans	1,063	0	0	0	0	0	1,063
Medium term loans	0	0	0	0	0	22	22
<b>Total</b>	<b>28,503</b>	<b>4,354</b>	<b>3,414</b>	<b>1,311</b>	<b>290</b>	<b>32</b>	<b>37,904</b>

31/12/2004 € '000	Euro	US Dollar	Australian Dollar	Canadian Dollar	New Zealand Dollar	Other	Total
Overdrafts and short-term loans	26,041	3,355	2,577	1,205	265	1	33,445
Secured loans	11,016	0	0	132	0	0	11,148
Unsecured Loans	6,688	0	0	0	0	0	6,688
Medium term loans	0	0	0	12	0	25	37
<b>Total</b>	<b>43,745</b>	<b>3,355</b>	<b>2,577</b>	<b>1,349</b>	<b>265</b>	<b>26</b>	<b>51,318</b>

All the above mentioned payables have variable interest rate, so that the Group is exposed to interest rate risk. As indicated in note 4, the company continues to make no further coverage of its debts, with the exception of those relating to a debt for financial leasing (see following note) 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.

The average interest rates on loans are as follows:

	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Bank overdraft and other short-term loans	2.6%	2.7%
Mortgages	5.0%	3.6%

As at 31st December 2005, the Group had at its disposal approximately 90 million Euro in unused credit lines.

### 30. LEASING CONTRACTS LIABILITIES

€ '000	Minimum payments due for leasing		Current value of minimum payments due for leasing	
	31/12/2005	31/12/04 – restated	31/12/2005	31/12/04 – restated
Leasing contracts liabilities				
payable within one year	3,933	5,023	3,266	3,955
payable in more than one year, but within five years	12,279	12,968	10,776	11,009
payable in more than one year	3,278	5,995	3,166	5,672
	19,490	23,987	17,208	20,637
After deduction of future financial charges	(2,282)	(3,350)	N/A	N/A
Current value of leasing contracts liabilities	17,208	20,637	17,208	20,637
Deducted: payables expiring within one year			(3,266)	(3,955)
Total payable in over 12 months			13,942	16,682

Leasing contracts liabilities mainly refer to buildings (and relevant plant and machinery), object of sale and leaseback operations, the current value for minimum repayments due as at 31/12/2005 amounts to € 14,279 thousand (€ 1,970 thousand the amount due within 12 months). The original duration of these contracts is 10 years, and the residual duration is 6 years. As at 31st December 2005 the actual average interest rate for these contracts is 4.2%.

The remaining leasing contracts liabilities refer to contracts for the purchase of machinery, with an average duration of 5 years. As at 31st December 2005 the actual average interest rate for these contracts is 3.1%.

The interest rates are fixed on stipulation of the contract, and are subject to fluctuation due to the fact that they are connected to the cost of money. All leasing contracts in force are reimbursable by means of a constant instalment plan, and no alterations to the original plan are foreseen by the contract.

As mentioned above, use is also made of a hedging instrument (IRS), designated as *cash flow hedge* and which refers specifically to a leasing contract. As described more fully in note 37 below, the *fair value* of this instrument as at 31st December 2005 amounts to 110 thousand Euro.

All contracts are in Euros.

Leasing contracts liabilities are guaranteed to the lessor by means of rights on the assets under lease.

### 31. RETIREMENT BENEFIT OBLIGATIONS

#### Set benefit plans

The Biesse Group sets aside a value of € 15,090 on its balance sheet, as the current value of retirement benefit obligations, matured up to the end of the period by employees in the Group's Italian companies and comprising accruals to the Retirement benefits fund.

The most recent calculations of the current value of this fund were carried out on 31st December 2005 by Nélia Câmara, actuary from the service company Mercer Human Resource Consulting S.r.l.

The amounts set down on the income statement can be summarised as follows:

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Cost relating to current labour provided	2,109	1,867
Financial expenses	597	591
Net actuary losses set down for the period	0	0
	<b>2,706</b>	<b>2,458</b>

The costs for the year have been set down among the staff costs.

Variations for the period in relation to the current value of obligations connected to severance pay are as follows:

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Liabilities at the start of the period	13,671	12,560
Current services	2,109	1,867
Financial expenses	597	591
Benefits paid out	(1,287)	(1,347)
<b>Liabilities at the end of the period</b>	<b>15,090</b>	<b>13,671</b>

The Group has decided to adopt the “corridor method”, which allows the component of the cost, calculated according to the method described and represented by the actuarial gains or losses, to remain unknown in the case where it does not exceed 10% of the actual value of the defined benefit obligation. Following application of this method, actuarial losses amounting to 547 thousand Euro (757 thousand Euro at the end of 2004) are not accounted for as at 31st December 2005.

Assumptions used for calculations:

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Discount rate used to determine the obligation	4.00%	4.50%
Expected rate of salary increase	2.75%	2.75%
Inflation rate	2.00%	2.00%
Discount rate used to determine the cost of social security	4.50%	5.00%

### Average employees

The average number of employees for the year 2005 is 1,873 (1,896 in 2004), divided as follows:

	Year ending 31/12/2005	Year ending 31/12/2004
Blue collar workers	688	708
Office staff	1,147	1,150
Executives	38	38
<b>Total</b>	<b>1,873</b>	<b>1,896</b>

## 32. DEFERRED INCOME TAX

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Deferred tax receivables	8,441	8,753
Deferred tax payables	(7,886)	(6,068)
<b>Net position</b>	<b>555</b>	<b>2,685</b>

The following indicates the main elements making up the deferred tax receivables and payables.

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Appropriation to devaluation and risk funds	3,452	2,709
Infra-group profits included in the value of final inventories	1,567	2,298
Devaluation of holdings deductible in fifths	715	1,084
Other	2,707	2,662
<b>Deferred tax receivables</b>	<b>8,441</b>	<b>8,753</b>
Accelerated amortisation	(2,265)	(2,294)
Deferred development costs	(2,853)	(1,818)
Goods under financial leasing	(1,500)	(1,065)
Other	(1,268)	(891)
<b>Deferred tax payables</b>	<b>(7,886)</b>	<b>(6,068)</b>
<b>Net position</b>	<b>555</b>	<b>2,685</b>

At the date of the balance sheet the Group showed unused past losses amounting to approximately 23 million Euro (€ 44 million at the end of 2004). This amount has not been subject to deferred tax receivables for the reasons already explained above (see note 12).

### 33. PROVISIONS FOR RISKS AND CHARGES

€ '000	Guarantees	Retirement of agents	Other	Total
Value at 01/01/2005	2,646	414	753	3,813
Provisions	204	28	2,488	2,720
Use	(8)	0	(151)	(159)
Differences in exchange and other variations	52	0	(26)	26
Value at 31/12/2005	2,894	442	3,064	6,400
			Year ending 31/12/2005	Year ending 31/12/2004 – rectified
These funds are divided into:				
Current liabilities			4,514	2,977
Non-current liabilities			1,886	836
			6,400	3,813

The guarantee fund represents the best estimate made by the Group management of the obligations deriving from the two year guarantee granted on products sold by the Group. Appropriation to the fund derives from estimates based on past experience and on analysis of the level of reliability of the products sold.

Appropriation for retirement of agents refers to the liabilities connected to existing agency agreements.

The item Other funds comprises the following:

€ '000	Legal actions	Tax actions	Coverage of losses	Total
Value at 01/01/2005	549	0	204	753
Provisions	1,409	700	379	2,488
Use	(144)	0	(7)	(151)
Differences in exchange and other variations	(26)	0	0	(26)
Value at 31/12/2005	1,788	700	576	3,064

The amount relating to legal actions refers to the best estimate made by the management on future charges (for

compensation and legal fees) connected to existing litigation with ex-dealers and customers. In particular this item includes appropriations for the litigation that arose between December 2004 and early 2005 and was defined on 28/02/2006, with the ex Biesse dealer in Poland, Slovakia and the Czech Republic. At the present date, Biesse is awaiting a final payment of 660 thousand Euro, as well as delivery of certain machines (with a value of 10 thousand Euro), within 30/4/2006, to complete the agreement; this balance sheet shows the effects of these events.

Appropriation for tax actions refers to the amount relating to tax and fines, for which there is considered to be a risk of charge, in the action in progress with the Ancona Regional Tax Agency, in relation to the verification carried out on the income of the Parent Company for the years 2002 and 2003 (for further details, see note 38 below).

Finally, appropriations to cover losses exceeding the shareholders' equity refer to the affiliated company I.S.P. Systems s.r.l. (€ 576 thousand).

### 34. TRADE DEBTS

Details of the trade debts and debts to affiliates and subsidiaries are as follows:

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Payable to suppliers - within 12 months	71,420	68,350
Payable to suppliers - over 12 months	2,458	994
Advances / Deposits for installation and testing costs	9,794	9,322
<b>Total</b>	<b>83,672</b>	<b>78,666</b>

### 35. PAYABLE TO AFFILIATED AND PARENT COMPANIES

The payable to affiliates entry is made up as follows:

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
I.S.P. Systems S.r.l.	573	1,190
HSD Deutschland GmbH	4	7
Kernex Automation S.r.l.	1	8
<b>Total payable to affiliates</b>	<b>578</b>	<b>1,205</b>
Bi. Fin. S.r.l.	501	18
<b>Total payable to parent companies</b>	<b>501</b>	<b>18</b>
<b>Total payable to affiliates and parent companies</b>	<b>1,079</b>	<b>1,223</b>

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

The payables to parent companies relate to transfer of IRES payables by the affiliate HSD S.p.A. to the parent company Bi.Fin. S.r.l. (see note 41).

### 36. OTHER PAYABLES

The current value of the other payables entry is made up as follows:

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
Social security liabilities	4,812	4,305
Payables to employees	8,388	6,537
Other payables	5,881	2,355
<b>Total</b>	<b>19,081</b>	<b>13,197</b>

Other liabilities include the sum of € 3,488 thousand, which refers to the parent company's contract liability for the

purchase of 20% of the shares of the subsidiary HSD S.p.a. (as under the contract the debt will be paid-off by the month of April 2006. In the previous financial year, the debt amounted to € 1,252 thousand, and was included in the non-current liabilities). For further details, please see note 15.

### 37. FINANCIAL INSTRUMENTS - DERIVED

	Year ending 31/12/2005		Year ending 31/12/2004 – restated	
	Assets	Liabilities	Assets	Liabilities
Derived on exchanges	0	615	75	0
IRS	0	110	0	335
<b>Total</b>	<b>0</b>	<b>725</b>	<b>75</b>	<b>335</b>

#### Interest rate swap (IRS)

The Group has stipulated an *interest rate swap* contract to manage the risk deriving from changes in interest rate for lease of the industrial premises located in Pesaro, in via dell'Economia, converting this loan from variable to fixed interest rate. The contract was stipulated for current notional value of € 10.3 million (notional value at date of stipulation € 15.3 million), which fixes the interest at a rate of 4.135% for the period up to 01/06/2006.

The *fair value* of the IRS as at 31st December 2005 is estimated at € 110 thousand (€ 335 thousand in 2004). This derived instrument is designated as an instrument to cover future cash flows and has proved effective (although it has involved higher burdens than would have been sustained if the derived contract had not been stipulated); as a result the variations in *fair value* have been set down in a shareholders' equity reserve. The amount of € 251 thousand went to increase the cost of interest paid during the period.

#### Derived on exchanges

The derived contracts on exchanges are not qualified as coverage instruments (see note 4 in this regard) and are represented by set term sales contracts. The financial instruments acquired are in the currencies of the markets on which the Group operates.

At the date of closure of the balance sheet, the notional amount of set term sales contracts stipulated by the Group can be summarised as follows:

€ '000	Year ending 31/12/2005	Year ending 31/12/2004 – restated
US Dollar	22,040	2,200
UK Pound	5,837	712
Canadian Dollar	4,735	0
	<b>32,612</b>	<b>2,912</b>

As at 31 December 2005, the net *fair value* of the derived instruments on exchanges stipulated by the Group was estimated at approximately € 615 thousand, which can be identified as current liabilities (at the end of 2004, the fair value amounted to € 75 thousand, identified as current assets). As these instruments cannot be designated as *hedging*, the relevant changes in *fair value* are set down as income and expenditure from currency exchange.

### 38. COMMITMENTS, GUARANTEES AND POTENTIAL LIABILITIES

With reference to the commitments to purchase, it must be noted that the contract regulating obligations 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. The option can be exercised within sixty days of the date of approval of the balance sheet for the year ending 31/12/2005 for Sandymac S.r.l., and this date also represents the date on which said contract expires. It must be noted that on the date of closure of the balance sheet, given the contractual methods to be followed to determine the price of the option, no potential liability deriving from the contract in question has been determined. The contract also foresees a non-competition agreement on the part of the other party, against which payment of the amount of € 100 thousand is foreseen. It is noted that, at the date of approval of this balance sheet, negotiations have commenced with the other party, aimed at extending the duration of the contract itself and the options it contains, which maintaining substantially unchanged the general conditions thereof.



With regard to the guarantees, the Group has issued performance bonds amounting to € 5,220 thousand. The most relevant components relate 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 performance bond issued to the ex minority partner of HSD S.p.A., in guarantee of the payment of the shares in the subsidiary company (€ 1,252 thousand, see note 36 in this regard), the performance bonds issued in favour of the subsidiary Biesse Group Australia Pty Ltd. (€ 621 thousand).

Furthermore, the Group has € 2,652 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 purchase bonds to a value of € 1,610 thousand, in favour of leasing companies, in the case of failure by certain customers on the Italian market to fulfil their contractual obligations.

Finally, it is noted that on 21st October 2005 the Ancona Regional Tax Agency completed the periodic control on the years 2002-2003, in relation to the Parent Company Biesse S.p.A., issuing the relevant Preliminary Claim Report (PVC). With reference to said report, the Group has already appropriated a sum of € 700 thousand in this balance sheet, for tax and fines, considered likely to be liable for payment, or relating to queries which it is preferable to settle by payment of a fine. On the contrary, in relation to the report already notified in the past and updates thereto, 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 and the current year 2005, 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.

### 39. OPERATIONS THAT HAVE NOT INVOLVED CHANGES IN THE CASH FLOW

During 2005 a sum of € 1,150 thousand was invested in machinery for mechanical precision machining operations, funded by a new leasing contract. During 2004, new investments funded by new leasing contracts amounted to € 1,400 thousand (for purchase of industrial machinery), while transfer of part of an instrumental fixed asset was carried out, purchase of which had been financed by a leasing contract (net value transferred € 5,020 thousand).

### 40. 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.

### 41. 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	
	Year ending 31/12/2005	Year ending 31/12/2004	Year ending 31/12/2005	Year ending 31/12/2004
<b>Affiliated companies</b>				
I.S.P. Systems S.r.l.	81	172	1,148	512
HSD Deutschland GmbH	1,364	1,003	21	29

Kernex Automation S.r.l.	2	2	0	0
Biesse China Co. Ltd.	0	325	0	0
	1,447	1,502	1,169	541
<b>Parent companies</b>				
Bi. Fin. S.r.l.	51	20,210	0	11
<b>Other related companies</b>				
Rettifica Modenese S.r.l.	3	14	117	526

€ '000

	Credits		Payables	
	Year ending 31/12/2005	Year ending 31/12/2004	Year ending 31/12/2005	Year ending 31/12/2004
<b>Affiliated companies</b>				
I.S.P. Systems S.r.l.	178	533	573	1,190
HSD Deutschland GmbH	612	375	4	7
Kernex Automation S.r.l.	1	8	1	8
Biesse China Co. Ltd.	0	9	0	0
	791	925	578	1,205
<b>Parent companies</b>				
Bi. Fin. S.r.l.	183	210	501	0
<b>Other related companies</b>				
Rettifica Modenese S.r.l.	0	7	40	93

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

As regards relations with the parent company Bi.Fin. S.r.l., it must be noted that, during 2004, building land not used by the head of group Biesse S.p.A. was sold for a value of 20 million Euro. The value was based on an independent survey and provided a net surplus for the Biesse Group of 10.3 million Euro.

It is noted that the company I.S.P. Systems S.r.l., affiliated to Biesse S.p.A., is a subsidiary of the company Bi.Fin. S.r.l. Finally, it must be noted that the parent company Bi.Fin. S.r.l. has chosen to make use of the regulations on National Tax Consolidation for the three-year period 2005/2007; along with Bi.Fin. itself, the companies Biesse S.p.A., HSD S.p.A., Cabi S.r.l. and I.S.P. Systems S.r.l. fall within this tax consolidation area.

Payables will be paid in cash. No guarantee has been given or received. On the date of the balance sheet the company I.S.P. Systems s.r.l. uses bank overdrafts amounting to € 4.8 million, which fall within the total credit lines granted to the Biesse Group.

#### Remuneration of directors and general managers

<i>Job description</i>			<i>Remuneration</i>			
			Salary	Non-monetary benefits	Bonuses and other incentives	Other remuneration
in thousands of Euro						
<b>Individual</b>	<b>Position</b>	<b>Time in office</b>				
Selci Roberto	Chairman of the Board	29/04/2006	354	1		
Selci Giancarlo	Chief Executive Officer	29/04/2006	354	1		
Parpajola Alessandra	Director	29/04/2006	80	1		
Cipolletta Innocenzo	Board Member*	29/04/2006	30			
Sibani Leone	Board Member*	29/04/2006	30			
Garattoni Giampaolo	Board Member*	29/04/2006	20			
<b>Total</b>			<b>868</b>			
Ciurlo Giovanni	Auditor	29/04/2006	26			
Franzoni Adriano	Auditor	29/04/2006	13			

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Sanchioni Claudio	Auditor	29/04/2006	13
<b>Total</b>			<b>52</b>

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**APPENDIX**

**to the**

**Consolidated**

**Financial**

**Statements**

**APPENDIX “A”****TRANSITION TO THE IAS/IFRS INTERNATIONAL ACCOUNTING PRINCIPLES****RECONCILIATIONS AS AT 1ST JANUARY AND 31ST DECEMBER 2004**

Following the application of European Regulation n. 1606 of July 2002, as from 2005, companies dealing in securities in a market regulated by the member States of the European Union must manage their consolidated balance sheets in line with the international accounting principles (IAS/IFRS) issued by the International Accounting Standard Board (IASB) and approved by the community itself.

The Biesse Group has adopted these principles starting from preparation of the asset and liability statement and economic situation as at 30th June 2005.

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 consolidated income and consolidated operating results in line with the previous old principles (Italian accounting principles) and with the new principles:

- for the date of transition (1st January 2004) which corresponds to the start of the first period of the comparison;
- for the preceding period presented for the comparison, i.e. 31st December 2004.

As required by IFRS 1, this document also reports the principles adopted for the redetermination of the asset and liability statement as at 1st January 2004 and the consolidated balance sheet as at 31st December 2004, that the Group has adopted for preparation of the consolidated balance sheet as at 31st December 2005 and for the periodic information as at 30th June 2005.

As the attached reconciliation prospectuses have been prepared purely for the transition project for the preparation of the first complete consolidated balance sheet drafted in accordance with the IFRS regulations approved by the European Commission (balance as at 31st December 2005), 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 consolidated economic performance of the Biesse Group 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 financial position as at 1st January 2004 has been prepared by making the necessary adjustments to the consolidated balance sheet as at 31st December 2003, 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 IFRS, 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 the appropriate accumulated profit reserve for the following year net of the tax bills registered from time to time in the deferred taxes fund or in the prepaid tax assets.

During the recalculation of the statement of assets and liabilities on the date of transition to the new principles, the Group 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;
- associated companies: operations prior the date of transition have not been subject to retrospective revision, that is, through the redetermination of the current value of assets and liabilities at the moment of acquisition by the Group;
- tangible and intangible assets: the historic cost has been retained (as opposed to the *fair value*) as the assessment criterion for tangible and intangible assets subsequent to the initial registering.

## EFFECTS OF THE ADOPTION OF THE IFRS PRINCIPLES ON THE ASSET AND LIABILITY STATEMENT AS AT 1ST JANUARY 2004

A summary prospectus of the consolidated asset and liability statement on the date of transition is reported below.

Notes	(amounts in thousands of €)	According to national principles	Effects of the conversion to the IFRS principles		According to IFRS principles
			Reclassification	Adjustments	
<b>1 ASSETS</b>					
2	Tangible assets	77,141	119	5,609	82,869
	Goodwill	11,008	0	(200)	10,808
3	Intangible assets	3,849	(119)	2,409	6,139
4	Financial assets:	5,087	(1,204)	(45)	3,839
	<b>Total non-current assets</b>	<b>97,086</b>	<b>(1,204)</b>	<b>7,772</b>	<b>103,655</b>
	Sales receivables	99,070	(631)	(61)	98,379
5	Inventories	80,833	0	(342)	80,492
	Other receivables	28,709	(1,072)	(159)	27,478
4	Financial assets:	3,836	(3,836)	0	0
	Cash and cash equivalents	20,504	(152)	135	20,487
	<b>Current assets</b>	<b>232,953</b>	<b>(5,691)</b>	<b>(427)</b>	<b>226,835</b>
	<b>Total assets</b>	<b>330,039</b>	<b>(6,895)</b>	<b>7,345</b>	<b>330,489</b>
<b>1 LIABILITIES</b>					
2,6	Financial debts	133,626	4,645	4,261	142,532
6,7	Trade payables and other debts	87,720	(5,502)	1,369	83,587
8	Retirement benefit obligations	13,609	0	(1,049)	12,560
9	Provisions for risks	5,455	(998)	(835)	3,622
	Deferred tax obligations	2,724	0	1,484	4,207
	<b>Total obligations</b>	<b>243,134</b>	<b>(1,855)</b>	<b>5,229</b>	<b>246,508</b>
	<b>Total assets minus obligations</b>	<b>86,905</b>	<b>(5,040)</b>	<b>2,116</b>	<b>83,982</b>
	Capital	27,393	0	0	27,393
	Capital reserves	83,630	0	0	83,630
4	- Own shares	0	(5,040)	0	(5,040)
7	Hedging and conversion of balances in currency reserve	(1,289)	0	(502)	(1,790)
	Other reserves	18,198	0	2,622	20,820
	Group results for the year	(41,274)	0	0	(41,274)
	<b>Group's shareholders' equity</b>	<b>86,658</b>	<b>(5,040)</b>	<b>2,120</b>	<b>83,738</b>
	Third party shareholders' equity	247	0	(4)	244

The main reclassifications have involved the registering of own shares minus the shareholders' equity, internal transfer from the intangible assets to the tangible assets of the increase in expenses of third party goods, the reclassification of the provisions for exchange risks at the individual property items and the transfer of accounts payable to factoring companies, with characteristics that qualify them as financial debts, from trade payables to financial debts.

The following prospectus and the successive notes summarise the principal variations entered, where recorded, net of the tax bills, occurring on the date of transfer to the consolidated shareholders' equity of the Group, with reference to the number and type of adjustments already mentioned in the previous prospectus.

**Reconciliation prospectus of the shareholders' equity of the Group as at 1st January**

(amounts in thousands of €)

<b>Shareholders' equity according to national principles</b>	<b>86,658</b>
<b>Variations (net of tax bills)</b>	
Recording of leasing contracts relating to machinery and equipment	627
Capitalisation of development costs	1,154
Reclassification of own shares minus the shareholders' equity	(4,705)
Assessment of the inventories at the weighted average cost	(525)
Employee benefits – IAS 19 impact	703
Transfer of restructuring funds	456
Assessment at <i>fair value</i> of the derivatives qualified as cash flow hedging	(502)
Other variations	(128)
<b>Total IAS/IFRS adjustments</b>	<b>(2,920)</b>
<b>IAS/IFRS shareholders' equity</b>	<b>83,738</b>

**1. Consolidation and equity investments in subsidiary companies**

According to the Italian accounting principles, it is possible or necessary to exclude from the consolidation area the subsidiary companies that carry out activities different to those of the parent company or that have a small production output, if the exclusion does not prejudice the clear representation, truth and correctness of the asset and liability statement, and the financial and economic position of the Group. The subsidiary companies excluded from the consolidation are consolidated using the shareholders' equity method.

According to the IAS/IFRS principles, the above exclusions are no longer applicable. As a consequence, the companies Cabi S.r.l., Sandymac S.r.l. and Biesse Corporate School S.c.r.l. were included in the consolidated asset and liability statement at 1st January 2004, with impacts on the various parts of the assets and liabilities.

**2. Tangible assets**

The variation in tangible assets is influenced by transfer of the amortisations on land and by a re-evaluation effected by the parent company and above all by the extension of the application of IAS 17 to all the assets kept in leasing contracts.

According to the Italian accounting principles, the activities inherent to the leasing contracts classified as financial must be entered as tangible assets of the Group offset against a financial obligation of equal value as the liabilities. The Biesse Group only adopted this principle for contracts with regarding property and the relative plants (the subject of *sale and lease back* contracts): for contracts concerning machinery and instruments, the commitment towards leasing companies was entered between the potential obligations (commitments), while for the income statement, the rent charges were entered.

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 € 5.291 thousand, payables at € 4.464 thousand and the relative obligations deferred in the amount of € 220 thousand.

**3. Intangible assets**

According to the Italian accounting principles, some of the costs relating to the formation and goodwill of a new company can be deferred and capitalised as intangible assets to be depreciated at constant rates 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 at constant rates over a period not exceeding five years.

According to the IAS/IFRS principles, the costs relating to the forming and goodwill 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 entered under assets, in the presence of these conditions and depreciated on a linear basis through the relative useful lives. As regards the first point, capitalised costs have been entered in undivided earnings in the amount of Euro 168 thousand, while in the second point, new fixed assets have been entered in the amount of € 2.237 thousand.



#### 4. Own shares

According to the Italian principles, bought back 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 the adjusted permanent loss of value cost and the lower of the cost or market value respectively.

According to the IAS/IFRS principles, the cost of bought back own shares is entered in the balance sheet as a deduction of the shareholders' equity.

#### 5. Inventory

The principal adjustment of the item inventories consists of modifying their assessment criteria. According to the Italian accounting principles, the final inventories must be assessed at the lower of the cost or market value. In order to determine the cost, the reference criteria adopted by the Group was the LIFO (last in first out) method.

According to the IAS/IFRS principles, the final inventories are assessed at the lower of either the cost or realisation value. The cost is calculated using the weighted average cost method. The modification of the evaluation criteria has led to a reduction in the value of the final inventories of € 849 thousand Euro.

#### 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 € 5.356 thousand has been reallocated in the financial debts.

#### 7. Hedging and derived contracts

According to the Italian accounting principles, the entering on the balance sheet of derived contracts qualified as “cash flow edge” while waiting for the realisation of the hedged transaction was not provided for. Consequently, the existence of an IRS contract was highlighted in the commitments and the effects of the fair value evaluation of the derived instrument were indicated in the notes.

According to the IAS/IFRS principles, 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.

Consequently, in line with this principle, in with the other debts, the Group has recorded a current liability of € 502 thousand, as an offset against the entry in the shareholders' equity of the *fair value* assessment of an offshoot of the interest risk hedging.

#### 8. Liabilities for retirement benefit obligations – Redundancy payments

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 above modifications reduce the existing fund by € 1,149 thousand.

#### 9. Provisions for risks and charges

According to the Italian accounting principles, it is possible to set aside funds for company restructuring in line with parameters provided for by the reference accounting principles, to be used for future costs relating to company management reorganisation. IN addition, the funds for future liabilities are expressed without updating the debit.

According to the IAS/IFRS accounting principles, it is possible to set up funds for company restructuring, but only providing certain requirements are met. The value of the funds must also be expressed in the actual value of the flows envisaged for settling the relative obligation. As a consequence of this principle, the company restructuring fund has been annulled against the undivided earnings in the amount of € 708 thousand, while the liabilities relating to other funds have been reduced through updating to € 127 thousand.

## EFFECTS OF THE ADOPTION OF THE IFRS PRINCIPLES ON THE BALANCE SHEET AS AT 31ST DECEMBER 2004

Notes	(amounts in thousands of €)	According to national principles	Effects of the conversion to the IFRS principles		According to IFRS principles
			Reclassification	Adjustments	
<b>1</b>	<b>ASSETS</b>				
2	tangible assets	58,295	85	4,898	63,278
3	Goodwill	9,693	0	1,059	10,752
4	Intangible assets	4,533	(85)	5,084	9,532
5	Financial assets:	1,989	(1,204)	206	992
	<b>Total non-current assets</b>	<b>74,510</b>	<b>(1,204)</b>	<b>11,247</b>	<b>84,553</b>
	Sales receivables	90,247	225	17	90,489
	Inventories	74,473	0	(301)	74,172
	Other receivables	20,310	(223)	(358)	19,729
6	Financial assets:	1,362	(1,362)	0	0
	Cash and cash equivalents	20,567	(2)	2	20,567
	<b>Current assets</b>	<b>206,958</b>	<b>(1,362)</b>	<b>(639)</b>	<b>204,956</b>
	<b>Total assets</b>	<b>281,467</b>	<b>(2,566)</b>	<b>10,607</b>	<b>289,509</b>
<b>1</b>	<b>LIABILITIES</b>				
2,6	Financial debts	66,694	2,120	3,141	71,955
6,7	Trade payables and other debts	103,946	(2,120)	364	102,190
8	Retirement benefit obligations	15,130	0	(1,459)	13,671
9	Provisions for risks	3,948	0	(135)	3,813
	Deferred tax obligations	2,727	0	3,341	6,068
	<b>Total obligations</b>	<b>192,446</b>	<b>(0)</b>	<b>5,252</b>	<b>197,698</b>
	<b>Total assets minus obligations</b>	<b>89,021</b>	<b>(2,565)</b>	<b>5,355</b>	<b>91,811</b>
	Capital	27,393	0	(0)	27,393
	Capital reserves	36,202	0	0	36,202
5	Own shares reserve	0	(2,566)	0	(2,566)
	Hedging and conversion of balances in currency reserve	(1,682)	0	(338)	(2,020)
	Other reserves	22,004	0	2,876	24,880
	Group results for the year	4,870	0	2,786	7,656
	<b>Group's shareholders' equity</b>	<b>88,788</b>	<b>(2,566)</b>	<b>5,324</b>	<b>91,546</b>
	Third party shareholders' equity	233	0	32	265

The reclassification principles concern the recording of own shares minus the shareholders' equity, the transfer from the intangible assets to the tangible assets of the cost increases on third party goods and the transfer of the debit with factoring companies from trade payables to financial debts.

## EFFECTS OF THE ADOPTION OF THE IFRS PRINCIPLES ON THE 2004 INCOME STATEMENT

Notes (amounts in thousands of €)	According to national principles	Effects of the conversion to the IFRS principles		According to IFRS principles
		Reclassification	Adjustments	
Revenues	312,514	(1,908)	66	310,672
Other operating revenues:	7,287	16	55	7,358
Finished product and semi finished product inventory variation	(4,334)	0	(212)	(4,546)
Consumption of raw materials and consumable materials	(136,648)	0	0	(136,648)
10 Other operating costs	(70,006)	(819)	1,694	(69,132)
11 Personnel expenses	(82,931)	(96)	3,164	(79,862)
9 Depreciation	(10,750)	0	(405)	(11,156)
Provisions	(1,592)	0	5	(1,587)
<b>Operating profit</b>	<b>13,539</b>	<b>(2,808)</b>	<b>4,367</b>	<b>15,099</b>
Profit share of subsidiary companies	(421)	0	14	(407)
12 Income and expenses from investment activities	1,154	(19)	(589)	546
Capital gains on non-instrumental fixed asset transfer	0	11,400	(88)	11,312
13 Financial expenses	(4,456)	0	(168)	(4,624)
Exchange revenues and charges	(644)	0	0	(644)
14 Extraordinary items	7,714	(8,250)	536	0
<b>Pre-tax profit</b>	<b>16,886</b>	<b>324</b>	<b>4,073</b>	<b>21,282</b>
Taxes for the financial year	(12,025)	(324)	(1,250)	(13,599)
<b>Gross operating profit</b>	<b>4,860</b>	<b>0</b>	<b>2,823</b>	<b>7,683</b>
Minority interests	(10)	0	37	27
Group interests	4,870	0	2,786	7,656

The principal reclassifications have been effected in order to share the positive and negative components entered as extraordinary items between the individual lines of the income statement. Of particular importance is the transfer of the capita gain earned on the sale of non-instrumental land and part of a factory for € 11.400 thousand.

As a result of the updating carried out, described in detail in the following notes, the consolidated net proceedings pass from € 312.514 thousand to € 310.672 thousand, the operating profit passes from € 13.539 thousand to € 15.099 thousand, (principally due to the reduction in the amortisation of the goodwill and the capitalisation of the development costs), the Group interests pass from € 4.870 thousand to € 7.656 thousand.

The following prospectus and the successive notes summarise the principal variations entered, where recorded, net of the tax bills, occurring on the date of transfer to the consolidated shareholders' equity and net income of the Group, with reference to the number and type of adjustment already mentioned in the previous prospectus.

**Reconciliation prospectus of the shareholders' equity of the Group as at 31st December 2004 and the 2004 net income of the Group**

(amounts in thousands of €)	<i>Earnings</i>	<i>Shareholder's equity</i>
<b>Budget balance according to national principles</b>	<b>4,870</b>	<b>88,788</b>
Recording of leasing contracts relating to machinery and equipment	109	741
Goodwill	1,065	865
Capitalisation of development costs	1,713	2,871
Reclassification of own shares minus the shareholders' equity	(366)	(2,359)
Assessment of the inventories at the weighted average cost	525	0
Employee benefits – IAS 19 impact	191	894
Transfer of restructuring funds	(451)	83
Assessment at <i>fair value</i> of the derivatives qualified as cash flow hedging	0	(335)
Other variations	0	2
<b>Total IAS/IFRS adjustments</b>	<b>2,786</b>	<b>2,758</b>
<b>Budget balance according to IAS/IFRS</b>	<b>7,656</b>	<b>91,546</b>

### 1. Consolidation and equity investments in subsidiary companies

According to the Italian accounting principles, it is possible to exclude from the consolidation area the subsidiary companies that carry out activities different to those of the parent company or that have a small production output, or those that have been acquired/constituted recently, if the exclusion does not prejudice the clear representation, truth and correctness of the asset and liability statement, and the financial and economic position of the Group. The subsidiary companies excluded from the consolidation are consolidated using the shareholders' equity method.

According to the IAS/IFRS principles, the above exclusions are no longer applicable. As a consequence, the companies Cabi S.r.l., Sandymac S.r.l. and Biesse Corporate School S.c.r.l. were included in the consolidated asset and liability statement at 1st January 2004, with impacts on the various parts of the assets and liabilities.

### 2. Tangible assets

The variation in the tangible assets is influenced by the transfer of the amortisations and by a re-evaluation effected by the parent company and above all by the extension of the application of IAS 17 to all the assets kept in leasing contracts.

According to the Italian accounting principles, the activities inherent to the leasing contracts classified as financial must be entered as tangible assets of the Group offset against a financial obligation of equal value as the liabilities. The Biesse Group only adopted this principle for contracts with regarding property and the relative plants (the subject of *sale and lease back* contracts): for contracts concerning machinery and instruments, the commitment towards leasing companies was entered between the potential obligations (commitments), while for the income statement, the rent charges were entered.

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 € 4.883 thousand and payables in the amount of € 3.142 thousand.

### 3. Goodwill

According to the Italian accounting principles, the goodwill, entered in the assets only if acquired through purchase, is amortised over a period not exceeding the duration of its use.

according to the IAS/IFRS principles, the goodwill is not subject to amortisation, but is instead subjected to evaluation at least once a year in order to verify that it has not made any long-term losses in value. The amortisation amounts written-off amount to € 1.363 thousand.

### 4. Intangible assets

According to the Italian accounting principles, some of the costs relating to the formation and goodwill of a new company can be deferred and capitalised as intangible assets to be depreciated at constant rates 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 at constant rates over a period not exceeding five years.

According to the IAS/IFRS principles, the costs relating to the forming and goodwill of new companies and those relating to research activities must be entered directly in the income statement. The costs relating to research activities must be entered under assets, in the presence of these conditions and depreciated on a linear basis through the relative useful lives. With reference to the second point, new fixed assets have been entered in the amount of € 5.065 thousand.

#### **5. Own shares**

According to the Italian principles, bought back 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 the adjusted permanent loss of value cost and the lower of the cost or market value respectively. The profits and losses from the sale of own shares and the applicable devaluation/appreciation in value have been entered in the income statement.

According to the IAS/IFRS principles, the cost of bought back own shares is entered in the balance sheet on the basis of the purchase cost minus the shareholders' equity. The profits and losses resulting from the sale of own shares are entered in the shareholders' equity reserves

#### **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 derived contracts**

According to the Italian accounting principles, the entering on the balance sheet of derived contracts qualified as “cash flow edge” while waiting for the realisation of the hedged transaction was not provided for. Consequently, the existence of an IRS contract was highlighted in the commitments and the effects of the fair value evaluation of the derived instrument were indicated in the notes.

According to the IAS/IFRS principles, 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.

Consequently, in line with this principle, in with the other debts, the Group has recorded a current liability of € 335 thousand, offset against the entry in the shareholders' equity of the fair value assessment of an offshoot of the interest risk hedging.

#### **8. Liabilities for retirement benefit obligations – Redundancy payments**

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 above modifications reduce the existing fund by € 1,459 thousand.

#### **9. Provisions for risks and charges**

According to the Italian accounting principles, the funds relating to future liabilities for risks and charges are expressed without updating the debit.

According to the IAS/IFRS accounting principles, the value of the funds must express the actual value of the flows envisaged for settling the relative obligation. Consequently, the relative liabilities have been reduced to € 135 thousand.

## 9. Depreciation

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

## 10. 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 € 1.993 thousand.

## 11. 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 € 3.386 thousand.

### *Liabilities for retirement benefit obligations – Redundancy payments*

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 € 310 thousand.

## 12. 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 (€ 463 thousand) and the appreciation in value of the share portfolio (€ 129 thousand).

## 13. Financial expenses

### *Plant and machinery*

With reference to the last point regarding depreciation, increased financial costs have been accounted for in the amount of € 167 thousand.

## 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 2005 and the part-year situations starting from the six-monthly report 30th June 2005.

### CONSOLIDATION PRINCIPLES

The consolidated balance sheet includes the balance sheet of the parent company Biesse and the Italian and foreign companies controlled either directly or indirectly by it. A company is said to control another when it has the power to dictate the financial and operating policies of the latter in order to obtain benefits from its activities.

The consolidated balance sheets are, in the case of significant differences, reclassified and adjusted so that they conform with the parent company's accounting principles and evaluation criteria.

For the compilation of the consolidated balance sheet, the asset and liability entries as well as the income and expenditure of the companies included in the consolidation were fully included.

The accountable value of the shares in a company included in the consolidation is wiped out to offset the corresponding fractions of the shareholders' equity of the shareholdings, attributing their current value on the date of acquisition to the individual elements of the assets and liabilities. Any residual difference, if positive, is entered in the non-current assets, such as goodwill, if negative, it is debited in the income statement.

The economic results of the subsidiaries bought or sold during the financial year are included in the consolidated income statement from the effective date of acquisition until the effective date of sale.

The profit-sharing of the minority shareholders in a bought company is initially valued as being equal to their share of the current values of the assets, liabilities and potential liabilities entered.

The receivables and payables, income and expenditure, profits and losses that originated from transactions between companies that included in the consolidation are removed. Also eliminated were the relationships between the companies of the Biesse Group and an intermediary financial services company outside the Group which acts as an intermediary for most of the commercial transactions between the Parent company and several of the consolidated companies.

As an exception to this general rule, considering the negligibility of the effects and the reconstruction difficulties, the profits from the sale of the stock in inventory by Hsd S.p.A. , Cabi S.r.l. and, for some productions, by MC S.r.l. to the other companies in the Biesse Group were not removed, as they were semifinished products included in the products being manufactured.

The capital gains and losses deriving from the inter-company sale of instrumental assets were removed, where they were considered to be significant.

The amount of capital and reserves of the subsidiaries that correspond to third party holdings is entered in a shareholder's equity entry called "minority share profit-sharing"; the consolidated financial result that corresponds to third party holdings is entered separately in the entry "Net profit for the financial year attributable to minority shareholders"

For consolidated balance sheet presentation reasons, the assets and liabilities of foreign subsidiaries, the operating currencies of which are other than the Euro, are converted at the current exchange rates valid on the date of the balance sheet. The income and expenses are converted at the average exchange rate for the period. The emerging exchange differences are recorded in the shareholders' equity entry "Translation reserve". This reserve is recorded in the income statement as income and expenses for the period in which the relative subsidiary is sold.

#### Shareholdings in associated companies

An associated company is one in which the group can exercise a significant influence, though without overall or joint control, through participation in the decision-making on the financial and operating policies of the associated company.

The period accounting situations of the associated companies are recorded in the consolidated balance sheet using the shareholders' equity method.

### **VALUATION CRITERIA**

#### **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 activities and the monetary liabilities occurring in the above-mentioned currencies are re-entered at the exchange rate at that date. The non-monetary activities expressed at *fair value* occurring in foreign currency are converted at the exchange rates on the date on which the *fair values* were determined.

The differences in the exchange rate, obtained from the adjustment in the 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 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 compensation between deferred tax receivable and payable is only carried out for uniform positions; otherwise, for each heading the credits and debts are entered separately.

**Earnings per share**

The basic earnings per share are 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 earnings per share are 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 amortisations 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* 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 an arc 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.

The intangible assets with an indefinite useful life, including goodwill, are instead checked annually, and each time that there is an indication of a possible loss in value, in order to determine whether there has been a loss in 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 are 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.

### **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 hedging 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 risks on interest rates derive from bank loans; in that as a part of these loans is expressed in currency, the underlying interest risk is managed through the hedging of the exchange 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 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.

## AUDITORS' REPORT PURSUANT TO ART. 156 OF LEGISLATIVE DECREE No. 58 OF FEBRUARY 24, 1998

### To the Shareholders of BIESSE S.p.A.

1. We have audited the consolidated financial statements of BIESSE S.p.A., which comprise the balance sheet as at December 31, 2005, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. These consolidated financial statements are the responsibility of the Company's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. These consolidated financial statements represent BIESSE S.p.A.'s first annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union.
2. We conducted our audit in accordance with the Auditing Standards recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements present for comparative purposes the corresponding data for the year 2004 prepared in accordance with IFRS. In addition, the Appendix "A" – Transition to IAS/IFRS international accounting principles - to the supplementary notes explains the effects of transition to IFRS as adopted by the European Union and includes the reconciliation statements required by IFRS 1, previously approved by the Board of Directors and published as an attachment to the BIESSE Group's 2005 half-yearly interim financial statements, which we have audited and on which we issued a special purpose auditors' report dated October 4, 2005.

3. In our opinion, the consolidated financial statements present fairly the financial position of the BIESSE Group as of December 31, 2005, and the results of its operations and its cash flows for the year then ended in accordance with IFRS as adopted by the European Union.

DELOITTE & TOUCHE S.p.A.

*Signed by*  
Carlo Beciani  
Partner

Ancona, April 11, 2006

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