

BIESSE S.p.A.**CONSOLIDATED BALANCE SHEET FOR YEAR ENDING DECEMBER 31, 2004****THE BIESSE GROUP**

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OPERATIONAL REPORT

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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:

THE WOOD DIVISION

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



Polymac

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



Biessesand

Sanding machines



Artech

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



Biessedge

Edge banding machinery and systems



Biesse Systems

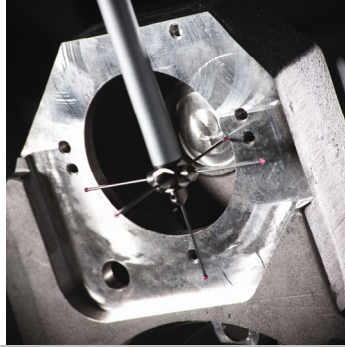
Design and consulting services for furniture industry systems



THE MECHATRONIC DIVISION

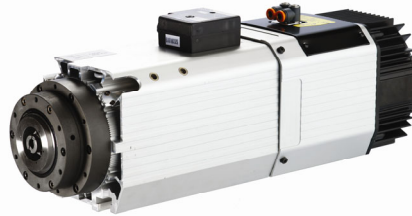
Cosmec

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



THE GLASS AND STONE

Intermac

Machinery and systems for glass and marble working



Gieffe

Glass profiling machines

Busetti

Machinery and systems for glass working

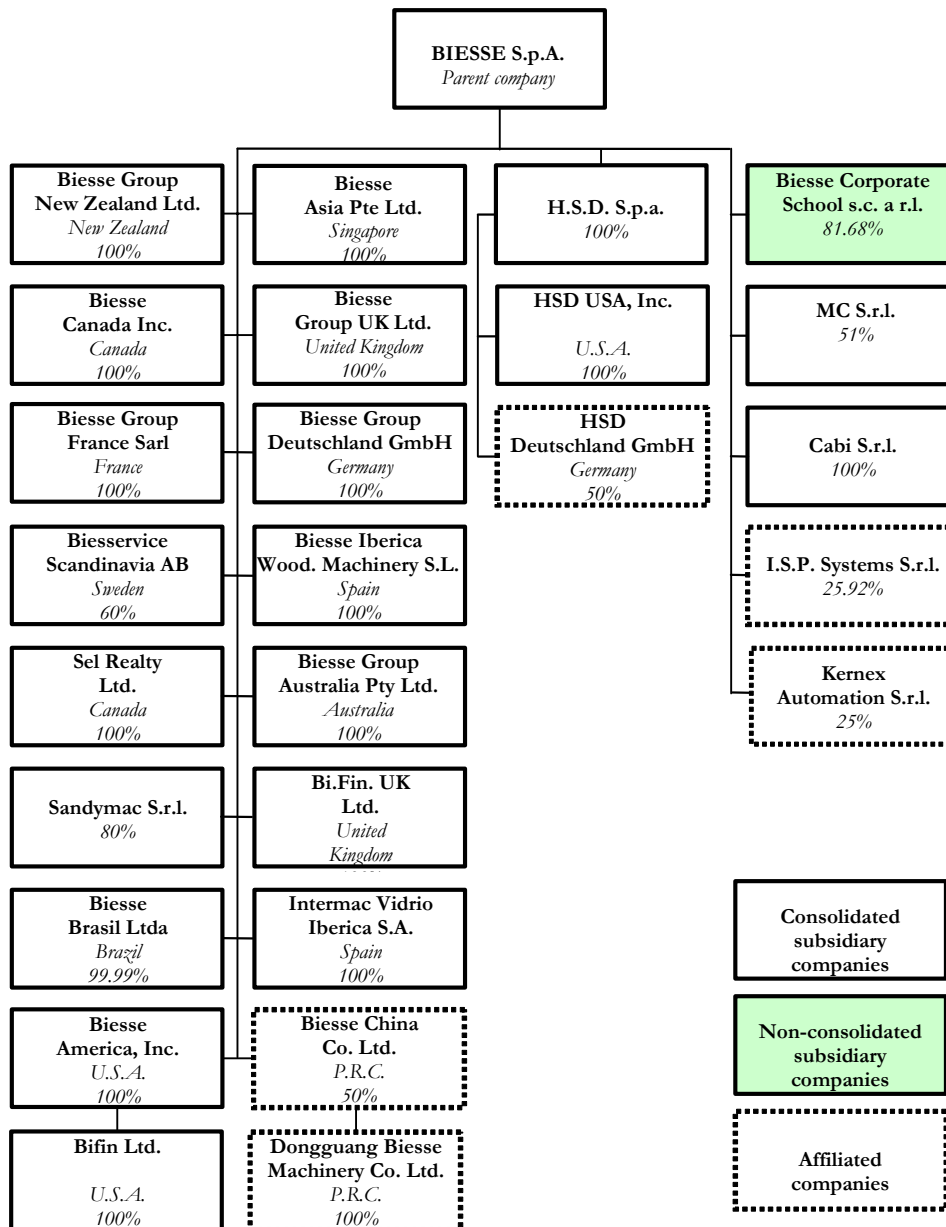
Diamut

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 81.68% is directly held by Biesse S.p.A. for 66,67% and indirectly through Hsd S.p.a. for 15.01%

The consolidation area has changed considerably with respect to the 2003 financial year due to the exit of the Austrian Schelling Group, sold in December 2003. Furthermore, it also includes the subsidiaries Sandymac S.r.l. (80% shareholding), Cabi S.r.l. (100% shareholding) and Intermac Vidrio Iberica S.A. (100% shareholding), previously evaluated using the shareholders' equity method. Sandymac was founded in September 2002 and operates in the design and production of sanding machines for woodworking machinery distributed through the Biesse sales network; Cabi deals with

production of electronic components, in particular the so-called electric panels of part of the Biesse Group's product range; finally, Intermac Vidrio Iberica S.A., a 49% holding in which was previously owned, was bought out completely in July 2004, and operates in the commercialisation of spare parts and post-sales services for Spanish Glass Division customers.

The holdings in the associated companies Biesse China Co. Ltd. (together with its affiliate Dongguang Biesse Machinery Co. Ltd.), ISP Systems S.r.l., Hsd Deutschland GmbH and Kernex Automation S.r.l. have been valued using the shareholders' equity method. The holding in the subsidiary Biesse Corporate School s.c.a.r.l. has also been valued using the shareholder's equity method and not the fully consolidated method, due to its moderate size.

COMPANY EVENTS 2004

February 11, 2004	Board approves report for fourth quarter 2003
March 25, 2004	Board approves annual balance sheet for 2003
April 29, 2004	Meeting of Shareholders approves annual balance sheet for 2003
May 14, 2004	Board approves report for first quarter 2004
August 6, 2004	Board approves report for second quarter 2004
September 20, 2004	Board approves half-yearly report for 2004
November 10, 2004	Board approves report for third quarter 2004

COMPANY BODIES

Board of Directors

President and Managing Director	Roberto Selci
Managing Director	Giancarlo Selci
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

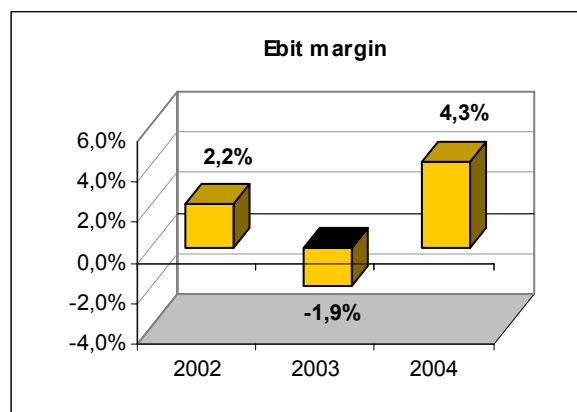
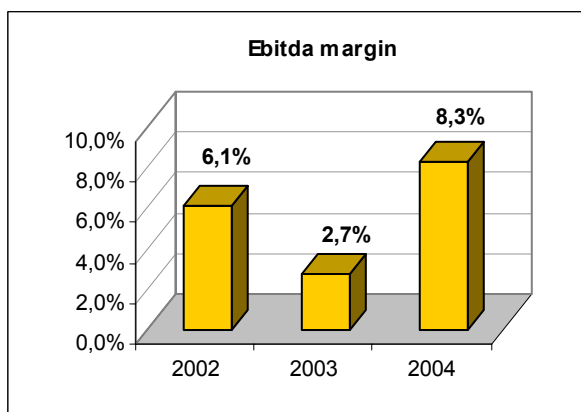
External auditing company

Deloitte & Touche S.p.A.

FINANCIAL HIGHLIGHTS

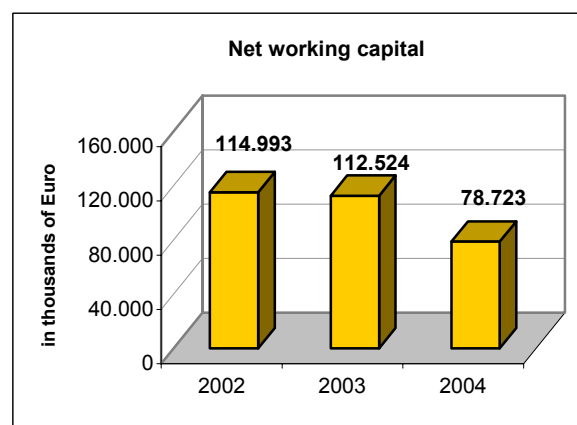
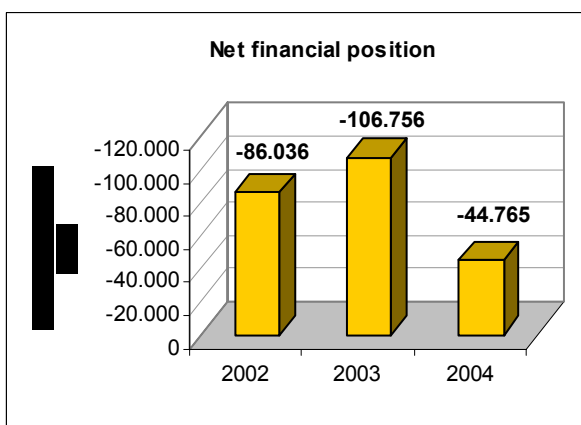
Economic data

<i>(in thousands of Euros)</i>	December 31 2004	December 31 2003	December 31 2002
Income from sales and services	312,514	306,637	370,733
Ebitda	25,881	8,174	22,256
Ebit	13,539	(5,927)	8,013
Group results for the year	4,870	(41,274)	(5,761)



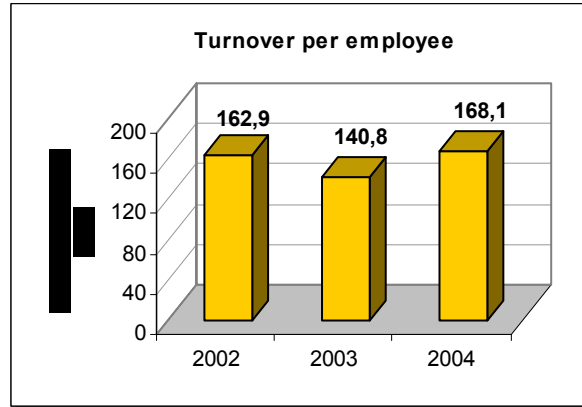
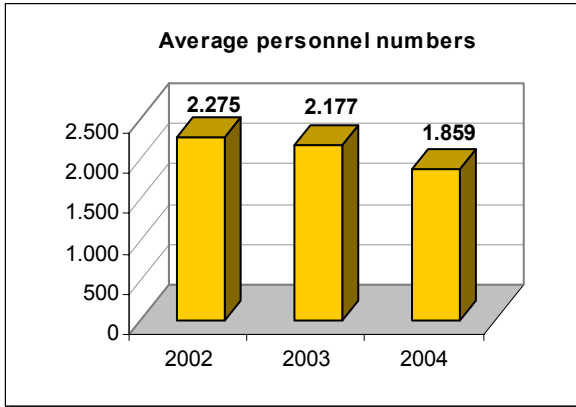
Balance Sheet Figures

	December 31 2004	December 31 2003	December 31 2002
Invested capital	133,787	193,661	217,963
Shareholders' equity	89,021	86,905	131,927
Net financial position	44,765	106,756	86,036
Net working capital	78,723	112,524	114,993
Gearing (NFP/Equity)	0.50	1.23	0.65
Assets coverage (Equity/Net assets)	1.19	0.92	1.04
Financial leverage (Payables/Equity)	2.16	2.80	2.03



Structural data

	December 31 2004	December 31 2003	December 31 2002
Average personnel numbers	1,859	2,177	2,275

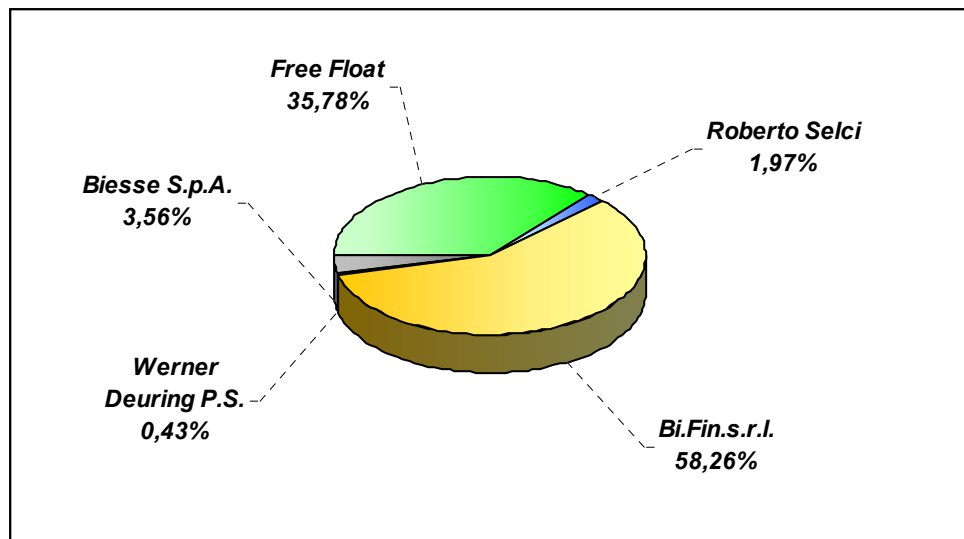


BIESE ON THE STOCK EXCHANGE

Progress of shares



Share Structure



Main I.R. events 2004

January 2004	Special Event – Presentation of the company at U B M Milan
February 2004	STAR event – Milan
May 2004	Presentation of the company during XYLEXPO – Milan
September 2004	STAR event – London
October 2004	Presentation of the company to institutional investors - London Road Show
November 2004	U B M Small Cap Conference - Milan

**DIRECTORS'
REPORT
ON OPERATIONS**

**Consolidated
Financial
Statements**

OPERATIONAL REPORT

GENERAL ECONOMIC CONTEXT

In 2004 the world economy showed a number of comforting signs indicating a much awaited change in trend with respect to the difficult three-year period 2001-2003, recording a good growth in global GNP equivalent to 4.9% (3.9% in 2003), in spite of the continuing geopolitical uncertainty and the considerable elements of imbalance: instability in the Middle-East, the terrorist alarm, tension regarding the price of raw materials, volatility and uncertainty in the exchange rates.

Recovery has, as a whole, been general, although distributed in a different manner in the various geographical areas: the results of the driving American economy have been significant (GNP + 4.4%) and the Far East countries (GNP +7.9%), particularly influenced by China. The European Twelve, whose GNP has only increased by 1.8%, showed a slower, more fragile growth, characterised by a weak internal demand and by political uncertainties as to economic and fiscal instruments to incentivate development.

Among other things, the tendency to expand encountered in 2004 seem already - in line with the reduction currently in process in economic cycles - to be showing signs of further weakening, above all in the countries that showed the highest levels of growth. This general slowing of the positive trend, which was already seen in the fourth quarter of 2004, continues during the early months of 2005.

The past year has been marked by considerable tension regarding the price of raw materials, particularly oil and steel, due to imbalance in the demand and supply, added to the political instability in the Middle East and the rapid growth of the Chinese market. In the Biesse Group these inflationistic tendencies, which have translated into moderate increases in list prices, have not had significant consequences on results, in view of the limited incidence of raw materials (mainly steel) on the cost of finished products.

The currency side continues to be marked by a persistent weakness in the Dollar against the Euro: overall in 2004 the Euro has appreciated by 7.8%. As regards the other currencies in the Group's reference markets, there has been a depreciation of the Singapore dollar (-3.8%) and the Australian dollar (-3.9%). These fluctuations have had a partial influence on the Group's performance in terms of volume, slowing the tendency to invest in durable assets in those geographical areas connected to the US Dollar, whereas careful exchange rate risk management policies have avoided a more severe impact on sales margins.

BUSINESS AREA

According to the figures issued by Acimall, the woodworking machinery sector association, 2004 saw a 4% growth in production with respect to 2003. The good export figures (+8%), amounting to a total value of 1,225 million Euro (equivalent to 83.9% of the entire national product for this sector) contributed to this result. The main geographical regions that brought about this result were: the Middle and Far East (+37%) and non-EU countries in Europe (+68.7%). This situation is offset by the continuing difficulties on the Italian market (where there has been a poor demand for durables for at least two years), which resulted in a 12% decrease in sales (total value 231 million Euro).

As regards the progress of orders, during the third quarter there was a 3.7% increase with respect to the same period of last year. This figure, although positive, confirms the drop in growth rate that had already been noted during the preceding quarter, after consistent growth during the first half of the year. The composition of the orders, however, goes against the trend seen during previous quarters, with an increase in sales on the internal market (+19.5%) as compared with substantial stability in foreign sales (+0.1%).

As regards 2005, according to Acimall, <<the growth rate should remain in line with 2004 figures, unless conditions necessary for expansion arise, such as an improvement in the Dollar/Euro exchange rate balance and an end to the progressive impoverishment of the German market>>.

The Acimall forecast for the first quarter 2005 is characterised by a feeling of uncertainty as regards foreign markets, and moderate optimism on progress of the Italian market.

ANNUAL REPORT

Summary of economic data

<i>(in thousands of Euros)</i>	December 31 2004	%	December 31 2003	%
Revenues from sales and services	312,514	100.0%	306,637	100.0%
Value of production	315,467	100.9%	315,021	102.7%
Raw materials, ancillary materials and consumables	(136,649)	(43.7%)	(139,582)	(45.5%)
Services	(58,231)	(18.6%)	(61,413)	(20.0%)
Leases and rentals	(6,882)	(2.2%)	(8,354)	(2.7%)
Other operating expenses	(4,893)	(1.6%)	(5,870)	(1.9%)
Added value	108,812	34.8%	99,802	32.5%
Personnel expenses	(82,931)	(26.5%)	(91,628)	(29.9%)
Gross operating margin	25,881	8.3%	8,174	2.7%
Depreciation	(10,750)	(3.4%)	(12,476)	(4.1%)
Accruals to provisions	(1,592)	(0.5%)	(1,625)	(0.5%)
Operating income	13,539	4.3%	(5,927)	(1.9%)
Financial income and expense	(4,002)	(1.3%)	(6,558)	(2.1%)
Adjustments to the value of financial assets	(365)	(0.1%)	(1,495)	(0.5%)
Extraordinary items	7,714	2.5%	(29,788)	(9.7%)
Income before taxes	16,886	5.4%	(43,768)	(14.3%)
Current income taxes	(4,660)	(1.5%)	(3,044)	(1.0%)
Deferred income taxes	(7,366)	(2.3%)	5,544	1.8%
Net income	4,860	1.6%	(41,268)	(13.5%)

Pro-forma economic data summary

The figures for 2003 have been determined eliminating 11 months of economic figures for the Schelling Group, transferred by Biese in December 2003, whereas those for 2004 are net of the results for the subsidiary companies Cabi S.r.l., Sandymac S.r.l. and Intermac Vidrio Iberica S.A.

<i>(in thousands of Euros)</i>	December 31 2004 pro-forma	%	December 31 2003 pro-forma	%
Revenues from sales and services	312,086	100.0%	278,122	100.0%
Value of production	314,773	100.9%	283,660	102.0%
Raw materials, ancillary materials and consumables	(137,875)	(44.2%)	(125,181)	(45.0%)
Services	(57,802)	(18.5%)	(54,328)	(19.5%)
Leases and rentals	(6,787)	(2.2%)	(7,184)	(2.6%)
Other operating expenses	(4,852)	(1.6%)	(4,293)	(1.5%)
Added value	107,457	34.4%	92,674	33.3%
Personnel expenses	(81,720)	(26.2%)	(78,639)	(28.3%)
Gross operating margin	25,737	8.2%	14,035	5.0%
Depreciation	(10,500)	(3.4%)	(11,596)	(4.2%)
Accruals to provisions	(1,591)	(0.5%)	(1,170)	(0.4%)
Operating income	13,646	4.4%	1,269	0.5%
Financial income and expense	(3,983)	(1.3%)	(5,236)	(1.9%)
Adjustments to the value of financial assets	(365)	(0.1%)	(1,453)	(0.5%)
Extraordinary items	7,716	2.5%	(424)	(0.2%)
Income before taxes	17,014	5.5%	(5,844)	(2.1%)
Income taxes	(11,987)	(3.9%)	3,424	(1.2%)
Net income	5,027	1.6%	(2,421)	(0.9%)

For Biese, the year 2004 was characterised by the return of profitability, accompanied by an increase in volumes above the growth rate of its reference markets, a positive management of cash flows and an effective and substantial streamlining of the costs structure.

As mentioned above, there was a considerable variation in the Group perimeter, following transfer of the Schelling group, which took place in December 2003. This transfer was entirely absorbed as regards volume of revenue, which actually increased thanks to the excellent performance of the historic divisions of the Group.

The company cost control strategies and the efforts made to improve production efficiency have led to a significant recovery of profitability. It was with this idea of optimising the organisation that the outsourcing agreement for carpentry and painting phases was signed in the month of November 2004, with one of the Group's suppliers: the operation involved a reduction of 40 employees and recovery of production space to be destined for production phases with a higher added value and lower capital intensity. The investment activities in the more strategic phases upstream of the production chain also continued, through the companies MC S.r.l. and Cabi S.r.l.

From a commercial point of view, during 2004 there was a continuation of the expansion strategy, through new lines of product, comprising sanding and calibrating machines for the woodworking sector, for which start-up commenced between the years 2002 and 2003.

With reference to asset administration, two important real estate operations were carried out during the year, allowing the Group's net financial position to be improved and its cost structure lightened. In particular, in the month of March a number of non-instrumental plots of land, adjacent to the Pesaro manufacturing site, were sold to the controlling company Bi.Fin. S.r.l. for 20 million Euro (the value was based on an independent survey), generating a capital gain of 10.3 million Euro. In the month of December 2004, as part of the outsourcing agreement mentioned above, part of the manufacturing site at San Giovanni in Marignano (RN) was transferred, and this, together with a number of industrial machines, resulted in a positive cash flow of 6.3 million Euro and a special capital gain of 1.1 million Euro.

It must also be noted that, during the year, it was decided to advance part of the transfer to IAS accounting principles, so that the misalignment caused by valuation of the final stocks using LIFO criteria, as opposed to the weighted average cost, has already been eliminated in 2004. This change in criteria made it necessary to recalculate initial stocks, using the weighted average cost as indicated above, and this resulted in a special charge of 850 thousand Euro.

Finally, in the month of October, one million own shares were transferred to the market in blocks and off the market (equivalent to 3.65% of the partnership capital) at a price of 2.6 Euro per share, said shares having come into the ownership portfolio through the buy-back operation completed last December and the transactive agreement with W.D. Privatstiftung connected to transfer of Schelling GmbH. The operation also had the aim of increasing the share float, above all following the requests received during and after the STAR event held in London last September. The transaction involved a cash-flow of 2.6 million Euro and a capital gain of 439 thousand Euro.

As analysis of economic figures is influenced by the considerable variation that has occurred in the consolidation perimeter with respect to the same period of the previous year, it was considered necessary to show "pro-forma" profit and loss account figures, reconstructed by eliminating the impact of the Schelling group (for the 11 months of profit and loss account for the year 2003), and the results of the subsidiaries Cabi S.r.l., Sandymac S.r.l. and Intermac Vidrio Iberica S.A. for 2004.

Turnover, amounting to € 312,514, increased by 2% with respect to the preceding year. The pro-forma figures indicate a 12.2% increase in revenue, amounting to approximately 34 million Euro. This increase is recorded for all divisions of the group, and is particularly important for the Wood Division (which indicates a 13.7% increase, over performing the reference sector) and for the Mechatronics Division (where the increase in turnover, read net of interdivisional movements, amounts to 33.5%). The Glass Division reversed the trend with respect to 2003, with a 2% increase, and confirmed itself the second operator on its reference market.

The value of production amounts to € 315,467 thousand, in line with the previous figure, whereas when the pro-forma figures are analysed there has been an increase of approximately 31 million Euro, equivalent to 11.0%.

Added value passes from € 99,802 thousand in 2003 to € 108,812 thousand, with a percentage incidence on turnover going from 32.5% to 34.8% (the pro-forma figure showed an increase of 16.0%). This improvement can be partially attributed to the manufacturing rationalisation operations undertaken during the past year, which have made it possible to reduce the incidence of cost of goods and keep fixed costs under control, added to the volumes effect, which permits more efficient absorption of factory costs. This streamlining strategy continued throughout 2004 and should result in additional benefits during 2005.

Personnel expense drops from € 91,628 thousand to € 82,931 thousand, with the percentage impact on turnover dropping from 29.9% to the current figure of 26.5%. The reduction in costs is not only connected to transfer of the Schelling group, but also to the careful management of human resources put into practice by Biesse during 2004 (the average workforce for the group dropped from 2,177 to 1,859, while, - on eliminating the variations that have occurred in the consolidation area -, there has been a decrease of 54 staff).

The gross operating margin rises € 8,174 thousand to € 25,881 thousand, with the percentage impact on turnover increasing from 2.7% to 8.3%. Comparison of the pro-forma figures indicates an improvement in the gross operating margin of € 11.7 million, with an absolute value rising from € 14,035 thousand to € 25,737 thousand. Analysis by business division shows that the increase is mainly due to recovery by the Wood division, whose gross operating margin increased by € 9.7 million, and to deconsolidation of the Schelling group (which resulted in a recovery of € 6.1 million). The Mechatronics division also improved with respect to the preceding year (almost doubling the margin for turnover), whereas the Glass division confirmed the results achieved the previous year.

The operating result, which showed a negative result of € 5,927 thousand during the previous year, changed sign this year, recording a positive value of € 13,539 thousand (whereas when the pro-forma data are analysed, the operating result changes from € 1,269 thousand to € 13,645). Along with the effects already mentioned above, this improvement has also been impacted by the reduction in cost of depreciation, which decreased by € 1,726 thousand, a trend that will also continue in 2005 following streamlining of the Group's manufacturing structure.

Financial management, with negative results totalling € 4,002 thousand, includes net financial costs equal to € 4,052 thousand, in addition to the negative impact (€ 645 thousand) derived from the constant appreciation of the Euro against the main foreign currencies, which creates a foreign exchange risk for Biesse (US Dollar, Canadian Dollar and UK Sterling), in spite of the hedging policies pursued and realised during 2004, through the use of futures options. The figure also includes sundry financial proceeds amounting to € 695 thousand, comprising the capital gains from sale of own stock (€ 439 thousand) and from interest received (€ 210 thousand) from the controlling company Bi.Fin. S.r.l. on extended payment for the above mentioned transfer of land; the capital portion of this payable has been received in full by Biesse during 2004.

The income before tax shows a profit of € 16,886 thousand, as against a loss of € 43,768 thousand for 2003 (pro-forma analysis shows a pre-tax loss for 2003 of € 5,844 thousand, as against a profit for 2004 of € 17,014); the result for 2004 includes special revenue from alienation of assets, amounting to € 11.4 million, special charges for adjustment of the value of final stock to meet IAS principles, amounting to € 850 thousand, and negative adjustments to the value of shareholdings in subsidiary and affiliated businesses (valued using the net assets method), amounting to € 365 thousand.

The balance of tax components is negative by a total of € 12,025 thousand, comprising appropriations for current income tax for the year, amounting to € 4,660 thousand, and for the (negative) difference due for deferred tax (result of tax due less tax paid) after taking into account the *reversal* effect of prepaid tax and passive deferred tax for the preceding year.

Summary of Balance Sheet Figures

<i>(in thousands of Euros)</i>	2004	2003		2004	2003
Fixed assets	74,510	97,086	Shareholders' equity	89,021	86,905
Current assets	205,605	231,722	Provisions for risks and charges	6,675	8,179
Accrued income and prepaid expenses	1,352	1,231	Employee termination indemnities	15,130	13,609
			Accounts payable	168,697	220,004
			Accrued liabilities and deferred income	1,944	1,342
Total assets	281,467	330,039	Total Shareholders' equity and liabilities	281,467	330,039

The most significant phenomena noted after summary analysis of the balance sheet figures are the reduction in fixed and working assets. All the indicators relating to the Group's financial indebtedness have improved (the *gearing* goes from 1.23 to 0.50, while the financial leverage goes from 2.80 to 2.16), and the net working capital has decreased. Coverage of fixed assets by the net equity has improved (the relevant index passes from 0.92 to 1.19).

Net financial position

<i>(in thousands of Euros)</i>	31 December 2004	30 September 2004	30 June 2004	31 December 2003
Short term investments:	21,929	24,125	20,272	26,870
- Current assets	20,567	16,628	16,339	20,504
Receivables from others within 12 months (immediately payable)	0	0	0	2,530
-Non-current investments (Own shares)	1,362	4,577	3,933	3,836
- Receivables from parent companies within 12 months	0	2,920	0	0
Short term financial payables	(2,027)	(2,444)	(3,257)	(2,421)
Short term payables to banks	(36,142)	(69,907)	(65,194)	(102,925)
Short term payables to parent companies for loan	0	0	(1,800)	0
Short term net financial position	(16,240)	(48,226)	(49,979)	(78,476)
Medium/long term financial payables	(15,111)	(18,446)	(18,700)	(19,865)
Medium-long term payables to banks	(13,414)	(5,609)	(6,077)	(8,415)
Medium/long term net financial position	(28,525)	(24,055)	(24,777)	(28,280)
Net financial position	(44,765)	(72,281)	(74,756)	(106,756)

As regards the net financial position, the value as on 31 December 2004 has improved strongly, both with respect to September 2004, and with respect to December 2003. The result is due both to the financial income deriving from the real estate operations carried out during the year (sale of non-instrumental land to the controlling party Bifin srl, sale of part of the manufacturing site at San Giovanni in Marignano), and to the improvement in working management (in particular in the progress of the net working capital, which has improved by 33 million Euro).

	Ebitda 2004	Ebitda margin (on sales)	Ebitda 2003	Ebitda margin (on sales)
Wood Division	18,327	7.90%	8,561	4.20%
Glass/Marble Division	3,979	6.60%	3,847	6.50%
Systems Division (Schelling)	---	---	(6,119)	(21.60%)
Mechatronics Division	3,575	8.70%	1,886	7.90%
Consolidated Biesse Group	25,881	8.30%	8,174	2.70%

	Ebit 2004	Ebit margin (on sales)	Ebit 2003	Ebit margin (on sales)
Wood Division	10,296	4.40%	1,836	0.90%
Glass/Marble Division	1,897	3.10%	412	0.70%
Systems Division (Schelling)	---	---	(7,466)	(26.40%)

Mechatronics Division	1,863	4.50%	663	2.80%
Consolidated Biesse Group	13,539	4.30%	(5,927)	(1.90%)

From analysis of the results achieved by the three divisions it can be seen that there has been a strong improvement in all the Group's business areas, determined both by the increase in volumes and by the factory cost control strategies implemented.

RESEARCH AND DEVELOPMENT ACTIVITIES

Below there is a list of the research and development activities for 2004:

RESEARCH, DEVELOPMENT AND INNOVATION - WOOD DIVISION

THE BIESSE BRAND

"C" range

Design of the Rover C range has been completed.

This new range, - which will be presented at the Hannover International Trade Fair in May 2005 -, will allow an improvement in the configurability of working units to up to 38 different compositions, reducing the need for special machining operations; it will also allow application of the 5-axis head with adaptation of piece transit.

"B" range

The Rover B range has been extended, with introduction of automatic controlled work tables (EPS technology) for all sizes of base. For this range of processing centres also, maximum working unit modularity has been planned for.

Rover application software

All the Rover controls have been unified to the CNi XP600 control, for which a new software release has been developed, the most important characteristics of which are:

- Evolved diagnostics
- Higher speeds
- New boring optimiser

Also, the assisted testing program has been made operational, starting with automatic configuration of the machine software from the serial number up, it guides the tester through the various test phases right up to creation of back-ups, recovery disks and storage of test data on a central database

SELCO BRAND

WNA 600 Syncro Logic middle level corner system with two cutting lines.

This product has enabled Selco to introduce itself in an area of the market that has not been properly taken advantage of to date and that, based on the changing needs of our customers, is increasingly rewarding flexibility over volume.

This analysis process resulted in development of new system devices, such as:

- Pusher expulsion device: used to move all the material forwards to the next cutting panel saw station after cutting. During forward movement, any tail waste is evacuated by means of a managed pause;
- Lift-up waste trap: a pneumatic drive manages opening of a portion of the table to evacuate the waste material to a lower level, where it is then carried away for crushing;
- Transfer system for panels cut by the first panel saw line: the transfer devices convey the semi finished product towards the next reference, compacting them at the same time;
- Machine logic: large-scale reprocessing of the operating logic has made it possible to further increase productivity.

Panel rotation system

Increasingly complex cutting logics more and more frequently require 90° rotation of large packs of material, weighing up to 1.5 / 2 tonnes.

Selco has evolved one of its previous hydraulic systems, electrically driven with the assistance of pneumatic cylinders: a particular mechanical system transforms the movement of a straight actuator into rotation of the panel support frame, guaranteeing an intrinsic stability of the material being rotated that is quite without equal.

Furthermore, this has resulted in an improvement in cycle times, which drop from the previous 24 sec., to the current 11 sec.

"OSI" operator interface

This acronym (Selco Open Interface) indicates all the potential of the new operator interface that Selco has now introduced on all its machines. Using extremely simple, Windows based menus, the operator is able to program and manage the entire job in a fully independent manner; OSI also gives the option of connecting to other programming software and to the Internet to solve problems, import data, etc..

BIESSEEDGE / ARTECH BRAND : EDGEBANDING

X-STREAM lines project

This project consists of creating square-edging machines for longitudinal and transversal passage of panels, characterised by high speeds of advance.

These machines, combined with panel automation devices (loading, unloading, etc.) with comparable levels of performance, represent an answer to the growing request for higher productivity that is coming from the world of industry.

Flexible Lines Project (FLEXA)

The project consists in creating a line of highly flexible edge banding and square-edging lines for differential production of panels in small batches or even in single item batches, so as to meet the JIT production needs typical of the world of industry. These lines use industrial automation concepts such as: modular approach to the HW and SW governing the machines, maximum repeatability and precision of subsequent re-configuration operations, setup times reduced to a minimum, line supervisor, etc.

AKRON400 project

AKRON400 is a new model of single sided Polymac flanging machinery for the entry-level segment. It has been designed as a range of machines capable of satisfying the needs of an extensive market, ranging from individual craftsmen to small and medium industries.

From the point of view of the end user, AKRON400 edge banding machines are characterised by considerable versatility of use, an excellent performance/purchase price ratio, simplicity of use and minimum maintenance.

P600HRT project

This project consists in revision of the current architecture in the NC used to equip all BIESSEEDGE/ARTECH edge banding and square-edging -machines, in the STREAM and AKRON series. Introduction of this new generation card will make it possible to provide, on machines involved in this project , a sensitive increase in the NC computing performance. Among the other advantages provided, that of unification of the HW with those of other Biesse Group units is by no means the least important.

RBO BRAND

Advantage project

The new Advantage machine aims at the concept of "Productivity and Reliability at the right price" offering the most suitable solution for mid range customers, without foregoing the productivity and reliability provided by a product with high levels of engineering. RBO proposes Advantage as a solution for medium-high performance lines, where high drive speeds and safety in panel detachment are the essential requirements for continuity of loading. The flexibility of the machine, thanks to its perfect industrialisation, allows a large number of both widthways and lengthways panel compositions to be managed on the stack.

Booster project

With the new Booster machine, RBO has increased its market share in the painting process. Booster is the ideal solution, in which line speed can reach up to 60 metres per minute. Rbo offers Booster in a version with double intersecting frame and double mechanical detacher, both essential requirements for machining continuity and safe panel detachment even when working with un-coated material or raw MDF.

Panel saw unloader

Finally, the new powered clamp frame has allowed RBO to complete its range of panel saw lines. Capable of unloading any type of material, including "thin" materials, RBO can make the process completely automatic and reduce the need for

operator intervention to a minimum. With the new powered frame the machine performance has also improved, thus allowing RBO to satisfy even its most demanding customers.

In all the new RBO products operator intervention is reduced to a minimum, as the machines are configured in a fully automatic manner and conveyor speeds are parametered according to the function of loading and unloading compositions.

RESEARCH, DEVELOPMENT AND INNOVATION - GLASS & MARBLE DIVISION

INTERMAC BRAND

During recent years, research and development activities have been aimed at renewing the existing range of machines, both processing centres and cutting benches.

In 2004 for processing centres work was centred on depth of range, creating products mainly dedicated to the artisan segment, both for stone working and for transformation of flat sheets of glass, along with models of flat glass transformation processing sectors aimed at the building industry.

Accessory systems have also been dealt with, allowing a reduction in machine tooling times:

- Development of tool measuring instruments for proper positioning during the machining phase.
- Completion of a two-dimensional cam software for glass machining operations (grinding, milling, bevelling, boring, etc.).
- Creation of the software interface on the new range of processing centres with Type 3 division numeric software, for programming of bas reliefs or engravings on stone.

As regards the product segment dedicated to cutting sheets of glass, design of an integrated cutting island has been developed, complete with automatic loading pallet with relevant software application, as well as the plan for a machine to cut laminated sheets with automatic advance of the sheet into the cutting position and consequent separation, a product that allows Intermac access to a new segment of applications/customers.

BUSETTI BRAND

Projects in 2004 were characterised by:

- Creation of a versatile new automatic machine for boring, milling and threading of sheets of glass. The project will be completed in 2005, comprises 2 patents that are currently pending, and will make it possible to integrate certain process phases that are currently performed on a number of machines.
- Development of a working unit for grinding of flat glass on automatic two-sided line machines, with a tool orientation function, to carry out variable angle grinding operations on the sheet, and of a working unit for corner grinding of a flat sheet of glass, with an electronically governed automatic follower function, simultaneous with movement of the sheet itself.

DIAMUT BRAND

Research and development in 2004 was dedicated both to improvement of internal manufacturing processes, and to development of new products. In greater detail, these included:

- Automation of new plants to increase production of sectors and minifaces (process);
- Insertion of an automatic face production island (process);
- Development of tools for sinking and polishing on sheets of glass (product);
- Development of new bonding agents for diamond-coated grinding wheels for straight grinding machines (product);
- Development of new bonding agents for resins for bevelling machines (product).

RESEARCH, DEVELOPMENT AND INNOVATION - MECHATRONICS DIVISION

HSD BRAND

- Extension of two-axis bi-rotational electric heads line for low range HS450 aluminium processing machines

- ES360 8 Kw 4-pole 24000 rpm electrospindle with liquid cooling systems with the necessary electrical parts.
- UL-CSA approval of the electrical wiring of the ES929 electrospindles.

CNI BRAND

- New NC1600 numerical control
- New CAN-OPEN protocol for SM 137 encoder driven Brushless motor with integrated gear motor.

SEV BRAND

- Study and creation of a family of rotor-stators for high speeds, with integral Zircon Copper head welding.

PERSONNEL RELATIONS

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

In 2004, the training provided focussed on three lines.

“Horizontal” approach to basic training: founded on individual responsibility and on a widespread involvement of staff. During the first quarter of 2004 the programs started in 2003 were completed. These centred around evening courses in English and information technology, financed by the company and open to all employees upon payment of a symbolic fee. The participants totalled approximately 300.

Training of company educators: a program to strengthen the effectiveness of technical training and the spread of innovation was set up and put into practice, improving the training abilities of in-house specialists. The program also enabled the figure of the intermediate head to be given added value as the activator of “cascade” training processes. In all, 55 people took part, comprising intermediate heads, designers and process managers.

Commercial training: an important training operation was set up and put into practice on sales staff, creating a series of multimedia courses, produced to Biesse Group specifications. During the year, 10 multimedia courses were developed and produced on sales methods, and these were used in various training sessions and are available on intranet as personal refresher courses. This was a very innovative operation in its kind, which enabled us to obtain specific European funding.

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

CORPORATE GOVERNANCE

The main group's corporate governance system is inspired by and aims toward the standards contained in the self discipline code of listed companies, with the related Consob recommendations.

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

As a result, we compiled a new version of the Parent company articles of association, which were approved by an extraordinary share holder's meeting on March 21 2001.

Ownership structure

The capital stock of the parent company is made up exclusively of ordinary fully paid shares and assisted by voting rights in ordinary and extraordinary shareholder's meetings.

Role of the Board of Directors

The Parent company operates according to the provisions of the Italian Civil Code regarding joint stock companies. The Board of Directors is invested with power of ordinary and special administration, with the right to carry out all actions considered necessary and advisable in order to achieve the company goals, with the sole exclusion of actions that by law are the province of the Meeting of Shareholders.

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 Parent company and the group as a whole.

According to art. 1.2 of the Code, the Board of Directors governing the Parent company will 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 Parent company and the Group;
- evaluates and approves the periodic reports required by current regulations.;
- assigns and regulates powers issued to the managing directors, executive committee and, if necessary, to one or more board members with regards to particular tasks;
- reports to the Board of Auditors on activities and on the main economic, financial and asset operations carried out by the company or its subsidiaries, where relevant; in particular, it reports on 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 Parent company General Managers, who must execute the decisions taken by the Board of Directors and those delegated by the latter, 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 Parent company and the Group;
- reports to the shareholders meeting;
- determines, by proxy granted to the independent board member, which of the 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.

According to the Statute, should the Meeting fail to do so, the Board of Directors will nominate from among its members a President; it will also be entitled to nominate one or more Managing Directors, the Executive Committee and one or more Directors with special positions.

Composition of the Board of Directors

As per Art. 16 of the company statutes, the 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 Board currently in office is made up of five members.

The current Board of Directors, consisting of five members, was appointed by the Ordinary shareholders meeting on 29/04/03 and will remain in office until the approval of the balance sheet for the year ending December 31, 2005.

The current Board of Directors is made up of the following members:

Mr. Roberto Selci:	President and Managing Director	Executive
Mr. Giancarlo Selci:	Managing Director	Executive
Mr. Innocenzo Cipolletta:	Independent Manager	Non Executive
Mr. Leone Sibani:	Independent Manager	Non Executive
Mr. Gianpaolo Barattoni:	Independent Manager	Non Executive

The Board of Directors conferred the following powers on May 05, 2003:

- the President and Chief Executive Officer Roberto Selci were assigned all powers of ordinary administration, with the specification that the range of these powers must include relationships with banks and all powers related to signing financial declarations of any nature, responding to the needs of the personnel, purchasing or selling automobiles or any asset included in the public registry, signing and negotiating deeds issued pursuant to L.1329 (the so-called Sabatini law), and signing leasing contracts.

The Board of Directors conferred the following powers on November 12 2003:

- the Managing Director Giancarlo Selci was made solely responsible for strategically defining the policies of the Group as well as the general co-ordination of the Group itself, with the express exclusion of any and all powers related of legal representation and active administration.

For this office, the members of the Board of Directors have elected the domicile of BIESSE S.p.A.'s registered office in Pesaro, in Via della Meccanica 16.

During 2004, six meetings were held.

Independent managers

These are considered to be those Managers who:

- do not have, either directly or on behalf of third parties, nor have recently had any economic relations with the Parent company, its subsidiaries, its Executive Directors, the shareholder or group of shareholders controlling the Parent company, of a nature likely to prejudice their independence of judgement.
- are not the owners, either directly, indirectly or on behalf of third parties, of shareholdings of a consistency such as to enable them to exercise a controlling or considerable influence on the Parent company, and are not taking part in parasocial agreements for control of the Parent company itself;
- are not close relations of Executive Directors of the Parent company or of persons who are in the conditions indicated above in the preceding points

The independence of Managers is evaluated periodically by the Board of Directors, taking into account the information provided by the individuals in question.

The Parent company's Board of Directors comprises three independent managers:

Mr. Innocenzo Cipolletta:	Independent Manager	Non Executive
Mr. Leone Sibani:	Independent Manager	Non Executive
Mr. Gianpaolo Barattoni:	Independent Manager	Non Executive

The following indicates the positions held by these managers in other regularly listed companies, including those abroad, in financial companies, banks, insurance companies or other businesses of a certain size:

Mr. Innocenzo Cipolletta:

- *President of UBS Corporate Finance Italy*
- *Member of the BoD of UBS Giubergia SIM*
- *Member of the BoD of Ericsson Italia SpA, company listed on the Milan Stock Exchange*
- *President of Il Sole 24 ore, unlisted publishing company operating in the field of economic news, and therefore in a sensitive sector.*
- *Since June 2004 Member of the BoD of Indesit (previously Merloni) a listed company*

Mr. Leone Sibani:

- *President of Sanpaolo Imi Private Equity since 28.2.2002;*
- *Councillor of Sanpaolo Imi S.p.A dal since 29.4.2004*
- *Councillor of Banca Popolare dell'Adriatico S.p.A. since 10.4.2003*
- *Director of Sanpaolo Imi Internazionale since 25 July 2002;*
- *Member of the Cassa di Risparmio Foundation in Bologna since 18 December 1999;*
- *Councillor of the Association for the Development of Bank and Stock Exchange Studies - Milan since 14.12.1983;*
- *Member of the Central Committee of CICA - Confédération Internationale du Crédit Agricole - since 22.9.1996:*
- *Full member of the Co-ordinating Committee for the European Group- World Institute of Savings Banks, Brussels - since 13 June 2001.*

Mr. Giampaolo Garattoni: does not cover any position falling within those 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.

Notice of the meeting must be sent by post, telegram, telex, telefax or other similar telematic form, provided said form is legally recognised, at least five days in advance, and in the case of urgency by telegram, telefax and other similar telematic

form at least one day (24 hours) in advance of the date set for the meeting. The Board of Directors will be considered validly convened, even in the absence of notification, provided all the Directors and Standing Auditors attend.

Meetings may also be held in conference calls and/or video conference, provided all participants can be identified and are able to follow discussions and intervene in real time to discuss the questions on the agenda, and provided they are able to view, receive, negotiate the documentation.

On 29/04/03, the Meeting of Shareholders proceeded to nominate Mr. Roberto Selci as President of the Board, and he is duly granted, according to the Statute, all ordinary and special powers of administration and legal power to represent the company.

Remuneration of Directors and Remuneration Committee

The Board of Directors has formed an internal committee for remuneration of the Directors and for the stock option plans described in point 8 of the Code of Self-regulation.

On expiry of the stock option plan voted during the Meeting on 9/10/00 the company has set up a system of incentive-based pay based on economic/financial performance and aimed at top management (bonus).

On 15/05/03 the Board of Directors founded in internal committee for remuneration of Directors, whose members are:

- Mr. Roberto Selci President and Managing Director
- Mr. Innocenzo Cipolletta Independent Director
- Mr. Giampaolo Garattoni Independent Director

Internal audit committee

The internal Audit Committee consists of three independent and non-executive Directors - Innocenzo Cipolletta, Leone Sibani and Giampaolo Garattoni - in compliance with art. 10 of the self-disciplinary code for listed companies, which foresees that the aforesaid committee must in fact be composed of non-executive members and the majority of which must be formed by independent members. An audit board member must be present at the committee.

The committee 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.

During 2003, the internal audit committee appointed by the Board of Directors on 15 May 2003 validated what has been done up until now by Biesse S.p.a. in regards to company risk management policy; this last document contains the guidelines for continuous risk management, defining the main roles and responsibilities of the main players involved in the management and application of policies as well as the procedure for reviewing and updating the same.

It also approved and implemented the proposed work plan related to the audit activities presented for internal audits and which is based upon the contents of the above mentioned company policies, agreeing to the indicated time frames, procedures and goals.

In 2004 the committee analysed the results of control activities performed by those responsible on the basis of the plan of works presented, checking in this way that the internal procedures, both operating and administrative, adopted to guarantee healthy, efficient management, and to identify, prevent and manage, as far as possible, financial and operating risk and fraud that might damage the Parent company.

Relations with institutional investors and other partners

The Parent 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 *investment relations 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 Parent company website (www.biessegroupp.com).

Management of confidential information

The Chairman ensures that confidential information has been properly managed.

All the Directors are required to maintain confidentiality over all documents and information acquired while carrying out the tasks assigned them.

On 24/12/02, the Board of Directors approved the adoption of a conduct code for *insider trading*, which guarantees maximum transparency and information homogeneity to the market relative to the personal conduct of "relevant individuals" within the Parent company who are in possession of BIESSE shares, based upon their potential access to reserved information about the Parent company and those controlled by it.

This code came into effect on 01/01/03.

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

Board of auditors

Art. 19 of the Statute foresees that the Board of Auditors will be made up of three standing auditors and two substitute, elected at the Meeting of Shareholders, which also votes on the amounts to be paid to board members. The minority is entitled to elect one Standing Auditor and one Substitute.

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

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

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

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

The Board of Auditors, which was nominated during the ordinary shareholders meeting of 29 April 2003 and which will be in office until the approval of the balance sheet for the year ending 31 December 2005, is composed of the following members:

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

RELATIONSHIPS WITH NON-CONSOLIDATED SUBSIDIARIES, AFFILIATED, PARENT COMPANIES AND THE COMPANIES SUBJECT TO CONTROLS BY PARENT COMPANIES

The unconsolidated affiliated companies are represented exclusively by Biesse Corporate School syndicated limited company, which is responsible for organising and managing training activities for the entire Biesse Group.

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

	Costs	Revenues	Payables	Credits
Biesse Corporate School s.c.a.r.l.	64,830	17,003	7,764	6,303

The affiliated companies are as follows:

- I.S.P. Systems S.r.l., 25.92% owned, was founded in 2000 for designing innovative solutions for woodworking machinery, studying, researching and producing prototypes both independently and/or as required by Biesse Group companies; on 28 July 2004, the company decided to make good the loss of 2003 and reconstitute the

company capital of 14,000 Euro; Biesse S.p.A. exercised its full option rights, maintaining its percentage shareholding in ISP Systems; on the same date, the parent company Bi.Fin. S.r.l. partially took over rights of third party shareholders and acquired the majority share;

- 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 some months has been undergoing a management crisis;
- Biesse China Co. Ltd., 50% owned and founded as a joint venture between Biesse S.p.A. and one of the main local operators, who, in conjunction with the manufacturing subsidiary, deals with the commercialisation, assembly and post-sales servicing of certain Biesse products in the "entry-level" range on the Chinese market;
- Dongguang Biesse Machinery Co. Ltd., 100% owned by Biesse China Co. Ltd., which deals with assembly of the above products for the Chinese market.

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

	Costs	Revenues	Payables	Credits
Isp System Srl	512,363	172,354	1,189,775	532,731
Hsd Deutschland GmbH	29,210	1,002,797	7,210	374,744
Kernex Automation S.r.l.	-	2,437	7,874	7,874
Biesse China Co. Ltd.	-	324,840	-	8,660
Total	541,573	1,502,428	1,204,858	924,010

During the year the company ISP Systems S.r.l. sold a license for use of a proprietary software for management of processing machines or systems to the company HSD S.p.a.. The product (realized in the year 2003-2004 for internal use) was deemed extremely interesting from the technicians of the Biesse Group, since it will allow to standardize all interface software of the Group. The license, valued at 970 thousand Euro (value the congruence of which was ascertained by means of an independent technical survey), has been capitalised and amortised in the profit and loss account. Moreover in 2004 Biesse Group paid royalties to ISP, for the production of highly innovative boring machineries, projected by the affiliated company in 2003. This machinery is actually produced and traded with the Biesse trade mark. Finally, ISP was commissioned the main part of a project for a new line of woodworking machineries.

During 2004, building land not used by the parent company Biesse S.p.A. was sold to its subsidiary Bi.Fin. S.r.l. for approximately 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. On December 2004 the Biesse Group has credit payable by Bi.Fin. Sr.l. of 210,244 Euro, relating to financial proceeds maturing during the year in relation to the deferred payment for the above mentioned transfer of land. Finally, there are no relationships existing with Biesse Finance BV and Biesse Holding S.p.A., in that the first was placed in liquidation on December 2003, and the second was incorporated in Bi.Fin. S.r.l. on 29/02/2004.

RELATIONS WITH OTHER AFFILIATED COMPANIES

The Rettifica Modenese S.a.s company, 51% of which is held by Mr. Roberto Selci and which operates in the machining industry, has been identified as an associated party.

During 2004 the relationships between the companies from the Biesse Group and the aforementioned companies are as follows:

	Costs	Revenues	Payables	Credits
Rettifica Modenese S.a.s	525,945	14,280	93,134	6,891

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 MINORITY AGE CHILDREN

The following table lists the stock of the parent company and/or its subsidiaries held, directly or indirectly, by the members of the Board of Directors and by the General Manager at the close of the financial year. At the same date, no member of the Board of Auditors holds shares in the Company or its subsidiaries, either directly or indirectly.

Name and surname Position	No. of shares held directly or indirectly at year end at 31/12/2003	No. shares sold during the current financial year	No. shares acquired during the current financial year	No. of shares held directly or indirectly at year end at 31/12/2004
Roberto Selci President	5,380	4,530	540,000	540,850
Giancarlo Selci Managing Director	16,500,000	540,000	0	15,960,000
Innocenzo Cipolletta Director	0	0	0	0
Leone Sibani Director	0	0	0	0
Giampaolo Garattoni Director	76,000	0	24,000	100,000
Sanchioni Claudio Standing auditor	200	0	0	200
Franzoni Adriano Standing auditor	800	0	0	800

DIRECTORS' INTERESTS IN THE BIESSE GROUP

Information relative to the stock option plan resolutions:

The stock option plan adopted on September 25 2000 by the Biesse S.p.a. Board of Directors, as already communicated in the 2003 Balance Report, did not assign option rights due to the non-achievement of the company objectives (option rights valid as from July 1 2004 at a price of 10.81 Euro per share for a quantity of 25% of the rights matured in one, four, eight and twelve months from the initial term). When the above mentioned stock option expires, it will not renewed but replaced by incentives linked to the reaching of the economic-financial targets for the individual business segments.

IMPORTANT EVENTS THAT OCCURRED AFTER THE CLOSING OF THE BALANCE SHEET

Important events that occurred after the closing of the 2004 balance sheet:

- on 11 February 2005 the Banca Popolare di Milano issued a variable rate, five-year mortgage of € 10,000,000 mainly aimed at modifying the duration of the Biesse Group debt. After this loan was taken out, the overall debt for Biesse S.p.A. can thus be expressed as follows:
 - 30% short term
 - 70% medium term (duration 5 years);
- between December 2004 and the early months of 2005 a claim arose, and is still under settlement, with the Biesse ex-dealer in Poland, Slovakia and the Czech Rep. , comprising an active part in which Biesse is taking measures to receive the sums due, and a passive part in which Biesse is the object of claims for various payments related to the terminated distribution agreement. At the present time, Biesse does not expect to have to pay any amounts beyond the ones already set aside for the purpose in this financial statement.

FORESEEABLE BUSINESS DEVELOPMENT

Although starting from a positive result achieved in 2004, Biesse - aware of the persistent difficulties in its reference markets - foresees substantial maintenance of the sales volumes seen in 2004 for the year 2005 as well. Conservative evaluation of the year 2005 is de facto entirely in line with world economic expectations and with those declared by the Associations for the categories to which Biesse belongs (ACIMALL); only the presence of certain variables that are hard to control and foresee (sensitive recovery of the domestic market - substantial rebalance of the Euro/\$ exchange rate in favour of the American currency) might have an influence on the accounts for 2005, with a forecast growth estimated at around 4-5%.

As regards the profitability expected by Biesse for 2005, the efforts made to reduce factory costs and the continual recovery of efficiency and productivity in all industrial sectors allow greater optimism in the ability to increase generation of turnover by Biesse, thus reaching a positive net result entirely generated by operations. It will likewise be reasonable to expect, as a logical consequence of the above, a further improvement in the Biesse net indebtedness, continuing the improving trend started in 2004.

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 was completed on 31 December 2004, as foreseen by the decision in question. On that date the shared in the portfolio (treasury shares) amounted to 1,361,925.60, equivalent to 596,548 shares at an average purchase price of € 2.28.

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.

Pesaro, 30/03/2005.

The President of the Board of Directors
Roberto Selci

**THE CONSOLIDATED
FINANCIAL
STATEMENTS**

**For the year ending
December 31, 2004**

BIESSE S.P.A.
FINAL YEAR 2004 REPORT

CONSOLIDATED ACCOUNTS

(thousands of euro)

		12.31.2004	12.31.2003
ASSETS		281,467	330,039
B.	FIXED ASSETS	74,510	97,086
<i>I</i>	<i>Intangible assets</i>	<i>14,225</i>	<i>14,858</i>
1	Start-up and incorporation costs	117	153
2	Research, development and advertising	578	401
3	Industrial patents and intellectual property rights	153	181
4	Concessions, licenses, trade marks and similar rights	2,849	2,203
5	Goodwill	6,956	7,895
6	Work in progress and advances	0	136
7	Other	835	775
8	Consolidation differences	2,737	3,113
<i>II</i>	<i>Tangible assets</i>	<i>58,295</i>	<i>77,141</i>
1	Land and buildings	39,262	48,987
2	Plant and machinery	10,952	13,642
3	Industrial and commercial equipment	2,167	2,831
4	Other assets	5,608	7,189
5	Work in progress and advances	306	4,491
<i>III</i>	<i>Financial assets</i>	<i>1,989</i>	<i>5,087</i>
1	Equity investments:	437	800
a	Unconsolidated subsidiaries	0	112
b	Affiliated companies	354	605
d	Other companies	83	83
2	Receivables from:	455	3,419
a	Subsidiaries	0	268
a1	Subsidiaries, due within one year	0	268
b	Affiliated companies	4	197
b1	Affiliated companies, due within one year	0	120
b2	Affiliated companies, due after one year	4	77
d	Others	451	2,953
d1	Others, within one year	0	2,530
d2	Others, after one year	451	423
3	Other securities	100	0
4	Own shares (nominal value euro 380,654)	997	869
C.	CURRENT ASSETS	205,605	231,722
<i>I</i>	<i>Inventories</i>	<i>74,473</i>	<i>80,833</i>
1	Raw materials, ancillary materials and consumables	48,214	50,189
2	Semi finished goods	8,224	8,197
4	Finished products and goods	17,075	21,811
5	Payments on account	960	637
<i>II</i>	<i>Receivables</i>	<i>109,204</i>	<i>126,548</i>
1	Trade	89,110	97,599
a	Trade, due within one year	86,746	93,914
b	Trade, due after one year	2,364	3,684
2	Subsidiaries	6	203
a	Subsidiaries, due within one year	6	203
3	Affiliated companies	920	1,267
a	Affiliated companies, due within one year	920	1,267
4	Parent companies	210	1
a	Parent companies, due within one year	210	1
4-bis)	Taxes	4,963	6,382
a	Taxes, due within one year	4,908	6,382
b	Taxes, due within after year	55	0
4-ter)	Deferred and pre-paid taxes	8,688	15,579
a	Deferred and pre-paid taxes due within one year	6,412	8,708
b	Deferred and pre-paid taxes due after one year	2,276	6,871
5	Others	5,307	5,517
a	Others, due within one year	5,307	5,517
<i>III</i>	<i>Short term investments</i>	<i>1,362</i>	<i>3,836</i>
5	Own shares (nominal value euro 596,548)	1,362	3,836

BIESSE S.P.A.
FINAL YEAR 2004 REPORT

CONSOLIDATED ACCOUNTS
(thousands of euro)

		12.31.2004	12.31.2003
<i>IV</i>	Cash and cash equivalents	20,567	20,504
1	Bank and Post Office deposits	20,449	20,388
3	Cash on hand	118	116
D.	ACCRUED INCOME AND PREPAID EXPENSES	1,352	1,231
1	Accrued income	300	525
2	Prepaid expenses	1,052	707
LIABILITIES AND	SHAREHOLDERS' EQUITY	281,467	330,039
A.	SHAREHOLDERS' EQUITY	89,021	86,905
	GROUP SHAREHOLDERS' EQUITY	88,788	86,658
I	Share capital	27,393	27,393
II	Premium reserve	36,202	83,630
IV	Legal reserve	3,797	3,797
VI	Own shares reserve	2,359	4,705
VII	Other reserves	14,167	8,408
1	Extraordinary reserve	10,691	10,618
3	Retained earnings	5,093	(987)
4	Consolidation reserve	65	65
7	Currency conversions reserve	(1,682)	(1,289)
IX	Net income	4,870	(41,274)
	Minority interests	233	232
	Share capital and reserves pertaining to minority interests	243	240
	Result of the period pertaining to minority interests	(10)	(8)
B.	PROVISIONS FOR RISKS AND CHARGES	6,675	8,179
1	Retirement benefits	480	494
2	Taxes	2,727	2,724
3	Other	3,468	4,961
C.	EMPLOYEE TERMINATION INDEMNITIES	15,130	13,609
D.	ACCOUNTS PAYABLE	168,697	220,004
4	Banks	49,556	111,340
a	Short term debt	36,142	102,925
b	Medium and long term debt	13,414	8,415
5	Payables to other financing entities	17,138	22,286
a	Payables to other financing entities due within one year	2,027	2,421
b	Payables to other financial institutions due after one year	15,111	19,865
6	Advances	8,420	5,932
a	Advances due within one year	8,420	5,932
7	Trade	70,693	61,157
a	Trade, due within one year	69,699	61,149
b	Trade, due after one year	994	8
9	Subsidiaries	8	7
a	Subsidiaries due within one year	8	7
10	Affiliated companies	1,205	210
a	Affiliated companies due within one year	1,205	210
11	Parent companies	0	516
a	Parent companies due within one year	0	516
12	Taxes	7,549	5,041
a	Taxes due within one year	7,462	4,995
b	Tax payables due after one year	87	46
13	Social security	4,305	3,760
a	Social security due within one year	4,305	3,760
14	Other payables	9,823	9,755
a	Other payables due within one year	8,571	7,623
b	Other payables due after one year	1,252	2,132
E.	ACCRUED LIABILITIES AND DEFERRED INCOME	1,944	1,342
1	Accrued expenses	701	437
2	Deferred income	1,243	905
	COMMITMENTS	36,118	52,573

BIESSE S.P.A.
FINAL YEAR 2004 REPORT

CONSOLIDATED ACCOUNTS

(thousands of euro)

		12.31.2004	12.31.2003
2	Leasing commitments	6,299	7,882
3	Privileges on goods Sabatini Law	6	13
5	Guarantees and endorsement	5,195	11,573
6	Bills	4,896	8,039
7	Other commitments	19,722	25,064

BIESSE S.P.A.
FINAL YEAR 2004 REPORT

CONSOLIDATED ACCOUNTS

(thousands of euro)

		12.31.2004	12.31.2003
INCOME STATEMENT			
A.	VALUE OF PRODUCTION	315,467	315,021
1	Revenues from sales and services	312,514	306,637
2	Change in work in progress and semi finished goods	(4,334)	2,695
4	Increase in assets value for internal work	321	74
5	Other revenues and income	6,966	5,615
5a	Miscellaneous	6,933	5,413
5b	Contributions for operating expenses	33	203
B.	OPERATING COSTS	(301,928)	(320,948)
6	Raw materials, ancillary materials and consumables	(135,199)	(138,211)
7	Services	(58,231)	(61,413)
8	Leases and rentals	(6,882)	(8,354)
9	Personnel	(82,931)	(91,628)
9a	Wages and salaries	(61,401)	(68,801)
9b	Social security	(17,317)	(18,559)
9c	Employee termination indemnity	(3,499)	(3,665)
9d	Pension retirement and similar	(224)	(245)
9e	Other personnel expenses	(489)	(357)
10	Amortisation, depreciation and write-downs	(11,743)	(13,818)
10a	Intangible assets amortisation	(3,259)	(3,817)
10b	Tangible assets amortisation	(7,492)	(8,659)
10c	Other write-downs	0	(25)
10d	Write-downs of receivables included under current assets	(992)	(1,316)
11	Changes in inventories	(1,450)	(1,371)
12	Accruals to provision for risks and charges	(146)	(111)
13	Other accruals	(454)	(172)
14	Other operating expenses	(4,893)	(5,870)
A-B	OPERATING INCOME	13,539	(5,927)
C.	FINANCIAL INCOME AND EXPENSE	(4,002)	(6,558)
15	Income from equity investments	7	4
16	Other financial income	1,092	846
17	Interest and other financial charges	(4,456)	(6,672)
17-bis)	Gain/loss on exchange	(645)	(736)
D.	ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS	(365)	(1,495)
18	Write-ups	156	38
19	Write-downs	(521)	(1,533)
E.	EXTRAORDINARY ITEMS	7,714	(29,788)
20	Income	11,416	3,288
21	Expense	(3,702)	(33,076)
D+E	TOTAL EXTRAORDINARY ITEMS	7,349	(31,283)
	INCOME BEFORE TAX	16,886	(43,768)
22	Income taxes	(12,026)	2,500
a	Current income taxes	(4,660)	(3,044)
b	Deferred taxes	(7,366)	5,544
	NET INCOME	4,860	(41,268)
	Minority interests	(10)	(8)
	Group Net Income	4,870	(41,274)
	Net income before acquisition	0	15

**SUPPLEMENTARY
NOTES TO THE
CONSOLIDATED
FINANCIAL
STATEMENTS**

**For the year ending
December 31, 2004**

NOTES ON BIESSE S.p.A. CONSOLIDATED BALANCE SHEET FOR THE YEAR ENDED DECEMBER 31, 2004

GENERAL COMPILATION CRITERIA

The Biesse S.p.A. consolidated balance sheet for the year ending December 31, 2004 was compiled in accordance with the regulations introduced by Decree Law no. 127 dated April 9, 1991, in application of the VII Directive of the European Community Council, in conformance with the Italian Accountants and Book-keepers' Council's Accounting principles.

Reform of the regulations governing joint-stock companies, introduced by Decree Law No. 6 of 17 January 2003 and subsequent modifications, has resulted in several important changes to the criteria used to draw up the balance sheet for the year.

The Asset and Liability Statement and the Profit and Loss Account charts have been updated to comply with the new provisions.

These modifications and additions to the balance sheet charts are as follows:

- introduction of items C.II.4 bis) and C.II.4 ter) relating to "Tax receivables" and to "Tax paid in advance", respectively;
- reversing of the numbers for the Statutory Reserve and the Own Share Portfolio Reserve, indicated as A.V. and A.VI, respectively;
- introduction of item D.3 "Payable to partners for funding";
- introduction of item C.17 bis) "Foreign exchange profits and losses";
- completion of the item 22) Income tax for the year, to specify "current, deferred and paid in advance";
- completion of item B.2 Tax Fund, to specify "including deferred tax";

For the purposes of homogeneity, in accordance with art. 2423 ter of the Civil Code, the corresponding items for the previous periods have also been reclassified.

During the preceding years, foreign currency receivables and payables, including the financial loans set down in the fixed assets, for the main companies in the Group were set down on the balance sheet at historic exchange rate, whereas the net risk of loss deriving from variations in exchange rates was covered by a special "Exchange rate risk fund". Starting this year, the receivables and payables in foreign currency for all the companies in the Group are set down at the end-of-year exchange rate, and the profits and losses deriving from update of these figures are set down in the special item C.17 bis) of the profit and loss account. The "Exchange rate risk fund" set aside to 31 December 2003, amounting to €1000 998 has been used in full to cover the losses sustained during the year.

With reference to the so-called "tax cleansing operation", deriving from abrogation of paragraph 2 of article 2426 bis, it must be specified that at 31 December 2003 there were no items on the balance sheet deriving from application of tax regulations. In particular, with reference to the accelerated depreciation, the Company has, since 1998, started to measure accelerated depreciation only in the income returns, as recommended by proper accounting principles, so at the "Accelerated depreciation fund" has simply been transferred and set down at € 4,703 thousand in the "Special reserve fund".

The valuation criteria have not undergone any changes with respect to the previous year, with the exception of the stock valuation criteria for which it has been decided, in compliance with the provisions of the IAS principles shortly to be applied for the balance sheets of companies quoted on European Union regulated stock markets, to pass from LIFO to weighted average cost.

This purpose of these notes is to supplement the data presented in Biesse S.p.A.'s consolidated statement of assets and liabilities and consolidated income statement and help with its interpretation through the use of a descriptive, explanatory and detailed analysis and other complementary information.

CONSOLIDATED AREA

The consolidated accounting schedules of the Biesse Group include the annual asset and liability statement and economic situation of the parent company and that of the Italian and foreign companies in which Biesse S.p.A. has, either directly or indirectly, the majority vote at the annual general meeting. As the consolidation area has changed considerably following transfer of the Schelling group in 2003 (within the consolidation area until the date of transfer, which took place on 18 December 2003) and inclusion starting in 2004 of the companies Cabi S.r.l., Sandymac S.r.l. and Intermac Vidrio Iberica S.A., the following provides analysis and information on the pro-forma figures in order to allow them to be confronted with an equivalent perimeter; the companies in the Schelling group will therefore be excluded from the year 2003 and the

subsidiaries Cabi S.r.l., Sandymac S.r.l. and Intermac Vidrio Iberica S.A. will be excluded from the year 2004. The companies that have been included in the consolidated accounting schedules on 31 December 2004 with the full consolidation method are as follows:

Name and office	Currency	Capital Stock	Direct	Indirect	Through	Biesse Group
<i>Parent company</i>						
BIESSE S.p.A. Via della Meccanica, 16 Chiusa di Ginestreto (PU)	Euro	27,393,042				
<i>Italian subsidiaries:</i>						
HSD S.p.A. Via della Meccanica, 16 Chiusa di Ginestreto (PU)	Euro	1,000,000	100%			100%
MC S.r.l. Via Mario Ricci, 12 Pesaro	Euro	101,490	51%			51%
Cabi S.r.l. P.le Mario Coralloni, 11 Loc. Selva Grossa (PU)	Euro	99,000	100%			100%
Sandymac S.r.l. Via della Meccanica, 16 Chiusa di Ginestreto (PU)	Euro	50,000	80%			80%
<i>Foreign subsidiaries:</i>						
Biesse America Inc. 4110 Meadow Oak Drive Charlotte NC 28208 – USA	US \$	1,000,000	100%			100%
Biesse Canada Inc. 1845 Rue Jean Monnet – Terrebonne (Quebec) – Canada	CAN \$	180,000	100%			100%
Biesse Asia Pte. Ltd. Zagro Global Hub 5 Woodlands Terr. – Singapore	S \$	2.655.000	100%			100%
Biesse Group UK Ltd. Lampport Drive – Daventry Northampt. – Great Britain	£ STG	1,000	100%			100%
Biesse Groupe France Sarl Parc d’Affaires de la Vallée de l’Ozon – Chapotin – Chaponnay – France	Euro	144,000	100%			100%
Biesse Group Deutschland GmbH Gewerberstrasse, 6 – Elchingen (Ulm) – Germany	Euro	1,432,600	100%			100%
Biesservice Scandinavia AB Maskinvagen 1 – Lindas – Sweden	SKR	200,000	60%			60%
Biesse Iberica Woodworking Machinery s.l. Cl. Pedrosa C., 9 - Barcelona – Spain	Euro	1,033,741	100%			100%
Biesse Brasil Ltda Rua Lapò, 975 - Curitiba Paraná – Brasil	Rlb	1,509,628	99.99%			99.99%
Biesse Group Australia Pty Ltd. 3 Widemere Road Wetherill Park – Australia	Au \$	5.046.547	100%			100%
Biesse Group New Zealand Ltd. UNIT 7/519– Rosebank Avondale Auckland – New Zealand	Nzd	334.262	100%			100%
Hsd Usa Inc. 3764 SW 30 th Avenue – Hollywood,	US \$	10,000		100%	<i>Hsd S.p.A.</i>	100%

Florida – USA						
Intermac Vidrio Iberica S.A. C/Muntaner 531, 3-4 Barcelona – Spain	Euro	60,102	100%			100%
Sel Realty Inc. 1845 Rue Jean Monnet – Terrebonne (Quebec) – Canada	CAN \$	100	100%			100%
Bi. Fin. UK Ltd. Lamport Drive – Daventry Northampt. – Great Britain	£ STG	600,000	100%			100%
Bifin Ltd. 233, Peachtree St., NE – Harris Tower – Atlanta, GA 30303 (USA)	US \$	10,000		100%	<i>Biesse America, Inc.</i>	100%

As mentioned above, the consolidation area has been reduced as a result of transfer of the Austrian Schelling group, which took place on 18 December 2003.

It must also be noted that with respect to the previous period, the consolidation perimeter has been extended by addition of the companies Cabi S.r.l. and Sandymac S.r.l., already subsidiaries on 31 December 2003, and Intermac Vidrio Iberica S.A., control of which was obtained in July 2004. Previously, these companies were valued using the shareholder's equity method. The first of these companies designs and produces electronic, pneumatic and oleodynamic components for the woodworking industry, the second deals with the production and commercialisation of calibrating and sanding machines, while the third deals with commercialisation of spare parts and post-sales services for Spanish customers of the Glass Division.

List of other investments in unconsolidated subsidiaries:

Name and office	Currency	Capital Stock	Direct	Indirect	Through	Biesse Group
Biesse Corporate School srl. Via della Meccanica 16, Loc. Chiusa di Ginestreto – Pesaro, Italy	Euro	10,920	66.67%	15.01%	<i>Hsd Spa</i>	81.68%

The investments in Biesse Corporate School s.c.r.l. have been valued using the shareholder's equity method rather than the fully consolidated method, due to its moderate turnover. Biesse Corporate School, active in company training and characterised by moderate volumes, targets its services mainly at the other companies in the Group.

List of investments in affiliated companies :

Name and office	Currency	Capital Stock	Direct	Indirect	Through	Biesse Group
HSD Deutschland GmbH Immenreich 6, Gingen, Fils – Germany	Euro	25,000		50%	<i>Hsd S.p.A.</i>	50%
I.S.P. Systems S.r.l. Via F.lli Rosselli 46 – Pesaro, Italy	Euro	14,000	25.92%			25.92%
Kernex Automation S.r.l. Via P. Nenni, 1/7 Cerese di Virgilio (MN), Italy	Euro	46,700	25%			25%
Biesse China Co. Ltd. Flat G, 3F, Wang Yip Centre, Wang Yip, Yuen Long, China	HK\$	8,530,800	50%			50%
Dongguang Biesse Machinery Co. Ltd. Huang Jiang, Houjie, Dongguang, Guangdong, Province, China	Rmb	4,233,410		50%	<i>Biesse China Co. Ltd.</i>	50%

The investments in the affiliated companies have been valued using the shareholder's equity method. Companies were not consolidated using the proportional consolidation method.

List of other investments valued at cost :

Investments in the companies:

- Tecnomarche Scrl
- Banca delle Marche Spa
- Cosmob SpA
- Consorzio Internazionale Marmi Macchine Carrara
- Caaf Interregionale Dip. Srl
- Consorzio Energia Assindustria Pesaro-Urbino
-

were valued using the cost adjustment for depreciation method, if necessary, in accordance with Article 2426 of the civil code, as shown in the financial fixed assets schedule included in this supplementary note.

REFERENCE DATA AND CONSOLIDATION PRINCIPLES

The balance sheets used for the consolidation of the parent company and the subsidiaries that are included in its consolidation area are the balance sheets of the individual companies for the year ending December 31, 2004.

The balance sheets were compiled using the rules for balance sheet preparation included in Art. 2423 et seq. of the civil code, interpreted and supplemented by the Accounting Principles laid down by the Italian Accountants and Bookkeepers' Council and, where incomplete, with those of the International Accounting Standard Board (I.A.S.B.) or on the basis of the current accounting principles of the countries where the subsidiaries are located.

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. The structure adopted for the consolidated balance sheet is the one specifically for industrial companies.

The valuation of balance sheet entries was carried out prudently and under the assumption that the business will continue. The profits included in the balance sheets are limited to those that were realised at the closing date of the business year. The income and expenditure for the financial year, independently of the collection or payment date, and the risks and losses of the financial year, were accounted for, even if they were known after the closing date. The miscellaneous elements included in the individual balance sheet entries were valued separately. Assets that are destined to for long term use were registered among the fixed assets. The valuation criteria are those generally used for the year's balance sheet of the Biesse S.p.A. parent company.

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 receivables and payables, income and expenditure, profits and losses that originated from transactions between companies that included in the consolidation were however 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 semi finished products included in the products being manufactured.

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

The book value of the investments in companies that are included in the consolidation were removed to offset the corresponding fractions of the net worth of the subsidiaries. The difference between the book value of the investments, which is removed and the corresponding quota of the shareholder's equity, that is assumed, is subject to consolidated shareholder's equity adjustment. In the case of acquisitions, the above cited difference is attributed to the assets and liabilities of the companies included in the consolidation. Any residual, if negative, is entered in the entry entitled "consolidation reserve", or if it refers to the forecast of negative economic results, in the entry "Consolidation fund for risks and future charges"; any positive residual is entered, among intangible assets, as "Consolidation Differences".

The amount of capital and reserves of the subsidiaries that correspond to minority investments is entered in a shareholder's equity entry called "Share capital and reserves pertaining to minority interests"; the consolidated financial result that corresponds to third party investments is entered in the entry "Result of the period pertaining to minority interests".

CRITERIA FOR THE CONVERSION OF BALANCE SHEETS IN FOREIGN CURRENCIES

The balance sheets for foreign companies in the consolidation area, originally expressed in a foreign currency, have been converted into Euro adopting the following conversion methods:

Assets and liabilities:

Each asset and liability entry was converted using the exchange rate at the end of the balance sheet period, with exception of the shareholder's equity entries that were converted using the historical exchange rate in force during the time period they were formed..

Income statements:

Each income statement was converted using the average exchange rate over the balance sheet period.

Exchange rate differences caused by the conversion of the foreign currency balance sheets into Euro have been entered in the consolidated shareholder's equity entry among the Other Reserves as "Reserve for translation differences".

The average end-of-period exchange rates are as follows:

Currency	Exchange rate	December 2004	Exchange rate	December 2003
	<i>Average</i>	<i>31 December 2004</i>	<i>Average</i>	<i>31 December 2003</i>
US Dollar / Euro	1.2439	1.3621	1.1418	1.2630
Canadian Dollar / Euro	1.6167	1.6416	1.5865	1.6234
Singapore Dollar / Euro	2.1016	2.2262	1.9883	2.1450
Pound Sterling / Euro	0.6787	0.7051	0.6934	0.7048
Swedish Crown / Euro	9.1243	9.0206	9.1422	9.0800
Brazilian Real / Euro	3.6341	3.6728	3.4851	3.6627
Australian Dollar / Euro	1.6905	1.7459	1.7398	1.6802
New Zealand Dollar / Euro	1.8729	1.8871	1.9490	1.9244

VALUATION CRITERIA

The accounting principles and valuation criteria adopted for the consolidated balance sheet are the same used by the parent company Biesse S.p.A. and throughout the companies of the Biesse Group. They conform to the previously cited current legislation, supplemented and interpreted by the Accounting Principles laid down by the Italian Accountants and Bookkeepers Councils.

As mentioned earlier, the valuation criteria are in line with the ones adopted during the previous year, with the exception of items relating to sums remaining in the foreign exchange fluctuation fund. The principles used for the most significant items are summarised below.

Intangible assets

The intangible assets are registered at the purchase price or at full production cost including any additional charges and depreciated in constant allowances.

Plant and expansion costs are entered in the specific asset entry and are depreciated along the period of its economic life, for a maximum of five years.

Research and development costs, and advertising costs, are usually charged in full to the income statement for the financial year in which they were incurred. An exception to this are the costs relative to new production lines developed for new production units, as they offer reasonable prospects of future earnings and limited to costs strictly related to production development. Development and advertising costs entered as assets are depreciated over five financial years.

Industrial patents and the rights to intellectual property are depreciated based upon their how long they are presumed to last, or for a maximum as defined in the licensing contract.

Concessions, licenses, trademarks and similar rights that are entered as assets are depreciated based upon how long they will be used, or for a maximum of that defined in the purchase contract; in the case that the period of use cannot be determined or there is not a valid contract, the period will be for five years.

Goodwill is entered as an asset only if acquired against payment, within the limits of its incurred costs and is depreciated for a period no longer than its length of use, or if this cannot be determined, for a maximum period of ten years. An exception is the acquisition of a branch of the company Allwood Machinery Co. Pty Ltd by Biesse Group Australia Pty Ltd., where the goodwill will be depreciated over a twenty year period, a period which is considered to better represent the future profits of the investment: the company branch acquired is an important player in the Australasia, strengthened by years of experience and with its high levels of prestige and recognition, leads us to believe that we can profit from this investment for a longer period than with comparable investments.

The consolidation difference emerges during the compilation of the consolidated balance sheet when the book values of the investments are offset against the corresponding shareholder's equity fraction of the subsidiary. Any surplus that cannot be attributed to a single asset entry for the companies included in the consolidation, goes to adjusting the consolidated shareholder's equity, or, when possible, is entered in the "consolidation difference" entry. This entry is depreciated along the period of time in which it is thought financial benefits will be received from it, generally defined for ten years.

The intangible assets whose market value at the end of the financial year is permanently lower than cost, depreciated in accordance with the criteria cited, are devalued until they correspond to their true value. If during the following financial years the reasons for this devaluation are no longer valid, the cost is re-established.

Tangible assets

Tangible assets are entered at the cost of purchase or production including all additional charges, haven taken into consideration the monetary revaluation required by law.

In the compilation of the consolidated balance sheet, the financial leasing contracts related to buildings and equipment have been accounted for following the provisions of the international accounting principles. Therefore, the assets in question have been entered in the tangible assets in the corresponding entries and were depreciated using the same criteria as for property assets. To offset the registration of the value of the asset, also the amounts due to leasing companies are entered, which are reduced by the paid amounts of capital. In the income statement, the financial charges are entered by the year of relevance in addition to the depreciation.

Depreciations are calculated systematically with a reference to cost, revalued if necessary based upon its remaining possible utility. The depreciation is reduced by 50% for those which come into operation during the financial year if it is believed that this represents a reasonable approximation of the timing of the purchases made during the financial year.

The main depreciation allowances used are as follows:

Industrial building:	3 %
Durable equipment:	25 %
Equipment for trade fairs:	12 %
Ordinary machinery and systems:	10 %
Furniture and fittings:	12 %
Motor vehicles:	25 %
Electronic and electromechanical office machinery:	20 %

The tangible assets whose economic value at the closing date of the period are much lower than the not yet depreciated cost are devalued until they reach their economic value. If during the following financial years the reasons for this devaluation are no longer valid, the cost is re-established.

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.

Financial assets:

Financial assets include equity investments in unconsolidated subsidiaries, investments in affiliated companies as well as those in other companies, in addition to fixed financial credits.

The equity investments in unconsolidated subsidiaries are evaluated using the shareholder's equity method, that is for an amount totalling the corresponding fraction of the shareholder's equity shown in the last balance sheet of the said companies after carrying out the adjustments required by the compilation principles of the consolidated balance sheet. The capital gains and losses deriving from the application of the shareholder's equity method are entered in the income statement under the entries "write-ups" and "write-downs" respectively.

In the case where the shareholder's equity valuation of the unconsolidated subsidiaries and affiliated companies is negative, an appropriate amount is set aside in a special liability fund for subsequent coverage of the deficit in the shareholder's equity.

In the case of companies of a modest size with negligible volumes, or if the balance sheets are not available in the time period needed for compiling the consolidated report, the investments are valued at cost.

The long term investments are entered in the balance sheet at cost and are depreciated in the case of long time losses in value.

The securities and own shares are entered in the balance sheet at cost, adjusted if necessary, by devaluations due to long time loss in value.

If, during the following financial years the reasons for the depreciation are no longer valid, the pre-depreciation values are re-established.

Receivables and payables

The receivables were entered at face value and reduced to their presumed cash conversion value through the creation of specific depreciation funds. The payables were entered at face value.

Receivables and payables expressed in currencies other than the Euro, set down at their historic exchange rate on date of registration, have been adapted and set down on the Balance sheet at the end-of-year exchange rate, as required by art. 2426 bis c.c. after taking into account any derived exchange rate risk coverage contracts in existence at the end of the year. The relevant losses and profits on exchange rates, as of this year, have been set down in the profit and loss account. Any net profit that may result from adaptation of the items in foreign currency to end-of-year exchange rates, including the financial loans set down among the financial fixed assets, go to form the result for the year and are set aside in a special, non-distributable reserve fund until realised.

Short term investments

Short term investments include own shares, purchased from the market and subject to negotiation. Such assets are valued at the cost of purchase, determined using the market value at the moment of purchase or the corresponding market value calculated using the average value for the month of December whichever is the lower.

Inventories

As for final inventories, the valuation criteria provided for in art. 2426 of the civil code were complied with. In particular, the stock inventory was valued at cost or market value whichever is the lower. In accordance with that provided for by IAS principles, in their forthcoming application to balance sheets of companies quoted on markets controlled by European Union regulations, it has been decided to change the valuation criteria of the raw materials and semi-finished products, passing from LIFO to average cost.

The cost structure adopted is, therefore, as follows:

Raw materials and merchandise:	average cost
Semi-manufactured goods:	industrial production cost, based upon their status
Finished products:	industrial production cost

The effects of the change in valuation criteria have been reported in the information on asset and liability entries and on economic entries. Stock that is obsolete or slow moving has been depreciated based upon their possible use or liquidation value.

Accruals and Deferrals

The accruals and deferrals entry only contains revenues and charges on the financial year that will be displayed numerically in following financial years and revenues and costs that were earned or incurred within the closing date of the financial year, but belong to later years. In any case, only the parts of costs and proceeds which are related to two or more financial years are entered, the amount of which will vary over time.

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. This includes among others the Product guarantee fund, the Tax fund, including deferred tax, and the Company reorganisation fund and the Loss fund for affiliated companies.

In particular, the provisions for the product guarantee fund makes it possible to bring forward the economic effect of the guarantee related costs, in accordance with the sales revenues–guarantee costs correlation principle.

The company reorganisation fund, comprising a provision for charges that must still be incurred connected to the Biesse Group reorganisation project that began in 2001 and reviewed at the end of 2002, was used in full during the year.

Employee termination indemnities

Employee termination indemnities are entered in the balance sheet to cover the what will be due to company employees based upon the number of years served with the company as set forth in the legislation and in the collective labour contracts in force in the single countries where the consolidated companies operate.

Commitments

The risks which can cause a probable liability are described in the explanatory notes and appropriated to the risk reserves in accordance with congruity criteria. The risks which might only cause liability are described in the explanatory notes, without allocating funds to the risk reserves, in accordance with the accounting principles adhered to. Remote risks are not accounted for.

Commitments and guarantees are listed in the memorandum items at their contract value.

The memorandum items include all commitments related to derivative contracts created mainly in order to protect the Biesse Group from exchange rate risks on trading transactions. These commitments are included in the memorandum items based upon the exchange rate of the end of the financial year. Discounts or bonuses from derivative contracts are reflected, by accounting period, in the income statement. If the derivative contract cannot be definitely qualified as a hedge operation, also in light of a rigorous interpretation of the accounting principles adhered to, any possible profit or loss related to these contracts is included in the income statement.

In addition, the Biesse Group signs derivative contracts in order to hedge tax risks (IRS) deriving from variable rate loans, also obtained through the signing of leasing contracts.

Registration of revenue, income and expense

Revenues and income, costs and charges are entered in the balance sheet net of refunds, discounts, allowances and premiums, as well as of the taxes directly connected to the sale of the product and the rendering of the service. Revenues received from sold products are recognised at the moment in which the property is transferred, which is normally considered the delivery or shipment of the goods. Revenue of a financial nature is recognised based upon accounting periods.

Income 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; 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 tax fund is calculating using the rate that was current at the moment in which the temporary differences originated. Should the net difference in deferred tax be positive and should it be considered possible to recover tax, deferred tax receivable will be set down under the item Tax paid in Advance, separate from tax receivable. 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.

Remarks about the main entries in the Consolidated Statement of Assets and Liabilities

(All amounts are expressed in thousands of Euro)

ASSETS

Fixed assets

Intangible assets:

Schedule of gross values

Description	Initial value	Internal write-off	Changes in consolidation area	Acquisitions	Transfers	Differences in exchange rate	Final value
Start-up and incorporation costs	306	(15)	23	0	(5)	(6)	304
Research, development and advertising	1,885	(321)	722	0	0	0	2,287
Industrial patents and intellectual property rights	532	(124)	4	157	0	0	569
Concessions, licenses, brands, and similar rights	3,621	(134)	23	1,432	(46)	(2)	4,893
Goodwill	10,083	0	0	0	0	(65)	10,018
Work in progress and advances	137	0	0	33	(169)	0	0
Other	1,922	(293)	182	344	(35)	(4)	2,117
Consolidation differences	5,116	0	136	0	0	0	5,252
Total	23,602	(886)	1,091	1,965	(254)	(77)	25,440

Schedule of depreciation reserves

Description	Initial value	Write-off of depreciated assets fund	Changes in consolidation area	Depreciation for the year	Closure of fund for transfers	Differences in exchange rate	Final value
Start-up and incorporation costs	(153)	15	(9)	(46)	4	2	(187)
Research, development and advertising	(1,484)	321	(92)	(454)	0	0	(1,708)
Industrial patents and intellectual property rights	(351)	124	0	(189)	0	0	(416)
Concessions, licenses, brands, and similar rights	(1,418)	134	(4)	(779)	22	1	(2,044)
Goodwill	(2,188)	0	0	(886)	0	12	(3,062)
Other	(1,147)	293	(57)	(392)	21	0	(1,282)
Consolidation differences	(2,003)	0	0	(512)	0	0	(2,515)
Total	(8,744)	886	(162)	(3,259)	48	15	(11,215)

Schedule of net values

Description	Historic value for previous financial year	Depreciation fund for previous year	Net value for previous financial year	Historic value for current financial year	Depreciation fund for current year	Net value for current financial year
Start-up and incorporation costs	306	(153)	153	304	(187)	117
Research, development and advertising	1,885	(1,484)	401	2,287	(1,708)	578
Industrial patents and intellectual property rights	532	(351)	181	569	(416)	153
Concessions, licenses, brands, and similar rights	3,621	(1,418)	2,203	4,893	(2,044)	2,849
Goodwill	10,083	(2,188)	7,895	10,018	(3,062)	6,956
Work in progress and advances	136	0	136	0	0	0

Other	1,922	(1,147)	775	2,117	(1,282)	835
Consolidation differences	5,116	(2,003)	3,113	5,252	(2,515)	2,737
Total	23,602	(8,744)	14,858	25,440	(11,215)	14,225

The modification of the consolidation area has the greatest effect on the cost of research, development and publicity, and on other intangible assets: as far as the first item is concerned, there was a net increase of 630 thousand Euro, reflecting the costs incurred for developing the Sandymac S.r.l. production lines; the second item is subject to a net increase of 125 thousand Euro and refers to the costs incurred for plant and modernisation of third party property.

The item **Concessions, licenses and trade marks** with a cost of 4,893 thousand Euro has increases during the period by 1,455 thousand Euro (of which 23 thousand Euro represents the change in the consolidation area). The main item in this increase is the purchase by HSD S.p.A, for a value of 970 thousand Euro, determined in a technical survey, of a license to use a processing machinery or plant management software, produced by the affiliate ISP Systems S.r.l.. Along with this increase, the item also includes investments for software licenses and patents amounting to 462 thousand Euro. Finally, the end-of-year result comprises 1.2 million Euro relating to ten year patents for panel saw machines purchased from the Schelling Group, and the remainder to purchase of new software or customisation of existing accounting and management software.

The entry **Goodwill**, equal to 10,018 thousand Euro, includes mainly the goodwill recognised for the purchase of branches of the company Diamut S.r.l. (4,925 thousand Euro), Allwood Machinery Co. Pty Ltd (2,368 thousand Euro), CNI S.r.l. (1,751 thousand Euro) and SEV S.r.l. (707 thousand Euro). The depreciation of these values is effected over ten financial years, except for the Allwood company branch, for which a depreciation period of twenty years was deemed to be more fitting considering the reputation and soundness of the acquired company.

The **Other intangible assets** have a historic cost totalling 2,117 thousand Euro. This entry refers to the capitalisation of costs due to hardware or software interventions, the design and maintenance of web sites and the contribution to costs given to suppliers for the construction of new dies or models.

The **Consolidation differences** totalling 5,252 thousand Euro gross of the relative depreciation fund of 2,515 thousand Euro, are derived from the consolidation of the investments as shown in Appendix A, and depreciated over a ten year period. The increase of 136 thousand Euro refers to the difference originated by elimination of the shareholders' equity as against the value of the investment set down on the Parent company balance sheet, following integral consolidation of the company Intermac Vidrio Iberica S.A. In effect, on 15/07/2004, as foreseen by the agreements signed at the time the company was founded, the remaining 51% of the partnership capital was bought up, obtaining full control of the company; in the previous year the Spanish company was set down as an affiliate and valued using the shareholder's equity method.

Tangible assets:

Schedule of gross assets

Description	Initial value	Internal write-off	Changes in consolidation area	Acquisitions	Transfers	Reclassification	Differences in exchange rate	Final value
Land and buildings	55,962	0	0	697	(14,580)	5,471	(191)	47,359
Plant and machinery	24,193	(17)	4	734	(2,036)	(51)	(6)	22,821
Industrial and commercial equipment	8,974	0	198	754	(933)	22	(7)	9,008
Other assets	20,549	(36)	166	837	(1,395)	34	(85)	20,071
Work in progress and advances	4,491	0	0	1,291	0	(5,476)	0	306
Total	114,169	(53)	368	4,313	(18,944)	(0)	(289)	99,565

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Schedule of depreciation reserves

Description	Initial value	Write-off of depreciated assets fund	Changes in consolidation area	Depr. for the year	Closure of fund for transfers	Reclassification	Differences in exchange rate	Final value
Land and buildings	(6,975)	0	0	(1,517)	368	0	27	(8,097)
Plant and machinery	(10,551)	17	(0)	(2,177)	798	41	2	(11,869)
Industrial and commercial equipment	(6,143)	0	(33)	(1,520)	872	(17)	2	(6,841)
Other assets	(13,360)	36	(36)	(2,278)	1,116	(24)	83	(14,462)
Total	(37,028)	53	(69)	(7,492)	3,154	0	114	(41,269)

Schedule of net assets

Description	Historic value for previous financial year	Depreciation fund for previous year	Net value for previous financial year	Historic value for current financial year	Depreciation fund for current year	Net value for current financial year
Land and buildings	55,962	(6,975)	48,987	47,359	(8,097)	39,262
Plant and machinery	24,193	(10,551)	13,642	22,821	(11,869)	10,952
Industrial and commercial equipment	8,974	(6,143)	2,831	9,008	(6,841)	2,167
Other assets	20,549	(13,360)	7,189	20,071	(14,462)	5,608
Work in progress and advances	4,491	0	4,491	306	0	306
Total	114,169	(37,028)	77,141	99,564	(41,269)	58,295

The changes in consolidation area create a net increase of 299 thousand Euro in the tangible assets (of which 165 thousand Euro is for industrial and commercial equipment and 130 thousand Euro is for other tangible assets)

The item **Land and buildings** has a historic value of 47,359 thousand Euro. The main changes that have taken place are the two sales of real estate in March and December respectively, which were pre-ordered to reduce the Group's structural costs and improve the debt situation. The first operation related to sale of unused building land to the controlling company Bi.Fin. S.r.l., for a figure of 20 million Euro determined following a survey, giving a net gain of 10.3 million Euro. The second operation, which is set down as part of an outsourcing contract for machining phases relating to carpentry and painting operations, involved the sale of part of the industrial site at San Giovanni in Marignano (RN), previously used by the Group through a financial leasing contract. This transfer involved the sale of real estate with a historic value of 4.9 million Euro and plant for a value of 648 thousand Euro, giving a net gain of 1.1 million Euro.

Reclassification amounting to 5,471 thousand Euro refers to the payments on account made during previous years for the land in question, while purchases for 697 thousand Euro refer to tax and other capitalised costs relating to purchase of the land (completed in the month of January) to which the real estate transfer contract refers.

The item **Land and buildings** also includes the buildings already owned by Biesse S.p.A. in San Giovanni Marignano (for 5,634 thousand Euro, net of the depreciation reserve) and in Pesaro (for 9,557 thousand Euro, net of the depreciation reserve) which were sold and then leased back by the same companies, using a sale and leaseback plan, during 2002. These buildings are stated in the balance sheet at their historical cost.

The item **Plant and machinery** has a historic value of 22,821 thousand Euro and shows a net decrease of 1.372 thousand Euro. The most consistent variation is given by transfers during the period, amounting to 2,036 thousand Euro, and relating to transfer of machinery in use at the Pesaro factories, due to cutback of certain machining operations: along with the plant mentioned above, transferred together with the factory at San Giovanni in Marignano, a number of machines in the carpentry and painting departments, outsourced during the summer period, were also decommissioned (736 thousand Euro). Cutback of these operations fell within the manufacturing reorganisation plan already mentioned above in the management report, which concluded in the second half of the year and allowed the Group to obtain higher levels of production flexibility and lower factory costs.

The item **Industrial and commercial equipment** has a historic cost of 9,008 thousand Euro and remains in line with the figure for the previous year. It refers to ordinary working tools necessary for the assembly and testing of the machine tools, the machining and construction of metal parts and the purchase of dies for the production of raw materials.

The item **Other assets**, the historic value of which is equal to 20,071 thousand Euro, decreased by 478 thousand Euro with respect to the previous financial year and refers to investments in property, vehicles, machinery and electronic systems.

Entry Investments in course and advances is also completely zeroed due to the transfer to entry Land of the amount of 5,473 thousand Euro, relating to advances paid during the current year and in previous years for the land purchase.

Monetary revaluation schedule:

		Biesse SpA	Total
Buildings	Pursuant to law 72/83	163	163
Buildings	Pursuant to law 413/91	126	126
Plant and equipment	Pursuant to law 72/83	69	69
Other intangible assets	Pursuant to law 72/83	4	4
Total		362	362

Financial assets:*Equity investments in unconsolidated subsidiaries:*

Company (values in Euro)	Capital stock	Balance sheet value	Percentage investments of the Biesse Group
Biesse Corporate School srl. Via della Meccanica 16, Loc. Chiusa di Ginestreto – Pesaro, Italy	10,920	5	81.68%
Total		5	

The value of the investment in Biesse Corporate School, valued using the shareholder's equity method, decreased by 13 thousand Euro with respect to the previous financial year.

Equity investments in affiliated companies:

Company (values in Euro)	Capital stock	Balance sheet value	Percentage investments of the Biesse Group	Owned percentage of the Biesse Group
I.S.P. Systems Srl Via Fratelli Rosselli, 46 Pesaro	14,000	5	25.92%	25.92%
HSD Deutschland GmbH Immenreich 6, Gingen, Fils – Germany	25,000	38,411	50% (indirectly through HSD S.p.A.)	50%
Biesse China Co. Ltd. (*) Flat G, 3F, Wang Yip Centre, Wang Yip, Yuen Long, China	1,000,000	315,540	50%	50%
Kernex Automation S.r.l. Via P. Nenni, 1/7 Cerese di Virgilio (MN), Italy	46,700	5	25%	25%
Total		353,961		

(*) The data related to balance sheet values refer to the sub-consolidated statements from Biesse China Co. Ltd. and Dongguang Biesse Machinery Co. Ltd.

Movements made in the affiliated companies during the period are as follows:

Company (values in Euro)	Value at 31 December 2003	Purchases, underwritings, capital stock increases	Movements during the period	Value at 31 December 2004
I.S.P. Systems S.r.l.	5	3,630	(3,630)	5
Intermac Vidrio Iberica S.A.	37,759	0	(37,759)	0
Hsd Deutschland GmbH	25,178	0	13,233	38,411
Biesse China Co. Ltd.	382,812	0	(67,272)	315,540
Kernex Automation S.r.l.	159,017	0	(159,012)	5
Total	604,770	3,630	(254,440)	353,961

All the investments in the affiliated companies have been valued using the shareholder's equity method.

As regards the investment in I.S.P. Systems S.r.l., for the purposes of valuation using the shareholder's equity method, the results for the year were rectified by the proceeds deriving from sale of a license for use of software to the subsidiary HSD S.p.A., net of the depreciation already set down on the profit and loss account for the investment in question. This rectification (amounting to 776 thousand Euro) resulted in a negative shareholder's equity, for which suitable provision has been made in the risk fund, amounting to 204 thousand Euro, which is added to devaluation of the shareholding by 4 thousand Euro.

The investment in HSD Deutschland GmbH has been revalued by 13 thousand Euro; the investments in Biesse China Co. Ltd. and Kernex Automation S.r.l. have been devalued by 67 thousand Euro and 159 thousand Euro, respectively; in the case of Kernex this devaluation was made necessary in consideration of the state of crisis in which the company finds itself. As far as Biesse China Co. Ltd. is concerned, in the application of the shareholder's equity method, account was taken of the consolidated balance sheet assets of Biesse China Co. Ltd. and its subsidiary Dongguang Biesse Machinery Co. Ltd.

Investments in other companies:

The item Investments in other companies, valued using the cost method rectified by devaluations under article 2426 of the Civil Code as at 31 December 2004, underwent to changes during the year and is made up as follows:

Company (values in Euro)	Balance sheet value	Percentage of Biesse Group
Banca delle Marche Spa Via Menicucci, 4/6 – Ancona	Euro 65,313	*
Tecnomarche Scrl Piazza Simonetti, 36 - Ascoli Piceno	Euro 10,329	4% (directly)
Consorzio Internazionale Marmi Macchine Carrara Via Galilei, 133 – Carrara Marina (MS)	Euro 5,165	*
Cosmob SpA Galleria Roma – Pesaro	Euro 1,033	*
Consorzio Energia Assindustria Pesaro-Urbino Via Curiel, 35 – Pesaro	Euro 1,033	*
Caaf Interregionale Dip. Srl Via Ontani, 48 – Vicenza	Euro 129	*
Total	Euro 83,002	

* Investments of a symbolic and associative nature.

Fixed financial credits:

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
From subsidiaries	268	(268)	0
From affiliated companies	197	(193)	4
From others (payable within 12 mo.)	2,530	(2,530)	0
From others (payable after 12 mo.)	423	28	451
Total	3,419	(2,964)	455

Receivables from subsidiaries decreased by 268 thousand Euro, following full consolidation of the companies Cabi S.r.l. and Sandymac S.r.l., which were previously valued using the shareholder's equity method.

Receivables from affiliated companies refer to the company Kernex Automation S.r.l. The loan in question, amounting to 77 thousand Euro at the end of last year, has been devalued during the current year by 73 thousand Euro in consideration of the state of crisis in which the company finds itself. The remaining decrease in the balance sheet item is due to reclassification of the loan granted by Biesse S.p.A. to InterMac Vidrio Iberica S.A., affiliated company in 31 December 2003 and subsidiary and therefore consolidated in 2004.

The item Receivable from others, due after 12 months, amounting to 451 thousand Euro, this is composed of 254 thousand Euro in caution money (for rent, utilities, etc.) and the 197 thousand Euro for the Ras fund for dismissals.

The item Receivable from others within 12 months has fallen to zero mainly as a result of repayment of an interest bearing loan granted to a third party.

Own shares:

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
Other securities	0	100	100
Own shares	869	129	997
Total	869	229	1,097

The item Other securities refers to liquid, fixed asset funds guaranteeing sales on the Spanish market.

The item Own shares amounts to 997 thousand Euro and relates to No. 380,654 shares valued at the end-of-year listed price.

On 31 December 2004 steps were taken to restore value to the previously mentioned own shares based on the difference between the average book value (€ 2.282) and the end-of-year value (€ 2.620), for a total amount of 129 thousand Euro. These shares had been devalued during the previous year by 335 thousand Euro.

The acquisition of own shares was carried out after the authorisation from the Shareholders Meetings on 17 December 2001 and 29 April 2003, in accordance to Art. 235 of the Civil Code and Art. 73 of the Consob regulation no. 11971 from 14/05/99.

These shares were included among the long term investments to hedge the option in favour of the former partner in the HSD S.p.A. subsidiary, in virtue of the contract signed on 14 November 2003, which includes the possibility of requesting 380,654 Biesse S.p.A. shares at the residual price of € 1,252 thousand.

Current assets

Inventories:

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
<i>Raw materials, subsidiary materials and consumables</i>	52,314	(1,479)	50,836
<i>(Raw materials devaluation fund)</i>	(2,126)	(496)	(2,622)
Net raw materials, subsidiary and consumables	50,189	(1,975)	48,214
Products under construction and semi-manufactured goods	8,197	27	8,224
<i>Finished products and goods</i>	23,309	(4,580)	18,728
<i>(Finished products devaluation fund)</i>	(1,498)	(155)	(1,653)
Net finished products and goods	21,811	(4,736)	17,075
Advances	637	323	960
Total	80,833	(6,361)	74,473

As explained in section "Consolidation principles", the valuation criteria for the inventories has been changed at the end of the half-year, passing from LIFO to average cost, in compliance with that provided for by the European community directive to companies quoted on markets controlled by European Union regulations. In order to simplify analysis of the impact of this variation on the shareholders' equity situation, a table is provided showing the value of stock as on 31

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December 2003 at average cost, used to determine the economic impact of the change in valuation criteria. The change has had an economic impact (considered as being one of the extraordinary expenses, as defined by the accounting principles) equal to 850 thousand Euro and has had an effect principally on the value of the raw materials and semi-finished products inventories.

Description	Value for previous year (pro-forma CMP)	Movement increase/decrease	Value at close of financial year
<i>Raw materials, subsidiary materials and consumables</i>	51,561	(725)	50,836
<i>(Raw materials devaluation fund)</i>	(2,126)	(496)	(2,622)
Net raw materials, subsidiary and consumables	49,435	(1,221)	48,214
Products under construction and semi-manufactured goods	8,087	137	8,224
<i>Finished products and goods</i>	23,324	(4,595)	18,728
<i>(Finished products devaluation fund)</i>	(1,498)	(155)	(1,653)
Net finished products and goods	21,826	(4,750)	17,075
Advances	637	323	960
Total	79,984	(5,511)	74,473

The value of stock shows a total of 74,473 thousand Euro, decreasing by 5,511 thousand Euro with respect to the previous year.

The decrease is seen in raw materials and in a more marked manner on finished products. As regards raw materials, the result is the fruit of the improvements in manufacturing efficiency policies, with particular regard to a reduction in through time, a decrease in the minimum stock levels and a strategy aimed at standardizing basic components used for the Group's products. The relevant depreciation fund increased with respect to the preceding year to take into account possible future costs, which might arise due to the introduction of new commercial models, the fallback from which results in the need to update current stock.

Regarding finished products, the decrease can be ascribed to good sales, which have enabled stock levels to drop, in particularly those at the Group's production units.

For the finished products devaluation fund also it must be noted that the relevant value increased (both in absolute terms, and as a percentage of the stock value), to take into account the increased activities for development of new prototypes and the consequent need to write off larger amounts of materials and finished products.

The change in consolidation area only had an effect on the raw materials item, the total of which for the companies Cabi, Sandymac and Intermac Vidrio Iberica amounts to 884 thousand Euro as at 31 December 2004, whereas at the end of the previous year it amounted to 804 thousand Euro

Receivables:

The Receivables entry amounts to 109,204 thousand Euro, a reduction of 17,344 thousand Euro with respect to the end of the previous financial year (126,548 Euro); the breakdown is as follows:

Description	Value of previous financial year	Movement increase/decrease	Value at close of financial year
<i>Trade receivables</i>	100,373	(8,534)	91,839
<i>(Bad debt reserves)</i>	(2,774)	45	(2,729)
Net trade receivables	97,599	(8,489)	89,110
From unconsolidated subsidiaries	203	(197)	6
From affiliated companies	1,267	(347)	920
From parent companies	1	209	210
Taxes	6,382	(1,419)	4,963
Deferred and pre-paid taxes	15,579	(6,891)	8,688
Others	5,517	(210)	5,307
Total	126,548	(17,344)	109,204

Division of receivables by geographical area:

Receivables	European Union	North America	Rest of World	Total
Trade receivables	56,722 63.6%	8,510 9.6%	23,878 26.8%	89,110 100.0%
Unconsolidated subsidiaries	6 100.0%	0 0.0%	0 0.0%	6 100.0%
Affiliated companies	911 99.1%	0 0.0%	9 0.9%	920 100.0%
Parent companies	210 100.0%	0 0.0%	0 0.0%	210 100.0%
Others	4,776 90.0%	191 3.6%	340 6.4%	5,307 100.0%
Total	62,625 65.5%	8,701 9.1%	24,227 25.4%	95,552 100.0%

Trade receivables:

Description	Previous financial year's value	Variation in the consolidation area	Movement increase/decrease	Value at close of financial year
Trade receivables, within 12 mo.	96,688	539	(7,752)	89,475
(Bad debt reserve, within 12 mo.)	(2,774)	0	45	(2,729)
Net trade receivables, within 12 mo.	93,914	539	(7,707)	86,746
Trade receivables, after 12 mo.	3,684	0	(1,320)	2,364
(Bad debt reserve, after 12 mo.)	0	0	0	0
Net trade receivables, after 12 mo.	3,684	0	(1,320)	2,364
Total trade receivables	100,372	539	(9,072)	91,839
(Total bad debt reserve)	(2,774)	0	45	(2,729)
Trade receivables	97,599	539	(9,028)	89,110

Trade receivables amount to Euro 89,110 thousand net of the bad debt fund of Euro 2,729 thousand and is relative to sales transactions and the providing of services. The receivables were devalued to cover the risk of losses of disputed receivables or receivables whose recovery is doubtful.

Total receivables from customers decrease as a whole by 8,489 thousand Euro, mainly due to the careful credit management policies that, combined with better conditions on the end markets (which has allowed a reduction in the number of sales with extended terms of payment), have made it possible to reduce collection times (average improvement of 13%).

Receivable from subsidiaries

Receivables from subsidiaries, amounting to 6 thousand Euro, decreased with respect to the previous year by 197 thousand Euro, due to reclassification of receivables from Cabi S.r.l. and Sandymac S.r.l., which are now included as consolidated companies.

Receivables from affiliated companies:

The amount of Euro 920 thousand breaks down as follows:

Company	Value at 31 December 2003	Value at 31 December 2004
I.S.P. Systems S.r.l.	610	533
HSD Deutschland GmbH	407	375
Intermac Vidrio Iberica S.A.	245	0
Biese China Co. Ltd.	2	9
Kernex Automation S.r.l.	3	4
Total	1,267	920

Taxes and Deferred and pre-paid taxes:

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
Taxes, within 12 months	6,382	(1,474)	4,908
Taxes, after 12 months	0	55	55
Total taxes	6,382	(1,419)	4,963
Deferred and pre-paid taxes, within 12 months	8,708	(2,296)	6,412
Deferred and pre-paid taxes, after 12 months	6,871	(4,595)	2,276
Total taxes and Deferred and pre-paid taxes	15,579	(6,891)	8,688

The item Taxes mainly refers to credits for excise duty (2,971 thousand Euro) and income tax credits (1,923 thousand Euro).

The item Deferred and pre-paid taxes includes tax calculated on the loss for the year and for previous years, totalling 707 thousand Euro, relating to the Group's foreign branches, for which recovery in the next few years is considered reasonable.

It must be noted that during the previous year, the Parent company had set down on the balance sheet deferred tax receivable for 7,631 thousand Euro, calculated based on the company's tax loss. At the end of this year, the Parent company, while setting down a remaining 32 million Euro in tax loss for 2003, did not consider it advisable to apportion any further tax advances. The reasons that in 2003 caused tax advances to be determined on the reportable loss were the assumption of certain special income in the form of the surplus produced on transfer of building land to the controlling company Bifin S.r.l. together with the good profitability forecast for 2004 and the subsequent three-year period.

For 2005 no surplus is foreseen on real estate operations, and the management forecast, while positive, does not provide elements of such certainty as to forego the prudential criteria that caused the Parent company, as early as the Balance Sheet for 2003, to restrict this operation to use of only part of the loss for tax recovery purposes. Anyway it has to be considered that in the balance sheet 2004, they are already included deferred income tax on temporary differences for 4,980 thousand euro) and provisions for deferred tax for 1,932 thousand euro.

Receivable from others:

Among the main components in the item Receivable from others, amounting to 5,307 thousand Euro, are receivable payments of 2,907 thousand Euro, Prepaid charges for 309 thousand Euro and Payments in advance to suppliers for 190 thousand Euro

Short term investments:

The short term investments equal to 1,362 thousand Euro (against a value of 3,836 thousand Euro on 31/12/03) consist of own shares, corresponding to 596.548 shares. These shares are managed using the FIFO method, so that the value set down on the balance sheet is the one for purchases made during the year.

The current share consistency is due: partly to purchases made on the stock market following authorisation by the Meeting of Shareholders voted on 17 December 2001 and 29 April 2003, under art. 235 of the Civil Code and art. 73 of Consob regulation No. 11971 dated 14/05/99 (the relevant buyback plan terminated in December and has not been renewed); partly to securities, received free of charge in the month of December 2003 from Werner Deuring Privatstiftung, to complete a transaction carried out with this company.

In the month of October one million shares were sold in blocks outside the market to a saving fund, with a quoted value of 2.6, generating 439 thousand Euro in financial income. This operation falls within the project aimed at increasing the share float, above all following requests from the Parent company during and following the STAR event in London last September.

Cash and cash equivalents

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
Bank and Post Office deposits	20,388	61	20,449
Cash on hand	116	2	118
Total	20,504	63	20,567

As regards the Cash and cash equivalents, these are essentially unchanged with respect to the previous financial year. However, this phenomenon must be viewed taking into account the progress of liquid and non-liquid financial liabilities and, in more general terms, the net financial position. For this reason reference is made to the comments hereinafter for further details.

It should be noted that the item Bank and Post Office accounts comprise 82 thousand Euro tied up by Biesse Asia Pte. Ltd. to guarantee commercial negotiations.

Current assets

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
Inventory	80,833	(6,360)	74,473
Trade receivables	95,386	(7,503)	87,883
Taxes	6,382	(1,474)	4,908
Deferred and pre-paid taxes	8,708	(2,296)	6,412
Other receivables	5,517	(210)	5,307
Trade payables	(61,882)	(16,236)	(78,118)
Other payables	(22,309)	759	(21,550)
Accrued income/prepaid expenses	1,231	121	1,352
Accrued liabilities/deferred income	(1,342)	(602)	(1,944)
Net working capital	112,524	(33,801)	78,723

For comments on the variations in Net Working Capital, please see the contents of the Management Report.

Accrued income

Accrued income amounts to 300 thousand Euro (compared to a value for the previous financial year of 525 thousand Euro) which includes the exchange rate differences for futures options for 75 thousand Euro and the portions of earnings for the financial year that is collectable in following financial years for an amount of 225 thousand Euro.

Prepaid expenses

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
Interest charged	573	171	744
Sundry	127	113	240
Sundry multiple-year	7	61	68
Total	707	346	1,052

The prepaid expenses entry refers to the portions loans, leasing, and contracts for consultancy and assistance pertaining to the accounting period.

LIABILITIES**Shareholders' Equity**

Changes in the components of the Shareholders' Equity are given in Enclosure C

Premium reserve

This amount of 36,202 thousand Euro is decreased by 47,428 thousand Euro to cover losses from the 2003 financial year.

Own shares reserve

The own shares reserve totalling 2,359 thousand Euro, was set up to deal with the shares acquired by the parent company Biesse S.p.A. in its own company in a buyback operation and its own shares obtained free of charge that were previously held by the Werner Deuring Privatstiftung, through the use of the extraordinary reserve.

The buyback operation, approved in the Meeting of Shareholders on 17/12/2001 (and subsequently extended for a further 18 months on 29/04/2003), which envisaged the option of buying back own shares up to an amount not exceeding 10% of the current partnership capital, ended in the month of December 2004. The decrease of 2,346 thousand Euro is mainly due to sale of No. 1,000,000 shares to a savings fund.

Extraordinary reserve

The extraordinary reserve of 10,691 thousand Euro decreased by 2,273 thousand Euro due to the effect of the decision to issue dividends and an increase amounting to 2,346 thousand Euro for reclassification of the Own shares in portfolio reserve following sale of own shares. Compared to the previous year, in compliance with new tax cleansing regulations, the amounts previously allocated to the Advance payments depreciation fund have been included in this reserve.

Currency conversions reserve

The reserve for conversion differences, negative for 1,592 thousand Euro, contains the differences caused by the conversion of the foreign currency (non Euro) balance sheets (United States, Canada, Singapore, UK, Brazil, Sweden, Australia and New Zealand) and was increased during the business year by 303 thousand Euro.

Profits and other reserves of the consolidated companies

The reserve, totalling 5.093 thousand Euro, increased by 6,154 thousand Euro due to the effect of the destination of the 2003 financial year result produced by the consolidated companies and a decrease of 74 thousand Euro, due to other minor variations.

Net income

This contains the result of the period.

As recommended by the accounting principle no. 28 of the CNDC and CNR, the result per share is calculated by dividing the profit by the average number of stock in circulation.

	December 2004	December 2003
Net income attributable to the shareholders (Euro/1,000)	4,870	(41,274)
Average number of shares in circulation	27,393,042	27,393,042
Net income per share (expressed in Euro per share)	0.18	(1.51)

Reconciliation between the Parent Company balance sheet and the consolidated balance sheet

The comparison of shareholders' equity, including the results of the period, that can be inferred from the Biesse S.p.A. statutory balance sheet at 31 December 2004 and 31 December 2003 and the consolidated shareholders' equity from the same dates, as well as the connection between the corresponding data is as follows:

	Shareholders' equity 2004	Result of the Financial Year 2004	Shareholders' equity 2003	Result of the Financial Year 2003
Shareholders' equity and result of the financial year as reported in the parent company's balance sheet	85,729	5,287	82,715	(47,428)
<i>Elimination of the load value of the consolidated equity investments:</i>				
Difference between stock value and pro-quota value of the shareholders' equity – Biesse	3,306		3,715	
Pro-quota results obtained by Biesse held companies		(2,821)		(3,566)
Consolidation difference - Biesse	2,737	(512)	3,113	(452)
Consolidation reserves	65		65	
Elimination of write-downs of equity investments		3,235		3,721
Schelling Group company result				(11,846)
Consolidation difference – Schelling				(930)
Surplus attributed to building – Schelling				(15)
<i>Elimination of the effects of transactions between consolidated companies:</i>				
Infra-group profits included in the value of final inventories	(2,889)	(601)	(2,288)	774
Infra-group profits on assets	(778)	0	(778)	0
Valuation of the affiliated companies using the shareholders' equity method	(357)	(164)	(412)	(225)
Accounting of the leasing assets with the financial method(LAS 17)	975	446	529	576
Adjustment for capital loss on the sale of Schelling (*)				18,116
Shareholders' equity and result of the Group	88,788	4,870	86,658	(41,274)
Shareholders' equity and result for minority	233	(10)	232	(8)
Financial years' result before acquisition	0	0	15	15
Shareholders' equity and result as reported in the consolidated balance sheet	89,021	4,860	86,905	(41,268)

(*) The adjustment totals the amount necessary to reconcile the capital loss from the sale entered in the statutory balance sheet of the parent company with the capital loss entered in the consolidated balance sheet.

Provisions for risks & charges

This entry has a balance of 6,675 thousand Euro (8,179 thousand Euro at the end of 2003) and is made up as follows:

Retirement benefits

This entry totalling 480 thousand Euro (494 thousand Euro at the end of the previous financial year) includes the amount for supplementary allowances to customers relating to current agency relationships.

Taxes

The amount totalling 2,727 thousand Euro has not undergone any important changes, and mainly includes deferred taxes, calculated by the parent company Biesse S.p.a. on the residual anticipated depreciations, purely for tax purposes with the recommended method, and on residual shares and capital gain shares subject to instalments.

As regards the Italian companies, in reference to accounting principle 25, it was not considered necessary to compensate between the credits for prepaid taxes and deferred tax funds, at these do not present similar characteristics and the time periods in which these entries were used are considered to be different.

Other funds

Description	Previous financial year's value	Use of fund	Accrual for the year	Differences in exchange rate	Value at close of financial year
Exchange rate risk fund	998	(998)	0	0	0
Product guarantee fund	2,246	(17)	438	(21)	2,646
Company restructuring fund	708	(708)	0	0	0
Loss coverage fund	479	(479)	204	0	204
Other funds for future risks and charges	530	(48)	136	0	618
Total	4,961	(2,250)	778	(21)	3,468

The Exchange rate risk fund has been used to cover losses caused by exchange rates in 2004. No appropriation was made to the fund at the end of the year, as all the foreign currency credit and debit items have been updated to the end-of-year exchange rate.

The Product guarantee fund was modified following an adjustment to the fund to an assessment of the guarantees to be given.

The Company restructuring fund, which at the end of the previous year amounted to 708 thousand Euro, (appropriations made during previous years by the Parent company Biesse S.p.A. and by Biesse Group Deutschland) was used in full during the year, as specified in greater detail in the comments to the items Service costs and Staff costs.

The Loss coverage fund amounting to 204 thousand Euro refers to the companies ISP Systems S.r.l. (203 thousand Euro) and Biesse Corporate School S.c.a.r.l. (one thousand Euro); use of 479 thousand Euro refers to appropriations made during the previous year to cover losses in excess of the net shareholder's equity of ISP Systems s.r.l. (422 thousand Euro) and Sandymac S.r.l. (58 thousand Euro)

The item Other funds refers to unsettled claims with ex-dealers and customers (315 thousand Euro) and other appropriations, relating to future expenses and minor liabilities (303 thousand Euro).

Employee termination indemnities

The movement was:

Previous financial year's value	13,609
Changes in the consolidation area	109
Allowances paid during the financial year	(2,034)
Amount accrued and allocated to the income statement	3,446
Value at close of financial year	15,130

Accounts payable

Banks:

The entry of 49,556 thousand Euro is reduced by 61,784 thousand Euro with respect to the end of the previous financial year and is broken down as follows:

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
Current accounts and short-term loans	97,027	(65,343)	31,683
Medium-term loans	55	(17)	37
Secured loans	3,560	7,587	11,148
<i>under 12 months</i>	<i>1,097</i>	<i>(980)</i>	<i>117</i>
<i>over 12 months</i>	<i>2,464</i>	<i>8,567</i>	<i>11,031</i>
Unsecured Loans	10,698	(4,010)	6,688
<i>under 12 months</i>	<i>4,802</i>	<i>(514)</i>	<i>4,288</i>
<i>over 12 months</i>	<i>5,896</i>	<i>(3,497)</i>	<i>2,400</i>
Total	111,340	(61,784)	49,556

As mentioned in the management report, at the end of 2004 the Group's debt situation had improved considerably, both following completion of the real estate sale operations (sale of non-instrumental land to the controlling company Bifin srl, sale of part of the factory complex at San Giovanni in Marignano), and as a result of the progress for the year, (as underlined by the growth in net circulating capital, which increased by 33 million Euro). Also, when the figure payable to banks is analysed together with the figure payable to other financing organisations, it is possible to note the improvement in subdivision of debt by duration, which shows a reversal in the percentage debt expiring within 12 months as compared to that expiring at over 12 months. Finally, the recourse to financial *leverage* has decreased and the fixed assets coverage ratio has improved.

Please consult the financial report which includes the movements that determined this decrease.

Detailed information about loans that mature in 5+ years is listed below:

Description	Value at close of financial year
Interbank Mortgage loan under art.38 decree law 385/93	2,000
Loans as per law 46/82	1,059
Loan Medio Credito Fondiario Centroitalia	522
Loan BCI Bank Montreal	53
Total	3,634

Secured loans are listed below:

Company	Amount	Bank	Description of the guaranty
Biesse S.p.A	10,000	Interbank Mortgage loan under art.38 decree law 385/93	Mortgage on buildings in Via della Meccanica, 16 – Chiusa di Ginestreto (PU)
MC S.r.l.	1,016	Loan from Mediocredito Fondiario Centroitalia mortgage	Mortgage on industrial buildings in Strada Selva Grossa, Pesaro
Sel Realty Inc.	132	Loan from BCI – Comit Canada	Mortgage on industrial building in Montreal (Canada)
Total	11,148		

As well as the above debts, it must be noted that the subsidiary Biesse Canada Inc. has obtained loans guaranteed in lien of receivables and stock for a figure of two million Canadian dollars (equivalent to 1.2 million Euro), of which 478,811 Canadian dollars (equivalent to 291,673 Euro) have been used.

Payables to other financing entities:

The payables to other financing entities totalling 17,138 thousand Euro refer mainly to the sale and leasing operations carried out during 2002. The leasing contracts were signed with the Intesa Leasing company, (12,558 thousand Euro), related to property located in Pesaro and with the companies Cardine Leasing and Locafit (4,460 thousand Euro), related to property in S. Giovanni in Marignano (RN). With reference to the latter contract, the decrease by 4,416 thousand Euro is due to reimbursement of amortisation capital, carried out during the year and amounting to 875 thousand Euro, while 3,541 thousand Euro refer to partial repayment in advance of the portion of the factory site transferred in the month of December.

Advances:

Entry Advances, equal to 8,420 thousand Euro, refers to the advances received from customers at the date of the balance sheet, and records an increase of 2,488 thousand Euro with respect to the end of the previous financial year; this variation is due to an increase in volumes and an improvement in the order portfolio recorded during the period.

Trade payables:

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
Trade payables	61,157	9,536	70,693
Unconsolidated subsidiaries	7	1	8
Affiliated companies	210	995	1,205
Parent companies	516	(516)	0
Total	61,890	10,015	71,906

The trade payables includes 994 Euro relating to payables expiring after 12 months. The increase in payables is due both to the increase in volumes with respect to the previous year, and to extension of the terms of payment agreed with suppliers, and it is balanced by a decrease in stock and commercial credits, thus allowing an improvement of the net working capital. The payables to unconsolidated subsidiaries amount to 8 thousand Euro and refers to Biesse Corporate School S.c.a r.l.

Payables to affiliated companies total 1.205 thousand Euro, and consist of payables to I.S.P. Systems S.r.l. for 1.190 thousand Euro, Kernex Automation S.r.l. for 8 thousand Euro and HSD Deutschland for 7 thousand Euro.

Tax payables and payables to social security institutes

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
Tax Payables	5,041	2,508	7,549
Payables to social security institutes	3,760	546	4,305
Total	8,801	3,054	11,855

The tax payables totalling 7,549 thousand Euro are relative to the payables for current income tax, for employee deductions and for excise duty.

Payables to social security institutes, totalling Euro 4,305 thousand, refer to employee management.

Other receivables

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
Payables to employees	5,887	650	6,537
Payables for companies acquisitions	859	(859)	0
Other payables within 12 months	877	1,157	2,034
<i>Total other payables within 12 months</i>	<i>7,623</i>	<i>948</i>	<i>8,571</i>
Payables for companies acquisitions	2,132	(880)	1,252
Other receivables due after 12 months	0	0	0
<i>Total other payables due after 12 months</i>	<i>2,132</i>	<i>(880)</i>	<i>1,252</i>
Total	9,755	68	9,823

The Other payables entry amounting to 9,823 thousand Euro is up slightly with respect to the end of the previous financial year.

The quota expiring within 12 months is equal to 8,571 Euro, up by 948 thousand Euro on the previous financial year. The item includes payables to staff for salaries and wages, amounting to 6,537 thousand Euro, and other payables amounting to 2,034 Euro.

The over 12 months quota shows a balance of 1,252 thousand Euro, a reduction of 880 thousand Euro with respect to the end of the previous financial year, following the reimbursement of payables relating to past acquisitions, as reported in the following schedule. The total of 1,252 thousand Euro refers to the debt contracted by the Parent company for purchase of a 20% shareholding in the subsidiary company HSD S.p.a.

Schedule of payables from companies acquisitions

Description	Previous financial year's value	Refunds	Value at close of financial year
Diamut	859	(859)	0
<i>Payable within 12 months</i>	<i>859</i>	<i>(859)</i>	<i>0</i>
Diamut	232	(232)	0
Allwood Machinery	441	(441)	0
Busetti S.r.l.	207	(207)	0
HSD S.p.a. shares	1,252	0	1,252
<i>Payables after 12 months</i>	<i>2,132</i>	<i>(880)</i>	<i>1,252</i>
Total	2,991	(1,739)	1,252

Accrued liabilities

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
Interest charged	203	216	419
Sundry	234	48	282
Total	437	264	701

Accrued liabilities refer to interest on loans and financing that pertains to the financial year.

Deferred Income

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
Interest receivable	82	259	341
Advance payments for installation and testing	824	79	903
Total	905	338	1,243

Division of payables by geographical area:

Description	European Union	North America	Rest of World	Total
To suppliers	59,694 84.4%	1,386 2.0%	9,613 13.6%	70,693 100.0%
To subsidiaries	8 100.0%	0 0.0%	0 0.0%	8 100.0%
To affiliated companies	1,205 100.0%	0 0.0%	0 0.0%	1,205 100.0%
to others	9,202 93.7%	234 2.4%	387 3.9%	9,823 100.0%
Total	70,109 85.8%	1,620 2.0%	10,000 12.2%	81,729 100.0%

Commitments:

The memorandum accounts are described below:

Description	Previous financial year's value	Value at close of financial year
Leasing commitments	7,882	6,299
Privileges on L.Sabatini goods	13	6
Guarantees and endorsement	11,573	5,195
Bills	8,039	4,896
Other commitments	25,064	19,722
Total	52,573	36,118

The commitments for accruing financial lease charges amount to Euro 6,299 thousand and represent the total value of the accruing charges, including the redemption price, that must still be paid to the leasing companies for equipment and machinery for the purposes of purchasing the asset. If the financial method had been used to account for these contracts instead of that provided for by current civil and fiscal standards, on 31st December 2004 the historic cost of the "Tangible Assets" would have been 8,452 thousand Euro more and their accumulated depreciation fund would have been 3,641

thousand Euro more; the financial debts would have been 3,920 thousand Euro more, the deferred assets would have been 319 thousand Euro less, while the deferred liabilities for interests would have been 9 thousand Euro more. The depreciation allowance for the financial year would have been 1.121 thousand Euro more, the financial charges would have increased by 224 thousand Euro; whereas the leasing charges effectively spent in the income statement would have fallen by 1.753 thousand Euro. In this case the profit for the period would have been 252 thousand Euro more, while the net shareholders' equity would have been 581 thousand Euro more.

The guarantees given as sureties and endorsements include the guarantees issued to support the activities of Biesse Group Australia Pty. Ltd. (573 thousand Euro, equivalent to one million Australian dollars) and Sel Reality Ltd. (132 thousand Euro, equivalent to 216,000 Canadian dollars), the guarantee of 1,252 thousand Euro issued in favour of the former partner of HSD S.p.A., to secure the acquisition of the shares of the subsidiary company. Finally, it is necessary to remember the guarantees given to the Commune of Pesaro against urbanisation of the buildings located there (1,468 thousand Euro), to the Tax Office for annual VAT returns and quarterly reimbursements (499 thousand Euro), to the company Simest for issue of a loan (299 thousand Euro), and the guarantees issued to customers for advance payments on goods to be supplied (813 thousand Euro).

The other commitments, totalling 19,722 thousand Euro, comprise 5,114 thousand Euro for derivative operations carried out towards the end of the period and done mainly to protect the Group operating margin from exchange rate fluctuations in the face of forecast sales and are entered in the balance sheet at the exchange rate at the end of the period. Also included is an I.R.S. (interest rate swap) contract, stipulated to cover the risk of changes in interest rate on the Pesaro building leaseback contract and set down on the balance sheet at 11,848 thousand Euro: fair value evaluation of the IRS contract in question shows a potential loss of €/1000 335 which is not set down on the balance sheet as the contract in question is for coverage only. Finally, it includes 1,891 thousand Euro relating to the buyback obligation taken on with leasing companies in sale of our machinery to national customers.

Remarks about the main Income Statement entries

(All amounts are expressed in thousands of Euro)

Value of production

The value of production amounting to 315,411 thousand Euro is up slightly with respect to the corresponding period of the previous financial year. When analysing the pro-forma data (presented in the Management Report and processed excluding the Schelling Group in 2003 and Cabi Srl, Sandymac Srl and Intermac Vidrio Iberica S.A. in 2004) the 2004 results improve with a production value equal to 314,718 thousand Euro which increases by 10.9%.

Revenues from sales and services

Description	Previous financial year's value	Value at close of financial year	Variation	Variation%
Revenues from product sales	296,295	303,199	6,904	2.3%
Revenue from services	9,664	10,430	766	7.9%
Other sales revenues	1,586	997	(589)	(37.1%)
Revenue variation from refunds, bonuses, discounts and invoice adjustments	(908)	(2,112)	(1,204)	132.6%
Total	306,637	312,514	5,877	1.9%

The breakdown of revenue from sales and services by division is as follows:

Division	Previous financial year's value	%	Value at close of financial year	%	Variation	Variation%
Wood Division	204,717	66.8%	232,789	74.5%	28,072	13.7%
Glass and Marble Division	59,039	19.3%	60,274	19.3%	1,235	2.1%
Systems Division	28,316	9.2%	---	---	(28,316)	---
Mechatronics Division	23,768	7.8%	41,013	13.1%	17,245	72.6%
Grand total	315,840	103.0%	334,076	106.9%	18,236	5.8%
Interdivisional elisions	(9,203)	(3.0%)	(21,562)	(6.9%)	(12,359)	134.3%
Total consolidated revenues	306,637	100.0%	312,514	100.0%	5,877	1.9%

The summary of the revenues by geographic area is as follows:

Division	Previous financial year's value	%	Value at close of financial year	%	Variation	Variation%
EU Area	163,683	53.4%	150,139	48.0%	(13,544)	(8.3%)
North America	51,329	16.7%	45,060	14.4%	(6,269)	(12.2%)
Rest of World	91,625	29.9%	117,315	37.6%	25,690	28.0%
Total consolidated revenues	306,637	100.0%	312,514	100.0%	5,902	1.9%

As already underlined, the consolidated revenue increase by 1.9% (going from 306,637 thousand Euro to 312,514 thousand Euro), with an increase in the pro-forma data of 12.2% (from 278,122 thousand Euro to 312,086 thousand Euro).

The increase is recorded for all divisions of the group and is particularly important for the Wood Division (which shows an increase of 13.7%, over performing with respect to its reference sector) and for the Mechatronics Division (whose increase in turnover must be viewed net of interdivisional elision, giving an increase of 33.5%). The Glass Division reversed its trend with respect to 2003, showing a 2% increase and confirming itself the second largest national operator in its reference market.

At geographical level, the Rest of the World has shown excellent levels of performance, lead by Eastern European countries (whose weight on the consolidated total amounts to 14.3%), Oceania (8.7%) and the Far East (5.4%). North America drops by 12.2%, although performance has been negatively influenced by the Euro/dollar exchange rage, whereas the EU area decreases by 8.3% (with an incidence of 19% for Italian turnover that remains in line with the results for the previous year).

Other revenues and income:

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
Contributions for operating expenses	203	(170)	33
Miscellaneous	5,413	1,520	6,933
Total	5,616	1,350	6,966

The entry shows a balance of 6,966 thousand Euro, 1,350 thousand Euro more than the previous period (the increase of the pro-forma figure is 2,213 thousand Euro, with a balance that passes from 4,750 thousand Euro to 6,963 thousand Euro).

This amount is mainly related to recovering the expenses of transporting sold goods and other services (2,444 thousand Euro), extraordinary income derived from the specific management (2,135 thousand Euro) and current rents (252 thousand Euro).

Operating costs:**Raw materials, consumable and merchandise:**

This entry has a balance of 135,199 thousand Euro, down by 3,012 thousand Euro on the previous year (decrease of 2.2%). Analysing the pro-forma income statement data, the balance amounts to 136,312 thousand Euro, an increase with respect to the previous financial year of 13,143 thousand Euro (equivalent to 10.7%). The overall increases can be put down to the increase in volumes recorded during the period.

When this item is analysed together with the variation in raw materials in stock, an improvement of approximately two percent in the incidence of consumption on turnover can be seen (from 45.5% in 2003 to 43.7% in 2004, with a similar rate of progress in pro-forma figures).

As regards the inflationary tension recorded on some of the markets supplying the Group, it can be said that this has not had an effect on Group results thanks to the limited incidence of raw materials (and primarily steel) on the cost of our products.

Services

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
Outsourcing	10,317	726	11,043
Utilities	1,507	(245)	1,263
Maintenance	2,312	(426)	1,885
Technical, legal and administrative consultancy	5,169	(235)	4,934
Commissions paid	7,902	289	8,191
Trade shows and advertising	6,232	(1,098)	5,134
Personnel travel costs	7,295	(1,403)	5,893
Post and telephone charges	2,359	(413)	1,946
Transport costs	8,439	128	8,568
Other service costs	9,879	(505)	9,374
Total	61,413	(3,182)	58,231

The same schedule, built-up from the pro-forma income statement, is as follows:

Description	Previous financial year's value pro-forma	Movement increase/decrease	Value at close of financial year pro-forma
Outsourcing	9,991	797	10,788
Utilities	1,328	(69)	1,259
Maintenance	1,938	(62)	1,876
Technical, legal and administrative consultancy	4,540	501	5,041
Commissions paid	7,205	986	8,191
Trade shows and advertising	5,701	(576)	5,125
Personnel travel costs	5,855	37	5,892
Post and telephone charges	2,059	(133)	1,926
Transport costs	7,282	1,252	8,533
Other service costs	8,443	704	9,147
Total	54,342	3,460	57,802

The change in the consolidation perimeter has resulted in a notable saving in service costs, both with respect to absolute value and as a percentage of turnover. The reduction is equal to 3,182 thousand Euro, while the percentage falls from 20.0% to 18.6%.

Analysing the pro-forma data, on the contrary, an increase in costs of 3,460 thousand Euro can be seen, with the percentage on turnover of 18.5%. This phenomenon can be traced to the increase in costs directly connected to turnover, such as transport costs, outsourcing and commissions paid. As regards outsourcing operations, the increase is concentrated in the second half of the year, in correspondence with completion of the outsourcing agreement for carpentry and painting operations. The cost of external consulting services has increased (in analysis of the pro-forma figures) following the increased use of outsourcing policies for certain company functions, which has helped reduce structural costs connected to human resources.

The cost of trade shows and advertising decreases with respect to by 1,098 thousand Euro (decrease of 576 thousand Euro in the pro-forma figures); this change follows the decision made by Biesse, in agreement with its competitors, to reduce the participation costs in the exhibitions (in terms of occupied surface area, setting-up, etc.), to which the efforts to rationalise the ancillary costs of the events themselves can be added (strict control of the expenses entry and participation in the events of *key-figures*, with a reduction in the presence of the Group at the stands). This reduction in costs, moreover, has not had a negative effect on the reputation of the Group's products, on the contrary, these exhibitions have resulted in an increase in the Group's order portfolio.

The item Other service costs, amounting to 9,374 thousand Euro, also comprises remuneration of the Group management for 1,351 thousand Euro and wages paid to the auditors for 60 thousand Euro.

The figure on 31 December 2004 is net of the costs connected with company restructuring activities totalling 180 thousand Euro. They did not pass through the income statement but were used to reduce the specific account.

Leases and rentals

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
Rentals	4,935	(267)	4,669
Licences	7	(4)	3
Leasing payments	3,412	(1,203)	2,210
Total	8,354	(1,474)	6,882

The amount totalling 6,881 thousand Euro was down 1,474 thousand Euro with respect to the previous financial year. The pro-forma value, equal to 6,786 thousand Euro, also signals a decrease with respect to the corresponding previous financial year of 398 thousand Euro.

Within this category, the cost of rentals amounts to 4,669 thousand Euro, while the cost for leasing repayments amounts to 2,210 thousand Euro, giving the greatest contribution to reducing these costs. The resulting savings are due to the efforts

made in rationalising costs incurred in the previous financial years and continued during the year. The outsourcing agreement for carpentry and painting phases has also been set down with this in mind, as it allows a recovery of space within the manufacturing sites owned by the group, which can be destined to production lines that are currently set up in third party premises.

The Lease and Rental expenses entry includes all rent expenses for industrial and commercial buildings and rent for office machinery, company cars and internal transportation.

Leasing payments refers to office machinery, internal transport vehicles and industrial equipment.

Personnel costs:

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
Wages and salaries	68,801	(7,400)	61,401
Social security	18,559	(1,242)	17,317
Employee termination indemnity and pension retirement	3,910	(187)	3,724
Other costs	357	132	489
Total	91,628	(8,697)	82,931

Personnel costs total 82,931 thousand Euro, down by 8,697 thousand Euro on the same period of the previous year. The analysis of the pro-forma data shows an increase in the absolute value of personnel cost of 3,081 thousand Euro; however, the percentage on turnover falls from 28.3% to 26.2%, due to the effect of streamlining of the organisational structure during the previous financial years and regarding, in particular, indirect labour. The improvement becomes even more significant when considering that the 2003 figure benefits from the recourse to "social shock absorbers" by some of the Group's factories during May and June.

The total amount is less Euro 529 thousand which represents the use of the company restructuring fund for the relevant share.

Average personnel numbers

Description	Previous financial year's value	Value at close of financial year	Variation
Executives	45	39	(6)
Middle managers	2	3	1
Office staff	1,241	1,055	(186)
Blue collar workers	889	762	(127)
Total	2,177	1,859	(318)

The average number of employees for the period is 1,859, at the end of the previous financial year this was 2,177, while on 31/12/2002 the figure was 2,275. Using the same consolidation perimeter, the average number of employees is reduced by 33.

Depreciation and amortisation

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
Intangible assets amortisation	3,817	(558)	3,259
Tangible assets amortisation	8,659	(1,167)	7,492
Other write-downs	25	(25)	0
Write-downs of receivables included under current assets	1,316	(324)	992
Total	13,818	(2,074)	11,743

In relation to the pro-forma data, these are as follows:

Description	Previous financial year's value pro-forma	Movement increase/decrease	Value at close of financial year pro-forma
Intangible assets amortisation	3,814	(741)	3,073
Tangible assets amortisation	7,781	(354)	7,427
Other write-downs	0	0	0
Write-downs of receivables included under current assets	881	111	992
Total	12,476	(984)	11,493

The depreciation cost has reduced considerably with respect to the previous year, both due to the effect of the sale of the Schelling Group (equal to a saving of 1.091 thousand Euro), and due to the reduction in costs sustained by the Biesse Group, considered as being equal to the consolidation perimeter (984 thousand Euro).

As highlighted in the assets schedules, the most important cost entries in the depreciation of intangible assets are those concerning goodwill (886 thousand Euro), licences and trademarks (779 thousand Euro) and consolidation difference (512 thousand Euro).

The tangible assets amortisation also includes the cost of the application of the financial method for accounting real-estate leasing contracts, equal to 1.118 thousand Euro (of which 650 thousand Euro refers to buildings and 468 thousand Euro to plant and machinery). Following transfer of part of the production site at San Giovanni in Marignano (RN), there will be a saving on these cost items amounting to 212 thousand Euro a year.

The write-down of current assets amounts to 993 thousand Euro and consists of allocations to the bad debts reserve.

Other operating expenses

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
Bad debts	315	(133)	182
Miscellaneous tax liabilities	721	(186)	535
Contingent liabilities	47	12	59
Entertainment expenses	322	(50)	272
Membership subscriptions	172	(6)	166
Vehicle expenses	686	(90)	596
Stationery	460	(31)	429
Capital losses	389	(36)	353
Heating	533	(123)	410
Other operating expenses	2,225	(334)	1,891
Total	5,870	(977)	4,893

The Other operating expenses entry totals 4,893 Euro, down by 977 thousand Euro with respect to the same period of the previous financial year. The end of period value, with equal consolidation perimeter, amounts to 4.852 thousand Euro, while the figure for the same period of the previous financial year is equal to 4,293 Euro, with a decrease of 559 thousand Euro.

Financial income and expense**Other financial revenues:**

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
Revenue from credits registered in non-current assets	90	(72)	18
Revenue from securities set down in the current assets but which are not shareholdings	0	463	463
Other revenue	756	(145)	611
<i>From subsidiaries</i>	7	(3)	4
<i>From affiliated companies</i>	3	2	5
<i>From parent company</i>	0	210	210
<i>Other revenues</i>	746	(354)	392
Total	846	246	1,092

Interest and other financial charges:

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
Interest and other financial charges payable to parent company	0	12	12
Interest due to banks and for advances	1,138	(912)	226
Interest due on loans	2,181	(353)	1,828
Interest due on other financial debts	2,423	(998)	1,425
Discounts and other financial discounts	332	(17)	315
Sundry charges	598	52	650
Total	6,672	(2,216)	4,456

The analysis of the financial income and expense shows a substantial reduction in the cost of borrowing for the Group. This phenomenon is in great part due to the already-mentioned improvement in the net financial position. The interests paid fall from 5,742 thousand Euro to 3,491 thousand Euro, with the percentage on turnover passing from 2.1% to 1.1%; the pro-forma data also shows a reduction in the interest charges from 4,879 thousand Euro to 3,480 thousand Euro (percentage on turnover 1.8% in 2003, against 1.1% in 2004).

Among the positive components for the financial year are the proceeds, amounting to 463 thousand Euro, obtained from sale of own shares, previously held as *treasury shares*.

Finally, the entry Other revenues, amounting to 389 thousand Euro, refers to the quota for the year 2004 of financial proceeds effected in previous years on financing operations requested by Italian customers and linked to laws facilitating investments granted to companies.

Gain and loss on exchange rates:

Description	Value at close of financial year
Gain and loss achieved	930
Gain and loss not achieved	(1,575)
Total	(645)

With reference to currency management, the total gain and loss on foreign currency achieved is positive by 930 thousand Euro. This result was made possible both thanks to the trend of the exchange rates during the year, and to careful management of exchange risks.

As regards gain and loss on exchange rates deriving from adaptation of receivables and payables in foreign currency to the end-of-year exchange rate, the total is negative by 1,575 thousand Euro.

Adjustments to the value of financial assets

Write-ups and write-downs

Value adjustments for financial assets, negative by 365 thousand Euro, refer to:

- Write-ups and write-downs of investments in unconsolidated subsidiaries and affiliated companies, valued using the shareholders' equity method (which show a negative result of 420 thousand Euro),
- the revaluation carried out on own shares set down in the fixed assets based on the end-of-year quoted value (129 thousand Euro)
- devaluation of the loan to the affiliated company Kernex Automation S.r.l. (73 thousand Euro).

The details of the write-up and write-down operations effected on the shares are as follows:

Shareholding	Write-ups / (Write-downs)
HSD Deutschland GmbH	27
I.S.P. Systems S.r.l.	(207)
Kernex Automation S.r.l.	(159)
Biesse China Co. Ltd.	(67)
Biesse Corporate School s.c. a r.l.	(14)
Total	(420)

Extraordinary items

Extraordinary income:

The total, amounting to 11,416 thousand Euro (3,288 thousand Euro during the same period of the previous year) mainly comprises the capital gains on sale of assets for 11,389 thousand Euro, deriving from the sale of non-instrumental land to the controlling company Bi.Fin. S.r.l., which took place in March (10,323 thousand Euro) and from transfer of part of the industrial premises at San Giovanni in Marignano (1,066 thousand Euro), concluded in December.

Extraordinary expense:

Description	Previous financial year's value	Movement increase/decrease	Value at close of financial year
Capital losses	27,029	(27,029)	0
Taxes on previous financial years	27	217	243
Other extraordinary charges	6,020	(2,563)	3,457
Total	33,076	(29,375)	3,702

The entry Extraordinary expense amounts to 3,702 thousand Euro, while at the end of the same period of the previous financial year, the value was 33,076 thousand Euro. A better comparison is given by the pro-forma figures, based on which the extraordinary charges pass from 3,709 to 3,697 thousand Euro.

The balance includes charges of 850 thousand Euro deriving from the change in the warehouse valuation criteria (passing from LIFO to average cost) and has been caused by the impact of the different valuation criteria for the initial stock, in line with that provided for by the reference accounting principles. The rest of the item mainly comprises charges relating to return of product sold during previous years, and uncharacteristic contingent liabilities.

Income tax for the year

Description	Previous financial year's value	Movement increase/decrease	Current financial year's value
Income tax	3,044	1,616	4,660
Deferred/prepaid tax	(5,544)	12,910	7,366
Total	(2,500)	14,526	12,026

The value of income tax includes provisions for local and national income taxes for the companies in the group; in particular the appropriations carried out by the Italian companies in the Group for local income taxes (IRAP) totalling 3,979 thousand Euro; to this can be added 681 thousand Euro for other income taxes, mainly in reference to the foreign companies in the Group.

The value of deferred/prepaid tax, positive in 2003 by 5,544 thousand Euro, at the end of 2004 was negative by 7,366 thousand Euro and "suffers" the *reversal* effect of deferred tax set down in the previous year, along with the failure to apportion any further tax advances to the Parent company's reported tax loss (see the comments made above in regard to this).

Finally, it is noted that on 12/01/2005 the Regional Tax Agency in Ancona started verification of the years 2002-2003, with reference to the Parent Company. This is an ordinary administrative control that is repeated every two years, given that Biesse S.p.A. is such a large business, so that control by the Financial Administrative bodies is more or less constant.

The control was stopped on 31/01/2005 upon the request of the Parent company, who made this request simply to enable its administrative staff to concentrate their attention on preparation of the Balance Sheet for the year. Operations are expected to start again in April 2005. During operations, no formal questions have been raised.

Among the facts and documents under the examination of the Officers, those of greatest importance in terms of amount and complexity relate to the reorganisation operation, the result of which was transfer of the holding in Schelling Anlagenbau GmbH. This operation resulted in a total deductible loss of € 43,211.227.

Regarding the regularity of the tax treatment (formal and substantial) given to this operation by the Parent company, a positive opinion has been obtained from a primary legal and tributary Office.

History of the capital stock

	Number	Face value	Capital stock
Ordinary shares at the beginning of the financial year	27,393,042	Euro 1	Euro 27,393,042
Ordinary shares at the end of the financial year	27,393,042	Euro 1	Euro 27,393,042

Additional information

The remuneration for the Directors and the Auditors of the parent company for 2003 is listed in the following table. It should be noted that, as per the Consob -Italian shares exchange regulatory body- regulation No. 11971 in implementation of Legislative degree. 58/98, remuneration means the salary attributed to the position, other non-monetary benefits, bonuses and other incentives, as well as any other payments deriving, amongst other things, from employment, other services rendered, including those to the parent company's subsidiaries, attendance fees and reimbursement of expenses in the lump.

<i>Job description</i>			<i>Remuneration</i>			
			<i>Salary</i>	<i>Non-monetary benefits</i>	<i>Bonuses and other incentives</i>	<i>Other remuneration</i>
<i>in thousands of Euro</i>						
Individual	Position	Time in office				
Selci Roberto	Chairman of the Board	29/04/2006	354	1		
Selci Giancarlo	Chief Executive Officer	29/04/2006	211	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			
Total			645	2	0	0
Ciurlo Giovanni	Auditor	29/04/2006	23			
Franzoni Adriano	Auditor	29/04/2006	12			
Sanchioni Claudio	Auditor	29/04/2006	12			
Total			47	0	0	0

(*) *Independent directors according to the self-discipline code.*

The amounts entered in the column “remuneration for the post” depend on the remuneration received from various companies belonging to the Biesse Group. The Auditors' and Directors' terms of office will expire on the approval date of the 2005 balance sheet.

For more information about the relationships with the Group and affiliated companies, please consult the comments made in the operations report.

In order to supply more complete information about the asset and financial situation of the Group, we have included the financial report in the appendices (Appendix B). Any item of importance that occurred since the closing of the financial year has been included in the operations report.

Introduction of the IAS accounting principles

In 2003 the Biesse Group started the project for transition to the new international accounting principles, as foreseen by European Regulation No. 1601 dated July 2002, and during 2004 it completed the phase involving analysis of the differences existing between the Group's accounting principles and IAS/IFRS principles, moving on to the subsequent phases of the process involving conversion of the main areas.

In particular, this analysis underlined the fact that adoption of the new accounting principles does not only have an effect on accounting, but also on organisation and management, as it involves modifying or updating company processes and the management reporting and planning system.

The process of transition to IAS, although started in time by the company and following a clearly planned method, suffered from the uncertainties present in the reference regulations: the final text of various standards was published in the Official Gazette in the month of December, the OIC document giving a guide for transition to IAS was issued, in draft form, at the end of December, recently the main changes to the Sole Document on taxation of income relating to the transaction in reference were defined.

In confirmation of the complexity of transition to IAS/IFRS in this context, on 17 February 2005, Consob issued a document for consultation, relating to application of the rules for companies listed on regulated national markets. This document foresees a transitional regime for compulsory application of the new accounting principles to consolidated accounts from the third quarter of 2005 only, leaving companies the option of using these principles for the preceding quarters and for 2005 half-yearly accounts. For the latter, compliance with IAS 34 on intermediate balance sheets is in any case required, as is reconciliation of figures in the net shareholders' equity and results for the year drawn up based on current provisions with those determined using international accounting principles.

Bearing in mind the above, the Biesse Group expects to comply with the suggestions made by Consob, as regards consolidated accounts starting with the half-yearly report for 2005, while as regards the balance sheet for the Parent company and the other Italian subsidiaries, transition will take place within 2006, as permitted by the Decree Law implementing the European Regulation.

Following analysis, the areas that are susceptible to significant potential impact (procedural and/or depreciation) with the introduction of the new Accounting Principles are:

- intangible assets
- tangible assets
- Inventories
- Financial instruments
- Severance benefits

Intangible assets

Regarding the intangible fixed assets, the most significant change derives from introduction of the concept of intangible fixed asset with an unspecified working life, which will no longer be subject to depreciation; the principle will be particularly significant for the items goodwill and consolidation difference, which will have to be subjected to impairment tests comparing the book value with the relevant "use value".

Another effect will relate to development expenses, which up to now have been systematically set down in the profit and loss account, except for special cases, and which must be capitalised as foreseen by IAS 38 and subjected to depreciation based on their working life.

Tangible assets

For tangible fixed assets it has been decided to follow the provisions of IFRS 1, keeping valuation at the historic cost already set down on the balance sheet. In this context also, valuation of any loss of value ("impairment analysis") will be of importance. In this regard, the group is completing revision of the internal reporting system, which has been made necessary following introduction of the concept of *CGU* ("Cash Generating Units").

Inventory

As regards inventory for the year, as mentioned above, the new accounting principles have already been adopted in the balance sheet for 2004.

Financial instruments

With reference to IAS 39, the risk management *policy* has been defined. This instrument is propaedeutic to the activities necessary for proper application of the new accounting principle.

Severance benefits

With reference to the benefits subsequent to employment, given the significance of the value on the balance sheet and the complexity of the calculation method foreseen by the new accounting principles, a primary consulting firm has been charged with valuation of the benefits according to IAS 19 for the whole perimeter of the Group.

Pesaro, 30 March 2005

*The Chairman of the Board of Directors
Roberto Selci*

APPENDIX

**To the
Consolidated Financial
Statements of Biesse S.p.A.
for the year ending
December 31, 2004**

ANNEX "A" - DETAILS OF CONSOLIDATION DIFFERENCE

Euro/1,000	Consolidation difference at 12/31/2003	Cumulated amortisation at 12/31/2003	Net value at 12/31/2003	Variations in 2004	Consolidation difference at 12/31/2004	Amortisation share 12/31/2004	Cumulated amortisation at 12/31/2004	Net value at 12/31/2004
SELCO SRL	4,220	(1,914)	2,307	0	4,220	(422)	(2,336)	1,885
BIESSE CANADA LTD	56	(56)	(0)	0	56	0	(56)	(0)
SEL REALTY LTD	5	(5)	0	0	5	0	(5)	0
BIESSE GROUP UK LTD.	13	(8)	5	0	13	(1)	(9)	4
MC SRL	118	(21)	97	0	118	(12)	(32)	86
HSD SPA	703	0	703	0	703	(70)	(70)	633
INTERMAC VIDRIO IBERICA S.A	0	0	0	136	136	(7)	(7)	129
TOTAL	5,115	(2,003)	3,112	136	5,251	(512)	(2,515)	2,736

ANNEX "B"

BIESSE S.P.A.
CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR 2004

(Thousands of euro)

<i>CONSOLIDATED CASH FLOW STATEMENT</i>	12/31/2004	12/31/2003
ORDINARY ACTIVITIES		
+/- Result of the period	4.860	(41.268)
+ Amortisation and depreciation:		
+ of tangible fixed assets	7.492	8.659
+ of intangible assets	3.259	3.817
+ Accruals		
+ employee termination indemnity	3.499	3.665
+ bad and doubtful debts	993	1.316
+ risk and charges	599	283
- Capital gain from own shares received from W.D.P.	0	(2.673)
- Capital gain from sales of assets	(11.389)	(208)
- Extraordinary expense from inventories change of evaluation method	850	0
+ Capital loss from sale of Schelling shares	0	27.003
+ Consolidation difference write-down	0	10
= SUBTOTAL	10.163	605
- Employee termination indemnity paid out	(2.092)	(2.425)
- Use of risk fund	(2.103)	(1.831)
+/- Variation in current assets	17.734	8.498
+/- Variation in securities included in current assets	2.474	(623)
+/- Variation in inventory	6.408	1.282
+/- Variation in prepayments and accrued income	(120)	200
+/- Variation in accruals and deferred income	602	217
+/- Variation in trade payables	8.129	(17.111)
+/- Variation in other non-financial payables	4.733	(10.589)
= CASH FLOW FROM (FOR) ORDINARY ACTIVITIES	45.928	(21.776)
INVESTING ACTIVITIES		
- Purchase of intangible assets	(2.122)	(3.583)
+ Transfer of intangible assets	267	37
- Purchase of tangible fixed assets	(4.351)	(5.733)
+ Transfer of tangible fixed assets	27.350	1.562
Difference from shareholding purchase in affiliated companies intangible assets	(136)	0
+/- Purchase/transfer of other shareholdings and securities	134	(148)
= CASH FLOW FROM (FOR) INVESTING ACTIVITIES	21.142	(7.865)
FINANCING ACTIVITY		
+/- Increase/decrease in financial receivables	2.964	(104)
+/- Opening/repayment of medium/long-term bank loans	5.000	(10.838)
+ Opening/repayment of other loans	0	0
+ Increase/decrease bank borrowings	(66.940)	33.905
+/- Variation in payables to other lenders	(5.148)	(2.252)
- Payments on dividends	(2.273)	(2.385)
+ Capital increase	0	0
+/- Other movements in shareholders'equity	(217)	(1.248)
= CASH FLOW FROM (FOR) FINANCING	(66.615)	17.078
+/- Variation in reserve from conversion of financial statements	(393)	(122)
= CASH FLOW	63	(12.685)
+ Net cash on hand at period start	20.504	33.189
+ Net cash on hand at period end	20.567	20.504

ANNEX "C" - SCHEDULE OF MOVEMENTS IN THE SHAREHOLDERS' EQUITY

	Share Capital	Premium reserve	Legal reserve	Own shares reserve	Extraordinary reserve (*)	Consolidation reserve	Currency conversion reserve	Retained earnings	Result of the period	Group shareholders' equity	Share capital and reserves pertaining to minorities interests	Result of the period pertaining to minority interests	Minority interests	Result of the period before acquisition	Total
- At 12/31/2002	27,393	85,519	3,797	1,743	15,966	65	(1,167)	3,533	(5,761)	131,088	840	(1)	839	0	131,927
Destination of the result of the financial year															
-Dividends															
-Other destinations		(1,889)						(3,872)	5,761		(1)	1			
Other variations															
-Own shares purchase				2,962	(2,962)										
-Anticipated depreciation destination										(2,385)					(2,385)
-Payments on dividends										(122)					(122)
-Translation difference								(649)			(599)		(599)		(1,248)
-Other movements									(41,274)	(41,274)		(8)	(8)	15	(41,267)
Result of the previous period															
- At 12/31/2003	27,393	83,630	3,797	4,705	10,619	65	(1,289)	(988)	(41,274)	86,658	240	(8)	232	15	86,905
Destination of the result of the financial year															
-Dividends															
-Other destinations		(47,428)						6,154	41,274		(8)	8			
Other variations															
-Extraordinary reserve				(2,346)	2,346										
-Anticipated depreciation destination										(2,273)					(2,273)
-Payments on dividends															(393)
-Translation difference								(393)							(78)
-Other movements								(74)		(74)	11		11	(15)	(78)
Result of the current period									4,870	4,870	(10)	(10)	(10)		4,860
- At 12/31/2004	27,393	36,202	3,797	2,359	10,692	65	(1,682)	5,092	4,870	88,788	243	(10)	233	0	89,021

(*) Extraordinary reserve is also composed by the amount of the reserve fund for early depreciation

AUDITOR'S REPORT IN ACCORDANCE WITH ARTICLE 156 OF LEGISLATIVE DECREE OF FEBRUARY 24, 1998, N. 58

To the Shareholders of BIESSE S.p.A.

We have audited the consolidated financial statements of BIESSE S.p.A. as of December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

For the opinion on the consolidated financial statements of the prior year, presented for comparison in accordance with legal requirements, reference should be made to the auditor's report issued by us on April 5, 2004.

In our opinion, the consolidated financial statements of BIESSE S.p.A. as of December 31, 2004 comply with the principles which regulate the preparation of financial statements in Italy; they therefore present fairly the financial position of the BIESSE Group, and the results of its operations for the year then ended.

DELOITTE & TOUCHE S.p.A.

Signed by
Carlo Beciani
Partner

Ancona, April 6, 2005

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