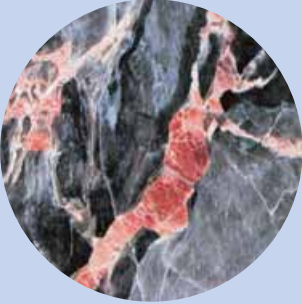


**ANNUAL REPORT  
2003**





**BIESSE Spa**

Headquarter in Pesaro

Via della Meccanica, 16

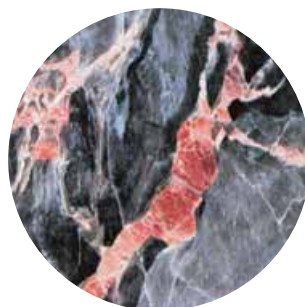
Località Chiusa di Ginestreto

61100 Pesaro - Italy

[www.biesse.it](http://www.biesse.it)

Share Capital Euro 27,393,042

Pesaro Company Register n. 1682



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## COMPANY OFFICERS OF THE PARENT COMPANY

### **Board of Directors**

The Board of Directors currently serving is composed of

<b>Roberto Selci</b>	President and Chief Executive
<b>Giancarlo Selci</b>	Chief Executive Officer*
<b>Innocenzo Cipolletta</b>	Non Executive Director*
<b>Leone Sibani</b>	Non Executive Director*
<b>Giampaolo Garattoni</b>	Non Executive Director*

\* Independent directors as per the self discipline code.

### **Board of Statutory Auditors**

The Board of Statutory Auditors currently serving is composed of

<b>Giovanni Ciurlo</b>	Chairman
<b>Adriano Franzoni</b>	Statutory Auditor
<b>Claudio Sanchioni</b>	Statutory Auditor

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CONSOLIDATED FINANCIAL STATEMENTS**

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**THE CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE YEAR ENDING DECEMBER 31, 2003**

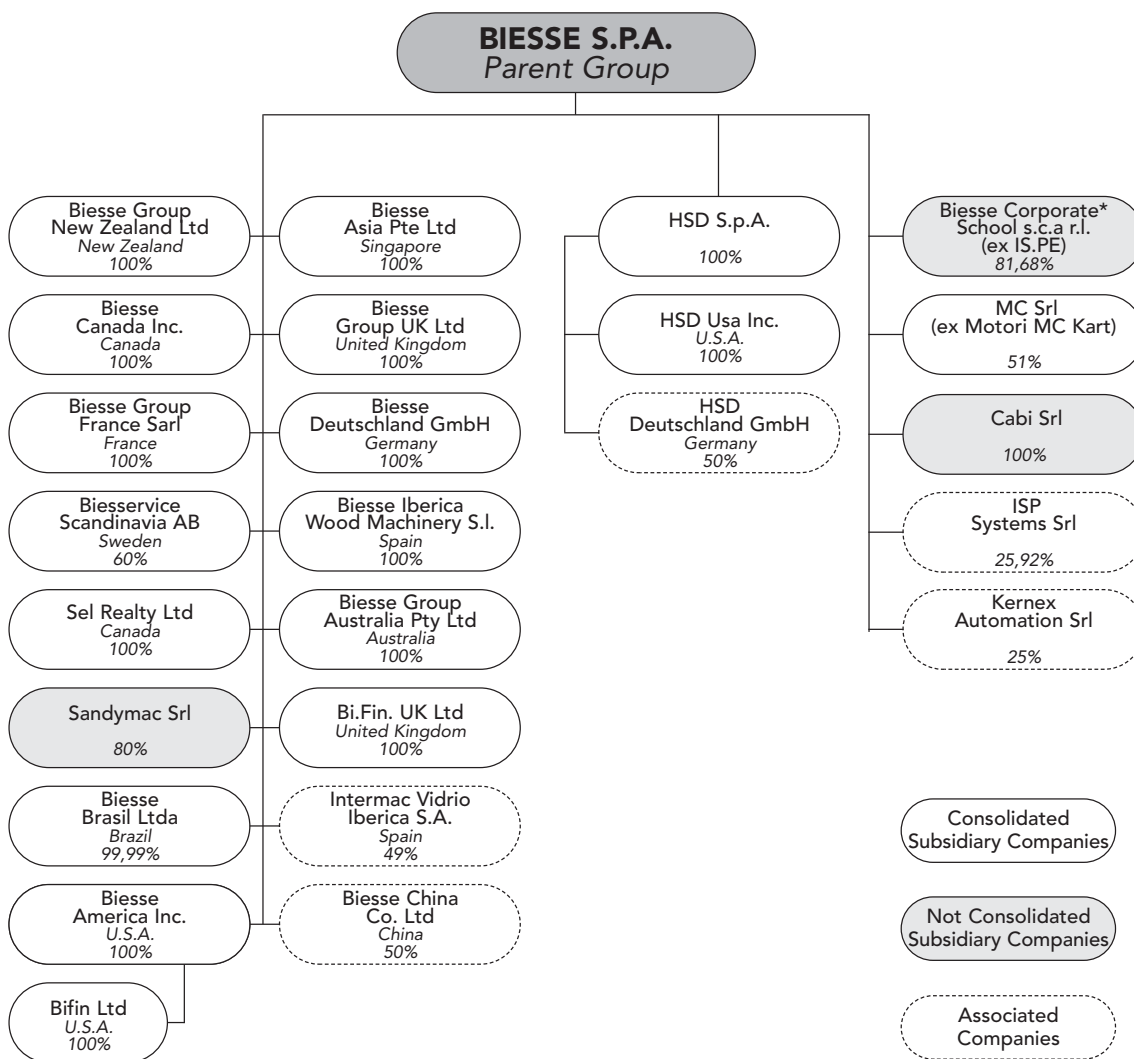
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## GROUP COMPANIES

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



\* The 81,68% stake is directly owned by Biesse S.p.A. for 66,67% and indirectly through HSD S.p.A. for 15,01%



The changes made to the consolidation area since the end of the previous financial year are as follows:

- on December 12, 2003, the remaining 20% of the HSD S.p.A. company was purchased and it is now wholly-controlled by Biesse S.p.A.;
- on December 18 2003 an agreement was reached whereby the Austrian Schelling Anlagenbau GmbH company and its subsidiaries were bought out by the management; the agreement was subsequently approved by the Biesse S.p.A. Board of Directors on December 23, 2003; the Schelling group companies' income statements were fully consolidated for the period ending November 30 2003, therefore for eleven months, and all significant transactions occurring between November 30 and December 18 2003 have been accounted for.

In addition there are variations regarding non-consolidated subsidiary companies and associated companies:

- On January 23 2003, a capital stock increase was underwritten for Kernex Automation Srl, already a supplier for the Biesse Group which produces the software used by window and door frame and casing production machinery; the holding in Kernex Automation Srl is 25%;
- On February 4, 2003, the Group participated in the establishment of the Biesse China Company Ltd., a fifty-fifty joint-venture between Biesse S.p.A. and a leading local company, which markets and provides customer services for Biesse brand products in the Chinese market;
- On July 23 2003, Biesse S.p.A., after making up the previous losses in the proportion it was responsible for, wholly underwrote the reconstitution of Cabi S.r.l.'s capital stock, thereby assuming full control of the company; this subsidiary company designs and produces electronic, pneumatic and hydraulic parts for the wood working machinery industry.

The holdings in the associated companies Intermac Vidrio Iberica S.A., Biesse China Co. Ltd., Isp Systems Srl and HSD Deutschland GmbH were valued using the stockholders' equity method, whereas in the case of Kernex Automation Srl the holding was valued at cost. The holdings in the subsidiaries Sandymac Srl, Biesse Corporate School s.c.a r.l. and Cabi Srl were also valued using the net equity method and were not fully consolidated as they were recently acquired and of insignificant size.

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## GROUP COMPANY OPERATIONS AND BRANDS

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 and electronic components for industrial uses.

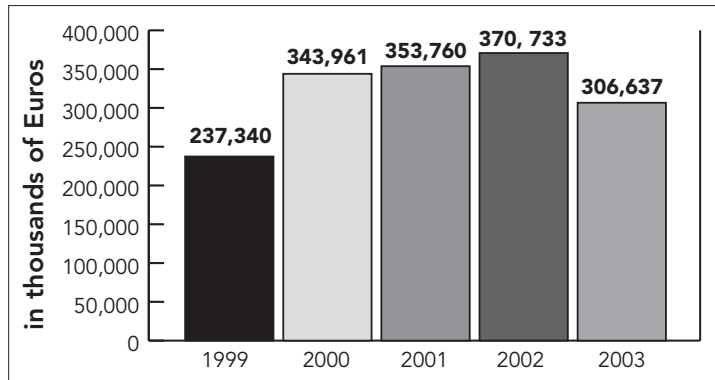
*To be precise, the Biesse Group operates through the following brands:*

<b>Biesse</b>	panel production machinery and systems; production centres for numerical controlled milling, boring and flanging
<b>Selco</b>	Sectioning machinery and systems
<b>Comil</b>	Machinery and systems for furniture assembly and packaging
<b>RBO</b>	Handling systems for automated lines in the furniture industry
<b>Polymac</b>	Flanging machines, reeling apparatus, trimmers, plastic trim collators, and single headed, manual perforating machines; single sided, automated flanging machines
<b>Artech</b>	Flanging machines, reeling apparatus, honing machines, sectioning machines, plastic trim collators and manual perforating machines, automated flanging machines
<b>Biesseedge</b>	Bordering machinery and systems
<b>Cosmec</b>	Precision machining
<b>HSD</b>	Mechanical and electronic components for industrial purposes
<b>Sev</b>	Mechanical and electronic components for industrial purposes
<b>Cni</b>	Electronic components and software for industrial purposes
<b>Intermac</b>	Machinery and systems for glass and marble working
<b>Busetti</b>	Machinery and systems for glass working
<b>Diamut</b>	Tools for glass and marble working
<b>Biesse Engineering</b>	Wood working system design and consulting services

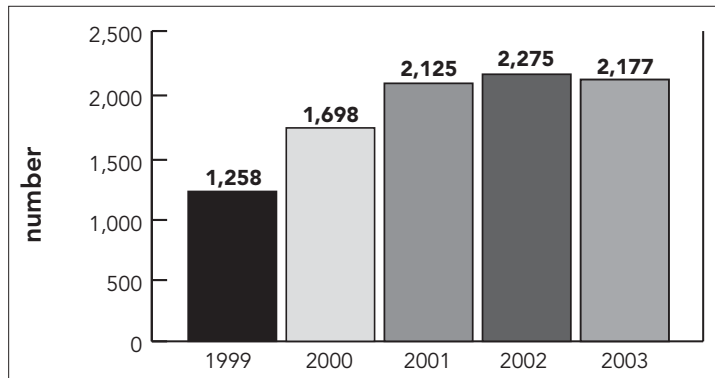
**HIGHLIGHTS**

The following charts summarise certain significant economic, asset-related and managerial data.

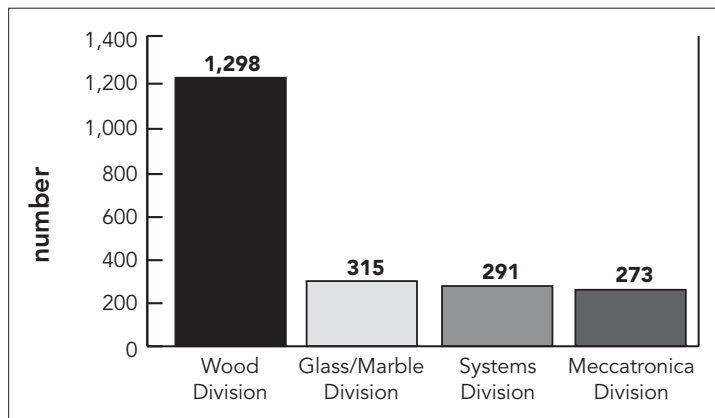
**Income from sales and services**



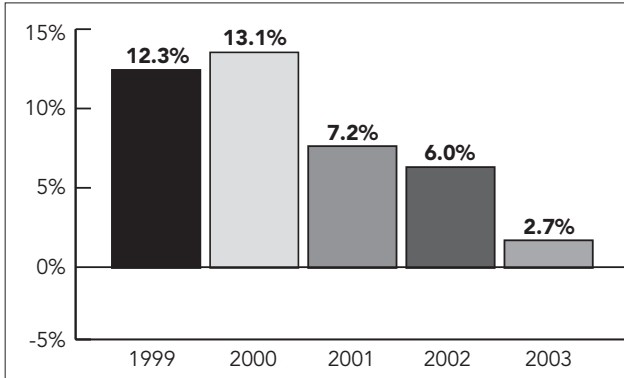
**Average personnel during the period**



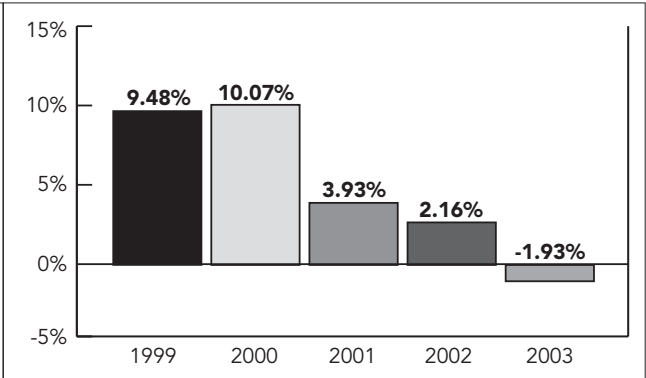
**Average 2003 personnel by division**



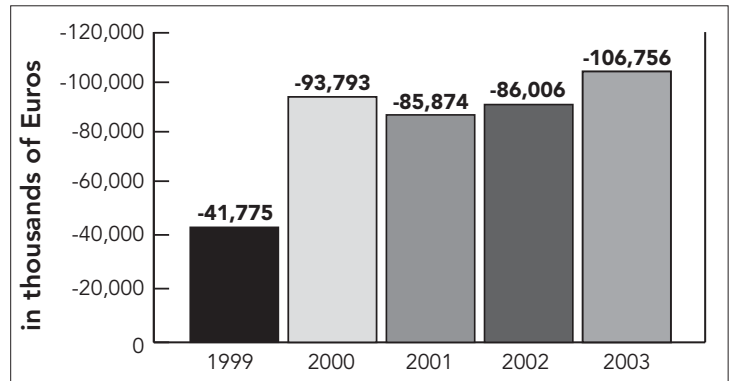
**Ebitda margin**



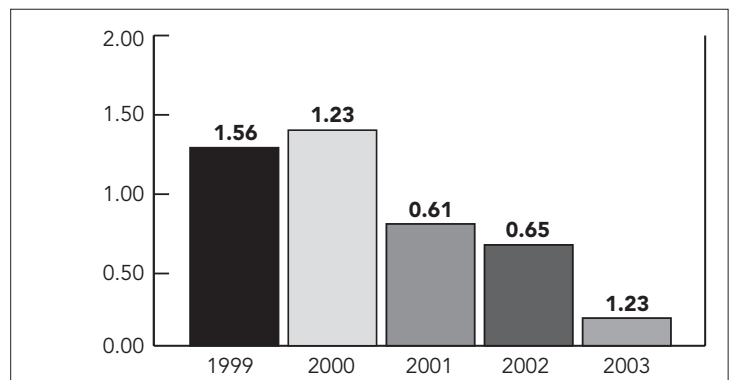
**Ebit margin**



**Net financial position**



**Net bank indebtedness  
out of net worth  
(P.F.N./Net Assets)**



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**DIRECTORS'  
REPORT  
ON OPERATIONS**

*Consolidated  
Financial  
Statements*

## CONSOLIDATED FINANCIAL STATEMENTS

### SUMMARY OF ECONOMIC DATA

(in thousands of Euros)	December 31 2003	%	December 31 2002	%
Income from sales and services	306,637	97.3%	370,773	101.8%
<b>Production value</b>	<b>315,021</b>	<b>100.0%</b>	<b>364,015</b>	<b>100.0%</b>
Expenditures for raw materials, consumables and merchandise	(139,582)	(44.3%)	(159,808)	(43.9%)
Service costs	(61,413)	(19.5%)	(69,235)	(19.0%)
Costs for using third party's assets	(8,354)	(2.7%)	(8,562)	(2.4%)
Other operating expenses	(5,870)	(1.9%)	(6,180)	(1.7%)
<b>Added value</b>	<b>99,802</b>	<b>31.7%</b>	<b>120,229</b>	<b>33.0%</b>
Personnel expenses	(91,628)	(29.1%)	(97,973)	(26.9%)
<b>Gross operating margin</b>	<b>8,174</b>	<b>2.6%</b>	<b>22,256</b>	<b>6.1%</b>
Depreciation	(12,476)	(4.0%)	(12,499)	(3.4%)
Provisions	(1,625)	(0.5%)	(1,744)	(0.5%)
<b>Operating result</b>	<b>(5,927)</b>	<b>(1.9%)</b>	<b>8,013</b>	<b>2.2%</b>
Financial elements	(6,558)	(2.1%)	(3,874)	(1.1%)
Financial asset value adjustments	(1,495)	(0.5%)	(500)	(0.1%)
Extraordinary items<	(29,788)	(9.5%)	(5,068)	(1.4%)
<b>Pre-tax profit</b>	<b>(43,768)</b>	<b>(13.8%)</b>	<b>(1,429)</b>	<b>(0.4%)</b>
Year's tax	2,500	0.8%	(4,334)	(1.2%)
<b>Year's result</b>	<b>(41,268)</b>	<b>(13.1%)</b>	<b>(5,762)</b>	<b>(1.6%)</b>

The consolidated balance sheet for the year ending 31 December, 2003 shows a loss after taxes, and net of the economic results owing to third parties, of €41,268 thousand, after deducting depreciations amounting to €12,476 thousand and provisions for bad debt reserves to €1,625 thousand.

2003 was characterised by a number of important extraordinary transactions.

They include the total transfer of Schelling Anlagenbau GmbH (Austrian group acquired in May 2000) through a management buy out, finalised on December 23, 2003. Due to the very bad patch Schelling was going through, something that became increasingly evident in the second half of 2003, and considering the slim chance of re-establishing an economic-financial equilibrium in an acceptable length of time given the steady fall off in demand for complex systems (Schelling's area of business), the progressive decline in margins, and the uncontrollable cash haemorrhage at the expense of the parent company, it was deemed necessary to proceed with the sale of the Austrian company, even though it meant the Group Biesse balance sheet showing a capital loss resulting from the sale, amounting to €27,003 thousand. The effects from this operation are two fold: on one side, Biesse's debts towards third parties are reduced by €12,700 thousand, as these were debts of the company sold to the purchasing company; Gruppo Biesse therefore will no longer receive earnings of approx. euro 28 million, but will also no longer have structural costs of approx. 14 million euros, as the sale of Schelling involved a reduction in personnel of 288 people. This is all underlined by the results of their 2003 balance sheet, which shows the net loss of the Schelling group close to 12 million euros.

Another important aspect is the agreement reached between the parties that grants Biesse the ten-year use of important industrial patents that will enable the company to play a leading role in producing complete systems and "turn key" factories with their own "Biesse Engineering" team and brand. No non-competition agreements were signed, meaning that Biesse can contin-

ue to serve the pre-existing "large client" market and/or that which was acquired via the Schelling Group, itself.

Another extraordinary event that must be mentioned is the positive item of €2,673 thousand relating to the transaction with the Fondazione Werner Deuring Privatstiftung, whereby Biesse became the holder of 1,188,510 shares of ordinary stock (4.33% of capital stock) - which were entered on the books at the official market price at December 30 2003 of €2.249 per share - a transaction that arose following contractual exceptions in the acquisition of Schelling Anlagenbau GmbH in May 2000. In connection with this stock, a special reserve was set up for the acquisition of the company's own shares for an equivalent amount; the total of own shares on the books is however within the limits set by the authorisation of the shareholders meeting of April 29, 2003. The sale by Werner Deuring Privatstiftung to Biesse S.p.A. cannot be set in the context in the previously-resolved buy back plan.

In conclusion, the company acquired 20% of HSD S.p.A. from Mr. Claudio Granuzzo on 12/12/2003, becoming whole owners of the company. This agreement entailed a total price of €1,303,997.35 of which €51,645.69 was paid immediately, where as the balance equal to €1,252,351.66 must be paid by 30/04/2006 without interest. As a security for this payment, Biesse has issued a bank guaranty for an equal amount in favour of the seller with the express waiving of the benefit of previous discussion. Based upon the sales contract, Mr. Granuzzo keeps a call option on Biesse stock, against which a part of the company-s own stock has been frozen, which falls into the buy back plan.

Moving on to an examination of the year's economic data, the production value amounts to €315,021 thousand, which is 13.5% lower than the previous year.

Consolidated sales, of €306,637 thousand, is 17.3% lower than in 2002. As reported in the information contained in the supplementary note, this difference is more marked in the Systems Division (corresponding to the Schelling Group and equal to -32.4%), where as the Wood and Glass & Marble Divisions are 17.9% and 10.7% lower respectively; the Meccatronica Division situation is substantially stable. From a geographical point of view, the decline in sales is same for the EU and North America (-23.2%), whereas the Rest of the World is in line with the results of the previous financial year.

The added fall from €120,229 thousand in 2002 to €99,802 thousand, and the percentage impact on production value fell from 33.0% to 31.7%.

The cost of labour fell from €97,973 thousand to €91,628 thousand, and the percentage impact on production went from 26.9% to the current 29.1%, due to the effect of shrinking volumes. The reorganisation process and the reduction of structural costs will continue in 2004 as well and, together with the exclusion of the consolidation of the Schelling Group (whose personnel costs amount to approx. €14 million), should bring significant improvements to next year's results.

The gross operating margin dropped from €22,256 thousand to €8,174 thousand, with a decrease of 63.3% and an impact on production value down from 6.1% to 2.6%. This worsened situation was largely caused by the Schelling Group, whose figures, that were already negative in 2002 at €2,333 thousand, dropped still further to a total of €6,119 thousand. A large part of the decrease is also due to the results from the Wood Division (from €18,575 thousand in 2002 to €8,561 thousand in 2003), which can be attributed to the heavy decrease in sales volumes.

## CONSOLIDATED FINANCIAL STATEMENTS

The Glass & Marble and Meccatronica Divisions maintained levels that are comparable with the previous financial year.

The operating results, which were positive for the previous financial year at €8,013 thousand, went into the red in this financial year, with a negative balance of €5,927 thousand. As for the operating result, the portion that can be attributed to the Schelling Group is a deficit of €7,196 thousand, therefore the portion that is attributable to the "new" Biesse Group amounts to €1,269 thousand (after deducting the depreciation of the consolidated difference of €945 thousand that can be referred to the Schelling Group, with a pro-forma operating result of €2,214 thousand).

Financial management, with negative results totalling €6,558 thousand, includes the effect of the net financial costs equal to €5,822 thousand in addition to the negative impact (€736 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 2003, through the use of futures options.

The result before taxes is negative at €43,768 thousand, versus a similarly negative result of €1,429 thousand in 2002; this result includes extraordinary charges related to the sale of Schelling of €30,311 thousand (made up of the capital loss from the sale of €27,003 and other extraordinary charges related to the Schelling Group for €3,308 thousand), net of a capital gain of €2,673 resulting from the acquisition of 1,188,510 shares of its own stock, obtained free of charge, from Werner Deuring Privatstiftung.

The balance of the taxation components is positive at €2,500 thousand, made up by provisions for income taxes amounting to €3,043 thousand, less the total prepaid deferred tax credits, (the reversal effect of the prepaid taxes from the previous financial year's statement was deducted), totalling €5,543 thousand, (of which the amount relative to deferred tax credits calculated on recoverable fiscal losses by Biesse S.p.A. is equal to €7,631 thousand). The deferred tax credits have been included in the balance sheet, remembering the positive revenue prospects for the Biesse Group over the upcoming years.

### *Sintesi dati patrimoniali*

(in thousands of Euros)	2003	2002		2003	2002
Fixed assets	94,556	126,464	Net Worth	86,905	131,927
Operating assets	234,252	271,560	Provisions for risks and charges	8,179	10,123
Accrued income and prepaid expenses	1,231	1,608	Severance pay	13,609	12,931
			Debts	220,004	242,009
			Accrued liabilities and deferred income	1,343	2,642
<b>Total assets</b>	<b>330,039</b>	<b>399,632</b>	<b>Total and net liabilities</b>	<b>330,039</b>	<b>399,632</b>



## DIRECTORS' REPORT ON OPERATIONS

The data in the table is not directly comparable, as the amounts in the 2003 balance sheet are influenced by the exclusion of asset entries related to the Schelling Group. In order to facilitate the comparison, the same summary is shown, removing the data related to the Schelling Group from the 2002 data.

(in thousands of Euros)	2003	2002		2003	2002
	(without Schelling)			(without Schelling)	
Fixed assets	94,556	115,235	Shareholder's equity	86,905	128,189
Operating assets	234,252	237,471	Provisions for risks and charges	8,179	9,675
Accrued income and prepaid expenses	1,231	1,391	Severance pay	13,609	12,405
			Payables	220,004	202,615
			Accrued liabilities and deferred income	1,342	1,213
<b>Total assets</b>	<b>330,039</b>	<b>354,097</b>	<b>Total net liabilities</b>	<b>330,039</b>	<b>354,097</b>

### **Net financial position**

(in thousands of Euros)	December 31 2003	September 30 2003	June 30 2003	December 31 2002
Investments:	26,870	29,514	19,510	36,218
- Current assets	20,504	25,883	15,880	33,189
- Receivables from others under 12 months (immediately payable)	2,530	2,530	2,488	2,489
- Non-current investments (Own shares)	3,836	1,101	1,142	540
Short term financial payables	(2,421)	(2,474)	(2,470)	(2,378)
Short term payables to banks	(102,925)	(104,782)	(86,428)	(67,263)
<b>Short term net financial position</b>	<b>(78,476)</b>	<b>(77,742)</b>	<b>(69,389)</b>	<b>(33,423)</b>
Medium/long term financial payables	(19,865)	(29,219)	(29,490)	(30,716)
Medium-long term payables to banks	(8,415)	(13,780)	(14,870)	(21,867)
<b>Medium/Long term net financial position</b>	<b>(28,280)</b>	<b>(42,999)</b>	<b>(44,360)</b>	<b>(52,583)</b>
<b>Total financial position</b>	<b>(106,756)</b>	<b>(120,741)</b>	<b>(113,748)</b>	<b>(86,006)</b>

The net financial position has improved by €14 million since September 30 2003, whereas a comparison with 31 December 2002 shows a negative difference of 20.7 million euros. The reasons for this trend over the year can be ascribed in part to the extraordinary events such as the completion of the expenditures for previous acquisitions, investments in assets and intangibles for a total of 12.2 million euros, whereas the normal business absorbed short term assets, leading directly to a loss. The net total indebtedness benefited from the sale of the Schelling Group, which meant a reduction in bank payables totalling €12.7 million.

## CONSOLIDATED FINANCIAL STATEMENTS

	<b>Ebitda</b>	<b>% of</b>	<b>Ebitda</b>	<b>Ebitda</b>	<b>% of</b>	<b>Ebitda</b>
	<b>2003</b>	<b>total</b>	<b>margin</b>	<b>2002</b>	<b>total</b>	<b>margin</b>
			<b>(on sales)</b>			<b>(on sales)</b>
Wood Division	8,561	104.7%	4.2%	18,575	83%	7.1%
Glass/Marble Division	3,847	47.1%	6.5%	3,848	17%	5.9%
Systems Division (Schelling)	(6,119)	(74.9%)	(21.6%)	(2,333)	(10%)	(5.6%)
Meccatronica Division	1,886	23.1%	7.9%	2,166	10%	9.3%
Consolidated Biesse Group	8,174	100%	2.7%	22,256	100%	6.0%

By analysing the results obtained by the four divisions, we can see a decline of the Wood and Meccatronica Divisions, stability of the Glass & Marble Division and a collapse of the Systems Division. The first maintains its role as the main division in the Group, but did suffer from a decline in volumes. Similarly, the Meccatronica Division is maintaining levels that are similar to the previous financial year's results. The Glass & Marble Division improved its percentage margins, as it benefited from a slight drop in sales and therefore a better absorption of structural costs. The results from the Systems Division (Schelling) were worsened further by the strong drop in sales (-31.7% compared to the previous financial year).

### THE GENERAL ECONOMIC CONTEXT

After the first half of the year that was characterised by uncertainty, following in the path of two of the most difficult years for the world-wide economy, starting with the third quarter 2003 we observed a slight recovery that effected the major part of our productive sectors.

The main drivers of the economy are and remain the United States and, in part, Japan and other Asian countries. The US Gross National Product for the fourth quarter 2003 grew by 4%, according to recently released estimates, after the previous quarter in which the same indicators indicated very a strong growth rate equal to 8.2% The same situation is also confirmed in terms of consumer confidence, whose December 2003 level was confirmed at 92.6 points, and then in January 2004 it exceeded the base level reaching a maximum of 103.8 points, a result that is same as levels at the end of 2000, the proclaimed boom period.

In the Euro zone, according to the monthly reports from the BCE, the most recent data for production and confidence levels are in line with the current upturn in business activities. The GDP in real terms shows signs of recovery from the third quarter 2003, thanks especially to a large increase in exports due to growing world-wide demand. The data shows that recovery continued in the fourth quarter, even if December survey results showed a greater amount of uncertainty about the ability to maintain positive growth in Europe; the conditions for recovery in domestic demand remain moderately favourable because it is safe to believe that there will be a domino effect from the USA and Asia in the second half of 2004.

It must however be noted that the recent changes to the exchange rate, and especially the quick and substantial appreciation of the Euro in respect to the Dollar, mainly due to the intrinsic and piloted weakness of the US currency, are still causing a slowdown effect as well as a negative impact on the price competitiveness of European companies.

The consequences of a strong Euro could also have effects on future growth, by slowing down a recovery that - even being supported by encouraging signs such as growth in confidence levels - is still fundamentally weak, which is typical for a period which is reversing negative economic trends.

On the other hand, the appreciation of the Euro could also help in stabilising inflation below 2% in the medium term, causing a slight impact on the cost of raw materials and allowing for a consequent reduction in money rates and in the monetary lever to give a boost in consumption, especially for durable goods.

The Italian economy, faced with a downward trend in the first half of the year, due to the effect of the negative contribution from foreign sectors and the drop in investments, registered a reversal in trends starting from the third quarter, with GDP growth of 0.5%.

Business and consumer confidence levels increased slightly; the new growth cycle should be fuelled by the upswing in consumer consumption, stabilising recovery trends over the next few months.

## BUSINESS AREA

The situation still appears gloomy for Biesse S.p.A.'s main business area, which consists of the woodworking machinery area, some market indicators for which are listed below

	2003	2002	Change%
Production	1,453	1,670	(13%)
Export	1,141	1,290	(12%)
Import	147	201	(27%)
Domestic market	312	380	(18%)

*Amounts are expressed in millions of Euros.<*

*Source: Acimall*

Throughout 2003, the number of orders in the area remained below the previous year's levels, even though this downward trend showed slight signs of recovery in the third quarter and then repeated in the last three months, where the decline in comparison to the same period of the previous year was set at - 11.6% (compared to -14.7% for the third quarter, -15.5% for the second quarter and -11.1% for the first quarter in 2003).

There was a very strong decline in domestic market sales, which felt the decline in the effect of the Tremoni tax law.

At the end of the year, the decrease in foreign orders was 6.3%, whereas the fall in domestic orders was 26.5%.

### RESEARCH AND DEVELOPMENT ACTIVITIES

Below there is a list of the research and development activities for 2003:

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

#### **THE BIESSE BRAND**

- BIESSEWORKS, powerful CAD/CAM software that allows for the simplified programming of manufacturing tools for machining.
- The special aggregate "deflector" was designed for collecting large amounts of the shavings produced when machining heartwood frames. The almost total elimination of shavings that deposit on and around the machine parts, unlike with procedures currently used, results in higher reliability, longer life for the machine parts, reduced maintenance costs and a healthier work environment.
- The Rover Top machine is a feedthrough work centre for the removal of shavings from:  
Kitchen counters  
Shelves  
Wall units/tables
- The UniWin machinery is a mobile production centre for:  
The serial production of pre-finished components for wooden frames;  
The serial production of parts to be assembled and squared;  
The squaring of assembled doors.  
Innovative results from the simultaneous presence of the following machinery:  
tenoning/profiling assemblies for linear heartwood machining;  
The copying assemblies for normal machining of shapes;  
this guarantees high levels of productivity as well as high quality because the piece of heartwood is finished by various production assemblies in a single location.

#### **SELCO BRAND**

- New software interface module project for guiding the operator during the unloading of materials cut by sectioning machinery.
- New easier-to-use operator interface project that enhances performance and better interaction with web: implementation with machine diagnostics.
- Project and research for new sliding systems for the sectioning machinery, improving performance in terms of speed and precision.

#### **BIESSEEDGE BRAND**

- The "AR50 ATC 8+8 " project; this refers to milling machines for plastic borders furnished with an automated tool change gear. This project has the goal of reducing set up times to meet the market need for machining small batches.

- The "Revo" project; this refers to numerical control milling machines with motorised axes for plastic borders, furnished with multi profile tools. This project has the goal of reducing both production and set-up times, to meet the needs of high productivity and flexibility.
- The "SP10" project; this refers to bonding machines for plastic, wood and aluminium borders. This project has the goal of creating a simple and flexible product.
- The "Automation for B1" project; project for automatic panel board in-feed and extracting machines for flanging machines. This project has the goal of creating automatic production cells.
- The "Operator Interface" project; PC operator interface with a graphical and intuitive approach, realised in a single, synoptic environment. This project will allow for the simple programming of all products using user-friendly software.

### **POLYMAC/ARTECH BRAND**

- "VIVA" (hereafter renamed "AKRON 800") is a new model of single sided Polymac flanging machinery for the medium-high segment.
- "AKRON 400" is a new model of single sided Polymac flanging machinery for the entry-level segment.

### **COMIL/RBO BRAND**

- **INTEGRATION OF VIEWING SYSTEMS WITH ROBOTISED HANDLING SYSTEMS FOR FURNITURE ACCESSORY ASSEMBLY.**  
The management of flexible drawer guide supply, such as accessories that must be mounted on the furniture on the flexible boring and insertion lines, has found a complete and effective solution with the addition of visual devices, which allow for the handling of the components independently of where they are in the robot's operating range. This solution also optimises the cost of moving components as they can be managed and handled directly in the same supply state with which the manufacturer packs them for storage.
- **BORING AND INSERTION CENTRE FOR THE FLEXIBLE PRODUCTION OF WARDROBE AND INTERWALL COMPONENTS** The development for the boring and insertion machinery and systems has created integrated solutions for production groups (boring groups and insertion groups), oriented towards the production of wardrobe and interwall doors: in order to optimise the space occupied by the system and the significant dimensions of the material, a "mixed" boring and insertion solution was adapted on the same moving wagons, thereby achieving considerable compactness in the assemblies and minimising the floor space occupied.
- **FLEXIBLE PACKING SYSTEM WITH A SHRINK-WRAP FILM** A modular and easily configurable solution for packing management with shrink-wrapping: the management of three or four different film sizes has been made possible with the development of compact and integrating solutions. Its flexibility is due both to the mechanical design of the modules as well as the particularly innovative use of the cell PLC.

## **RESEARCH, DEVELOPMENT AND INNOVATION MECCATRONICA DIVISION**

### **INTERMAC BRAND**

- Development of a range of production centres for the working of flat glass, targeted at the artisan market.
- Development of a range of production centres for the working of synthetic stone.
- Design and prototyping of aggregate functions for working flat glass and stone. These aggregates are suitable for the entire range of new production centres.
- Development of the tools necessary for positioning and blocking the items being worked in the production centre. These include the modular components used for removal operations.
- Development of an automatic loading and unloading system with independent, motorised belts, for use in a production centre.
- Development of a two-dimensional CAM system for working glass (grinding, milling, chamfering, boring, etc.) as well as a three-dimensional CAM software for working marble (3d milling, working of the heartwood).
- Completion of the range of cutting benches and the development of service benches and automatic loaders for creating integrated production islands or lines with integrated cutting machinery.
- Development of a software application for cutting benches (IEDIT) for the automatic programming of linear and shaped cutting operations and a software for the automatic measurement of shapes by using a model that is located on the working surface and generates a cutting program.

### **BUSETTI BRAND**

- Development of automatic processes for moving glass plates: transfer on tapered rollers for a 90° rotation of a flat glass plates, transfer for moving of flat glass plates for the construction sector, loading machine with a load capacity of max. 30 kg.
- Positioning, centring and blocking equipment for flat glass plates on duplex mode boring machines with multiple heads for the working of one or two plates at the same time (pendular).

### **DIAMUT BRAND**

- Automated development process and production with robotised islands for a more efficient and controlled production. (This improves the productive process, I do not know if this belongs to the research section.
- New LS26 binders for cutters and diamond-coated wheels for the glass division, for improving performance and duration.
- New binder for diamond-coated wheels, for high speed in the auto division.
- New binder for diamond-coated wheels for manual and semiautomatic machinery for working stone.

## **RESEARCH, DEVELOPMENT AND INNOVATION MECCATRONICA DIVISION**

### **HSD BRAND**

- Front-end line enlargement from two axes aluminium working machines to 5 axes machines HS652 and HS653.
- ES350 8 Kw 4-pole 30000 rpm electrospindle with liquid cooling systems with the necessary electrical parts.
- ES795 10 KW 4-poles 15000 rpm electrospindle with liquid cooling systems.
- New Brushless motor with encoder operating and SM 140 integrated reduction unit.
- NC321 numerical control for the lower segment of the flanging machines.
- Completion of the IP67 fieldbus family of modules (CE40 and CE41) with modules for front-end 32 pitch boring groups.
- UL-CSA approval of the electrical wiring of the ES988 electrospindles.

The various project were carried out in the following sequence: analysis, research, design, development and testing of the main components for the new products, building of prototypes, fine tuning and final test.

### **CNI BRAND**

- New XNC1000 numerical control
- New WRT software for XP606 numerical control

### **SEV BRAND**

- Analysis and realisation of a rotostator family with new Double Power technology.

## **PERSONNEL RELATIONS**

During 2003, faced with the start of a considerable restructuring plan that involved all main productive units in Pesaro, training schemes began for developing and extending personnel skills as well as making the workforce more versatile and able to do several jobs. With this purpose, we concluded the projects that had been started in 2002 and initiated and completed new important training programs.

In addition, the goal of improving quality awareness for personnel relations, in the last quarter, began with a company climate analysis that will finish during 2004.

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 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 share holder's meetings.

### **Board of Directors**

#### ***The Role of the Board***

Il The Biesse S.p.A. Board of Directors has ordinary and extraordinary management powers, with the exception of those granted by law to the shareholders meeting.

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

Unless otherwise provided for by current regulations, meetings are normally called by the President on his own initiative or, if the President is absent or indisposed, 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. In the case of a tie, the President will cast the deciding vote.

The board normally meets six times a year for to approve the economic and asset situation of the relative period based upon the requirements for remaining in the Star segment of the Italian stock exchange's telematic market. During 2003, nine meetings were held. For the board meetings, the members are provided in advance with the documents and information needed by the Board in order to discuss the issues examined.

In particular, the Board of Directors:

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



- appoints and defines the salary of one or more company General Managers, who must execute the resolutions taken by the Board of Directors and under its delegation, manages day-to-day business, making suggestions and using the permanent or temporary powers granted by the Board;
- examines and approves operations with significant economic, asset and financial impact;
- verifies the suitability of the organisational and general managerial organisation of the company and the Group;
- reports to the shareholders meeting;
- determines, by proxy granted to the independent board member, which proposals to submit to the shareholder's meeting and the Board itself for the individual Board Member salaries.

As for this last point, a significant part of the Board Member's and Management salary includes bonuses for hitting set targets or based upon the financial results of the company. In addition, the shareholders meeting dated October 9 2000 resolved and signed a stock option plan for the top management of the company, more information about this is presented in the management section of this report.

**Appointment, composition and length of appointment**

As per Art. 16 of the company statutes, the Biesse S.p.A. Board of Directors can consist 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 appointment of the Board of Directors is the responsibility of the Ordinary shareholders meeting, which must indicate in advance the number of members said Board is to have. Proposals for candidates to be nominated to the position of Director, accompanied by full information on the personal and professional characteristics of candidates, must be filed at the company head office at least ten days prior to the date foreseen for the Meeting.

The current Board of Directors, consisting of five members, was appointed by the Ordinary shareholders meeting on April 29 2003 and will remain in office until the approval of the balance sheet for the year ending December 31 2005.

The members of the Board of Directors in office on the date of the closing of the financial year are as follows:

Roberto Selci	President and Chief Executive** Officer
Giancarlo Selci	Chief Executive Officer*
Innocenzo Cipolletta	Non executive Director *
Leone Sibani	Non executive Director *
Giampaolo Garattoni	Non executive Director *

\* Independent directors as per the self discipline code.

\*\* Giancarlo Selci, Chief Executive Officer, was made solely responsible for the strategic definition of Group policies as well as the general co-ordination of the Group itself.

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

The Board of Directors conferred the following power on May 5 2003:

- the President and Chief Executive Officer Roberto Selci was 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 Chief Executive Officer 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.

### **Internal Audit System**

During the 2002 financial year, as a part of the evaluation tasks of the internal audit system, the Board of Directors of the parent company started a large project for analysing and evaluating risk management methods.

The aim of this project is to outline an up to date reference framework on which to base the formulation of a risk management policy.

The work carried out was based on a "process" approach and followed the following "sequential" pattern of "Identification - Evaluation - Management - Supervision", in reference to operations that could involve possible risk.

After a preliminary review, from which no significant management deficiencies were noted in respect to potentially high impact risk, it was decided to focus the analysis on the accounting management of the most important processes.

In other words, the defined job does not currently include the so called "operating risk" area. The correct methodology of this approach can be seen in the way in which the tasks were defined, which should lead to the creation of guidelines for specific operative and managerial responsibilities of the management itself.

To be more specific, the adapted methodology aims to identify the most significant type of risk for each selected process, and for each of them:

- pinpoint the auditing objectives;
- define the correct range of responsibility;
- suggest specific guidelines for audit policies.

This task has considered the managerial and financial risk profile in the following processes:

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**Liability cycle:**

Ordinary management >> Invoice receipt/checking >> Invoice payment

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**Asset cycle:**

Ordinary management >> Shipment and invoicing >> Collection

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**Financial cycle:**

Exchange risk coverage >> Treasury Management

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**Fixed asset cycle:**

Increases >> Depreciations >> Sales Management

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**Remuneration cycle:**

Employment and resignations >> Pay slip processing >> Wage payments

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**IT system management:**

Continuity >> reliability >> environmental safety and logic

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The survey did not reveal any real critical importance. The results have been completely illustrated and were presented to the Board of Directors on December 12 2002 for approval during the following session, together with the resulting methodology and policies.

During 2003, the internal audit committee has evaluated 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 actors 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.

On May 15 2003 the Board of Directors appointed the internal audit committee, consisting of three independent and non-executive Directors - Innocenzo Cipolletta, Leone Sibani and Giampaolo Garattoni - in compliance to art. 10 of the self disciplinary code for listed companies, which requires the aforesaid committee to consist of non-executive members most of whom are 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 the same meeting, the Board proceeded with the nomination of the person responsible for the internal audit system, Fabrizio Imperatori, as he possesses the requirements for the position.

### **Partner relationships**

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 company website ([www.biesse.it](http://www.biesse.it)).

In addition, on March 21 2001, the shareholders meeting for the head company approved an assembly regulation for disciplining the correct, ordinary and functional proceedings of the ordinary and extraordinary shareholders meetings.

### **Conduct code for internal dealing**

On December 24 2002, the Biesse S.p.A. Board of Directors approved the adoption of the code of conduct for internal dealing, in order to ensure maximum transparency and uniformity of information to the market relative to the personal conduct of "important individuals" within the company who are in possession of Biesse shares, based upon their potential access to reserved information about the company and those controlled by it. This code came into effect on January 1, 2003. Based upon this Code, the company will arrange for the timely disclosure to the market of all information regarding transactions that reach the €250,000 threshold. In addition, the company will, within 10 stock exchange trading days of the end of each quarter, inform the market about all transactions carried out by each of the important individuals, in the case that these reach the €50,000 threshold.

### **BOARD OF AUDITORS**

The Board of Auditors comprises three Statutory Auditors and two substitute auditors elected by the Shareholders' Meeting, which also establishes the remuneration to be paid to said auditors. The minority is entitled to elect one statutory 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 are 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 vitae of each candidate must be filed together with each list along with the declarations with which each candidate accepts candidacy and certifies, under his own responsibility, that there is no cause of ineligibility or incompatibility, and that the legal and statutory requirements for the respective positions are met.

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

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

**RELATIONSHIPS WITH SUBSIDIARY, ASSOCIATED AND PARENT COMPANIES AND THE COMPANIES SUBJECT TO CONTROLS BY PARENT COMPANIES**

The subsidiary, non-consolidated companies are as follows:

- Biesse Corporate School co-operative company with limited liability, which organises and manages the training activities of the Biesse Group,
- Sandymac Srl, which designs, produces and distributes wood working machinery,
- Cabi Srl, established in October 2001, which designs and produces electronic, pneumatic and hydraulic parts for the wood working machinery industry.

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

	Costs	Revenue	Liabilities	Credits
Biesse Corporate School s.c.a r.l.	231,252	3,888	4,000	268
Sandymac Srl	911,987	83,794	1,992	199,231
Cabi Srl	4,081,708	623,680	685	271,959

The associated companies are as follows:

- lsp Systems Srl, 25.92% owned, was created at the end of 2000 to design innovative solutions for the wood working machinery industry: currently it is in a start-up phase,
- Intermac Vidrio Iberica S.A., a 49% owned Spanish company, offers customer services to Spanish companies;
- HSD Deutschland GmbH, a German trading company, 50% owned by HSD S.p.A., which distributes products from the Meccatronica division and provides customer assistance to the German market;
- Kernex Automation Srl, 25% owned, which produces software used by machinery for the production of doors and windows and frames;
- Biesse China Co. Ltd. is a fifty-fifty joint-venture company between Biesse S.p.A. and a leading local company and is a holding company;

## CONSOLIDATED FINANCIAL STATEMENTS

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- Dongguang Biesse Machinery Co. Ltd., wholly owned by Biesse China Co. Ltd., which assembles, markets and provides customer services for some Biesse brand products on the Chinese market.

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

	<b>Costs</b>	<b>Revenues</b>	<b>Payables</b>	<b>Receivables</b>
Isp Systems Srl	904,964	736,831	15,888	610,371
Intermac Vidrio Iberica S.A.	245,038	417,360	89,094	364,655
HSD Deutschland GmbH	76,699	792,470	6,393	407,389
Kernex Automation Srl	57,330	3,967	98,592	80,834
Biesse China Co. Ltd.	0	358,622	0	1,907

There were no relationships during 2003 with the holding companies Bifin Srl, Biesse Finance BV and Biesse Holding S.p.A. (there is a still credit equal to €892.44 and a liability of €516,455.91 with regard to Biesse Holding S.p.A., due to the transfer of the Irpeg tax credit related to 2002 taxes.).

### **RELATIONS WITH ASSOCIATED PARTIES**

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

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

	<b>Costs</b>	<b>Revenues</b>	<b>Payables</b>	<b>Receivables</b>
Rettifica Modenese Sas	488,704	1,948	89,236	8,370

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.

### **STOCK HELD BY BIESSE AND/OR BY ITS SUBSIDIARIES, HELD DIRECTLY OR INDIRECTLY BY MEMBERS OF THE BOARD OF DIRECTORS, THE AUDIT BOARD AND THE GENERAL MANAGER, AS WELL AS THEIR RESPECTIVE SPOUSES THAT ARE NOT LEGALLY SEPARATED AND 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.

## DIRECTORS' REPORT ON OPERATIONS

<b>First name and surname position</b>	<b>No. of shares held directly or indirectly at year end at 31/12/2002</b>	<b>No. shares sold during the current financial year</b>	<b>No. shares acquired during the current financial year</b>	<b>No. of shares held directly or indirectly at year end at 31/12/2003</b>
Roberto Selci President	0	0	5,380	5,380
Giancarlo Selci Chief Executive Officer	16,500,000	0	0	16,500,000
Innocenzo Cipolletta (*) Board Member	0	0	0	0
Leone Sibani (*) Board Member	0	0	0	0
Giampaolo Garattoni (*) Board Member	0	0	76,000	76,000
Sanchioni Claudio (*) Statutory auditor	0	0	200	200
Franzoni Adriano (*) Statutory auditor	0	0	800	800

(\*) Including shares held by respective spouses.

### DIRECTORS' INTERESTS IN THE BIESSE GROUP

#### **Information relative to the stock option plan resolutions:**

On September 25 2000 the Biesse S.p.A. Board of Directors adopted a stock option plan. During 2003, no option rights were distributed as company targets were not reached. The option rights can be exercised starting from July 1st 2004 at a price of Euro 10.81 per share for a total of 25% of the rights respectively acquired within one, four, eight and twelve months of the initial date. The stock option plan is managed by a committee appointed by the Board of Directors and its regulations can be modified upon approval by the Board of Directors and as many beneficiaries as represent 51% of the assigned option rights.

### IMPORTANT EVENTS THAT OCCURRED AFTER THE CLOSING OF THE BALANCE SHEET

#### **Important events that occurred after the closing of the 2003 balance sheet:**

- on March 22 2004 Biesse S.p.A. concluded the sale of land that could be built on to Bifin Srl the parent company, (some of the land was included in the 2003 balance sheet and other enshrined in notarial deeds at the beginning of the 2004 financial year, relative to old purchase agreements) that exceeded the potential requirements of Biesse. This operation, for a total amount of €20,000 thousand + VAT, was the result of an independent appraisal that estimated the value of the total asset in question at €17,000 thousand (with a fluctuation of +/- 10%). This operation entails a capital gain of €11 million for Biesse S.p.A. This solution allows for a cash injection of €20,000 thousand in order to reduce bank debt.

**FORESEEABLE BUSINESS DEVELOPMENT**

A projection of the results on to the upcoming years must begin with deconsolidating the Schelling figures from the Group's 2003 operating results.

<b>FINANCIAL RESULTS</b> (in thousands of Euros)	<b>December 31, '03</b>	<b>December 31, '03 Schelling</b>	<b>December 31, '03 without Schelling</b>
<b>Production value</b>	<b>315,021</b>	<b>31,362</b>	<b>283,659</b>
<b>Gross operating margin</b>	<b>8,174</b>	<b>(5,860)</b>	<b>14,034</b>
% of production value	2.59%	(18.69%)	4.95%
<b>Net operating margin</b>	<b>(5,927)</b>	<b>(7,196)</b>	<b>1,269</b>
% of production value	(1.88%)	(22.94%)	0.45%

Even though unsatisfactory, the Group's 2003 results, that we will project onto the upcoming years remains positive in terms of EBIT albeit to a partial extent, because they follow a 17% drop in revenues that is unprecedented in the 30 year history of the Group and is, in our view, unlikely to be repeated.

This massive reduction in volumes then caused Biesse to reduce general and personnel costs in 2003, the effects of which were only partially seen in the year in question, and will actually have full effect in 2004.

In reference to ext year's figures for Biesse, we are conservatively expecting a moderate increase in revenues over 2003 that should bring the Group back to a net positive result when combined with the general reduction in costs as cuts made in 2003 begin to take effect and the further economies to be made in 2004, together with the capital gain of €11 million from the sale of land to Bifin, concluded March 22, 2004 (which will also have a positive effect on total debt, and therefore on financial charges).

**ADDITIONAL INFORMATION**

In compliance with what was resolved at the Biesse S.p.A. shareholders meeting on December 17 2001 and again on 29/04/2003, the company started a stock buyback program, which at December 31 2003 amounts to €4,704,835,85, equal to 2,102,445 shares at an average purchase price of €2.24.

It is also declared that the parent company Biesse S.p.A. does not posses stock/shares of controlling companies, nor did they possess or trade any during the course of 2003. There is not anything to disclose in relation to Art. 2428 paragraph 2 section 3 and 4 of the civil code.

*Pesaro, 25 March 2003*

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



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# **THE CONSOLIDATED FINANCIAL STATEMENTS**

*For the year ending  
December 31, 2003*

## FINANCIAL STATEMENTS

### CONSOLIDATED BALANCE SHEET (Thousands of Euros)

	31/12/2003	31/12/2002	Delta
<b>ASSETS</b>	<b>330,039</b>	<b>399,632</b>	<b>(69,593)</b>
<b>A. CREDITS TOWARDS PARTNERS FOR PAYMENTS DUE</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>B. NON-CURRENT ASSETS</b>	<b>97,086</b>	<b>128,971</b>	<b>(31,885)</b>
<b>I Intangible assets</b>	<b>14,858</b>	<b>32,355</b>	<b>(17,497)</b>
1 Machinery and expansion costs	153	172	(19)
2 Research, development and advertising costs	401	772	(370)
3 Industrial patents and intellectual property rights	181	219	(39)
4 Concessions, licenses and brands	2,203	1,397	805
5 Goodwill	7,895	8,708	(812)
6 Assets under construction and advances	136	167	(31)
7 Other intangible assets	775	803	(28)
8 Consolidation difference	3,113	20,117	(17,004)
<b>II Tangible assets</b>	<b>77,141</b>	<b>91,657</b>	<b>(14,516)</b>
1 Land and buildings	48,987	59,413	(10,427)
2 Plant and equipment	13,642	14,462	(820)
3 Industrial and commercial equipment	2,831	3,819	(988)
4 Other tangible goods	7,189	8,441	(1,252)
5 Assets under construction and advances	4,491	5,521	(1,030)
<b>III Long term loans and investments</b>	<b>5,087</b>	<b>4,959</b>	<b>128</b>
1 Shares in:	800	351	449
a Shares in controlled, non-consolidated companies:	112	141	(28)
b Shares in associated companies:	605	126	479
c Shares in other companies:	83	84	(1)
2 CREDITS	3,419	3,315	104
a Credits toward controlled companies	268	0	268
a1 Towards controlled companies payable within 12 months	268	0	268
b Credits toward associated companies	197	120	77
b1 Towards associated companies payable within 12 months	120	120	0
b2 Towards associated companies payable beyond 12 months	77	0	77
d Credits toward others	2,953	3,195	(242)
d1 Credit toward others within 12 months	2,530	2,489	41
d2 Credit toward others beyond 12 months	423	706	(283)
3 Other shares	0	90	(90)
4 Own shares (total face value Euro 380,654)	869	1,204	(335)
<b>C. OPERATING ASSETS</b>	<b>231,722</b>	<b>269,053</b>	<b>(37,331)</b>
<b>I Inventory</b>	<b>80,833</b>	<b>90,608</b>	<b>(9,774)</b>
1 Raw materials	50,189	56,861	(6,672)
2 Products under construction and semi-manufactured goods	8,197	10,536	(2,339)
4 Net finished products and resale goods	21,811	22,620	(809)
5 Advances	637	591	46
<b>II CREDITS</b>	<b>126,548</b>	<b>144,716</b>	<b>(18,168)</b>
1 Net credits towards clients	97,599	123,336	(25,737)
2 Credits towards controlled	203	34	169
3 Credits towards associated	1,267	1,276	(9)
4 Credit towards contolling co.	1	1	(0)
5 Credits toward others	27,478	20,069	7,409
<b>III -Non-current investments</b>	<b>3,836</b>	<b>540</b>	<b>3,296</b>
4 Own shares (total face value Euro 1,721,791)	3,836	540	3,296
<b>IV Liquid assets</b>	<b>20,504</b>	<b>33,189</b>	<b>(12,685)</b>
1 Bank and postal deposits	20,388	33,024	(12,637)
3 Unpresented effects	116	165	(49)
<b>D. ACCRUED ASSETS AND DEFERRED CHARGES</b>	<b>1,231</b>	<b>1,608</b>	<b>(376)</b>
1 Accrued revenues	525	323	202
2 Prepaid expenses	707	1,284	(578)

BALANCE SHEET

CONSOLIDATED BALANCE SHEET (Thousands of Euros)

	31/12/2003	31/12/2002	Delta
<b>LIABILITIES</b>	<b>330,039</b>	<b>399,632</b>	<b>(69,593)</b>
<b>A. NET ASSETS</b>	<b>86,905</b>	<b>131,927</b>	<b>(45,022)</b>
<b>NET GROUP ASSETS</b>	<b>86,658</b>	<b>131,088</b>	<b>(44,430)</b>
I Capital stock	27,393	27,393	0
II Share premium account	83,630	85,520	(1,890)
IV Legal reserve	3,797	3,797	0
V Own stock portfolio reserve	4,705	1,743	2,961
VII Other reserves	8,408	18,396	(9,988)
IX Profit (loss) of fin. year	(41,274)	(5,761)	(35,513)
<b>Third party competency net assets</b>	<b>232</b>	<b>839</b>	<b>(607)</b>
Third party capital and reserves	240	840	(600)
Third party competence results	(8)	(1)	(7)
Pre-acquisition gross operating profit	15	0	15
<b>B. PROVISIONS FOR LIABILITIES AND CHARGES</b>	<b>8,179</b>	<b>10,123</b>	<b>(1,944)</b>
1 Fund for pensions and similar items	494	498	(4)
2 Taxation reserve	2,724	2,727	(4)
3 Other funds	4,961	6,897	(1,936)
<b>C. EMPLOYEE TERMINAL FUNDING</b>	<b>13,609</b>	<b>12,931</b>	<b>679</b>
<b>D. DEBTS</b>	<b>220,004</b>	<b>242,010</b>	<b>(22,006)</b>
1 Bonds	0	0	0
2 Convertible bonds	0	0	0
3 Bank debt	111,340	89,130	22,210
a Bank debt within 12 months	102,925	66,787	36,139
b Bank debt beyond 12 months	8,415	22,343	(13,929)
4 Debts toward other financial institutions	22,286	33,142	(10,855)
a Debts toward other financial institutions within 12 months	2,421	2,424	(3)
b Debts toward other financial institutions beyond 12 months	19,865	30,718	(10,852)
5 Advances	5,932	9,125	(3,193)
a Advances w/in 12 months	5,932	9,125	(3,193)
6 Debts payable to suppliers	61,157	80,355	(19,198)
a Debt towards suppliers within 12 months	61,149	78,588	(17,439)
b Debt towards suppliers beyond 12 months	8	1,768	(1,759)
7 Debits from credit titles	0	0	0
8 Debts towards controlled	7	15	(8)
a Debt towards controlled within 12 months	7	15	(8)
9 Debts towards associated	210	1,019	(809)
a Debt towards assoc, within 12 months	210	1,019	(809)
10 Debts towards controlling	516	(0)	516
a Debt towards controlling within 12 months	516	(0)	516
11 Tributary debts	5,041	10,417	(5,376)
a Tributary debts w/in 12 months	4,995	10,341	(5,346)
b Tributary debts beyond 12 months	46	76	(29)
12 Debts towards pension institutes	3,760	4,981	(1,222)
a Debts towards pension institutes w/in 12 months	3,760	4,981	(1,222)
13 Other debts	9,755	13,826	(4,071)
a Other debts w/in 12 months	7,623	11,211	(3,588)
b Other debts beyond 12 months	2,132	2,338	(206)
<b>E. ACCRUED LIABILITIES AND DEFERRED CREDITS</b>	<b>1,342</b>	<b>2,643</b>	<b>(1,300)</b>
1 Accrued liabilities	437	646	(209)
2 Accrued liabilities	905	1,997	(1,091)
<b>MEMORANDUM ITEMS</b>	<b>52,573</b>	<b>58,141</b>	<b>(5,568)</b>
1 BANKS FOR OUR GUARANTEES	0	0	0
2 LEASING OBLIGATIONS	7,882	11,562	(3,679)
3 ASSET LIEN SABATINI LAW	13	20	(7)
4 PLEDGE ON CERTIFICATES OF DEPOSIT	0	0	0
5 SECURITIES GIVEN FOR GUARANTEES	11,573	13,410	(1,837)
6 BILLS IN CIRCULATION	8,039	10,303	(2,264)
7 OTHER MEMORANDUM ITEMS	25,064	22,846	2,219

## FINANCIAL STATEMENTS

### CONSOLIDATED INCOME STATEMENTS (Thousands of Euros)

	31/12/2003	31/12/2002	Delta
<b>PROFIT AND LOSS STATEMENT</b>			
<b>A. Revenue Accounts</b>	<b>315,021</b>	<b>364,015</b>	<b>(48,994)</b>
1 Income from sales and services	306,637	370,733	(64,096)
2 Change in inventory for products			
under construction and semi-manufactured goods	2,695	(13,508)	16,203
4 Increased non-current assets from internal work	74	90	(16)
5 Other revenue and proceeds:	5,615	6,699	(1,084)
5a Misc.	5,413	6,445	(1,033)
5b Revenue grants	203	254	(52)
<b>B. PRODUCTION COSTS</b>	<b>(320,948)</b>	<b>(356,002)</b>	<b>35,054</b>
6 Raw materials and resale goods:	(138,211)	(157,093)	18,882
7 Service costs	(61,413)	(69,235)	7,822
8 Costs for third party property	(8,354)	(8,562)	208
9 Personnel costs	(91,628)	(97,973)	6,345
9a Salaries and wages	(68,801)	(74,133)	5,333
9b Social charges	(18,559)	(19,716)	1,157
9c Terminal Funding	(3,665)	(3,593)	(72)
9d Pensions and similar items	(245)	(182)	(63)
9e Other personnel costs	(357)	(348)	(9)
10 Depreciation and devaluation	(13,818)	(13,723)	(95)
10a Depreciation of intangible assets	(3,817)	(3,963)	146
10b Depreciation of tangible assets	(8,659)	(8,536)	(123)
10c Other non-current asset devaluations	(25)	0	(25)
10d Devaluations circulating capital and liquid assets	(1,316)	(1,224)	(93)
11 Changes in raw material inventory	(1,371)	(2,715)	1,345
12 Risk provisions	(111)	(292)	182
13 Other provisions for production costs	(172)	(228)	56
14 Other operating expenses	(5,870)	(6,180)	310
<b>A-B DIFFERENCE BETWEEN PRODUCTION VALUE AND COST</b>	<b>(5,927)</b>	<b>8,013</b>	<b>(13,940)</b>
<b>C. FINANCIAL PROCEEDS AND CHARGES</b>	<b>(6,558)</b>	<b>(3,874)</b>	<b>(2,684)</b>
15 Proceeds from shares	4	1,011	(1,006)
16 Other financial proceeds	3,598	5,388	(1,790)
17 Interest and other financial charges	(10,160)	(10,272)	112
<b>D. VALUE ADJUSTMENTS TO FINANCIAL ACTIVITIES</b>	<b>(1,495)</b>	<b>(500)</b>	<b>(995)</b>
18 Revaluation	38	33	4
19 Devaluations	(1,533)	(533)	(1,000)
<b>E. Extraordinary proceeds and charges</b>	<b>(29,788)</b>	<b>(5,068)</b>	<b>(24,720)</b>
20 Extraordinary proceeds	3,288	441	2,847
21 Extraordinary charges:	(33,076)	(5,509)	(27,567)
<b>D+E TOTAL EXTRAORDINARY ITEMS</b>	<b>(31,283)</b>	<b>(5,568)</b>	<b>(25,715)</b>
<b>RESULTS BEFORE TAXES</b>	<b>(43,768)</b>	<b>(1,429)</b>	<b>(42,339)</b>
22 Income tax	2,500	(4,334)	6,834
<b>OPERATING PROFIT</b>	<b>(41,268)</b>	<b>(5,762)</b>	<b>(35,505)</b>
PROFIT RELEVANT TO THIRD PARTIES	(8)	(1)	(7)
PROFIT RELEVANT TO THE GROUP	(41,274)	(5,761)	(35,513)
PRE-ACQUISITION GROSS OPERATING PROFIT	15	0	15

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

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**SUPPLEMENTARY  
NOTES  
TO THE CONSOLIDATED  
FINANCIAL  
STATEMENTS**

*For the year ending  
December 31, 2003*

## CONSOLIDATED BALANCE SHEET

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### **GENERAL COMPILATION CRITERIA**

The Biesse S.p.A. consolidated balance sheet for the year ending December 31 2003 was compiled in accordance with the norms introduced by legislative decree no. 127 from April 9 1991, approximating the VII Directive of the European Community Council, in conformance with the Italian Accountants and Book-keepers's Council's Accounting principles.

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 balance sheet for the Biesse Group includes the balance sheet for the parent company as well as those of the Italian and foreign companies for which Biesse S.p.A. directly or indirectly controls a majority share of exercisable votes in the ordinary shareholders' meetings. Schelling Anlagenbau and its subsidiaries have been deconsolidated since the date of sale, or December 18, 2003: as a result, a sub-consolidation for the Schelling Group at November 30 2003 was compiled and adjusted in order to account for the significant variations that occurred until the sale date. Below, the details concerning the companies of the Schelling Group are listed exclusively for being integrated to the balance sheet information where it is necessary to remember that these companies were part of the Biesse Group until December 18 2003. The companies that have been included in the consolidated balance sheet for the year ending December 31 2003 with the full consolidation method are as follows:

NOTES

Name and office	Currency	Capital Stock	Direct	Indirect	Through	Biesse Group
<b>Parent Company</b>						
<b>BIESSE S.p.A.</b> Via della Meccanica, 16 Chiusa di Ginestreto (PU)	Euro	27,393,042				
<b>Italian subsidiary companies:</b>						
<b>HSD S.p.A.</b> Via della Meccanica, 16 Chiusa di Ginestreto (PU)		1,000,000	100%			100%
<b>MC Srl</b> Via Mario Ricci, 12 - Pesaro	Euro	101,490	51%			51%
<b>Foreign subsidiary companies:</b>						
<b>Biesse America Inc.</b> 4110 Meadow Oak Drive Charlotte NC 28208 – USA	US \$	1,000,000	100%			100%
<b>Biesse Canada Inc.</b> 1845 Rue Jean Monnet – Terrebonne (Quebec) – Canada	CAN \$	180,000	100%			100%
<b>Biesse Asia Pte. Ltd.</b> Zagro Global Hub 5 Woodlands - Terr. - Singapore	S \$	2,655,000	100%			100%
<b>Biesse Group UK Ltd.</b> Lampport Drive – Daventry Northampt. – Great Britain	£ STG	1,000	100%			100%
<b>Biesse Groupe France Sarl</b> Parc d’Affaires de la Vallée de l’Ozon Chapotin – Chaponnay – France	Euro	144,000	100%			100%
<b>Biesse Group Deutschland GmbH</b> Gewerberstrasse, 6 – Elchingen (Ulm) – Germany	Euro	1,432,600	100%			100%
<b>Biesservice Scandinavia AB</b> Maskinvagen 1 – Lindas – Sweden	SKR	200,000	60%			60%
<b>Biesse Iberica Woodworking Machinery s.l.</b> Cl. Pedrosa C., 9 - Barcellona – Spain	Euro	1,033,741	100%			100%
<b>Biesse Brasil Ltda</b> Rua Lapò, 975 - Curitiba Paraná – Brasil	Rlb	1,509,628	99.99%			99.99%
<b>Biesse Group Australia Pty Ltd.</b> 3 Widemere Road Wetherill Park – Australia	Au \$	800,000	100%			100%
<b>Biesse Group New Zealand Ltd.</b> UNIT 7/519– Rosebank Avondale Auckland New Zealand	Nzd	200,000	100%			100%
<b>HSD Usa Inc.</b> 3764 SW 30th Avenue – Hollywood, Florida – USA	US \$	10,000		100%	HSD S.p.A.	100%
<b>Sel Realty Inc.</b> 1845 Rue Jean Monnet – Terrebonne (Quebec) – Canada	CAN \$	100	100%			100%
<b>Bi. Fin. UK Ltd.</b> Lampport Drive – Daventry Northampt. – Great Britain	£ STG	600,000	100%			100%
<b>Bifin Ltd.</b> 233, Peachtree St., NE Harris Tower – Atlanta, GA 30303 (USA)	US \$	10,000		100%	Biesse America, Inc.	100%
<b>Schelling Anlagenbau GmbH (*)</b> Gebhard-Schwarzler Strasse 34 – Schwarzach – Austria	Euro	1,000,000	100%			100%
<b>Schelling Fertigungstechnik GmbH (*)</b> Grosse Wies 21 – Alttach – Austria	Euro	37,000		100%	Schelling Anlagenbau GmbH	100%
<b>Schelling America Inc. (*)</b> 3201 Glenwood Ave. – Wake County Raleigh, North Carolina – USA	US \$	1,000		100%	Schelling Anlagenbau GmbH	100%
<b>Schelling UK Ltd. (*)</b> Schelling House, West Yorkshire, Sandbeck Way, Wetherby – Great Britain	£ STG	1,000		100%	Schelling Anlagenbau GmbH	100%
<b>Schelling Polska Odd Sp Zo.o. (*)</b> Ul. Pradzynskiego 24, PL - 63-000 Sroda Wlkp – Poland	Zpl	388,000		100%	Schelling Anlagenbau GmbH	100%

(\*) Companies who left the consolidation area in November 2003

## CONSOLIDATED BALANCE SHEET

With respect to the close of the previous year's balance sheet, the following changes have occurred in the consolidation area: on December 18, 2003, the holdings in Schelling Anlagenbau were fully transferred through a MBO by directors of said company, whereas, on December 12, 2003, 20% of HSD S.p.A. holdings were acquired, thereby giving full control of the company, as well as its subsidiaries and associated companies. The consolidated balance sheet for the year ending December 31, 2003 includes 11 months of Schelling Anlagenbau' and its subsidiaries' income statement, up to the sale date.

### *List of other holdings in subsidiary, not fully consolidated, companies*

<b>Name and office</b>	<b>Currency</b>	<b>Capital Stock</b>	<b>Direct</b>	<b>Indirect</b>	<b>Through</b>	<b>Biesse Group</b>
<b>Biesse Corporate School srl.</b> Via della Meccanica 16, Loc. Chiusa di Ginestreto – Pesaro, Italy	Euro	10,920	66.67%	15.01%	HSD S.p.A.	81.68%
<b>Sandymac Srl</b> Via della Meccanica 16, Loc. Chiusa di Ginestreto – Pesaro, Italy	Euro	50,000	80%			80%
<b>Cabi Srl</b> Piazzale Mario Coralloni, 11 – Pesaro, Italy	Euro	99,000	100%			100%
<b>Schelling CIS (*)</b> Chaussee Entusiastow 17 111024 Moscow- Russia	Rbl	20,000		100%	Schelling Anlagenbau GmbH	100%

(\*) Company left the consolidation area in November 2003

The holdings in Biesse Corporate School s.c.r.l., Sandymac Srl and Cabi Srl were valued using the shareholder's equity method rather than full consolidation. Biesse Corporate School, active in company training and characterised by moderate volumes, targets its services mainly at the other companies in the Group. Sandymac, which joined the group in September 2002, produces and markets gauging and honing machinery. Cabi Srl, which was previously a company associated with Biesse S.p.A., has been wholly owned by the parent company since July 2003; it designs and produces electronic, pneumatical and hydraulic parts for the wood industry. Although the company was formed in October 2001, it should be considered in a start-up phase as its passage into the Biesse group required the redefinition of its development strategies and installing new management from the Biesse Group. These holdings were not included in the full consolidation as it was recently acquired/constructed or because it does not have significant volume amounts. The holdings in Schelling Cis, a company that markets and provides customer services for Schelling machinery in Eastern Europe, were valued in the Schelling sub-consolidation using the shareholder's equity method.



**List of holdings in associated companies :**

Name and office	Currency	Capital Stock	Direct	Indirect	Via	Biesse Group
<b>HSD Deutschland GmbH</b> Immenreich 6, Gingen, Fils – Germany	Euro	25,000		50%	HSD S.p.A.	50%
<b>Intermac Vidrio Iberica S.A.</b> C/Muntaner 531, 3-4 Barcelona – Spain	Euro	60,102	49%			49%
<b>Isp Systems Srl</b> Via F.lli Rosselli 46 – Pesaro, Italy	Euro	14,040	25.92%			25.92%
<b>Kernex Automation Srl</b> Via P. Nenni, 1/7 Cerese di Virgilio (MN), Italy	Euro	46,700	25%			25%
<b>Biesse China Co. Ltd.</b> Flat G, 3F, Wang Yip Centre, Wang Yip, Yuen Long, China	Euro	1,000,000	50%			50%
<b>Dongguang Biesse Machinery Co. Ltd.</b> Huang Jiang, Houjie, Dongguang, Guangdong, Province, PRC	Rmb	4,233,410		50%	Biesse China Co. Ltd.	50%
<b>Eberle Automatische Systeme GmbH (*)</b> Stieglingen 7a, 6850 Dorunbirn- Austria	Euro	36,336		25%	Schelling Anlagenbau GmbH	25%

(\*) Company left the Biesse Group in November 2003

The holding in HSD Deutschland GmbH, Intermac Vidrio Iberica S.A., Isp Systems Srl and Biesse China Co. Ltd. (founded in March 2003) were valued using the shareholder's equity method; for Kernex Automation Srl, (whose holdings were acquired on February 28 2003) an evaluation at cost was chosen as economic and financial schedules were not available on the date of the parent company's balance sheet closure.

The holding in Eberle A.S. was valued using the shareholder's equity method in the Schelling sub-consolidation.

Companies were not consolidated using the proportional consolidation method.

**List of other holdings valued at cost :**

Holdings in the companies:

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

were valued using the cost adjustment for depreciation method 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 subsidiary companies that are included in its consolidation area are the balance sheets of the individual companies for the year ending December 31 2003. In the case of companies belonging to the Schelling Group, balance sheets closing on November 30 2003 were used as it was not possible to obtain the same documents on the date the holding was sold (December 18 2003): important variations that occurred between November 30 2003 and the date the holding was sold were however accounted for.

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 incorporated.

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 outgoings 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 evaluated 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 outgoings of the companies included in the consolidation were fully included. The receivables and payables, income and outgoings, 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, in some cases, as an intermediary for commercial transactions between 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. and MC Srl to the other companies in the Biesse Group were not removed, as they were semi-finished goods included in the products being manufactured.

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

The book value of the holdings 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 holdings, 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 third party holdings is entered in a shareholder's equity entry called "Third party capital stock and reserves"; the consolidated financial result that corresponds to third party holdings is entered in the entry "Results of third party competencies"

In reference to the additional holding acquired in HSD S.p.A. (and in its subsidiary HSD USA Inc.), the income statement is consolidated for the entire financial year taking into account, however, the results obtained by third parties during the part of the year prior to the acquisition, by registering in the consolidated income statement under the entry "Profit prior to acquisition"; since the acquisition occurred on December 12, 2003, 20% of the entire result was attributed to third parties.

#### **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:

##### ***Statement of 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".

## CONSOLIDATED BALANCE SHEET

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

<b>Balance Sheet</b> <b>Currency</b>	<b>Exchange rate 2003</b>		<b>Exchange rate 2002</b>	
	<b>Average</b>	<b>31 Dec. 2003</b>	<b>Average</b>	<b>31 Dec. 2002</b>
US Dollar / Euro	1.1418	1.2630	0.9456	1.0487
Canadian Dollar / Euro	1.5865	1.6234	1.4838	1.6550
Singapore Dollar / Euro	1.9883	2.1450	1.6912	1.8199
Pound Sterling / Euro	0.6934	0.7048	0.6288	0.6505
Swedish Crown / Euro	9.1422	9.0800	9.1611	9.1528
Brasilian Real / Euro	3.4851	3.6627	2.7883	3.6944
Australian Dollar / Euro	1.7398	1.6802	1.7377	1.8556
New Zealand Dollar / Euro	1.9490	1.9244	2.0366	1.9975

As for the foreign companies that belong to the Schelling Group, the asset and liability entries were converted using the exchange rate at November 30 2003 (with the exception of the shareholder's equity entries, converted using the historical rate), whereas the income statement entries have been converted using the average exchange rate for the period January - November 2003.

The average end of period exchange rates used for the Schelling Group are as follows:

<b>Financial Year</b> <b>Currency</b>	<b>Exchange rate 2003</b>		<b>Exchange rate 2002</b>	
	<b>Average</b>	<b>30 Nov. 2003</b>	<b>Average</b>	<b>31 Dec. 2002</b>
US Dollar / Euro	1.1308	1.1994	0.9456	1.0487
Pound Sterling / Euro	0.6923	0.6971	0.6288	0.6505
Polish Zloty / Euro	4.4256	4.7047	3.8574	4.0210

### VALUTATION 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 Book-keepers Councils. The valuation criteria adopted for the most significant entries in the consolidated balance sheet are as follows:

#### ***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 Australia, 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.

As for the Schelling Group, goodwill was depreciated for the first eleven months of the year.

The consolidation difference emerges during the compilation of the consolidated balance sheet when the book values of the holdings 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 the devaluation are no longer valid, the pre-devaluation value 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 revaluations required by law.

In the compilation of the consolidated balance sheet, the lease-back financing contracts entered into during the financial year and 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 depreciations.

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.

## CONSOLIDATED BALANCE SHEET

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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 electro-mechanical 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.

### **Long term investments:**

Long term investments include holdings in subsidiary, non-consolidated, companies, holdings in associated companies as well as those in other companies, in addition to fixed financial credits. Substantial fixed assets of holdings in subsidiary, non-consolidated companies 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 "holding revaluation" and "holding devaluation" respectively.

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 holdings 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. The receivables and payables in foreign currencies are generally entered and shown in the balance sheet at the historical exchange rate on the date they were entered. If these should cause a negative difference when converted at the exchange rate of the closing date of the balance sheet and any related hedging contracts have been taken into account, an appropriation is made

for the corresponding amount to offset the provisions for risks and charges. Receivables and payables in foreign currencies specifically hedged from exchange rate risks are entered with the exchange rate defined in the hedge operation.

In order to make the data more comparative and understandable, there has been a reclassification of values which were reported in previous balance sheets, modifying the distribution of some balance sheet entries by duration.

#### **Financial assets that are not considered fixed assets**

Financial assets that are not considered fixed assets 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.

#### **Inventory**

As for final inventory, 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.

The cost structure adopted is as follows:

Raw materials and merchandise:	LIFO (Last In, First Out)
Semi-manufactured goods:	industrial production cost, based upon their status
Finished products:	industrial production cost

The application of the LIFO method for valuing the raw materials inventory did not cause significant differences from a current cost valuation. 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.

#### **Risk and charges provisions**

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 the Exchange Rate Fluctuation Fund, Product Guarantee Fund and Company Restructuring Fund.

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 restructuring fund comprises a provision for charges that must still be incurred connected to the Biesse Group reorganisation project that began in 2001 and was then reviewed at the end of the 2002 financial year.

### **Severance pay for direct labour**

Severance pay is 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.

### **Risks, commitments, guarantees**

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 outgoings**

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 recognized 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 recognized 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. If the net balance of the deferred tax is a credit and the taxes are considered to be recoverable, the deferred tax credits are entered in the Other Receivables entry.

In 2003, considering the exceptional and one off character of the losses that were incurred during the financial year due to the sale of the Schelling Group, the parent company inserted deferred tax credits for a part of the loss itself, after having taken into account the large capital gain already obtained for the 2004 financial year and the taxable income forecast for the upcoming four year period, in accordance with what is reported in the five-year business plan 2004-2008 prepared by the parent company.



## COMMENTS TO THE MAIN ENTRIES IN THE CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES

(All amounts are expressed in thousands of Euros)

### ASSETS

#### Fixed assets

#### Intangible assets:

#### Schedule of gross values

Description	Historic value at 31/12/2002	Charge off of fully amortized assets	Variations for adjustments in the consolidation area	Purchases	Transfers	Reclassifications	Other transactions and conversion differences	Historic value as of 31/12/2003
Plant and expansion costs	322	(41)	0	4	(14)	21	14	306
Research, development and advertising costs	2,138	(279)	0	0	0	26	0	1,885
Industrial patents and intellectual property rights	524,000	(126)	0	134	0	0	0	532
Concessions, licenses, trade-marks and similar rights	3,538	(484)	(1,053)	1,650	(24)	0	(6)	3,621
Goodwill	10,030	0	(152)	67	0	(21)	160	10,083
Fixed assets in progress and advances	167	0	0	437	(468)	0	0	136
Other intangible fixed assets	1,772	(178)	0	346	0	(26)	8	1,922
Consolidation differences	24,739	0	(19,597)	0	0	0	(26)	5,116
<b>Total</b>	<b>43,230</b>	<b>(1,108)</b>	<b>(20,802)</b>	<b>2,638</b>	<b>(506)</b>	<b>0</b>	<b>150</b>	<b>23,601</b>

#### Schedule of depreciation reserves

Description	Amortization reserve as of 31/12/2002	Charge off of fully amortized assets	Variations for adjustments in the consolidation Area	Depreciation for the year	Balance in transfer reserve	Reclassifications	Other transactions and conversion differences	Amortization reserve as of 31/12/2003
Plant and expansion costs	(150)	41	0	(44)	3	0	(3)	(153)
Research, development and advertising costs	(1,366)	279	0	(377)	0	(19)	0	(1,484)
Industrial patents and intellectual property rights	(304)	126	0	(173)	0	0	0	(351)
Concessions, licenses, trade-marks and similar rights	(2,140)	484	804	(594)	24	0	5	(1,418)
Goodwill	(1,322)	0	34	(883)	0	0	(17)	(2,188)
Other intangible fixed assets	(969)	178	0	(374)	0	19	-1	(1,147)
Consolidation differences	(4,622)	0	3,976	(1,372)	0	0	-16	(2,003)
<b>Total</b>	<b>(10,873)</b>	<b>1,108</b>	<b>4,814</b>	<b>(3,817)</b>	<b>27</b>	<b>0</b>	<b>0</b>	<b>(8,744)</b>

## CONSOLIDATED BALANCE SHEET

### Schedule of net values

Description	Historic value as of 31/12/2002	Amortization reserve as of 31/12/2002	Net value as of 31/12/2002	Historic value as of 31/12/2003	Amortization reserve as of 31/12/2003	Net value as of 31/12/2003
Plant and expansion costs	322	(150)	172	306	(153)	153
Research, development and advertising costs	2,138	(1,366)	772	1,885	(1,484)	401
Industrial patents and intellectual property rights	524	(304)	219	532	(351)	181
Concessions, licenses, trade-marks and similar rights	3,538	(2,140)	1,397	3,621	(1,418)	2,203
Goodwill	10,030	(1,322)	8,708	10,083	(2,188)	7,895
Fixed assets in progress and advances	167	0	167	136	0	136
Other intangible fixed assets	1,772	(969)	803	1,922	(1,147)	775
Consolidation differences	24,739	(4,622)	20,117	5,116	(2,003)	3,113
<b>Total</b>	<b>43,230</b>	<b>(10,873)</b>	<b>32,355</b>	<b>23,601</b>	<b>(8,744)</b>	<b>14,857</b>

Patent rights and the use of intellectual property are based upon the registration cost of new national and international patents.

The Concessions, licenses and trademarks entry, totalling Euro 3,621 thousand, registered movement due to the deconsolidation of the Schelling Group, which causes a decrease of Euro 1,053 thousand, which is offset by the purchase of new licenses for the amount of Euro 1,650 thousand, of which Euro 1,165 thousand are related to ten-year patents for sectioning machines, which were transferred from the Schelling Group to the Biesse Group on December 31 2003. Additional increases were caused by the acquisition of new software or the customisation of standard accounting and management software.

The Goodwill entry, totalling Euro 10,083 thousand (net of the historical value from the beginning of the financial year of Euro 152 thousand, related to the Schelling Group), includes mostly the goodwill recognised from the acquisition of divisions from the following companies - Diamut Srl for Euro 4,925 thousand, Allwood Machinery Co. Pty Ltd for Euro 2,455 thousand, CNI Srl for Euro 1,751 thousand and SEV Srl for Euro 707 thousand. It increased by Euro 67 thousand in the balance sheet due to the payment by Biesse Australia to a local glass division reseller for the acquisition of its customer portfolio. The depreciation of these amounts will be spread over ten years, except for the Allwood division, for which a twenty year depreciation period was considered to be more suitable, considering the good reputation and soundness of the company.

The Fixed Assets being Created and advances on payments entry contain all advances given to suppliers for creating or customising software; at the end of the various projects, these amounts are moved to their relevant positions.

The other intangible assets have a historic cost totalling Euro 1,922 thousand. 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 difference totalling Euro 5,116 thousand gross of the relative depreciation fund of Euro 2,003 thousand, is derived from the consolidation of the holdings as shown in Appendix A, and depreciated over a ten year period. The following was seen in the period:

- the decrease of Euro 20,302 thousand, due to the deconsolidation of the Schelling Group (gross of the relative depreciation fund of Euro 3,976 thousand); as already mentioned, the deconsolidation was carried out with the sale of the holding by Biesse S.p.A. on December 18 2003; the contract with some of the directors of the sold group provided for the transfer of the control of the group as well as the waiving by Biesse S.p.A. of financial receivables totalling Euro 18,582

- thousand, offset by the purchasers' assumption of both the bank payables from the Schelling Group as well as the securities given by Biesse S.p.A. (totalling Euro 7,500 thousand); as indicated in the business report, the decision to sell was made after a careful analysis of the reduced possibilities of returning to profitability in the short term; with reference to the analysis of impact of the sale on the indebtedness and on the income statement of the Biesse Group, please refer to the relevant section of this note; the remaining part of the consolidation difference totalling Euro 17,256 thousand (at December 31 2002) that could be depreciated has been depreciated over eleven months, consistent with the decision to reflect the economic impact of the Schelling holding until November 30, 2003 and the depreciation percentage of 5% was used thereby obtaining a like-with-like comparison with the data from previous financial years; the decision to implement the depreciation that had already been recommended by Consob (Report no. 97002854 dated 25/03/1997) and by best accounting practices, influenced the determination of the capital loss that derived from the sale of the holding;
- the increase of Euro 704 thousand related to the premium paid for the acquisition of 20% of the shares in HSD S.p.A. The relative sales contract for the shares (dated December 12 2003) provides for the payment of Euro 1,304 thousand, of which Euro 52 thousand was paid on the deed date, and the balance of Euro 1,252 thousand to be paid without interest by April 30 2006. It was not considered appropriate to bring the debt up to date, due to the negligibility of the economic effects, net of the tax effect. As already mentioned in the business report, the price is subject to the still possible exercising of options for the acquisition of Biesse S.p.A. shares, claimed by the seller of the holding, for which a block of own shares was frozen, the details of which can be found in the relevant section of this note; this part of the consolidation difference was not depreciated due to the proximity of the purchase date to the end of the financial year; however, the share of third party result obtained by HSD S.p.A. (and its subsidiary and associated companies) was properly credited in the period prior to the acquisition (please refer to the relevant section of this note);
  - the reduction of Euro 26 thousand (net of the relative depreciation reserve of Euro 16 thousand) of part of the consolidation difference that can be attributed to Biesse Group France S.a.r.l., whose remaining part subject to depreciation has been fully devalued during the financial year following the loss suffered by the company; this situation has been created for contingent reasons in its market, but which should already improve during 2004, and then turn profitable for 2005.

### Tangible assets:

#### Schedule of gross assets

Description	Historic value as of 31/12/2002	Charge off of fully amortised assets	Variations for adjustments in the consolidation area	Purchases	Transfers	Other transactions and conversion differences	Historic value as of 31/12/2003
Land and buildings	66,497	0	(11.087)	1,625	(558)	(515)	55,962
Plants and machinery	24,838	(1)	(2,152)	2,210	(708)	5	24,193
Industrial and commercial equipment	10,509	0	(1,617)	1,143	(1,052)	(9)	8,974
Other tangible assets	20,980	(26)	(1,119)	1,743	(668)	(360)	20,549
Fixed assets in progress and advances	5,521	0	(81)	2,318	(3,266)	0	4,491
<b>Total</b>	<b>128,345</b>	<b>(27)</b>	<b>(16,056)</b>	<b>9,039</b>	<b>(6,252)</b>	<b>(1,723)</b>	<b>114,169</b>

## CONSOLIDATED BALANCE SHEET

### Schedule of depreciation reserves

Description	Amortization reserve as of 31/12/2002	Charge off of fully amortized assets	Variations for adjustments in the consolidation area	Depreciation for the year	Balance in transfer reserve	Other transactions and conversion differences	Amortization reserve as of 31/12/2003
Land and buildings	(7,084)	0	1,760	(1,763)	60	52	(6,975)
Plants and machinery	(10,375)	1	1,353	(2,173)	639	6	(10,551)
Industrial and commercial equipment	(6,690)	0	1,166	(1,667)	1,047	2	(6,143)
Other tangible assets	(12,538)	26	1,459	(3,056)	484	266	(13,360)
<b>Total</b>	<b>(36,687)</b>	<b>27</b>	<b>5,738</b>	<b>(8,659)</b>	<b>2,230</b>	<b>326</b>	<b>(37,029)</b>

### Schedule of net assets

Description	Historic value as of 31/12/2002	Amortized reserve as of 31/12/2002	Net value as of 31/12/2002	Historic value as of 31/12/2003	Amortized reserve as of 31/12/2003	Net value as of 31/12/2003
Land and buildings	66,497	(7,084)	59,413	55,962	(6,975)	48,987
Plants and machinery	24,838	(10,375)	14,462	24,193	(10,551)	13,642
Industrial and commercial equipment	10,509	(6,690)	3,819	8,974	(6,143)	2,831
Other tangible assets	20,980	(12,538)	8,441	20,549	(13,360)	7,189
Fixed assets in progress and advances	5,521	0	5,521	4,491	0	4,491
<b>Total</b>	<b>128,345</b>	<b>(36,687)</b>	<b>91,657</b>	<b>114,169</b>	<b>(37,029)</b>	<b>77,140</b>

The **Land and buildings** entry, whose historical value is Euro 55,962 thousand (less Euro 11,087 thousand relative to the Schelling Group), has been increased for just the companies in the Biesse area by Euro 282 thousand. In particular, land increased by Euro 245 thousand, due to capitalised costs for filling and levelling for the land adjacent to the plant in Via della Meccanica, in addition to the remaining parcelled out value of a piece of land previously pertaining to a civil building that was sold during the financial year. The buildings have been increased mainly because of the construction costs incurred for a new industrial factory in Alfonsine (RA) for the production of numerical controls (Euro 896 thousand) and from office expansion costs in a previously existing building in Pesaro, in Via della Meccanica, 16 (Euro 447 thousand). The decrease of Euro 558 thousand is due to the sale of a civil building in Pesaro (Euro 401 thousand) and an industrial building in Canada (Euro 157 thousand).

This entry includes, net of the depreciation reserve, the buildings already owned by Biesse S.p.A. in San Giovanni Marignano (for Euro 10,498 thousand) and in Pesaro (for Euro 9,877 thousand) which were sold and then leased back, using a sale and lease back plan, during 2002. These buildings are stated in the balance sheet at their historical cost. This accounting procedure was used at the end of the previous financial year for a building which was subject to a sale and lease-back contract signed by Schelling Anlagenbau (book value Euro 7,202 thousand, net a depreciation reserve of Euro 1,050 thousand); in this consolidation, only the economic effects of this operation were considered, using the application of what is provided for in IAS 17.

The **machinery and equipment** entry has a historical value of Euro 24,193 thousand (net of Euro 2,152 related to the Schelling Group) and, related to the new consolidation area, presents a net increase of Euro 1,506 thousand. This variation is mainly due to capitalised costs from the construction of machinery for the rented building in Pesaro, Via della Fornace Vecchia (production site for the Polymac brand) for Euro 562 thousand, transferred from the Asset under construction and part payment of costs entry for the construction of the machinery for the new building in Alfonsine for Euro 406 thousand, which are construction costs for an office building within the industrial complex in Via della Meccanica for Euro 264 thousand and the remaining amount is for the acquisition of new production machinery and repairs, expansion and extraordinary maintenance for the existing equipment.

The **fittings, tools and equipment** entry has a historical cost of Euro 8,974 thousand (net of Euro 1,617 thousand related to the Schelling Group). This includes a net increase of Euro 1,143 thousand (referring only to the Biesse Group), due to the acquisition of ordinary work instruments required for the assembly and testing of machine tools, for the working and construction of special metal parts and the acquisition of dies for the production of raw materials.

The **Other tangible property** entry, whose historical value is totalling Euro 20,549 thousand (net of Euro 1,119 thousand related to the Schelling Group), presents a gross increase in the Biesse area of Euro 1,743 thousand, which is mainly due to the acquisition of furniture and equipment for the Biesse S.p.A. and HSD S.p.A. plants, as well as for the Biesse UK, Biesse Asia and Biesse Australia branches. As far as this asset category is concerned, new investments are spread among all the companies of the Group.

The **assets under construction and advances** entry (whose value on 31/12/2002 that can be referred to the Schelling Group is Euro 81 thousand) amounts to Euro 4,491 thousand and is composed mainly of advances paid for the acquisition of land (Euro 4,473 thousand), whose notary deed was signed in January 2004. The decrease is mainly due to the transfer to the advances entry for advances paid during the previous financial year for the construction of equipment and furnishings for the new offices in Via della Meccanica, 16, for the rented building in Via della Fornace Vecchia and for the building in Alfonsine (RA).

**Monetary revaluation schedule:**

		<b>BIESSE S.p.A.</b>	<b>TOTAL</b>
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
<b>Total</b>		<b>362</b>	<b>362</b>

## CONSOLIDATED BALANCE SHEET

### Long term investments:

#### Holdings in subsidiary, non-consolidated companies:

<b>Company</b> (values in Euro)	<b>Capital stock</b>	<b>Balance sheet value</b>	<b>Biesse Group Holdings</b>
<b>Biesse Corporate School srl.</b> Via della Meccanica 16, Loc. Chiusa di Ginestreto – Pesaro, Italy	Euro 10,920	Euro 13,262	81.68%
<b>Sandymac Srl</b> Via della Meccanica 16, Loc. Chiusa di Ginestreto – Pesaro, Italy	Euro 50,000	Euro 5	80%
<b>Cabi Srl</b> Piazzale Mario Coralloni, 11 – Pesaro, Italy	Euro 99,000	Euro 99,000	100%
<b>Total</b>		<b>Euro 112,267</b>	

Movements made in the subsidiary non-consolidated companies during the period are as follows:

<b>Company</b> (values in Euro)	<b>Value at 31/12/2002</b>	<b>Purchases, underwriting, capital stock increases</b>	<b>Movements during the period</b>	<b>Value at 31/12/2003</b>
Biesse Corporate School srl.	14,018	0	(756)	13,262
Sandymac Srl	125,923	0	(125,918)	5
Schelling CIS	725	0	(725)	0
Cabi Srl	0	518,792	(419,792)	99,000
<b>Total</b>	<b>140,666</b>	<b>518,792</b>	<b>(547,191)</b>	<b>112.267</b>

The above mentioned holdings were valued using the shareholder's equity method: in reference to the holding in Cabi Srl, this valuation was done in reference to the extraordinary economic and asset situation that was compiled on 31/10/2003. The losses obtained in the last three months of the year were not accounted for, as they were not important in the context of the Group results. During the period, the Sandymac Srl holding was devalued to account for their negative results. In addition to this devaluation, a fund was created for losses exceeding shareholder's equity totalling Euro 58 thousand for Sandymac Srl.

In relation to Cabi Srl, which was already owned 49% by Biesse S.p.A., the remaining 51% of the capital stock was underwritten in 23/07/03, obtaining full control of the company.

In regard to the holding in Schelling CIS, they were fully devalued in the sub-consolidation statement for Schelling on November 30 2003, and in addition, a fund was created for losses in excess of shareholder's equity, totalling Euro 36 thousand; in the Biesse S.p.A. consolidated balance sheet, the holding in Schelling CIS no longer appears among other holdings in non-consolidated subsidiary companies, whereas the economic effects of the shareholder's equity valuation were considered in the consolidated income statement.

**Holdings in associated companies:**

<b>Company</b> (values in Euro)	<b>Capital stock</b>	<b>Balance sheet value</b>	<b>Percentage holdings of the Biesse Group</b>	<b>Owned percentage of the Biesse Group</b>
<b>Isp Systems Srl</b> Via Fratelli Rosselli, 46 Pesaro - Italy	Euro 14,040	Euro 5	25.92%	25.92%
<b>Intermac Vidrio Iberica S.A.</b> C/Muntaner 531, 3-4 Barcelona – Spain	Euro 60,102	Euro 37,759	49%	49%
<b>HSD Deutschland GmbH</b> Immenreich 6, Gingen, Fils – Germany	Euro 25,000	Euro 25,178	50% (indirectly through HSD S.p.A.)	50%
<b>Biesse China Co. Ltd. (*)</b> Flat G, 3F, Wang Yip Centre, Wang Yip, Yuen Long, China	Euro 1,000,000	Euro 382,812	50%	50%
<b>Kernex Automation Srl</b> Via P. Nenni, 1/7 Cerese di Virgilio (MN), Italy	Euro 46,700	Euro 159,017	25%	25%
<b>Total</b>	<b>Euro 604,770</b>			

(\*) 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 associated companies during the period are as follows:

<b>Company</b> (values in Euro)	<b>Value at 31/12/2002</b>	<b>Purchases, underwriting, capital stock increases</b>	<b>Movements during the period</b>	<b>Value at 31/12/2003</b>
<b>Isp Systems Srl</b>	13,447	0	(13,442)	5
<b>Cabi Srl</b>	48,511	0	(48,511)	0
<b>Intermac Vidrio Iberica S.A.</b>	12,794	0	24,964	37,759
<b>Eberle A.S. GmbH</b>	38,975	0	(38,975)	0
<b>HSD Deutschland GmbH</b>	12,500	0	12,678	25,178
<b>Biesse China Co. Ltd.</b>	0	500,000	(117,188)	382,812
<b>Kernex Automation Srl</b>	0	159,017	0	159,017
<b>Total</b>	<b>126,227</b>	<b>659,017</b>	<b>(180,474)</b>	<b>604,770</b>

All holdings in associated companies were valued using the shareholder's equity method, with the exception of the holding in Kernex Automation Srl, which was valued at cost.

It must be pointed out that by virtue of an agreement signed by the incorporated company Intermac S.p.A., the remaining 51% of Intermac Vidrio Iberica S.A. will be acquired during 2004, thus arriving full control of the company.

The holdings in Cabi Srl were fully devalued, and due to the participation in the reconstruction of the capital stock, it has been reclassified among the subsidiary, non-consolidated companies. In comparison to the previous balance sheet, the holdings in Biesse China Co. Ltd. and Kernex Automation Srl have been added.

## CONSOLIDATED BALANCE SHEET

The first company was founded in Hong Kong in March 2003, as an equal joint-venture company between Biesse S.p.A. and a main local company and, through the subsidiary company Dongguang Biesse Machinery Co. Ltd., assembles, markets and provides customer services for a number of Biesse brand products in the Chinese market; the investment in the Chinese market was technically done through the creation of Biesse China, which is a jointly owned holding company, which then founded the operative company Dongguang Biesse Machinery; with the application of the shareholder's equity method, the assets from the consolidated balance sheet from Biesse China Co. Ltd. and Dongguang Biesse Machinery Co. Ltd. (its subsidiary company) were taken into consideration.

Kernex Automation Srl, which was already a supplier for the Biesse Group, produces software used by machinery which produces doors and windows and frames.

During the period, the holdings in Isp Systems Srl were devalued by Euro 13 thousand and in Biesse China Co. Ltd. by Euro 117 thousand. In addition to this devaluation, a fund was created for losses exceeding shareholder's equity totalling Euro 422 thousand for Isp Systems Srl.

The holdings in Vidrio Iberica S.A. and HSD Deutschland GmbH were revalued by Euro 25 thousand and 13 thousand respectively.

As for the holding in Eberle A.S. GmbH, its value was devalued by Euro 5 thousand in the sub-consolidated statement for Schelling (it also appears in the consolidated Biesse S.p.A. income statement). The remaining holding was transferred from the total of holdings in associated companies due to the sale of the holding in Schelling Anlagenbau GmbH.

### **Holdings in other companies:**

The holdings in other companies entry, valued in accordance with the cost method and adjusted for devaluations on December 31 2003 as per article 2426 of the civil code, is as follows.

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

\* holdings of a symbolic and associative nature.



**Fixed financial credits:**

<b>Description</b>	<b>Previous year's value</b>	<b>Movement inc./dec.</b>	<b>Value at close of financial year</b>
To subsidiary companies (payable within 12 months)	0	268	268
To associated companies (payable within 12 months)	120	0	120
To associated companies (payable after 12 months)	0	77	77
To others (payable within 12 months)	2,489	41	2,530
To others (payable after 12 months)	706	(283)	423
<b>Total</b>	<b>3,315</b>	<b>103</b>	<b>3,418</b>

**Receivables from subsidiary companies**

The value of Euro 268 thousand is made up of financial loans to the subsidiary, non-consolidated company Cabi Srl for Euro 168 thousand and Sandymac Srl for Euro 100 thousand, respectively.

**Receivables from associated companies**

This entry is made up of financial loans to Intermac Vidrio Iberica S.A. (Euro 120 thousand) and Kernex Automation Srl (Euro 77 thousand).

**Receivables from others**

The receivables from others entry is made up of the amount that is due within 12 months from an interest-bearing loan of Euro 2,488 thousand, which should be repaid in April 2004.

As for the amount that is due after 12 months, this is composed of deposits (for rent, utilities, etc.) for Euro 213 thousand and loans for Fideuram Vita, Fideuram Caf and Ras for a total of Euro 193 thousand.

**Other securities and own shares:**

<b>Description</b>	<b>Previous year's value</b>	<b>Movement inc./dec.</b>	<b>Value at close of financial year</b>
Other securities	90	(90)	0
Own shares	1,204	(335)	869
<b>Total</b>	<b>1,294</b>	<b>(425)</b>	<b>869</b>

The other securities item decreased Euro 90 thousand as a result of the sale of the holding in Schelling: in fact this position referred to highly liquid holdings held by the Austrian company, in compliance with national laws.

The own shares entry amounts to Euro 869 thousand and has been devalued in the balance sheet by Euro 335 thousand; it refers to the purchase of 380,654 shares.

## CONSOLIDATED BALANCE SHEET

Own shares were purchased after the authorisation of the Shareholders Meetings with resolutions on December 17 2001 and April 29 2003, as per art. 235 of the C.C. and art. 73 of the Consob regulation nr. 11971 dated 14/05/99; they were devalued based on the difference between the average burden value totalling Euro 3.162 and the average December 2003 value totalling Euro 2.282.

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 November 14 2003, which includes the possibility of requesting 380,654 Biesse S.p.A. shares at the residual price of Euro 1,252 thousand.

### Operating assets

#### Inventory:

Description	Previous year's value	Variations in the consolidation area	Movement inc./dec.	Value at close of financial year
Raw materials, ancillary, consumer goods	59,036	(4,362)	(2,360)	52,314
Raw materials write-down reserve	(2,175)	299	(250)	(2,126)
Net raw materials, ancillary, consumer goods	56,861	(4,063)	(2,610)	50,188
Works in progress and semi-finished goods	10,536	(1,343)	(996)	8,197
Finished goods and merchandise	23,421	(2,420)	2,308	23,309
Finished goods write-down reserve	(801)	54	(751)	(1,498)
Net finished goods and merchandise	22,620	(2,366)	1,557	21,811
Advances	591	(63)	109	637
<b>Total</b>	<b>90,608</b>	<b>(7,835)</b>	<b>(1,940)</b>	<b>80,833</b>

The inventory value is Euro 80,833 thousand. The value at 31/12/2002 minus data relative to the Schelling Group totals Euro 82,773 thousand; during the financial year the stock was reduced overall by Euro 1,940 thousand, in detail this refers to stock reduction for raw materials and semi-finished goods (Euro 2,610 thousand and Euro 996 thousand, respectively) and the increase of finished product inventories by Euro 1,557 thousand. The variation made to raw and semi-manufactured materials is due to the optimisation of productive cycles as well as to the reduction of registered volumes during the year. The increase in finished products is due to some customer requests for postponing the delivery date of the machinery as well as to the different types of machinery itself (with a more complex technical configuration) and finally to the increase in new prototype development business. Mention should be made of the large increase in the stock depreciation fund (Euro 250 thousand for raw material stock and Euro 751 thousand for finished product stock): this has occurred after particularly prudent provisions were allocated to account for the increased development of new prototypes and the resulting need to scrap materials and finished products.

**Receivables**

This entry has a balance of Euro 126,548 thousand, whereas on 31/12/2002 it amounted to Euro 144,716 thousand (of which Euro 12,309 thousand were accounted for by the Schelling Group); the break down is as follows:

<b>Description</b>	<b>Previous year's value</b>	<b>Variations in the consolidation area</b>	<b>Movement inc./dec.</b>	<b>Value at close of financial year</b>
From customers	126,233	(9,847)	(16,013)	100,373
(Bad debt reserve)	(2,897)	342	(219)	(2,774)
From customers, net	123,336	(9,505)	(16,232)	97,599
From non-consolidated subsidiaries	34	0	169	203
From affiliated companies	1,276	0	(9)	1,267
From parent companies	1	0	0	1
From others	20,069	(2,804)	10,213	27,478
<b>Total</b>	<b>144,716</b>	<b>(12,309)</b>	<b>(5,859)</b>	<b>126,548</b>

**Receivables from customers:**

Customer receivables amount to Euro 97,599 thousand net of the bad debt fund of Euro 2,774 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. With regard to the Schelling Group, the value of the previous financial year included customer receivables of Euro 9,847 thousand and a bad debt fund of Euro 342 thousand; the net variation therefore falls to Euro 16,232 thousand.

The large decrease on the end of the previous financial year is in line with the reduction in sales.

**Customer receivables in detail:**

<b>Description</b>	<b>Previous year's value</b>	<b>Variations in the consolidation area</b>	<b>Movement inc./dec.</b>	<b>Value at close of financial year</b>
From customers under 12 months	125,658	(9,847)	(19,123)	96,688
(Bad debt reserve under 12 months)	(2,897)	342	(219)	(2,774)
From customers under 12 months	122,761	(9,505)	(19,342)	93,914
From customers over 12 months	575	0	3,109	3,684
(Bad debt reserve over 12 months)	0	0	0	0
From customers over 12 months	575	0	3,109	3,684
Total from customers	126,233	(9,847)	(16,014)	100,372
(Total bad debt reserve)	(2,897)	342	(219)	(2,774)
<b>Total from customers (net of the bad debt reserve)</b>	<b>123,336</b>	<b>(9,505)</b>	<b>(16,233)</b>	<b>97,599</b>

## CONSOLIDATED BALANCE SHEET

### **Receivables from subsidiary, non-consolidated companies:**

The amount of Euro 203 thousand refers to receivables due from subsidiary companies that do not enter into the consolidation area, and in particular, towards Cabi S.r.l. for Euro 104 thousand and Sandymac Srl for Euro 99 thousand.

### **Receivables from associated companies:**

The amount of Euro 1,267 thousand breaks down as follows:

<b>Company</b>	<b>Previous year's value</b>	<b>Value at close of financial year</b>
Isp Systems Srl	361	610
HSD Deutschland GmbH	206	407
Cabi Srl	623	0
Biesse China Co. Ltd.	0	2
Intermac Vidrio Iberica S.A.	86	245
Kernex Automation Srl	0	3
<b>Total</b>	<b>1,276</b>	<b>1,267</b>

### **Receivables from others itemised:**

<b>Description</b>	<b>Value at close of financial year</b>
Receivables from others under 12 months	11,899
Receivables for pre-paid tax under 12 months	5,018
Receivables for deferred tax credits under 12 months	3,690
Receivables from others under 12 months	20,607
Receivables for pre-paid tax over 12 months	2,930
Receivables for deferred tax credits over 12 months	3,941
Receivables from others over 12 months	6,871
<b>Receivables from others</b>	<b>27,478</b>

The receivables from others payable under 12 months entry includes, among other things, tax credits for Euro 6,382 thousand, credits for advanced costs for Euro 827 thousand and credit notes to receive from suppliers for Euro 732 thousand.

The Deferred tax credits under 12 months entry amounting to Euro 3,690 thousand and over 12 months totalling Euro 3,941 thousand were calculated based upon tax losses by the parent company. The posting of these credits was done after it was seen that the losses by the parent company in 2003 were mostly due to well-identified, one-off circumstances (such as the charges related to the sale of the Schelling Group) and after having carefully assessed the reasonable certainty of future earnings that will allow for the recovery of the receivables for the deferred and prepaid taxes entered in the balance sheet.

The "reasonable certainty" is based upon the five year economic plan for the Group (2004-2008) and upon a targeted analysis based upon objective elements, which include: the sale of the Schelling Group and the non-incurring of the heavy losses of that Group in the future, the lower personnel costs due to a reduction of 400 Biesse Group employees in 2003, a capital gain of approx. Euro 11 million recorded from the sale of land already implemented in March 2004, and the recovery of efficiency levels in various company plants.

The only receivable Company has longer than 5 years totals Euro 759 thousand and is related to pre-paid taxes calculated on the tax recoveries of the parent company Biesse S.p.A.

### **Non-frozen investments**

The non-frozen investments totalling Euro 3,836 thousand (compared to a value of Euro 540 thousand in 31/12/02) consist of own stock, corresponding to 1,721,791 holdings (totalling 6.29% of shares in circulation). This amount includes 533,281 shares bought on the stock market after the authorisation from the Shareholders Meetings as per resolutions dated December 17 2001 and April 29 2003, in accordance with art. 235 of the civil code and art. 73 of the Consob regulation nr. 11971 from 14/05/99. To this was added 1,188,510 shares (equalling 4.33% of ordinary company stock), of which Biesse S.p.A. became the holder in December 2003 and which were previously held by Werner Deuring Privatstiftung. This sale does not fall into the previously resolved buy-back plan, but was the conclusion of a transaction between the parties for exceptions related to the acquisition of Schelling Anlagenbau GMBH in May 2000. These shares were entered at the share price of 2.249, which was the current market price on the transaction date (December 30 2003).

### **Liquid assets:**

<b>Description</b>	<b>Previous year's value</b>	<b>Movement inc./dec.</b>	<b>Value at close of financial year</b>
Bank accounts	33,024	(12,636)	20,388
Cash in hand and cash equivalent	165	(49)	116
<b>Total</b>	<b>33,189</b>	<b>(12,685)</b>	<b>20,504</b>

Liquid assets, totalling Euro 20,504 thousand, decreased during the period by Euro 12,685 thousand. In this case we do not mention the variations caused by the sale of the Schelling Group, as the Biesse Group had already implemented a corporate treasury system for some years: therefore it does not make any sense to analyse the variations of the single entries that make up its net financial position (which includes also the liquid assets), but the variations should be analysed as a whole. We refer to the analysis of the payables to banks and other financiers in order to describe the effect that the deconsolidation of the Schelling Group had on the debt exposure of the Group.

On this subject it should be stressed that the worsening in liquid assets is accompanied by the increased bank debt burden, due to the decrease in net current assets and some extraordinary operations carried out during the financial year, which include the completion of the disbursements related to the previous acquisitions, investments in assets and intangibles for a total of Euro 12.2 million.

## CONSOLIDATED BALANCE SHEET

### Current assets

Description	Previous year's value	Variations in the consolidation area	Movement inc./dec.	Value at close of financial year
Inventory	90,608	(7,835)	(1,940)	80,833
Customers	124,072	(10,001)	(18,685)	95,386
Other receivables	18,086	(2,804)	5,344	20,626
Suppliers	(79,621)	10,396	7,343	(61,882)
Other payables	(37,117)	4,156	10,652	(22,309)
Differed income/Prepaid expenses	1,608	(217)	(160)	1,231
Accrued liabilities and deferred income	(2,643)	1,429	(128)	(1,342)
<b>Net current assets</b>	<b>114,993</b>	<b>(4,876)</b>	<b>2,426</b>	<b>112,543</b>

### Accrued income

Accrued income amounts to Euro 525 thousand (compared to a value at the end of the previous financial year of Euro 323 thousand) which includes the exchange rate differences for futures options for Euro 283 thousand and the portions of earnings for the financial year that is collectable in following financial years for an amount of Euro 241 thousand.

### Prepaid expenses

Description	Previous year's value	Variations in the consolidation area	Movement inc./dec.	Value at close of financial year
Interests payables	693	0	(120)	573
Miscellaneous	548	(217)	(204)	127
Multiyear miscellaneous	43	0	(36)	7
<b>Total</b>	<b>1,284</b>	<b>(217)</b>	<b>(360)</b>	<b>707</b>

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

**LIABILITIES****Shareholders' equity****Schedule of the transactions in the Consolidated Shareholders' equity items (€/1,000):**

	Balance at 31/12/2002	Transfer result	Translation difference	Dividends	Other movements	Result	Balance at 31 Dec 2003
<b>Group's Shareholders' Equity</b>							
Capital	27,393						27,393
Share premium account	85,519	(1,889)					83,630
Legal reserve	3,797						3,797
Own share reserve	1,743				2,962		4,705
Other reserves:							
- Extraordinary reserve	12,133			(2,385)	(3,938)		5,810
- Consolidation reserve	65						65
- Translation difference reserve	(1,167)		(122)				(1,289)
- Special tax scheme reserve	3,833				975		4,808
- Profit and other reserves of the consolidated companies	3,533	(3,872)			(648)		(987)
Profit (loss)	(5,761)	5,761				(41,274)	(41,274)
<b>Total shareholders' equity of the Group</b>	<b>131,088</b>	<b>0</b>	<b>(122)</b>	<b>(2,385)</b>	<b>(648)</b>	<b>(41,274)</b>	<b>86,658</b>
<b>Shareholders' equity due to third parties</b>							
Third party capital stock and reserves	840	(1)			(599)		240
Third party profits (losses)	(1)	1				(8)	(8)
<b>Total third party shareholders' equity</b>	<b>839</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(599)</b>	<b>(8)</b>	<b>232</b>
<b>Operating result before acquisition</b>	<b>0</b>					<b>15</b>	<b>15</b>
<b>Total</b>	<b>131,927</b>	<b>0</b>	<b>(122)</b>	<b>(2,385)</b>	<b>(1,247)</b>	<b>(41,267)</b>	<b>86,905</b>

**Share premium reserve**

This amount of Euro 83,630 thousand is decreased by Euro 1,889 thousand to partially cover losses from the 2002 financial year.

**Own shares reserve**

The own shares reserve totalling Euro 4,705 thousand, was set up to deal with the shares acquired by the parent company Biesse S.p.A. in its own company in a buy-back operation and its own shares obtained free of charge in December 2003 that were previously held by the Werner Deuring Privatstiftung, through the use of the extraordinary reserve.

The buy-back operation was approved in the minutes of the Shareholders' Meeting on 17/12/2001 and allows for the possible acquisition within a period of up to 18 months from the date of the resolution of an amount of shares that does not exceed 10% of current capital stock. The same resolution indicates a maximum value of the reserve totalling Euro 12,911 thousand. On 29/04/2003, the Shareholders Meeting extended the buy-back operation for an additional 18 months, establishing the share premium account should be used for the future purchase of own shares in the case that the extraordinary reserve should not be sufficient. In reference to the shares obtained free of charge, we refer to what was already stated for non-frozen investments.

## CONSOLIDATED BALANCE SHEET

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### **Extraordinary reserve**

The extraordinary reserve totalling Euro 5,810 thousand was decreased by Euro 2,385 thousand due to the resolution to distribute dividends, a decrease totalling Euro 2,962 thousand due to the acquisition of own shares against payment or free of charge, registered in the specific reserve, and a decrease of Euro 975 thousand due to a transfer to tangible asset depreciation reserve funds that exceed the charges for accelerated depreciation.

### **Translation difference reserve**

The reserve for conversion differences, with a loss of Euro 1,289 thousand, contains the differences caused by the conversion of the foreign currency (non Euro) balance sheets (United States, Canada, Singapore, UK, Brasil, Sweden, Australia and New Zealand) and was reduced during the business year by Euro 122 thousand.

### **Special tax scheme fund**

This entry, totalling Euro 4,808 thousand, consists of the reserve for accelerated depreciation in the previous financial years in accordance with the method recommended by Accounting Principle no. 25, i.e. without moving from the income statement but deducting it for tax purposes through a reduction in declared earnings and then placing it in a shareholders' equity reserve after the shareholders meeting approval of the balance sheet. The increase of Euro 975 thousand on the value of the previous financial year is related to the accelerated depreciations in 2002 for Euro 1,624 net of the reversal effect calculated on the tax deductible 2003 depreciations and on the sale of assets for Euro 649 thousand.

### **Profits and other reserves of the consolidated companies**

The loss in the reserve totalling Euro 987 thousand fell by Euro 3,872 thousand due to the effect of the destination of the 2002 financial year result produced by the consolidated companies and a further decrease of Euro 648 thousand, connected to the deconsolidation of the Schelling Group.

### **Profit (loss)**

This contains the result of the period.

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

	<b>December 2003</b>	<b>December 2002</b>
Profit/(loss) attributable to the shareholders (Euro/1,000)	(41,274)	(5,761)
Average number of shares in circulation	27,393,042	27,393,042
Profit/(loss) per share (expressed in Euro per share)	(1.51)	(0.21)

### **Schedule linking 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 December 31 2003 and December 31 2002 and the consolidated shareholders' equity from the same dates, as well as the connection between the corresponding data is as follows:



	Shareholders' equity 2003	Results of the Financial Year 2003	Shareholders' equity 2002	Results of the Financial Year 2002
Shareholders' equity and result of the financial year as reported in the parent company's balance sheet	82,715	(47,428)	132,529	(1,890)
<b>Elimination of the load value of the consolidated holdings:</b>				
Difference between load value and proportional value of the shareholders' equity – Biesse	3,715		4,385	
Proportional results obtained by Biesse held companies		(3,566)		(2,943)
Consolidation difference - Biesse	3,113	(452)	2,860	(441)
Consolidation reserves	65		65	
Annulment of devaluation of holdings		3,721		4,360
Difference between load value and proportional value of the shareholders' equity – Schelling			(22,411)	
Schelling Group company result		(11,846)		(5,081)
Consolidation difference - Schelling		(930)	17,256	(1,015)
Appreciation on real estate – Schelling		(15)	482	(16)
<b>Elimination of the effects of operations carried out between consolidated companies:</b>				
Intergroup profits included in the value of final inventories	(2,288)	774	(3,062)	1,502
Intergroup profits on assets	(778)	0	(778)	0
<b>Valuation of the associated companies using the shareholders' equity method</b>				
	(412)	(225)	(190)	(190)
<b>Accounting of the leasing assets with the financial method (IAS 17)</b>				
	529	576	(47)	(47)
<b>Adjustment for capital loss on the sale of Schelling (*)</b>				
		18,116		
Shareholders' equity and result of the Group	86,658	(41,274)	131,087	(5,761)
Shareholders' equity and result for third parties	232	(8)	839	(1)
Financial years' result before acquisition	15	15		
Shareholders' equity and result as reported in the consolidated balance sheet.	86,905	(41,268)	131,927	(5,762)

(\*) 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 Euro 7,810 thousand (Euro 10,123 thousand at the end of 2002) and is made up as follows:

#### Pensions and similar items

This entry totalling Euro 494 thousand (Euro 498 thousand at the end of the previous financial year) includes the amount for supplementary allowances to customers relating to current agency relationships.

#### Taxation reserves

The amount totalling Euro 2,724 thousand includes deferred taxes for the Biesse S.p.A. parent company totalling Euro 1,864 thousand, calculated on the residual accelerated depreciations, purely for tax purposes with the recommended method, and on residual contingency and capital gain shares subject to instalments.

## CONSOLIDATED BALANCE SHEET

In reference to accounting principle 25, we did not believe we needed to proceed in compensating between the credits for prepaid taxes and deferred tax funds at these do not present similar characteristics and considering the time periods in which these entries were used to be different.

### Other funds

Description	Previous consolidation years' value	Variations in the consolidation area	Decrease and other movements	Prevision of the period	Exchange rate differences	Value at close of financial year
Provision for exchange risks	239	0	0	759	0	998
Product warranty provision	3,030	(445)	(541)	172	30	2,246
Provision for future risks and charges	3,628	0	(2,500)	593	(4)	1,717
<b>Total</b>	<b>6,897</b>	<b>(445)</b>	<b>(3,041)</b>	<b>1,524</b>	<b>26</b>	<b>4,961</b>

The exchange risk fund was increased during the financial year by Euro 759 thousand, due to the adjustment of the balance sheet entries expressed in foreign currencies at the end of the financial year.

The product guarantee fund was modified following an adjustment to the fund to an assessment of the guarantees to be given. In addition to the normal movements of the period, there is also the decrease of Euro 445 thousand following the deconsolidation of the Schelling Group.

The other funds for future risks and charges entry contains a remaining Euro 708 thousand, related to company restructuring funds which were set aside by Biese S.p.A. for Euro 660 thousand and by Biese Group Deutschland for Euro 48 thousand. Euro 2,385 thousand of the restructuring fund was used; the remaining amount will be used during 2004 for finishing the rationalisation process begun during the past years.

In addition this fund there are Euro 1,009 thousand (of which Euro 593 thousand were set aside during the period), of which Euro 480 thousand are provisions for covering losses for holdings exceeding the shareholders' equity and better described in the schedule below, and Euro 529 thousand for current and prior provisions created due to potential liabilities deriving from disputed items existing with former resellers and customers.

### Loss hedge fund for subsidiary, non-consolidated and associated companies

	Previous year's value	Movement inc./dec.	Value at close of financial year
Isp Systems Srl	0	422	422
Sandymac Srl	0	58	58
<b>Total</b>	<b>0</b>	<b>58</b>	<b>480</b>

**Employee's severance pay**

The movement was:

<b>Previous years' reserve</b>	<b>12,931</b>
Variations in the consolidation area	(717)
Payments made in the period	(2,270)
Amount accrued in the period	3,665
<b>Value at close of financial year</b>	<b>13,609</b>

**Payables****Debts to banks:**

The amount totalling Euro 111,340 thousand is itemised as follows:

	Previous year's value	Movement inc./dec.	Value at close of financial year
Current accounts and short-term loans	65,474	31,553	97,027
Medium-term loans	11	44	55
Secured loans	9,133	(5,573)	3,560
Under 12 months	276	821	1,097
More than 12 months	8,857	(6,394)	2,463
Unsecured Loans	14,512	(3,814)	10,698
Under 12 months	1,038	3,764	4,802
More than 12 months	13,474	(7,578)	5,896
<b>Total</b>	<b>89,130</b>	<b>22,210</b>	<b>111,340</b>

The increase in bank debt during the financial year totalling Euro 22,210 thousand should be analysed in light of what has already been said about the trend in liquid assets. We believe that it is important to underline at this point that the sale of the Schelling Group permitted us to improve our total debt situation for the Group by Euro 12,700 thousand.

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

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

<b>Description</b>	<b>Balance at 31/12/2003</b>
Loans as per law 46/82	1,283
Mutuo Medio Credito Fondiario Centroitelia	692
Mutuo BCI Bank Montreal	70
<b>Total</b>	<b>2,045</b>

## CONSOLIDATED BALANCE SHEET

Secured loans are listed below:

<b>Company</b>	<b>Amount</b>	<b>Credit institution</b>	<b>Description of the collateral</b>
Bifin Ltd	1,081	Mutuo BCI Comit NY	Mortgage on industrial buildings in Charlotte (USA)
Biesse S.p.A.	1,012	BEI loan	Mortgage on an area 75,000 sq.m, with a building complex in Pesaro, Chiusa di Ginestreto (Pesaro), comprising 7 factory buildings
Motori MC Kart	1,111	Mutuo Mediocredito Fondario Centroatia	Mortgage on industrial buildings in Strada Selva Grossa, Pesaro
Biesse S.p.A.	207	Mutuo Mediocredito Fondario Centroatia	Mortgage on buildings in Via della Meccanica, s.n. Chiusa di Ginestreto (Pesaro)
Sel Realty Inc.	149	Mutuo BCI Comit Canada	Mortgage on industrial building in Montreal (Canada)
<b>Total</b>	<b>3,560</b>		

### **Payables to other banks:**

The payables to other banks totalling Euro 22,286 refer mainly to the sale and lease-back operations carried out during 2002. The leasing contracts were signed with the Intesa Leasing company, (Euro 13,253 thousand), related to property located in Pesaro and with the companies Cardine Leasing and Locafit (Euro 8,876 thousand), related to property in S. Giovanni in Marignano (RN). At the close of the previous financial year, this balance sheet item also included an amount totalling Euro 8,782 thousand, related to the leasing contract signed by Schelling Anlagenbau with the company LD-Leasing GmbH.

### **Advances:**

The Advances entry totalling Euro 5,932 thousand refers to the advances received by customers at the closing date of the balance sheet; the variation due to the deconsolidation of the Schelling Group totals Euro 806 thousand; therefore the net decrease is Euro 2,387 thousand and is mainly due to the difficult industry situation that determined the decline in orders.

### **Payables to suppliers:**

<b>Description</b>	<b>Previous financial year's value</b>	<b>Variations in the consolidation area</b>	<b>Movement inc./dec.</b>	<b>Value at close of financial year</b>
To third party suppliers	80,355	(2,571)	(16,627)	61,157
To subsidiary, non-consolidated companies	15	0	(8)	7
To associated companies	1,019	(17)	(792)	210
To parent companies	0	0	516	516
<b>Total</b>	<b>81,389</b>	<b>(2,588)</b>	<b>(16,911)</b>	<b>61,890</b>

Payables to third party suppliers, compared with the previous financial year, it includes Euro 2,571 thousand related for the Schelling Group; taking this into consideration, the net movement during the financial year amounts to Euro 16,627 thousand. This decrease is also due to the decrease in volumes, which was previously mentioned, in addition to the policies for optimising inventory levels and improving productive efficiency. We can add to this, the effect deriving from the enlargement of the Group to segments such as die production which is an upstream market from the core business: this has made it possible (and this will increase in the future) to reduce our dependency on third party suppliers for supplies of semi-finished goods and components.

Payables to subsidiary, non-consolidated companies amount to Euro 7000 and refer to Biesse Corporate School S.c.a r.l. for Euro 4000, Sandymac Srl for Euro 2000 and Cabi Srl for Euro 1000. Payables to associated companies total Euro 210 thousand, and consist of payables to Kernex Automation Srl for Euro 99 thousand, Intermac Vidrio Iberica S.A. for Euro 89 thousand, Isp Systems Srl for Euro 16 thousand and HSD Deutschland GmbH for Euro 6 thousand.

payables to controlling companies total Euro 516 thousand, claimed by Biesse Holding S.p.A.. This amount is related to the acquisition of Irpeg credit for the tax year 2002.

#### **Tax payables and payables to social security institutes**

<b>Description</b>	<b>Previous financial year's value</b>	<b>Variations in the consolidation area</b>	<b>Movement inc./dec.</b>	<b>Value at close of financial year</b>
Tax payables	10,417	(2,215)	(3,161)	5,041
Payables to social security institutes	4,981	(248)	(973)	3,760
<b>Total</b>	<b>15,398</b>	<b>(2,463)</b>	<b>(4,134)</b>	<b>8,801</b>

The tributary payables totalling Euro 5,041 thousand are relative to the receivables for employee deductions, consumption taxes and other tax payables.

Payables to pension funds, totalling Euro 3,760 thousand, refer to employee management.

In the "Variations to the consolidation area column" the amounts related to the Schelling Group at 31/12/2002 are summarised: as for the amount of the tax payables, this refers to payables for withholding tax made for employees and professionals as well as other tax payables.

#### **Miscellaneous receivables**

<b>Description</b>	<b>Previous financial year's value</b>	<b>Variations in the consolidation area</b>	<b>Movement inc./dec.</b>	<b>Value at close of financial year</b>
Payables to employees	7,382	(803)	(692)	5,887
Payables for purchases	2,342	0	(1,483)	859
Other payables in under 12 months	1,764	(84)	(803)	877
<b>Total other payables in under 12 months</b>	<b>11,488</b>	<b>(887)</b>	<b>(2,978)</b>	<b>7,623</b>
Payables for purchases	2,338	0	(206)	2,132
Other receivables due in more than 12 months	0	0	0	0
<b>Total other payables due in more than 12 mo.</b>	<b>2,338</b>	<b>0</b>	<b>(206)</b>	<b>2,132</b>
<b>Total misc. payables</b>	<b>13,826</b>	<b>(887)</b>	<b>(3,184)</b>	<b>9,755</b>

## CONSOLIDATED BALANCE SHEET

The misc. debt entry amounts to Euro 9,755 thousand, net of Euro 887 thousand, related to the Schelling Group (corresponding to payables due in under 12 months); the net reduction for the period totals Euro 3,184 thousand. As far as the receivables payable within 12 months, totalling Euro 7,623 thousand are concerned, this contains mostly the debt towards employees for salaries and wages for Euro 5,887 thousand. The entry decreased by Euro 3,588 thousand, partially due to the reduction of payables to the personnel, due to company downsizing and due to the large reduction in payables related to accumulated vacation days that had not been taken, and partially due to the decrease in debt related to past acquisitions (see table below), in addition to the deconsolidation effects from the Schelling Group.

The payables over 12 months total Euro 2,132 thousand and comprises the remaining debt relating to the acquisition of the remaining 20% of the HSD S.p.A. capital stock (Euro 1,252 thousand), the acquisition of company branches from Allwood Machinery (Euro 441 thousand), Diamut Srl (Euro 232 thousand) and Busetti Srl (Euro 207 thousand).

The reclassification by duration of the data referred to in the previous financial year has been modified (in respect to what was previously communicated) to permit a better comparison between the closing dates of the balance sheets.

### *Schedule of payables from purchases*

Description	Previous financial year's value	Refunds	Transfer and other movements	Value at close of financial year
Cabi Srl	2,065	(2,065)	859	859
Allwood Machinery	277	(277)	0	0
<b>Debts payable under 12 months</b>	<b>2,342</b>	<b>(2,342)</b>	<b>859</b>	<b>859</b>
Cabi Srl	1,091	0	(859)	232
Cni Srl	599	(599)	0	0
Allwood Machinery	441	0	0	441
Busetti Srl	207	0	0	207
HSD S.p.A. shares	0	0	1,252	1,252
<b>Payables due in over 12 months</b>	<b>2,338</b>	<b>(599)</b>	<b>393</b>	<b>2,132</b>
<b>Total payables</b>	<b>4,680</b>	<b>(2,941)</b>	<b>1,252</b>	<b>2,991</b>

### *Accrued liabilities*

Description	Previous financial year's value	Variations in the consolidation area	Movement inc./dec.	Value at close of financial year
Interests payables	228	(18)	(7)	203
Miscellaneous	418	(193)	9	234
<b>Total</b>	<b>646</b>	<b>(211)</b>	<b>2</b>	<b>437</b>

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

### **Deferred Income**

<b>Description</b>	<b>Previous financial year's value</b>	<b>Variations in the consolidation area</b>	<b>Movement inc./dec.</b>	<b>Value at close of financial year</b>
Interests receivables	838	0	(756)	82
Deferred incomes for installation and testing	1,159	(394)	59	824
<b>Total</b>	<b>1,997</b>	<b>(394)</b>	<b>(697)</b>	<b>906</b>

### **Memorandum accounts:**

The memorandum accounts are described below:

<b>Description</b>	<b>Previous financial year's value</b>	<b>Value at close of financial year</b>
Leasing commitments	11,562	7,882
Collateral given for guarantees/endorsements	13,410	11,573
Bills in circulation	10,303	8,039
Other memorandum accounts	22,866	25,077
<b>Total</b>	<b>58,141</b>	<b>52,573</b>

The obligations for accruing financial lease charges amount to Euro 7,882 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 accounting of these contracts were done with the financial method, instead of with that provided for by the current statutory and tax regulations, the historical cost of the "tangible assets" on December 31 2003 would have been more than Euro 6,593 thousand and the accumulated depreciation fund for the same would have been more than Euro 2,510 thousand; the financial payables would have been higher than Euro 3,712 thousand. The depreciation allowance for the financial year would have been more than Euro 960 thousand, the financial charges would have increased by Euro 232 thousand; whereas the leasing charges effectively spent in the income statement would have been fallen by Euro 1,387 thousand. In this case the loss for the period up to December 31 2003 would have been lower than Euro 125 thousand; whereas the shareholders' equity would have been Euro 121 thousand higher, net of taxes.

Among the securities given for guarantees, the highest amount (Euro 3,000 thousand) refers to a guarantee issued by Biesse S.p.A. in favour of the Leasing GmbH leasing company, as a security for a leasing contract signed in 2002 by Schelling Anlagenbau: this guarantee, due to the sale of Schelling, was extinguished on January 7 2004. In addition to this guarantee, there were also the guarantees issued to support the activities of Biesse Group Australia Pty. Ltd. (Euro 893 thousand) and Bifin Ltd. (Euro 1,821), the guarantee of Euro 1,252 thousand issued in favour of the former partner of HSD S.p.A., to secure the acquisition of the shares of the subsidiary company.

## CONSOLIDATED BALANCE SHEET

Finally there are the guarantees given to the tax office in the face of requests for quarterly reimbursements and annual VAT declarations (Euro 1,266 thousand), to Simest for the granting of a loan (Euro 487 thousand) and to the City of Pesaro for charges related to the town planning of the buildings located therein. (Euro 1,468 thousand).

In the other memorandum items, totalling Euro 25,064 thousand, Euro 8,243 thousand relates to derivative operations carried out towards the end of the period and done mainly to protect the Biesse S.p.A. 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. In addition, there is an interest rate swap contract stipulated to hedge the risk of a variation in interest rates on a lease-back contract for the Pesaro factory, which is entered in the balance sheet for Euro 13,253 thousand. Finally, there are the amounts of Euro 1,805 thousand, which refer to the buy-back obligation that was assumed towards the leasing company for the sale of the Group's production machinery to domestic customers, and Euro 1,782 thousand, consisting of payment obligations related to property purchasing contracts (Euro 913 thousand) and commitments for the sale of own shares, necessary in the case that Mr. Claudio Granuzzo exercises his call options (Euro 869 thousand).

### REMARKS ABOUT THE MAIN INCOME STATEMENT ENTRIES

(All amounts are expressed in thousands of Euros)

#### *Production Value*

The production value amounts to Euro 315,021 thousand down 13.5% on the previous financial year (Euro 364,015 thousand) due to the decrease in volumes and to the uncertainties in the industry.

The production value that can be ascribed to the Schelling Group totals Euro 31,362 thousand, whereas the amount at the end of the previous financial year totalled Euro 40,058 thousand. Therefore the net change that refers to the new consolidation area has been as follows:

Description	Previous financial year's value	Current financial year's value	Variation	Variation %
Consolidated production value	364,015	315,021	(48,994)	(13.5%)
Schelling Group production value	(40,058)	(31,362)	8,696	(21.7%)
<b>New Biesse group production value</b>	<b>323,957</b>	<b>283,659</b>	<b>(40,298)</b>	<b>(12.4%)</b>

#### *Revenues from sales and services*

Description	Previous financial year's value	Current financial year's value	Variation	Variation %
Revenues from product sales	357,640	296,295	(61,345)	(17.2%)
Revenue from services	11,182	9,664	(1,518)	(13.6%)
Other sales revenues	2,712	1,586	(1,126)	(41.5%)
Revenue variation from refunds, bonuses, discounts and invoice adjustments	(801)	(908)	(107)	13.4%
<b>Total</b>	<b>370,733</b>	<b>306,637</b>	<b>(64,096)</b>	<b>(17.3%)</b>



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

Division	Previous financial years'		Current financial years'		Variation	
	value	%	value	%	Variation	%
Wood Division	249,360	67.30%	204,717	66.80%	(44,643)	(17.9%)
Glass and Marble Division	66,095	17.80%	59,039	19.3%	(7,056)	(10.7%)
Systems Division	41,909	11.30%	28,316	9.2%	(13,593)	(32.4%)
Mechatronic Division	23,386	6.30%	23,768	7.8%	382	1.6%
Grand total	380,750	102.70%	315,840	103.00%	(64,910)	(17.00%)
Interdivisional elisions	(10,017)	(2.70%)	(9,203)	(3.00%)	814	(8.1%)
<b>Total consolidated revenues</b>	<b>370,733</b>	<b>100.00%</b>	<b>306,637</b>	<b>100.00%</b>	<b>(64,096)</b>	<b>(17.3%)</b>

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

Division	Previous financial years'		Current financial years'		Variation	
	value	%	value	%	Variation	%
EU Area	213,255	57.5%	163,683	53.4%	(49,572)	(23.2%)
North America	66,841	18.0%	51,329	16.7%	(15,512)	(23.2%)
Rest of World	90,637	24.5%	91,625	29.9%	988	1.1%
<b>Total consolidated revenues</b>	<b>370,733</b>	<b>100.00%</b>	<b>306,637</b>	<b>100.0%</b>	<b>(64,096)</b>	<b>(17.3%)</b>

The analysis of revenue by division shows the persistence of the difficulties being faced by the industry. The decrease for the Wood Division is 17.9% and 10.7% for the Glass/Marble Division. The performance of the Mechatronic Division was unchanged thanks to its strategy to expand into new markets. The drop for the Systems Division (made up by the Schelling Group) was particularly burdensome, totalling 32.4% (which can be considered reliable, even if the considered income statement relates to the first eleven months of the year, as the main variations occurred after the date of sale). Up until 2003, the Systems Division corresponds to the Schelling Group: with the sale of the Austrian group, the Biesse S.p.A. Group will continue to serve the customers in this market segment (not having signed non-competitive agreements with the purchasers of Schelling Anlagenbau), and will become a business area within the Wood Division.

The decrease in the main sales divisions of the group is mirrored by other geographical markets, where both the EU area and North America dropped by 23.2%. While the reasons for this drop in the EU area can be traced to the difficult patch Europe is going through, for North America, the reason is mainly the strong Euro, which does not allow the Biesse Group to profit from the recovery registered in the second half of 2003.

The Rest of World area is comparable to the results of the previous year, which is the result of the Group's strategy to orient itself towards new markets.

In reference to the deconsolidation of the Schelling Group, it must be pointed out that the Biesse Group will continue to cover the Systems segment from within the Wood Division, as a non-competition agreement was not signed with the purchasers of the Austrian Group.

For more comments please consult the operations report.

## CONSOLIDATED BALANCE SHEET

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### **Other revenue and proceeds:**

<b>Description</b>	<b>Previous financial year's value</b>	<b>Movement inc./dec.</b>	<b>Value at close of financial year</b>
Contributions	254	(52)	203
Other revenues	6,445	(1,033)	5,413
<b>Total</b>	<b>6,699</b>	<b>(1,083)</b>	<b>5,616</b>

This entry presents a balance of Euro 5,616 thousand, Euro 1,083 thousand down on the previous period. Eliminating the contribution from Schelling, the balance at the end of the financial year totals Euro 4,468 thousand, against the previous year's value of Euro 6,129, indicating a decrease of Euro 1,661 thousand.

This amount is mainly related to recovering the expenses of transporting sold goods (Euro 1,786 thousand), extraordinary income derived from the specific management and the closure of redundant funds (Euro 1,195 thousand) and current rents (Euro 403 thousand). The amount related to the Schelling Group includes the amount of Euro 600 thousand, which is related to the expertise provision contract by Schelling Anlagenbau for Eurojet Airlines S.a.S., concluded during June 2003; the relative receivable was considered within the range of assets and liabilities in order to determine the capital loss derived from the sale of the Schelling Group.

### **Production costs:**

#### ***Production costs for raw materials, consumable and merchandise:***

This entry has a balance of Euro 138,211 thousand, down by Euro 18,882 on the corresponding period of the previous year (decrease of 12%). After the deconsolidation of the Schelling Group, the entry presents a balance of Euro 123,169, in comparison with a value in the previous year's balance sheet of Euro 141,032, with a net decrease of Euro 17,863 thousand (14%).

As these numbers demonstrate, the exit of the Schelling Group helped in the recovery of efficiency (the decrease in production costs is greater than the decrease in production value), whereas an analysis of the previous consolidation area shows a less evident improvement.

As far as the new Biesse area is concerned, it should be pointed out that the production cost data accounts for the particularly prudent provisions established for the increased costs sustained, and that will be sustained in the future, for the development of new prototypes.

Finally, the positive effect on the Group's efficiency must be stressed. It derives from the drop in purchasing prices, due both to the general tendency of supply markets, as well as to the expansion of the group into upstream value chain activities, which has allowed for the increase in the critical mass of the Group and for obtaining better conditions from third party suppliers.

**Service costs**

<b>Description</b>	<b>Previous financial year's value</b>	<b>Movement inc./dec.</b>	<b>Value at close of financial year</b>
External machining	10,712	(395)	10,317
Energy consumption	1,502	5	1,507
Maintenance	2,275	36	2,312
Technical, legal and administrative consultancy	5,680	(511)	5,170
Commissions paid	8,596	694))	7,902
Trade fairs and advertising	8,207	(1,975)	6,232
Personnel travel costs	8,752	(1,457)	7,295
Post and telephone charges	2,581	(222)	2,359
Transport costs	10,275	(1,835)	8,439
Other service costs	10,654	(775)	9,880
<b>Total</b>	<b>69,235</b>	<b>(7,823)</b>	<b>61,413</b>

The same schedule, net of the contributions from the Schelling Group, is as follows:

<b>Description</b>	<b>Previous financial year's value (without Schelling)</b>	<b>Movement inc./dec.</b>	<b>Value at close of financial year (without Schelling)</b>
External machining	10,211	(220)	9,991
Energy consumption	1,328	0	1,328
Maintenance	1,976	(39)	1,938
Technical, legal and administrative consultancy	5,277	(737)	4,540
Commissions paid	7,739	(535)	7,205
Trade fairs and advertising	7,558	(1,857)	5,701
Personnel travel costs	6,944	(1,089)	5,855
Post and telephone charges	2,246	(187)	2,059
Transport costs	8,620	(1,338)	7,282
Other service costs	8,373	70	8,443
<b>Total</b>	<b>60,273</b>	<b>(5,931)</b>	<b>54,342</b>

Service costs amount to Euro 61,413 thousand, net of the costs connected with company re-structuring activities totalling Euro 1,671 thousand. They did not pass through the income statement but were used to reduce the specific account.

An analysis of the differences shows a large decrease both in the total figure, as well as in the amount without the contribution of the Schelling Group.

## CONSOLIDATED BALANCE SHEET

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The main changes from the financial year 2002 can be found in trade fair and advertising costs, which went from Euro 8,207 thousand to Euro 6,232 thousand, transportation costs, which went from Euro 10,275 thousand to Euro 8,439 thousand and in personnel travel costs which went from Euro 8,752 thousand to Euro 7,295 thousand. With regards to the costs for trade fairs and advertising, the decrease is due to improved trade for management which led to more careful decisions about the events in which to participate, favouring those that were better for our image and that had better possibilities of generating business which would cover the costs of the event. Here it should also be kept in mind that the numbers for 2003 contain costs for the participation in traditional industry events (Ligna 2003 for Wood, held in Hannover, Germany; Vitrum 2003 for Glass, held in Milan and AWFS Woodworking Exhibition, held in Anaheim, California), in 2002 this cost entry included the organisation costs for the company event "Ready to run", which was organised directly by Biesse S.p.A. and was held in the Vigorelli di Milano cycle track in May. In reference to the decrease in transportation costs, this is related to the lower volumes of the period. Finally, the decline in travel costs is explained by the reduction in sales volumes and the improved service provided to the end customer through properly trained personnel in the local branches. The Other service costs entry, totalling Euro 9,879 thousand, includes the remuneration paid to the Group Directors totalling Euro 328 thousand (Euro 365 thousand in 2002) and the emoluments for the auditors for Euro 60 thousand (Euro 73 thousand for the previous financial year).

### ***Costs for the enjoyment of third party property***

<b>Description</b>	<b>Previous financial year's value</b>	<b>Movement inc./dec.</b>	<b>Value at close of financial year</b>
Leasing expenses	5,704	(768)	4,935
Licenses	19	(12)	7
Lease and Rental expenses	2,840	572	3,412
<b>Total</b>	<b>8,562</b>	<b>(208)</b>	<b>8,354</b>

The amount totalling Euro 8,354 thousand was down Euro 209 thousand on financial year 2002. However when the numbers originating from the Schelling Group were removed from the data, the final balance amounts to Euro 7,183, in comparison to a starting balance of Euro 7,497, signalling a decrease of Euro 314 thousand.

Within this cost category, the costs for leasing expenses total Euro 4,935 thousand and contribute to the major part of the total decline, whereas the cost for rent totals Euro 3,412 thousand and increased by Euro 572 thousand in comparison to the previous financial year. 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.

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

**Personnel costs:**

<b>Description</b>	<b>Previous financial year's value</b>	<b>Movement inc./dec.</b>	<b>Value at close of financial year</b>
Wages and salaries	74,133	(5,332)	68,801
Social security costs	19,716	(1,157)	18,559
Severance indemnity and benefits	3,775	135	3,910
Other costs	348	9	357
<b>Total</b>	<b>97,972</b>	<b>(6,345)</b>	<b>91,627</b>

Personnel costs total Euro 91,627 thousand, down by Euro 6,345 thousand on the same period of the previous year. By removing the data from the Schelling Group, the closing amount is equal Euro 78,639, whereas the amount from the previous financial year is Euro 82,945, with a decrease of Euro 4,306.

The decrease is due mainly to the Salaries and wages entry following a company reorganisation process, which improved company efficiency through the reduction of fixed costs while providing the same level of service and the ability to respond in timely fashion to customer requests. The total amount is less Euro 715 thousand which represents the use of the company restructuring fund for the relevant share.

**Average personnel numbers**

The table below shows the average number of personnel for the companies included in the consolidation area

<b>Description</b>	<b>Previous financial year's value</b>	<b>Movement inc./dec.</b>	<b>Current financial year's value</b>
Executives	48	(3)	45
Middle Managers	2	0	2
Office staff	1,323	(82)	1,241
Blue collar workers	902	(13)	889
<b>Total</b>	<b>2,275</b>	<b>(98)</b>	<b>2,177</b>

The data relative to the Schelling Group is as follows:

<b>Description</b>	<b>Previous financial year's value</b>	<b>Movement inc./dec.</b>	<b>Current financial year's value</b>
Executives	0	0	0
Middle managers	0	0	0
Office workers	209	(23)	186
Blue collar workers	114	(2)	112
<b>Total</b>	<b>323</b>	<b>(25)</b>	<b>298</b>

## CONSOLIDATED BALANCE SHEET

The average company size for the new consolidation area is as follows:

<b>Description</b>	<b>Previous financial year's value</b>	<b>Movement inc./dec.</b>	<b>Current financial year's value</b>
Executives	48	(3)	45
Middle managers	2	0	2
Office staff	1,114	(59)	1,055
Blue collar workers	788	(11)	777
<b>Total</b>	<b>1,952</b>	<b>(73)</b>	<b>1,879</b>

As already explained in the operating report, the sale of the Schelling Group created a reduction in personnel for the Group (288 was the exact number on the date of the sale), with positive effects on structural costs, forecasting savings of approx. Euro 14 million for 2004.

The reduction in personnel involved also the new consolidation area, especially for indirect personnel. This phenomenon is a direct consequence both of the reduction in volumes as well as company reorganisation, with the goal of creating a leaner organisation. We should also point out that in 2003 the process of covering target markets was improved through already existing subsidiaries: France, Germany, United Kingdom, Asia and Australia are important markets for the Glass Division, allowing us to reach end customers with our own sales force and technical support team. This coverage was not obtained by hiring additional personnel, but by drawing on resources already within the Group.

### **Depreciation and devaluation**

<b>Description</b>	<b>Previous financial year's value</b>	<b>Movement inc./dec.</b>	<b>Value at close of financial year</b>
Amortizations of intangible assets	3,963	(146)	3,817
Depreciation of tangible assets	8,536	123	8,659
Write-downs on receivables included in the current assets and cash on hand	1,224	25	1,341
<b>Total</b>	<b>13,723</b>	<b>92</b>	<b>13,818</b>

The data relative to the Schelling Group is as follows:

<b>Description</b>	<b>Previous financial year's value</b>	<b>Movement inc./dec.</b>	<b>Value at close of financial year</b>
Amortizations of intangible assets	134	(132)	2
Depreciation of tangible assets	1,074	(196)	878
Write-downs on receivables included in the current assets and cash on hand	419	41	460
<b>Total</b>	<b>1,627</b>	<b>(287)</b>	<b>1,340</b>

From the schedules, we can see that the sale of the Schelling Group will determine a decrease of approx. 10% in depreciation costs and other devaluations; to this we can add the results from the underpreciated consolidation difference attributable to the Schelling Group (approx. Euro 1,015 thousand).

The Depreciation of intangible assets entry does not include the depreciation of the new licences acquired from Schelling Anlagenbau, as the purchase took place on December 31 2003.

The Depreciation of tangible assets entry also includes the cost deriving from the application of the financial method for the accounting of the property lease contracts, totalling Euro 1,118 thousand for the new Biesse Groupe and Euro 213 thousand for the Schelling Group.

The devaluation of current assets amounts to Euro 1,316 thousand and consists of allocations to the bad debts reserve.

**Other provisions for production costs:**

The Other provisions entry amounts to Euro 172 thousand and refers to the appropriation of funds for the Product guarantee reserve.

**Other operating expenses**

Description	Previous financial year's value	Movement inc./dec.	Value at close of financial year
Bad debt expenses	49	266	315
Miscellaneous tax expenses	84	637	721
Unexpected losses	122	(75)	47
Representational costs	835	(513)	322
Membership fees	170	2	172
Car expenses	799	(113)	686
Stationery	675	(215)	460
Loss on fixed assets	538	(149)	389
Heating	403	130	533
Other operating expenses	2,506	(281)	2,225
<b>Total</b>	<b>6,180</b>	<b>(311)</b>	<b>5,870</b>

The Other operating expenses entry totals Euro 5,870, down by Euro 311 thousand on the previous financial year. Its value on the closing date of the balance sheet, net of the costs from the Schelling Group, amounts to Euro 4,292, whereas the data for the previous financial year totals Euro 4,978, with a decrease of Euro 686 thousand.

## CONSOLIDATED BALANCE SHEET

### Financial revenues and charges

#### Other financial revenues:

The amount totalling Euro 3,598 thousand is itemised as follows:

Description	Previous financial year's value	Movement inc./dec.	Value at close of financial year
Income from securities recorded under fixed assets that do not reflect equity investments	125	(35)	90
Income from securities recorded under current assets that do not reflect equity investments	3	(3)	0
Other income from subsidiaries	0	7	7
Other income from affiliated companies	0	3	3
Miscellaneous income	922	(176)	746
Gain on exchange rate differences	4,338	(1,586)	2,752
<b>Total</b>	<b>5,388</b>	<b>(1,790)</b>	<b>3,598</b>

The Provisions from securities entry entered in non-current assets refers mainly to the interest on loans to third parties.

The decrease in miscellaneous provisions is mainly due to the changes in the exchange rate along the year, where the strengthening of the Euro had negative influences on this entry in the income statement. The strong Euro, as already mentioned, had consequences on volumes, especially in geographical areas linked to the US dollar, but not on operating margins, as the Group normally uses hedging instruments for exchange rate differences for the sale of final products.

As already mentioned in other parts of this document, as the Group implemented a centralised treasury system over the years, it does not make any sense to identify the amount of provisions (or charges) related to the Schelling Group: on the other hand it is clear that this sale will determine a reduction in financing charges as the Group debt was reduced by approx. Euro 12,700 thousand.

#### Interest and other financial charges:

The balance is made up as follows:

Description	Previous financial year's value	Movement inc./dec.	Value at close of financial year
Interests from bank and on advances	1,493	(355)	1,138
Interests on loans	2,670	(489)	2,181
Interests on debenture loans	1,973	450	2,423
Interests on other debts	352	(20)	332
Discounts and other financial charges	101	496	598
Provision for exchange risk	3,683	(195)	3,488
<b>Total</b>	<b>10,272</b>	<b>(112)</b>	<b>10,160</b>



The decrease in charges for payable interest on bank loans and financing is balanced out by the increase in the interest payable on other financial payables (which includes charges related to leasing contracts accounted for with the financial method, totalling Euro 1,338 thousand); this result was possible thanks to the Group's debt consolidation strategy that also determined a reduction in absolute terms for the cost of debt. The increase in total costs for interest and other financial charges is mainly explained by exchange rate losses, which increased during the period by Euro 195 thousand, due to the Euro which strengthened considerably against other main currencies in the first months of the year.

### Value adjustments to financial assets

#### Revaluations

This entry refers to the revaluation of the holdings in Intermac Vidrio Iberica S.A. of Euro 25 thousand and in HSD Deutschland GmbH of Euro 13 thousand, following a valuation of the holdings using the shareholder's equity method.

#### Devaluation

This entry, totalling Euro 1,533 thousand, includes the devaluation of the holdings in Cabi Srl (Euro 420 thousand), Sandymac Srl (Euro 126 thousand), Biesse China Co. Ltd. (Euro 117 thousand), and Schelling CIS (Euro 36 thousand), Isp Systems Srl (Euro 13 thousand), Eberle A.S. GmbH (Euro 5 thousand), Biesse Corporate School S.c.a r.l. (Euro 1000). Added to these are added provisions for covering losses in excess of shareholders' equity, related to Isp Systems Srl (Euro 422 thousand) and Sandymac Srl (Euro 58 thousand). These provisions were devalued with the shareholder's equity method, for the valuation of the holdings in subsidiary, non-consolidated and associated companies.

There was also a devaluation of Euro 335 thousand for the value of the own shares entered in non-current assets: the devaluation results from the adjustment of the load value of the holdings to their current value at the end of the financial year.

### Extraordinary provisions and charges

#### Extraordinary provisions:

The balance totalling Euro 3,288 thousand (Euro 441 thousand in the previous year's balance sheet) mainly consists of a capital gain of Euro 2,673 thousand, deriving from the purchase of 1,188,510 of our own ordinary shares, obtained from Werner Deuring Privatstiftung following the conclusion of a transaction between the parties (which occurred in December 2003) exceptionally linked to the purchase of Schelling Anlagenbau GmbH.

#### Extraordinary charges:

Description	Previous financial year's value	Movement inc./dec.	Value at close of financial year
Capital loss from sales	87	26,942	27,029
Taxes on previous financial years	809	(782)	27
Other extraordinary charges	4,613	1,407	6,020
<b>Total</b>	<b>5,509</b>	<b>27,567</b>	<b>33,076</b>

## CONSOLIDATED BALANCE SHEET

The capital loss from sales amounts to Euro 27,029 thousand and is largely determined by the extraordinary loss due to the sale of the Schelling Group (Euro 27,003 thousand). Based upon the sale contract, the loss was determined by the net value of the assets and liabilities relative to the Schelling Group at November 30 2003, the deconsolidation date, totalling Euro 10,210 thousand, to which is added the depreciable residual, totalling Euro 16,793 thousand, from the consolidation difference and property value (after depreciation realised for the first eleven months of 2003), entered in the balance sheet, following the inclusion of the Schelling Group into the consolidation area in 2000.

Another extraordinary charge worth mentioning is an amount related to the Schelling Group totalling Euro 3,308 thousand (compared to the amount at the end of the previous financial year of Euro 2000). Of this, an amount totalling Euro 1,907 thousand refers to the joint-venture agreement stipulated between Schelling Anlagenbau GmbH and the air transport company Eurojet Airlines S.a.S., which went bankrupt in December 2003), to which is added Euro 818 thousand, due to contingencies from the Schelling Group. The extraordinary charges also include Euro 334 thousand for consultancy and legal fees for the sale of the holding.

### **Income tax**

<b>Description</b>	<b>Previous financial year's value</b>	<b>Movement inc./dec.</b>	<b>Current financial year's value</b>
Income tax	(9,519)	6,476	(3,043)
Deferred/prepaid tax	5,185	358	5,543
<b>Total</b>	<b>(4,334)</b>	<b>6,834</b>	<b>2,500</b>

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 Euro 2,965 thousand; to this can be added Euro 78 thousand for other income taxes for the other companies in the Group.

The value of deferred/prepaid taxes increased by Euro 358 thousand, and consists of deferred tax receivable (Euro 7,631 thousand), calculated on recoverable loss by the parent company, as well as the prepaid tax effect and deferred taxes payable, net of the reversal effect of the deferred taxes entered in the previous years' balance sheet.

There were no hidden taxes at the closing date of the 2003 balance sheet.

*Numbers and face value for each category of shares in the parent company and number and face value of the new shares in the parent company underwritten during the financial year (article 2427 paragraph 1 no. 17 civil code):*

### **History of the capital stock**

	<b>Number</b>	<b>Face value</b>	<b>Capital stock</b>
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 nr. 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.

**Job description Remuneration**

<i>in thousands of Euros</i>		<b>Job description</b>	<b>Remuneration</b>			
<b>Individual</b>	<b>Position</b>	<b>Time in office</b>	<b>Salary</b>	<b>Non-monetary benefits</b>	<b>Bonuses and other incentives</b>	<b>Other remuneration</b>
Selci Roberto	Chairman of the Board	29/04/2006	47			
Selci Giancarlo	Chief Executive Officer	29/04/2006	34	1		
Cipolletta Innocenzo	Board Member*	29/04/2006	20			
Sibani Leone	Board Member*	29/04/2006	20			
Garattoni Giampaolo	Board Member*	29/04/2006	13			
Gasparucci Anna	Chief Executive Officer	Terminated during 2003	31	1		
Giamapaoli Attilio	Board Member	Terminated during 2003	12			
<b>Total</b>			<b>177</b>	<b>2</b>	<b>0</b>	<b>0</b>
Ciurlo Giovanni	Auditor	29/04/2006	23			
Sanchioni Claudio	Auditor	29/04/2006	12			
Franzoni Adriano	Auditor	29/04/2006	12			
<b>Total</b>			<b>47</b>	<b>0</b>	<b>0</b>	<b>0</b>

\* Independent directors as per 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 associated 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

As is known, when European Body of Regulations nr. 1601 of July 2002 comes into force, the 2005 balance sheet must be compiled using the IAS/IFRS accounting principles

The most significant changes in respect to the **general principles** in compiling balance sheets in accordance with the current regulations in a code of procedure can be traced to the more informative function of the IFRS balance sheet. This objective, among other things, pursued by the IFRS in backing the historical cost method, which remains valid for evaluating important components of the balance sheet (e.g. tangible and intangible assets) with "fair value" models (especially for financial instruments) and "present value" (for medium-long term funds).

In addition, the principle of prevalence of the form over the substance, typical of the current system, will be substituted by the substance over the form (e.g. in representing leasing in the balance sheet using the "financial method" instead of the "asset" method).

The application of these new principles should render results that are more representative of the company situation, even if they could be more volatile than under the current method.

at today, the company has basically completed the analysis of the differences that exist between the Group's accounting principles and the IAS/IFRS principles and has begun with the phase of converting the main areas. These activities will lead to the compilation of the 2005 balance sheet and consolidated balance sheet in accordance to IFRS principles and will allow for the processing of the information related to 2004 to be presented for comparison purposes.

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
- Impairment

### **Intangible assets**

In relation to the intangible fixed assets, the most important change is related to the introduction of the concept of intangible fixed assets with an indefinite useful life, that will therefore no longer be subject to depreciation; this principle extends also to the goodwill derived from "business combinations". These fixed assets must be undergo annual *impairment* testing, comparing the value entered in the accounts with the related "utility value".

Furthermore, whereas up until now, the costs of research and development, exceptions apart, were systematically included in the income statement in accordance with the provisions of the IAS/IFRS principles, development costs that meet the requirements of the IAS 38 standard will have to be capitalised.

***tangible assets***

For the tangible assets, the possibility is being considered of being able to enter in several categories of asset at their latest value rather than historical cost, as presently shown in the balance sheet.

***Inventory***

Changes are also provided for in the inventory valuation: their LIFO valuation will be substituted with the criteria of weighted average cost.

***Financial instruments***

in accordance with IAS 39, some financial instruments, depending on the destination given by the company for the related assets/liabilities, and in particular the derivative instruments must be entered in the financial statements at fair value, and the changes to the fair value must be reflected in the income statement. Under Italian accounting principles, derivative instruments represent commitments that must be entered below the line and must only be included in the financial statements under certain circumstances.

Derivative contracts can be considered for negotiation or hedging; they are considered to be in line with the hedge accounting rules introduced by IAS 39 in line with the hedged assets, liabilities and obligations if the hedge is related to a predefined risk management strategy, is consistent with the adopted risk management policies, is documented and is effective in neutralising it is supposed to hedge. The risk that is the object of the hedge is depicted by the variations in market value of in the cash flow of the hedged object.

In the case of hedging operations for covering the market value of an asset or liability posted in the financial statements, the derivative instrument and the object of the hedge are entered at their fair value with the registration of their effects in the income statement; in the case of hedge operations for cash flow, the variations of the market value of the derivative are "suspended" at their net worth and entered in the income statement, in line with the recording of the economic effects of the instruments subject to hedging.

Italian accounting principles in this regard limited and less rigorous than those provided for by IAS 39. The Biesse S.p.A. parent company has begun a series of meetings for carrying out the activities necessary for the classification of the derivative contracts such as hedges and their value.

***Severance benefits***

The IAS 19, relative to the accounting treatment of the benefits accruing when employment ends, has ratified the unacceptability of liability accounting in accordance with Italian practices, once and for all, on the basis of which the amount of severance pay accruing is entered in the financial statements with the hypothesis that all employees leave the company on the date of the financial statements. On the transition date the current value of the liability will be recalculated for each employee in accordance with the IAS 19 standards. The Biesse Group is already in advanced negotiations with a supplier of services for the development of the severance pay in accordance with international IAS 19 standard.

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**Devaluation of assets**

In general, IAS/IFRS requires the valuation if there has been a loss of value (“impairment”) of the fixed assets based upon indications that would suggest that this situation may exist. This check must be carried out annually even if the indications do not exist in the case of fixed assets with indefinite useful life or not yet available for use, or of goodwill acquired in a business combination operation.

The recoverability of the entered values can be verified by comparing the book value entered in the financial statements with the net sale price and the item's utility value which ever is the higher.

*Pesaro, March 25, 2004*

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

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# **APPENDIX**

*to the Consolidated Financial  
Statements of Biesse S.p.A.  
for the year ended  
31 December 2003*

CONSOLIDATED FINANCIAL STATEMENTS

APPENDIX "A"  
MOVEMENTS IN THE ENTRY "CONSOLIDATION DIFFERENCES"

€/1000	Consolidation difference of 31/12/2002	Depreciation fund as of 31/12/2002	Net value as of 31/12/2002	Variations year 2003	Consolidation difference as of 31/12/2003	Depreciation amount as of 31/12/2003	Depreciation fund as of 31/12/2003	Net value as of 31/12/2003
SELCO SRL	4.220	(1.491)	2.729		4.220	(422)	(1.914)	2.307
BIESSE CANADA LTD	56	(51)	6		56	(6)	(56)	(0)
SEL REALTY LTD	5	(4)	0		5	(0)	(5)	0
BIESSE GROUP UK LTD.	13	(6)	6		13	(1)	(8)	5
BIESSE GROUPE FRANCE SARL	26	(16)	10	(10)	0	0	0	0
MOTORI MC KART SRL	118	(9)	109		118	(12)	(21)	97
SCHELLING ANLAGENBAU GMBH	20.302	(3.045)	17.256	(16.326)	0	(930)	0	0
HSD SPA	0	0	0	704	704	0	0	704
<b>TOTAL</b>	<b>24.740</b>	<b>(4.622)</b>	<b>20.117</b>	<b>(15.632)</b>	<b>5.116</b>	<b>(1.371)</b>	<b>(2.003)</b>	<b>3.113</b>



**APPENDIX "B"**  
**CONSOLIDATED FINANCIAL STATEMENT 31 DECEMBER 2003**

(thousands of Euro)	31 December 2003	31 December 2002
<b>ACTIVITIES DURING THE PERIOD</b>		
+/- Profit(loss) from the period	(41.268)	(5.762)
+ Depreciations:		
+ to tangible assets	8.659	8.536
+ to intangible assets	3.817	3.963
+ Provisions		
+ for terminal Funding	3.665	3.593
+ for credit devaluation fund	1.316	1.224
+ to provisions for liabilities and charges	283	5.485
- Capital gain from own shares received from W.D.P.	(2.673)	0
- Capital gain from sales of assets	(208)	0
+ Capital loss from sale of Schelling shares	27.003	0
+ Devaluation of consolidated difference	10	0
<b>= SUBTOTAL</b>	<b>605</b>	<b>17.039</b>
- Paid terminal funding	(2.425)	(1.738)
- Utilised risk funds	(1.831)	(2.853)
+/- Variation in currency credit	8.498	(4.910)
+/- Variation in currency titles	(623)	(531)
+/- Changes in inventory	1.282	14.996
+/- Changes in accrued revenue and prepaid expenses	200	(242)
+/- Changes in accrued liabilities	217	(147)
+/- Changes in debt towards suppliers	(17.111)	(4.219)
+/- Change to other non-financial debt	(10.589)	1.020
<b>= CASH FLOW from (for) PERIOD ACTIVITY</b>	<b>(21.776)</b>	<b>18.414</b>
<b>INVESTMENT ACTIVITIES</b>		
- Purchase of intangible assets	(3.583)	(4.437)
+ Sale of intangible assets	37	49
- Purchase of tangible assets	(5.733)	(18.143)
+ Sale of tangible assets	1.562	2.670
+ Sale of Schelling Group		
- net assets on sale date	10,210	
- residual consolidation difference on sales date	16,793	
- loss from sale	(27,003)	
	0	0
+/- Purchase/sale of other shares	(148)	2.279
<b>= CASH FLOW FROM (FOR) FINANCIAL ACTIVITY</b>	<b>(7.865)</b>	<b>(17.582)</b>
<b>FINANCIAL ACTIVITY</b>		
+/- Increase/decrease financial credits	(104)	(15)
+/- Creation/refund medium-long term bank loans	(10.838)	(625)
+ Creation/refund of other financing	0	0
+ Increase/decrease in bank debt	33.905	(10.165)
Change in debt towards other financial institutions	(2.252)	32.937
- Payment of dividends	(2.385)	(2.431)
+ Increase in capital	0	0
Other movements to net assets	(1.248)	(178)
<b>= CASH FLOW FROM (FOR) FINANCIAL ACTIVITIES</b>	<b>17.078</b>	<b>19.523</b>
+/- Changes to balance sheet conversion reserve	(122)	(1.212)
<b>= FLOW OF LIQUID ASSETS</b>	<b>(12.685)</b>	<b>19.143</b>
+ Liquid assets at the beginning of the period	33.189	14.046
+ Liquid assets at the end of the period	20.504	33.189

APPENDIX "C"  
INDEPENDENT AUDITORS' REPORT

**Deloitte.**

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60123 Ancona  
Italia

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**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, 2003. 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.

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 Deloitte & Touche S.p.A. (now DT S.p.A.) on April 9, 2003.

In our opinion, the consolidated financial statements of BIESSE S.p.A. as of December 31, 2003 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.

For a better understanding of the financial statements, attention is drawn to the following information, more fully described in the notes to the financial statements and the management report:

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma  
Torino Treviso Verona Vicenza

A member firm of  
Deloitte Touche Tohmatsu

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Capitale Sociale: versato Euro 6.725.265,00 - sottoscritto Euro 10.327.450,00 - deliberato Euro 10.850.000,00  
Partita IVA/Codice Fiscale/Registro delle Imprese Milano n. 03049560156 - R.E.A. Milano n. 1726239

APPENDIX "C"  
INDEPENDENT AUDITORS' REPORT

2

during December 2003, the parent company BIESSE S.p.A. disposed of its controlling investment in the Schelling Group, recording a loss on disposal in the consolidated financial statements of Euro 27 million.

Due to this transaction, the amounts of the 2003 consolidated financial statement items show significant differences with respect to those of the prior year. In any event, the notes to the financial statements provide information on the main accounting effects produced by the disposal of the above mentioned investment;

at December 31, 2003 receivables for prepaid and deferred taxes were recorded for a total amount of approximately Euro 15.6 million; such receivables include Euro 7.6 million arising from the tax benefit connected to the loss for the year 2003 of the parent company BIESSE S.p.A., which may be carried as a reduction of taxable income in future years. Therefore, the recoverability of such receivables depends on the effective realisation in future years of taxable incomes forecast in the five year economic plan drawn up by the parent company for the period 2004-2008.

DELOITTE & TOUCHE S.p.A.

*Signed by*  
Carlo Beciani  
Partner

Ancona, April 5, 2004

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

*Editing*

Biesse S.p.A.

*Overall Coordination*

Marsteller Advertising

for Burson-Marsteller Financial

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