

# **INTERIM REPORT AT 30 JUNE 2014**

(Translation from the Italian original which remains the definitive version)

**BIESSE S.p.A.**  
**INTERIM REPORT AT 30 JUNE 2014**

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**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2014**

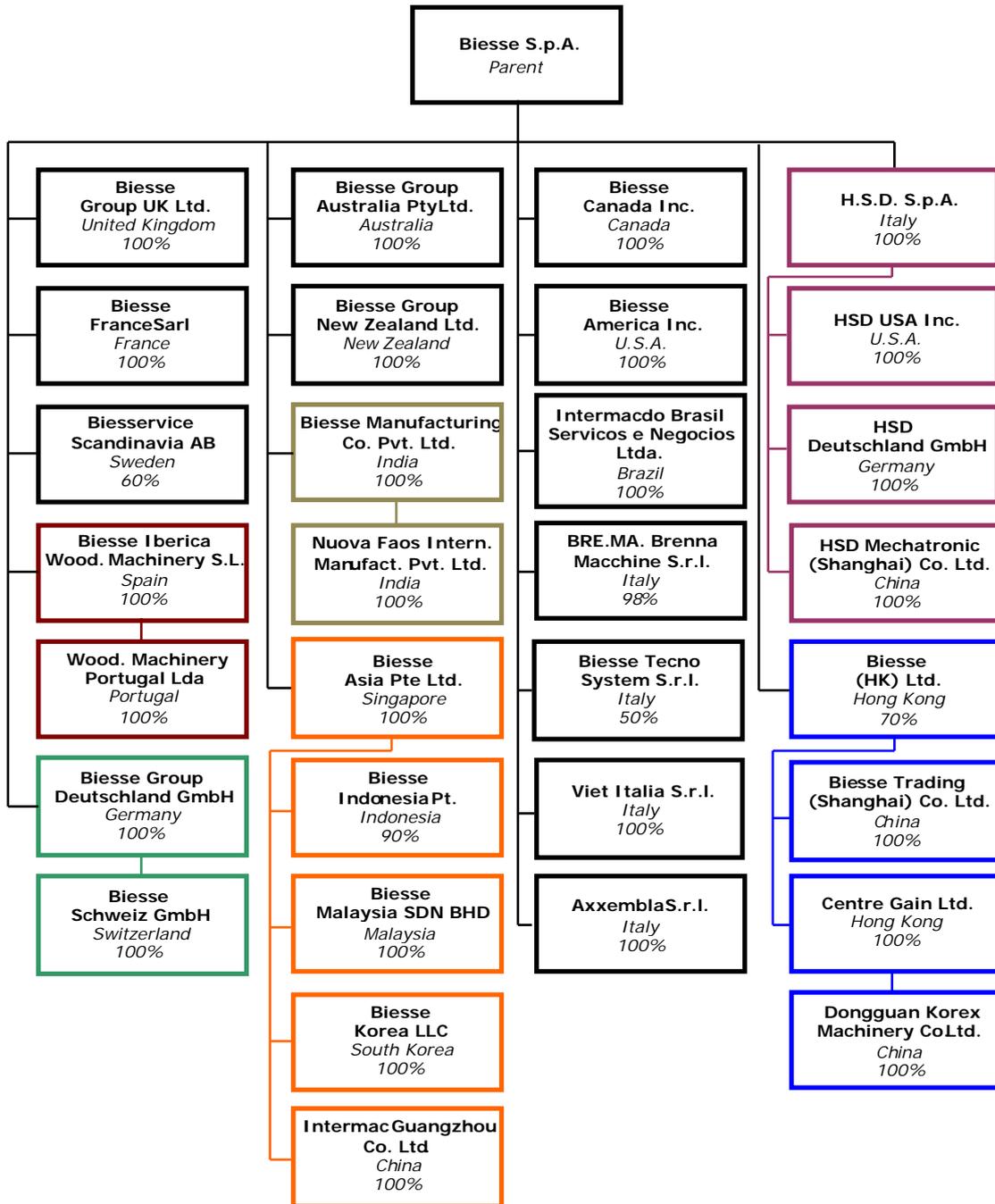
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GROUP STRUCTURE

The following companies belong to the Biesse Group and are included in the scope of consolidation:



Note: the different colours represent the subgroups of the control chain

Compared with the 2013 annual report, the consolidation scope underwent the following changes:

- Intermac Do Brasil Servicos e Negocios LTDA is now included in the scope of consolidation. The company was established in late 2013 with the purpose of developing trading of products of the Glass/Marble and Tooling Divisions within the Brazilian market; the company is still in the start-up phase and its contribution to the Group's results is limited.
  
- Axxemblea S.r.l. is now included in the scope of consolidation. The company was established on 27 March 2014, with the purpose of producing mechanical components for the Wood Division by leasing the relevant business unit from Asservice S.r.l., because the latter was no longer able to maintain the production levels required by Biesse Group. The lease agreement for the business unit will last five years and provides for an annual expense of € 40 thousand.

It should also be noted that Viet Italia S.r.l. is a special purpose entity set up to rent and subsequently acquire the business unit of the Pesaro-based brand under the same name (Viet), market leader in the wood calibrating and sanding sector, which was part of a company that was put into liquidation in November 2010 following a severe financial crisis. On 17 June 2013, an irrevocable purchase offer was submitted to the relevant stakeholders albeit subject to suspensive condition should the transfer of the company to the Biesse Group not occur within 90 days from the admission to the arrangement with creditors. On 1 July 2014, the hearing was held which approved the arrangement with creditors. The signing of the contract is currently pending in order to make the irrevocable purchase offer for the business unit no later than 15 September 2014 so as to allow the Court to implement the necessary procedures.

The irrevocable offer also includes the equity investment in Pavit S.r.l. (a company active in mechanical processing, whose output is largely absorbed by Viet Italia S.r.l.); therefore, when entering into the aforementioned contract the company will be consolidated on a line-by-line basis.

**COMPANY OFFICERS****Board of Directors**

Chairman and Chief Executive Officer	Roberto Selci
Chief Executive Officer	Giancarlo Selci
Executive Director	Alessandra Parpajola
Executive Director and Group General Manager	Stefano Porcellini
Executive Director	Cesare Tinti
Independent Director	Leone Sibani
Independent Director	Giampaolo Garattoni
Independent Director	Salvatore Giordano

**Board of Statutory Auditors**

Chairman	Giovanni Ciurlo
Standing Statutory Auditor	Claudio Sanchioni
Standing Statutory Auditor	Riccardo Pierpaoli
Alternate Statutory Auditor	Cristina Amadori
Alternate Statutory Auditor	Silvia Cecchini

**Internal Control and Risk Management Committee – Remuneration Committee**

Leone Sibani  
Giampaolo Garattoni  
Salvatore Giordano

**Supervisory Body**

Leone Sibani

Giampaolo Garattoni

Salvatore Giordano

Elena Grassetti

**Independent Auditors**

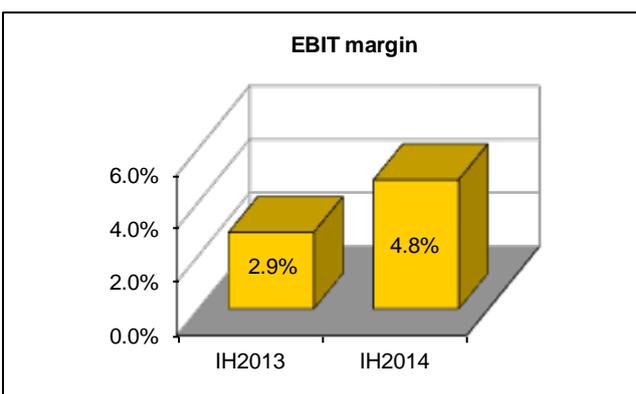
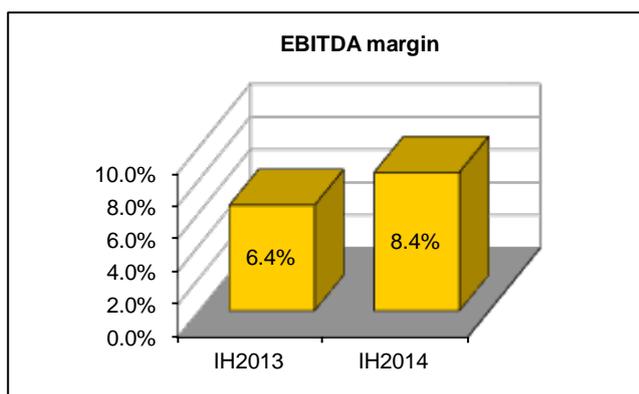
KPMG S.p.A.

## FINANCIAL HIGHLIGHTS

## Income Statement

	1H 2014	% on sales	1H 2013	% on sales	Change %
<i>Euro 000's</i>					
Revenue from sales and services	201,127	100.0%	180,251	100.0%	11.6%
Added value (1)	79,841	39.7%	69,374	38.5%	15.1%
EBITDA (Gross operating profit) (1)	16,961	8.4%	11,574	6.4%	46.5%
Normalised EBIT (Normalised operating profit) (1)	9,867	4.9%	4,935	2.7%	99.9%
EBIT (Operating profit) (1)	9,699	4.8%	5,149	2.9%	88.4%
Profit for the period	3,937	2.0%	1,162	0.6%	-

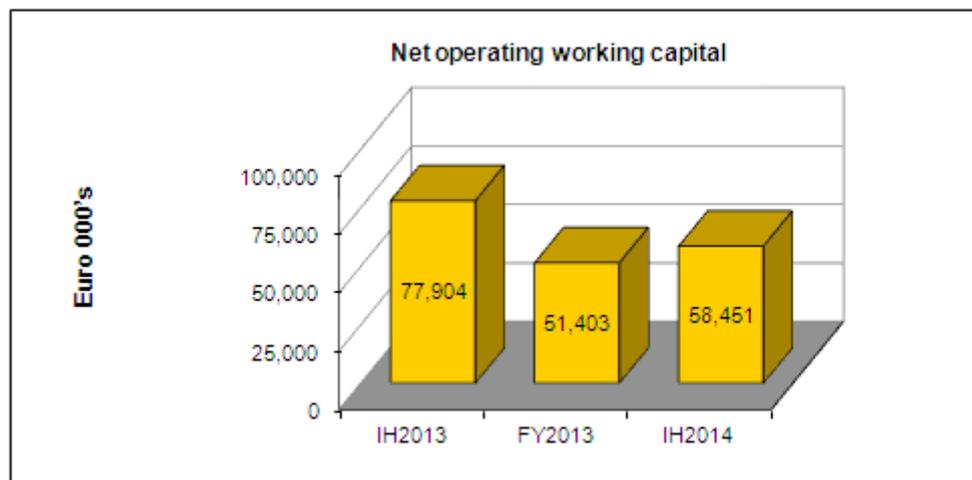
(1) Amounts referring to interim results and to aggregate equity and financial figures. The relevant calculation criteria are provided in the interim directors' report and in the Notes to the condensed interim consolidated financial statement.



## Statement of Financial Position

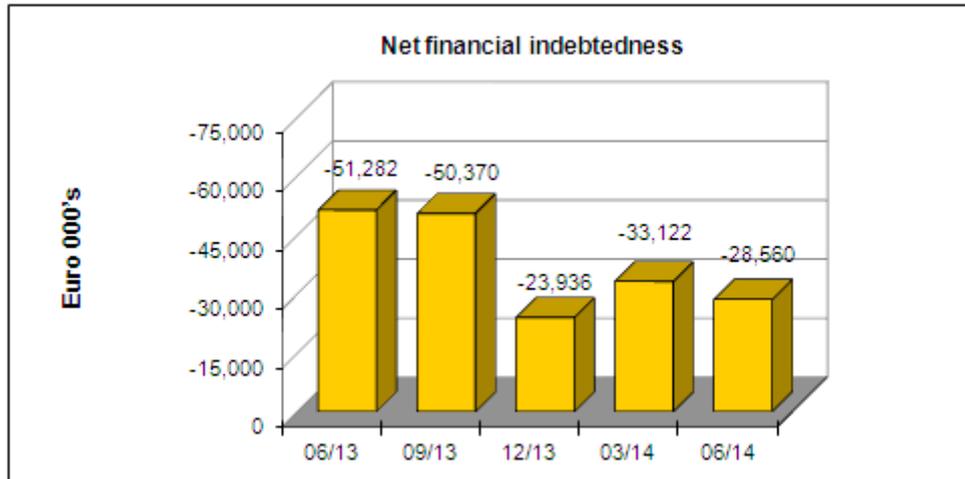
	30 June 2014	31 March 2014	31 December 2013	30 June 2013
<i>Euro 000's</i>				
Net Invested Capital (1)	140,662	147,900	137,030	161,336
Equity	112,103	114,778	113,094	110,054
Net financial indebtedness (1)	28,560	33,122	23,936	51,282
Net operating working capital (1)	58,451	63,855	51,403	77,904
Gearing (net financial position/equity)	0.25	0.29	0.21	0.47
Fixed asset/standing capital ratio	0.99	0.95	0.96	0.97

(1) Amounts referring to interim results and to aggregate equity and financial figures. The relevant calculation criteria are provided in the interim directors' report and in the Notes to the condensed interim consolidated financial statement.

**Cash flows** <sup>(2)</sup>

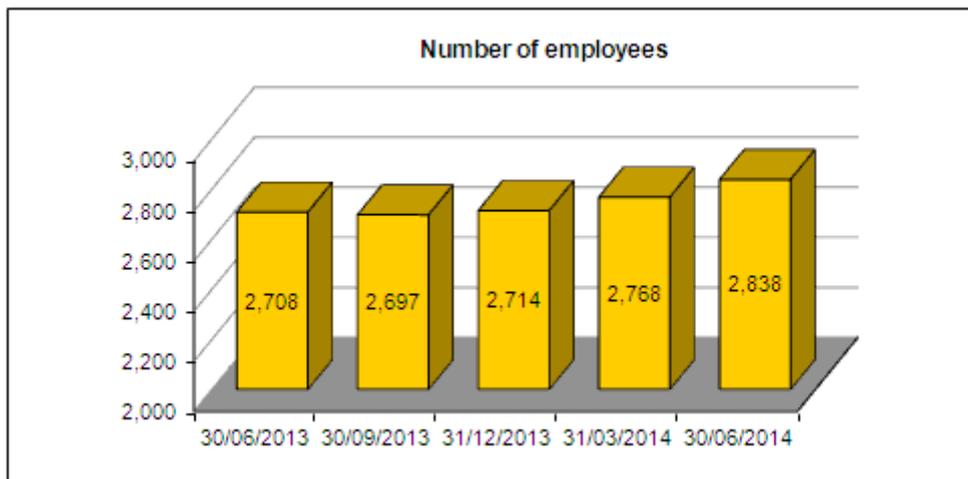
Euro 000's	1H 2014	1H 2013
EBITDA (Gross operating profit)	16,961	11,574
Change in net working capital	(7,129)	3,916
Change in other operating assets/liabilities	(853)	(6,151)
<b>Operating cash flow</b>	<b>8,979</b>	<b>9,338</b>
Cash flow used in investment activity	(8,836)	(4,093)
<b>Cash flow</b>	<b>143</b>	<b>5,246</b>
Dividends paid	(4,879)	-
Exchange rate gains (losses)	113	(341)
<b>Change in net financial indebtedness</b>	<b>(4,624)</b>	<b>4,905</b>

<sup>(2)</sup> The sub-totals may differ from those in the statement of cash flows due to the differing exchange rate impact on statement of financial position items.



**Personnel**

	30 June 2014	30 June 2013
Number of employees at period end	2,838	2,708



\* the figure includes temporary staff

## INTERIM DIRECTORS' REPORT AT 30 JUNE 2014

### GLOBAL ECONOMIC TREND

The global economy continues to recover, albeit still at a modest and uneven pace. After the slight and temporary weakening recorded in the first quarter of 2014, the global economy should recover in the second quarter, as suggested by the increases in the confidence indices in May and June. Specifically, the global Purchasing Managers' Index (PMI) for the manufacturing sector rose further in June to 52.7 (from 52.1 in May), in a scenario where business activity was mainly driven by the advanced economies and in particular by the United States and the United Kingdom. At the same time the manufacturing sector returned to growth in China and continued to deliver a solid performance in India, showing improved conditions in these two major emerging economies. The index calculated excluding the Eurozone also rose slightly in June.

Leading indicators show a modest acceleration in the global economy in coming quarters, while the changing growth trend across the various regions will continue. In June the global PMI for new manufacturing orders from abroad rose slightly and in April the OECD's composite leading indicator, which is designed to predict turning points in the economy compared to the trend, continued to show constant growth in advanced economies and lower growth in the main emerging countries.

The economic prospects of some important emerging economies continue to be burdened by geopolitical and structural issues. Risks concerning global growth prospects continue to be limited. Geopolitical risks and trends in emerging economies and on international financial markets could have a negative impact on economic conditions, also by affecting energy prices.

### UNITED STATES

The US GDP in real terms fell in the first quarter of 2014, after rising in the second half of 2013, largely due to unusually bad weather.

According to the third estimate of the Bureau of Economic Analysis real GDP declined at an annualised rate of 2.9 per cent (-0.7 per cent on the previous period), after an increase of 2.6 per cent (0.7 per cent on the previous period) in the final quarter of 2013. The further downward revision compared to the second estimate is largely due to a decrease in private consumption and the increasingly negative impact of net exports. The fall in the first quarter of

2014 compared to the prior period mainly mirrored the negative impact from the change in stocks and the fall in exports. The most recent indicators suggest that growth should recover in the second quarter.

Private consumption should remain at a solid level, as shown by the strength of consumer confidence in June as well as by the steady improvement of the labour market and the positive wealth effects arising from the increase in share and property prices. Growth in industrial production and orders for capital goods, together with the high levels of confidence indicators relating to manufacturing companies in June, suggest that companies' investment plans are increasingly stable. Looking forward, growth should increase in the second half of the year due to the strengthening of private domestic demand (due to favourable financial conditions and the improvement in confidence) and the reduced fiscal drag.

In May twelve-month inflation measured by the consumer price index (CPI) rose to 2.1 per cent from 2.0 per cent in April, mainly reflecting the sharp increases in food and energy prices. Looking to the future, significant spare capacity – especially in the labour market – and the moderate wage trend should limit the pressure on prices.

## **JAPAN**

In Japan GDP growth in the first quarter exceeded operators' expectations and was revised upwards, from 1.5 to 1.6 per cent, mainly due to the higher impact of private investment in sectors other than residential construction. Real GDP should fall in the second quarter as a consequence of the rebalancing of private spending.

The fall in industrial production and retail sales in April and May is in line with this outlook. The results from the latest confidence surveys provide a more complex picture of short-term trends. In June the PMI for the manufacturing sector returned to positive growth, up to 51.5 from 49.9 in May. On the other hand, indicators included in the Economy Watchers Survey continue to show a fall-off in business, albeit improving in May.

In May twelve-month consumer price inflation rose again to 3.7 per cent from 3.4 per cent in April. The change in CPI calculated net of food, beverages and energy, on the other hand, fell by 0.1 percentage point to 2.2 per cent. The 2.1 percentage point increase recorded by inflation as measured by the CPI as from March shows that the increase in VAT has been almost entirely passed on to consumers.

At its monetary policy meeting of 13 June 2014 the Bank of Japan decided to keep its monetary base target unchanged.

**UNITED KINGDOM**

In the United Kingdom domestic demand continues to support the robust economic growth seen in recent quarters. The latest statistics concerning economic indicators and high frequency data show a strong expansion in both household consumption and business investment as from April. The strength of the economy is mirrored by the unemployment rate which fell further in the three months up to April (to 6.6 per cent) and generally improved lending conditions. Looking forward, despite these favourable trends, the disappointing performance in terms of productivity and the need to review budgets in both the public and private sectors could put at risk the sustainability of the recovery.

**CHINA**

After the relative weakness of the first quarter of 2014, and despite the ongoing correction of the real estate market, the growth trend is strengthening following the modest fiscal and monetary stimulus and the increase in foreign demand. This trend is confirmed by the further increase in the PMI for the manufacturing sector in June. The authorities continued to stress that China is on a lower but more sustainable growth trajectory and that expectations in this regard should be adjusted accordingly, thus lowering expectations of additional stimulus measures.

Price pressures remained limited. As a consequence of the further stimulus measures, lending recently started to grow again and this resulted in a further increase in the already high level of financial leverage. Foreign trade started to recover after the sharp fall in the previous part of the year thanks to the recovery in exports to the Eurozone, the United States and the emerging countries of Asia, although trade flows to Japan remain weak.

**EUROZONE**

Recovery continued in the Eurozone, albeit weak and uneven, accompanied by very low inflation and a downward trend in business lending. In June the Governing Council of the European Central Bank further eased the monetary policy through a series of actions involving official interest rates and new non-standard measures aimed in particular at encouraging lending to the economy.

In the first quarter of 2014, GDP in the Eurozone continued to grow (0.2 per cent compared to the prior period) modestly and unevenly across the various countries.

Economic activity rose markedly in Germany which benefitted from the significant rise in consumption and capital accumulation; the latter was also influenced by the favourable

weather conditions. In France GDP stagnated, held back by the negative contribution from net foreign demand and all domestic demand segments, excluding stocks; in Italy GDP fell slightly. Based on information currently available, in the second quarter economic activity in the area remained mostly unchanged. Average industrial production for the April-May period was broadly in line with the previous period.

The Purchasing Managers' Index for companies in the area, although remaining above the level indicating business expansion, fell further in June. The indicators continued to show positive prospects in Germany both in industry and services, albeit worsening; in France the indicators fell below the level consistent with stability in economic activity.

The forecasts of the Eurosystem staff, which were published in June, suggest growth of 1.0 per cent in 2014 and an acceleration to 1.7 per cent in 2015. The assessments of experts are very similar (1.1 per cent in 2014; 1.5 per cent in 2015).

## **ITALY**

The recovery in the Italian economy, despite the signs of increased business confidence, is still struggling to make itself felt. The main support to growth continues to come from foreign trade, although the first signs of improvement in some segments of domestic demand are emerging. The still weak business activity has an impact on prices: inflation has fallen to the lowest levels ever.

In the first quarter of this year Italian GDP fell by 0.1 per cent compared to the prior period; business activity was affected by the fall in energy production, partly due to weather conditions, and the ongoing weakness in the construction sector; in addition, the trend in stocks had a negative impact on GDP (two tenths of a percentage point). At the end of the first quarter GDP was around 9 per cent lower than in 2007, above all due to the fall in consumption and investment.

In the first quarter too net foreign demand was the main driver of economic growth, making a contribution of 0.2 percentage points to the GDP trend. Investment spending – after the increase recorded in the final quarter of 2013, which was also due to tax incentives and new environmental regulations in the road haulage sector – fell by 1.1 per cent in the first three months of the year.

Nonetheless, more encouraging signs emerged in regard to some domestic demand segments. Investment in machinery and equipment, probably supported a more favourable sentiment

regarding demand, returned to growth (0.5 per cent) after falling for ten quarters. Household consumption also returned to growth, albeit at a very modest pace (0.1 per cent), for the first time since the start of 2011.

Based on information currently available on the trend in industrial production, GDP was unchanged in the second quarter. Foreign demand rose again, while domestic demand remained weak. Consumer sentiment on the country's economic situation has clearly improved since February, while their sentiment on their own conditions has nonetheless remained cautious, affected by the still uncertain trend in employment. Consumer price inflation fell further, reaching 0.2 per cent in June on a twelve-month basis. Even excluding the most volatile elements, inflation was 0.7 per cent, among the lowest levels ever recorded.

## BUSINESS SECTOR REVIEW

### UCIMU – SISTEMI PER PRODURRE

In the second quarter of 2014, the machine tools order index, prepared by the Business Culture and Research Centre of UCIMU-SISTEMI PER PRODURRE (Italian machine tool, robots, automation systems and ancillary products manufacturers' association) increased both in terms of domestic orders (+38.2%) for an absolute value of 91.2, supported by the implementation of the New Sabatini Law, and in terms of foreign orders (+11.5%) for an absolute value of 96.6.

On a half-yearly basis, the index increased by 14.9% due to the increase in the domestic order index (+59.5%) and foreign order index (+7.8%).

Luigi Galdabini, Chairman of UCIMU, stated, "The result is certainly positive because it confirms the reversal in the trend which had already been seen in the previous quarter. However, it should be kept in mind that the increase is significant because the figure is compared with 2013, one of the worst years for the Italian industry. The positive trend in orders received from the domestic market is the direct consequence of the New Sabatini Law".

The association hopes for the introduction of structural provisions to support the recovery in consumption of manufacturing systems in Italy. The Chairman of UCIMU made positive comments on Decree 91/2014 – which allows a tax credit of 15% of the total investment in machinery made by companies as from 25 June 2014 with delivery by 30 June 2015 – as well as on some measures implemented by the Government to reduce the tax wedge. However, he also highlighted the need for regulations to provide incentives to replace obsolete machinery not only in Italy but also on a Europe-wide basis, in order to boost investment in machinery and to favour the now much needed modernisation of manufacturing plant in Europe.

\* \* \*

### VDMA

In May 2014 the German association of engineering VDMA (Verband Deutscher Maschinen- und Anlagenbau e.V.) announced that the machinery order intake in Germany decreased by 2% compared to May 2013. The domestic market increased by 5% while the foreign market

decreased by 4%.

Based on a quarterly comparison, which is less influenced by short-term fluctuations, new orders fell by 3% between March and May 2014 compared to the same period in 2013. The domestic market grew by 9%, while the foreign market fell by 8%, mainly due to the slowdown in non-Eurozone countries. In brief, orders fell, but only slightly.

\* \* \*

### **ACIMALL**

For ACIMALL (*Associazione costruttori italiani macchine ed accessori per la lavorazione del legno*, Association of Italian manufacturers of woodworking machinery and tools), in the first quarter of 2014 the domestic market showed for the first time tangible and encouraging signs. Foreign markets, although falling slightly, still play an essential role for Italian companies which over recent years have maintained order volumes thanks to exports.

In the first three months of the year orders for Italian woodworking machinery and tools recorded an overall increase of 0.7 per cent compared to the corresponding period of the previous year. As noted previously, foreign orders decreased slightly (-1.5 per cent), while there was a significant increase in Italian orders which were up by 7.9 per cent compared to the first quarter of 2013.

The order book was 2.5 months, while since the start of the current year there has been a 0.6 per cent rise in prices.

According to the association, 2014 could finally see a recovery in the Italian market, although it is unlikely to be a marked improvement. The foreign situation is more complex (albeit marked by partial stability and maintenance of the leadership positions held by Italian exports) because some worrying signals have been detected for some markets: Russia, in particular, could see its extremely "delicate" political situation also negatively impact the economy while stagnation could be experienced by Brazil following the sharp non-structural growth of recent years. On the other hand, the United States and other mature markets could be a source of great satisfaction.

## TREND IN THE FIRST HALF OF 2014

*Income statement for the six months ended 30 June 2014*

	1H 2014	% on sales	1H 2013	% on sales	CHANGE %
<i>Euro 000's</i>					
<b>Revenue from sales and services</b>	<b>201,127</b>	<b>100.0%</b>	<b>180,251</b>	<b>100.0%</b>	<b>11.6%</b>
Change in inventories, wip, semi-finished and finished goods	7,431	3.7%	6,908	3.8%	7.6%
Other revenue	741	0.4%	1,376	0.8%	(46.1)%
<b>Revenue</b>	<b>209,299</b>	<b>104.1%</b>	<b>188,535</b>	<b>104.6%</b>	<b>11.0%</b>
Consumption of raw materials, consumables, supplies and goods	(86,470)	(43.0)%	(78,955)	(43.8)%	9.5%
Other operating expense	(42,988)	(21.4)%	(40,205)	(22.3)%	6.9%
<b>Added Value</b>	<b>79,841</b>	<b>39.7%</b>	<b>69,374</b>	<b>38.5%</b>	<b>15.1%</b>
Personnel expense	(62,879)	(31.3)%	(57,800)	(32.1)%	8.8%
<b>Gross Operating profit</b>	<b>16,961</b>	<b>8.4%</b>	<b>11,574</b>	<b>6.4%</b>	<b>46.5%</b>
Depreciation and amortisation	(6,359)	(3.2)%	(6,501)	(3.6)%	(2.2)%
Provisions	(735)	(0.4)%	(138)	(0.1)%	-
<b>Normalised Operating profit</b>	<b>9,867</b>	<b>4.9%</b>	<b>4,935</b>	<b>2.7%</b>	<b>99.9%</b>
Impairment losses and not recurring items	(168)	(0.1)%	213	0.1%	-
<b>Operating profit</b>	<b>9,699</b>	<b>4.8%</b>	<b>5,149</b>	<b>2.9%</b>	<b>88.4%</b>
Net finance expense	(822)	(0.4)%	(1,224)	(0.7)%	(32.8)%
Net exchange rate losses	(374)	(0.2)%	(141)	(0.1)%	-
<b>Pre-tax profit</b>	<b>8,503</b>	<b>4.2%</b>	<b>3,784</b>	<b>2.1%</b>	<b>124.7%</b>
Income taxes	(4,566)	(2.3)%	(2,623)	(1.5)%	74.1%
<b>Profit for the period</b>	<b>3,937</b>	<b>2.0%</b>	<b>1,162</b>	<b>0.6%</b>	<b>-</b>

**OVERVIEW**

At the end of the first half of 2014, the Biesse Group's position is positive both in terms of short-term trend (orders received) and results achieved (profitability). As for the financial position, the deterioration in net financial indebtedness by € 4.6 million compared to 31 December 2013 is mainly attributable to the 2013 dividend distribution totalling € 4.8 million. However, the figure has significantly improved (by approximately € 22.7 million) compared with the same period last year, thanks to the positive performance of Net working capital and EBITDA (gross operating profit).

At the end of June 2014, the order intake increased by 27.7% overall compared to the same period last year.

The positive trend of order intake underlay the increase both in sales and finished and semi-finished product inventories.

As regards the performance for the period, at 30 June 2014 Group revenue amounted to € 201,127 thousand, up sharply compared to the corresponding period of the previous year (+11.6%).

In the first six months of 2014 added value totalled € 79,841 thousand, up by 15.1% compared to the same period last year.

EBITDA (gross operating profit) amounted to € 16,961 thousand, up by 46.5% compared to the first half of 2013 (€ 11,574 thousand), increasing from 6.4% to 8.4% of revenue from sales. As explained in the following notes to condensed interim consolidated financial statements, at 30 June 2014 the Wood Division recorded excellent results due to the increase in sales volumes (+14.2%), the different sales mix by distribution channel (increasing importance of its own sales branches) and by product (luxury items with a high technological content) and to improvements in production efficiency. The Mechatronics Division too performed outstandingly, continuing its growth trend in terms of volumes and profits.

As regards the financial position, net operating working capital rose by around € 7 million compared to 31 December 2013. The increase is mainly attributable to the seasonal increase in inventories by € 12.4 million as well as to the increase in trade receivables by around € 2.3 million. These changes were partially offset by the increase in trade payables by approximately € 7.7 million. It should be noted, however, that net operating working capital decreased significantly compared to the corresponding period of the previous year (by around € 19.5 million).

Finally, the Group's net financial indebtedness at 30 June 2014 amounted to approximately € 28.6 million, deteriorating by about € 4.6 million compared to the figure at 31 December 2013, as a result of dividend distribution. However, it showed a significant improvement (by approximately € 22.7 million) compared to the same period last year due to the improvement in net operating working capital.

**MAIN EVENTS****January 2014**

In January 2014, procedures relating to the establishment of the new company INTERMAC DO BRASIL SERVICOS E NEGOCIOS LTDA were completed. This company was established with the aim of fostering and developing the trading of products of the Glass/Marble and Tooling Divisions within the Brazilian market. It will become fully operational during the second half of 2014.

**February 2014**

On 7 February 2014, Biesse S.p.A. met in Paris some important investors in order to describe its activities and the industrial projects underway.

From 11 to 14 February, Biesse Iberica took part in the Fimma-Maderalia 2014 trade show, where it presented the innovative Air Force System for edgebanding machines, for which it received the show's Innovation Award.

On 27 February 2014, Biesse America celebrated its first 25 years on the American market. In 1989 the showroom and spare parts warehouse were opened to serve North American customers. As Federico Broccoli, CEO of Biesse America and Biesse Canada, said "Biesse believes strongly in North America as a strategic region for our Group, and is continuing to invest aggressively on this market. In the year just ended, we made significant investments to ensure our customers the best service possible, expanding our sales team and implementing a new cloud-based CRM application. In addition, we started a project to expand the Charlotte facility, in order to increase the area dedicated to demonstrations and training".

**March 2014**

The Board of Directors of Biesse S.p.A. approved on 3 March 2014 the updating of the business plan for the 2014-2016 period.

Based on the initiatives set out in the above business plan, the results expected by the Biesse Group in the next three years are as follows:

- higher consolidated revenue (three-year CAGR: 7.0%);
- higher added value (41.5% as a percentage of revenue in 2016);
- improvement in operating profits:
- EBITDA target: 13.8% as a percentage of revenue from sales in 2016;
- EBIT target: 10.1% as a percentage of revenue from sales in 2016.

On 25 March 2014, Biesse S.p.A. took part in the 2014 Milan STAR Conference – the event organised by Borsa Italiana – in order to meet the national and international financial community.

On 27 March 2014 Axxembla S.r.l. was established with the purpose of producing mechanical components for the Wood Division by leasing the relevant business unit from the company Asservice S.r.l. because the latter was no longer able to maintain the production levels required by Biesse Group. The lease agreement for the business unit will last five years and provides for an annual expense of € 40 thousand.

#### **April 2014**

On 30 April 2014, the Ordinary Shareholders' Meeting of Biesse S.p.A. approved the Separate and Consolidated Financial Statements for the year ended 31 December 2013, both of which were prepared in accordance with IFRS and resolved a dividend distribution (€ 0.18 for each eligible share) on the back of the results achieved in 2013.

The same Shareholders' Meeting also approved the 2013 Remuneration Report of the Biesse Group as per article 123-ter, paragraph 3 of Legislative Decree 58/98.

#### **May 2014**

From 13 to 17 May Biesse took part in Xylexpo 2014, a global biennial trade show for wood technologies and components for the furniture industry which took place in Milan. The trade show saw a steady stream of visitors: around 15 thousand people registered for the event (these are official figures, improving in terms of visitors from both Italy and abroad).

"This event fully met our expectations," said Cesare Tinti, director of the Wood Division, "due to the high number of visitors to our stand, but above all for the positive feedback received from our customers and for the orders generated during the event. We estimate overall sales totalling 10 million euro to be formally confirmed over coming weeks. This figure confirms the clear signs of recovery seen during the trade show, not only for those countries which are clearly on a positive trend, such as Turkey and Poland, but also for more difficult markets such as Italy".

Over the 1,800 sq.m. stand particular attention was paid to the *bLab* gallery, an "ideas workshop" launched at Xylexpo. It is a gallery dedicated to technology applied to leading

design products, thanks to the combination of software innovation and artistic talent. Important, high profile products were on display, designed by top firms using Biesse technology.

The innovative Air Force System edgebanding system won a new award for innovation, the XIA - Xylexpo Innovation Award, after that obtained at the last AWISA in Las Vegas. Industry journalists gave the award to the innovative Air Force System edgebanding system, but also noted Biesse's significant experience in producing machining centres which are bestsellers worldwide.

### **July 2014**

On 2 July 2014, the hearing was held which approved the arrangement with creditors of Viet Italia S.r.l.

On 9 July the Long-Term Incentive Plan (LTI) dated 19 March 2012 was partially implemented: 46,280 Biesse shares were assigned to the plan's beneficiaries (Biesse employees) as they had achieved the targets set. The Parent's Remuneration Committee – meeting on 4 July – confirmed and approved the above assignment, verifying the effective achievement of the economic and financial targets provided for in the Long-Term Incentive Plan.

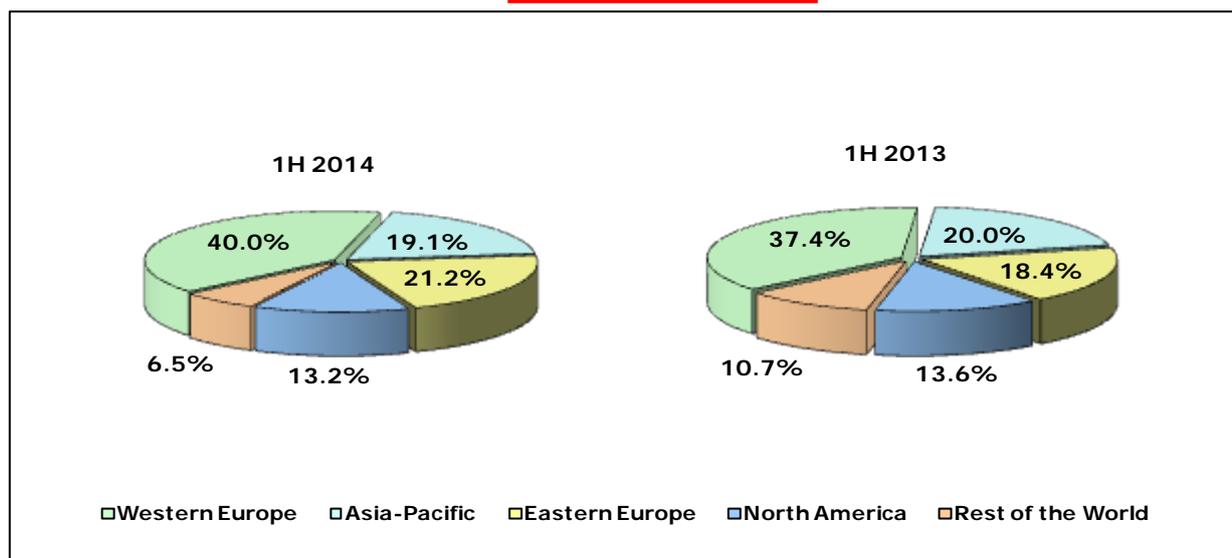
In July Biesse S.p.A sold 50,000 treasury shares at a price of € 9.58 per share (for a total amount of around € 479 thousand).

**OPERATING PERFORMANCE**

Net Revenue from sales and services in the first half of 2014 amounted to € 201,127 thousand, up by 11.6% compared to the figure for the corresponding period of 2013.

*Breakdown of revenue by geographical segment*

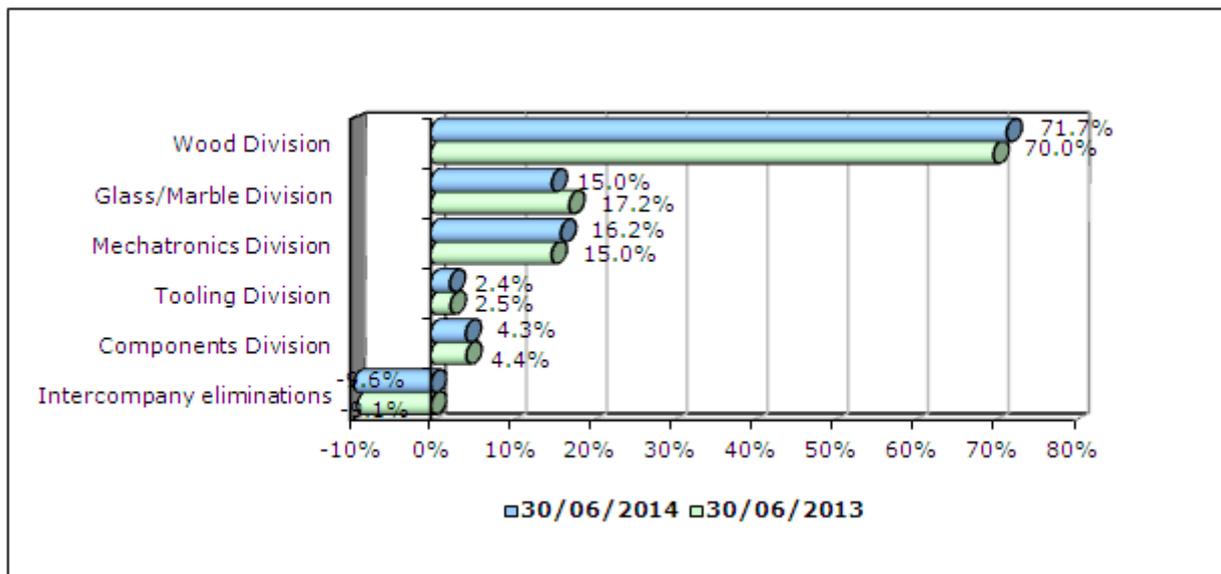
	1H 2014	%	1H 2013	%	CHANGE %
<i>Euro 000's</i>					
Western Europe	80,431	40.0%	67,430	37.4%	19.3%
Asia-Pacific	38,361	19.1%	35,961	20.0%	6.7%
Eastern Europe	42,709	21.2%	33,211	18.4%	28.6%
North America	26,561	13.2%	24,451	13.6%	8.6%
Rest of the World	13,065	6.5%	19,198	10.7%	(31.9)%
<b>Total</b>	<b>201,127</b>	<b>100.0%</b>	<b>180,251</b>	<b>100.0%</b>	<b>11.6%</b>



The geographic distribution of sales in the first six months of 2014 showed a particularly positive performance for Eastern Europe (+28.6%), thereby increasing its share of the consolidated turnover (from 18.4% to 21.2%). Western Europe also recorded a good performance (+19.3%), confirming its position as the Biesse Group's core market and increasing its share of the consolidated turnover (from 37.4% to 40%). Asia-Pacific and North America increased by 6.7% and 8.6% respectively. Finally, worthy of mention is the decrease in the Rest of the World (-31.9% compared with the corresponding period of the previous year), mainly due to the sharp fall in the South American market.

*Breakdown by division*

	1H 2014	%	1H 2013	%	CHANGE %
<i>Euro 000's</i>					
Wood Division	144,110	71.7%	126,239	70.0%	14.2%
Glass/Marble Division	30,267	15.0%	31,017	17.2%	(2.4)%
Mechatronics Division	32,523	16.2%	27,072	15.0%	20.1%
Tooling Division	4,743	2.4%	4,424	2.5%	7.2%
Components Division	8,725	4.3%	7,971	4.4%	9.5%
Intercompany eliminations	(19,240)	(9.6)%	(16,473)	(9.1)%	16.8%
<b>Total</b>	<b>201,127</b>	<b>100.0%</b>	<b>180,251</b>	<b>100.0%</b>	<b>11.6%</b>



As regards the breakdown of sales by division compared to the first half of 2013, note should be taken of the result achieved by the Mechatronics Division which saw the biggest rise in percentage terms (+20.1%), with revenue increasing from € 27,072 thousand to € 32,523 thousand. The Wood Division, the leading segment of the Group in terms of volumes (€ 144,110 thousand), rose by 14.2% (with a positive impact on the Components Division, which rose by 9.5%); finally, the Tooling Division saw a slight increase (+7.2%), while the Glass/Marble Division fell marginally (-2.4%).

As for the trend in inventory, as normally happens in this period of the year, the stocks of finished and semi-finished products rose compared to the end of the previous year in anticipation of deliveries that will be made in the second part of the year.

At the end of June 2014, the increase amounted to € 7,431 thousand (of which in particular € 5,370 thousand referring to finished products and € 2,311 thousand to semi-finished products). The inventory amount saw a slight increase also compared to the corresponding period of the previous year (+ € 1,314 thousand).

Revenue for the first half of 2014 totalled € 209,299 thousand compared to € 188,535 thousand for the first half of 2013 (+ 11.0%). Raw material consumption calculated as a percentage of revenue from sales fell from 43.8% to 43.0%.

Taking into account the total revenue for the period, consumption of raw materials and goods amounted to 41.3% compared to 41.9% for the first half of 2013, due to the different sales mix.

	1H 2014	%	1H 2013	%
<i>Euro 000's</i>				
<b>Revenue</b>	<b>209,299</b>	<b>100.0%</b>	<b>188,535</b>	<b>100.0%</b>
Consumption of raw materials and goods	86,470	41.3%	78,955	41.9%
Other operating expense	42,988	20.5%	40,205	21.3%
<i>Service costs</i>	36,764	17.6%	34,473	18.3%
<i>Use of third party assets</i>	3,720	1.8%	3,679	2.0%
<i>Sundry operating expense</i>	2,504	1.2%	2,053	1.1%
<b>Added Value</b>	<b>79,841</b>	<b>38.1%</b>	<b>69,374</b>	<b>36.8%</b>

Also other operating expense fell from 21.3% to 20.5%. The increase in Other operating expense by € 2,783 thousand (+6.9%) is mainly attributable to Service costs (€ 2,291 thousand). Specifically, this change is attributable to both "variable" cost items (for example: outsourced processing, third party technical services, sales commissions and transport fees) and to "fixed" cost items (travel and lodging expenses, trade fairs and maintenance).

In the first half of 2014, added value totalled € 79,841 thousand, up by 15.1% compared to the same period last year (€ 69,374 thousand) increasing from 38.5% to 39.7% as a percentage of revenue from sales.

In the first half of 2014, personnel expense amounted to € 62,879 thousand, up by € 5,079 thousand (+8.8%) compared to the same period last year (€ 57,800 thousand). The increase is attributable both to wages and salaries (+ € 4,259 thousand, +7.7% on the corresponding period of the previous year) mainly due to the enhancement of the sales network (in particular

the branches), and to variable costs relating to productivity and other bonuses (+ € 1,504 thousand, +54.7% on the corresponding period of the previous year) since a one-off reduction had been agreed in the previous year. Finally, the overall increase in the item was partly offset by higher R&D capitalisation (+739 thousand, +22.3%).

Gross operating profit amounted to € 16,961 thousand, up by 46.5% compared to the first half of 2013 (€ 11,574 thousand), increasing from 6.4% to 8.4% of revenue from sales.

There was a slight fall in amortisation/depreciation of € 142 thousand, down by 2.2% (from € 6,501 thousand to € 6,359 thousand), due both to property, plant and equipment (- € 67 thousand) and to intangible assets (- € 75 thousand).

Provisions totalled € 735 thousand, up by € 597 thousand compared to the first half of 2013 (€ 138 thousand), mainly due to the adjustment to the product warranty provision (€ 309 thousand) which rose due to higher revenue for the period, and the adjustment to the provision for legal disputes (€ 248 thousand).

Impairment losses and non-recurring items were negative to the tune of € 168 thousand and refer to development costs no longer considered strategic.

Net finance expense amounted to € 822 thousand, sharply down compared to the same period last year (€ 1,224 thousand, that is -32.8%), in line with the trend in debt.

Net exchange rate losses were € 374 thousand, deteriorating compared to the same period last year (loss of € 141 thousand in 2013).

The pre-tax profit was € 8,503 thousand.

Estimated taxes totalled € 4,566 thousand. Current taxes amounted to € 3,389 thousand (IRAP, i.e. the regional corporate tax: € 1,662 thousand; IRES, i.e. the corporate income tax: € 476 thousand; taxes from foreign jurisdictions: € 831 thousand; previous-year taxes: € 391 thousand). Finally, deferred tax liabilities totalled € 1,176 thousand.

Therefore, profit for the period amounted to € 3,937 thousand.

**Summary statement of financial position**

	30 June 2014	31 December 2013	30 June 2013
<i>Euro 000's</i>			
Intangible assets	50,281	47,899	47,621
Property, plant and equipment	60,540	61,086	59,397
Financial assets	1,180	973	912
<b>Non current assets</b>	<b>112,002</b>	<b>109,958</b>	<b>107,930</b>
Inventories	98,678	86,273	97,364
Trade receivables	78,561	76,231	89,978
Trade payables	(118,788)	(111,102)	(109,439)
<b>Net Operating Working Capital</b>	<b>58,451</b>	<b>51,403</b>	<b>77,904</b>
Post-employment benefits	(13,499)	(12,795)	(13,285)
Provision for risk and charges	(10,251)	(8,975)	(10,991)
Other net payables	(18,897)	(16,547)	(17,600)
Net deferred tax assets	12,857	13,987	17,378
<b>Other net liabilities</b>	<b>(29,791)</b>	<b>(24,331)</b>	<b>(24,497)</b>
<b>Net Invested Capital</b>	<b>140,662</b>	<b>137,030</b>	<b>161,336</b>
Share capital	27,393	27,393	27,393
Profit/loss for the previous year/period and other reserves	80,609	79,077	81,298
Profit /Loss for the period/year	3,915	6,435	1,157
Non-controlling interests	186	190	206
<b>Equity</b>	<b>112,103</b>	<b>113,094</b>	<b>110,054</b>
Bank loans and borrowings and loans from other financial backers	57,919	60,035	79,963
Other financial assets	(1,044)	(949)	(890)
Cash and cash equivalents	(28,315)	(35,151)	(27,791)
<b>Net financial indebtedness</b>	<b>28,560</b>	<b>23,936</b>	<b>51,282</b>
<b>Total sources of funding</b>	<b>140,662</b>	<b>137,030</b>	<b>161,336</b>

Compared to December 2013, net intangible assets increased by € 2.4 million due to higher investments (totalling around € 5.9 million mainly attributable to R&D capitalisations of € 4.6 million and new ICT investments of around € 1 million), net of relevant amortisation for the period (around € 3.5 million).

As regards property, plant and equipment, the amount decreased by € 0.6 million as a result of depreciation for the period.

Net Operating Working Capital increased overall by € 7,048 thousand compared to the figure at 31 December 2013, mainly due to a (seasonal) increase in inventories by € 12,404 thousand compared to 31 December 2013 (of which € 426 thousand due to exchange rate fluctuations).

In particular, the change in inventories was caused by an increase in semi-finished goods of € 2,311 thousand and in inventories of finished products of € 5,370 thousand, due to the need to facilitate the scheduling of the deliveries planned in the second half of the year, in particular for the branches. As regards other items, trade receivables also increased (+ € 2,330 thousand) due to higher sales, thus contributing to the decrease in Net Operating Working Capital. On the contrary, trade payables increased by € 7,686 thousand, thereby partly offsetting the overall increase.

### **Net financial indebtedness**

	30 June 2014	31 March 2014	31 December 2013	30 September 2013	30 June 2013
<i>Euro 000's</i>					
Financial assets:	29,359	27,975	36,099	24,605	28,681
<i>Current financial assets</i>	1,044	1,039	949	949	890
<i>Cash and cash equivalents</i>	28,315	26,936	35,151	23,657	27,791
Short-term finance lease payables	(293)	(452)	(285)	(281)	(277)
Short-term bank loans and borrowings and loans from other financial backers	(28,816)	(41,587)	(44,599)	(50,226)	(50,624)
<b>Short-Term Net Financial Position</b>	<b>250</b>	<b>(14,065)</b>	<b>(8,785)</b>	<b>(25,902)</b>	<b>(22,220)</b>
Medium/Long-term finance lease payables	(1,812)	(2,121)	(1,960)	(2,033)	(2,105)
Medium/Long-term bank loans and borrowings	(26,998)	(16,936)	(13,191)	(22,435)	(26,958)
<b>Medium/Long-Term Net Financial Indebtedness</b>	<b>(28,810)</b>	<b>(19,057)</b>	<b>(15,151)</b>	<b>(24,468)</b>	<b>(29,062)</b>
<b>Total Net Financial Indebtedness</b>	<b>(28,560)</b>	<b>(33,122)</b>	<b>(23,936)</b>	<b>(50,370)</b>	<b>(51,282)</b>

At 30 June 2014, Group's net financial indebtedness was € 28.6 million (gearing = 0.25). It deteriorated compared with 31 December 2013 (+ € 4.6 million, +19.3%) but showed an improvement compared to 31 March 2014 and the previous year's quarters:

- - € 4.6 million compared to 31 March 2014 (- 13.8%);
- - € 21.8 million compared to 30 September 2013 (- 43.3%);
- - € 22.7 million compared to 30 June 2013 (- 44.3%).

The worsening compared to the year-end figure was also due to the payment of the 2013 dividend to shareholders for a total of around € 4.8 million.

Finally, the improving trend compared to the quarters in the previous year continued, thus confirming the increased focus on the performance of Net Operating Working Capital.

With due prudence regarding the trend of the key market and the international political and economic scenario, in the second half of 2014 the Biesse Group foresees a further increase in cash flows from operations, also due to the seasonal business cycle.

Compared to the financial statements as at and for the year ended 31 December 2013, the Group's financial liabilities decreased by € 2,116 thousand (net of finance lease payments of € 141 thousand). In particular, it should be noted that the medium-/long-term portion increased by € 13,659 thousand while the short-term portion decreased by € 15,775 thousand. In the first half of 2014 procedures concerning extension of the duration of consolidated indebtedness through new unsecured loans with maturities between 18 and 36 months were completed.

At 30 June 2014 credit lines totalled € 153.9 million, of which 67.6% in uncommitted lines and the remaining portion in committed lines (unsecured – mortgage – subsidised loans).

## **TRANSACTIONS WITH ASSOCIATES, ULTIMATE PARENTS AND THE LATTER'S SUBSIDIARIES**

At 30 June 2014 there were no associates.

As regards transactions with the ultimate parent Bi.Fin. S.r.l., reference should be made to Note 30 in the Notes.

## **OTHER RELATED PARTY TRANSACTIONS**

Fincobi S.r.l., Edilriviera S.r.l. and SEMAR S.r.l. are identified as related parties.

As for transactions during the first half of the year with these companies, reference should be made to Note 30 in the Notes.

## **PERSONNEL**

On 31 July 2014, negotiations ended to renew the Supplementary Labour Agreement and Profit-Sharing Agreement, which had started in January 2014 with the presentation, jointly

signed by the unions and the Single Trade Union Representative Board (RSU – *Rappresentanza Sindacale Unitaria*), of a proposal covering numerous economic and trade union requests as well as increases in both fixed and variable pay.

As regards the Supplementary Labour Agreement, the company agreed with the local unions and the RSU:

1. to set up Joint Committees with the task of analysing and monitoring, at both Business Unit and corporate level, the issues regarding labour organisation and economic performance;
2. to keep the extra paid day of leave for the birth of a child, in addition to the day already envisaged by the law;
3. the possibility of increasing the percentage of the personal contribution for those registered in the Cometa Fund;
4. the commitment to review, streamline and improve, where possible, the current employee transport service and the agreements in place with retailers, banks, and insurance companies as well as supermarkets.

As regards the Profit-Sharing Agreement, following a 4% increase in the previously agreed nominal value, the company managed to include among the key parameters used to calculate the profit share, a quality target, i.e. "Machine Warranty – Euros spent on repairs under warranty in the first three months of the installation of the machine at the customer's premises". This is particularly important since it involves almost all the company departments.

During the meeting the company informed the unions and the RSU of the decision not to extend the use of work-sharing agreements.

#### **ATYPICAL AND/OR UNUSUAL TRANSACTIONS OF THE FIRST HALF OF THE YEAR**

At 30 June 2014, no transactions of this nature were reported.

#### **EVENTS AFTER THE REPORTING DATE AND YEAR-END BUSINESS OUTLOOK**

As for the outlook for the second part of 2014, in light of the existing portfolio and the macro-economic situation, while confirming the achievement of targets set for the end of the year, it has to be kept in mind the continued climate of uncertainty in some geographical areas; therefore, despite signs of recovery, prudence and cautious optimism are required.

Finally, it should be noted that in the current year, after several years focusing on containing costs in order to limit the impact of the ongoing crisis, the Biesse Group has finally been able to implement strategies aimed at growing the business, such as for example investments to expand the sales network as well as investments in marketing and enhancement of the technical departments in order to promote the design of new products.

#### OTHER INFORMATION

At the date on which the Interim report at 30 June 2014 was approved, Biesse S.p.A. held treasury shares; for further details reference should be made to the Notes 13 and 19 below.

In addition, it should be noted that the Parent Biesse S.p.A. does not own shareholdings in the ultimate parent, nor did it hold or trade them during the first half of 2014. There is therefore nothing to disclose for the purposes of Article 2428, paragraph 2, sections 3 and 4, of the Italian Civil Code.

Pesaro, 4 August 2014

The Chairman of the Board of Directors

*Roberto Selci*

*(signed on the original)*

**CONDENSED  
INTERIM  
CONSOLIDATED  
FINANCIAL  
STATEMENTS  
AT 30 JUNE 2014**

**INCOME STATEMENT**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2014**

	Note	1H 2014	1H 2013
<i>Euro 000's</i>			
Revenue	5	201,127	180,251
Other operating income		741	1,640
Change in the inventories of finished goods and work in progress		7,431	6,908
Purchase of raw materials and consumables	7	(86,470)	(78,955)
Personnel expense	8	(62,879)	(57,800)
Other operating expense	9	(42,988)	(40,205)
Depreciation and amortisation		(6,359)	(6,501)
Provisions		(735)	(138)
Impairment losses		(168)	(51)
<b>Operating profit</b>		<b>9,699</b>	<b>5,149</b>
Finance income	10	3,372	1,963
Finance expense	11	(4,194)	(3,187)
Net exchange rate losses		(374)	(141)
<b>Pre-tax profit</b>		<b>8,503</b>	<b>3,784</b>
Income taxes	12	(4,566)	(2,623)
<b>Profit for the period</b>		<b>3,937</b>	<b>1,162</b>
<b>Profit for the period</b>		<b>3,937</b>	<b>1,162</b>
Attributable to:			
Owners of the parent		3,915	1,157
Non-controlling interests		22	4
<b>Earnings per share</b>			
Basic (€/cents)	13	14.55	4.30
Diluted (€/cents)	13	14.55	4.30

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

<i>Euro 000's</i>	Note	1H 2014	1H 2013
<b>Profit for the period</b>		<b>3,937</b>	<b>1,162</b>
Translation differences of foreign operations	20	668	(1,311)
Net loss on cash flow hedges	20	(175)	(33)
Income taxes on other comprehensive income	12	48	9
<b>Other comprehensive income/(expense) (affecting profit or loss)</b>		<b>541</b>	<b>(1,335)</b>
Total other gains/losses, net of taxation	21	(844)	101
<b>Other comprehensive income/(expense) (not affecting profit or loss)</b>		<b>(844)</b>	<b>101</b>
<b>Total comprehensive income/(expense) for the period</b>		<b>3,634</b>	<b>(72)</b>
Attributable to:			
Owners of the parent		3,617	(72)
Non-controlling interests		17	0
<b>Total comprehensive income/(expense) for the period</b>		<b>3,634</b>	<b>(72)</b>

STATEMENT OF FINANCIAL POSITION  
AT 30 JUNE 2014

	Note	30 June 2014	31 December 2013
<i>Euro 000's</i>			
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	15	54,472	54,955
Equipment and other items of property, plant and equipment	15	6,068	6,131
Goodwill	16	16,962	16,852
Other intangible assets	16	33,319	31,048
Deferred tax assets	12	15,620	16,995
Other non-current financial assets and receivables		1,180	973
		<b>127,622</b>	<b>126,953</b>
<b>Current assets</b>			
Inventories	17	98,678	86,273
Trade receivables due from third parties	18	78,551	76,217
Trade receivables due from related parties	30	10	14
Other current assets		12,084	11,799
Other current assets due from related parties	30	1,575	1,554
Derivatives		17	340
Current financial assets		1,044	949
Cash and cash equivalents		28,315	35,151
		<b>220,274</b>	<b>212,297</b>
<b>TOTAL ASSETS</b>		<b>347,896</b>	<b>339,250</b>

**STATEMENT OF FINANCIAL POSITION  
AT 30 JUNE 2014**

	Note	30 June 2014	31 December 2013
<i>Euro 000's</i>			
<b>EQUITY AND LIABILITIES</b>			
<b>Share capital and reserves</b>			
Share capital	19	27,393	27,393
(Treasury shares)	19	(4,676)	(4,676)
Equity reserves		36,202	36,202
Hedging and translation reserve	20	(4,520)	(5,067)
Other reserves	21	53,604	52,617
Profit for the period		3,915	6,435
Equity attributable to the owners of the parent		111,917	112,905
Non-controlling interests		186	190
<b>TOTAL EQUITY</b>		<b>112,103</b>	<b>113,094</b>
<b>Non-current liabilities</b>			
Post-employment benefits		13,499	12,795
Deferred tax liabilities		2,763	3,008
Medium and long-term bank loans and borrowings and other financial payables	22	26,998	13,191
Finance lease payables	22	1,812	1,960
Provisions for risks and charges	24	3,170	3,213
Other non-current liabilities	27	1,212	1,187
		<b>49,454</b>	<b>35,354</b>
<b>Current liabilities</b>			
Trade payables	25	117,650	108,502
Trade payables due to related parties	30	1,138	2,600
Other current liabilities		29,092	28,115
Other current liabilities due to related parties	30	522	0
Tax payables		1,374	933
Finance lease payables	22	293	285
Bank loans and borrowings	22	28,816	44,599
Provisions for risks and charges	24	7,082	5,763
Derivatives		374	6
		<b>186,340</b>	<b>190,802</b>
<b>LIABILITIES</b>		<b>235,793</b>	<b>226,156</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>347,896</b>	<b>339,250</b>

**STATEMENT OF CASH FLOWS  
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

<i>Euro 000's</i>	Note	IH 2014	IH 2013
<b>OPERATING ACTIVITIES</b>			
+/- Profit for the period		3,937	1,162
+ Depreciation and amortisation:			
of property, plant and equipment		2,869	2,937
of intangible assets		3,490	3,564
+ Provisions :			
Increase/decrease in provisions for post-employment benefits		24	18
Increase/decrease in allowance for impairment		413	235
Increase/decrease allowance for inventory write-down		(163)	(905)
Increase/decrease in provisions for risk and charges		330	(85)
Other non-financial changes in provisions		0	(49)
Gains/losses from sales of property, plant and equipment		(11)	24
Impairment losses on other intangible assets		168	51
Income from investing activities		(3,372)	(1,963)
Unrealised exchange rate gains		32	1,021
Income taxes		4,566	2,623
Finance expense		4,194	3,187
<b>SUBTOTAL OPERATING ACTIVITIES</b>		<b>16,477</b>	<b>11,819</b>
Post-employment benefits paid		(561)	(870)
Risk provisions utilised		(291)	(1,448)
Change in trade receivables		(2,626)	7,898
Change in inventories		(11,978)	(6,666)
Change in trade payables		7,474	2,684
Change in other receivables/payables		3,787	(1,021)
Income tax paid		(2,271)	(144)
Interest paid		(3,993)	(2,913)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>6,018</b>	<b>9,338</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment		(2,961)	(874)
Proceeds from sale of property, plant and equipment and other items of property, plant and equipment		5	29
Acquisition of patents, trademarks and other intangible assets. Capitalisation of development costs		(5,877)	(3,958)
Proceeds from sale of intangible assets		(3)	(0)
Acquisitions of/increases in other financial assets		(958)	(0)
Interest received		3,140	710
<b>NET CASH FLOWS USED IN INVESTING ACTIVITIES</b>		<b>(6,654)</b>	<b>(4,093)</b>
<b>FINANCING ACTIVITIES</b>			
Loans repaid/New banker's advance	22	8,763	14,078
Finance lease payments	22	(141)	(133)
Change in bank loans and borrowings	22	(10,449)	(7,398)
Change in current derivative instrument financial assets/liabilities		297	385
Capital injections - non-controlling interests		15	6
Dividends paid		(4,879)	0
<b>NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES</b>		<b>(6,394)</b>	<b>6,937</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>(7,029)</b>	<b>12,182</b>
<b>OPENING CASH AND CASH EQUIVALENTS</b>		<b>35,151</b>	<b>16,156</b>
Effect of exchange rate fluctuations on cash held		193	(547)
<b>CLOSING CASH AND CASH EQUIVALENTS</b>		<b>28,315</b>	<b>27,791</b>

## STATEMENT OF CHANGES IN EQUITY

	Note	Opening balances as at 01/01/2014	Other gains/losses, net of taxation	Profit for the period	Total comprehensive income for the period	Dividends paid	Other changes	Allocation of profit of the previous year	Total effects of transactions with shareholders	Closing balances as at 30/06/2014
<i>Euro 000's</i>										
<b>Statement of changes in consolidated equity at 30 June 2014</b>										
Share capital		27,393			-				-	27,393
- Treasury shares	19	(4,676)			-				-	(4,676)
Equity reserves		36,202			-				-	36,202
Hedging and translation reserve	20	(5,067)	546		546				-	(4,520)
Other reserves	21	52,617			(844)			6,435	1,830	53,604
Profit for the period		6,435		3,915	3,915			(6,435)	(6,435)	3,915
<b>Equity attributable to the owners of the parent</b>		<b>112,905</b>	<b>(297)</b>	<b>3,915</b>	<b>3,617</b>	<b>(4,843)</b>	<b>238</b>	<b>-</b>	<b>(4,605)</b>	<b>111,917</b>
Non-controlling interests		190	(5)	22	17		15		(21)	186
<b>TOTAL EQUITY</b>		<b>113,094</b>	<b>(303)</b>	<b>3,937</b>	<b>3,634</b>	<b>(4,879)</b>	<b>253</b>	<b>-</b>	<b>(4,626)</b>	<b>112,103</b>

		Opening balances as at 01/01/2013	IAS19 revised	Opening balances restated as at 01/01/2013	Other gains/losses, net of taxation	Profit for the period	Total comprehensive income for the period	Dividends paid	Other changes	Allocation of loss of the previous year	Total effects of transactions with shareholders	Closing balances as at 30/06/2013
<i>Euro 000's</i>												
<b>Statement of changes in consolidated equity at 30 June 2013</b>												
Share capital		27,393		27,393			-				-	27,393
- Treasury shares	19	(4,676)		(4,676)			-				-	(4,676)
Equity reserves		36,202		36,202			-				-	36,202
Hedging and translation reserve	20	(1,527)		(1,527)	(1,331)		(1,331)				-	(2,858)
Other reserves	21	62,191	(3,174)	59,015	101		101	0		(6,487)	(6,487)	52,629
Profit for the period		(6,530)	42	(6,487)		1,157	1,157			6,487	6,487	1,157
<b>Equity attributable to the owners of the parent</b>		<b>113,052</b>	<b>(3,132)</b>	<b>109,920</b>	<b>(1,230)</b>	<b>1,157</b>	<b>(72)</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>109,848</b>
Non-controlling interests		208	(2)	206	(4)	4	0		0		0	206
<b>TOTAL EQUITY</b>		<b>113,260</b>	<b>(3,134)</b>	<b>110,126</b>	<b>(1,233)</b>	<b>1,162</b>	<b>(72)</b>	<b>0</b>	<b>0</b>	<b>-</b>	<b>0</b>	<b>110,054</b>

## NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS AT 30 JUNE 2014

### 1. GENERAL

Biesse S.p.A. is an Italian company, with its registered office in Pesaro. The company is listed on the STAR segment of the Milan Stock Exchange.

The condensed interim consolidated financial statements at 30 June 2014 comprise the financial statements of Biesse S.p.A. and its subsidiaries which it controls directly or indirectly (hereinafter defined as the "Group").

The condensed interim consolidated financial statements at 30 June 2014 were approved during the meeting of the Board of Directors held today (4 August 2014).

#### List of companies consolidated on a line-by-line basis

Name and registered office	Currency	Capital	Directly controlled	Indirectly controlled	Ownership vehicle	Biesse Group
<i>Parent:</i>						
<b>Biesse S.p.A.</b> Via della Meccanica, 16 Loc. Chiusa di Ginestreto (PU)	EUR	27,393,042				
<i>Italian subsidiaries:</i>						
<b>HSD S.p.A.</b> Via della Meccanica, 16 Loc. Chiusa di Ginestreto (PU)	EUR	1,141,490	100%			100%
<b>Bre.Ma. Brenna Macchine S.r.l.</b> Via Manzoni, snc Alzate Brianza (CO)	EUR	70,000	98%			98%
<b>Biesse Tecno System S.r.l.</b> Via della Meccanica, 16 Loc. Chiusa di Ginestreto (PU)	EUR	100,000	50%			50%
<b>Viet Italia S.r.l.</b> Via della Meccanica, 16 Loc. Chiusa di Ginestreto (PU)	EUR	10,000	100%			100%
<b>Axxembia S.r.l.</b> Via della Meccanica, 16 Loc. Chiusa di Ginestreto (PU)	EUR	10,000	100%			100%

Name and registered office	Currency	Capital	Directly controlled	Indirectly controlled	Ownership vehicle	Biesse Group
<b>Foreign subsidiaries:</b>						
<b>Biesse America Inc.</b> 4110 Meadow Oak Drive – Charlotte, North Carolina – USA	USD	11,500,000	100%			100%
<b>Biesse Canada Inc.</b> 18005 Rue Lapointe – Mirabel (Quebec) – Canada	CAD	180,000	100%			100%
<b>Biesse Asia Pte. Ltd.</b> Zagro Global Hub 5 Woodlands Terr. – Singapore	SGD	2,655,000	100%			100%
<b>Biesse Group UK Ltd.</b> Lampton Drive – Daventry Northamptonshire – United Kingdom	GBP	655,019	100%			100%
<b>Biesse France Sarl</b> 4, Chemin de Moninsable – Brignais – France	EUR	144,000	100%			100%
<b>Biesse Group Deutschland GmbH</b> Gewerberstrasse, 6 – Elchingen (Ulm) – Germany	EUR	1,432,600	100%			100%
<b>Biesservice Scandinavia AB</b> Maskinvagen 1 – Lindas – Sweden	SEK	200,000	60%			60%
<b>Biesse Iberica Woodworking Machinery s.l.</b> C/De La Imaginació, 14 Poligon Ind. La Marina – Gavà Barcelona – Spain	EUR	1,233,290	100%			100%
<b>Biesse Group Australia Pty Ltd.</b> 3 Widemere Road Wetherill Park – Sydney – Australia	AUD	15,046,547	100%			100%
<b>Biesse Group New Zealand Ltd.</b> Unit B, 13 Vogler Drive Manukau – Auckland – New Zealand	NZD	3,415,665	100%			100%
<b>Hsd Usa Inc.</b> 3764 SW 30 <sup>th</sup> Avenue – Hollywood, Florida – USA	USD	10,000		100%	Hsd S.p.A.	100%
<b>HSD Deutschland GmbH</b> Brükenstrasse,2 – Gingen – Germany	EUR	25,000		100%	Hsd S.p.A.	100%
<b>Biesse Manufacturing Co. Pvt. Ltd.</b> Jakkasandra Village, Sondekoppa rd. Nelamanga Taluk – Bangalore –India	INR	674,518,392	100%			100%
<b>WMP- Woodworking Machinery Portugal, Unipessoal Lda</b> Sintra Business Park, 1, São Pedro de Penaferrim, – Sintra – Portugal	EUR	5,000		100%	Biesse Iberica W. M. s.l.	100%

Name and registered office	Currency	Capital	Directly controlled	Indirectly controlled	Ownership vehicle	Biesse Group
<b>Biesse Trading (Shanghai) Co. Ltd.</b> Room 301, No.228, Jiang Chang No.3 Road, Zha Bei District, Shanghai – China	RMB	7,870,000		100%	Biesse Asia Pte. Ltd.	100%
<b>HSD Mechatronic (Shanghai) Co. Ltd.</b> D2, first floor, 207 Taiguroad, Waigaoqiao free trade zone – Shanghai – China	RMB	2,118,319		100%	Hsd S.p.A.	100%
<b>Biesse Schweiz GmbH</b> Grabenhofstrasse, 1 – Kriens – Switzerland	CHF	100,000		100%	Biesse G. Deutschland GmbH	100%
<b>Biesse Indonesia Pt.</b> Jl. Kh.Mas Mansyur 121 – Jakarta – Indonesia	IDR	1,250,000,000		90%	Biesse Asia Pte. Ltd.	90%
<b>Biesse (HK) LTD</b> Unit 1105. 11 floor, Regent Centre, N0.88 Queen's Road Central, Central – Hong Kong	HKD	15,000,000	100%*			100%*
<b>Centre Gain LTD</b> Room 703, 7/F, Cheong Tai Comm, Bldg., 60 Wing Lok Street, Sheung Wan – Hong Kong	HKD	110,000,000		100%	Biesse (HK) LTD	70%
<b>Dongguan Korex Machinery Co. Ltd</b> Dongguan City – Guangdong Province – China	RMB	128,435,513		100%	Biesse (HK) LTD	70%
<b>Nuova Faos International Manufacturing Pvt. Ltd.</b> Peenya 1st Stage, Peenya Industrial Area – Bangalore – India	INR	23,158,450		100%	Biesse Manufacturing Co. Pvt. Ltd.	100%
<b>Biesse Malaysia SDN BHD</b> Dataran Sunway , Kota Damansara – Petaling Jaya, Selangor Darul Ehsan – Malaysia	MYR	1,000,000		100%	Biesse Asia Pte. Ltd.	100%
<b>Biesse Korea LLC</b> Geomdan Industrial Estate, Oryu- Dong, Seo-Gu – Incheon – South Korea	KRW	100,000,000		100%	Biesse Asia Pte. Ltd.	100%
<b>Intermac Guangzhou Co. Ltd.</b> Guangzhou Free Trade Area- GuangBao street No. 241-243 – China	USD	150,000		100%	Biesse Asia Pte. Ltd.	100%
<b>Intermac do Brasil Servicos e Negocios Ltda.</b> Andar Pilotis Sala, 42 Sao Paulo – 2300 Brazil	RLB	601,000	100%			100%

\* The Biesse group directly owns 70% of Biesse (HK) LTD; non-controlling interests were granted a put option for selling the remaining 30% to the Biesse Group.

Compared with the 2013 annual report, the consolidation scope underwent the following changes:

- Intermac Do Brasil Servicos e Negocios LTDA is now included in the scope of consolidation. The company was established in late 2013 with the purpose of developing trading of products of the Glass/Marble and Tooling Divisions within the Brazilian market; the company is still in the start-up phase and its contribution to the Group's results is limited.
  
- Axxemblea S.r.l is now included in the scope of consolidation. The company was established on 27 March 2014, with the purpose of producing mechanical components for the Wood Division by leasing the relevant business unit from Asservice S.r.l., because the latter was no longer able to maintain the production levels required by Biesse Group. The lease agreement for the business unit will last five years and provides for an annual expense of € 40 thousand.

It should also be noted that Viet Italia S.r.l. is a special purpose entity set up to rent and subsequently acquire the business unit of the Pesaro-based brand under the same name (Viet), market leader in the wood calibrating and sanding sector, which was part of a company that was put into liquidation in November 2010 following a severe financial crisis. On 17 June 2013, an irrevocable purchase offer was submitted to the relevant stakeholders albeit subject to suspensive condition should the transfer of the company to the Biesse Group not occur within 90 days from the admission to the arrangement with creditors. On 1 July 2014, the hearing was held which approved the arrangement with creditors. The signing of the contract is currently pending in order to make the irrevocable purchase offer for the business unit no later than 15 September 2014 so as to allow the Court to implement the necessary procedures.

The irrevocable offer also includes the equity investment in Pavit S.r.l. (a company active in mechanical processing, whose output is largely absorbed by Viet Italia S.r.l.); therefore, when entering into the aforementioned contract the company will be consolidated on a line-by-line basis.

## 2. STATEMENT OF COMPLIANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS, BASIS OF PRESENTATION AND CONSOLIDATION AND CONVERSION PRINCIPLES

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34 and in compliance with the provisions of Article 154-ter of Italian Legislative Decree no. 58 of 24 February 1998 (Consolidated Finance Act) as subsequently amended. They do not include all of the information required for the annual report and must be read in conjunction with the consolidated financial statements as at and for the year ended 31 December 2013. In particular, it should be noted that the consolidated income statement, consolidated statement of financial position and consolidated statement of cash flows are of the extended type and are the same as the formats adopted for the consolidated financial statements as at and for the year ended 31 December 2013.

The following notes are, conversely, presented in a condensed format and therefore do not include all the information required for annual reports. In particular, it should be noted that, as provided for by IAS 34, in order to avoid the duplication of previously published information, the notes refer exclusively to those items in the income statement, the statement of financial position and the statement of cash flows whose composition or changes recorded in their amount, due to their nature or because they are unusual, make it necessary to provide an explanation in order to ensure full understanding of the Group's results and financial position.

The condensed interim consolidated financial statements at 30 June 2014 consist of the Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Cash Flows, Statement of Changes in Equity, and these Notes.

The Income Statement distinguishes costs by nature. The Statement of Financial Position distinguishes between current and non-current assets and liabilities. The Statement of Cash Flows is presented in accordance with the indirect method and the Statement of Changes in Equity is presented in accordance with the standard format. In addition, a separate statement, the Statement of Comprehensive Income, includes the components that make up the profit or loss for the period and expense and income recognised directly in equity arising from transactions other than those carried out with shareholders. Owner transactions together with those relating to the profit for the period are reported in the Statement of Changes in Equity. The presentation currency for the condensed interim consolidated financial statements is the Euro and the amounts of items in the financial statements are expressed in thousands of Euro

(€ 000) (unless otherwise expressly indicated).

The accounting standards used, valuation and measurement criteria and the consolidation principles applied for preparation of the condensed interim consolidated financial statements are consistent with those applied for the annual financial statements as at and for the year ended 31 December 2013, to which reference is made. The accounting policies adopted in the condensed interim consolidated financial statements at 30 June 2014 have been uniformly applied to all periods included for comparison purposes. Furthermore, it should be noted that:

- the condensed interim consolidated financial statements have been prepared under the discrete method, taking the reference period as a separate period. In this respect, the income statement for the six months ended 30 June reflects the period's income statement components on an accruals basis;
- the financial statements underlying the consolidation process are those prepared by subsidiaries with reference to the period ended 30 June 2014, adjusted, where necessary, to align them with Group accounting policies;
- the condensed interim consolidated financial statements are drawn up according to the cost approach – with the exception of derivative financial instruments, held-for-sale financial assets and financial instruments classified as available for sale, which are measured at fair value; the financial statements have also been prepared on a going-concern basis. In view of the demand trend and in the light of the results achieved as regards equity and financial items, the Group's assessment is that there are no uncertainties regarding its viability as a going concern.

#### **Accounting standards, amendments and interpretations not adopted early by the company**

Moreover, at the date of these financial statements, the relevant bodies of the European Union have not yet completed the endorsement process necessary for the adoption of the following accounting standards and amendments:

On 12 November 2009, the IASB published IFRS 9 – Financial Instruments. This standard was reissued in October 2010 and amended in November 2013. It concerns the classification, recognition and measurement of financial assets and liabilities as well as hedge accounting and is intended to replace, for these issues, IAS 39 – Financial Instruments: Recognition and Measurement. With the amendments of November 2013, in addition to other changes, the IASB eliminated the mandatory first-time adoption date of the standard, previously fixed on 1

January 2015. That date will be reintroduced with the publication of a comprehensive standard, at the end of the IFRS 9 project.

On 21 November 2013, the IASB published some minor amendments to IAS 19 – Employee Benefits named “Defined Benefit Plans: Employee Contributions”. These amendments simplify the accounting treatment of contributions to defined benefit plans by employees or third parties in specific cases. The amendments apply retrospectively for annual periods beginning on 1 July 2014, with early adoption allowed.

On 12 December 2013, the IASB issued a set of amendments to IFRSs (Annual Improvements to IFRSs - 2010-2012 Cycle and Annual Improvements to IFRSs - 2011-2013 Cycle). The most important issues addressed include: the definition of vesting conditions in IFRS 2 – Share-based Payment, the aggregation of operating segments in IFRS 8 – Operating Segments and the definition of key management personnel in IAS 24 – Related Party Disclosures, the exclusion from the scope of IFRS 3 – Business Combinations of all types of joint arrangements (as defined in IFRS 11 – Joint Arrangements), and some clarifications on exceptions to the application of IFRS 13 – Fair Value Measurement. The amendments apply to annual periods beginning on or after 1 July 2014. Early adoption is permitted.

On 6 May 2014 the IASB issued some amendments to IAS 16 – Property, Plant and Equipment and to IAS 38 – Intangible Assets. Amendments to IAS 16 clarify that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate. Amendments to IAS 38 introduce a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate for the same reasons as in amendments to IAS 16. Amendments apply beginning on 1 January 2016 but early adoption is allowed.

On 12 May 2014 the IASB issued some amendments to IFRS 11 – Joint Arrangements relating to accounting for acquisitions of interests in joint operations in which the activity constitutes a business, as defined in IFRS 3. These amendments require the application of the principles on business combinations accounting in IFRS 3. Amendments apply beginning on 1 January 2016 but early adoption is allowed.

On 28 May 2014 the IASB issued IFRS 15 – Revenue from Contracts with Customers, which will replace IAS 18 – Revenue, IAS 11 – Construction Contracts as well as some IFRIC interpretations. This standard describes accounting requirements for revenue pursuant to the

new model framework. The standard is applicable beginning on 1 January 2016 but early adoption is allowed.

The Group will adopt these new standards and amendments, based on the relevant expected effective date; the adoption of the new standards should have no significant impact on the Group's financial statements.

Average and closing exchange rates are as follows:

Currency	30 June 2014		31 December 2013		30 June 2013	
	Average	Closing	Average	Closing	Average	Closing
US Dollar / Euro	1.3703	1.3658	1.3281	1.3791	1.3134	1.3080
Singapore Dollar / Euro	1.7279	1.7047	1.6619	1.7414	1.6328	1.6545
Canadian Dollar / Euro	1.5029	1.4589	1.3684	1.4671	1.3341	1.3714
Sterling / Euro	0.8213	0.8015	0.8493	0.8337	0.8508	0.8572
Swedish Krone / Euro	8.9535	9.1762	8.6515	8.8591	8.5311	8.7773
Australian Dollar / Euro	1.4989	1.4537	1.3777	1.5423	1.2961	1.4171
New Zealand Dollar / Euro	1.6149	1.5626	1.6206	1.6762	1.5872	1.6792
Brazilian Real / Euro	3.1499	3.0002	-	-	-	-
Indian Rupee / Euro	83.2889	82.2023	77.9300	85.3660	72.2776	77.7210
Chinese Renmimbi Yuan / Euro	8.4500	8.4722	8.1646	8.3491	8.1285	8.0280
Swiss Franc / Euro	1.2215	1.2156	1.2311	1.2276	1.2299	1.2338
Indonesian Rupiah / Euro	16,058.25	16,248.15	13,857.50	16,764.78	12,786.82	12,980.41
Hong Kong Dollar /Euro	10.6292	10.5858	10.3016	10.6933	10.1901	10.1477
Malaysian Ringgit /EURO	4.4771	4.3856	4.1855	4.5221	4.0391	4.1340
South Korean Won /EURO	1,438.29	1,382.04	1,453.91	1,450.93	1,450.22	1,494.24

### 3. MEASUREMENT CRITERIA, USE OF ESTIMATES AND RECLASSIFICATIONS

The preparation of the financial statements and related notes pursuant to IFRS requires that the management makes estimates and assumptions that have an effect on the amounts of assets and liabilities and on the disclosure of contingent assets and liabilities at the reporting date. The estimates and assumptions used are based on historical experience and other factors deemed as material. The actual outcome may differ from these estimates. Estimates are used to assess property, plant and equipment and intangible assets subject to impairment testing, as well as to establish the useful life of property, plant and equipment, and recognise accruals to the allowance for impairment, inventory and asset write-downs, employee benefits, income taxes and accruals to the provisions for risks and charges.

Estimates and assumptions – based on data reflecting knowledge up to any given date – are regularly reviewed and the effects of every change are immediately reflected in profit or loss.

Basic assumptions concerning the future and other uncertainty factors in making estimates at the reporting date that may cause significant adjustments to the carrying amount of assets and liabilities within the following year mainly refer to the possible impairment loss on the goodwill carrying amount.

At 30 June 2014, the carrying amount of goodwill was around € 17 million. At 31 December 2013 goodwill was tested for impairment, while at 30 June 2014, checks were carried out to assess whether any event or other circumstances existed such as to indicate potential impairment losses (the so-called impairment indicators). The analysis performed, notwithstanding the persistent uncertainty affecting the economy and the key market, as already pointed out in the interim directors' report, did not reveal any impairment indicator and/or impairment loss besides those already recognised in the condensed interim consolidated financial statements.

As regards external impairment indicators, there have been no substantial changes to the financial indices used to determine the discount rate applied to the cash flows of the cash-generating units.

As regards internal impairment indicators, as highlighted later on in Note 5, all Divisions ended the first half of 2014 with an operating profit. As for the financial position, the deterioration was attributable to seasonal events (with reference to net operating working capital) or to other events (dividend distribution with reference to the net financial position). This further

confirms the absence of critical issues compared to the impairment tests carried out on 31 December 2013.

At 30 June 2014, the Group's deferred tax assets totalled € 15,620 thousand (€ 19,607 thousand at 2013 year-end). Management recognised such deferred tax assets up to the amount it considers likely to be recoverable. The calculation of the various items took into consideration forecasts for subsequent years which are consistent with those used for the purpose of impairment tests.

## 4. RISKS

### OPERATING RISKS

#### **Risks relating to general economic conditions**

As it operates in a competitive global market, the Biesse Group's performance, financial position and cash flows are affected by the general conditions and performance of the world economy. Therefore, any economic downturn or political instability in one or more key markets, as well as lending conditions, can have a significant impact on the Group's economic performance and strategies and affect its future prospects in both the short- and medium- to long-term.

#### **Risks relating to Group results**

The Biesse Group operates primarily in a highly cyclical sector, i.e. mechanical goods.

It should be noted that it is difficult to predict the extent and duration of economic cycles; furthermore, the cyclical nature of the sector in which the Biesse Group operates tends to mirror the general economic trend, in some cases even amplifying its impact.

Therefore, each macro-economic event, such as a significant fall in one of the main markets, the volatility of financial markets and the consequent deterioration of capital markets, a spike in energy prices, fluctuations in the prices of commodities and other raw materials, adverse fluctuations in specific factors such as interest rates, exchange rates etc. that could negatively impact the sectors in which the Group operates may have a significantly negative effect on the prospects and the activities of the Group, as well as on its results and financial position. Furthermore, the profitability of the Group is subject to risks related to the fluctuation in

interest and inflation rates, the solvency of counterparties and the general economic situation of the countries in which it conducts its business.

**Risks related to the level of competitiveness and cyclicity in the industry**

Demand is cyclical and depends on general economic conditions, end customers' propensity to consume, credit availability, and public stimulus measures. A negative trend in demand, or the Group's inability to adapt effectively to external market conditions, could have a significant negative impact on the Group's business prospects as well as on its results and financial position.

All of the Group's revenue substantially comes from the mechanical goods sector, which is a competitive industry. The Group competes in Europe, North America and in the Asia Pacific region with other major international players. These markets are all highly competitive in terms of product quality, innovation, price and customer service.

**Risks relating to sales in international markets and exposure to shifting local conditions**

A significant part of the Group's production and sales is carried out in countries outside the European Union. The Group is exposed to risks inherent to operating on a global scale, including risks relating to exposure to local economic and political conditions and to the potential implementation of policies restricting imports and/or exports.

In addition, the Biesse Group is subject to compliance with several tax regimes, therefore it is exposed to transfer pricing risks.

The Biesse Group operates in several emerging markets including India, Russia, China and Brazil. The Group's exposure to these countries has gradually increased; therefore any adverse political or economic development in these areas could have a negative impact on the Group's prospects and business as well as on its results.

**Risks relating to fluctuations in the prices of raw materials and components**

The Group's exposure to increases in the prices of raw materials mainly derives from the purchase of components and semi-finished goods, as direct purchasing of raw materials for production is not significant.

The Group, therefore, does not hedge those risks, but rather tends to transfer their management and economic impact to its own suppliers, agreeing with them, where necessary, purchase prices that ensure stability for periods of at least one quarter.

The high level of competition and fragmentation of the sector in which Biesse operates often makes it difficult to transfer sudden and/or significant increases in purchase prices entirely on to sales prices.

**Risks relating to the ability to offer innovative products**

The success of the Group's operations depends on its ability to maintain or increase its share of the markets in which it currently operates and/or to expand in new markets by offering innovative, high-quality products that ensure adequate profitability levels. Should the Group fail to develop and offer innovative and competitive products compared to those of its main competitors in terms of, amongst other things, price, quality and functionality, or should there be any delay in launching new models that are strategic to the Group's business, the Group's market share may decline, negatively affecting its business prospects as well as its results and/or financial position.

**Risks relating to management**

The success of the Group depends in large part on the ability of its executives and other managers to effectively manage the Group and its individual business divisions. The loss of an executive director, senior manager or other key personnel as a result of organisational changes and/or the company's restructuring, with no timely and adequate replacement and reorganisation, as well as the inability to attract and retain new and qualified staff, could therefore have a negative impact on the Group's business prospects as well as on its results and/or its financial position.

**Risks relating to relations with employees**

In several countries in which the Group operates, its employees are protected by various laws and/or collective labour contracts that guarantee them, through local and national representation, the right to be consulted on specific questions, including restructuring or closure of departments and staff cuts. The laws and/or collective labour contracts applicable to the Group could affect its flexibility in redefining and/or strategically repositioning its operations. Biesse's ability to reduce the number of employees or either terminate or temporarily suspend employment contracts is influenced by government authorisations and trade unions approval.

**Risks relating to relations with suppliers**

The Group purchases raw materials, semi-finished goods and components from a large number of suppliers and relies on services and products provided by other companies outside the Group.

Close collaboration between manufacturers and suppliers is customary in the sectors in which Biesse operates: on the one hand, it can result in economic benefits in terms of cost reduction; on the other, the Group's reliance on these suppliers implies that the difficulties they experience (whether due to internal or external factors) could negatively impact the Group.

**Risks related to offshoring**

The Group has been moving its manufacturing operations for a few years now to China and India, both by opening new production plants and acquiring existing ones. These emerging countries contribute more and more significantly to the Group's results in terms of revenue and profitability. As a result, the Group's exposure to the performance of these countries has increased in recent years. Political and economic developments in these emerging markets, including any situation of crisis or instability, could significantly affect the Group's business prospects as well as its results and financial position in the future.

## FINANCIAL RISKS

### Risks relating to financial requirements

The liquidity risk is normally defined as the risk that the group might be unable to meet its payment obligations due to the difficulty in raising funds (funding liquidity risk) or to sell assets on the market (asset liquidity risk). The result is a negative impact on profit or loss should the group be forced to bear additional costs to meet its obligations or, in the worst case scenario, a situation of insolvency threatening its viability as a going concern.

The financial performance of the Biesse Group depends on several conditions, including, in particular, the ability to achieve its objectives, as well as the general trend in the economy, the financial markets and the sector in which the Group operates. Moreover, the current critical conditions of financial counterparties inevitably affect financing activities.

The Biesse Group has been implementing measures to ensure adequate financing of net working capital and, more generally, to secure its current assets. 68% of the lines of credit currently available are short-term lines (committed lines).

It is also clear that, even though the Group has put in place measures to ensure that adequate levels of working capital and liquidity are maintained, any significant reduction in sales volumes could have a negative impact on the ability of the Group's operations to generate positive cash flows.

### Credit risk

The Group is exposed to various concentrations of credit risk on the various markets on which it operates, although credit exposure is divided across a large number of counterparties and customers.

Financial assets are recognised net of impairment losses calculated on the basis of counterparty default risk, taking into account available information on the customer's solvency as well as historical-statistical data.

### Currency risk

The Biesse Group, as it operates in several markets around the world, is naturally exposed to market risks relating to the fluctuation in interest and exchange rates. Its exposure to currency risk is related primarily to the geographical diversification of its commercial operations, which leads to revenue from exports being denominated in currencies other than that of the country of production; in particular, the Biesse Group is mainly exposed to net exports from the Euro area to other currency areas (mainly US dollar, Australian dollar, Pound Sterling, Indian Rupee

and Chinese Renmimbi). Consistently with its risk management policy, the Biesse Group seeks to hedge its exposure to currency risk through financial hedging instruments. Nevertheless, sudden fluctuations in exchange rates could have a negative impact on the Group's results.

### **Interest rate risks**

The Biesse Group uses various types of financing in order to fund its industrial activities; in the current macroeconomic scenario, especially in Europe, financial institutions can identify operating problems that have a negative impact on the levels of interest rates.

### **Risks related to the availability of funding for customers**

The Biesse Group, since it operates in the sector of long-term capital goods, is subject to the negative impact of potential tightening of credit standards by financial institutions for customers intending to buy goods using financing (e.g. operating leases, secured credit, etc.).

## **5. REVENUE AND ANALYSIS BY OPERATING AND GEOGRAPHICAL SEGMENT**

### **ANALYSIS BY OPERATING SEGMENT**

The Group is currently organised into five operating divisions – Wood, Glass & Marble, Mechatronics, Tooling and Components – for management purposes. These divisions constitute the bases for the Group's reporting of segment information. The main activities are as follows:

Wood – production, distribution, installation and after-sales service of panel processing machines and systems,

Glass & Marble – production, distribution, installation and after-sales service of glass and marble processing machines,

Mechatronics – production and distribution of industrial mechanical and electronic components,

Tooling – production and distribution of Diamut-branded grinders and tools,

Components – production of mechanical components for wood and glass & marble processing machines.

The information relating to these operating segments is as follows:

€ '000	Revenue		Operating profit	
	1H 2014	1H 2013	1H 2014	1H 2013
Wood	144,110	126,239	6,206	458
Glass & Marble	30,267	31,017	290	1,690
Mechatronics	32,523	27,072	6,435	4,693
Tooling	4,743	4,424	359	411
Components	8,725	7,971	(3)	257
(Intragroup eliminations)	(19,240)	(16,473)		
	<b>201,127</b>	<b>180,251</b>	<b>13,285</b>	<b>7,510</b>
Unallocated corporate costs			(3,586)	(2,361)
<b>Operating profit</b>			<b>9,699</b>	<b>5,149</b>

As already noted in the interim directors' report, the Mechatronics Division saw the biggest increase in percentage terms (+20.1%) compared to the first half of 2013; the Wood Division confirmed its position as the leading Group segment, accounting for 71.7% of revenue (70.0% in the first half of 2013) and increased markedly (+14.2%), with a positive impact on the Components Division (+9.5%). Only the Glass/Marble Division fell marginally (-2.4%).

As for the operating performances of the Divisions, note should be taken of the excellent performance of the Wood Division, which recorded operating profit of € 6,206 thousand (€ 458 thousand in the first half of 2013) due to the increase in sales volumes, the different sales mix by distribution channel (increasing importance of its own branches, with significant investment in the sales team) and by product category (top-quality items with a high technological content) and the improvement achieved in production efficiency. The Mechatronics Division improved its performance compared to the first half of 2013 and achieved operating profit of € 6,435 thousand (€ 4,693 thousand in the first half of 2013, +37.1%); the change was mainly due to the increase in sales volumes. The Glass/Marble Division saw the biggest fall, from € 1,690 thousand in the first half of 2013 to € 290 thousand in the same period of 2014, as a result of lower revenue compared to the corresponding period of the previous year and the increase in personnel expense (due to the expansion of the sales team and the expected trends connected to outstanding contracts). Finally, the Tooling Division decreased slightly (from € 411 thousand in the first half of 2013 to € 359 thousand in the same period of 2014).

## ANALYSIS BY GEOGRAPHICAL SEGMENT

€ '000	Revenue			
	1H 2014	%	1H 2013	%
Western Europe	80,431	40.0%	67,430	37.4%
Asia - Pacific	38,361	19.1%	35,961	20.0%
Eastern Europe	42,709	21.2%	33,211	18.4%
North America	26,561	13.2%	24,451	13.6%
Rest of the World	13,065	6.5%	19,198	10.7%
<b>Group Total</b>	<b>201,127</b>	<b>100.0%</b>	<b>180,251</b>	<b>100.0%</b>

As regards the geographical breakdown of sales, the first half of 2014 featured positive performance for the following areas: Eastern Europe which shows the greatest increase (+28.6%), Western Europe (+19.3%), Asia-Pacific (+6.7%) and North America (+8.6%).

On the contrary, only the Rest of the World decreased (-31.9%) due to the slowdown in the South American market, thus resulting in a reduction of its share of the consolidated turnover from 10.7% to 6.5%.

## 6. SEASONALITY

The business segments in which the Biesse Group is active feature seasonality, due to the fact that demand for machine tools is typically concentrated in the second part of the year (and in particular in the last quarter). This is due to the purchasing habits of end customers, considerably influenced by expectations concerning investment incentive policies, as well as by expectations concerning economic trends in the markets on which they operate.

Another aspect to be taken into account is the Group's specific structure, where branches based overseas (USA, Canada, Asia-Pacific and the Far East) account on average for a third of total turnover. Given the lead time necessary for delivery of machine tools to these markets and the presence of an end market, which is particularly sensitive to the timeliness of delivery in relation to the purchase order, these branches are forced to replenish their inventories in the first half in order to be able to handle year-end sales.

## 7. RAW MATERIALS AND CONSUMABLES

Consumption of raw materials and consumables rose from € 78,955 thousand to € 86,470 thousand, up by 9.5% compared to the corresponding period of the previous year.

Higher consumption of raw materials and goods was due to higher sales volumes (+11.6%) compared to the same period last year. The different sales mix resulted in an improved impact on the revenue (from 41.9% to 41.3%). For further details, reference should be made to the interim directors' report.

## 8. PERSONNEL EXPENSE

€ '000	1H 2014	1H 2013
Wages, salaries and social security contributions	59,745	55,486
Productivity bonus, other bonuses and related social security contributions	4,253	2,749
Accruals to pension plans	2,179	2,170
Other personnel expense	761	715
Capitalization and recovery of personnel expense	(4,058)	(3,319)
<b>Personnel expense</b>	<b>62,879</b>	<b>57,800</b>

In the first half of 2014, personnel expense amounted to € 62,879 thousand, up by € 5,079 thousand compared to the same period last year (€ 57,800 thousand, + 8.8%).

The increase was mainly due to the fixed component (+€ 4,259 thousand, + 7.7% on the same period in 2013), largely as a result of the expansion of the sales network, in particular as far as branches are concerned. The remaining change refers to the variable component (€ +1,504 thousand, +54.7% over the same period of 2013), as a consequence of the restoration of standard terms and conditions following the one-off reductions of productivity bonuses and other bonuses applied in 2013 also through agreements with social partners. It should be noted that at 30 June 2014 productivity bonuses and other bonuses included the allocation relating to the share-based incentive plan (LTI - Long Term Incentive) for approximately € 517 thousand; for further details on the plan reference should be made to note 30.

Capitalization of personnel expense relating to development activities rose compared to the corresponding period of the previous year (€ 4,058 thousand compared to € 3,319 thousand in the first half of 2013).

## 9. OTHER OPERATING EXPENSE

€ '000	1H 2014	1H 2013
Production services	10,123	9,234
Maintenance	1,480	1,270
Sales commissions and transport	7,636	7,389
Consultancy fees	1,444	1,374
Utilities	2,279	2,448
Exhibitions and advertising	2,954	2,908
Insurance	770	752
Directors', statutory auditors' and consultants' remuneration	1,403	1,288
Travel	5,736	5,286
Other	2,939	2,524
Use of third party assets	3,720	3,679
Other operating costs	2,504	2,053
<b>Other operating expense</b>	<b>42,988</b>	<b>40,205</b>

Operating expense increased by € 2,783 thousand compared to the corresponding period of 2013 (+ 6.9%).

The increase is mainly attributable to Production services (€ +889 thousand, +9.63% compared to the corresponding period of 2013), Other (+ € 415 thousand, +16.4%) and to the item Other operating costs (€ +451 thousand, +21.97%).

## 10. FINANCE INCOME

The breakdown of finance income is as follows:

€ '000	1H 2014	1H 2013
Income from loans and receivables	34	23
Bank interest	13	18
Interest from customers	52	81
Interest from others	2	22
Received financial discounts	56	15
Other finance income	149	250
Finance income for export transactions	3,065	1,555
<b>Total financial income</b>	<b>3,372</b>	<b>1,963</b>

As regards the increase compared to the first half of 2013, reference should be made to the following note on finance expense.

## 11. FINANCE EXPENSE

The breakdown of finance expense is as follows:

€ '000	1H 2014	1H 2013
Bank, mortgage and financing interest	1,129	803
Finance lease interest	14	21
Interest expense to others	173	53
Bills discounted	191	169
Finance expense for export transactions	2,631	1,361
Other interest	1	713
Other financial expense	54	66
<b>Total financial expense</b>	<b>4,194</b>	<b>3,187</b>

The total amount of finance expense and finance income increased compared to the same period last year (+ € 1,007 thousand and + € 1,409 thousand, respectively).

It should be noted that the increase compared to the corresponding period of the previous year refers to "Finance income for export transactions" and "Finance expense for export transactions". In 2013 these items, which were recognised following the introduction of new procedures to obtain subsidised loans for export credits (Leg. Decree no. 143 of 31 March 1998 – the former Ossola law), had accounting effects as from the second quarter.

## 12. INCOME TAXES

Italian corporate income tax (IRES) is calculated at 27.5% (the same as in 2013) on the taxable income of the Parent and the Italian subsidiaries, while income taxes for other jurisdictions are calculated based on the enacted rates. For estimates of the period's income tax, the tax rate applicable to projected year-end results is therefore applied to interim profit.

At 30 June 2014 deferred tax assets amounted to € 15,620. Management recognised such deferred tax assets up to the amount it considers likely to be recoverable. For this purpose, the calculation took into consideration forecasts for future years consistent with those used for the purpose of impairment tests.

Current taxes include the allocation to the Provision for risks connected to tax disputes of the Parent (for approximately € 409 thousand), as detailed in note 26.

### 13. EARNINGS PER SHARE

Basic earnings per share at 30 June 2014 were positive to the tune of 14.55 euro/cent (+4.30 euro/cent at 30 June 2013) and were calculated by dividing the profit attributable to owners of the Parent of € 3,915 thousand (€ 1,157 thousand in the corresponding period of 2013), by the weighted average number of ordinary shares outstanding during the period, which amounted to 26,906,683 shares (unchanged compared to 2013).

The number of shares outstanding was lower than the total number of shares issued due to the buyback of own shares on the stock exchange during 2008, as provided for by the Shareholders' Meeting resolution dated 21 January 2008. At 30 June 2014 the number of treasury shares held was 486,359 (1.78% of the share capital), with an equal average number over the first half of the year.

As there were no dilutive effects, the same calculation is also applicable to diluted earnings per share. The calculations are illustrated in the following tables:

#### ***Profit attributable to owners of the Parent***

€ '000	1H 2014	1H 2013
Basic profit for the period	3,915	1,157
Dilutive effect on profit for the period	0	0
Diluted profit for the period	3,915	1,157

#### ***Weighted average number of outstanding ordinary shares***

<i>in thousands of shares</i>	1H 2014	1H 2013
Weighted average number of ordinary shares used to calculate basic earnings per share	27,393	27,393
Effect of treasury shares	(486)	(486)
Weighted average number of outstanding shares – for the calculation of basic earnings	26,907	26,907
Dilutive effects	0	0
Weighted average number of outstanding shares – for the calculation of diluted earnings	26,907	26,907

As there were no discontinued operations during the year, the profit per share is entirely attributable to continuing operations.

## 14. DIVIDENDS

During the first half of the year, as approved by the Shareholders' meeting of the Parent held on 30 April 2014, dividends were paid to shareholders for around € 4,843 thousand (Euro 0.18 for any ordinary shares outstanding at the ex-dividend date – excluding treasury shares). The ex-dividend date occurred on 19 May 2014.

## 15. PROPERTY, PLANT, EQUIPMENT AND OTHER ITEMS OF PROPERTY, PLANT AND EQUIPMENT

In the reporting period investments were made for a total of around € 2.1 million, mainly relating to the ordinary replacement of the equipment and maintenance relating to production processes.

## 16. GOODWILL AND OTHER INTANGIBLE ASSETS

### Goodwill

Compared to the end of the previous year, goodwill increased by around € 111 thousand, exclusively due to exchange rate differences.

The following table illustrates the allocation of goodwill by segment:

€ '000	30/06/2014	31/12/2013
Wood	6,086	5,998
Glass & Marble	1,337	1,314
Mechatronics	5,599	5,599
Tooling	3,940	3,940
<b>Total</b>	<b>16,962</b>	<b>16,852</b>

As for estimates of recoverable amounts, reference should be made to Note 3 above regarding measurement criteria, use of estimates and reclassifications.

### Other intangible assets

Other intangible assets mainly comprise investments for development activities, amounting to € 13,992 thousand, investments for software licenses and similar rights, amounting to € 7,887

thousand and costs for development projects and licenses, which have not yet been completed (and therefore temporarily allocated to assets under development and payments on account), amounting to € 9,771 thousand. In the first half of the year, development costs led to amortisation of € 2,547 thousand. During the reporting period work continued to design new products (around € 4.6 million) and new investments in ICT were made for approximately € 1 million.

## 17. INVENTORIES

Inventories rose by around € 12,404 thousand, of which € 2,311 thousand refer to semi-finished goods and work in progress, € 5,370 million to finished products and € 4,678 thousand to raw materials. Finally, spare parts also rose by € 45 thousand. Exchange rate differences contributed to the aforementioned changes with an overall increase of € 426 thousand.

The allowance for inventory write-down amounted to € 2,393 thousand (up by € 147 thousand compared to 31 December 2013, while it amounted to € 2,637 thousand at 30 June 2013) with an impact on the historical cost of 7.3% (improving from 8.1% at 31 December 2013).

As regards spare parts, the relevant allowance for inventory write-down amounted to € 3,012 thousand (down by € 167 thousand compared to 31 December 2013, while it amounted to € 3,185 thousand at 30 June 2013) with an impact on the historical cost of 15.2% (in line with 15.9% at 2013 year-end).

As regards finished products, the relevant allowance for inventory write-down amounted to € 1,888 thousand (down by € 264 thousand compared to 31 December 2013, due to the improved management of inventories and disposal of obsolete and used machines, while the figure at the end of June 2013 was € 2,930 thousand) with an impact on the historical cost of 5.1% (improving from 6.7% at 31 December 2013).

## 18. RECEIVABLES

Trade receivables, measured at fair value, increased by € 2,301 thousand (before the relevant allowance for impairment) compared to the 2013 year-end figure.

The increase in trade receivables from third parties is due to the increase in sales.

The allowance for impairment was mostly unchanged (- € 29 thousand compared to 31 December 2013) (€ 6,401 thousand compared to € 6,430 thousand at the end of 2013), while its percentage impact on the nominal amount decreased from 7.8% to 7.5%.

Trade receivables are recognised net of the allowance for impairment, which is conservatively estimated with reference to both non-performing and over 180 days overdue loans.

## 19. SHARE CAPITAL – TREASURY SHARES

The share capital amounts to € 27,393 thousand and consists of 27,393,042 ordinary shares, each with a par value of € 1 and dividend rights.

At the date on which the condensed interim consolidated financial statements were approved, the Group held 486,359 treasury shares with an average carrying amount of € 9.61 per share. Based on the resolution of the Shareholders' Meeting of 19 October 2010, treasury shares may be used for the purposes of stock option plans, including stock grants or incentive and retention plan, reserved for the management, employees or consultants of the Group. The same resolution authorised an incentive plan called "Retention Plan 2011 - 2013 di Biesse S.p.A." reserved for the top management of Biesse S.p.A. and the companies belonging to the Group involving stock grants and cash bonuses. The shareholders' meeting of 27 April 2012 approved the withdrawal of this plan and the simultaneous adoption of a new incentive scheme called "Long Term Incentive Plan 2012 - 2014", which involves cash bonuses and stock grants, subject to economic and financial performance conditions and the assessment of the beneficiaries' individual performance. At 30 June 2014 the number of treasury shares earmarked for the Long Term Incentive plan is 235,952.

On 9 July the Long-Term Incentive Plan (LTI) dated 19 March 2012 was partially implemented: 46,280 Biesse shares were assigned to the plan's beneficiaries (Biesse employees) as they had achieved the targets set. The Parent's Remuneration Committee – meeting on 4 July – confirmed and approved the above assignment, verifying the effective achievement of the economic and financial targets provided for in the Long-Term Incentive Plan.

The following table summarises the data concerning treasury shares at 30 June 2014.

Number of shares:	486,359
Carrying amount (in Euro):	4,675,804
Percentage (no. shares) compared to share capital (no. shares):	1.775%

## 20. HEDGING AND TRANSLATION RESERVES

The carrying amount is broken down as follows:

€ '000	30/06/2014	31/12/2013
Translation reserve	(4,413)	(5,086)
Hedging reserve	(108)	19
<b>Total</b>	<b>(4,520)</b>	<b>(5,067)</b>

The reserves for the translation of foreign currency financial statements, negative to the tune of € 4,520 thousand, include cumulative differences relating to the translation of the financial statements denominated in foreign currencies of countries that do not belong to the Eurozone (United States, Canada, Singapore, United Kingdom, Sweden, Switzerland, Australia, New Zealand, India, China, Indonesia, Hong Kong, Malaysia, Brazil and South Korea), down by € 673 thousand from the corresponding period of the previous year.

## 21. OTHER RESERVES

The carrying amount is broken down as follows:

€ '000	30/06/2014	31/12/2013
Legal reserve	5,479	5,479
Extraordinary reserve	44,443	41,074
Reserve for treasury shares	4,676	4,676
Retained earnings and other reserves	(994)	1,388
<b>Other reserves</b>	<b>53,604</b>	<b>52,617</b>

The reserve for treasury shares consists of 486,359 treasury shares with an average carrying amount of € 9.61 per share.

As indicated in the statement of changes in equity, the change in the item Other reserves mainly concerns the allocation of the profit for 2013 (+ € 6,435 thousand) and dividend distribution (- € 4,843 thousand). It should be noted that the item also changed due to the impact of the actuarial valuation of defined benefit plans (- € 844 thousand) and the recognition of the reserve for treasury shares to be allocated in relation to the partial implementation of the Long-Term Incentive Plan (€ 238 thousand).

For further information and details, reference should be made to Note 19) Share capital – Treasury shares.

## 22. LOANS AND BORROWINGS

Compared to the financial statements as at and for the year ended 31 December 2013, the Group's loans and borrowings decreased by € 2,116 thousand (net of finance lease payments of € 141 thousand). While the medium-/long-term portion increased by € 13,659 thousand, the short-term portion decreased by € 15,775 thousand.

In the first half of 2014 procedures concerning extension of the duration of consolidated indebtedness through new unsecured loans with maturities between 18 and 36 months were completed. During the reporting period a 5-year loan was entered into involving EIB funds – through Unicredit – concerning R&D investments. In addition to the above, new counterparties (Banca Popolare di Milano) approved and granted unsecured loans (Euro 7 million with a 36-month maturity) as well as lines of credit (Euro 3 million).

## 23. NET FINANCIAL INDEBTEDNESS

€ '000	30/06/2014	31/12/2013
Financial assets:	29,359	36,099
Current financial assets	1,044	949
Cash and cash equivalents	28,315	35,151
Short-term finance lease payables	(293)	(285)
Short-term bank loans and borrowings and loans and borrowings from other financial backers	(28,816)	(44,599)
Short-term net financial position	<b>250</b>	<b>(8,785)</b>
Medium-/Long- term finance lease payables	(1,812)	(1,960)
Medium-/Long- bank loans and borrowings	(26,998)	(13,191)
Medium-/Long- term net financial indebtedness	<b>(28,810)</b>	<b>(15,151)</b>
Total net financial indebtedness	<b>(28,560)</b>	<b>(23,936)</b>

At 30 June 2014, Group's net financial indebtedness was € 28.6 million (gearing = 0.25), deteriorating compared to 31 December 2013 (up by € 4.6 million or + 19.3%), mainly due to dividend distribution to shareholders amounting to around € 4.8 million. For further details, reference should be made to the interim directors' report.

## 24. PROVISION FOR RISKS AND CHARGES

Provisions for risks and charges include provisions to cover potential future risks. During the first half of 2014 the main change is attributable to the periodic adjustment of allocations to the Provision for other risks totalling approximately € 1.2 million. This change mainly refers to an allocation for contingent liabilities on future risks concerning a foreign subsidiary; this liability is secured by the sellers of the relevant investee and, consequently, a corresponding amount due from the sellers was recognised.

## 25. TRADE PAYABLES

Trade payables to third parties refer primarily to payables to suppliers for the procurement of materials delivered in the closing months of the year.

Trade payables are payable within the next year and it is deemed that their carrying amount at the reporting date is a reasonable approximation of their fair value.

Trade payables to suppliers increased by € 9,148 thousand compared to 2013, from € 108,502 thousand to € 117,650 thousand.

## 26. CONTINGENT LIABILITIES AND COMMITMENTS

The Parent and some subsidiaries are involved as parties to various lawsuits and disputes. It is nevertheless deemed that the settlement of such disputes will not give rise to further liabilities in addition to those already provided for in a specific provision for risks.

As for the contract to purchase the controlling interest in the Centre Gain group, the non-controlling interest was granted a put option to sell to the Biesse Group all the shares in its possession at the option exercise date. The put option can be exercised after five years from the date the contract was signed. At 30 June 2014, the option was measured and recognised at approximately € 1,839 thousand.

On 25 June 2014 the Regional Tax Department of Ancona completed its audit on Biesse S.p.A. relating to the 2010-2011 period; the relevant preliminary assessment report included findings on some intercompany transactions between Biesse S.p.A and its branches, as well as unauthorised deductions in determining the IRAP taxable income in both years.

In compliance with the principle of prudence, the Parent allocated to the relevant provision an amount equal to € 409 thousand in relation to taxes and fines, only for issues involving a likely risk of defeat.

## 27. OTHER PAYABLES

The item refers to the discounted debt payable to the non-controlling interest of the Centre Gain group.

## 28. EVENTS AFTER THE REPORTING PERIOD

In regard to events after the reporting date, reference should be made to the specific note in the interim directors' report.

## 29. CLASSIFICATION OF FINANCIAL INSTRUMENTS

Below are the types of financial instruments included in the financial statements:

€ '000	30/06/2014	31/12/2013
<b>FINANCIAL ASSETS</b>		
Designated at fair value through profit or loss:		
<i>Derivative financial assets</i>	17	340
Loans and receivables measured at amortised cost:		
<i>Trade receivables</i>	78,561	76,231
<i>Other assets</i>	6,021	6,450
- <i>other financial assets and non-current receivables</i>	1,152	945
- <i>other current assets</i>	4,869	5,505
<i>Cash and cash equivalents</i>	28,315	35,151
<b>FINANCIAL LIABILITIES</b>		
Designated at fair value through profit or loss:		
<i>Derivative financial liabilities</i>	374	6
Measured at amortised cost :		
<i>Trade payables</i>	95,623	91,663
<i>Bank loans and borrowings, finance leases and other loans and borrowings</i>	57,919	60,035
<i>Other current liabilities</i>	20,698	18,187

The carrying amount of the aforementioned financial assets and liabilities is equal or close to their fair value.

### 30. RELATED PARTY TRANSACTIONS

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

Transactions between Biesse S.p.A. and its subsidiaries, which are entities related to the Parent, have been eliminated from the condensed interim consolidated financial statements and are not included in these Notes. The details of transactions between the Group and other related entities are indicated below.

#### **Commercial transactions**

During the first half of 2014, group companies undertook the following commercial transactions with related entities, excluded from the scope of consolidation.

€ '000	Revenue		Costs	
	For the six months ended 30/06/2014	For the six months ended 30/06/2013	For the six months ended 30/06/2014	For the six months ended 30/06/2013
<b>Ultimate Parent</b>				
Bl. Fin. S.r.l.	-	-	22	-
<b>Other related companies</b>				
Fincobi S.r.l.	1	1	-	11
Edilriviera S.r.l.	-	-	-	-
Se. Mar. S.r.l.	2	1	1,411	1,082
<b>Members of the Board of Directors</b>				
Members of the Board of Directors	1	-	1,186	982
<b>Members of the Board of Statutory Auditors</b>				
Members of the Board of Statutory Auditors	-	-	83	83
<b>Total</b>	<b>3</b>	<b>2</b>	<b>2,702</b>	<b>2,158</b>

€ '000	Receivables		Payables	
	At 30/06/2013	At 31/12/2012	At 30/06/2013	At 31/12/2012
<b>Ultimate Parent</b>				
Bl. Fin. S.r.l.	1,558	1,564	12	1,636
<b>Other related companies</b>				
Fincobi S.r.l.	1	-	-	23
Edilriviera S.r.l.	-	-	-	-
Se. Mar. S.r.l.	2	2	1,031	747
<b>Members of the Board of Directors</b>				
Members of the Board of Directors	24	2	534	24
<b>Members of the Board of Statutory Auditors</b>				
Members of the Board of Statutory Auditors	-	-	83	171
<b>Total</b>	<b>1,586</b>	<b>1,568</b>	<b>1,660</b>	<b>2,600</b>

The terms and conditions agreed with the above related parties do not differ from those that would have been established between arm's-length parties.

Amounts payable to related parties are of a commercial nature and refer to transactions undertaken for the sale of goods and/or rendering of services.

### Share-based payment plans

In May 2012, a share-based payment plan was set up with the aim of equipping the Biese Group – in line with international companies and the main Italian listed companies – with an instrument to provide incentives to and encourage the loyalty of management, and which

could develop in key personnel a sense of belonging to the company and ensure over time their constant focus on creating value, thus ensuring the alignment of the interests of shareholders with those of management.

The impact of the incentive plan at 30 June 2014 is set out in note 8 above.

Below are details on the share-based incentive plan adopted by Biesse and which was still in force during 2014.

### Beneficiaries

The plan is aimed at a limited number of managers, specifically the Group General Manager of Biesse and senior managers of Biesse and of the other Group companies, as identified by the Shareholders' meeting of 27 April 2012.

### Plan terms and conditions

The plan provides for the payment of a cash bonus and the free grant of Biesse shares upon the achievement of economic and financial performance targets for the Biesse Group, and is conditional on the managers remaining employed at the Group companies. The targets are calculated on a consolidated three-year basis (2012-2014) and refer to cash flows and EBITDA. The plan came into force in May 2012 and terminates on 30 June 2015; an advance of 50% of the total payment is included and is calculated using criteria identical to those of the plan and it accrues as from the 20<sup>th</sup> day following the date of approval of the annual report for 2013.

### Exercise procedures and strike price

Once the achievement of the economic and financial targets has been verified, within 20 days of the date of approval of the 2014 annual report, the proposed pay-out is sent to the beneficiaries. The options granted can be exercised within 10 days of the proposed pay-out. The strike price was originally set at 3.1437 Euro, equal to the average price of Biesse shares in the 30 days prior to the date of the proposal to join the Plan.

The table below provides details on the 2012 share-based incentive plan.

Total options granted	Number of beneficiaries	Strike price	Check on plan terms and conditions	Exercised options up to 30 June 2014	Expired options up to 30 June 2014	Outstanding options at 30 June 2014
94,442	10	3.1437	Exercisable options	-	-	94,442

**Remuneration of directors, general managers, key management personnel and members of the Board of Statutory Auditors**

€ '000	<i>Remuneration</i>			
	Fees	Non-monetary benefits	Bonuses and other incentives	Other remuneration
Board of Directors	738	20	207	221
Board of Statutory Auditors	83	0	0	0
Key management personnel	0	4	107	128
<b>Total</b>	<b>821</b>	<b>25</b>	<b>314</b>	<b>350</b>

Pesaro, 4 August 2014

The Chairman of the Board of Directors

*Roberto Selci*

*(signed on the original)*

**Statement on the condensed interim consolidated financial statements in accordance with art. 81 ter of Consob Resolution no. 11971 of 14 May 1999 as subsequently amended**

The undersigned Roberto Selci, as Chairman, and Cristian Berardi, as Manager in charge of financial reporting of Biesse S.p.A, having also taken into account the provisions of art. 154-bis, paragraphs 3 and 4, of Italian Legislative Decree no. 58 of 24 February 1998, hereby state:

- the adequacy in relation to the characteristics of the business and
- the effective implementation of the administrative and accounting procedures for the preparation of condensed interim consolidated financial statements as at and for the six months ended 30 June 2014.

The assessment of the adequacy of administrative and accounting procedures for the preparation of condensed interim consolidated financial statements at 30 June 2014 is based on a process established by Biesse, consistent with the Internal Control – Integrated framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, which is an internationally accepted reference framework.

They also state that:

a) the condensed interim consolidated financial statements:

- have been drawn up in compliance with the international financial reporting standards applicable and endorsed by the European Union in compliance with Regulation (EC) no. 1606/2002 of the European Parliament and the Council dated 19 July 2002 and, in particular with IAS 34 – Interim Financial Reporting – and also with the provisions to implement Article 9 of Italian Legislative Decree no. 38/2005;
- are consistent with the entries in accounting ledgers and records;
- as far as is known, they provide a true and fair view of the financial position, results of operations and cash flow of the issuer and the group of companies included in the consolidation scope;

b) the interim directors' report contains references to significant events that occurred during the reporting period and to their impact on the condensed interim consolidated financial statements, together with a summary description of the main risks and uncertainties for the remaining six months of the year, as well as information on any material transactions undertaken with related parties.

Pesaro, 4 August 2014

**Chairman and  
Chief Executive Officer**  
Roberto Selci  
(signed on the original)

**Manager in charge of  
financial reporting**  
Cristian Berardi  
(signed on the original)