



annual report  
2011





## index

### THE BIESSE GROUP

Company Office Holders	11
Group structure	12
Financial Highlights	14
The Group	16
The brands	18

### DIRECTORS' REPORT

The market	26
Events	34
Employees	36
Customers	37
Corporate governance	39
Summary income statement	40
Summary statement of financial position	45
Principal risks and uncertainties to which Biesse SpA and the Group are exposed	47
Research and development activity 2011	50
Reconciliation between the equity and results of the parent and consolidated equity and results	56
Transactions with associates, parents and the latter's subsidiaries	56
Other related party transactions	57
Information on significant companies outside the EU	57
Personnel	57
Shares in Biesse and/or its subsidiaries, held directly and indirectly by members of the Board of Directors, the Board of Statutory Auditors and the General Manager, as well as by their respective spouses where not legally separated and by their children	59
"Atypical and/or unusual" transactions of the year	60
Significant subsequent events and outlook	60
Directors' report on the performance of Biesse SpA	61
Other information	65
Proposal to the ordinary shareholders' meeting	66

**CONSOLIDATED FINANCIAL STATEMENTS**

Consolidated income statement	70
Consolidated statement of comprehensive expense	71
Consolidated statement of financial position	71
Consolidated statement of cash flows for the year ended 31 December 2011	73
Consolidated statement of changes in equity as at 31 December 2011	74

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

Notes to the consolidated financial statements	77
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**APPENDIX 1**

Income statement in accordance with Consob resolution no. 15519 of 27 July 2006	134
Consolidated statement of financial position in accordance with Consob resolution no. 15519 of 27 July 2006	135
Certification of the Consolidated Financial Statements in accordance with art. 81-ter of Consob Resolution no. 11971 of 14 May 1999	137
Independent Auditors' report for the year ended 31/12/2011	139



Dear Shareholders,

In spite of the financial difficulties and uncertainties pervading the world's major markets, Biesse wrapped up 2011 with a notable rise in consolidated revenues and returned to a pre-tax profit.

This was achieved to a significant extent during the second half of the year, and even more significantly during the last quarter, which contributed 29.1% of the year's revenues and 86.8% of operating income. Our market share grew impressively across all business segments.

In early 2012, the international markets showed signs of stabilisation, which could help restore confidence in investments in our reference sectors. Nevertheless, over the short term, demand kept up at the top and bottom of the range, while faltering significantly in the mid-market segment.

Therefore, and in order to safeguard the Group's continuity and ongoing development, Biesse applied for the Extraordinary State Subsidised Temporary Lay-Off Scheme for corporate restructuring, which may involve up to 150 zero-hour employees and 750 rotating employees.

From a geographical perspective, the rise in exports as a percentage of total sales (85.9% of consolidated revenues) was a determining factor in sales recovery, and it confirms the hard times the domestic market is experiencing: in 12 months, its share of sales volume decreased by 23.8% compared with 2010. BRIC countries accounted for more than 15% of Biesse's sales.

So, once again, in 2011, China, India, Brazil, Eastern Europe (Russia) and the Middle East stood out as the leading countries with regard to investments in capital goods. Biesse, thanks to its extensive coverage throughout all the world's main geographical areas, followed this trend, driving demand through highly focused sales and marketing actions.

Further proof of the focus we have been putting on the emerging markets - and implemented to boost our presence in those countries we consider strategic - was the acquisition of a Chinese company in the second half of 2011, mainly with the aim of seizing the opportunities that the main international end market can and will be able to offer us. This new presence,



together with the one we already have in India, will be crucial for growing in the Asian and Australian markets.

The recovery seen during the last two years, while still not enough to bring production and sales back to pre-crisis levels, is reflected in our order intake and backlog figures recorded at the end of 2011. Indeed, order intake in 2011 was up 16% on 2010, while by the end of December our backlog soared above 90 million euros (+17% compared with December 2010).

Through constant product innovation and development (we revamped 40% of our product range), investments in our technical structure and the integration of our new complementary brands (VIET), we have been aiming to increase our market share across global markets, especially in plant building.

On 10 February, the company's Board of Directors approved the Three-Year Business Plan for the 2012-2014 period, forecasting a weighted average sales growth of 6.4%. In 2014, we expect our consolidated EBITDA margin to exceed 13% and our net financial position to be in surplus.

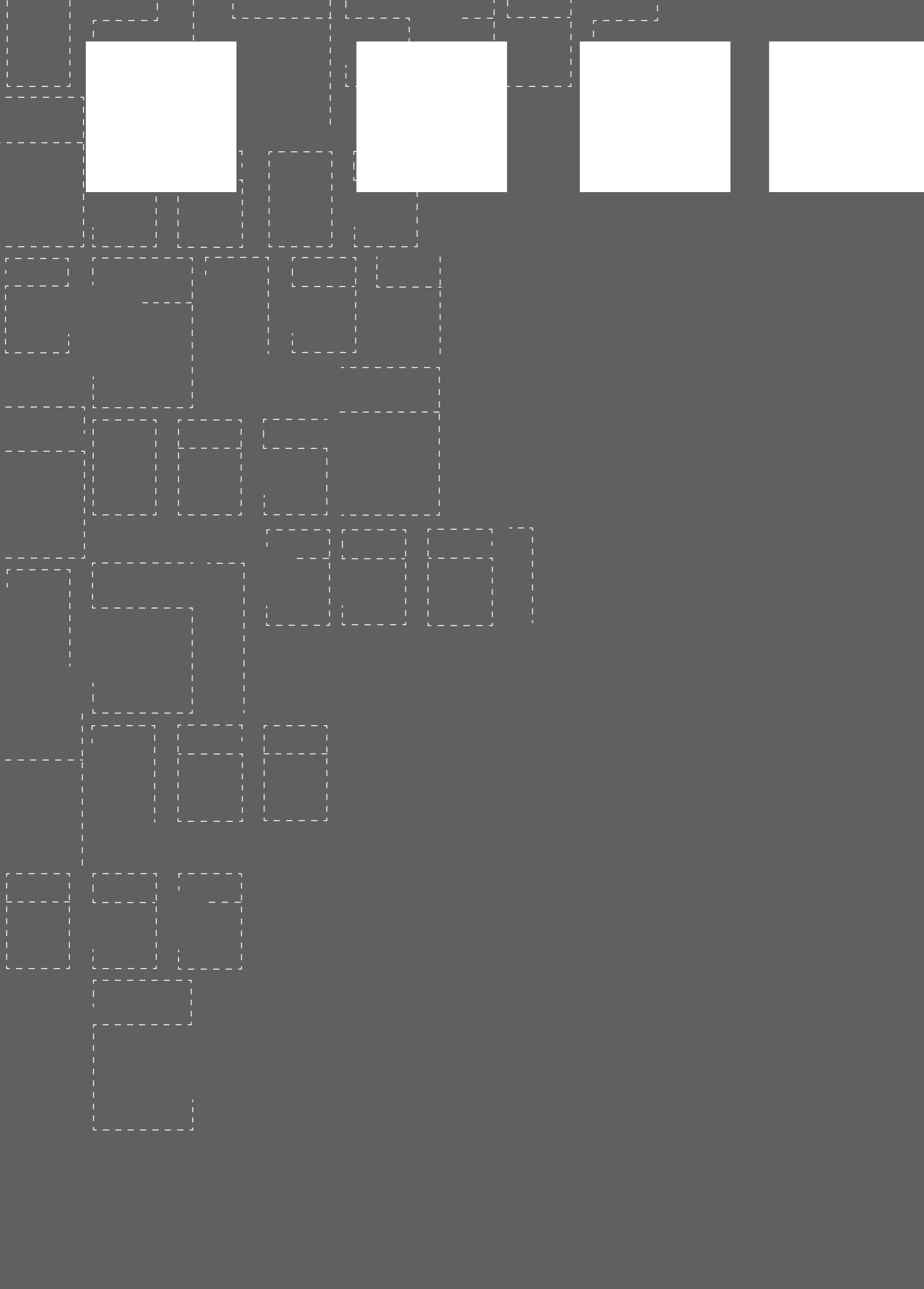
The Plan's key elements clearly show the entire Group's focus on reducing industrial costs further, boosting sales, encouraging technological innovation and improving our after-sales technical support service.

To conclude, 2011 saw us return to encouraging production and sales levels and, most importantly, to a pre-tax profit.

Over the next three years, we are looking to focus on executing the industrial projects mapped out in the aforementioned Business Plan, since we believe that they constitute - together with the strength our brands and the excellent reputation enjoyed by our products - the determining factor as we strive to achieve our goals.

Chairman  
Roberto Selci

Chief Executive Officer  
Giancarlo Selci



the biesse group

## board of directors



## company office holders

### Board of Directors

Chairman and Managing Director  
 Managing Director <sup>1</sup>  
 Managing Director  
 Chief Executive Officer  
 Chief Executive Officer  
 Director  
 Director  
 Director

*Roberto Selci*  
*Giancarlo Selci*  
*Giorgio Pitzurra*  
*Alessandra Parpajola*  
*Stefano Porcellini*  
*Leone Sibani*  
*Giampaolo Garattoni*  
*Salvatore Giordano*

### Board of Statutory Auditors

Chairman  
 Standing Statutory Auditor  
 Standing Statutory Auditor

*Giovanni Ciurlo*  
*Claudio Sanchioni*  
*Riccardo Pierpaoli*

### Internal Control Committee Remuneration Committee

*Leone Sibani*  
*Giampaolo Garattoni*  
*Salvatore Giordano*

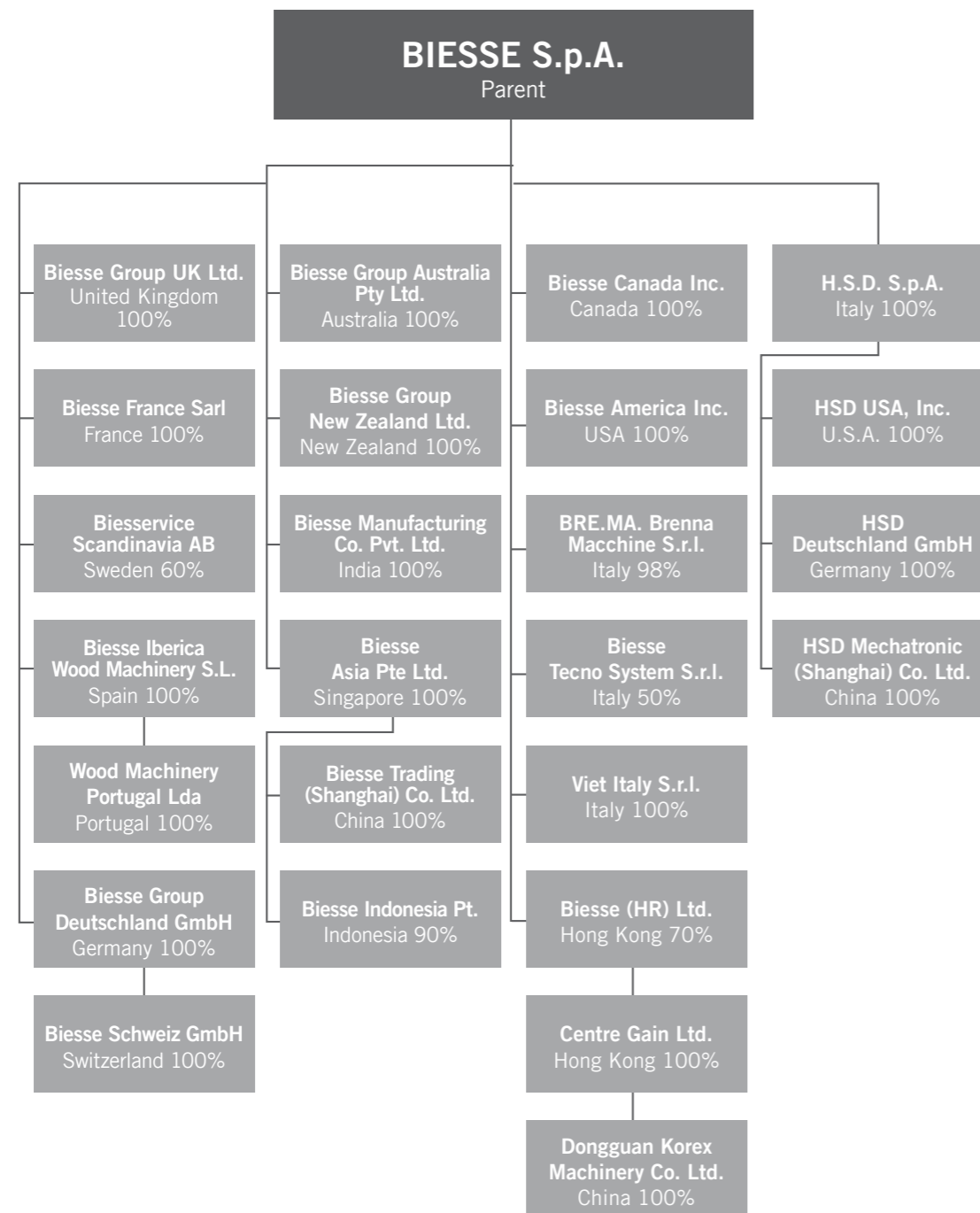
### Supervisory Body

*Leone Sibani*  
*Giampaolo Garattoni*  
*Salvatore Giordano*  
*Cristian Berardi*  
*Elena Grassetti*

### Independent Auditors

KPMG S.p.A.

<sup>1</sup> With exclusive mandate for the strategic direction and co-ordination of the Group



Compared to the latest set of financial statements, the scope of consolidation has changed due to the 100% inclusion of the Centre Gain group, based in Hong Kong. The transaction was finalised by establishing a special purpose vehicle, Biesse Hong Kong Ltd, which on 6 September signed a preliminary agreement for the purchase of the shares of Centre Gain for a total amount of HKD 105 million (€ 10 million on the accounting date of the transaction); the preliminary agreement was finalised on 6 October 2011.

Based on the terms of the transaction, one of the three founding shareholders of the Centre Gain Group – Chris Kwong – subscribed for 30% of the shares of Biesse HK (for HKD 4.5 million) and became its Managing Director. Chris Kwong has been active for 25 years in the woodworking machinery sector in China and has been co-operating with the Biesse Group since 1999.

The Centre Gain group has been active since 2004 in the production and marketing of woodworking machinery, with a manufacturing unit located in Dongguan City – Guangdong Province – (Korex Machinery Ltd.). Korex operates from a 44,000 sqm plant and employs around 360 staff members.

2010 consolidated sales of the Centre Gain group amounted to approximately € 12 million. Thanks to this deal, and the synergies arising from the cooperation with its existing branch in Shanghai, the Biesse Group intends to strengthen its presence in a geographical area of significant importance both in terms of current and medium-term potential.

With reference to the equity investment in BRE.MA. Brenna Macchine S.r.l., on 27 October 2011 the shareholders' meeting of the company was held and took the measures set forth in Article 2482 ter of the Italian Civil Code, zeroing the share capital, balancing the loss and re-establishing the share capital to € 70,000. On this occasion, Biesse S.p.A. carried out the above transactions both for its own share and for that of the non-controlling shareholder. The payment related to non controlling interests is subject to a condition precedent to the subscription

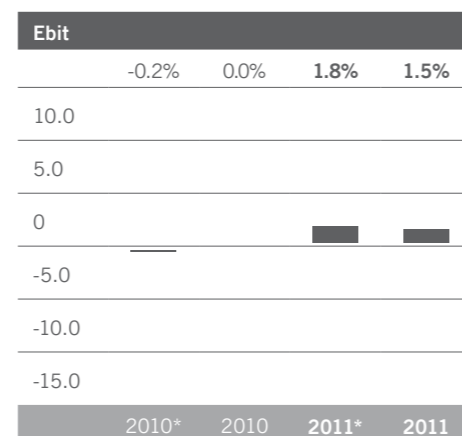
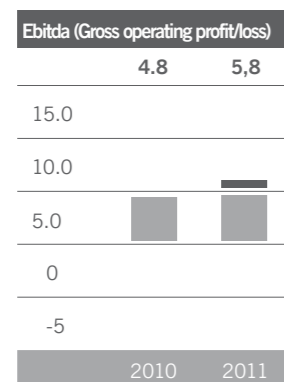
right for the relevant 40% share. In this phase, based on the purchase option agreement, the non-controlling shareholder carried out the transactions set forth in Article 2482 ter limited to an amount equal to 2% of the share capital, reserving the irrevocable option to purchase the residual 38% granted by Biesse no later than 31 December 2012. The effects of the above agreements were considered for determining the non-controlling interests in the loss for the year and equity at 31 December 2011.

It should also be pointed out that the subsidiary Viet Italia S.r.l. - established in January 2011 - is a special purpose vehicle set up to rent and subsequently acquire (an irrevocable purchase offer has been made to the liquidator) the business activities of the eponymous Pesaro-based brand – 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. The irrevocable purchase offer also included Viet's equity investment in Pavit S.r.l. (a company active in mechanical processing, whose output is largely absorbed by Viet Italia S.r.l.). Based on some conditions, established by the above contract and concerning Pavit, precedent to the acquisition of the equity investment, it was deemed advisable not to include Pavit in the consolidation scope, also because the interest is not material.

Finally, as for the subsidiary Biesse Manufacturing Co. Pvt. Ltd., in the first quarter of 2012, the requirements necessary to acquire control of Nuova Faos International Manufacturing Pvt. Ltd. were met. For the purposes of the 2011 consolidated financial statements, this company was not consolidated, but the effects of the agreements were considered in measuring the assets and liabilities existing between the Biesse group and the company itself (trade receivables and payables, payables related to the acquisition).

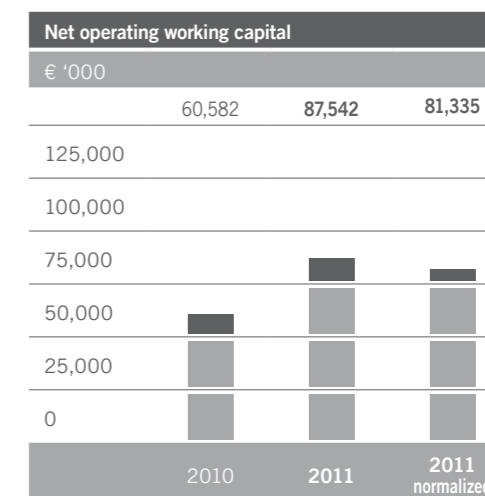
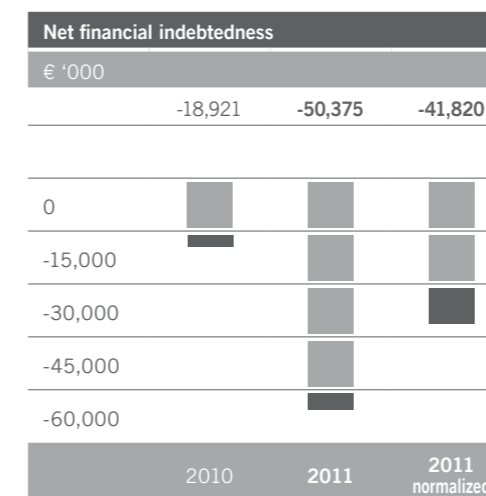


INCOME STATEMENT DATA					
€ '000	31 December 2011	% of sales	31 December 2010	% of sales	Change %
Revenue from sales and services	388,530	100.0%	327,522	100.0%	18.6%
Added value <sup>(1)</sup>	137,998	35.5%	123,382	37.7%	11.8%
Ebitda (Gross operating profit/loss) <sup>(1)</sup>	22,418	5.8%	15,700	4.8%	42.8%
Normalised Ebit (Normalised net operating income) <sup>(1)</sup>	7,069	1.8%	674	0.2%	-
Ebit (Net operating profit/loss) <sup>(1)</sup>	5,755	1.5%	106	0.0%	-
Loss for the year	(2,446)	(0.6%)	(5,741)	(1.8%)	(57.4%)



STATEMENT OF FINANCIAL POSITION		
€ '000	31 December 2011	31 December 2010
Net Invested Capital <sup>(1)</sup>	171,038	141,835
Equity	120,663	122,914
Net financial position <sup>(1)</sup>	50,375	18,921
Net operating working capital <sup>(1)</sup>	87,542	60,582
Gearing (net financial indebtedness/equity)	0.42	0.15
Fixed asset/standing capital ratio	1.08	1.23
Order intake	323,178	278,699

<sup>1</sup> Notes explaining the criteria for determining amounts relating to interim results and combined capital and financial data are contained in the directors' report and the Notes to the financial statements.

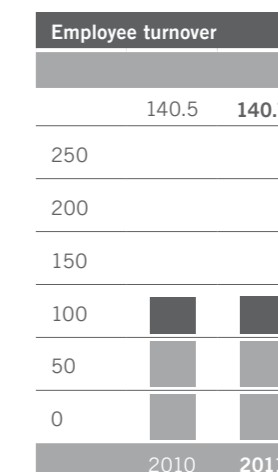
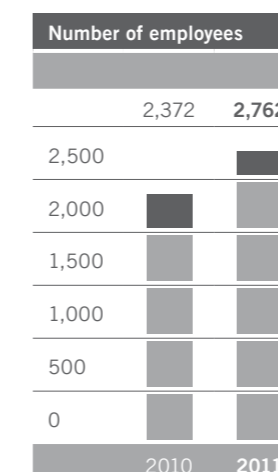


\* For better comparability, the reported data is also presented net of the effects related to the change in the scope of the Group (acquisition of the Centre Gain group, Viet start-up).

## PERSONNEL

	31 December 2011	31 December 2010
Number of employees* at year end	2,762	2,372

\* Data includes temporary staff. The reported data includes the employees of the Centre Gain group (332 employees) and Viet (38 employees).





The **Biesse Group**, with Headquarters in Pesaro, is primarily engaged in the production, marketing and after-sales service of machines and systems for the wood, glass and stone processing sectors. Production activity is concentrated in Italy and in India. Marketing and after-sales support are organised both through the direct geographical presence of companies belonging to the Group which is composed of 30 subsidiaries and commercial offices, and through a select network of 300 importers, distributors and agents.

The Group is composed of three main business divisions each of which is highly specialised in its own sector:

- Biesse Wood Division
- InterMac Glass & Stone Division
- HSD Mechatronic Division

The Group is also involved in other activities such as the production of precision mechanical, electrical, electronic and pneumodynamic industrial components.

## BIESSE

Presents its complete range of CNC machines and systems dedicated to panel processing, and window and door manufacturing; CNC machining centres for milling, boring and edgeworking; CNC routers. Biesse is able to provide numerous solutions to increase productivity, reliability and machining quality, all made-to-measure for the customer.



## BIESSEARTECH

Presents a complete range of Easy Tech solutions, specialized in the production of woodworking machines mainly designed for small and medium-sized companies. The company's extensive experience, service and widespread distribution network make BiesseArtech a brand name synonymous with reliability and profitable investment. This line of products, in fact, is destined to revolutionize production times and phases, while offering highly personalized and innovative technical and logistics support. BiesseArtech solutions are designed for all the various panel machining phases: panel sizing, edgeworking, boring, milling, sanding and assembly of furniture items.



## BIESSEEDGE

Produces edgeworking and squaring-edgeworking machines for the furniture industry. Our dedication to satisfying the needs of even our most demanding customers remains constant by granting high-speed, flexible and high precision machining solutions.



## COMIL

Produces plants and systems for drilling and drilling-inserting of hardware, flexible machines for companies offering a customizable product and giving importance to the 'lead time' and to the reduction of the half-finished products stock.

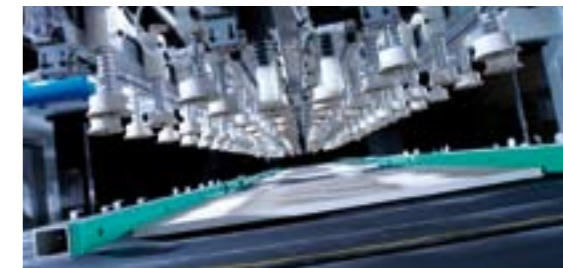


® Viet calibrating and sanding machines adapt to any context: from the needs of small carpentry workshops to the production chains of large-scale industry. Moreover, our solid specialisation makes it possible to create unique products on customer request to satisfy the single requirements of specific processes.



## RBO

Produces complete solutions for panel handling. The main feature of the Rbo product is the capacity to find the best solution to meet the customers' requests with always reliable and highly engineered products.



## SELCO

Is the Biesse Wood Division Brand that produces and distributes single line sizing centres, angular systems and integrated cutting cells with automatic storage and unloading solutions.



## Bre.Ma.

Is specialized in the production of NC vertical processing cells for boring, routing, milling and hardware inserting operations. All Bre.Ma. installations allow to process in sequence, panels with different dimensions without any manual set-up interventions.



## biesse systems

Offers its clients design services, integrated production lines and turn-key solutions for large scale furniture producers, including integrated drilling and insertion features. It designs turn-key systems and plants for woodworking activities and follows the clients' projects from conception to plant completion. It provides engineering systems and solutions for the resolution of complex production, technology and logistical issues in the panel processing and furniture manufacturing industries.

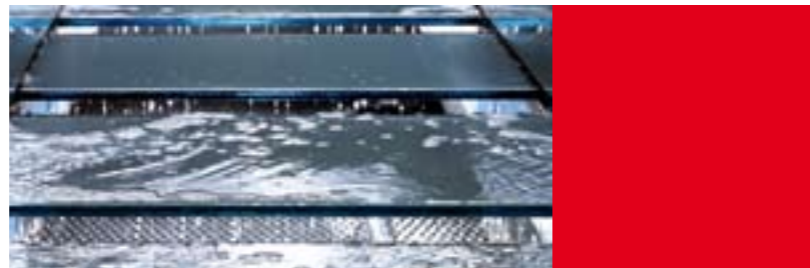
## INTERMAC

World leader in the production of multi function work centres for flat glass working. Intermac has revolutioned the technological standards in this sector since the release of its first line of machinery. Completes his offer with a range of machines and systems for the cutting of monolithic and laminated glass. Intermac occupies a leading position also in the production of technologies for natural and synthetic stone processing with its complete line of multi function work centres.



## BUSETTI

Leading brand in the segment of double edging machines and lines for flat glass. The vast experience and profound knowledge of the market needs allow the development of solutions that are able to meet the needs of the customers. The product range is completed with vertical and horizontal glass drilling machines.



## DIAMUT

Complete range of tools for the working of glass and stone. Diamut products can be used on all the machines on the market always granting the maximum quality of the final result.



## COSMEC

COSTRUZIONI MECCANICHE  
DI PRECISIONE

The production unit Cosmec manufactures high-precision mechanical components, which allows Biese to guarantee perfect control and consistent quality of its processes throughout the product life cycle, from conception and design through manufacturing, distribution and after-sale service.

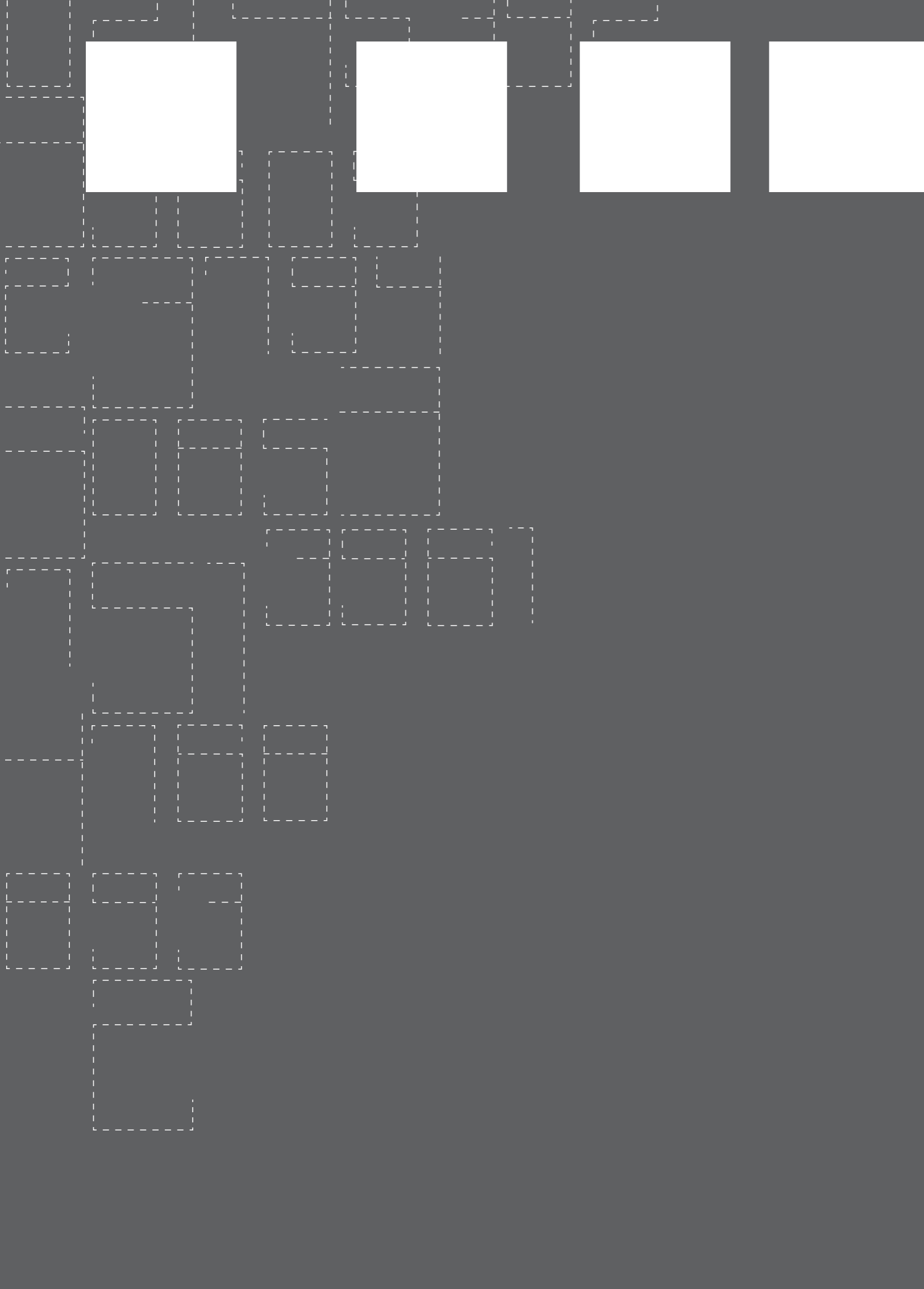


## HSD

MECHATRONIC  
DIVISION

The Mechatronic Division supplies and manufactures high precision *mechanical* and *electronic* components for machines and systems designed for the Biese Group and other companies.





directors' report



### General economic overview World economic trend

The world economy lost momentum in the second half of 2011, albeit timid signs of stabilisation continue to emerge. The necessary process of budget consolidation currently underway and the weakness of the labour and real estate markets in some of the major advanced economies continue

to weigh on growth prospects. Emerging countries are still steadily expanding, albeit at a slower pace as a result of weaker domestic and foreign demand.

In January 2012, the overall purchasing managers' index (PMI) rose to 54.6 from 52.7 in December, its highest value since February 2011. The services index reached the highest level in eleven months,

while the one referring to the manufacturing sector remained above the threshold value between expansion and contraction, set at 50, but still below its long-term average. Also the PMI's new order component rose in January, both in the manufacturing and service sectors.

The inflationary trend remained relatively contained in advanced economies. In the OECD area, the general consumer-price inflation over 12 months fell to 2.9 per cent in December from 3.1 in November, whereas the rate calculated net of food and energy prices was unchanged at 2.0 per cent. In emerging countries, inflation has recently declined slightly, albeit from high levels.

#### UNITED STATES

In the United States, the economy gradually continued to gain momentum in the fourth quarter of 2011 after a lacklustre first half of the year. The preliminary estimate of the Bureau of Economic Analysis reports that in the fourth quarter of 2011 annualised GDP growth rose by 2.8 per cent in real terms, compared with 1.8 in the previous quarter. It was mainly supported by consumption expenses and the change in private-sector inventories. Housing investments recovered, whereas net exports negatively contributed to growth. The latest monthly statistics indicate an ongoing economic expansion in the first quarter of 2012, albeit slower than in the last quarter of 2011.

#### JAPAN

In Japan, economic activity weakened slightly in the fourth quarter of 2011 after the recovery observed in the previous quarter. This trend is largely due to the deceleration of worldwide demand, the yen appreciation and the supply-side disruptions caused by floods in Thailand. In the final quarter of last year, industrial production fell by 0.4 per cent from the previous quarter despite a higher than expected increase in December (4 percent on a monthly basis), and exports of goods in real terms decreased by almost 4 percent, since December's increase (1.1 per cent on a monthly basis) did not offset the fall in the previous months. In nominal terms, however, the monthly deficit in the balance of trade increased in December (on a seasonally adjusted basis), resulting in an annual deficit (amounting to 2.5 trillion yen on a customs-clearance basis) for the first time since 1980. The latest published figures largely point to a stronger performance in early 2012. In January, the PMI manufacturing index suggested the sector was growing – albeit at modest rates – for the

first time in three months.

#### UNITED KINGDOM

The economic activity was modest in the United Kingdom. In the fourth quarter of 2011, GDP fell by 0.2 per cent in real terms compared to the previous period, mainly due to the weakness of industrial production and construction. Available indicators from business and household surveys improved slightly in early 2012. However, they remain consistent with a very slow economic recovery in the short term, although the monetary stimulus should provide support in the future. There were no signs of improvement in the labour market and indicators of monetary and credit growth remained weak. The restrictive credit conditions, the consolidation of household finances and the substantial fiscal tightening are expected to keep curbing growth in domestic demand. Furthermore, the weak prospects for foreign demand are likely to weigh on exports.

#### CHINA

In China, in the fourth quarter of 2011 GDP growth fell to 8.9 per cent in real terms compared to the prior-year period, from 9.1 in the third quarter. This is mainly the result of weaker foreign demand and restrictive domestic policies designed to curb investments in the real estate sector. External imbalances further decreased at the end of 2011 due to a lower trade surplus and net capital outflows, a trend that intensified in the light of diminished expectations for an appreciation of the renminbi and some concerns on the prospects for growth and financial stability. As a result, in the fourth quarter official reserves decreased for the first time since 1998.

#### EUROZONE

Tensions on sovereign debt in the Eurozone worsened and spread, becoming systemically important. The prices of the government bonds of several Eurozone countries were affected by the uncertainty on how the crisis was managed at the EU and intergovernmental levels, despite the significant budget adjustments made by national governments; the deterioration of growth prospects contributed to increase uncertainty. Investors have become more risk-averse and now prefer instruments considered safe, such as American and German government bonds. On 13 January, Standard & Poor's, a rating agency, downgraded the sovereign debt of nine Eurozone countries, including France, Italy and Spain.

In the last part of 2011, the economic situation of the Eurozone weakened. The €-coin indicator, which estimates the underlying component of the quarterly change in the area's GDP, has been negative since October. Growth prospects for 2012 were also revised downwards. Benefiting from an easing of tensions in input costs, inflationary pressures receded.

The ECB Governing Council cut the benchmark interest rates twice, bringing them to 1.0 per cent; it introduced important new measures to support banks' lending to households and enterprises, hampered by the increasingly difficult funding environment and the segmentation of interbank markets.

#### ITALY

In the third quarter of 2011, Italy's GDP decreased by 0.2 percent compared to the previous period; according to the estimates of the Bank of Italy, it would decrease also in the fourth quarter. The weakness of domestic demand is confirmed by the latest indicators and business surveys. The GDP trend is affected by the rise in financing costs, due to the deterioration of the sovereign debt crisis, and the slowdown in world trade, which nonetheless continues to support economic activity. The measures to reduce budget deficits also hampered domestic demand, but they were necessary to prevent more serious consequences on economic activity and financial stability. The competitiveness of enterprises slightly improved thanks to the depreciation of the Euro.

The rebound in employment since the last quarter of 2010 stopped in the last few months of 2011: in October and November, the employment rate reportedly fell and the unemployment rate climbed back up: it has already reached 30.1 percent among the young. Though the use of the State Subsidised Temporary Lay-off Scheme continues to decrease, businesses expect their employment levels to worsen.

Inflationary pressures are easing in the wake of cost-cutting and weak demand. In the closing months of 2011, increases in indirect taxes caused consumer prices to soar; the rise in fuel excise duties decided earlier this year in certain regions, as well as that in some government-regulated prices, may compound this trend.

The heightening sovereign debt crisis and the signs of an international slowdown weigh on growth prospects for both Italy and the Eurozone. For our

country, the scenarios vary greatly and depend on how the sovereign debt crisis will unfold and affect banks' lending capacity.

### Business sector review

#### UCIMU – SISTEMI PER PRODURRE

*"2011 was a positive year for the Italian industry. Growth will slow down in 2012"*

In the fourth quarter of 2011, the machine tools orders index, calculated by the Business Culture & Research Centre of UCIMU-SISTEMI PER PRODURRE, the Italian association of machine tool manufacturers, reports a 12.4% drop compared to the prior-year period, reaching an absolute value of 95.1, which is nonetheless among the highest recorded in the last three years.

Despite the slowdown reported at the end of the year, in 2011 the average index of Italian manufacturers' order intake increased by 12.8% compared to 2010, reaching an absolute value of 93, the highest in three years.

A more in-depth analysis of the data shows a growing discrepancy between the results in the domestic and foreign markets.

On an annual basis, the index of Italian manufacturers' domestic order intake reports an 11.9% decrease (for an absolute value of 55.2). On the other hand, the index of foreign orders reports a 20.9% increase compared to the previous year (reaching an absolute value of 116.3).

With reference to foreign markets, according to the latest figures reported by UCIMU's Research Centre based on ISTAT data, in the period from January to October 2011 the main end markets for Italian machine tools were the following: China (+11.5% compared to the first ten months of 2010), Germany (+55.9%), United States (+104%), Brazil (+60.2%), France (+20.1%), India (+13.5%), Russia (+16.3%), Turkey (+59.2%), Poland (+42.3%) and Spain (+16.3%).

According to Giancarlo Losma, Chairman of UCIMU-SISTEMI PER PRODURRE, "In the light of these figures, two considerations clearly emerge. First of all, we do not believe that the slowdown recorded in the last quarter is the prelude to a new difficult phase. Currently, there are no elements that could force the trend to reverse and hence cause a new downturn for the Italian industry of machine tools, robots and automation. On the contrary, the following figure clearly shows the

industry's level of activity: the index of production capacity scored nearly 80 in the fourth quarter".

"The second consideration – continued the Chairman – concerns the widening gap between the manufacturers' results in the domestic and foreign markets. The continuous and chronic reduction of the domestic order intake is not directly related to the downsizing of domestic consumption, which, in part, simply shows new needs, preferring standard, mid-range products".

#### ACIMALL

*"A positive 2011, but many concerns persist"*

The year 2011, based on the provisional statements published by the Research Office of Acimall – the national association of woodworking machinery manufacturers, ended with a 5.8% growth compared to 2010. A positive result, but not to the extent that one might have expected based on the trend of the first half of the year. Exports grew by more than 10%, with France and Germany as the main end markets, while imports fell sharply, contributing to rule out investments in woodworking technology, especially "up-market" technology, in our country (apparent consumption declined by 9.5% compared to 2010).

The trend of the last twelve months leaves the gap with pre-crisis levels unchanged, and reaffirms that the recovery of the last two years (more substantial in 2010, up 23% over the dismal 2009) is not sufficient to bring the industry back to its original size. Today, the industry's index is approximately 70% of its 2000 level.

"Whereas the first half of the year encouraged some optimism – says Dario Corbetta, head of Acimall's Research Office – the second half made it clear that it is unlikely everything will go back to normal in a short time. As we unfortunately had to point out in the 2011 provisional statement, the industry remains in a difficult situation, with supply continuing to exceed demand".

The figures speak for themselves: domestic production – evaluated on the basis of exports, which absorb approximately 75% of woodworking technology and machinery manufactured in our country – has grown less than we might have expected.

As already mentioned, the first half of the year was in line with the favourable prospects emerged in 2010, which pointed to a much stronger increase

in production. But unfortunately the second half of the year showed these signals were deceiving, making it impossible to understand clearly what is happening in our sector. Not only some market niches (technology for window and door fittings and wooden constructions in particular) had a good performance, but the difference in the results achieved in recent months by companies making the same product and competing in the same market was unprecedented. If, on the one hand, one would think that today more than ever it is the commitment of individuals, their willingness and their attachment to the company that makes the difference, on the other hand, it is clear that this is hardly measurable in statistical terms.

"Internationalisation is still the dominant theme – confirms Dario Corbetta – but the scenario has completely changed and is no longer the one our entrepreneurs were accustomed to. Until a few years ago, the 'Made in Italy' trademark and machines with an appropriate price-performance ratio were enough to fill the order book. Today, the markets are much more complex and require different approaches and an ever firmer commitment: the 'Made in Italy' trademark must compete in an ever more crowded marketplace, in countries where it is crucial to be consistently and continuously present. This is true for all sectors, and especially so for those where the competition from technology manufacturers in emerging countries is strong and there is greater demand for machines with a lower technological, safety and innovation content".

"Our enterprises – added Mr. Corbetta – managed to withstand international competition very well, often thanks to their size that made them more flexible and responsive to customer needs, allowing them to capture more and more market shares. The situation now is different, and reaching a certain size may be essential to survive. This is the great challenge that the Italian woodworking technology industry is facing".

#### VDMA

*"The industry expects zero growth in 2012"*

"In 2011, the German plant and machinery manufacturing industry grew by 12% – said Thomas Lidner, chairman of VDMA – almost reaching the 14% initially forecast. Over the 2010-2011 period, production increased by 22%".

Overall, the production of machinery grew by 24 billion, reaching a total value of 187 billion. The



12% increase in turnover in the German market was in line with the result achieved in foreign markets. The capacity utilisation rate stood at 88.1% (78.0% in 2010).

During the period from January to November 2011, exports increased by 14.5%. The twenty largest end markets all reported increases (China +26%, United States +22.2%, Russia +33.2%, Turkey +29.3%, Brazil +23.6% and India +15.3%). Exports to the Eurozone increased by 9%, a value below the average but still higher than expectations.

Not all the industries represented by the association posted these results. According to 2011 sales trends, 23 out of 28 sectors reported an increase, chiefly machine tools, robotics and automation, and agricultural machinery.

Given the trend in orders, the situation of uncertainty, particularly in the European market, and the expected stabilisation of economic activity in China, VDMA revised growth estimates for 2012, bringing them from 4% to 0%.

“At the end of December – concluded Thomas Lindner – I had already said that our forecast for 2012 needed to be revised downward. This consideration was confirmed in the last few weeks. We revised our forecast from +4% to +0%.”

## 2011 Trend

After a particularly positive 2010 in terms of order intake (+35% compared to 2009, annus horribilis for the Biesse Group), the 2011 year recorded a good performance, with a 16% increase in orders compared to 2010 (Wood Division +20.7%, Tooling Division +11.4%, Mechatronic Division +9%, Glass -2.9%). This trend characterised the whole year, with growth rates of 16.4% (March 2011), 28.5% (June 2011) and 17.8% (September 2011).

Net revenues for 2011 stood at € 388,530 thousand, compared with € 327,522 thousand in 2010, up 18.6% from the previous year. The figure is consistent with the quarterly results reported in 2011 (March +19.3%, June +16.5%, September +22.2%). In absolute terms, the volumes are approximately 10-15% lower than their pre-2009 levels.

The increase in revenues allowed the Group to make the most of the operating leverage, improving profitability in terms of both Gross Operating Profit and Net Operating Profit. Compared to previous

financial years, the changed conditions in the reference markets led to a sales mix less rewarding in terms of profit, as sales were focused either on machines with lower technological content (entry level) or very complex and customised plants (engineering), reducing the weight of the mid-market segment that in the recent past was still the main source of turnover for Biesse.

As for the financial position, eliminating the effects of the acquisition of the Centre Gain Group, net working capital increased by about € 20 million, mainly due to higher trade receivables (related primarily to the increase in turnover in the last two months of the year, moving volumes which previously weighed on inventories). Non current assets, net of the acquisition of the Chinese group (whose assets amount to € 10.4 million), increased by about € 2 million as a result of new investments in the design of new models and the implementation of the new Oracle ERP system. The higher cash requirement related to the trend in net working capital, as well as to investment spending and the acquisition of the Centre Gain group, caused the Group's net debt to rise from € 18.9 to € 50.4 million.

## MAIN EVENTS

### JANUARY 2011

Giorgio Pitzurra is appointed Director with the specific role of Managing Director (as resolved by the Shareholders' Meeting of 28 April 2011). Pitzurra, who is 61 years old, started working in Biesse after gaining significant international experience in prominent multinational companies (FIAT Group - ILVA - Pirelli - Ideal Standard - Kohler). In particular, Giorgio Pitzurra was Europe – Middle East – Africa Chairman at Ideal Standard and Kohler.

During the same month, the historical Pesaro-based brand Viet, market leader in the wood calibrating and sanding sector (woodworking machinery), becomes part of the Biesse “world”. The synergies arising from the inclusion of such brand – renowned for the innovation content and quality of its products – are numerous and will certainly help Biesse expand its presence in a strategically important market segment.

To date, the liquidators have not yet sold the company to Biesse because of the time-consuming procedure for settling the situation of the “parent”, which is in liquidation; Biesse has therefore extended the terms of its purchase offer. The start-up reported a loss, determined by costs incurred

for revamping the brand and reconstructing the distribution network; nevertheless, Viet is achieving increasingly positive results in terms of penetration and market-share, confirming the medium-term strategy that led to its bailout.

### MARCH 2011

On 25 and 26 March 2011, the Biesselinside & Windays event was held at the industrial complex of via della Meccanica in Pesaro. The event, dedicated to Biesse's innovative technologies, focused on the processing of window and door fittings, with dedicated showcases and theme seminars, testifying to Biesse's constant commitment to investing in innovative solutions to support customer requirements.

In addition to this important moment, when customers were welcomed into manufacturing plants, the Group participated in the major international trade fairs, in particular Interzum, in China (27-30 March), Fimma, in Brazil (23-27 March) and WoodShow, in Dubai (5-7 April).

### MAY 2011

On 12 May 2011, Biesse informed the market that its Share Buyback and Disposal Programme, whose launch had been announced on 12 November 2009 as the Shareholders' Meeting approved it, was coming to an end.

During the Programme's duration, there have been no purchases or disposals of Biesse ordinary shares.

On the end date of the Programme, total treasury shares held by Biesse S.p.A. amounted to 486,359 shares, i.e. 11.775 % of share capital, resulting from a previous buyback plan. These treasury shares are earmarked for the Retention Plan approved by the Shareholders' Meeting of Biesse on 19 October 2010.

The Programme authorised by the Shareholders' Meeting (which established a maximum number of 2,253,045 buyable shares, which, added to those already held by Biesse, would have accounted for 10% of share capital) was not implemented due to the fact that no circumstances occurred that made it necessary, in the Company's opinion, to activate mechanisms to support the stock's liquidity and/or value. In addition to this, Biesse wanted to preserve its liquidity to support the management and maintenance of its core business and of its planned industrial projects.

### JUNE 2011

In the international setting of Ligna 2011, the biennial trade fair that for five days (30 May – 3 June) transformed Hannover into the world capital of woodworking technology, the management of Biesse, led by the Chairman Roberto Selci, spoke to an audience of customers and professionals from 90 countries, showing new technologies designed to address customer requirements more accurately, with high standards of quality, finish and design. They also presented the main results achieved and the new three-year plan.

The biggest novelty this year was the presence of Biesse in Pavilion 24, dedicated to “Lightweight. network”, as a world player focused on technological innovation and new materials. This space was reserved for the companies that, at different levels, contribute to the manufacture of lightweight panels and stand out for their technological excellence in processing this type of material. This pavilion was set up to become a reference within the fair, representing a real centre of know-how and an opportunity for manufacturers to meet with suppliers.

One of the innovations presented at the Fair was the full range of 5-axis work centres, for both panels and solid boards, capable of meeting the needs of both large industrial companies and SMEs. In the early days of the event, the solutions for window and door frames, which include not only the innovative technologies of the UniWin Multicentres and the Rover WMS work centres, but also Viet's sanding and calibrating products and the new Hybrid Door for packaging doors and windows, were well received.

At Ligna, Biesse also presented new important drilling products, adding the new SKIPPER V31 and the EKO 902, a Bre.Ma-branded vertical drilling machine for SMEs, to its product range.

In June 2011, Biesse acquired a new order for a total of nearly € 12 million. The contract concerns the provision of a woodworking plant and represents one of the most important projects within the plant business.

In this specific sector, Biesse continues to increasingly establish itself as a global player able to offer high-performance complete solutions.

For the next 24 months, the Pesaro-based Group will provide Howdens Joinery Co. – a company listed on the London Stock Exchange and a leading kitchen manufacturer in the U.K. – with the technical support necessary to carry out its

plans for investing and developing its production capacity.

#### SEPTEMBER 2011

On 6 September, the Group signed an agreement to purchase, through the special purpose vehicle Biesse HK Ltd., 100% of the Centre Gain Group, based in Hong Kong, for a total amount of HKD 105 million (about € 10 million on the accounting date of the acquisition).

Pursuant to the agreement, the transaction will be settled in cash in several tranches within the next 36 months from when the transaction was completed (which occurred on 6 October 2011) by using credit lines, some already existing and some to be subsequently approved. At the reporting date, the outstanding debt amounts to HKD 73,800,000

Biesse S.p.A. will transfer the funding for the acquisition to the special purpose vehicle, Biesse HK Ltd, through an inter-company loan up to a maximum of HKD 90 million (about € 8.2 million).

Pending the transaction, one of the three founding shareholders of the Centre Gain Group – Chris Kwong – subscribed 30% of the shares of the special purpose vehicle (for HKD 4.5 million – about € 0.4 million) and became its Managing Director. Chris Kwong has been active for 25 years in the woodworking machinery sector in China and has been co-operating with the Biesse Group since 1999.

The Centre Gain Group has been active since 2004 in the production and marketing of woodworking machinery, with a manufacturing unit located in Dongguan City – Guangdong Province – (Korex Machinery Ltd.). Korex operates from a 44,000 sqm plant and employs around 360 staff members. The capacity utilisation rate is 60%.

2010 consolidated sales of the Centre Gain group amounted to approximately € 12 million.

With this deal, and the synergies arising from the cooperation with its existing branch in Shanghai, the Biesse Group intended to strengthen its presence in an extremely strategic and important geographical area both in terms of current and medium-term potential.

To date, China alone represents the world's largest market for woodworking machines, and the current production of the acquired company, since there is no technology overlap, will widen Biesse's Group product range.

#### DECEMBER 2011

On 16 December, the Board of Directors of Biesse S.p.A. resolved to apply for the extension of the Extraordinary State Subsidised Lay-Off Scheme into 2012, with effect from 9 January 2012. Using such Scheme also through 2012 is necessary in order to continue the process of reorganising the Group, given the continuing downward trend that is affecting all the major international reference markets.

The plan will involve up to 150 zero-hour employees and 750 rotating employees.

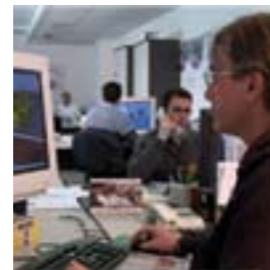
As the Managing Director, G. Pitzurra, commented on the sidelines of the meeting of the Board of Directors: "In the light of current and expected scenarios for the immediate future, it is necessary to reduce operating overheads with adequate instruments. Without prejudice to the future of Biesse and its ability to be present in the world markets that are still growing, as well as to develop its products' technology and innovation content, it is necessary to put a strong emphasis on the reduction of overhead costs, while investing at the same time in the company's growth, in the technical areas of the most advanced components, in automation and software."



exhibitions  
tech tour  
open house

The Biesse Group sponsors and promotes over 150 events around the globe, such as exhibitions, open-house and tech tours showing customers our know-how, technology and innovation. The Group reinforces partnerships with its customers by giving them the possibility to touch and test the machine portfolio and cutting-edge solutions available in multiple showrooms throughout the 30 worldwide subsidiaries and commercial offices. BIESSEINSIDE is the initiative promoted by the Biesse Group to “open” the doors to the world of Biesse woodworking processes and technology to customers and operators in the woodworking sector from all over the world. A direct link with the market, providing a live demonstration of the Group’s potential and the innovations in products and processes.





## employees

**Our most valuable asset: people.** The more than 2,700 employees in our production plants and subsidiaries all over the world are critical to the process of continuing success that has taken Biesse to the highest levels of our industry.

Certain in the belief that each individual has the potential to make a uniquely valuable contribution, Biesse constantly invests in employee training through the Biesse Corporate School, established to develop skills and provide hands-on training.

Furthermore, by applying an efficient organizational model, compliant with the Code of Ethics and Company Governance, Biesse can count on employees with a **strong sense of belonging and responsibility.**

## customers

The satisfaction and success of our customers is paramount. We strive to earn the trust of our customers with effective service and support, combined with the excellence of products Made in Biesse.

Regardless of where our customers may be, Biesse is there, always. Years of experience achieved in every corner of the globe makes Biesse the ideal partner, one that is able to anticipate market demands, satisfy customer needs, supply the right solution and offer consulting, services and products with high added value.



## corporate governance

The Corporate Governance system of Biesse S.p.A. substantially complies with the principles contained in the Code of Conduct for Listed Companies and with international best practices. The Board of Directors approved today the Report on Corporate Governance and Ownership Structure pursuant to Article 123-bis of the Consolidated Law on Finance related to 2011.

This Report is published on the Company's website [www.biesse.com](http://www.biesse.com) in the "Investor Relations" sector<sup>(2)</sup> and constitutes a reference for legal purposes.

Biesse S.p.A.'s management and control model is the traditional model envisaged by Italian Law, with a Shareholders' Meeting, a Board of Directors, a Board of Statutory Auditors and Independent Auditors. The corporate bodies are appointed by the Shareholders' Meeting and hold office for three years. The representation of Independent Directors, as defined in the Code, and their role in both the Board and the Company's Committees (Internal Control Committee, Related-Party Transactions Committee, Remuneration Committee), are fit for ensuring the interests of all shareholders are balanced and all sides of a discussion are freely aired in the meetings of the Board of Directors.

<sup>2</sup> At <http://www.biesse.com/it/corporate/investor-relations/profilo-biesse/corporate-governance>

## SUMMARY INCOME STATEMENT

INCOME STATEMENT FOR 2011					
€ '000	31 December 2011	% on sales	31 December 2010	% on sales	Δ %
<b>Net revenue</b>	<b>388,530</b>	<b>100.0%</b>	<b>327,522</b>	<b>100.0%</b>	<b>18.6%</b>
Change in inventories, wip, semi-finished and finished goods	1,499	0.4%	5,897	1.8%	(74.6)%
Other revenue	2,129	0.5%	4,316	1.3%	(50.7)%
<b>Revenue</b>	<b>392,158</b>	<b>100.9%</b>	<b>337,735</b>	<b>103.1%</b>	<b>16.1%</b>
Consumption of raw materials, consumables supplies and goods	(172,781)	(44.5)%	(143,639)	(43.9)%	20.3%
Other operating expenses	(81,379)	(20.9)%	(70,714)	(21.6)%	15.1%
<b>Added value</b>	<b>137,998</b>	<b>35.5%</b>	<b>123,382</b>	<b>37.7%</b>	<b>11.8%</b>
Personnel expense	(115,580)	(29.7)%	(107,683)	(32.9)%	7.3%
<b>Gross Operating profit</b>	<b>22,418</b>	<b>5.8%</b>	<b>15,700</b>	<b>4.8%</b>	<b>42.8%</b>
Depreciation and amortisation	(13,096)	(3.4)%	(12,454)	(3.8)%	5.2%
Provisions	(2,254)	(0.6)%	(2,572)	(0.8)%	(12.4)%
<b>Normalised Operating profit</b>	<b>7,069</b>	<b>1.8%</b>	<b>674</b>	<b>0.2%</b>	<b>-</b>
Impairment losses and non recurring items	(1,314)	(0.3)%	(568)	(0.2)%	-
<b>Net Operating profit</b>	<b>5,755</b>	<b>1.5%</b>	<b>106</b>	<b>0.0%</b>	<b>-</b>
Finance income/expense	(2,394)	(0.6)%	(2,157)	(0.7)%	11.0%
Exchange rate differences gains (losses)	(861)	(0.2)%	(478)	(0.1)%	80.1%
<b>Pre-tax profit (loss)</b>	<b>2,500</b>	<b>0.6%</b>	<b>(2,529)</b>	<b>(0.8)%</b>	<b>-</b>
Income taxes	(4,947)	(1.3)%	(3,211)	(1.0)%	54.1%
<b>Loss for the year</b>	<b>(2,446)</b>	<b>(0.6)%</b>	<b>(5,741)</b>	<b>(1.8)%</b>	<b>(57.4)%</b>

**Net revenue** for 2011 were € 388,530 thousand, compared with € 327,522 thousand in 2010, representing an increase of 18.6% over the previous year. In 2011, the Group focused on increasing its market share, especially in plant manufacturing, and thus consolidated the growth trends that emerged in 2010. During the year, the integration of the brand Viet brought additional revenue of approximately € 659 thousand, and the Group strengthened its presence in the Asian market through the acquisition of the Centre Gain group (which, as from the acquisition date - October 2011- contributed € 1.9 million to the Group's revenue).

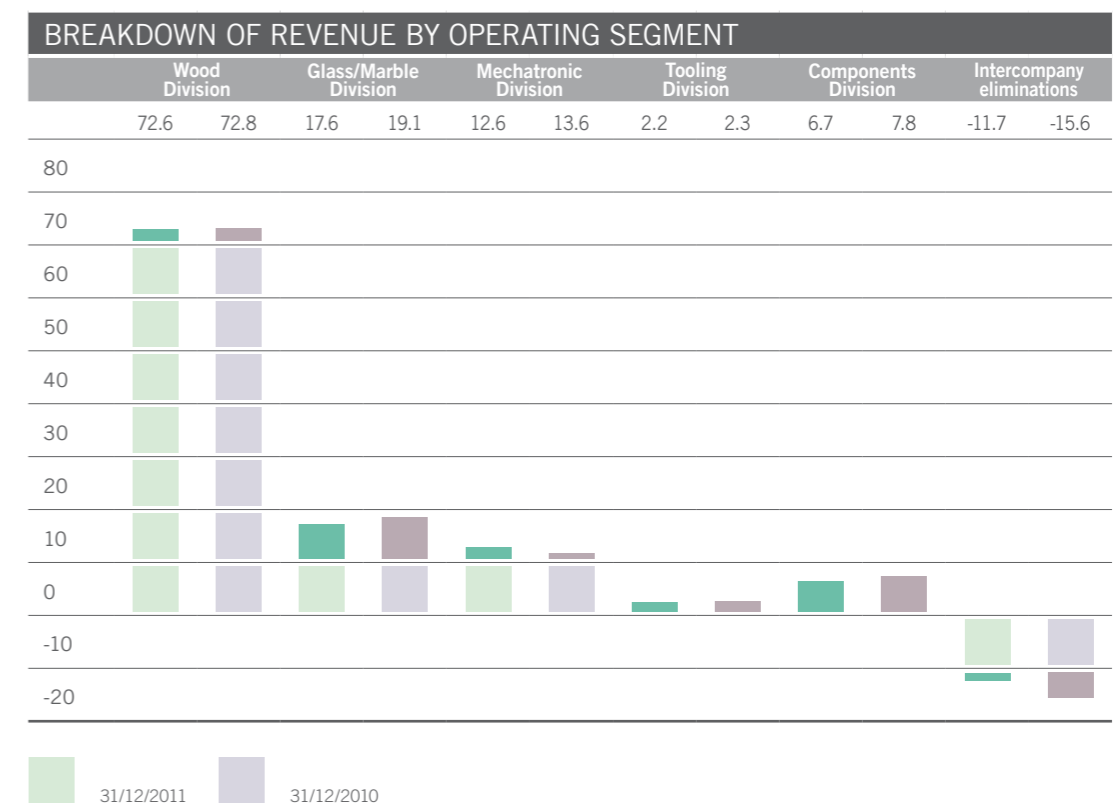
As for segment analysis, it must be said that in 2011 internal reporting (related to the analysis pursuant to IFRS 8) changed slightly on the basis of the guidelines provided by the new Management, leading to the break up the Service segment and the transfer of its functions to the Wood and Glass & Stone segments. This adjustment is consistent with the way the business is managed, which requires the world of production and that of installation and after-sales service to be tightly integrated. The strategy of expansion in the plant manufacturing segment requires these phases of the process to be closely related, given the importance assumed by the setting up and running of machines.

The following analysis shows revenue by segment as presented to the Group's Management. Please refer

to the relevant section of the notes for reconciliation with the data calculated according to the International financial standards reporting. 2010 figures have been restated to ensure comparability with the reported data.

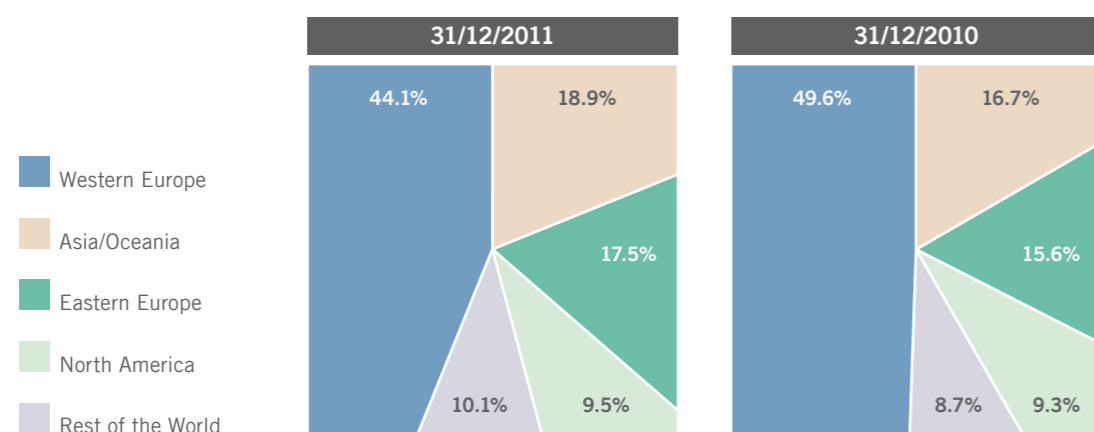
The analysis of sales by segment shows the positive results achieved by all the divisions, especially Wood and Tooling (+18.3% and +14.4%, respectively).

BREAKDOWN OF REVENUE BY OPERATING SEGMENT					
€ '000	31 December 2011	%	31 December 2010	%	Δ %
Wood Division	282,182	72.60%	238,506	72.80%	18.30%
Glass/Marble Division	68,546	17.60%	62,718	19.10%	9.30%
Mechatronic Division	48,795	12.60%	44,475	13.60%	9.70%
Tooling Division	8,484	2.20%	7,415	2.30%	14.40%
Components Division	26,055	6.70%	25,472	7.80%	2.30%
Intragroup eliminations	(45,533)	(11.70%)	(51,064)	(0.2%)	(10.80%)
<b>TOTAL</b>	<b>388,530</b>	<b>100.0%</b>	<b>327,522</b>	<b>100.0%</b>	<b>18.60%</b>



The breakdown of sales by geographical area reveals an increase of 33.4% in Eastern Europe and 33.6% in Asia-Pacific. The lowest growth rate was recorded in Western Europe (+5.4%) which, though it remains the Group's reference market, saw its share of total revenue decline from 49.6% to 44.1%.

BREAKDOWN OF REVENUE BY GEOGRAPHICAL AREA					
	31 December 2011		31 December 2010		Δ %
		%		%	
Western Europe	171,172	44.10%	162,402	49.60%	5.40%
Asia-Pacific	73,255	18.90%	54,835	16.70%	33.60%
Eastern Europe	68,070	17.50%	51,043	15.60%	33.40%
North America	36,851	9.50%	30,615	9.30%	20.40%
Rest of the World	39,182	10.10%	28,627	8.70%	36.90%
<b>GROUP TOTAL</b>	<b>388,530</b>	<b>100.00%</b>	<b>327,522</b>	<b>100.00%</b>	<b>18.60%</b>



**Revenue** amounts to € 392,158 thousand, compared with € 337,735 thousand in 2010, representing an increase of about 16% over the previous year. The figure is mainly related to the increase in sales (+18.6%), whereas make-to-stock production drops from € 5,897 thousand to € 1,499 thousand (-74.6%). Cost as a percentage of revenue is presented to give a clearer indication of the Group's profitability.

€ '000	31 December 2011		31 December 2010	
		%		%
<b>Revenue</b>	<b>392,158</b>	<b>100.0%</b>	<b>337,735</b>	<b>100.0%</b>
Consumption of raw materials and goods	172,781	44.1%	143,639	42.5%
Other operating expenses	81,379	20.8%	70,714	20.9%
Services	69,780	17.8%	58,721	17.4%
Use of third party assets	7,232	1.8%	6,394	1.9%
Other operating expense	4,367	1.1%	5,599	1.7%
<b>Added value</b>	<b>137,998</b>	<b>35.2%</b>	<b>123,382</b>	<b>36.5%</b>

Added value calculated as a percentage of revenue decreased by 1.3 percentage points compared with the previous year. The operating leverage effect allowed for a better absorption of overhead costs (the impact of other operating expenses decreases from 20.9% to 20.8%), but the changed conditions in the reference markets mandated a sales mix less rewarding in terms of profit, as sales were focused either on machines with lower technological content (entry level) or very complex and customised plants (engineering), reducing the weight of the mid-market that in the recent past was still the main source of turnover for Biesse.

Within services, the main increases were in variable cost items, as they are directly related to sales volumes. These include transport costs, commission expenses and royalties (€ 20,297 thousand against € 15,453 thousand, + 31.3%). Costs for installations carried out by external engineers are growing (+50.3%), since the Group preferred to outsource part of this activity (especially for less complex machines with faster installation cycles) to third-party personnel; given the time it would take to train internal employees adequately, this way the Group managed to respond quickly to growing volumes without burdening the internal structure.

Compared to the previous year, marketing costs are on the rise (€ 4,742 thousand compared to € 4,015 thousand in 2010), but this trend must be considered normal, as in 2011 the institutional wood trade show was held in Hannover (traditionally, the fair is held alternately in Germany and Italy every year).

Finally, there were important increases in utility costs (€ 4,441 thousand compared to € 3,916 thousand, + 13.1%) and consultancy costs (€ 5,314 thousand compared to € 4,698 thousand, + 13.1%). In the first case, the increase reflects the inflationary pressures on energy prices; as for consultancy costs, a significant part of the change refers to the costs incurred for the acquisition of the Centre Gain Group (€ 276 thousand).

The Centre Gain Group contributes € 567 thousand to operating expense, including € 507 thousand in services. Viet Italia S.r.l. contributes € 1,846 thousand to operating expense, including € 1,417 thousand in services.

**Personnel expense** in 2011 was € 115,580 thousand, compared to € 107,683 thousand in 2010, representing 29.7% of net revenue, down from 32.9% in the previous year despite a € 7.9 million increase in absolute terms.

The cumulative increase is attributable to fixed costs, which increase by about € 10.3 million. This is partially offset by the higher capitalisation of employee's wages and salaries, up € 1,732 thousand compared to 2010 (€ 6,666 thousand, compared to 4,934 thousand in 2010), as almost all personnel in the product development areas returned to work.

As at 31 December 2011, the Centre Gain Group reports personnel expense of € 247 thousand, while Viet Italia S.r.l. contributes € 2,034 thousand.

The resulting **Gross Operating profit (EBITDA)** was € 22,418 thousand.

Depreciation and amortisation increased by 5.2% (from € 12,454 thousand to € 13,096 thousand): depreciation totalled € 6,117 thousand (down 6.34%) while amortisation amounted to € 6,978 thousand (up 17.8%). Depreciation and amortisation of the Centre Gain Group amounted to € 81 thousand; those of Viet Italia S.r.l. amounted to € 4 thousand (according to the existing lease contract with Viet S.p.A. in liquidation, the charge for the use of capital equipment is shown under provisions for future charges).

Provisions stood at € 2,254 thousand, down from the previous year. The reported amount is composed of accruals of € 1,008 thousand made to the provision for product guarantees (€ 912 thousand in 2010), accruals of € 852 thousand to the allowance for impairment (€ 784 thousand in 2010), provisions for risks and charges of € 362 thousand (€ 876 thousand in 2010) and accruals to provisions for restructuring of € 32 thousand.

The resulting **Normalised operating profit items** amounted to € 7,069 thousand.

Impairment losses and other non recurring costs increased compared to 2010 (from € 568 thousand to € 1,314 thousand). They refer mainly to the impairment losses recognised on Biesse America's expenses incurred in previous years for the planning of the American branch's new office. The changed market conditions suggested to freeze the planned expansion of Biesse America's sales office, waiting for a positive stabilisation of the macroeconomic scenario in the area; in keeping with this logic, costs capitalised for the planning were fully impaired by € 956 thousand. In addition, the Group recognised an impairment loss on prepaid costs - totalling approximately € 358 thousand - for prototype development projects on

product lines no longer deemed strategic and whose prospective use is, to date, uncertain.

Consequently, **Operating profit** was positive at € 5,755 thousand.

Net financial expense, amounting to € 2,394 thousand, was up by 11.0% compared to the previous year (€ 2,157 thousand). The main components of this item are represented by interest payments due to banks, which, net of interest income, amounted to € 1,949 thousand (€ 1,167 thousand in 2010), costs relating to the discounting to present value of long-term financial assets, totalling € 42 thousand (€ 545 thousand in 2010) and financial discounts to customers, totalling € 487 thousand (€ 419 thousand in 2010).

Currency risk management in 2011 resulted in a loss of € 861 thousand (loss of € 478 thousand in 2010).

The **pre-tax profit** therefore was € 2,500 thousand, compared to a loss of € 2,529 thousand in 2010.

**Income taxes** were negative at € 4,947 thousand. This is attributable to the following factors: provision for current IRAP and IRES (€ 2,807 thousand and € 403 thousand, respectively), provisions for taxes on the income of foreign subsidiaries (€ 463 thousand), recognition of deferred tax expense of € 1,135 thousand; these elements are compounded by charges of € 138 thousand concerning taxes from previous years following the adjustment in the provision for taxes for risks on tax disputes.

The negative balance of deferred tax includes also deferred tax income calculated on the basis of the tax losses of companies that are likely to return to profitability in future years.

The Group therefore recognised a **loss for the year** of € 2,446 thousand, halving the loss of the previous financial year.

## SUMMARY STATEMENT OF FINANCIAL POSITION

SUMMARY STATEMENT OF FINANCIAL POSITION AT 31 DECEMBER 2011		
€ '000	31 December 2011	31 December 2010
Intangible assets	48,027	44,281
Property, plant and equipment	63,652	55,834
Financial assets	1,140	738
<b>Non current assets</b>	<b>112,819</b>	<b>100,853</b>
Inventories	88,459	81,326
Trade receivables	112,207	90,390
Trade payables	(113,124)	(111,134)
<b>Net Operating Working Capital</b>	<b>87,542</b>	<b>60,582</b>
Post-employment benefits	(10,544)	(10,855)
Provision for risk and charges	(9,438)	(8,547)
Other net payables	(24,778)	(16,407)
Net deferred tax assets	15,437	16,210
<b>Other net liabilities</b>	<b>(29,323)</b>	<b>(19,600)</b>
<b>NET INVESTED CAPITAL</b>	<b>171,038</b>	<b>141,835</b>
Share capital	27,393	27,393
Profit/loss for the previous year and other reserves	95,028	100,694
Loss for the year	(2,438)	(5,392)
Non controlling interests	680	220
<b>Equity</b>	<b>120,663</b>	<b>122,914</b>
Bank loans and borrowings and loans and borrowings from other financial backers	73,629	44,733
Other financial assets	(650)	-
Cash and cash equivalents	(22,604)	(25,812)
<b>Net financial indebtedness</b>	<b>50,375</b>	<b>18,921</b>
<b>TOTAL SOURCES OF FUNDING</b>	<b>171,038</b>	<b>141,835</b>

As for intangible assets, new investments in product development projects and for the implementation of the new Oracle E-BS ERP system totalled about € 10.9 million, while related amortisation was € 6.9 million. Goodwill increased by € 125 thousand due to exchange-rate factors. Net investment in property, plant and equipment amounted to € 5.2 million, while depreciation was € 6.1 million. Exchange rate fluctuations and other changes resulted in an increase in the opening balances of € 0.1 million and € 0.3 million, respectively.

Inventories rose by € 7,134 thousand, of which € 15 thousand was attributable to exchange rate fluctuations. The change was mainly due to the increase in semi-finished products of € 3,654 thousand (of which € 297 thousand due to exchange-rate factors). The finished-product inventories increased by € 2,201 thousand (of which € 310 thousand due to exchange-rate factors). The Centre Gain Group contributes € 7,741 thousand to the amount of inventories; Viet Italia S.r.l. contributes € 1,464 thousand.

The trends in the remaining items relating to net operating working capital (trade receivables and paya-



bles) differed. The total change of € 26,960 thousand is mainly due to the increase in trade payables (€ 21,817 thousand), related to the time trend of sales, which traditionally peak in the last quarter of the year. The closing balance of trade payables increased by € 1,990 thousand (of which € 1,351 thousand due to exchange-rate factors); this trend is related to the fact that the growth in volumes, especially in the last quarter of 2011, was largely due to the reduction in warehouse stock.

NET FINANCIAL INDEBTEDNESS					
€ '000	31 December 2011	30 September 2011	30 June 2011	31 March 2011	31 December 2010
Financial assets:	23,254	26,580	29,523	24,866	25,812
<i>Current financial assets</i>	650	2,794	453	-	-
<i>Cash and cash equivalents</i>	22,604	23,786	29,069	24,866	25,812
Short term finance lease payables	(464)	(1,438)	(1,452)	(2,215)	(2,217)
Short term bank loans and borrowings and loans and borrowings from other financial backers	(45,400)	(49,510)	(56,366)	(47,943)	(33,535)
<b>Short Term Net Financial Indebtedness</b>	<b>(22,610)</b>	<b>(24,368)</b>	<b>(28,295)</b>	<b>(25,292)</b>	<b>(9,940)</b>
Medium/Long term finance lease payables	(2,519)	(2,565)	(2,660)	(2,973)	(2,998)
Medium/Long bank loans and borrowings	(25,245)	(21,852)	(4,426)	(8,984)	(5,983)
<b>Medium/Long Term Net Financial Indebtedness</b>	<b>(27,765)</b>	<b>(24,417)</b>	<b>(7,086)</b>	<b>(11,957)</b>	<b>(8,981)</b>
<b>Total Net Financial Indebtedness</b>	<b>(50,375)</b>	<b>(48,785)</b>	<b>(35,381)</b>	<b>(37,250)</b>	<b>(18,921)</b>

At the end of December 2011, Group net indebtedness was € 50.4 million (gearing = 0.42), a remarkable € 31.4 million increase compared with the end of December 2010.

The figure was affected by several factors, first of all by the trend in working capital, which – as already mentioned earlier – felt the effects of the growth in volumes and of the Group's major investments in the launch of new products during the current year, with consequent overlapping of phase-in and phase-out of old and new product ranges. The figure includes also other investments related to the launch of Viet (start-up as from January 2011) and the development of the Indian production site, as well as the two first down payments made for the acquisition of the Centre Gain group, which amount to HKD 31,334 thousand (around € 3 million). The Centre Gain group contributes about - € 4,005 thousand to net financial indebtedness; the launch of Viet contributes about - € 1,550 thousand.

## PRINCIPAL RISKS AND UNCERTAINTIES TO WHICH BIESSE S.P.A. AND THE GROUP ARE EXPOSED

### OPERATING RISKS

#### Risks relating to general economic conditions

The Group's financial position, results and cash flow are influenced by several macro-economic factors – including the trend in global and domestic GDP, the level of business confidence, the trend in interest rates and the cost of raw materials – in the various countries in which Biesse operates.

For example, the global economic recession that plagued the first half of 2009 had a negative impact on the Group's operating result.

A new negative trend in the world economy began in July 2011 and is still persisting: the sovereign debt crisis turned into a banking crisis and has now become a crisis of confidence, with an increasing impact on the real economy. The so-called Euro crisis still represents a significant risk for European and global economic development.

It remains to be seen how European banks can be adequately refinanced and how countries such as Greece, Portugal, Ireland, Spain and Italy, which are the main sources of concern for the financial markets, can return on the right track in the medium to long term. Should negotiations with Greece's private creditors be suspended and bond auctions in these countries fail, for example, the crisis would deteriorate further. More downgrades of government bonds could increase uncertainty in financial markets or undermine confidence in the countries involved, negatively affecting the real economy.

All this threatens the economic development of some of the Group's geographical areas of reference: end consumers and consequently the Group's customers could reduce or optimise their consumption in a scenario of continuous economic depression and growing uncertainty. Austerity measures could reduce the disposable income and the propensity to invest.

In addition to this, we must not forget the risk related to the increasingly volatile exchange-rate fluctuations generated by the Euro crisis. Currently, the euro is depreciating against the US dollar and appreciating against the currencies of Eastern Europe. Future developments of the Euro crisis could confirm or reverse those trends. However, it is very likely that the relatively high level of volatility will persist as long as the crisis itself will not be solved.

In the current situation, it is not easy to forecast the amplitude of economic cycles, therefore no assurances can be given about the future trend in demand for the Group's products in the markets in which it operates, despite the Group's effort to estimate it in its three-year plans.

#### Risks relating to Group results

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

It should be born in mind that it is difficult to predict the amplitude 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 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 guarantee

stability for periods of at least one quarter.

The impact of the main raw materials on the average price of the Group's products does not exceed 4%. The high level of competition and fragmentation of the sector in which Biesse operates often makes it difficult to transfer abrupt and/or significant increases in raw material prices entirely on to sales prices.

#### **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 reductions. 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 conditioned by government authorisations and agreements with trade unions. Industrial action by unionised employees could have a negative impact on the company's business.

#### **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 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 individual with no adequate substitution, 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 sales in international markets and exposure to shifting local conditions**

A significant part of the Group's production and sales are carried out in countries outside the European Union. The Group is exposed to risks inherent in 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.

The Biesse Group is also exposed to compliance with several tax regimes, in particular with reference to transfer pricing.

The Biesse Group operates in several emerging markets including India, Russia, China and Brazil. The Group's exposure to these countries has gradually increased, so that 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 the capacity to offer innovative products**

The success of the Group's activities 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 guarantee adequate levels of profitability. 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.

## **FINANCIAL RISKS**

### **Risks relating to financial requirements**

The evolution of the financial situation of the Group depends on several conditions, including in particular its ability to achieve its objectives, as well as the general trend in the economy, the financial markets and the sectors in which the Group operates.

The Biesse Group, though it expects to meet its financial requirements through operating cash flows, gradually increased and strengthened its credit lines, extending their duration in order to overcome any negative effect on short-term credit.

It is also clear that, as much as 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 a positive cashflow.

### **Credit risk**

The Group is exposed to various concentrations of credit risk in various reference markets, mitigated by the fact that credit exposure is divided amongst a large number of counterparties and customers.

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

### **Risks relating to exchange rate fluctuations**

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 principally exposed to net exports from the Euro area to other currency areas (mainly US dollar, Australian dollar, Sterling, Indian Rupee and Chinese Renmimbi). Consistently with its risk management policy, the Biesse Group seeks to hedge its exposure to the risk of exchange rate fluctuations through financial hedging instruments. Nevertheless, sudden fluctuations in exchange rates could have a negative impact on the results of the Group.

### **Risks relating to interest rate fluctuations**

The Biesse Group uses various types of financing in order to fund its industrial activities. Interest rate fluctuations could lead to increases or reductions in borrowing costs.

## research and development activity 2011

The following list details research and development initiatives undertaken in 2011:

### WOOD DIVISION

#### Biesse brand

##### **KLEVER Machining Centre**

Development continued on an entry-level machining centre for processing plastic and wood-based materials.

##### **ROVER A Machining Centre**

Development was completed on enhancing the processing performance of low-end machining centres for both the solid wood elements market and the panel market, as well as to introduce optimised solutions to increase the profitability of the product.

##### **ROVER B Machining Centre**

Development was completed on enhancing the processing performance of mid-range machining centres and on the introduction of optional units for handling and completing the processing of solid wood elements in the work cell.

##### **ROVER C Machining Centre**

Completion of design of optional units for handling and completing the processing of solid wood elements in the work cell and for inserting new edgebanding units.

##### **WORKBENCH Rev.02**

Development was completed on a new workbench to increase the rigidity of the blocking systems and flexibility of use.

##### **UNIWIN HP Machining Centre**

Development was completed on the UniWin 2011 to insert more optionals for processing solid wood elements.

##### **Edgebanding Units**

Development continued on a functional unit for edgebanding panels, whether square or of another shape, and of different thickness, as well as for various types of borders and adhesives.

##### **ROVER CHP 320 Machining Centre**

Development continued on an innovative machining centre prototype to test new mechatronic solutions aimed at increasing performance and productivity in compliance with regulatory requirements regarding noise and dust emission levels.

##### **Winprof profiling machine for windows and doors**

Development was completed on the WinProf module for processing window frames. This module forms part of the Biesse Multicentres range, significantly boosting productivity.

##### **Measuring bench**

Development was completed on a machine that measures window and door frames and applies adhesive bar-code identification labels.

##### **Multilevel**

Development continued on a range of buffers for managing solid wood elements to be processed on machining centres for window and door frames

##### **Test bench**

Development continued on a test bench for nesting cell modules allowing to test the assembling station.

##### **Green**

Development was completed on features to reduce the energy management costs of machining centres.

##### **Nesting Cells**

At the lower end of the range of panel machining centres, development continued on optional units for labelling and handling panels through solutions optimised to increase the profitability of the product.

##### **NEXT STEP**

Completion of the Next Step work cell prototype for panel processing reserved for primary customers. This is a solution aimed at specialised processing functions in large industries or intended to become the principal machine of a small furniture manufacturer.

##### **TECHNO ONE FDT boring machine**

Development is in progress on an entry-level throughfeed boring machine, aimed at processing medium/large batches on lines either dedicated or integrated with upstream sizing and square-edgebanding processes, as well as on manually-loaded work cells.

##### **SKIPPER V31 boring machine**

Development was completed on an entry-level manually-loaded machining centres for boring and small routing operations, aimed at processing small batches of panels.

#### Comil Brand

##### **MATRIX Guide boring-inserting machine**

Development was completed on a boring-inserting machine for the insertion of lateral drawer guides on furniture panel components. The machine features drawer guide loading and handling systems.

#### Selco Brand

##### **SEKTOR Serie 4 panel sizing machine**

Design work continues on a new range of panel sizing machines for the lower end of the market. The range is expected to incorporate features and functions normally available only on higher-end machines.

##### **WN Series 6 panel sizing machine**

Design work continues on a new mid-market range of panel sizing machines, characterised by high performance, flexibility, configurability and compatibility of modules with higher-end models.

##### **WNA Series 6 panel sizing centre**

Design work continues on the new range of mid-market angular panel sizing centres, characterised by the high compatibility of its modules with the corresponding single cutting line range. The centres under development will incorporate new loading and cutting features allowing the execution of complex patterns automatically.

##### **WNA Series 7/8 panel sizing centre**

Design work began on a new range of upmarket angular panel sizing centres, characterised by high levels of productivity and integration with feeders (automatic loading and unloading systems). This will also involve development of certain features relating to the use of high engine power and the sustained optimisation of cutting patterns.

##### **Optiplanning (optimisation software)**

Development continues on the optimiser and on new algorithms to increase productivity and reduce waste.

## BiesseEdge Brand

### **New STREAM Range of edgebanding and square-edgebanding machines**

A new range of upmarket squaring-edgebanding and edgebanding machines is being completed: new technological features allow to manage both high production levels and single-batch processing, favouring concepts of design-to-cost and industrialisation of components. The prototype of a single-sided edgebanding machine was completed. The new range will be characterised by newly designed operating units capable of improving performance and reliability, as well as by a new control panel that will be modular like the mechanical units.

### **Automatic squaring module**

Research began on the new automatic squaring module for automated lines. The new product completes the range of squaring systems for single-sided edgebanders, applying also to high-end machines.

### **Rounding unit for Batch One**

The new rounding unit for the STREAM edgebanding machines is in progress. The solution allows to offer highly flexible edgebanding machines, capable of working on very small batches and even batch-one orders.

### **Linear-motor end-trimming machine**

Development began on the new linear-motor end-trimming machine to boost the performance of the future product range: the first prototype was completed.

## Bre.Ma. Brand

### **EKO902**

Design work was completed on optionals for a vertical machining centre for panel processing. These options allow the execution of boring and routing operations, as well as the insertion of hardware. They are also integrated with automatic loading and unloading systems.

### **Vektor 15/13**

Development was completed on a machine for the mid-range market. It is a vertical machining centre capable of executing boring and routing operations, as well as inserting hardware. The processing optionals are currently being developed.

## GLASS & STONE DIVISION

### Intermac Brand

#### **PRIMUS Series 3 (322 – 324)**

Development was completed on a high-pressure waterjet cutter for cutting glass, stone, steel, aluminium and plastics, which can use sand when necessary for cutting extremely hard materials. Waterjet cutters allow the execution of complex cuts, combining flexibility and cutting quality without requiring subsequent runs to clean off waste that in other processes derives from metal-cutting operations.

#### **Up-market marble machining centre**

Development was completed on a range of CNC mechanical-cutting machines for natural or synthetic stone products, with diamond tools to process blocks for high-end furniture and building products.

#### **MASTER SAW**

Design work began on a range of CNC mechanical-cutting machines for cutting and processing natural or synthetic stone products, with diamond tools for processing slabs and blocks for the furniture and build-

ing industries.

### **GENIUS 46 LM-A**

Development was completed on an up-market cutting bench for cutting laminated sheets, which are mainly used in the building industry. The LM-A benches consist of an innovative single-bridge structure, which allow monitoring of cutting cycles and the reduction of processing times, offering the possibility of cutting across different thicknesses. It is possible to automatically square and define the depth of the first cut and the related traverse rate. A service bench compatible with the machine was also developed: it includes sheet loading, support and "lung" features, reducing the necessary floorspace.

### **GENIUS 60 LM-A**

Design work is in progress on an up-market cutting bench for cutting laminated sheets with a cutting area up to of 6000 mm, which are used mainly in the building industry. The LM-A benches consist of an innovative single-bridge structure, which allows monitoring of cutting cycles and the reduction of processing times, offering the possibility of cutting across different thicknesses.

### **New vertical range**

Design work began on mechanical-cutting machines for manufacturers of industrial glass or plastic products, featuring tools for drilling, milling, grinding and polishing. They will come in a range of sizes to meet the needs of craftsmen and industries in the building, furniture and energy sector.

## MECHATRONICS DIVISION

### HSD Brand

#### **2-axis heads**

Design work was completed on the new HS 300 range of heads. The new model is targeted at the entry-level machining centre segment dedicated to processing wood, plastic and aluminium. It is an extremely compact unit equipped with a high-power electrospindle.

#### **High frequency motors**

Design work began on the new range of electrospindles known as ES 510. This new range was conceived to meet demand for performance and size with reference to metal processing machining centres. They are designed for use in medium milling operations.

#### **Smart motor**

Design work continues on the new SM 141 servomotor with integrated drive. Its performance and accuracy makes it suitable to drive machine axes. The new model is designed for wood milling operations on entry-level machining centres. Design work began on the new Sm 137 servomotor, which will support three fieldbuses (Enet, Canopen and Ethercat).

#### **Printed-circuit boards**

Design work was completed on the new digital receiver board with the related Bus converters. The new HS 350 head range will be equipped with these boards, which will allow it to comply with the dimensions required by the application. Design work began on the new ammeter for controlling motor absorption during grinding. The device is designed for the Intermac double-edging machine line.

#### **Independent spindle boring heads**

Design work began on a new independent spindle boring head characterised by a new generation of gears able to rotate at high speed.

#### **Aggregates**

Re-design work continued on the aggregates dedicated to wood processing with the goal of streamlining the range, simplifying the design, and consequently reducing costs.

## SOFTWARE PLATFORMS AND COMPONENTS

### **B-Cubed line**

Development was completed on the B-Cubed project, related to the construction of wood manufacturing plants. One of its multiple objectives is experimenting innovative solutions in terms of motorisation and other electronic components.

In particular, its objectives are:

- Lower HW and SW designing, assembling, cabling and testing times;
- Lower total cost of the distributed application;
- Energy saving on inverter and motorisation;
- Standardised cabinet layout;
- Standardisation of machine components;
- Size reduction;
- Opening towards machines / lines requiring hybrid technology;
- Use of Real-Time Ethernet technology.

### **BiesseLink (production monitoring and management software)**

The PlantVision project was integrated into the larger BiesseLink project, which originated from the need for a proprietary solution to monitor and control wood, glass and marble manufacturing plants, evolving towards plant manufacturing control. The main objectives are:

- developing a set of software components suitable for the monitoring and control solutions distributed by Biesse;
- enabling the applications supplied to be easily extended, so as to satisfy requests relating to the customer's particular plant or manufacturing process;
- integrating all the customer's processing phases and tracking them via a single application;
- planning throughout the entire production chain.

### **bSolid (CAD/CAM)**

This is a new integrated programming system for wood, stone and glass processing. The main focus was on the development of three features:

- new 3D operator interface (currently in the final stages);
- new 5-axis processing;
- realistic machine simulation.

The "renewed interface" project draws on the *Family Feeling* project.

5-axis processing the most innovative Biesse machines to be used to their full potential.

Realistic machine simulation allows the user to thoroughly test the user experience of the machine before actually using it, preventing problems that could arise in real-world use. It also allows the machine's tables and tools to be set up intuitively, identifying potential anomalies.

### **BiesseWin**

Add-in for BiesseWorks for designing and manufacturing windows.

It enables the design of the most common forms of windows and is perfectly compatible with Biesse machines.

### **bWindows**

Add-in for bSolid for designing and manufacturing windows.

It enables the design of the most common forms of windows and is perfectly compatible with Biesse machines. It drastically reduces window design time, offering 3D design features.

### **bControl**

New man/machine interface for all Biesse and Intermac machines. It will feature a touch-screen oriented and family feeling interface. It will be featured first on the "China" Rover Alpha and on Intermac bridge saws.

### **TechnoCAD 3D**

HMI 3D interface for managing the new Techno Kernel. It will enable the machine to be operated simply and intuitively and will provide valuable support in preventing collisions and programming the workpiece, specifically tooling operations and sequences. It includes advanced functions allowing for semi-assisted work planning and an optimiser for automatic work planning. Collision management is innovative and accurate. Collisions are calculated based on the real overall dimensions and not through rectangles that contain the objects to be checked; moreover, the colliding objects are immediately identified in the diagram. Visual management of machine maintenance was also implemented.

## RECONCILIATION BETWEEN THE EQUITY AND RESULTS OF THE PARENT AND CONSOLIDATED EQUITY AND RESULTS

In compliance with Consob Communication no. DEM/6064293 of 28 July 2006 the following a schedule shows the reconciliation of the equity and results for the year of the parent with the consolidated equity and results for the year.

€ '000	Equity 31/12/2011	Loss for 2011	Equity 31/12/2010	Loss for 2010
<b>Equity and loss for the period/year of the parent</b>	<b>113,629</b>	<b>595</b>	<b>112,851</b>	<b>(5,484)</b>
<b>Elimination of carrying amount of consolidated equity investments:</b>				
Difference between carrying amount and amount of equity held	11,111		14,021	
Pro-quota results contributed by investees		2,252		2,637
Derecognition of impairment losses/reversal of impairment losses on equity investments		6,688		5,621
Dividends		(11,393)		(8,000)
<b>Elimination of the effects of transactions between subsidiaries:</b>				
Intercompany losses included in closing inventories	(4,193)	(580)	(3,613)	(165)
Intercompany losses on non current assets	(564)	-	(564)	-
<b>Equity and loss of the year attributable to owners of the parent</b>	<b>119,984</b>	<b>(2,438)</b>	<b>122,695</b>	<b>(5,392)</b>
Equity and loss for the year attributable to non-controlling interests	679	(9)	220	(349)
Total equity for the year	120,663	(2,446)	122,914	(5,741)

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

No relevant transactions were reported in relation to the parent Bi.Fin. S.r.l.. Below are the details.

€ '000	Receivables	Payables	Revenue	Expense
Bi. Fin. Srl	587	-	10	-

## OTHER RELATED PARTY TRANSACTIONS

The following have been identified as related parties: the Board of Directors, the Board of Statutory Auditors, SEMAR S.r.l. and Fincobi S.r.l.

During the year, transactions between Biesse and the aforementioned parties were as follows:

€ '000	Receivables	Payables	Revenue	Expense
Fincobi Srl	-	-	1	(10)
Semar Srl	2	630	3	(1,930)
Members of the Board of Directors	82	24	-	(2,380)
Members of the Board of Statutory Auditors	-	168	-	(168)
<b>TOTAL</b>	<b>84</b>	<b>822</b>	<b>4</b>	<b>(4,488)</b>

We can confirm that the transactions disclosed above were carried out under terms and conditions that were no different from those arm's length parties would have agreed.

## INFORMATION ON SIGNIFICANT COMPANIES OUTSIDE THE EU

Biesse S.p.A. controls directly or indirectly some companies established and regulated by the law of States outside the European Union ("Significant Companies outside the EU" as defined by Consob resolution no. 16191 of 29 October 2007 as amended, concerning the listing of companies controlling non-EU entities).

The companies are: Biesse America Inc., Biesse Canada Inc., Biesse Asia Pte. Ltd., Biesse Manufacturing Co.Pvt. Ltd, Biesse Australia Pty Ltd; Centre Gain Ltd, Biesse (HK) Ltd and Dongguan Korex Machinery Co.Ltd..

With reference to these companies, it should be noted that:

- all the Significant Companies outside the EU draw up financial statements for the purposes of preparing the consolidated financial statements; their statement of financial position and income statement are made available to the shareholders of Biesse S.p.A. within the terms provided for by the relevant regulations;
- Biesse S.p.A. obtained the articles of association as well as the composition and powers of the corporate bodies of the Significant Companies outside the EU;
- the Significant Companies outside the EU:
  - provide the independent auditor of the parent with the information required for auditing the annual and interim financial statements of the parent;
  - have an administrative and accounting system fit for submitting on a regular basis to management and the independent auditor of Biesse S.p.A. the data on financial position results of operations and cash flows required for preparing the consolidated financial statements.

The internal audit of Biesse S.p.A., in order to fulfill its regulatory obligations, checked the adequacy of the administrative and accounting system for submitting on a regular basis to management and the independent auditor of Biesse S.p.A. the data on financial position results of operations and cash flows required for preparing the consolidated financial statements, as well as the effectiveness of the information flow through meetings both with the manager and the independent auditors of the Significant Companies outside the EU.

## PERSONNEL

At 31 December 2011, the Group had 2,762 employees, 390 more than the 2,372 reported at the end of 2010. This increase, in such a critical year as 2011, testifies to the Group's continued commitment to

investing in human resources.

The year 2011 was characterised by the Group's strong response in the face of continuing market instability: among other things, it adopted an important investment plan, an operation that allowed Biesse S.p.A. to obtain one year's worth of Extraordinary State Subsidised Temporary Lay-Off Funds for Corporate Restructuring (as from 10 January 2011) for the Pesaro branch, thanks to a constant dialogue with institutions, trade unions and employees' representatives at company level. The Scheme may be extended for another year.

In 2011, the Extraordinary State Subsidised Lay-off Schemes for Termination of Activity was extended for another 12 months (from 1 July 2011 to 30 June 2012). It had been activated on 1 July 2010 for the manufacturing facility located in the province of Bergamo, as part of a broader programme of employment protection, involving transfer incentives, the activation of an outplacement service and, as a measure of last resort, early retirement incentives.

These instruments involved all operating areas and departments of Biesse S.p.A., reducing working time by about 87,607 hours.

During the year, management entered into negotiations with the trade unions and employees' representatives at company level on new forms of flexibility in working hours, allowing the Group's plants to react more rapidly to fluctuations in demand. This resulted in agreements for experimenting in 2012 an advanced implementation of multi-week working hours in 3 business areas (Glass&Stone Division, Mechatronic Division and Viet Italia S.r.l.).

## Training

In 2011, the Company activated a number of training activities and programmes aimed at strengthening the technical and managerial skills of employees and supporting the organisational improvement and development measures already undertaken.

### *"Training the team working for product development" course*

The project involved the Product Design and Development personnel and was carried out by combining classroom activities and workshops with individual personnel training courses. Employees first took a test measuring their professional potential, and were later assigned a customised training programme.

### *"Process skills development for After-sales" course*

This course was aimed at the After-Sales personnel to enhance their management and communication skills in terms of process, so as to optimise and make regular feedback of user experiences more effective as a source of continuous improvement and learning throughout the company.

### *"Safety" course*

The project focused on those in charge of safety with the aim of strengthening their role awareness and provide them with refresher training on regulatory aspects, with a view to spread awareness, build a prevention-focused safety culture and promote good practices.

### *"Training on processes and business organisation" course*

The course was activated the year before and continued into 2011, focusing on after-sales, administration and purchasing, also in support of training on the introduction of the new ERP system.

### *Training on the new ERP system*

In support of the implementation of the new ERP system, an extensive training programme on its key modules was launched. It was aimed first at internal key user trainers, and later provided all system operators with theoretical and practical training.

### *Training on product and technologies*

From January to October, 23 training units on product and process technologies were organised and delivered to workers and after-sales technicians, for a total of 352 hours and 145 trained participants.

### *Training on the Lean Organisation*

The Biesse Kaizen Academy continued initiative to train Biesse personnel through a number of workshops

and two training modules. The first module, Principles of Lean Organisation, a brief introductory course, was aimed at a large part of the workforce involved in the Lean reorganisation process. The second, more specialist module, the Lean Organisation Academy, was aimed at personnel with a key role in the re-organisation process.

### *Training for personnel on temporary lay-off schemes*

In addition to the above, Biesse launched a project for the training of Biesse workers related to the state subsidised lay-off scheme. The project was agreed with the Training Centre of the Province of Pesaro and designed to implement the planned training activities in compliance with the requirements set out in the regulations on training in force.

Subsequently, each participant devised a personalised training course with help from experts. The classroom stage consists of modular courses tailored on the choices of and courses identified by the participants.

The initiative was agreed with the authorities and the trade unions, and submitted to the Ministry of Labour as an example of good practice.

The Employer Branding programme, which began in 2009 and continued into 2010, was confirmed in 2011, focusing on raising the Company's brand awareness and attractiveness among talented young University students.

Relations with schools and universities were cultivated largely by participating in Career Days and corporate presentations at Universities, focusing not just on local schools and universities but also, and increasingly, on national institutions.

This activity delivered two important results in 2011.

The focus on technical/engineering skills resulted in a collaboration programme with Milan's Politecnico university, involving both direct interventions in the classroom and training internships aimed at supporting the international growth of young interns.

## SHARES IN BIESSE AND/OR ITS SUBSIDIARIES, HELD DIRECTLY AND INDIRECTLY BY MEMBERS OF THE BOARD OF DIRECTORS, THE BOARD OF STATUTORY AUDITORS AND THE GENERAL MANAGER, AS WELL AS BY THEIR RESPECTIVE SPOUSES WHERE NOT LEGALLY SEPARATED AND BY THEIR CHILDREN

	No. of shares held directly and indirectly at 31/12/2010	No. of shares sold in 2011	No. of shares purchased in 2011	No. of shares held directly and indirectly at 31/12/2011	% of share capital
<b>Roberto Selci</b> Chairman	31,944	-	-	31,944	0.12%
<b>Giancarlo Selci</b> Managing Director	16,015,000	-	-	16,015,000	58.46%
<b>Alessandra Parpajola</b> Director	600	-	-	600	0.00%
<b>Salvatore Giordano</b> Independent Director	200	-	-	200	0.00%
<b>Leone Sibani</b> Independent Director	500	-	5,500	6,000	0.02%
<b>Giampaolo Garattoni</b> Independent Director	30,000	-	10,000	40,000	0.15%
<b>Giorgio Pizzurra</b> Managing Director	-	-	75,000	75,000	0.27%
<b>Sanchioni Claudio</b> Member of the Board of Statutory Auditors	200	-	-	200	0.00%

## ATYPICAL AND/OR UNUSUAL TRANSACTIONS OF THE YEAR

No transactions of this nature were reported in 2011.

## SIGNIFICANT SUBSEQUENT EVENTS AND OUTLOOK

### JANUARY 2012

In January 2012, the new ERP, Oracle's E-Business Suite, went live. The operation involved Biesse S.p.A. and HSD S.p.A. and is aimed at providing the Group with a single integrated application suite in order to preserve the important investments Biesse made in recent years.

The project involves implementing a unique solution and a unified architecture for all the companies of the Group; establishing a common process throughout the Group allowing for an optimised management of the different business models of the subsidiaries; reducing the number of corporate ERP systems and consequently maintenance costs.

### FEBRUARY 2012

On 10 February 2012, the Board of Directors of Biesse S.p.A. approved its own Three-Year Business Plan for the 2012-2014 period.

Based on the projects and initiatives set out in the above business plan, the following Group results are expected within the next three years: higher consolidated revenue (CAGR: 6.2%)

- higher added value (CAGR: 13.1%, accounting for more than 42% of revenues in 2014)
- recovering operating profits
  - (Gross operating profit(loss): CAGR 49.0%, accounting for more than 14% of revenues in 2014)
  - (Operating profit(loss): CAGR 124.3%, accounting for more than 10% of revenues in 2014)
- increasing cash flow net of planned investments, and positive net financial position in 2014 (overall free cashflow over the three-year period: € 95 to € 100 million).

On the sidelines of the Meeting of the Board of Directors, the Managing Director, Giorgio Pitzurra, commented: "In 2011, Biesse focused on increasing its market share, especially in plant building, renewing 40% of the existing product range. We improved the technical structure, integrated new brands (VIET) and strengthened our presence in the Asian market through a major acquisition in China. Despite a remarkable growth in consolidated sales, inefficiencies were seen on both the statement of financial position and income statement (lower profitability and high net working capital in 2011).

On this basis, today we approved the actions and projects required for consolidating and fostering Biesse's growth during the 2012-2014 three-year period. Our international dimension shall be considered as a concrete opportunity to overcome the economic and financial difficulties and uncertainties that weigh on short-term prospects.

The objectives we set are "challenging" but all feasible, as we devised detailed implementation plans for each one of them involving not only the entire structure of the Group, but also our most important suppliers.

We will also continue to place great emphasis on our financial position, strengthening it through high cash flow net of planned investments".

### MARCH 2012

At the end of 2009, Biesse Manufacturing (India) Pvt Ltd and Biesse S.p.A. reached an agreement with an historical supplier of the Group: the latter would build a manufacturing facility in Bangalore (India) for metalworking and machining structures in support of the Indian industrial facility of the Biesse Group; the parties, with a letter of intent and a private agreement, defined the conditions for the supplier to exercise a "put" option with Biesse Manufacturing.

Since these conditions were met, the supplier exercised its right on 1 January 2012, allowing Biesse to conduct a Due Diligence Assistance Review on the company (Nuova Faos International Manufacturing Pvt. Ltd.).

On 5 March 2012, the parties reached a pre-agreement, setting the consideration for transferring the entire equity investment at € 373,200.12. The agreement will be finalised in the coming weeks in India.

## directors' report on the performance of biesse s.p.a.

### SUMMARY INCOME STATEMENT

INCOME STATEMENT FOR 2011					
€ '000	31 December 2011	% of revenue	31 December 2010	% of revenue	Δ %
<b>Net revenue</b>	<b>287,464</b>	<b>100.0%</b>	<b>251,515</b>	<b>100.0%</b>	<b>14.3%</b>
Change in inventories, wip, semi-finished and finished goods	(378)	(0.1)%	964	0.4%	-
Other revenue	2,729	0.9%	3,795	1.5%	(28.1)%
<b>Revenue</b>	<b>289,815</b>	<b>100.8%</b>	<b>256,275</b>	<b>101.9%</b>	<b>13.1%</b>
Consumption of raw materials, consumables, supplies and goods	(158,123)	(55.0)%	(138,884)	(55.2)%	13.9%
Other operating expense	(45,415)	(15.8)%	(39,749)	(15.8)%	14.3%
<b>Added value</b>	<b>86,276</b>	<b>30.0%</b>	<b>77,641</b>	<b>30.9%</b>	<b>11.1%</b>
Personnel expense	(75,128)	(26.1)%	(72,858)	(29.0)%	3.1%
<b>Gross Operating profit</b>	<b>11,148</b>	<b>3.9%</b>	<b>4,783</b>	<b>1.9%</b>	<b>-</b>
Depreciation and amortisation	(9,930)	(3.5)%	(9,284)	(3.7)%	7.0%
Provisions	(483)	(0.2)%	(1,876)	(0.7)%	(74.3)%
<b>Normalised Operating profit/(Loss)</b>	<b>735</b>	<b>0.3%</b>	<b>(6,377)</b>	<b>(2.5)%</b>	<b>-</b>
Impairment losses and non recurring items	(358)	(0.1)%	(558)	(0.2)%	(35.8)%
<b>Operating profit/(Loss)</b>	<b>378</b>	<b>0.1%</b>	<b>(6,935)</b>	<b>(2.8)%</b>	<b>-</b>
Finance income/expense	(1,468)	(0.5)%	(390)	(0.2)%	-
Exchange rate losses	(772)	(0.3)%	(803)	(0.3)%	(3.9)%
Impairment losses on financial assets	(6,688)	(2.3)%	(5,505)	(2.2)%	21.5%
Dividends	11,393	4.0%	8,000	3.2%	42.4%
<b>Pre-tax profit/(Loss)</b>	<b>2,842</b>	<b>1.0%</b>	<b>(5,633)</b>	<b>(2.2)%</b>	<b>-</b>
Income taxes	(2,247)	(0.8)%	149	0.1%	-
<b>Profit/(Loss) for the year</b>	<b>595</b>	<b>0.2%</b>	<b>(5,484)</b>	<b>(2.2)%</b>	<b>-</b>

**Net revenue** for 2011 was € 287,464 thousand, compared with € 251,515 thousand for 2010, representing an increase of 14.3% over the previous year.

After it succeeded in taking advantage of the recovery in its end markets in 2010, in 2011 the Company consolidated its leadership, confirming its position amongst the world leaders.

**Revenue** was € 289,815 thousand, compared with € 256,725 thousand in 2010, representing an increase of 13.1% over the previous year. Costs as a percentage of revenue (including non-recurring income and expense) are presented to give a clearer indication of the Group's profitability.



€ '000	31 December 2011	%	31 December 2010	%
<b>Revenue</b>	<b>289,815</b>	<b>100.0%</b>	<b>256,275</b>	<b>100.0%</b>
Consumption of raw materials and goods	158,123	54.6%	138,884	54.2%
Other operating expense	45,415	15.7%	39,749	15.5%
<i>Services</i>	<i>40,001</i>	<i>13.8%</i>	<i>33,972</i>	<i>13.3%</i>
<i>Use of third party assets</i>	<i>3,574</i>	<i>1.2%</i>	<i>3,272</i>	<i>1.3%</i>
<i>Other operating expense</i>	<i>1,840</i>	<i>0.6%</i>	<i>2,506</i>	<i>1.0%</i>
<b>Added value</b>	<b>86,276</b>	<b>29.8%</b>	<b>77,641</b>	<b>30.3%</b>

Added value calculated as a percentage of revenue largely confirms the result of the previous year (down 0.5 percentage points).

Personnel expense in 2011 was € 75,128 thousand, compared with € 72,858 thousand in 2010, with an increase of € 2,270 thousand in absolute value.

Fixed costs rose by about € 5.6 million as a result of the higher need for labour, especially direct labour, to respond to the increase in volumes, with a consequent reduction in the use of subsidised temporary lay-off schemes compared with 2010.

Capitalisation for R&D of employee wages and salaries rose compared to 2010 (€ 7,265 thousand, compared to € 5,242 thousand in 2010), due to the increase in the hours internal personnel spent on R&D projects and the implementation of the new ERP system.

The resulting **gross operating profit** was € 11,148 thousand.

Depreciation and amortisation rose by 7% (from € 9,284 thousand to € 9,930 thousand): depreciation totalled € 3,986 thousand (down by 6.9%), while amortisation amounted to € 5,943 thousand (up by 20%). The decrease in depreciation confirms a trend that arose in March 2009 and stems from the streamlining of manufacturing facilities and investments, improving the use of existing locations and infrastructure. The increase in amortisation is mainly related to development costs of € 807 thousand (up by 21%).

Provisions, amounting to € 483 thousand, fell sharply compared with the previous year, which was still partially affected by the impact of adverse market conditions on trade receivables. The reported amount includes accruals of € 454 thousand made to the provision for product guarantees (€ 754 thousand at the end of 2010) and provisions for risks and charges of € 29 thousand (€ 766 thousand at 31 December 2010).

The resulting **normalised operating profit** was € 735 thousand.

Therefore, the previous year's operating loss of € 6,935 thousand turned to an **operating profit** of € 378 thousand, representing a positive 0.1% of net revenue.

With reference to financial operations, the deterioration of the debt position, together with the high level of interest rates in 2011, resulted in a sharp increase in interest expense due to financial institutions: therefore, the overall financial expense increases (from € 390 thousand to € 1,468 thousand). Exchange rate losses are in line with the previous year (down by € 31 thousand).

Financial expense also include - € 6,688 thousand in net impairment losses on financial assets, arising from the impairment losses recognised on equity investments in Bre.Ma. Brenna Macchine S.r.l. of € 739 thousand, plus a provision for offsetting negative equity of € 932 thousand; Biesse Iberica Woodworking S.l. (€ 2,618 thousand) and Biesse Manufacturing Co.Pvt Ltd. (€ 2,400 thousand); the previous year, this item amounted to - € 5,505 thousand. These impairment losses were recognised following the outcome of impairment tests on the amount of these equity investments based on a discounted future cash flow analysis.

Dividends, at € 11,393 thousand, refer to the dividends distributed by the following Subsidiaries:

- HSD S.p.A. € 8,500 thousand (€ 8,000 thousand in 2010).
- Biesse Groupe France Sarl € 1,500 thousand
- Biesse Group Deutschland GmbH € 500 thousand
- Biesse Group UK Ltd € 802 thousand (GBP 700 thousand)
- Biesservice Scandinavia AB € 90 thousand (SEK 822 thousand)

The **pre-tax profit** therefore was € 2,842 thousand, compared to a loss in 2010 of € 5,633 thousand.

The **balance of tax items** was an expense of € 2,247 thousand.

Biesse S.p.A. ended 2011 with a taxable loss of - € 244 thousand. The balance of IRES (corporate) taxes, income of € 39 thousand, is the result of income arising from the use of losses during tax consolidation, equal to € 1,440 thousand, set-off by the corresponding cost for the decrease in deferred IRES taxes on losses; the remainder is represented by deferred IRES taxes on other temporary tax adjustments. The balance does not include costs of € 29 thousand recognised directly in equity, as they were calculated on the portion of foreign exchange losses earmarked for reserves deriving from the measurement at year end of outstanding hedging contracts.

"Income taxes from previous years", equal to - € 118 thousand, are attributable for € 94 thousand to "Provision for taxes and duties" for tax disputes relating to previous years at risk of legal defeat.

Consequently, the Company recognised a **profit for the year** of € 595 thousand.

## SUMMARY BALANCE SHEET DATA

SUMMARY STATEMENT OF FINANCIAL INDEBTEDNESS AT 31 DECEMBER 2011		
€ '000	31 December 2011	31 December 2010
Intangible assets	32,538	28,648
Property, plant and equipment	36,095	36,103
Financial assets	40,237	35,195
<b>Non current assets</b>	<b>108,871</b>	<b>99,946</b>
Inventories	43,064	40,778
Trade receivables	63,112	53,001
Intercompany trade receivables	40,278	37,094
Trade payables	(77,043)	(77,527)
Intercompany trade payables	(10,594)	(18,024)
<b>Net Operating Working Capital</b>	<b>58,816</b>	<b>35,322</b>
Post-employment benefits	(9,283)	(9,802)
Provision for risk and charges	(8,122)	(5,774)
Other net payables	(2,632)	(4,484)
Net deferred tax assets	9,409	10,884
<b>Other net liabilities</b>	<b>(10,629)</b>	<b>(9,177)</b>
<b>Net Invested Capital</b>	<b>157,058</b>	<b>126,091</b>
Share capital	27,393	27,393
Profit/loss for the previous year and other reserves	85,641	90,942
Profit/(Loss) for the year	595	(5,484)
<b>Equity</b>	<b>113,629</b>	<b>112,851</b>
Bank loans and borrowing and loans and borrowings from other financial backers	64,505	38,385
Other financial assets	(26,692)	(22,407)
Cash and cash equivalents	(8,485)	(8,711)
<b>Net financial indebtedness</b>	<b>43,429</b>	<b>13,241</b>
<b>Total sources of funding</b>	<b>157,058</b>	<b>126,091</b>

Intangible assets increased partly as a result of investment in new product development projects and the implementation of the new Oracle ERP system.

Net Working Capital – compared to the figure at December 2010 – increased by € 23.5 million, due mainly to an increase in trade receivables (+ € 13 million) following the increase in sales volumes in November-December 2011, as well as to the decrease in trade payables (- € 8 million).

## NET FINANCIAL INDEBTEDNESS

€ '000	31 December 2011	31 December 2010
Financial assets	35,177	31,118
Other current financial assets due from related parties	26,692	22,407
Cash and cash equivalents	8,485	8,711
Short- Term finance lease liabilities	(180)	(1,881)
Bank loans and borrowings and other short-term financial debt	(41,266)	(30,498)
Other current financial liabilities due to related parties	(14,100)	(5,974)
<b>Net short -term financial indebtedness</b>	<b>(20,369)</b>	<b>(7,234)</b>
Medium/Long term finance lease liabilities	-	(180)
Medium/Long term bank debt	(23,060)	(5,826)
<b>Medium/Long Term net financial indebtedness</b>	<b>(23,060)</b>	<b>(6,006)</b>
<b>Total net financial indebtedness</b>	<b>(43,429)</b>	<b>(13,241)</b>

At the end of December 2011, the Company's net debt was € 43.4 million, a significant increase (+ € 30 million) compared to the amount recorded at the end of December 2010. The change is due in large part to the trend in net working capital, but is also affected by extraordinary transactions of the year (the acquisition of the Centre Gain group, the start up of Viet) and the investments made in the Research and Development and IT areas. For further details, please refer to what was already mentioned in respect of the Group's net financial position.

## OTHER INFORMATION

Finally it should be noted that the parent, Biesse S.p.A., does not own shares or quotas in parents, nor has it owned or traded any such shares or quotas during 2010. There is, therefore, nothing to disclose in relation to Art. 2428 paragraph 2 sections 3 and 4 of the Italian Civil Code.

Pursuant to Article 2497-bis paragraph 4 of the Italian Civil Code, we point out that Bi.fin. S.r.l., based in Pesaro, via della Meccanica no. 16, manages and coordinates Biesse S.p.A. and indirectly, through the latter, the relevant Subsidiaries.

**PROPOSAL TO THE ORDINARY SHAREHOLDERS' MEETING****Dear shareholders,**

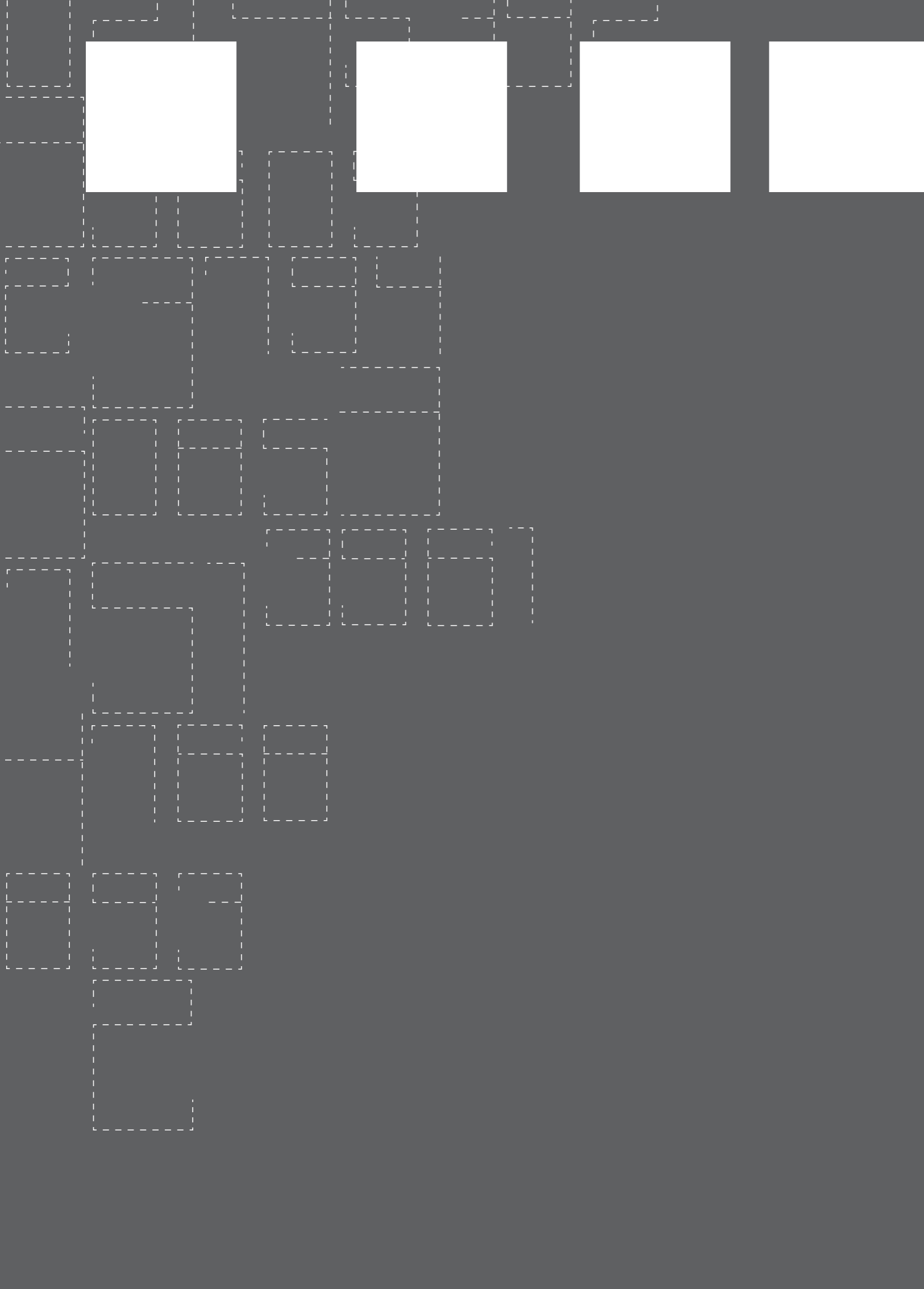
You are invited to approve the financial statements as at and for the year ended 31 December 2011, with the present Directors' Report, as they stand.

The Board of Directors, taking into account the financial position and results for 2011, proposes not to distribute a dividend to shareholders and seeks approval to allocate the profit for the year of € 595,337.76 as follows:

- allocation of € 157,479.90 to the reserve for unrealised exchange rate gains
- allocation of the residual profit of € 437,857.86 to the Extraordinary Reserve

Pesaro, 15/03/2012

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



consolidated  
financial  
statements

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31/12/2011 <sup>(3)</sup>			
€ '000	Note	31 December 2011	31 December 2010
Revenue	6	388,530	327,522
Other operating revenue	6	2,129	4,316
Change in the inventories of finished and work in progress		1,499	5,897
Purchase of raw materials and consumables	8	(172,781)	(143,639)
Personnel expense	9	(115,580)	(107,683)
Other operating expense	10	(81,379)	(70,714)
Depreciation and amortisation		(13,096)	(12,454)
Provisions		(2,254)	(3,072)
Impairment losses		(1,314)	(68)
<b>Operating profit</b>		<b>5,755</b>	<b>106</b>
Finance income	11	363	316
Finance expense	12	(2,756)	(2,473)
Exchange rate losses	13	(861)	(478)
<b>Pre-tax profit/(loss)</b>		<b>2,500</b>	<b>(2,529)</b>
Income taxes	14	4,947	(3,211)
<b>Loss for the year</b>		<b>(2,446)</b>	<b>(5,741)</b>
Attributable to:			
Owners of the parent		(2,438)	(5,392)
Non-controlling interests		(9)	(349)
		<b>(2,446)</b>	<b>(5,741)</b>
<b>Earnings per share</b>			
Basic (€/cents)	16	(9.06)	(20.04)
Diluted (€/cents)	16	(9.06)	(20.04)

<sup>3</sup> In accordance with Consob Resolution no. 15519 of 27 July 2006, the effects of related-party transactions and non-recurring transactions on the Income Statement are shown in the relevant statement in Appendix 1 and, respectively, in notes 45 and 15.

CONSOLIDATED STATEMENT OF COMPREHENSIVE EXPENSE FOR THE YEAR ENDED 31/12/2011			
	Note	31 December 2011	31 December 2010
<b>Loss for the year</b>		<b>(2,446)</b>	<b>(5,741)</b>
Other comprehensive expense components			
Foreign currency translation differences for foreign operations	25	(782)	1,898
Gain/(Losses) on cash flowhedges	25	104	(171)
Income tax on other comprehensive expense components	14	(29)	47
<b>Total other comprehensive expense net of tax</b>		<b>(707)</b>	<b>1,774</b>
<b>Total comprehensive expense for the year</b>		<b>(3,153)</b>	<b>(3,967)</b>
Owners of the parent		(3,143)	(3,647)
Non-controlling interests		(11)	(320)
<b>Total comprehensive expense for the year</b>		<b>(3,153)</b>	<b>(3,967)</b>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2011 <sup>(4)</sup>			
€ '000	Note	31 December 2011	31 December 2010
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	17	55,307	48,266
Equipment and other items of property, plant and equipment	17	8,345	7,569
Goodwill	18	18,046	17,921
Other intangible assets	19	29,981	26,360
Deferred tax assets	34	18,389	19,295
Other financial assets and non-current receivables	20	1,140	738
		<b>131,208</b>	<b>120,149</b>
<b>Current assets</b>			
Inventories	21	88,459	81,326
Trade receivables due from third parties	22	112,193	90,365
Trade receivables due from related parties		14	25
Other current assets	23	13,586	14,316
Other current assets due from related parties	23	656	574
Derivatives	38	-	1
Current financial assets		650	-
Cash and cash equivalents	24	22,604	25,812
		<b>238,162</b>	<b>212,419</b>
<b>Total assets</b>		<b>369,370</b>	<b>332,568</b>

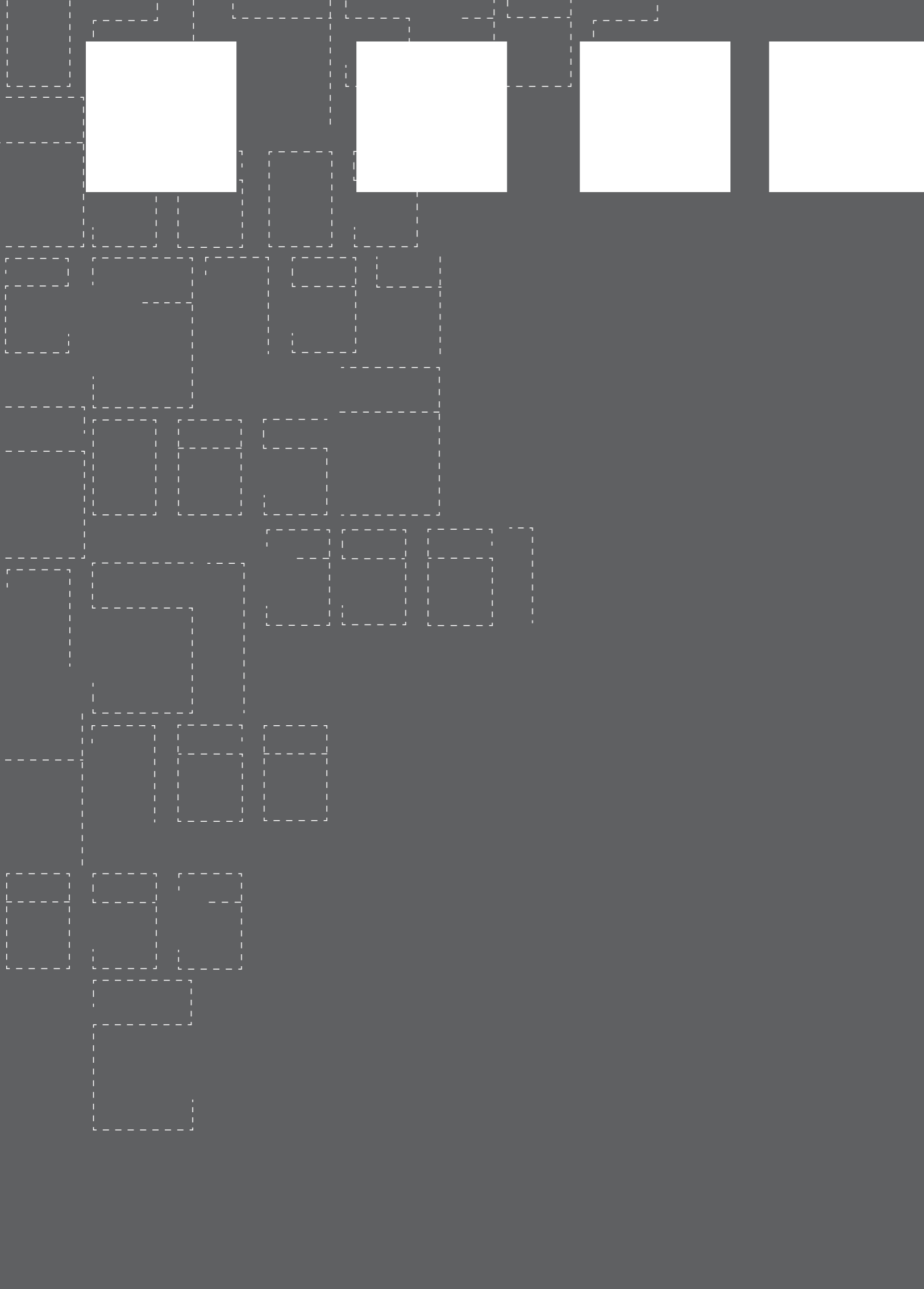
<sup>4</sup> In accordance with Consob Resolution no. 15519 of 27 July 2006, the effects of related party transactions and non-recurring transactions on the Income Statement are shown in the relevant statement in Appendix 1 and, respectively, in notes 45 and 15.

€ '000	Note	31 December 2011	31 December 2010
<b>EQUITY AND LIABILITIES</b>			
<b>Share capital and reserves</b>			
Share capital	25	27,393	27,393
(Treasury shares)	25	(4,676)	(4,676)
Equity reserves	26	36,202	36,202
Hedging and translation reserve	27	(1,241)	(535)
Other reserves	28	64,743	69,703
Loss for the year		(2,438)	(5,392)
Equity attributable to the owners of the parent		119,983	122,695
Non-controlling interests	28	680	220
<b>TOTAL EQUITY</b>		<b>120,663</b>	<b>122,914</b>
<b>Non-current liabilities</b>			
Post-employment benefits	33	10,544	10,855
Deferred tax liabilities	34	2,952	3,086
Medium and long-term bank loans and borrowings and other financial payables	30	25,224	5,826
Finance lease payables	32	2,519	2,998
Provisions for risks and charges	35	1,589	695
Other non-current liabilities	37	2,501	-
Derivatives	38	22	157
		<b>45,352</b>	<b>23,616</b>
<b>Current liabilities</b>			
Trade payables	36	112,302	109,812
Trade payables due to related parties		822	1,322
Other current liabilities	37	34,721	28,518
Other current liabilities due to related parties		1	-
Tax payables		1,171	1,933
Finance lease payables	32	464	2,217
Bank overdrafts and loans	30	45,400	33,535
Provisions for risks and charges	35	7,848	7,853
Derivatives	38	627	848
		203,356	186,038
<b>LIABILITIES</b>		<b>248,708</b>	<b>209,654</b>
<b>Total equity and liabilities</b>		<b>369,370</b>	<b>332,568</b>

<b>CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2011</b>			
€ '000	Note	2011	2010
<b>OPERATING ACTIVITIES</b>			
Loss for the year		(2,446)	(5,741)
+ Depreciation and amortisation:			
of property, plant and equipment		6,117	6,531
of intangible assets		6,978	5,922
+ Provisions:			
Increase/decrease in provisions for post-employment benefits		353	581
Increase/decrease in allowance for impairment		620	(626)
Increase/decrease allowance for inventory write-down		(353)	(323)
Increase/decrease in provisions for risk and charges		1,402	2,288
Other non-financial changes in provisions		2,276	(2,100)
Gains/losses from sales of property, plant and equipment		(32)	(22)
Income/expense on intangible assets		-	(14)
Impairment losses on property, plant and equipment		956	-
Impairment losses on intangible assets		358	65
Income from investing activity		(363)	(316)
Unrealised exchange rate (gains)/losses		335	(1,855)
Income taxes		4,947	3,211
Financial expense		2,756	2,473
<b>SUBTOTAL OPERATING ACTIVITIES</b>		<b>23,903</b>	<b>10,075</b>
Post-employment benefits paid		(974)	(1,516)
Risk provisions utilised		(1,391)	(3,530)
Change in trade receivables		(20,925)	(19,718)
Change in inventories		(1,392)	(14,457)
Change in trade payables		(2,329)	48,983
Change in other payables		1,419	8,167
Income tax paid		(4,582)	(759)
Interest paid		(1,890)	(2,270)
<b>NET CASH FLOW (USED IN) FROM OPERATING ACTIVITIES</b>		<b>(8,161)</b>	<b>24,975</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of property plant and equipment		(5,098)	(3,905)
Proceeds from sale of property plant and equipment		138	210
Acquisition of patents, trademarks and other intangible assets. Capitalisation of development costs		(11,083)	(8,221)
Proceeds from sale of intangible assets		109	62
Acquisitions of/increases in other financial assets	42	(2,644)	-
Income on financial assets held for trading		(1,140)	(94)
Interest received		-	182
<b>NET CASH FLOW USED IN INVESTING ACTIVITIES</b>		<b>313</b>	<b>460</b>
<b>FINANCING ACTIVITIES</b>			
Loans repaid/New banker's advance	30	35,233	(36,188)
Finance lease payments	32	(2,231)	(2,358)
Change in bank overdrafts	30	(8,800)	19,074
Change in current derivative instrument financial assets/liabilities		(204)	(678)
Capital injections - non-controlling interests		373	-
Dividends paid - non-controlling interests		(60)	-
<b>CASH FLOW FROM/(USED IN) FINANCING ACTIVITIES</b>		<b>24,310</b>	<b>(20,150)</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(3,256)</b>	<b>(6,481)</b>
<b>OPENING CASH AND CASH EQUIVALENTS</b>		<b>25,812</b>	<b>31,148</b>
Effect of exchange rate fluctuations on cash held		48	1,145
<b>CLOSING CASH AND CASH EQUIVALENTS</b>			
Cash and cash equivalents		22,604	25,812

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2011**

€ '000	Note	Opening balances	Others gains/losses, net of taxation	Loss for the year	Total comprehensive expense for the year	Changes in the equity of Brema Srl	Increase in the reserve for share- based payments	Other changes	Allocation of loss of the previous year	Total effects of transactions with shareholders	Closing balances
<b>Statement of changes in consolidated equity at 31 December 2011</b>											
Share capital		27,393	-	-	-	-	-	-	-	-	27,393
- Treasury shares	25	(4,676)	-	-	-	-	-	-	-	-	(4,676)
Equity reserves		36,202	-	-	-	-	-	-	-	-	36,202
Hedging and translation reserve	27	(535)	(706)	(706)	(706)	-	-	-	-	-	(1,241)
Other reserves	28	69,704	-	-	-	328	108	(4)	(5,392)	(4,960)	64,744
Loss for the year		(5,392)	(2,438)	(2,438)	(2,438)	-	-	-	5,392	5,392	(2,438)
<b>Equity attributable to owners of the parent</b>		<b>122,696</b>	<b>(706)</b>	<b>(2,438)</b>	<b>(3,144)</b>	<b>328</b>	<b>108</b>	<b>(4)</b>	<b>-</b>	<b>432</b>	<b>119,983</b>
Non-controlling interests		219	(2)	(9)	(11)	486	-	(15)	-	471	680
<b>Total Equity</b>		<b>122,914</b>	<b>(708)</b>	<b>(2,446)</b>	<b>(3,154)</b>	<b>814</b>	<b>108</b>	<b>(19)</b>	<b>-</b>	<b>903</b>	<b>120,663</b>
<b>Statement of changes in consolidated equity at 31 December 2010</b>											
Share capital		27,393	-	-	-	-	-	-	-	-	27,393
- Treasury shares	25	(4,676)	-	-	-	-	-	-	-	-	(4,676)
Equity reserves		36,202	-	-	-	-	-	-	-	-	36,202
Hedging and translation reserve	27	(2,280)	1,745	1,745	1,745	-	-	-	-	-	(535)
Other reserves	28	96,392	-	-	-	8	8	(26,696)	(26,696)	(26,688)	69,704
Loss for the year		(26,696)	(5,392)	(5,392)	(5,392)	-	-	-	26,696	26,696	(5,392)
<b>Equity attributable to owners of the parent</b>		<b>126,335</b>	<b>1,745</b>	<b>(5,392)</b>	<b>(3,647)</b>	<b>-</b>	<b>8</b>	<b>-</b>	<b>-</b>	<b>8</b>	<b>122,696</b>
Non-controlling interests		516	29	(349)	(320)	-	-	23	-	23	219
<b>Total Equity</b>		<b>126,851</b>	<b>1,774</b>	<b>(5,741)</b>	<b>(3,967)</b>	<b>0</b>	<b>8</b>	<b>23</b>	<b>-</b>	<b>31</b>	<b>122,914</b>



notes to the  
consolidated  
financial  
statements



## 1. general

Biesse S.p.A. is an Italian company, with registered office in Pesaro. It is the parent of the Biesse Group and operates in the market for machinery and systems for processing wood, glass and stone. The company is listed on the STAR segment of the Milan Stock Exchange.

The consolidated financial statements as at and for the year ended at 31 December 2011 comprise the financial statements of Biesse S.p.A. and its subsidiaries which it controls directly or indirectly (hereinafter defined as the "Group"), as well as the amount of its equity investments in associates.

The consolidated financial statements as at and for the year ended 31 December 2011 were approved during the meeting of the Board of Directors held today (15 March 2012).

The consolidated financial statements of the Group are prepared in Euro and presented in thousands of Euro except where otherwise indicated.

### LIST OF COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS

Name and registered office	Currency	Share/capital quota	Directly controlled	Indirectly controlled	Ownership vehicle	Biesse Group
<b>Parent</b>						
<b>Biesse S.p.A.</b> Via della Meccanica, 16 Loc. Chiusa di Ginestreto (PU)	EUR	27,393,042				
<b>Italian subsidiaries:</b>						
<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	60%			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 Italy S.r.l.</b> Via della Meccanica, 16 Loc. Chiusa di Ginestreto (PU)	EUR	10,000	100%			100%
<b>Società estere controllate:</b>						
<b>Biesse America Inc.</b> 4110 Meadow Oak Drive Charlotte NC 28208 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> Lampport Drive – Daventry Northampt. Gran Bretagna	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%

Name and registered office	Currency	Share/capital quota	Directly controlled	Indirectly controlled	Ownership vehicle	Biesse Group
<b>Foreign subsidiaries</b>						
<b>Biesservice Scandinavia AB</b> Maskinvagen 1 Lindas - Sweden	SEK	200,000	60%			60%
<b>Biesse Iberica Woodworking Machinery s.l.</b> Cl. Pedrosa C., 9 - Barcellona - Spain	EUR	1,233,290	100%			100%
<b>Biesse Group Australia Pty Ltd.</b> 3 Widemere Road Wetherill Park - Australia	AUD	5,046,547	100%			100%
<b>Biesse Group New Zealand Ltd.</b> Unit B, 13 Vogler Drive Manukau Auckland – New Zealand	NZD	334,262	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 Dutschland 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%
<b>Biesse Trading (Shanghai) Co. Ltd</b> Building 10 No.205 Dong Ye Road Dong Jing Industrial Zone, Song Jiang District Shanghai 201619, China	RMB	3,000,000		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		100%	Biesse Asia Pte. Ltd.	100%
<b>Biesse (HK) LTD</b> Unit 1105. 11 floor - Regent Centre NO.88 Queen's Road Central Central - Hong Kong	HKD	15,000,000	70%			70%
<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%

Compared to the latest set of financial statements, the scope of consolidation has changed due to the 100% inclusion of the Centre Gain group, based in Hong Kong, consolidated as from 1 October 2011. The transaction was finalised by establishing a special purpose vehicle, Biesse Hong Kong Ltd, that on 6 September 2011 signed a preliminary agreement for the purchase of the shares of Centre Gain for a total amount of HKD 105 million (€ 10 million on the accounting date of the transaction); the preliminary agreement was finalised on 6 October 2011.

Based on the terms of the transaction, one of the three founding shareholders of the Centre Gain Group – Chris Kwong – subscribed 30% of the shares of Biesse HK (for HKD 4.5 million) and became its Man-

aging Director.

Chris Kwong has been active for 25 years in the woodworking machinery sector in China and has been co-operating with the Biesse Group since 1999.

The Centre Gain group has been active since 2004 in the production and marketing of woodworking machinery, with a manufacturing unit located in Dongguan City – Guangdong Province – (Korex Machinery Ltd.). Korex operates from a 44,000 sqm plant and employs around 360 staff members.

2010 consolidated sales of the Centre Gain Group amounted to approximately € 12 million.

Thanks to this deal, and the synergies arising from the cooperation with its existing branch in Shanghai, the Biesse Group intends to strengthen its presence in a geographical area of significant importance both in terms of current and medium-term potential. Please refer to Note 42 for further information required by IFRS 3 with reference to the acquisition of the Centre Gain group.

With reference to the equity investment in BRE.MA. Brenna Macchine S.r.l., on 27 October 2011 the shareholders' meeting of the company was held and took the measures set forth in Article 2482 ter of the Italian Civil Code, zeroing the share capital, balancing the loss and re-establishing the share capital to € 70,000. On this occasion, Biesse S.p.A. carried out the above transactions both for its own share and for that of the non-controlling shareholder. The payment related to non-controlling interests is subject to a condition precedent to the subscription right for the relevant 40% share. Based on the purchase option agreement, the non-controlling shareholder carried out the transactions set forth in Article 2482 ter limited to an amount equal to 2% of the share capital; Biesse S.p.A. granted an irrevocable purchase option for the 38% shareholding in the company's share capital. The exercise of the option cannot be fractioned and must be carried out no later than 31 December 2012. The effects of the above agreements were considered for determining the non-controlling interests in the loss for the year and equity at 31 December 2011.

It should also be pointed out that the subsidiary Viet Italia S.r.l. is a special purpose vehicle set up to rent and subsequently acquire (an irrevocable purchase offer has been made to the liquidator) the business activities of the eponymous Pesaro-based brand – 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. The irrevocable purchase offer also included Viet's equity investment in Pavit S.r.l. (a company active in mechanical processing, whose output is largely absorbed by Viet Italia S.r.l.). Based on some conditions, established by the above contract and concerning Pavit, precedent to the acquisition of the equity investment, it was deemed advisable not to include Pavit in the consolidation scope, also because the equity investment is not material.

Finally, as for the subsidiary Biesse Manufacturing Co. Pvt. Ltd., as described in the following note, in the first quarter of 2012 the requirements necessary to acquire control of Nuova Faos International Manufacturing Pvt. Ltd. were met. For the purposes of the 2011 consolidated financial statements, this company was not consolidated, but the effects of the agreements were considered in measuring the assets and liabilities existing between the Biesse group and the company itself (trade receivables and payables, payables related to the acquisition).

## 2. significant subsequent events

### JANUARY 2012

In January 2012, the new ERP, Oracle's E-Business Suite, went live. The operation involved Biesse S.p.A. and HSD S.p.A. and is aimed at providing the Group with a single integrated application suite in order to preserve the important investments Biesse made in recent years.

The project involves implementing a unique solution and a unified architecture for all the companies of the Group; establishing a common process throughout the Group allowing for an optimised management of the different business models of the subsidiaries; reducing the number of corporate ERP systems and consequently maintenance costs.

### FEBRUARY 2012

On 10 February 2012, the Board of Directors of Biesse S.p.A. approved its own Three-Year Business Plan for the 2012-2014 period.

Based on the projects and initiatives set out in the above business plan, the following Group results are

expected within the next three years: higher consolidated revenue (CAGR: 6.2%)

- higher added value (CAGR: 13.1%, accounting for more than 42% of revenues in 2014)
- recovering operating profits
  - (Gross operating profit(loss): CAGR 49.0%, accounting for more than 14% of revenues in 2014)
  - (Operating profit(loss): CAGR 124.3%, accounting for more than 10% of revenues in 2014)
- increasing cash flow net of planned investments, and positive net financial position in 2014 (overall free cashflow over the three-year period: € 95 to € 100 million).

### MARCH 2012

At the end of 2009, Biesse Manufacturing (India) Pvt Ltd and Biesse SpA reached an agreement with an historical supplier of the Group: the latter would build a manufacturing facility in Bangalore (India) for metalworking and machining structures in support of the Indian industrial facility of the Biesse Group; the parties, with a letter of intent and a private agreement, defined the conditions for the supplier to exercise a "put" option with Biesse Manufacturing.

Since these conditions were met, the supplier exercised its right on 1 January 2012, allowing Biesse to conduct a Due Diligence Assistance Review on the company (Nuova Faos International Manufacturing Pvt. Ltd.).

On 5 March 2012, the parties reached a pre-agreement, setting the consideration for transferring the entire equity investment at € 373,200.12. The agreement will be finalised in the coming weeks in India.

## 3. declaration of compliance with international financial reporting standards and consolidation criteria

### Declaration of compliance with international financial reporting standards and general principles

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standard Board ("IASB") and endorsed by the European Union, as well as with the provisions issued pursuant to article 9 of Decree Law 38/2005 and the CONSOB regulations and recommendations regarding financial statements.

The financial statements have been prepared on an historical cost basis, 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 been prepared also on a going concern basis.

This information was prepared in accordance with the provisions of CONSOB (Commissione Nazionale per le Società e la Borsa), with particular reference to resolutions no. 15519 and 15520 of 27 July 2006 and to communication no. 6064293 of 28 July 2006.

### Consolidation criteria

The consolidated financial statements as at and for the year ended 31 December 2011 include the financial statements of the parent Biesse and of the Italian and foreign companies which it controls directly and indirectly. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where material differences arise, these financial statements are reclassified and adjusted as appropriate to conform to the accounting principles and measurement criteria adopted by the parent. 31 December is the year end for all the companies in the Group.

In the preparation of the financial statements, intercompany balances, transactions, income and expense are all eliminated in full.

The carrying amount of equity investments in consolidated companies is eliminated to offset the corresponding share of equity in them. The fair value of each equity investment at the date of acquisition is attributed to the relevant individual assets or liabilities. Any residual difference, if positive, is included in non-current assets and, secondarily, goodwill; if negative, it is taken to the income statement.

The results of subsidiaries acquired or divested during the period are included in the consolidated Income Statement from the effective date of acquisition to the effective date of disposal.

Non-controlling interests in the acquired entity are initially measured in proportion to their share of the fair value of recognised assets, liabilities and contingent liabilities.

Receivables and payables, income and expense, and profits and losses arising from intercompany transactions are eliminated. In addition, all transactions between the companies of the Biesse Group and an independent financial services company, which operates as an intermediary for most of the commercial transactions between the parent and some consolidated companies, are eliminated. Gains and losses on intercompany sales of capital goods are eliminated where they are deemed to be material.

The amount of the share capital and reserves of subsidiaries attributable to non-controlling interests is recognised in equity under "Non-controlling interests"; the proportion of profit (loss) for the year attributable to non-controlling interests is shown separately under "Profit (loss) for the year attributable to non-controlling interests".

For the purposes of presentation of the consolidated financial statements, the assets and liabilities of foreign subsidiaries with operating currencies other than the Euro are translated at the average exchange rate for the period. Income and expense are translated at the average exchange rate for the year. The resulting exchange rate gains or losses are recognised in equity under "Hedging and Translation Reserve". This reserve is recognised in the income statement as income or expense in the year in which the relevant subsidiary is sold.

Average and end-of-year (EOY) exchange rates are as follows:

Currency	31 December 2011		31 December 2010	
	Average	Closing	Average	Closing
US Dollar / Euro	1.3920	1.2939	1.3257	1.3362
Singapore Dollar / Euro	1.7489	1.6819	1.8055	1.7136
Canadian Dollar / Euro	1.3761	1.3215	1.3651	1.3322
Sterling / Euro	0.8679	0.8353	0.8578	0.8608
Swedish Krone / Euro	9.0298	8.9120	9.5373	8.9655
Australian Dollar / Euro	1.3484	1.2723	1.4423	1.3136
New Zealand Dollar / Euro	1.7600	1.6737	1.8377	1.7200
Indian Rupee / Euro	64.8859	68.713	60.5878	59.7580
Chinese Renmimbi Yuan / Euro	8.9960	8.1588	8.9712	8.8220
Swiss Franc / Euro	1.2326	1.2156	1.3803	1.2504
Indonesian Rupiah / Euro	12,206.52	11,731.50	-	12,002.1
Hong Kong Dollar / Euro	10.8362	10.0510	-	-

#### Equity investments in Associates

An associate is an entity in which an investor has significant influence, but not control or joint control, over the financial and operating decision-making process.

The results and the assets and liabilities of associates are reported in the consolidated financial statements using the equity method.

#### Equity investments in other companies

Equity investments in other companies constituting available-for-sale financial assets are measured at fair value, where it can be determined, and gains and losses deriving from changes in fair value are recognised directly under Other comprehensive income(expense) until they are sold or impaired; then, the Other comprehensive income(expense) previously recognised in equity is taken to the Income Statement for the year.

Equity investments in other minor companies whose fair value cannot be determined are recognised at cost adjusted for impairment losses, if any.

#### Format of Financial Statements

In accordance with IAS 1, the management of the Group has made the following choices with regard to the format of the financial statements.

The statement of financial position separates current and non-current assets and liabilities. An asset/liability is considered to be current when it satisfies any of the following criteria:

- it is expected to be realised/settled, or intended for sale or consumption, in the Group's normal operating cycle;
- it is held primarily for trading;
- it is expected to be realised/settled within 12 months of the reporting date;
- in the absence of all three conditions, the assets/liabilities are classified as non-current.

The Income Statement distinguishes costs by nature, highlighting interim operating and pre-tax profit(loss). Operating profit/(loss) is calculated as the difference between Net Revenues and Operating Expense (including non-monetary costs relating to depreciation, amortisation and impairment losses on current and non-current assets, net of any reversal of impairment losses) and including gains and losses on the sale of non-current assets. In order to make current trends in continuing operations more measurable, details of the costs and revenue deriving from activities considered as non-recurring due to their nature and materiality are given in note 15.

The Statement of Comprehensive Income includes the components that make up the profit(loss) for the year and the expense and income recognised directly in Equity arising from transactions other than those carried out with shareholders.

The statement of changes in equity illustrates the changes in the items of equity related to:

- the allocation of parents' and subsidiaries' profit for the year to non-controlling interests;
- amounts relating to transactions with shareholders (purchase and sale of treasury shares);
- each item of profit and loss net of potential tax effects which- as required by IFRSs- are either recognised directly in equity (gains or losses from trading of treasury shares, actuarial gains or losses arising from the measurement of defined-benefit plans) or offset by an equity reserve (share-based payments for stock-option plans);
- changes in fair value reserves relating to derivatives for hedging future cash flows net of any potential tax effect.

The statement of cash flows is prepared according to the indirect method, by which profit or loss for the year is adjusted for non-monetary transactions, any accrual or deferral of previous or future operating receipts or payments, and revenue or expense relating to cash flows deriving from investing or financing activities. Cash and cash equivalents recognised in the Statement of Cash Flows include the balance of this item at the reporting date. Cash flows in foreign currency have been translated at the average exchange rate for the year. Income and expense relating to interests, dividends received and income taxes are included in cash flows from operating activities.

All statements conform to the minimum content requirements set by the International Financial Reporting Standards and the applicable rules laid down by national legislation and CONSOB (the regulatory authority for the Italian securities market).

Finally, it should be noted that, with reference to CONSOB resolution no. 15519 of 27 July 2006 on the financial statement reporting formats, specific additional income statement and statement of financial position schedules were included, highlighting significant related-party transactions so as not to compromise the overall readability of the financial statements.

The formats adopted are considered fit to represent fairly the Group's financial position, results and cash flows; in particular, we believe that the financial statements classified by nature provide reliable and material information for the purposes of correctly representing the Group's performance.

## 4. measurement criteria

The most significant measurement criteria used in preparing the financial statements as at and for the year ended 31 December 2011 are illustrated below. The accounting principles adopted for the preparation of the 2011 consolidated financial statements have also been applied consistently to all periods presented for comparative purposes.

### Revenue recognition

Sales of goods are recognised when goods are dispatched and the company has transferred to the buyer all major risks and benefits associated with ownership of the goods. Generally, revenue from the sale of goods is recognised when the goods are delivered to the carrier: under the terms of the relevant contracts, that is the time when the aforementioned risks and benefits are transferred. Revenue is not recognised when there is no certainty the related consideration is recoverable. Revenue is stated net of discounts, rebates, premiums, returns and promotional expenses that substantially fall under commercial discounts, and does not include sales of raw and waste materials. Revenue arising from the rendering of services is recognised in the income statement based on the stage of completion at the reporting date, determined either on the basis of work already carried out or in relation to the percentage of completion of total services.

Interest income is recognised on an accruals basis, according to the amount of the loan and the effective rate of interest, which represents the rate used to discount estimated future cash flows through the expected life of the financial asset so as to calculate its carrying amount.

Dividends are recognised when the right of shareholders to receive payment is established.

### Construction contracts

The Group applies the accounting treatment provided for by IAS 11 to sales contracts of bespoke plants. Those plants include drilling and dowel insertion lines and the lines that involve several operating machines interconnected via software and/or hardware within the same order, where the amount of the plant is considerable. On the contrary, packages of stand-alone machines as well as all work cells consisting of one operating machine and the relevant handling (load/unload) system shall not be considered bespoke lines and plants.

When the outcome of a construction contract can be reliably estimated, contract revenue and expense are recognised in proportion to the stage of completion of contract activity at the reporting date. They are calculated on the basis of the ratio between costs incurred for work up to the reporting date and total estimated contract costs, except where this is not considered to be representative of the state of completion of the contract.

Changes to the contract, price revisions and incentives are included as they have been agreed upon with the customer.

When the outcome of a construction contract cannot be reliably estimated, contract revenue is recognised only to the extent that contract costs incurred are expected to be recoverable. Contract costs are expensed as incurred.

When total contract costs are likely to exceed contract revenues, the expected loss is immediately recognised as an expense.

### Foreign currency transactions

All transactions are accounted for in the functional currency of the primary economic environment in which each company of the Group operates. Transactions denominated in currencies other than the functional currency of the Group's companies are translated into the functional currency using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities (defined as assets and liabilities to be received or paid with a fixed or determinable amount – IAS 21) are translated using the exchange rate at the reporting date; exchange rate gains or losses are recognised in the Income Statement. Non-monetary assets and liabilities, which are measured at historical cost in foreign currencies, are translated using the historical exchange rate at the date of the transaction. Non-monetary assets and liabilities, which are measured at fair value in foreign currency, are translated at the exchange rate in force on the date when the fair value was determined.

To hedge its exposure to currency risk, the Group has taken out some forward and option contracts (see below the Group's accounting policies relating to these derivative instruments).

### Translation of foreign currency financial statements

The financial statements of companies whose functional currency is different from the presentation currency of the consolidated financial statements (euro) and that do not operate in countries with hyperinflationary economies, are translated as follows:

- a) assets and liabilities, including goodwill and fair value adjustments arising from consolidation, are translated at the exchange rates at the reporting date;
- b) revenue and expense are translated at the average exchange rate for the year, considered as a reliable approximation of the exchange rate at the dates on which each transaction occurred;
- c) exchange rate gains or losses arising from the translation process are recognised in a specific equity reserve.

On disposal of the economic entity that gave rise to the translation difference, the cumulative amount of exchange rate gains or losses recognised in a specific equity reserve are taken to the income statement. On first-time adoption of IFRS, the cumulative translation differences were reclassified among other reserves, therefore gains and losses deriving from the future sale will include only the translation differences that arose as from 1 January 2004.

### Net investment in foreign operations

The exchange rate gains or losses resulting from the translation of net investments in a functional currency other than the euro, generally represented by intracompany loans, are recognised in the translation reserve. These exchange rate gains or losses are recognised in the Income Statement on settlement (repayment/disposal) of the net investment.

### Finance and Operating Lease contracts

Lease contracts are classified as Finance leases whenever the terms of the contract substantially transfer all risks and benefits of ownership to the lessee. All other leases are considered operating leases.

Assets that are subject to Finance Leases are recognised as property, plant and equipment of the Group, with an offsetting financial liability of equal value. The liability is progressively reduced on the basis of the principal repayment plan included in the contractual leasing terms, while the carrying amount of the asset is systematically depreciated on the basis of its useful life.

Lease expenses relating to operating leases are taken to the income statement on a straight-line basis over the lease term.

## Government grants

Government grants are recognised in the financial statements when there is reasonable assurance that the entity will comply with any conditions attached to the grant and that the grant will be received. Grants are recognised in the income statement over the period necessary to match them with the related costs.

The benefits deriving from a government loan obtained at a subsidised rate of interest are treated as government grants. This benefit is determined at the inception of the loan as the difference between the initial carrying amount of the loan (fair value plus any costs directly related to obtaining it) and the amount received, and it is subsequently recognised in the income statement in accordance with the regulations relating to the recognition of government grants.

## Costs and charges

Costs relating to the purchase of goods and services are recognised when their amount can be reliably determined. Costs for the purchase of goods are recognised at the time of delivery, which, on the basis of the existing contracts, is the time when all related risks and benefits are transferred. Service costs are recognised on an accrual basis as the services are rendered.

## Income taxes

Taxes are recognised in the income statement, with the exception of those relating to operations recognised directly in equity, in which case the related effect is also recognised in equity. Income taxes include current taxes and deferred tax assets and liabilities. Current taxes are recognised on the basis of the estimated amount that Biesse expects to have to pay, calculated by applying to the taxable income of each company in the Group the applicable tax rate at the reporting date in force in the respective countries. Deferred tax assets and liabilities are stated in accordance with the liability method, i.e. they are calculated on all temporary differences arising between the tax base of an asset and its carrying amount in the consolidated financial statements. Deferred tax assets and liabilities are not recognised on goodwill and on assets and liabilities that do not affect taxable income. Income taxes relating to dividend distribution are recognised as the liability relating to their payment is recognised.

The recoverability of deferred tax assets is verified at the end of each accounting period, and any amount no longer likely to be recovered is recognised in the income statement.

The tax rates used in recognising deferred tax assets and liabilities are those expected to be in force in the relevant country in the tax period in which the temporary differences will be realised or settled.

Deferred tax assets are recognised in the financial statements if the taxes are considered to be recoverable in the light of the expected taxable results for the future periods. The carrying amount of deferred tax assets is reviewed at the end of the year and reduced where necessary.

Deferred tax assets and liabilities are offset only for similar positions and if there is a legal right to offset them; otherwise, the related payables and receivables are recognised.

As from 2008, Biesse S.p.A. participates in the National Consolidated Tax scheme as the parent in accordance with article 117 and ff of Italian Presidential Decree 917/86 together with its subsidiaries Hsd S.p.A and Bre.ma. Brenna Macchine S.r.l.

Consequently, Biesse SpA will determine the Group's IRES (corporate) tax in accordance with the aforementioned law, offsetting its own result with the positive and negative taxable items of the companies involved. The financial relations and the mutual responsibilities and obligations between the aforementioned companies are defined in the "Regulation" governing participation in the Consolidated Tax Scheme.

The tax balance for the Group is recognised under "Tax payables" or "Tax receivables" in the financial statements of the parent net of advances paid. In the financial statements of the subsidiaries, the specific payable for taxes transferred to the parent is recognised under "Payables due to related parties". Receivables deriving from the transfer of IRES losses are classified under "Receivables due from related parties".

## Earnings per share

Basic earnings per share is calculated by dividing profit or loss attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the year. Diluted earnings per share is calculated by dividing profit or loss attributable to the owners of the parent by the average weighted number of shares outstanding, taking into account the effects of all dilutive potential ordinary shares.

## Business combinations

Business combinations are recognised in accordance with the acquisition method. This method requires that the consideration paid for a business combination be measured at fair value, calculated as the aggregate of the fair value of the assets transferred and liabilities taken on by the Group at the date of acquisition and of the equity instruments issued in exchange for control of the acquiree. Costs related to transaction are recognised in the income statement as incurred.

At the acquisition date, the identifiable assets acquired and liabilities taken on are recognised at fair value at the acquisition date; the following exceptions are measured instead in accordance with the relevant principles:

- Deferred tax assets and liabilities;
- Employee benefit assets and liabilities;
- Liabilities or equity instruments relating to payments based on the shares of the acquiree or Group-related share-based payments in exchange for contracts of the acquiree;
- Assets held for sale and Discontinued Operations.

In accordance with IFRS 3 (Business combinations), goodwill is recognised in the consolidated financial statements at the date of acquisition of control of a business, and is determined as the surplus of **(a)** over **(b)** in the following way:

**a)** the aggregate of:

- consideration paid (measured in accordance with IFRS 3, i.e. generally determined on the basis of the acquisition-date fair value);
- the amount of any non-controlling interest in the acquiree measured in proportion to the non-controlling interest's share of the acquiree's identifiable net assets expressed at their relative fair value;
- in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously-held equity investment in the acquiree;

**b)** the fair value of the identifiable assets acquired net of the identifiable liabilities taken on, measured at the date of acquisition of control.

IFRS 3 also requires:

- separate recognition in the income statement of costs relating to the business combination;
- in a business combination achieved in stages, the acquirer company must re-measure the amount of its previously-held equity interest in the acquiree at the acquisition-date fair value, and recognise the difference in the separate income statement.

Any consideration subject to conditions set out in the business combination contract are measured at the acquisition-date *fair value* and included in the consideration paid during the business combination in order to determine goodwill. Any subsequent changes in this fair value classifiable as measurement period adjustments are retroactively included in goodwill. Changes in fair value classifiable as measurement period adjustments are those deriving from additional information about facts and circumstances that existed at the date of acquisition, obtained during the measurement period (which must not exceed one year from the date of the business combination).

In business combinations achieved in stages, the Group's previously-held equity interest in the acquiree is remeasured at the acquisition-date fair value, and any consequent gains or losses are recognised in the income statement. Any amounts deriving from the previously-held equity interest and recognised under Other comprehensive income or expense are reclassified in the income statement as though the investment interest had been sold.

If the initial amount of a business combination is incomplete at the end of the year in which the business combination took place, the Group recognises the provisional amounts of those items which cannot be fully recognised in its financial statements. These provisional amounts are adjusted in the measurement period to take into account new information obtained about the facts and circumstances existing at the date of acquisition which, if known, would have affected the amount of the assets and liabilities recognised at that date.

On first-time adoption of IFRS, the Group chose not to apply IFRS 3 (Business combinations) retroactively to the business acquisitions occurred prior to 1 January 2004; consequently, the goodwill arising from acquisitions prior to the IFRS transition date has been maintained at the original amount calculated in accordance with Italian GAAP after verifying its recoverability.

Business combinations that occurred prior to 1 January 2010 have been recognised in accordance with the previous version of IFRS 3.

### Property, plant, equipment and other items of property, plant and equipment

Property, plant and equipment are recognised at purchase or production cost including related expense less subsequent depreciation and impairment losses.

Ordinary maintenance costs are fully charged to the income statement. Incremental maintenance expenses are attributed to the relevant asset and depreciated at the depreciation rate applicable to the asset.

Leasehold improvements are classified under property, plant and equipment in accordance with the nature of the cost incurred. The depreciation period is the shorter of the residual useful life of the asset and the residual term of the lease.

Property, plant and equipment - with the exception of land, which is not subject to depreciation - are depreciated on a straight-line basis over their estimated useful life as from the date in which the asset became available for use or could potentially provide the related economic benefits, applying the following depreciation rates:

Buildings	2% - 3%
Plant and machinery	10% - 20%
Equipment	12% - 25%
Furniture and fittings	12%
Motor vehicles	25%

This item also includes assets that are subject to finance leases, which are recognised under property, plant and equipment according to the previously described method.

### Investment property

Investment property, represented by property held to earn rentals and/or for capital appreciation, is recognised at cost including related expense less accumulated depreciation and impairment losses. Investment property is depreciated on a straight-line basis over its useful life at a 3% rate for buildings and a 10% rate for plants.

### Goodwill and other intangible assets

Intangible assets with a finite useful life are measured at cost net of accumulated amortisation and impairment losses.

#### Goodwill

Goodwill is an intangible asset with an indefinite useful life that derives from business combinations accounted for using the purchase method. It is recognised as the positive difference between the acquisition cost and the Group's interest, having recognised at fair value all other identifiable assets, liabilities and contingent liabilities attributable to both the Group and non-controlling interests (full fair value method) at the acquisition date.

Goodwill is not subject to amortisation, but it is measured at least once a year, usually at the reporting date, to ensure it is not impaired. Any impairment losses are immediately recognised in the Income Statement and are not subsequently reversed.

Goodwill is measured by identifying the cash-generating units (CGUs) that benefit from the synergies of the acquisition. The cash flows are discounted at the cost of capital in relation to the specific risks of the unit. Impairment losses are recognised whenever the discounted cash flow calculation indicates that the recoverable amount of the CGU is lower than its carrying amount, and they are recognised primarily under goodwill. On disposal of a subsidiary or a jointly-controlled entity, the residual amount of goodwill attributable to it is included in the calculation of the gain or loss from the sale.

Goodwill deriving from acquisitions made prior to the transition to IFRS is maintained at the amounts arising from the application of Italian GAAP at that date and is allocated to CGUs in order to test it for impairment.

#### Internally-generated intangible assets – Research and development expense

Research and development expense is recognised in the income statement as incurred.

Internally-generated intangible assets deriving from development of the Group's products (machine tools for processing wood, glass and marble) are included amongst assets only if all the following conditions are met:

- the asset is identifiable (for example, software or new processes);
- the asset is likely to generate future economic benefits; and
- the development expense of the asset can be reliably measured.

These intangible assets are amortised on a straight-line basis over their useful lives.

When the internally-generated intangible assets cannot be recognised in the financial statements, development expense is recognised in the income statement of the year in which they were incurred.

#### Trademarks, licences and patents

Trademarks, licences and patents are initially recognised at acquisition cost, and are systematically amortised on a straight-line basis over their useful life or over a period not longer than that established by the underlying licence or purchase contract.

### Impairment losses on property, plant and equipment and intangible assets

At each reporting date, the Group verifies the existence of events or circumstances that may jeopardise the recoverable amount of property, plant and equipment and intangible assets with a finite useful life, and, if an indication of impairment exists, it estimates the recoverable amount of the assets in order to determine whether they are impaired.

Intangible assets with an indefinite useful life, including goodwill, are instead tested annually and whenever there is any indication of impairment.

In accordance with the relevant accounting principles, impairment tests are carried out with reference to the individual asset, where possible, or to a group of assets (the so-called cash generating unit). The cash generating units have been identified consistently with the business and organisational structure of the Group as single units that generate independent cash flows through the continuous use of the assets attributable to them.

The recoverability of the recognised amount is tested by comparing the carrying amount with the greater of the current market value net of sales costs, where an active market exists, and the value in use. The value in use is determined according to the present value of future cash flows expected to arise from the continuing use of an asset or group of assets and from its disposal at the end of its useful life.

The management makes several assumptions in calculating the present value of future cash flows, including estimates of future increases in sales, gross operating profit, operating expense, the growth rate of terminal values, investments, changes in working capital and the weighted average cost of capital (discount rate), accounting for the specific risks of the asset or of the cash generating unit. The expected cash flows used in the model are calculated during the Group's budgeting and planning process and represent the best estimate of the amounts and timing of future cash flows based on the Group's long term plan, which is updated annually, reviewed by the strategic management and approved by the parent's board of directors. Sales growth forecasts are based on management forecasts. The operating expense estimated in the cash flow model is also determined on the basis of management estimates for the next three years and are supported by the Group's product development and production plans. The amounts of investments and working capital estimated in the cash flow model are determined on the basis of several factors, including the information necessary to support expected future growth rates and the product development plan. The carrying amount attributed to the cash generating units is determined with reference to the consolidated statement of financial position by direct, where applicable, or indirect allocation criteria.

If any impairment exists, the assets are written down accordingly, while the original cost is reinstated (with the exception of goodwill) if in the subsequent years the reasons for impairment no longer exist.

### Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and the market value net of sales costs.

Non-current assets are classified as held for sale when their carrying amount is expected to be recovered through a sale transaction instead of their use in the operating activities of the company. This condition is met only when the asset is highly likely to be sold, is available for immediate sale in its existing condition and the management has committed to sell it within twelve months of the date it was recognised under this item.

### Inventories

Inventories are measured at the lower of cost and net realisable amount. Cost includes direct materials and, where appropriate, direct labour costs, general production expense and other expense incurred to bring the inventories to their current location and condition. Cost is calculated on a weighted average cost basis. The net realisable amount represents the estimated sale price less the estimated costs of completion and the estimated costs necessary to make the sale.

Obsolete and slow moving inventory is written down in relation to its possibility of use or sale.

### Financial Assets and Liabilities

Financial assets and liabilities include equity investments in other companies available for sale, non-current receivables and loans, trade receivables, as well as other receivables and financial assets such as cash and cash equivalents. Financial liabilities include financial payables, trade payables, other payables and financial liabilities. Derivative instruments are also included amongst financial assets and liabilities. Financial assets and liabilities are recognised when contractual rights and obligations pertaining to financial instruments arise. Their initial recognition takes into account directly attributable transaction and issue costs. Subsequent measurement depends on the type of financial instrument and is subject to the categories of assets and liabilities listed below:

#### *Loans and receivables*

They include trade receivables, financial receivables and other receivables that qualify as financial assets. These are recognised at nominal amount where this is substantially representative of their fair value; otherwise, they are measured at amortised cost using the effective interest rate method. Loans and receivables are written down in the income statement to take into account expected impairment losses. The impairment losses are calculated on the basis of the difference between the carrying amount of receivables and the present value of estimated future cash flows. Impairment losses on trade receivables are generally recognised through specific allowances for impairment.

#### *Financial assets held to maturity*

The financial assets that the Group is willing and able to hold to maturity (held-to-maturity securities) are recognised at amortised cost using the effective interest rate method net of impairment losses. If in the subsequent periods the reasons for impairment no longer exist, the impairment losses are reversed.

#### *Financial assets held for trading*

Financial assets classified as held for trading are measured at fair value at each reporting date; gains and losses deriving from changes in fair value are recognised in the income statement for the period.

#### *Available-for-sale financial assets*

Available-for-sale financial assets are measured at fair value; gains and losses deriving from changes in fair value are recognised directly in equity until their disposal; at that time, total gains or losses previously recognised in equity are taken to the income statement for the period. Non-quoted investments for which fair value may not reliably be determined are measured at cost net of impairment losses. This category mainly includes non-controlling interests.

#### *Trade payables*

Trade payables are recognised at nominal amount where this is substantially representative of their fair value, otherwise they are measured at amortised cost using the effective interest rate method.

#### *Financial liabilities and equity instruments*

Financial liabilities and equity instruments issued by the Group are classified according to the content of the contractual agreements that generated them and in accordance with the respective definitions of liabilities and equity instruments. The latter are defined as those contracts that evidence a residual interest in the assets of an entity after deducting all of its liabilities.

The accounting principles adopted for specific financial assets and equity instruments are given below.

#### *Bank loans and borrowing and loans and borrowing from other financial backers*

Bank loans and borrowings, consisting of long-term bank loans and other bank overdrafts, as well as loans and borrowings from other financial backers, including payables for assets acquired through finance lease contracts, are reported on the basis of the amounts received net of transaction costs, and are subsequently measured at amortised cost using the effective interest rate method.

**Equity Instruments**

Issued equity instruments are reported on the basis of the amount received net of direct issue costs.

**Derivative instruments and hedge accounting**

Derivative instruments are initially recognised at fair value at the date of subscription and are remeasured at fair value at each subsequent reporting date.

Where applicable, the hedge accounting method is adopted. It provides for the recognition of derivatives in the statement of financial position at their fair value. Changes in the fair value of derivative instruments are treated differently according to the type of hedge at the measurement date:

- For those derivatives hedging future transactions (i.e. cash flow hedges), changes in the fair value of derivative instruments are recognised in equity for the portion deemed to be effective, while the ineffective portion is recognised in the income statement. If a planned hedging transaction subsequently involves the recognition of a non-financial asset or liability, the cash-flow hedging reserve is eliminated from equity to offset the initial cost of the non-financial asset or liability. Whenever a planned hedging transaction subsequently results in the recognition of a financial asset or liability, the cash flow hedging reserve is taken to the income statement in the period in which the asset acquired or liability recognised affect the income statement. In any other case, the cash flow hedging reserve is taken to the income statement consistently with the hedged transaction or when its economic effect materialises.
- For those derivatives hedging recognised receivables and payables (i.e. fair value hedges), differences in fair value are entirely recognised in the income statement. In addition, the amount of the hedged item (receivable/payable) is adjusted in the income statement for any change in the amount attributable to the hedged risk.

Fair value gains and losses on derivative instruments that do not qualify as hedging instruments are recognised in the income statement for the period in which they occur.

Derivatives embedded in other financial instruments or in other contracts are treated as separate derivatives when their risks and characteristics are not strictly related to those of the host contracts and the latter are not measured at fair value, recognising the related gains and losses in the income statement.

**Treasury shares**

Treasury shares are recognised at acquisition cost and are deducted from consolidated equity. Gains and losses deriving from trading in treasury shares net of related tax effects are recognised under equity reserves.

**Stock options**

Remuneration granted to employees and directors in the form of stock options is recognised in the Income Statement by recognising a cost with an offsetting entry in equity and measured on the basis of the fair value of the options at the date of grant. This amount is determined at the time the stock options are granted and is recognised over their vesting period. The fair value of the option at the date of grant is measured using mathematical financial models, taking into account the terms and conditions attached to such rights.

**Post-employment benefits**

For defined-benefit plans, the relative cost of benefits provided is determined using the projected unit credit method, with actuarial measurements conducted at the end of each year.

Actuarial gains and losses that exceed 10 per cent of the present value of the Group's defined-benefit liabilities are amortised over the period of the estimated average working life of employees participating in the programme.

Recognised post-employment benefit liabilities represent the present value of defined-benefit liabilities adjusted for off-balance-sheet actuarial gains and losses.

Payables due to employees for pensions and other similar defined-contribution plans are recognised in the Income statement on an accrual basis.

With reference to Italian companies' post-employment benefits, pursuant to the Italian occupational pension reform, post-employment benefits accruing after 1 January 2007 are considered as defined-contribution schemes, while post-employment benefits accrued prior to 31 December 2006 continue to be considered as defined-benefit schemes.

**Provisions for risks and charges**

Provisions for risks and charges are recognised against the Group's obligation expense, whether legal or implicit (contractual or of any other kind), arising from a past event. Provisions for risks and charges are recognised if these expenses are likely to be incurred and can be reliably estimated. Whenever it is estimated that these obligations will mature after twelve months and that the related charges will be material, they are discounted at a rate that takes into account the cost of money and the specific risk of the liability recognised. Any change in the estimate of provisions is reflected in the income statement in the period in which it occurs. Where the obligations have been discounted to present value, the increase in the provision due to the passage of time and any change arising from a change in the discount rate is recognised as a financial expense.

Provisions for risks and charges include, amongst other things, the provision for product guarantees, which is recognised to anticipate the economic impact of guarantee costs, so as to match them with sales revenue.

**First-time adoption of principles, interpretations and amendments effective as from 1 January 2011 and not relevant to the Group**

The following principles, amendments, improvements and interpretations, effective as from 1 January 2011, govern matters and cases that do not apply to the Group at the reporting date but which could have an accounting effect on future transactions or agreements:

- IAS 32 – Financial instruments: Presentation: classification of rights issues
- IFRIC 14 –The limit on a defined benefit asset, minimum funding requirements and their interaction
- IFRIC 19 - Extinguishing financial liabilities with equity instruments
- Improvements to IAS/IFRS (2010),

In October 2009, the IASB issued an amendment to IAS 32 – **“Financial Instruments: Presentation: classification of rights issues”**. The European Union endorsed the amendment in December 2009. The amendment regulates the accounting of the issues of rights (rights, options or warrants ) denominated in currencies other than the functional currency of the issuer. These rights were previously accounted for as liabilities arising from derivative financial instruments; the amendment states that, under certain conditions, these rights should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment is effective as from 1 February 2010. The amendment has no impact on the presentation of the operating results, financial position and cash flows of the Group.

In November 2009, the IASB issued an amendment to the accounting requirements for pension plans. The European Union endorsed the amendment in July 2010. The amendment refers to **IFRIC 14 “The limit on a defined benefit asset, minimum funding requirements and their interaction”**, which is an interpretation of IAS 19 “Employee benefits”. The amendment applies in limited circumstances, when an entity is subject to minimum payment requirements and performs a prepayment of contributions to meet these requirements. The amendment allows the entity to treat the payment as an asset. The amendment must be applied as from 1 January 2011 and retroactively. The amendment has no impact on the presentation of the operating results, financial position and cash flows of the Group.



In November 2009, IASB issued the interpretation **IFRIC 19 “Extinguishing financial liabilities with equity instruments”**. The European Union endorsed IFRIC 19 in July 2010. The interpretation provides guidelines for interpreting IFRS, when an entity renegotiates the terms of a financial liability with its creditor and the latter agrees to accept equity instruments to fully or partially extinguish the financial liabilities. IFRIC 19 explains that equity instruments of the entity issued in favour of a creditor are part of the price paid for fully or partially extinguishing the financial liability. Moreover, these equity instruments are measured at fair value. If the fair value cannot be reliably determined, the equity instruments must be measured reflecting the fair value of the extinguished financial debt. Any difference between the carrying amount of the financial liability and the initial measurement of the equity instruments issued is included in the Income statement for the period of the entity. The interpretation is effective as from 1 July 2010. The amendment has no impact on the operating results, financial position and cash flows of the Group.

In May 2010, the IASB published some pronouncements within the **annual improvement project**, containing amendments to six accounting standards and an interpretation. The European Union endorsed these amendments in February 2011 and they are effective as from 1 January 2011. The amendments have no impact on the presentation of operating results, financial position and cash flows of the Group.

#### Accounting principles, amendments and interpretations not yet applicable and not adopted in advance by the Group

In November 2009, the IASB published **IFRS 9 - Financial instruments**: the same principle was then amended on 28 October 2010. The principle, applicable from 1 January 2013, represents the first part of a project to entirely replace IAS 39 and introduces new criteria for the classification and measurement of financial assets and liabilities and for the derecognition of financial assets. In particular, as for financial assets, the new principle adopts a single approach based on the methods of managing financial instruments and on the characteristics of the financial assets' contractual cash flows to determine the measurement criteria, replacing the various rules set out in IAS 39. As for financial liabilities, the main change regards the accounting treatment of changes in fair value of a financial liability classified as a financial liability measured at fair value in the income statement where these are due to changes in the credit rating of the liability itself. According to the new principle, these changes must be recognised in Other comprehensive income/(expense) and will no longer be taken through profit or loss. At the reporting date, the relevant authorities of the European Union have not yet completed the endorsement process necessary for implementing this new principle

In October 2010, IASB issued the amendment **IFRS 7 – Financial instruments: disclosures**. The amendment emphasises the interaction between the qualitative and quantitative disclosures required by the principle regarding the nature and extent of risks arising from financial instruments. This should help users of the financial statements gather the information presented and provide an overview of the nature and extent of risks arising from financial instruments. In addition, the amendment eliminates the requirement to disclose financial assets that have matured but have been renegotiated or impaired, as well as the fair value of collateral. The amendment is applicable as from 1 July 2011. The European Union endorsed the amendment in November 2011.

In December 2010, the IASB issued a minor amendment to **IAS 12 – Income taxes** that requires the business to measure deferred taxes arising from an asset, on the basis of the way the asset's carrying amount will be recovered (through continuing use or sale). Following this amendment, the accounting principle SIC-21 – Income taxes – Recoverability of a revalued non-depreciable asset will no longer be applicable. The amendment is applicable from 1 January 2012. At the reporting date, the relevant authorities of the European Union have not yet completed the endorsement process necessary to implement this new principle.

In May 2011, the IASB published three new IFRS (IFRS 10, IFRS 11, IFRS 12) and revised two principles (IAS 27, IAS 28) concerning investments in subsidiaries, joint ventures and associates. The European Union has not yet completed the relevant endorsement process, and the relevant application will be effective as from 1 January 2013.

The IASB introduced a harmonised model of consolidation by issuing **IFRS 10 - Consolidated Financial Statements**. The standard introduces a new approach for determining the entities to be consolidated. Control exists only if an investor has the power, is exposed to variable results and can use the power to affect these variable results. IFRS 10 will replace SIC-12 “Consolidation - Special Purpose Entities”, as well as the relevant provisions of IAS 27 “Consolidated and Separate Financial Statements”.

**IFRS 11 – Joint Arrangements** will replace IAS 31 – Interests in Joint Venture and SIC-13 – Jointly Controlled Entities – Non-Monetary Contributions by Venturers. It concerns the accounting treatment of joint ventures and joint operations. Proportionate consolidation is no longer allowed for joint-ventures, since IAS 31 is outdated. The amendment of IAS 28 – Investments in associates states the equity method be applied to investments in both associates and joint ventures. In the case of joint operations, the share of assets, liabilities, expense and revenue is recognised directly in the consolidated and separate financial statements of the joint operator.

**IFRS 12 - Disclosure of interests in other entities** collect all the disclosure requirements of the consolidated financial statements, relating to subsidiaries, joint arrangements, associates and unconsolidated structured entities.

The amendment to **IAS 27 – Separate financial statements** concerns exclusively the accounting treatment of equity investments in subsidiaries, joint-ventures and associates in the separate financial statements and the relevant notes.

The amendment to **IAS 28 – Investments in associates** concerns the use of the equity method to measure the equity investments in associates and joint-ventures.

In May 2011, the IASB published **IFRS 13 - Fair Value Measurement**. With this standard, the IASB defined a coherent and comprehensive standard for fair value measurement. The new standard is effective as from 1 January 2013 and represents the reference guide for all the other standards. In particular, it applies to all standards, except for IAS 2 – Inventories, IAS 17 – Leasing and IFRS 2 – Share-based payments. Whereas there are no changes for financial instruments, the framework of reference is much more clear and complete for the other items of the financial statements (for example, investment property, property, plant and equipment and intangible assets). The European Union has not yet completed the relevant endorsement process.

In June 2011, the IASB issued the amendments to **IAS 1 – Presentation of financial statements**. The amendments require the reconciliation of changes in each component of equity to be reported in the notes or in the statements. The amendments to IAS 1 will apply for the accounting periods starting from or after 1 July 2012 and have not yet been endorsed by the European Union.

In June 2011, the IASB issued the amendments to **IAS 19 – Employee benefits**. One of the amendments concerns the termination of the existing option for the recognition of actuarial gains and losses. As is well known, the corridor approach is no longer applicable; consequently, actuarial gains and losses must be fully and directly recognised in equity. The amendments to IAS 19 will apply for the accounting periods starting from or after 1 January 2013 and have not yet been endorsed by the European Union.

In December 2011, the IASB published some amendments to **IAS 32 – Financial Instruments: Presentation**, specifying the requirements necessary to offset financial instruments. To comply with the new requirements, an entity's right to offset shall not refer to a future event and shall be enforceable both in case of normal business operations and in the event of the insolvency or bankruptcy of one of the entities. The new requirements retrospectively apply for the accounting periods starting from or after 1 January 2014 and have not yet been endorsed by the European Union.

In December 2011, the **IASB supplemented IFRS 7 – Financial instruments: Disclosures**, providing for new disclosure requirements concerning the offsetting rights. These disclosure requirements are added to those already provided by IAS 32. The new requirements must apply retrospectively for the accounting periods starting from or after 1 January 2013 and have not yet been endorsed by the European Union.

## 5. measurement criteria and use of estimates

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 in the financial statements and on the disclosure of contingent assets and liabilities at the reporting date. The estimates and the assumptions used are based on experience and other factors deemed as material. The actual outcome may differ from these estimates. The estimates and assumptions are reviewed periodically and the effect of any resulting change is reflected in the income statement of the year in which the revision occurs if the revision has an impact on only that year, or also in subsequent periods if the revision affects both the current year and future years.

In the current economic environment, it should be noted that the economic and financial crisis has led to the necessity of making significantly uncertain assumptions on future trends: therefore, it cannot be ruled out that the results for the coming year may differ from those estimated, and the carrying amount of the relevant items may need to be adjusted to an extent that could be significant and cannot be estimated nor foreseen today. The main items in the financial statements affected by this uncertainty are the allowance for impairment, the allowance for inventory write-down, non-current assets (property, plant and equipment and intangible assets), the provision for product guarantees and contingent liabilities.

There follows a summary of the critical key measurement procedures and the key assumptions made by the management in applying the accounting principles regarding the future. They could have a significant impact on the amounts recognised in the consolidated financial statements or imply the risk that the carrying amounts of assets and liabilities in the financial period following the reference period could be significantly adjusted.

### Allowance for impairment

The allowance for impairment reflects the management's estimates of impairment losses on the portfolio of receivables due from end customers and the sales network. The estimate of the allowance for impairment is based on losses expected by the Group, calculated on the basis of past experience of similar receivables, current and historical past dues, losses and payments received, the careful monitoring of credit quality, and projections of economic and market conditions. The persistence and potential worsening of the current economic and financial crisis could further compromise the financial position of the Group's debtors compared to the deterioration already accounted for in quantifying the recognised allowance.

### Allowance for inventory write-down

The allowance for inventory write-down reflects the management estimate of impairment losses expected by the Group and is calculated on the basis of past experience and the historical and expected trends in the market for second-hand equipment and spare parts. The persistence and potential worsening of the current financial and economic crisis could further compromise market conditions compared with the deterioration already accounted for in quantifying the recognised allowance.

### Recoverable value of non-current assets (including goodwill)

Non-current assets include property, plant and equipment, intangible assets (including goodwill), equity investments and other financial assets. Management periodically revises the carrying amounts of the non-current assets it owns and uses and the assets that are to be divested, when facts and circumstances require such revisions to be made. For goodwill and intangible assets with an indefinite useful life, this analysis is carried out at least once a year and whenever events and circumstances so require. The analysis of the recoverability of non-current assets' carrying amount is generally carried out using estimates of cash flows expected from the use or sale of the assets and appropriate discount rates to calculate their present value. When the carrying amount of a non-current asset is impaired, the Group recognises an impairment loss equal to the difference between the carrying amount of the asset and the value recoverable through its use or sale calculated with reference to the cash flows estimated in the Group's latest plans.

Owing to the difficult economic and financial situation, in preparing the financial statements as at and for the year ended 31 December 2011, and especially in testing property, plant and equipment and intangible assets for impairment, the various Divisions of the Group have taken into consideration the expected trend for the 2012-2014 period, referring to the business plan approved by the parent's Board of Directors on 10 February 2012. Based on the figures of this plan, no significant impairment losses have arisen, except for some impairment losses on some prepaid costs for prototype development projects of uncertain outcome.

The estimates and the assumptions used within this analysis reflect what the Group knows about the trend in the business and the different sectors, and take into account estimates considered reasonable on future market trends that remain highly uncertain due to the persistence of the current financial and economic crisis and its effects on the real-estate sector. Although the Group's current estimates do not indicate other impairment losses on non-current assets, any other development in this economic situation or any other performance of the Group may lead to values other than the original estimates and, where necessary, require to adjust the carrying amount of some non-current assets.

### Product Guarantees

When a product is sold, the Group makes a provision for the relevant estimated guarantee costs. The management establishes the amount of this provision on the basis of historical information regarding the nature, frequency and average cost of repairs under guarantee. The Group is working to improve product quality and to minimise the cost of repairs under guarantee.

### Contingent liabilities

The Group is subject to legal and tax claims regarding a wide range of issues that are within the jurisdiction of various countries. Given the uncertainties inherent in these issues, it is difficult to predict with certainty the expense that may derive from these disputes. The claims and disputes against the Group frequently arise from complex and difficult legal issues, characterised by varying degrees of uncertainty, including the facts and circumstances relating to each case, as well as the jurisdiction and the different laws applicable to each case. In the normal course of business, the management consults its own legal advisors and legal and tax experts. The Group recognises a liability with regard to these disputes when a financial expense is likely to arise from them and can be reliably estimated. Where a financial expense becomes possible but its amount cannot be determined, the fact is reported in the notes to the financial statements.

### Recoverability of deferred tax assets

At 31 December 2011 the Group had deferred tax assets of € 18,389 thousand (€ 19,295 thousand at 31 December 2010). Management has recognised such deferred tax assets to the extent it considers likely to be recoverable. The calculation of the various items took into consideration budget results and forecasts for the subsequent years consistent with those used for the purposes of impairment tests, approved by the Board of Directors of the parent on 10 February 2012, and described in the paragraph above concerning the recoverable value of non-current assets.

# notes to the financial statements

## consolidated income statement

### 6. revenue and other operating income

The analysis of Group revenue is as follows:

€ '000	2011	2010
Revenue from sales of goods	367,754	307,596
Revenue from services	19,967	19,134
Other revenue	808	793
<b>TOTAL REVENUE</b>	<b>388,530</b>	<b>327,522</b>
Lease and rental income	150	118
Commissions and royalties	211	88
Income related grants	365	703
Gains on sales of assets	47	104
Other non-recurring income and contingent assets	1,356	3,303
<b>TOTAL OTHER OPERATING REVENUE</b>	<b>2,129</b>	<b>4,316</b>

Please refer to the Directors' Report for more details on the trend in revenue.

The most significant components of other income relate to non-recurring income and contingent assets of € 1,356 mainly due to ordinary estimate corrections carried out in previous years. The amount is decreased compared to 2010 because at the end of the previous year the amount included income deriving from the reversal of unused provisions made at the end of 2009 against contingent liabilities related to disputes with the Italian social security institute, as well as with customers and suppliers. The disputes were settled on favourable terms during 2010, resulting in income of € 2 million.

As there was no discontinuations of operations, the data above relate exclusively to continuing operations.

### 7. analysis by business segment and geographical sector

During 2010 the Group reviewed its internal organisation in order to complete its transformation into a lean company, with implications for the system of Corporate Reporting. The process led to a revision of the operating segment structure, to make it more consistent with the internal organisation of the Group. After one year, it was further refined by breaking up the Service segment and transferring its functions to the Wood and Glass & Stone segment. This adjustment is consistent with the way the business is managed, which requires the world of production and that of installation and after-sales service to be tightly integrated. The strategy of expansion in the plant manufacturing segment requires these phases of the process to be closely related, given the importance assumed by the setting up and running of machines.

As required by IFRS 8, segment reporting has been revised accordingly to make it consistent with the information used by the management in making its operating decisions. In order to ensure comparability, prior year data has also been re-stated. As the following paragraph illustrates, these changes affected also the identification of the CGUs used to test goodwill for impairment.

#### Analysis by business segment

The Group is currently organised into five operating divisions – Wood, Glass & Stone, Mechatronics, Tooling and Components. These divisions constitute the basis for the Group's segment reporting. The principal business segments are as follows:

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

**Glass & Stone** - production, distribution, installation and after-sales service of glass and stone processing machines and systems,

**Mechatronics** - production and distribution of mechanical and electronic components for industry,

**Tooling** - production and distribution of Diamut-branded grinders and tools

**Components** - production of mechanical components for wood and glass & stone processing machinery.

The information relating to these business segments is as follows:

INCOME STATEMENT DATA							
2011	Wood	Glass & Marble	Tooling	Mechatronics	Components	Eliminations	Group Total
€ '000							
External revenue	282,182	68,501	8,128	29,449	270		388,530
Inter-segmental revenue		45	356	19,346	25,786	(45,533)	-
<b>Total revenue</b>	<b>282,182</b>	<b>68,546</b>	<b>8,484</b>	<b>48,795</b>	<b>26,055</b>	<b>(45,533)</b>	<b>388,530</b>
<b>Operating profit(loss) of segment</b>	<b>(195)</b>	<b>3,290</b>	<b>691</b>	<b>8,691</b>	<b>(1,264)</b>		<b>11,213</b>
Unallocated ordinary costs							(5,458)
<b>Operating profit</b>							<b>5,755</b>
Unallocated financial expense							(3,255)
Pre-tax profit							2,500
Income taxes							(4,947)
<b>LOSS FOR THE YEAR</b>							<b>(2,446)</b>

2010	Wood	Glass & Marble	Tooling	Mechanics	Components	Eliminations	Group Total
€ '000							
External revenue	238,506	62,718	7,002	17,816	1,480		327,522
Inter-segmental revenue			413	26,659	23,992	(51,064)	-
<b>Total revenue</b>	<b>238,506</b>	<b>62,718</b>	<b>7,415</b>	<b>44,475</b>	<b>25,472</b>	<b>(51,064)</b>	<b>327,522</b>
<b>Operating profit(loss) of segment</b>	<b>(2,486)</b>	<b>2,877</b>	<b>119</b>	<b>7,653</b>	<b>(129)</b>		<b>8,033</b>
Unallocated ordinary costs							(7,927)
<b>Operating profit</b>							<b>106</b>
Unallocated financial expense							(2,635)
Pre-tax profit							(2,529)
Income taxes							(3,211)
<b>LOSS FOR THE YEAR</b>							<b>(5,741)</b>

Net revenue for 2011 was € 388,530 thousand, compared with € 327,522 thousand in the year to 31 December 2010, representing an increase of 18.6 % compared with the previous year.

As in 2010, during 2011 - especially in the first part of the year - the Group succeeded in taking advantage of a recovery in its end markets, consolidating its leadership and confirming its position amongst the world leaders. Volume growth allowed better absorption overhead of costs, with cascading effects across all segments of the Group.

The Wood segment confirmed its position as the Group's main segment, representing 72.6% of total consolidated revenue (72.8% in 2010), an increase of 18.3% compared with the previous year (better performance across all operating segments). The increase in volumes (with obvious benefits for operating leverage) resulted in a significant improvement in the profitability of the segment, which at the end of 2011 reported a substantial operating breakeven.

The Glass & Stone segment reported a 9.3% increase in sales, with its proportion of consolidated sales decreasing from 19.1% to 17.6%. The segment's operating profit rose from € 2,877 thousand to € 3,290 thousand.

The Tooling segment registered an increase of 14.4%, with a largely unchanged impact on consolidated sales. Operating profitability (EBIT) rose from € 119 thousand to € 691 thousand.

The Mechatronic segment reported a 9.7% increase, reducing its contribution to consolidated sales by one percentage point (12.6% compared with 13.6% at end 2010); it should be noted that most of this segment's output (about 60%) is absorbed by the Wood and Glass & Stone segments. The operating profit rose from € 7,653 thousand to € 8,691 thousand.

Finally, the Components segment reported the lowest increase (+2.3%) but the figure should be put into perspective, taking into account that almost all of its production is taken up by companies belonging to the Group.

### Statement of financial position data – Inventories

With the exception of inventories, the assets, liabilities and investments are not allocated to business segments and are examined by the top management at Group level. The following table shows the breakdown of inventories by business segment.

STATEMENT OF FINANCIAL POSITION DATA – INVENTORIES						
€ '000	Wood	Glass & Marble	Tooling	Mechanics	Components	Group Total
31/12/2011	64,067	8,879	1,849	9,595	4,069	88,459
31/12/2010	55,621	9,017	1,722	10,843	4,123	81,326

The inventory analysis by segment shows that the total increase (€ 7,133 thousand) refers to the Wood division (+ € 8,446 thousand compared to the end of 2010), but this is due to the change in the scope of consolidation, which led to an increase of € 7,087 thousand in the wake of the inclusion of the Centre Gain Group (see note no. 21).

### Analysis by geographical area

REVENUE				
Geographical area	2011	%	2010	%
Western Europe	171,702	44.1%	162,402	49.6%
Asia-Pacific	73,255	18.9%	54,835	16.7%
Eastern Europe	68,070	17.5%	51,043	15.6%
North America	36,851	9.5%	30,615	9.3%
Rest of the World	39,182	10.1%	28,627	8.7%
<b>GROUP TOTAL</b>	<b>388,530</b>	<b>100.0%</b>	<b>327,522</b>	<b>100.0%</b>

## 8. raw materials and consumables

Consumption of raw materials and consumables rose from € 143,639 thousand to € 172,781 thousand, an increase of 20.3% compared to the previous year. This change is substantially in line with the 16.1% increase in revenue from € 337,735 thousand to € 392,158 thousand. The recovery in the reference markets and the positive trend in order intake resulted in an increase in both revenue from sales and inventories of finished and semi-finished goods, leading to a consequent increase in the consumption of raw materials and consumables.

## 9. personnel expense

€ '000	2011	2010
Wages, salaries and social security contributions	110,119	99,751
Productivity bonus, other bonus and related social security contributions	6,071	6,933
Accruals to pension plans	5,191	4,929
Other personnel expenses	1,005	1,003
Capitalization and recovery of personnel expense	(6,805)	(4,934)
<b>STAFF COSTS</b>	<b>115,580</b>	<b>107,683</b>

Personnel expense in 2011 was € 115,580 thousand, compared with € 107,683 thousand in 2010, with an increase of € 7.9 million in absolute value and 7.3% in percentage terms.

The cumulative increase is almost exclusively attributable (€ 10.3 million) to fixed costs, whereas variable costs (performance bonuses, bonuses and related social security contributions) decreased by € 862 thousand.

The increase in personnel expense is offset by the rising capitalisation of the wages and salaries of employees involved in new-model development, up by € 1,732 thousand compared to 2010 (€ 6,666 thousand compared to € 4,934 thousand in 2010); this change is due to the increase in the hours internal personnel spent on R&D projects and the implementation of the new ERP system.

## 10. other operating expenses

€ '000	2011	2010
Production services	16,921	15,085
Maintenance	2,568	2,463
Sales commissions and transport	17,400	12,942
Consultancy fees	5,314	4,698
Utilities	4,441	3,926
Exhibitions and advertising	4,742	4,015
Insurance expenses	1,277	1,287
Directors, statutory auditors and consultants' remunerations	3,593	2,430
Travel expenses	9,662	7,857
Other services costs	3,864	4,018
Use of third party assets	7,232	6,394
Other operating costs	4,367	5,599
<b>Other operating expense</b>	<b>81,379</b>	<b>70,714</b>

Remuneration paid to Directors, Statutory Auditors and the Independent Auditors is included in "Other operating expense".

As required by article 149-duodecies of the Consob Issuers Regulations, a list of the services provided by the independent auditors is shown below:

Services	Services Supplier	Beneficiary	Fees (€'000)
Audit	KPMG S.p.A.	Biesse S.p.A.	160
	KPMG S.p.A.	Subsidiaries	238
Other services	KPMG Network	Biesse S.p.A.	241
	KPMG SpA	Biesse S.p.A.	25
	KPMG SpA	Subsidiaries	19
<b>TOTAL</b>			<b>683</b>

## 11. financial income

€ '000	2011	2010
Income from financial receivables	61	182
Bank interest	59	42
Interest from customers	169	66
Other financial income	73	25
<b>TOTAL FINANCIAL INCOME</b>	<b>363</b>	<b>316</b>

## 12. financial expense

Details of financial expense are reported below:

€ '000	2011	2010
Bank, mortgage and financing interest	2,008	1,228
Finance lease interest	112	124
Bills discounted	58	80
Other interest	65	39
Financial discounts to customers	487	419
Other financial expense	27	583
<b>TOTAL FINANCIAL EXPENSE</b>	<b>2,756</b>	<b>2,473</b>

The deterioration of the debt position, together with the low level of interest rates in 2011, resulted in a sharp increase in interest expense due to financial institutions (+64.0%, rising from € 1,228 thousand to € 2,008 thousand). Finance lease interest decreased (€ 112 thousand at the end of 2011 compared to € 124 thousand at the end of 2010) as well as bills discounted (€ 58 thousand at the end of 2011 compared to € 80 thousand at the end of 2010). The increase in sales volumes led to an increase in financial expense related to the management of trade receivables, as financial discounts to customers rose from € 419 thousand to € 487 thousand.

The item "Other financial expense", which includes the costs for discounting to present value the receivables and other financial assets with maturities of more than 12 months, decreased by € 556 thousand (€ 27 thousand at the end of 2011 compared to € 583 thousand at the end of 2010). The considerable decrease is mainly due to the effects of the agreement between the Biesse Group and Nuova Faos International Manufacturing Pvt. Ltd (see note no. 1): at the end of the previous year, other financial expense included the effect related to discounting to present value a trade receivable with maturity of more than 12 months. In the light of the new agreements with the above company, the loan repayment plan and, consequently, the economic impact related to the calculation of the present value were revised.

Finally, the item Other financial expense also includes the economic impact related to the measurement at fair value of an interest/exchange rate hedging derivative (Cross Currency Swap), taken out by the Indian subsidiary against an intercompany payable due to the parent. As the conditions set out in IAS 39 relating to hedge accounting are not met, the measurement result has been recognised in the income statement rather than in equity. This derivative hedges a 167,500,000 rupee loan (guaranteeing a forward exchange rate of 67 rupees/euro and an interest rate fixed at 11.5%) with maturity at 30 June 2012.

### 13. exchange rate gains and losses

In 2011, the Group recognised exchange rate losses of € 861 thousand (compared with a € 478 thousand loss at the end of 2010).

The Group's activities are exposed primarily to financial risks relating to currency fluctuations. The risk management policy approved by the Board of Directors provides that the hedging amount must not fall below 70% of the net foreign currency exposure and that the underlying asset must be identified at the inception of any hedging transaction. Forward contracts (outright/currency swap) or also derivatives (currency option) can be used for hedging.

The particular nature of the Group's business implies that its currency exposure is fragmented into several currency positions (relating to individual orders and invoices), making it complicated (as well as uneconomic) to micro-hedge them (i.e. with a direct correlation between the hedging instrument and the underlying asset): for this reason, the Group macro-hedges these risks, especially by matching all foreign currency positions. The transactions that qualify for hedge accounting, as they passed the effectiveness test, were accounted for in accordance with the provisions of IAS 39. In particular, exchange rate losses amounting to € 161 thousand have been reclassified under "Revenue", while € 57 thousand of exchange rate losses have been recognised under an equity reserve.

As for the remaining hedges, though effective from a management perspective, they do not qualify for hedge accounting based on the provisions of the international financial reporting standards. For this reason, the changes in the fair value of derivative instruments have been recognised directly in the income statement, with a measurement expense of € 250 thousand.

Finally it should be noted that the item Exchange Rate Gains and Losses includes the value relating to the balance of unrealised gains and losses arising from restating at year-end exchange rate the amounts of receivables and payables denominated in foreign currency (positive by € 570 thousand).

### 14. income taxes

€ '000	2011	2010
Income tax related to foreign subsidiaries	460	1,036
IRES and other deferred taxes	1,522	77
<b>IRES and other taxes for the year</b>	<b>1,982</b>	<b>1,113</b>
IRAP and other current taxes	2,808	2,370
IRAP and other deferred taxes	16	51
Income tax relating to previous years	138	(323)
Other taxes	3	
<b>TOTAL INCOME TAX FOR THE YEAR</b>	<b>4,947</b>	<b>3,211</b>

Taxes on the income of foreign subsidiaries are calculated at the tax rates in force in each country. Italian corporate (IRES) current and deferred taxes are calculated at 27.5% (unchanged compared to 2010) on the taxable income for the year. IRES taxes amounting to € 1,911 thousand were offset during the year through the national tax consolidation scheme adopted by the parent Biesse and joined by Hsd S.p.A. and Brema S.r.l.

Deferred IRES taxes do not include the amount of € 22 thousand recognised directly in equity with reference to the share of exchange rate gains recognised as reserves deriving from the measurement at year end of outstanding hedging contracts

IRAP (the regional corporate tax) and other minor taxes, applied in other jurisdictions and calculated on taxable bases other than pre-tax profit or loss, are stated separately.

Prior-year taxes show a negative balance of € 138 thousand due to provisions for tax disputes.

The provision for taxes and duties for the year can be reconciled with the profit (loss) for the year shown in the financial statements as follows:

€ '000	2011		2010	
Pre-tax profit (loss)	2,500		(2,529)	
National income tax rate 27.5%	(688)	27.50%	(696)	(27.50)%
Tax effect of non-deductible expense/exempt profit in determining income	(575)	23.01%	607	24.01%
Tax effect of the use of previously unrecognized losses	13	(0.51)%	(15)	(0.60)%
Tax effect on unrecognized losses for the year	(824)	32.96%	1,146	45.32%
Effect of the different tax rates relating to subsidiaries operating under other jurisdictions	25	(1.03)%	70	2.77%
Other differences	66	(2.65)%	1	0.02%
<b>INCOME TAX FOR THE YEAR AND EFFECTIVE TAX RATE</b>	<b>(1,982)</b>	<b>79.28%</b>	<b>1,113</b>	<b>(44.0)%</b>

### 15. material non-recurring events and transactions

At the end of 2011, these refer mainly to the impairment losses on Biesse America's expenses incurred in previous years for designing the American branch's new office. In addition to this, the Group recognised an impairment loss on prepaid costs - totalling approximately € 358 thousand - for prototype development projects in product lines no longer deemed strategic and whose prospective use is, to date, uncertain. For further details, please refer to the directors' report. These expenses are recognised under "Impairment losses" in the income statement.

## 16. earnings/loss per share

Basic earnings per share for the year ended 31 December 2011 remained negative at 9.52 euro/cent (20.04 in 2010) and is calculated by dividing the loss attributable to owners of the parent equal to € 2,438 thousand (- € 5,392 thousand in 2010) by the average weighted number of ordinary shares outstanding during the year, which amounted to 26,906,683 (unchanged compared to 2010). The number of shares outstanding is lower than the total number of shares issued, because the parent bought back its listed treasury shares during 2008, as resolved by the Shareholders' Meeting on 21 January 2008. At 31 December 2011, the number of treasury shares held in the portfolio was 486,359 (1.78% of the share capital), with an equal weighted average balance for 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	2011	2010
Loss for the year	(2,438)	(5,392)
Discontinued operations	-	-
<b>LOSS FOR THE YEAR FROM CONTINUING OPERATIONS</b>	<b>(2,438)</b>	<b>(5,392)</b>

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES OUTSTANDING		
in thousands of shares	2011	2010
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 shares in issue – for the calculation of basic earnings	26,907	26,907
Diluted effects	-	-
<b>WEIGHTED AVERAGE NUMBER OF SHARES IN ISSUE – FOR THE CALCULATION OF DILUTED EARNINGS</b>	<b>26,907</b>	<b>26,907</b>

As there were no operations discontinued during the year, the earnings per share is entirely attributable to continuing operations. As shown, there are no dilutive effects.

## consolidated statement of financial position

### 17. property, plant, equipment and other items of property, plant and equipment

	Property, plant and equipment	Equipment and other items of property, plant and equipment	Assets under construction and prepayments	Total
<b>HISTORICAL COST</b>				
Amount at 01/01/2010	93,921	35,560	1,076	130,557
Increase	1,218	2,206	351	3,775
Disposals	1,151	482	-	1,633
Exchange rate gains(losses), reclassifications and other changes	1,146	380	(22)	1,504
<b>Amount at 31/12/2010</b>	<b>95,134</b>	<b>37,664</b>	<b>1,405</b>	<b>134,203</b>
Increase	1,996	2,176	1,075	5,247
Disposals	433	713	-	1,146
Change in consolidation area	11,652	2,070	-	13,722
Impairment losses	-	-	956	956
Exchange rate gains(losses), reclassifications and other changes	394	157	(409)	142
<b>Amount at 31/12/2011</b>	<b>108,743</b>	<b>41,354</b>	<b>1,115</b>	<b>151,212</b>
<b>ACCUMULATED DEPRECIATION</b>				
Amount at 01/01/2010	43,860	29,265	-	73,125
Depreciation of the year	3,828	2,703	-	6,531
Closure of fund for disposals	913	531	-	1,444
Exchange rate gains(losses), reclassifications and other changes	94	64	-	158
<b>Amount at 31/12/2010</b>	<b>46,868</b>	<b>31,501</b>	<b>0</b>	<b>78,370</b>
Depreciation of the year	3,528	2,591	-	6,119
Closure of fund for disposals	426	589	-	1,015
Change in consolidation area	3,092	554	-	3,646
Exchange rate gains(losses), reclassifications and other changes	374	66	-	440
<b>Amount at 31/12/2011</b>	<b>53,437</b>	<b>34,123</b>	<b>0</b>	<b>87,561</b>
<b>NET CARRYING AMOUNT</b>				
<b>Amount at 31/12/2010</b>	<b>48,266</b>	<b>6,164</b>	<b>1,405</b>	<b>55,834</b>
<b>Amount at 31/12/2011</b>	<b>55,307</b>	<b>7,231</b>	<b>1,115</b>	<b>63,652</b>

Investments in the reference period amounted to € 5,247 thousand. In addition to the amount relating to ordinary replacement of equipment required for normal manufacturing activity, the investments relating to acquisition, construction, completion or renovation of the sites shown below should be noted:

- purchase of a new building in the municipality of Codogné (TV) for the Wood Division's commercial operating office in Northern Italy (€ 1,015 thousand);
- purchase of machine tools for the mechanical shop of Pesaro (€ 984 thousand);
- upgrading of the plants of manufacturing facilities in Pesaro (€ 597 thousand);
- expansion of the manufacturing facilities of the subsidiary Biesse Manufacturing Co. Pvt. Ltd. (€ 403 thousand), necessary to meet the increase in production volumes, as outlined in the 2011-2013 three-year plan.

The write-downs of assets under construction and prepayments entirely refer to design costs for the construction of the American branch's new office. For further details, please refer to the directors' report. As for the change related to the consolidation of the Centre Gain group, property, plant and equipment increased by € 10,077 thousand (historical cost of € 13,722 thousand net of accumulated depreciation of € 3,645 thousand).

It should be noted that the amounts in the financial statements include assets acquired through finance lease contracts for a net carrying amount of € 11,594 thousand (€ 12,040 thousand at the end of 2010), depreciated during the year for € 766 thousand (€ 1,084 thousand at the end of 2010); in particular the net carrying amount refers to land and industrial buildings of € 11,170 thousand (€ 11,132 thousand at the end of 2010), equipment for € 422 thousand (€ 821 thousand at the end of 2010) and office equipment for € 2 thousand (€ 86 thousand at the end of 2010).

The item Property, plant and equipment includes land, not subject to depreciation, with a value of € 7,576 thousand (€ 6,421 thousand at the end of the previous year).

Besides the balance to be paid related to the purchase of the building in Codogné (€ 849 thousand), there were no outstanding commitments to acquire assets of significant value at 31 December 2011.

There are no mortgages on land and buildings.

## 18. goodwill

Goodwill is allocated to cash-generating units ("CGU") identified on the basis of the Group's business segments. To this end, in order to define its own CGUs in compliance with the provisions of the accounting principles, it is essential first to identify the operating segments as determined by the management of the Biesse Group, and then to define the cash-generating units. Therefore, in particular, it should be noted that management, in line with the provisions of IFRS 8, identified the following business segments:

1. Wood – production and distribution of woodworking machines and systems;
2. Glass & Stone – production and distribution of glass and marble processing machines and systems;
3. Mechatronics – production and distribution of mechanical and electronic components for industry;
4. Tooling – production and distribution of glass and marble processing tools for all the machines present on the market;
5. Components – production and distribution of other components related to additional precision processes.

It must be said that in 2011 internal reporting changed slightly on the basis of the guidelines provided by the new management, leading to the break up the Service segment and the transfer of its functions to the Wood and Glass & Stone segments. This adjustment is consistent with the way the business is managed, which requires the world of production and that of installation and after-sales service to be tightly integrated. The strategy of expansion in the plant manufacturing segment requires these phases of the process to be closely related, given the importance assumed by the setting up and running of machines. Consequently, goodwill attributed to the CGUs (which correspond to the business segments) was updated, by allocating the goodwill of the Service segment for 2011 to the Wood CGU for € 1,713 thousand and to the Glass & Stone CGU for € 706 thousand.

The following table illustrates the allocation of goodwill by segment:

€ '000	31 December 2011	31 December 2010
Mechatronics	5,599	5,599
Wood	6,305	6,101
Tooling	3,940	3,940
Glass & Marble	2,202	2,281
<b>TOTAL</b>	<b>18,046</b>	<b>17,921</b>

The end-year balance shows an increase of € 125 thousand due to exchange rate changes.

In accordance with the accounting principles, The Group tests the recoverability of goodwill at least once a year or more frequently if there are indications of impairment. The recoverable value of the CGU is tested by calculating the value in use. In the discounted cash flow model, a terminal value is entered at the end of the cash flow forecast period to reflect the residual value each CGU is expected to generate. The terminal value represents the present value for the last forecast year of all future cash flows in perpetuity. The growth rate of the terminal value is a key parameter in determining the terminal value itself, as it represents the annual growth rate of all future cash flows in perpetuity. It is calculated based on the cash flow for the last forecast year, provided no measures to normalise cash flows are taken, by discounting that cash flow by the discount rate. In calculating value in use, it is assumed that the growth rate is equal to the inflation rate.

The main assumptions used relate to the discount rate, the growth rate and the expected changes in selling prices and trends in direct costs during the time horizon assumed for the calculation. The Group's management has therefore adopted a discount rate gross of tax that reflects the correct market value of the cost of money and the specific risk. The growth rates adopted are based on growth forecasts for the relevant industrial sector. Changes in selling prices and direct costs are based on past experience and future market expectations.

The operating cash flows derive from the three-year Business Plan approved by the Board of Directors on 10 February 2012, while the cash flows for the residual period are inferred on the basis of a medium/long-term industry growth rate of 1.5%. The discount rate used to discount the cash flows is 8.63% (in the 2010 annual report it was 8.40%).

Based on the projects and initiatives set out in the above business plan, the following Group results are expected within the next three years: higher consolidated revenue (CAGR: 6.2%)

- higher added value (CAGR: 13.1%, accounting for more than 42% of revenue in 2014)
- recovering operating profits
  - (Gross operating profit(loss): CAGR 49.0%, accounting for more than 14% of revenue in 2014)
  - (Operating profit(loss): CAGR 124.3%, accounting for more than 10% of revenue in 2014)
- increasing cash flow net of planned investments, and positive net financial position in 2014 (overall free cashflow over the three-year period: € 95 to € 100 million).

The analysis of the recoverability of the CGUs' goodwill and values in use do not indicate any reason to recognise impairment losses, as the fair value of the cash-generating units calculated in this way is significantly higher than their carrying amount. In addition, management analysed the model's sensitivity with reference both to the discount rate used in the model (reducing and increasing it by 1%) and the assumptions of the Plan (by assuming that the objectives in terms of sales volumes are not fully achieved). Finally, given the changes made to the reporting model and the re-allocation of goodwill to the new cash-generating units, the comparable data for 2010 were analysed ex-post, ensuring that the cash flows projected in the previous business plan were sufficient to recover the restated value of the CGUs; the analysis did not show any sign of criticality.

The analysis of the existence of external indicators of impairment for the Group's assets shows that there is no need for concern at the present time. In particular, the two main causes of the Group's remarkably negative 2009 performance (economic crisis combined with a financial crisis) have been substantially overcome, given



the trend reversal, especially in order intake, that began in 2010 and continued in 2011.

Finally, it should be noted that the estimates and budget figures to which the aforementioned parameters apply are calculated by the Group's management on the basis of past experience and expectations about the trend in the markets in which the Group operates. Therefore, management uses its discretion and makes estimates in calculating the recoverable value of the cash-generating units. The Group cannot guarantee that goodwill will not be subject to impairment in future periods. Indeed, various factors relating to the evolution of the difficult market conditions could require goodwill to be revalued. The Group will continue to monitor the circumstances and the events that could require further impairment testing.

It should be noted that the reallocation of goodwill to the CGUs and the related impairment tests were specifically approved by the Group's Board of Directors at today's meeting (15 March 2012).

## 19. other intangible assets

	Development expense	Licences, brands and other intangible assets	Assets under development and prepayments	Total
<b>HISTORICAL COST</b>				
Amount at 01/01/2010	23,238	12,415	8,690	44,343
Increase	-	1,559	6,663	8,222
Disposals	-	97	-	97
Exchange rate gains(losses), reclassifications and other changes	232	750	(6,334)	(5,352)
<b>Amount at 31/12/2010</b>	<b>23,470</b>	<b>14,627</b>	<b>9,019</b>	<b>47,116</b>
Increase	201	1,010	9,778	10,989
Disposals	-	3	106	109
Exchange rate gains(losses), reclassifications and other changes	1,917	957	(7,379)	(4,505)
<b>Amount at 31/12/2011</b>	<b>25,588</b>	<b>16,591</b>	<b>11,312</b>	<b>53,491</b>
<b>ACCUMULATED AMORTISATION</b>				
Amount at 01/01/2010	14,060	5,123	-	19,183
Depreciation of the year	4,028	1,895	-	5,923
Closure of fund for disposals	-	35	-	35
Exchange rate gains(losses), reclassifications and other changes	(5,517)	(363)	-	(5,880)
<b>Amount at 31/12/2010</b>	<b>12,571</b>	<b>6,620</b>	<b>-</b>	<b>19,191</b>
Depreciation of the year	4,921	2,056	-	6,977
Closure of fund for disposals	-	-	-	-
Exchange rate gains(losses), reclassifications and other changes	(3,873)	(369)	-	(4,242)
<b>Amount at 31/12/2011</b>	<b>13,619</b>	<b>8,307</b>	<b>-</b>	<b>21,926</b>
<b>Impairment losses</b>				
Amount at 31/12/2010	-	1,566	-	1,566
Exchange rate gains(losses), reclassifications and other changes	-	18	-	18
<b>Amount at 31/12/2011</b>	<b>-</b>	<b>1,584</b>	<b>-</b>	<b>1,584</b>
<b>NET CARRYING AMOUNT</b>				
<b>Amount at 31/12/2010</b>	<b>10,899</b>	<b>6,441</b>	<b>9,020</b>	<b>26,360</b>
<b>Amount at 31/12/2011</b>	<b>11,970</b>	<b>6,703</b>	<b>11,309</b>	<b>29,981</b>

The intangible assets illustrated above have a finite useful life and are amortised accordingly. Development expense refers to products on which economic returns are expected over an average period of five years.

Patents, trademarks and other rights are amortised in relation to their useful life, which is estimated to be five years on average.

The increase in the item assets under development and prepayments is largely due to the capitalisation of costs for the development of products which are nearly completed and expected to generate an economic return in the coming years. In the reference period, planned projects required new investments of € 7,909 thousand, made mainly by the parent Biesse S.p.A. and the subsidiary HSD S.p.A. (€ 5,937 thousand in 2010). Furthermore, the Group invested € 2,053 thousand on implementing the new Oracle ERP system.

Development expense during the year resulted in amortisation of € 4,921 thousand.

## 20. other non-current financial assets and receivables

The details of this item are as follows:

€ '000	31 December 2011	31 December 2010
Non-controlling interests in other businesses and consortia	28	26
Other receivables / Guarantee deposits - non-current portion	1,111	712
<b>TOTAL</b>	<b>1,140</b>	<b>738</b>

## 21. Inventories

€ '000	31 December 2011	31 December 2010
Raw materials, consumables and supplier	33,564	33,318
Work in progress and semi-finished goods	9,982	6,329
Finished goods	29,142	26,940
Spare parts	15,771	14,738
<b>INVENTORIES</b>	<b>88,459</b>	<b>81,326</b>

The carrying amount is net of the allowance for inventory write-down equal to € 2,217 thousand for raw materials (€ 1,889 thousand at end-2010), € 2,870 thousand for spare parts (€ 2,820 thousand at end-2010) and € 2,442 thousand (€ 1,610 thousand at end-2010) for finished goods. The allowance for inventory write-down of raw materials represents 6.2% of the historical cost of the related inventories (5.4% at the end of 2010), while spare parts account for 15.4% (16.1% at the end of 2010) and finished products for 7.7% (5.6% at the end of 2010).

As for the allowance for write-down of raw materials, the increase in absolute value and relative to the historical cost is related to the renewal of the product range, which showed the existence of several articles no longer usable for future productions. This physiological and cyclical phenomenon - as it relates to marketing strategies to launch new products - led to an increase in the estimate of the future cost due to the scrapping of codes not used in the normal operating cycle.

The allowance for write-down of spare parts shows no substantial change compared to 2010 in absolute value, but it decreased as a percentage of historical costs. This phenomenon is largely related to the strategy of combining spare parts inventories into a few regional hubs, reducing and optimising the amount of items in stock without compromising the Group's ability to meet customer requirements.

The allowance for write-down of finished products increases both in absolute value and relative to historical costs. In this regard, it should be noted that the amount is related to the measurement of used equipment, obtained from clients following specific trade negotiations; the amount of this allowance depends therefore on the general market trend (especially in order intake), rather than on technical-production factors.

The change in the scope of consolidation (related to the consolidation of the Biesse Hong Kong group) caused inventories to rise by € 7,141 thousand (€ 2,300 thousand for raw materials, € 3,418 thousand for semi-finished products and € 1,423 thousand for finished products). Eliminating this effect from the gross change (equal to € 7,134 thousand), the Group's inventories remain substantially unchanged compared to the previous financial year. In particular, inventories of raw materials (- € 1,403 thousand) and semi-finished products (- € 62 thousand) decreased, whereas inventories of finished products and spare parts increased by € 469 thousand and € 974 thousand, respectively.

As is typical for the Group's reference sector, demand is concentrated in the last quarter of the financial year, whereas production is evenly distributed throughout the entire financial year. This determines a seasonal trend in inventories, with higher values during the financial year that tend to normalise in late December; compared with September 2011, net of the change in the scope of consolidation, inventories fell by € 13,470 thousand. Nonetheless, the item remains important, since it is related to the order trend that, as already said in the directors' report, is still positive (+16% compared to 2010).

## 22. trade receivables from third parties

€ '000	31 December 2011	31 December 2010
Trade receivables within 12 months	110,240	91,924
Trade receivables beyond 12 months	8,214	4,634
Allowance for impairment	(6,261)	(6,193)
<b>TRADE RECEIVABLES FROM THIRD PARTIES</b>	<b>112,193</b>	<b>90,365</b>

Management believes that the carrying amount of trade receivables reflects their fair value.

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.

The changes in the allowance are summarised in the following table:

€ '000	31 December 2011	31 December 2010
Opening balance	6,193	7,183
Accrual for the year	852	784
Utilised	(742)	(1,792)
Derecognition of excess allowance	(41)	(49)
Exchange rate gains	4	62
Discounting	(5)	4
<b>CLOSING BALANCE</b>	<b>6,261</b>	<b>6,193</b>

The accruals to the allowance for impairment are made on the basis of impairment losses on individual overdue loans and aggregate impairment losses calculated in statistical terms based on historical data. The amount of the accruals is calculated on the basis of the present value of estimated recoverable amounts, accounting for the related recovery expenses, if any, and the fair value of the collateral given to the Group, if any.

Trade receivables include receivables written down individually for a net value of € 2,678 thousand, following impairment losses of € 6,261 thousand (net receivables of € 3,364 thousand following specific impairment losses of € 5,028 thousand at 31 December 2010). Impairment losses recognised in the income statement are mainly carried out indirectly through accruals to the allowance for impairment.

Specific writedowns arise mainly from the measurement of receivables which are the subject of specific legal disputes, and they are generally supported by the relevant legal advice.

It should be noted that there are overdue loans due from customers, but no impairment losses were recognised on them, neither directly nor indirectly, through the allowance for impairment. Maturity details for these positions are as follows:

€ '000	31 December 2011	31 December 2010
Overdue by 1 to 30 days	7,777	4,820
Overdue by 30 to 180 days	7,998	5,578
<b>TOTAL</b>	<b>15,775</b>	<b>10,398</b>

The ageing of receivables that are overdue but not impaired is less than 180 days; impairment losses have not been recognised on these receivables because of the characteristics of the underlying sales, which mainly concern plants or complete production lines for which delays in payment are usual and do not give rise to an actual risk of non-performance.

The change in the scope of consolidation (related to the consolidation of the Biesse Hong Kong group) caused receivables to rise by € 1,762 thousand. Net of this change, trade receivables rose by € 20,066 thousand, of which € 507 thousand attributable to exchange rate fluctuations. The increase is due to the sales performance that, as mentioned in the previous note, is particularly concentrated in the last quarter of the financial year, causing a corresponding increase in receivables. Analysing the growth of trade receivables and the decrease in inventories, it is clear that the change is largely due to the sale of unsold finished products, made in prior years but delivered in the last quarter according to existing trade agreements with end customers.

As at 31 December 2011, there are no receivables given as collateral in favour of third parties and banks.

## 23. other current assets

Other current assets are detailed as follows:

€ '000	31 December 2011	31 December 2010
Consumption tax receivables and other tax receivables	8,445	9,591
Income tax assets	579	1,035
Other receivables from related companies	656	574
Other receivables from third parties	4,561	3,690
	<b>14,241</b>	<b>14,891</b>

Other current assets consist largely of consumption tax receivables and other tax receivables, as well as of prepayments relating to income taxes.

The item Other receivables from related companies mainly relates to the receivable due to Biesse S.p.A. and Hsd S.p.A from the parent Bi.Fin. S.r.l. for the application to deduct 10% of IRAP from IRES taxes relating to 2005 (€ 574 thousand); in that year, the two companies participated in the national tax consolidation scheme with the parent Bi.Fin. S.r.l..

The item Other receivables from third parties consists of accrued income and prepaid expenses of € 654 thousand and other receivables of € 3,907 thousand. As for this last amount, one of the main items is the recognition of a receivable amounting to € 1,300 thousand due to the Canadian branch from a local insurance company. It arises from an outstanding legal dispute against a former employee and relating to a compensation conservatively calculated on the basis of the documentation provided and the testimony of lawyers involved in the case. Although there is no risk involved, given the insurance, and while the dispute seems all but certain to be settled in favour of the company, it was considered appropriate to disclose the contingent liability due to the counterparty and the corresponding receivable due from the insurance company.

## 24. cash and cash equivalents

This includes the liquidity held by the Group and bank deposits with maturities of less than three months. The carrying amount of these assets reflects their fair value.

## 25. share capital / treasury shares

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

At the date on which the financial statements were approved, the Group held 486,359 treasury shares with an average carrying amount of € 9.61 per share.

As previously described in the above note 16, these shares were purchased during 2008, as resolved by the Shareholders' Meeting on 21 January 2008. It should also be born in mind that on 12 May 2011 Biesse informed the market that its Share Buyback and Disposal Programme, whose launch had been announced on 12 November 2009 as the Shareholders' Meeting approved it, was coming to an end.

During the Programme's duration, there have been no purchases or disposals of Biesse ordinary shares. The Programme authorised by the Shareholders' Meeting (which established a maximum number of 2,253,045 buyable shares, which, added to those already held by Biesse, would have accounted for 10% of share capital) was not implemented due to the fact that no circumstances occurred that made it necessary, in the Company's opinion, to activate mechanisms to support the stock's liquidity and/or value. In addition to this, Biesse wanted to preserve its liquidity to support the management and maintenance of its core business and of its planned industrial projects.

Finally, it should be noted that, based on the resolution of the Shareholders' Meeting of 19 October 2010, the company's treasury shares may be used for the purposes of stock option plans, including stock grants or incentive and retention plans, reserved for the management, employees or consultants of the Group.

The same resolution authorised an incentive plan reserved for the top management of Biesse S.p.A. and the companies belonging to the Group involving stock grants and cash bonuses; the plan, called the "Retention Plan 2011 – 2013 of Biesse S.p.A." entitles the beneficiaries to cash bonuses and stock grants depending on the achievement of financial and economic objectives and the measurement of their personal performance. The number of treasury shares earmarked for the Retention Plan is 146,475 (26,794 at the end of 2010). The effect on the 2011 income statement is equal to € 251 thousand.

The following table summarises the data concerning treasury shares held at 31/12/2011.

	2011
Number of shares	486,359
Carrying amount (in Euro)	4,675,804
<b>PERCENTAGE OF SHARE CAPITAL</b>	<b>1.78%</b>

## 26. share capital reserves

The carrying amount, equal to € 36,202 thousand (unchanged compared with 2010), relates to the share premium reserve.

## 27. hedging and translation reserves

The breakdown was as follows:

€ '000	31 December 2011	31 December 2010
Reserve for translation of foreign currency financial statements	(1,184)	(403)
Reserve for gains (losses) on exchange rate cash flow hedges	(57)	(132)
<b>Total</b>	<b>(1,241)</b>	<b>(535)</b>

The reserve for translation of foreign currency financial statements, negative by € 1,184 thousand, includes the differences arising from the translation of the financial statements denominated in foreign currencies of countries that do not belong to the Euro zone (United States, Canada, Singapore, United Kingdom, Sweden, Switzerland, Australia, New Zealand, India, China, Indonesia and Hong Kong), up € 781 thousand from the previous year.

## 28. other reserves and non-controlling interests

### Retained earnings

The breakdown was as follows:

€ '000	31 December 2011	31 December 2010
Legal reserve	5,479	5,479
Extraordinary reserve	39,779	46,937
Reserve for treasury shares	4,676	4,676
Retained earnings	14,809	12,611
<b>OTHER RESERVES</b>	<b>64,743</b>	<b>69,703</b>

As shown in the statement of changes in equity, the item Other reserves (particularly the parent's extraordinary reserve and retained earnings) has changed to account for the loss recognised in 2010 (€ 5,392 thousand).

### Non-controlling interests

With regards to the changes in the equity of non-controlling interests, besides those relating to the loss reported in 2010 and in the foreign currency translation reserve, we highlight the increase in equity following the consolidation of the Biesse Hong Kong group and the change due to the variation in the controlling interest in Bre Ma. Brenna Macchine S.r.l.

## 29. dividends

Given the loss for 2011, the Board of Directors of the parent resolved to propose to the Shareholders' Meeting not to distribute any dividend for 2011.

## 30. overdrafts and bank loans

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

€ '000	31 December 2011	31 December 2010
Bank overdrafts and financing	19,579	25,714
Unsecured mortgages	25,821	7,821
<b>Current liabilities</b>	<b>45,400</b>	<b>33,535</b>
Loans	2,164	-
Mortgages without guarantees	23,060	5,826
Derivatives	22	157
<b>Non-current liabilities</b>	<b>25,245</b>	<b>5,983</b>
<b>Total</b>	<b>70,646</b>	<b>39,518</b>

These liabilities are payable as follows:

€ '000	31 December 2011	31 December 2010
On demand or within one year	45,400	33,535
Within two years	23,723	4,316
Within three years	334	355
Within four years	271	358
Within five years	305	301
After five years	614	653
	70,646	39,518

### ANALYSIS OF BANK DEBT BY CURRENCY

€ '000	31 December 2011	31 December 2010
Euro	64,508	33,563
Indian Rupee	23	3,178
US Dollar	-	1,497
Swiss Franc	1,382	1,280
Chinese Renmimbi Yuan	2,290	-
Hong Kong Dollar	2,424	-
	70,626	39,518

For 2011, the average interest rate on loans is 2.73%.

At 31 December 2011, the amount of unused credit lines was about € 50 million.

Compared with the financial statements as at and for the year ended 31 December 2011, the Group's financial liabilities increased by € 28,896 thousand; the amount due within 12 months is € 45,400 thousand, up by € 11,865 thousand, whereas the amount due after 12 months is € 25,247 thousand, up by € 19,264 thousand. Medium/long-term indebtedness as a percentage of overall indebtedness increased from 20% to 36%. For the purposes of correctly analysing the change, it should be noted that the acquisition of the Centre Gain Group caused indebtedness to rise by € 7,123 thousand, of which € 4,005 thousand for taking on the debt of the Chinese Group and € 3,118 thousand for the payment of the first two advance payments under the share purchase contract. Apart from that, the change in indebtedness is related to the need to finance the net working capital, which increased compared to the previous year due to the effects of the growth in size and the significant investments of the Group.

The current portion of financial liabilities consists of general-purpose loans, advances on invoices and disinvestment of bank bills, whereas the non-current portion consists of committed credit lines (18 months) without financial/equity covenants and that do not involve the Group's substantial property assets.

Please refer to the directors' report for more detail regarding the trend in the net financial position and the analysis of the cash flow statement.

## 31. net financial indebtedness

€ '000	31 December 2011	31 December 2010
Financial assets:	23,254	25,812
<i>Current financial asset</i>	650	-
Liquidity	22,604	25,812
Short-term finance lease payables	(464)	(2,217)
Short-term bank-loans and borrowings and loans and borrowings from other financial backers	(45,400)	(33,535)
<b>Short- Term net financial indebtedness</b>	<b>(22,610)</b>	<b>(9,940)</b>
Medium/Long-term lease payables	(2,519)	(2,998)
Medium/Long- term bank loans and borrowings	(25,245)	(5,983)
<b>Medium/Long -term net financial indebtedness</b>	<b>(27,765)</b>	<b>(8,981)</b>
<b>NET FINANCIAL INDEBTEDNESS</b>	<b>(50,375)</b>	<b>(18,921)</b>

At the end of December 2011, the Group's net indebtedness amounted to € 50.4 million (gearing = 0.42), deteriorating by €31.4 million compared with the previous year.

As already said in the directors' report, the change is mainly related to the net working capital trend, but it is also affected by the extraordinary transactions carried out during the year (acquisition of the Centre Gain group, Viet startup) and investments made in the Research and Development and IT areas.

## 32. finance lease payables

	31 December 2011	31 December 2010	31 December 2011	31 December 2010
	Minimum lease payments		Present value of minimum lease payments	
Due within one year	644	2,441	464	2,217
Due after one year but within five years	1,684	1,825	1,178	1,339
Due after the fifth year	1,485	1,888	1,341	1,659
	<b>3,813</b>	6,154	<b>2,983</b>	5,215
Charges deducted for future financial expense	(830)	(940)	N/A	N/A
	<b>2,983</b>	5,215	<b>2,983</b>	5,215
Loss: amount due within one year			(464)	(2,217)
Amount of debt due after 12 months			<b>2,519</b>	2,998

Finance lease payables mainly relate to buildings (and related plant and equipment) with minimum lease payments outstanding at 31 December 2011 equal to € 2,983 thousand at present value (of which € 464 thousand due within 12 months).

The reported figure refers mainly to two contracts relating to the acquisition of buildings: the first is a ten-year contract signed by Biesse S.p.A., with an outstanding debt of € 180 thousand, maturity at June 2012 and an average effective rate of 4.3%; the second is a 12-year contract signed by MC S.r.l. (now incorporated in HSD S.p.A.), with an outstanding debt of € 2,766 thousand, maturity at December 2019 and an average effective rate of 5.5%.

The interest rates are set at the date the contracts are signed and are subject to fluctuation, as they are tied to the trend in the cost of money. All existing leases are repayable through a constant payment plan, and their terms and conditions do not provide for any changes to the original plan.

All contracts are denominated in Euro.

The rights on the leased goods are given to the lessor as collateral for finance lease liabilities.

## 33. post-employment benefit

### Defined-contribution plans

As a result of the occupational pension reform, benefits accruing as from 1 January 2007, at the discretion of employees, will be assigned to occupational pension schemes or transferred by the company to the public treasury fund managed by INPS and, once the employees officially make their choice, will qualify as a defined-contribution plan (and therefore will no longer be subject to actuarial measurement).

Because of the aforementioned circumstances, total liabilities at year end amount to € 4,948 thousand

### Defined-benefit plans

The Biesse Group allocated € 10,544 thousand, this being the present value of post-employment benefit liabilities accrued at year end by the employees of the Italian companies of the Group, to the provision for post-employment benefits.

€ '000	31 December 2011	31 December 2010
Current service cost	21	27
Financial expense	221	190
	<b>242</b>	<b>217</b>

The costs for the year are included in personnel expense.

The change for the year relating to the present value of obligations for post-employment benefits are as follows:

€ '000	31 December 2011	31 December 2010
Opening liabilities	10,855	11,857
Current services	21	27
Financial expense	221	190
Benefits paid out	(974)	(1,219)
Change in consolidation area (Viet Italia S.r.l.)	354	-
<b>CLOSING LIABILITIES</b>	<b>10,544</b>	<b>10,855</b>

Assumptions used for the calculation:

€ '000	31 December 2011	31 December 2010
Discount rate used to determine the obligation	4.98%	4.66%
Inflation rate	1.50%	1.50%

### Average number of employees

The average number of employees in 2011 (including temporary staff) was 2,512 (2,332 in 2010).

### 34. deferred tax assets and liabilities

€ '000	31 December 2011	31 December 2010
Deferred tax assets	18,389	19,295
Deferred tax liabilities	(2,952)	(3,086)
<b>NET DEFERRED TAX ASSETS</b>	<b>15,437</b>	<b>16,210</b>

The following indicates the main items of deferred tax assets and liabilities.

€ '000	31 December 2011	31 December 2010
Accrual to provisions for risks and charges	5,149	4,690
Intercompany profits included in the amount of closing inventories	1,213	1,251
Recoverable tax losses	9,954	11,134
Other	2,072	2,220
<b>Deferred tax assets</b>	<b>18,389</b>	<b>19,295</b>
Accelerated Amortisation	1,327	1,248
Capitalised costs	39	91
Goods under finance lease	43	53
Other	1,541	1,694
<b>Deferred tax liabilities</b>	<b>2,952</b>	<b>3,086</b>
<b>NET DEFERRED TAX ASSETS</b>	<b>15,437</b>	<b>16,210</b>

At the reporting date, the Group had unused prior-year tax losses of about € 15.4 million (€ 13 million at the end of the previous year). These losses relate to subsidiaries and there are no reasonable grounds to expect a recovery of these amounts in the short term.

In addition to the deferred taxes recognised in the income statement for the year, deferred tax liabilities of € 22 thousand were recognised directly in equity (€ 47 thousand at the end of the previous year).

### 35. provisions for risks and charges

€ '000	Guarantees	Retirement of agents	Other	Total
<b>Amount at 31/12/2010</b>	<b>3,491</b>	<b>565</b>	<b>4,491</b>	<b>8,547</b>
Provisions	1,008	-	488	1,496
Derecognition of excess provisions	(62)	-	(206)	(268)
Utilised	-	-	(1,315)	(1,315)
Other changes	-	-	938	938
Exchange rate gains and other differences	8	-	32	40
<b>AMOUNT AT 31/12/2011</b>	<b>4,445</b>	<b>565</b>	<b>4,428</b>	<b>9,438</b>

The provision for guarantees reserve represents the Group management's best estimate of the obligations deriving from the 1-year guarantee on products sold by the Group. The provision derives from estimates based on past experience and on the analysis of the level of reliability of the marketed products.

The provisions for agent retirement refers to the liabilities connected to existing agency agreements.

The item "Other provisions" is composed of the following:

€ '000	Restructuring	Legal disputes	Tax disputes	Total
<b>Amount at 31/12/2010</b>	<b>760</b>	<b>3,201</b>	<b>530</b>	<b>4,491</b>
Provisions	32	362	94	488
Derecognition of excess provisions	-	(206)	-	(206)
Utilised	(700)	(598)	(17)	(1,315)
Other changes	-	938	-	938
Exchange rate gains and other differences	-	65	(33)	32
<b>AMOUNT AT 31/12/2011</b>	<b>92</b>	<b>3,762</b>	<b>574</b>	<b>4,428</b>

These provisions are split between:

	31 December 2011	31 December 2010
Current liabilities	7,848	7,853
Non-current liabilities	1,589	695
	<b>9,437</b>	<b>8,547</b>

The most significant changes relate to the "Other" category, and especially to provisions for legal disputes.

In this regard, the change called Other changes refers to the provision for contingent liabilities related to the acquisition of the Chinese Centre Gain group.

The provision for restructuring was used by Biesse S.p.A. for € 700 thousand. The balance of € 92 thousand refers to the extraordinary reorganisation of the Spanish branch.

The provisions for legal disputes relate to the amount regarding taxes and penalties due to local tax authorities considered at risk of legal defeat.

### 36. trade payables to third parties

The details of trade payables are as follows:

€ '000	31 December 2011	31 December 2010
Trade payables to suppliers	91,077	92,585
Deposits/prepayments for installation and testing costs	21,225	17,227
<b>TOTAL</b>	<b>112,302</b>	<b>109,812</b>

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

It should be noted that trade payables are payable within the subsequent period and it is believed that their carrying amount at the reporting date is equal to their fair value.

It should be noted that the item trade payables to third parties as at 31 December 2010 was changed following the reclassification of the supplier Semar S.r.l. among related parties (for € 936 thousand), in line

with the value as at 31 December 2011, for the purposes of correctly comparing the carrying amounts.

Trade payables to third parties refer primarily to payables to suppliers for the provision of materials delivered in the closing months of the year. It should be noted that trade payables are payable within the subsequent period and it is believed that their carrying amount at the reporting date is equal to their fair value.

As said in note 22, in the last quarter, most of the sales were made by drawing on inventories, while production remained stable. Therefore, despite the expansionary trend in revenue, and consequently in trade receivables, the trade payables, relating to the purchase of materials and services from third parties, did not increase compared to the previous year. Eliminating the effect of the change in the scope of consolidation (the Centre Gain group caused payables to increase by € 3,644) and of the foreign exchange rate differences (up by € 322 thousand), trade payables to third parties decreased by € 1,490 thousand. Trade payables to customers (for deposits received and/or installations invoiced but not yet completed) rise as a direct consequence of the increase in the order intake.

With regard to prepayments received from customers, it should be noted that in relation to specific cases the Group has issued guarantees in favour of the customers themselves: their duration is directly related to the time between the receipt of the advance payment and the delivery of the machinery. For further details, please refer to note 39.

## 37. other current and non-current liabilities

The details of other current liabilities is as follows:

€ '000	31 December 2011	31 December 2010
Tax liabilities	6,787	7,150
Social security liabilities	7,718	7,225
Other payables to employees	12,784	12,780
Other current liabilities	7,432	1,362
<b>TOTAL</b>	<b>34,721</b>	<b>28,518</b>

The item Other current liabilities mainly includes the liability of € 4,895 thousand related to the purchase of the Centre Gain group for the instalments falling due in the next 12 months (including the first one, of HKD 36,900,000, paid on 12 January 2012, and a second instalment of HKD 12,300,000 to be paid in September 2012). The item also includes the liability of € 373 thousand related to the purchase of the equity investment in Nuova Faos International Manufacturing Pvt. Ltd.

The details of other non-current liabilities are as follows:

€ '000	31 December 2011	31 December 2010
Other liabilities	2,501	-
<b>TOTAL</b>	<b>2,501</b>	<b>-</b>

The value of other liabilities refers almost entirely (€ 2,448 thousand) to the two instalments – with maturity of more than one year - for the purchase of the Centre Gain group. The two instalments, both amounting to HKD 12,300,000, will fall due in September 2013 and September 2014. The payment of the share purchase price is not subject to precedent conditions; moreover, Biesse Group has the right to withhold from the amounts to be paid any kind of liability - related to the previous management - which

may arise between the date of the change of ownership and the date of payment.

## 38. financial instruments – exchange rate derivatives

€ '000	31 December 2011		31 December 2010	
	Asset	Liability	Asset	Liability
Exchange rate derivatives	-	(649)	1	(1,005)
<b>TOTAL</b>	<b>-</b>	<b>(649)</b>	<b>1</b>	<b>(1,005)</b>

A proportion of exchange rate derivatives are related to orders received and therefore qualify as hedging instruments. The value of outstanding contracts at year-end is € 649 thousand and is split between hedging contracts (€ 298 thousand) and hedging contracts that do not meet the effectiveness requirements set out in IAS 39 (€ 329 thousand). The measurement of effective hedging contracts is recognised in accordance with the hedge accounting methodology, while the measurement of non-hedging contracts is recognised under foreign exchange expenses (please refer to note 4 for more details). With regard to the Cross Currency Swap taken out by Biesse Manufacturing Co. Pvt. Ltd. to hedge an intercompany loan agreement with the parent of 167,500,000 rupees (guaranteeing a forward exchange rate of 67 rupee/euro and an interest rate fixed at 11.5%), with maturity in June 2012, the measurement expense was included in other financial expense; the relevant fair value is negative by € 22 thousand.

### DERIVATIVE FINANCIAL INSTRUMENTS AND FORWARD CONTRACTS OUTSTANDING AT YEAR-END

€ '000	Nature of risk hedged	Notional amount		Fair value of derivatives	
		31 December 2011	31 December 2010	31 December 2011	31 December 2010
<b>CASH FLOW HEDGES</b>					
Forward contracts (Australian Dollar)	Currency	798	4,179	(38)	(342)
Forward contracts (US Dollar)	Currency	2,919	1,552	(218)	57
Forward contracts (Sterling)	Currency	371	691	(16)	24
Forward contracts (Swiss Franc)	Currency	197	168	(3)	(6)
Forward contracts (Canadian Dollar)	Currency	488	1,277	(23)	(9)
<b>Total</b>		<b>4,773</b>	<b>7,867</b>	<b>(298)</b>	<b>(276)</b>
<b>OTHER HEDGES</b>					
Forward contracts (Australian Dollar)	Currency	11,723	18,149	(149)	(578)
Forward contracts (US Dollar)	Currency	6,256	4,734	(138)	35
Forward contracts (Sterling)	Currency	4,741	2,457	(104)	76
Forward contracts (Swiss Franc)	Currency	913	1,432	(9)	(62)
Forward contracts (Canadian Dollar)	Currency	2,198	1,688	(94)	(21)
Forward contracts (New Zealand Dollar)	Currency	896	1,977	(4)	(22)
Forward contracts (Hong Kong Dollar)	Currency	3,671	-	169	-
CCS on mortgage (Indian Rupee)	Currency/interest rate	1,000	2,000	(22)	(157)
<b>Total</b>		<b>31,398</b>	<b>32,437</b>	<b>(351)</b>	<b>(729)</b>
<b>GRAND TOTAL</b>		<b>36,171</b>	<b>40,304</b>	<b>(649)</b>	<b>(1,005)</b>

## 39. commitments, contingent liabilities, guarantees and risk management

### Commitments

In relation to purchase commitments, it should be noted that the put option in favour of the non-controlling interest in Bre.Ma Brenna Macchine S.r.l. (granted with the contract to purchase the controlling interest signed in 2006) has lapsed, considering the new agreements between the parties. As said in note no.1, in October 2011, the Shareholders' Meeting approved the measures set forth in Article 2482 ter of the Italian Civil Code, zeroing the share capital, balancing the loss and re-establishing the share capital to € 70,000. On this occasion, the non-controlling shareholder carried out the aforesaid transactions limited to an amount equal to 2% of the share capital; Biesse S.p.A.: granted an irrevocable option to purchase 38% of the company's share capital. The exercise of the option cannot be fractioned and must be carried out no later than 31 December 2012.

At the reporting date, the measurement of the call option using the methodology provided for by IFRS, considering that the exercise price is lower than the fair value of the residual equity investment in Brema, did not require the recognition of a liability.

As for the subsidiary Biesse Manufacturing Co. Pvt. Ltd., at the end of the previous year, there were commitments related to the agreement for the supply of components with Nuova Faos International Manufacturing Pvt. Ltd. that included a call option in favour of Biesse Manufacturing on 100% of the share capital of the counterparty, exercisable in January 2012, and a put option in favour of the controlling shareholder, exercisable in the period from 31/01/2012 to 31/12/2012. On 1 January 2012, the counterparty exercised the put option and allowed Biesse to conduct a Due Diligence Assistance Review on the company. On 5 March 2012, a pre-agreement was signed, setting the consideration for transferring the entire equity investment at € 373 thousand. The consideration was included among other payables.

As for the contract to purchase the controlling interest in the Centre Gain group, the non-controlling interest was granted a put option for selling to the Biesse Group all the shares in its possession on the date the option is exercised. The option can be exercised after five years from the date the contract was signed. At the reporting date, the put option was measured and its exercise was considered possible but not probable.

As for the commitments related to the purchase of new property, plant and equipment, the parent Biesse S.p.A signed a contract to purchase a building, located in Codogné (TV), for the Wood Division's commercial operating office in Northern Italy. As at 31 December 2011, € 1,015 thousand was already paid in advance, and the outstanding balance due is € 849 thousand.

Finally, repurchase commitments amounting to € 1,333 thousand were signed in favour of lease companies, should the Group's customers not perform their obligations.

### Contingent liabilities

The parent and some subsidiaries are involved as parties to various lawsuits and disputes. It is nevertheless believed 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. Please refer to note 35 above for details of contingent liabilities relating to tax risks.

### Guarantees issued and received

The Group has issued guarantees totaling € 10,982 thousand. The most important components relate to the guarantee given for the corporate credit cards issued by Banca Popolare dell'Emilia Romagna (€ 1,600 thousand), a guarantee issued to the BNPP bank of Bangalore for the opening of credit lines in favour of the subsidiary Biesse Manufacturing PVT Co. Ltd (€ 3,202), the guarantee issued to the Municipality of Pesaro regarding urbanisation charges for a building (€ 1,030 thousand), guarantees issued to clients for

prepayments made (€ 3,845 thousand), and the sureties issued in favour of the subsidiaries Biesse Group Australia Pty Ltd. (€ 393 thousand) and Biesse manufacturing PVT Ltd (€ 1,674 thousand).

### Risk management

The Group is exposed to financial risk connected to its operations:

- market risks, consisting primarily of risks relating to fluctuations in exchange and interest rates;
- credit risk, relating particularly to trade receivables and, to a lesser degree, to other financial assets;
- liquidity risk, with reference to the availability of financial resources to offset the obligations related to financial liabilities.

With regard to the risk connected with the fluctuation in raw material prices, the Group tends to transfer their management and economic impact to its own suppliers by freezing purchase costs for periods of no less than six months. The impact of the main raw materials, steel in particular, on the average value of the Group's products is marginal relative to the final production cost.

### Currency risk

The risk relating to exchange rate variations is represented by the potential fluctuation in the Euro value of the currency position or net foreign currency exposure, i.e. the algebraic result of sales invoices issued, outstanding orders, purchasing invoices received, the balance of loans in foreign currency, and cash held in foreign currency. The risk management policy approved by the Board of Directors provides that the hedging amount must not fall below 70% of the net foreign currency exposure and that the underlying asset must be identified at the inception of any hedging transaction. Forward contracts (outright/currency swap) or also derivatives (currency option) can be used for hedging.

Currency risk is expressed mainly in the following currencies:

€ '000	Financial assets		Financial liabilities	
	31/12/2011	31/12/2010	31/12/2011	31/12/2010
US Dollar	8,849	11,086	3,173	2,894
Canadian Dollar	1,692	1,360	805	396
Sterling	2,745	1,864	30	93
Australian Dollar	12,505	12,222	195	28
Swiss Franc	2,511	2,789	1,467	1,444
New Zealand Dollar	1,048	1,014	6	0
Indian Rupee	8,615	4,504	5,784	2,224
Hong Kong Dollar	2,139	0	0	0
Chinese Renmimbi Yuan	682	1	3,873	656
Other currencies	240	116	363	164
<b>TOTAL</b>	<b>41,026</b>	<b>34,956</b>	<b>15,697</b>	<b>7,898</b>

There follows a sensitivity analysis illustrating the impact on the income statement of hypothetical movements of +15%/-15% in individual cross currencies. It should be noted that the impact on other equity reserves is not calculated, considering the nature of the assets and liabilities subject to currency risk.



€ '000	Impact on income statement	
	If exchange rate > 15%	If exchange rate < 15%
US Dollar	(740)	1,002
Canadian Dollar	(116)	157
Sterling	(354)	479
Australian Dollar	(1,606)	2,172
Swiss Franc	(136)	184
New Zealand Dollar	(136)	184
Indian Rupee	(369)	500
Hong Kong Dollar	(279)	378
Chinese Renmimbi Yuan	416	(563)
<b>TOTAL</b>	<b>(3,320)</b>	<b>4,491</b>

The Biesse Group uses only forward contracts and cross currency swaps as hedging instruments. Should the latter fail to meet the criteria for hedge accounting, they are classified as trading instruments. In considering the amount exposed to currency risk, the Group includes also the orders acquired denominated in foreign currencies in the period before they become trade receivables (dispatch-invoicing).

#### OUTRIGHT CONTRACTS OUTSTANDING AT 31/12/2011

	Nominal value	Average forward rate	Maximum duration
US Dollar	11,880	1.3477	June 2012
Canadian Dollar	3,550	1.3844	March 2012
Sterling	4,270	0.8571	May 2012
Australian Dollar	15,930	1.3059	May 2012
Swiss Franc	1,350	1.2263	June 2012
New Zealand Dollar	1,500	1.6940	April 2012
Hong Kong Dollar	36,900	10.5353	January 2012

#### OUTRIGHT CONTRACTS OUTSTANDING AT 31/12/2010

	Nominal value CU '000	Average forward rate	Maximum duration
US Dollar	8,400	1.3165	June 2011
Canadian Dollar	3,950	1.3474	May 2011
Sterling	2,710	0.8344	April 2011
Australian Dollar	29,330	1.3855	June 2011
Swiss Franc	2,000	1.3051	March 2011
New Zealand Dollar	3,400	1.7495	March 2011

There follows a sensitivity analysis illustrating the impact on the income statement of hypothetical movements of +15%/-15% in individual cross currencies:

€ '000	Impact on income statement	
	If exchange rate > 15%	If exchange rate < 15%
US Dollar	831	(1,987)
Canadian Dollar	228	(596)
Sterling	537	(1,032)
Australian Dollar	1,311	(2,531)
Swiss Franc	135	(206)
New Zealand Dollar	106	(169)
Hong Kong Dollar	310	(817)
<b>TOTAL</b>	<b>3,459</b>	<b>(7,338)</b>

#### Interest rate risk

The Group is exposed to fluctuations in interest rates with reference to financial expense relating to bank debt and due to lease companies for assets acquired under finance leases.

Interest rate risks derive primarily from short-term bank lending, given the continuing recourse to repurchase agreements. Given the current trend in interest rates, the company has decided not to hedge its own debt any further, as the trend in interest rates is expected to remain substantially stable.

The sensitivity analysis aimed at evaluating the potential impact of a hypothetical sudden and unfavourable 10% movement in short-term interest rates on financial instruments (typically liquidity and some financial liabilities) reveals no significant impact on the results or the equity of the Group.

#### Credit risk

Credit risk refers to Biesse Group's exposure to potential financial losses deriving from the failure of commercial and financial counterparties to perform their contractual obligations. The principal exposure is towards customers. The management of credit risk is constantly monitored with reference both to the reliability of clients and the control of cash flows and debt collection management. In the case of customers considered to be strategic, the credit limits attributed to them are defined and monitored. In other cases, the sale involves advance payments, lease-type payments and, in the case of foreign customers, letters of credit. In contracts relating to sales without adequate guarantees, the Group reserves property rights on the goods being sold until the purchase price is paid in full.

With reference to trade receivables, there are no identifiable risks of concentration, as no single customer accounts for more than 5% of sales.

The carrying amount of financial assets, expressed net of impairment losses for expected losses, represents the maximum exposure to credit risk.

For more information on how the allowance for impairment on receivables was determined and on the characteristics of overdue receivables, please refer to note 22 above on trade receivables.

#### Liquidity risk

Liquidity risk is the Group's risk connected with the difficulty in performing its obligations related to financial liabilities.

The following table illustrates the expected flows based on the maturities of financial liabilities other than derivatives. The flows are expressed at non-discounted contract value, including therefore both principal and interest. Loans and other financial liabilities are included on the basis of the earliest maturity date, and revocable financial liabilities were considered payable on demand ("worst case scenario").

31/12/2011						
€ '000	Less than 30 days	30-180 days	180 days-1 year	1-5 years	After 5 years	Total
Trade and other payables	31,137	102,759	5,762	892	8	<b>140,558</b>
Finance lease payables	7	401	204	1,617	1,485	<b>3,714</b>
Overdrafts and bank loans	17,664	18,137	10,717	24,809	622	<b>71,950</b>
<b>TOTAL</b>	<b>48,809</b>	<b>121,297</b>	<b>16,683</b>	<b>27,318</b>	<b>2,115</b>	<b>216,222</b>

31/12/2010						
€ '000	Less than 30 days	30-180 days	180 days-1 year	1-5 years	After 5 years	Total
Trade and other payables	25,039	101,953	4,413	479	0	<b>131,884</b>
Finance lease payables	7	1,216	1,227	1,840	1,888	<b>6,178</b>
Overdrafts and bank loans	19,282	7,488	7,005	5,429	665	<b>39,869</b>
<b>TOTAL</b>	<b>44,329</b>	<b>110,657</b>	<b>12,644</b>	<b>7,748</b>	<b>2,553</b>	<b>177,931</b>

The group monitors liquidity risk through the daily control of net flows in order to ensure financial resources are managed efficiently.

The amount of trade receivables and the conditions attached to them allow to balance the working capital and, in particular, cover payables due to suppliers.

The Group has recoverable cash credit lines outstanding provided by leading Italian banks totalling € 114 million – of which € 50 million remains unused.

### Classification of financial instruments

The following table illustrates the type of financial instruments recognised in the financial statements:

€ '000	31 December 2011	31 December 2010
<b>FINANCIAL ASSETS</b>		
Designated at fair value through profit or loss		
<i>Derivative financial assets</i>	-	1
Loans and receivables measured at amortised cost:		
<i>Trade receivables</i>	112,207	90,390
Other assets	5,674	4,361
- <i>other financial assets and non-current receivables</i>	1,111	712
- <i>other current assets</i>	4,563	3,649
Cash and cash equivalents	22,604	25,812
<b>FINANCIAL LIABILITIES</b>		
Designated at fair value through profit or loss		
Derivative financial liabilities	627	848
Measured at amortised cost :		
Trade payables	91,422	93,907
Bank loans and borrowing, finance lease and other financial liabilities	73,629	44,733
Other current liabilities	20,502	20,005

The carrying amount of the financial assets and liabilities described above is shown at fair value or approximate fair value.

## 40. operating lease contracts

### Contracts involving the Group as lessee

€ '000	31 December 2011	31 December 2010
Instalments paid during the year	<b>7,232</b>	6,394
<b>TOTAL</b>	<b>7,232</b>	<b>6,394</b>

At the reporting date, the amount of lease charges still owed by the Group for operating lease contracts is as follows:

€ '000	31 December 2011	31 December 2010
Within one year	3,792	4,337
Between one and five years	4,474	6,003
After five years	19	269
<b>TOTAL</b>	<b>8,285</b>	<b>10,609</b>

These contracts relate to the lease of buildings (for industrial or commercial use), motor vehicles and office equipment. The leases have an average term of three years and the instalments are constant throughout the same period of time.

### Contracts involving the Group as lessor

€ '000	31 December 2011	31 December 2010
Instalments received during the year	<b>150</b>	118
<b>TOTAL</b>	<b>150</b>	<b>118</b>

## 41. transactions not involving changes in cash flow

In 2011, there were no significant transactions not involving changes in cash flow.

## 42. acquisition of subsidiaries

On 6 October 2011, the Group purchased the Centre Gain group of Hong Kong. The transaction was completed by the special purpose vehicle Biesse Hong Kong Ltd., in which Biesse S.p.A. holds 70% of the share capital. The transaction was accounted for using the purchase method.

The Centre Gain group has been active since 2004 in the production and marketing of woodworking machinery, with a manufacturing unit located in Dongguan City – Guangdong Province – (Korex Machinery Ltd.). Korex operates from a 44,000 sqm plant and employs around 360 staff members.

The purchase cost of HKD 105 million (€ 10 million on the accounting date of the transaction), takes into account the definition of the agreed purchase price.

In the three months from September to December 2011, the Centre Gain group contributed to the income statement with revenue amounting to € 1,920 thousand and after-tax losses of € 45 thousand. If the acquisition had occurred at the beginning of 2011, it is estimated that total revenues of the Group would have totalled € 395,490 thousand. In determining this amount, it is assumed that adjustments to fair value at the acquisition date would have been the same, even if the transaction had occurred on 1 January 2011.

The balances of the group as at 1 October 2011 and the details of the acquisition are shown below:

€ '000	Consolidated Centre Gain 1-10-2011 (Local GAAP)	Effects of IFRS adjustments	A Fair value measurement of assets and liabilities	Amount adjusted
Net assets acquired				
Property, plant and equipment	10,077	-	-	10,077
Deferred tax assets	-	42	197	239
Inventories	9,455	(2,368)	-	7,087
Trade receivables	1,414	348	-	1,762
Other receivables	138	(82)	-	56
Cash and cash equivalents	383	-	-	383
Provisions for risks and charges	-	(35)	(938)	(973)
Trade payables	(4,818)	1,228	-	(3,590)
Other payables and liabilities	(156)	(345)	-	(501)
Financial payables	(4,547)	-	-	(4,547)
<b>TOTAL</b>	<b>11,946</b>	<b>(1,212)</b>	<b>(741)</b>	<b>9,993</b>
Part acquired (100%)				
				9,993
Purchase price				
				9,993
Composed by:				
Cash				2,974
Payables				7,014
				9,993
Net cash outflow for the purchase				
Cash payments				(2,979)
Cash and cash equivalents				383
				(2,596)

The amounts of the payments made and of payables refer to 31 December 2011.

The liability concerning provisions for risks and charges refers to contingent liabilities relating to tax and employment law matters.

With reference to this acquisition, the Biesse Group incurred legal and due diligence costs amounting to € 276 thousand and classified among other operating expense in the consolidated income statement.

### 43. atypical and unusual transactions

No operations of this nature were reported in 2011.

### 44. events after the reporting period

Please refer to the note in the Directors' report for details of events after the reporting period.

### 45. related party transactions

The Group is controlled directly by Bi.Fin. S.r.l. (operating in Italy) and indirectly by 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 consolidated financial statements and are not included in these notes. The details of transactions between the Group and other related entities are indicated below.

It should be noted that 2010 items were changed following the reclassification of Semar S.r.l. among related parties in line with 2011 values for the purposes of correctly comparing the carrying amounts. It should be noted that the Semar S.r.l. operates in the precision mechanics industry.

€ '000	2011 Expense	2010 Expense	2011 Revenues	2010 Revenues
<b>Parent</b>				
Bifin Srl	-	-	10	10
<b>Other related companies</b>				
Fincobi Srl	10	10	1	1
Semar Srl	1,930	1,021	3	3
<b>Members of the Board of Directors</b>				
Members of the Board of Directors	2,380	1,561	-	-
<b>Members of the Board of Statutory Auditors</b>				
Members of the Board of Statutory Auditors	168	96	0	-
<b>Other related party transactions</b>				
<b>TOTAL RELATED PARTY TRANSACTIONS</b>	<b>4,488</b>	<b>2,688</b>	<b>14</b>	<b>14</b>

€ '000	2011 Receivables	2010 Receivables	2011 Payables	2010 Payables
<b>Parent</b>				
Bifin Srl	587	586	-	-
<b>Other related companies</b>				
Edilriviera Srl	-	-		248
Semar Srl	2	-	630	937
<b>Members of the Board of Directors</b>				
Members of the Board of Directors	82	13	24	11
<b>Members of the Board of Statutory Auditors</b>				
Members of the Board of Statutory Auditors	-	-	168	113
<b>Other related party transactions</b>				
<b>TOTAL RELATED PARTY TRANSACTIONS</b>	<b>671</b>	<b>599</b>	<b>822</b>	<b>1,309</b>

The terms and conditions agreed with the above related parties are no different to those arm's length parties would agree.

The remuneration paid to directors is set by the remuneration committee on the basis of average market rates.

No relevant transactions were reported in relation to the parent Bi.Fin. S.r.l..

Other transactions with related parties have also been conducted under terms and conditions in line with those arm's length parties would agree.

Receivables will be paid in cash. No guarantee has been given or received.

#### REMUNERATION OF DIRECTORS, GENERAL MANAGERS, MANAGERS WITH STRATEGIC RESPONSIBILITIES AND MEMBERS OF THE BOARD OF STATUTORY AUDITORS

€ '000	POSITION			REMUNERATION			
	Fees	Non-monetary benefits	Bonuses and other incentives	Other			
Name	Position	Term of mandate					
Roberto Selci	Chairman of the Board of Directors	29-04-2012	553	7			
Giancarlo Selci	Managing Director	29-04-2012	375	1			
Giorgio Pitzurra	Managing Director	29-04-2012	400	24	364		
Alessandra Parpajola	Director	29-04-2012	263	1			
Leone Sibani	Director*	29-04-2012	30			6	
Giampaolo Garattoni	Director*	29-04-2012	20			3	
Salvatore Giordano	Director*	29-04-2012	20			2	
Stefano Porcellini	Director	29-04-2012	60	3	62	188	
The Directors with strategic responsibilities				10	196	354	
<b>TOTAL</b>			<b>1,721</b>	<b>46</b>	<b>622</b>	<b>553</b>	
Giovanni Ciurlo	Chairman of the Board of Statutory Auditors	29-04-2012	65				
Claudio Sanchioni	Statutory auditor	29-04-2012	41				
Cristina Amadori	Statutory auditor	29-04-2012	45				
Riccardo Pierpaoli	Statutory auditor	29-04-2012	17				
<b>TOTAL</b>			<b>168</b>				

\* Independent directors.

The managers of the main segments of the Group, i.e. Wood, Glass & Stone and Mechatronics, managed respectively by Luigi De Vito, Cesare Tinti and Fabrizio Perini, have been identified as Managers with strategic responsibilities. The remuneration received by the managers with strategic responsibilities, including salaries, non-cash benefits, bonuses and other remuneration (including those related to the "Retention Plan 2011 – 2013 of Biesse S.p.A".) amounts to € 560 thousand.

Pesaro, 15/03/2012

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

## APPENDIX 1

INCOME STATEMENT IN ACCORDANCE WITH CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006						
	2011	Of which with related parties	%	2010	Of which with related parties	%
Revenue	388,530	-	0.0%	327,522	-	0.0%
Other operating income	2,129	14	0.7%	4,316	14	0.3%
Change in the inventories of finished and semi-finished goods and work in progress	1,499	-	0.0%	5,897	-	0.0%
Raw materials and consumables	(172,781)	-	0.0%	(143,639)	-	0.0%
Personnel expense	(115,580)	(2,642)	2.3%	(107,683)	(1,008)	0.9%
Other operating expense	(81,379)	(1,846)	2.3%	(70,714)	(1,680)	2.4%
Depreciation and amortisation	(13,096)	-	0.0%	(12,454)	-	0.0%
Provisions	(2,254)	-	0.0%	(2,572)	-	0.0%
Provisions - non recurring	-	-	0.0%	(500)	-	0.0%
Impairment losses	-	-	0.0%	(68)	-	0.0%
<b>Operating profit</b>	<b>5,755</b>	<b>(4,474)</b>	<b>(77.7)%</b>	<b>106</b>	<b>(2,674)</b>	<b>(2,522.6)%</b>
Financial income	363	-	0.0%	316	-	0.0%
Financial expense	(2,756)	-	0.0%	(2,473)	-	0.0%
Exchange Rate Losses	(861)	-	-	(478)	-	-
<b>Pre-tax profit(loss)</b>	<b>2,500</b>	<b>(4,474)</b>	<b>(178.9)%</b>	<b>(2,529)</b>	<b>(2,674)</b>	<b>105.7%</b>
Income Taxes	(4,947)	-	0.0%	(3,211)	-	0.0%
<b>Loss for the year</b>	<b>(2,446)</b>	<b>(4,474)</b>	<b>182.9%</b>	<b>(5,741)</b>	<b>(2,674)</b>	<b>46.6%</b>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION IN ACCORDANCE WITH CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006						
	31 December 2011	Of which with related parties	%	31 December 2010	Of which with related parties	%
<b>ASSETS</b>						
<b>Non-current assets</b>						
Property, plant and equipment	55,307	-	0.0%	48,266	-	0.0%
Other items of property, plant and equipment	8,345	-	0.0%	7,569	-	0.0%
Goodwill	18,046	-	0.0%	17,921	-	0.0%
Other intangible assets	29,981	-	0.0%	26,360	-	0.0%
Deferred tax assets	18,389	-	0.0%	19,295	-	0.0%
Other financial assets and non-current receivables	1,140	-	0.0%	738	-	0.0%
	<b>131,208</b>	<b>-</b>	<b>0.0%</b>	<b>120,149</b>	<b>-</b>	<b>0.0%</b>
<b>Current assets</b>						
Inventories	88,459	-	0.0%	81,326	-	0.0%
Trade receivables	112,207	14	0.0%	90,390	25	0.0%
Other current assets	14,242	656	4.6%	14,890	574	3.9%
Derivatives	1	-	0.0%	1	-	0.0%
Cash and cash equivalents	23,254	-	0.0%	25,812	-	0.0%
	<b>238,162</b>	<b>671</b>	<b>0.3%</b>	<b>212,419</b>	<b>599</b>	<b>0.3%</b>
<b>TOTAL ASSETS</b>	<b>369,370</b>	<b>671</b>	<b>0.2%</b>	<b>332,568</b>	<b>599</b>	<b>0.2%</b>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION IN ACCORDANCE WITH CONSOB RESOLUTION NO. 15519 OF 27 JULY 2006**

	31 December 2011	Of which with related parties	%	31 December 2010	Of which with related parties	%
<b>EQUITY AND LIABILITIES</b>						
<b>SHARE CAPITAL AND RESERVES</b>						
Share capital	27,393	-	0.0%	27,393	-	0.0%
(Treasury shares)	(4,676)	-	0.0%	(4,676)	-	0.0%
Share capital reserves	36,202	-	0.0%	36,202	-	0.0%
Hedging and translation reserve	1,241	-	0.0%	(535)	-	0.0%
Other reserves	64,743	-	0.0%	69,703	-	0.0%
Losses of the year	(2,438)	-	0.0%	(5,392)	-	0.0%
Equity attributable to owners of the parent	119,983	-	0.0%	122,695	-	0.0%
Non-controlling interests	680	-	0.0%	220	-	0.0%
<b>TOTAL EQUITY</b>	<b>120,663</b>	<b>-</b>	<b>0.0%</b>	<b>122,914</b>	<b>-</b>	<b>0.0%</b>
<b>NON-CURRENT LIABILITIES</b>						
Post-employment benefits	10,544	-	0.0%	10,855	-	0.0%
Deferred tax liabilities	2,952	-	0.0%	3,086	-	0.0%
Medium and long-term bank loans and other borrowings	25,245	-	0.0%	5,826	-	0.0%
Finance lease payables	2,519	-	0.0%	2,998	-	0.0%
Provisions for risks and charges	1,589	-	0.0%	695	-	0.0%
Derivatives	-	-	0.0%	157	-	0.0%
Other payables	2,501	-	0.0%	0	-	0.0%
	<b>45,350</b>	<b>-</b>	<b>0.0%</b>	<b>23,616</b>	<b>-</b>	<b>0.0%</b>
<b>CURRENT LIABILITIES</b>						
Trade payables	113,134	821	0.7%	111,134	1,309	1.2%
Other current liabilities	34,721	1	0.0%	28,518	-	0.0%
Income taxes	1,171	-	0.0%	1,933	-	0.0%
Finance lease payables	464	-	0.0%	2,217	-	0.0%
Bank overdrafts and loans	45,400	-	0.0%	33,535	-	0.0%
Provisions for risks and charges	7,848	-	0.0%	7,853	-	0.0%
Derivatives	627	-	0.0%	848	-	0.0%
	<b>203,357</b>	<b>822</b>	<b>0.4%</b>	<b>186,038</b>	<b>1,309</b>	<b>0.7%</b>
<b>LIABILITIES</b>	<b>248,707</b>	<b>822</b>	<b>0.3%</b>	<b>209,654</b>	<b>1,309</b>	<b>0.6%</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>369,370</b>	<b>822</b>	<b>0.2%</b>	<b>332,568</b>	<b>1,309</b>	<b>0.4%</b>

**Certification of the Consolidated Financial Statements in accordance with art. 81-ter of Consob Resolution no. 11971 of 14 May 1999 as amended and supplemented**

1. The signatories Roberto Selci and Stefano Porcellini in their capacities as, respectively, Chairman and Managing Director and Manager in charge of financial reporting Biesse S.p.A., state, taking into account the provisions of art. 154-bis, paragraphs 3 and 4, of Decree Law no. 58 of 24 February 1998:

- the adequacy in relation to the characteristics of the business and
- the effective application of the administrative and accounting procedures for the preparation of the consolidated financial statements during 2011.

2. The administrative and accounting procedures for the preparation of the consolidated financial statements as at and for the year ended 31 December 2011 were defined, and their adequacy was assessed, on the basis of rules and methodologies defined by Biesse consistently with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, which represents a reference framework for internationally accepted internal control systems.

3. In addition, they state that the financial statements as at and for the year ended 31 December 2011: a) correspond to the results of the accounting ledgers and records; b) are prepared in conformity with the international financial reporting standards issued by the International Accounting Standards Board, adopted by the European Commission with the procedure provided for by art. 6 of Resolution (CE) no. 1606/2002 of the European Parliament and the Council of 19 July 2002 and pursuant to art 9 of Decree Law no. 38/2005; as far as the undersigned are aware, they provide a true and fair representation of the results, financial position and cash flows of the issuer and the consolidated companies.

The Directors' Report on operations includes a reliable analysis of the trend and the result for the year, as well as of the position of the issuer and the consolidated companies, together with the description of the main risks and uncertainties to which they are exposed.

Pesaro, 15 March 2012

*Chairman and Managing Director*  
**Roberto Selci**

*Chief Financial Officer*  
**Stefano Porcellini**



**KPMG S.p.A.**  
 Revisione e organizzazione contabile  
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**Biesse Group**  
 Report of the auditors  
 31 December 2011

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

**Report of the auditors in accordance with articles 14 and 16 of  
 Legislative decree no. 39 of 27 January 2010**

To the shareholders of  
 Biesse S.p.A.

- 1 We have audited the consolidated financial statements of the Biesse Group as at and for the year ended 31 December 2011, comprising the income statement, statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and notes thereto. The parent's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.  
 Reference should be made to the report dated 31 March 2011 for our opinion on the prior year consolidated financial statements, which included the corresponding figures presented for comparative purposes.
- 3 In our opinion, the consolidated financial statements of the Biesse Group as at and for the year ended 31 December 2011 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of the Biesse Group as at 31 December 2011, the results of its operations and its cash flows for the year then ended.
- 4 The directors of Biesse S.p.A. are responsible for the preparation of a directors' report on the financial statements and a report on the corporate governance and ownership structure, published in the *Investor relations* section, *Biesse Profile* subsection of Biesse S.p.A.'s website, in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and the information required by article 123-bis.1.c/d/l/m and article 123-bis.2.b of Legislative

decree no. 58/98 disclosed in the report on the corporate governance and ownership structure with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report and the information required by article 123-bis.1.c/d/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the report on the corporate governance and ownership structure are consistent with the consolidated financial statements of the Biesse Group as at and for the year ended 31 December 2011.

Ancona, 29 March 2012

KPMG S.p.A.

(signed on the original)

Luca Ferranti  
 Director

KPMG S.p.A. è una società con azioni di diritto italiano e fa parte del network KPMG di entità indipendenti affiliate a KPMG International Cooperative ("KPMG International"), entità di diritto svizzero.

Antonio Paolo Bassi Bergamo  
 Massimo Battista Bologna  
 Roberto Carlo Frenco Genova  
 Marco Antonio Rossi Milano  
 Roberto Francesco Pirella Perugia  
 Massimo Nicola Tassinari Torino  
 Franco Loris Viorini Venezia

Severino del Genio  
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