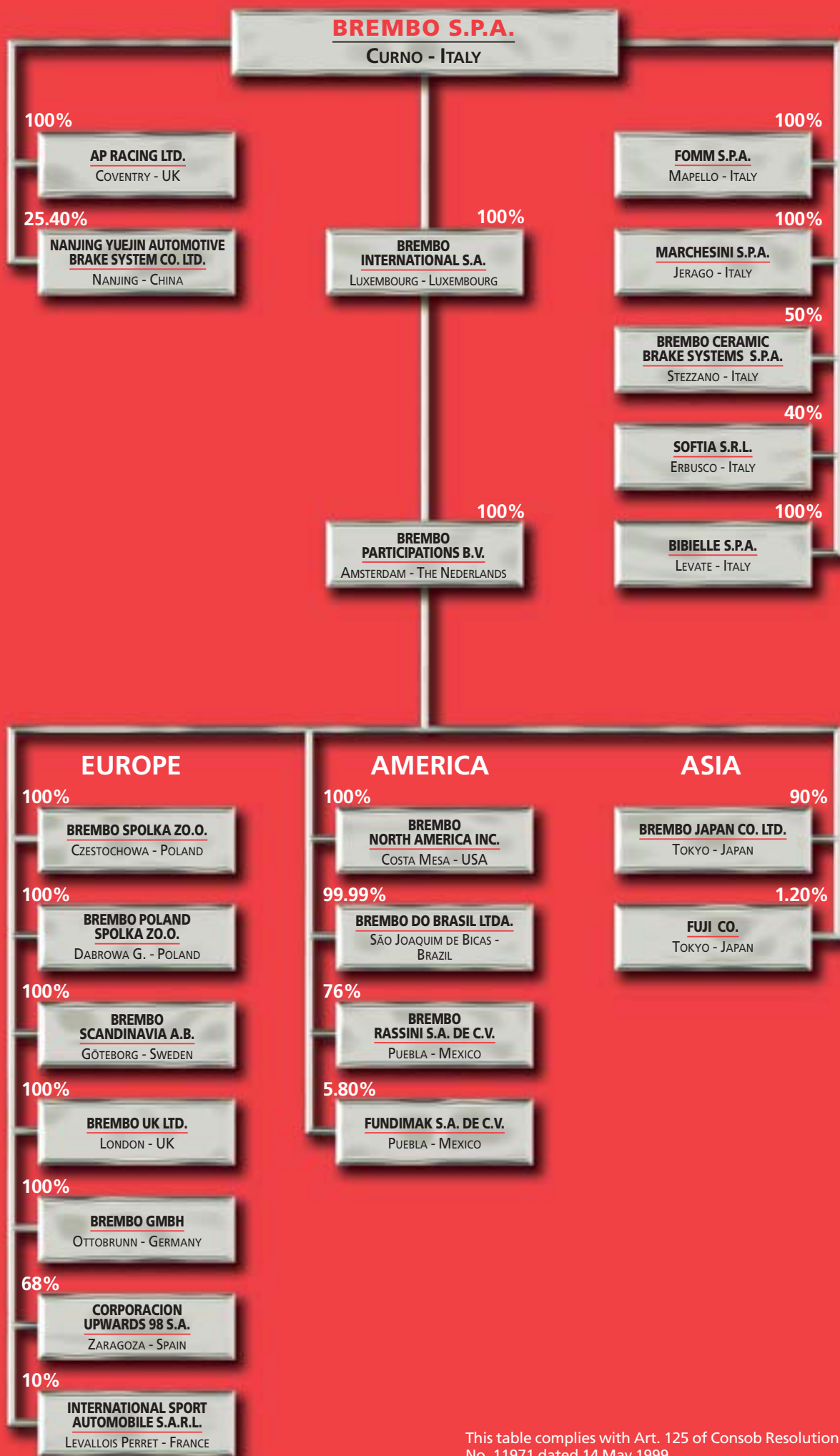




## Brembo Group structure

*The images in this Annual Report are dedicated to one of the fundamental forces driving Brembo: innovation. Not only must products and processes be innovative, but everything we do everyday requires a new and open approach, aimed at solving problems and ensuring constant improvement.*



This table complies with Art. 125 of Consob Resolution No. 11971 dated 14 May 1999.

**Brembo in the world**





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# Reports and Financial Statements 2004



# Call to Shareholders' Meeting

The shareholders are convened to the Ordinary and Extraordinary General Meetings to be held at company headquarters on **29 April 2005 at 11:00** (first call) or on **2 May 2005**, at the same place and time (second call), to resolve on the following

## Agenda

### Ordinary General Meeting

1. Presentation of the Financial Statements of Brembo S.p.A. for the year ended 31 December 2004, with the Directors' Report on Operations, the Report of the Board of Statutory Auditors and the Report of the Independent Auditors; ensuing resolutions.
2. Presentation of the Consolidated Financial Statements of the Brembo Group for the year ended 31 December 2004, with the Directors' Report on Operations, the Report of the Board of Statutory Auditors and the Report of the Independent Auditors.
3. Reappointment of company officers: Board of Directors and Board of Statutory Auditors for the three-year period. Resolutions as per Art. 2364, paragraph 1, (2) and (3), of the Italian Civil Code.
4. Resolutions regarding the purchase and sale of own shares.

### Extraordinary Meeting

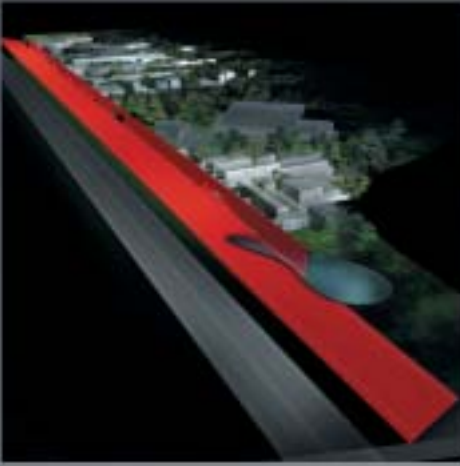
5. Proposal to reduce the share capital pursuant to Art. 2445 of the Italian Civil Code by cancelling own shares.

*To be eligible to participate in the Shareholders' Meeting, shareholders must submit the appropriate certification, to be requested from authorised brokers, as provided for by Consob Resolution 11768 dated 23 December 1998. In order to exercise their rights, any shareholders who hold ordinary shares that have not been dematerialised yet must present these shares in advance to an authorised broker so they can be entered into the centralised management system for dematerialisation, as provided for by Article 51 of Consob Resolution 11768 dated 23 December 1998, requesting that the above-mentioned certification be issued. It is further noted that, for the purposes of appointing the Board of Statutory Auditors, the Shareholders have the right to submit a list according to the procedures cited in Article 22 of By-laws. Said list must be submitted within 10 days from the date set for the first call of the Shareholders' Meeting.*

For the Board of Directors  
The Chairman  
*Alberto Bombassei*

The documentation concerning the items on the agenda was deposited at the registered office and at Borsa Italiana S.p.A within the terms and according to the procedures provided for by current regulations. Shareholders have the right to request a copy.





*For Brembo, innovation encompasses the entire company.*

*It is not only innovation of process and product, but also of organisation, logistics, finance, and marketing...*

# Reports and Financial Statements





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## Letter from the Chairman

*Dear Shareholders,*

The global economy expanded in 2004, led by the United States, China and the emerging countries of Asia, eastern Europe, and Latin America, while "old" Europe as a whole struggled to keep pace.

Among the European countries, Italy and Germany put in the most disappointing economic performances, with GDP growth rates well below the average. The euro's sharp appreciation, as well as the sharp rise in oil and raw materials prices, put a cap on the potential for an economic rebound in Europe, making eurozone exports less competitive.

Looking ahead to 2005, the research departments of the main international economic organisations forecast that the pace of global economic growth will slow and, in view of Europe's high dependence on exports, this could have a negative impact on business confidence, with possible fallout for investment and employment.

In recent years, the market served by the company, the automotive market, has become increasingly competitive and global, as productive capacity is being relocated to the emerging countries – India, China, South Korea, Thailand, Mexico, Brazil – attracted not only by the general incentives offered by the governments of these countries for new industrial initiatives and lower labour costs, but also because these same countries also

act as the new sales markets. All this is occurring at the expense of the more developed countries – Europe, the United States, and Japan – where, in contrast, productive capacity is on the decline and markets are stagnating.

Worldwide sales of motor vehicles recorded modest growth in 2004, in the neighbourhood of 3.6%, with peaks near 30% in Brazil and Argentina and 15% in China, while in western Europe and the United States growth was quite limited, around 3% and 1.6%, respectively. The pace in Europe was led by commercial and industrial vehicles, another important sales market for our products, with growth rates in 2004 ranging from 5% to 8.7% in the various segments. Registrations of motorcycles, especially in the high-powered segment, another major sales market for Brembo products, showed signs of a recovery in Europe and the United States, two of the three most important markets for our company, while in Japan they contracted noticeably.

In this context, certainly not easy for European industry in part because of euro/dollar exchange rate tensions and the sharp increase in raw materials price compared to the previous year as mentioned, Brembo ended 2004 with a 7% increase in



revenues and a 17.2% rise in net income, including more than €85 million in investment, up 60.1% on the previous year and reaching its highest level in four years, corresponding to 12.6% of sales.

These results were possible because for years now Brembo has been active in the emerging markets with manufacturing and marketing initiatives in countries like China, Brazil, and Mexico.

At the same time, in Europe the company has begun implementing a major manufacturing and logistics streamlining programme aimed at further improving its competitiveness. Among other things, the programme calls for the adoption of an advanced organisational model in all brake disc manufacturing plants, integrating a single location for foundry, finishing, storage, packing, and shipping, leading to new gains in efficiency and cost savings. In Spain, manufacturing operations have been concentrated in the new plant at Saragossa, while in Poland the company has started up construction of a cast-iron foundry plant to feed nearby finishing lines. In Italy, manufacturing operations will be concentrated in two centres, Curno and Mapello (province of Bergamo), the latter designed to be the major centre of manufacturing excellence for Brembo in terms of efficiency, technology, quality,

product mix, logistics, labour organisation, and human resources involvement.

Meanwhile the “core” of Brembo research, focusing on the design and development of new concepts, products, technologies and materials, will be concentrated in Stezzano (Bergamo), within the Science and Technology Park known as “Kilometro Rosso”, which already today is among the most advanced research centres in our industry at international level.

Brembo employs almost 10% of its 4000 employees in research and for many years now has invested 6.5% of its revenues – around €40 million in 2004 – a very high percentage among auto parts companies. Brembo strongly believes in research and innovation, both in terms of products and processes, as key factors in maintaining the levels of industrial excellence on which the company has built, and intends to keep on building, its success.

The Chairman  
*Alberto Bombassei*

## Company Officers

The Ordinary Shareholders' Meeting of the Parent Company Brembo S.p.A. held on 26 April 2004 passed a resolution to confer the audit mandate for the 2004, 2005, and 2006 financial statements to the independent auditors PricewaterhouseCoopers S.p.A.

### Board of Directors

*Chairman*

Alberto Bombassei <sup>(1)</sup>

*Directors*

Paolo Biancardi <sup>(3)</sup>

Cristina Bombassei <sup>(4)</sup>

Giancarlo Dallera <sup>(3)</sup>

Giovanna Dossena <sup>(3)</sup>

Andrea Gibellini <sup>(3)</sup>

Stefano Monetini <sup>(2)</sup>

Umberto Nicodano <sup>(3)</sup>

Giuseppe Roma <sup>(3)</sup>

Alberto Tazartes <sup>(3)</sup>

Matteo Tiraboschi <sup>(4)</sup>

### Board of Statutory Auditors

*Chairman*

Sergio Mazzoleni

*Auditors*

Enrico Cervellera

Andrea Puppo

*Alternate Auditors*

Mario Tagliaferri

Giuseppe Marangi

### Independent Auditors

PricewaterhouseCoopers S.p.A.

### Committees

**Audit Committee**

*Chairman*

Giuseppe Roma

Giovanna Dossena

Andrea Gibellini

**Remuneration Committee**

Paolo Biancardi

Giancarlo Dallera

Umberto Nicodano

**Supervisory Committee**

*Chairman*

Giovanna Dossena

Giuseppe Roma

Umberto Simonelli

<sup>(1)</sup> The Chairman, in his capacity as Managing Director, has powers of ordinary or special management, within the limits of the law and the By-laws. He also holds the position of Deputy Chairman in some of the Group companies

<sup>(2)</sup> This Director has certain powers of ordinary management in Brembo S.p.A. He also holds the position of Chairman and Director in some of the Group companies.

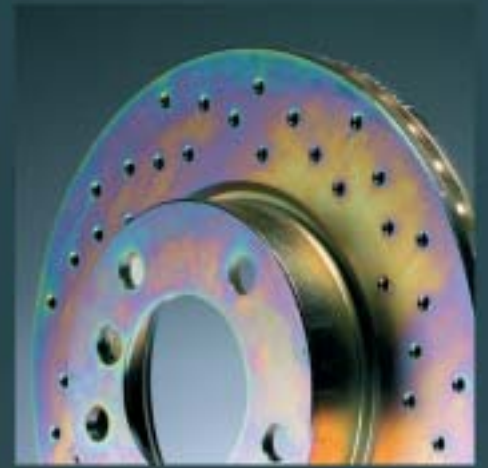
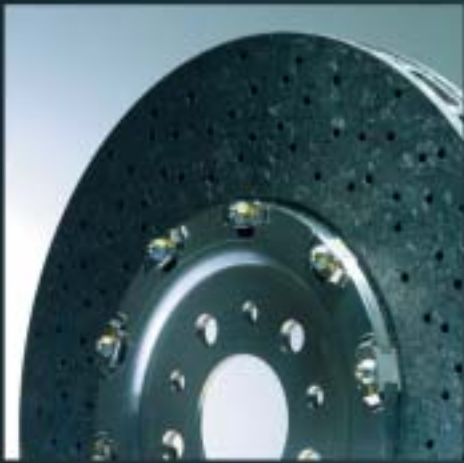
<sup>(3)</sup> Corporate Governance – Independent and non-executive directors – Borsa Italiana Regulations for STAR segment – Art. 2.2.3 paragraph 3 letters e) and f).

<sup>(4)</sup> This Director also holds offices in some Group companies.

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BREMBO S.p.A. Registered offices: CURNO (BG) - Via Brembo 25

Share capital: € 36,317,034 – Bergamo Register of Companies – Tax Code (VAT Code) No. 00222620163





## Brembo: Five Years of Activity



## Economic results

<i>(euro thousand)</i>	31.12.2000	31.12.2001	31.12.2002	31.12.2003	31.12.2004	%2004/2003
Sales of goods and services	458,331	529,705	565,840	633,728	678,180	7.0%
Gross operating profit	82,484	82,179	90,278	100,591	101,231	0.6%
% on sales	18.0%	15.5%	16.0%	15.9%	14.9%	
Net operating income	51,703	43,118	47,826	54,140	58,361	7.8%
% on sales	11.3%	8.1%	8.5%	8.5%	8.6%	
Income before taxes	42,259	45,655	38,491	50,922	58,073	14.0%
% on sales	9.2%	8.6%	6.8%	8.0%	8.6%	
Net income	24,237	24,801	20,218	29,303	34,330	17.2%
% on sales	5.3%	4.7%	3.6%	4.6%	5.1%	

## Financial results

<i>(euro thousand)</i>	31.12.2000	31.12.2001	31.12.2002	31.12.2003	31.12.2004	%2004/2003
Net invested capital	288,587	326,090	340,405	334,671	376,666	12.5%
Shareholders' Equity	155,126	168,301	168,255	181,240	211,002	16.4%
Net financial indebtedness	120,247	142,903	154,862	133,809	143,655	7.4%

## Personnel and investments

	31.12.2000	31.12.2001	31.12.2002	31.12.2003	31.12.2004	%2004/2003
Personnel at end of period (No.)	2,905	3,366	3,575	3,936	3,973	0.9%
Turnover per employee ( <i>euro thousand</i> )	157.8	157.4	158.3	161.0	170.7	6.0%
Investments ( <i>euro thousand</i> )	96,121	79,133	46,335	53,407	85,482	60.1%

## Main ratios

	31.12.2000	31.12.2001	31.12.2002	31.12.2003	31.12.2004	%2004/2003
Net operating income/Sales	11.3%	8.1%	8.5%	8.5%	8.6%	
Income before taxes/Sales	9.2%	8.6%	6.8%	8.0%	8.6%	
Investments/Sales	21.0%	14.9%	8.2%	8.4%	12.6%	
Net Financial indebtedness/Shareholders' equity	77.5%	84.9%	92.0%	73.8%	68.1%	
Financial charges/Sales	2.1%	1.5%	1.6%	1.0%	0.1%	
Financial charges/Net operating income	18.9%	18.2%	18.8%	11.6%	1.2%	
ROI	17.9%	13.2%	14.0%	16.2%	15.5%	
ROE	17.3%	15.7%	12.4%	16.7%	16.8%	
Cash flow (net income + D&A) ( <i>euro thousand</i> )	55,017	63,862	62,670	75,754	77,200	1.9%



*More than a mere technological fact, innovation is a state of mind that must permeate throughout everything the company does. It is a matter of culture.*

*Standing as testimony to the fundamental importance Brembo grants to innovation are the three awards offered to its collaborators:*

*Brembo Excellence Awards, Brembo Innovation Awards, Brembo Butterfly Awards.*

*Competing to turn ideas into reality is a way of participating - as individuals or as a group - in selecting and then circulating innovation within the company.*





**Directors' Report on Operations**

### Macroeconomic Context and Currency Markets

In order to judge Brembo's performance in 2004, it is necessary to have an overview of the worldwide macroeconomic context, with particular reference to the markets the company works in.

Despite geopolitical uncertainties and shocks (the Iraq War, terrorism, oil price spikes, exchange rate speculation) that repeatedly threatened the global economy during the course of the year, global GDP advanced around 4.6% compared to 2003, the highest growth rate in three years. But this scenario still appears highly vulnerable.

The pickup in growth was broad-based and distributed over several geographical areas, though at widely varying rates.

The United States made a decisive contribution to world growth, while the contribution from Asia was higher than expected: China was again the leading emerging market and the Japanese economy showed signs of a recovery. Growth in Europe (excluding the United Kingdom) was slower and fragile, too dependent on the rest of the world, with flat domestic demand and uncertain fiscal policies. As often happens after a period of peak expansion, countries achieving the highest growth rates in 2004 will experience a deceleration, and there were already signs of this in the latter part of the year. The noticeable growth rates in 2004 were accompanied, however, by financial imbalances in the United States, reflected in the country's budget and trade deficits.

Raw materials prices were another source of tension in 2004: the sharp increase in world

demand was not always met with a corresponding and likewise sharp increase in supply. The uncertain situation in the Middle East and the noticeable growth in demand in China contributed to exacerbating this situation. Among the various commodities, the rise in oil prices was the biggest source of concern. The rise in metal prices was also a major source of concern because it jeopardised manufacturers' ability to meet a sustained increase in production costs. The euro's appreciation against the dollar partially offset the impact of these price rises on the eurozone economy.

For the United States, 2004 was an exceptional year: for the first time since the "new economy" years, the GDP growth rate exceeded 4%.

In Japan, the pace of growth slowed more than expected, with GDP rising only 0.25% yoy in 2004. In China, despite some signs of a slowdown, the main growth indicators still point upwards: exports continued to rise at faster-than-expected pace, increasing 37% compared to 2003, and GDP grew 8% yoy.

In the eurozone, the most recently available data definitively confirm that the economy decelerated sharply in the second half of the year, largely due to the slowdown in foreign demand.

In Italy, GDP increased 1.2% compared to 2003, a modest rate indeed and lower than the European average.

Brazil ended FY 2004 with a series of positive indicators: GDP grew 4.5%, inflation is under control, and foreign debt was reduced.

As for the currency markets, the weak dollar is still the dominant issue and it will only widen the differences in monetary policy on the two sides of the Atlantic.

---

The euro appreciated 7.9% overall against the dollar in 2004: the single currency continues to the weight of the dollar's depreciation and, for as long as the US government fails to adopt a public deficit-reducing policy, it appears that this situation will last for some time.

During the year, the currencies of the other major markets where Brembo operates put in mixed performances against the euro. By the end of 2004, the British pound was trading at levels near to where it started at the beginning of the year, reversing during the second half the gains that it had made against the euro in the earlier part of the year.

The Japanese yen continued on its downward trend, as the euro appreciated 3.4% in 2004.

Meanwhile, the Polish zloty continued on its upward trend, sustained throughout the year. In contrast, the Mexican peso depreciated a noticeable 7.3% against the euro, continuing the trend begun in 2003.

## **Brembo Activity and Reference Market**

Brembo is synonymous with excellence in the brake-disc systems industry throughout the world. Today, the Group operates in twelve countries, counting on the contribution of almost 4,000 employees. Brembo's operations are conducted from ten industrial-commercial facilities in Italy and twelve in other countries. Manufacturing plants are located in Italy and in Spain (Saragossa), Poland (Czestochowa and Dabrowa), Great Britain (Coventry), Mexico (Puebla), Brazil (Belo Horizonte), and China (Nanjing), while other companies in Great Britain

(London), Sweden (Göteborg), the United States (Costa Mesa, California) and Japan (Tokyo) are responsible for distribution and sales activities.

The results achieved in recent years have rewarded the efforts made in terms of technological and process development which have always been fundamental to Brembo's philosophy and have made it a leader in the research, design and production of high-performance disc braking systems for a wide range of vehicles.

Brembo operates on both the original-equipment market, focusing on the supply of high-performance braking systems, and in the aftermarket.

Brembo's reference market is represented by the most important manufacturers of cars, motorbikes, commercial vehicles and racing cars and motorbikes.

Brembo's range of products for car and commercial vehicle applications includes brake discs, brake callipers, the side-wheel module and increasingly often the complete braking system, including integrated engineering services. All of these support the development of new models placed on the market by vehicle manufacturers.

Manufacturers of motorbikes are also offered brake discs, brake callipers, brake pumps, light-alloy wheels and complete braking systems.

In the car aftermarket, Brembo offers in particular a vast range of brake discs; over 1300 product codes allow the company to meet the needs of nearly all European vehicles.

Despite uncertainties concerning developments in the business cycle, in 2004 Brembo generated €688,891 thousand in gross revenues, an increase of approximately 6.8% over the previous year.

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## **C**ar Applications

Global sales of light vehicles increased 3.6% in 2004 versus the previous year.

In the United States, total registrations increased 1.3%, led by the light truck market. The leading segments on the US market were luxury sports utility vehicles (SUVs) and luxury sports cars.

In South America, sales jumped 26.7%, led by Brazil and Argentina.

In western Europe, vehicle registrations increased 3% versus 2003. Among the major markets, we point to the slight rise in Germany and Italy, France was stable, the UK contracted slightly, and Spain recorded strong growth. The smaller markets were the ones reporting the highest increases.

The strong growth in eastern Europe slowed somewhat in the final quarter of the year.

In Japan, the market on the whole was mostly unchanged from 2003 levels, though sales spiked 24% in December 2004 compared to the same month a year earlier.

In China, though in 2004 registrations did not increase at the same pace as in previous years, it is still by far the leading market in terms of volume growth, with sales of light vehicles increasing 15% versus 2003. Moreover, China is quickly about to become one of the world's major automobile manufacturers.

In 2004, Brembo increased original-equipment application sales over the previous year, led by the rise in volume in several products already in progress and the good performance in original-equipment discs.

Overall volume in aftermarket brake discs showed a slight decrease in all geographical

areas where the company operates: the steady replacement of existing products was partially offset by new products in the premium segment.

In this scenario, Brembo sales of braking systems and brake discs for cars amounted to €452,464 thousand, accounting for 65.7% of total consolidated sales.

## **C**ommercial and Light Commercial Vehicle Applications

Commercial vehicle registrations in Europe were on the rise throughout 2004.

The annual growth rate for vehicles up to 3.5 tonnes was 8.7% in the European Union as a whole, though Italy lagged with a 4% growth rate.

New registrations of vehicles above 3.5 tonnes grew 6.9% in all of Europe, with Italy lagging at a 2% pace.

Buses above 3.5 tonnes also showed good growth in Europe, with registrations rising 5% over 2003.

For Brembo, this business area generated an 18.9% increase in turnover versus 2003, with gross consolidated revenues reaching €96,409 thousand, led by the increase in equipped-vehicles sales volumes.

## **M**otorbike Applications

The three most important markets for Brembo in this sector are Europe, the United States, and Japan.

The European market showed signs of a recovery in 2004 and Italy continues to be the





major market. In Italy, registrations of vehicles with cylinder sizes above 50cc increased 3.4% over 2003. Within this segment, scooters decreased slightly, widely offset by the 12.8% growth in the motorcycle segment as the market steadily switches from smaller to medium/high cylinder engines. Meanwhile, scooters (vehicles up to 50cc) suffered a 19.5% contraction in 2004.

The performance of the motorbike market in North America has a different segmentation than in Europe: in the United States, demand is heavily in favour of the high-cylinder motorcycle segment as registrations of vehicles above 650cc increased 8% in 2004.

In Europe, registrations of big cylinders increased around 2%, while in Japan demand actually decreased by around six percentage points.

The result for Brembo, whose products are applied to some of the most sold models throughout the world, was €83,670 thousand in sales, mostly unchanged from 2003, accounting for 12.1% of total turnover.

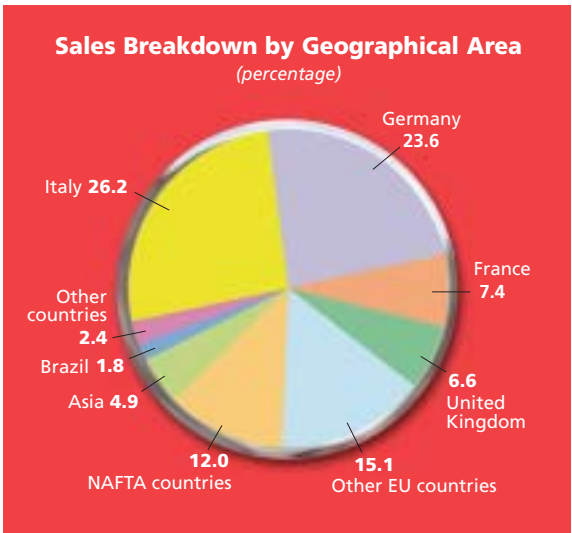
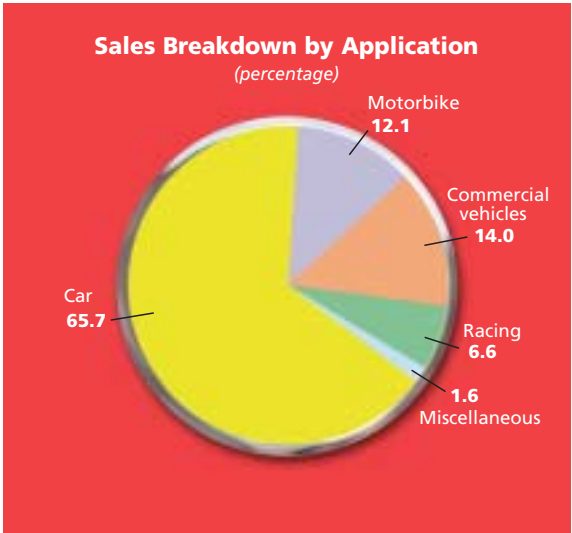
## Racing Applications

The major racing teams in the various championships are today becoming increasingly complex organisations capable of managing their own in-house research and development projects, real and true companies capable of managing the entire competition process to the point of becoming providers for smaller teams.

Brembo is present in the racing sector with three leading brand names: Brembo Racing, with braking systems for race cars and motorbikes; AP Racing, with braking systems and clutches for race cars; Marchesini, with magnesium and aluminium wheels for racing motorbikes.

Though the racing market continues to show signs of uncertainty regarding its development in the face of a prolonged period of slow growth, Brembo maintains a leadership position through its racing business unit and two subsidiary companies.

Brembo reported €45,333 thousand in gross consolidated revenues, mostly unchanged from the previous year's result.



## Sales Breakdown by Application and Geographical Area

The two following tables respectively list gross sales broken down by application and by geographical area of destination <sup>(1)</sup>.

Revenues in the countries that joined the European Union as of May 2004 were wholly reclassified with those already members of the EU. For comparative purposes, the same reclassification was made for the 2003 data. As such, these revenues amounted to €23,006 thousand versus €18,696 thousand in 2003.

### Gross Sales Breakdown By Application

<i>(euro thousand)</i>	<b>31.12.2004</b>	<b>%</b>	<b>31.12.2003</b>	<b>%</b>	<b>2004/2003</b>	<b>%</b>
Car	452,464	65.7%	426,210	66.1%	26,254	6.2%
Motorbike	83,669	12.1%	84,249	13.1%	(580)	-0.7%
Commercial vehicles	96,409	14.0%	81,079	12.5%	15,330	18.9%
Racing	45,333	6.6%	45,179	7.0%	154	0.3%
Miscellaneous	11,016	1.6%	8,558	1.3%	2,458	28.7%
<b>Total</b>	<b>688,891</b>	<b>100.0%</b>	<b>645,275</b>	<b>100.0%</b>	<b>43,616</b>	<b>6.8%</b>

### Gross Sales Breakdown By Geographical Area

<i>(euro thousand)</i>	<b>31.12.2004</b>	<b>%</b>	<b>31.12.2003</b>	<b>%</b>	<b>2004/2003</b>	<b>%</b>
Italy	180,385	26.2%	168,290	26.1%	12,095	7.2%
Germany	162,747	23.6%	149,798	23.2%	12,949	8.6%
France	50,727	7.4%	41,101	6.4%	9,626	23.4%
United Kingdom	45,681	6.6%	41,108	6.4%	4,573	11.1%
Other EU countries	104,161	15.1%	92,088	14.3%	12,073	13.1%
NAFTA countries	82,952	12.0%	85,174	13.2%	(2,222)	-2.6%
Asia	33,952	4.9%	42,597	6.5%	(8,645)	-20.3%
Brazil	11,994	1.8%	9,099	1.4%	2,895	31.8%
Other countries	16,292	2.4%	16,020	2.5%	273	1.7%
<b>Total</b>	<b>688,891</b>	<b>100.0%</b>	<b>645,275</b>	<b>100.0%</b>	<b>43,616</b>	<b>6.8%</b>

<sup>(1)</sup> Consob Circular No. 980804143 of 27 October 1998 requires an analysis of the economic and financial trend and of the structural indicators according to different sectors or geographical areas of activity of the Company.

Considering the nature of Brembo's operations, the most important information category is operations by geographical area. Brembo operates exclusively in the automotive sector and particularly in the automotive components segment.

In the components sector, it produces braking systems. The range of products includes high-performance callipers, brake discs, wheel-side modules, complete braking systems and integrated engineering services.

Economical, financial and capital indicators of the sector can therefore be deduced from the Group Consolidated Financial Statements.

For a further analysis of Brembo operations, the following documents are provided:

- This section provides a breakdown of sales by product destination and application;
- "Performance of Brembo Companies" provides a summary of the main data by geographical area of industrial plants.

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## Research and Development

### Our Mission

Brembo has built its success on its powerful capacity for innovation: over the years, this has become one of the Company's hallmarks around the world, together with the quality and reliability of its products.

This strong propensity for innovation means commitment to Research and Development – unrivalled on an international level – and the goal here is to guarantee the Company a constant edge over competitors, while also maintaining an adequate return on investment. The “core” of this activity is a team of more than 50 engineers and technicians working at the Research and Development Centre in Stezzano (Bergamo). Their task is to develop, analyse and implement ideas that can be turned into tangible innovative applications for both products and processes.

The team consists of highly skilled specialists with knowledge in several, but highly correlated, areas: from mechanics to electronics, from chemistry to materials physics, from thermodynamic and fluid-dynamic simulations to the compilation of software programmes using complex algorithms.

This core team operates in close cooperation with the technicians and specialists of the single business units, achieving a high degree of synergy in the transition from the concept stage to the application stage.

A total of more than 370 engineers, specialists and technicians work together every day to develop and perfect new products and processes, guaranteeing the ongoing innovation that is one of Brembo's strengths.

### Product Innovation

For Brembo, the constant search for excellence in the development of new products means an approach which is not limited to meeting the present needs of the market but which looks to the technological evolution of the automotive sector, with a time horizon of at least ten years. This approach led Brembo to focus a significant part of its research and development on innovative solutions, not yet aimed at a specific market or customer and destined for medium/long-term application.

To this end, of primary importance is the company's ability to select the ideas that can have concrete application in the vehicles to be produced in the future, transforming them into projects and products to propose to the manufacturing companies.

Innovation is sharply focused on the market and customer demands. Once begun, innovative projects are implemented according to an iron-clad process to permanently control their progress and achieve objectives.

The same commitment is devoted to the continuing improvement of product features for various types of vehicles currently in production (from small motorbikes to lorries with trailers, top-range cars and racing vehicles). Likewise, this commitment focuses on perfecting specific applications for new vehicles, based on existing technologies and systems.

In 2004, as many as eight absolutely innovative projects made the transition from the concept stage to the application development stage. Among the most important, we point to the new car calliper that, based on a highly innovative concept, allows for the installation of a disc, in

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the same space, with a diameter exceeding 15-20 mm, obtaining a noticeable improvement in performance at the same weight and cost as previous ones. The company has also developed a new disc, consisting of a cast-iron band combined with a fused aluminium bell capable of achieving a reduction in weight and a significant decrease in deformation and thermal stress. Brembo skill in the foundry process for both cast iron and aluminium played an important role in achieving this result.

More than 250 projects were implemented in 2004, ranging from modifications of features on existing products for use in new applications, to the development of completely new product families.

Brembo maintains a constant commitment to product innovation, through both entirely in-house research projects and cooperation with client companies with a view to finding the most appropriate market-specific solutions.

Brembo specialists often operate on the premises of the motor vehicle manufacturing companies to develop innovative projects. In other cases, the technical offices of Brembo in various countries, for example Detroit (USA) and Tokyo (Japan), collect and convey customer requests in the respective markets, performing an important function as a technical “bridge” between the customers and the central R&D unit.

The following table offers an approximate summary of the expenses borne by Brembo for operations concentrated above all in continuing the following research projects:

- **innovative braking systems and their components**
- **braking devices with innovative electrical actuation (Brake by Wire)**
- **completely original braking systems with floating discs for commercial vehicles.**

These operations, the motivation and the results achieved confirm that the company carried out pre-competitive industrial R&D in compliance with Art. 13 of Legislative Decree 79, later Law 140/97, as confirmed by an expert report.

<i>Activities conducted in 2004</i>	<i>Personnel</i>	<i>Overhead expenses</i>	<i>In-house orders</i>	<i>Development activities</i>	<i>Research activities</i>	<i>Third-party services</i>	<i>Total</i>
<i>(Euro)</i>							
		<b>40%</b>					
Research project: <i>Study, design, development and experimentation of innovative braking systems and their component parts</i> – Law 140/97 – MAP Applied Research (*)	8,763,000	3,505,200				759,000	13,027,200
		<b>60%</b>					
Research project: <i>Study on brake devices by innovative electrical type implementation (brake by wire) – Fondo Agevolazione per la ricerca F.A.R. (plan values)</i>	285,047	171,028					456,075
Innovation programme: <i>Completely original braking system with floating brake discs for commercial vehicles</i> – Law 46/82 – F.I.T. (plan values)				1,005,507	511,447		1,516,954
<b>OVERALL TOTAL</b>	<b>9,048,047</b>	<b>3,676,228</b>	<b>0</b>	<b>1,005,507</b>	<b>511,447</b>	<b>759,000</b>	<b>15,000,229</b>

(\*) As per specific technical appraisal

The results achieved in relation to the operations conducted are confirmed by the reports sent to the investigative bodies for each provision and they are in line with the envisaged objectives. The research and innovation projects will be applied during the upcoming financial periods, in accordance with the Company's development plans.

## **P**rocess Innovation

Brembo is constantly committed not only to product innovation, but also to process innovation.

In 2004, the Company completed the finishing touches on new manufacturing processes for ceramic discs, developed in joint-venture with DaimlerChrysler AG at the brand new plant in the Science and Technology Park "Kilometro Rosso" in Stezzano (Bergamo). Among the objectives pursued, special effort was focused on reducing the time and cost of developing new products to further increase the company's already high capacity for innovation. With this aim in view, in 2004 the Brembo Project Development System implemented as many as ten sub-projects chiefly oriented towards the management of in-house projects and documents, as well as new simulation and calculation processes, aimed at achieving the "virtual certainty" that a product will surpass given specifications even before prototypes

are built, and physical-mechanical tests are carried out, with all the advantages that come with it.

As is the case with product innovation, for manufacturing processes Brembo also develops synergies and cooperates with customer companies, providing support that includes making comprehensive expertise available for the concept stage, design, development, verification, production, workmanship and application of its products, as well as metal-working and casting aspects.

In July the Company received a €711 thousand instalment in subsidised financing from the Industry Ministry pursuant to Italian Law 46/82 for the ceramic carbon disc project in support of the new market penetration effort. In 2004 (10 June), a second instalment of the SIMEST Law 394/USA €2.065 thousand loan stipulated on 7 November 2002 was issued to Brembo S.p.A.; the €953 thousand issued in 2004 was in addition to the first instalment of €165 thousand issued on 30 May 2003.

## Investments

Financial investments in 2004 amounted to €6,500 thousand and were made to provide adequate financial resources to the newly formed Brembo Ceramic Brake Systems S.p.A., the legal entity envisaged by the agreement with DaimlerChrysler AG signed on 4 November 2003. This new company, in which Brembo S.p.A. and DaimlerChrysler AG hold an equal interest, merges the skills and production systems developed by each company independently until the incorporation of the joint venture, and handles research, development, and production of ceramic carbon brake discs for top-performance cars. Its share capital is €2,000 thousand and this amount includes a share premium reserve paid in for €11,000 thousand. Assets include production machinery and equipment amounting to €10,122 thousand, and net current assets for the remaining part, including liquid assets amounting to €1,130 thousand. Production began in January 2004 at the new plant in the Science and Technology Park in Stezzano (Bergamo - Italy).

In addition to the planned development of the Group structure, attention was focused on the companies already consolidated that led to an increase in revenues. The sum of €78,982 thousand was committed to all the operating units, of which €73,870 thousand in tangible fixed assets and €5,112 thousand in intangible fixed assets.

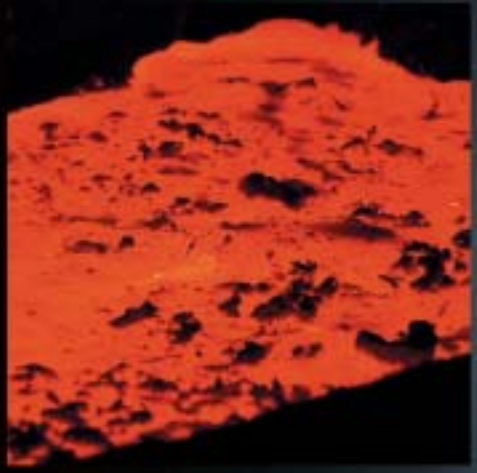
A good portion of the investment in tangible fixed assets was allocated to the company Bibielle S.p.A. to acquire the business unit, formerly owned by Bradi S.p.A., declared

insolvent in December 2003. The insolvency declaration came before the original expiration of the buy option, settled through assignment at a bankruptcy auction held on 27 February 2004. The assets involved are mainly the industrial property hosting the manufacturing site, machinery, and plant for the finishing of discs; their value amounted to approximately €17,357 thousand.

In addition, Brembo launched a plan envisaging the construction of a new cast iron foundry in Poland, to use in the production of discs for the aftermarket and original equipment market. The total investment is expected to be about €40,000 thousand and will be completed by the end of 2006. At the end of 2004, the investments incurred totalled €9,700 thousand, and were primarily advances.

Brembo's gradual internationalisation continued according to the medium-term plans that have been approved. During the period, manufacturing of braking systems for commercial vehicles started up in Czestochowa (Poland) and at the same time, the company began disc-painting operations at the factory in Puebla, Mexico. Investments were also made to increase production capacity of the Saragossa plant (Spain).

The Parent Company Brembo S.p.A. invested €28,645 thousand in 2004, mainly allocated to completing the construction of a new factory at the Curno site to which several manufacturing operations were transferred, in addition to machinery and equipment to increase production and sales in the auto sector.





## Human Resources and Organisation

As part of human resources development, additional emphasis was placed on enhancing personal talents and defining training courses with a view to reinforcing individual technical and managerial skills. Brembo dedicated major attention to specific applied systems created with the objective of facilitating the exchange of information between various company areas.

In terms of management, the young manager training course was upgraded and the company began behavioural training opportunities for top management to facilitate their integration among participants and involvement in shared objectives, as well as professional training courses focusing on business strategy issues.

Last year's plan regarding integrated training relating to the Brembo Project Development System was put into effect during the period.

The plan aims at spreading the understanding of the Brembo method of project management and software planning. More than 300 staff members were involved in this project which substantiates the Company's consistent search for excellence.

A new major initiative was undertaken in the fourth quarter 2004: the start-up of a training school named Brembo Production Academy to teach technical and management skills to personnel at different levels of responsibility in production areas. The main subjects on the 2005 academic calendar are industrial costs, security and environment, industrial relations, lean organisation & supply chain, as well as personnel management. With a view to providing an increasingly focused response to demands from the market and Brembo's front-line partners, the company continued its commitment to improving language skills, especially in English, at both the central and business unit levels, using modern methods of language learning.

In the security and environment area, numerous training initiatives have been undertaken aimed at informing personnel about accident-prevention

issues, focusing on priority areas for plant personnel.

A total of 270 training initiatives were undertaken in 2004, amounting to almost 25,250 hours distributed over more than 3,000 participants. Special care was taken in the spread of expertise and involvement in the many and various training courses conducted by company trainers.

Personnel numbers increased from 3,936 (December 2003) to 3,973 (December 2004), of which 2,329 working for Brembo S.p.A. and the rest in the other Group companies in Italy and abroad. During 2004, Brembo further developed its organisation model.

The corporate organization shows the following managerial structure:

- the General Management and the following divisions report to the Chairman and Managing Director: Administration Finance and Control, Communication, Marketing, Real Estate Development, Corporate and Legal Organization;
- the General Manager, to which the Industrial Division and following Business Units (BU) report: Cars, Motorbikes, Commercial Vehicles, Racing, and After Market.

The following departments report to the General Manager: Technical and R&D Departments, Purchasing, ICT, Human Resources, Quality and Environment, Technological Systems and Business Development. This guarantees the chief corporate processes to be effective across all departments and allows the General Management to carry out those orientation, guidance and control functions that are under its responsibility.

This further evolution represents the last stage in a process of fine-tuning of the organisational structure. This process has been conducted in consistent stages, which have been planned over the years, to make the company increasingly prepared to respond to the needs of globalisation and the diversification of products and markets.

## Environment, Safety and Health

In the safety and environment area, the Company continued extending its corporate management system to all Brembo Group production sites.

In 2004, this effort led to both environmental and safety certification (according to ISO 14001 and OHSAS 18001 rules) for aluminium foundry and the San Giovanni Bianco site.

In 2005, the site at Czestochowa, Poland will be awarded these certificates, and the same process will be put into place at the site in Saragossa, Spain.

The results achieved in these recent years demonstrate that the path taken has been the

right one, as all environmental, health, and worker safety indicators are constantly improving. This does not mean that the standards achieved so far cannot be taken further. Mindful of this, Brembo attaches increasing importance to the training, awareness, and involvement of personnel.

The Company pursued a two-pronged approach in 2004 to spread the corporate safety and environment culture to all levels: one aimed at training all personnel through specific courses, the other focusing on involving business unit managers in these issues.

## Brembo Structure

The process of streamlining, consolidating, and developing the Brembo Group continued in 2004. The various actions taken during the year are illustrated as follows:

- as mentioned in the chapter "Investments", Brembo Ceramic Brake Systems S.p.A. was incorporated on 9 January. This company, a legal entity envisaged by the agreement with DaimlerChrysler AG signed on 4 November 2003, is owned in equal shares by Brembo S.p.A. and DaimlerChrysler AG;
- in February 2004, Bibielle S.p.A. acquired the real estate and manufacturing plant complex formerly belonging to Bradi, declared bankrupt in December 2003. The insolvency declaration came before the original expiration date of the buy option settled through assignment at the bankruptcy auction held on 27 February 2004. The total payment was set at €15.1 million to be settled in instalments until 2009.
- on 8 June, Marchesini S.r.l. was changed into a joint-stock company, in order to make the company model similar to that of the other wholly-owned Brembo subsidiaries. The transformation did not involve additional charges as the company has already fulfilled the formal and substantial obligations of a joint-stock company;
- on 27 July, Brembo Participations B.V. passed a resolution to proceed with the liquidation of the company Brembo GmbH which is no longer operating. The liquidation is scheduled for completion in the course of 2005;
- on 23 September, Brembo S.p.A. approved the project for the merger by incorporation of the wholly-owned subsidiary Findisc S.r.l. – parent company of Bibielle S.p.A. – in order to simplify the corporate structure. On 30 November, the merger of Findisc S.r.l. into Brembo S.p.A. became effective;
- on 30 September 2004, Findisc S.r.l. paid up a further instalment in the share capital of Bibielle S.p.A., already resolved on 19 December 2003, in the amount of €1,000 thousand in order to ensure that its reserves of own funds to meet its operating requirements;
- on 4 October, Brembo Participations B.V. acquired a further 39% of the share capital in its subsidiary Brembo Japan Co. Ltd., bringing the entire stake to 90%. This acquisition reflects Brembo's intention of playing a more active role both within the units abroad and on international markets through suitable organizational structures. The cost of the transaction was moderate;
- in December, Brembo S.p.A. fully underwrote a capital increase in its subsidiary Brembo International S.A. through a conferment of the equity stake held in the Netherlands holding Brembo Participations B.V.

As part of the process to streamline real estate holdings and consolidate manufacturing sites in uniform production areas, in July, the company redeemed several leased properties used to host production units. Then in December, the company sold a building no longer used for production purposes.

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An agreement was reached with Pioneer Investment Management S.g.r.p.A. regarding the real estate in Stezzano (Bergamo), which will be the Research and Development hub.

The repurchase option, exercised on 30 June 2004, was included in the 20 December 2000 purchase agreement by Pioneer Investments, the management company in charge of the

Unicredito Immobiliare Uno. In the most recent yearly report of the fund, the property complex in Stezzano was valued at €25,480 thousand, but the definitive sale price will be established only at the date of ownership transfer. Negotiations are still ongoing to set the terms for a possible cooperation agreement with Pioneer Investment.

## Brembo Performance

The main indicators of Brembo's consolidated operating, equity and financial performance are listed below.

### Operating results

<i>(euro thousand)</i>	<b>31.12.2004</b>	<b>31.12.2003</b>	<b>2004/2003</b>	<b>%</b>
Sales of goods and services	678,180	633,728	44,452	7.0%
Personnel expenses	(134,225)	(130,839)	(3,386)	2.6%
Cost of sales, operating costs and other net charges/income	(442,724)	(402,298)	(40,426)	10.0%
<b>Gross operating profit</b>	<b>101,231</b>	<b>100,591</b>	<b>640</b>	<b>0.6%</b>
<i>% on sales</i>	14.9%	15.9%		
Amortisation and depreciation	(37,706)	(40,863)	3,157	-7.7%
<b>Net operating margin before the amortisation of consolidation differences</b>	<b>63,525</b>	<b>59,728</b>	<b>3,797</b>	<b>6.4%</b>
<i>% on sales</i>	9.4%	9.4%		
<b>Amortisation of goodwill and consol. differences</b>	<b>(5,164)</b>	<b>(5,588)</b>	<b>424</b>	<b>-7.6%</b>
<b>Net operating income</b>	<b>58,361</b>	<b>54,140</b>	<b>4,221</b>	<b>7.8%</b>
<i>% on sales</i>	8.6%	8.5%		
Net financial income (charges)	(727)	(6,262)	5,535	-88.4%
Net non-recurring financial income (charges)	1,168	3,205	(2,037)	-63.6%
Adjustments of financial asset value	(729)	(161)	(568)	352.8%
<b>Income before taxes</b>	<b>58,073</b>	<b>50,922</b>	<b>7,151</b>	<b>14.0%</b>
<i>% on sales</i>	8.6%	8.0%		
Taxes	(22,658)	(20,719)	(1,939)	9.4%
<b>Income before minority interests</b>	<b>35,415</b>	<b>30,203</b>	<b>5,212</b>	<b>17.3%</b>
<i>% on sales</i>	5.2%	4.8%		
Net minority interests	(1,085)	(900)	(185)	20.6%
<b>Net income</b>	<b>34,330</b>	<b>29,303</b>	<b>5,027</b>	<b>17.2%</b>
<i>% on sales</i>	5.1%	4.6%		
<b>Cash flow</b>	<b>77,200</b>	<b>75,754</b>	<b>1,446</b>	<b>1.9%</b>
<i>% on sales</i>	11.4%	12.0%		

PALMARES 2004



## CARS

## Brembo – Braking Systems

F1 World Championship	1st Ferrari (Constructor) - M. Schumacher (Driver)
American Le Mans Series LMP900	1st Audi R8 - Team Champion - Werner / Lehto
American Le Mans Series GT	1st Porsche GT3 RS - Team Alex Job - Bernhard
NASCAR Nextel Cup	1st Busch
NASCAR Busch Series	1st Tuex
Australian V8 Supercars Championship	1st Ford - Team Stone Brothers Racing - Ambrose
TRANS AM	1st Rocketsports Racing - Pruett & Gentilozzi
Speed Channel World Challenge	1st Dodge Viper - 3R Racing - Archer
24 Hours of Le Mans - LMP900	1st Audi R8 - Team GOH - Capello / Kristensen / Ara
24 Hours of Le Mans - GT	1st Porsche GT3 RS - Team Dale White - Maassen / Bergmeister / Long
FIA GT Championship (N-GT class)	1st Porsche GT3 RS - Team Freisinger - Maassen / Luhr
LMES - LMP900	1st Audi R8 - Team Audi UK - Herbert / Davies
LMES - LMP675	1st Courage - Team Courage - Frei / Hancock
GT Championship	
ITALY	
GT class	1st Chrysler - Team Megadrive - Matteuzzi / Perazzini
N-GT class	1st Ferrari - Team Kessel - Kessel / Chiesa
FRANCE	
GT class	1st Chrysler - Team VBM - Bornhauser / Thevenin
N-GT class	1st Porsche - Team Nourry Compétition - Traffort / Rabineau
GREAT BRITAIN	
Champions class	1st DRM - Wilcox / Anorim
France Silhouette Championship	1st Peugeot - Teams Pescarolo Sport Gemo Sport

## AP Racing

		Brakes	Clutches
<b>SINGLE SEATER FORMULA</b>			
Formula One	1st Ferrari (Constructor) - M. Schumacher (Driver)		•
F3000	1st Arden Motorsport - Liuzzi		•
British F3	1st Piquet Sports - Piquet Jnr		•
Indy 500	1st Rahal Letterman Racing - Rice	•	•
IRL	1st Andretti Green Racing - Kanaan		•
Champcar	1st Newman Haas Racing - Bourdais		•
<b>RALLY</b>			
WRC	1st Citroën (Manufacturer) - Loeb (Driver)		•
Junior WRC	1st Suzuki Ignis - Anderson		•
<b>GT</b>			
FIA GT	1st BMS Scuderia Ferrari - Cappellani / Gollin	•	•
Le Mans GTS	1st Chevrolet Corvette C5-R - Gavin / Beretta / Magnusson	•	•
ALMS GTS	1st Chevrolet Corvette C5-R - Fellows / O'Connell	•	•
Japanese GT	1st Xanavi Nismo 2 - Motoyama / Lyons	•	•
<b>TOURING CARS</b>			
BTCC	1st 888 Astra Coupe (Manufacturer) - Thompson (Driver)	•	•
DTM	1st Abt Audi A4 - Elkstrom	•	
ETCC	1st BMW Team GB - Priaulx	•	•
Australian V8 Supercars	1st Stone Brothers Racing - Ambrose		•
<b>NASCAR</b>			
Concord Big 10	1st Query	•	
Florida Sunbelt Series	1st Anderson	•	
Nascar Southeast Series	1st Fultz	•	
Smart Modified Tour	1st Miller	•	
Bowman Grey Stadium	1st Brown	•	

# MOTO

## Brembo – Braking Systems

MotoGP World Championship	1st Yamaha - Rossi
Motorbikes World Championship: 250cc class	1st Honda - Pedrosa
SBK World Championship	1st Ducati - Toseland
SBK AMA American Championship	1st Suzuki - Mladin
SBK British Championship	1st Suzuki - Reynolds
SBK Japanese Championship	1st Honda - Izutsu
250cc class Japanese Championship	1st Honda - Takahashi
8 Hours of Suzuka	1st Honda - Ukawa / Izutsu
Motocross World Championship MX1 class	1st Yamaha - Everts
Motocross World Championship MX2 class	1st KTM - Townley
Motocross World Championship MX3 class	1st KTM - Demaria
Enduro World Championship E2 class	1st KTM - Salminen
Enduro World Championship E3 class	1st KTM - Aro
Campionato Mondiale Enduro Classe Assoluta	1st KTM - Salminen
Rally World Championship Open class	1st KTM - Ullevalsetter
Rally World Championship 450cc class	1st KTM - de Gavardo
Supermotard World Championship S1 class	1st KTM - Van Der Bosch
Supermotard World Championship S2 class	1st Aprilia - Giraudo

## Marchesini - Wheels

MotoGP World Championship	1st Yamaha - Rossi
Motorbikes World Championship: 250cc class	1st Honda - Pedrosa
Motorbikes World Championship: 125cc class	1st Honda - Dovizioso
SBK World Championship	1st Ducati - Toseland
SBK AMA American Championship	1st Suzuki - Mladin
SBK British Championship	1st Suzuki - Reynolds
SBK Italian Championship	1st Yamaha - Gramigni
SBK Japanese Championship	1st Honda - Izutsu
8 Hours of Suzuka	1st Honda - Ukawa / Izutsu
24 Hours of Le Mans	1st Suzuki - Philippe / Four / Lagrive
24 Hours Bol d'Or	1st Suzuki - Philippe / Four / Lagrive





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Net sales for 2004 amounted to €678,180 thousand, a 7% increase from €633,728 thousand in 2003. The figures for the two years are directly comparable as there were no changes in the consolidation area in 2004: the increase in turnover once again demonstrates Brembo's ability to respond positively even to less favourable cyclical changes in the market. In 2004, applications for top-range and commercial vehicles and discs for the aftermarket contributed to the increase.

The growth was largely concentrated in Europe (led by France and the countries that joined the European Union in 2004) and Brazil. Sales on the US market also increased, albeit fairly limited due to the high cost of the euro against the US dollar. Sales in the racing and motorbikes sector were mostly unchanged.

In the latter part of 2004, sales received a boost from partial price increases accepted by customers against the rise in raw materials prices occurring throughout the year.

In car applications, Brembo recorded sales of braking systems and brake discs for €452,464 thousand in 2004, with a ratio to total consolidated sales of 65.7%.

The 6.2% rise on the previous year is mainly attributable to the success of the models fitted with brakes on high performance and luxury vehicles.

Sales in motorcycle applications totalled €83,669 thousand with a ratio of 12.1% to total consolidated revenues and stable compared to sales in 2003.

In applications for commercial and industrial vehicles, sales of €96,409 thousand to the main European manufacturers were recorded, equivalent to 14% of total turnover, 18.9% higher than the figure for 2003.

In racing applications, 2004 ended with gross consolidated revenues of €45,333 thousand, with a ratio of 6.6% to total Group sales; the result, in line with 2003, was influenced by the exchange rate on sales in US dollars and pounds sterling.

Consolidated sales generated abroad accounted for 74% of the total, with the German market absorbing nearly the same share as the Italian market, and together representing nearly 50% of total revenues.

Slightly lower revenues were recorded in the NAFTA area, chiefly due to the exchange rate, and Asia, due to the decrease in volumes produced by a large Japanese manufacturer.

Personnel expenses amounted to €134,225 thousand in 2004, with a ratio to sales of 19.8%, a slight decrease from 20.6% in 2003.

Restructuring efforts positively influenced the personnel expenses ratio in terms of efficiency, owing to higher volumes of production and sales and higher production levels at subsidiaries, even taking into account the amounts paid for the three-year incentive plan earmarked for the Group's top management.

At December 31, 2004, the headcount was 3,973 employees (3,936 at the end of 2003), of whom approximately one-third work for foreign divisions and companies.

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In 2004 the cost of goods sold and other operating costs totalled €442,724 thousand, with a 65.3% ratio to sales, against 63.5% of the previous year.

The increase in the ratio is largely attributable to the sales mix which favoured lower value-added applications and geographical areas with higher costs in terms of the main raw materials and ferrous metals; in fact, the rise in raw materials prices accelerated sharply in the first half of the year, slowed somewhat in the third quarter, and rose again significantly in the fourth quarter 2004; this rise was not totally reflected in prices increases passed on to customers.

Gross operating profit totalled €101,231 thousand (14.9% of sales), compared to €100,591 thousand in 2003 (15.9% of sales), increasing €640 thousand.

The increase in sales volume and the efficiency gains achieved in production and logistics only partially offset the constant rise in market prices for the main raw materials, generating tensions on purchasing costs.

Net operating income amounted to €58,361 thousand, up 7.8% from €54,140 thousand in 2003. The result includes depreciation and amortisation of tangible and intangible fixed assets, amounting to €42,870 thousand in 2004, down from €46,451 thousand in 2003, largely attributable to the following factors: the change in depreciation policies for some classes of assets (like-for-like depreciation would have been higher by €2,165 thousand net of the resulting tax effect), the total depreciation of several

multi-year expenses, and write-downs to several assets in 2003.

Net financial charges were €727 thousand, made of €4,016 thousand from net positive exchange rates differences and the remaining amount from net financial charges. The net positive exchange rate differences are due to the repayment of a loan in pounds sterling and to the appreciation against the euro of other currencies the company operates in.

Net financial charges improved significantly as a percentage of sales (0.1% in 2004 against 1% in 2003) and average indebtedness (3.4% in 2004 against 3.6% in 2003), attributable to the reduced interest rates and more efficient use of financial instruments.

The item "net non-recurring income" amounted to €1,168 thousand at 31 December 2004, including €2,668 thousand in capital gains generated on the sale of two properties (in Italy and Spain) no longer used for production purposes, partially offset by a provision for €1,500 thousand to cover probable tax disputes.

Adjustments of financial asset value include Brembo's share of the results for the period of subsidiaries valued with the equity method, Nanjing Yuejin Automotive Brake System Co. Ltd. (25.4%) and the newly formed joint-venture Brembo Ceramic Brake Systems S.p.A. (50%).

Because of the previous considerations regarding operating and financing costs, income before taxes was €58,073 thousand, with a ratio to revenues of 8.6% against 8.0% in 2003.

Taxes, estimated using rates for the year in accordance with existing legislation, amounted to €22,658 thousand (including €1,932 thousand for deferred taxes), compared to €20,719 thousand in 2003 (including €3,083 thousand in prepaid taxes).

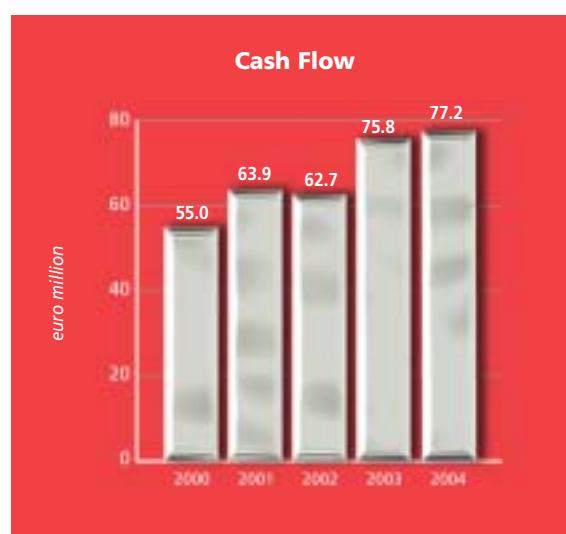
Part of the decrease in taxes was attributable to the partial recovery of provisions set aside in previous financial years to cover accelerated depreciation estimated by Brembo S.p.A.; against the amount recovered a substitute tax of 19% was paid in 2004 in connection with the revaluation of tangible fixed assets pursuant to Italian Law 350/03.

The ratio of income taxes was 39%, including deferred taxes. This ratio is not directly

comparable with the previous year for the reason illustrated above.

Net income for the year amounted to €34,330 thousand, after deduction of minority interests of €1,085 thousand, corresponding to the income share of minority shareholders of the companies consolidated using the line-by-line method. The net income compared with 2003 shows an increase of 17.2%, while in terms of ratio to net revenues it rose from 4.6% to 5.1%.

Cash flow (net income + amortisation, depreciation and write-downs) for 2004 amounted to €77,200 thousand, up significantly from €75,754 thousand for 2003, which also included the above-mentioned positive effects.



## Capital and Financial Position

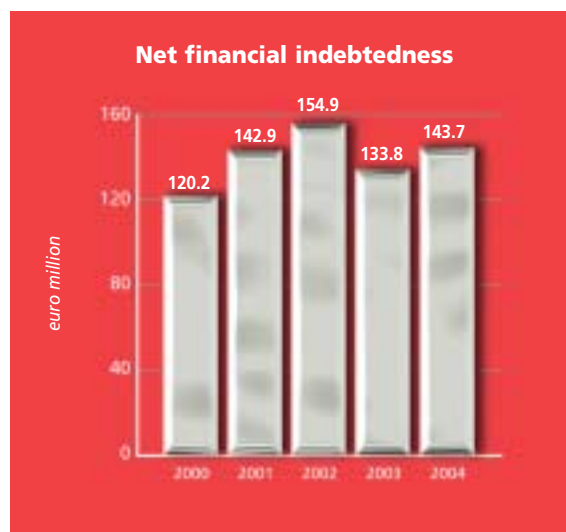
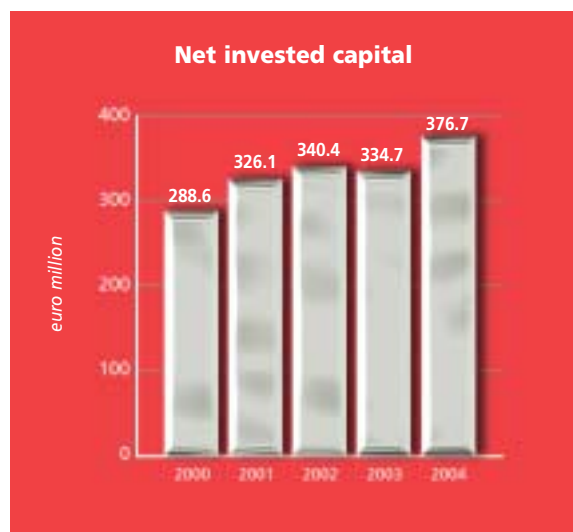
(euro thousand)	31.12.2004	31.12.2003	2004/2003	%
Tangible and intangible fixed assets	238,761	209,327	29,434	
Financial fixed assets	30,846	27,287	3,559	
<b>(a) Total fixed assets</b>	<b>269,607</b>	<b>236,614</b>	<b>32,993</b>	<b>13.9%</b>
Inventories	118,675	109,896	8,779	
Current assets	179,835	167,342	12,493	
Current liabilities	(182,208)	(173,203)	(9,005)	
Provisions for contingencies and charges	(9,243)	(5,978)	(3,265)	
<b>(b) Net working capital</b>	<b>107,059</b>	<b>98,057</b>	<b>9,002</b>	<b>9.2%</b>
<b>(c) NET INVESTED CAPITAL (a)+(b)</b>	<b>376,666</b>	<b>334,671</b>	<b>41,995</b>	<b>12.5%</b>
<b>(d) Shareholders' Equity</b>	<b>211,002</b>	<b>181,240</b>	<b>29,762</b>	<b>16.4%</b>
<b>(e) Employees' leaving entitlement</b>	<b>22,009</b>	<b>19,622</b>	<b>2,387</b>	<b>12.2%</b>
Medium/long-term net financial indebtedness	63,371	81,752	(18,381)	
Short-term net financial indebtedness	80,284	52,057	28,227	
<b>(f) Net financial indebtedness</b>	<b>143,655</b>	<b>133,809</b>	<b>9,846</b>	<b>7.4%</b>
<b>(g) COVERAGE (d)+(e)+(f)</b>	<b>376,666</b>	<b>334,671</b>	<b>41,995</b>	<b>12.5%</b>

Net invested capital at end-2004 amounted to €376,666 thousand versus €334,671 thousand a year earlier.

In recent months, the company launched an industrial plan involving most of its Italian and foreign production facilities.

The plan is aimed at further promoting the streamlining and specialisation of the various production units so as to ensure greater flexibility and promptness in meeting customer requirements.

Several investments are still in progress,



including the start-up of a new cast iron foundry adjacent to the brake disc production plant in Poland. In the second half of the year, construction of the new motorbike brakes production factory at the Curno site was completed, leading to the shutdown of the production site at Almenno, as well as the concentration of production in Spain at the new plant in Saragossa.

The 12.5% increase in net invested capital is mostly attributable to the following factors:

- €79 million in investment allocated to tangible and intangible fixed assets, largely in connection with the industrial plan;
- €42.9 million in fixed asset disposals

(generating €9.9 million in net positive cash flow) and depreciation of fixed assets;

- the increase in net working capital.

Net debt increased from €133,809 thousand at year-end 2003 to €143,655 thousand at 31 December 2004.

The financial structure continues to be well-balanced both in terms of short-term and long-term debt mix and its ratio to equity capital.

The explanatory notes the Consolidated Financial Statements provide detailed information on the configuration of the financial position – regarding its asset and liability items – as well as any loans disbursed to Group companies during the year.

## Cash Flow Statement

<i>(euro thousand)</i>	<b>31.12.2004</b>	<b>31.12.2003</b>
<b>Net financial indebtedness at beginning of period</b>	<b>(133,809)</b>	<b>(154,862)</b>
<b>Operating Cash Flow</b>	<b>64,330</b>	<b>66,665</b>
<b>Cash flow from (for) investments:</b>	<b>(64,474)</b>	<b>(41,259)</b>
Intangible	(5,112)	(6,698)
Tangible	(73,870)	(46,709)
Financial	4,640	(126)
Other fixed assets	0	(108)
Fixed asset disposals	9,868	12,347
Change in consolidation area	0	35
<b>Cash flow from (for) changes to shareholders' equity</b>	<b>(8,780)</b>	<b>(7,224)</b>
<b>Total cash flow</b>	<b>(8,924)</b>	<b>18,182</b>
<b>Translation difference on net indebtedness</b>	<b>(922)</b>	<b>2,871</b>
<b>Net financial indebtedness at end of period</b>	<b>(143,655)</b>	<b>(133,809)</b>
<b>Net financial indebtedness at beginning of period</b>	<b>(133,809)</b>	<b>(154,862)</b>
Loans and financing granted by banks and other financial institutions in the period	(3,396)	(26,051)
Repayment of long-term loans	47,059	49,262
(Increase) decrease in payables to banks	(52,657)	(5,018)
(Increase) decrease of cash-in-hand and cash equivalents	70	(11)
<b>Cash flow from (for) financing</b>	<b>(8,924)</b>	<b>18,182</b>
<b>Translation difference on net indebtedness</b>	<b>(922)</b>	<b>2,871</b>
<b>Net financial indebtedness at end of period</b>	<b>(143,655)</b>	<b>(133,809)</b>



## Performance of Brembo Companies

### **BREMBO S.P.A.**

CURNO (ITALY)

*Activities: analysis, design, development, application, production, assembly and marketing of braking systems, light alloy casting for various sectors, including the car and motorcycle industries.*

Revenues from sales and services amounted to €489,680 thousand in 2004, down 2.6% from €502,645 thousand in the previous year.

The breakdown by sector of operations shows, on the one hand, a modest 4% increase in sales in the auto sector and, on the other hand, a moderate decline in the motorcycle, racing, and commercial vehicles sectors.

The company's gross operating profit went from €67,228 thousand in 2003 to €53,602 thousand, reflecting a decrease of 20.3%.

As to net operating income, after calculating amortisation and depreciation on tangible and intangible fixed assets amounting to €24,785 thousand, this item totalled €28,816 thousand, compared to €37,695 thousand for the last year. Financial management closed with a certain upswing, with net charges of €273 thousand, compared to net charges of €2,446 thousand in 2003, attributable to positive exchange rate differences emerging from full repayment of a loan in pound sterling, the decrease in net indebtedness, and improved efficiency of the financial instruments used.

The sum of €15,845 thousand was allocated for income tax, for the expected amounts for IRES (corporate income tax) and IRAP (Regional Business Tax), with a ratio of 33.9% to pre-tax income. This can be compared to the allocation in 2003 of €19,016 thousand, with a ratio of 50%.

Net income amounted to €30,900 thousand, a 62.2% increase from €19,046 thousand in 2003.

Net income for 2004 also included €16,348 thousand generated as a result of the elimination of previous years' tax effects from the company's accounts in application of the provisions of Legislative Decree 6/03.

At 31 December 2004, the workforce numbered 2,329, down by 4.2% compared to 2,430 at 31 December 2003.

### **Companies Consolidated on a Line-by-Line Basis**

#### **BREMBO SCANDINAVIA A.B.**

GÖTEBORG (SWEDEN)

*Activities: marketing of brake discs.*

Brembo Scandinavia A.B., headquartered in Göteborg, (Sweden), sells brake discs for the car industry, only for the aftermarket.

In the second half of 2003, activities were downsized by transforming the company from a distribution and marketing unit into commercial headquarters.

As a result, net revenues, amounting to SEK 4.660 thousand in 2004 (€511 thousand) are not comparable with 2003 revenues when the company also operated in the distribution segment.

Net income decreased to SEK 901 thousand (€99 thousand) from SEK 2,255 thousand (€247 thousand) in 2003.

At 31 December 2004 the workforce numbered 1 employee, as compared to 2 at 31 December 2003.



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**BREMBO NORTH AMERICA INC.**

COSTA MESA (USA)

*Activities: marketing of brake discs for the aftermarket and of braking systems for the racing sector.*

Headquartered in Costa Mesa (California), Brembo North America Inc. operates in the US. It markets brake discs for the car aftermarket, high-performance braking systems for car and motorbike racing, as well as high-performance kits for car applications devoted to clients requiring greater safety and higher performance. The company is backed by technical staff from Brembo S.p.A. and the Detroit offices, both of which develop and supply new solutions in terms of materials and design.

Net revenues 2004 amounted to US\$ 31,335 thousand (€25,204 thousand), an increase of 19.3% versus the previous year when net revenues reached US\$ 26,262 thousand (€23,223 thousand). The following product segments achieved solid sales growth: aftermarket products (15%), high performance kits (41%), and the racing sector (10%).

Net income at 31 December 2004 was US\$ 946 thousand (€761 thousand), up compared to the net income of US\$ 23 thousand (€20 thousand) for 2003.

There were 57 employees at period-end, 7 less than at December 2003.

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**BREMBO UK LTD.**

LONDON (UK)

*Activities: marketing of brake discs.*

The company increased its net revenues 11.8% in 2004, from GBP 2,208 thousand (€3,191 thousand) in 2003 to GBP 2,468 thousand (€3,637 thousand). Net income improved to GBP 149 thousand (€220 thousand) in 2004 from GBP 32 thousand (€46 thousand) in the previous year.

The workforce numbered 2 people at 31 December 2004, unchanged compared to 31 December 2003.

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**BREMBO JAPAN CO. LTD.**

TOKYO (JAPAN)

*Activities: marketing of braking systems for the racing and motorbike sectors.*

Brembo Japan Co. Ltd. is Brembo's commercial company that handles the entire Asian market, as well as the specific market of Japan. Through the Tokyo office, it also provides first technical support to the customers in the area. Personnel at 31 December 2004 totalled 11 employees, the same number as 31 December 2003.

Net revenues 2004 amounted to JPY 461,825 thousand (€3,436 thousand), virtually unchanged from JPY 448,753 thousand (€3,427 thousand) in 2003 and the net result deteriorated from net income of JPY 8,430 thousand (€64 thousand) in 2003 to a loss of JPY 4,174 thousand (€31 thousand) in 2004, due to a series of extraordinary charges for company reorganisation and restructuring in the wake of the organisational and corporate changes occurring when Brembo Participations B.V. acquired a further 39% stake in the company.

**BREMBO SPOLKA ZO.O.**

CZESTOCHOWA (POLAND)

*Activities: Production and sale of braking systems.*

The plant is located in Czestochowa, and produces braking systems for the original car equipment.

The company reported net revenues 2004 of PLN 232,504 thousand (€51,309 thousand) versus PLN 149,144 thousand (€33,970 thousand) in 2003. In 2004, the company started to sell directly to its original equipment customers.

Net income improved noticeably from PLN 43,590 thousand (€9,619 thousand) in 2003 to PLN 3,736 thousand (€851 thousand).

At the end of the period, the company workforce increased to 279 compared to 211 at 31 December 2003.

**BREMBO POLAND SPOLKA ZO.O.**

DABROWA GORNIZCA (POLAND)

*Activities: production and sale of brake discs.*

The company became operational in early 2003.

Net revenues amounted to PLN 148,912 thousand (€32,862 thousand), up from PLN 88,626 thousand (€20,186 thousand) in 2003. This sharp growth in 2004 was attributable to the fact that the company was not yet operational in the first quarter 2003. Net income came to PLN 27,934 thousand (€5,944 thousand) versus PLN 9,493 thousand (€2,162 thousand) in 2003.

The amounts shown above are calculated in application of consolidation principles.

There were 281 employees at end of period, compared to 230 at 31 December 2003.

**FOMM – FONDERIE OFFICINE  
MECCANICHE MAPELLO S.P.A.**

MAPELLO (ITALY)

*Activities: production and sale of cast-iron components.*

The company is a cast-iron foundry that provides Brembo with a part of its growing need for high-quality pig iron used to produce disc brakes for both original equipment and the aftermarket.

Net revenue was generated almost entirely with Group companies and amounted to €34,352 thousand, up 20.3% compared to €28,560 thousand in 2003.

The net result showed a turnaround from a €80 thousand loss in 2003 to net income of €2,123 thousand in 2004 despite the fact that the rise in ferrous materials costs continues to weigh on the company's performance. In fact, the turnaround in the net result was exclusively attributable to the elimination of previous years' tax effects from the company's accounts in application of the provisions of Legislative Decree 6/03.

There were 123 employees on staff at period-end, reflecting an increase of 8 employees with respect to 31 December 2003.

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**MARCHESINI S.P.A.**

JERAGO CON ORAGO (ITALY)

*Activities: design and marketing of light-alloy wheels for motorbikes.*

The company has an important position in the design, manufacturing, and marketing of light-alloy wheels for road and racing motorcycles.

On 8 June, Marchesini S.r.l. was transformed into a joint-stock company, in order to make the company model homogenous with the other wholly-owned Brembo subsidiaries.

Net revenues generated in 2004 amounted to €4,185 thousand compared to €3,262 thousand in 2003. The net result of the same periods were respectively €398 thousand and €9 thousand. The increased profitability owes to the logistics and production reorganization plan completed in 2003 and the increased volumes of business.

There were 16 employees on staff at period-end, a slight increase from 14 at 31 December 2003.

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**BREMBO DO BRASIL LTDA.**

SÃO JOAQUIM DE BICAS (BRAZIL)

*Activities: manufacturing and marketing of brake discs for original equipment and the aftermarket.*

The company is headquartered in São Joaquim de Bicas, Minas Gerais and aims at promoting the presence of Brembo in the South American original-equipment market for brake discs and callipers and the aftermarket.

Thanks to new orders for original equipment and to the growth in exports to Europe, the company has successfully faced the crisis of the Brazilian market.

Net revenues amounted to BRL 59,648 thousand

(€16,416 thousand) and net income to BRL 3,521 thousand (€969 thousand), compared with BRL 40,535 thousand (€11,699 thousand) and BRL 2,893 thousand (€833 thousand) in 2003, respectively.

The workforce numbered 156 people at 31 December 2004: 16 more than at the same date of the previous year.

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**AP RACING LTD.**

COVENTRY (UNITED KINGDOM)

*Activities: production and sale of braking systems and clutch systems for cars and motorcycles, both for road and motor racing.*

AP Racing Ltd. ended FY 2004 with slightly improved net revenues and results compared to 2003. Net revenues increased from GBP 20,780 thousand (€30,033 thousand) to GBP 22,569 thousand (€33,261 thousand), and net loss decreased from GBP 937 thousand (€1,354 thousand) to GBP 554 thousand (€816 thousand).

At 31 December 2004 the workforce numbered 116, three more than at the end of December 2003.

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**BIBIELLE S.P.A.**

LEVATE (ITALY)

*Activities: production and sale of brake discs for original equipment and the aftermarket.*

The company is a wholly-owned subsidiary of Brembo S.p.A., operating through the rental of Bradi S.p.A. until end-February 2004 when the latter was acquired by Bibielle.

Net revenues at 31 December 2004 amounted to

€24,540 thousand versus €18,020 thousand in 2003.

Net income jumped 84.2% from €777 thousand in 2003 to €1,431 thousand in 2004.

Personnel at the end of December 2004 numbered 151 employees, 4 less than at 31 December 2003.

#### **BREMBO RASSINI S.A. DE C.V.**

PUEBLA (MEXICO)

*Activities: production and sale of brake discs.*

The company, a joint-venture between Brembo and the Sanluis Group of Mexico, manufactures and distributes brake discs for original equipment and the aftermarket. The original-equipment customers are European and Japanese carmakers with plants in the United States, while aftermarket products are largely distributed (through Brembo North America Inc.) for use in imported cars and sports utility vehicles (SUV).

The plant is located in Puebla, an industrial town about 100 kilometres south of Mexico City.

Production value amounted to MXN 518,757 thousand (€36,988 thousand) in 2004, up 18.3% from MXN 438,485 thousand (€35,918 thousand) in 2003.

Net income 2004 was MXN 24,832 thousand (€1,771 thousand), up from MXN 18,400 thousand (€1,507 thousand) in 2003.

The amounts shown above are calculated in application of consolidation principles.

At 31 December 2004, the staff numbered 273 persons, up from 263 a year earlier.

#### **CORPORACION UPWARDS 98 S.A.**

ZARAGOZA (SPAIN)

*Activities: manufacturing and sale of brake discs and drums.*

In 2004, the company began and completed the process of transferring operations from the Barcelona facility to the new production centre constructed in Saragossa, concentrating all operations at a single site in support of the company's business development.

Net sales revenues for 2004 amounted to €34,506 thousand, up from €30,670 thousand in 2003. Net income came to €1,699 thousand, net of €644 thousand in taxes; in 2003 net income was €1,122 thousand, net of €615 thousand in taxes.

There was a workforce of 178 at 31 December 2004, compared to 182 at 31 December 2003.

#### **BREMBO PARTICIPATIONS B.V.**

AMSTERDAM (THE NETHERLANDS)

*Activities: the company operates as a holding and owns most of the shares of Brembo's foreign subsidiaries.*

Wholly-owned by Brembo International S.A., Brembo Participations B.V. ended 2004 with net income of €331 thousand.

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**BREMBO INTERNATIONAL S.A.**

LUXEMBOURG (LUXEMBOURG)

*Activities: the company operates as a development holding aimed at fostering financial activity and trademark diffusion.*

This company, 100% owned by Brembo S.p.A., had no significant operational activities in 2004.

**BREMBO GMBH**

OTTOBRUNN (GERMANY)

*Activities: company in liquidation.*

The company, which until the end of 2003 was responsible for ceramic brake disc production, completed the process of transferring these operations to Brembo Ceramic Brake Systems S.p.A. as part of a joint-venture agreement signed with DaimlerChrysler AG, and in July it initiated liquidation procedures.

Net sales in 2004, all made to Group companies, totalled €1,409 thousand, against €3,603 thousand in 2003. Net income referring to the same periods amounted, respectively, €211 thousand and €262 thousand. The company is no longer operating as of 31 December.

**Companies Valued Using the Equity Method****SOFTIA S.R.L.**

ERBUSCO (ITALY)

*Activities: Internet-oriented information technology management.*

A 40% stake of the Company is held by Brembo; the company operates in the sector of Internet-oriented management software and technology. It develops software products for effective communication between the management software and the Internet.

FY 2004 closed with net income of €11 thousand, with a significant decrease compared to €217 thousand in 2003.

**NANJING YUEJIN AUTOMOTIVE BRAKE SYSTEM CO. LTD.**

NANJING (CHINA)

*Activities: Production and sale of braking systems.*

The company, resulting from the joint-venture between Brembo and the Chinese Group Yuejin, was incorporated in 2001.

Net sales at 31 December 2004 totalled CNY 59,327 thousand (€5,764 thousand), with a net loss of CNY 15,924 thousand (€1,547 thousand) attributable chiefly to business restructuring costs. Net revenues 2003 amounted to CNY 48,010 thousand (€5,127 thousand), with a net loss of CNY 7,648 thousand (€817 thousand).

**BREMBO CERAMIC  
BRAKE SYSTEMS S.P.A.**

STEZZANO (ITALY)

*Activities: design, production and marketing of braking systems in general and specifically, ceramic carbon brake discs for cars and industrial vehicles; research and development of new materials and applications; study and design of new production systems.*

The company was formed as a joint-venture held in equal stakes by Brembo and the German DaimlerChrysler AG, in January 2004.

Net sales at 31 December 2004 amounted to €9,257 thousand against a loss of €821 thousand, mainly due to the major investments made in research and development.

**Other Group Companies**

**FUNDIMAK S.A. DE C.V.**

PUEBLA (MEXICO)

*Activities: production and sale of brake discs.*

Brembo Participations B.V. holds 5.8% of Fundimak S.A. de C.V., a subsidiary of the Mexican Sanluis Group.

Fundimak S.A. de C.V., through the subsidiary Rassini Frenos, has a cast-iron foundry in Puebla that furnishes unfinished discs to the Brembo Rassini S.A. de C.V.

**INTERNATIONAL SPORT AUTOMOBILE  
S.A.R.L.**

LEVALLOIS PERRET (FRANCE)

*Activities: sale of products for racing cars and motorbikes.*

Brembo Participations B.V. holds a 10% stake in International Sport Automobile S.a.r.l. Its business targets the distribution of products for cars and motorbikes in the racing sector on the French market.

**Economic and Financial Highlights Broken Down by Industrial Centre**

(euro thousand)	Italy	Sweden	Spain	Poland	USA	Mexico	Japan	Benelux	UK	Brazil	Germany	Total consolidated
Sales of goods and services	552,760	503	34,507	84,170	25,204	36,988	3,436	0	36,899	16,416	1,410	792,293
Intra-group sales	(62,402)	(513)	(1,887)	(36,925)	(1,815)	(4,803)	(372)	0	(367)	(4,395)	(634)	(114,113)
Net sales to third parties	490,358	(10)	32,620	47,245	23,389	32,185	3,065	0	36,532	12,021	776	678,180
Total assets	377,112	1,362	36,207	75,748	15,230	29,387	1,452	11,638	37,728	8,947	822	595,633
Intangible fixed assets	4,959	0	69	37	0	8	0	18	0	21	0	5,112
Tangible fixed assets	47,695	4	2,674	16,413	180	5,005	13	0	939	946	2	73,870

## Relations with Related Parties

In 2004, Brembo S.p.A. purchased from its consolidated subsidiaries a total €71,128 thousand, and its sales to subsidiaries totalled €17,095 thousand, as opposed to €80,338 thousand and €32,338 thousand, respectively, in 2003.

Sales of products, services and the transfer of technical assets to and from different Brembo companies were carried out at prices equivalent to current market value, as is customary.

The trading volumes between the various Brembo companies reflect the internationalisation process (particularly the development of the production of braking systems for commercial vehicles in Poland), aimed at improving the operational and organisational standards as well as optimising the business synergies.

During the year, Brembo S.p.A. did not repay any loans nor did it open new loans in favour of subsidiaries and associated companies. The merger of Findisc S.r.l. into Brembo S.p.A. led to the elimination of the outstanding €1,500 thousand loan between the two companies.

Receivables and payables, sales and purchases between Group companies are detailed in Annexes 7 and 7b to the Notes to the

Consolidated Financial Statements for the year ended 31 December 2004.

Guarantees given on behalf of Group companies are detailed in the Notes to the Financial Statements of Brembo S.p.A.

During 2004, Brembo did not have any transactions with the holding company FourB S.r.l and there were no transactions with related parties under the categories mentioned in the Art. 71bis of the Issuing Regulations, except for fees paid to Directors.

Commercial transactions with other related parties totalled an insignificant amount and were conducted at arms-length terms.

At 31 December 2004 Brembo S.p.A. held 3,056,000 own shares, as provided for by the resolution passed by the Shareholders' Meeting on 26 April 2004 and previous resolutions.

Brembo S.p.A. and the other Group companies do not own either directly or indirectly through holding companies or other individuals, any shares or stock in the parent company.

Finally, for information on the transaction affecting the share capital of Brembo International S.A., the reader is referred to the specific comments in the Notes on Brembo S.p.A. Financial Statements.

### Buy-back Plan for Brembo S.p.A. Shares

The General Shareholders' Meeting of Brembo S.p.A. held on 26 April 2004 authorised the acquisition of 2.2 million treasury shares at a price of no less than the par value of €0.52 and no more than €7.00, to be executed over a period of 18 months following the date of the Shareholders' Meeting. The goal of the plan is to allow the Board of Directors to implement potential activities to stabilise the stock value on the market, proceed with potential acquisitions or commercial agreements with strategic partners, also using the acquired own shares as payment, and start a new Stock Option Plan for Brembo company executives.

No own shares were acquired during the year. As a result, at 31 December 2004, the company held 3,056,000 Brembo S.p.A. shares with a par value of €1,589,120 (corresponding to 4.38% of share capital) and a total cost of €16.4 million. The unit average book value is €5.36.

For the market prices of the Brembo stock during the last year, please refer to the section entitled "Brembo S.p.A. Stock Performance".

### Three-Year Incentive Plan

The meeting of the Board of Directors held on 24 September 2003 approved the plan entitled "Rewarding Corporate Performance Plan" for the three-year period of 2003-2005, payable in June 2006. The approved incentive plan introduces deferred compensation that rewards executive directors and top executives based on the medium-term operating performance of Brembo S.p.A. Consequently, this aligns the

interests of Shareholders and the management without binding the recognition of operating performance to the sometimes-erratic trends of the Stock Market.

The objectives to be achieved refer to several indicators, such as cash flow and ROI (A), on both a one-year and three-year basis. The value of the Rewarding programme and the procedures whereby this matures are detailed in specific regulations.

The plan access criteria have been updated for the year 2004, now including the CFO among the beneficiaries. In addition, a few adjustments were made to the financial statement data regarding the calculation for achieving objective targets. Approving the draft financial statements, the Board ratified and confirmed these exceptions which will be kept over time and transformed into standards for amending the regulations. The exceptions did not have a significant impact in 2004.

### Reform of Corporate Law with Regard to Financial Statements and Transition to the IAS/IFRS

This report was drawn up in accordance with the instructions and regulations that govern financial statement formulation, while taking into account the modifications introduced to the Civil Code by the Corporate Law Reform, as applicable to the Consolidated Financial Statements and Brembo S.p.A. Financial Statements.

These changes have also led to the addition of new items in the Balance Sheet and Income Statement.



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For more details, the reader is referred to the relevant section of the Notes on Brembo S.p.A. Financial Statements.

## **T**ransition to IAS/IFRS

### **Regulatory references**

With Regulation 1606/2002, the European Union has required that all companies listed on one or more European stock markets prepare their consolidated financial statements according to International Financial Reporting Standards (IFRS) starting with financial statements for the year 2005. On 30 December 2003, the Committee of European Securities Regulators (CESR) recommended that as of 1 January 2005 companies should also draw up infra-annual financial reports based on the IFRS applied in preparing consolidated financial statements.

In December 2004, the international financial reporting standards were published in the Official Gazette of the European Union.

Finally, on 17 February 2005, the CONSOB issued a consultation document regarding a transitory regime for infra-annual consolidated accounting reports for the year 2005 and approved by 30 September 2005, namely for the first and second quarters and the interim report.

### **Stages in the adjustment process**

The transition from the accounting principles that are currently used to draft Brembo's Consolidated Financial Statements to IFRS principles entails a series of preliminary activities. The financial statements for 2005, complying to IFRS, must

guarantee comparability with the figures for FY 2004. Consequently, Brembo must be in a position to draw up its opening balance sheet at 1 January 2004 based on these new principles.

In order to supervise this transition, Brembo has set up a workgroup dedicated to managing and implementing the project, and within this workgroup it has appointed a Steering Committee to monitor and validate the project.

Brembo will rely on KPMG that has gained a good working knowledge of the Group's accounting and business aspects through its auditing activities of Brembo's statutory and consolidated financial statements.

The conversion project is set up as follows:

- identification and subsequent quantification of the differences between current and IFRS principles;
- identification of the impacts on business processes and information systems;
- evaluation of training needs within the Group and organisation of information sessions to guarantee appropriate preparation and timely updates of the personnel involved;
- evaluation of the impacts on business and on internal and external communication.

At the current time, the company believes that the major impact areas in the transition to the new standards may be:

- IAS 19 employee benefits;
- IAS 38 intangible fixed assets and booking of development costs;
- IAS 36 treatment of goodwill.

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## Significant Events After 31 December 2004

In January, Brembo finalised an agreement with Harley Davidson to supply the entire braking system for the new Street Rod motorbike, a project that will contribute to strengthening the company's position in the North American market.

In February, the company illustrated to employees

and unions the details of its industrial plan regarding Italian production sites.

The plan calls for the streamlining of brake disc production in a single site integrated with cast iron foundry.

There were no other significant events between 31 December 2004 and 17 March 2005.

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## Foreseeable Evolution

In 2005, revenue growth in the various business areas is expected to remain in line with the pace set in 2004.

The cost of raw materials used in manufacturing processes is still at exceptionally high levels; the partial transfer of the increases experienced in 2004 to sales prices could have an impact on margins, especially in the first half of the year.

The company will pursue its efforts to achieve efficiency gains along the supply chain with a

view to limiting the impact on results.

In addition, though our main customers have continued to exert significant pressure on sales prices, the company will have to work to transfer the rise in the cost of raw materials price to them.

The industrial plan activated in the second half of 2004, calling for the streamlining of the Italian production sites, will continue into 2005, requiring major investments.



### Principles, Sources and Company Macrostructure

#### Principles

Brembo's System of Corporate Governance was implemented again in FY 2004, fully complying with the provisions of "Corporate Governance of Listed Companies" (Codice Preda) and those required for listing with the STAR segment.

Brembo strongly believes in the maxim "transparency, rules, ethics, and reputation" as the basis of its intangible assets, its brand name, and its value. These principles permeate its corporate culture and, at the national and international level, they represent a constant source of inspiration in business decisions, in human resource management policies, in corporate governance, and in relations with all stakeholders.

In this context, Brembo, in addition to structuring and upgrading its internal audit operations, is implementing an ethics training programme that will progressively involve its employees at all levels.

To offer investors a more detailed assessment tool, reference was made to the guidelines prepared by ASSONIME (February 2004) and to ASSONIME Analysis of November 2004 in order to draft this report.

The report, which has been published in Brembo's website ([www.brembo.com](http://www.brembo.com), section Investor Relations & Financial Info), was submitted to Borsa Italiana (the Italian Stock Exchange).

#### Sources (updated as of 31 December 2004)

- 1) **Corporate By-laws** (Resolution of the General Shareholders' Meeting dated 26/04/2004).
- 2) **Brembo Code of Corporate Governance** (which fully encompasses the Preda Code), the second edition of which was approved by the Board of Directors on 11 November 2002.

The following documents are an integral part of Brembo's Code of Corporate Governance:

- a) **Regulations of the Shareholders' Meetings**, approved by the General Shareholders' Meeting held on 3 May 2000;
  - b) **Appointment of the Investor Relator** (resolution passed by the Board of Directors on 12 November 2004, which amended the previous resolution of 28 June 2000);
  - c) **Procedure for the Disclosure of Privileged Information**, approved by the Board of Directors' Meeting of 28 June 2000 and later updated at the Board Meeting of 17 March 2005;
  - d) **Instructions for the Investor Relator**, approved by the Board of Directors on 28 June 2000;
  - e) **In-house procedure for press releases (price-sensitive information)**, approved by the Board of Directors on 28 June 2000;
- 3) **Delegation of powers of Brembo S.p.A.** approved by the Board of Directors on 11 November 2002, as subsequently amended.
  - 4) **Instructions governing regulatory requirements for notifying transactions with related parties and regulatory framework**, approved by the Board of Directors on 14 October 2002 and

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subsequently amended with the resolution passed by the Board of Directors on 13 May 2003.

- 5) **Code of Conduct regarding Internal Dealing**, approved by the Board of Directors on 19 December 2002 and subsequently amended with the resolution passed by the Board of Directors on 13 February 2004.
- 6) **Code of Ethics of Brembo S.p.A.**, approved by the Board of Directors on 11 November 2002 and distributed to all Company employees.
- 7) **Guidelines for Information to the Market**, acknowledged by the Board of Directors on 11 November 2002.
- 8) **Instructions governing the Board of Directors and the Shareholders' Meeting of Brembo S.p.A.**, drawn up by the Legal and Corporate Affairs Department on 30 May 2003.

The aforesaid documentation (in addition to documentation demonstrating fulfilment of the Preda Code) can be obtained from Brembo's Legal and Corporate Affairs Department. Any additional information can be requested from the Company's Investor Relations Office (ir@brembo.it).

## **C**orporate Macrostructure

The Brembo macrostructure is outlined in the By-laws in the version approved by the Extraordinary Shareholders' Meeting of 26 April 2004 acknowledging the changes deriving from the reform of corporate law and opting to maintain the so-called Traditional Model.

In addition:

- At 31 December 2004, the Company has issued

69,840,450 ordinary shares, each with voting rights. The company FourB S.r.l. (registered offices Bergamo) holds 39,026,796 shares, corresponding to 55.88% of total share capital; however, pursuant to Art. 2497-bis of the Italian Civil Code, this company plays no role in the management and coordination of Brembo S.p.A.

- It is specified that Brembo S.p.A. directs and coordinates its subsidiary companies, as illustrated in the 2004 Board of Directors' Report on Operations, directly or through Brembo Participations B.V. (which on 2 December 2004 was conferred to Brembo International S.A., accompanied by a capital increase in the latter).
- The Company has complied with the requirements pursuant to Art. 2497 bis of the Italian Civil Code.
- There are no syndicate agreements or other shareholder agreements.
- The Board of Directors holds exclusive responsibility for the extraordinary and ordinary operations of the Company, with the exception of the responsibilities that, by law and in accordance with the Company By-laws, are reserved for the Shareholders' Meeting.
- There are no situations that diverge from the provisions of the Preda Code: The Company has ensured the compliant establishment and due operation of the Corporate Bodies, the Audit Committee and the Remuneration Committee (composed of independent directors). Instead, no Nominations Committee was established, due to the fact that candidates for the office of Company Director are proposed by the Shareholders' Meeting.

## Implementation of Corporate Governance

### **G**eneral Shareholders' Meeting and Relations with Shareholders and Institutional Investors

After nominating Alberto Tazartes (already co-opted by the Board of Directors on 24 September 2003) as member of the Company's executive committee, the Shareholders' Meeting of 26 April 2004 approved the Brembo S.p.A. financial statements for the year ended 31 December 2003, the Board of Directors' Report on Operations, the Statutory Auditors' Report, and the Independent Auditors' Report.

The Shareholders' Meeting also: approved and expanded the mandate conferred to KPMG S.p.A. regarding operations for the year 2003; awarded the audit and certification mandate for the annual Financial Statements of Brembo S.p.A. and the Group consolidated financial statements for the years 2004, 2005, and 2006 and their respective interim reports to the Independent Auditors PricewaterhouseCoopers S.p.A.; approved the three-year incentive plan for top management (already approved by the Board of Directors on 24 September 2003, on the proposal of the Remuneration Committee), regarding several top managers for the Group and two executive directors of Brembo S.p.A. (Chairman – Managing Director and General Manager); renewed the treasury share buy-back plan; and adopted a new By-law text, updating it to comply with Legislative Decree 6/2003.

During 2004, the company continued its constant and useful dialogue with shareholders and

institutional investors shaped by compliance with the principles contained in the Guidelines for Information to the Market drawn up by Borsa Italiana.

More in detail, in compliance with the procedure for handling reserved and price-sensitive information, the company prepared a report directed to shareholders and institutional investors outlining the principles of fairness, timeliness, continuity, consistency, transparency, and equal access regarding information.

All operating and financial information, whether mandatory, periodical or voluntary, is disclosed not only according to the terms and procedures prescribed by laws in force, but also in the company Internet site ([www.brembo.com](http://www.brembo.com), "Investor Relations & Financial Info" section).

A major factor contributing to spreading and increasing the perception of company value is meeting the financial community. In 2004, more than 120 meetings were held with analysts and institutional investors, more than double the number in the previous years, including 30 held on the company premises.

Interest among the financial community remains high as numerous reports published by top Italian and foreign banks and brokerages testify (more than 60 research reports, with six new coverages started up during the year), as do the invitations to participate in international conferences (more than 10 in 2004).

In 2003, the Company began an initiative to keep private shareholders informed through a quarterly newsletter reporting comments on results for the period and the latest news on the Company's performance. The initiative was well received by the retail public and continued in 2004.

The Investor Relations activities are carried out by Corrado Orsi (Tel. +39 035 605 145; e-mail address: ir@brembo.it), Chief Financial Officer at Brembo S.p.A., working closely with the Managing Director.

On 12 November 2004, the Board of Directors nominated him to replace Roberto Vavassori.

## **B**oard of Directors, Relations with Related Parties, Internal Dealing

The Board of Directors of Brembo S.p.A., appointed by the Shareholders' Meeting held on 24 April 2002 and in office until the Shareholders' Meeting approving the Financial Statements for FY 2004, is composed of 11 Directors, four of whom at 31 December 2004 are Operational Directors (Alberto Bombassei, Cristina Bombassei, Stefano Monetini, Matteo Tiraboschi); there are seven Non-operational and Independent Directors (Paolo Biancardi, Giancarlo Dallera, Giovanna Dossena, Andrea Gibellini, Umberto Nicodano, Giuseppe Roma and Alberto Tazartes; the latter was confirmed by the Shareholders in their General Meeting of 26 April 2004).

Bruno Saita is Secretary to the Board of Directors.

Each Director deposited his or her CV at the Company Offices; all Directors meet the requirements set forth by the Preda Code, as verified by the meetings of the Board of Directors held on 13 February 2004 and 30 July 2004.

In 2004, the Board of Directors met six times at the company's registered offices.

Name	Non operating	Indep.	Operating	Other offices
Bombassei Alberto <i>Chairman</i>			X	8
Biancardi Paolo	X	X		4
Bombassei Cristina			X	1
Dallera Giancarlo	X	X		2
Dossena Giovanna	X	X		2
Gibellini Andrea	X	X		2
Monetini Stefano			X	3
Nicodano Umberto	X	X		6
Roma Giuseppe	X	X		2
Tazartes Alberto	X	X		3
Tiraboschi Matteo			X	12

### *Meetings of the Board of Directors - 2004*

Date of meeting	% attendance
13.02.2004	100%
22.03.2004	91%
14.05.2004	73%
30.07.2004	100%
23.09.2004	91%
12.11.2004	91%

Each company Director is informed at least five days before the Board Meeting about all items on the agenda. This is undertaken by sending a detailed analytical report that outlines the necessary elements (in descriptive and numerical terms) and allows Directors to make resolutions with full knowledge of the facts.

In addition to the functions attributed to it by law and by the Company By-laws, the Board of Directors is also responsible for the functions envisaged by the Code of Corporate Governance

approved on 11 November 2002. Thus, it is specifically responsible for analysing and sharing annual budgets and strategic plans. No changes were made to Directors' remuneration as deliberated by the Shareholders' Meeting of 24 April 2002, while the Shareholders' Meeting of 26 April 2004 approved the three-year incentive plan for top management, including two executive directors.

During the Board Meetings held on 13 February 2004, 30 July 2004 and 12 November 2004, information was provided regarding transactions with related parties on the part of several Directors of Brembo S.p.A. In terms of their object and nature, the Board did not consider them extraneous to the Company's normal course of business; these transactions did not present any particular critical elements, and they respected market values for transactions of this kind.

Lastly, among Relevant Parties there were no transactions exceeding the limitations set by the Code of Conduct regarding Internal Dealing.

### **D**elegation of Powers (approved by the Board of Directors on 11/11/2002)

In this regard no changes were made to what was illustrated in the 2003 report.

The Board of Directors, which is responsible for Company operations, granted the Managing Director ordinary administrative powers as well as certain extraordinary powers, including those to buy and sell realty, represent the Company in union relations, stipulate loans and financing to be repaid within 36 months, and grant and register mortgages. Therefore, the Board retains

the power to decide on the purchase and sale of stakes in other companies (M&A), the issuance of guarantees to third parties by Brembo S.p.A., and responsibilities regarding annual budgets and strategic plans.

The General Manager, the Business Unit Directors and other Central Directors are granted limited powers for ordinary administration in relation to the performance of their respective offices, regularly enrolled with the Company Register of Bergamo.

Information regarding the exercise of powers was submitted during the Board Meetings held on 13 February 2004, 30 July 2004 and 12 November 2004.

### **C**hairman of the Board of Directors and Managing Director

The Shareholders' meeting has confirmed Alberto Bombassei as Chairman of Brembo S.p.A. for the period 2002-2004. The Chairman is the Company's legal representative.

On 24 April 2002 the Board of Directors also appointed Alberto Bombassei as Managing Director of the Company, granting him the powers specified above.

The Chairman/Managing Director has properly carried out the responsibilities and tasks assigned to him.

### **A**udit Committee and Internal Audit Procedure

The work of the Audit Committee continued in 2004. The Committee was established with the resolution passed by the Board of Directors on 21



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February 2001 and it is composed of Non-operational Independent Directors – Giuseppe Roma (Chairman), Andrea Gibellini and Giovanna Dossena – whose role is to submit proposals and provide consultancy.

The Audit Committee held three meetings (on 05/03/04, 14/05/04 and 05/11/04). During these meetings, the internal auditing activities were broadly analysed and the efficiency of corporate transactions, the reliability of financial information, observance of the law and the regulations, and protection of corporate assets were widely monitored, as provided for by the Code of Corporate Governance.

The Chairman of the Board of Statutory Auditors, Sergio Mazzoleni, also participated in these meetings, either directly or through a representative.

The Managing Director and the Board of Directors were duly informed of the results of the activities of the Audit Committee through the reports submitted by the Committee Chairman, Giuseppe Roma, during the Board Meetings of 22 March 2004 and 12 November 2004.

The Company continued to actively carry out internal audits and risk prevention measures to ensure effective compliance with the Company's code of conduct acknowledged in the Code of Ethics.

As prescribed in the Internal Audit Procedure approved by the Board at the time, internal audits are oriented in two directions: risk prevention, on the one hand, and direct action to detect and eliminate irregularities.

Four operating audits were planned and carried out in the risk prevention area. As for direct action, two initiatives were previously planned on the orders of the Managing Director; during the

year the number was increased to twelve on the specific request of top management, also in the wake of the Audit Unit reports.

These actions detected no particularly noticeable irregularities or direct responsibility on the part of employees in the execution of their tasks; the results were included in a detailed report to the Managing Director and the General Manager.

## **L**egislative Decrees 231/01 and 61/02

In 2004, all the necessary actions (Code of Ethics, Mandates, Procedures, etc.) aimed at setting up a company Organisation, Management and Control System (in compliance with the "Confindustria Guidelines" of 24 May 2004) which, pursuant to the provisions of Art. 6 Legislative Decree 231/2001, is aimed at ensuring Brembo's non-liability for crimes pursuant to the same Legislative Decree 231/2001 and Legislative Decree 61/2002.

More in detail, at the conclusion of the initiatives undertaken, the Board of Directors' Meeting of 30 July 2004 appointed a Surveillance Committee, consisting of Giovanna Dossena (Chairwoman), Giuseppe Roma, and Umberto Simonelli, endowed with the necessary autonomy, independence, and professionalism. The task of this committee is to monitor the effectiveness of the Organisation, Management and Control Model, analyse its appropriateness and its functioning and robustness over time, and make sure that it is updated as necessary. The Model was presented to the Board of Directors' Meeting of 12 November 2004 and later approved by the Board of Directors' Meeting of 11 February 2005.

## **R**emuneration Committee

The Remuneration Committee, established with the resolution passed by the Board of Directors on 21 February 2001, is composed of Non-operational and Independent Directors: Umberto Nicodano, Paolo Biancardi and Giancarlo Dallerà. In 2004, the committee held one meeting (26 April 2004) of which minutes were taken. In detail, the committee passed a resolution to present the Board of Directors with the three-year incentive plan (illustrated above in a specific section).

## **B**oard of Statutory Auditors

The Board of Statutory Auditors was nominated by the Shareholders' Meeting of 24 April 2002; it consists of the following members: Sergio Mazzoleni (Chairman), Enrico Cervellera (Statutory Auditor), Andrea Puppo (Statutory Auditor),

Giuseppe Marangi (Alternate Auditor), Mario Tagliaferri (Alternate Auditor), all possessing the prerequisites established by law and the Preda Code.

In 2004, the Board met five times, on 22/03/2004, 05/04/2004, 22/06/2004, 23/09/04 and 16/12/2004, and it regularly attended all the meetings of the Board of Directors.

## **P**rivacy

In accordance with the personal data protection code, Legislative Decree 196/2003, Brembo S.p.A. has drafted and updated the prescribed "Security Planning Document" and has implemented all the measures prescribed therein, extended also to its subsidiary companies with registered offices in Italy.

More in detail, the Company planned and carried out the necessary initiatives at organisational, technical, and training levels.

In compliance with CONSOB Resolution No. 11971 of 14 May 1999, data on share movements by Directors, Auditors and General Managers during 2004 are given below:

	<i>Shares at 31.12.2003</i>	<i>Shares purchased</i>	<i>Shares sold</i>	<i>Shares at 31.12.2004</i>	<i>Ownership position</i>	<i>Ownership method</i>
Alberto Bombassei	0	0	0	0	N/a	N/a
Alberto Bombassei (FourB)	39,066,796	0	40,000	39,026,796	F	I
Paolo Biancardi	0	0	0	0	N/a	N/a
Cristina Bombassei	56,640	0	0	56,640	F	D
Giancarlo Dallerà	0	0	0	0	N/a	N/a
Giovanna Dossena	0	0	0	0	N/a	N/a
Andrea Gibellini	0	0	0	0	N/a	N/a
Stefano Monetini <sup>(1)</sup>	28,050	0	0	28,050	F	D
Umberto Nicodano	0	0	0	0	N/a	N/a
Giuseppe Roma	5,000	1,000	0	6,000	F	D
Alberto Tazartes	54,687	0	0	54,687	F	D
Matteo Tiraboschi	0	0	0	0	N/a	N/a
<b>Board of Statutory Auditors</b>						
Sergio Mazzoleni <sup>(2)</sup>	17,500	0	0	17,500	F	I
Enrico Cervellera	0	0	0	0	N/a	N/a
Andrea Puppo	0	0	0	0	N/a	N/a

Legend: D = direct control  
I = indirect control (through third parties, subsidiaries or trustees)  
F = full ownership  
N/a= not applicable

<sup>(1)</sup> He also holds the position of General Manager in Brembo S.p.A.

<sup>(2)</sup> It is noted that SEA S.n.c. 30% held by Auditor Sergio Mazzoleni and 20% held by his spouse, holds 17,500 shares, although it is deemed that this is not relevant with reference to Consob resolution No. 11971 of 14 May 1999.

## Information About the Brembo S.p.A. Dividend Proposal

To conclude our report regarding the Financial Statements of Brembo S.p.A. for the year ended 31 December 2004, based on the examination of our Report and the Notes to the Financial Statements, in which we also outlined the programmes and operating trends for the current year, we submit for your approval our proposal for distributing the entire net income of Brembo S.p.A. amounting to €30,899,786 as follows:

- to the ordinary reserve, 5% equivalent to €1,545,000, rounded off;
- to the non-distributable reserve pursuant to Art. 2426, Paragraph 8bis, €547,000;
- to the shareholders a gross dividend of €0.18 per ordinary share outstanding at that time, consequently excluding own shares, on their date of payment;
- the balance to the extraordinary reserve.

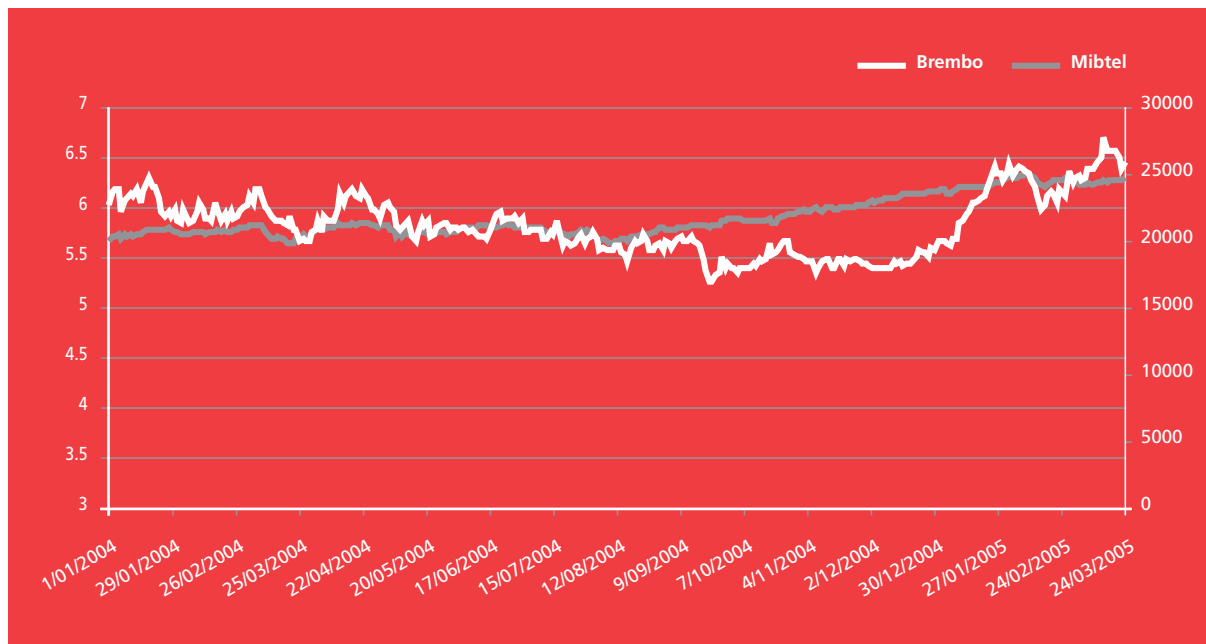
It is also proposed that dividends should be paid starting 12 May 2005.

*Curno, 17 March 2005*

### Board of Directors

Alberto Bombassei	<i>Chairman</i>
Paolo Biancardi	<i>Director</i>
Cristina Bombassei	<i>Director</i>
Giancarlo Dallera	<i>Director</i>
Giovanna Dossena	<i>Director</i>
Andrea Gibellini	<i>Director</i>
Stefano Monetini	<i>Director</i>
Umberto Nicodano	<i>Director</i>
Giuseppe Roma	<i>Director</i>
Alberto Tazartes	<i>Director</i>
Matteo Tiraboschi	<i>Director</i>

## Brembo S.p.A. Stock Performance



The Brembo share performance from the start of the year to mid-May 2004 reflected the Dow Jones Eurostoxx Auto index, the European auto and automotive components sector index.

After mid-May the share remained weak, closing the year 9% below its initial price of €6.11, going the opposite direction of both the European industry average, which ended the year mostly unchanged, and the MIBTEL, the general index of the Milan Stock Exchange, which gained around 16%.

Even the Bloomberg Europe Auto Parts and Equipment index closed the year 2004 with a gain of 34%, mainly driven by the performance of European tyre manufacturers.

The trading range during the January-July period was €5.7–€6.2. After the share price fell below €5.7, another trading range formed between €5.3 and €5.7, holding throughout the August-December period.

The trend in the share price inverted sharply in the first quarter 2005: in January alone, the share gained 13% from its opening level of €5.5 to €6.3 by month end. The share price reached a new high on 22 March, closing at €6.7.

An overview of stock performance of Brembo S.p.A. is given below and compared with that of the previous year.

	31.12.2004	31.12.2003
Share capital (euro)	36,317,034	36,317,034
No. of ordinary shares	69,840,450	69,840,450
Net shareholders' equity (without income for the year) (euro)	134,205,214	123,840,375
Net income for the year (euro)	30,899,786	19,045,995
Net income per share (euro)	0.442	0.273
Trading price (euro)		
<i>Minimum</i>	5.23	4.23
<i>Maximum</i>	6.33	6.05
<i>Year end</i>	5.55	6.01
Stock Exchange capitalisation (euro million)		
<i>Minimum</i>	365	295
<i>Maximum</i>	442	423
<i>Year end</i>	387	420
Gross dividend per share (euro)	(*) 0.18	0.13

(\*) To be approved by the Shareholders' Meeting convened on 29 April 2005

The three main shareholders of Brembo S.p.A at 10 January 2005 are:

	% ownership
FourB S.r.l.	55.94%
Wellington Management Company LLP	2.09%
J.P. Morgan Fleming Asset Management Ltd	1.87%

Further information and updates regarding stock performance and corporate information are provided in the financial section of the corporate website at: [www.brembo.com](http://www.brembo.com)

section: *Investor Relations & Financial Info*

Investor Relator: *Corrado Orsi*

On behalf of the Board of Directors

The Chairman  
*Alberto Bombassei*



*An object's design is the visible expression of its uniqueness and quality.*

*Production and aesthetics, efficiency and design, rationality and beauty: considered not as opposites but as complements, these are the real faces of innovation's conception and of the Brembo corporate culture. The Golden Compass, the most prestigious international award for design, was awarded to Brembo in 2004 in recognition of the company's commitment to the quality of its products.*



# Brembo: Consolidated Financial Statements at 31 December 2004

Ventesimo Premio  
Compasso d'Oro ADI

**Impianto frenante**  
Disco e pinza per freno in carbonio ceramico

**Brembo Technical Department**  
Designer

**Brembo**  
Produttore

## Compasso d'Oro



### Giuria

Gilo Dorfles, presidente onorario  
Richard Sapper, presidente  
Fulya Erdemci  
Robert Fitzpatrick  
Yutaka Mino  
Piero Petrarca  
Angela Schönberger  
Tomáš Vlček

16 Settembre 2004

"If it were not a brake, it would be a sculpture worthy of any museum of modern art."  
(The Panel's statement)



## Brembo: Consolidated Financial Statements at 31 December 2004

### Balance Sheet - Assets

(euro thousand)

	31.12.2004	31.12.2003	Change
<b>(A) Called-up share capital to be received</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>(B) Fixed assets</b>			
<b>I Intangible fixed assets:</b>			
1 Start-up and capital costs	185	379	(194)
2 R&D and advertising costs	25	377	(352)
3 Industrial patents and similar rights for original work	1,687	1,608	79
4 Licences, trademarks and similar rights	279	177	102
5 Goodwill	11,524	13,710	(2,186)
6 Assets in course of construction and payments on account	17	0	17
7 Other	8,216	8,446	(230)
8 Consolidation difference	31	1,004	(973)
<b>Total intangible fixed assets</b>	<b>21,964</b>	<b>25,701</b>	<b>(3,737)</b>
<b>II Tangible fixed assets:</b>			
1 Land and buildings	92,443	75,463	16,980
2 Plant and machinery	90,087	85,523	4,564
3 Industrial and commercial equipment	17,298	17,145	153
4 Other assets	5,597	4,220	1,377
5 Assets in course of construction and payments on account	11,372	1,275	10,097
<b>Total tangible fixed assets</b>	<b>216,797</b>	<b>183,626</b>	<b>33,171</b>
<b>III Financial fixed assets:</b>			
1 Shareholdings in:			
b. associated companies	8,708	4,929	3,779
d. other companies	4,476	4,476	0
2 Receivables:			
d. other			
<i>due within one year</i>	6	223	(217)
<i>due after one year</i>	234	237	(3)
3 Other securities	1,033	1,033	0
4 Own shares:			
a. book value	16,389	16,389	0
<b>Total financial fixed assets</b>	<b>30,846</b>	<b>27,287</b>	<b>3,559</b>
<b>Total fixed assets</b>	<b>269,607</b>	<b>236,614</b>	<b>32,993</b>

(euro thousand)

31.12.2004

31.12.2003

Change

**(C) Current assets**

**I Inventories:**

1 Raw materials, ancillaries and consumables	47,682	42,399	5,283
2 Work in progress and semi-finished products	19,176	18,305	871
4 Finished products and goods	51,774	49,159	2,615
5 Payments on account	43	33	10
<b>Total inventories</b>	<b>118,675</b>	<b>109,896</b>	<b>8,779</b>

**II Receivables:**

1 Trade receivables			
<i>due within one year</i>	147,468	147,618	(150)
<i>due after one year</i>	2,166	0	2,166
3 Receivables from associated companies			
<i>due within one year</i>	2,209	634	1,575
4 <sup>bis</sup> Receivables from taxation authorities			
<i>due within one year</i>	19,733	1,457	18,276
<i>due after one year</i>	203	37	166
4 <sup>ter</sup> Deferred tax assets			
<i>due after one year</i>	1,005	1,953	(948)
5 Other			
<i>due within one year</i>	3,102	12,627	(9,525)
<i>due after one year</i>	0	38	(38)
<b>Total receivables</b>	<b>175,886</b>	<b>164,364</b>	<b>11,522</b>

**IV Liquid assets:**

1 Bank and postal accounts	27,392	33,305	(5,913)
3 Cash-in-hand and cash equivalents	124	54	70
<b>Total liquid assets</b>	<b>27,516</b>	<b>33,359</b>	<b>(5,843)</b>
<b>Total current assets</b>	<b>322,077</b>	<b>307,619</b>	<b>14,458</b>

**(D) Prepayments and accrued income:**

b. Other prepayments and accrued income	3,949	2,978	971
<b>Total prepayments and accrued income</b>	<b>3,949</b>	<b>2,978</b>	<b>971</b>
<b>TOTAL ASSETS</b>	<b>595,633</b>	<b>547,211</b>	<b>48,422</b>

## Brembo: Consolidated Financial Statements at 31 December 2004

### Balance Sheet - Liabilities

(euro thousand)

31.12.2004

31.12.2003

Change

#### (A) Shareholders' equity

<b>I Share capital</b>	<b>36,317</b>	<b>36,317</b>	<b>0</b>
<b>II Share premium reserve</b>	<b>26,650</b>	<b>26,650</b>	<b>0</b>
<b>III Revaluation reserves</b>	<b>13,507</b>	<b>13,507</b>	<b>0</b>
<b>IV Legal reserve</b>	<b>5,212</b>	<b>4,260</b>	<b>952</b>
<b>VI Reserve for own shares in portfolio</b>	<b>16,389</b>	<b>16,389</b>	<b>0</b>
<b>VII Other reserves:</b>			
– Reserve Law 46/82	98	98	0
– Extraordinary reserve	20,021	10,608	9,413
– Reserve arising on consolidation	47,567	37,260	10,307
– Reserve for cumulative translation adjustment	(14,295)	(17,729)	3,434
– Own share purchasing reserve	15,400	15,400	0
– Merger surplus	54	54	0
<b>IX Income (loss) for the year</b>	<b>34,330</b>	<b>29,303</b>	<b>5,027</b>
<b>Total Group shareholders' equity</b>	<b>201,250</b>	<b>172,117</b>	<b>29,133</b>
<b>X Shareholders' equity attributable to minority interests</b>	<b>8,667</b>	<b>8,223</b>	<b>444</b>
<b>XI Income attributable to minority interests</b>	<b>1,085</b>	<b>900</b>	<b>185</b>
<b>Total shareholders' equity attributable to minority interests</b>	<b>9,752</b>	<b>9,123</b>	<b>629</b>
<b>Total shareholders' equity</b>	<b>211,002</b>	<b>181,240</b>	<b>29,762</b>

#### (B) Provisions for contingencies and charges:

1 For pensions and similar provisions	112	0	112
2 For taxation, including deferred taxes	7,877	5,448	2,429
3 Other	1,254	530	724
<b>Total provisions for contingencies and charges</b>	<b>9,243</b>	<b>5,978</b>	<b>3,265</b>

#### (C) Employees' leaving entitlement

22,009

19,622

2,387

#### (D) Payables:

4 Payables to banks			
<i>due within one year</i>	105,284	82,033	23,251
<i>due after one year</i>	44,279	61,818	(17,539)

(euro thousand)	31.12.2004	31.12.2003	Change
5 Payables to other financial institutions			
<i>due within one year</i>	2,516	3,383	(867)
<i>due after one year</i>	19,092	19,934	(842)
6 Payments on account			
<i>due within one year</i>	160	105	55
7 Trade payables			
<i>due within one year</i>	136,907	130,024	6,883
<i>due after one year</i>	10	0	10
10 Payables to associated companies			
<i>due within one year</i>	1,006	2,370	(1,364)
12 Payables to taxation authorities			
<i>due within one year</i>	4,980	15,939	(10,959)
<i>due after one year</i>	0	1,371	(1,371)
13 Social security charges			
<i>due within one year</i>	6,578	5,436	1,142
<i>due after one year</i>	620	317	303
14 Other payables			
<i>due within one year</i>	15,042	12,808	2,234
<i>due after one year</i>	12,792	1,325	11,467
<b>Total payables</b>	<b>349,266</b>	<b>336,863</b>	<b>12,403</b>

#### **(E) Accruals and deferred income**

2 Other accruals and deferred income	4,113	3,508	605
<b>Total accruals and deferred income</b>	<b>4,113</b>	<b>3,508</b>	<b>605</b>
<b>TOTAL LIABILITIES</b>	<b>595,633</b>	<b>547,211</b>	<b>48,422</b>

#### **Balance Sheet – Memorandum and Contingency Accounts**

3 Purchase commitments	25,180	15,127	10,053
4 Sales commitments	0	9,656	(9,656)
5 Other memorandum accounts	9,069	8,676	393
<b>TOTAL MEMORANDUM ACCOUNTS</b>	<b>34,249</b>	<b>33,459</b>	<b>790</b>

## Brembo: Consolidated Financial Statements at 31 December 2004

### Income Statement

(euro thousand)

31.12.2004

31.12.2003

Change

#### (A) Production value

1 Sales of goods and services	678,180	633,728	44,452
2 Change in inventories, work in progress, semi-finished and finished goods	8,289	4,871	3,418
4 Increase on internal works capitalised	0	10	(10)
5 Other revenues and income:			
a. contributions to period accounts	190	120	70
b. other revenues and income	10,822	6,026	4,796
<b>Total production value</b>	<b>697,481</b>	<b>644,755</b>	<b>52,726</b>

#### (B) Production costs

6 Raw materials, ancillaries, consumables and goods	334,224	295,149	39,075
7 Services	118,327	110,312	8,015
8 Use of third-party assets	8,643	7,730	913
9 Personnel expenses:			
a. wages and salaries	95,139	93,128	2,011
b. social security contributions	28,520	27,446	1,074
c. employees' leaving indemnities	5,196	5,217	(21)
d. pensions and similar provisions	771	676	95
e. other costs	4,599	4,372	227
10 Amortisation, depreciation and write-downs:			
a. amortisation of intangible fixed assets	8,659	11,655	(2,996)
b. depreciation of tangible fixed assets	34,211	34,301	(90)
c. other amortisation, depreciation and writedowns	0	495	(495)
d. Write-down of receivables included in current assets and liquid assets	542	969	(427)
11 Change in inventories of raw materials, ancillaries, consumables and goods	(2,931)	(3,228)	297
12 Provision for contingencies	698	175	523
13 Other provisions	421	152	269
14 Other operating costs	2,101	2,066	35
<b>Total production costs</b>	<b>639,120</b>	<b>590,615</b>	<b>48,505</b>
<b>Difference between production value and costs</b>	<b>58,361</b>	<b>54,140</b>	<b>4,221</b>

#### (C) Financial income and charges

15 Income from shareholdings:			
– from subsidiary companies	1	2	(1)

<i>(euro thousand)</i>	31.12.2004	31.12.2003	Change
– from other companies	0	35	(35)
<b>16 Other financial income:</b>			
b. securities entered in fixed assets not constituting equity investments	13	27	(14)
c. securities entered in current assets not constituting equity investments	0	56	(56)
d. other income			
– from others	505	536	(31)
<b>17 Interest and other financial charges:</b>			
– from others	(5,261)	(6,110)	849
17 <sup>bis</sup> Exchange gains and losses:			
– currency exchange gains	10,669	8,207	2,462
– currency exchange losses	(6,654)	(9,015)	2,361
<b>Total financial income and charges</b>	<b>(727)</b>	<b>(6,262)</b>	<b>5,535</b>

#### **(D) Adjustments of financial assets value**

18 Revaluations:			
a. of shareholdings	4	81	(77)
b. of financial assets not constituting investments	1	6	(5)
19 Write-downs:			
a. of shareholdings	(734)	(248)	(486)
<b>Total adjustments of financial assets value</b>	<b>(729)</b>	<b>(161)</b>	<b>(568)</b>

#### **(E) Non-recurring income and charges**

20 Income:			
– gains from transfers whose revenues cannot be posted under No. 5	2,702	3,327	(625)
– other income	26	0	26
21 Charges:			
– taxes from previous periods	(1,501)	(121)	(1,380)
– other charges	(59)	(1)	(58)
<b>Total non-recurring income and charges</b>	<b>1,168</b>	<b>3,205</b>	<b>(2,037)</b>
<b>Income before taxation</b>	<b>58,073</b>	<b>50,922</b>	<b>7,151</b>
22 Income taxes for the year, current, deferred, and prepaid taxes	(22,658)	(20,719)	(1,939)
<b>Net income (loss) before minority interests</b>	<b>35,415</b>	<b>30,203</b>	<b>5,212</b>
Net (income) loss of minority interests	(1,085)	(900)	(185)
<b>23 INCOME (LOSS) FOR THE YEAR</b>	<b>34,330</b>	<b>29,303</b>	<b>5,027</b>

## Brembo Structure

In the vehicle industry components sector, Brembo is active in the research, design, production and sale of disc brake systems, wheels and light alloy and metal casting for various sectors such as the automotive industry, motorbikes and industrial applications, in addition to mechanical processes in general.

The extensive product range consists of high-performance brake callipers, brake discs, wheel-side modules, complete braking systems and integrated engineering services. All of these complement the development of new models placed on the market by vehicle manufacturers. Brembo's products and services are used in the automotive industry, for light commercial and heavy industrial vehicles, motorbikes, racing competitions.

Production takes place in Italy, Spain, Poland, the United Kingdom, Mexico, Brazil, and also in the plants of the associated company in China. Products are also marketed through companies located in Japan, Sweden, the United Kingdom and the United States.

## Form and Content of the Consolidated Financial Statements

The Consolidated Financial Statements for the year ended 31 December 2004 have been drafted in accordance with corporate financial statement law in force pursuant to Legislative Decree 127/91, taking into account changes introduced into the Italian Civil Code by the reform to corporate law with Legislative Decree No. 6 of 17 January 2003 insofar as applicable to such financial statements. In order to present a comprehensive situation, the table for reconciliation between the Shareholders' Equity and Income for the period of Brembo S.p.A. and the Shareholders' Equity and Income for the period recorded in the Consolidated Financial Statements, the reclassified Balance Sheet and Income Statements included in the Report on Operations, and the Consolidated Cash Flow Statement, included in the Notes are also provided. The Consolidated Financial Statements include Financial Statements at 31 December 2004 of Brembo S.p.A., the Parent Company, and the financial statements of the subsidiaries in which Brembo S.p.A. directly or indirectly holds more than 50% of the share capital, and which are long-term investments. The "line-by-line method" was used for the consolidation of these companies.

Annex 1 lists the companies included in the consolidation area.

The consolidation area did not change compared to 31 December 2003.

On 4 October 2004, Brembo Participations B.V. acquired a further 39% in the subsidiary company Brembo Japan Co. Ltd., lifting its total equity investment to 90%.

On 2 December, Brembo S.p.A. fully underwrote a capital increase in its subsidiary Brembo International S.A. through the conferment of the equity investment held in the Netherlands holding Brembo Participations B.V.

On 30 November 2004, the merger of Findisc S.r.l. into Brembo S.p.A. was finalised.

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## 31 December 2004

Companies in which Brembo S.p.A. directly or indirectly holds a 20% to 50% stake were assessed using the equity method and are listed in Annex 2.

Based on the agreement signed on 4 November 2003 between Brembo S.p.A. and DaimlerChrysler AG, the new company, Brembo Ceramic Brake Systems S.p.A. was incorporated in January 2004. The company, in which the two shareholders hold an equal interest, handles the research, development and production of ceramic carbon brake discs for top-performance cars.

The stake in Nanjing Yuejin Automotive Brake System Co. Ltd. was valued using the equity method, the same method used in the 2003 financial statements, considering a 25.4% stake. Based on the current agreements in force with the Chinese partner, Brembo's contribution to the joint venture is expected to reach 27.7% instead of the 35% originally agreed.

Less significant holdings, i.e. those in which the stake held is less than 20%, are assessed at cost and listed in Annex 3.

The Group Consolidated Financial Statements are prepared by the Boards of Directors on the basis of financial statements for the year ended 31 December 2004 or, when available, of financial statements approved at the Shareholders' Meetings of the relevant consolidated companies, appropriately adjusted to standardise them with Group classification criteria and accounting principles. The Income Statements of companies acquired or sold during the year are usually accounted for based on the period of Brembo ownership.

The accounting principles applied in the Consolidated Financial Statements are the same as those adopted by Brembo S.p.A.

Exceptions to this are assets held via leasing contracts (detailed ahead) and the evaluation of stakes in associated companies conducted using the equity method rather than the cost method normally used to draft the financial statements.

The administrative period and the closing date for preparing the Consolidated Financial Statements correspond to the ones for the financial statements of the Parent Company and all the consolidated subsidiaries.

For simplicity's sake, amounts in the Consolidated Financial Statements are shown in thousands of euro.

Post balance sheet events and relations with related parties are described in the special section of the Director's Report on Operations.



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## Consolidation Criteria

The main consolidation policies applied in compliance with Article 31 and the following articles of Legislative Decree 127/91 are described below.

- The assets and liabilities of the companies consolidated on a line-by-line basis are stated in the Group Financial Statements by eliminating the book value of the investments against the shareholders' equity of the relevant affiliated companies, net of the income for the year. Any surcharge with respect to the book value of shareholders' equity at the date of acquisition is attributed to the single items in assets and liabilities to which the difference refers. Any surplus attributable to goodwill is entered under the item "Consolidation difference". Following better definition of the value of the assets and liabilities that have been taken on, the above process for attributing the surcharge can be reviewed within the financial period following the one in which the acquisition was made. Other differences arising from the elimination of the book value of the investment against the value of the shareholders equity of subsidiaries are entered in the item "Reserve arising on consolidation". If the acquired company suffers losses in the years immediately after its acquisition, any excess will be entered into the "Consolidation provision for future contingencies and charges". The item "Reserve arising on consolidation" includes changes in the equity of subsidiary companies generated after their acquisition, except changes attributable to exchange rate differences and results for the period. Shareholders' equity and income for the year of subsidiary companies attributable to minority interests are calculated on the basis of the financial statements adjusted to comply with Group accounting principles. They are separately recorded under the items "Shareholders' equity attributable to minority interests" on the Balance Sheet and "Income of minority interests" in the Income Statement.
- Significant intra-Group income and losses, not yet realised with third parties, are eliminated, as are intra-Group receivables and payables, costs and revenues formed by the companies consolidated on a line-by-line basis. In particular, the book value of tangible fixed assets was reduced to account for unrealised internal income on the transfer of assets between consolidated companies. The book value of inventories was decreased by unrealised internal profit on the transfer of assets that are retained as inventory with consolidated companies at the end of the financial year. Tax effects arising from consolidation adjustments are stated in the "Provision for deferred taxation" or in the "Prepaid taxes" items.
- Items in the Balance Sheets and Income Statements of foreign consolidated companies made exclusively in application of tax regulations have been eliminated, taking deferred taxation into account when necessary. In particular, the effects of amortisation exceeding the economic/technical allowances have been eliminated for fiscal purposes only.
- Financial statements expressed in foreign currencies for foreign subsidiaries consolidated on a line-by-line basis, and for foreign affiliated companies evaluated using the equity method, were

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## Explanatory Notes to the Consolidated Financial Statements at 31 December 2004

converted into the currency of account using the exchange rate in force at year-end for the Balance Sheet and the average exchange rate for the year for the Income Statement. Conversion differences arising from the adjustment of the initial shareholders' equity to year-end rates and differences due to the various methods used to translate results for the year are stated in the shareholders' equity among other reserves, under "Reserve for cumulative translation adjustment". The following table shows the exchange rates used in the conversion of financial statements expressed in foreign currencies.

<i>Exchange</i>	<i>At 31.12.2004</i>	<i>Average 2004</i>	<i>At 31.12.2003</i>	<i>Average 2003</i>
<b>Euro against other currencies</b>				
US Dollar	0.734160	0.804344	0.791766	0.884269
Japanese Yen	0.007161	0.007441	0.007405	0.007636
Swedish Krona	0.110857	0.109591	0.110132	0.109597
Polish Zloty	0.244828	0.220679	0.212680	0.227764
Mexican Peso	0.065809	0.071302	0.070615	0.081915
Pound Sterling	1.418339	1.473761	1.418842	1.445300
Brazil Real	0.276676	0.275219	0.273023	0.287867
Chinese Renminbi	0.088667	0.097150	0.095624	0.106796

## Accounting Principles and Valuation Criteria

The accounting principles and valuation criteria used to draw up the Consolidated Financial Statements comply with the ones adopted during the previous year, and they are described below in relation to the most significant items.

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### Intangible Fixed Assets

Intangible fixed assets are stated at cost. These assets are entered in the accounts net of amortisation, which is calculated on a straight-line basis, generally over five years, and in accordance with the estimated useful life. Exception is made for amortisation of the costs incurred by new multiannual projects, which are amortised over a three-year period, and the costs incurred by improvements made on leased assets, which are amortised based on the duration of the leasing contract. The items "Goodwill" and "Consolidation Difference" are entered net of amortisation charges, calculated according to the period of estimated future use and determined specifically for each purchase for a period not exceeding ten years.

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## Tangible Fixed Assets

Tangible fixed assets are stated in the accounts at purchase or construction cost, including directly attributable accessory charges. This cost is sometimes adjusted in line with national legislation, allowing for its monetary revaluation.

Tangible fixed assets are stated net of accumulated depreciation, which is calculated on the basis of rates that are representative of the economic and technical life of the assets. The depreciation rates used for the most part are the following:

Buildings	3% - 5%
Plant and machinery	10% - 20%
Industrial and commercial equipment	25% - 40%
Furniture and fixtures	10% - 20%
Motor vehicles	20% - 25%

For assets acquired during the year, depreciation begins in the month the asset comes into service. Brembo S.p.A. conducted an analysis of the useful life of its assets; the result led to a revision of the useful life of assets currently in service.

Recurrent maintenance and repair costs are charged to the Income Statement for the year in which they occur. Maintenance and repair costs that increase the value or the economic life of the asset are capitalised.

For goods that are held under leasing contracts the principles of International Accounting Standard No. 17 are applied. This requires such goods to be entered under tangible fixed assets at their original value, depreciated at the rate applicable for each asset. The item "Payables to other financial institutions" shows the amount due to the financial institution for an amount equal to the capital share of the instalment payments still due. The depreciation and the financial charges for the year are entered in the Income Statement, in place of paid instalments.

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## Financial Fixed Assets

Investments in associated companies have been valued using the equity method, while investments in other companies, securities and treasury shares included in fixed assets have been valued at cost, reduced in the event of estimated permanent losses in value.

Other fixed financial assets made up of receivables are valued at their estimated realisable value.

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## **I**inventories

Inventories of raw materials and finished products are stated at the lower of cost or market value and the corresponding market value estimated from market trends. The manufacturing cost includes directly attributable costs and a portion of indirect costs reasonably attributable to the products, determined mainly using the LIFO method at yearly increments.

Work in progress is valued at production costs for the year, based on the progress report.

The market value is represented by the replacement cost for the raw materials and the net sale value for the finished products.

Goods that are obsolete or that have a long turnover period are written down based on their possible useful life or sale value by creating an inventory adjustment fund.

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## **R**eceivables, Payables, Accruals and Deferrals

Receivables are stated at their estimated realisable value by the allocation of a writedown provision covering the estimated risk of bad debts. Payables are stated at their nominal value.

Prepayments and accrued income, accruals and deferred income are calculated using the accrual concept, applying the principle of correlation between costs and revenues for the year, and they include costs or revenues common to two or more years.

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## **O**perations in Foreign Currencies

Revenues and income, costs and charges in foreign currency must be posted at the exchange rate at the date when the transaction took place.

Accounts receivable and payable in foreign currency, with the exception of non-monetary fixed assets, are valued at the year-end spot exchange rate and respective gains and losses on exchange rates are charged to the Income Statement. Any net income must be directed to a special restricted reserve until realization.

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## **Taxes**

Allocations for taxes pertaining to the year have been calculated based on the charges envisaged by the application of the tax regulations in force in the countries of reference.

The allocation to income taxes is shown in the Balance Sheet under the item "taxes receivable" when tax prepayments prove to be higher than the effective tax, or into "taxes payable" in the opposite case.

Deferred or prepaid income taxes were calculated on the most significant consolidation operations, and on the temporary differences between the equity values entered in the accounts and the corresponding values acknowledged for tax purposes resulting from the financial statements of the consolidated companies. Prepaid taxes are booked only if there is a reasonable certainty that they can be recovered. The benefit gained by carrying forward tax losses was noted if this benefit is reasonably certain, even if the losses arose in previous periods. Otherwise, it was entered at the time it arose.

Deferred and prepaid taxes are offset when they refer to the same company. If positive, the compensation balance is entered under the item "Prepaid taxes" of the current assets; if negative, it is entered in the item "Provision for deferred taxes", if it is a liability.

Any tax adjustment arising from the dividends issued on profits or reserves pending tax will be deducted from the profit or the reserves until such tax arises.

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## **Employees' Leaving Entitlement, Funds for Risks and Charges**

Allocation for Employee's leaving entitlement comprises the net amount payable to all employees of Italian Brembo companies accrued in accordance with current Italian law and labour contracts. The other provisions for contingencies and charges comprise allocations to cover realistically foreseeable charges or losses.

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## **Memorandum and Contingency Accounts**

Guarantees and similar collateral are entered at the nominal value of guarantees granted to third parties.

Commitments for forward exchange contracts are entered at their counter-value in euro, based on the forward exchange rates envisaged by the relevant contracts.

Third-party goods at Brembo companies are valued based on current values.

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## **C**ommitments for Off-Balance Sheet Instruments

To hedge against the risk of changes in interest rates, derivative contracts are entered into to hedge specific transactions. Interest rate differentials to be paid or received on IRS are booked to the Income Statement on an accrual basis for the duration of the contract.

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## **C**osts and Revenues

Costs and revenues are shown in the financial statements in accordance with the accrual concept. Revenues, income, costs and charges are stated net of returns, discounts, allowances and premiums. Research and Development costs, as well as advertising costs, are normally charged to the year in which they are incurred. They are capitalised only for projects that involve particularly innovative technologies in terms of materials and/or processes, and that are strategically important for the medium/long term.

Revenues for the sale of products are acknowledged at the moment the products change ownership, usually when the goods are shipped.

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## **F**inancial Statements Items

The financial statement values are shown and commented upon in thousands of euro, if not specified otherwise.

It is pointed out that the FY2003 data are shown for comparative purposes and they have been restated in accordance with the new financial statement layouts introduced by the reform to company law.

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## Analysis of Each Item

### Balance Sheet

#### Intangible Fixed Assets

“Start-up and capital costs” mainly include costs for establishing new companies and for capital increases of existing companies. These costs are considered to be of long-term utility as they refer to expenses incurred exceptionally on the occasion of the above-mentioned events and their positive results will also be evident in years subsequent to those in which the expense was incurred. In 2004, this item increased by €79 thousand. The change is attributable to €18 thousand in expenses incurred by Brembo International S.A. and €59 thousand in expenses incurred by Corporacion Upwards 98 S.A.

The item “R&D and advertising costs” includes costs for applied research and development, internal and external, for an original amount of €2,619 thousand. In 2004, this item was affected only by the amount of amortization.

The item “Industrial patents and similar rights for original work” increased by €692 thousand due to costs incurred mostly by the Parent Company, for a total of €671 thousand, for registering new patents or existing patents in other countries.

The cost item “Trademark” rose to €227 thousand, of which €200 thousand was incurred by Bibielle S.p.A. for purchase of the Bradi trademark.

The item “Goodwill” amounted to €11,524 thousand at 31 December 2004 and mainly includes the goodwill for AP Racing Ltd. The goodwill amortisation period was established based on its estimated future usefulness, in relation to the type of activity carried out, on a ten-year basis as of the date of acquisition (2000).

The most significant increases in the item “Other intangible fixed assets” are related to costs incurred by the Parent Company and include mainly:

- multiannual expenses of €974 thousand relative substantially to IT projects of multi-year use in connection with the implementation of Intranet systems, business intelligence, data warehouse and consultancies on new cost governance projects; these expenses were amortised over 3 or 5 financial periods, according to the type of expense;
- multiannual expenses for the purchase of data-processing programmes totalling €993 thousand, for the purchase of licenses for personal computers, technical applications and new software for the advanced management of the corporate flow of information; the implementation of new strategic investments in the technical area; website implementation;

- multiannual costs totalling €2,018 thousand, mainly for work on third-party buildings at the new technological centre in Stezzano. These were amortised with a rate based on the residual duration of the leasing or rent contract.

This item includes also the residual value of €1,138 thousand relative to the costs incurred for commitments undertaken for the five-year period of 2000-2005 from AP Group for the acquisition of AP Racing.

The item "Consolidation difference" at 31 December 2004 mainly consists of surplus value paid in the acquisitions of Brembo do Brasil Ltd., Marchesini S.p.A., Brembo North America Inc., and Bibielle S.p.A. The change in 2004 is attributable to amortisation for the year.

The decrease in the net total value of intangible fixed assets is attributable to amortisation for the year, amounting to €8,659 thousand.

Movements in intangible fixed assets commented on above are shown in the following table:

	Start-up and capital costs	R&D costs	Industrial patents	Trademarks	Goodwill	Other intangible assets	Consolidation difference	Assets under const. and paym. on accounts	Total
<b>Amount in the previous period:</b>									
Historical cost	4,464	2,619	8,874	13,103	21,015	27,592	5,713	0	83,380
Amortisation fund	(4,085)	(2,242)	(7,266)	(12,926)	(7,305)	(19,146)	(4,709)	0	(57,679)
<b>Balance at 31.12.2003</b>	<b>379</b>	<b>377</b>	<b>1,608</b>	<b>177</b>	<b>13,710</b>	<b>8,446</b>	<b>1,004</b>	<b>0</b>	<b>25,701</b>
<b>Change in the period:</b>									
Translation differences	3	0	(2)	0	76	(4)	3	0	76
Reclassification	(21)	0	108	(89)	(2)	(114)	0	0	(118)
Acquisitions	79	0	692	227	0	4,097	0	17	5,112
Transfers	0	0	(5)	0	0	(143)	0	0	(148)
Amortisation	(255)	(352)	(714)	(36)	(2,260)	(4,066)	(976)	0	(8,659)
<b>Total variation</b>	<b>(194)</b>	<b>(352)</b>	<b>79</b>	<b>102</b>	<b>(2,186)</b>	<b>(230)</b>	<b>(973)</b>	<b>17</b>	<b>(3,737)</b>
<b>Amount in the current period:</b>									
Historical cost	4,320	2,619	9,716	12,532	21,012	30,515	5,718	17	86,449
Amortisation fund	(4,135)	(2,594)	(8,029)	(12,253)	(9,488)	(22,299)	(5,687)	0	(64,485)
<b>Balance at 31.12.2004</b>	<b>185</b>	<b>25</b>	<b>1,687</b>	<b>279</b>	<b>11,524</b>	<b>8,216</b>	<b>31</b>	<b>17</b>	<b>21,964</b>



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## **Tangible Fixed Assets**

Tangible fixed assets for a total of €73,870 thousand were purchased in 2004.

These refer generally to the purchase of the former Bradi S.p.A. property and production plant and equipment, which accounted for about €17 million. Other investments were caused by the completion of the Parent Company's projects to shore up the production lines and equipment in the car and motorbike sector, for an amount of €10,839 thousand. The Parent company incurred €8,450 thousand in costs for the expansion and modernisation of its manufacturing facilities. In addition, in 2004 Brembo launched a plan for construction of a new cast-iron smelting plant in Poland, to use in the production of discs for the spare parts and original equipment markets; at the end of 2004, the investment, consisting of advances, was €9,668 thousand.

In addition, Brembo Poland Spolka Zo.o. continued to invest in plant and machinery to adjust productive capacity to the increase in turnover in the coming years. In 2004, the Mexican company also finalized an investment for the new brake disc coating plant for €4,013 thousand. The Spanish Corporacion Upwards 98 S.A. continued expanding its production capacity in manufacturing brake discs with total investments of some €2,674 thousand. Brembo Spolka Zo.o. invested €3,592 thousand to expand its plants for the increase in production expected in 2005. Fomm S.p.A. invested €1,260 thousand, mainly to upgrade its moulding and casting plant.

The restatement of leased assets according to the financial method prescribed by international accounting standards shows €14,989 thousand in net value for land and buildings located in Italy and Spain, a decrease of €2,160 thousand attributable to the sale of an industrial shed used for the manufacture of motorcycle brake systems in Almenno and €300 thousand attributable to the sale of the leased building in Spain.

Depreciation for the year amounted to €34,211 thousand, of which €2,701 thousand was accelerated depreciation carried out by Brembo S.p.A. due to more intensive use of assets than is customary in the industry (€3,779 thousand in 2003).

Part of the buildings of Brembo S.p.A. and Fomm S.p.A. are subject to a lien as a collateral for loans as shown in Annex 5.

Tangible fixed assets also underwent a net increase of €1,893 thousand, mainly as a result of appreciation of the Polish zloty with respect to the euro.

Disposals amounted to €8,451 thousand in reference to the normal replacement cycle for machines no longer used in the manufacturing process and excluding disposals of leased assets illustrated above.

## Analysis of Each Item

Movements in tangible fixed assets are shown in the following table:

	<i>Land and buildings</i>	<i>Leased buildings</i>	<i>Plant and machinery</i>	<i>Leased plant and machinery</i>	<i>Industrial and commercial equipment</i>	<i>Other assets</i>	<i>Other leased assets</i>	<i>Assets under construction of and paym. on account</i>	<i>Total</i>
<b>Amount in the previous period:</b>									
Historical cost	73,206	19,181	222,244	3,766	73,826	15,133	0	1,275	408,631
Accumulated depreciation	(15,647)	(1,277)	(140,299)	(188)	(56,681)	(10,913)	0	0	(225,005)
<b>Balance at 31.12.2003</b>	<b>57,559</b>	<b>17,904</b>	<b>81,945</b>	<b>3,578</b>	<b>17,145</b>	<b>4,220</b>	<b>0</b>	<b>1,275</b>	<b>183,626</b>
<b>Variation in the period:</b>									
Translation differences	1,642	0	205	0	43	32	0	(29)	1,893
Reclassification	102	179	(45)	522	167	195	47	(1,097)	70
Acquisitions	20,502	0	29,979	0	9,533	2,607	26	11,223	73,870
Transfers	(354)	(2,460)	(4,955)	0	(628)	(54)	0	0	(8,451)
Depreciation/Other write-down of fixed assets	(1,997)	(634)	(20,609)	(533)	(8,962)	(1,468)	(8)	0	(34,211)
<b>Total variation</b>	<b>19,895</b>	<b>(2,915)</b>	<b>4,575</b>	<b>(11)</b>	<b>153</b>	<b>1,312</b>	<b>65</b>	<b>10,097</b>	<b>33,171</b>
<b>Amount in the current period:</b>									
Historical cost	95,254	15,832	243,062	4,511	82,620	17,742	75	11,372	470,469
Accumulated depreciation	(17,800)	(843)	(156,542)	(944)	(65,322)	(12,210)	(10)	0	(253,671)
<b>Balance at 31.12.2004</b>	<b>77,454</b>	<b>14,989</b>	<b>86,520</b>	<b>3,567</b>	<b>17,298</b>	<b>5,532</b>	<b>65</b>	<b>11,372</b>	<b>216,797</b>

## Financial Fixed Assets

### Shareholdings

The increase in the value of shareholdings in associated companies with respect to 31 December 2003 refer to €6,500 thousand for the investment made by Brembo S.p.A. in Brembo Ceramic Brake Systems S.p.A., the new company resulting from the agreement signed on 4 November 2003 with DaimlerChrysler AG.

The value of shareholdings in associated companies decreased a total of €730 thousand in 2004 as the acquisition values of the equity investments in Softia S.r.l., Nanjing Yuejin Automotive Brake System Co. Ltd. and Brembo Ceramic Brake Systems S.p.A. were adjusted to their values according to the net equity method (downward adjustments of €36 thousand, €283 thousand, and €411 thousand, respectively). A €145 thousand negative conversion difference was also generated by the valuation of the Chinese associate according to the equity method.

The remaining €1,846 thousand decrease is attributable to failure to implement the capital increase called for in the original agreements, causing the elimination of the amount due to J.V. Nanjing Yuejin Automotive Brake System Co. Ltd. and the corresponding reduction in the shareholding cost that included the value of the capital increase originally planned.

Following these changes, the item "Shareholdings in associated companies" is composed of €188 thousand in Softia S.r.l. and €2,430 thousand in Nanjing Yuejin Automotive Brake System Co. Ltd and €6,090 thousand in Brembo Ceramic Brake Systems S.p.A.

The following table summarizes movements in the "Shareholdings" item:

	<i>Balance at 31.12.2003</i>	<i>Acquisitions</i>	<i>Fluctuation</i>	<i>Revaluation/ Writedowns</i>	<i>Other</i>	<i>Balance at 31.12.2004</i>
Shareholdings in:						
Associated companies	4,929	6,500	(145)	(730)	(1,846)	8,708
Other companies	4,476	0	0	0	0	4,476
<b>Total</b>	<b>9,405</b>	<b>6,500</b>	<b>(145)</b>	<b>(730)</b>	<b>(1,846)</b>	<b>13,184</b>

Shareholdings in other companies consist mainly of €4,383 thousand in Fundimak S.A. de C.V., following the write-down for the same amount during the previous years.

Annex 3 lists the above-mentioned shareholdings.

### **Other receivables**

"Other receivables due within 12 months" are composed of €6 thousand for the down payment made by Italian Brembo companies for taxes on the severance indemnity liabilities reimbursable based on the regulations of reference.

"Other receivables due after one year" amounted to €234 thousand and are mainly related to interest-free caution money for consumption, leased property, and lease contracts for motor-vehicles expiring after one year.

### **Securities**

Securities mainly include BNL debentures for a nominal value of €1,033 thousand, maturing in 2006 at a rate of 11.10%, given as collateral to the bank to obtain a loan in favour of Corporation Upwards 98 S.A.

### **Own shares**

The General Shareholders' Meeting of Brembo S.p.A. held on 26 April 2004 authorised a new buy-back plan that envisages the option of buying and selling – also in several stages over the eighteen-month validity of the plan – a maximum of 2,200,000 shares that can be purchased at a value

## Analysis of Each Item

ranging from €0.52 to €7. As a result, reserves have been tied up in the amount of €15,400 thousand, under "Reserve for own shares in portfolio". In 2004, no buying or selling transactions were made in execution of this buy-back plan.

These own shares in portfolio from previous purchasing plans were classified as fixed assets as in the previous year, because the Board of Directors does not expect them to be transferred in a short period of time.

Before commenting on individual current asset items, net working capital, as shown in the "Reclassified Balance Sheet" contained in the Directors' Report on Operations, is made up as follows:

	31.12.2004	31.12.2003	Change
<b>Inventories</b>	<b>118,675</b>	<b>109,896</b>	<b>8,779</b>
<b>Current assets:</b>			
Trade receivables	149,634	147,618	2,016
Receivables from associated companies	2,209	634	1,575
Taxes receivable	19,936	11,265	8,671
Prepaid taxes	1,005	1,953	(948)
Other receivables	3,102	2,894	208
Prepayments and accrued income	3,949	2,978	971
<b>Total</b>	<b>179,835</b>	<b>167,342</b>	<b>12,493</b>
<b>Current liabilities:</b>			
Payments on account	160	105	55
Trade payables	136,917	130,024	6,893
Payables to associated companies	1,006	2,370	(1,364)
Payables to taxation authorities	4,980	17,310	(12,330)
Social security charges	7,198	5,753	1,445
Other payables	27,834	14,133	13,474
Accruals and deferred income	4,113	3,508	832
<b>Total</b>	<b>182,208</b>	<b>173,203</b>	<b>9,005</b>
<b>Provision for contingencies and charges:</b>			
For pension and similar provision	112	0	112
Provision for taxation, also deferred	7,877	5,448	2,429
Other provisions	1,254	530	724
<b>Total</b>	<b>9,243</b>	<b>5,978</b>	<b>3,265</b>
<b>NET WORKING CAPITAL</b>	<b>107,059</b>	<b>98,057</b>	<b>9,002</b>

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## Current Assets

### Inventories

The value of the inventories shows a net increase of €8,779 thousand, compared to 31 December 2003 and is partly connected to the increase in production and sales volumes for the year 2004. In compliance with Art. 2426 paragraph 10) of the Italian Civil Code, the difference between the accounting value of inventories and the value that would result if the goods were evaluated at current costs at the end of the period, instead of being evaluated with the LIFO method is not considered as significant.

Inventories amounted to €118,675 thousand, net of the stock depreciation provision totalling €4,971 thousand (€4,823 thousand in 2003). This reserve increased by €851 thousand compared to 31 December 2003, to bring the value of the finished products and slow-turnover goods into line with their presumable market value, and decreased by €656 thousand following the disposal of obsolete products for the amount for which provisions had been made in previous financial periods. It also underwent a reduction of €48 thousand due to exchange differences.

### Trade receivables

Trade receivables at 31 December 2004 totalled €149,634 thousand, net of the provision for bad debts amounting to €2,349 thousand.

The €2,016 thousand increase in the net value is largely attributable to the remaining receivable from the sale of the painting plant by Brembo Rassini S.A. de C.V. to Rassini Frenos S.A. de C.V., amounting to €2,166 thousand to be settled beyond one year.

At 31 December 2004, the balance of trade receivables compared to the previous year was as follows:

	31.12.2004	31.12.2003
Italian customers	66,423	70,835
Export customers	85,561	79,651
Provision for bad debts	(2,069)	(2,587)
Taxed provision for bad debts	(281)	(281)
<b>Total</b>	<b>149,634</b>	<b>147,618</b>

The movement in the provision for bad debts is as follows:

	31.12.2003	Provision	Exchange fluctuation	Use	31.12.2004
Provision for bad debts	(2,587)	(543)	19	1,042	(2,069)
Taxed provision for bad debts	(281)	0	0	0	(281)
<b>Total</b>	<b>(2,868)</b>	<b>(543)</b>	<b>19</b>	<b>1,042</b>	<b>(2,350)</b>

**Receivables from associated companies**

This item includes receivables from the Nanjing Yuejin Automotive Brake System Co. Ltd. totalling €662 thousand, for redebited charges for posted personnel, and commercial receivables for €1,547 thousand, from Brembo Ceramic Brake Systems S.p.A.

**Taxes receivable**

The item is broken down as follows:

	31.12.2004	31.12.2003	Change
Taxes receivable	4,010	1,493	2,517
VAT receivables	15,926	9,772	6,154
<b>Total</b>	<b>19,936</b>	<b>11,265</b>	<b>8,671</b>

Taxes receivable includes the excess of prepayments made in 2004 over the actual tax bill for the year.

**Deferred taxes**

This item is commented upon in the notes to the fund for deferred tax liabilities.

**Other receivables**

The item "Other receivables" includes:

	31.12.2004	31.12.2003	Change
Custom duties reimbursement receivables	1,176	1,019	157
Other receivables	1,926	1,875	51
<b>Total</b>	<b>3,102</b>	<b>2,894</b>	<b>208</b>

**Liquid assets**

Liquid bank assets at the end of the year are mainly the result of export advances in foreign currency to cover part of the turnover in foreign currency.

The Cash Flow Statement provides further details on the changes occurring in the financial position (Annex 6).

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## Prepayments and Accrued Income

The amount posted to the financial statements amounted to €3,949 thousand (€2,978 thousand at 31 December 2003) and includes the contributions paid into the pension fund of AP Racing (the share beyond five years is calculated at €841 thousand), as well as prepayments of rental, insurance costs and other expenses relative to FY 2005.

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## Shareholders' Equity

Annex 4 details the changes in shareholders' equity accounts since 31 December 2003.

### Share capital

The share capital is fully paid up and amounted to €36,317,034 at 31 December 2004. It is divided into 69,840,450 shares with a nominal value of €0.52 each.

### Reserves

This item includes:

	31.12.2004	31.12.2003
<b>Reserves of Parent Company:</b>		
Share premium reserve	26,650	26,650
Revaluation reserves	13,507	13,507
Legal reserve	5,212	4,260
Reserves for own shares in portfolio	16,389	16,389
<b>Other reserves:</b>		
Reserve Law 46/82	98	98
Extraordinary reserve	20,021	10,608
Merger surplus	54	54
Own share purchasing reserve	15,400	15,400
<b>Total reserves of Parent Company</b>	<b>97,331</b>	<b>86,966</b>
<b>Other reserves:</b>		
Reserve arising on consolidation	47,567	37,260
Reserve for cumulative translation adjustment	(14,295)	(17,730)
<b>Total Group reserves</b>	<b>130,603</b>	<b>106,496</b>

In the Parent Company, the distribution of income for 2003 was resolved as follows at the Shareholders' Meeting on 26 April 2004: €952 thousand to the legal reserve, and €9,412 thousand to the extraordinary reserve. The balance of €8,682 thousand was distributed to shareholders at €0.13 for each outstanding share.

The Shareholders' Meeting of Brembo S.p.A. held on 26 April 2004 also authorised the purchase of 2.2 million own shares, to be completed over the course of the following 18 months. The purchase price cannot be less than €0.52 par value or over €7.00.

Pursuant to this resolution:

- the "Reserve for own shares in portfolio" decreased by €15,400 thousand for reclassification to the "Extraordinary reserve" pursuant to termination of the previous purchase plan of own shares, which had expired;
- the "Own share purchasing reserve" increased by €15,400 by using the "Extraordinary reserve" for launch of the new plan.

Changes in retained earnings from consolidation refer mainly to the profit for 2003 of consolidated subsidiaries, while the negative balance in the reserve for currency conversion shrank due to the revaluation of the Polish zloty against the euro and the resulting conversion of the financial statements of subsidiaries expressed in these currencies.

The reconciliation between shareholders' equity and income for the period, as listed in the Parent Company's financial statements, and the shareholders' equity and income for the period, recorded in the Consolidated Financial Statements, reveals that the Group shareholders' equity at 31 December 2004 was €36,146 thousand higher than the figure given in the Brembo S.p.A. Financial Statements. Consolidated income for the year, amounting to €34,330 thousand, is €3,430 thousand higher than that of Brembo S.p.A.



These changes are shown in the following table:

	<i>Net income for 2004</i>	<i>Shareholders' equity at 31.12.2004</i>	<i>Net income for 2003</i>	<i>Shareholders' equity at 31.12.2003</i>
<b>BREMBO S.P.A.</b>	<b>30,900</b>	<b>165,104</b>	<b>19,046</b>	<b>142,886</b>
<b>Consolidation adjustments:</b>				
Shareholders' equity and net profit of consolidated companies	23,777	223,348	10,427	146,032
Elimination of intra-Group dividends	(244)	0	(517)	0
Book value of consolidated shareholdings	35	(188,899)	0	(138,212)
Increased value of assets and consolidation difference	(560)	7,534	(1,443)	8,093
Elimination of items of a fiscal nature	(18,667)	1,894	3,268	20,560
Leasing contracts as per financial method envisaged by IAS No. 17	(682)	825	562	1,507
Valuation of shareholdings in affiliated companies using the net equity method	26	(2,191)	(167)	(2,071)
Elimination of infra-Group income	(1,408)	(5,514)	(1,023)	(4,204)
Lower gains on the sale of shareholdings	0	0	(2,315)	0
Other consolidation adjustments	2,238	8,901	2,365	6,649
Minority interests	(1,085)	(9,752)	(900)	(9,123)
<b>Total consolidation adjustments</b>	<b>3,430</b>	<b>36,146</b>	<b>10,257</b>	<b>29,231</b>
<b>GROUP CONSOLIDATED</b>	<b>34,330</b>	<b>201,250</b>	<b>29,303</b>	<b>172,117</b>

## Minority interests

This represents the share of capital and reserves (€8,667 thousand) and income for the year (€1,085 thousand) attributable to the minority interests present in Corporacion Upwards 98 S.A., Brembo Rassini S.A. de C.V., B. Japan Co. Ltd.

## Provisions for Contingencies and Charges

At 31 December 2004, these provisions included pension and similar provisions, tax provisions (including deferred taxes), and other provisions for contingencies and charges.

### Provision for pensions and similar provisions

This provision includes a €70 thousand allocation for supplementary customer indemnities in connection with the Italian agency contract and €42 thousand for pension payments to the employees of the Japanese company.

The employees of the United Kingdom subsidiary AP Racing Ltd have the benefit of a corporate pension plan (AP Racing Pension Scheme), which is made up of two sections: the first is a “defined contribution” for employees hired after 1 April 2001 and the second is a “defined benefit”, for those already in service at 1 April 2001 (and previously covered by the AP Group Pension Fund). For the second section of the pension plan, the actuarial evaluation carried out in 2004 showed a substantial lack of “coverage” of pension funds (market value of investment securities lower than the present value of the future benefit to the employees) and fixed the annual premium to be borne by AP Racing for the next three-year period, corresponding to 19.7% of pension-eligible wages.

In fact, in 2001, 2002 and 2003 the effective income from investment securities from the Trustee was overall lower than expected, however, due to stock market performance. At 31 December 2004, the current value of future employee benefits exceeded the market value of the invested securities by €3,349 thousand, net of taxes, so mostly unchanged from a year earlier (€3,361 thousand, net of taxes).

### **Fund for taxes, including deferred taxes**

This item includes the provision for taxes amounting to €1,500 thousand for likely tax litigation and deferred taxes totalling €6,377 thousand calculated based on temporary value differences with fiscal significance. When calculating taxes, the estimated tax rate for the following years was applied.

The amount of deferred taxes is broken down together with advance taxes, classified among receivable from others on the assets side of the Balance Sheet.

	31.12.2004	31.12.2003
Prepaid taxes	1,005	1,953
Fund for deferred taxes	(6,377)	(5,448)
<b>Total</b>	<b>(5,372)</b>	<b>(3,495)</b>

Prepaid taxes and the Fund for deferred taxes were generated mainly due to reserves and allocations to cover taxation on accelerated amortisation and depreciation, on capital gains with deferred taxation, on the benefit connected with the possibility of carrying forward the losses of several subsidiaries, on other income items subject to future deductions or taxation, and on other consolidation adjustments.

Provision movements for the year are shown below:

	31.12.2004	31.12.2003
<b>Balance at beginning of period</b>	<b>(3,495)</b>	<b>(10,474)</b>
Allocation for deferred taxes	(5,362)	(2,231)
Allocation for prepaid taxes	2,843	2,745
Use of prepaid and deferred taxes	587	208
Translation fluctuation	195	722
Tax rate changes	0	60
Reclassification	0	99
Effects of revaluation Law 350/03:		
– Value entered in the Income Statement	0	2,634
– Transfer to undivided income reserve	0	2,742
Other movements	(140)	0
<b>Balance at the end of period</b>	<b>(5,372)</b>	<b>(3,495)</b>

### Other provisions

Other provisions for contingencies and charges increased from €530 thousand at end-2003 to €1,254 thousand, consisting of €201 thousand for the guarantee returns provision, €170 thousand for the negative difference between the price paid for and the net equity value of the 39% stake in Brembo Japan Co. Ltd. acquired by the Brembo Group to cover losses expected in coming years, while the remaining amount is allocated to cover probable future risks and legal disputes.

## Employees' Leaving Entitlement

Payables for employees' leaving entitlement among the Brembo's Italian companies amounted to €22,009 thousand and were as follows:

	<i>Payables at 31.12.2003</i>	<i>Provisions</i>	<i>Use</i>	<i>Payables at 31.12.2004</i>
<b>Employees' leaving entitlement</b>	<b>19,622</b>	<b>5,196</b>	<b>(2,809)</b>	<b>22,009</b>

## Payables

Annex 5 details the loans, with specific reference to the nature of guarantees and to payables due after 5 years.

The financial sources making up the net financial indebtedness of the Group is analysed below by item:

## Analysis of Each Item

ANALISYS OF DEBT						
	Balance at 31.12.2004			Balance at 31.12.2003		
	Due within one year	Due after one year	Total	Due within one year	Due after one year	Total
<b>Financial receivables:</b>						
Bank and postal accounts	27,392	0	27,392	33,305	0	33,305
Cash-in-hand and cash equivalents	124	0	124	54	0	54
<b>Total</b>	<b>27,516</b>	<b>0</b>	<b>27,516</b>	<b>33,359</b>	<b>0</b>	<b>33,359</b>
<b>Financial payables:</b>						
Payables to banks	105,284	44,279	149,563	82,033	61,818	143,851
– ordinary current accounts and advances	77,660	0	77,660	30,916	0	30,916
– loans	27,624	44,279	71,903	51,117	61,818	112,935
Payables to other financial institutions	2,516	19,092	21,608	3,383	19,934	23,317
<b>Total</b>	<b>107,800</b>	<b>63,371</b>	<b>171,171</b>	<b>85,416</b>	<b>81,752</b>	<b>167,168</b>
<b>NET FINANCIAL INDEBTEDNESS</b>	<b>80,284</b>	<b>63,371</b>	<b>143,655</b>	<b>52,057</b>	<b>81,752</b>	<b>133,809</b>

The Cash Flow Statement provides further details on the changes occurring in the financial position (Annex 6).

### Payables to banks

Payables to credit institutions amounted to €149,563 thousand and are made up of ordinary current accounts and cash advances for €77,660 thousand, current loans for €27,624 thousand, and medium- and long-term loans for €44,279 thousand.

In 2004, two loans were contracted and paid back in advance:

- Mizuho Bank loan disbursed to Brembo Japan Co. Ltd., amounting originally to Jpy 17 million (€128 thousand), expiring in 2009.
- Mitsui Sumitomo Bank loan disbursed to Brembo Japan Co. Ltd., amounting originally to Jpy 36 million (€272 thousand), expiring in 2006.

During the year Brembo Poland Spolka Zo.o. entirely used up the UniCredito credit line.

The decreases include scheduled instalment payments of bank loans coming due during the year.

### Payables to other financial institutions

These consist of €18,100 thousand from payables posted in relation to the holders of leased properties, net of the capital previously repaid and for the remaining €3,508 thousand from loans from other financial institutions.

During the year, the following loan packages were raised:

- B.B.V.A. leasing, issued in favour of Corporacion Upwards 98 S.A., for an original amount of €26 thousand, expiring in 2008 (payments are made monthly with constant principal);
- minivan loan issued to Brembo North American Inc., originally amounting to €16 thousand, maturing in 2009.

The second instalment of a loan stipulated in 2002 was disbursed in 2004:

- SIMEST loan pursuant to Law 394/USA equivalent to €2,065 thousand (original loan), disbursed to Brembo S.p.A., envisaging repayment from July 2005 to January 2010; payments are six-monthly and the loan expires in January 2010. A bank guarantee was issued on this and the second instalment of €953 thousand was disbursed in June.

In July, the Industry Ministry issued the second instalment of the loan pursuant to Italian Law 46/82 (CCM Project) in favour of Brembo S.p.A., amounting to €711 thousand.

### **Trade payables**

This item summarises the accounts trade payables as at the close of the year, and is deemed consistent with the volume of purchases and investments and ordinary payment conditions.

### **Payables to associated companies**

This item amounted to €1,006 thousand, including €323 thousand due to Nanjing Yuejin Automotive Brake System Co. Ltd. for the portion of the capital increase underwritten but not yet paid-in, and €683 thousand in trade payables due to the associated company Brembo Ceramic Brake Systems S.p.A.

### **Payables to taxation authorities**

These comprise:

	31.12.2004	31.12.2003
Current taxes	976	8,987
Substitute tax on revaluation as per Law 350/03	0	2,742
Payables for withholding tax employees	3,572	3,571
Payables for withholding tax for freelance personnel	143	71
Other payables to tax authorities	65	235
VAT payables	224	1,704
<b>Total</b>	<b>4,980</b>	<b>17,310</b>

The substitute tax for the revaluation pursuant to Law 350/03 was entirely paid in 2004.

### Social security charges

These comprise amounts payable to the following institutions:

	31.12.2004	31.12.2003
INPS, INAIL, INPDAl and FASI	6,294	5,341
Other	613	216
Fondo Cometa	291	196
<b>Total</b>	<b>7,198</b>	<b>5,753</b>

Social security charges include €620 thousand for charges connected with the three-year incentive plan restricted to the Group's top executives, payable in 2006.

### Other payables

These comprise:

	31.12.2004	31.12.2003
Payables to employees for wages and salaries	14,512	12,825
Other payables	13,322	1,308
<b>Total</b>	<b>27,834</b>	<b>14,133</b>

Payables to employees include €2,562 thousand for the amount due on the three-year incentive plan restricted to the Group's top executives, payable in 2006.

The item other payables includes the remaining amount due for the acquisition of the bankruptcy procedure for the company Bradi S.p.A., amounting to €11,141 thousand. The contract calls for the settlement of the amount due in several instalments, including a total of €9,880 thousand after 2005.

## Accruals and Deferred Income

The sum recorded at 31 December 2004 totalled €4,340 thousand and is made up of:

	31.12.2004	31.12.2003
<b>Accrued expenses:</b>		
Interest payable	108	172
Miscellaneous	824	1,434
<b>Deferred income:</b>		
Miscellaneous	1,539	1,048
Deferred income and services	542	0
Charged to customers for equipment	1,100	854
<b>Total</b>	<b>4,113</b>	<b>3,508</b>

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The item "Miscellaneous accrued expenses" refers to expenses pertaining to the period, which will be liquidated in 2005. The item "Deferred income and services" for 2004 essentially involves capital gains not collected from Group companies for the sale of tangible fixed assets.

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## **M**emorandum and Contingency Accounts

### **Purchase commitments**

On 30 June, the company exercised the buy option on the "HP" real estate complex in Stezzano (Bergamo) bought by Pioneer Investment Management S.g.r.p.A. on 22 December 2000 and leased to Brembo S.p.A. for 18 years. The option calls for a minimum buy price of €25,180 thousand for the real estate complex.

### **Other memorandum accounts**

These consisted mainly of guarantees granted by third parties, banks and insurance companies for VAT receivables, temporary imports with customs authorities, services (post, gas, rents, electricity etc.), development costs of the Curno and Stezzano municipalities, and the Dalmine Energie, for a total of €6,381 thousand. In addition, the value of third-party goods in consignment stock at Brembo S.p.A. was €1,740 thousand.

Annex 5 provides a list of the collateral present on bank payables.

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## **O**ther Commitments that are not shown on the Balance Sheet

At 31 December 2004, Brembo Group has two outstanding interest rate swaps to reduce exposure to the risk of interest rate changes, hedging a notional amount of €3,549 thousand in loans to the companies Fomm S.p.A. and Corporacion Upwards 98 S.A.

## Income Statement

Before analysing the individual items in the Income Statement, we must note that other comments on the general results of costs and revenues can be found in the Directors' Report on Operations.

### Sales of Goods and Services

Breakdown of sales of goods and services:

	31.12.2004	31.12.2003
Italy	254,268	247,668
Abroad	549,372	518,930
<b>Aggregate total</b>	<b>803,640</b>	<b>766,598</b>
Infra-Group adjustments	(114,749)	(121,323)
<b>Consolidated total</b>	<b>688,891</b>	<b>645,275</b>
Allowances, discounts and returns	(11,347)	(11,866)
Infra-Group adjustments	636	321
<b>TOTAL</b>	<b>678,180</b>	<b>633,728</b>

The breakdown of Group sales by geographic area of production and destination and by application sector is given in the Directors' Report on Operations.

### Other Revenues and Income

These comprise:

	31.12.2004	31.12.2003
Miscellaneous recharges	7,003	3,589
Gains on disposal of fixed assets	1,396	262
Government grants	190	120
Other revenue	2,423	2,175
<b>Total</b>	<b>11,012</b>	<b>6,146</b>

The increase in the item "miscellaneous recharges" is mostly attributable to the formation of the company Brembo Ceramic Brake Systems S.p.A.



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## **R**aw Materials, Ancillaries, Consumables and Goods

This item includes purchases of raw materials and goods for €318,608 thousand, and consumables for €18,168 thousand, net of allowances, discounts and returns to suppliers for €2,552 thousand. The ratio of such costs to revenues, including changes to inventories, was 48.26%, compared to 45.71% in the previous year. The change impacted the trend in the prices of the main raw materials, above all considering the stronger euro with respect to the dollar.

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## **S**ervices

This item includes:

	31.12.2004	31.12.2003
Contracted work	39,692	44,133
Utilities	9,722	8,327
Maintenance and repairs	12,154	10,589
Insurance	2,160	2,081
Transportation costs	23,738	19,057
Administration costs	5,152	4,732
Legal expenses	649	301
Travel	3,874	3,547
Advertising and marketing expenses	7,184	6,438
Commission payable	3,550	2,969
Periodical stock exchange listing charges	152	153
Other costs	10,300	7,985
<b>Total</b>	<b>118,327</b>	<b>110,312</b>

The most significant changes in relation to the previous year concern an increase in maintenance and repairs and transportation costs as a consequence of increased sales.

Other costs include marketing expenses, social security dues, expenses for personnel recruitment and selection, and general plant and office cleaning services.

## Use of Third-party Assets

Costs for use of third-party assets total €8,643 thousand (€7,730 thousand in 2003) and are made up of rentals on warehouse premises for a total of €4,933 thousand; machinery and motor vehicles for €1,164 thousand, and other rentals for €2,546 thousand.

## Personnel Expenses

Breakdown of personnel expenses:

	31.12.2004	31.12.2003
Wages and salaries	95,139	93,128
Social security contributions	28,520	27,446
Employees' leaving entitlement	5,196	5,218
Pension and similar provisions	771	676
Other costs	4,599	4,372
<b>Total</b>	<b>134,225</b>	<b>130,840</b>

Personnel expenses increased by 2.6% compared to 2003 mainly as a result of the increase in the average number of employees, as well as normal wage and salary trends, and the workers training programme at the new smelting plant in Poland.

The Company continued to invest in human resources with the aim of enhancing professionalism and workplace safety.

The average number and the year-end number of Group employees by category compared with the previous year were as follows:

	Executives	White-collar	Blue-collar	Total
Year 2004 average	102	1,150	2,699	3,951
Year 2003 average	98	1,117	2,680	3,895
<b>Changes</b>	<b>4</b>	<b>33</b>	<b>19</b>	<b>56</b>
Total at 12.31.2004	104	1,159	2,710	3,973
Total at 12.31.2003	98	1,147	2,691	3,936
<b>Changes</b>	<b>6</b>	<b>12</b>	<b>19</b>	<b>37</b>

## Amortisation, Depreciation and Write-downs

The costs borne for amortisation, depreciation and write-downs can be broken down as follows:

	31.12.2004	31.12.2003
<b>Amortisation of intangible assets</b>		
Start-up and capital costs	255	229
R&D and advertising costs	352	860
Industrial patents and similar rights for original work	714	664
Licences, trademarks and similar rights	36	916
Goodwill	2,260	2,217
Other intangible fixed assets	4,066	5,327
Consolidation differences	976	1,443
<b>Total</b>	<b>8,659</b>	<b>11,655</b>
<b>Depreciation of tangible assets</b>		
Buildings	1,997	1,617
Leased buildings	634	429
Plant and machinery	20,609	21,635
Leased plant and machinery	533	188
Industrial and commercial equipment	8,962	8,969
Other tangible fixed assets	1,468	1,463
Other leased assets	8	0
<b>Total</b>	<b>34,211</b>	<b>34,301</b>
<b>Other amortisation, depreciation and write-downs</b>		
Tangible	0	495
<b>Total</b>	<b>0</b>	<b>495</b>

## Other Operating Costs

Other operating costs include:

	31.12.2004	31.12.2003
Sundry taxes	730	681
Stationery and printed matter	519	575
Losses from disposal of fixed assets	120	132
Contingent liabilities, damages to third parties, and other expenses	732	681
Losses on bad debts	1,042	300
Use of the bad debts provision	(1,042)	(302)
<b>Total</b>	<b>2,101</b>	<b>2,066</b>

## Financial Income and Charges

This item comprises:

	31.12.2004	31.12.2003
<b>Income from shareholdings</b>	<b>1</b>	<b>36</b>
<b>Other financial income:</b>		
Bank interest income	375	385
Commercial interest income	28	20
Interest on securities	13	83
Miscellaneous financial income	102	132
<b>Total other financial income</b>	<b>518</b>	<b>620</b>
<b>Interest and other financial charges:</b>		
Bank interest payable	(4,684)	(5,501)
Commercial interest expense	(15)	(58)
Other interest charges	(562)	(551)
<b>Total interest and other financial charges</b>	<b>(5,261)</b>	<b>(6,110)</b>
<b>Exchange gains and losses:</b>		
Positive exchange rate differences	10,669	8,207
Negative exchange rate differences	(6,654)	(9,014)
<b>Total interest and other financial charges</b>	<b>4,015</b>	<b>(807)</b>
<b>TOTAL FINANCIAL INCOME AND CHARGES</b>	<b>(727)</b>	<b>(6,262)</b>

Charges net of financial income amounted to €727 thousand, equal to 0.11% of net turnover against €6,262 thousand equal to 0.99% of net turnover at 31 December 2003.

The reduction in net financial charges was in part attributable to positive exchange rate differences, amounting to €4,015 thousand (€807 thousand in 2003), mainly generated by the settlement of an amount payable in sterling and the appreciation of the euro against other currencies in which the company operates. Net financial charges were reduced also as a result of favourable changes in interest rates together with more efficient management of financial instruments.

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## Adjustments of Financial Assets Value

### Revaluation of shareholdings

The amount of €4 thousand stems from a value adjustment on the shareholding in Softia S.r.l. This amount is composed solely of the share of net income pertaining to the Group.

### Write-down of Shareholdings

The amount of €734 thousand is attributable to €41 thousand in amortisation of the surplus value paid on the acquisition of Softia S.r.l., €283 thousand for the value adjustment on the shareholding in Nanjing Yuejin Automotive Brake System Co. Ltd., and €410 thousand for the value adjustment to the shareholding in Brembo Ceramic Brake Systems S.p.A.

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## Non-Recurring Income and Charges

This item comprises:

	31.12.2004	31.12.2003
<b>Income:</b>		
Gain on disposal	2,702	3,327
Other income	26	0
<b>Total income</b>	<b>2,728</b>	<b>3,327</b>
<b>Charges:</b>		
Taxes from previous periods	(1,501)	(120)
Other charges	(59)	(1)
<b>Total charges</b>	<b>(1,560)</b>	<b>(121)</b>
<b>Total non-recurring income and charges</b>	<b>1,168</b>	<b>3,206</b>

Capital gains on disposals include €1,951 thousand in gains realised by Brembo S.p.A. and €751 thousand by Corporacion Upwards 98 S.A. for the sale of two properties no longer used in production.

Taxes from previous years include €1,500 thousand for provisions to probable future tax disputes.

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## **I**ncome Taxes for the Year

The item of €22,658 thousand is made up of the allocation for income taxes for the year of €20,726 thousand and the net change in deferred taxes that led to a negative balance of €1,932 thousand. Deferred taxes are due to the net amount of taxes on amortisation and depreciation exceeding economic and technical rates of subsidiaries; on capital gains achieved or deferred during the period and on revenues or costs whose taxation will be applicable or deductible in the future, net of deferred taxation income calculated on the recovery of the deferred taxation portion of taxes applied to previous accounting periods for advance depreciation.

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## **F**urther Information

Information about the fees paid to directors, auditors and general management and additional information necessary to comply with CONSOB resolution No. 11971 of May 14, 1999 is given in the Parent Company's Notes in the section "Further information".

*Curno, 17 March 2005*

*On behalf of the Board of Directors  
The Chairman  
Alberto Bombassei*

## List of Companies Consolidated on a Line-by-line Basis

(as per Art. 38, Paragraph 2a of Legislative Decree 127 of 9 April 1991)

COMPANY	HEADQUARTERS	
Brembo S.p.A.	Curno (BG)	Italy
Fomm S.p.A.	Mapello (BG)	Italy
Brembo International S.A.	Luxembourg	Luxembourg
Marchesini S.p.A.	Jerago con Orago (VA)	Italy
AP Racing Ltd.	Coventry	United Kingdom
Bibielle S.p.A.	Bergamo	Italy
Brembo Participations B.V.	Amsterdam	The Netherlands
Brembo Scandinavia A.B.	Göteborg	Sweden
Brembo North America Inc.	Costa Mesa	United States
Brembo Spolka Zo.o.	Czestochowa	Poland
Brembo UK Ltd.	London	United Kingdom
Brembo GmbH	Ottobrunn	Germany
Brembo Poland Spolka Zo.o.	Dabrowa Gornizca	Poland
Brembo do Brasil Ltda.	São Joaquim de Bicas	Brazil
Brembo Japan Co. Ltd.	Tokyo	Japan
Brembo Rassini S.A. de C.V.	Puebla	Mexico
Corporacion Upwards 98 S.A.	Zaragoza	Spain

## Annex 1

SHARE CAPITAL		STAKE HELD BY GROUP COMPANIES	
		directly	indirectly
Euro	36,317,034		
Euro	5,200,000	100%	Brembo S.p.A.
Euro	49,872,000	100%	Brembo S.p.A.
Euro	500,000	100%	Brembo S.p.A.
Gbp	221,000	100%	Brembo S.p.A.
Euro	2,500,000	100%	Brembo S.p.A.
Euro	49,722,000		100% Brembo International S.A.
Sek	4,500,000		100% Brembo Participations B.V.
US\$	133,200		100% Brembo Participations B.V.
Zloty	15,279,546		100% Brembo Participations B.V.
Gbp	600,000		100% Brembo Participations B.V.
Euro	100,000		100% Brembo Participations B.V.
Zloty	32,600,000		100% Brembo Participations B.V.
Brl	17,803,201		99.99% Brembo Participations B.V.
Jpy	11,000,000		90% Brembo Participations B.V.
Mxn	110,849,230		76% Brembo Participations B.V.
Euro	498,043		68% Brembo Participations B.V.



## List of Companies Valued Using the Equity Method

(as per Art. 38, Paragraph 2c of Legislative Decree 127 of 9 April 1991)

<i>COMPANY</i>	<i>HEADQUARTERS</i>	
Softia S.r.l.	Erbusco (BS)	Italy
Nanjing Yuejin Automotive Brake System Co. Ltd.	Nanjing	China
Brembo Ceramic Brake Systems S.p.A.	Stezzano (BG)	Italy

<i>SHARE CAPITAL</i>		<i>STAKE HELD BY GROUP COMPANIES</i>	
		<i>directly</i>	<i>indirectly</i>
Euro	100,000	40%	Brembo S.p.A.
Cny	112,125,479	25.4%	Brembo S.p.A.
Euro	2,000,000	50%	Brembo S.p.A.

## List of Other Shareholdings Valued at Cost

(as per Art. 38, Paragraph 2d of Legislative Decree 127 of 9 April 1991)

<i>COMPANY</i>	<i>HEADQUARTERS</i>	
Fundimak S.A. de C.V.	Puebla	Mexico
Fuji Manufacturing Ltd.	Tokyo	Japan
International Sport Automobile S.a.r.l.	Levallois Perret	France
A.N.C.M.A.	Milan	Italy
Consorzio Orobie Energie	Dalmine (BG)	Italy

SHARE CAPITAL		STAKE HELD BY GROUP COMPANIES	
		directly	indirectly
Mxn/000	1,526,873		5.80% Brembo Participations B.V.
Jpy	166,000,000		1.20% Brembo Participations B.V.
Euro	31,000		10% Brembo Participations B.V.
	N/A	1.21%	Brembo S.p.A.
	N/A	20%	Brembo S.p.A.

## Movements in Shareholders' Equity

<i>(euro thousand)</i>	SHARE CAPITAL	SHARE PREMIUM RESERVE	REVALUATION RESERVE	LEGAL RESERVE	RESERVES FOR OWN SHARES IN PORTFOLIO
<b>Balance at 31 December 2002</b>	<b>36,262</b>	<b>26,650</b>	<b>1,816</b>	<b>3,750</b>	<b>16,018</b>
Allocation of profit for the previous year				510	
Payment of dividends					
Paid capital increase	44				
Free capital increase	11				
Revaluation as per Law 350/03:					
– reclassification of reserves and taxes			11,691		
– reclassification of surplus of the fund for deferred taxes					
Increase in own share purchasing reserve					371
Variations in reserves of consolidated companies					
Variation in translation adjustment reserve					
Variation in consolidation area and other changes					
Net income (loss) for the year					
<b>Balance at 31 December 2003</b>	<b>36,317</b>	<b>26,650</b>	<b>13,507</b>	<b>4,260</b>	<b>16,389</b>
Allocation of profit for the previous year				952	
Payment of dividends					
Variations in reserves of consolidated companies					
Variation in translation adjustment reserve					
Net income (loss) for the year					
<b>Balance at 31 December 2004</b>	<b>36,317</b>	<b>26,650</b>	<b>13,507</b>	<b>5,212</b>	<b>16,389</b>

## Annex 4

OTHER RESERVES	RESERVE ARISING ON CONSOLIDATION	TRANSLATION RESERVE	INCOME FOR THE YEAR	GROUP SHAREHOLDERS' EQUITY	PROFIT OF MINORITY INTERESTS	CAPITAL AND RESERVES OF MINORITY INTERESTS	SHAREHOLDERS' EQUITY OF MINORITY INTERESTS	SHAREHOLDERS' EQUITY
24,179	38,898	(8,956)	20,218	158,835	661	8,759	9,420	168,255
2,363	10,010		(12,883)	0	(661)	661	0	0
			(7,335)	(7,335)			0	(7,335)
				44			0	44
(11)				0			0	0
	(14,433)			(2,742)			0	(2,742)
	2,742			2,742			0	2,742
(371)				0			0	0
	43			43		24	24	67
		(8,773)		(8,773)		(1,147)	(1,147)	(9,920)
				0		(74)	(74)	(74)
			29,303	29,303	900		900	30,203
26,160	37,260	(17,729)	29,303	172,117	900	8,223	9,123	181,240
9,413	10,256		(20,621)	0	(900)	900	0	0
			(8,682)	(8,682)			0	(8,682)
	51			51		(148)	(148)	(97)
		3,434		3,434		(308)	(308)	3,126
			34,330	34,330	1,085		1,085	35,415
35,573	47,567	(14,295)	34,330	201,250	1,085	8,667	9,752	211,002

## Financing

(euro thousand)

TYPE OF DEBT	Company	Original amount
<b>Payables to banks with collateral</b>		
SAN PAOLO I.M.I. LAW 346/88 LOAN (PROG. ALLUM. RINFORZATO)	BREMBO S.P.A.	3,608
SAN PAOLO I.M.I. LOAN (€ 9.3 MILLION)	FOMM S.P.A.	9,296
<b>Payables to banks without collateral</b>		
BANCA INTESA FINANCING	MARCHESINI S.P.A.	1,678
BANCA INTESA CREDIT LINE	BREMBO NORTH AMERICA INC.	4,298
BANCO SANTANDER CENTRAL HISPANO CREDIT LINE (USD 4 MILLION)	BREMBO RASSINI S.A. DE C.V.	4,558
BANCO SANTANDER CENTRAL HISPANO LOAN (USD 6 MILLION)	BREMBO RASSINI S.A. DE C.V.	6,837
POLSKA KASA OPIEKI CREDIT LINE	BREMBO SP. Z O.O.	1,400
POLSKA KASA OPIEKI LOAN	BREMBO SP. Z O.O.	2,800
UNICREDITO CREDIT LINE	BREMBO POLAND SP. Z O.O.	14,000
241/01 BANCO SANTANDER CENTRAL HISPANO LOAN	CORPORACION UPWARDS 98 S.A.	1,042
00191 BANESTO LOAN	CORPORACION UPWARDS 98 S.A.	575
B.B.V.A. LOANS	CORPORACION UPWARDS 98 S.A.	4,000
B.N.D.E.S. LOAN	BREMBO DO BRASIL LTDA.	2,384
UNICREDITO LOAN (€ 5.2 MILLION)	BREMBO S.P.A.	5,165
SAN PAOLO I.M.I. LOAN (€ 26 MILLION)	BREMBO S.P.A.	26,000
UNICREDITO LOAN (GBP 26 MILLION)	BREMBO S.P.A.	42,235
BANCA INTESA LOAN (€ 21 MILLION)	BREMBO S.P.A.	21,000
BANCA INTESA LOAN (€ 50 MILLION)	BREMBO S.P.A.	50,000
SAN PAOLO I.M.I. LOAN (€ 1.6 MILLION)	BREMBO S.P.A.	1,549
SAN PAOLO I.M.I. LOAN (€ 6.2 MILLION)	BREMBO S.P.A.	6,197
BANCA POP. BERGAMO – CREDITO VARESINO LOAN	BREMBO GMBH	1,500
MITSUI SUMITOMO BANK LOAN	BREMBO JAPAN CO. LTD.	205
MIZUHO BANK LOAN	BREMBO JAPAN CO. LTD.	148
<b>TOTAL DEBTS TO BANKS</b>		<b>210,475</b>
<b>Payables to other financial institutions without collateral</b>		
FINANCING FROM MINISTRY OF PRODUCTIVE ACTIVITIES L. 46/82 (CCM PROJECT)	BREMBO S.P.A.	1,445
MICA LOAN LAW 46 AUTO ELETTRICA	BREMBO S.P.A.	221
IBM LOANS (€ 1.3 MILLION)	BREMBO S.P.A.	1,253
SIMEST LOAN LAW 394/USA	BREMBO S.P.A.	2,065
B.B.V.A. LEASING LOANS	CORPORACION UPWARDS 98 S.A.	1,503
BANCO SABADELL LEASING LOAN	CORPORACION UPWARDS 98 S.A.	6,611
B.P.B. LEASING LEASE FINANCING - (INDUSTRIAL PLANT ALMENNO)	BREMBO S.P.A.	3,512
BANCA INTESA LEASE LEASING LOAN - (FONDERIA ALLUMINIO MAPELLO)	BREMBO S.P.A.	15,180
2 FORKLIFT LOANS	BREMBO NORTH AMERICA INC.	54
MINIVAN LOAN	BREMBO NORTH AMERICA INC.	16
<b>TOTAL PAYABLES TO OTHER LENDERS</b>		<b>31,860</b>
<b>OVERALL TOTAL</b>		<b>242,335</b>

Capital instalments due after one year will be paid as follows:

Year	Amount
in 2006	23,953
in 2007	16,868
in 2008	6,441
in 2009	6,315
from 2010 to expiry date (over 5 years)	9,794
<b>Total</b>	<b>63,371</b>

## Annex 5

<i>Amount at 31.12.2003</i>	<i>Exchange rate fluctuation</i>	<i>Net variation in the year</i>	<i>Amount at 31.12.2004</i>	<i>Instalments due within one year</i>	<i>Instalments due after 5 years</i>	<i>Type of guarantee</i>
3,608	0	0	3,608	0	1,224	Mortgage on Company assets
3,099	0	(1,549)	1,550	1,549	0	Mortgage on Company assets
2,500	0	(900)	1,600	1,600	0	
3,166	(230)	0	2,936	2,936	0	
1,582	(108)	(1,474)	0	0	0	
2,248	(153)	(929)	1,166	933	0	
815	123	(938)	0	0	0	
805	122	(927)	0	0	0	
7,699	1,164	5,226	14,089	2,097	807	
599	0	(200)	399	200	0	
166	0	(110)	56	56	0	
2,706	0	(627)	2,079	641	0	
970	13	(337)	646	337	0	
646	0	(646)	0	0	0	
19,500	0	(6,500)	13,000	6,500	0	
12,995	0	(12,995)	0	0	0	
7,000	0	(7,000)	0	0	0	
40,000	0	(10,000)	30,000	10,000	0	
129	0	(129)	0	0	0	
1,550	0	(775)	775	775	0	
900	0	(900)	0	0	0	
128	(4)	(124)	0	0	0	
123	(4)	(119)	0	0	0	
<b>112,934</b>	<b>923</b>	<b>(41,953)</b>	<b>71,904</b>	<b>27,624</b>	<b>2,031</b>	
1,445	0	711	2,156	0	1,585	
203	0	(19)	184	20	76	
447	0	(412)	35	35	0	
165	0	953	1,118	112	112	
708	0	(209)	499	165	0	
5,983	0	(564)	5,419	589	2,211	
622	0	(622)	0	0	0	
13,732	0	(1,550)	12,182	1,592	3,779	
12	(1)	(12)	(1)	0	0	
0	0	15	15	3	0	
<b>23,317</b>	<b>(1)</b>	<b>(1,709)</b>	<b>21,607</b>	<b>2,516</b>	<b>7,763</b>	
<b>136,251</b>	<b>922</b>	<b>(43,662)</b>	<b>93,511</b>	<b>30,140</b>	<b>9,794</b>	



## Brembo: Cash-Flow Statement for the Periods Ended 31 December

<i>(euro thousand)</i>	<i>Year ended</i>	
	<i>31.12.2004</i>	<i>31.12.2003</i>
<b>Net financial indebtedness at beginning of period</b>	<b>(133,809)</b>	<b>(154,862)</b>
Income for the period	35,415	30,203
<i>Amortisation and depreciation/Write-down</i>		
of intangible fixed assets	8,659	11,655
of tangible fixed assets	34,211	34,796
Gains/Losses from disposal of fixed assets	(3,977)	(3,457)
Revaluations/Write-downs of shareholdings	730	132
Provisions for employees' leaving entitlement	5,196	5,217
Other provisions net of utilisations	3,964	(1,625)
<b>Net working capital generated by operations</b>	<b>84,198</b>	<b>76,921</b>
Use of employees' leaving entitlement	(2,809)	(2,883)
<i>(increase) reduction in current assets:</i>		
inventories	(8,927)	(9,038)
trade receivables	(1,499)	(10,575)
receivables from Group companies	(1,575)	(428)
other receivables	(5,951)	(3,321)
prepayments and accrued income	(971)	2,351
<i>Increase (reduction) in current liabilities:</i>		
trade payables	6,949	11,267
payables to Group companies	481	(67)
other payables	(8,324)	13,084
accruals and deferred income	605	(2,536)
translation differences on current-assets	2,153	(8,110)
<b>Cash-flow from (for) operating activities</b>	<b>64,330</b>	<b>66,665</b>

	Year ended	
	31.12.2004	31.12.2003
<i>Investments in fixed assets:</i>		
intangible	(5,112)	(6,698)
tangible	(73,870)	(46,709)
investments - shareholdings	(6,500)	0
other fixed assets	0	(108)
change in consolidation area of Findisc (2003)	0	35
6% increase in Brembo North America	0	(126)
payables for Brady acquisition	11,140	0
Cost price for disposal, or reimbursement value of fixed assets	12,576	15,498
receivables for sale of fixed assets	(2,708)	(3,151)
<b>Cash flow from (for) investments</b>	<b>(64,474)</b>	<b>(41,259)</b>
Dividends paid in the period	(8,682)	(7,335)
Brembo increase of capital	0	44
Other variations	50	43
Variation in shareholders' equity net of minority interests	(148)	24
<b>Cash flow from (for) changes to shareholders' equity</b>	<b>(8,780)</b>	<b>(7,224)</b>
<b>Total cash flow</b>	<b>(8,924)</b>	<b>18,182</b>
Translation difference on net indebtedness	(922)	2,871
<b>Net financial indebtedness at end of period</b>	<b>(143,655)</b>	<b>(133,809)</b>
<b>Net financial indebtedness at beginning of period</b>	<b>(133,809)</b>	<b>(154,862)</b>
Loans and financing granted by banks and other financial institutions in the period	(3,396)	(26,051)
Repayment of long-term loans	47,059	49,262
(Increase) decrease of payables to banks (capital grants and advance accounts)	(52,657)	(5,018)
Increase (decrease) of cash-in-hand and cash equivalents	70	(11)
<b>Cash flow from (for) financing activities</b>	<b>(8,924)</b>	<b>18,182</b>
Translation differences on net indebtedness	(922)	2,871
<b>Net financial indebtedness at end of period</b>	<b>(143,655)</b>	<b>(133,809)</b>

## Relations with Subsidiaries, Affiliated Companies and Parent

### Intra-group sales/purchases

(euro thousand)

PURCHASING COMPANY	BREMBO S.P.A.	BREMBO SPOLKA ZO.O.	BREMBO SCANDINAVIA A.B.	CORPORACION UPWARDS 98 S.A.	FOMM S.P.A.	BREMBO NORTH AMERICA INC.	BREMBO JAPAN CO. LTD.	BREMBO RASSINI S.A. DE C.V.
<b>SELLING COMPANY</b>								
BREMBO S.P.A.		5,939 <sup>(1)</sup>	1	5,244 <sup>(2)</sup>	1,119	8,964 <sup>(3)</sup>	1,466	2,528 <sup>(4)</sup>
BREMBO SPOLKA ZO.O.	16,977 <sup>(7)</sup>							
BREMBO SCANDINAVIA A.B.	514							
CORPORACION UPWARDS 98 S.A.	1,562				2			
FOMM S.P.A.	23,897 <sup>(8)</sup>			272				
BREMBO NORTH AMERICA INC.	1,232						451	133
BREMBO JAPAN CO. LTD.	367							
BREMBO RASSINI S.A. DE C.V.	122					4,391		
BREMBO UK LTD.	378							
MARCHESINI S.P.A.	141			18		210		
BREMBO DO BRASIL LTDA.	4,361	664 <sup>(12)</sup>						31
BREMBO GMBH	989 <sup>(9)</sup>							
BREMBO POLAND SPOLKA ZO.O.	19,548 <sup>(10)</sup>			67	245	28		
AP RACING LTD.								
BIBIELLE S.P.A.	3,279 <sup>(11)</sup>			432	6	161		
<b>TOTAL CONSOLIDATED COMPANIES</b>	<b>73,367</b>	<b>6,603</b>	<b>1</b>	<b>6,033</b>	<b>1,372</b>	<b>13,754</b>	<b>1,917</b>	<b>2,692</b>
BREMBO CERAMIC BRAKE SYSTEMS S.P.A.	7,110							
NANJING YUEJIN AUTOMOTIVE BRAKE SYSTEM CO. LTD.								
SOFTIA S.R.L.	3							
<b>TOTAL</b>	<b>80,480</b>	<b>6,603</b>	<b>1</b>	<b>6,033</b>	<b>1,372</b>	<b>13,754</b>	<b>1,917</b>	<b>2,692</b>

<sup>(1)</sup> Of which €2,415 thousand for sales of tangible fixed assets

<sup>(2)</sup> Of which €36 thousand for sales of tangible fixed assets

<sup>(3)</sup> Of which €27 thousand for sales of tangible fixed assets

<sup>(4)</sup> Of which €35 thousand for sales of tangible fixed assets

<sup>(5)</sup> Of which €287 thousand for sales of tangible fixed assets

<sup>(6)</sup> Of which €11 thousand for sales of tangible fixed assets

<sup>(7)</sup> Of which €75 thousand for sales of tangible fixed assets

<sup>(8)</sup> Of which €1 thousand for sales of tangible fixed assets

<sup>(9)</sup> Of which €356 thousand for sales of tangible fixed assets

<sup>(10)</sup> Of which €89 thousand for sales of tangible fixed assets

<sup>(11)</sup> Of which €263 thousand for sales of tangible fixed assets

<sup>(12)</sup> Of which €664 thousand for sales of tangible fixed assets

<sup>(13)</sup> Of which €48 thousand for sales of tangible fixed assets

<sup>(14)</sup> Of which €9 thousand for sales of tangible fixed assets

# Company

## Annex 7

BREMBO UK LTD.	MARCHESINI S.P.A.	BREMBO DO BRASIL LTDA.	BREMBO GMBH	BREMBO POLAND SPOLKA ZO.O.	AP RACING LTD.	BIBIELLE S.P.A.	CONSOLIDATED COMPANY	BREMBO CERAMIC BRAKE SYSTEMS S.P.A.	NANJING YUEJIN AUTOMOTIVE BRAKE SYSTEM CO. LTD.	SOFTIA S.R.L.	TOTAL
2,468	154	3	1	1,603 <sup>(5)</sup>	17	458 <sup>(6)</sup>	29,965	6,743	169		36,877
		126		376			17,479				17,479
							514				514
377						3	1,944				1,944
				9,595		269	34,033				34,033
							1,816				1,816
							367				367
		215					4,728				4,728
							378				378
							369				369
							5,056				5,056
							989	758 <sup>(14)</sup>			1,747
							19,888				19,888
							0				0
				56 <sup>(13)</sup>			3,934				3,934
2,845	154	344	1	11,630	17	730	121,460	7,501	169	0	129,130
							7,110				7,110
							0				0
							3				3
2,845	154	344	1	11,630	17	730	128,573	7,501	169	0	136,243

## Relations with Subsidiaries, Affiliated Companies and Parent Company

### Intra-group credits/debts

(euro thousand)

PURCHASING COMPANY	BREMBO S.P.A.	BREMBO SPOLKA ZO.O.	BREMBO SCANDINAVIA A.B.	CORPORACION UPWARDS 98 S.A.	FOMM S.P.A.	BREMBO NORTH AMERICA INC.	BREMBO JAPAN CO. LTD.	BREMBO RASSINI S.A. DE C.V.
<i>SELLING COMPANY</i>								
BREMBO S.P.A.		2,545	7	2,033	663	11,434	794	2,757
BREMBO SPOLKA ZO.O.	1,608							
BREMBO SCANDINAVIA A.B.	114							
CORPORACION UPWARDS 98 S.A.	804							
FOMM S.P.A.	5,811			53				
BREMBO NORTH AMERICA INC.	1,207						45	
BREMBO JAPAN CO. LTD.	26							
BREMBO RASSINI S.A. DE C.V.	40					1,034		
BREMBO UK LTD.	296							
MARCHESINI S.P.A.	56			6		9		
BREMBO DO BRASIL LTDA.	790	329						7
BREMBO GMBH	3							
BREMBO POLAND SPOLKA ZO.O.	1,384			16	169			
AP RACING LTD.								
BIBIELLE S.P.A.	1,493			135		39		
<b>TOTAL CONSOLIDATED COMPANIES</b>	<b>13,632</b>	<b>2,874</b>	<b>7</b>	<b>2,243</b>	<b>832</b>	<b>12,516</b>	<b>839</b>	<b>2,764</b>
BREMBO CERAMIC BRAKE SYSTEMS S.P.A.	683							
NANJING YUEJIN AUTOMOTIVE BRAKE SYSTEM CO. LTD.	323 <sup>(b)</sup>							
SOFTIA S.R.L.								
<b>TOTAL</b>	<b>14,638</b>	<b>2,874</b>	<b>7</b>	<b>2,243</b>	<b>832</b>	<b>12,516</b>	<b>839</b>	<b>2,764</b>

<sup>(a)</sup> Of which €2,000 thousand loan

<sup>(b)</sup> Of which €323 thousand for capital share that has been subscribed but not paid yet

## Annex 7bis

BREMBO UK LTD.	MARCHESINI S.P.A.	BREMBO DO BRASIL LTDA.	BREMBO GMBH	BREMBO POLAND SPOLKA ZO.O.	AP RACING LTD.	BIBIELLE S.P.A.	CONSOLIDATED COMPANY	BREMBO CERAMIC BRAKE SYSTEMS S.P.A.	NANJING YUEJIN AUTOMOTIVE BRAKE SYSTEM CO. LTD.	SOFTIA S.R.L.	TOTALE
1,206	2,060 <sup>(a)</sup>	269		653	2	359	24,782	1,546	663		26,991
		35		40			1,683				1,683
							114				114
200						2	1,006				1,006
				4,896		80	10,840				10,840
							1,252				1,252
							26				26
		7					1,081				1,081
							296				296
							71				71
							1,126				1,126
							3				3
							1,569				1,569
							0				0
				16			1,683				1,683
1,406	2,060	311	0	5,605	2	441	45,532	1,546	663	0	47,741
							683				683
							323				323
							0				0
1,406	2,060	311	0	5,605	2	441	46,538	1,546	663	0	48,747

## Statutory Auditors' Report

### Report of the Board of Statutory Auditors on the Consolidated Financial Statements for the Year Ended 31 December 2004

Shareholders of the Parent Company Brembo S.p.A.

This Report explains the Consolidated Financial Statements of the Brembo Group, whose Parent Company is Brembo S.p.A.

This Report implements the responsibilities assigned to the Board of Statutory Auditors by Legislative Decree 58 of 24 February 1998 and in this regard, it refers to the Report on Operations for the Financial Statements at 12/31/2004 of Parent Company Brembo S.p.A.

Based on these assumptions, the Board of Statutory Auditors notes as follows:

- it has obtained information and monitored, within the limits of its competence, whether the organisational structure of the company complies with the principles of proper administration. It has obtained information by direct observation, from executives involved in administrative duties, and from meetings with the Independent Auditors PricewaterhouseCoopers S.p.A., focused on a mutual exchange of relevant data and information;
- it has received from the Board of Directors, within the terms established by the law, the Financial Statements of Brembo S.p.A. for the year ended 31 December 2004 and Report on Operations, and the Consolidated Financial Statements and Report on Operations;
- it has found that the Consolidated Financial Statements and the Report on Operations have been prepared in compliance with relevant regulations;
- it has read the certification of the Independent Auditors, which does not present any points of issue;
- the Financial Statements of the main subsidiary companies were legally reviewed by the respective Boards of Statutory Auditors, by an Auditor or by the Independent Auditors.

During the monitoring activity, no significant facts have emerged that need be mentioned in this Report.

The Consolidated Financial Statements submitted to the Shareholders' Meeting for their approval include the following summary, expressed in thousands of euro:

## Balance Sheet

Fixed assets	269,607
Current assets	322,077
Prepayments and accrued income	3,949
<b>Total assets</b>	<b>595,633</b>
Shareholders' Equity	211,002
Provisions for contingencies and charges	9,243
Allocation for employees' leaving entitlement	22,009
Payables	349,266
Accruals and deferred income	4,113
<b>Total liabilities</b>	<b>595,633</b>

## Income Statement

Production value	697,481
Production costs	(639,120)
<b>Change</b>	<b>58,361</b>
Financial income and charges	(727)
Adjustments of financial asset value	(729)
Non-recurring income and charges	1,168
<b>Income before taxation</b>	<b>58,073</b>
Income taxes	(22,658)
<b>Income before minority interests</b>	<b>35,415</b>
Net income of minority interests	(1,085)
<b>Income for the period</b>	<b>34,330</b>

In our opinion, the Consolidated Financial Statements present a fair picture of Brembo Group's financial situation and operating income for the year ended 12/31/2004, in compliance with generally accepted accounting principles for consolidated financial statements.

Moreover, the Board of Statutory Auditors considers that the Report on Group Operations is correct and consistent with the Consolidated Financial Statements.

*Curno, April 12, 2005*

### BOARD OF STATUTORY AUDITORS

Mr. Sergio Mazzoleni *Chairman*  
Mr. Enrico Cervellera *Auditor*  
Mr. Andrea Puppo *Auditor*



**AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF  
LEGISLATIVE DECREE N° 58 OF 24 FEBRUARY 1998**

To the Shareholders of  
Brembo SpA

- 1 We have audited the consolidated financial statements of Brembo SpA and subsidiaries (the Brembo Group) as of 31 December 2004. These consolidated financial statements are the responsibility of Brembo SpA's directors. 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 and criteria recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. 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 the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to the report of other auditor dated 31 March 2004.

- 3 In our opinion, the consolidated financial statements of the Brembo Group as of 31 December 2004 comply with the Italian laws governing the criteria for their preparation; accordingly, they give a true and fair view of the financial position and of the results of operations of the Group.

Milan, 12 April 2005

PricewaterhouseCoopers SpA

Signed by

Luigi Migliavacca  
(Partner)

**“This report has been translated from the original, which was issued in accordance with the Italian legislation, into the English language solely for the convenience of international readers”.**

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*Innovation begets  
innovation.*

*Innovation is conceived  
and grows also through  
customer relations.*

*Generating innovation  
in partnership with them,  
Brembo also helps them  
generate innovation.*



**Brembo S.p.A. Financial Statements at 31 December 2004**



## Brembo S.p.A.: Financial Statements at 31 December 2004

### Balance Sheet - Assets

(Euro)	31.12.2004	31.12.2003	Change
<b>(A) Called-up share capital to be received</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>(B) Fixed assets</b>			
<b>I Intangible fixed assets:</b>			
1 Start-up and capital costs	1,695	0	1,695
2 R&D and advertising costs	0	342,527	(342,527)
3 Industrial patents and similar rights for original works	1,673,571	1,602,622	70,949
4 Concessions, licences, trademarks and similar rights	64,325	48,739	15,586
7 Other	8,025,083	8,107,884	(82,801)
<b>Total intangible fixed assets</b>	<b>9,764,674</b>	<b>10,101,772</b>	<b>(337,098)</b>
<b>II Tangible fixed assets:</b>			
1 Land and buildings	35,146,016	27,077,739	8,068,277
2 Plants and machinery	32,829,922	31,786,514	1,043,408
3 Industrial and commercial equipment	11,397,897	12,654,581	(1,256,684)
4 Other assets	4,151,484	1,822,970	2,328,514
5 Assets in course of construction and payments on account	793,989	670,462	123,527
<b>Total tangible fixed assets</b>	<b>84,319,308</b>	<b>74,012,266</b>	<b>10,307,042</b>
<b>III Financial fixed assets:</b>			
1 Shareholdings in:			
a. subsidiary companies	99,527,828	81,734,605	17,793,223
b. associated companies	10,899,735	7,001,476	3,898,259
d. other companies	1,352	1,352	0
<b>Total</b>	<b>110,428,915</b>	<b>88,737,433</b>	<b>21,691,482</b>
2 Receivables:			
a. from subsidiary companies			
<i>due within one year</i>	2,000,000	3,500,000	(1,500,000)
d. other			
<i>due within one year</i>	0	174,027	(174,027)
<i>due after one year</i>	124,760	109,750	15,010
3 Other securities	1,032,914	1,032,914	0
4 Own shares:			
a. book value	16,389,189	16,389,189	0
<b>Total</b>	<b>19,546,863</b>	<b>21,205,880</b>	<b>(1,659,017)</b>
<b>Total financial fixed assets</b>	<b>129,975,778</b>	<b>109,943,313</b>	<b>20,032,465</b>
<b>Total fixed assets</b>	<b>224,059,760</b>	<b>194,057,351</b>	<b>30,002,409</b>

(Euro) 31.12.2004 31.12.2003 Change

**(C) Current assets**

**I Inventories:**

1 Raw materials, ancillaries and consumables	25,124,879	24,224,857	900,022
2 Work-in-progress and semi-finished goods	15,255,117	15,257,043	(1,926)
4 Finished products and merchandise	30,698,129	29,544,211	1,153,918
<b>Total inventories</b>	<b>71,078,125</b>	<b>69,026,111</b>	<b>2,052,014</b>

**II Receivables:**

1 Trade receivables			
<i>due within one year</i>	95,619,985	115,473,311	(19,853,326)
2 From subsidiary companies			
<i>due within one year</i>	22,781,429	25,324,111	(2,542,682)
3 From associated companies			
<i>due within one year</i>	2,208,849	634,412	1,574,437
4 <sup>bis</sup> Taxes receivable			
<i>due within one year</i>	8,514,405	2,414,343	6,100,062
<i>due after one year</i>	202,662	70,450	132,212
4 <sup>ter</sup> Deferred taxes			
<i>due after one year</i>	0	946,794	(946,794)
5 Other			
<i>due within one year</i>	819,962	827,515	(7,553)
<b>Total receivables</b>	<b>130,147,292</b>	<b>145,690,936</b>	<b>(15,543,644)</b>

**IV Liquid assets:**

1 Bank and postal accounts	1,220,157	6,888,420	(5,668,263)
3 Cash-in-hand and cash equivalents	11,640	31,514	(19,874)
<b>Total liquid assets</b>	<b>1,231,797</b>	<b>6,919,934</b>	<b>(5,688,137)</b>
<b>Total current assets</b>	<b>202,457,214</b>	<b>221,636,981</b>	<b>(19,179,767)</b>

**(D) Prepayments and accrued income**

b. Other prepayments and accrued income	2,314,372	1,335,380	978,992
<b>Total prepayments and accrued income</b>	<b>2,314,372</b>	<b>1,335,380</b>	<b>978,992</b>
<b>TOTAL ASSETS</b>	<b>428,831,346</b>	<b>417,029,712</b>	<b>11,801,634</b>

## Brembo S.p.A.: Financial Statements at 31 December 2004

### Balance Sheet - Liabilities

(Euro)	31.12.2004	31.12.2003	Change
<b>(A) Shareholders' Equity</b>			
<b>I Share capital</b>	<b>36,317,034</b>	<b>36,317,034</b>	<b>0</b>
<b>II Share premium reserve</b>	<b>26,650,263</b>	<b>26,650,263</b>	<b>0</b>
<b>III Revaluation reserves</b>	<b>13,506,378</b>	<b>13,506,378</b>	<b>0</b>
<b>IV Legal reserve</b>	<b>5,212,244</b>	<b>4,259,944</b>	<b>952,300</b>
<b>V Reserve for own shares in portfolio</b>	<b>16,389,189</b>	<b>16,389,189</b>	<b>0</b>
<b>VII Other reserves:</b>			
– Reserve Law 46/82	98,348	98,348	0
– Extraordinary reserve	20,020,535	10,607,996	9,412,539
– Reserve for accelerated depreciation	0	124,420	(124,420)
– Taxed reserve for accelerated depreciation	556,823	432,403	124,420
– Own share purchasing reserve	15,400,000	15,400,000	0
– Merger surplus	54,400	54,400	0
<b>IX Income (loss) for the year</b>	<b>30,899,786</b>	<b>19,045,995</b>	<b>11,853,791</b>
<b>Total shareholders' equity</b>	<b>165,105,000</b>	<b>142,886,370</b>	<b>22,218,630</b>
<b>(B) Provisions for contingencies and charges:</b>			
1 For pensions and similar provisions	70,000	0	70,000
2 For taxes, including deferred taxes	5,126,015	0	5,126,015
3 Other	905,042	498,929	406,113
<b>Total provisions for contingencies and charges</b>	<b>6,101,057</b>	<b>498,929</b>	<b>5,602,128</b>
<b>(C) Employee's leaving entitlement</b>	<b>20,738,164</b>	<b>18,592,662</b>	<b>2,145,502</b>
<b>(D) Payables</b>			
4 Payables to banks			
<i>due within one year</i>	68,320,027	61,416,546	6,903,481
<i>due after one year</i>	30,108,234	47,382,918	(17,274,684)
5 Payables to other financial institutions			
<i>due within one year</i>	166,836	431,387	(264,551)
<i>due after one year</i>	3,326,418	1,828,820	1,497,598
7 Trade payables			
<i>due within one year</i>	95,933,928	93,508,689	2,425,239

(Euro)	31.12.2004	31.12.2003	Change
9 Payables to subsidiary companies			
<i>due within one year</i>	13,632,449	17,080,650	(3,448,201)
10 Payables to associated companies			
<i>due within one year</i>	1,005,967	2,370,406	(1,364,439)
12 Payables to taxation authorities			
<i>due within one year</i>	3,266,451	11,186,774	(7,920,323)
<i>due after one year</i>	0	1,371,092	(1,371,092)
13 Social security charges			
<i>due within one year</i>	5,567,652	4,862,978	704,674
<i>due after one year</i>	620,223	316,874	303,349
14 Other payables			
<i>due within one year</i>	10,974,571	10,750,357	224,214
<i>due after one year</i>	2,590,612	1,325,153	1,265,459
<b>Total payables</b>	<b>235,513,368</b>	<b>253,832,644</b>	<b>(18,319,275)</b>

#### **(E) Accruals and deferred income:**

b. Other accruals and deferred income	1,373,757	1,219,107	154,650
<b>Total accruals and deferred income</b>	<b>1,373,757</b>	<b>1,219,107</b>	<b>154,650</b>
<b>TOTAL LIABILITIES</b>	<b>428,831,346</b>	<b>417,029,712</b>	<b>11,801,635</b>

#### **Balance Sheet - Memorandum and contingency accounts**

1 Personal guarantees granted:			
a. sureties:			
– in favour of subsidiaries	59,841,947	41,690,798	18,151,149
4 Sales commitments	0	9,656,148	(9,656,148)
5 Other memorandum accounts	46,273,693	23,596,001	22,677,692
<b>TOTAL MEMORANDUM ACCOUNTS</b>	<b>106,115,640</b>	<b>74,942,947</b>	<b>31,172,693</b>



## Brembo S.p.A.: Financial Statements at 31 December 2004

### Income Statement

(Euro)	31.12.2004	31.12.2003	Change
<b>(A) Production value:</b>			
1 Sales of goods and services	489,679,925	502,645,164	(12,965,239)
2 Variation in inventories, work in progress, semi-finished and finished goods	3,098,560	(1,038,732)	4,137,292
5 Other revenues and income:			
a. contributions to period accounts	2,778	5,002	(2,224)
b. other revenues and income	11,261,267	7,458,273	3,802,994
<b>Total value of production</b>	<b>504,042,530</b>	<b>509,069,707</b>	<b>(5,027,177)</b>

### (B) Production costs

6 Raw materials, ancillaries, consumables and goods	264,866,542	263,860,821	1,005,721
7 Services	79,168,074	76,050,871	3,117,203
8 Use of third-party assets	8,298,644	5,805,374	2,493,270
9 Personnel expenses:			
a. wages and salaries	67,081,320	66,609,186	472,134
b. social security contributions	22,571,783	22,243,092	328,691
c. employees' leaving indemnities	4,714,843	4,765,711	(50,868)
e. other costs	3,196,060	3,256,692	(60,632)
<b>Total</b>	<b>97,564,006</b>	<b>96,874,681</b>	<b>689,325</b>
10 Amortisation, depreciation and write-downs:			
a. amortisation of intangible fixed assets	4,989,648	6,636,642	(1,646,994)
b. depreciation of tangible fixed assets	19,795,830	22,896,110	(3,100,280)
d. write-down of receivables included in current assets and liquid assets	216,000	723,175	(507,175)
<b>Total</b>	<b>24,785,478</b>	<b>29,532,752</b>	<b>(4,747,274)</b>
11 Variation in inventories of raw materials, ancillaries, consumables, and goods	(1,047,286)	(2,546,913)	1,499,627
12 Provision for contingencies	524,071	155,314	368,757
14 Other operating costs	850,859	918,966	(68,107)
<b>Total value of production</b>	<b>475,226,388</b>	<b>471,375,041</b>	<b>3,851,347</b>
<b>Difference between production value and costs</b>	<b>28,816,142</b>	<b>37,694,666</b>	<b>(8,878,524)</b>

(Euro) 31.12.2004 31.12.2003 Change

**(C) Financial income and charges:**

15 Income from shareholdings:			
– from associated companies	0	34,500	(34,500)
16 Other financial income:			
d. other income			
– from others	179,352	246,739	(67,387)
17 Interest and other financial charges:			
– from others	(3,284,988)	(4,225,933)	940,945
17 <sup>bis</sup> Exchange gains and losses:	2,832,563	1,499,019	1,333,544
<b>Total financial income and charges</b>	<b>(273,073)</b>	<b>(2,445,675)</b>	<b>2,172,602</b>

**(D) Adjustments of financial asset value:**

18 Revaluations:			
b. of financial assets not constituting investments	566	5,397	(4,831)
19 Write-downs:			
a. of shareholdings	(756,637)	0	(756,637)
<b>Total adjustments of financial asset value</b>	<b>(756,071)</b>	<b>5,397</b>	<b>(761,468)</b>

**(E) Non-recurring income and charges**

20 Income:			
– gains from transfers whose revenues cannot be posted under No. 5	4,110,079	2,835,460	1,274,619
– other income	18,407,192	0	18,407,192
21 Charges:			
– taxes from previous periods	(1,500,300)	(28,101)	(1,472,199)
– other charges	(2,059,541)	0	(2,059,541)
<b>Total non-recurring income and charges</b>	<b>18,957,430</b>	<b>2,807,359</b>	<b>16,150,071</b>
<b>Income before taxation</b>	<b>46,744,428</b>	<b>38,061,747</b>	<b>8,682,681</b>
22 Income taxes for the period, current, deferred and prepaid taxes	(15,844,642)	(19,015,752)	3,171,110
<b>23 INCOME (LOSS) FOR THE YEAR</b>	<b>30,899,786</b>	<b>19,045,995</b>	<b>11,853,791</b>

## Statutory Auditors' Report

### Report of the Board of Statutory Auditors to the Shareholders' Meeting for Approval of the Financial Statements for the Year Ended 31 December 2004

Shareholders,

Pursuant to Art. 153 of Legislative Decree No. 58 of 24/02/98, the Board of Statutory Auditors must report to the General Meeting on its supervision, and on omissions and censurable operations observed. Furthermore, the Statutory Auditors may put forward proposals with regards to Financial Statements, their approval or subjects for which they are qualified.

In compliance with the above-mentioned provision we submit the report herein.

During the year, the Statutory Auditors performed their duty as per Art. 149 of the above-mentioned Decree and are now able to report the following information, in compliance with CONSOB circular No. 1025564 dated 6 April 2001.

1. During Board Meetings and periodic controls, Company Directors constantly informed us on the most significant economic and financial operations carried out by the company.  
These transactions regarded the streamlining of the group's real estate assets, the simplification of the corporate structure, and the reorganisation of the shareholdings of the subsidiary Brembo Participations B.V. as part of the company's strategic development plan, in full compliance with the law and the articles of association.  
The most important transactions were the redemption of the Almenno property from the leasing company followed by its sale in December since it was no longer used in production, the exercise of the buy-back option in June for the acquisition of the Stezzano real estate complex from the Pioneer Investment Management S.g.r.p.A fund, the merger into Brembo of the company Findisc S.r.l., parent company of Bibielle S.p.A., and the underwriting of a capital increase in the subsidiary Brembo International S.A. through the conferment of the equity investment held in the holding company Brembo Participations B.V.  
Regarding the equity investments held by Brembo Participations B.V., the most significant transaction was the acquisition of a further 39% stake in Brembo Japan Co. Ltd, increasing the entire share package to 90%.
2. In 2004, the Company did not carry out any atypical or unusual operations.  
No atypical or unusual operations were carried out with related parties, nor were there any that can significantly affect the Company's economic, equity and financial situation.  
No atypical or unusual operations were carried out with third parties or with Group companies. Ordinary operations within the Group and with related parties involved the purchase and sale of products and services, and the transfer of manufacturing equipment posted as fixed assets. All the transactions took place at prices that correspond to normal market values. These

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operations are deemed fair and have been carried out in the interest of the Company.

In 2004, Brembo S.p.A. did not repay any loans nor did it open new loans in favour of subsidiaries and associated companies.

The €1.5 million loan issued in 2003 to Findisc S.r.l. was eliminated when the company was merged into Brembo S.p.A.

3. It is noted that the Report on Operations contains specific detailed information regarding intra-Group transactions and business with related parties.  
They also reported on the incentive plan for Group executive directors and top management, the "Rewarding Corporate Performance Plan" for the 2003-2005 period, payable in June 2006. Lastly, they reported on the buy-back plan confirmed by the Shareholders' Meeting of 26 April 2004 and on the number of own shares held in implementation of the plan.
4. The independent auditors' report released on 12 April 2005 contains no remarks, while there is an advisory that the elimination of value adjustments and provisions made in previous financial years exclusively in application of tax laws should be disclosed in financial statement entries, in accordance with provisions in force.
5. In 2004, we did not receive any complaints as per Art. 2408 of the Italian Civil Code.
6. In 2004, no petitions were submitted to the Board of Statutory Auditors.
7. The Auditing firm was appointed to evaluate a potential company acquisition.
8. No mandates were conferred to parties with an ongoing relationship with Pricewaterhouse Coopers S.p.A.
9. During the year, the Board expressed an opinion on the conferment of the audit mandate for the 2004-2006 financial statements.
10. During 2004, the Board of Directors' met six times and the Board of Statutory Auditors met five times.
11. During the periodic audits, we noted that operations were carried out in full observance of the principles of proper management.
12. The Company's organisational structure is adequate for its current size.
13. The internal control procedure is adequate and effective, and it appears to be suitable for pursuing risk prevention and ensuring the effective application of standards of corporate conduct, which have been acknowledged in the Code of Ethics. During the year, the Board carried out numerous audits as part of its internal audit responsibilities. In accordance with the internal control procedure, approved by the then Board of Directors, the audits had a two-fold focus, risk prevention and actions to ascertain and eliminate irregularities.  
These audits did not detect any irregularities or direct employee responsibility.

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In 2004, the auditors also began conducting audits at the foreign subsidiaries, as expressly requested by the Audit Committee: the first audit, conducted at Brembo North America Inc., is still ongoing.

14. The administrative/accounting system seems to be fully adequate and reliable.

Based on what we have observed and verified also during the previous periods, it correctly reflects operations.

Now that the provision requiring the adoption of IFRS for the consolidated financial statements of listed companies starting with the 2005 financial statements and for sole financial statements beginning in 2006 has come into effect, Brembo has implemented a plan to manage the switchover from the currently used accounting standards to the IFRS, quantifying the impact on upcoming financial statements. The task force set up for this purpose, assisted by KPMG S.p.A., is now at the stage of defining the necessary transition procedures. As a result, the system appears capable of moving to the application stage for the new standards, presumably beginning with the 2005 Interim Report, in accordance with the transitory regime prescribed by the CONSOB in its Consultation Document of 17 February 2005.

15. The Company periodically issues instructions to subsidiaries, as provided for by Article 114, paragraph 2, of Legislative Decree 58/1998: the audits performed by the Board of Statutory Auditors have confirmed their adequacy.

16. During the meetings held periodically with the Independent Auditors, pursuant to the provisions of Article 150 of the TUF (Unified Finance Act) no significant aspects emerged in relation to problems that come under our area of responsibility.

17. Brembo's System of Corporate Governance was implemented again in FY 2004, fully complying with the provisions of "Corporate Governance of Listed Companies" and those required for listing with the STAR segment. More in detail, the company carried out all the necessary actions to set up an Organisation, Management and Control system capable of ensuring Brembo's non-responsibility for crimes pursuant to Italian Legislative Decrees 231/2001 and 61/2002. At the conclusion of these initiatives, the Board of Directors nominated a Surveillance Committee with the task of monitoring the effectiveness of the Organisation, Management and Control model, to analyse its adequacy and functioning, and to update it.

In addition, in accordance with the principles contained in the "Guidelines for Information to the Market", the company is organised to continuously and constantly report to shareholders and institutional investors according to principles of fairness, transparency and equal access to information.

To this end, all information on the company's operating performance and financial situation is released not only in accordance with procedures prescribed by law, but also through the company Internet site and a quarterly newsletter sent to private shareholders, with comments on the quarterly results and the latest news regarding the company's performance.

18. During the period, we carried out the monitoring activities set forth in the above-mentioned Article 149.

During the meetings of the Board of Directors and our periodic meetings with the Directors, we were immediately informed of significant operations and were able to obtain all the details required to analyse and evaluate their impact on the company's economic and financial structure.

During our frequent meetings with the Audit Committee and with the Independent Auditors, we were able to obtain detailed information on the Internal Control System and on the Company's level of administration-accounting organisation.

We can confirm that in performing our activities, we did not note any irregularities, omissions or censurable operations.

19. We hereby propose that the Shareholders' Meeting approve the Financial Statements for the year ended 31 December 2004 and we further declare that we are in favour of the proposal of the Board of Directors for the distribution of dividends.

*Curno, 12 April 2005*

**BOARD OF STATUTORY AUDITORS**

Mr. Sergio Mazzoleni *Chairman*

Mr. Enrico Cervellera *Auditor*

Mr. Andrea Puppo *Auditor*

**AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF  
LEGISLATIVE DECREE N° 58 OF 24 FEBRUARY 1998**

To the Shareholders of  
Brembo SpA

- 1 We have audited the financial statements of Brembo SpA (hereinafter also as "the Company") as of 31 December 2004. These financial statements are the responsibility of Brembo SpA's directors. 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 and criteria recommended by CONSOB, the Italian Commission for listed Companies and the Stock Exchange. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the financial statements are free of material misstatement and, taken as a whole, are presented fairly. 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 the directors. We believe that our audit provides a reasonable basis for our opinion.

For the opinion on the financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to the report of other auditor dated 31 March 2004.

- 3 In our opinion, the financial statements of Brembo SpA as of 31 December 2004 comply with the Italian laws governing the criteria for their preparation; accordingly, they give a true and fair view of the financial position and of the results of operations of the Company.
- 4 For information purposes, we highlight that, as provided for by Italian rules, in the 2004 financial statements the Company accounted for the effects

deriving from the elimination of the adjustments and provisions made in prior years solely for tax purposes. The related effects are disclosed in the notes to the accounts.

Milan, 12 April 2005

PricewaterhouseCoopers SpA

Signed by

Luigi Migliavacca  
(Partner)

**"This report has been translated from the original, which was issued in accordance with the Italian legislation, into the English language solely for the convenience of international readers".**

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