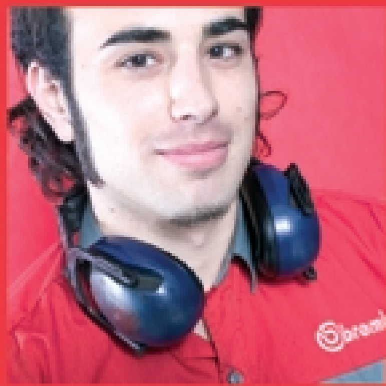
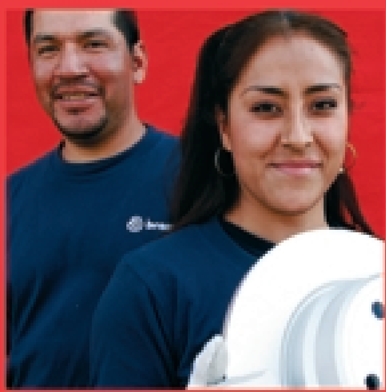
Annual Report 2005

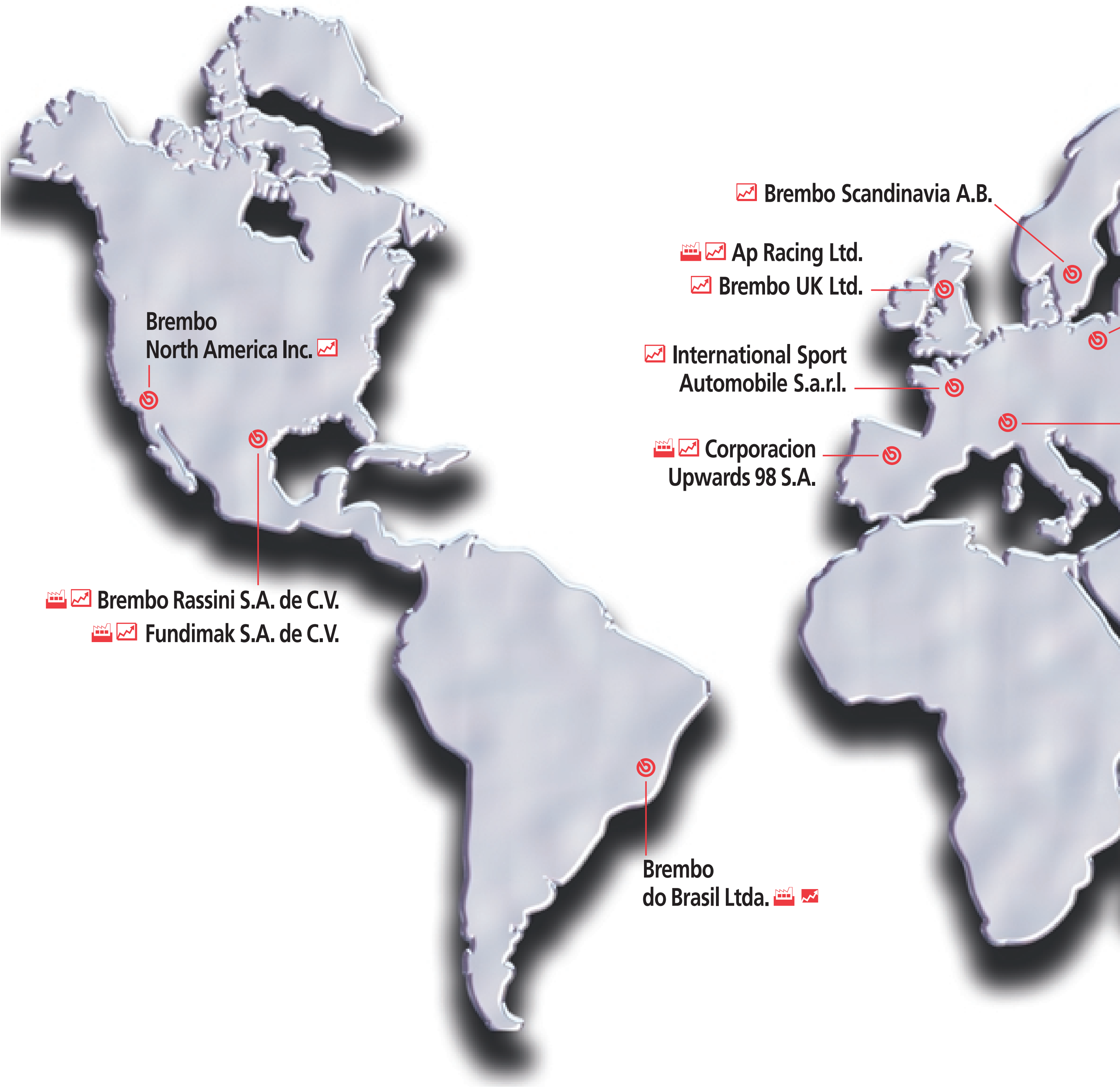




brembo

Brembo in the world

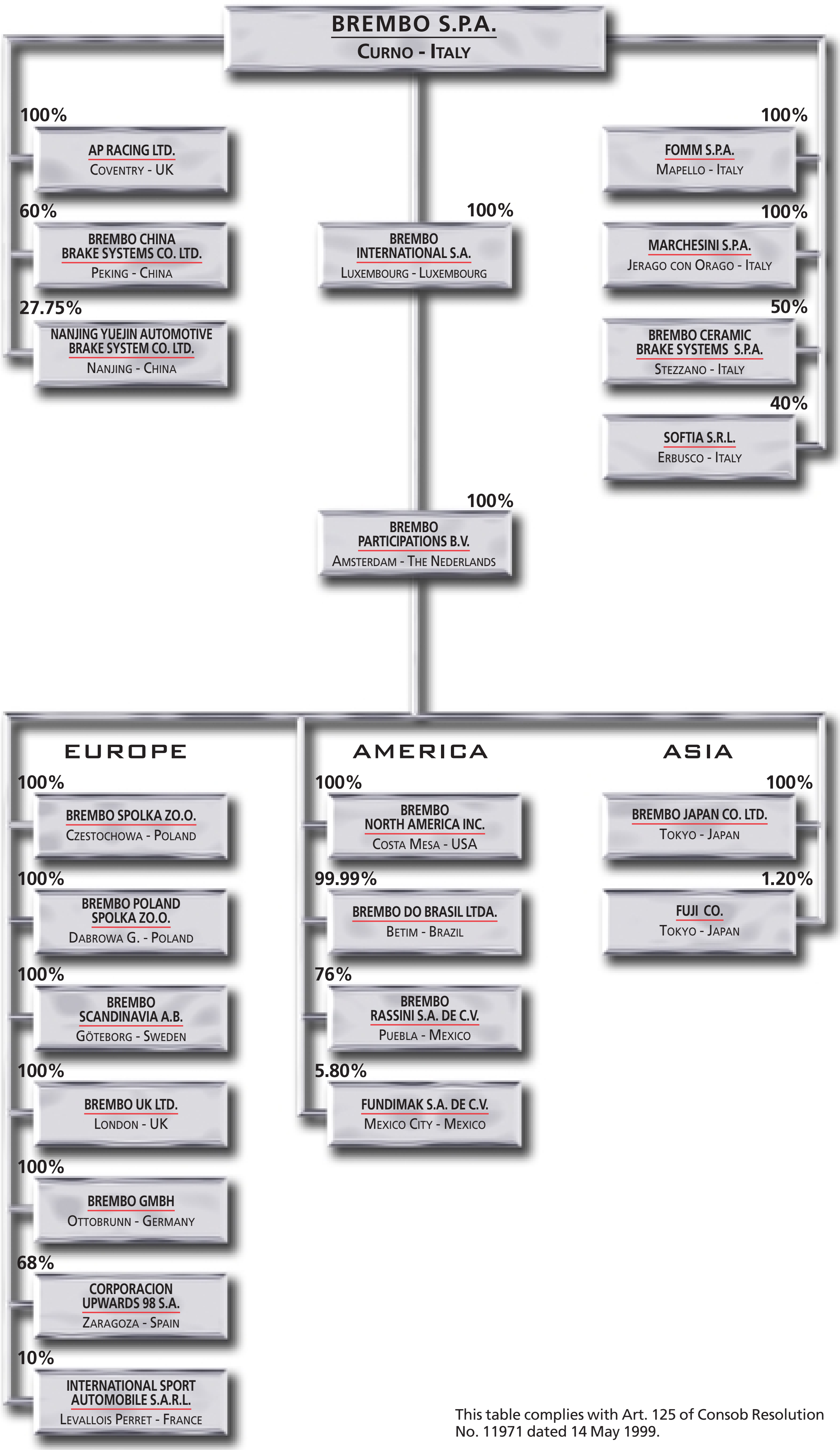
The images of this Annual Report are dedicated to the multinational presence of Brembo in the world: 16 production sites in 9 countries of 3 continents to support our strategy of development of markets and customers.



Brembo Scandinavia A.B.
Ap Racing Ltd.
Brembo UK Ltd.
Brembo
North America Inc.
International Sport
Automobile S.a.r.l.
Corporacion
Upwards 98 S.A.
Brembo Rassini S.A. de C.V.
Fundimak S.A. de C.V.
Brembo
do Brasil Ltda.


Brembo Spolka Zo.o.
Brembo Poland Spolka Zo.o.
Brembo S.p.A.
Fomm S.p.A.
Marchesini S.p.A.
Softia S.r.l.
Brembo Ceramic Brake Systems S.p.A.
Fuji Co.
Brembo Japan Co. Ltd.
Brembo China Brake Systems Co. Ltd.
Nanjing Yuejin Automotive Brake System Co. Ltd.
Plants
Technical & Sales Dept.

Brembo Group Structure



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

Reports and Financial Statements 2005

More than brakes.

Call to Shareholders' Meeting

The shareholders are convened to the Ordinary and Extraordinary General Meetings to be held at company headquarters on **28 April 2006 at 11:00 am** CET (first call) or on **5 May 2006**, at the same place and time (second call), to resolve on the following

Agenda

Ordinary General Meeting

1. Appointment of a member of the Board of Directors pursuant to Article 2386 of the Italian Civil Code and re-determination of the Directors' overall remuneration pursuant to Article 21 of the By-laws of Brembo S.p.A.; ensuing resolutions.
2. Presentation of the Financial Statements of Brembo S.p.A. for the year ended 31 December 2005, with the Directors' Report on Operations, the Report of the Board of Statutory Auditors and the Report of the Independent Auditors; ensuing resolutions.
3. Presentation of the Consolidated Financial Statements of the Brembo Group for the year ended 31 December 2005, with the Directors' Report on Operations, the Report of the Board of Statutory Auditors and the Report of the Independent Auditors.
4. Resolutions regarding the purchase and sale of own shares.
5. Integration of the assignment of PWC S.p.A. to audit Brembo S.p.A.'s Financial Statements and the Group's 2005 Consolidated Financial Statements following the application of the IAS; ensuing resolutions.
6. Approval of the three-year incentive Plan for executive Directors and top executives (Rewarding Corporate Performance 2006 - 2007 - 2008).

Extraordinary Meeting

1. Specification, in Article 4 of the By-laws (Purpose) of the entitlement of Brembo S.p.A. to grant and/or receive financing to/from the Group companies.

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.

On behalf of 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.

Contents

Letter from the Chairman

Dear Shareholders,

The economic environment in 2005 was influenced by the persistence of certain factors, including widespread international geopolitical instability. Against this backdrop, however, the international economy still made steady progress on the road to recovery, led by the United States and the emerging Asian countries (mainly China and India) and more recently Japan. The only large economic area to experience sluggish growth was Euroland, which recorded an average annual increase in GDP of 1.3% — considerably lower than that of the United States (3.5%) and the world (4.1%). Considering the main European countries, the scenario is dotted with bright and shady areas; a great deal of doubt still surrounds the soundness of Italy's economy, while the German economy has started to show signs of improvement and the French and Spanish economies (and the British economy as well, though outside the Eurozone) appear better positioned for recovery.

The International Monetary Fund predicts that this growth will continue, though certain risks persist. These include further increases in oil prices, raw materials and energy, the appreciation of the euro and the probable increase in interest rates in the euro area. All of these factors could influence the automotive market — the area in which Brembo operates — which, already in 2005, recorded a lower level of growth compared to the previous year.

Worldwide automobile sales increased only slightly in 2005 (2.7%), i.e., almost a percentage point less than the already low increase recorded in 2004. Sales remained mostly stable in Europe and the United States, while the most sizeable increases came from China and South America. New registrations for commercial and industrial vehicles, another important market for our products, increased by almost four percentage points; in this case as well, the increase was significantly smaller than in the previous year. Trends for motorbikes varied randomly across the different areas: a near-zero increase in Europe, a decrease in Japan and a 4.5% increase in the United States.

Clearly, 2005 was not an easy year for the automotive industry, a sector characterised by growing competition that is going through a major process of reorganisation: the most dynamic end markets are shifting towards Eastern Europe and Asia, and automobile manufacturers are choosing to expand their production activities in those areas, as conditions there meet the unavoidable necessity of containing costs.

For Brembo as well, 2005 was a year of great change and far-reaching transformations. These changes have been necessary to deal with increasingly aggressive international competition and to maintain the technological and market leadership that has made Brembo a superior brand that is recognised and respected across the world. Even in this difficult context, the company has not stopped, but rather accelerated its development programmes. The year just ended saw significant progress on the industrial plan, which was launched last year with the goal of concentrating European disc brake production in three countries (Italy, Spain and Poland) by the end of 2006.

In Poland, a new cast-iron foundry was built in record time — less than a year — near the already existing disc production facilities. The foundry was inaugurated in February 2006. The new facility required an investment of €45 million and marked the completion of another step in our company's industrial plan, which is aimed at

implementing integrated production processes (foundry, processing, logistics) at each production site to achieve maximum efficiency. The foundry is one of the most advanced disc technology centres in Europe and is dedicated to the production of discs for automobiles and commercial and industrial vehicles, which require large volumes and highly standardised products. The facility has already begun operating and, by 2007, is expected to generate sales of €130 million.

Also in 2005, we concentrated on starting new production initiatives in the emerging markets of the Far East — to add to the list of our current facilities in China, Mexico and Brazil.

In China, where a production joint venture with the Chinese Group Yuejin has been operating since 2001, Brembo and the financial company Simest established a new company specialising in the production and sale of braking components for the original equipment market. The plant will be located in the Peking area and it will supply the major European and Asian manufacturers operating in East Asia. The total investment amounts to €15 million. Production is scheduled to start up in the summer of 2006; once at full capacity, yearly revenues are expected to reach about €20 million.

Lastly, in India, Brembo and Bosch — through Bosch's subsidiary Kalyani Brakes Ltd. — decided to set up a joint venture that will produce and sell braking systems for motorbikes, initially for the Indian market only. The new company will be based in Pune, an area not far from Bombay with a high concentration of industrial facilities associated with the automotive sector. The total investment of the two partners amounts to €13 million. In the first year of operation, sales are projected to reach about €15 million, and this figure is expected to double over the next four years.

Including the two new Asian joint ventures, Brembo has a total of 16 production facilities in nine countries on three continents (Europe, America and Asia), in line with its strategy of creating a strong market presence and increasing its customer base.

This strategy, which has been in place for some time now, together with the company's long-standing efforts to innovate, allowed us to close 2005 with moderately positive results, despite the market difficulties described above. Revenues increased 4.9% compared to the previous year, and income increased 2.4%, after investments of approximately €96 million — a five-year record, equivalent to 13.5% of sales.

The benefits we anticipate from the implementation of the industrial plan and the launch of new production initiatives, coupled with the growth potential of our customer relationships, raise good expectations for the future. Despite the persistent stagnation expected for our industry, we should be able to see the first results of our efforts as early as the second half of 2006. And, starting next year, we anticipate not only a more solid, stable situation, but also some further improvement. The achievement of this objective has my personal commitment, as well as that of the management team and of all our collaborators.

The Chairman
Alberto Bombassei

Company Officers

The Shareholders' Meeting, held on 29 April 2005, passed a resolution in favour of the reappointment of Company officers for the following three-year period. All Directors and Statutory Auditors were reconfirmed.
At the meeting held on 14 November 2005, the Board of Directors co-opted the new Director Giovanni Cavallini to replace Alberto Tazartes, who had resigned.

Board of Directors

Chairman	Alberto Bombassei [1]
Directors	Paolo Biancardi [3]
	Cristina Bombassei [4]
	Giovanni Cavallini [3]
	Giancarlo Dallera [3]
	Giovanna Dossena [3]
	Andrea Gibellini [3]
	Stefano Monetini [2]
	Umberto Nicodano [5]
	Giuseppe Roma [3]
	Matteo Tiraboschi [4]

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	
Chairman	Umberto Nicodano
	Paolo Biancardi
	Giancarlo Dallera
Supervisory Committee	
Chairman	Giovanna Dossena
	Giuseppe Roma
	Umberto Simonelli

(1) 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.

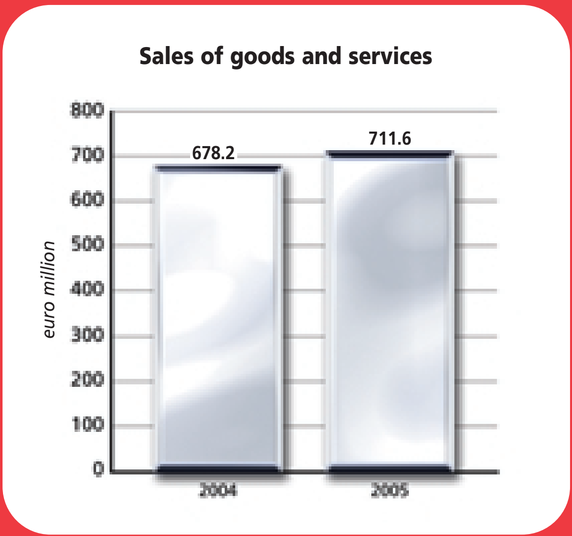
(2) This Director has certain powers of ordinary management in Brembo S.p.A. He also holds the position of Chairman and Director in some of the Group companies.

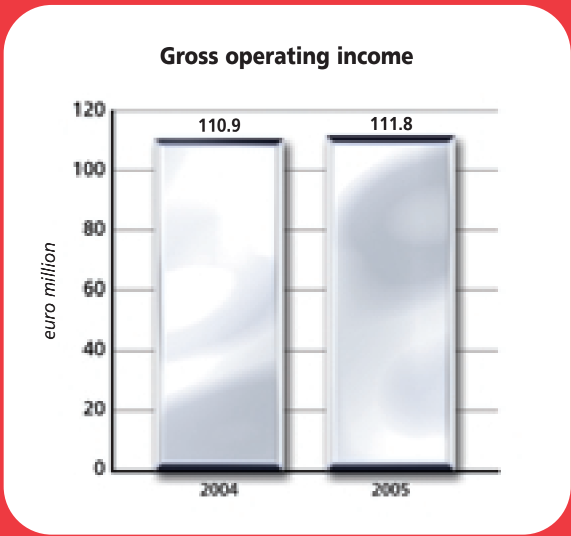
(3) Corporate Governance – Independent and non-executive Directors – Borsa Italiana Regulations for STAR segment – Art. 2.2.3 paragraph 3 letters e) and f).

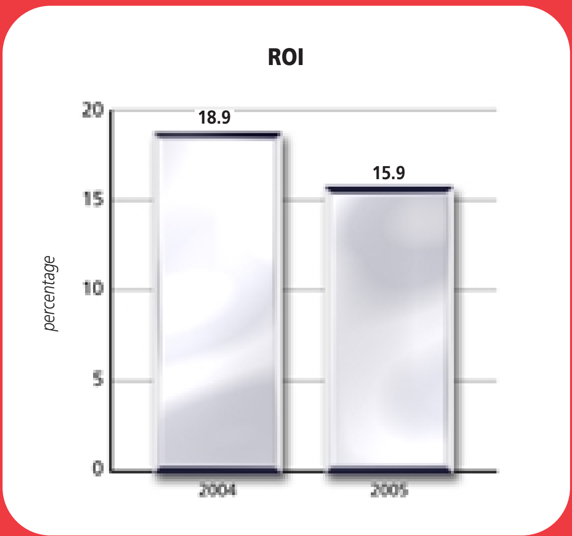
(4) This Director also holds offices in some Group companies.

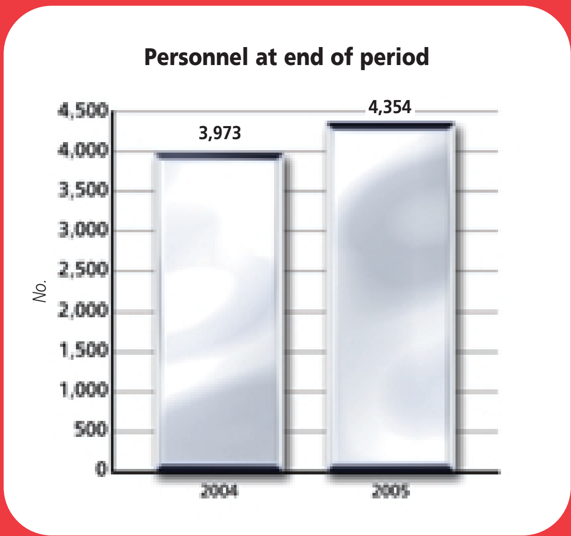
(5) Non-executive Directors

BREMBO S.p.A. Registered offices: CURNO (BG) - Via Brembo 25
Share capital: € 34,727,914 - Bergamo Register of Companies - Tax Code (VAT Code) No. 00222620163


Sales of goods and services
euro million
800
700
600
500
400
300
200
100
0
678.2
711.6
2004
2005


Gross operating income
euro million
120
100
80
60
40
20
0
110.9
111.8
2004
2005


ROI
percentage
20
15
10
5
0
18.9
15.9
2004
2005


Personnel at end of period
No.
4,500
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
3,973
4,354
2004
2005

For the reasons indicated in the Notes to the Consolidated Financial Statements and the section of this report regarding transitioning to the International Accounting Standards (IAS), the Consolidated Financial Statements for the year ended 31 December 2005 were prepared for the first time under IFRS. Previously, the Group's Consolidated Financial Statements were prepared in accordance with Italian accounting principles. The figures from the Consolidated Financial Statements at 31 December 2004, which are presented for comparison purposes, were prepared in accordance with the above-mentioned IAS. The Consolidated Six-Monthly Report at 30 June 2005 includes a separate Appendix in which additional details are provided on the methods and quantification of the effects of transitioning from one system to another. The Appendix also contains the Financial Statements at 31 December 2004 prepared in accordance with IFRS.

Economic results

(euro thousand)	*31.12.2004*	*31.12.2005*	*% 2005/2004*
Sales of goods and services	678,180	711,615	*4.9%*
Gross operating income	110,894	111,782	*0.8%*
% on sales	*16.4%*	*15.7%*	
Net operating income	70,003	73,375	*4.8%*
% on sales	*10.3%*	*10.3%*	
Income before taxes	64,896	66,741	*2.8%*
% on sales	*9.6%*	*9.4%*	
Net income	39,554	40,511	*2.4%*
% on sales	*5.8%*	*5.7%*	

Financial results

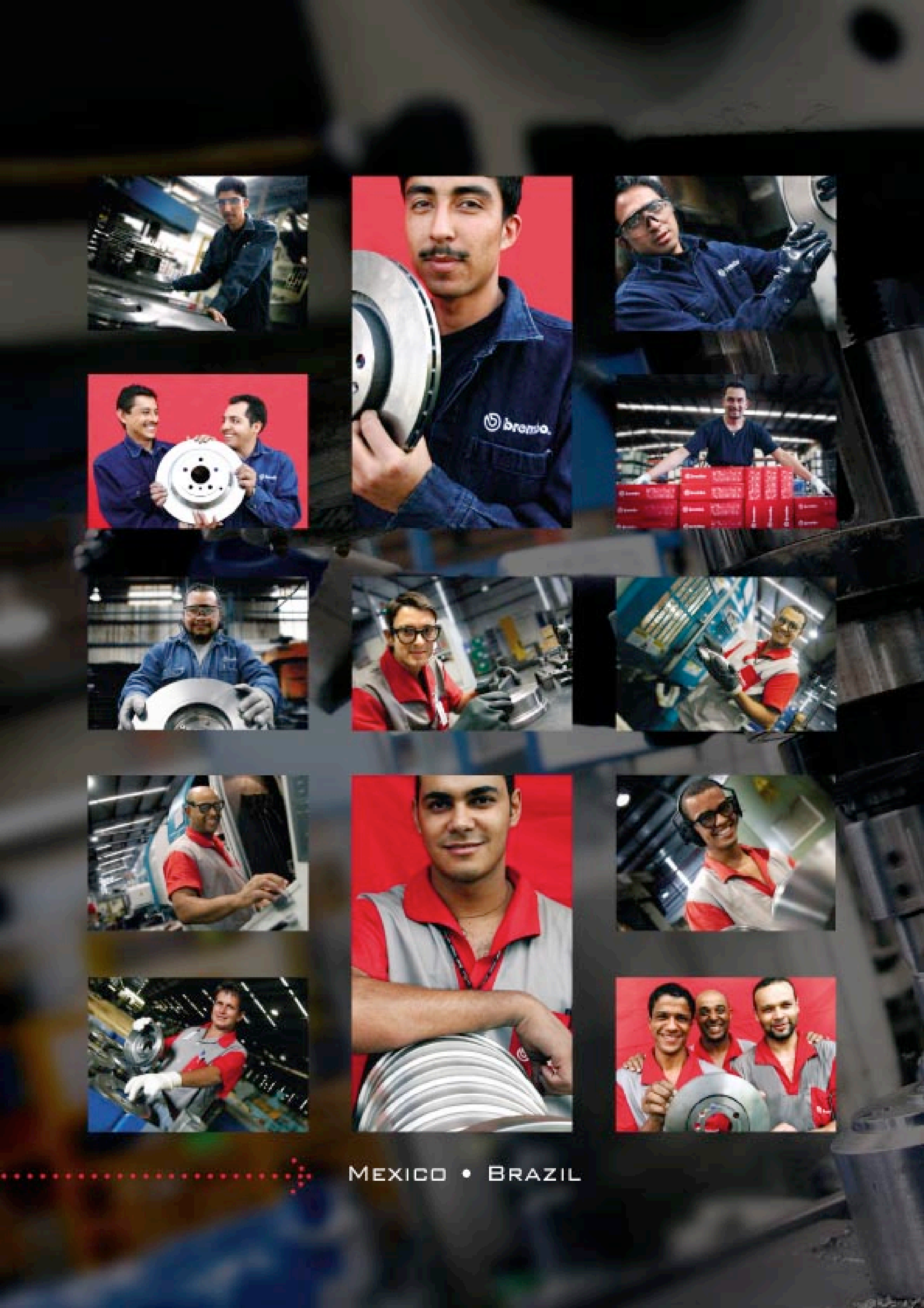
(euro thousand)	*31.12.2004*	*31.12.2005*	*% 2005/2004*
Net invested capital	369,616	462,288	*25.1%*
Equity	202,122	242,062	*19.8%*
Net financial indebtedness	142,804	193,075	*35.2%*

Personnel and investments

	31.12.2004	*31.12.2005*	*% 2005/2004*
Personnel at end of period *(No.)*	3,973	4,354	*9.6%*
Turnover per employee *(euro thousand)*	170.7	163.4	*–4.3%*
Investments *(euro thousand)*	92,255	95,821	*3.9%*

Main ratios

	31.12.2004	*31.12.2005*	*% 2005/2004*
Net operating income/Sales	10.3%	10.3%	
Income before taxes/Sales	9.6%	9.4%	
Investments/Sales	13.6%	13.5%	
Net Financial indebtedness/Equity	70.7%	79.8%	
Financial charges/Sales	0.6%	0.9%	
Financial charges/Net operating income	6.3%	8.6%	
ROI	18.9%	15.9%	
ROE	20.1%	17.3%	
Cash flow (net income + D&A) *(euro thousand)*	80,445	78,918	*–1.9%*



MEXICO • BRAZIL

Directors' Report on Operations

Macroeconomic Context and Currency Markets

Brembo's performance for the year can be more accurately evaluated if considered in light of the worldwide macroeconomic context that prevailed in 2005, particularly in reference to the markets in which the company operates.

The world economy continued to grow at a steady pace during the first half of 2005, but then saw a gradual slowdown in the second half. In its third year of expansion, the growth dynamics of the world economy appear to be highly differentiated among the various geographic areas: apart from the United States, which recorded rather encouraging results, the main industrialised countries of the West saw less expansion than expected. The Asian countries, on the other hand, continued to produce surprisingly positive results. Specifically, China and India generated a significant impact on the world's GDP, while Japan seems to have finally embarked on the road to recovery.
Although the United States will remember 2005 as a positive year in terms of growth (+3.5% compared to the previous year), there is some uncertainty as to the possibility of maintaining this pace over the long term. The fourth-quarter figure (+1.1%) confirmed this, indicating a slowdown in the American economy after ten consecutive quarters of growth exceeding 3%.

In the euro area, growth slowed from 2% in 2004 to 1.4% in 2005. The recovery of domestic demand (household consumption and investments) did not compensate for the decrease in net exports. The confidence of manufacturing companies has fallen to the lowest level in the last years, reflecting the deterioration of the orders backlog and the uncertain outlook for demand that characterised a good part of 2005. Fourth-quarter figures were nonetheless positive, foreign demand dynamics seem to be more favourable and confidence among operators appears to be improving.

Italy recorded near-zero growth in 2005, further widening the gap between the national economy and the rest of the euro area. This was the result of both weak domestic demand and the structural competitiveness gap faced by Italian exports.

Against this backdrop, oil prices, which in the 2004-2005 period generated uncertainty within Brembo's reference market, continue to be an important risk variable. Chinese demand, international geopolitical factors, cartel policies and inventory management policies influence the dynamics of supply and demand. The year 2005 saw the high peak of a cycle that began in the second quarter of 2003, when oil prices dropped drastically following the announcement by the American government of the "victory" in Iraq.

The year 2005 also presented some surprises on the foreign exchange markets: forecasts made at the beginning of the year gradually gave way to a different scenario. At year end, the US dollar — for the first time in the last four years — recorded a positive change against the euro. Over the year, the main currencies in which Brembo operates (Brazilian real and Polish zloty) also appreciated against the euro, whereas the super-yen still did not make its expected comeback.
Overall, the US dollar, which went from an average dollar/euro exchange rate of 1.31 in January to 1.18 in December, appreciated by 10%, remaining constant for all of 2005 except in August and September. The Japanese yen remained weak against the euro; the euro was 3% stronger overall despite the yen's increase in May and June.

With regard to the currencies of the other main markets in which Brembo operates, although the pound fluctuated continuously in the last months of 2005, the pound/euro exchange rate remained within the 0.67-0.70 range the whole year. After depreciating in the second quarter of 2005, the Polish zloty gained strength against the euro, recording an appreciation of 5% overall for the year. The Brazilian real continued to strengthen, appreciating nearly 25% against the euro. The Mexican peso also gained significant ground, closing up 15%, while the Indian rupee recorded a 9% increase.

During the summer, the Chinese renminbi was revaluated by 2.1% against the dollar; Peking decided to unpeg its currency from the US dollar in favour of a managed float with reference to a basket of currencies.

BREMBO ACTIVITY AND REFERENCE MARKET

Brembo operates in twelve countries around the world, with the contribution of over 4300 employees. The Group's operations are now conducted from 9 industrial-commercial facilities in Italy and 11 in other countries. Its products are manufactured by companies in Italy, Spain (Zaragoza), Poland (Czestochowa and Dabrowa), the United Kingdom (Coventry), Mexico (Puebla), Brazil (Belo Horizonte) and China (Nanjing). Other companies in the UK (London), Sweden (Göteborg), the United States (Costa Mesa, California) and Japan (Tokyo), carry out distribution and sale activities. During the year, the company began construction at the new site in China, on the outskirts of Peking.

Also the results achieved in 2005 have rewarded the efforts that have been made in terms of technological and process development. These have always been fundamental to Brembo's philosophy and have helped the company to gradually become an established 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 applications and the 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 produced 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 2005 Brembo generated €722,404 thousand in gross revenues, an increase of approximately 4.9% over the previous year.

Car Applications

The year 2005 closed with a 2.7% increase in global sales volumes of cars over 2004; the increase was not, however, consistent across the various international markets.

In the United States, vehicle registrations were stable on the whole (+0.5% compared to 2004); however, while the sporty segment grew, the SUV segment saw a decline, mainly due to higher fuel prices.
Car sales in Western Europe also remained mostly stable in 2005 (-0.1%). Among the main markets, France, Germany and Spain recorded slight increases, while sales in Italy and England decreased.
As regards vehicle registrations, the positive trend that prevailed during 2003 and 2004 in the Eastern European countries appears to have ended, with registrations in this area decreasing significantly in 2005 (-10%).

Sales in South America instead increased by 11%, a continuation of the positive results seen in 2004.
In the Far East, the Japanese market recorded a slight falloff (-0.7%), while gains were recorded in Korea (+4.8%) and China. The Chinese market was undoubtedly the market that recorded the most growth in terms of volumes, with sales of light vehicles increasing 19% compared to 2004. Moreover, China is quickly becoming one of the top car-producing countries in the world.

In 2005, sales of car applications (braking systems and brake discs) reached €469,987 thousand, accounting for 65% of Brembo's total consolidated sales and increasing 3.9% over 2004. The growth was due to the increase in volumes of certain original equipment products for which production was already underway, while sales of aftermarket products decreased slightly due to generally weak market conditions.

Commercial and Light Commercial Vehicle Applications

In 2005, the European commercial vehicle market recorded a further increase following the positive results recorded in 2004.

Registrations of 3.5-ton vehicles grew by 3.7% in the European Union, while they decreased in Italy.
For vehicles weighing over 3.5 tons, new registrations increased by 4.5% in Europe. Busses above 3.5 tonnes also showed good growth in Europe, with registrations rising 2% over 2004.
In the commercial and industrial vehicle business area, in 2005 Brembo increased its sales by 11.4% over 2004, with gross consolidated revenues reaching €107,434 thousand owing to the increase in the sales volumes of equipped vehicles.

Motorbike Applications

Europe, the United States and Japan again proved to be Brembo's three most important markets for this sector. Italy was once again the reference market in Europe, with registrations of vehicles over 50cc remaining along the same lines as the previous year (-0.10%).
Within this sector, the slight falloff recorded for scooters (-0.89%) was offset by the motorbike segment, which grew

1.37%, owing mainly to: light motorbikes (125cc), the 650-750cc segment (which recorded an increase of approximately 9% compared to the previous year), and motorbikes over 1000cc (which grew by more than 30%). With the introduction of new models, sales volumes of the Supermotard segment more than doubled compared to 2004. For scooters, the best results were recorded for the medium-powered segment, i.e. 250cc (+33%), which took sales volumes away from both the maxiscooter segment and the 150-200cc segment.
For motorbikes (up to 50cc), the year closed with a decrease of 3.7%.
In Europe, registrations of high-powered motorbikes in 2005 remained on the whole stable compared to 2004; for the same segment, Japan showed a slight decline.

The North American motorbike market recorded an overall increase in registrations in 2005 compared to the previous year (4.5%). Of the various categories, only the "off-road" segment recorded a slight decrease compared to 2004.

The result for Brembo, whose products are mounted on some of the most sold models throughout the world, was €85,920 thousand in sales, exceeding the figure for 2004 (+2.7%), accounting for 11.9% of total turnover.

Racing Applications

The major racing teams in the various championships are today increasingly complex organisations capable of managing their own in-house research and development projects. These are in fact full-fledged businesses, that handle all aspects of races, so much so that they have now become consultants and suppliers to 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.
Despite the uncertainty surrounding the future of the racing market due to the less-than-outstanding economy, Brembo has continued its market leadership in this area thanks to its Racing Business Unit and two subsidiaries (AP Racing Ltd. and Marchesini S.p.A.).

In this sector, Brembo reported €50,185 thousand in gross consolidated revenues for 2005, with an increase compared to 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 [1].

Gross Sales Breakdown by Application

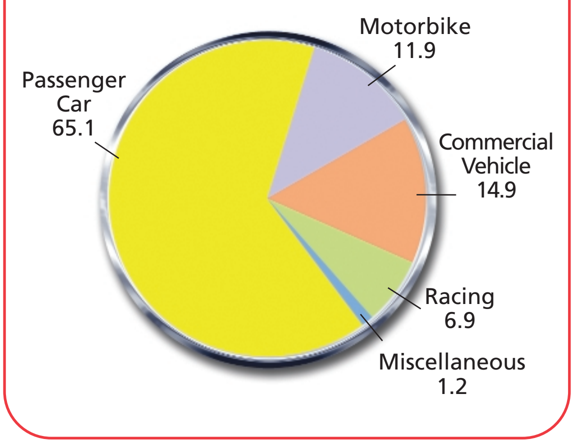
(euro thousand)	*31.12.2005*	*%*	*31.12.2004*	*%*	*2005/2004*	*%*
Passenger Car	469,987	65.1%	452,464	65.7%	17,523	3.9%
Motorbike	85,920	11.9%	83,669	12.1%	2,251	2.7%
Commercial Vehicle	107,434	14.9%	96,409	14.0%	11,025	11.4%
Racing	50,185	6.9%	45,333	6.6%	4,852	10.7%
Miscellaneous	8,878	1.2%	11,016	1.6%	(2,138)	–19.4%
Total	**722,404**	**100.0%**	**688,891**	**100.0%**	**33,513**	**4.9%**

Gross Sales Breakdown by Geographical Area

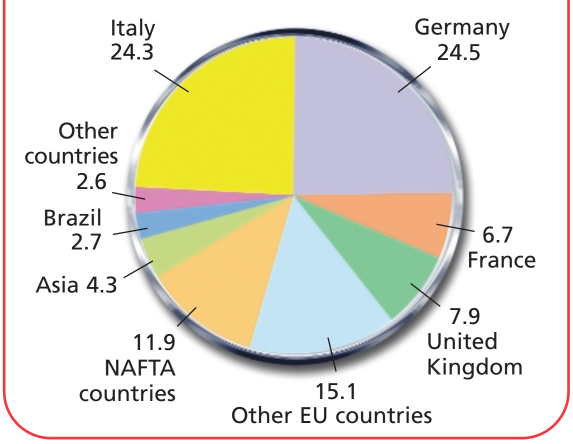
(euro thousand)	*31.12.2005*	*%*	*31.12.2004*	*%*	*2005/2004*	*%*
Italy	175,371	24.3%	180,385	26.2%	(5,014)	–2.8%
Germany	177,305	24.5%	162,747	23.6%	14,558	8.9%
France	48,743	6.7%	50,727	7.4%	(1,984)	–3.9%
United Kingdom	57,343	7.9%	45,681	6.6%	11,662	25.5%
Other EU countries	109,161	15.1%	104,161	15.1%	5,000	4.8%
NAFTA countries	85,976	11.9%	82,952	12.0%	3,024	3.6%
Asia	30,694	4.3%	33,952	4.9%	(3,258)	–9.6%
Brazil	19,143	2.7%	11,994	1.8%	7,149	59.6%
Other countries	18,668	2.6%	16,292	2.4%	2,376	14.6%
Total	**722,404**	**100.0%**	**688,891**	**100.0%**	**33,513**	**4.9%**

[1] In line with CONSOB notice No. 980804143 of 27 October 1998 and as required by IAS 14, segment reporting is provided in the Notes to the Consolidated Financial Statements, in accordance with the criteria set forth in IAS 14.

Sales Breakdown by Application
(percentage)



Sales Breakdown by Geographical Area
(percentage)



Research and Development

Our Mission

Brembo has built its success on its great 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. The company's strong capacity for innovation translates into Research and Development activities that are unparalleled in the sector internationally. The goal of these activities is to guarantee a constant competitive advantage over competitors and to ensure consistent and adequate returns on invested capital. Over 50 engineers and technicians work at the R&D Centre in Stezzano (Bergamo): their job is to devise and develop ideas that translate into concrete, innovative product and process applications. The team consists of highly skilled specialists with knowledge in several, but highly correlated, areas: from mechanics to electronics, from chemistry to physics of materials, from thermodynamic and fluid-dynamic simulations to the compilation of software programmes using complex algorithms. This core group works closely with the technical staff and specialists of the individual Business Units, above all in order to obtain input and develop new solutions, thus creating powerful synergy in the transition from concept to application. A total of more than 390 engineers, specialists and technicians work together every day to develop and perfect new products and processes to guarantee the ongoing innovation that is one of Brembo's chief assets.

Product Innovation

The automotive industry presents a challenge for the future that encourages companies to continuously seek new solutions. Even individual customer needs are becoming increasingly diversified with regard to application areas (automobiles, motorbikes, commercial vehicles), geographic areas (Europe, USA, Asia) and functionality (comfort, performance, cost).

At Brembo, innovation is strongly focused on the market and customer needs. Once begun, innovative projects are implemented according to a well-defined process to allow constant monitoring of the various phases and ensure objectives are achieved. The same commitment is devoted to the continuing improvement of the features of products 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 existent technologies and systems.

To ensure the efficient implementation of innovative projects, at the beginning of 2005 more structured processes were introduced for selecting areas of research and defining the technical and financial objectives for all research activities.

After concentrating mainly on mechanical/hydraulic projects in the past, in 2005, the Systems R&D group focused its efforts on a project involving electromechanical braking systems (brake-by-wire). The project, which was carried out in collaboration with a partner, has already attracted the interest of a multinational car manufacturer. As part of the project, a concept car equipped with brake-by-wire systems was built and tested. It met the technical objectives and demonstrated the potential of electric braking systems.

Simultaneously, in 2005 over than 250 projects were implemented, ranging from modifications of features on existing products for use in other applications, to the development of completely new product families. Product innovation is an area in which Brembo will continue to make a strong commitment in the years to come, not only through research projects conducted entirely in house, but also by collaborating with customer companies and specific markets. In some cases, Brembo specialists work with large carmakers, at their premises, to develop innovative projects. In other cases the technical offices of Brembo in the various Countries, for example Detroit for the USA and Tokyo in Japan, collect and direct customers' requests in the respective markets, performing an important function of technical connection between the customers themselves and the central Research and Development structure.

The table below presents summary of the costs of the activities relating to the main Research and Development projects currently underway.

Activities conducted in 2005	*Personnel*	*Overhead expenses*	*In-house orders*	*Development activities*	*Research activities*	*Third-party services*	*Total*
(Euro)							
		60%					
Research project: *Study on braking devices with innovative electrical actuation (brake-by-wire)* – Law 46/82 Fondo Agevolazione per lo sviluppo F.A.R. *(plan values)*	56,471	33,883					90,354
Innovation programme: *Completely original braking system with floating discs for commercial vehicles – Law 46/82 – F.I.T. (plan values)*				1,026,507			1,026,507
OVERALL TOTAL	**56,471**	**33,883**		**1,026,507**			**1,116,861**

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.

Costs incurred in 2004 in relation to Research and Development projects that were eligible for aid by the Lombardy Region pursuant to Law 140/97 are not indicated. In 2005 as well, considerable costs were incurred in relation to this type of project; however, since there was no call for the submission of requests for the partial financing of these activities, no technical assessment was carried out.

Conversely, thanks to the structural changes introduced with the 2005 Financial Law for all IRAP (regional tax on productive activities) payers, and as a result of the high costs incurred for Research and Development personnel, the company was able to benefit from lower IRAP taxes. This tax break (effective as of 1 January 2005) was a follow-up to the so-called "TecnoTremonti" law, which resulted in savings on 2004 IRES (corporate income tax) charges.

Process Innovation

Brembo is constantly committed not only to product innovation, but also to the innovation of product development processes.

In 2005, 80% of the company's application projects were managed using the "Brembo Product Development System" (BPDS), in order to guarantee a higher level of certainty with respect to the achievement of all objectives — from project start to the launch of the series. Broken up into nine gates (project progress checkpoints), the BPDS has become a standard for all moderately to highly complex projects.

In 2005, the "Disc Technology Unit" was created for the "disc" product. The unit is responsible for product development (innovative and application) as well as production processes associated with the foundry and processing phases. The unit guarantees the best possible integration of the product with the production process and, mainly in the area of brake discs, gives Brembo a competitive edge over its competitors. The formation of the unit allows discs to be produced with the same technical specifications at all Brembo's production facilities.

Development Activities

As indicated in the Notes to the Consolidated Financial Statements, the development costs of projects involving the production of braking systems are recognised as assets only if they meet the criteria set forth in IAS 38 (Intangible Assets), which are as follows:

- the technical feasibility of the product can be demonstrated;
- the company intends to complete the development project;
- the costs incurred for the project can be determined reliably;
- the costs recognised can be recovered through the future economic benefits expected from the development project.

INVESTMENTS

Investments in shareholdings during 2005, which totalled USD 440 thousand, included the capital contribution which brought Brembo's stake in the Chinese company Nanjing Yuejin Automotive Brake System Co. Ltd. to 27.75%, as a result of changes to the joint venture agreement between Brembo and the Chinese Group Yuejin.

Other investments in 2005 involved the consolidated companies that guaranteed revenue growth. The sum of €95,821 thousand was committed to all the operating units, of which €82,025 thousand in property, plant and equipment and €13,796 thousand in intangible assets.
Investments in property, plant and equipment mainly related to subsidiary Brembo Poland, which is in the process of building a new cast-iron foundry for the production of discs for the aftermarket and the original equipment market. These investments totalled approximately €32,239 thousand, while the total amount to be invested by 2006 is estimated at about €45,000.

Brembo's gradual internationalisation has continued according to the approved medium-term plans. At the Czestochowa and Dabrowa (Poland) and Betim (Brazil) facilities, investments were made to increase production capacity.
With regard to the Parent Company Brembo S.p.A., investments in 2005 totalled €39,972 thousand and related mainly to the construction of a new industrial shed at the Mapello (Bergamo) site, to which certain disc manufacturing operations will be relocated, as well as the purchase of machinery and the development of equipment to increase production levels for the car sector. The agreement signed with Intesa Leasing S.p.A. concerned the construction and subsequent rental of properties.

The purchase option that had been exercised on the properties in Stezzano (Bergamo), where the Research and Development Centre is located, was withdrawn, and a new agreement was signed in December of 2005 for the construction and subsequent rental of the buildings. Based on the new agreement, Brembo S.p.A. carries out work on behalf of the owner and charges the owner for the costs incurred.

Following the introduction of the international accounting standards, and in particular IAS 38, the company capitalised — as investments in intangible assets — €10,625 thousand in development costs for projects underway.

Financial Instruments and Risk Management

In conducting its business, the Brembo Group is exposed to various financial risks, including, in particular, the main components of market risk: interest rate fluctuations, fluctuations in the foreign currencies in which the company operates, and the price of commodities.
Financial risk management is the responsibility of the central Treasury Department, which, together with administration, evaluates the company's main financial operations and the related risk management policies.

Interest Rate Risk Management

Since most of the company's financial debt is subject to variable interest rates, Brembo is exposed to the risk of fluctuations in interest rates. To reduce this risk, Brembo has entered into hedging contracts with counterparties considered to be financially reliable.
Specifically, Interest Rate Swap agreements are used to hedge approximately 25% of the Group's debt. Under these agreements, Brembo receives a variable interest rate from the financial intermediary while paying a fixed rate.
The objective is to eliminate the variability of the borrowing costs associated with a portion of debt and benefit from fixed rates set through hedging contracts. The company therefore achieved a high correlation between the hedged item and the hedging instrument, so as to guarantee the effectiveness of the hedge, as required by International Accounting Principles.
Lastly, it should be noted that, even for the portion of debt that is not specifically covered by hedging contracts, indicators such as the ratio of Financial Charges to Revenues or to Net Operating Income show that the impact of adverse changes in interest rates would be tolerable from a profitability standpoint.

Exchange Rate Risk Management

As Brembo operates in international markets, it is exposed to exchange rate risks. To mitigate this risk, the company uses natural hedging (offsetting receivables and payables) and hedges only net positions in foreign currency, using mostly short-term financing denominated in the currency to be hedged to compensate for imbalances.
Other hedging instruments used by the company include forward contracts, which are also used to offset differences between receivables and payables. Clearly, with this choice, there is no guarantee that receivables will be collected by the time the forward contracts mature, a condition that must be met to qualify for hedge accounting. Since this condition is not met, Brembo charges changes in fair value to the Income Statement, as it considers the instruments described above as sufficient to manage its exchange rate risk.

Commodities Risk Management

The main commodities used by Brembo are cast-iron, aluminium and energy.
As there is no official quotation for cast-iron, the company does not use hedging instruments and, as such, remains exposed to the risk of price variations.
Aluminium is not exposed, as sale prices guarantee the recovery of purchase prices.

As for energy, the company is impacted by price trends, although, in this case, the ratio to sales is not material (about 1.5% of sales).

An analysis of other types of financial risk indicates the following:

- **Credit risk,** i.e., the risk that one of the parties to a financial instrument will fail to perform an obligation, resulting in a financial loss to the other party. Brembo attempts to limit its risk by choosing only counterparties that are considered to be financially reliable by the market and, therefore, have a good credit standing; Brembo constantly monitors the health of the financial intermediaries with which it interacts.
- **Liquidity risk,** i.e. the risk that the company will have difficulty meeting commitments associated with financial instruments. To meet these commitments, Brembo mainly depends on its cash flow from operations and, if necessary, short-term credit lines obtained through the financial intermediaries with which it interacts.
  It should be added that, with respect to this type of risk, in establishing the composition of its net financial indebtedness, Brembo always tries to finance its investments with medium- to long-term debt (in addition to shareholders' equity), while the current expenditure is financed through short-term lines of credit. The decision made in 2005 to lengthen the duration of its debt instruments was mainly based on this reasoning.

Human Resources and Organisation

Again in 2005, Brembo demonstrated its commitment to the advancement and growth of its human resources by offering training and development initiatives aimed at reinforcing the technical and managerial skills of collaborators. Nearly 400 training initiatives were conducted, comprising a total of 24,000 training hours and involving over 3,300 participants. The most important initiatives were in the areas of management, language, production, safety and environment.

The training offer for managers and top managers was renewed for two years. The most significant courses focused on innovative leadership and intercultural skills as strategic levers for global competitiveness. Significant efforts were also concentrated on courses for middle management; such courses were aimed at spreading the use of managerial and organisational instruments and developing personal talents.

In 2005, numerous initiatives were undertaken with the aim of training collaborators from the start of their career with the company. Specially designed courses allowed new hires to familiarise themselves with Brembo's corporate organisation, values, products, production system and commitment to quality and environmental protection.

The recently established Brembo Production Academy (BPA), which was designed for plant employees, is aimed at developing the technical and managerial skills of personnel working at different levels of the production process. The main BPA courses offered in 2005 included Safety and Environment, Lean Organisation & Supply Chain and Collaborator Management.
In an effort to constantly improve its ability to meet the needs of the market and its main stakeholders, Brembo has also continued its commitment to disseminate and enhance linguistic knowledge — mainly English and German — both among central resources and at the Business Unit level, also through sophisticated learning tools.

With regard to safety and the environment, various training initiatives on accident prevention issues were held, mainly on topics of particular interest to plant employees, emergency and first-aid teams, and new hires.

Personnel numbers increased from 3,973 (December 2004) to 4,354 (December 2005), of which 2,540 worked for Brembo S.p.A. and the rest in the other Group companies in Italy and abroad.

The corporate organisation shows the following managerial structure:

- the Chairman and Chief Executive Officer to whom the General Management and the following divisions report: Administration Finance and Control, Communication and Institutional Relations, Marketing, Real Estate Development, Organisation, Corporate and Legal;
- the General Manager, to whom the Industrial Division and following Business Units report: Passenger Cars, Motorbikes, Commercial Vehicles, Performance Group, and After Market. The following departments report to the General Manager: Technical Dept., Research & Development, Purchase Dept., Information Technology Dept., Human Resources Dept., Quality and Environment Dept., System Technology Dept., Business Development Dept. and Overseas Companies. This guarantees that the chief corporate processes will be effective across all departments and allows the General Manager to carry out the functions of orientation, guidance and control that come under his responsibility.

This organisational model, which will support further growth phases of the Group, represents the last stage in a process of fine-tuning of the organisational structure. This process has been conducted in gradual and 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

There was a great deal of focus on topics involving safety and the environment in 2005, with important repercussions on the company. Our efforts were concentrated in three main areas: changes to regulations to comply with new laws, the incorporation of the latest version of the ISO 14001 standard and distribution to all Group sites, and the definition of objectives and analysis of their achievement.

In this context, the European Environmental Directive "IPPC" has had a major impact on the company. The aim of the directive is to extend certain managerial and plant design measures (Best Available Technologies – BAT) to all industrial enterprises, so as to decrease and control pollution both by acting at the source (e.g., abatement systems, water treatment systems) as well as by managing resources as efficiently as possible. These measures were formalised in a series of documents to which companies must refer in assessing whether a gap exists between their current standards and the best standards defined therein and in estimating the allowable timeframe for bridging such gap.

First and foremost, this led to Brembo's request for the "Integrated Environmental Authorisation" from the competent public authorities. Such authorisation, which covers all environmental aspects (emissions to the atmosphere, water discharge, waste, etc.), replaced existing authorisations and required a prompt comparison between the BAT for minimising environmental impacts and the technologies currently employed by our industrial plants. The results were especially reassuring as they demonstrated objective compliance with the provisions of law. Lastly, it is important to emphasise how, throughout Europe, increasing importance is being placed on economic aspects when evaluating environmental policies. Companies that are immediately able to demonstrate that they have correctly managed these aspects are certain to benefit.

In the meantime, Brembo's "Safety and Environment" management system has been upgraded to comply with the new version of the ISO 14001 standard. Its structure has remained mostly unchanged, though some improvements were implemented for various sectors, including clearer definitions of the environmental aspects considered important for the company and quicker compliance with the instructions issued by the organisation (including those involving customers). The effort led to an even wider involvement of the various areas of the company in the management of environmental issues.

As regards safety and health at the workplace, in the last years, the index of the severity of injuries has remained significantly lower than the industry figures reported by INAIL (National Insurance Institute for Industrial Accidents). By adopting the instructions put in place by the OHSAS 18001 standard, the company was able to achieve efficient and effective management methods.

Though the process of rationalisation, reinforcement and growth of the Group continued, there were no significant changes in Brembo's structure in 2005, as indicated by the following:

- On 24 January 2005, Chinese authorities approved the changes to the joint-venture agreement between Brembo and the Chinese Group Yuejin. As a result, Brembo paid a capital contribution of USD 440 thousand in March, for a total of 27.75% of the capital.
- On 8 July, Brembo and Simest, Società Italiana per le Imprese all'Estero, a public-private financial company, signed an agreement for the formation of a new manufacturing company in China. On 3 August, Brembo China Brake Systems Co. Ltd., the joint venture, 60%-owned by Brembo and 40% by Simest and the Venture Capital Fund for China (15% and 25% respectively) was formed. The JV will specialise in the manufacture and sale of brake components for original equipment. As set forth in the agreement, Simest will sell its stake by 2013. The plant will be located in the Peking area and will provide the major European and Asian manufacturers with production facilities in the Far East. The overall investment will amount to €15 million and is scheduled to be completed by 2007. Production is scheduled to start up in the summer 2006; sales revenues are expected to reach approximately €20 million in 2008. On 31 December 2005, Brembo paid two tranches of the aforementioned company's share capital, for a total of USD 3,750,000 (60% of paid-up capital). Overall, Brembo will pay a total of USD 7,500,000.
- To streamline the Group's structure and reach productive and managerial scale economies, during the meeting held on 29 July 2005 the Board of Directors approved the merger by incorporation of Bibielle S.p.A. into Brembo S.p.A., which already held 100% of its share capital. Both the merged company and the merging company engage in the same production activities, therefore a combination of the production volumes of the two companies is expected to result in substantial synergies in terms of raw materials procurement and more intensive use of the means of production. The merger was finalised with a Deed of Merger dated 30 November 2005.
- On 25 August 2005, Brembo Participations B.V. subscribed and paid up the share capital increase of subsidiary Brembo Poland Spolka Zo.o. for a total of €5.2 million, as an additional means of financing investments for construction of the new cast-iron foundry.
- On 17 October 2005, Brembo S.p.A. and India's Kalyani Brakes Ltd, which is 80% owned by Bosch, signed an agreement for the establishment of a 50:50 joint venture that will produce and sell braking systems for motorbikes. The new company will be headquartered in Pune, India. Brembo will provide licences and technology and will have the industrial leadership of the company, while Kalyani Brakes will provide its motorbike brake production facilities. The total investment of the two partners is estimated at €13 million.
- On 16 December 2005, Brembo Participations B.V. acquired the remaining 10% of the shareholding in Brembo Japan Co. Ltd.. Brembo Participations now owns 100% of the company's capital. The transaction amounted to €46 thousand.

Reorganisation of Production Sites in Italy

In February 2005, the Company Top Management illustrated to employees and trade unions the details of its industrial plan regarding Italian production sites. The plan is designed to further improve the company's competitive capacity, leveraging innovation and industrial excellence.

Research and production in Italy will be streamlined into three sites from the seven currently in use, all in the province of Bergamo.

Product and process research and innovation will be concentrated at Stezzano, forming a technology centre that will benefit from close ties with other research centres, both university and private, within the scope of the "Kilometro Rosso" Science and Technology Park.

Braking system and light-alloy wheel module production for car, motorbike, and high-performance racing applications will be concentrated at Curno.

The disc sector will be highly streamlined, with the number of sites reduced from four to one, and part of the production will be transferred to Poland. Mapello will become a centre of excellence for the manufacture of brake discs, integrating the foundry, mechanical processing and logistics processes.

In the disc sector, bargaining with the unions over implementation of the industrial plan was successfully concluded in the first half of 2005.

During negotiations, tensions in industrial relations led to several days of strikes at the plants involved in the process of concentration and, more importantly, a significant decrease in flexibility. This led to inefficient use of production equipment and temporary difficulties in maintaining the company's typical standards of excellence in the service levels delivered to customers.

The steps of the industrial plan described above are nearing completion.

Brembo's Consolidated Performance

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

Operating results

(euro thousand)	*31.12.2005*	*31.12.2004*	*Change*	*%*
Sales of goods and services	711,615	678,180	33,435	4.9%
Cost of sales, operating costs and other net charges/income	(459,449)	(434,378)	(25,071)	5.8%
Personnel expenses	(140,384)	(132,909)	(7,475)	5.6%
Gross operating income	111,782	110,893	889	0.8%
% of sales	*15.7%*	*16.4%*		
Depreciation, amortisation and other write-downs	(38,407)	(40,892)	2,485	–6.1%
Net operating income	73,375	70,001	3,374	4.8%
% of sales	*10.3%*	*10.3%*		
Net financial income (charges)	(6,325)	(4,380)	(1,945)	44.4%
Net financial income (charges) from investments	(309)	(726)	417	–57.4%
Income before taxes	66,741	64,895	1,846	2.8%
% of sales	*9.4%*	*9.6%*		
Taxes	(24,852)	(24,269)	(583)	2.4%
Income before minority interests	41,889	40,626	1,263	3.1%
% of sales	*5.9%*	*6.0%*		
Minority interests	(1,378)	(1,072)	(306)	28.5%
Net income	40,511	39,554	957	2.4%
% of sales	*5.7%*	*5.8%*		
Cash flow	78,918	80,445	(1,527)	–1.9%
% of sales	*11.1%*	*11.9%*		

Net sales for 2005 amounted to €711,615 thousand, a 4.9% increase from €678,180 thousand in 2004. The figures for the two years are directly comparable as there were no changes in the area of consolidation in 2005: the increase in turnover once again demonstrates Brembo's ability to respond positively even to cyclical changes in less favourable markets. In 2005, applications for top-range, commercial and racing vehicles contributed to the increase. Development concentrated mainly in Europe (especially in Germany and the United Kingdom) and in America. Sales in the motorbike segment remained stable.

In car applications, Brembo recorded sales of braking systems and brake discs for €469,987 thousand in 2005, with a ratio to total consolidated sales of 65.1%. The 3.9% increase compared to the previous year was mainly due to the success of high-performance and luxury cars equipped with Brembo brakes, whereas the car aftermarket recorded a decrease.

Revenues from motorbike applications amounted to €85,920 thousand, a slight increase (+2.7%) over 2004 sales, accounting for 11.9% of consolidated revenues for the year.
Sales of applications for commercial and industrial vehicles to the main European manufacturers amounted to €107,434 thousand, accounting for 14.9% of total turnover, 11.4% higher than the figure for 2004.
As for racing applications, 2005 closed with consolidated gross sales of €50,185 thousand, accounting for 6.9% of total Group sales and recording a growth of 10.7% over the previous year.
Consolidated sales generated abroad accounted for 75.7% of the total, with the German market absorbing the same share as the Italian market, and together representing nearly 50% of total revenues. Revenues from the Asian area decreased slightly due to the reduced volumes of some of the Japanese manufacturers.
In the first half of 2005, compared to the previous year, sales benefited from increases in prices accepted by customers as a result of the rise in prices for raw materials in 2004.

In 2005 the cost of goods sold and other operating costs totalled €459,449 thousand, with a 64.6% ratio to sales, against 64.1% of the previous year. The higher percentage was mainly attributable to a sales mix that favoured lower-value-added applications and geographic areas, and to the direct and induced costs deriving from the reorganisation of production sites in Italy and Poland.
The amount includes €10,625 thousand in deferred development costs; this figure was €6,880 thousand the previous year.
Other revenues and income included gains of €1,897 thousand generated by the transfer of two plants in Spain that were no longer used for production purposes. In 2004, two other plants in Italy and Spain were sold, generating gains of €2,702 thousand.

Personnel expenses amounted to €140,384 thousand in 2005, with a ratio to sales of 19.7%, in line with 2004.
The ratio was positively influenced by the improvement plans that were implemented by the company, which increased efficiency and resulted in larger production and sales volumes among the Group's companies. However, the ratio was also impacted by the increase in employees at the new foundry in Poland; the new employees did not contribute to production because they were being trained.
At December 31, 2005, the Group's headcount was 4,354 employees (3,973 at the end of 2004), of whom approximately 40% work for foreign divisions and companies.

Gross operating profit totalled €111,782 thousand (15.7% of sales), compared to €110,893 thousand in 2004 (16.4% of sales), increasing €888 thousand.

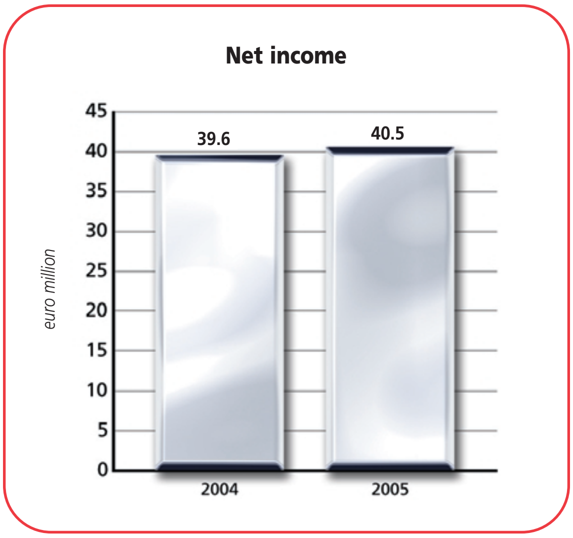
Net operating income amounted to €73,375 thousand, up 4.8% from €70,001 thousand in 2004. The result includes amortisation and depreciation, which went from €40,892 thousand in 2004 to €38,407 thousand in 2005.
This increase was mainly due to the change in the amortisation and depreciation criteria for several categories of assets (at constant criteria, A&Ds in 2004 would have been about €992 thousand less, gross of the related tax effects) and the progressive completion of the amortisation schedules for several multi-year expenses. A negative contribution was made by the amortisation and depreciation of investments in both property, plant and equipment and intangible assets (development costs).

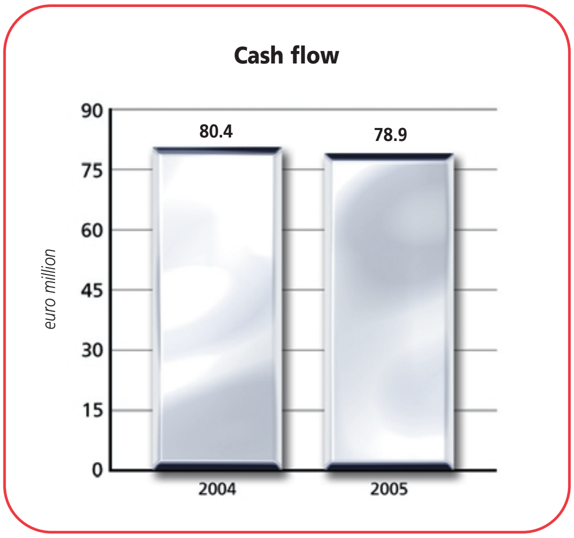
Net financial charges were €6,325 thousand, included €1,141 thousand (€1,344 in 2004) from net positive exchange rates differences and € 7,466 (€5,724 in 2004) from net financial charges. The increase in this item was mainly due to a rise in net indebtedness as well as significant increases in interest rates in the second half of 2005.
For the reasons mentioned above, the ratio of net borrowing costs to revenues increased slightly (0.9% in 2005 vs. 0.6% in 2004), while average indebtedness remained mostly stable (3.9% in 2005 vs. 4% in 2004).

The item "financial income and charges from shareholdings" reflects Brembo's share of the income/loss of the companies accounted for using the equity method: Nanjing Yuejin Automotive Brake System Co. Ltd. (27.75%), Softia S.r.l. (40%) and the joint venture Brembo Ceramic Brake Systems S.p.A. (50%).

Because of the previously described considerations dealing with both operating and financing costs, income before taxes was €66,741 thousand, with a ratio to revenues of 9.4% against 9.6% in 2004.
Taxes, which were calculated using the tax rates applicable for the period under current fiscal regulations, amounted to €24,852 thousand, including €4,760 in deferred taxes, compared to €20,725 thousand in current taxes and €3,544 thousand in deferred taxes for 2004. The ratio of taxes (including deferred taxes) to income was 37.2%, a figure that was in line with the previous year.
Net income at 31 December 2005 amounted to €40,511 thousand, after deduction of minority interests of €1,378 thousand, corresponding to the income share of minority shareholders of the companies consolidated using the line-by-line method. The net income shows an increase of 2.4% compared with 2004, whereas its ratio to net revenues fell from 5.8% to 5.7%.

With regard to cash-flow (net income + A&Ds), financial year 2005 ended with €78,918 thousand, slightly down compared to € 80,446 in 2004.

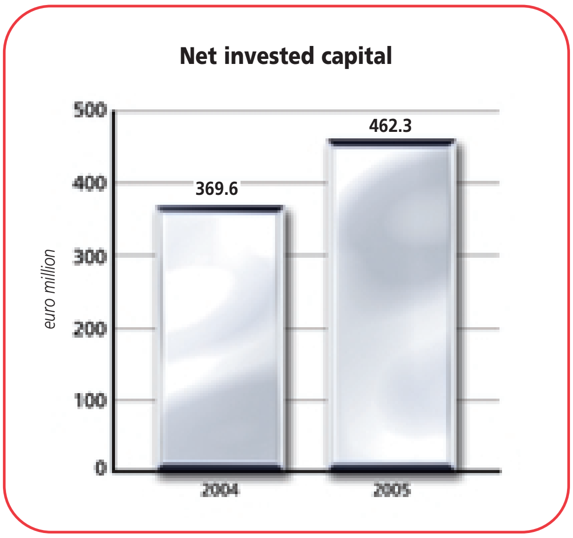


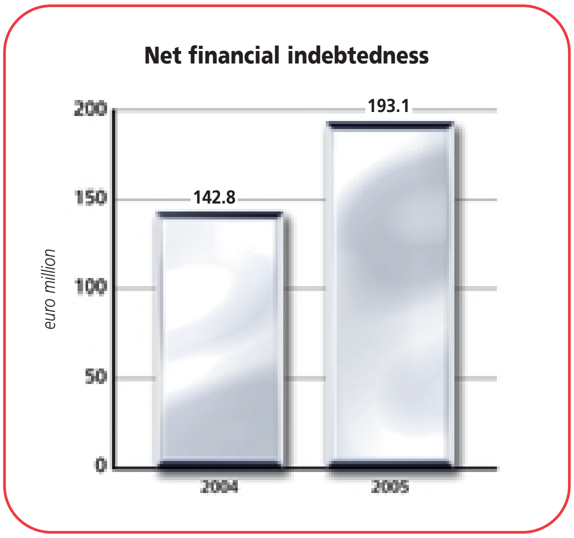


Capital and Financial Position

(euro thousand)	31.12.2005	31.12.2004	Change	%
Property, plant and equipment	274,503	222,037	52,466	
Intangible assets	39,157	30,754	8,403	
Financial assets	24,078	14,461	9,617	
(a) Total intangible assets, property, plant and equipment	*337,738*	*267,252*	*70,486*	*26.4%*
Inventories	142,818	118,474	24,344	
Assets	197,516	178,946	18,570	
Liabilities	196,587	181,570	15,017	
Provisions for contingencies and charges, and deferred taxes	19,197	13,486	5,711	
(b) Net working capital	*124,550*	*102,364*	*22,186*	*21.7%*
(c) NET INVESTED CAPITAL (a)+(b)	462,288	369,616	92,672	25.1%
(d) Equity	*242,062*	*202,122*	*39,940*	
(e) Employees' leaving entitlement and other funds for personnel	*27,151*	*24,690*	*2,461*	
Medium/long-term net financial indebtedness	109,310	63,418	45,892	
Short-term net financial indebtedness	83,765	79,386	4,379	
(f) Net financial indebtedness	*193,075*	*142,804*	*50,271*	*35.4%*
(g) COVERAGE (d)+(e)+(f)	462,288	369,616	92,672	25.1%

Net invested capital at 31 December 2005 amounted to €462,288 thousand versus €369,616 thousand a year earlier. The items that most contributed to the increase were investments in tangible, intangible and financial assets and inventories.





Specifically, with the implementation of the industrial plan inventories were increased significantly to ensure the availability of supplies despite the restructuring of production activities.
The main investments of the Company include the start-up of a new cast-iron foundry adjacent to the brake disc production plant in Poland. These investments have not yet begun contributing to the Company's results.
Furthermore, the Company continues to implement the industrial plan, largely focusing on its Italian and foreign production sites.

The 25.1% increase in Net Invested Capital is thus attributable to the following factors:
- investments in property, plant and equipment and intangible assets, mainly associated with the industrial plan (for a total of €95.8 million), of which €10.6 million were capitalised development costs;
- asset disposals (generating €3.8 million in net positive cash flow) and depreciation of fixed assets (€38.4 million);
- increase in Net Working Capital amounting to €24.3 million, mainly in inventories.

Net financial debt increased from €142,804 thousand at 31 December 2004 to €193,075 thousand at 31 December 2005 as a result of investments in both fixed and current assets.

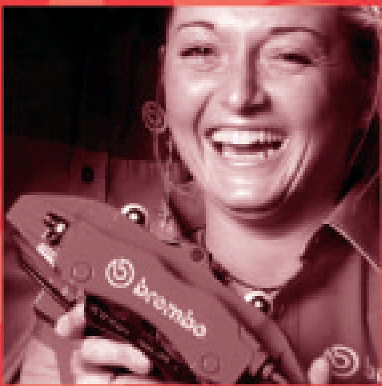
The Company's financial structure showed a favourable balance between short- and long-term debt, in part due to the bond that was issued by Brembo International S.A. (100% owned by Brembo S.p.A.) in October 2005 and privately placed with institutional investors. The €50 million, 5-year floating rate bond was fully subscribed.
The ratio of net financial indebtedness to Equity increased from 70.7% in 2004 to 79.8% at the end of 2005.

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

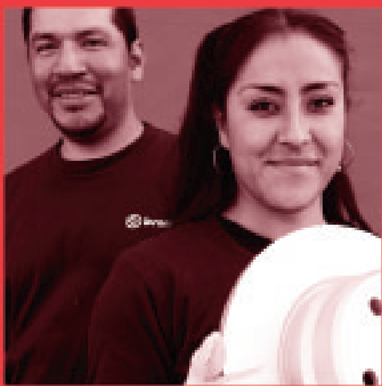
Cash Flow Statement

(euro thousand)	*31.12.2005*	*31.12.2004*
Cash and cash equivalents at beginning of year	**(50,145)**	**4,087**
Net working capital generated by operations	**109,974**	**109,252**
Paid current taxes	(20,092)	(20,725)
Uses to long-term provisions for employee benefits	(2,672)	(2,811)
(Increase) reduction in current assets	(51,882)	(17,038)
Increase (reduction) in current liabilities	15,018	82
Translation differences on current assets	5,545	2,010
Cash flow from (for) operating activities	**55,891**	**70,770**
Investments in:		
intangible assets	(13,796)	(9,868)
property, plant and equipment	(82,025)	(75,888)
financial fixed assets - shareholdings	0	(6,500)
payables for Bradi acquisition	0	10,300
Cost price for disposal, or reimbursement value of fixed assets	3,811	12,576
receivables for sale of fixed assets	0	(2,708)
Cash flow from (for) investments	**(92,010)**	**(72,088)**
Dividends paid in the year	(12,021)	(8,682)
Liberation of reserve for substitution tax	(540)	0
Other variations	24	(565)
Change in equity of minority interests	(44)	0
Loans and financing granted by banks and other financial institutions in the year	71,559	3,396
Repayment of long-term loans	(27,801)	(47,063)
Cash flow from (for) financing activities and Equity	**31,177**	**(52,914)**
Total cash flow	**(4,942)**	**(54,232)**
Cash and cash equivalents at end of year	**(55,087)**	**(50,145)**

Palmares 2005







brembo

CARS

Brembo - Braking systems

GP2 Championship	1st Art Competition - Rosberg
Australian V8 Supercars Championship	1st Stone Brother Racing - Ford Falcon - Ingall
TRANS AM	1st Rocketsports Racing - Jaguar XK8-R - Graf
NASCAR Busch Series	1st Dale Earnhardt Inc. - Chevrolet - Truex
NASCAR Craftsman Truck Series	1st Ultra Motorsports - Dodge - Musgrave
Champ Car Series	1st Newman Haas Racing - Lola - Bourdais
Toyota Atlantic Series	1st Condor Motorsports -Swift - Zwolsman
Infiniti Pro Series	1st Brian Stewart Racing - Dallara - Cunningham
American Le Mans LMP1 Class	1st Champion Racing - Audi R8 - Biela/Pirro
Speed Channel World Challenge	GT 1st Pratt & Miller - Cadillac CTS-V - Pilgrim T.C. 1st Real Time Racing - Acura TSX - Cunningham
24 Hours of Le Mans - LMP1	1st Champion Racing - Audi R8 - Letho/Werner/Kristensen
24 Hours of Le Mans - GT2	1st Alex Job Racing - Porsche 996 GT3 RSR - Rockenfeller/Lieb
FIA GT GT2 Championship	1st Gruppe M Racing - Porsche 996 GT3 RSR - Rockenfeller/Lieb
LMES - GT2	1st Sebah Automotive - Porsche 996 GT3 RSR - Pompidou/Lieb
National GT Championships	
ITALY	
GT2 class	1st Team Sara Assicurazioni - Ferrari 360 Modena GTC - Pier Guidi/Vilander
FRANCE	
GT1 class	1st VBM - Viper GTS-R - Bornhauser/Thevenin
GT2 class	1st Team IMSA - Porsche 996 GT3 RSR - Narac/Dumez
France Silhouette Championship	1st Pescarolo - Peugeot 407 Coupé - Ayari
GREAT BRITAIN	
GT3 class	1st Tech 9 Motorsport - Porsche 996 GT3 Cup - Maserati/Deverikos
F3 Championship Class	1st Carlin Motorsport - Dallara F305 Mugen - Parente
PARIGI-DAKAR	1st Mitsubishi - Alphand

AP Racing - Braking systems and clutches

			Brakes	Clutches
SINGLE SEAT FORMULA	FORMULA 1	1st Renault R26 (Manufacturer) - Alonso (Driver)	•	•
	CHAMPCAR	1st Newman Haas Racing - Bourdais		•
	IRL	1st Andretti Green Racing - Dallara Honda - Wheldon		•
	BRITISH F3	1st Carlin Motorsport - Parente		•
	EUROPEAN F3	1st ASM - Mercedes - Hamilton		•
GT LE MANS	GT1 Class	1st Corvette Racing - CR6 - Berrata/Gavin	•	•
	GT2 Class	1st Porsche 996RS - Hindrey	•	
	LMP2 Class	1st Lola - Field	•	•
	FIA GT	1st Larbre Competition - Ferrari 550 - Gardel	•	•
LMES	LMP2 Class	1st Lola LMP675 - Evans	•	•
	GT1	1st BMS Ferrari 550 - Pescatori/Seiler	•	•
ALMS	P2 Class	1st Intersport Lola - Field	•	•
	GT1 Class	1st Corvette Racing - Berrata/Gavin	•	•
	GT2 Class	1st Petersen M/Sport Porsche 911 - Long	•	
	Grand AM (GT Class)	1st TR6 Pontiac GTO - Magnusson	•	
JAPANESE SUPER GT	GT 500 Class	1st Zent Cerumo Supra - Tachikawa/Takagi - Nismo Team	•	•
	GT 300 Class	1st Reckless Toyota MR-S - Yamano - Sasaki Team	•	
TOURING CAR	British	1st Neal (Driver) - Halfords Team	•	•
		1st Vauxhall Motorsport - Vauxhall Astra (Manufacturer)	•	•
	DTM	1st AMG Mercedes - Paffett	•	•
	WTC	1st BMW - Priaulx	•	•
	Australian V8 Supercars	1st Stone Brothers Ford Falcon - Ingall		•
	Bathurst 1000	1st HRT Commodore - Skaiffe/Kelly	•	•
RALLY	WRC	1st Loeb (Driver) - Citroen Xsara - WRC (Manufacturer)		•
	Super 1600	1st Citroen C2 - Sordo		•
NASCAR	Nextel	1st Joe Gibbs Racing Chevrolet - Stewart	•	
MOTORCYCLE	Spanish Superbike	1st Honda CBR1000R - De Gea	•	

MOTO

Brembo - Braking Systems

MotoGP World Championship	1st Yamaha - Rossi
250cc World Championship	1st Honda - Pedrosa
125cc World Championship	1st Honda - Luthi
SBK World Championship	1st Suzuki - Corser
SBK AMA American Championship	1st Suzuki - Mladin
SBK British Championship	1st Ducati - Lavilla
8 Hours of Suzuka	1st Honda - Ukawa/Kiyonari
Motocross World Championship MX1	1st Yamaha - Everts
Motocross World Championship MX3	1st KTM - Breugelmans
Enduro World Championship E1	1st KTM - Cervantes
Enduro World Championship E2	1st KTM - Aro
Enduro World Championship E3	1st KTM - Knight
Supermotard World Championship S1	1st Husqvarna - Delepine
Supermotard World Championship S2	1st KTM - Chambon
Parigi-Dakar	1st KTM - Coma

Marchesini - Wheels

MotoGP World Championship	1st Yamaha - Rossi
250cc World Championship	1st Honda - Pedrosa
125cc World Championship	1st Honda - Luthi
SBK Italian Championship	1st Ducati - Brignola
125cc C.I.V. Championship	1st Aprilia - Grotzkyj Giorgi
125cc C.E.V. Championship	1st Aprilia - Túnez
British SBK Championship (BSB)	1st Ducati - Lavilla
Endurance World Championship	1st Suzuki - Philippe/Kitagawa/Lagrive
8 Hours of Suzuka	1st Honda - Kiyonari/Ukawa
24h Bol d'Or	1st Suzuki - Philippe/Kitagawa/Lagrive
Japanese SBK Championship	1st Honda - Shinichi
250cc European Championship	1st Aprilia - Molina
SBK AMA Unlimited Championship	1st KTM - Dymond

Performance of Brembo Companies

The key economic information for the Group's companies is provided below. The data was taken from the Financial Statements as prepared in accordance with local regulations.

BREMBO S.P.A.
CURNO (ITALY)

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

Financial year 2005 closed with sales of goods and services amounting to €505,429 thousand, up 3.2% compared to €489,680 thousand in 2004.
In comparing the figures from 2005 and 2004, it is important to consider that, at the end of 2005, Brembo S.p.A. absorbed its subsidiary Bibielle S.p.A.
The company, which operates in the production and sale of disc brakes for the original equipment market and aftermarket, recorded net revenues of €24,540 thousand in 2004 and net income of €1,431 thousand.
An analysis of gross revenues indicates a modest increase in sales in the cars, motorbikes and racing segments (+4.6% overall) and a corresponding modest decrease in sales in the commercial vehicles segment, in part due to the initiation of production and sales activities at the Polish production facilities.
Gross operating income fell from €53,601 thousand in 2004 to €46,662 thousand in 2005 (-12.9%), while net operating income — after amortisation and depreciation of €21,902 thousand (down 11.6% from 2004) — amounted to €24,760 thousand, compared to €28,816 thousand in the previous year.
The net result of financial transactions worsened considerably, with net charges amounting to €4,151 thousand, compared to €273 thousand for 2004. The 2004 figure benefited from exchange gains on the settlement of a debt in pound sterling. The increase in 2005 was also due to greater financial debt owing to the sizeable investments made during the year.
The sum of €12,189 thousand was allocated for income tax, for the expected amounts for IRES (Corporate Income Tax) and IRAP (Regional Business Tax), and a ratio of 59.1% to pre-tax income. The allocation made in 2004 was €15,844 thousand, with a ratio of 33.9%.
Net income amounted to €8,420 thousand, a 72.8% decrease from €30,900 thousand in 2004. Net income for 2004 also included €16.348 thousand generated as a result of the derecognition of previous years' tax effects from the company's accounts in compliance with the provisions of Legislative Decree 6/03.
At 31 December 2005, the workforce numbered 2,540, up 9.1% compared to 2,329 at 31 December 2004. This number includes approximately 150 employees of former Bibielle S.p.A., a company merged in Brembo.

Companies Consolidated on a Line-by-Line Basis

BREMBO SCANDINAVIA A.B.
GÖTEBORG (SWEDEN)

Activities: sale of brake discs.

Brembo Scandinavia A.B., headquartered in Göteborg (Sweden), sells brake discs for the car industry, only for the aftermarket. Net sales for 2005 amounted to SEK 5,475 thousand (€590 thousand), compared to SEK 4,660 thousand

(€511 thousand) in 2004, up 17.5%. Net income increased to SEK 1,706 thousand (€184 thousand) from SEK 901 thousand (€99 thousand) in 2004.
There was one employee on the payroll at 31 December 2005, unchanged from 2004.

BREMBO NORTH AMERICA INC.
COSTA MESA (USA)

Activities: sale 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 sells brake discs for the car aftermarket, particularly high-performance braking systems for car and motorbike racing and 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 sales for 2005 amounted to USD 35,364 thousand (€28,411 thousand), an increase of 12.9% versus the previous year when revenues reached USD 31,335 thousand (€25,204 thousand). All sectors recorded increases in sales (aftermarket products and high performance kits +10%; racing sector +16%).
Net income at 31 December 2005 was USD 284 thousand (€228 thousand), down compared to the net income of USD 946 thousand (€761 thousand) for 2004.
The workforce numbered 62 at year-end, 5 more than at December 2004.

BREMBO UK LTD.
LONDON (UNITED KINGDOM)

Activities: sale of brake discs.

In 2005, the company's net sales decreased 17.6%, from GBP 2,468 thousand (€3,637 thousand) at 31 December 2004 to GBP 2,033 thousand (€2,973 thousand) at 31 December 2005. Net income amounted to GBP 56 thousand (€82 thousand), compared to GBP 149 thousand (€220 thousand) in 2004.
The workforce numbered 2 people at 31 December 2005, unchanged compared to 31 December 2004.

BREMBO JAPAN CO. LTD.
TOKYO (JAPAN)

Activities: marketing of braking systems for the racing and motorbike sectors and original equipment for cars.

Brembo Japan Co. Ltd. is Brembo's commercial company that handles the entire Asian market, as well as the specific market of Japan. It also provides first technical support to the customers in the area, through the Tokyo office. At 31 December 2005, the workforce numbered 12, one more compared to 31 December 2004.
Net sales for 2005 amounted to JPY 571,324 thousand (€4,174 thousand), up about 24% compared to those for 2004, JPY 461,825 thousand (€3,436 thousand), thanks to the good performance of products for races and high performance

kits. The company's net result improved from a loss of JPY 4,174 thousand (€31 thousand) in 2004 to an income of JPY 11,568 thousand (€85 thousand) in 2005. The 2004 result was negatively impacted by a series of extraordinary costs associated with organisational and structural changes to the company that were completed in December 2005 with the purchase of the remaining 10% of capital by Brembo Participations B.V. (100% owned).

BREMBO SPOLKA ZO.O.
CZESTOCHOWA (POLAND)

Activities: production and sale of braking systems for commercial vehicles.

The plant is located in Czestochowa, and produces brake discs and braking systems for the original equipment of commercial vehicles.
The company reported net sales for 2005 amounting to PLN 270,028 thousand (€67,128 thousand) compared to PLN 232,504 thousand (€51,309 thousand) in 2004. In 2005, the company made additional investments in production capacity to handle the increased demand for commercial vehicle systems.
Net income improved from PLN 43,590 thousand (€9,619 thousand) in 2004 to PLN 48,705 thousand (€12,108 thousand) in 2005.
At the end of the year, the company workforce increased to 306 compared to 279 at 31 December 2004.

BREMBO POLAND SPOLKA ZO.O.
DABROWA GÓRNICZA (POLAND)

Activities: production and sale of brake discs.

The company built a new foundry for the production of cast-iron discs destined for use in the existing production plant. During the year, investments relating to the new foundry and increases in production capacity for mechanical processes amounted to PLN 166,022 thousand (€42,045 thousand).
Net revenues for 2005 amounted to PLN 190,639 thousand (€47,392 thousand), compared to PLN 148,912 thousand (€32,862 thousand) in 2004. The increase was due to increases in the production and the sale of discs for the original equipment market.
Net income totalled PLN 14,120 thousand (€3,510 thousand), a decrease from the 2004 figure of PLN 27,934 thousand (€5,944 thousand), owing to start-up costs of the new foundry.
There were 519 employees the end of 2005, compared to 281 at 31 December 2004.

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 cast iron used to produce disc brakes for both original equipment and the aftermarket.
Net sales were generated almost entirely with Group companies and amounted to €37,173 thousand, up 8.2% compared to €34,352 thousand in 2004.
Net income for 2005 amounted to €776 thousand, compared to €2,123 thousand the previous year. The better result in 2004 was mainly due to the elimination of prior-period tax effects from the company's accounts in application of Legislative Decree 6/03.
There were 109 employees on staff at the end of the year, reflecting a decrease of 14 employees with respect to 31 December 2004.

MARCHESINI S.P.A.
JERAGO CON ORAGO (ITALY)

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

The company has an important position in the design, manufacturing, and sale of light-alloy wheels for road and racing motorbikes.
Net revenues generated in 2005 amounted to €4,840 thousand compared to €4,185 thousand in 2004. The net result of the same periods were respectively €256 thousand and €398 thousand. There were 14 employees on staff at year-end, a slight decrease from 16 at 31 December 2004.

BREMBO DO BRASIL LTDA.
BETIM (BRAZIL)

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

The company is headquartered in Betim, 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. The initiation of new original-equipment jobs and increased exports to Europe had a positive impact on net income.
Net sales amounted to BRL 69,135 thousand (€22,739 thousand) and net income to BRL 3,633 thousand (€1,195 thousand), compared with BRL 59,648 thousand (€16,416 thousand) and BRL 3,521 thousand (€969 thousand) in 2004, respectively. Due to the strong appreciation of the BRL against the euro, the 16% increase in revenues denominated in BRL translated into a 38.5% increase.
The workforce at 31 December 2005 numbered 181 (25 more than at the end of the prior year).

AP RACING LTD.
COVENTRY (UNITED KINGDOM)

Activities: production and sale of braking systems and clutch systems for cars and motorbikes, both for road and racing vehicles.

AP Racing Ltd. closed 2005 with better results than in 2004. Net revenues increased from GBP 22,569 thousand (€33,261 thousand) to GBP 25,652 thousand (€37,509 thousand), while a net loss of GBP 554 thousand (€816 thousand) was transformed into a net income of GBP 1,105 thousand (€1,616 thousand).
At 31 December 2005, the workforce numbered 122, six more than at the end of 2004.

BREMBO RASSINI S.A. DE C.V.
PUEBLA (MEXICO)

Activities: production and sale of brake discs.

The company, held by Brembo and the Mexican Group Sanluis, 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 (SUVs).
Sales were MXN 529,482 thousand (€39,012 thousand) for 2005, slightly up compared to MXN 518,757 thousand (€36,988 thousand) in 2004.
Net income at 31 December 2005 was MXN 30,545 thousand (€2,251 thousand), up from MXN 24,832 thousand (€1,771 thousand) in 2004.
At 31 December 2005, the staff numbered 297 persons, up from 273 a year earlier.

CORPORACION UPWARDS 98 S.A.
ZARAGOZA (SPAIN)

Activities: manufacturing and sale of brake discs and drums.

Net revenues from sales amounted to €34,316 thousand in 2005, compared to €34,506 thousand in 2004. Net income reached €2,402 thousand, compared to €1,699 thousand in 2004, increasing due to the capital gain earned on the sale of two industrial sheds that were no longer used for production following the concentration of all activities at the Zaragoza site.
There was a workforce of 188 at 31 December 2005, compared to 178 at 31 December 2004.

BREMBO CHINA BRAKE SYSTEMS CO. LTD.
BEIJING (CHINA)

Activities: production and sale of brake discs.

The company was established on 3 August 2005 and is owned 60% by Brembo S.p.A. and 40% by Simest and the China Venture Capital Fund (15% and 25%, respectively). As the company began investment activities for the construction of production facilities at the end of 2005, no revenues were recorded for the year.

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 2005 with net income of €8 thousand. As part of the activities involving the simplification of the Group's corporate structure, liquidation procedures were initiated for the company in January 2006.

BREMBO INTERNATIONAL S.A.
LUXEMBOURG (LUXEMBOURG)

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

Brembo International S.A., which is fully owned by Brembo S.p.A., issued a €50,000 thousand bond with private investors in 2005. The liquidity generated by the bond issue was used to grant a loan of the same amount to the Parent Company, Brembo S.p.A.

BREMBO GMBH
OTTOBRUNN (GERMANY)

Activities: company in liquidation.

The company has been in liquidation since 2004, and the process is expected to be completed in the first months of 2006. As the company was no longer operative in 2005, no revenues were generated. The €9 thousand loss was attributable to administrative costs associated with the liquidation process.

Companies Valued Using the Equity Method

SOFTIA S.R.L.
ERBUSCO (ITALY)

Activities: Internet-oriented information technology management.

The company is 40%-owned by Brembo, and 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.

In 2005, net income amounted to €53 thousand compared to €11 thousand in 2004.

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 2005 amounted to CNY 77,125 thousand (€7,558 thousand), against a loss of CNY 4,296 thousand (€421 thousand), mainly due to the completion of the restructuring activities carried out at the company in the past few years. In 2004, net sales were CNY 59,327 thousand (€5,764 thousand), with a loss of CNY 15,924 thousand (€1,547 thousand).

BREMBO CERAMIC BRAKE SYSTEMS S.P.A.
STEZZANO (ITALY)

Activities: design, production and sale 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 2005 amounted to €10,975 thousand, and net loss was €358 thousand. In 2004, the company recorded revenues amounting to €9,257 thousand, with a loss of €821 thousand, mainly due to significant investments in R&D.
The workforce at 31 December 2005 numbered 65, compared to 60 at 31 December 2004.

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

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

Relations with Related Parties

In 2005, Brembo S.p.A. purchased from its consolidated subsidiaries a total €71,221 thousand, and its sales to subsidiaries totalled €29,999 thousand, as opposed to €73,367 thousand and €29,965 thousand, respectively, in 2004.
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 are a reflection of the internationalisation process (particularly the development of the production in Poland), aimed at improving the operational and organisational standards as well as optimising business synergies.
From a financial standpoint, the company's subsidiaries operate independently, although some benefit from various forms of centralised financing.
During the year, the following financial transactions took place among the Group's companies:

- interest-bearing loan (Euribor 3m + 0.4% spread) totalling €50,000,000 on 19/10/2005, granted by Brembo International S.A. to Brembo S.p.A.; repayment at maturity set at 26/10/2010, funds provided by private placement of bond issue. The loan was granted after placement of a bond with equal conditions in terms of amount, maturity and interest rate with institutional investors on the same date.
- interest-bearing loan (Euribor 3m + 0.72% spread) totalling €2,500,000 on 28/10/2005, granted by Brembo Participations B.V. to Brembo Poland; repayment at maturity set at 31/10/2006.
- interest-bearing loan (Euribor 12m + 1% spread) totalling €100,000 on 04/02/2005, granted by Brembo Participations B.V. to Brembo International S.A.; repayment at maturity set at 04/02/2006.

Receivables and payables, sales and purchases between Group companies are detailed in Annexes 1 and 2 to the Notes to the Consolidated Financial Statements at 31 December 2005.
Guarantees given on behalf of Group companies are detailed in the Notes to the Financial Statements of Brembo S.p.A.
During 2005, Brembo did not have any transactions with the holding company Nuova FourB and there were no transactions with related parties under the categories mentioned in Art. 71bis of the Regulations for Issuers, except for remuneration paid to Directors.
Commercial transactions with other related parties totalled an immaterial amount and were conducted at arms-length terms.
At 31 December 2005, Brembo S.p.A. did not hold any of its own shares.
Brembo S.p.A. and the other Group companies do not own any shares or stock in the Parent Company either directly or indirectly through holding companies or other individuals.

The extraordinary session of the Shareholders' Meeting of the Parent Company Brembo S.p.A. held on 29 April 2005 deliberated on a reduction of share capital through the cancellation of the 3,056,000 ordinary shares held by the company (total nominal value of €1,589,120, equivalent to 4.38% of share capital, for a total cost of €16.4 million; average book value: €5.36). The resolution was approved on 10 October 2005, bringing Brembo S.p.A.'s share capital to €34,727,914, divided into 66,784,450 shares with a nominal value of €0.52 each.

BUY-BACK PLAN FOR BREMBO S.P.A. SHARES

The General Shareholders' Meeting of Brembo S.p.A. held on 29 April 2005 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 possibly start a new Stock Option Plan for Brembo company executives.
In the financial year, the Company did not buy any own share.

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 2003-2005 three-year period, 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. Consequently, this aligns the interests of Shareholders and the management without binding the recognition of 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.

TRANSITION TO IFRS

Following the implementation of EEC Regulation No. 1606/2002 issued by the European Parliament on 19 July 2002, with effect from the financial year ended 31 December 2005, companies with securities admitted for trading on a regulated market of member states of the European Union must draw up their consolidated financial statements in compliance with the IFRS issued by the International Accounting Standard Board and approved by the European Commission.
Brembo's Consolidated Financial Statements were thus prepared for the first time using these standards at 31 December 2005, which resulted in changes with respect to previous financial statements prepared under Italian regulations.
As required by CONSOB Resolution No. 14490 of 14 April 2005, as part of its Consolidated Six-Monthly Report at 30 June

2005, Brembo prepared and published a document entitled "Appendix — Transition to International Accounting Standards (IFRS)". The document includes:

- a concise description of the accounting standards adopted by Brembo as of 1 January 2005;
- the methods used for determining and quantifying the impact of the transition to IFRS on the Consolidated Financial Statements at 31 December 2004 through comparison with the same accounts prepared under Italian accounting standards (application of IFRS1 — First Time Adoption of International Financial Reporting Standards).

The figures from the Consolidated Financial Statements at 31 December 2004, which are presented for comparative purposes and were prepared using the same accounting standards as those used for the Consolidated Financial Statements at 31 December 2005, are included in the above-mentioned Appendix. It should be noted that, to provide a more appropriate classification of line items in the Income Statement and Balance Sheet, certain figures were reclassified, as explained in the Notes to the Consolidated Financial Statements. The "Transition to IFRS" statements, which contain these reclassifications, are attached to the Consolidated Financial Statements, as required by IFRS.
It should also be noted that, as of 2005, companies with securities admitted to trading on a regulated market in any member state of the European Union had the option of preparing for the first time their separate financial statements using the same international accounting standards (IFRS).
Brembo S.p.A., the Parent Company which issues listed securities, decided not to exercise this right and thus prepared its Annual Report at 31 December 2005 based on the Italian accounting standards in force at that time.

In compliance with CONSOB notice DEM/5025723 of 15 April 2005, on 29 July 2005, the Board of Directors of Brembo S.p.A. appointed PricewaterhouseCoopers S.p.A. to audit its IFRS reconciliation statements at 1 January 2004 and 31 December 2004. These statements are included in the above-mentioned Appendix. PricewaterhouseCoopers S.p.A. issued its reports on 23 September 2005.

Significant Events After 31 December 2005

- On 4 February 2006, the company KBX Motorbike Products Private Ltd. was established through a joint venture between Brembo and Bosch Chassis Systems India Ltd. (formerly Kalyani Brakes Ltd.), which is controlled by the Bosch Group. The new company is headquartered in Pune, India. Brembo S.p.A. subscribed 50% of the Share Capital, paying a total of INR 357 million (approximately €6.7 million).
- On 9 January 2006, liquidation procedures began for Brembo Participations BV, with the aim of streamlining and rationalising the Group's corporate structure. The company's shareholdings will be transferred to Brembo International S.A..
- On 20 February 2006, a new cast-iron foundry was built in Dabrowa, Poland, near the existing disc production facilities. The plant will be fully operational next summer.

There were no other significant events between 31 December 2005 and 24 March 2006.

Foreseeable Evolution

Following the slow-down in sales in December as a result of destocking by a number of customers, orders during the first months of the new year have left some room for optimism, although there is some uncertainty surrounding the performance of the European aftermarket.

The industrial plan for rationalising disc production in Italy that was begun in 2005 will be concluded during the first half of 2006.

International growth projects focusing on Poland, China and India are proceeding as planned.

The initiatives currently underway are expected to result in a progressive improvement in the gross operating income starting in the second half of the year.

PRINCIPLES, SOURCES AND COMPANY MACROSTRUCTURE

PRINCIPLES

Brembo's System of Corporate Governance was implemented also in financial year 2005, fully complying with the provisions of "Corporate Governance of Listed Companies" (so called Preda Code) and those required for listing with the STAR segment.
Brembo bases its conduct on rigorous principles, including transparency, compliance to rules, ethics, and responsibility. This provides a basis for and protects the company's intangible capital, which primarily consists of its brand, its reputation and the set of values shared by employees and collaborators that guides the actions of a socially responsible company.
With this objective, Brembo has further fine tuned its Corporate Governance model (the basic principles of which are established in the related Manual), expanded on topics relating to ethics, and voluntarily adheres to the principles of corporate social responsibility.
In 2005, the company's participation in the competition for the National Award for Social Responsibility promoted by the Ministry of Labour and Social Politics provided an important opportunity to promote the project aimed at increasing awareness and spreading information about these topics. Brembo was awarded first prize for the "Large Enterprises" category. The activity will continue over the course of 2006.
The report, which has been published in Brembo's website (www.brembo.com, in the "Investor Relations & Financial Info" section), was submitted to Borsa Italiana (the Italian Stock Exchange).

SOURCES (UPDATED 31 DECEMBER 2005)

1) **Corporate Governance Manual** (which fully replaces and supplements the Brembo Code of Corporate Governance), the third edition of which was approved by the Board of Directors on 12 May 2005.
   The fundamental parts of the manual include:
   a) **The current version of the Corporate By-laws,** approved by the Extraordinary Shareholders' Meeting of 26 April 2004;
   b) **Instructions governing the Board of Directors of Brembo S.p.A.,** drawn up by the Legal and Corporate Affairs Department on 23 March 2005.
   c) **Rules for the Remuneration Committee,** approved by the Remuneration Committee on 21 February 2001;
   d) **Rules for the Audit Committee,** approved by the Audit Committee on 15 March 2005;
   e) **Instructions Governing Regulatory Requirements for Disclosing Transactions with Related Parties,** approved by the Board of Directors on 14 October 2002 and subsequently amended with the resolution passed by the Board of Directors on 13 May 2003.
   f) **Instructions Governing the Shareholders' Meeting of Brembo S.p.A.,** drawn up by the Legal and Corporate Affairs Department on 28 February 2005.
   g) **Regulations of the Shareholders' Meetings,** approved by the General Shareholders' Meeting held on 3 May 2000;

h) **Appointment of the Investor Relator** (resolution passed by the Board of Directors on 12 November 2004);

i) **Handling of Price-Sensitive Information and Disclosure of Documents and Information,** approved by the Board of Directors on 17 March 2005;

2) **Delegation of powers of Brembo S.p.A.** approved by the Board of Directors on 14 November 2005, as subsequently amended.
3) **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;
4) **Code of Ethics of Brembo S.p.A.,** approved by the Board of Directors on 11 November 2002 and distributed to all Group employees.
5) **Guidelines for Information to the Market,** acknowledged by the Board of Directors on 11 November 2002.
6) **Regulations for the implementation of Legislative Decree No. 58 of 24 February 1998, on regulations for issuers,** adopted by CONSOB, as amended with resolution No. 15232 of 29 November 2005;
7) **Law No. 262/2005** "Provisions for the protection of savings and the regulation of financial markets";
8) **Law 62/2005** acknowledging EEC directives on Market Abuse;
9) **Organisational, Management and Control Model** approved by the Board of Directors of 11 February 2005, supplemented by the resolution passed by the Board of Directors on 29 July 2005.

The above-mentioned documents are available at Brembo Legal & Corporate Department and on the corporate website at "www.brembo.com" in the new Corporate Governance section. Any additional information can be requested from the Company's Investor Relations Office **(ir@brembo.it).**

Corporate 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 Corporate Governance Model. A study of the specific rules introduced by the Savings Law was initiated in order to align Brembo's Governance with the new obligations set forth in such law.

In addition:

- At 31 December 2005, the company issued 66,784,450 ordinary shares, each with voting rights. The company Nuova FourB S.r.l. (with registered offices in Bergamo) holds 39,026,796 shares, corresponding to 58.4% 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, coordinates, and controls its subsidiaries either directly or through Brembo International S.A.
- The Company complies with Art. 2497-bis of the Italian Civil Code, with reference to companies directed and coordinated by Brembo S.p.A.
- 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 are reserved for the Shareholders' Meeting, in accordance with Italian laws and the Company By-laws.

- 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 Boards, the Audit Committee and the Remuneration Committee. Instead, no Nominations Committee was established, due to the fact that candidates for the office of Company Director are nominated by the Shareholders' Meeting. Furthermore, the Supervisory Committee was set up on 30 July 2004.

IMPLEMENTATION OF CORPORATE GOVERNANCE

General Shareholders' Meeting and Relations with Shareholders and Institutional Investors

The Shareholders' Meeting held on 29 April 2005 approved the Annual Financial Statements of Brembo S.p.A. for the year ended 31 December 2004, which include the Directors' Report on Operations, the Statutory Auditors' Report and the Independent Auditors' Report.

The following items were also covered at the Shareholders' Meeting: presentation of the Consolidated Financial Statements; renewal of the appointments of the Board of Directors and Board of Auditors; renewal of the plan for acquiring and selling the company's own shares; and reduction of Share Capital pursuant to Article 2445 of the Italian Civil Code through cancellation of the company's own shares.

Investor relations and the disclosure of price-sensitive information are governed by a special section of Brembo's Corporate Governance Manual, which incorporates the main contents of the Guidelines for Information to the Market published by Borsa Italiana.

More in detail, in compliance with the procedure for handling reserved and price-sensitive information, the company is committed to prepare a report for the financial community. This report will be characterised by timeliness, continuity and consistency, and will comply with the principles of correctness, transparency, and equal access to information.

All information of an economic or financial nature is promptly disclosed, also on the company's website (www.brembo.com, "Investor Relations & Financial Info" section).

In 2005, the company held more than 170 meetings with its institutional investors and financial analysts by participating in ten roadshows in foreign markets, including London, Paris, Frankfurt, Zurich, Geneva and Brussels.

Particular attention is also placed on private shareholders, who are mailed a quarterly newsletter containing the latest results and updates on the company's performance.

In the beginning of 2003, the company established a Code of Conduct on Internal Dealing that governs all purchase and sale transactions involving Brembo's financial instruments made by persons who, as insiders and by virtue of their role, have regular access to inside information. In compliance with this Code, three reports were prepared by relevant persons during the course of 2005. The reports are available on the company's website.

The person responsible for Investor Relations is Corrado Orsi (Tel. +39.035.605.884; e-mail address: ir@brembo.it), Chief Financial Officer of Brembo S.p.A., working closely with the Managing Director.

Board of Directors

The Board of Directors of Brembo S.p.A., appointed by the Shareholders' Meeting held on 29 April 2005 and in office until the Shareholders' Meeting approving the 2007 Financial Statements (at 31 December 2005) is composed of eleven Directors, four of whom executive Directors (Alberto Bombassei, Cristina Bombassei, Stefano Monetini, Matteo Tiraboschi), six non-executive and independent Directors (Paolo Biancardi, Giancarlo Dallera, Giovanna Dossena, Andrea Gibellini, Giuseppe Roma e Giovanni Cavallini) and one non-executive Director (Umberto Nicodano).
Following the resignation of Director Alberto Tazartes, at the meeting of the Board of Directors of 14 November 2005, Giovanni Cavallini was co-opted as a non-executive and independent Director pursuant to Article 2385 of the Italian Civil Code. The incoming Director will remain in office until the Shareholders' Meeting that is held to approve the 2005 Financial Statements; at that time, a new Director will be appointed pursuant to law.
Bruno Saita is Secretary to the Board of Directors.
All the Directors meet the requirements of personal integrity, professionalism and respectability imposed under the Preda Code.

In 2005, the Board of Directors met eight times at the company's registered offices.

The following table provides information on the status of each Director and the dates the Board of Directors met in 2005.

Status of Directors

Name	*Non-executive*	*Independent*	*Executive*	*Other offices*
Bombassei Alberto *Chairman*			x	9
Biancardi Paolo	x	x		6
Bombassei Cristina			x	1
Dallera Giancarlo	x	x		1
Dossena Giovanna	x	x		2
Gibellini Andrea	x	x		1
Monetini Stefano			x	3
Nicodano Umberto	x			5
Roma Giuseppe	x	x		2
Tiraboschi Matteo			x	11
Tazartes Alberto (up to 14/11/2005) Cavallini Giovanni (as of 14/11/2005)	x x	x x		3 2

Meetings of the Board of Directors - 2005	
Date of meeting	*% of attendance*
28.01.2005	92.8%
11.02.2005	78.6%
17.03.2005	71.4%
29.04.2005	92.8%
12.05.2005	92.8%
29.07.2005	64.3%
23.09.2005	92.8%
14.11.2005	92.8%

Each Director is informed at least 5 days before the Board Meeting about all items on the agenda. A detailed analytical report outlining the necessary elements (in descriptive and numerical terms) is sent to each Director.
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 Corporate Governance Manual approved on 12 May 2005. Thus, it is specifically responsible for analysing and sharing annual budgets and strategic plans.
During the year, the Directors' remuneration was changed in accordance with a resolution passed at the Shareholders' Meeting of 29 April 2005.
At the Shareholders' Meetings of 11 February 2005, 12 May 2005, 29 July 2005 and 14 November 2005, information was provided with regard to transactions carried out with related parties by some of Brembo S.p.A.'s Directors.
Due to their purpose, nature and amount, such transactions were not considered outside of the company's normal course of business; furthermore, they did not present any critical issues and were within the range of market values for similar operations.

Delegation of Powers
(approved by the Board of Directors on 14 November 2005)

In this regard no changes were made to what was illustrated in the 2004 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 shareholdings 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, powers and proxies regularly registered with the Company Register of Bergamo.
Information regarding the exercise of powers was submitted during the Board Meetings held on 11 February 2005, 12 May 2005, 29 July 2005, and 14 November 2005.

Chairman of the Board of Directors and Managing Director

The Shareholders' Meeting confirmed Alberto Bombassei as Chairman of Brembo S.p.A. for the 2005-2007 period. The Chairman is the Company's legal representative.
On 29 April 2005, the Board of Directors also appointed Alberto Bombassei as Managing Director, granting him the powers specified above.
The Chairman and Managing Director has properly carried out the responsibilities and tasks assigned to him.

Audit Committee and Internal Control System

The work of the Audit Committee continued in 2005. The Committee was established with the resolution passed by the Board of Directors on 21 February 2001 and was confirmed by the Board of Directors' Meeting of 29 April 2005. It is composed of non-executive Independent Directors — Giuseppe Roma (Chairman), Andrea Gibellini and Giovanna Dossena — whose role is to submit proposals and provide consultancy.

The Internal Audit Committee held five meetings (on 24 January 2005, 15 March 2005, 23 May 2005, 23 September 2005, 19 December 2005). During these meetings, the Internal Audit activities were analysed and the correctness of procedures, the efficiency of corporate transactions, the reliability of financial information, observance of the law and the regulations, and adequate protection of corporate assets were widely monitored. The Chairman of the Board of Statutory Auditors, Sergio Mazzoleni, participated in these meetings, either directly or through a representative. The Managing Director and the Board of Directors were duly informed on the results of the activities of the Audit Committee through reports submitted by the Committee Chairman, Giuseppe Roma, and the Chairman of the Supervisory Committee, Giovanna Dossena, during the Board of Directors' meetings held on 17 March 2005 and 14 November 2005.
Internal Audits continued to be performed to ensure observance of the rules of conduct established by the Code of Conduct and to prevent risks.

As prescribed in the Internal Audit Procedure approved by the Board at the time, audits have a two-fold objective: risk prevention, and direct action to detect and eliminate irregularities.
Four operating audits were planned and carried out in the risk prevention area, of which one at a foreign office.
Within the framework of these targeted audits and based on specific reports received, a number of ethical audits approved by the Managing Director and General Manager were conducted.
These actions detected no 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.

In addition to the planned activities, other Internal Audit activities were also carried out as necessary during the year. The Internal Auditor was involved in the cross-company project "Document Classification and Archival" that involved various areas of the company in defining standards for the classification of documents, the processing of price-sensitive information and the archival of such information.

Legislative Decrees 231/01 and 61/02

During 2005, progress continued as planned on the activities aimed at ensuring an efficient system of Organisation, Management and Control (in accordance with the Confindustria — Italian Manufacturers' Association — Guidelines of 24 May 2004). This system is able to prevent — in compliance with the provisions of Article 6 of Legislative Decree 231/2001 — Brembo's liability for the offences referred to in Legislative Decree 231/2001 and Legislative Decree 61/2002.

Specifically, top management and all persons with supervisory roles were involved in a training plan based on the instructions contained in Legislative Decree 231/2001 and on the Organisation, Management and Control Model of Brembo S.p.A. that was approved by the Board of Directors on 11 February 2005. On 29 July 2005, the Board of Directors of Brembo S.p.A. was updated regarding the introduction of the rules on market abuse offences. The procedures are being developed according to the guidelines set by the CONSOB regulation.

Employees were informed that they could report any irregularities and/or violations of the Organisation, Management and Control Model and the Code of Ethics by sending an email to a specific address; all such emails will be forwarded to the Supervisory Committee and the Internal Control Committee.

All specific activities falling under the responsibility of the Supervisory Committee were conducted in conformity with the provisions of law. In detail:

- communication channels were established for reports; as of today, no reports have been made.
- procedures were defined for disciplinary or punitive measures.
- supplements and amendments were made to the reference model of the Supervisory Committee, with the aim of reflecting the company's current situation as accurately as possible and fulfilling internal audit as well as its own control requirements, also with regard to completing the tasks required by the relevant regulations, within the period under review. Such supplements and amendments were always formalised and appropriately publicised.

During the year, no violations of laws subject to the penalties provided for in Legislative Decree 231/2001 were reported.

Remuneration Committee

The Remuneration Committee, reappointed with the resolution passed by the Board of Directors on 29 April 2005, is composed of non-executive and independent Directors Paolo Biancardi and Giancarlo Dallera, and non-executive Director Umberto Nicodano. In 2005, the Committee held one meeting (on 11 February 2005).

Board of Statutory Auditors

The Board of Statutory Auditors was appointed by the Shareholders' Meeting of 29 April 2005; 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 the Directors meet the requirements established by law and by the Preda Code.
In 2005, the Board of Auditors held four meetings and participated in all meetings of the Board of Directors.

Privacy

In accordance with the "Personal Data Protection Code" as per Legislative Decree 196 of 30 June 2003, Brembo S.p.A. has drafted and updated the prescribed "Security Planning Document" and has implemented all the measures prescribed therein. These measures were extended also to its subsidiary companies with registered offices in Italy.
More in detail, the company planned and carried out the necessary initiatives at the 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 2005 are given below:

	Shares at 31.12.2004	*Shares purchased*	*Shares sold*	*Shares at 31.12.2005*	*Ownership position*	*Ownership method*
Alberto Bombassei	0	0	0	0	N/a	N/a
Alberto Bombassei (Nuova FourB)	39,026,796	0	0	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
Giovanni Cavallini [(1)]	0	0	0	0	N/a	N/a
Giancarlo Dallera	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 [(2)]	28,050	0	28,050	0	N/a	N/a
Umberto Nicodano	0	0	0	0	N/a	N/a
Giuseppe Roma	6,000	0	0	6,000	F	D
Alberto Tazartes [(1)]	54,687	0	0	54,687	F	D
Matteo Tiraboschi	0	0	0	0	N/a	N/a
Board of Statutory Auditors						
Sergio Mazzoleni [(3)]	17,500	0	17,500	0	N/a	N/a
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

(1) Director Alberto Tazartes resigned as of 14 November 2005. On the same date, the Board of Directors appointed the new Director Giovanni Cavallini.

(2) He also holds the position of General Manager in Brembo S.p.A.

(3) 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 2005, based also on the examination of our Report and the Notes to the Financial Statements, in which we outlined the guidelines and operations, we submit for your approval our proposal for distributing the entire net income amounting to €8,419,844, as follows:

- to the ordinary reserve, €188,340 to reach an amount equal to one fifth of the Share Capital;
- to the Shareholders, a gross dividend of €0.21 per ordinary share outstanding at the time of dividend payout, consequently excluding own shares. The dividend will be as follows:
  a) 58.7%, equivalent to €8,231,504, will be drawn from annual net income after deducting the amount allocated to the ordinary reserve;
  b) 41.3%, equivalent to €5,793,231, will be drawn from the extraordinary reserve.

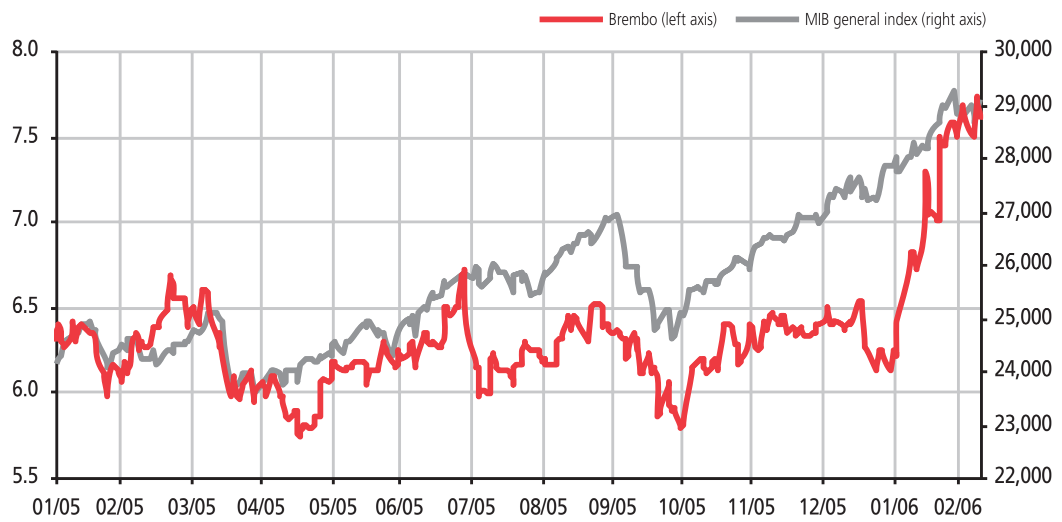
It is also proposed that dividends should be paid as of 11 May 2006.

Curno, 24 March 2006

BOARD OF DIRECTORS

Alberto Bombassei	*Chairman*
Paolo Biancardi	*Director*
Cristina Bombassei	*Director*
Giovanni Cavallini	*Director*
Giancarlo Dallera	*Director*
Giovanna Dossena	*Director*
Andrea Gibellini	*Director*
Stefano Monetini	*Director*
Umberto Nicodano	*Director*
Giuseppe Roma	*Director*
Matteo Tiraboschi	*Director*

Brembo S.p.A. Stock Performance



Source: Thomson Financial Datastream

The performance of Brembo's stock over the course of 2005 can be broken down in two distinct phases. In the first phase, from January to June, Brembo's stock increased 13.55%, thus outperforming both the Italian general index Mibtel, which increased 4.7% in the year, and the Bloomberg Europe Auto Parts & Equipment Index, which was substantially unchanged. In the second half of the year, on the other hand, the stock remained in the trading range, closing 2005 with an increase of 15% compared to the 13.75% increase of the Mibtel index, but still outperforming the Bloomberg Europe Auto Parts & Equipment Index, which increased 1.4% during the year.

A graphic analysis shows that Brembo's stock has strong resistance around €6.6, a level that, in January, March, July, September and December, thwarted all attempts to continue the positive phase. Conversely, the zone around €5.8 provided a sound support level; at this level, the interest shown by buyers cushioned the weak phases seen in April, May, July and October.

The performance of Brembo's stock in the first quarter of 2006 was in line with the Bloomberg Europe Auto Parts & Equipment Index, which increased 16% from the beginning of January to 23 March.
However, Brembo outperformed the general Italian index, Mibtel, which increased 9.35% during the same period.
Most of the movement occurred following the release of the preliminary results for 2005, which exceeded market expectations. The stock rose to over €7.00 per share, hitting an intraday peak of €8.08 on 10 March.

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

	31.12.2005	*31.12.2004*
Share capital *(euro)*	34,727,914	36,317,034
No. of ordinary shares	66,784,450	69,840,450
Equity (excluding income for the year) *(euro)*	136,154,355	134,205,214
Net income for the year *(euro)*	8,419,844	30,899,786
Net Earnings per Share *(euro)*	0.126	0.442
Trading price *(euro)*		
Minimum	5.74	5.23
Maximum	6.70	6.33
Year end	6.40	5.55
Stock Exchange capitalisation *(euro million)*		
Minimum	383	365
Maximum	447	442
Year end	427	387
Gross dividend per share	0.21 [*]	0.18

[*] To be approved by the Shareholders' Meeting convened on 28 April 2006

The three main shareholders of Brembo S.p.A at 1 January 2006 were:

	% of ownership
Nuova FourB S.r.l.	58.44%
Wellington Management Company LLP	3.22%
Powe Capital Management LLP	2.05%

In light of the new concept of direction and coordination arising from the Corporate Law Reforms, it should be noted that, pursuant to Article 2497 of the Italian Civil Code, Brembo S.p.A. is not subject to direction and control by companies or entities (such as the majority shareholder Nuova FourB S.r.l.).

Further information and updates regarding stock performance and recent corporate information are provided in the financial section of the corporate website at:
www.*brembo.com, section: Investor Relations & Financial Info*

Investor Relator: *Corrado Orsi*

On behalf of the Board of Directors
The Chairman
Alberto Bombassei

SPAIN • UNITED KINGDOM • ITALY • POLAND

Brembo: Consolidated Financial Statements at 31 December 2005

Brembo: Consolidated Financial Statements at 31 December 2005

Consolidated Balance Sheet at 31 December 2005

(euro thousand)	*Note*	*31.12.2005*	*31.12.2004*	*Change*
ASSETS				
Non-current assets				
Property, plant, equipment and other equipment	1	274,503	222,037	52,466
Development costs	2	18,336	9,516	8,820
Goodwill and other undefined useful life assets	2	15,146	14,812	334
Other intangible assets	2	5,675	6,426	(751)
Shareholdings	3	8,534	8,711	(177)
Other financial assets (investments in other companies and derivatives)	4	4,638	5,743	(1,105)
Receivables and other non-current assets	5	2,166	2,369	(203)
Deferred tax assets	6	2,711	2,860	(149)
Total non-current assets		331,709	272,474	59,235
Current assets				
Inventories	7	142,818	118,475	24,343
Trade receivables	8	153,083	149,507	3,576
Other receivables and current assets	9	39,557	24,211	15,346
Financial current assets and derivatives	10	11,059	5	11,054
Cash and cash equivalents	11	32,200	27,516	4,684
Total current assets		378,717	319,714	59,003
TOTAL ASSETS		**710,426**	**592,188**	**118,238**

(euro thousand)	Note	31.12.2005	31.12.2004	Change
EQUITY AND LIABILITIES				
Group equity				
Share capital	12	34,728	36,317	(1,589)
Other reserves	12	115,168	85,433	29,735
Retained earnings / (loss)	12	39,830	31,228	8,602
Profit / (loss) for the year	12	40,511	39,554	957
Total Group equity		230,237	192,532	37,705
Minority Interests		11,826	9,590	2,236
TOTAL EQUITY		**242,063**	**202,122**	**39,941**
Non-current liabilities				
Non-current payables to banks	13	37,716	44,279	(6,563)
Other non-current financial payables and derivatives	13	71,594	19,139	52,455
Other non-current liabilities	14	8,656	12,133	(3,477)
Reserves for non-current contingencies and charges	15	3,025	2,653	372
Provisions for employee benefits	16	27,151	24,690	2,461
Deferred tax liabilities	6	16,172	10,833	5,339
Total non-current liabilities		164,314	113,727	50,587
Current liabilities				
Current payables to banks	13	112,892	104,766	8,126
Other current financial payables and derivatives	13	3,226	2,136	1,090
Trade payables	17	150,978	138,073	12,905
Tax payables	18	2,088	1,218	870
Other current payables	19	34,865	30,146	4,719
Total current liabilities		304,049	276,339	27,710
Total current and non-current liabilities		468,363	390,066	78,297
TOTAL EQUITY AND LIABILITIES		**710,426**	**592,188**	**118,238**

Brembo: Consolidated Financial Statements at 31 December 2005

Consolidated income statement at 31 December 2005

(euro thousand)	*Note*	*31.12.2005*	*31.12.2004*	*Change*
Sales of goods and services	20	711,615	678,180	33,435
Other revenues and income	21	9,334	14,581	(5,247)
Costs for capitalised internal works	22	10,625	6,880	3,745
Cost of raw materials, consumables, and goods	23	(337,124)	(322,387)	(14,737)
Other operating costs	24	(142,284)	(133,452)	(8,832)
Personnel expenses	25	(140,384)	(132,909)	(7,475)
Gross operating income		111,782	110,893	889
Depreciation, amortisation and impairment losses	26	(38,407)	(40,892)	2,485
Net operating income		73,375	70,001	3,374
Net financial income (charges)	27	(6,325)	(4,380)	(1,945)
Net financial income (charges) from investments	28	(309)	(726)	417
Income before taxes		66,741	64,895	1,846
Taxes	29	(24,852)	(24,269)	(583)
Income before minority interests		41,889	40,626	1,263
Minority interests		(1,378)	(1,072)	(306)
Net income (loss) of the Group		40,511	39,554	957
Earnings per share and diluted earnings per share	30	0.61	0.59	

Consolidated Cash-Flow Statement for the year ended 31 December 2005

(euro thousand)	31.12.2005	31.12.2004
Cash and cash equivalents at beginning of year	**(50,145)**	**4,087**
Consolidated net income for the year before taxes	**66,741**	**64,895**
Depreciation, amortisation, impairment losses	38,513	40,891
Gains/Losses from disposal of fixed assets	(2,431)	(3,977)
Write-ups/Write-downs of shareholdings and other write-ups	311	727
Financial provisions	880	908
Long-term provisions for employee benefits	4,103	4,059
Change in provisions for contingencies	1,857	1,749
Net working capital generated by operations	**109,974**	**109,252**
Paid current taxes	(20,092)	(20,725)
Uses to long-term provisions for employee benefits	(2,672)	(2,811)
(Increase) reduction in current assets:		
inventories	(25,989)	(9,544)
financial assets	(9,949)	1,099
trade receivables and receivables from other Group companies	(3,720)	(2,513)
receivables from others and other assets	(12,224)	(6,080)
(Increase) reduction in current liabilities:		
trade payables and payables to other Group companies	12,905	7,897
payables to others and other liabilities	2,113	(7,815)
Translation differences on current assets	5,545	2,010
Net cash flow from (for) operating activities	**55,891**	**70,770**
Investments in:		
intangible assets	(13,796)	(9,868)
property, plant and equipment	(82,025)	(75,888)
financial fixed assets - shareholdings	0	(6,500)
payables for acquisition of fixed assets	0	10,300
Cost price for disposal, or reimbursement value of fixed assets	3,811	12,576
receivables for sale of fixed assets	0	(2,708)
Net cash flows from (for) investing activities	**(92,010)**	**(72,088)**
Dividends paid in the year	(12,021)	(8,682)
Substitute tax paid	(540)	0
Other variations	24	(565)
Change in equity of minority interests	(44)	0
Loans and financing granted by banks and other financial institutions	71,559	3,396
Repayment of long-term loans	(27,801)	(47,063)
Net cash flow from (for) financing activities	**31,177**	**(52,914)**
Total cash flow	**(4,942)**	**(54,232)**
Cash and cash equivalents at end of year	**(55,087)**	**(50,145)**

MOVEMENTS IN CONSOLIDATED EQUITY

(euro thousand)	*Share capital*	*Other reserves*
Balance at 31 December 2003	36,317	71,716
Allocation of profit for the previous year		10,365
Payment of dividends		
Variations in reserves of consolidated companies		
Variation in translation adjustment reserve		3,353
Net income (loss) for the year		
Balance at 31 December 2004	36,317	85,433
Allocation of profit for the previous year		18,878
Payment of dividends		
Share capital decrease	(1,589)	1,589
Liberation of revaluation reserve Re. Law 331/04		(540)
Increase in own share purchasing reserve		
Variations in reserves of consolidated companies		
Variation in translation adjustment reserve		9,807
Variation in consolidation area and other changes		
Net income (loss) for the year		
Balance at 31 December 2005	34,728	115,167

[1] Hedging reserves are net of the related tax effect.

Retained earnings	Hedging reserves[1]	Profit for the year	Group equity	Profit of Minority Interests	Share capital and reserves of Minority Interests	Equity of Minority Interests	Equity
20,994	543	29,303	158,873	900	8,096	8,996	167,869
10,256		(20,621)	0	(900)	900	0	0
		(8,682)	(8,682)			0	(8,682)
3	(568)		(565)		(170)	(170)	(735)
			3,353		(308)	(308)	3,045
		39,554	39,554	1,072		1,072	40,626
31,253	(25)	39,554	192,532	1,072	8,518	9,590	202,122
8,654		(27,532)	0	(1,072)	1,072	0	0
		(12,021)	(12,021)			0	(12,021)
			0			0	0
			(540)			0	(540)
			0			0	0
(75)	24		(51)			0	(51)
			9,807		902	902	10,709
			0		(44)	(44)	(44)
		40,511	40,511	1,378		1,378	41,889
39,832	(1)	40,512	230,237	1,378	10,448	11,826	242,064

Explanatory Notes to the Consolidated Financial Statements at 31 December 2005

Brembo's Activities

In the vehicle industry components sector, Brembo is active in the research, design, production and sale of disc braking systems, wheels and light alloy and metal casting for various sectors such as the car 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 and racing competitions.
Production currently takes place in Italy, Spain, Poland, the United Kingdom, Mexico, Brazil and China. Products are also marketed through companies located in Japan, Sweden, the United States and the United Kingdom.

Form and Content of the Consolidated Financial Statements

Introduction

The Consolidated Financial Statements of Brembo for the year ended 31 December 2005 have been drafted in compliance with the provisions of European Regulation No. 1606/2002 and the IFRS effective at 31 December 2005, issued by the International Accounting Standard Board (IASB) and adopted by EC Regulations. IFRS means all international accounting standards and all interpretations issued by the International Financial Reporting Interpretation Committee (IFRIC).
The Financial Statements comprise the Balance Sheet, the Income Statement, the Statement of Changes in Equity, the Cash Flow Statement and these Notes, which include a list of the main accounting standards adopted and other explanatory notes, in accordance with the requirements of IFRS. The Consolidated Financial Statements includes the Financial Statements of the Parent Company, Brembo S.p.A., at 31 December 2005, and the Financial Statements of the companies controlled by Brembo S.p.A. pursuant to IFRS (IAS 27).

As required by IFRS1 (First Time Adoption of IFRS), a separate Appendix of the Six-monthly Report at 30 June 2005 provides the reconciliation statements of the consolidated Equity and net income for the year according to previous accounting principles and current international standards. It also provides the reconciliation statements for the accounting balances shown in the financial statements compared to the values calculated following the adoption of the international accounting standards:

- at the transition date (1/1/2004)
- at the date of the period shown for comparative purposes (31/12/2004).

The effects of transitioning to IFRS and the related Independent Auditors' Report are available on Brembo's website: www.brembo.com.
The reconciliation statements required by IFRS1 present the figures published for comparison purposes in these Consolidated Financial Statements in accordance with IFRS; some of these amounts have been restated to more accurately reflect the items in the Balance Sheet and Income Statement. Specifically, the item "Translation adjustment reserve at

31/12/2004", for an amount of €4,491 thousand, was reclassified from "Retained earnings (loss)" to "Other reserves". As only amounts due for current taxes are stated under "Tax payables", other types of tax payables have been classified under "Other current liabilities". Such amounts were previously stated under "Tax payables" (€3,538 thousand) and "Other non-current liabilities"(€488 thousand). Moreover, to account for their long-term liquidity, various types of tax receivables amounting to €203 thousand were reclassified from "Financial current assets and derivatives" to "Receivables and other non-current assets".
A total of €997 thousand was reclassified from "Deferred tax assets" to "Deferred tax liabilities" to account for taxes that can be offset as they are applied by the same authorities. Due to their materiality, deferred costs incurred in relation to development projects have been stated under "Costs for capitalised internal works" in the Income Statement. In the 2004 accounts, these costs were recognised under "Other operating costs". Derivative liabilities amounting to €80 thousand were reclassified from "Other current financial assets and derivatives" to "Other non-current financial liabilities and derivatives" (€47 thousand) and "Other current financial liabilities and derivatives" (€33 thousand). It should be noted that, in the Income Statement, €852 thousand in provisions relating to the write-down of the raw material inventory were reclassified from "Other operating production costs" to "Raw materials, ancillaries consumables and goods".
The reconciliation statements relating to the transition to international standards, which include the above reclassifications, are included in the appendix to these Notes.
In compliance with the provisions of IFRS 1 (First Time Adoption of IFRS), the effects of the transition have been recognised in Equity at the transition date.
As part of its first-time adoption, Brembo has made certain choices relating to the exemption options envisaged in IFRS1 for the preparation of the opening balance sheet (1/1/2004).

Specifically, the principal options relate to:

- Employee benefits: actuarial profits and losses accumulated from the beginning of the plans to the date of IFRS adoption are recognised in full in Equity;
- Business Combinations: transactions preceding the transition date (1 January 2004) have not been restated;
- Accumulated translation differences: accumulated currency translation differences for all overseas operations are assumed to be zero at the date of IFRS adoption, reclassifying the previous translation adjustment reserve to retained earnings (loss);
- Recognition of fixed assets: property, plant and equipment and intangible assets continue to be valued at cost;
- Financial instruments: the principles of IAS 32 and 39 have already been applied in the opening balance sheet at 1/1/2004.

Basis of Preparation and Presentation

The Group Consolidated Financial Statements are prepared on the basis of financial statements for the year ended 31 December 2005, drafted by the Boards of Directors or, when available, of financial statements approved at the Shareholders' Meetings of the relevant consolidated companies, appropriately adjusted to align them with Group classification criteria and accounting principles.

The consolidated accounts have been prepared in accordance with the historic cost concept, with the exception of financial instruments (including derivative contracts) and financial assets held for trading or designated as available for sale. These have been stated at fair value, as explained below.

The Consolidated Financial Statements have been prepared in accordance with the general principle of providing a true and fair presentation of the Group's assets and liabilities, financial position, results and cash flow, based on the following general assumptions: going concern, accrual accounting, consistency of presentation, materiality and aggregation, prohibition of offsetting; and comparative information.

Preparing financial statements in conformity with the applicable accounting standards requires management to make estimates that may have a significant effect on the items reported in the accounts. Estimates and associated assumptions are based on historical experience and other factors that are believed to be reasonable under the current circumstances and given the information available at the reporting date. Actual results may differ from these estimates. Estimates and associated assumptions are reviewed on an ongoing basis. Revisions of estimates are recognised in the period in which such estimates are revised. Decisions made by company management that have a significant impact on the financial statements and estimates, with a significant risk of material adjustments to the book value of assets and liabilities in the next accounting period, are discussed in the notes to the individual financial statement entries. Estimates are mainly used in reporting provisions contingencies, inventory obsolescence, depreciation and amortisation, write-downs of receivables, employee benefits, taxes and other provisions and in determining the fair value of derivative instruments and the useful life of certain fixed assets.

The fair value of financial instruments traded in active markets is based on price quotations at the reporting date. The fair value of financial instruments that are not traded in active markets (such as derivative contracts) is determined using specific valuation techniques. Specifically, as indicated below, the fair value of Interest Rate Swaps (IRS) is determined using the discounted cash flow technique, and the fair value of forward foreign exchange contracts is determined by reference to projected forward exchange rate curves applicable to such financial instruments.

The Group made the following choices in relation to the presentation of the financial statements:

- For the Balance Sheet, there is separate disclosure of current and non-current assets, assets held for sale and current and non-current liabilities. Current assets, which include cash and cash equivalents, are those assets which will be realised, sold or consumed within the Group's normal operating cycle; current liabilities are obligations that will be liquidated within the Group's normal operating cycle or within twelve months of the close of the accounting period;
- In the Income Statement, expense and income items are stated based on their nature;
- For the Cash Flow Statement, the "indirect method" was used, as indicated in IAS 7.

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.

The Consolidated Financial Statements are presented in euros, which is the functional currency of the Parent Company, Brembo S.p.A., and all amounts are rounded to the nearest thousand unless otherwise indicated.

Changes in Accounting Standards

The following amendments to and interpretations of the international accounting standards were approved after the "Transition to IFRS statements" were published and are effective for the year 2005:

- Amendment to SIC 12 ("Consolidation – Special Purpose Entities"): effective as of 1 January 2005;
- Amendments to IAS 39 ("Adjustment and Recognition of Financial Assets and Liabilities"): effective as of 1 January 2005, it may be applied to prior years if the company elected for early application of IAS 32 and 39.

The amendments to and interpretations of the above-mentioned international standards have been analysed and were not found to impact the 2005 Consolidated Financial Statements or comparative data.

The following new accounting standards, interpretations and amendments to existing standards were approved and published in 2005; they must be applied after 31 December 2005:

- Amendments to IAS 19 – Employee Benefits: the main changes relate to the alternative option for recognising actuarial gains and losses; the Group, which currently adopts the corridor approach, will not apply the alternative option for recognising actuarial gains and losses. The effective date of the amendment will be 1 January 2006.
- Amendments to IAS 39 – Designation of Forecast Intragroup Transactions: the amendment to IAS 39 allows forecast intragroup transactions denominated in foreign currency to be designated as hedged items in consolidated financial statements under certain circumstances. This change does not affect the Brembo Group, as there are currently no intragroup transactions that qualify as hedged transactions, and there are no related hedging instruments currently in place.
- Amendments to IAS 39 – Fair Value Option: the changes affect the definitions of financial instruments that may be measured at fair value in the income statement; use of the option is limited to specific financial instruments with specific characteristics. The effective date of the amendment will be 1 January 2006. The Group does not consider the impact these changes on the treatment of its financial instruments as material, however the impact is currently being evaluated.
- Amendments to IAS 39 and IFRS 4 – Changes to the accounting treatment of guarantees issued: the changes mainly affect the accounting treatment of financial guarantee contracts that are not identified as insurance contracts. These amendments do not seem applicable to the Brembo Group. The effective date of these amendments will be 1 January 2006.
- Amendments to IFRS 1 ("First Time Adoption of the International Financial Reporting Standard"): these amendments do not seem to apply to the Brembo Group.
- IFRS 6 ("Exploration for and Evaluation of Mineral Resources"): the standard does not seem to apply to the Brembo Group.
- IFRS 7 ("Financial Instruments: Disclosures") and related amendments to IAS 1 ("Presentation of Financial Statements – Capital Disclosures"), effective as of 1 January 2007: IFRS 7 introduces additional disclosures required on financial instruments; it replaces IAS 30 ("Disclosures on the Financial Statements of Banks and Similar Financial Institutions") and certain requirements of IAS 32 ("Financial Instruments: Presentation in Financial Statements and Supplementary Information").

The Group is evaluating the impacts of IFRS 7 and IAS 1. Based on preliminary evaluations, these impacts should be discussed in the supplementary report with regard to their connection to financial risk management, information about hedging instruments and the capital disclosures required by the amendments to IAS 1.

- IFRIC 4 ("Determining Whether an Arrangement Contains a Lease"), effective as of 1 January 2006: the interpretation of this standard establishes the guidelines for determining if an agreement qualifies as a lease and therefore must be accounted for in accordance with IAS 17.

  The Group is evaluating the impact of this standard.
- IFRIC 5 ("Rights to Interests Arising from Decommissioning, Restoration and Environmental Funds"), effective as of 1 January 2006: the interpretation does not seem to apply to the Brembo Group.
- IFRIC 6 ("Waste Electrical and Electronic Equipment"), effective as of 1 December 2005: the interpretation does not seem to apply to the Brembo Group.

Consolidation Criteria

Subsidiary companies

Subsidiaries are companies in which the Group has the power to govern, either directly or indirectly, the administrative and operating decisions and obtain the related benefits. Generally, the Group is presumed to have control when it acquires, directly or indirectly, more than 50% of a company's voting rights, also considering potential rights that are immediately exercisable or convertible.

Controlled entities are consolidated on a line-by-line basis in the consolidated accounts from the date control begins until the date control is transferred outside the Group. The carrying value of subsidiaries is eliminated against the Group's share of Equity in those companies, less income for the period. Minority interests in Equity and income for the year are classified under "Minority Interests" in the Balance Sheet and in the Income Statement.

Associated companies

Associated companies are entities in which the Group exercises a significant influence on the administrative and operating decisions but does not have the power to control. Generally, the Group is presumed to have a considerable influence when it acquires, directly or indirectly, from 20% to 50% of the company's voting rights.

Equity investments in associated companies are accounted for using the Equity method. Based on this method, equity investments are initially stated at cost and then adjusted to reflect changes in the Group's share of Equity in the associated company. The Group's share of associated companies' income is recorded separately in the Income Statement from the date significant influence commences until the date significant influence ceases.

Joint ventures

Joint ventures are entities in which the Group exercises joint control over the economic activities based on a contractual agreement. Joint control exists when the strategic, financial and operating decisions of an entity require the unanimous consent of the parties exercising control.

Investments in joint ventures are accounted for using the Equity method and are included in the consolidated accounts from the date joint control begins until joint control ceases.

Business Combinations

Business combinations (established after the date of transition to IFRS) are accounted for using the purchase accounting method described in IFRS 3.

The value of the entity included in the aggregation is the sum of the fair value of the assets acquired and liabilities assumed, including potential liabilities, plus any costs directly attributable to the acquisition.

The cost of a business combination is therefore determined by measuring the fair value of the identifiable assets, liabilities and potential liabilities at the date of acquisition. Any excess of cost of the acquisition over the Group's share of the fair value of the identifiable assets, liabilities and potential at acquisition are recognised as goodwill. Any negative differences are charged directly to the Income Statement. If the initial cost of a business combination can only be determined on a provisional basis, adjustments to the provisional values must be made within twelve months of the acquisition date.

Minority interests are recognised on the basis of the fair value of the net assets acquired.

If a business combination is completed in multiple phases with subsequent purchases of shares, each transaction is treated separately using the cost of the transaction and fair value information on the assets, liabilities and potential liabilities at the date of each transaction to determine the amount of any differences.

When control of an entity is obtained through a subsequent acquisition, the previously held share is revalued based on the fair value of the identifiable assets, liabilities and potential liabilities determined at the date of the subsequent acquisition; the entry associated with such revaluation is recorded under the Group's equity.

Intragroup Transactions

All balances and transactions among consolidated companies, including unrealised income, are eliminated. Unrealised losses on intragroup transactions are eliminated unless they indicate an impairment of the asset transferred.

Unrealised gains and losses on transactions with associated companies or joint ventures are eliminated in proportion to the Group's interest in such entities, with reduction of the value of the equity interest in question.

Conversion of the Financial Statements of Foreign Companies

At year end, the assets and liabilities of subsidiaries, associated companies and joint ventures whose functional currency is not the euro are translated into the currency used to prepare the consolidated Group accounts at the exchange rate prevailing at that date. Income Statement items are translated at the average exchange rate for the period (as it is considered to represent the average of the exchange rates prevailing on the dates of the separate transactions). The differences arising from the translation of initial Equity at end-of-period exchange rates, and the differences arising as a result of the different method used for translating the result for the period are recognised under a specific heading of

Equity. If consolidated foreign companies are subsequently sold, accumulated conversion differences (at the transition date) are reported on the Income Statement.

The following table shows the exchange rates used in the translation of financial statements denominated in currencies other than the functional one (euro).

	31.12.2005	Average 2005	31.12.2004	Average 2004
Euro against other currencies				
US Dollar	0.847673	0.803375	0.734160	0.804344
Japanese Yen	0.007199	0.007306	0.007161	0.007441
Swedish Krona	0.106513	0.107757	0.110857	0.109591
Polish Zloty	0.259067	0.248598	0.244828	0.220679
Mexican Peso	0.079522	0.073676	0.065809	0.071302
Pound Sterling	1.459215	1.462206	1.418339	1.473761
Brazil Real	0.364538	0.328910	0.276676	0.275219
Chinese Renminbi	0.105038	0.097994	0.088667	0.097150

Consolidation Area

The list of consolidated subsidiaries and associated companies and joint ventures that are accounted for using the equity method, along with information regarding their registered offices and the percentage of capital held, are included in Attachments 3 and 4. The consolidation area changed compared to 31 December 2004 as a result of an agreement that was signed for the formation of a new manufacturing company in China (Brembo China Brake Systems Co. Ltd.), which was completed on 3 August 2005. The joint venture, 60% owned by Brembo S.p.A. and 40% by Simest S.p.A. and the Venture Capital Fund for China (15% and 25%, respectively) specialises in the manufacture and sale of brake components for Brembo's original equipment products. The plant will be located in the Beijing area and it will supply the major European and Asian manufacturers that have plants in East Asia.

On 16 December 2005, Brembo Participations B.V. acquired the remaining 10% of the capital of Brembo Japan Co. Ltd., thus increasing its ownership to 100%.

It should also be noted that, on 24 January 2005, Chinese authorities approved the changes to the joint venture agreement between Brembo and the Chinese Group Yuejin. As a result, the investment in Nanjing Yuejin Automotive Brake System Co. Ltd. was accounted for using the equity method, as was also the case in the 2004 consolidated accounts, considering Brembo's 27.75% participation in the joint venture.

Accounting Principles and Valuation Criteria

Transactions in Currencies Other than the Functional Currency

Transactions in currencies other than the functional currency are initially converted into the functional currency using the exchange rate prevailing at the date of the transaction. At the closing date of the accounting period, monetary assets and liabilities denominated in currencies other than the functional currency are translated into the functional currency at the exchange rate prevailing at that date. Exchange differences arising from such translation are recorded in the Income Statement.

Non-monetary assets and liabilities denominated in currencies other than the functional currency that are carried at cost are translated using the exchange rate prevailing at the transaction date, while those carried at fair value are converted using the exchange rate prevailing on the date the fair value is determined.

Property, Plant, Equipment and Other Equipment

Recognition and measurement

Property, plant, equipment and other equipment are carried at cost, net of the related accumulated depreciation and any permanent impairment in value. The cost includes the purchase or production price and direct costs incurred for bringing the asset to the location and condition necessary for it to be capable of being operated, with the exception of financial charges and exchange rate differences.

Subsequent to initial recognition, the asset continues to be carried at cost and depreciated based on its remaining useful life net of any impairment in value.

Land, including land linked to buildings, is recorded separately and is not depreciated since it is regarded as having an unlimited useful life.

Subsequent costs

Costs for improvements and transformations that increase the value of assets (i.e., they result in probable future economic benefits that can be reliably measured) are recorded in the assets section of the balance sheet as increases to the assets in question or as separate assets. Costs are written off in the year in which they are incurred, where they relate to maintenance or repair and do not lead to any significant and measurable increase in productive capacity or in the useful life of the relevant asset.

Depreciation

Depreciation represents the economic and technical loss of value of the asset and is charged from when the asset is available for use; it is calculated using the straight-line method using the rate considered representative of the useful life of the asset.

The expected useful lives of property, plant and equipment used for calculating depreciation are shown below:

Category	*Useful life*
Land	Indefinite
Buildings	10 - 35 years
Plant and machinery	5 - 10 years
Industrial and commercial equipment	2.5 - 10 years
Other assets	4 - 10 years

The residual value of the assets and their expected useful lives are reviewed periodically. During the year, FOMM S.p.A. (fully consolidated) conducted an analysis of the useful lives of its assets, which resulted in the revision of the depreciation criteria of some assets. The reason behind the changes was the higher likelihood of future use of its plants, owing to new preventive maintenance programmes.

Leases

Assets held under finance leases (where the company assumes substantially all the risks and rewards of ownership) are recognised and recorded at the inception of the lease under property, plant and equipment at the fair value of the leased asset or, if lower, the present value of the lease payments. The corresponding liability to the lessor is recorded under financial payables. The methods used to calculate depreciation and the subsequent valuation of the asset are consistent with those used for directly owned assets.
Finance leases where the lessor retains substantially all the risks and rewards incident to ownership are classified as operating leases. Lease payments are recognised in the Income Statement on a straight-line basis over the lease term.
Improvements to third-party assets that can be considered assets are capitalised to the appropriate asset category and depreciated over the shorter of their useful life or the lease term.

Development Costs, Goodwill and Other Intangible Assets

The Group recognises intangible assets when the following conditions are met:

- the asset is identifiable, or separable, or can be separated or removed from the entity;
- the asset is controlled by the company, meaning that the company has the power to obtain future economic benefits from the asset;
- it is probable that the company will enjoy future benefits attributable to the asset.

Intangible assets are initially measured at cost; subsequent to initial recognition, intangible assets are carried at cost less amortisation, which is calculated using the straight-line method (beginning on the date the assets are available for use) over their useful life, and any impairment losses, taking into account any residual value. The useful life of assets is reviewed periodically.

Development costs – an intangible asset, generated in the development phase of an internal project, which satisfies the definition of development indicated in IAS 38, is recorded as an asset if it is probable that the company will enjoy expected future benefits attributable to the asset developed and if the cost of the asset can be accurately measured. Development costs are charged to the Income Statement. Similarly, in the case of externally acquired intangibles that qualify as research and development costs, only the costs attributable to the development phase are recognised as assets, given that the above requirements are met. Such costs are capitalised under "Development costs underway" and amortised when the development phase is concluded and the asset developed generates economic benefits. In the period in which internal development costs that can be capitalised (mainly wages and salaries, amortisation, consumables) are incurred, these costs are excluded from the Income Statement item Increase on internal works capitalised and shown in the item "Costs for capitalised internal works". Amortisation of development costs is 5 years, based on the mean useful life/duration of the benefits linked to the developed product.

Goodwill and trademarks – Goodwill arising from the purchase of subsidiary, associated companies or joint ventures is initially recorded at cost. It represents the excess of purchase cost compared to the acquired share of net fair value attributed to the identifiable assets and liabilities, both actual and potential at the purchase date. After the acquisition date, goodwill is no longer amortised; instead, it is allocated to the "cash-generating units" that are expected to benefit from the synergies deriving from the acquisition. Each cash-generating unit is tested for impairment at least once a year, or more frequently if there are indications of impairment. If the recoverable value (as defined hereinafter) is less than the book value, the asset is written down to impaired value. If goodwill is allocated to a cash-generating unit that is partially transferred or discontinued, the goodwill associated with the transferred or discontinued unit is considered for the purpose of determining any gain/loss arising from the transaction.
Brand names with a definite useful life are amortised using the straight-line method over their estimated useful lives, based on strategic plans for their expected use.

IMPAIRMENT OF ASSETS

Goodwill, intangible assets with an indefinite life and development costs underway are systematically tested for impairment at least once a year, or more frequently if there are any indications of impairment.
Property, plant and equipment as well as intangible assets that are subject to depreciation and amortisation are tested for impairment whenever indications of impairment arise.
Write-downs correspond to the difference between the carrying value and recoverable value of the assets in question. The recoverable value is the greater of the fair value of an asset or cash-generating unit less the costs of disposal and the value in use, i.e., the present value of estimated future cash flows. The value in use is defined as the cash flows expected to arise from the use of an asset, or the sum of the cash flows in the case of a cash-generating unit. The expected future cash flows of each group of assets is discounted to the present value using the WACC method (weighted average cost of capital).
If the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount, and, as a general rule, the impairment loss is recorded in the Income Statement. When the impairment loss of an asset (except for goodwill) is subsequently reversed, the carrying value of the asset (or cash-generating unit) is increased to the new estimate of recoverable value, without exceeding the value prior to write-down.

Inventories

Inventories of raw materials and finished products are stated at the lower of cost or market value and the corresponding net market value estimated from market trends.
Raw materials, ancillaries and consumables are measured at purchase cost, including the costs incurred to bring each asset to the place it is stored.
Manufacturing costs of finished products and semi-finished goods include direct costs and a portion of indirect costs that can be reasonably attributed to the products based on normal system operation; financial costs are excluded. Work in progress is valued at production costs for the year, based on the progress report.
The cost of inventories of raw materials, finished goods, goods for resale and work-in-progress is calculated using the weighted mean cost method.
For raw materials, ancillaries and consumables, the presumable realisable value corresponds to the replacement cost. For finished products and semi-finished goods, the presumable realisable value corresponds to the estimated sales price in the ordinary course of business, less the estimated costs of completion and sales expenses.
Goods that are obsolete or goods characterised by a long turnover period are written down on the basis of their possible useful life or sale value by creating a special inventory adjustment fund.

Cash and Cash Equivalents

Cash and cash equivalents include cash balances, unrestricted deposits and other treasury investments with original maturities of up to three months. A treasury investment is considered as availability when it is instantly convertible to cash with minimal risk of any fluctuation in value and, further, it is intended to meet short-term cash requirements and is not held as an investment.
For purposes of the consolidated cash flow statement, cash balances are stated net of bank overdrafts at the end of the period.

Provisions for Contingencies and Charges

Provisions for contingencies and charges include certain or probable costs of a specific nature, the amount or settlement date of which could not be determined at year end. Allocations to the provisions are made when the following conditions arise:

- there is a current obligation (legal or contractual) as a result of a past event;
- it is probable that resources will be needed to settle the obligation;
- a reasonable estimate can be made of the amount of the obligation.

Provisions are stated at the present value of the expected expenditure required to settle the obligation in question.
Provisions are periodically updated to reflect changes in cost estimates, timing and discount rates, if any; revisions to estimates are recorded under the same heading of the Income Statement under which the original provision was stated and in the Income Statement of the period in which the change is made. When provisions are discounted, the change

resulting from the passage of time or interest rate fluctuations is recorded under "Financial income and charges".
Provisions for restructuring costs are recognised when the company involved has approved a formal detailed plan and communicated it to affected parties.

Employee Benefits

The Group uses defined-contribution plans, wholly unfunded defined-benefit plans, wholly or partly funded defined-benefit plans and other forms of long-term benefits.

Defined-contribution plans

Defined-contribution plans are benefit plans under which the company pays contributions to an insurance company or pension fund and has no legal or implicit obligation to pay additional contributions if, when work relationship ends, the fund does not have sufficient assets to pay all benefits corresponding to employee service during the year or in prior years.
These contributions, which are paid for the services rendered by employees, are recognised in the same accounting period in which the services are rendered.

Defined-benefit plans and other long-term benefits

Defined-benefit plans are retirement benefit programmes that entail a future obligation for the company. The company assumes actuarial and investment risks in relation to the plan.
To determine the present value of its obligations relating to such plans and the cost of the services, Brembo uses the Projected Unit Credit Method.
This actuarial calculation must use unbiased and compatible actuarial assumptions about demographic variables (mortality rate and employee turnover rate) and financial variables (discount rates and future increases in salary and benefits). When a defined-benefit plan is wholly or partly funded by contributions paid either into a fund that is legally separate from the company or to an insurance company, the assets held by the plan are measured at fair value. The obligation is therefore stated net of the fair value of the plan assets that will be used to directly meet such obligation.
Actuarial gains and losses are recognised according to the corridor rule; therefore, actuarial gains or losses arising from changes in actuarial assumptions that exceed the greater of 10% of the value of the plan assets or 10% of the present value of the plan obligations are recognised in the Income Statement based on the expected average remaining working life of participating employees.
Other long-term benefits refer to employee benefits other than those provided after the end of the work relationship. They are accounted for in the same manner as defined-benefit plans.

Government Grants

Government grants are recognised when there is reasonable assurance that all necessary conditions attached to them have been satisfied and the grants will be received.

Contributions received for specific costs are recorded as liabilities and credited to the Income Statement on a systematic basis over the periods necessary to match the grant income with the related expenditure.
Grants received for defined assets that are recorded as fixed assets are recognised as liabilities and credited to the Income Statement in relation to the period in which depreciation is charged for the relevant assets.

Financial Instruments

Equity investments in other entities are measured at fair value; when the fair value can not be reliably determined, equity investments are measured at cost adjusted for impairment.
All other financial assets are initially recorded at cost, which corresponds to fair value plus incidental expenses.
Subsequent to initial recognition, assets held for trading are classified as financial current assets and measured at fair value; any gains or losses arising from the measurement are recorded in the Income Statement.
Financial assets intended to be held until maturity, loans and receivables not held for trading (loans and receivables generated from normal operations) are stated under financial current assets if they mature in less than a year or under financial non-current assets if they mature in over a year, and are subsequently measured at amortised cost. Amortised cost is determined using the effective interest rate method, taking into account any discounts or premiums at the time of purchase and spreading them over the entire term until maturity, less any loss in value. The economic effects of using the amortised cost method are charged to “Net financial income and charges”.
Long-term receivables for which no interest rate is specified are accounted for by discounting future cash flows at current market rates. This increase is recognised in the Income Statement under “Financial income and charges”.
Loans, payables and other financial and/or trade liabilities with a fixed or determinable maturity are disclosed in this category. Long-term debt is initially recognised at fair value, net of the transaction costs incurred. After initial recognition, these payables are evaluated using the criterion of discounted cost at the effective interest rate.
Long-term payables for which an interest rate is not specified are recorded by discounting future cash flows at market rate, if the payable value increases through the passage of time. This increase is recognised in the Income Statement under “Net financial income and charges”.

Derivative instruments and risk management

Derivative instruments are initially recorded at fair value and adjusted for subsequent changes in fair value. The method used for measuring changes in fair value depends on the designation of the instrument as a hedging instrument and, if such is the case, the indication of the nature of the hedged transaction.
The Group uses derivative instruments in order to hedge the risk of movements in interest rates and exchange rates. In accordance with its defined strategy, the Group does not undertake transactions in derivatives on a speculative basis. Nevertheless, in the event that such transactions are not qualified as hedging operations in accounting terms, they are accounted for as trading transactions. For derivatives designated as hedging instruments, at inception of the hedge, the Group formally documents the relationship between the hedging instruments and the hedged items. The Group also documents, both at inception of the hedge and subsequently, the hedging relationship and the effectiveness of the hedging instrument. In view of the foregoing, the following accounting methods are used:

1) fair value hedge: changes in fair value of hedging instruments are recorded in the Income Statement together with the changes in fair value of the hedged transactions;
2) cash flow hedge: "effective" changes in fair value of the derivative instrument are recorded under Equity and subsequently recognised in the Income Statement in the periods in which the hedged transactions affect the Income Statement.
   The "inefficient" change in fair value is recorded directly in the Income Statement.
   When a hedging instrument expires or no longer meets the hedge accounting criteria, any residual change in fair value remains in Equity and is recognised when the hedged transaction is recorded in the Income Statement;
3) derivative instruments that do not qualify as hedges: changes in fair value are recorded in the Income Statement.

In conducting its business, Brembo Group is exposed to various market risks, including fluctuations in interest rates, in the foreign currencies in which the company operates and in the prices of commodities.

Interest rate risk management

Since most of the company's financial debt is subject to variable interest rates, Brembo is exposed to the risk of fluctuations in interest rates.
To reduce this risk, Brembo has entered into hedging contracts with counterparties considered to be financially reliable to hedge a portion of its financial debt that is exposed to fluctuations in interest rates.
Specifically, Interest Rate Swap agreements are used to hedge approximately 25% of the Group's debt; under these agreements, Brembo receives a variable interest rate from the financial intermediary while paying a fixed rate.
The objective of Brembo is to eliminate the variability of the borrowing costs associated with a portion of debt and ensure sustainable fixed rates on its hedges.
Brembo has arranged such transactions with the goal of achieving a correlation between the hedged item and the hedging instrument, so as to guarantee the effectiveness of the hedge, as required by International Accounting Standards. Lastly, it should be noted that, even for the portion of debt that is not covered by hedging contracts, indicators such as the ratio of borrowing costs to revenues or Net Operating Income show that the impact of adverse changes in interest rates would be tolerable from a profitability standpoint.

Exchange rate risk management

As Brembo operates in international markets, it is exposed to exchange rate risks.
Brembo uses natural hedging (offsetting receivables and payables) to mitigate this risk, and hedges only net positions in foreign currency, using mostly short-term financing denominated in the currency to be hedged to compensate for imbalances.
Brembo has also used forward contracts to minimise exchange rate risks (forward purchases and sales). In this case as well, only net positions are hedged. Clearly, with this choice, there is no guarantee that receivables will be collected by the time forward contracts mature, a condition that must be met to qualify as a cash flow hedge under IAS 39. If the conditions of a cash-flow hedge under IAS 39 are not met, Brembo measures the derivatives at fair value and records any changes to the Income Statement, while still considering such instruments as exchange-risk hedge from a financial standpoint.

Commodities risk management

The main commodities used by Brembo are cast-iron, aluminium and energy.

As there is no official quotation for cast-iron, Brembo cannot use hedging instruments and, as such, remains exposed to the risk of price fluctuations.

As for aluminium, Brembo passes nearly all price increases on to customers.

As for energy, Brembo is impacted by price trends, although, in this case, the ratio to sales is immaterial (about 1.5% of sales).

An analysis of other types of financial risk indicates the following:

- ***Credit risk,*** i.e., the risk that one of the parties to a financial instrument will fail to perform an obligation, resulting in a financial loss to the other party. Brembo manages this risk by choosing only counterparties that are considered to be financially reliable by the market and, accordingly, have a good credit standing. Furthermore, Brembo constantly monitors the health of the financial intermediaries with which it interacts.
- ***Liquidity risk,*** i.e. the risk that the company will have difficulty meeting commitments associated with maturing financial instruments. To meet these commitments, Brembo mainly depends on its cash flow from operations and, if necessary, short-term credit lines obtained through the financial intermediaries with which it interacts.
  It should be added that, with respect to this type of risk, in establishing the composition of its net financial debt, Brembo always tries to finance its investments with medium- to long-term debt (in addition to equity), while the current expenditure is financed through short-term lines of credit; Brembo's decision made in 2005 to lengthen the duration of its debt was mainly based on this reasoning.

REVENUES, OTHER REVENUES AND INCOME

Revenues are recorded in the Income Statement on an accrual basis and recognised to the extent that it is probable that the economic benefits associated with the sale of goods or provision of services will flow to the Group and the revenue can be reliably measured.

Revenues are reported net of sales returns, discounts, allowances and taxes that are directly associated with the sale of the product or provision of the service.

Sales of goods and services are recognised at the fair value of the consideration received when the following conditions are met:

- the risks and benefits associated with ownership of the good are substantially transferred;
- the revenue amount can be measured reliably;
- it is probable that the economic benefits arising from the sale will flow to the company;
- the costs incurred or that will be incurred can be measured reliably.

Financial Income and Charges

Interest income/expense is recognised as financial income/charges after being measured on an accrual basis using the effective interest rate method.

Income Taxes

A provision is made for current taxes in compliance with the laws in force in the various countries in which the Group operates. Current taxes payable are recorded in the Balance Sheet net of any advance payments.
Deferred tax assets and liabilities are recorded in order to reflect the temporary timing differences at the reporting date, between the value attributed to an asset/liability for tax purposes and that attributed based on the accounting standards applied. They are measured using the tax rates that are expected to apply in the year when the assets will be realised or the liabilities will be settled, based on prevailing tax rates or those already enacted or substantially enacted at the reporting date.
Deferred tax liabilities are recorded for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences or unused tax losses or tax credits to the extent that it is probable that future income will be available against which such differences, losses or credits can be utilised.

Only in the cases listed below, deferred tax assets or liabilities do not have to be recognised for taxable or deductible temporary differences:

- taxable temporary differences arising from the initial recognition of goodwill;
- taxable or deductible temporary differences arising from the initial recognition of an asset or liability, in a transaction other than a business combination that, at the time of the transaction, does not influence accounting or taxable income;
- for equity interests in subsidiaries, associated companies and joint ventures, when the Group is able to control the timing of the reversal of the taxable temporary differences and it is probable that such differences will not be reversed in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of every period and is reduced to the extent that it is no longer probable that sufficient taxable income will be available in the future to allow the partial or full use of such assets.
Tax balances (current and deferred) attributable to amounts recognised directly in Equity are also recognised directly in Equity.
Current and deferred tax assets and liabilities are offset only when the legal right of offset exists; such amounts are recognised as receivables or payables in the Balance Sheet.

Dividends

Dividends are recognised when the shareholders' right to receive payment is established under local law.

Segment Reporting

A segment is a distinctly identifiable part of the business subject to different risks and rewards from those of the other segments.
The primary information for Brembo is by activity segment, the "Automotive components" sector being that in which the company operates exclusively. Accordingly, in compliance with IAS 14, the company's primary segment reporting format is based on geographical segments. These business segments are subject to different risks and rewards depending on the specific elements that characterise them.
Geographical segment reporting is based on the geographical location of the assets.
The geographical areas in which Brembo operates that have a distinct risk-reward profile are: Europe, America and Asia.
All income, cash flow and balance sheet figures for the secondary segment as defined by IAS 14 (which, for Brembo, is the "Automotive components" segment) can been taken from the Consolidated Financial Statements.

ANALYSIS OF EACH ITEM

BALANCE SHEET

1 Property, Plant, Equipment and Other Equipment

The changes in property, plant and equipment are shown in the table below and described in this section.

(euro thousand)	*Land*	*Buildings*	*Plant and machinery*	*Industrial and commercial equipment*	*Other assets*	*Assets in course of construction and payments on account*	*Total*
Historical cost	22,863	71,478	226,918	73,843	15,146	1,275	411,523
Accumulated depreciation	0	(16,042)	(140,832)	(56,686)	(10,918)	0	(224,479)
Balance at 31.12.2003	**22,863**	**55,436**	**86,085**	**17,156**	**4,229**	**1,275**	**187,044**
Changes:							
Translation differences	189	1,457	205	43	32	(29)	1,898
Reclassifications	0	280	394	155	241	(1,096)	(25)
Acquisitions	2,782	19,415	30,205	9,533	2,730	11,223	75,888
Transfers	(112)	(2,793)	(5,006)	(628)	(54)	0	(8,593)
Depreciation	0	(2,588)	(21,138)	(8,962)	(1,488)	0	(34,175)
Total changes	**2,859**	**15,771**	**4,661**	**142**	**1,462**	**10,098**	**34,993**
Historical cost	25,722	88,596	248,099	82,620	17,921	11,373	474,332
Accumulated depreciation	0	(17,389)	(157,352)	(65,322)	(12,231)	0	(252,295)
Balance at 31.12.2004	**25,722**	**71,207**	**90,747**	**17,298**	**5,690**	**11,373**	**222,037**
Changes:							
Translation differences	84	959	4,843	360	97	647	6,990
Reclassifications	21	(6,051)	3,996	13	(87)	(366)	(2,474)
Acquisitions	1,068	5,505	22,548	6,987	1,723	44,195	82,025
Transfers	0	(728)	(197)	(349)	(105)	0	(1,378)
Contingent liabilities	0	(104)	0	0	(3)	0	(106)
Depreciation	0	(2,899)	(20,337)	(7,787)	(1,566)	0	(32,589)
Impairment losses	0	0	0	(2)	0	0	(2)
Total changes	**1,173**	**(3,317)**	**10,853**	**(779)**	**60**	**44,476**	**52,466**
Historical cost	26,896	87,630	280,914	89,301	18,272	55,849	558,861
Accumulated depreciation	0	(19,740)	(179,314)	(72,782)	(12,522)	0	(284,358)
Balance at 31.12.2005	**26,896**	**67,890**	**101,600**	**16,519**	**5,750**	**55,849**	**274,503**

In 2005, property, plant and equipment for a total of €82,025 thousand were purchased.

The increases 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. In implementing the portion of the industrial plan relating to production facilities in Italy, Brembo incurred €9,241 thousand in costs associated with the expansion and remodelling of industrial buildings and the purchase of new machines for the new disc-manufacturing plant in Mapello. Construction is expected to be completed in 2006; therefore, these investments have been classified as "Assets in course of construction". During 2005, Brembo also invested €6,510 thousand for the construction of a new technological centre in Stezzano. In light of the agreement reached with Pioneer Investment Management S.g.r.p.A., this investment, as well as prior-year investments amounting to €2,922 thousand, has been classified under "Other receivables and current assets".

In 2004, the project involving the construction of a new cast-iron foundry in Poland for the production of discs for the aftermarket and the original-equipment market was begun; the project's percentage of completion continued to advance in 2005, with costs amounting to €32,238 thousand. Also in Poland, the company continued to invest in plants and machinery to align production capacity with projected increases in production and sales volumes in the coming years. The Brazilian company Brembo do Brasil Ltda. invested a total of €1,320 thousand in machinery to increase its production capacity for brake discs.

Of the €1,491 thousand in investments in the consolidated company Fomm S.p.A., a total of €701 thousand was used to adapt the facility to new production requirements.

During 2005, Brembo Spolka Zo.o. continued its investments (€6,031 thousand) aimed at increasing production capacity.

Total depreciation charges for 2005 amounted to €32,589 thousand.

Disposals for an amount of €1,378 thousand refer to the normal cycle of machinery replacement, as it becomes unusable in production processes.

The item Property, plant and equipment showed a net decrease of €6,990 thousand, by effect of the depreciation of the euro, especially on the Mexican Peso and the Brazilian Real.

It should be noted that some of the Parent Company's buildings are subject to liens as collateral for loans, for a nominal value of €5,681 thousand.

At 31 December 2005, the net book value of assets held under finance leases totalled €27,878 thousand. A breakdown by asset category is provided below:

	31.12.2005		*31.12.2004*	
(euro thousand)	*Leased*	*Not leased*	*Leased*	*Not leased*
Land	1,812	25,083	1,499	24,224
Buildings	12,703	55,187	13,490	57,717
Plant and machinery	3,481	98,119	3,567	87,180
Industrial and commercial equipment	0	16,519	0	17,298
Other assets	135	5,615	65	5,625
Assets in course of construction and payments on account	9,747	46,102	0	11,373
Total	**27,878**	**246,625**	**18,621**	**203,416**

Note 13 provides more information on the Group's financial commitment with respect to assets purchased under finance leases.

2 Intangible Assets (Development Costs, Goodwill and Other Intangible Assets)

Movements in intangible assets are shown in the table below and described in this section.

(euro thousand)	*Development costs*	*Goodwill*	*Industrial patents and trademarks*	*Other intangible assets*	*Total other intangible assets*	*Total*
Historical cost	5,618	26,718	22,016	24,597	46,613	78,949
Accumulated amortisation	(2,240)	(10,655)	(20,213)	(18,201)	(38,414)	(51,308)
Balance at 31.12.2003	3,378	16,064	1,802	6,397	8,199	27,641
Changes:						
Translation differences	0	(5)	0	(4)	(4)	(8)
Reclassifications	0	(3)	0	(21)	(21)	(24)
Acquisitions	6,880	0	919	2,070	2,988	9,868
Transfers	0	0	(5)	(1)	(6)	(6)
Amortisation	(742)	(18)	(797)	(3,934)	(4,731)	(5,491)
Impairment losses	0	(1,225)	0	0	0	(1,225)
Total changes	6,138	(1,251)	117	(1,891)	(1,773)	3,114
Historical cost	12,498	26,720	22,248	26,540	48,788	88,006
Accumulated amortisation	(2,981)	(11,908)	(20,329)	(22,034)	(42,363)	(57,252)
Balance at 31.12.2004	9,516	14,813	1,920	4,506	6,426	30,755
Changes:						
Translation differences	0	424	(1)	4	4	428
Reclassifications	0	(90)	108	(20)	88	(2)
Acquisitions	10,625	0	1,088	2,083	3,171	13,796
Transfers	0	0	(1)	(2)	(2)	(2)
Amortisation	(1,351)	0	(887)	(3,124)	(4,011)	(5,362)
Impairment losses	(455)	0	0	0	0	(455)
Total changes	8,819	334	308	(1,058)	(751)	8,402
Historical cost	23,123	25,063	25,109	28,642	53,751	101,937
Accumulated amortisation	(4,787)	(9,917)	(22,882)	(25,194)	(48,076)	(62,780)
Balance at 31.12.2005	18,336	15,146	2,227	3,448	5,675	39,157

Development costs

The item "Development costs" includes costs for development, internal and external, for an original amount of €23,123 thousand. During 2005, this item changed due to costs incurred for jobs begun during the year and jobs begun in 2003 and 2004 for which additional development costs were incurred; amortisation was recorded for development costs associated with products that entered into mass production.

The amount includes development activities for projects underway totalling €10,161 thousand.

The total amount of research and development costs charged to the Income Statement during the year amounted to €18,099 thousand. This figure does not include costs incurred for creating prototypes or certain overhead expenses associated with Research and Development.

Impairment losses totalled €455 thousand and are included in the Income Statement under "Depreciation, amortisation and impairment losses". Impairment losses refer to development costs incurred by the Parent Company, Brembo S.p.A. in relation to projects that, consistent with the desire of the customer or Brembo, were not completed. All impairment losses recognised in the Income Statement are attributable to the primary geographical segment Europe.

The amortisation of capitalised development costs is recognised under the appropriate heading in the Income Statement.

Goodwill

At 31 December 2005, the item "Goodwill" (€15,146 thousand) referred to the subsidiary AP Racing Ltd (Europe geographical segment), which has been specified as a cash-generating unit. The unit's recoverable amount was calculated as its value in use.

The main assumptions used to determine the value in use of the cash-generating unit relate to the discount rate and growth rate. Specifically, calculations used cash-flow projections for the five-year period covered by the business plan. Cash flows beyond the five-year period were extrapolated using a steady 0% medium- to long-term growth rate. The discount rate used was 7.5%, which reflected the current market assessments of the time value of money and the risks specific to the asset in question. The change in this item was entirely due to the performance of the pound with respect to the euro.

Other intangible assets

The item "Industrial patents and trademarks" increased by €1,088 thousand due to costs incurred mostly by the Parent Company in relation to the filing of new patents or the filing of existing patents in other countries, and by €350 thousand for costs incurred by Brembo S.p.A. for the purchase of the AP logo for use in the sale of brake discs for the aftermarket.

For "Other intangible assets", the most significant increases included €381 thousand in costs incurred by Brembo North America Inc. associated with the non-competition obligations undertaken by its former partner for the four-year period 2005-2008 in relation to the 2003 purchase of the remaining 10% stake in the company, as well as costs incurred by the Parent Company, including:

- multiannual expenses of €821 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 three or five financial periods on the basis of the type of expense;

- multiannual expenses for the purchase of data-processing programmes totalling €860 thousand, mainly 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.

The decrease in the value of intangible assets is the result of amortisation for the period, which amounted to €5,362 thousand, net of foreign currency translation gains totalling €428 thousand.

3 Shareholdings Valued Using the Equity Method

This item includes Brembo's equity investments in companies that are accounted for using the equity method. The following table shows movements in the "Shareholdings" item:

(euro thousand)	*31.12.2004*	*Exchange rate fluctuations*	*Write-ups/ Write-downs*	*Other changes*	*31.12.2005*
Brembo Ceramic Brake Systems S.p.A.	6,093	0	(174)	0	5,919
Nanjing Yuejin Automotive Brake System Co. Ltd.	2,430	209	(117)	(75)	2,447
Softia S.r.l.	188	0	(20)	0	168
Total	8,711	209	(311)	(75)	8,534

In accordance with agreements reached with the company's Chinese partner requiring the last payment of the share capital subscribed by the Group, the shareholding in Nanjing Yuejin Automotive Brake System Co. Ltd. was decreased by €75 thousand. For additional comments, see the Directors' Report on Operations.

Brembo has shareholdings in jointly controlled associated enterprises that it accounts for using the equity method. The main figures from the financial statements of such companies, which are prepared according to international accounting standards (IFRS), are shown below:

Jointly controlled associated companies

		31.12.2005	*31.12.2004*
(euro thousand)		*Brembo Ceramic Brake Systems S.p.A.*	*Brembo Ceramic Brake Systems S.p.A.*
	COUNTRY	*ITALY*	*ITALY*
	% OWNERSHIP	*50%*	*50%*
Non-current assets		9,648	10,511
Current assets		5,531	6,907
Non-current liabilities		132	62
Current liabilities		3,211	5,170
Equity		11,836	12,186
Revenues		11,102	9,288
Costs		(11,485)	(10,486)

Brembo also has shareholdings in associated companies that it accounts for using the equity method. The main IFRS-compliant figures from the financial statements of such companies are shown below:

Other associated companies

		31.12.2005		31.12.2004	
(euro thousand)		*Softia Srl*	*Nanjing Yuejin Automotive Brake System Co. Ltd.*	*Softia Srl*	*Nanjing Yuejin Automotive Brake System Co. Ltd.*
	COUNTRY	*ITALY*	*CHINA*	*ITALY*	*CHINA*
	% OWNERSHIP	40%	27.75%	40%	25.4%
Assets		965	12,227	678	10,487
Liabilities		(631)	(3,407)	(397)	(2,967)
Equity		(334)	(8,820)	(281)	(7,520)
Revenues		(1,527)	(7,624)	(1,130)	(5,837)
Net income		53	(421)	11	(1,115)

Under Brembo's joint venture agreement with the Daimler Chrysler Group, Brembo's partner has a put option allowing it to sell its share (50%) of Brembo Ceramic Brake System S.p.A. to Brembo S.p.A.; the option is exercisable in 2007. If such option is exercised for less than 50%, Brembo S.p.A. may exercise a call option to purchase the entire interest. The minimum price of the 50% share will be €2,000 thousand; the maximum price will be calculated using the discounted cash flow method.

4 Other Financial Assets (Investments in Other Companies and Derivatives)

This item is broken down as follows:

(euro thousand)	*31.12.2005*	*31.12.2004*
Shareholdings in other companies	4,476	4,476
Other securities	0	1,033
Other	162	234
Total	**4,638**	**5,743**

The item "Shareholdings in other companies" comprises mainly the equity investment in Fundimak S.A. de C.V., which amounts to €4,383 thousand. Shareholdings in other companies are accounted for using the cost method and adjusted for permanent impairment losses.
"Other" includes interest-free security deposits for utilities and automobile rental agreements.
"Other securities" decreased as a result of the reclassification of BNL bonds held until maturity (January 2006) to the current account.

5 Receivables and Other Non-current Assets

This item is broken down as follows:

(euro thousand)	*31.12.2005*	*31.12.2004*
Trade receivables	1,963	2,166
Income tax receivables	169	169
Non-income tax receivables	34	34
Total	**2,166**	**2,369**

The item "Trade receivables" mainly comprises the outstanding amount due (beyond 12 months) for the sale of a painting system by Brembo Rassini S.A. de C.V. to Rassini Frenos S.A. de C.V.

6 Prepaid and Deferred Taxes

The deferred tax balance at 31 December 2005 comprises deferred tax assets, net of deferred tax liabilities, which have been offset where possible by the individual consolidated companies. The net balance of deferred tax assets and liabilities is broken down as follows:

(euro thousand)	*31.12.2005*	*31.12.2004*
Deferred tax assets	2,711	2,860
Deferred tax liabilities	(16,172)	(10,833)
Total	**(13,461)**	**(7,973)**

Deferred tax assets and liabilities were generated mainly due to allocations to cover taxation on accelerated amortisation and depreciation, on capital gains with deferred taxation, on other income items subject to future deductions or taxation, and on other consolidation adjustments.

Provision movements for the year are shown below:

(euro thousand)	*31.12.2005*	*31.12.2004*
Balance at beginning of year	**(7,973)**	**(4,764)**
Allocation for deferred tax liabilities	(7,426)	(8,225)
Allocation for deferred tax assets	4,107	3,353
Use of deferred tax assets and liabilities	(1,441)	1,326
Translation fluctuations	(347)	195
Reclassifications	(381)	0
Other movements	0	141
Balance at end of year	**(13,461)**	**(7,973)**

The temporary differences that generated deferred tax assets and liabilities are detailed below:

	Assets		*Equity and liabilities*		*Net*	
(euro thousand)	*31.12.2005*	*31.12.2004*	*31.12.2005*	*31.12.2004*	*31.12.2005*	*31.12.2004*
Property, plant, equipment and other equipment	766	10	13,799	11,241	(13,033)	(11,231)
Development costs	0	0	6,127	3,193	(6,127)	(3,193)
Other intangible assets	13	17	665	829	(652)	(812)
Trade receivables	81	286	(1,204)	(1,398)	1,285	1,685
Inventories	240	219	(1,498)	(1,575)	1,739	1,794
Other receivables and current assets	0	0	(79)	(522)	79	522
Cash and cash equivalents	0	0	(15)	0	15	0
Financial liabilities	0	0	133	262	(133)	(262)
Other financial liabilities	0	0	40	18	(40)	(18)
Other liabilities	127	76	(1,461)	(740)	1,589	816
Provisions for contingencies and charges	0	0	(350)	(339)	350	339
Provisions for employee benefits	1,445	1,876	685	711	760	1,165
Trade payables	63	37	(1,254)	(1,361)	1,317	1,397
Other	(24)	310	583	556	(608)	(245)
Total	**2,711**	**2,810**	**16,172**	**10,874**	**(13,461)**	**(8,064)**

Deferred taxes were not recognised on subsidiaries' retained earnings, as the Group is able to control the timing of the distribution of such reserve and it is probable that it will not be distributed in the foreseeable future.

Deferred tax assets were recorded by Group companies only if a critical assessment determined that the conditions had been met for the future recoverability of such assets on the basis of current strategic plans. Specifically, the subsidiary Brembo Poland Spolka Zo.o., which is located in a special economic zone, has the right to subtract 50% of its investments from current taxes. This benefit can be used until 2016.

The company did not recognise a deferred tax asset at 31 December 2005 in connection with this benefit, for the following reasons:

- the market situation has changed with respect to original economic and financial plans, making the company's level of profitability uncertain over such a long period of time;
- the recent admission of Poland into the European Community makes it impossible to ensure the maintenance of the country's tax and economic policy over the next 10 years.

The theoretical tax benefit that was not recognised at 31 December 2005 amounted to PLN 87.2 million (approximately €21.7 million).

7 Inventories

A breakdown of net inventory, which is stated in the balance sheet net of the inventory write-down provision, is shown below:

(euro thousand)	*31.12.2005*	*31.12.2004*
Raw materials	56,008	46,418
Work in progress	25,580	16,714
Finished products	55,960	51,116
Goods in transit	5,270	4,226
Total	**142,818**	**118,474**

The net increase of €24,344 thousand compared to 31 December 2004 is the result of four main macro factors:

- accumulation of stock in preparation for the transfer of systems as part of the industrial plan involving the disc division;
- increase in stock in connection with the start-up of the new foundry in Poland;
- accumulation of stock to improve the level of service for the aftermarket and the original-equipment disc market;
- accumulation to meet forecasts of increased demand in the first months of 2006.

An analysis of the movements of the inventory write-down provision, which at 31 December 2005 totalled €6,102 thousand, is shown below:

(euro thousand)	*Balance at 31.12.2004*	*Provisions*	*Use*	*Fluctuation Exchange rate*	*Other*	*Balance at 31.12.2005*
Inventory write-down provision	4,971	1,963	(937)	95	10	6,102

8 Trade Receivables

At 31 December 2005, the balance of trade receivables compared to the previous year was as follows:

(euro thousand)	*31.12.2005*	*31.12.2004*
Trade receivables	152,606	147,297
Receivables from associated companies	477	2,209
Total	**153,083**	**149,506**

The amount of trade receivables at 31 December 2005 rose by €5,309 thousand compared to 31 December 2004, in relation to higher volumes of sales compared with the last few months of the previous financial year.

"Receivables from associated companies" includes €477 thousand in trade receivables from Brembo Ceramic Brake Systems S.p.A.

Trade receivables are stated net of the provision for bad debts, which amounted to €2,686 thousand. Movements in the provision for bad debts are shown below:

(euro thousand)	Balance at 31.12.2004	Provisions	Exchange rate fluctuation	Use	Other	Balance at 31.12.2005
Provision for bad debts	(2,239)	(726)	(32)	614	(23)	(2,406)
Taxed provision for bad debts	(281)	0	0	0	0	(281)
Total	**(2,520)**	**(726)**	**(32)**	**614**	**(23)**	**(2,687)**

The bad-debt risk is not concentrated in any one area, as the company has a large number of customers spread across the various geographical areas in which it operates.

9 Other Receivables and Current Assets

This item is broken down as follows:

(euro thousand)	31.12.2005	31.12.2004
Receivables from others	11,264	1,926
Taxes receivable	5,743	3,841
Non-income tax receivables	20,937	17,068
Other receivables	1,614	1,376
Total	**39,557**	**24,211**

Receivables from others increased by €9,338 thousand; the balance at 31 December 2005 included €9,432 in investments for the construction of the new technological centre in Stezzano following the agreement reached between Brembo S.p.A. and Pioneer Investment Management S.g.r.p.A. For additional comments on the transaction, see the Directors' Report on Operations.
Taxes receivable include the excess of prepayments made in 2005 over the actual tax bill for the year.
Non-income tax receivables mainly included VAT receivables, which totalled €19,644 thousand.

10 Financial Current Assets and Derivatives

This item is broken down as follows:

(euro thousand)	31.12.2005	31.12.2004
Other securities	1,033	0
Derivatives	153	0
Other	9,873	6
Total	**11,059**	**6**

Other securities refer to BNL bonds maturing in January 2006, with an interest rate of 11.10%. These securities are being held until maturity and accounted for accordingly.

"Other" includes €7,487 thousand in relation to a short-term security deposit that was paid to back an interest-bearing collateral transaction made by Brembo S.p.A. in Australian dollars, and €2,381 thousand in amounts due to Brembo China Brake Systems Co. Ltd. from Simest S.p.A. and the Venture Capital Fund for the portion of the share capital to be paid up. The payment is expected to be made in November 2006.
For comments on the company's derivatives, see Note 13.

11 Cash and Cash Equivalents

Cash and cash equivalents include:

(euro thousand)	*31.12.2005*	*31.12.2004*
Bank and postal accounts	32,130	27,392
Cash-in-hand and cash equivalents	70	124
Total cash and cash equivalents	**32,200**	**27,516**
Payables to banks: ordinary current accounts and foreign currency advances	(87,285)	(77,659)
Cash and cash equivalents from Cash Flow Statement	**(55,085)**	**(50,143)**

The values shown can be readily converted into cash and are subject to an immaterial risk of change in value. At the date of the financial statements, it is deemed that the book value of cash and cash equivalents approximates their fair value.

12 Equity

Consolidated Equity at 31 December 2005 increased by €37,075 thousand compared to 31 December 2004, mainly due to net income for the year amounting to €40,511 thousand and exchange rate gains of €9,807 thousand on the translation of subsidiaries' financial statements denominated in currencies other than the euro.

Share capital

On 31 December 2005, issued and paid-up share capital amounted to €34,728 thousand, divided into 66,784,450 ordinary shares with a nominal value of €0.52 each. Share capital decreased by €1,589 thousand compared to 2004 due to the resolution passed by the Shareholders' Meeting of 29 April 2005 involving the cancellation of the 3,056,000 own shares that were held by the company and carried at purchase cost (€16,389 thousand).
The table below shows the composition of the Share Capital and a reconciliation of the number of shares outstanding at 31 December 2004 and at 31 December 2005:

(No. of shares)	*31.12.2005*	*31.12.2004*
Ordinary shares issued	66,784,450	69,840,450
Own shares	0	(3,056,000)
Total shares outstanding	**66,784,450**	**66,784,450**

Other reserves

In accordance with the resolution passed at the Shareholders' Meeting of 29 April 2005, the Parent Company distributed net income for 2004 as follows: €1,545 thousand to the ordinary reserve, €16,787 thousand to the extraordinary reserve and €547 thousand to the non-distributable reserve. The remaining balance of €12,021 thousand was paid out to the shareholders (€0.18 per outstanding share).

In 2005, the extraordinary reserve increased by €1,589 thousand as a result of the capital decrease and by €16,389 thousand due to the cancellation of own shares.

The increase in "Other reserves" was partly due to the effects of the depreciation of the euro – mainly with respect to the Mexican peso and the Brazilian real – that were realised upon translation of the subsidiaries' financial statements denominated in those currencies.

The revaluation reserve (Law 342/00 and Law 350/03) decreased by €540 thousand due to the release of reserves following payment of the substitute tax in 2005.

Own shares

Also at the Shareholders' Meeting of 29 April 2005, the plan for the purchase of own shares was renewed. According to the plan, the company may purchase and sell, one or more times during the 18-month term of the plan itself, a maximum of 2,200,000 shares for a price ranging from €0.52 to €7.00.

Subsequent to the date of these financial statements, on 24 March 2006, the Board of Directors of Brembo S.p.A. proposed that net income be allocated as follows:

- to the legal reserve, €188,340 to reach an amount equal to one fifth of the Share Capital;
- to the Shareholders a gross dividend of €0.21 per ordinary share outstanding at the time of dividend payout, consequently excluding own shares. The dividend will be as follows:
  a) €8,231,504, will be drawn from annual net income;
  b) €5,793,231 will be drawn from the extraordinary reserve.

Retained earnings

This item changed mainly as a result of the 2004 net income of the consolidated companies.

The reconciliation between equity and income for the year, as listed in the Parent Company's financial statements, and the equity and income for the year, recognised in the Consolidated Financial Statements, reveals that the Group equity at 31 December 2005 was €85,664 thousand higher than the figure given in the Brembo S.p.A. Financial Statements. Consolidated income for the year, amounting to €40,511 thousand, is €32,092 thousand higher than that of Brembo S.p.A (calculated based on statutory non-IAS regulation; Brembo S.p.A.'s IAS-compliant income and Equity would have been €14,929 thousand and €159,992 thousand, respectively).

(euro thousand)	*Net income 2005*	*Equity at 31.12.2005*	*Net income 2004*	*Equity at 31.12.2004*
BREMBO S.p.A.	8,420	144,573	30,900	165,104
Consolidation adjustments:				
Equity and net income of consolidated companies	27,851	287,097	23,777	223,348
Elimination of intra-Group dividends	0	0	(244)	0

Book value of consolidated shareholdings	243	(195,335)	35	(188,899)
Increased value of assets and consolidation differences	0	0	(560)	7,534
Elimination of items of a fiscal nature	0	0	(18,667)	1,894
Leasing contracts as per financial method envisaged by IAS 17	0	0	(682)	825
Valuation of shareholdings in associated companies using the equity method	(311)	(2,365)	26	(2,191)
Elimination of intra-Group income	(822)	(6,493)	(1,408)	(5,514)
Other consolidation adjustments	0	(833)	2,239	8,902
Minority interests	(1,378)	(11,826)	(1,085)	(9,752)
IAS-related adjustments to Brembo S.p.A.	6,509	15,419	0	0
IAS-related adjustments (see Appendix - transition to IAS)	0	0	5,224	(8,718)
Total consolidation adjustments	**32,092**	**85,664**	**3,430**	**36,146**
GROUP CONSOLIDATED	**40,511**	**230,237**	**39,554**	**192,532**

For 2005, the item "Equity and net income of consolidated companies" refers to the financial statements of companies prepared under IAS. Additional information on the item "IAS - related adjustments" is provided by the tables showing the reconciliation between consolidated equity and net income under previous accounting standards and under IAS/IFRS in the Appendix "Transition to International Accounting Standards".

13 Financial Debt and Derivatives

This item is broken down as follows:

	31.12.2005			*31.12.2004*		
(euro thousand)	*Due within one year*	*Due after one year*	*Total*	*Due within one year*	*Due after one year*	*Total*
Payables to banks:						
– ordinary current accounts and advances	87,285	0	87,285	77,659	0	77,659
– loans	25,607	37,716	63,323	27,107	44,279	71,386
Total	**112,892**	**37,716**	**150,608**	**104,766**	**44,279**	**149,045**
Payables to other financial institutions	3,157	71,548	74,705	2,102	19,092	21,195
Securities	0	0	0	0	0	0
Derivatives	69	46	115	33	47	80
Total	**3,226**	**71,594**	**74,820**	**2,136**	**19,139**	**21,275**

In 2005, Brembo Poland Spolka Zo.o. obtained a €20 million loan from the European Investment Bank at the EIB rate (close to EURIBOR). The loan matures in 2013.
During the year, the company paid the instalments that were due on already existing loans.

The item "Payables to other financial institutions" increased from €21,195 thousand to €74,705 thousand due to the following:

- Brembo International S.A. issued an interest-bearing bond at the EURIBOR rate of 3 months + 0.275%; the bond was privately placed, with a nominal value of €50 million, repayable in lump sum in October 2010.
- under the agreement that was signed for the construction of the new Chinese company Brembo China Brake Systems Co. Ltd, which is 60% owned by Brembo and 40% owned by Simest and the Venture Capital Fund for China (15% and 25% respectively), Brembo is irrevocably committed to purchasing Simest's share in 2013, and may exercise the option to purchase as early as 2011. The price of the purchase has been irrevocably agreed as the greater of the total cost incurred by Simest to purchase the equity interest and the value of the Equity owned by Simest. Based on such agreement, the best estimate at 31 December 2005 of the amount that will be payable by Brembo in 2011 was recorded in the financial statements (€4,349 thousand).
- Brembo S.p.A. received the third tranche of the Simest loan (Law 394/USA), for an amount totalling €466 thousand.
- Brembo S.p.A. has entered into a real-estate leasing agreement with BPU Leasing in relation to the company's Rome offices, for an amount totalling €400 thousand. The agreement expires in 2013.
- Corporacion Upwards has entered into the following finance leases:
  – Financial leasing B.B.V.A. No. 0101822278050010: amount €26 thousand, expiring in 2009.
  – Financial leasing B.B.V.A. No. 0101822278050237: amount €45 thousand, expiring in 2009.
  – Financial leasing B.B.V.A. No. 0101822278050100: amount €595 thousand, expiring in 2008.
  – Financial leasing Banesto No. 2005/00960: amount €13 thousand, expiring in 2008.
  – Operative leasing Daimler Chrysler services: amount €14 thousand, expiring in 2011.

The following table provides details on loans and amounts due to other financial institutions:

(euro thousand)	*Original amount*	*Amount at 31.12.2004*	*Amount at 31.12.2005*	*Share due within 1 year*	*Share due between 1 and 5 years*	*Share due after 5 years*
Payables to banks:						
San Paolo I.M.I. loan Law 346/88	3,091	3,091	2,950	144	2,121	685
San Paolo I.M.I. loan	9,296	1,549	0	0	0	0
Banca Intesa financing	1,678	1,600	1,289	1,289	0	0
Banca Intesa credit line	4,298	2,936	3,390	3,390	0	0
Banco Santander Central Hispano loan	6,837	1,166	269	269	0	0
Unicredito credit line	14,000	14,089	11,923	2,800	9,100	23
EIB loan	20,000	0	19,946	0	12,499	7,447
Loan 241/01 Banco Santander Central Hispano	1,042	400	200	200	0	0
Loan 00191 Banesto	575	55	0	0	0	0
B.B.V.A. loans	4,000	2,079	1,437	659	778	0
B.N.D.E.S. loan	2,384	646	407	407	0	0

San Paolo I.M.I. loan	26,000	13,000	6,500	6,500	0	0
Banca Intesa loan	50,000	30,000	15,000	10,000	5,000	0
San Paolo I.M.I. loan	6,197	775	0	0	0	0
Daimler Chrisler Services	14	0	12	2	9	1
Total payables to banks	**149,412**	**71,386**	**63,323**	**25,660**	**29,507**	**8,156**
Payables to other financial institutions:						
Loan from Ministry of Productive Activities Law 46/82	1,445	1,818	1,900	(52)	664	1,288
MICA loan Law 46	221	184	164	20	92	52
IBM loans	1,253	35	0	0	0	0
Simest loan Law 394/USA	2,065	1,043	1,360	290	1,070	0
Payables to other financial institutions/ financial leases	23,690	18,100	16,706	2,673	10,428	3,605
Daimler Chrisler Services	16	15	0	0	0	0
Banca Intesa bond	50,000	0	50,226	226	50,000	0
Simest	4,062	0	4,349	0	0	4,349
Total payables to other financial institutions	**82,752**	**21,195**	**74,705**	**3,157**	**62,254**	**9,294**
TOTAL	**232,164**	**92,581**	**138,028**	**28,817**	**91,761**	**17,450**

The following table provides details on the composition of the Group's debt from financial leases. Instalments are broken down by principal and interest due.

	31.12.2005			*31.12.2004*		
(euro thousand)	*Installment*	*Share of interest*	*Share of principal*	*Installment*	*Share of interest*	*Share of principal*
Within one year	3,090	417	2,673	2,799	453	2,346
Between 1 and 5 years	11,388	960	10,428	10,937	1,173	9,764
After 5 years	3,682	77	3,605	6,189	199	5,990
Total	**18,160**	**1,454**	**16,706**	**19,925**	**1,825**	**18,100**

The table below shows the debt structure broken down by annual interest rate and currency at 31 December 2005:

(euro thousand)	*Fixed rate*	*Variable rate*	*Total*
Euro	6,375	127,587	133,962
US Dollar	0	3,659	3,659
Brazil Real	407	0	407
Total	**6,782**	**131,246**	**138,028**

Lastly, it should be noted that, at 31 December 2005, financial debts backed by collateral amounted to €3,353 thousand (€3,608 thousand at 31 December 2004).

At 31 December 2005, the following financial derivatives were accounted for at fair value:

(euro thousand)	31.12.2005 Positive fair value	31.12.2005 Negative fair value	31.12.2004
Cash flow hedge	12	(3)	0
Derivatives held for trading	141	(112)	(80)
Total	**153**	**(115)**	**(80)**

The fair value of financial derivatives was determined considering market values at the date of the financial statements and using the following criteria:

- the fair value of Interest Rate Swaps was determined by discounting estimated future cash flows.
- the fair value of forward foreign currency transactions was calculated by determining the variation between the transaction's value at the forward rate and the transaction's value at the forward rate calculated from 31/12/05 up to the expiry date.
- the fair value of the Equity Swap was determined as the change in the value of the underlying shares from the date the transaction was established to 31 December 2005, plus the interest payable accumulated during the same period on the initial notional value.

The following table shows the notional value of the financial derivatives in existence at 31 December 2005:

(euro thousand)	31.12.2005	31.12.2004
Interest rate risk management	52,000	10,522
Other derivatives	13,746	0
Total	**65,746**	**10,522**

In detail, derivatives in existence include:

a) **Interest Rate Swaps** established to manage interest rate risk arising as a result of financial debt that is subject to interest rate fluctuations.

- IRS entered into by Brembo S.p.A. to hedge the bond that was privately placed by Brembo International, nominal value €50 million. The notional value of the IRS is €30 million, meaning that only a portion of the debt has been hedged.
  The fair value, which was €12 thousand at 31 December 2005, was recorded under "Current financial assets and derivatives". Hedge accounting (cash flow hedge) was applied, and the full effectiveness of the hedge was demonstrated; thus, the change in fair value was recorded under Equity.

- IRS entered into by Brembo Poland Spolka Zo.o. in order to hedge a loan granted by European Investment Bank, nominal value €20 million. The notional value of the IRS is €20 million, meaning that the loan is fully hedged, but the IRS matures before the loan (the hedge expires on 15/3/2010 and the loan expires on 15/6/2010).
  The fair value, which was €-3 thousand at 31 December 2005, was recorded under "Other non-current financial payables and derivatives". Hedge accounting (cash flow hedge) was applied in this case as well; the hedge was 81% effective.
- IRS entered into by Corporacion Upwards with a notional value of €2 million in order to hedge a portion of its financial debt.
  The fair value, which was €-43 thousand at 31 December 2005, has been recorded under "Other non-current financial payables and derivatives". As the conditions for hedge accounting were not met in this case (specifically, the company's financial debt does not comprise loans that have the same characteristics as the IRS), the entire change in fair value was recorded in the Income Statement.

b) Non-deliverable forward, entered into by Brembo S.p.A. to mitigate the risk associated with adverse fluctuations in exchange rates – in this case, the Indian rupee. Due to the fact that, at the time the derivative contract was entered into, the hedged item (INR 357 million) could not be reliably measured and did not have a specific settlement date, the derivative could not be considered a hedge.
The fair value at 31 December 2005 was €141 thousand. This amount was recorded under "Current financial assets and derivatives", and the entire change in fair value was recognised in the Income Statement.

c) Equity Swap, entered into by Brembo S.p.A. to hedge against adverse fluctuations in stock market performance. The closing date is June 2006, and the underlying value is €7,221 thousand. As collateral for the transaction, which at 31 December 2005 had a fair value of €-68 thousand (recorded under "Other non-current financial payables and derivatives"), Brembo S.p.A. paid a security deposit of €7,487 thousand, with the same expiry as the option. According to international standards, Equity Swaps do not qualify for hedge accounting and are therefore defined as derivatives held for trading. Changes in fair value are reported in the Income Statement.

Net financial position

The following table shows the reconciliation of net financial position at 31 December 2005 (€193,074 thousand) and at 31 December 2004 (€142,803 thousand).

	31.12.2005			*31.12.2004*		
(euro thousand)	*Due within one year*	*Due after one year*	*Total*	*Due within one year*	*Due after one year*	*Total*
Financial receivables:						
Bank and postal accounts	32,130	0	32,130	27,392	0	27,392
Cash-in-hand and cash equivalents	70	0	70	124	0	124
Total	32,200	0	32,200	27,516	0	27,516

Financial payables:						
Payables to banks: - ordinary current accounts and advances	(87,285)	0	(87,285)	(77,659)	0	(77,659)
Payables to banks: loans	(25,607)	(37,716)	(63,323)	(27,107)	(44,279)	(71,386)
Payables to other financial institutions	(3,157)	(71,548)	(74,705)	(2,102)	(19,092)	(21,194)
Total	**(116,049)**	**(109,264)**	**(225,313)**	**(106,868)**	**(63,371)**	**(170,239)**
Derivatives:						
Derivative assets	153	0	153	0	0	0
Derivative liabilities	(68)	(46)	(114)	(33)	(47)	(80)
Net derivatives	**85**	**(46)**	**39**	**(33)**	**(47)**	**(80)**
Net financial position	**(83,764)**	**(109,310)**	**(193,074)**	**(79,385)**	**(63,418)**	**(142,803)**

14 Other Non-current Liabilities

This item is broken down as follows:

(euro thousand)	*31.12.2005*	*31.12.2004*
Trade payables	4	10
Other payables	8,652	12,123
Total	**8,656**	**12,133**

The item "Other payables" includes €8,645 thousand in outstanding payables due after one year for the acquisition in connection with the bankruptcy of the company Bradi S.p.A.

15 Provision for Contingencies and Charges

This item is broken down as follows:

(euro thousand)	*Balance at 31.12.2004*	*Provisions*	*Use*	*Other*	*Balance at 31.12.2005*
Other provisions for contingencies and charges	1,153	499	(668)	35	1,019
Provision for reorganisation	0	506	0	0	506
Provision for taxation	1,500	0	0	0	1,500
Total	**2,653**	**1,005**	**(668)**	**35**	**3,025**

Other funds for contingencies and charges, which amounted to €1,019 thousand, refer to product guarantees (€211 thousand) and supplementary customer indemnities in connection with the Italian agency contract (€168 thousand). The remaining balance refers to probable future contingencies or litigations. The provision for reorganisation relates to agreements with employees in connection with implementation of the industrial plan; it is expected to be fully utilised by spring 2007.

16 Provisions for Employee Benefits

The Group companies provide post-employment benefits through defined-contribution plans or defined-benefit plans.
In the case of defined-contribution plans, the companies pay contributions to public or private insurance institutes based on legal or contractual obligations or on a voluntary basis. Once such contributions have been paid, the companies have no further payment obligations.
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). The defined-benefit plan is funded by employer and employee contributions made to a trustee that is legally separate from the enterprise providing benefits to its employees.
Unfunded defined-benefit plans refer to the "Employees' leaving entitlement" provided by the Group's Italian companies. These funds are calculated on an actuarial basis using the "Projected Unit Credit Method".
"Other employee provisions" refers to other employee benefits.

The balances at 31 December 2005 are shown below:

(euro thousand)	*Balance at 31.12.2004*	*Provisions*	*Use*	*Financial charges*	*Exchange rate fluctuations*	*Balance at 31.12.2005*
Employees' leaving entitlement	19,859	3,388	(1,801)	914	0	22,360
Provisions for pensions	4,790	598	(750)	(34)	137	4,741
Other	42	117	(121)	0	12	50
Total	**24,691**	**4,103**	**(2,672)**	**880**	**149**	**27,151**

The table below shows the main defined-benefit plans and a reconciliation of the liabilities recognised in the Balance Sheet, the costs recognised in the Income Statement and the main actuarial assumptions used:

(euro thousand)	Unfunded plan (Employees' leaving entitlement)		Funded Plan (Ap Racing plan)	
YEAR END	*31.12.2005*	*31.12.2004*	*31.12.2005*	*31.12.2004*
A. Reconciliation of defined-benefit obligations				
Present value of defined-benefit obligation at beginning of year	21,205	17,801	15,609	13,680
Current social security cost	3,464	3,101	598	550
Interest charges	917	842	835	753
Employees' contributions	0	0	246	181
Plan changes	0	0	0	0
Net actuarial (gains) losses	1,300	1,277	1,369	567
Benefits paid by the plan or company	(1,818)	(1,815)	(72)	(43)
Exchange rate fluctuations	0	0	444	(80)
Present value of defined-benefit obligation at year end	25,068	21,205	19,028	15,609
B. Reconciliation of plan assets				
Fair value of plan assets at beginning of year	0	0	10,825	8,878
Expected return on plan assets	0	0	869	687
Net actuarial gains (losses)	0	0	1,839	573
Employer's contributions	0	0	752	628
Employees' contributions	0	0	246	181
Benefits paid	1,818	1,815	(72)	(43)
Expenses	(1,818)	(1,815)	0	0
Exchange rate fluctuations	0	0	305	(79)
Fair value of plan assets at year end	0	0	14,763	10,825
C. Reconciliation of assets or liabilities recognised in the Balance Sheet				
Unfunded plans/Partially or fully funded plans				
Present value of funded defined-benefit obligation	0	0	19,028	15,609
Fair value of plan assets	0	0	(14,763)	(10,825)
Funded plan deficit (surplus)	0	0	4,265	4,784
Present value of unfunded defined-benefit obligation	25,068	21,205		0
Unrealised net actuarial gains (losses)	(2,578)	(1,277)	477	6
Net liabilities / (assets) at reporting date	22,491	19,928	4,742	4,790
Amounts recognised in the Balance Sheet:				
Liabilities	22,491	19,928	4,742	4,790
Assets	0	0	0	0
Net liabilities / (assets)	22,491	19,928	4,742	4,790
D. Costs recognised in the Income Statement				
Amounts recognised in the Income Statement:				
Current social security cost	3,464	3,101	598	550
Interest payable	917	842	835	753
Expected return on plan assets	0	0	(869)	(687)
Total cost recognised in the Income Statement	4,381	3,942	564	616

	Unfunded plan (Employees' leaving entitlement)		Funded plan (Ap Racing plan)	
	31.12.2005	*31.12.2004*	*31.12.2005*	*31.12.2004*
E. Main actuarial assumptions				
Weighted average of the assumptions used for determining defined-benefit obligations				
Discount rates	4.00%	4.50%	4.80%	5.20%
Salary increases	3.50%	4.00%	3.75%	4.05%
Inflation rate	2.00%	2.00%	2.50%	2.80%
Weighted average of the assumptions used for determining contributions				
Discount rates	4.50%	5.00%	5.20%	5.30%
Expected rate of return on plan assets	0.00%	0.00%	7.47%	7.40%
Expected rate of salary increases	3.50%	3.50%	4.05%	3.95%
Inflation rate	2.00%	2.00%	2.80%	2.70%
F. Plan assets				
Asset categories	*Percentage of assets*	*Expected return on assets*	*Percentage of Plan Assets*	*Expected Return on Plan Assets*
Shares	0.00%	0.00%	99.00%	7.50%
Bonds	0.00%	0.00%	0.00%	0.00%
Attività immobiliari	0.00%	0.00%	0.00%	0.00%
Property	0.00%	0.00%	1.00%	2.50%
Total	**0.00%**	**0.00%**	**100.00%**	**7.47%**
G. Past experience of actuarial gains and losses				
Difference between expected and actual returns on plan assets				
a. Amount	–	–	(1,839)	(573)
b. Percentage of assets at reporting date	0%	0%	–12%	–5%
Experience (gains) losses on liabilities				
a. Amount	1,300	1,277	1,369	567
b. Percentage of plan liabilities at reporting date	5%	6%	7%	4%

17 Trade Payables

The following trade payables were recorded at 31 December 2005:

(euro thousand)	*31.12.2005*	*31.12.2004*
Trade payables	150,348	136,907
Advances and payments on account	111	159
Payables to subsidiaries and associated companies	520	1,006
Total	**150,978**	**138,073**

The item "Payables to associated companies" includes €445 thousand in trade payables to Brembo Ceramic Brake Systems S.p.A. and €74 thousand in trade payables to Nanjing Yuejin Automotive Brake System Co. Ltd.

18 Tax Payables

This item reflects the net amount due for the current taxes of the Group's companies.

(euro thousand)	*31.12.2005*	*31.12.2004*
Tax payables	2,088	1,218

19 Other Current Payables

Other current payables at 31 December 2005 are shown below:

(euro thousand)	*31.12.2005*	*31.12.2004*
Tax payables other than current taxes	3,608	3,538
Social security charges	7,971	6,578
Amounts due to employees	16,014	12,036
Other payables	7,272	7,994
Total	**34,865**	**30,146**

Social security charges include €621 thousand for charges connected with the three-year incentive plan restricted to the Group's top executives, payable in 2006.
The item "Amounts due to employees" includes €2,535 thousand in relation to the same three-year incentive plan.
The item other payables includes the share payable within twelve months of the remaining amount due for the acquisition of the bankruptcy procedure for the company Bradi S.p.A., amounting to €630 thousand.

INCOME STATEMENT

20 Sales of Goods and Services

Breakdown of sales of goods and services:

(euro thousand)	*31.12.2005*	*31.12.2004*
Italy	246,430	254,268
Abroad	597,093	549,372
Aggregate total	**843,522**	**803,640**
Intra-Group adjustments	(121,118)	(114,748)
Consolidated total	**722,404**	**688,892**
Allowances, discounts and returns	(11,800)	(11,348)
Intra-Group adjustments	1,011	636
Total	**711,615**	**678,180**

Group sales broken down by geographical area of destination and by application are shown in the Report on Operations. A breakdown by geographical area of production is provided in Note 32 – Segment Report.

21 Other Revenues and Income

These are made up of:

(euro thousand)	*31.12.2005*	*31.12.2004*
Miscellaneous recharges	3,182	7,003
Gains on disposal of assets	2,507	4,098
Miscellaneous grants	352	190
Other revenue	3,293	3,290
Total	**9,334**	**14,581**

Grants include €193 thousand in mobility grants provided to the Group's Italian companies by INPS (Italy's National Institute for Social Security) and €159 thousand in government grants that the Group's Spanish company recorded in its Income Statement in relation to the depreciation period of the asset for which they were received.

The item "Gains on the disposal of assets" includes €1,897 thousand in gains on the sale of two plants in Spain that were no longer used for production purposes. In 2004, two other plants in Italy and Spain were sold, generating gains of €2,702 thousand.

22 Costs for Capitalised Internal Works

This item refers to deferred development costs totalling €10,625 thousand incurred during 2005 in relation to jobs that were begun during the year and jobs that were begun in past years for which additional development costs were incurred. These costs have been capitalised in the Balance Sheet under "Development costs".
During 2005, development costs amounting to €18,099 thousand were expensed.

23 Raw Materials, Consumables and Goods, and Changes in Inventories

(euro thousand)	*31.12.2005*	*31.12.2004*
Changes in inventories and inventory write-downs	(17,056)	(11,838)
Purchase of raw materials	340,287	318,608
Purchase of consumables	17,306	18,168
Allowances	(3,413)	(2,552)
Total	**337,124**	**322,386**

This item includes purchases of raw materials and goods for €340,287 thousand, and consumables for €17,306 thousand, net of allowances, discounts and returns to suppliers for €3,413 thousand. The ratio of such costs to revenues, including changes to inventories, was 48.30%, compared to 48.18% 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.

24 Other Operating Costs

These costs are broken down as follows

(euro thousand)	*31.12.2005*	*31.12.2004*
Transports	23,404	23,738
Maintenance, repairs and utilities	25,833	21,876
Contracted work	39,865	39,692
Rent	8,908	8,643
Other operating costs	44,273	39,504
Total	**142,284**	**133,453**

25 Personnel Expenses

Breakdown of personnel expenses is as follows:

(euro thousand)	*31.12.2005*	*31.12.2004*
Wages and salaries	100,159	95,084
Social security contributions	29,708	28,508
Employees' leaving entitlement and other personnel provisions	5,434	4,717
Other costs	5,083	4,599
Total	**140,384**	**132,908**

Personnel expenses increased by 5.6% compared to 2004 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 foundry in Poland.
The Company continued to invest in human resources with the aim of enhancing professionalism and workplace safety.
Note 16 provides additional information on the costs incurred for defined-benefit plans in 2005.

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 2005 average	103	1,215	2,990	4,308
Year 2004 average	94	1,158	2,699	3,951
Changes	**9**	**57**	**291**	**357**
Total at 31.12.2005	108	1,222	3,024	4,354
Total at 31.12.2004	96	1,167	2,710	3,973
Changes	**12**	**55**	**314**	**381**

26 Depreciation, Amortisation and Impairment Losses

(euro thousand)	*31.12.2005*	*31.12.2004*
Amortisation of intangible assets:		
Development costs	1,351	742
Industrial patents and similar rights for original work	722	685
Licences, trademarks and similar rights	165	112
Goodwill	0	18
Other intangible assets	3,124	3,934
Total	**5,362**	**5,491**

Depreciation of property, plant and equipment:		
Buildings	2,365	1,954
Leased buildings	533	634
Plant and machinery	19,679	20,604
Leased plant and machinery	658	533
Industrial and commercial equipment	7,787	8,962
Other property, plant and equipment	1,551	1,480
Other leased property, plant and equipment	15	8
Total	**32,588**	**34,175**
Impairment losses:		
Property, plant and equipment	2	0
Intangible assets	455	1,225
Total	**457**	**1,225**
TOTAL AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES	**38,407**	**40,891**

Depreciation charges for "Plant and machinery" and "Industrial and commercial equipment" decreased mainly due to changes in the depreciation criteria used and the gradual reduction of the depreciable amounts of certain multi-year expenses.

27 Net Financial Income (Charges)

This item comprises:

(euro thousand)	*31.12.2005*	*31.12.2004*
Net exchange rate differences	1,141	1,344
Income (charges) from employees' leaving entitlement and other personnel provisions	(880)	(908)
Financial income (charges)	(6,662)	(4,831)
Other	77	13
Total	**(6,324)**	**(4,382)**

Net financial charges were €6,324 thousand, included €1,141 thousand (€1,344 thousand in 2004) from net exchange gains and €7,465 thousand (€5,726 thousand in 2004) from net financial charges. The increase in this item was primarily due to a rise in net indebtedness as well as significant increases in interest rates in the second half of 2005.
These factors also contributed to slightly worsening the ratio of net financial charges to revenues (0.9% in 2005 vs. 0.6% in 2004) and to average indebtedness (3.9% in 2005 vs. 4% in 2004).

28 Net Financial Income (Charges) from Shareholding

This item comprises:

(euro thousand)	*31.12.2005*	*31.12.2004*
Write-ups of shareholdings valued using the equity method	21	5
Write-downs of shareholdings valued using the equity method	(332)	(731)
Other income	2	1
Total	**(309)**	**(725)**

Write-ups of shareholdings

The amount of €21 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-downs of shareholdings

The amount of €332 thousand mainly refers to adjustments to the values of the shareholdings in Nanjing Yuejin Automotive Brake System Co. Ltd. (€117 thousand) and Brembo Ceramic Brake Systems S.p.A. (€175 thousand).

29 Taxes

(euro thousand)	*31.12.2005*	*31.12.2004*
Current taxes	20,092	20,725
Deferred taxes	4,760	3,545
Total	**24,852**	**24,270**

At 31 December 2005, the total amount of deferred taxes relating to items that were posted to Equity was €5 thousand.
Taxes, estimated using rates for the year in accordance with existing legislation, amounted to €24,852 thousand (including €4,760 thousand for deferred taxes), compared to €24,270 thousand in 2004 (including €3,545 thousand in deferred taxes).
The ratio of income taxes was 37.2% including deferred taxes, in line with the previous year.

30 Earnings per Share

Basic earnings per share at 31 December 2005 (€0.61 vs. €0.59 in 2004) was calculated by dividing the net income or loss for the year attributable to the holders of ordinary capital instruments of the Parent Company by the weighted average number of ordinary shares outstanding during the year ended 31 December 2005 (66,784,450, same as in 2004).

31 Related Parties

Parties related to the Group include parent companies, subsidiaries, associated companies, joint ventures (for a list, see Attachments 1 and 2), directors and managers with strategic responsibilities. The Parent Company, Brembo S.p.A. is controlled by Nuova Four B S.p.A.

Listed below is information pertaining the fees paid to Directors, Auditors and General Manager of Brembo S.p.A. and of other Group companies and additional information required:

(euro thousand)

Subject	*Office*		*Fees*			
Name and Surname	*Office held*	*Term of office (per year)*	*Compensation for the office held*	*Non-monetary benefits*	*Bonuses and other incentives*	*Other compensation*
Alberto Bombassei	Chairman of the BoD and Managing Director	2005-2007	1,000		68	
Paolo Biancardi	Member of BoD	2005-2007	25			
Cristina Bombassei	Member of BoD	2005-2007	25		(1) 12	(1) 75
Giancarlo Dallera	Member of BoD	2005-2007	25			
Giovanna Dossena	Member of BoD	2005-2007	25			
Andrea Gibellini	Member of BoD	2005-2007	25			
Umberto Nicodano	Member of BoD	2005-2007	25			(3) 238
Giuseppe Roma	Member of BoD	2005-2007	25			
Alberto Tazartes	Member of BoD	2005-2007	21			
Giovanni Cavallini	Member of BoD	2005-2007	4			
Stefano Monetini	Member of BoD	2005-2007	25			
Matteo Tiraboschi	Member of BoD	2005-2007	(2) 39		(1) 17	(1) 148
Sergio Mazzoleni	Chairman of the Board of Statutory Auditors		2005-2007	37.5		
Enrico Cervellera	Auditor	2005-2007	25			
Andrea Puppo	Auditor	2005-2007	(2) 47			
Stefano Monetini	General Manager	indefinite term	(1) 385		(1) 88	

(1) compensation paid as employee salary
(2) compensation relates to Brembo S.p.A. and other Group companies
(3) compensation relates to professional services provided by the association Bonelli Erede Pappalardo and are stated on a cash basis.

32 Segment Report

The geographical areas (in terms of the location of operations) in which the Group operates and that are included in the primary segment are: Europe, America and Asia. The Group's geographical segments are determined based on the fixed assets of the individual entities located and operating in these areas; sales are mainly to the local market and primarily in the areas where the fixed assets are located.

Transfer prices applied to transactions between segments for the exchange of goods and services are settled according to usual market conditions.

Primary segment

The following table shows segment information on sales of goods and services and results at 31 December 2005 and 31 December 2004:

	EUROPE		AMERICA		ASIA		INTER-SEGMENT		CONSOLIDATED	
(euro thousand)	*31.12.05*	*31.12.04*	*31.12.05*	*31.12.04*	*31.12.05*	*31.12.04*	*31.12.05*	*31.12.04*	*31.12.05*	*31.12.04*
Sales of goods and services	662,608	641,685	85,091	74,466	4,200	3,437	(20,326)	(19,947)	731,574	699,641
Costs	(561,086)	(539,134)	(75,268)	(66,096)	(4,411)	(3,480)	20,974	19,964	(619,792)	(588,747)
Gross operating income	**101,523**	**102,551**	**9,823**	**8,369**	**(211)**	**(43)**	**647**	**16**	**111,782**	**110,894**
Amortisation and depreciation	(35,238)	(38,670)	(3,155)	(2,211)	(13)	(10)	0	0	(38,407)	(40,892)
Net operating income	**66,284**	**63,881**	**6,668**	**6,158**	**(225)**	**(52)**	**647**	**16**	**73,375**	**70,002**
Financial income (charges)									(6,325)	(4,380)
Net financial income (charges) from investments	(193)	(442)			(117)	(283)			(309)	(726)
Income before taxes									**66,741**	**64,896**
Taxes									(24,852)	(24,270)
Income before minority interests									**41,889**	**40,626**
Minority interests									(1,378)	(1,072)
Group income for the year									**40,511**	**39,554**

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

The following table shows other segment information at 31 December 2005 and 31 December 2004:

	EUROPE		AMERICA		ASIA		INTER-SEGMENT		CONSOLIDATED	
(euro thousand)	*31.12.05*	*31.12.04*	*31.12.05*	*31.12.04*	*31.12.05*	*31.12.04*	*31.12.05*	*31.12.04*	*31.12.05*	*31.12.04*
ASSETS										
Property, plant and equipment	246,208	199,987	27,176	22,023	1,119	28	0	0	274,503	222,037
Intangible assets	36,033	27,847	2,869	2,655	2	0	252	252	39,157	30,754
Shareholdings	37,623	31,678	0	0	0	0	(29,089)	(22,966)	8,534	8,711
Inventories	121,382	102,435	20,578	15,272	503	702	356	66	142,818	118,475
Trade receivables	154,512	154,267	19,186	12,857	411	328	(21,027)	(17,945)	153,083	149,507
Non-current, current other receivables and assets	38,209	22,991	3,417	3,323	97	266	0	0	41,723	26,580
Unallocable assets										
Non-current, current financial assets									15,697	5,748
Tax receivables									2,711	2,860
Cash and cash equivalents									32,200	27,516
TOTAL ASSETS									**710,426**	**592,188**
LIABILITIES										
Trade payables	145,019	134,966	29,125	20,070	1,040	812	(24,206)	(17,775)	150,978	138,073
Non-current, current other liabilities	41,641	41,358	1,725	822	155	99	0	0	43,521	42,279
Provisions for contingencies and charges	3,025	2,653	0	0	0	0	0	0	3,025	2,653
Provisions for employee benefits	27,101	24,648	0	0	50	42	0	0	27,151	24,690
Unallocable liabilities										
Financial debt and other financial liabilities									225,428	170,320
Tax payables									18,260	12,051
TOTAL LIABILITIES									**468,363**	**390,066**
INVESTMENTS										
Property, plant and equipment	77,438	69,746	3,483	6,158	1,105	13	0	0	82,025	75,888
Intangible assets	13,412	9,839	381	29	3	0	0	0	13,796	9,868
TOTAL INVESTMENTS	**90,850**	**79,585**	**3,864**	**6,187**	**1,108**	**13**	**0**	**0**	**95,821**	**85,756**

All income, cash flow and balance sheet figures for the secondary segment (which for Brembo is the "Automotive components" segment), as defined in "Accounting Principles and Valuation Criteria: Segment Reporting" and by IAS 14, can been taken from the Consolidated Financial Statements.

33 Significant Events after 31 December 2005

- On 4 February 2006, the company KBX Motorbike Products Private Ltd, headquartered in Pune, India, began operating. The company is a joint venture between Brembo and India's Bosch Chassis Systems India Ltd, which is controlled by the Bosch Group. Brembo S.p.A. subscribed 50% of the JV Share Capital, paying a total of INR357 million (approximately €6.7 million);
- on 9 January 2006, liquidation procedures began for Brembo Participations BV, with the aim of streamlining and rationalising the Group's corporate structure. The company's shareholdings will be transferred to Brembo International S.A.;
- on 20 February 2006, the new cast-iron foundry built in Dabrowa, Poland near the existing disc production facilities was inaugurated. The plant will be fully operational next summer.

There were no other significant events between 31 December 2005 and 24 March 2006.

Curno, 24 March 2006

On behalf of the Board of Directors
The Chairman
Alberto Bombassei

Relations with Subsidiaries, Associated and Parent Companies

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.*
SELLING COMPANY								
BREMBO S.P.A.		2,422 (1)	2	5,275 (2)	1,508	8,812	1,607	2,196 (3)
BREMBO SPOLKA ZO.O.	20,447							
BREMBO SCANDINAVIA A.B.	590							
CORPORACION UPWARDS 98 S.A.	4,456 (7)							
FOMM S.P.A.	18,303 (8)			1,266				80
BREMBO NORTH AMERICA INC.	1,445						572	117
BREMBO JAPAN CO. LTD.	588							
BREMBO RASSINI S.A.DE C.V.	716					5,131		
BREMBO UK LTD.	357							
MARCHESINI S.P.A.	228			13		450		
BREMBO DO BRASIL LTDA.	3,541			25				33
BREMBO INTERNATIONAL S.A.	237							
BREMBO PARTICIPATIONS B.V.								
BREMBO POLAND SPOLKA ZO.O.	20,309	4		122	36			
AP RACING LTD.	4							
BREMBO CHINA BRAKE SYSTEMS CO. LTD.								
TOTAL CONSOLIDATED COMPANIES	71,221	2,426	2	6,701	1,544	14,393	2,179	2,426
BREMBO CERAMIC BRAKE SYSTEMS S.P.A.	7,263 (10)							
NANJING YUEJIN AUTOMOTIVE BRAKE SYSTEM CO. LTD.								
TOTAL	78,484	2,426	2	6,701	1,544	14,393	2,179	2,426

(1) Of which €29 thousand for sales of property, plant and equipment
(2) Of which €486 thousand for sales of property, plant and equipment
(3) Of which €43 thousand for sales of property, plant and equipment
(4) Of which €1,870 thousand for sales of property, plant and equipment
(5) Of which €48 thousand for sales of property, plant and equipment
(6) Of which €3 thousand for sales of property, plant and equipment
(7) Of which €68 thousand for sales of property, plant and equipment
(8) Of which €235 thousand for sales of property, plant and equipment
(9) Of which €9 thousand for sales of property, plant and equipment
(10) Of which €114 thousand for sales of property, plant and equipment

BREMBO UK LTD.	MARCHESINI S.P.A.	BREMBO DO BRASIL LTDA.	BREMBO INTERNATIONAL S.A.	BREMBO PARTICIPATIONS B.V.	BREMBO POLAND SPOLKA ZO.O.	AP RACING LTD.	BREMBO CHINA BRAKE SYSTEMS CO. LTD.	**CONSOLIDATED COMPANIES**	BREMBO CERAMIC BRAKE SYSTEMS S.P.A.	NANJING YUEJIN AUTOMOTIVE BRAKE SYSTEM CO. LTD.	**TOTAL**
1,886	191	1			5,623 (4)	51	425 (5)	**29,999**	1,374	25	**31,398**
		411			389 (6)			**21,247**			**21,247**
								590			**590**
277					1			**4,734**			**4,734**
					17,628 (9)			**37,277**			**37,277**
								2,134			**2,134**
								588			**588**
		119						**5,966**			**5,966**
								357			**357**
								691			**691**
								3,599			**3,599**
								237			**237**
			3		12			**15**			**15**
								20,471			**20,471**
								4			**4**
								0			**0**
2,163	**191**	**531**	**3**	**0**	**23,653**	**51**	**425**	**127,909**	**1,374**	**25**	**129,308**
	4							**7,267**			**7,267**
								0			**0**
2,163	**195**	**531**	**3**	**0**	**23,653**	**51**	**425**	**135,176**	**1,374**	**25**	**136,575**

RELATIONS WITH SUBSIDIARIES, ASSOCIATED AND PARENT COMPANIES

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.*
SELLING COMPANY								
BREMBO S.P.A.		999		2,133	754	12,713	499	4,574
BREMBO SPOLKA ZO.O.	3,481							
BREMBO SCANDINAVIA A.B.	132							
CORPORACION UPWARDS 98 S.A.	2,472							
FOMM S.P.A.	2,818			553				80
BREMBO NORTH AMERICA INC.	1,028						92	39
BREMBO JAPAN CO. LTD.	3							
BREMBO RASSINI S.A.DE C.V.	720					1,896		
BREMBO UK LTD.	247							
MARCHESINI S.P.A.	128					139		
BREMBO DO BRASIL LTDA.	313							41
BREMBO INTERNATIONAL S.A.	50,237							
BREMBO PARTICIPATIONS B.V.								
BREMBO POLAND SPOLKA ZO.O.	3,585			33	108			
AP RACING LTD.								
BREMBO CHINA BRAKE SYSTEMS CO. LTD.	3,179 [d]							
TOTAL CONSOLIDATED COMPANIES	68,343	999	0	2,719	862	14,748	591	4,734
BREMBO CERAMIC BRAKE SYSTEMS S.P.A.	445							
NANJING YUEJIN AUTOMOTIVE BRAKE SYSTEM CO. LTD.	75							
TOTAL	68,863	999	0	2,719	862	14,748	591	4,734

[a] Of which €2,000 thousand loan
[b] Intercompany loan
[c] Intercompany loan
[d] Share of capital subscribed and not yet paid up

BREMBO UK LTD.	*MARCHESINI S.P.A.*	*BREMBO DO BRASIL LTDA.*	*BREMBO INTERNATIONAL S.A.*	*BREMBO PARTICIPATIONS B.V.*	*BREMBO POLAND SPOLKA ZO.O.*	*AP RACING LTD.*	*BREMBO CHINA BRAKE SYSTEMS CO. LTD.*	***CONSOLIDATED COMPANIES***	*BREMBO CERAMIC BRAKE SYSTEMS S.P.A.*	*NANJING YUEJIN AUTOMOTIVE BRAKE SYSTEM CO. LTD.*	***TOTAL***
1,404	2,110 [(a)]	12			783	41	425	26,447	477		26,924
		170			30			3,681			3,681
								132			132
24					1			2,497			2,497
					9,842			13,293			13,293
								1,159			1,159
								3			3
		98						2,714			2,714
								247			247
								267			267
								354			354
								50,237			50,237
			103 [(b)]		2,512 [(c)]			2,615			2,615
								3,726			3,726
								0			0
								3,179			3,179
1,428	2,110	280	103	0	13,168	41	425	110,551	477	0	111,028
	4							449			449
								75			75
1,428	2,114	280	103	0	13,168	41	425	111,075	477	0	111,552

List of Companies Consolidates on a Line-by-line Basis

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
Brembo China Brake Systems Co. Ltd.	Beijing	China
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 Japan Co. Ltd.	Tokyo	Japan
Brembo UK Ltd.	London	United Kingdom
Brembo GmbH	Ottobrunn	Germany
Brembo Poland Spolka Zo.o.	Dabrowa Gornizca	Poland
Corporacion Upwards 98 S.A.	Zaragoza	Spain
Brembo Rassini S.A. de C.V.	Puebla	Mexico
Brembo do Brasil Ltda.	Betim	Brazil

List of Companies Valued Using the Equity Method

COMPANY	HEADQUARTERS	
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

	SHARE CAPITAL	STAKE HELD BY GROUP COMPANIES		
		directly	indirectly	
Eur	34,727,914			
Eur	5,200,000	100%		Brembo S.p.A.
Eur	49,872,000	100%		Brembo S.p.A.
Eur	500,000	100%		Brembo S.p.A.
Gbp	221,000	100%		Brembo S.p.A.
Cny	103,500,000	60%		Brembo S.p.A.
Eur	49,722,000		100%	Brembo International S.A.
Sek	4,500,000		100%	Brembo Participations B.V.
Usd	133,200		100%	Brembo Participations B.V.
Pln	15,279,546		100%	Brembo Participations B.V.
Jpy	11,000,000		100%	Brembo Participations B.V.
Gbp	600,000		100%	Brembo Participations B.V.
Eur	100,000		100%	Brembo Participations B.V.
Pln	53,600,000		100%	Brembo Participations B.V.
Eur	498,043		68%	Brembo Participations B.V.
Mxn	110,849,230		76%	Brembo Participations B.V.
Brl	17,803,201		99.99%	Brembo Participations B.V.

	SHARE CAPITAL	STAKE HELD BY GROUP COMPANIES		
		directly	indirectly	
Eur	100,000	40%		Brembo S.p.A.
Cny	115,768,679	27.75%		Brembo S.p.A.
Eur	2,000,000	50%		Brembo S.p.A.

REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2005

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

This Report concerns the Consolidated Financial Statements of companies of the Brembo Group.

This Report acknowledges the responsibilities assigned to the Board of Statutory Auditors by Legislative Decree No. 58 of 24 February 1998 and in this regard, it refers to the Report on Operations for the Financial Statements at 31 December 2005 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 2005 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 acknowledged the certification of the Independent Auditors, which does not present any points of issue;
- the Financial Statements of the main subsidiary companies were reviewed by the respective Boards of Statutory Auditors, by an Auditor or by Independent Auditors.

During the monitoring activity, no significant facts have emerged that need be mentioned in this Report.
The Consolidated Financial Statements of Brembo for the year ended 31 December 2005 was drawn up in compliance with the provisions of European Regulation No. 1606/2002 and the IFRS effective at 31 December 2005, issued by the International Accounting Standard Boards (IASB) and adopted by EC Regulations.
The comparative figures at 31 December 2004 have been restated according to the same principles as those used at 31 December 2005.
The restated comparative figures at 31 December 2004 have been audited by the company's Independent Auditors. In a separate Appendix to the Six-Monthly Report at 30 June 2005, reconciliation statements of consolidated equity and net income under previous standards and under International Accounting Standards have been provided.

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

Balance Sheet

Non-current assets	331,709
Current assets	378,717
Total assets	**710,426**
Equity	242,063
Non-current liabilities	164,314
Current liabilities	304,049
Total Equity and Liabilities	**710,426**

Income Statement

Gross operating income	111,782
Net operating income	73,375
Income before taxation	66,741
Income before minority interests	41,889
Group income for the year	**40,511**

In our opinion, the Consolidated Financial Statements present a fair picture of Brembo Group's equity, financial situation and operating income for the year ended 31 December 2005, in compliance with above-mentioned accounting principles for consolidated financial statements.

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

Curno, 12 April 2006

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 its subsidiaries ("Brembo Group") as of 31 December 2005, constituted by the balance sheet, income statement, cash flow statement, changes in shareholders' equity and related notes. These consolidated financial statements are the responsibility of Brembo SpA's directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The aforementioned consolidated financial statements are the first to be prepared in compliance with the International Financial Reporting Standards as adopted by the European Union.

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 consolidated 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.

The responsibility for the audit of the financial statements of a subsidiary, representing three per cent of the consolidated assets and four per cent of consolidated sales revenues, is that of other auditors.

The consolidated financial statements show as comparatives the corresponding amounts of the prior year prepared in accordance with the same accounting principles. Moreover, the appendix "Appendix: transition to international financial reporting standards" to the notes to the consolidated financial statements illustrates the effects of the transition to the International Financial Reporting Standards as adopted by the European Union and includes the disclosure related to the "Reconciliation Schedules2 required by IFRS 1. As shown in the notes to the consolidated

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel 0277851 Fax 027785240 Cap Soc. 3.754.400,00 Euro i.v., C.F. e P. IVA e Reg. Imp. Milano 12979880155 Iscritta al n 43 dell Albo Consob – Altri Uffici: **Bari** 70125 Viale della Repubblica 110 Tel. 0805429863 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25124 Via Cefalonia 70 Tel. 0302219811 – **Firenze** 50129 Viale Milton 65 Tel 0554627100 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 0817644441 – **Padova** 35137 Largo Europa 16 Tel. 0498762677 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38100 Via Manzoni 16 Tel. 0461237004 – **Treviso** 31100 Viale Felissent 90 Tel 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 – **Udine** 33100 Via Poscolle 43 Tel 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel 0458002561

PRICEWATERHOUSECOOPERS

financial statements, the directors reclassified the "Reconciliation Schedules" required by IFRS 1, which have been formerly approved and published tin appendix with the interim consolidated financial report for the six months period ended 30 June 2005.
These "Reconciliation Schedules" have been previously audited by us and reference is made to our report dated 23 September 2005. The information presented in the notes to the consolidated financial statements, relating to the reclassifications to the "Reconciliation Schedules" required by IFRS 1, have been audited by us to provide a reasonable basis for our opinion on the consolidated financial statement at 31 December 2005.

3 In our opinion, the consolidated financial statements of Brembo SpA as of 31 December 2005 comply with the International Financial Reporting Standards as adopted by the European Union; accordingly, they have been drawn up clearly and give a true and fair view of the financial position, results of operations, cash flows and changes in shareholders' equity of Brembo Group for the year then ended.

Milan, 12 April 2006

PricewaterhouseCoopers SpA

Signed by

Luigi Migliavacca
(Partner)


India • China • Japan

Brembo S.p.A.: Financial Statements at 31 December 2005

Brembo S.p.A.: Financial Statements at 31 December 2005

Balance Sheet: Assets

(euro)	31.12.2005	31.12.2004	Change
(A) Called-up share capital to be received	0	0	0
(B) Fixed assets			
I Intangible fixed assets:			
1 Start-up and capital costs	3,165	1,695	1,470
3 Industrial patents and similar rights for original works	1,637,079	1,673,571	(36,492)
4 Concessions, licences, trademarks and similar rights	555,598	64,325	491,273
7 Other	3,879,027	8,025,083	(4,146,056)
Total intangible fixed assets	**6,074,869**	**9,764,674**	**(3,689,805)**
II Tangible fixed assets:			
1 Land and buildings	44,717,317	35,146,016	9,571,301
2 Plant and machinery	38,038,731	32,829,922	5,208,809
3 Industrial and commercial equipment	11,336,918	11,397,897	(60,979)
4 Other assets	3,782,003	4,151,484	(369,481)
5 Assets in course of construction and payments on account	1,160,354	793,989	366,365
Total tangible fixed assets	**99,035,323**	**84,319,308**	**14,716,015**
III Financial fixed assets:			
1 Shareholdings in:			
(a) subsidiary companies	100,671,425	99,527,828	1,143,597
(b) associated companies	10,899,735	10,899,735	0
(d) other companies	1,357	1,352	5
Total	**111,572,517**	**110,428,915**	**1,143,602**
2 Receivables:			
(a) From subsidiary companies			
due within one year	2,000,000	2,000,000	0
(d) Other			
due within one year	3,189	0	3,189
due after one year	53,232	124,760	(71,528)
3 Other securities	1,032,914	1,032,914	0
4 Own shares	0	16,389,189	(16,389,189)
Total	**3,089,335**	**19,546,863**	**(16,457,528)**
Total financial fixed assets	**114,661,852**	**129,975,778**	**(15,313,926)**
Total fixed assets	**219,772,044**	**224,059,760**	**(4,287,716)**

(euro)	*31.12.2005*	*31.12.2004*	*Change*
(C) CURRENT ASSETS			
I Inventories:			
1 Raw materials, ancillaries and consumables	31,778,677	25,124,879	6,653,798
2 Work-in-progress and semi-finished goods	17,104,263	15,255,117	1,849,146
4 Finished products and merchandise	34,537,958	30,698,129	3,839,829
Total inventories	**83,420,898**	**71,078,125**	**12,342,773**
II Receivables:			
1 Trade receivables			
due within one year	97,487,311	95,619,985	1,867,326
2 From subsidiary companies			
due within one year	24,446,721	22,781,429	1,665,292
3 From associated companies			
due within one year	477,179	2,208,849	(1,731,670)
4 bis Tax receivables			
due within one year	10,488,828	8,514,405	1,974,423
due after one year	202,662	202,662	0
5 Other			
due within one year	21,038,430	819,962	20,218,468
Total receivables	**154,141,131**	**130,147,292**	**23,993,839**
III Financial current assets:			
7 Other	7,627,133	0	7,627,133
Total financial current assets	**7,627,133**	**0**	**7,627,133**
IV Liquid assets:			
1 Bank and postal accounts	3,102,181	1,220,157	1,882,024
3 Cash-in-hand and cash equivalents	23,400	11,640	11,760
Total liquid assets	**3,125,581**	**1,231,797**	**1,893,784**
Total current assets	**248,314,743**	**202,457,214**	**45,857,529**
(D) PREPAYMENTS AND ACCRUED INCOME			
(b) Other prepayments and accrued income	1,220,181	2,314,372	(1,094,191)
Total prepayments and accrued income	**1,220,181**	**2,314,372**	**(1,094,191)**
TOTAL ASSETS	**469,306,968**	**428,831,346**	**40,475,622**

BALANCE SHEET - EQUITY AND LIABILITIES

(euro)	31.12.2005	31.12.2004	Change
(A) EQUITY			
I Share capital	34,727,914	36,317,034	(1,589,120)
II Share premium reserve	26,650,263	26,650,263	0
III Revaluation reserves	12,966,123	13,506,378	(540,255)
IV Legal reserve	6,757,244	5,212,244	1,545,000
V Reserve for own shares in portfolio	0	16,389,189	(16,389,189)
VII Other reserves			
– Reserve Law 46/82	98,348	98,348	0
– Extraordinary reserve	38,943,240	20,020,535	18,922,705
– Taxed reserve for accelerated depreciation	556,823	556,823	0
– Own share purchasing reserve	15,400,000	15,400,000	0
– Merger surplus	54,400	54,400	0
IX Profit (loss) for the year	8,419,844	30,899,786	(22,479,942)
Total Equity	144,574,199	165,105,000	(20,530,801)
(B) PROVISIONS FOR CONTINGENCIES AND CHARGES			
1 For pensions and similar provisions	167,890	70,000	97,890
2 For taxes, including deferred taxes	7,174,267	5,126,015	2,048,252
3 Other	1,148,602	905,042	243,560
Total provisions for contingencies and charges	8,490,759	6,101,057	2,389,702
(C) EMPLOYEES' LEAVING ENTITLEMENT	23,420,545	20,738,164	2,682,381
(D) PAYABLES			
4 Payables to banks			
due within one year	81,706,376	68,320,027	13,386,349
due after one year	8,091,181	30,108,234	(22,017,053)
5 Payables to other financial institutions			
due within one year	406,050	166,836	239,214
due after one year	3,408,311	3,326,418	81,893

(euro)	31.12.2005	31.12.2004	Change
7 Trade payables			
due within one year	94,231,712	95,933,928	(1,702,216)
8 Payables to subsidiary companies			
trade payables due within one year	18,106,068	13,632,449	4,473,619
financial payables due after one year	50,236,958	0	50,236,958
9 Payables to associated companies			
due within one year	519,904	1,005,967	(486,063)
12 Tax payables			
due within one year	3,444,797	3,266,451	178,346
13 Social security charges			
due within one year	6,852,824	5,567,652	1,285,172
due after one year	0	620,223	(620,223)
14 Other payables			
due within one year	15,910,070	10,974,571	4,935,499
due after one year	9,250,000	2,590,612	6,659,388
Total payables	292,164,251	235,513,368	56,650,883
(E) ACCRUALS AND DEFERRED INCOME			
(b) Other accruals and deferred income	657,214	1,373,757	(716,543)
Total accruals and deferred income	657,214	1,373,757	(716,543)
TOTAL LIABILITIES	**469,306,968**	**428,831,346**	**40,475,622**

BALANCE SHEET – MEMORANDUM AND CONTINGENCY ACCOUNTS

1 Personal guarantees granted:			
(a) Sureties:			
in favour of subsidiaries	106,495,171	59,841,947	46,653,224
in favour of others	17,946,910	5,947,686	11,999,224
5 Other memorandum accounts	14,068,838	40,326,007	(26,257,169)
TOTAL MEMORANDUM ACCOUNTS	**138,510,919**	**106,115,640**	**32,395,279**

INCOME STATEMENT

(euro)	*31.12.2005*	*31.12.2004*	*Change*
(A) PRODUCTION VALUE			
1 Sales of goods and services	505,428,560	489,679,925	15,748,635
2 Variation in inventories, work in progress, semi-finished and finished goods	2,951,877	3,098,560	(146,683)
5 Other revenues and income:			
(a) Contribution to period accounts	191,693	2,778	188,915
(b) Other revenues and income	9,676,063	11,261,267	(1,585,204)
Total production value	**518,248,193**	**504,042,530**	**14,205,663**
(B) PRODUCTION COSTS			
6 Raw materials, ancillaries, consumables and goods	277,285,401	264,866,542	12,418,859
7 Services	83,169,726	79,168,074	4,001,652
8 Use of third-party assets	8,296,197	8,298,644	(2,447)
9 Personnel expenses:	104,583,435	97,564,006	7,019,429
(a) Wages and salaries	72,145,676	67,081,320	5,064,356
(b) Social security contributions	23,942,748	22,571,783	1,370,965
(c) Employees' leaving entitlement	5,308,888	4,714,843	594,045
(e) Other costs	3,186,123	3,196,060	(9,937)
10 Depreciation, amortisation and other write-downs:	22,102,001	25,001,478	(2,899,477)
(a) Amortisation of intangible fixed assets	3,865,529	4,989,648	(1,124,119)
(b) Depreciation of tangible fixed assets	18,036,472	19,795,830	(1,759,358)
(d) Write-down of receivables included in current assets and liquid assets	200,000	216,000	(16,000)
11 Variation in inventories of raw materials, ancillaries, consumables and goods	(4,039,629)	(1,047,286)	(2,992,343)
12 Provision for contingencies	906,904	524,071	382,833
14 Other operating costs	1,184,366	850,859	333,507
Total production costs	**493,488,401**	**475,226,388**	**18,262,013**
Difference between production value and costs	**24,759,792**	**28,816,142**	**(4,056,350)**

(euro)	31.12.2005	31.12.2004	Change
(C) FINANCIAL INCOME AND CHARGES			
16 Other financial income:			
(d) Other income:			
other	224,371	179,352	45,019
17 Interest and other financial charges:			
other	(4,124,751)	(3,284,988)	(839,763)
17bis Exchange gains and losses	(250,795)	2,832,563	(3,083,358)
Total financial income and charges	(4,151,175)	(273,073)	(3,878,102)
(D) ADJUSTMENTS OF FINANCIAL ASSET VALUE			
18 Write-ups:			
(b) of financial assets not constituting investments	0	566	(566)
19 Write-downs:			
(a) of shareholdings	0	(756,637)	756,637
Total adjustments of financial asset value	0	(756,071)	756,071
(E) NON-RECURRING INCOME AND CHARGES			
20 Income:			
(a) Gains on disposal	0	4,110,079	(4,110,079)
(b) Other income	0	18,407,192	(18,407,192)
21 Charges:			
(b) Taxes from previous periods	0	(1,500,300)	1,500,300
(c) Other charges	0	(2,059,541)	2,059,541
Total non-recurring income and charges	0	18,957,430	(18,957,430)
Income before taxes	20,608,617	46,744,428	(26,135,811)
22 Income taxes for the year, current, deferred, and prepaid	(12,188,773)	(15,844,642)	3,655,869
26 NET INCOME (LOSS) FOR THE YEAR	**8,419,844**	**30,899,786**	**(22,479,942)**

Report of the Board of Statutory Auditors to the Shareholders' Meeting for Approval of the Financial Statements for the Year ended 31 December 2005

Shareholders,

Pursuant to Art. 153 of Legislative Decree No. 58 of 24 February 1998, 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 and 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 tasks as per Art. 149 of the above-mentioned Decree and are now able to report the following information, in compliance with the provisions of CONSOB Circular of 6 April 2001:

1. During Board Meetings and periodic checks, Company Directors constantly informed us on the most significant economic and financial transactions carried out by the company.
   These transactions regarded the streamlining of the group's real estate assets, the establishment of new companies and joint ventures, the restructuring of production sites, the simplification of the corporate structure, and the reorganisation of the shareholdings of the subsidiary Brembo Participation B.V. as part of the company's strategic development plan, in full compliance with the law and the memorandum of association.
   The most significant real-estate transactions included a new agreement with Pioneer Investment Management S.G.R. regarding the properties in Stezzano. This transaction entailed the withdrawal of the purchase option on the existing buildings that had been exercised in 2004 and entry into a new agreement for the construction and subsequent rental of new properties, and the signing of a lease agreement with Intesa Leasing S.p.A. for the construction of a new industrial shed in Mapello, where Italy's disc production activities will be concentrated.
   On 8 July 2005, Brembo and Simest signed an agreement for the formation of a new company in China for the manufacture and sale of brake components for original equipment. On 17 October 2005, Brembo S.p.A. and India's Kalyani Brakes Ltd, which is 80% held by Bosch, signed an agreement for the establishment of a 50:50 joint venture that will produce and sell braking systems for motorbikes.
   Following the above-mentioned agreements, on 3 August, the company Brembo China Brake Systems Co. Ltd. was incorporated. The joint venture is 60%-owned by Brembo and 40% by Simest and the Venture Capital Fund for China. On 4 February 2006, the company KBX Motorbike Products Private Ltd, headquartered in Pune, India began operating. The company is 50%-held by Brembo, and 50%-held by Bosch Chassis Systems India Ltd.
   During the year, a project involving the reorganisation of Italian production facilities was initiated. As part of the project, all product and process research and innovation activities will be concentrated at Stezzano, braking system and light-alloy wheel module production will be concentrated at Curno, and Mapello will become the centre of excellence for the manufacture of brake discs, with integration of the foundry, mechanical processing and logistics processes.
   Finally, to streamline the Group's structure the merger by incorporation of Bibielle S.p.A. into Brembo S.p.A., which already held 100% of its share capital, was carried out.
   With reference to the equity investments held by Brembo Participations B.V., the most significant transactions were the

acquisition of a further 10% stake in Brembo Japan Co. Ltd, now fully owned by Brembo and the €5.2 million capital increase of Brembo Poland Spolka Zo.o., as an additional means of financing investments for construction of the new cast-iron foundry.

2. In 2005, the Company did not carry out any atypical or unusual transactions.
   No atypical or unusual transactions 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 transactions were carried out with third parties or with Group companies.
   Ordinary transactions within the Group and related parties involved the purchase and sale of products and services, and the transfer of manufacturing equipment. All the transactions took place at prices that are in line with normal market values. These transactions are deemed fair and have been carried out in the interest of the Company.
   In 2005, Brembo S.p.A. did not repay any loans nor did it open new loans in favour of subsidiaries and associated companies.
   On 26 October 2005, Brembo S.p.A. received a €50 million loan (spread: 3m EURIBOR +0.4%, maturity date: 26 October 2010) from subsidiary Brembo International S.A. The subsidiary granted the loan after first placing a bond with the same conditions in terms of amount, maturity and rates with private institutional investments.
3. It is noted that the Directors' Report on Operations contains specific detailed information regarding intra-Group transactions and transactions with related parties.
   Directors also reported on the incentive plan for Group executive directors and top management, the "Rewarding Corporate Performance Plan" for the 2003-2005 period, extendible to June 2006.
   Lastly, they reported on the buy-back plan confirmed by the Shareholders' Meeting of 26 April 2004, which led to the approval at the extraordinary session of the Shareholders' Meeting of 29 April 2005 of a resolution to decrease share capital by cancelling 3,056,000 ordinary shares held by the company.
4. The Independent Auditors' Report drafted on 12 April 2006 does not set forth any items particularly worthy of note.
5. In 2005, we did not receive any complaints as per Art. 2408 of the Italian Civil Code.
6. In 2005, no claims were submitted to the Board of Statutory Auditors.
7. The company's Independent Auditors were assigned the task of auditing the IFRS reconciliation statements for a fee totalling €150,000, while a fee of €63,000 was paid for an assignment completed in 2004.
8. No mandates were conferred to parties with an ongoing relationship with PricewaterhouseCoopers.
9. During the financial year, the Board gave opinions as per Art. 2386 of the Italian Civil Code with regard to the co-opting of Directors and the integration of the appointment of the auditing firm as auditor.
10. During 2005, the Board of Directors met eight times and the Board of Statutory Auditors met five times, whereas the Audit Committee met four 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 decidedly adequate for its current size.
13. The internal audit system 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 auditing 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 of particular significance or direct employee responsibility.

In 2005, the auditors continued conducting audits at the foreign subsidiaries, as expressly requested by the Audit Committee.

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.

    The Company has completed its transition to IFRS. These standards will be applied beginning with the 2006 Financial Statements. The 2005 Consolidated Financial Statements, on the other hand, were prepared according to the International Financial Reporting Standards. For comparison purposes, the statements include prior-period figures stated in accordance with IFRS as well as information on the reconciliation statements as required by IFRS1.
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 2005, fully complying with the provisions of "Corporate Governance of Listed Companies" and those required for listing with the STAR segment and the approval of an updated version of the Corporate Governance Manual.

    The company continued 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.

    Specifically, a training programme was put in place for top management and all persons with leadership roles in relation to the provisions of Legislative Decree 231/2001 and Brembo's Organisation, Management and Control Model, which was approved by the Board of Directors on 11 February 2005.

    In compliance with the recent regulation on market abuse, the Company has updated its procedures on handling inside information and Internal Dealing.

    Guidelines on investor relations and the disclosure of confidential and price-sensitive information are included in a section of Brembo's Corporate Governance Manual that incorporates the main contents of the Guidelines for Information to the Market; the Company is committed to providing ongoing and constant information to its shareholders and institutional investors, based on criteria of correctness, clarity 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 website 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 year, we carried out the monitoring activities set forth in Article 149.

    During the meetings of the Board of Directors and our periodic meetings with the Directors, we were immediately informed of significant transactions 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 Auditing 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 2005 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 2006

BOARD OF STATUTORY AUDITORS

Mr. Sergio Mazzoleni *(Chairman)*

Mr. Enrico Cervellera *(Auditor)*

Mr. Andrea Puppo *(Auditor)*

PRICEWATERHOUSECOOPERS

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 as of 31 December 2005. 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 our report dated 12 April 2005.

3 In our opinion, the financial statements of Brembo SpA as of 31 December 2005 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.

Milan, 12 April 2006

PricewaterhouseCoopers SpA

Signed by

Luigi Migliavacca
(Partner)

"This report has been translated from the original which was issued in accordance with the Italian legislation. References in this report to the Financial Statement refer to the Financial Statement in original Italian and not to their translation".

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel 0277851 Fax 027785240 Cap Soc 3.754 400,00 Euro i.v C.F. e P. IVA e Reg. Imp. Milano 12979880155 Iscritta al n 43 dell Albo Consob – Altri Uffici: **Bari** 70125 Viale della Repubblica 110 Tel. 0805429863 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25124 Via Cefalonia 70 Tel. 0302219811 – **Firenze** 50129 Viale Milton 65 Tel 0554627100 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 0817644441 – **Padova** 35137 Largo Europa 16 Tel. 0498762677 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel 06570251 – **Torino** 10129 Corso Montevecchio 37 Tel. 011556771 – **Trento** 38100 Via Manzoni 16 Tel. 0461237004 – **Treviso** 31100 Viale Felissent 90 Tel 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel 0403480781 – **Udine** 33100 Via Poscolle 43 Tel 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel 0458002561

Appendix: Transition to International Accounting Standards

Appendix: Transition to International Accounting Standards

Introduction

Following the implementation of European Regulation No. 1606/2002, with effect from 2005 companies with securities admitted for trading on a regulated market of member states of the European Union must draw up consolidated financial statements which conform with international accounting principles (IAS/IFRS) issued by the International Accounting Standard Board (IASB) and approved by the European Community.
As required by CONSOB Resolution No. 14990 of 14 April 2005, which confirmed certain amendments to its Rules for Issuers relating to interim financial reporting and the procedures for transitioning to the international accounting standards and which introduced a transitory system for adopting the IAS, the Brembo Group prepared its consolidated Six Monthly Report by 30 September 2005 in accordance with the provisions of Article 81bis of the Rules for Issuers. The Report presents figures for the six-month period in accordance with Italian standards and provides the reconciliations required by Article 81bis and IFRS1.

This note therefore provides:

- the reconciliation statements and the related explanatory notes required by IFRS1 – first adoption of IFRS – of the consolidated equity and net income for the financial period according to previous accounting principles and current international standards as well as the reconciliation statements for the accounting balances shown in the financial statements compared to the values calculated following the adoption of the international accounting standards:
  - at the transition date (1/1/2004)
  - at the date of the period shown for comparative purposes (31/12/2004)
- the reference international accounting standards and the criteria used by the Group in preparing the reconciliation statements.

These statements are provided solely for the purposes of the transitional arrangements for drawing up the first consolidated financial statements at 31 December 2005 completed according to IFRS as required by the European Community. This document does not set out all the schedules, comparative data and explanatory notes which would be necessary to provide a complete disclosure of the balance sheet and financial position and income statement results of the Brembo Group under IFRS principles.

Finally, it should be noted that IFRS 1 reconciliation statements will form the comparative data published in the first consolidated financial statements completed according to IFRS; these amounts could be subject to certain adjustments which may be necessary should any of the international accounting principles or interpretation of the same be revised or modified prior to the publication of such financial statements.

Options Envisaged in IFRS 1

IFRS 1 has a retroactive effect ("the opening balance sheet must be restated as if it had always been prepared according to the principles and interpretations which that in the first year of adoption").
With reference to the preparation of the opening Balance Sheet, except as explained below, the Brembo Group has:

- recognised all the assets and liabilities where recognition is required by IAS/IFRS;
- not recognised as assets or liabilities those items which are required not to be accounted for under IAS/IFRS;
- reclassified certain items in the accounts according to the provisions of IAS/IFRS;
- applied IFRS in the valuation of all the assets and liabilities shown.

As part of its first-time adoption, Brembo has made certain choices relating to the exemption options envisaged in IFRS1 for the preparation of the opening balance sheet (1/1/2004).
Specifically, the principal options relate to:

- Employee benefits: actuarial profits and losses accumulated from the beginning of the plans to the date of IFRS adoption are fully recognised in equity;
- Business combinations: transactions preceding the transition date (1 January 2004) have not been restated;
- Accumulated translation differences: accumulated currency translation differences for all overseas operations are assumed to be zero at the date of IFRS adoption, reclassifying the previous reserve for conversion of reserve arising on consolidation;
- Recognition of fixed assets: property, plant and equipment and intangible assets continue to be valued at cost;
- Financial instruments: the principles of IAS 32 and 39 have already been applied in the opening balance sheet at 1/1/2004.

Reconciliation Statements of the Consolidated Equity and Net Income Based on Previous Accounting Accounting Standards and Those Based on IAS/IFRS

Set out below is a description of the principal differences between Italian accounting principles and IFRS which have had an effect on the consolidated financial statements of Brembo. The amounts shown in thousands of euro are stated gross of the related tax impact which is summarised separately.

		Notes	*Equity 1.01.2004*	*Income before minority interests 2004*	*Equity 31.12.2004*
Amounts according to previous accounting standards			181.240	35.415	211.002
IAS 2	Inventories valuation	(1)	(818)	618	(200)
IAS 16	Property, plant and equipment (separation of land, useful life of the assets)	(2)	1,429	121	1,555
IAS 19	Employee benefits (TFR, pension funds)	(3)	(4,497)	457	(4,041)
IAS 20	Government grants (subsidised interest rates, grants)	(4)	659	3	593
IAS 21	The effects of changes in foreign exchange rates (recording of foreign currency items at year-end rates	(5)	2,672	(2,671)	0
IAS 36 – IFRS 3	Impairment of goodwill and of business combination differences	(6)	1,360	2,834	4,108
IAS 37	Present value of other long-term liabilities (due after 12 months)	(7)	112	23	134
IAS 38	Intangible assets (recognition of development costs as intangible assets and write-off of start-up and capital costs)	(8)	2,569	5,470	8,041
IAS 39	Financial instruments (own shares and fair value of derivatives)	(9)	(15,587)	(33)	(16,469)
Total adjustments			(12,101)	6,822	(6,279)
IAS 12	Fiscal effect of the adjustments	(10)	(1,269)	(1,611)	(2,601)
Total adjustments after the fiscal effects			(13,370)	5,211	(8,880)
Amounts according to IFRS			167,870	40,626	202,122

Explanatory Notes on the Major IAS/IFRS Adjustments to Equity and Net Income at 1 January 2004

(1) IAS 2 – Inventories valuation: in accordance with IAS 2 the LIFO method of inventory valuation, where applied, has been discontinued in favour of the weighted average cost method. The adjustment refers mainly to Brembo S.p.A. which used to value most of its inventory categories using the LIFO method (not envisaged under IFRS). This change of accounting policy resulted in a reduction of the inventory value by €818 thousand at 1 January 2004 with a negative impact of €513 thousand on opening equity, net of €305 thousand deferred tax assets. The impact in 2004 was positive, with an adjustment of €388 thousand on the result, reducing the negative adjustment on inventory to €200 thousand and the adjustment to closing equity to €125 thousand.

(2) IAS 16 – Property, plant and equipment: the value of buildings has been restated, with the separation of the component no longer subject to depreciation which, in the transition phase, was reclassified as land. This change of accounting policy, primarily applied to the Parent Company Brembo S.p.A., increased the value of land by €1,429 thousand at 1 January 2004 with a positive effect of €906 thousand on opening equity, net of €523 thousand deferred taxes. The net impact in 2004 was positive, improving the result by €77 thousand and the closing equity by €988 thousand.

(3) IAS 19 – Employee benefits: the methods of valuation and accounting for certain benefits, based on IAS 19, are different from those previously used by the Group. In particular, the valuation of the pension plans and other employee benefits has been carried out with the assistance of an international firm specialising in actuarial calculations. In relation to post-employment benefits for the Italian companies in the Group, the restatement of the accrued liability to employees under the Employees' leaving entitlement using the actuarial method has resulted in a positive effect on the balance sheet reserves. Nevertheless, the impact on opening IFRS-compliant equity at 1 January 2004 was negative for €3,202 thousand net of €1,295 thousand for deferred tax assets. The reduction of equity is attributable to the pension plans of the British consolidated company (AP Racing) compared to a modest positive impact on the equity of the Italian companies. The net impact on 2004 income was positive for €309 thousand, thus reducing the negative overall impact on closing equity to approximately €2,894 thousand.

(4) IAS 20 – Government grants: the recalculation at market rates of the government grants received at subsidised rates of interest, primarily impacting on R&D costs, and the grants received for operating investments credited to the income statement over the period of depreciation of the relevant asset has resulted in a positive impact at 1 January 2004 of €353 thousand on opening equity, net of deferred taxes amounting to €306 thousand. The net impact in 2004 was positive at €2 thousand and amounted to €286 thousand on equity at 31 December 2004.

(5) IAS 21 – Effects of changes in foreign exchange rates: the cumulative differences on translation (translation reserve), amounting to a deficit of €17,730 thousand, have been written off to "Retained earnings". Furthermore, at 1 January 2004 the Parent Company recognised exchange gains in the amount of €1,790 thousand (recording their effect in equity items), net of the related tax impact of €882 thousand, due to the translation of receivables and payables in foreign currency at the end of financial year 2003. In previous financial statements, these items had not been

recognised for reasons of prudence and favourable fiscal treatment. This adjustment had an equal and opposite effect on the income statement in 2004 (lower exchange gains). With effect as of 31 December 2004, the recording of exchange differences, including gains, has already been effected in the financial statements of the individual companies as well as in the consolidated financial statements.

(6) IAS 36/IFRS 3 – Business combinations: following application of IFRS3, goodwill is no longer subject to amortisation but is subject to at least an annual impairment test of the carrying value. This test has been carried out according to the principles of IAS 36. At 1 January 2004 and at 31 December 2004, the Company has subjected each CGU (Cash Generating Unit) for which a goodwill value had been recognised to an impairment test. The tests were carried out by discounting to present value the cash flows expected from the operation of each CGU. The discount rate used is determined by the WACC (Weighted Average Cost of Capital) method. These tests did not give rise to impairment adjustments in the opening equity at 1 January 2004. In the income statement for 2004, the elimination of goodwill amortisation and the recalculation of the implicit financial component resulting from the dilution of the acquisition price for the business branch of Bradi S.p.A. had a positive impact on net income amounting to €2,557 thousand, net of deferred taxes totalling €277 thousand. The net effect on the closing equity at 31 December 2004 was an increase of €3,831 thousand.

(7) IAS 37 – Present value of other long term liabilities: these refer primarily to the discounting to present value of estimated liabilities where payment is deferred to future periods. Overall, the amount of this adjustment is not material.

(8) IAS 38 – Intangible assets: certain types of multiannual costs (start-up and expansion costs) can no longer be capitalised under IFRS. The net accounting values on the date of transition have therefore been reversed and written off to balance sheet reserves. In addition, development costs that meet the requirements laid down by IAS 38 for capitalisation have been capitalised and then amortised from the start of production and throughout the average economic life of the related products.
Development costs relating to job orders opened in 2003 for which further development costs were incurred in 2004 were deferred. Development costs relating to job orders closed during the year were amortised. This change in accounting policy of the two above-mentioned items impacted the opening equity at 1 January 2004 for €1,712 thousand, net of deferred taxes amounting to €857 thousand. The impact on the 2004 result due to reduced amortisation for internal capitalisation has been positive and amounted to €3,682 thousand, for a positive impact on closing equity of €5,386.

(9) IAS 32 and 39 – Financial instruments: transactions which, with regard to the risk management policies adopted by the Group, meet the prerequisites set out for treatment as hedge accounting have been classified as hedging operations; the others, by contrast, although nevertheless established with the intention of managing risk exposure (of exchange or interest), have been classified as dealing transactions. Valuation at fair value of interest rate swap contracts (IRS) in relation to the medium-term financing undertaken by certain Group companies and operated to provide exchange rate hedging by Brembo S.p.A has resulted in an increase of net financial assets by €802 thousand and a net increase in the opening equity by €538 thousand. In 2004, the impact of these operations on the income statement

was negative by €17 thousand net of the tax effect of €12 thousand, whilst the net reduction effect on the equity at 31 December 2004 was €53 thousand.

Own shares, previously stated in financial fixed assets, have been reclassified to reduce equity. The overall impact can be summarised as a reduction in non-current financial assets of €16,389 thousand with a corresponding reduction in the opening consolidated equity at 1 January 2004 and 31 December 2004.

(10) **IAS 12 – Deferred tax assets and liabilities:** the item includes the effect of the net impact of deferred taxes on the above-mentioned IFRS adjustments amounting to €1,269 thousand reduction in the opening equity, €1,611 thousand increased taxes in the 2004 income statement, and €2,601 thousand overall reduction in the equity at 31 December 2004.

Reconciliation Statement of Balance Sheet, Income Statement and Cash Flow Statement Results

Changes in the individual balance sheet and income statement items may result from the application of a number of international accounting standards, some of which have a marginal impact. The tables following the statements refer to the principles that have a prevalent impact.

CONSOLIDATED BALANCE SHEET AT 1 JANUARY 2004 AND AT 31 DECEMBER 2004 BASED ON IAS/IFRS

Balance Sheet at 1 January 2004

(euro thousand)	*Notes*	*Previous principles IAS schedule*	*Effects of transition to IAS / IFRS*	*IAS / IFRS IAS schedule*
ASSETS				
Non-current assets				
Property, plant, equipment and other equipment		183,626	3,418	187,044
Development costs		377	3,001	3,378
Goodwill and other undefined useful life assets		13,710	1,129	14,839
Other intangible assets		11,614	(2,190)	9,424
Investments accounted for using the equity method		4,929	0	4,929
Other financial assets (investments in other companies and derivatives)		22,358	(16,389)	5,969
Deferred tax assets		1,953	2,409	4,362
Total non-current assets		**238,567**	**(8,622)**	**229,945**
Current assets				
Trade receivables and receivables from other Group companies		148,252	560	148,812
Inventories		109,896	(818)	109,078
Other receivables and current assets		17,137	(1,515)	15,622
Financial current assets and derivatives		0	802	802
Cash and cash equivalents		33,359	0	33,359
Total current assets		**308,644**	**(971)**	**307,673**
Non-current assets held for sale and discontinued operations		0	0	0
TOTAL ASSETS		547,211	(9,593)	537,618
EQUITY AND LIABILITIES				
Group equity				
Share capital		36,317	0	36,317
Other reserves		86,966	(16,389)	70,577
Retained earnings		19,531	3,146	22,677
Profit / (loss) for the period		29,303	0	29,303
Total Group equity		**172,117**	**(13,243)**	**158,874**
Minority interests		**9,123**	**(127)**	**8,996**
TOTAL EQUITY		**181,240**	**(13,370)**	**167,870**
Non-current liabilities				
Non-current payables to banks		61,818	0	61,818
Other non-current financial payables		19,934	0	19,934
Other non-current payables		3,013	0	3,013
Provisions for contingencies and charges		530	0	530
Long-term provisions for employee benefits		19,622	2,982	22,604
Deferred tax liabilities		5,448	3,678	9,126
Total non-current liabilities		**110,365**	**6,660**	**117,025**
Current liabilities				
Current payables to banks	(11)	82,033	(2,285)	79,748
Other current financial payables	(11)	3,383	(287)	3,096
Trade payables and payables to other Group companies		132,499	(467)	132,032
Tax payables		15,606	0	15,606
Other current payables		22,085	156	22,241
Total current liabilities		**255,606**	**(2,883)**	**252,723**
TOTAL EQUITY AND LIABILITIES		547,211	(9,593)	537,618

Balance Sheet at 31 December 2004

(euro thousand)	Notes	Previous principles IAS schedule	Effects of transition to IAS / IFRS	IAS / IFRS IAS schedule
ASSETS				
Non-current assets				
Property, plant, equipment and other equipment		216,798	5,239	222,037
Development costs		25	9,491	9,516
Goodwill and other undefined useful life assets		11,524	3,288	14,812
Other intangible assets		10,415	(3,989)	6,426
Investments accounted for using the equity method		8,708	3	8,711
Other financial assets (investments in other companies and derivatives)		22,132	(16,389)	5,743
Receivables and other non-current assets		2,369	0	2,369
Deferred tax assets		1,005	1,855	2,860
Total non-current assets		**272,976**	**(502)**	**272,474**
Current assets				
Inventories		118,676	(201)	118,475
Trade receivables		149,677	(170)	149,507
Other receivables and current assets		26,784	(2,573)	24,211
Financial current assets and derivatives		5	0	5
Cash and cash equivalents		27,516	0	27,516
Total current assets		**322,658**	**(2,944)**	**319,714**
TOTAL ASSETS		595,634	(3,446)	592,188
EQUITY AND LIABILITIES				
Group equity				
Share capital		36,317	0	36,317
Other reserves		83,037	2,396	85,433
Retained earnings / (losses)		47,565	(16,337)	31,228
Profit / (loss) for the period		34,331	5,223	39,554
Total Group equity		**201,250**	**(8,718)**	**192,532**
Minority interests		**9,752**	**(162)**	**9,590**
TOTAL EQUITY		**211,002**	**(8,880)**	**202,122**
Non-current liabilities				
Non-current payables to banks		44,279	0	44,279
Other non-current financial payables and derivatives		19,092	47	19,139
Other non-current payables		13,109	(976)	12,133
Reserve for non-current contingencies and charges		2,753	(100)	2,653
Provisions for employee benefits		22,121	2,569	24,690
Deferred tax liabilities		6,379	4,454	10,833
Total non-current liabilities		**107,733**	**5,994**	**113,727**
Current liabilities				
Current payables to banks	(11)	105,284	(518)	104,766
Other current financial payables and derivatives		2,516	(380)	2,136
Trade payables		138,073	0	138,073
Tax payables		1,218	0	1,218
Other current payables		29,808	338	30,146
Total current liabilities		**276,899**	**(560)**	**276,339**
TOTAL EQUITY AND LIABILITIES		595,634	(3,446)	592,188

(11) The decrease in net financial indebtedness resulting from the adjustments made to comply with the IAS/IFRS is attributable:

- in the opening balance sheet, to adjustments arising from the translation of foreign currency items (advances in foreign currency) using the year-end exchange rate, for a total of €1,645 thousand, with zero effect on 31 December 2004 balances;
- to the recalculation of low-interest medium-term debts, to enable recognition of the benefit arising from soft interest rates in opening equity, for €640 thousand. In the closing balance sheet, such effect, including the benefit of newly obtained low-interest financing, net of the increased financial charges deriving from the adjustment of existing low-interest financing to market rates, amounted to €518 thousand.

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2004 BASED ON IAS/IFRS

Income Statement for the year ended 31 December 2004

(euro thousand)	*Notes*	*Previous principles IAS schedule*	*Effects of transition to IAS / IFRS*	*IAS schedule*
Sales of goods and services		**678,180**	**0**	**678,180**
Other revenues and income		13,740	841	14,581
Costs for capitalised internal works		0	6,880	6,880
Cost of raw materials, consumables and goods		(323,005)	618	(322,387)
Other operating costs for production		(132,292)	(1,160)	(133,452)
Personnel expenses		(134,227)	1,318	(132,909)
Gross operating income		**102,398**	**8,495**	**110,893**
Depreciation, amortisation and other write-downs		(42,870)	1,978	(40,892)
NET OPERATING INCOME	**(12)**	**59,528**	**10,473**	**70,001**
Net financial income (charges)		(726)	(3,654)	(4,380)
Net financial income (charges) from investments		(729)	3	(726)
Income before taxes		**58,073**	**6,822**	**64,895**
Taxes		(22,657)	(1,612)	(24,269)
Income before minority interests		**35,416**	**5,210**	**40,626**
Minority interests		(1,085)	13	(1,072)
NET INCOME (LOSS) FOR THE PERIOD	(13)	34,331	5,223	39,554

In the Income Statement, the main reclassifications involved the arrangement of the positive and negative components that were posted as extraordinary charges and income according to the previous standards on the individual lines of the income statement.

(12) Following the adjustments analysed in the statements below, consolidated sales of goods and services remained unaltered. Net operating income increased from €59,529 thousand to €70,001 thousand at 31 December 2004.
The positive impact on results was mainly attributed to the capitalisation of development expenses, net of amortisation (€6,488 thousand at 31 December 2004), and the elimination of the amortisation of goodwill and business combination differences (€2,830 thousand at 31 December 2004).

(13) Net income increased from €34,330 thousand to €39,554 thousand at 31 December 2004;
In 2004, net income was mainly impacted by the elimination of the financial component arising from both the discounting of low-interest medium-term debts and amounts due to employees.

Reclassification: Reclassification of items in both the opening Balance Sheet and the closing Balance Sheet at 31 December 2004, both of which are shown below, mainly involved the attribution of leasehold improvements to the assets to which they refer.

Balance Sheet at 1 January 2004

(euro thousand)	*Previous principles IAS schedule*	*Reclassification*	*IAS 2*	*IAS 16*
ASSETS				
Non-current assets				
Property, plant, equipment and other equipment	183,626	1,989		1,429
Development costs	377			
Goodwill and other undefined useful life assets	13,710			
Other intangible assets	11,614	(1,989)		
Investments accounted for using the equity method	4,929			
Other financial assets (investments in other companies and derivatives)	22,358			
Deferred tax assets	1,953		312	
Total non-current assets	**238,567**	**0**	**312**	**1,429**
Current assets				
Trade receivables and receivables from other Group companies	148,252			
Inventories	109,896		(818)	
Other receivables and current assets	17,137			
Financial current assets and derivatives	0			
Cash and cash equivalents	33,359			
Total current assets	**308,644**	**0**	**(818)**	**0**
Non-current assets held for sale and discontinued operations	**0**			
TOTAL ASSETS	547,211	0	(506)	1,429
EQUITY AND LIABILITIES				
Group equity				
Share capital	36,317			
Other reserves	86,966			
Retained earnings	19,531		(513)	930
Profit / (loss) for the period	29,303			
Total Group equity	**172,117**	**0**	**(513)**	**930**
Minority interests	**9,123**			**(24)**
TOTAL EQUITY	**181,240**	**0**	**(513)**	**906**
Non-current liabilities				
Non-current payables to banks	61,818			
Other non-current financial payables	19,934			
Other non-current payables	3,013			
Provisions for contingencies and charges	530			
Long-term provisions for employee benefits	19,622			
Deferred tax liabilities	5,448		7	523
Total non-current liabilities	**110,365**	**0**	**7**	**523**
Current liabilities				
Current payables to banks	82,033			
Other current financial payables	3,383			
Trade payables and payables to other Group companies	132,499			
Tax payables	15,606			
Other current payables	22,085			
Total current liabilities	**255,606**	**0**	**0**	**0**
TOTAL EQUITY AND LIABILITIES	547,211	0	(506)	1,429

IAS 19	IAS 20	IAS 21	IAS 36 IFRS 3	IAS 37	IAS 38	IAS 39	Effects of conversion to IAS / IFRS	IAS / IFRS IAS schedule
							3,418	187,044
					3,001		3,001	3,378
			1,139		(10)		1,129	14,839
			221		(422)		(2,190)	9,424
							0	4,929
						(16,389)	(16,389)	5,969
1,896					159	42	2,409	4,362
1,896	**0**	**0**	**1,360**	**0**	**2,728**	**(16,347)**	**(8,622)**	**229,945**
		560					560	148,812
							(818)	109,078
(1,515)							(1,515)	15,622
						802	802	802
							0	33,359
(1,515)	**0**	**560**	**0**	**0**	**0**	**802**	**(971)**	**307,673**
							0	**0**
381	0	560	1,360	0	2,728	(15,545)	(9,593)	537,618
							0	36,317
						(16,389)	(16,389)	70,577
(3,202)	439	1,790	1,360	74	1,725	543	3,146	22,677
							0	29,303
(3,202)	**439**	**1,790**	**1,360**	**74**	**1,725**	**(15,846)**	**(13,243)**	**158,874**
	(86)			**1**	**(13)**	**(5)**	**(127)**	**8,996**
(3,202)	**353**	**1,790**	**1,360**	**75**	**1,712**	**(15,851)**	**(13,370)**	**167,870**
							0	61,818
							0	19,934
							0	3,013
							0	530
2,982							2,982	22,604
601	306	882		37	1,016	306	3,678	9,126
3,583	**306**	**882**	**0**	**37**	**1,016**	**306**	**6,660**	**117,025**
	(640)	(1,645)					(2,285)	79,748
	(287)						(287)	3,096
		(467)					(467)	132,032
							0	15,606
	268			(112)			156	22,241
0	**(659)**	**(2,112)**	**0**	**(112)**	**0**	**0**	**(2,883)**	**252,723**
381	0	560	1,360	0	2,728	(15,545)	(9,593)	537,618

Balance Sheet at 31 December 2004

(euro thousand)	Previous principles IAS schedule	Reclassification	IAS 2	IAS 16
ASSETS				
Non-current assets				
Property, plant, equipment and other equipment	216,798	3,782		1,554
Development costs	25			
Goodwill and other undefined useful life assets	11,524			
Other intangible assets	10,415	(3,782)		
Investments accounted for using the equity method	8,708			
Other financial assets (investments in other companies and derivatives)	22,132			
Receivables and other non-current assets	2,369			
Deferred tax assets	1,005	(997)	312	
Total non-current assets	**272,976**	**(997)**	**312**	**1,554**
Current assets				
Inventories	118,676		(201)	
Trade receivables	149,677	(170)		
Other receivables and current assets	26,784			
Financial current assets and derivatives	5			
Cash and cash equivalents	27,516			
Total current assets	**322,658**	**(170)**	**(201)**	**0**
TOTAL ASSETS	595,634	(1,167)	111	1,554
EQUITY AND LIABILITIES				
Group equity				
Share capital	36,317			
Other reserves	83,037	18,785		
Retained earnings / (losses)	47,565	(18,785)	(513)	934
Profit / (loss) for the period	34,331		388	78
Total Group equity	**201,250**	**0**	**(125)**	**1,012**
Minority interests	**9,752**			**(24)**
TOTAL EQUITY	**211,002**	**0**	**(125)**	**988**
Non-current liabilities				
Non-current payables to banks	44,279			
Other non-current financial payables and derivatives	19,092			
Other non-current payables	13,109			
Reserve for non-current contingencies and charges	2,753	(100)		
Provisions for employee benefits	22,121	(70)		
Deferred tax liabilities	6,379	(997)	238	566
Total non-current liabilities	**107,733**	**(1,167)**	**236**	**566**
Current liabilities				
Current payables to banks	105,284			
Other current financial payables and derivatives	2,516			
Trade payables	138,073			
Tax payables	1,218			
Other current payables	29,808			
Total current liabilities	**276,899**	**0**	**0**	**0**
TOTAL EQUITY AND LIABILITIES	595,634	(1,167)	111	1,554

IAS 19	*IAS 20*	*IAS 21*	*IAS 36 IFRS 3*	*IAS 37*	*IAS 38*	*IAS 39*	*Effects of conversion to IAS / IFRS*	*IAS / IFRS IAS schedule*
					(97)		5,239	222,037
					9,491		9,491	9,516
			3,295		(7)		3,288	14,812
			(31)		(176)		(3,989)	6,426
			3				3	8,711
						(16,389)	(16,389)	5,743
							0	2,369
1,860					630	50	1,855	2,860
1,860	**0**	**0**	**3,267**		**9,841**	**(16,339)**	**(502)**	**272,474**
							(201)	118,475
							(170)	149,507
(1,403)					(1,170)		(2,573)	24,211
							0	5
							0	27,516
(1,403)	**0**	**0**	**0**	**0**	**(1,170)**	**0**	**(2,944)**	**319,714**
457	0	0	3,267		8,671	(16,339)	(3,446)	592,188
							0	36,317
						(16,389)	2,396	85,433
(3,204)	392	1,790	1,274	74	1,726	(25)	(16,337)	31,228
310	2	(1,790)	2,557	15	3,681	(18)	5,223	39,554
(2,894)	**394**	**0**	**3,831**	**89**	**5,407**	**(16,432)**	**(8,718)**	**192,532**
	(108)			**1**	**(21)**	**(10)**	**(162)**	**9,590**
(2,894)	**286**	**0**	**3,831**	**90**	**5,386**	**(16,442)**	**(8,880)**	**202,122**
							0	44,279
						47	47	19,139
			(841)	(135)			(976)	12,133
							(100)	2,653
2,639							2,569	24,690
712	307	0	277	45	3,285	23	4,454	10,833
3,351	**307**	**0**	**(564)**	**(90)**	**3,285**	**70**	**5,994**	**113,727**
	(518)						(518)	104,766
	(413)					33	(380)	2,136
							0	138,073
							0	1,218
	338						338	30,146
0	**(593)**	**0**	**0**	**0**	**0**	**33**	**(560)**	**276,339**
457	0	0	3,267	0	8,671	(16,339)	(3,446)	592,188

Income Statement for the year ended 31 December 2004

(euro thousand)	*Previous principles IAS schedule*	*IAS 2*	*IAS 16*
Sales of goods and services	**678,180**		
Other revenues and income	13,740		
Costs for capitalised internal works	0		
Cost of raw materials, consumables and goods	(323,005)	618	
Other operating costs for production	(132,292)		
Personnel expenses	(134,227)		
Gross operating income	**102,398**	**618**	**0**
Depreciation, amortisation and other write-downs	(42,870)		121
Net operating income	**59,528**	**618**	**121**
Net financial income (charges)	(726)		
Net financial income (charges) from investments	(729)		
Income before taxes	**58,073**	**618**	**121**
Taxes	(22,657)	(230)	(44)
Income before minority interests	**35,416**	**388**	**78**
Minority interests	(1,085)		
NET INCOME (LOSS) FOR THE PERIOD	34,331	388	78

IAS 19	*IAS 20*	*IAS 21*	*IAS 36 IFRS 3*	*IAS 37*	*IAS 38*	*IAS 39*	*Effects of adoption of IAS/IFRS*	*IAS / IFRS*
							0	**678,180**
			841				841	14,581
					6,880		6,880	6,880
							618	(322,387)
116			1		(1,278)		(1,160)	(133,452)
1,250				67			1,318	(132,909)
1,366	**0**	**0**	**842**	**67**	**5,602**	**0**	**8,495**	**110,893**
			1,989		(132)		1,978	(40,892)
1,366	**0**	**0**	**2,831**	**67**	**5,470**	**0**	**10,473**	**70,001**
(908)	3	(2,671)		(44)		(33)	(3,654)	(4,380)
			3				3	(726)
458	**3**	**(2,671)**	**2,834**	**23**	**5,470**	**(33)**	**6,822**	**64,895**
(148)	(1)	881	(277)	(8)	(1,797)	12	(1,612)	(24,269)
310	**2**	**(1,790)**	**2,557**	**15**	**3,673**	**(22)**	**5,210**	**40,626**
				(0)	9	4	13	(1,072)
310	2	(1,790)	2,557	15	3,681	(18)	5,223	39,554

Cash-Flow Statement for the period ended 31 December 2004

(euro thousand)	*Previous principles IAS schedule*	*Reclassification*	*IAS 2*	*IAS 16*
Cash and cash equivalents at beginning of year	**2,443**	**0**	**0**	**0**
Net income for the period before taxes	**58,073**	**0**	**618**	**121**
Depreciation, amortisation/Write-downs	42,871			(121)
Gains/Losses from disposal of fixed assets	(3,977)			
Write-ups/Write-downs of shareholdings and other write-ups	730			
Financial portion of funds relating to payables for personnel	0			
Long-term provisions for employee benefits	5,309			
Other provisions net of utilisations	1,889	(140)		
Net working capital generated by operations	**104,894**	**(140)**	**618**	**0**
Paid current taxes	(20,725)			
Uses to long-term provisions for employee benefits	(2,811)			
(Increase) reduction in current assets:				
inventories	(8,926)		(618)	
financial assets	218			
trade receivables	(3,073)			
receivables from others and other assets	(7,136)			
Increase (reduction) in current liabilities:				
trade payables	7,430			
payables to others and other liabilities	(7,722)	140		
Translation differences on current assets	2,010			
Net cash flow from (for) operating activities	**64,159**	**0**	**0**	**0**
Investments in:				
intangible assets	(5,113)	2,018		
property, plant and equipment	(73,870)	(2,018)		
financial fixed assets - shareholdings	(6,500)			
payables for Bradi acquisition	11,140			
Cost price for disposal, or reimbursement value of fixed assets	12,576			
receivables for sale of fixed assets	(2,708)			
Net cash flow from (for) investing activities	**(64,475)**	**0**	**0**	**0**
Dividends paid in the year	(8,682)			
Other variations	51			
Change in equity of minority interests	22			
Loans and financing granted by banks and other financial institutions	3,396			
Repayment of long-term loans	(47,059)			
Net cash flow from (for) financing activities	**(52,272)**	**0**	**0**	**0**
Total cash flow	**(52,588)**	**0**	**0**	**0**
Cash and cash equivalents at end of year	**(50,145)**	**0**	**0**	**0**

IAS 19	*IAS 20*	*IAS 21*	*IAS 36 IFRS 3*	*IAS 37*	*IAS 38*	*IAS 39*	*Effects of conversion to IAS / IFRS*	*IAS / IFRS IAS Schedule*
0	**0**	**1,644**	**0**	**0**	**0**	**0**	**1,644**	**4,087**
458	**3**	**(2,671)**	**2,834**	**23**	**5,470**	**(33)**	**6,822**	**64,895**
			(1,990)		131		(1,980)	40,891
							0	(3,977)
			(3)				(3)	727
908							908	908
(1,250)							(1,250)	4,059
							(140)	1,749
116	**3**	**(2,671)**	**841**	**23**	**5,601**	**(33)**	**4,358**	**109,252**
							0	(20,725)
							0	(2,811)
							(618)	(9,544)
						881	881	1,099
		560					560	(2,513)
(116)					1,172		1,056	(6,080)
		467					467	7,897
	70			(23)		(280)	(93)	(7,815)
							0	2,010
0	**73**	**(1,644)**	**841**	**0**	**6,773**	**568**	**6,611**	**70,770**
					(6,773)		(4,755)	(9,868)
							(2,018)	(75,888)
							0	(6,500)
			(840)				(840)	10,300
							0	12,576
							0	(2,708)
0	**0**	**0**	**(840)**	**0**	**(6,773)**	**0**	**(7,613)**	**(72,088)**
							0	(8,682)
	(47)		(1)			(568)	(616)	(565)
	(22)						(22)	0
							0	3,396
	(4)						(4)	(47,063)
0	**(73)**	**0**	**(1)**	**0**	**0**	**(568)**	**(642)**	**(52,914)**
0	**0**	**(1,644)**	**0**	**0**	**0**	**0**	**(1,644)**	**(54,232)**
0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**(50,145)**

BREMBO S.p.A.
Via Brembo, 25 - 24035 Curno - Bergamo - Italy
Tel. +39/035/605.111 - http://www.brembo.com
E-mail: press@brembo.it - ir@brembo.it

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