LANDI RENZO S.p.A.
Registered office in via Nobel 2/4, Cavriago (Reggio Emilia)
Share capital: € 2,500,000.00, fully paid-up
Reggio Emilia company registration no. and tax code: 00523300358

CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2004

BALANCE SHEET

ASSETS	31/12/2004	31/12/2003	Variation
B) Fixed assets			
I - **Intangible fixed assets**			
1) Start-up and capital costs	121.244	176.553	(55.309)
2) Research, development and advertising costs	44.418	88.836	(44.418)
3) Industrial patents and similar rights	104.701	78.010	26.691
4) Licences, trademarks and similar rights	22.545	30.472	(7.927)
5) Goodwill	2.988.124	3.486.145	(498.021)
6) Assets under development and payments on account	58.350		58.350
7) Other	192.602	251.763	(59.161)
Total	3.531.984	4.111.779	(579.795)
II - **Tangible fixed assets**			
1) Land and buildings	12.944.197	9.640.502	3.303.695
2) Plant and machinery	1.580.671	1.478.267	102.404
3) Industrial and commercial equipment	2.304.756	2.123.434	181.322
4) Other assets	994.412	1.267.070	(272.658)
5) Assets under construction and payments on account	58.397	0	58.397
Total	17.882.433	14.509.273	3.373.160
III - **Financial fixed assets**			
1) **Investments:**			
d) Other	36.601	36.601	0
2) **Amounts receivable:**			
d) Other			
- Due after one year	136.856	185.720	(48.864)
4) **Own shares**	1.291.142	1.291.142	0
Total	1.464.599	1.513.463	(48.864)
TOTAL FIXED ASSETS	**22.879.016**	**20.134.515**	**2.744.501**
C) Assets forming part of working capital			
I - **Inventory**			
1) Raw materials and supplies	11.478.784	7.367.186	4.111.598
2) Work in progress and semi-finished products	4.829.939	4.253.875	576.064
4) Finished goods	3.490.256	2.634.882	855.374
Total	19.798.979	14.255.943	5.543.036
II - **Receivables**			
1) Trade receivables			
- Due within one year	14.157.043	8.978.548	5.178.495
4-bis) Tax receivables			
- Due within one year	3.519.062	4.562.247	(1.043.185)
4-ter) Deferred tax assets			
- Due within one year	1.566.663	1.950.632	(383.969)
5) Others			
- Due within one year	540.232	155.170	385.062
Total	19.783.000	15.646.597	4.136.403
III - **Financial assets not of a fixed nature**			
4) Other investments	223.312	192.032	31.280
Total	223.312	192.032	31.280
IV - **Liquid funds**			
1) Bank and postal accounts	4.658.497	1.009.701	3.648.796
2) Cheques on hand	0	5.238	(5.238)
3) Cash-in-hand and cash equivalents	19.418	13.074	6.344
Total	4.677.915	1.028.013	3.649.902
TOTAL ASSETS FORMING PART OF WORKING CAPITAL	44.483.206	31.122.585	13.360.621
D) Prepayments and accrued income			
1) Accrued income	0	21.316	(21.316)
2) Prepayments	110.833	171.346	(60.513)
Total	110.833	192.662	(81.829)
TOTAL ASSETS	**67.473.055**	**51.449.762**	**16.023.293**

LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2004	31/12/2003	Variation
A) Shareholders' equity			
I - Share capital	2.500.000	2.500.000	0
IV - Legal reserve	429.866	403.219	26.647

V - Statutory reserve	1.394.274	1.367.626	26.648
VI - Reserve for own shares in portfolio	1.291.142	1.291.142	0
VII - Other reserves:			
- Extraordinary	15.453.103	14.973.445	479.658
- Consolidation	3.009.172	3.238.724	(229.552)
- Exchange rate fluctuations	32.148	(73.724)	105.872
- Other reserves	(1)	0	(1)
IX - Net profit for the year	3.233.504	276.431	2.957.073
Total shareholders' equity pertaining to the group	27.343.208	23.976.863	3.366.345
Share capital and reserves pertaining to minority interests	62.434	63.148	(714)
Net profit for the year pertaining to minority interests	(10.337)	(47.314)	36.977
Total minority interests	52.097	15.834	36.263
TOTAL SHAREHOLDERS' EQUITY	**27.395.305**	**23.992.697**	**3.402.608**
B) Provisions for contingencies and charges			
1) Pension and similar provisions	192.264	149.092	43.172
2) Taxation, including deferred	2.222.109	2.203.640	18.469
3) Other	22.918	76.047	(53.129)
Total	2.437.291	2.428.779	8.512
C) Employees' leaving entitlement			
1) Employees' leaving entitlement	2.003.141	1.843.402	159.739
D) Payables			
1) Bonds			
- Due after one year	2.000.000	2.000.000	0
4) Due to banks			
- Due within one year	3.439.747	4.731.668	(1.291.921)
- Due after one year	2.437.091	2.335.400	101.691
5) Sums due to other financial institutions			
- Due within one year	1.113.690	948.466	165.224
- Due after one year	6.648.547	4.237.017	2.411.530
6) Payments on account			
- Due within one year	4.468	3.035	1.433
7) Accounts payable to creditors			
- Due within one year	17.452.531	7.323.408	10.129.123
12) Sums payable to taxation authorities			
- Due within one year	746.431	349.370	397.061
13) Social security charges payable			
- Due within one year	502.786	458.084	44.702
14) Other sums payable			
- Due within one year	1.159.261	740.257	419.004
Total	35.504.552	23.126.705	12.377.847
E) Accrued expenses and deferred income			
1) Accrued expenses	132.766	58.179	74.587
Total	132.766	58.179	74.587
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**67.473.055**	**51.449.762**	**16.023.293**

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CONSOLIDATED PROFIT AND LOSS ACCOUNT

	2004	**2003**	**Variation**
A) PRODUCTION REVENUES			
1) Turnover - goods and services	64.081.241	46.778.412	17.302.829
2) Variation in work in progress, semi-finished products and finished goods	1.521.163	1.605.812	(84.649)
5) Other revenues and income			
a) Grants for operating expenses	117.872		117.872
b) Other revenues and income	389.849	412.657	(22.808)
Total	66.110.125	48.796.881	17.313.244
B) PRODUCTION COST			
6) Raw materials, consumables, supplies and goods	36.278.495	25.590.214	10.688.281
7) Services	15.550.302	12.380.731	3.169.571
8) Use of third party assets	513.069	622.654	(109.585)
9) Personnel expenses:			
a) Wages and salaries	6.027.341	5.471.379	555.962
b) Social security contributions	1.866.599	1.721.916	144.683
c) Employees' leaving entitlement	396.461	377.789	18.672
d) Other costs	25.080	7.237	17.843
10) Amortisation, depreciation and write-downs:			
a) Amortisation of intangible fixed assets	767.828	988.546	(220.718)
b) Depreciation of tangible fixed assets	1.928.294	1.833.170	95.124
d) Write-downs of receivables included under assets forming part of working capital	116.462	84.728	31.734

11) Variation in raw materials, consumables, supplies and goods	(3.691.224)	(132.310)	(3.558.914)
12) Provision for contingencies	2.557	14.507	(11.950)
14) Other operating costs	141.114	221.930	(80.816)
Total	59.922.378	49.182.491	10.739.887
DIFFERENCE BETWEEN PRODUCTION REVENUES AND COST (A - B)	**6.187.748**	**(385.610)**	**6.573.358**
C) FINANCIAL INCOME AND CHARGES			
16) Other financial income:			
d) Other income			
- Other	129.014	49.239	79.775
17) Interest and other financial charges			
- Other	(744.911)	(779.667)	34.756
17-bis) Exchange rate gains and losses	8.700	(211.496)	220.196
Total (15 + 16 - 17 ± 17-bis)	**(607.197)**	**(941.924)**	**334.727**
D) ADJUSTMENTS TO FINANCIAL ASSET VALUES			
18) Revaluations			
a) Investments	31.280	21.352	9.928
19) Write-downs			
a) Investments	0	(30)	30
Total (18-19)	**31.280**	**21.322**	**9.958**
E) EXTRAORDINARY INCOME AND EXPENSE			
20) Income			
a) Profit on sale of assets	8.900	2.347.911	(2.339.011)
b) Other income	64.335	31.420	32.915
21) Expense			
a) Loss on sale of assets	(7.918)	(198.589)	190.671
b) Other expense	(17.890)	(121.411)	103.521
Total (20 - 21)	47.427	2.059.331	(2.011.904)
PROFIT BEFORE TAXATION (A - B ± C ± D ± E)	**5.659.257**	**753.119**	**4.906.138**
22) Taxation on profit for the year (current and deferred tax income and expense)			
a) Current	(2.192.380)	(103.139)	(2.089.241)
b) Deferred tax expense	(243.710)	(420.863)	177.153
23) Net profit for the year	**3.223.167**	**229.117**	**2.994.050**
Minority interests in net profit	(10.337)	(47.314)	36.977
24) NET PROFIT FOR THE YEAR PERTAINING TO THE GROUP	**3.233.504**	**276.431**	**2.957.073**

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The chairperson of the board of directors
(signed on the original)
Giovannina Domenichini Landi

MEMORANDUM AND CONTINGENCY ACCOUNTS

	31/12/2004	31/12/2003	Variation
A) I - Commitments			
- Sureties received from parent companies	1.169.394	1.915.232	(745.838)
- Sureties received from/given to third parties	2.145.470	1.889.411	256.059
Total	3.314.864	3.804.643	(489.779)
B) Assets held by third parties			
- Assets held by third parties	442.254	0	442.254
Total	442.254	0	442.254
TOTAL MEMORANDUM AND CONTINGENCY ACCOUNTS	**3.757.118**	**3.804.643**	**(47.525)**

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CONSOLIDATED INVESTED CAPITAL

amounts shown in Euros

Combined	31/12/2004	%	31/12/2003	%	Variation	%
A. Net fixed assets						
Intangible fixed assets	3.531.984	9,48	4.111.779	11,34	(579.795)	(14,10)
Tangible fixed assets	17.882.433	48,02	14.509.273	40,00	3.373.160	23,25
Financial fixed assets	1.464.599	3,93	1.513.463	4,17	(48.864)	(3,23)
Total	**22.879.016**	**61,43**	**20.134.515**	**54,06**	**2.744.501**	**13,63**
B. Working capital						
Inventory	19.798.979	53,16	14.255.943	39,31	5.543.036	38,88
Trade receivables	14.157.043	38,01	8.978.548	24,76	5.178.495	57,68
Other assets	5.960.102	16,00	7.052.743	19,45	(1.092.641)	(15,49)
(-)Provisions for contingencies and charges	*(2.437.291)*	*(6,54)*	*(2.428.779)*	*(6,70)*	8.512	(0,35)
(-)Trade payables	*(17.452.531)*	*(46,86)*	*(7.323.408)*	*(20,19)*	(10.129.123)	138,31
(-)Other liabilities	*(3.659.402)*	*(9,83)*	*(2.557.391)*	*(7,05)*	(1.102.011)	43,09
Total	**16.366.900**	**43,95**	**17.977.656**	**49,57**	**(1.610.756)**	**(8,96)**
C. Working capital, less Current liabilities	**39.245.916**	**105,38**	**38.112.171**	**105,08**	**1.133.745**	**2,97**
D. Employees' leaving entitlement	**(2.003.141)**	**(5,38)**	**(1.843.402)**	**(5,08)**	**(159.739)**	**8,67**
E. Invested capital, less Current liabilities and employees' leaving entitlement	**37.242.775**	**100,00**	**36.268.769**	**100,00**	**974.006**	**2,69**
FINANCED BY:						
F. Own funds						
Share capital	2.500.000	6,71	2.500.000	6,89	0	0,00
Reserves	21.609.704	58,02	21.200.432	58,45	409.272	1,93
Net profit for the year	3.233.504	8,68	276.431	0,76	2.957.073	1.069,73
Minority interests	52.097	0,14	15.834	0,04	36.263	229,02
Total	**27.395.305**	**73,56**	**23.992.697**	**66,15**	**3.402.608**	**14,18**
G. Medium- to long-term financial indebtedness	**11.085.638**	**29,77**	**8.572.417**	**23,64**	**2.513.221**	**29,32**
H. Net short-term financial indebtedness						
Short-term financial payables	3.439.747	9,24	4.731.668	13,05	(1.291.921)	(27,30)
Liquid funds and short-term financial receivables	*(4.677.915)*	*(12,56)*	*(1.028.013)*	*(2,83)*	*(3.649.902)*	*355,04*
Total	**(1.238.168)**	**(3,32)**	**3.703.655**	**10,21**	**(4.941.823)**	**(133,43)**
I. Total, like in E	**37.242.775**	**100,00**	**36.268.769**	**100,00**	**974.006**	**2,69**
	-		-			

CASH FLOW STATEMENT

		2004	*2003*
Net profit for the year		3.233.504	276.431
Net variation in employees' leaving entitlement		159.739	169.013
Amortisation of intangible fixed assets		767.828	988.546
Depreciation of tangible fixed assets		1.928.294	1.833.170
Other net accruals		8.512	1.106.279
Cash flows generated by (used in) ordinary operations	***A***	**6.097.877**	**4.373.439**
Variation in inventory		-5.543.036	-798.667
Variation in net trade receivables		-5.178.495	-1.268.576
Variation in other receivables and current assets		1.092.641	-588.689
Variation in trade payables		10.129.123	49.943
Variation in other sums payable and current liabilities		1.102.011	-915.565
Total variation in net working capital	***B***	**1.602.244**	**-3.521.554**
Cash flows generated by (used in) operating activities	***C(=A+B)***	**7.700.121**	**851.885**
Net intangible fixed assets		-188.033	-277.426
Net tangible fixed assets		-5.301.454	-1.034.994
Net financial fixed assets		48.864	254.555
Cash flows generated by (used in) investing activities	***D***	**-5.440.623**	**-1.057.865**
Net variation in reserves and shareholders' equity pertaining to minority interests		169.104	119.098
Variation in medium- to long-term payables		2.513.221	-316.323
Cash flows generated by (used in) financing activities	***E***	**2.682.325**	**-197.225**
Dividend distribution	***F***	**0**	**0**
Total cash flows generated by (used in) operating activities	***G(=C+D+E+F)***	**4.941.823**	**-403.205**
Opening net financial position (indebtedness)	H	-3.703.655	-3.300.450
Closing net financial position (indebtedness)	L	1.238.168	-3.703.655
Variation in net liquid funds of the year	***M(=H-L)***	**4.941.823**	**-403.205**
		-	-

RECLASSIFIED CONSOLIDATED PROFIT AND LOSS ACCOUNT

amounts shown in Euros

Combined	2004	%	2003	%	Variation	%
Net turnover from sales of goods	64.081.241	99,21	46.778.412	99,13	17.302.829	36,99
Revenues from services and other income	507.721	0,79	412.657	0,87	95.064	23,04
NET REVENUES	**64.588.962**	**100,00**	**47.191.069**	**100,00**	**17.397.893**	**36,87**
CONSUMPTION	**31.066.108**	**48,48**	**23.852.092**	**50,99**	**7.214.016**	**30,24**
Services	15.550.302	24,27	12.380.731	26,47	3.169.571	25,60
Use of third party assets	513.069	0,80	622.654	1,33	(109.585)	(17,60)
Other operating costs	141.114	0,22	221.930	0,47	(80.816)	(36,42)
ADDED VALUE	**17.318.370**	**27,03**	**10.113.662**	**21,62**	**7.204.708**	**71,24**
Personnel expenses	8.315.481	12,98	7.578.321	16,20	737.160	9,73
GROSS OPERATING PROFIT	**9.002.889**	**14,05**	**2.535.341**	**5,42**	**6.467.548**	**255,10**
Ordinary amortisation/depreciation	2.696.122	4,21	2.821.716	6,03	(125.594)	(4,45)
Accruals and write-downs	119.019	0,19	99.235	0,21	19.784	19,94
OPERATING PROFIT (LOSS)	**6.187.748**	**9,66**	**(385.610)**	**(0,82)**	**6.573.358**	**(1.704,66)**
Income from investing activities		0,00	0	0,00	0	0,00
Income from financial activities	137.714	0,21	105.027	0,22	32.687	31,12
Expense from financial activities	(744.911)	(1,16)	(1.046.951)	(2,24)	(302.040)	28,85
Net financial expense	**(607.197)**	**(0,95)**	**(941.924)**	**(2,01)**	**(334.727)**	**(35,54)**
Adjustments to financial asset values	**31.280**	**0,05**	**21.352**	**0,05**	**9.928**	**46,50**
Profit (loss) before extraordinary items	**5.611.830**	**8,76**	**(1.306.182)**	**(2,79)**	**(6.918.012)**	**(529,64)**
Extraordinary income	73.235	0,11	2.379.331	5,09	(2.306.096)	(96,92)
Extraordinary expense	(25.808)	(0,04)	(320.000)	(0,68)	294.192	(91,94)
Net extraordinary income	**47.427**	**0,07**	**2.059.331**	**4,40**	**(2.011.904)**	**(97,70)**
PROFIT BEFORE TAXATION	**5.659.257**	**8,83**	**753.149**	**1,61**	**4.906.108**	**651,41**
Taxation on profit for the year						
- current	(2.192.380)	(3,42)	(103.139)	(0,22)	(2.089.241)	2.025,66
- deferred	(243.710)	(0,38)	(420.863)	(0,90)	177.153	(42,09)
CONSOLIDATED NET PROFIT	**3.223.167**	**5,03**	**229.147**	**0,49**	**2.994.020**	**1.306,59**
Minority interests	(10.337)	(0,02)	(47.314)	(0,10)	36.977	(78,15)
CONSOLIDATED NET PROFIT PERTAINING TO THE GROUP	**3.233.504**	**5,05**	**276.461**	**0,59**	**2.957.043**	**1.069,61**

LANDI RENZO S.p.A.

Registered office in via Nobel 2/4, Cavriago (Reggio Emilia)

Share capital: € 2,500,000.00, fully paid-up

Reggio Emilia company registration no. and tax code: 00523300358

CONSOLIDATED FINANCIAL STATEMENTS AS AT AND
FOR THE YEAR ENDED 31 DECEMBER 2004
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT
TO ARTICLE 38 OF LEGISLATIVE DECREE NO. 127/91

PREPARATION CRITERIA

The consolidated financial statements of Landi Renzo S.p.A. and its subsidiaries ***(Landi Renzo group)*** as at and for the year ended 31 December 2004 have been prepared in accordance with the provisions of article 25 and following of Legislative decree no. 127/91.

The consolidated financial statements comprise a balance sheet, profit and loss account and notes thereto and are accompanied by the directors' report. Reference should be made to the directors' report for information on significant post-balance sheet events, the outlook and transactions with subsidiaries and associated companies.

The purpose of these notes is to analyse, supplement and expand on the figures included in the consolidated financial statements. In addition to all information required by article 38 and other provisions of Legislative decree no. 127/1991, they also include supplementary information deemed necessary to give a comprehensive, as well as a true and fair, view of the ***group***.

Those balance sheet and profit and loss account captions which have a zero balance in the current and previous year have been omitted.

The balance sheet and profit and loss account captions have been rounded to the nearest whole Euro, rounding down those figures lower than € 0.5 and rounding up those higher than € 0.5.

THE CONSOLIDATION AREA

The consolidated financial statements include the financial statements of the parent company Landi Renzo S.p.A. and the companies over which the latter exercises direct and indirect control through the majority of voting rights at ordinary shareholders' meetings.

At 31 December 2004, Landi Renzo S.p.A. consists of seven companies, each of which is included in the consolidated financial statements on a line-by-line basis. The 2004 consolidated financial statements include the financial statements of the parent company Landi Renzo S.p.A. and those of the following subsidiaries:

- Landi S.r.l., with registered office in Reggio Emilia;
- Med S.p.A, with registered office in Reggio Emilia;
- Landi International B.V., with registered office in Utrecht, The Netherlands;
- Eurogas Utrecht B.V., with registered office in Utrecht, The Netherlands;
- Landi Renzo Polska Sp.zo.o., with registered office in Warsaw, Poland;
- LR Industria e Comercio Ltda., with registered office in Espirito Santo, Brazil.

STRUCTURE AND CONTENTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements are prepared using the statutory financial statements drawn up and approved by the respective boards of directors of the companies included in the consolidation area. Where necessary, they are adjusted so that the accounting policies applied are consistent.

The balance sheet date is 31 December 2004. This date is the same as that of the financial statements of the parent company and the consolidated companies.

In preparing the consolidated financial statements, the same accounting policies are adopted as those used in the parent company's financial statements. They are integrated for those captions specific to the consolidated companies and adjusted to comply with Italian Civil Code provisions governing the preparation of consolidated financial statements.

CONSOLIDATION CRITERIA

The following consolidation criteria are applied:

- ❑ under the line-by-line consolidation method, the book value of consolidated investments is eliminated against the corresponding portion of shareholders' equity. All assets and liabilities shown in the financial statements of the consolidated companies are included.

  Differences between the book value and shareholders' equity at the time the company was first consolidated are recognised as follows:

  - *positive* differences are allocated to the relevant individual asset and liability captions. Any residual amount deemed to have future use is recognised in the consolidated financial statements asset caption “consolidation reserve”. If it is deemed not to have future use, any residual amount is recognised as a decrease to consolidation reserve.

- *negative* differences are recognised under the shareholders’ equity item “consolidation reserve”;

- key transactions between consolidated companies and the related receivables and payables, costs and revenues are eliminated on consolidation. Any material unrealised gains arising from transactions between group companies, such as those included in the valuation of closing inventory, are also eliminated, net of the related tax effect;
- minority interests in the shareholders’ equity and net profit or loss of subsidiaries are shown separately in specific captions of the consolidated financial statements.

Moreover:

- the financial statements of foreign companies are restated to comply with the formats and provisions introduced by Legislative decree no. 127/91;
- dividends paid are eliminated from the profit and loss account and recognised under the consolidation reserve;
- deferred taxation arising from consolidation entries is recognised in line with the prudence and reasonableness criteria;
- finance leases are recognised in compliance with IAS 17;
- the financial statements of foreign subsidiaries in non-Euro-zone countries are converted into Euros using the exchange rate rule at the balance sheet date for balance sheet captions and at the average exchange rate for the year for the profit and loss account captions.

The exchange rates used are the following:

currency	**2004 average**	**31.12.2004**
Polish zloty	*4.52676*	*4.0845*
Brazilian real	*3.63353*	*3.61433*

The difference between net profit shown in the profit and loss account determined using average exchange rates and that shown in the balance sheet based on year-end rates, as well as the impact of changes in the exchange rate between the beginning and end of the year on assets and liabilities, are recorded in the reserve for exchange rate fluctuations under shareholders’ equity.

ACCOUNTING POLICIES

The accounting principles used in preparing the consolidated financial statements are those established by the Italian Accounting Profession and, where these are silent, the International Accounting Standard Board (IASB). The approval of the board of statutory auditors has been sought for certain capitalisations in the balance sheets of the statutory financial statements of the consolidated Italian companies.

The consolidated financial statements are prepared on a going-concern basis.

The main accounting policies applied to prepare the consolidated financial statements are consistent with those of 2003. They are described below.

1. **Intangible fixed assets**

Intangible fixed assets are stated at purchase or production cost, including directly related costs. They are adjusted by amortisation calculated on a straight-line basis which considers the asset's residual income-generating potential.

The assets are written down when their book value is permanently impaired with respect to their residual income-generating potential.

The original value, net of costs incurred, is reinstated in the year when the reasons for the write-down cease to exist.

2. **Tangible fixed assets**

Tangible fixed assets are stated at purchase or production cost, including the portion of related and direct and indirect costs pertaining to the asset. They also include revaluations recorded pursuant to Italian monetary revaluation laws.

Tangible fixed assets are shown net of accumulated depreciation calculated on a straight-line basis using rates held to represent the assets' useful economic lives and their possibility of use.

The annual depreciation rates applied to the gross book value of fixed assets are as follows:

❑ buildings	3%
❑ plant and machinery	10 %
❑ industrial and commercial equipment	17.5 - 25%
❑ other assets	12 - 20 - 25%

These rates are reduced for assets purchased during the year in proportion to the length of time the asset has been held.

Ordinary maintenance and repair costs are charged to the profit and loss account in the year they are incurred. Those costs which increase the value of the asset are capitalised.

Those assets which present a permanent impairment in value with respect to the book value are recognised at the lower amount. The original value may be reinstated in subsequent years if the reasons for the write-down cease to exist.

As noted, finance leases are recognised using the "financial" method provided by IAS 17.

3. Financial fixed assets

Investments in other companies are valued at cost, written down for any permanent impairment in value.

Other financial fixed assets are stated at nominal value, representing their estimated realisable value.

Own shares are recognised at cost, written down for any permanent impairment in value.

4. Inventory

Closing inventory is stated at the lower of cost and estimated realisable value based on market trends. Inventory cost is calculated on the following basis:

- Raw materials and supplies are stated at purchase cost on a FIFO basis;
- Work in progress and finished products are stated at the lower of production cost (on a FIFO basis for raw materials) and estimated realisable value based on market trends.

The inventory book value is adjusted to the estimated realisable value by a provision for obsolesence.

5. Receivables and payables

Trade receivables are stated at their estimated realisable value. Other receivables are stated at nominal value, representing their estimated realisable value, considering the type of debtor.

Payables are stated at nominal value.

Excepting fixed assets, foreign currency receivables and payables are stated using the exchange rate ruling at year end. Exchange rate gains and losses are taken to the profit and loss account.

6. Assets not of a fixed nature

These are stated at the lower of cost and market value.

7. Liquid funds

These are recorded at nominal value.

8. Provisions for contingencies and charges

Provisions for certain risks and charges are calculated on an accruals basis using an estimate of the amount that will be incurred. As long as they relate to transactions not yet finalised at the time of preparing the financial statements, probable costs and charges are recognised when they can be reasonably estimated.

9. Provisions for contingencies and charges - taxation

Deferred tax liabilities recognised on significant positive income items are accrued in the provision for taxation. Current tax rates are applied in their determination and the amount is adjusted for subsequent changes thereto. Similarly, deferred tax assets calculated on negative income items are recognised under "deferred tax assets" under assets forming part of working capital.

Deferred tax assets have been recognised as it is reasonably certain that the group will record sufficient taxable income in subsequent tax years. They are calculated using current tax rates.

10. Employees' leaving entitlement

The caption includes the amount due to group employees calculated in compliance with current legislation, national labour contracts and supplementary company agreements.

11. Accrued expenses and deferred income

These are calculated on an accruals basis, pursuant to article 2424 of the Italian Civil Code.

12. Memorandum and contingency accounts

The memorandum and contingency accounts show the sureties given and received by group companies and assets held by third parties.

13. Costs and revenues

Costs and revenues are recognised in the financial statements in accordance with the prudence and accruals concepts, showing the related prepayments and accruals.

Turnover is recorded in the financial statements net of discounts, rebates and bonuses.

14. Taxation on profit for the year

Current taxation is calculated on the taxable income posted by each consolidated company in accordance with the tax laws in force in the respective countries. It is stated in the profit and loss account as a balancing entry to sums payable to taxation authorities, net of advances paid, tax withholdings and any receivables brought forward.

ANALYSIS OF THE MAIN FINANCIAL STATEMENTS CAPTIONS

ASSETS

B) FIXED ASSETS

I Intangible fixed assets

The intangible fixed assets stated in the balance sheet varied as follows:

	Start-up and capital costs	Research and development costs	Industrial patents and similar rights	Licences, trademarks and similar rights	Goodwill	Payments on account	Other	Total
Opening balance:								
Purchase cost	327,754	222,091	849,002	155,840	4,980,207	0	403,215	6,938,109
Accumulated amortisation	-151,201	-133,255	-770,992	-125,368	-1,494,062	0	-151,452	-2,826,330
Balance at 01/01/2004	**176,553**	**88,836**	**78,010**	**30,472**	**3,486,145**	**0**	**251,763**	**4,111,779**
Variations:								
Purchases	7,376	0	110,135	12,172	0	58,350	0	188,033
Disposals and transfers	0	0	0	0	0	0	0	0
Reversal of acc. amortisation	0	0	0	0	0	0	0	0
Amortisation of the year	-62,685	-44,418	-83,444	-20,099	-498,021		-59,161	-767,828
Total variations	**-55,309**	**-44,418**	**26,691**	**-7,927**	**-498,021**	**58,350**	**-59,161**	**-579,795**
Closing balance:								
Total purchase cost	335,130	222,091	959,137	168,012	4,980,207	58,350	403,215	7,126,142
Total amortisation	-213,886	-177,673	-854,436	-145,467	-1,992,083	0	-210,613	-3,594,158
Balance at 31/12/2004	**121,244**	**44,418**	**104,701**	**22,545**	**2,988,124**	**58,350**	**192,602**	**3,531,984**

Start-up and capital costs

Start-up and capital costs comprise costs incurred to set up Med S.p.A. and LR Industria e Comercio Ltda.

They increased € 7,376 during 2004 as a result of the cost incurred to increase the share capital of the Brazilian company LR Industria e Comercio Ltda.

Research and development costs

Research and development costs comprise research and design costs incurred by Med S.p.A. for a new compact alarm (Med 4000). Costs related to product customisations and ordinary technical activities are charged to the profit and loss account when incurred.

Industrial patents and similar rights

This caption comprises costs incurred to purchase patents and software. They increased as a result of the new management software.

Licences, trademarks and similar rights

This caption includes costs incurred to purchase and register trademarks.

Goodwill

Goodwill is posted in the financial statements with the approval of the board of statutory auditors. It represents the price paid by Med S.p.A. to purchase two business activities which comprise:

- production know-how for solenoid valves and magnets;
- design know-how for multipoint LPG and natural gas injectors;
- the technology underlying Med alarms.

Goodwill is amortised at an annual rate of 10% in relation to its future possibility of use and benefit to the production process which, currently, has not changed.

Payments on account

These relate to Med S.p.A. for the purchase of software applications.

Other

This caption includes residual deferred charges (such as leasehold improvements) amortised over their residual possibility of use.

Intangible fixed assets are amortised on a straight-line basis over their useful lives, as follows:

❑ start-up and capital costs	five years;
❑ research and development costs	five years;
❑ industrial patents and similar rights	three years;
❑ licences, trademarks and similar rights	five to ten years;
❑ goodwill	ten years;
❑ other	five years;

II Tangible fixed assets

The net value of tangible fixed assets at 31 December 2004 comprises:

	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other assets	Assets under construction and payments on account	Total
Opening balance						
Purchase cost	10,631,590	2,001,969	6,142,515	2,997,547	0	21,773,621
Revaluations	0	12,927	0	0	0	12,927
Depreciation	-991,088	-536,629	-4,019,081	-1,730,477		-7,277,275
Balance at 01/01/2004	**9,640,502**	**1,478,267**	**2,123,434**	**1,267,070**	**0**	**14,509,273**
Variations						
Purchases	3,736,130	328,092	960,247	196,128	146,576	5,367,173
Disposals and transfers	0	-37,207	76,488	-169,002	-88,179	-217,900
Reversal of depreciation		45,141		94,437		139,578
Depreciation of the year	-432,435	-234,134	-855,427	-406,298		-1,928,294
Exchange rate fluctuations		512	14	12,077		12,603
Total variations	**3,303,695**	**102,404**	**181,322**	**-272,658**	**58,397**	**3,373,160**
Closing balance						
Total purchase cost	14,367,720	2,306,293	7,179,264	3,036,750	58,397	26,948,424
Total revaluations						0
Total depreciation	-1,423,523	-725,622	-4,874,508	-2,042,338	0	-9,065,991
Balance at 31/12/2004	**12,944,197**	**1,580,671**	**2,304,756**	**994,412**	**58,397**	**17,882,433**

The main increases of the year are in:

- buildings, due to the extension of the industrial building;
- plant and machinery, due to the purchase of an assembly line;
- industrial and commercial equipment, due to the purchase of moulds and testing and control equipment;
- other assets, due to the purchase of computers.

III Financial fixed assets

Financial fixed assets comprise:

	Investments in other	Amounts receivable from others after one year	Own shares	Total
Opening balance				
Book value	36,601	185,720	1,291,142	1,513,463
Balance at 01/01/2004	**36,601**	**185,720**	**1,291,142**	**1,513,463**
Variations				
Purchases	0	0	0	0
Disposals and repayments	0	-48,864	0	-48,864
Total variations	**0**	**-48,864**	**0**	-48,864
Closing balance				
Total purchase cost	36,601	136,856	1,291,142	1,464,599
Balance at 31/12/2004	**36,601**	**136,856**	**1,291,142**	**1,464,599**

Own shares number 12,500, each with a nominal value of € 10 and corresponding to 5% of the share capital.

C) ASSETS FORMING PART OF WORKING CAPITAL

I Inventory

Variations of the year in closing inventory were as follows:

Closing inventory	31.12.2004	31.12.2003	variation
raw materials and supplies	*11,478,784*	*7,367,186*	*4,111,598*
work in progress and semi-finished products	*4,829,939*	*4,253,875*	*576,064*
finished goods	*3,490,256*	*2,634,882*	*855,374*
TOTAL	**19,798,979**	**14,255,943**	**5,543,036**

The increase in inventory is related to the growth in turnover.

Inventory is shown net of a taxed provision accrued to write obsolete and slow-moving items down to their estimated realisable value. This provision may be analysed as follows:

	Balance at 31.12.2003	Increase	Decrease	Balance at 31.12.2004
provision for inventory	*1,242,803*	*202,412*	*-156,454*	*1,288,761*

II Receivables

Receivables may be analysed as follows:

Receivables	31.12.2004	31.12.2003	variation
trade receivables	*14,157,043*	*8,978,548*	*5,178,495*
tax receivables	*3,519,062*	*4,562,247*	*-1,043,185*
deferred tax assets	*1,566,663*	*1,950,632*	*-383,969*
others	*540,232*	*155,170*	*385,062*
TOTAL	**19,783,000**	**15,646,597**	**4,136,403**

The rise in trade receivables is a direct result of the increase in turnover.

The items recognised under the captions tax receivables and deferred tax assets were posted under others in 2003. They have been reclassified under the captions currently used (introduced by Legislative decree no. 6/2003) to make the figures shown in these financial statements comparable with those of the previous year.

Trade receivables are shown net of the provision for bad debts, which may be analysed as follows:

	Balance at 31.12.2003	Increase	Decrease	Balance at 31.12.2004
provision for bad debts	*251,880*	*116,462*	*-42,161*	*326,181*

There are no receivables stated in the financial statements due after more than five years.

III Financial assets not of a fixed nature

Deutsche Telekom shares

At 31 December 2004, the value of the investment in Deutsche Telecom amounted to € 223,312, compared with € 192,032 in 2003. The increase follows the reversal of impairments of € 31,280 recognised in previous years. It is calculated on the basis of the average prices of December 2004 and recognised under the profit and loss account caption D18.

IV Liquid funds

This caption includes:

Liquid funds	31.12.2004	31.12.2003	variation
bank and postal accounts	*4,658,497*	*1,009,701*	*3,648,796*
cheques on hand	*0*	*5,238*	*-5,238*
cash-in-hand and cash equivalents	*19,418*	*13,074*	*6,344*
TOTAL	**4,677,915**	**1,028,013**	**3,649,902**

D) PREPAYMENTS AND ACCRUED INCOME

Prepayments and accrued income are calculated on an accruals basis and include:

Accrued income	31.12.2004	31.12.2003	variation
other	0	21,316	-21,316
TOTAL	**0**	**21,316**	**-21,316**

Prepayments	31.12.2004	31.12.2003	variation
advertising costs	*38,931*	*71,299*	*-32,368*
rental expense	*49,735*	*48,240*	*1,495*
other	22,167	51,807	**-29,640**
TOTAL	**110,833**	**171,346**	**-60,513**

LIABILITIES AND SHAREHOLDERS' EQUITY

A) SHAREHOLDERS' EQUITY

Consolidated shareholders' equity varied as follows:

	Balance at 31.12.2003	Distribution of 2003 net profit	Exchange rate gains (losses)	Share capital increase	2004 net profit	Shareholders' equity at 31.12.2004
share capital	2,500,000					2,500,000
legal reserve	403,219	26,647				429,866
reserve for own shares	1,291,142					1,291,142
statutory reserve	1,367,626	26,648				1,394,274
extraordinary and other reserve	18,138,445	223,136	132,841			18,494,422
net profit for the year	276,431	-276,431			3,233,504	3,233,504
Total shareholders' equity pertaining to the group	**23,976,863**	**0**	**132,841**	**0**	**3,233,504**	**27,343,208**
share capital and reserves pertaining to minority interests	63,148	-47,314	10,739	35,861		62,434
net profit for the year pertaining to minority interests	-47,314	47,314			-10,337	-10,337
Total minority interests	**15,834**	**0**	**10,739**	**35,861**	**-10,337**	**52,097**
Total consolidated shareholders' equity	**23,992,697**	**0**	**143,580**	**35,861**	**3,223,167**	**27,395,305**

Share capital

At 31 December 2004, the share capital equalled € 2,500,000 fully subscribed and paid-up, comprising 250,000 ordinary shares of €10 each with ordinary dividend rights.

A reconciliation between consolidated profit for the year and consolidated shareholders' equity with those of the parent company at 31 December 2004 follows:

RECONCILIATION (thousands of Euros)

	2004 shareholders' equity	2004 net profit	2003 shareholders' equity	2003 net profit
Parent company shareholders' equity and net profit for the year	**23,738**	**2,670**	**21,068**	**533**
Difference between book value and amount of shareholders' equity held in the consolidated companies	1,715	-608	537	1,640
Parent company's portion of results of consolidated companies	0	1,655	0	-2,595
Elimination of intercompany trading transactions	-206	-41	-167	-1
Elimination of fiscally-driven accruals	0	-1,016	1,016	127
Recognition of finance leases	2,096	574	1,522	572
Consolidated shareholders' equity and net profit for the year	**27,343**	**3,234**	**23,976**	**276**
Minority interests	52	-10	16	-47
Shareholders' equity and net profit for the year pertaining to the group	**27,395**	**3,224**	**23,992**	**229**

B) PROVISIONS FOR CONTINGENCIES AND CHARGES

The breakdown and variations in such provisions follow:

Provisions for contingencies and charges	Balance at 31.12.2003	Increase	Decrease	Balance at 31.12.2004
pension	*81,592*	*9,529*	*-107*	*91,014*
directors' term of office entitlement	*67,500*	*33,750*		*101,250*
deferred taxation	*2,203,640*	*417,443*	*-398,974*	*2,222,109*
exchange rate fluctuations	*36,043*		*-36,043*	*0*
other	*40,004*	*2,166*	*-19,252*	*22,918*
TOTAL	**2,428,779**	**462,888**	**-454,376**	**2,437,291**

The provision for pensions includes agents' termination indemnity. The provision for directors' term of office entitlement represents the accrual for the parent company's directors.

C) EMPLOYEES' LEAVING ENTITLEMENT

This shows the amount due to employees. The variations in the provision during the year are as follows:

	Balance at 31.12.2003	Increase	Decrease	Balance at 31.12.2004
employees' leaving entitlement	*1,843,402*	*362,460*	*-202,721*	*2,003,141*

D) PAYABLES

The following table gives an analysis of payables by due date:

Payables	2004 due within one year	2004 due after one year	2004 total	2003 due within one year	2003 due after one year	2003 total	VARIATION due within one year	VARIATION due after one year	VARIATION total
bonds	0	2,000,000	2,000,000	0	2,000,000	2,000,000	0	0	0
due to banks	3,439,747	2,437,091	5,876,838	4,731,668	2,335,400	7,067,068	-1,291,921	101,691	-1,190,230
sums due to other financial institutions	1,113,690	6,648,547	7,762,237	948,466	4,237,017	5,185,483	165,224	2,411,530	2,576,754
payments on account	4,468	0	4,468	3,035	0	3,035	1,433	0	1,433
accounts payable to creditors	17,452,531	0	17,452,531	7,323,408	0	7,323,408	10,129,123	0	10,129,123
sums payable to taxation authorities	746,431	0	746,431	349,370	0	349,370	397,061	0	397,061
social security charges payable	502,786	0	502,786	458,084	0	458,084	44,702	0	44,702
other sums payable	1,159,261		1,159,261	740,257	0	740,257	419,004	0	419,004
TOTAL	24,418,914	11,085,638	35,504,552	14,554,288	8,572,417	23,126,705	9,864,626	2,513,221	12,377,847

The total increase of € 12,377,847 is mainly due to the growth in accounts payable to creditors (which increased € 10,129,123 over 2003 due to the growth in purchases) and sums due to other financial institutions (net increase of € 2,576,754 due to the increase in the lease contract due to the extension of the building) following the agreement of a new building lease contract.

Bonds

This caption shows the principal amount of the bonds issued by Med S.p.A.. These loans have a single expiry date of January 2011. They earn interest at the official discount rate increased by two-thirds, paid half-yearly.

Due to banks

This caption mainly comprises bank overdrafts, advances for exports and medium-term loans.

Sums due to other financial institutions

This caption comprises the residual principal amount due to lease companies for finance leases.

Accounts payable to creditors

This caption includes accounts payable to suppliers for raw materials and external manufacturing, tangible fixed assets, as well as amounts due to agents for accrued commissions. All such payables are due within one year.

Sums payable to taxation authorities

These mainly comprise IRPEF on employee remuneration and self-employment fees.

Social security charges payable

These are social security contributions payable to INPS, INPDAI, INAIL and ENASARCO.

Other sums payable

These mainly comprise wages and salaries to be paid to employees and consultants.

Payables due after five years secured by collateral

These relate to:

- the € 2 million bond issued by Med S.p.A, with a single expiry date in 2011;
- payables of € 2,159,048 due to lease companies for building lease instalments;
- loan repayments of € 116,874.

This caption also includes payables secured by collateral of € 276,399.

E) ACCRUED EXPENSES AND DEFERRED INCOME

Accrued expenses

These amounted to € 132,766 (€ 58,179 in 2003) and are calculated on an accruals basis. Specifically, they include accrued interest expense of the year.

MEMORANDUM AND CONTINGENCY ACCOUNTS

At 31 December 2004, the memorandum and contingency accounts include:

Commitments

They may be analysed as follows:

- € 1,169,394 for sureties received from parent companies (Girefin S.p.A.);
- € 1,474,145 for sureties issued to bid in international tenders;
- € 276,399 for sureties securing loans granted pursuant to Law no. 394/1981;
- € 12,000 for sureties issued to the Reggio Emilia customs authorities;
- € 382,926 for sureties issued to the tax authorities for VAT repayments

Assets held by third parties

These amount to € 442,254 and represent the net value of moulds held by third parties.

Other commitments

There are no commitments other than those shown in the balance sheet.

PROFIT AND LOSS ACCOUNT

A) PRODUCTION REVENUES

Turnover - goods and services

The following table gives a breakdown of sales by geographical area:

Gross revenues from the sale of goods	2004	2003	variation
domestic sales	*16,702,631*	*14,216,872*	*2,485,759*
E.U. sales	*14,273,408*	*5,355,033*	*8,918,375*
non-E.U. sales	*33,105,202*	*27,206,507*	*5,898,695*
TOTAL	**64,081,241**	**46,778,412**	**17,302,829**

Sales revenues increased 36.9% on 2003 due to the reasons stated in the directors' report.

Other revenues and income	2004	2003	variation
cost recharges and recoveries	*389,849*	*412,657*	*-22,808*
grants	*117,872*	*0*	*117,872*
TOTAL	**507,721**	**412,657**	**95,064**

B) PRODUCTION COST

Production cost totalled € 59,922,378 in 2004, with a 21.8% increase over the 2003 figure of € 49,182,491.

The most significant items are analysed below.

Raw materials, consumables and supplies

These amounted to € 36,278,495, up 41.8% (€ 25,590,214 in 2003): the increase is a result of the higher turnover realised in 2004.

Services

These relate to production, sales and general administrative services and amounted to € 15,550,302: services increased 25.6% over 2003, equal to € 3,169,571. This is mainly due to the growth in external manufacturing expenses for the assembly of components.

Personnel expenses

Total personnel expenses increased 9.7% (by € 737,160) over 2003. They may be analysed as follows:

Personnel expenses	**2004**	**2003**	**variation**
wages and salaries	*6,027,341*	*5,471,379*	*555,962*
social security contributions	*1,866,599*	*1,721,916*	*144,683*
employees' leaving entitlement	*396,461*	*377,789*	*18,672*
other costs	*25,080*	*7,237*	*17,843*
TOTAL	**8,315,481**	**7,578,321**	**737,160**

Personnel numbers may be analysed as follows:

	2004	**2003**	**Variation**
managers	*4*	*4*	*0*
white collars	*131*	*118*	*13*
apprentices	*1*	*0*	*1*
blue collars	*127*	*105*	*22*
TOTAL	**263**	**227**	**36**

Other operating costs

The breakdown of the combined figure is as follows:

Other operating costs	**2004**	**2003**	**variation**
taxation	*100,014*	*88,001*	*12,013*
losses and prior year expenses	*0*	*7,138*	*-7,138*
higher investment costs	*0*	*15,433*	*-15,433*
bad debts	*5,569*	*0*	*5,569*
other	*35,531*	*111,358*	*-75,827*
TOTAL	**141,114**	**221,930**	**-80,816**

C) FINANCIAL INCOME AND CHARGES

Other financial income

This caption includes the following items:

Other	2004	2003	variation
bank interest income	*52,651*	*34,386*	*18,265*
interest income on securities	*0*	*8,166*	*-8,166*
default interest due from customers	*413*	*6,367*	*-5,954*
other	*75,950*	*320*	*75,630*
TOTAL	**129,014**	**49,239**	**79,775**

Interest and other financial charges

This caption may be analysed as follows:

Interest and financial charges	2004	2003	variation
interest on sums due to banks/other financial institutions	*428,493*	*465,692*	*-37,199*
interest on bond loans	*66,782*	*66,600*	*182*
commissions and bank costs	*189,690*	*207,261*	*-17,571*
other	*59,946*	*40,114*	*19,832*
TOTAL	**744,911**	**779,667**	**-34,756**

Exchange rate gains and losses

This caption comprises:

	2004	2003	variation
Unrealised exchange rate gains	*68,281*	*55,788*	*12,493*
Unrecognised exchange rate gains	*13,235*	*0*	*13,235*
Unrealised exchange rate losses	*-28,683*	*-231,241*	*202,558*
Unrecognised exchange rate losses	*-44,133*	*-36,043*	*-8,090*
TOTAL	**8,700**	**-211,496**	**220,196**

This caption was introduced with effect from 2004 by Legislative decree no. 6/2003. Accordingly, the relevant 2003 figures have been reclassified to enable comparison of the two years.

E) EXTRAORDINARY INCOME AND EXPENSE

Extraordinary income

Extraordinary income comprises:

Other extraordinary income	2004	2003	variation
profit on sales of assets	*8,900*	*2,347,911*	*-2,339,011*
other income	*64,335*	*31,420*	*32,915*
TOTAL	**73,235**	**2,379,331**	**-2,306,096**

the € 2.3 million profit recognised in 2003 on the sale of the building in Via F.lli Cervi 75/2, Reggio Emilia.

Extraordinary expense

This caption includes:

Extraordinary expense	2004	2003	variation
loss on sale of assets	*7,918*	*198,589*	*-190,671*
prior year items	*17,890*	*121,411*	*-103,521*
TOTAL	**25,808**	**320,000**	**-294,192**

the loss recognised in 2003 following the making good of the deficit of the subsidiary Med S.p.A..

TAXATION ON PROFIT FOR THE YEAR

This caption includes the tax burden of the year (current taxation of € 2,192,380 and deferred taxation of € 243,710), calculated on the basis of a reasonable estimate of taxable income.

OTHER INFORMATION

Directors' and statutory auditors' fees

	2004 fees	2003 fees	variation
directors	*190,656*	*308,294*	*-117,638*
statutory auditors	*44,590*	*36,913*	*7,677*

OTHER INFORMATION REQUIRED BY PARAGRAPH 2 OF ARTICLE 38 OF LEGISLATIVE DECREE NO. 127/91.

***a)* List of the companies consolidated on a line-by-line basis**

	Registered office	Share/quota capital	direct %	indirect %	Portion held by the group	
					%	investor
Landi Renzo S.p.A.	*Italy - Cavriago - Reggio Emilia, Via Nobel, 2/4*	*€ 2.500.000*				
Landi s.r.l.	*Italy - Reggio Emilia, Via Raffaello, 33/A*	*€ 500.000*	*99%*		*99%*	*Landi Renzo S.p.A.*
Med S.p.A.	*Italy - Reggio Emilia, Via Raffaello, 33*	*€ 2.000.000*	*99.95%*		*99.95%*	*Landi Renzo S.p.A.*
LR Industria e Comercio Ltda	*Brazil -Espirito Santo-Rua Um Quadra 5*	*R$ 1.020.000*	*70%*		*70%*	*Landi Renzo S.p.A.*
Landi International B.V.	*The Netherlands - 3542 AT Utrecht Nautilusweg, 33*	*€ 18.151*	*100%*		*100%*	*Landi Renzo S.p.A.*
Eurogas Utrecht B.V.	*The Netherlands - 3542 AT Utrecht Nautilusweg, 33*	*€ 36.800*		*100%*	*100%*	*Landi International B.V.*
Landi Renzo Polska SP.ZO.O	*Poland - 01 320 Warsaw - Szeligowska 20 street*	*PLN 50.000*		*100%*	*100%*	*Landi International B.V.*

***b)* List of the companies consolidated using the proportionate method**

Not required.

***c)* List of investments measured using the equity method pursuant to paragraphs 1 and 3 of article 36.**

Not required.

***d)* Other investments in subsidiaries and associated companies**

Not required.

SUPPLEMENTARY TABLES

- Consolidated invested capital
- Reclassified consolidated profit and loss account
- Cash flow statement

THE CHAIRPERSON OF THE BOARD OF DIRECTORS

(signed on the original)

Giovannina Domenichini Landi

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

LANDI RENZO S.p.A.

Registered office in Cavriago – Via Nobel 2/4

Share capital: € 2,500,000.00, fully paid-up

Reggio Emilia company registration no. and tax code: 00523300358

CONSOLIDATED FINANCIAL STATEMENTS AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2004
DIRECTORS' REPORT

Dear shareholders,

These are the sixth set of consolidated financial statements of *Landi Renzo S.p.A.* prepared in accordance with Legislative decree no. 127/1991. The consolidation area is unchanged from the previous year.

The consolidated financial statements are prepared in accordance with the requirements of the above Legislative decree. They comprise a balance sheet, profit and loss account and notes thereto. The notes are particularly important as, in addition to all information specifically required by article 38 of Legislative decree no. 127/1991, they also include important supplementary information (a reconciliation of the parent company's net profit/shareholders' equity with the corresponding combined amounts shown in the consolidated financial statements, a breakdown of invested capital, a cash flow statement and a reclassified profit and loss account) necessary to give a clear and comprehensive view of Landi group's financial position and results.

The *group* is coordinated by the parent company Landi Renzo S.p.A., which was established in 1954 and is a global leader in the production of natural gas and LPG fuel supply systems for motor propulsion.

The *group* companies have continued their research into and production of environmentally-friendly and technologically-advanced fuel supply systems.

Research has focused on the environmental compatibility of systems designed to use environmentally-friendly energy sources (natural gas and LPG energy), while concentrating specifically on performance.

The consolidated financial statements as at and for the year ended 31 December 2004 show a consolidated net profit of € 3.2 million, compared with € 276,431 in 2003, after amortisation and depreciation of € 2.7 million, accruals and write-downs of € 119,019, current taxation of € 2.2 million and deferred tax liabilities of € 243,710.

The market has grown as a result of the increased demand from the car market for environmentally-friendly fuel supply systems and this has resulted in an increase in net revenues of around 37%. Net production revenues came to € 6.2 million.

These positive results were recorded notwithstanding the general market crisis and the following negative structural factors:

- the Euro’s continual appreciation against the US dollar, which impacted sales in those areas where trading transactions are settled in US dollars;
- increasingly strong competition which made it necessary to discount the price list figures, with consequent lower profits.

The reclassified profit and loss account shows the gross operating profit increase deriving from both the increase in net revenues and lower consumption and production costs.

Specifically:

- gross operating profit came to € 9 million (2003: € 2.5 million), with an increase of 255%;
- operating profit amounted to € 6.2 million, compared with an operating loss of € 385,610 in 2003.

With reference to the seven companies included in the consolidation area - Landi S.r.l., Med S.p.A., Eurogas Utrecht B.V., Landi Polska Sp.zo.o, Landi International B.V. and LR Industria e Comercio Ltda - as well as the parent company Landi Renzo S.p.A., we note:

LANDI S.r.l.

The financial statements as at and for the year ended 31 December 2004 show a net profit of € 526,782 (compared with a net loss of € 115,692 in 2003), after amortisation and depreciation of € 170,243, write-downs of receivables of € 9,001 and taxation on profit for the year of € 303,735.

The reversal of fiscally-driven accelerated depreciation of € 134,187 contributed to the net profit for the year.

Total revenues increased 21.5% as a result of strong prices and the pick-up in demand, particularly in Italy and Northern Europe. This improved the gross operating result from a gross operating loss of € 81,407 in 2003 to a gross operating profit of € 758,021.

This increase is significant and is linked to both the decrease in the average cost of components (which contained the impact of variable sales costs) and the launch of new products with higher contribution margins.

Personnel expenses came to € 656,113, or 8.5% as a percentage of revenues.

Net financial expense increased from € 19,374 to € 59,087. Profit before taxation amounted to € 830,517 (a pre-tax loss of € 111,433 was recorded in 2003).

Med S.p.A.

Med S.p.A. recorded a net profit of € 55,283 in 2004, after ordinary amortisation and depreciation of € 1,102,356, accruals and write-downs of € 7,425 and taxation on profit for the year of € 140,629 (IRAP tax).

These results exceeded forecasts (revenues were 19% higher than the 2004 budget) due to both the favourable market conditions in the gas for motor propulsion sector, particularly in the second half of 2004, and the sales of new products, especially gas injectors.

Turnover totalled € 12.6 million, compared with € 6.5 million in 2003. This represents a 93% increase and derives from the revenue increase in the mechanical equipment sector.

The difference between production revenues and cost came to € 413,109 (negative by € 1,730,356 in 2003). This reflects the greater operating efficiency and economies in overheads.

As a result of the sluggish economic climate, market conditions continued to be very challenging for the alarm sector in 2004, whereas revenues from solenoid valve sales jumped as a result of intercompany sales.

Specifically:

<u>Electronic division</u> : this division's turnover increased from € 2.8 million in 2003 to € 4.2 million in 2004 as a result of the production of new items for the gas sector in 2004.

The company continued to upgrade its range of alarms throughout 2004 and consolidated new sales relationships, particularly abroad, with the aim of continuing the growth trend in 2005, including by entering the satellite sector in Italy.

Mechanical division : turnover totalled € 8.4 million compared with € 3.8 million in 2003, deriving from both the increase in intercompany sales and the production of innovative products (injectors).

The turnover for this division is forecast to increase to € 12 million in 2005, deriving from volume increases for those products launched in 2004 (injectors) and the commencement of new production, such as the natural gas tank valve.

The company reorganisation commenced in 2003 with the separation of the safety and alarm sector *(the electronic division)* from the solenoid valve sector *(the mechanical division)*. It has optimised production procedures and processes, generating an increase in production quantities, as well as offering product specialisation and customisation, especially for the new injector models.

EUROGAS UTRECHT B.V.

The company recorded a net profit of € 176,161 in 2004, compared with a net loss of € 316,506 in 2003, after amortisation and depreciation of € 22,948. The difference between production revenues and cost came to € 262,868, mainly as a result of the € 1.3 million (+105,8%) increase in sales.

LANDI POLSKA Sp.zo.o

The company recorded a net profit of € 391,773 in 2004, compared with a net loss of € 75,778 in 2003, after amortisation and depreciation and write-downs of € 12,417. Turnover from goods and services came to € 3,892,521, compared with € 3,053,220 in 2003, with a 27.5% increase deriving from the increased domestic demand for LPG systems.

Operating profit increased from € 35,392 in 2003 to € 469,327 in 2004 due to the decrease in average provisioning and sales costs.

LANDI INTERNATIONAL B.V.

The Dutch company, which is the holding company of Landi Polska Sp.zo.o and Eurogas Utrecht B.V., incurred almost entirely general and administrative costs. It did not receive any dividends from its subsidiaries.

Net profit for the year amounted to € 549,565 (2003: € 58,163). This significant increase is mainly due to the adjustment of the carrying amount of investments to the corresponding portion of shareholders' equity held to € 608,708 (2003: € 112,507).

Net financial expense came to € 55,161 (2003: € 50,565) due to interest paid on the loan granted by the parent company.

LR INDUSTRIA E COMERCIO Ltda

The company recorded a net loss of € 56,856 in 2004, compared with a net loss of € 120,106 in 2003 (operating loss and financial income improved).

Revenues increased from € 426,004 to € 2,636,605, with an operating loss of € 28,523 (2003: € 73,352).

LANDI RENZO S.p.A.

The parent company recorded a net profit of € 2,669,842 in 2004 (2003: € 532,953) after amortisation and depreciation of € 899,916, write-downs of receivables of € 86,569 and taxation on profit for the year of € 1,565,403.

The reversal of net accelerated depreciation of € 862 thousand contributed to net profit.

These strong results (revenues were up 37.8% on 2003) were achieved in a favourable market context due to the increase in demand for natural gas and LPG systems.

Gross operating profit increased following the growth in net revenues despite the higher average purchase costs.

It totalled € 4.4 million (€ 2.1 million in 2003), with a 107% increase. Operating profit was € 3.4 million (€ 668 million in 2003).

The net financial income of € 1,295,236 in 2003 became a net financial expense of € 72,868 in 2004. This is due to the fact that dividends totalling € 1.5 million, including the related tax receivable, were collected from the subsidiary Landi S.r.l. in 2003.

Adjustments to financial asset values were a positive € 31,280 following the increase in the value of shares recognised in the financial statements under financial assets. This caption came to a negative € 2,736,193 in 2003 due to the write-downs of investments.

Profit before taxation was € 4,235,245, compared with € 1,343,730 in 2003. Net profit for the year totalled € 2,669,842, compared with € 532,953 in 2003, net of accruals for current and deferred taxation.

THE MARKET AND GROUP PERFORMANCE

A breakdown of consolidated turnover by geographical area is shown below (amounts shown in Euros):

GEOGRAPHICAL AREA	2004	2003	variation
Italy	*16,702,631*	*14,216,872*	*17.5%*
EU countries	*14,273,408*	*5,355,033*	*166.5%*
Non-EU countries	*33,105,202*	*27,206,507*	*21.7%*
TOTAL	**64,081,241**	**46,778,412**	**37.0%**

INVESTED CAPITAL

The breakdown of consolidated invested capital attached to the notes shows the soundness of the group's financial position. Specifically:

1. intangible fixed assets decreased € 579,795, mainly as a result of amortisation of the year. The amount capitalised in 2004 for new acquisitions totalled € 188,033;
2. net tangible fixed assets amounted to € 17,882,433: the notes report new investments of € 5,367,173, write-offs for disposals and transfers of € 65,719 and depreciation of the year of € 1,928,294;
3. net working capital is the difference between current assets and liabilities. It decreased from 49.5% to 43.9%, or € 1.6 million;
4. consolidated shareholders' equity includes the portion pertaining to minority interests. It increased from € 24 million to € 27.3 million and represents 73.6% of invested capital (66.1% in 2003): this increase reflects a strong growth in capitalisations;
5. medium- and long-term financial payables increased from € 8.6 million to € 11 million following the increase in the lease contract due to the extension to the building;
6. net financial indebtedness improved from € 3.7 million in 2003 to a net financial position of € 1.2 million in 2004.

THE PROFIT AND LOSS ACCOUNT

The reclassified profit and loss account highlights the trend of the most significant captions and their impact as a percentage of net revenues. Specifically:

- total net revenues increased from € 47.2 million to € 64.6 million: the reasons for this increase are described in the introduction and the section discussing the results of the individual operating companies;

- added value amounted to € 17.3 million (27% of net revenues), compared with € 10.1 (21.6%) in 2003;
- personnel expenses totalled € 8.3 million (13% as a percentage of net revenues). They increased from € 7.6 million (16.2%) in 2003;
- gross operating profit increased from € 2.5 million (5.4% of net revenues) to € 9 million (14.5% of net revenues), with an increase of 225%. This is mainly due to the significant growth in turnover and the decrease in consumption and variable production costs;
- operating profit amounted to € 6.2 million (9.6% of net revenues) compared with an operating loss of € 385,610 in 2003;
- profit before taxation totalled € 5.7 million (8.8% of net revenues). Consolidated profit before taxation came to € 3.2 million, representing 5% of net revenues.

INTERCOMPANY TRANSACTIONS

All intercompany transactions, both commercial and financial, take place on an arm's length basis.

There were no atypical or unusual related party transactions.

Commercial transactions between the parent company Landi Renzo S.p.A. and its subsidiaries and any related parties are eliminated in the consolidated financial statements. They are reported in the following table.

	Intercompany transactions			
Company	**Revenues**	**Costs**	**Receivables**	**Payables**
Landi S.r.l.	380,456	199,720	51,541	107,576
Med S.p.A.	15,147	6,404,219	386	2,292,696
Landi International B.V.	55,125	0	1,157,625	0
Eurogas Utrecht B.V.	498,189	61,230	56,812	17,176
LR. Industria e Comercio Ltda	2,034,495	890,862	2,594,226	441,254
Landi Renzo Polska Sp.zo.o	2,065,250	75,042	129,926	0
Total	**5,048,662**	**7,631,073**	**3,990,516**	**2,858,702**

RESEARCH AND DEVELOPMENT

The *R&D* activities of the year maintained the *group's* standards and quality levels and featured ongoing innovation from both a technological viewpoint and to extend the product range.

The key innovations were:

- natural gas pressure reducers for timed sequential engine fuel supply systems, designed to meet the requirements and specifications of the original equipment manufacturer market;
- an innovative timed sequential LPG and natural gas fuel supply system (“Landi Renzo Omegas”) for the after market;
- low-cost innovative pressure reducers for LPG and natural gas.

OTHER INFORMATION

Pursuant to paragraph 2 of article 40 of Legislative decree no. 127/91, we note:

- in compliance with legislation, research and development costs are recorded under the operating costs of the consolidated companies. They do not generate specific cost centres, with the exception of the amount of € 44,418 related to Med S.p.A. described in the notes;
- no significant post-balance sheet events have taken place in the first few months of 2005;
- at year end, the parent company Landi Renzo S.p.A. holds 12,500 shares, each with a nominal value of € 10. Its subsidiaries do not hold any shares of the parent company, either directly or indirectly;
- The outlook was carefully examined at the time of preparing the 2005 budget. The group is expected to record an increase in consolidated turnover of around 15% and a significant increase in operating profit.

THE CHAIRPERSON OF THE BOARD OF DIRECTORS

(signed on the original)

Giovannina Domenichini Landi

KPMG

KPMG S.p.A.
Revisione e organizzazione contabile
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(Translation from the Italian original which remains the definitive version)

Report of the auditors

To the shareholders of
Landi Renzo S.p.A.

1 We have audited the consolidated financial statements of the Landi Renzo Group as at and for the year ended 31 December 2004. These financial statements are the responsibility of the parent company's management. Our responsibility is to express an opinion on these financial statements based on our audit. Since Landi Renzo S.p.A. has appointed a party other than this audit company to carry out the audit pursuant to articles 2409-bis and following of the Italian Civil Code, this report is not issued pursuant to any specific legal requirement.

2 We conducted our audit in accordance with the auditing standards generally accepted in Italy. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report dated 8 April 2004 for our opinion on the prior year consolidated figures which are presented for comparative purposes as required by law.

3 In our opinion, the consolidated financial statements of the Landi Renzo Group as at and for the year ended 31 December 2004 comply with the Italian regulations governing their preparation; therefore they are clearly stated and give a true and fair view of the financial position and results of the group.

Bologna, 24 May 2005

KPMG S.p.A.

(Signed on the original)

Piero Bianco
Director of Audit