

pininfarina

PININFARINA S.p.A.

2005 ANNUAL REPORT

*Pininfarina S.p.A. – Share Capital: 9,317,000 euros, fully paid in – Registered Office: 6 Via Bruno Buozzi, Turin
Tax I.D. and Registration No. 00489110015, Turin Company Register*

ORDINARY SHAREHOLDERS' MEETING

MAY 12, 2006

The Ordinary Shareholders' Meeting will be held on May 12, 2006 at 10:45 AM in the "Mythos" Room of the offices of Pininfarina S.p.A., 30 Via Nazionale, Cambiano (Turin), on the first calling, or on May 15, 2006, same time and place, on the second calling.

AGENDA

- 1. Approval of the financial statements at December 31, 2005 and appropriation of net profit.*
- 2. Election of the Board of Directors and determination of its annual compensation.*
- 3. Election of the members and Chairman of the Board of Statutory Auditors and determination of their compensation.*
- 4. Authorization to buy and sell treasury shares.*

The Notice of the Shareholders' Meeting was published in Il Sole 24 Ore dated April 11, 2006.

Board of Directors

<i>Chairman *</i>	<i>Sergio</i>	<i>Pininfarina (1)</i>
<i>Chief Executive Officer*</i>	<i>Andrea</i>	<i>Pininfarina</i>
<i>Directors</i>	<i>Elisabetta</i>	<i>Carli</i>
	<i>MarioRenzo</i>	<i>Deaglio (2)</i>
	<i>Cesare</i>	<i>Ferrero (1)(2)</i>
	<i>Carlo</i>	<i>Pavesio (2)</i>
	<i>Lorenza</i>	<i>Pininfarina</i>
	<i>Paolo</i>	<i>Pininfarina</i>
	<i>Franzo</i>	<i>Grande Stevens (1)</i>

(1) Member of the Appointments and Compensation Committee.

(2) Member of the Internal Control Committee.

Board of Statutory Auditors

<i>Chairman</i>	<i>Giacomo</i>	<i>Zunino</i>
<i>Statutory Auditors</i>	<i>Giorgio</i>	<i>Giorgi</i>
	<i>Piergiorgio</i>	<i>Re</i>
<i>Alternates</i>	<i>Nicola</i>	<i>Treves</i>
	<i>PierVittorio</i>	<i>Vietti</i>

Secretary to the Board of Directors

Gianfranco Albertini

Independent Auditors

PricewaterhouseCoopers S.p.A.

***Powers**

Under Article 22 of the Bylaws, the Chairman and the Chief Executive Officer are the legal representatives of the Company in front of external parties and courts. Accordingly, they are empowered to carry out all actions that are consistent with the Bylaws and do not conflict with the provisions of Article 2384 of the Italian Civil Code.

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REPORT OF THE BOARD OF DIRECTORS ON OPERATIONS

The Group

Profile

The Pininfarina Group is an industrial enterprise whose core business is focused on automotive operations and based on the establishment of comprehensive relationships with carmakers.

Pininfarina operates as a global partner. Its highly flexible approach enables it to work with customers through the entire product development process — design, planning, development, industrialization and manufacturing — or to provide support during any one of these phases.

Overview

The beginning of the complete renewal of the line of vehicles manufactured by the Group and the consolidation of its international presence were the two developments that characterized 2005.

Production of the Alfa Romeo Brera and Volvo C70 started during the year and, on the international front, the following companies became fully operational:

- in Sweden: Pininfarina Sverige A.B. (a joint venture with Volvo Car Corporation) and its RHTU Sverige A.B. subsidiary, which manufactures retractable roofs for the Volvo convertible;*
- in France: Matra Automobile Engineering Maroc S.A.S. and Matra Développement S.A.S., which completed their first full year of operation, enabling the Group to broaden the range of development services offered to French and international customers.*

An analysis of the Group's performance by area of business shows the impact of two diverging trends: automobile production decreased by 64.5% compared with 2004, and revenues from the service operations were up 10%. These different levels of activity had an impact on the margins earned in these two areas, with the operating result down sharply for the manufacturing operations but up strongly in the services area.

From September 2005 to July 2006, a period slightly shorter than a year, the Company's focus will be on starting production of five new models (Alfa Romeo Brera, Volvo C70, Alfa Romeo Spider, Mitsubishi Colt CZC and Ford Focus CC). This effort, which is unprecedented in Pininfarina's history, will unavoidably affect profitability and the availability of financial resources during the production startup period. As production rhythms stabilize and the contribution of its expanding business continues to grow, the Group will again be able to deliver financial returns that are consistent with the investments and efforts made.

Operating Performance

The financial statements at June 30, 2005 were the first consolidated interim financial statements published by the Pininfarina Group that were prepared in accordance with the International Financial Reporting Standards (IFRSs). The publication of these statements was consistent with the requirements of EU Regulation No. 1606 of July 19, 2002 and Article 81 of the Issuers' Regulations, as amended by Consob Resolution No. 14990 of April 14, 2005. The consolidated financial statements at December 31, 2005 and the corresponding comparative data were also prepared in accordance with IFRS requirements.

In 2005, the value of production generated by the Pininfarina Group totaled 383 million euros, compared with 557.8 million euros reported at the end of 2004 (-31.3%). A breakdown of the Group's overall value of production shows that the manufacturing operations accounted for 56% of the total (73% in 2004), with the design and engineering operations accounting for the remaining 44% (27% in 2004).

A significant shortfall in the contribution provided by the manufacturing operations (value of production of 214.8 million euros, or 47% less than in 2004) was offset in part by the steady growth enjoyed by the service operations (value of production of 168.2 million euros, +10%).

The year ended with negative EBIT of 8.3 million euros (-2.2% of value of production), due mainly to the performance of the manufacturing operations. The service operations, which include some businesses that are still in the consolidation phase, were close to breakeven. The operating result includes the gains earned on the sale of equity investments in Open Air Systems GmbH and PF RE S.A., which totaled 32.2 million euros. In 2004, EBIT were positive by 8.1 million euros (1.4% of value of production).

Even though average available liquidity was down significantly, financial income decreased only slightly (from 1.6 million euros to 1.4 million euros), owing in part to a successful asset management strategy.

Net other expenses totaled 2.6 million euros, or about 1 million euros less than in 2004. They reflect mainly adjustments to the carrying value of investments in companies consolidated by the equity method.

The loss before taxes totaled 9.5 million euros (profit before taxes of 6 million euros a year earlier). It was equal to -2.5% of the value of production (1.1% in 2004).

Thanks to the deferred-tax assets generated by the loss reported by Pininfarina S.p.A., the Group ended 2005 with a tax asset of 1.4 million euros, compared with a tax liability of 8.4 million euros in 2004.

The net loss amounted to 8.1 million euros, compared with a loss of 2.4 million euros in 2004. It was equal to -2.1% of the value of production (-0.4% in 2004).

At December 31, 2005, net non-current assets totaled 243.9 million euros, or 46.1% more than in 2004, while working capital was virtually unchanged at 19.8 million euros.

Net capital requirements increased from 121 million euros in 2004 to 195.5 million euros in 2005 (+61.6%). At December 31, 2005, shareholders' equity totaled 188.6 million euros, or 4.0 million euros less than a year earlier.

The net financial position of the Group was negative by 6.9 million euros, compared with a surplus of 71.6 million euros at December 31, 2004. This change in financial structure reflects the Group's strong commitment to growing its businesses, both in Italy and abroad, through new forms of cooperation with its customers (joint ventures). Specifically, the main reasons for the increase in indebtedness are the need to fund the work required to develop and produce the new models and also to fund the contribution of the Group's pro rata share of equity capital provided to Pininfarina Sverige A.B., which this past December bought the Uddevalla plant from Volvo Car Corporation.

The outlook for 2006 calls for value of production to increase to more than 700 million euros. The manufacturing operations should account for most of this improvement, now that they have completed the renewal of their product line. The Alfa Romeo Brera will be joined on the assembly line by the Alfa Romeo Spider, Mitsubishi Colt CZC, Ford Focus CC and Volvo C70. Profitability is expected to improve only in the second half of the year, enabling the Group to achieve the objective of operating breakeven by the end of the year. The net financial position is expected to show an increase in indebtedness as the process of investing in new models is brought to completion.

Human Resources

The tables below provide a breakdown of the Pininfarina Group's workforce by type of activity and country.

Breakdown by Type of Activity

	<i>Production</i>	<i>Engineering</i>	<i>Styling</i>	<i>Staff functions</i>	<i>TOTAL</i>
2004	1,324	772	178	317	2,591
2005	1,355	847	185	346	2,733

Breakdown by Country

	<i>Italy</i>	<i>France</i>	<i>Germany</i>	<i>Morocco</i>	<i>Sweden</i>	<i>TOTAL</i>
2004	2,112	352	96	25	6	2,591
2005	2,119	447	81	32	54	2,733

In addition to the data provided above, Pininfarina Sverige A.B., which was not operational in 2004, had 671 employees at December 31, 2005.

The start of new model production in the coming months will enable the Group to rehire all of the employees who are currently enrolled in the Government Layoff Benefits Fund.

The performance of the individual operations of the Company is reviewed below.

Production

The manufacturing operations faced a challenging year in 2005, with limited production activity concentrated in the early months of the year, while in the second half the focus was almost exclusively on preparing the new model production lines. Specifically, production assignments for Mitsubishi and Ford ended, but work for Alfa Romeo got under way with the Brera model. The number of cars manufactured decreased from 22,869 units in 2004 to 8,119 units in 2005 (-64.5%).

The production breakdown is as follows:

Complete cars	2005	2004
Alfa Romeo Brera	1,630	0
Alfa Romeo GTV and Spider	0	1,708
Ford Streetka	4,898	8,562
Mitsubishi Pajero Pinin	1,591	8,673
Peugeot 406 Coupé	0	3,926
Total	8,119	22,869

During the closing days of 2005, production of the Volvo C70 (172 units) got under way in Uddevalla (Sweden). Production was then gradually ramped up, with the attainment of full capacity scheduled for April. At the same time, the RHTU Sverige A.B. subsidiary began supplying Pininfarina Sverige A.B. with retractable hard tops designed for the new Volvo convertible.

The Group's Italian factories are making final preparations to start production of the Alfa Romeo Spider and Mitsubishi Colt CZC. They are also continuing to carry out the programs needed to start manufacturing the Ford Focus CC, a new model that will complete the Group's production line for the coming years.

Engineering

In 2005, the engineering operations worked mainly on projects related to the cars that will be manufactured at Pininfarina's production facilities. Specifically, they continued to provide support in connection with the industrialization phase for the Alfa Romeo Brera and Volvo C70, which went into production at the end of the year, and the Alfa Romeo Spider, which will follow in 2006.

Work on the Mitsubishi Colt CZC project included the successful completion of engineering development, with the car achieving all of the technical targets and receiving homologation. The Ford Focus CC has been progressing on schedule, and its technical review should be completed soon, delivering results that are in line with expectations.

An important development among engineering-only projects was an assignment from JAC, a new Chinese customer with whom the Group signed a development contract in November 2005. JAC is a very important customer with an established product line and an ambitious development plan. Serious discussions on how to continue and expand our collaboration with this customer are ongoing.

Work for Changfeng continued without problems. On the heels of this satisfactory collaboration, Changfeng is currently negotiating a second development program. Development of an intermediate class car for Chery, which has been progressing on schedule, reached the prototype production phase. Meanwhile, work on the development of a luxury car, which was still in the initial phase, was slowed at the request of the customer, who is reassessing his product strategy. Full-scale activity on this project is expected to resume in the next two months, and additional opportunities that are currently being reviewed are expected to come to fruition.

The Matra Automobile Engineering Group, having completed its integration within the Pininfarina network, continued to develop its businesses by implementing a portfolio of projects for customers in Europe and Asia. In 2005, its second year of operations, its value of production increased by 13%.

The Group's commercial office in China continued to operate successfully, providing valuable local support and helping the Group seek new opportunities and consolidate existing relationships.

Design

The main design projects carried out in 2005 are reviewed below:

For Ferrari, start of two projects involving styling of new models.

For Maserati, styling evolution for a new car (negotiations for the engineering development are in the final stages) and restyling of a car already in production.

For the Fiat Group, continued support services in connection with projects that are close to the production stage and, later in the year, styling research for a new Lancia-branded car.

For Peugeot, collaboration on the styling of two exterior options for a luxury car, as well as styling research for a new model, with additional work scheduled for 2006.

For Mitsubishi, in addition to continued support during the production of existing models, codesign and joint construction of the Sportback prototype, which was unveiled at the Frankfurt Motor Show.

In China, additional styling work for AviChina (Hafei) and Chery Automobile, which have become established customers of the Group.

Work for Changfeng, a new customer, included a styling research project for an SUV, the engineering development of which is currently ongoing.

During the second half of 2005, the Group signed an agreement to provide design and engineering services to JAC, another Chinese customer. Styling work got under way toward the end of the year.

Work involving other means of transportation included the following:

- *For BMC, a Turkish customer, development of a new line of commercial vehicles;*
- *For Ansaldobreda, an established customer, continued collaboration on styling projects;*
- *For the Cible Group, styling research for the "e-Solex" electric moped. A prototype was presented in Paris during the second half of 2005.*

The Group's product design business continued to grow in 2005. An important development was the consolidation of the relationship with Motorola iDEN, which includes collaboration with the Group's Parent Company on the development of the Birdcage 75th project.

A number of new products were introduced in 2005, including the following:

- The Synus refrigerated display case for Pastorfrigor;*
- A new line of interior doors for Torterolo;*
- The Family coffee vending machine that uses prepackaged coffee pods for Lavazza;*
- The Primatist G70 boat;*
- The "Pininfarina 2" line of home appliances for Gorenje.*

Communications

The Company carried out numerous projects and initiatives designed to maintain and develop an effective flow of information to audiences both outside (customers, media, collectors, institutions) and inside the Pininfarina Group, with the objective of strengthening its image and reputation.

A step of fundamental importance was the establishment of a newsletter, called Pininfarina News, which will enable the Group to reach all of its external communication targets more effectively. Equal importance was given to internal communications with the creation of Pininformando, an in-house organ published every two months (the first issue came out in September 2005) that provides all employees in Italy and abroad with information about the Group's internal and external activities.

Attendance at major motor shows continues to be a key tool of the Group's communications strategy, while at the same time providing important development opportunities in terms of contacts and benchmarking. The results achieved in 2005 were especially significant, with the presentation of several Pininfarina-designed concept cars and production models at key motor shows:

At the 2005 North American International Auto Show in Detroit:

- The Ferrari Superamerica, a two-door convertible that Ferrari will manufacture in a limited edition.

At the Geneva International Motor Show:

- The Birdcage 75th, a prototype developed in cooperation with Maserati and Motorola that was honored with the Best Concept Car award from Autoweek, the Most Beautiful Car in the World special award and the prestigious Louis Vuitton Classic Concept Award, which is bestowed on a functioning prototype that is the best of all of the prototypes that were presented, and won awards at international motor shows during the previous year;

- The Avichina (Hafei) Saibao, a concept car that interprets the theme of a five-seat sedan;

- The Mitsubishi Colt CZC, which Pininfarina will manufacture in 2006.

At the Shanghai Motor Show:

- The Brilliance Splendor, a sedan;

- The Chery M14 concept car, the first Chinese car with a retractable hard top. It was named the show's Best New Car.

An additional opportunity to garner international visibility was provided by the Torino 2006 Winter Olympics. This event required a significant financial investment, which was charged in full to income in 2005 as the costs required for this project were incurred, but provided an important return in terms of communications and image. The Torch became an internationally recognized and appreciated symbol of the Olympics and the same was true for the Brazier, which has become an iconic image of Turin.

Another important communications tool was provided by the publication of La Forma di un Sogno [The Shape of a Dream]. This book, which illustrates the connections between the history of Pininfarina and that of the Olympic torch, was written by Turin native Giuseppe Culicchia and distributed to hundreds of journalists and VIPs, who lauded the originality and quality of the project.

A separate project focused on achieving complete and effective integration between the communications of Pininfarina and those of Pininfarina Extra and between the Group's Italian and foreign offices, with the goal of consolidating a single image of the Company, both locally and in the domestic and international markets.

Lastly, work got under way on the production of a corporate identity manual.

Pininfarina S.p.A.

The statutory financial statements at December 31, 2005 were prepared in accordance with Italian accounting principles.

The 2005 fiscal year ended with a loss of 13.5 million euros, compared with a net profit of 13.8 million euros at December 31, 2004. The comments provided earlier in this Report with regard to the impact of the renewal of the product portfolio on the performance of the manufacturing operations also provide the explanation for this negative result.

Because value of production decreased by 37.8%, it was insufficient to fully absorb the year's costs, causing the Company to report negative EBIT of 37.9 million euros (-11.1% of the value of production), as against positive EBIT of 18.5 million euros in 2005 (3.4% of the value of production).

Net financial income totaled 2.5 million euros, compared with 2.7 million euros in 2004.

Value adjustments on financial assets rose to 6.4 million euros. The increase of 6.1 million euros compared with the previous year reflects a writedown of the investment in Pininfarina Deutschland GmbH. In 2004, this item totaled 0.3 million euros.

Net other income increased to 24.3 million euros, up from 6.0 million euros in 2004. This item includes the gains generated by the sale of the investment in Open Air Systems GmbH and the liquidation of the PF RE S.A. subsidiary.

The loss before taxes amounted to 17.5 million euros, compared with a profit before taxes of 26.9 million euros at December 31, 2004. In 2004, profit before taxes benefited from a reversal of the accelerated depreciation taken before 1999, which was carried out in compliance with the statutory obligation to eliminate the impact on the financial statements of items booked exclusively for tax purposes.

Because deferred-tax assets exceeded the current tax liability, the Company ended 2005 with a tax asset of 4 million euros, compared with a tax liability of 13.1 million euros in 2004.

Turning to the balance sheet, net non-current assets increased to 160.7 million euros, or 132.7 million euros more than at December 31, 2004 (+21.1%). Working capital was negative by 9.8 million euros. The negative balance decreased by 8 million euros as compared with the end of 2004.

Shareholders' equity decreased from 194.8 million euros to 178.1 million euros (-8.6%) and the net financial position was positive by 56.8 million euros, compared with a positive balance of 104.3 million euros at December 31, 2004.

Transactions with Subsidiaries, Associated Companies and Related Parties, and Other Information

Pininfarina S.p.A. draws on its expertise and organizational skills to provide its subsidiaries and associated companies with services that help them improve quality and increase efficiency. In 2005, these services, which were provided on market terms, consisted primarily of the following:

- 1. Support in connection with administrative, financial, corporate, personnel, image and marketing issues;*
- 2. Loans received from Group companies;*
- 3. Loans provided to Group companies;*
- 4. Miscellaneous purchases.*

<i>REVENUES FROM:</i>	<i>Amounts</i>	<i>Description</i>	<i>COSTS PAID TO:</i>	<i>Amounts</i>	<i>Description</i>
<i>Pininfarina EXTRA S.r.l.</i>	537.50 911,824.67 8,800.00	<i>Miscellaneous sales Miscellaneous services Design services</i>	<i>Pininfarina EXTRA S.r.l.</i>	111.21 2,022.56	<i>Miscellaneous purchases Miscellaneous services</i>
<i>Matra</i>	119,700.00 495,297.89	<i>Miscellaneous services Interest receivable</i>	<i>Matra</i>	1,716,506.20 852,861.80	<i>Design services Verified design services</i>
<i>Pininfarina Deutschland</i>	102,787.94	<i>Interest receivable</i>	<i>Pininfarina Deutschland</i>	1,337,328.00 128,000.00	<i>Miscell. services Miscell. expense</i>
<i>RHTU Sverige</i>	1,072.80 132,080.48	<i>Miscellaneous sales Miscellaneous services</i>	<i>RHTU Sverige</i>	228,725.00	<i>Miscell. services</i>
<i>Pininfarina Sverige</i>	3,420,429.07 109,226,473.24 571,435.00	<i>Interest receivable Design services Miscellaneous services</i>	<i>Pininfarina Sverige</i>	4,500,000.00	<i>Miscellaneous services</i>

<i>Loans provided to:</i>	<i>Amount at 12/31/05</i>	<i>Maximum balance in 2005</i>
<i>Matra Automobile Engineering SAS</i>	20,530,875.00	19,775,167.00
<i>Pininfarina Deutschland GmbH</i>	3,177,600.00	3,177,600.00
<i>Pininfarina Sverige AB</i>	116,377,157.00	125,329,246.00

No transactions were carried out with related parties

At December 31, 2005, Pininfarina S.p.A. held 4,845 treasury shares.

Disclosures Required Pursuant to Consob Resolution No. 11508 of February 15, 2000

At its meetings of March 27, 2002 and March 31, 2005, the Board of Directors approved two stock option plans designed to enhance the loyalty of certain employees, whose contribution it deemed to be especially important for the furtherance of the Company's objectives, while at the same time taking advantage of certain tax benefits and lowering the burden of benefit contributions.

The stock option plans are three-year plans (from 2002 to 2004 the first one and from 2005 to 2007 the second one). They are for the benefit of executives of PiniFarina Group companies located in Italy. In each year of each plan, the beneficiaries are awarded a certain number of options that become exercisable when the beneficiaries achieve specific objectives set by the Company.

The individual strike price of the options is equal to the average of the closing prices of the ordinary shares on each of the trading days between the date the options are awarded and the same day of the previous month.

The options vest at the end of each year, based on the ability of the beneficiaries to achieve their assigned objectives. Vested options are exercisable on a pro rata basis within three years from the date of award. As of the date of this report, the status of awarded options was as follows:

YEAR	STRIKE PRICE	NUMBER OF OPTIONS AWARDED	NUMBER OF OPTIONS EXERCISABLE	NUMBER OF OPTIONS EXERCISED
2002	€ 19.408	187,000	149,766	149,766 (1)
2003	€ 20.909	202,000	174,760	79,184 (2)
2004	€ 22.753	214,000	159,745	29,080 (3)
2005	€ 23.437	218,000	-	-

(1) The average exercise price was 23.50 euros. These options were exercised in November 2003 (20,681), May 2004 (36,824) and June 2005 (92,261).

(2) The average exercise price was 23.25 euros. These options were exercised in May 2004 (24,872) and June 2005 (54,312).

(3) The average exercise price was 25.70 euros. These options were exercised in June 2005 (10,000) and December 2005 (19,080).

No special arrangements have been made to help executives exercise their options.

On March 30, 2006, the Board of Directors proposed the purchase of up to 400,000 treasury shares, 250,000 of which will be used for the exercise of stock options.

As required by Consob Resolution No. 11971 of May 14, 1999 (Regulations Implementing Legislative Decree No. 58/98), the table below provides a breakdown of the interest held in the Company by its Directors and Statutory Auditors.

Equity Investments Held by Members of Corporate Governance Bodies, General Managers and Their Immediate Families

First and last name	Investee company	Number of shares held at 12/31/04	Number of shares bought in 2005	Number of shares sold in 2005	Number of shares held at 12/31/05
Sergio Pininfarina	Pininfarina S.p.A.	282,038 (1)	none	none	282,038 (1)
Sergio Pininfarina	Pininfarina S.p.A.	181,500 (2)	none	none	181,500 (2)
Sergio Pininfarina	Pininfarina S.p.A.	4,714,360 (3)	none	none	4,714,360 (3)
Cesare Ferrero	Pininfarina S.p.A.	286	none	none	286
Giorgia Gianolio	Pininfarina S.p.A.	10,000 (4)	none	none	10,000 (4)
(1) Full ownership. Shares held indirectly through the subsidiary Seglap S.s. (2) Full ownership. Shares held indirectly through the subsidiary Segi S.r.l. (3) Full ownership. Shares held indirectly through the subsidiary Pincar S.a.p.a (4) Held by Sergio Pininfarina's wife.					

The fees paid to Directors and Statutory Auditors by the Parent Company and its subsidiaries, for any reason and in any form, are shown in a special section of the Notes to the Statutory Financial Statements.

Group Companies

The data for 2004 and 2005 are presented in accordance with IAS/IFRS requirements.

Pininfarina Extra S.r.l.

In 2005, value of production increased by 30%, rising from 4.3 million euros to 5.6 million euros, with all profitability indicators improving compared with 2004. Specifically, net profit rose to 0.74 million euros, up from 0.59 million euros the previous year (+25%). The net financial position showed a positive balance of 1.6 million euros, double the amount reported at the end of 2004 (0.8 million euros). The company's staff was unchanged at 22 employees. On March 1, 2006, Pininfarina Extra USA Corp. became operational. This company, which was established to manage industrial design operations in the U.S. market does not yet have any staff.

Matra Automobile Engineering Group

The second year of operations of the MAE Group ended with value of production of 52.4 million euros, a gain of 13% compared with the 46.4 million euros reported in 2004. The net loss amounted to 3 million euros, or one-third less than the 4.5 million euros lost a year earlier. This significant improvement reflects the gradual completion of the operations' startup phase. The net financial position was negative by 15.1 million euros, compared with a negative balance of 10.4 million euros at December 31, 2004. The indebtedness is owed exclusively to the Parent Company, Pininfarina S.p.A. At the end of 2005, the MAE Group had 479 employees (377 employees a year earlier).

Pininfarina Deutschland GmbH

Highly unfavorable business conditions in the German automotive industry were the main reason for the decrease in value of production, which fell from 9.2 million euros in 2004 to 7.5 million euros in 2005 (-18%). Nevertheless, the company was able to shrink its loss for the year to 1.4 million euros, or 22% less than the 1.8 million euros lost in 2004. Net indebtedness totaled 5.1 million euros (3.2 million euros of which were owed to the Parent Company, Pininfarina S.p.A.), down from 5.3 million euros in 2004. At December 31, 2005, Pininfarina Deutschland GmbH had 81 employees (96 in 2004).

PF RE S.A.

PF RE S.A. and its PF Services S.A. subsidiary were liquidated in 2005. Both companies, which were based in Luxembourg and had no staff, were established to provide captive insurance coverage for potential warranty costs related to the Mitsubishi Pajero Pinin. Since production of this model has ended, there was no longer a need for the services of these companies. The liquidation process produced a gain of 2.1 million euros in the financial statements of Pininfarina S.p.A.

RHTU Sverige A.B.

This wholly owned subsidiary of Pininfarina S.p.A. was established in June 2004. It ended its first full fiscal year at breakeven, the same result as in 2004. Value of production amounted to 1.8 million euros, compared with 0.4 million euros at December 31, 2004. The company completed its startup phase in the final quarter of the year and began production of retractable hard tops for the Volvo C70, which is being manufactured by Pininfarina Sverige A.B. The net financial position was positive by 0.1 million euros (positive balance of 0.3 million euros at the end of 2004). At December 31, 2005, the company had 54 employees, up from 6 employees a year earlier.

Pininfarina Sverige A.B.

This joint venture with Volvo Car Corporation in which Pininfarina S.p.A. holds a 60% interest is consolidated by the equity method. It became fully operational in November 2005, after it acquired a plant that will be used to produce a new Volvo convertible. To help fund this investment, the Group's Parent Company increased its pro rata interest in the shareholders' equity of this subsidiary by 36.9 million euros. The year ended with value of production of 21.3 million euros and a net loss of 0.6 million euros. In 2004, the company generated no value of production but reported a net profit of 1.0 million euros. The net financial position showed net indebtedness of 212.2 million euros (135.2 million euros at December 31, 2004), which is attributable exclusively to the need to fund development and tooling programs for the Volvo C70.

In January 2005, Pininfarina S.p.A. sold its interest in Open Air Systems GmbH to Webasto A.G. Open Air Systems GmbH was a 50-50 joint venture between Pininfarina S.p.A. and Webasto A.G.

Significant Events Occurring Since December 31, 2005

As of the date of this Report, no events have occurred that would make the asset base or financial position of the Group's companies materially different from those reflected on the balance sheet at December 31, or require restatements of or notes to the financial statements.

Pininfarina Extra S.r.l. was the only subsidiary that declared a dividend distributable to Pininfarina S.p.A. (a total of 291,000 euros). The other subsidiaries were in the process of implementing major capital investment programs, mostly in connection with the startup of new activities.

At the Geneva Motor Show, which was held after the close of the 2005 fiscal year, Pininfarina offered a world preview of three new products: the Ferrari 599 GTB Fiorano; the Alfa Spider, which was named Cabrio of the Year 2006; and the Mitsubishi Colt CZC. Pininfarina designed the Ferrari 599 GTB Fiorano and was involved in every phase of the development of the latter two models, handling their design, engineering and production.

Two additional models — the Ford Focus CC and the Volvo C70 — were afforded an equally warm reception by the press and the motoring public.

In accordance with the provisions of Item 26 of the "Technical Regulations on Minimum Safety Measures" appended as Annex B) to Legislative Decree No. 196 of June 30, 2003, notice is hereby given that Pininfarina S.p.A. has updated its Safety Planning Document in accordance with the requirements of Article 34, Letter G), of the abovementioned Legislative Decree.

MOTION FOR THE APPROPRIATION OF NET PROFIT

The 2005 fiscal year ended with a loss of 13,470,625 euros, which we recommend that you cover in its entirety, drawing the necessary funds from the special reserve.

Turin, May 12, 2006

A handwritten signature in black ink, appearing to read 'S. Pininfarina', is written over a horizontal line.

*Sergio Pininfarina
Chairman of the Board of Directors*

THE PININFARINA GROUP

Consolidated Financial Highlights

(amounts in thousands of euros)

	Data at	
	12/31/05	12/31/04
Operating Data		
Net revenues	461,426	466,229
Value of production	383,029	557,772
EBIT	(8,281)	8,070
Net financial income	1,370	1,567
Profit (Loss) before taxes	(9,501)	6,033
Net loss	(8,103)	(2,405)
Cash flow*	8,270	15,450
Balance Sheet Data		
Net non-current assets	243,933	166,920
Net invested capital	224,160	146,996
Group interest in shareholders' equity	188,557	192,569
Net financial position	(6,894)	71,585
Other Data		
Number of employees at December 31	2,733	2,591

* Group interest in net profit plus depreciation and amortization.

Operating Performance, Financial Position and Financial Performance of the Pininfarina Group

Operating Performance

Net revenues totaled 461.4 million euros, or 4.8 million euros less (-1.03%) than the 466.2 million euros reported in 2004. This decrease reflects the transition period that the manufacturing operations experienced in 2005, with existing production orders coming to an end in the first half of 2005 and new orders getting under way in the closing months of the year.

Value of production totaled 383.0 million euros, for a decrease of 174.7 million euros (-31.32%) from the 557.8 million euros reported in 2004. A breakdown by business segment is provided on page 58.

Operating costs, net of inventory, included 302.1 million euros for purchases of raw materials and outside services (-30%). Value added, which reflected the positive impact of gains on the disposal of non-current assets (32.4 million euros), amounted to 113.4 million euros, or 13.9 million euros less (-10.93%) than at December 31, 2004. The ratio of value added to the value of production was 29.6% (22.81% in 2004).

At 102.9 million euros, personnel costs were 1.78% higher than in the previous year, as the average payroll grew by 4.7% to 2,656 employees, 119 more than at December 31, 2004.

EBITDA came to 10.5 million euros, or 15.7 million euros less than in 2004 (-59.92%). The ratio of EBITDA to value of production decreased to 2.73% (4.69% in 2004).

Depreciation and amortization amounted to 16.4 million euros (-1.5 million euros compared with the previous year). Provisions totaled 2.4 million euros (255,000 euros in 2004).

EBIT were negative by 8.3 million euros, compared with positive EBIT of 8.1 million euros in 2004. The ratio of EBIT to value of production was -2.16% (+1.45% in 2004).

Even though average available liquidity was down significantly, financial income decreased only slightly (from 1.6 million euros to 1.4 million euros), owing in part to a successful asset management strategy.

Net other expenses totaled 2.6 million euros, or about 1 million euros less than in 2004. They reflect mainly adjustments to the carrying value of investments in companies consolidated by the equity method.

The loss before taxes amounted to 9.5 million euros (-2.48% of the value of production). In 2004, the Group reported a profit before taxes of 6.0 million euros (1.08% of the value of production).

Deferred-tax assets helped reduce the loss by 1.4 million euros. In 2004, the tax liability amounted to 8.4 million euros.

In 2005, the net loss widened to 8.1 million euros (-2.12% of the value of production), or 5.7 million euros more than in 2004 (-2.4 million euros).

A reclassified income statement is provided in Annex 1.

Financial Position

At December 31, 2005, net capital requirements were 74.5 million euros more than a year earlier, mainly as a result of an increase in net non-current assets.

More specifically:

Net non-current assets totaled 243.9 million euros. Intangible assets and property, plant and equipment increased by 45.4 million euros as the net result of additions totaling 67.5 million euros, depreciation and amortization of 16.4 million euros and retirements of 5.7 million euros. Non-current financial assets increased by 31.6 million euros as the net result of the contribution of equity reserves to Pininfarina Sverige A.B. (33.4 million euros) and the derecognition of the investment in Open Air Systems GmbH (1.8 million euros) upon its sale.

Working capital was negative by 19.8 million euros, about the same as at the end of 2004.

The provision for termination indemnities totaled 28.7 million euros, or 2.7 million euros more than at December 31, 2004.

Capital requirements were covered by:

Shareholders' equity, which decreased by 4 million euros, mainly as the net result of the negative difference between the 2005 and 2004 net loss.

The net financial position became negative by 6.9 million euros, compared with a positive balance of 71.6 million euros at December 31, 2004. This negative change of 78.5 million euros reflects the need to simultaneously fund all of the Group's new product development projects.

A reclassified balance sheet is provided in Annex 1.

Financial Performance

At December 31, 2005, the net financial position showed a negative balance of 6.9 million euros, compared with a positive balance of 71.6 million euros a year earlier. This negative year-over-year difference of 78.5 million euros is the net result of the following factors:

- An increase of 169.3 million euros in medium- and long-term debt;*
- An increase of 83.1 million euros in medium- and long-term loans receivable;*
- An increase of 6.8 million euros in non-current financial assets;*
- A modest increase of 0.9 million euros in net liquid assets, which totaled 89.2 million euros at December 31, 2005 (88.3 million euros at December 31, 2004).*

An analysis of cash flow is provided in Annex 1.

CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2005

Consolidated Balance Sheet – Assets

	Note ref.	12/31/05	12/31/04
Property, plant and equipment		<u>203,056,932</u>	<u>158,158,549</u>
Land and buildings	6	99,677,778	99,387,973
Land		22,619,019	22,611,579
Buildings		66,538,277	65,923,956
Leased property		10,520,482	10,852,438
Plant and machinery	6	91,413,504	52,463,212
Machinery		5,769,909	6,430,557
Plant		34,853,880	30,147,655
Leased machinery and equipment		50,789,715	15,885,000
Furniture, fixtures and other property, plant and equipment	6	6,339,239	4,733,056
Furniture and fixtures		3,007,970	2,520,689
Hardware and software		2,292,636	1,181,365
Other property, plant and equipment		1,038,633	1,031,002
Assets under construction	6	5,626,411	1,574,308
Intangible assets	7	<u>6,284,212</u>	<u>5,743,806</u>
Goodwill		2,301,012	2,246,908
Licenses and trademarks		3,626,561	3,118,789
Development costs		0	0
Other intangibles		356,639	378,109
Equity investments	8	<u>34,592,135</u>	<u>3,016,948</u>
Subsidiaries		0	0
Associated companies		744,800	744,800
Joint ventures		33,373,701	1,763,998
Other companies		473,634	508,150
Deferred-tax assets	20	<u>20,926,810</u>	<u>25,304,441</u>
Non-current financial assets		<u>267,487,405</u>	<u>177,599,046</u>
Held-to-maturity long-term investments		0	0
Loans and other receivables from:		241,472,036	158,343,537
Outsiders	9	125,094,880	63,800,463
Related parties and joint ventures	9	116,377,156	94,543,074
Available-for-sale non-current financial assets	9	26,015,369	19,255,509
Held-for-sale other non-current assets		0	0
TOTAL NON-CURRENT ASSETS		<u>532,347,494</u>	<u>369,822,790</u>
Inventory	10	<u>17,583,386</u>	<u>21,947,537</u>
Raw materials		12,728,743	17,974,856
Work in process		2,475,939	1,978,161
Finished goods		2,378,704	1,994,520
Contract work in progress	10	<u>14,774,330</u>	<u>23,507,914</u>
Current financial assets		<u>120,211,789</u>	<u>104,519,159</u>
Current assets held for trading	9	60,864,391	88,409,981
Current loans receivable and other receivables from:	9	59,347,398	16,109,178
Outsiders		59,347,398	16,109,178
Related parties and joint ventures		0	0
Available-for-sale current financial assets		0	0
Held-to-maturity current investments		0	0
Derivatives		0	0
Trade receivables and other receivables		<u>122,454,878</u>	<u>98,289,931</u>
Trade receivables from:		106,296,621	69,628,146
Outsiders	11	95,725,186	44,276,993
Related parties and joint ventures	9	10,571,435	25,351,153
Other receivables	11	16,158,257	28,661,785
Cash and cash equivalents		<u>15,585,498</u>	<u>26,568,454</u>
Cash on hand		675,260	4,310,526
Short-term bank deposits		14,910,238	22,257,928
TOTAL CURRENT ASSETS		<u>290,609,881</u>	<u>274,832,995</u>
TOTAL ASSETS		<u>822,957,375</u>	<u>644,655,785</u>

Consolidated Balance Sheet – Liabilities and Shareholders' Equity

	Note ref.	12/31/05	12/31/04
Common shares	12	9,312,155	9,182,502
Additional paid-in capital		36,215,861	33,910,650
Reserve for treasury stock		12,000,000	27,434,512
Statutory reserve		2,231,389	2,231,389
Revaluation reserve		0	0
Stock option reserve		1,320,733	527,691
Derivative hedging reserve		0	0
Reserve for currency translations		(252,864)	3,726
Fair value reserve		12,507,513	8,265,701
Other reserves		110,942,932	97,522,513
Retained earnings		12,382,791	15,895,428
Profit (Loss) for the year		(8,103,394)	(2,404,679)
GROUP INTEREST IN SHAREHOLDERS' EQUITY		188,557,116	192,569,433
Minority interest in shareholders' equity		0	0
TOTAL SHAREHOLDERS' EQUITY		188,557,116	192,569,433
Long-term borrowings		363,632,728	194,326,300
Liabilities under finance leases	16	205,204,788	74,127,286
Other indebtedness owed to:	15	158,427,940	120,199,014
Outsiders		158,427,940	120,199,014
Related parties and joint ventures		0	0
Deferred-tax liabilities	20	28,026,734	31,969,310
Provision for termination indemnities	17	28,708,951	26,012,249
Provision for pensions and severance pay		464,732	179,205
Provision for termination indemnities		28,244,219	25,833,044
Provision for other liabilities and charges		0	0
Decommissioning costs		0	0
TOTAL NON-CURRENT LIABILITIES		420,368,413	252,307,859
Current borrowings	16	46,545,406	42,775,329
Due to banks		500,816	467,781
Liabilities under finance leases		46,044,590	42,307,548
Bonds outstanding and other borrowings owed to:		0	0
Outsiders		0	0
Related parties and joint ventures		0	0
Other payables		32,134,207	26,971,936
Wages and salaries		9,580,474	6,194,266
Due to social security institutions		5,583,737	5,738,852
Vacation days, sick days and personal days		292,928	370,721
Other liabilities	18	16,677,068	14,668,097
Trade accounts payable	18	129,079,429	125,613,182
Accounts payable to outsiders		129,072,214	120,600,273
Accounts payable to associated companies and joint ventures		0	4,917,099
Advances received for work in progress		7,215	95,810
Provision for current taxes		51,047	107,944
Direct taxes		0	0
Other taxes	20	51,047	107,944
Financial derivatives		0	0
Provision for other liabilities and charges	19	2,727,570	4,310,102
Provision for warranties		900,000	2,591,298
Provision for legal disputes		0	0
Provision for restructuring programs		0	0
Other provisions		1,827,570	1,718,804
Other liabilities		3,494,187	0
TOTAL CURRENT LIABILITIES		214,031,846	199,778,493
TOTAL LIABILITIES		634,400,259	452,086,352
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		822,957,375	644,655,785

Consolidated Income Statement

	Note ref.	12/31/05	12/31/04
Sales and service revenues		461,425,526	466,228,634
Increase in Company-produced non-current assets		1,418,990	0
Change in inventory of finished goods and work in progress		(85,206,183)	57,617,351
Change in contract work in progress		(86,342,317)	61,212,176
Change in inventory of work in progress, semifinished goods and finished goods		1,136,134	(3,594,825)
Other income and revenues	21	5,390,896	33,926,000
TOTAL VALUE OF PRODUCTION		383,029,229	557,771,985
Gain on the sale of non-current assets	22	32,442,882	1,066,075
<i>Amount earned on the sale of equity investments</i>		32,312,027	0
Raw materials and consumables used		(165,767,798)	(287,119,573)
Raw materials and components		(159,973,719)	(278,657,698)
Change in inventory of raw materials, subsidiary materials and consumables		(5,794,079)	(8,236,875)
Provision for inventory risk		0	(225,000)
Other variable production costs		(9,719,001)	(8,776,634)
Consumables		(3,843,252)	(4,744,378)
Utilities		(2,330,049)	(189,550)
External maintenance costs		(3,545,700)	(3,842,706)
Variable external engineering services		(88,288,397)	(97,789,605)
Wages, salaries and employee benefits		(102,905,994)	(101,095,117)
Production staff, office staff and managers		(97,647,185)	(96,349,731)
Independent contractors		(507,313)	(445,728)
Social security and other post-employment benefits		(4,751,496)	(4,299,658)
Cost of profit sharing compensation		0	0
Depreciation, amortization and writedowns		(16,372,545)	(17,855,318)
Depreciation of property, plant and equipment	6	(15,026,620)	(16,419,756)
Loss on disposal of property, plant and equipment		0	0
Amortization of intangibles	7	(1,345,925)	(1,435,562)
Writedowns		0	0
Utilization of negative goodwill		0	0
Foreign exchange gains (losses)		301,556	(561,075)
Other expenses	24	(41,001,919)	(37,570,586)
PROFIT (LOSS) FROM OPERATIONS		(8,281,987)	8,070,152
Finance costs, net	25	453,957	918,484
Dividends	26	916,542	648,708
Value adjustments	27	(2,620,233)	(6,021,592)
Nonrecurring income (expense)	28	30,723	2,417,124
PROFIT (LOSS) BEFORE TAXES		(9,500,998)	6,032,876
Income taxes for the year	20	1,397,604	(8,437,555)
PROFIT (LOSS) FOR THE YEAR		(8,103,394)	(2,404,679)

	12/31/05	12/31/04
Earnings (Loss) per share	(8,103,394)	(2,404,679)
Number of common shares, net	9,317,000	9,317,000
Basic earnings (loss) per share	(0.87)	(0.26)

Statement of Changes in Consolidated Shareholders' Equity

	1/1/04	Fair value gains (losses)	Cash flow hedges	Translation restatements	Net gains (losses) recognized directly in equity	Profit (Loss) for the year	Total result for the year	Employee stock option plan	Changes to reserves	Dividends	Issue of share capital	Purchases/Sales of treasury shares	12/31/04
Common shares	9,192,181											(9,679)	9,182,502
Additional paid-in capital	34,013,017											(102,367)	33,910,650
Reserve for treasury stock	27,951,000											(516,488)	27,434,512
Statutory reserve	2,231,389												2,231,389
Revaluation reserve													
Stock options reserve								527,691					527,691
Derivative hedging reserve													
Reserve for currency translat.									3,726				3,726
Fair value reserve	8,599,119	(333,418)			(333,418)		(333,418)						8,265,701
Other reserves	99,731,524								399,280	(3,124,779)		516,488	97,522,513
Retained earnings	15,895,428												15,895,428
Profit (Loss) for the period	-					(2,404,679)	(2,404,679)						(2,404,679)
GROUP INTEREST IN SHAREHOLDERS' EQUITY	197,613,658												192,569,433
Minority interest in profit and res.	-												-
TOTAL SHAREHOLDERS' EQUITY	197,613,658	(333,418)			(333,418)	(2,404,679)	(2,738,097)	527,691	403,006	(3,124,779)		(112,046)	192,569,433

	1/1/05	Fair value gains (losses)	Cash flow hedges	Translation restatements	Net gains (losses) recognized directly in equity	Profit (Loss) for the year	Total result for the year	Employee stock option plan	Changes to reserves	Dividends	Issue of share capital	Purchases/Sales of treasury shares	12/31/05
Common shares	9,182,502											129,653	9,312,155
Additional paid-in capital	33,910,650											2,305,211	36,215,861
Reserve for treasury stock	27,434,512								(15,434,512)				12,000,000
Statutory reserve	2,231,389												2,231,389
Revaluation reserve													
Stock options reserve	527,691							793,042					1,320,733
Derivative hedging reserve													
Reserve for currency translat.	3,726			(256,590)	(256,590)		(256,590)						(252,864)
Fair value reserve	8,265,701	4,241,812			4,241,812		4,241,812						12,507,513
Other reserves	97,522,513								16,542,470	(3,122,051)			110,942,932
Retained earnings	15,895,428								(3,512,637)				12,382,791
Profit (Loss) for the period	(2,404,679)					(8,103,394)	(8,103,394)		2,404,679				(8,103,394)
GROUP INTEREST IN SHAREHOLDERS' EQUITY	192,569,433												188,557,116
Minority interest in profit and res.	-												-
TOTAL SHAREHOLDERS' EQUITY	192,569,433	4,241,812		(256,590)	3,985,222	(8,103,394)	(4,118,172)	793,042	-	(3,122,051)		2,434,864	188,557,116

Cash Flow Statement

	Data at	
	12/31/05	12/31/04
<i>Profit for the period</i>	(8,103,394)	(2,404,679)
<i>Restatements</i>	(13,102,221)	30,597,636
- Income taxes	(1,397,604)	8,437,555
- Depreciation of property, plant and equipment	15,026,620	16,419,756
- Amortization of intangibles	1,345,925	1,435,562
- Writedowns	481,955	1,003,939
- Provision for pensions and seniority indemnities	2,696,702	1,239,898
- (Gains) Losses on sale of non-current assets	(32,442,882)	(1,066,075)
- (Gains) Losses on derivatives	-	-
- (Gains) Losses on available-for-sale financial assets	-	-
- (Financial income)	(11,026,783)	(6,297,427)
- Financial expense	10,572,826	4,000,413
- (Dividends)	(916,542)	(648,708)
- Value adjustment to shareholders' equity	2,620,233	6,021,592
- Unrealized (gains) losses on foreign exchange transactions	(62,671)	51,131
<i>Changes in working capital</i>	56,564	4,035,881
- Inventories	4,364,151	12,046,322
- Contract work in progress	8,733,584	37,758,306
- Trade accounts receivable	(24,164,947)	(138,035)
- Trade accounts payable	3,528,918	(20,350,061)
- Other changes	7,594,858	(25,280,651)
Cash flow from operating activities	(21,149,051)	32,228,838
(Financial expense)	(10,572,826)	(4,000,413)
(Income taxes)	1,397,604	(8,437,555)
Net cash from operating activities	(30,324,273)	19,790,870
- Purchases of property, plant and equipment	(64,924,329)	(35,702,500)
- Proceeds from sale of property, plant and equipment	35,555,877	3,710,165
- Non-current financial assets	(101,339,177)	(143,167,907)
- Financial income	11,026,783	6,297,427
- Dividends received	916,542	648,708
- Other equity investments	(34,820,149)	(565,935)
Net cash used in investing activities	(183,908,726)	(148,989,172)
- Purchases of treasury shares	2,434,864	(112,046)
- Borrowings from lenders outside the Group	173,076,505	138,971,748
- Dividends paid	(3,122,051)	(3,124,779)
Net cash used in financing activities	(11,519,408)	(13,254,249)
- Other non-cash items	536,452	930,697
Increase (Decrease) in net financial position	(10,982,956)	(12,323,552)
- Cash and cash equivalents at beginning of period	26,568,454	38,892,006
Cash and cash equivalents at end of period	15,585,498	26,568,454

Notes to the Annual Consolidated Financial Statements

1. General Information

The Pininfarina Group is an industrial enterprise that is centered around a core of automotive operations and based on the establishment of comprehensive collaborative relationships with carmakers.

Pininfarina operates as a global partner. Its highly flexible approach enables it to work with customers through the entire product development process – design, planning, development, industrialization and manufacturing – or to provide support during any one of these phases.

The Group has production and development facilities in Italy, France, Germany, Sweden and Morocco. Its customers are located mainly in Italy, France, Great Britain and China.

Pininfarina is a corporation that has its registered office at 6 via Bruno Buozzi, in Turin.

The location of the registered offices and other facilities where the Group companies conduct their business operations is provided on page 124.

The Company's shares are traded on the regular segment of the Borsa Italiana securities market.

The draft Consolidated Annual Report was approved by the Board of Directors on March 30, 2006.

2. Accounting Principles

2.1 Presentation Criteria

As required by:

- Legislative Decree No. 38 of February 28, 2002;*
- European Regulation No. 1606 of July 19, 2002 ;*
- Article 81 of Issuers' Regulation No. 11971, as amended by CONSOB Resolution No. 14990 of April 14, 2005;*

the Pininfarina Group prepared its Semiannual Report at June 30, 2005 and its Consolidated Annual Report at December 31, 2005 in accordance with the IFRSs.

The consolidated financial statements include a balance sheet, an income statement, a cash flow statement and a statement of changes in shareholders' equity.

With regard to the adoption of IAS 1, the Group chose to use the following financial statement presentation formats, because of their ability to deliver reliable and meaningful information:

- Balance sheet: assets and liabilities are divided into the current and non-current categories;*
- Income statement: the individual items have been classified by type.*

The data at December 31, 2004 included in this Annual Report, which have been restated to make them consistent with the IFRSs that have been approved for use as of the date of presentation of the financial statements at December 31, 2005, are provided for the purpose of comparison with the data in the Group's consolidated financial statements at December 31, 2005.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are those companies, including vehicle companies, over which the Pininfarina Group has authority to direct their financial and operating decisions.

Generally, control is deemed to exist when the Group holds more than half of the voting rights, either directly or through shareholder agreements or contingent voting rights. Subsidiaries are consolidated from the moment the Group is able to exercise control and are deconsolidated the moment it ceases to exercise control.

The Group accounts for the acquisition of controlling interests by the purchase method. This method, which is provided in IFRS 3, Business Combinations, requires that the acquiree's identifiable assets and liabilities be recognized at their fair value as of the acquisition date

The cost of acquisition is the sum of the price paid plus any incidental charges.

Any difference between the cost paid and the Group's pro rata interest in the fair value of the net assets it acquired is capitalized and recognized as goodwill, if positive, or charged directly to income, if negative.

Revenues and expenses and receivables and payables that arise from transactions between Group companies are eliminated in the consolidation process. When necessary, the accounting principles of subsidiaries are amended to make them consistent with those of the Group's Parent Company.

(b) Associated Companies and Joint Ventures

Associated companies are companies over which the Group exercises a significant influence, but not control.

The Group is deemed to exercise a significant influence when it controls between 20% and 50% of the voting rights. Investments in associated companies and joint ventures are recognized initially at cost and are then valued by the equity method.

The Group's investments in associated companies and joint ventures include any goodwill that was recognized at the time of acquisition, less accumulated impairment losses.

The Group's income statement reflects the Group's pro rata interest in the result of associated companies and joint ventures. If an associated company or a joint venture recognizes an adjustment that entails a direct charge to shareholders' equity, the Group recognizes its pro rata share of the charge and shows it in its statement of changes in shareholders' equity.

The Group's pro rata interest in losses incurred by an associated company or a joint venture is recognized in the Group's financial statements until the value of the corresponding equity investment is written off. Any additional loss is posted to the provisions for risks and charges only to the extent that the Group has undertaken obligations or made payments on behalf of the associated company or joint venture.

Gains generated through transactions with an associated company or a joint venture are eliminated against the value of the investment. The same is done for losses, unless the losses stem from an impairment of the assets subject of the transaction. When necessary, the accounting principles of associated companies and joint ventures are amended to make them consistent with those of the Group's Parent Company.

2.3 Translation of Items Denominated in Foreign Currencies

(a) Functional Currency and Presentation Currency

The financial statements of subsidiaries, associated companies and joint ventures are presented in the corresponding functional currency, which is the currency used in their primary business environment. The presentation currency of the Pininfarina Group is the euro.

(b) Assets, Liabilities and Transactions in Currencies Other Than the Euro

Transactions executed in currencies other than the euro are recognized initially at the exchange rate in force on the date of the transaction.

Monetary assets and liabilities denominated in currencies other than the euro are converted into euros at the exchange rate in force on the balance sheet date. All translation differences are recognized in the income statement, except for differences stemming from loans in foreign currencies that hedge investments in foreign subsidiaries. These differences, and the corresponding tax consequences, are recognized directly in equity until the equity investment is sold, at which point the translation differences are recognized in the income statement.

Non monetary items that are carried at historical cost are translated into euros at the exchange rate in force when the underlying transaction was first recognized.

Non monetary items that are carried at fair value are translated into euros at the exchange rate in force on the date when each item's fair value was determined.

No company of the Pininfarina Group operates in a high-inflation economic environment.

(c) *Group Companies*

The assets and liabilities of Group companies that use a functional currency different from the euro are translated into euros at the exchange rate in force on the balance sheet date. The income statement is translated at the average exchange rate for the reporting period. Translation differences are recognized directly in equity and are shown separately in the reserve for currency translations. When an investee company is sold, the corresponding portion of this reserve is reflected in the income statement.

Goodwill and fair value adjustments to the assets and liabilities of foreign companies are translated into euros at the year-end exchange rate.

2.4 *Property, Plant and Equipment*

All classes of property, plant and equipment are carried at their historical cost, less accumulated depreciation and impairment losses, except for land, which is carried at its historical cost less impairment losses. Cost includes all expenses directly attributable to the purchase.

Costs incurred after an asset has been acquired can be capitalized only if it is likely that they will produce future economic benefits and if the costs can be measured reliably.

The depreciation of property, plant and equipment is computed on a straight-line basis, so as to distribute each asset's residual carrying value over its remaining useful life.

Extraordinary maintenance costs that have been capitalized and added to the carrying value of an existing asset are depreciated over the residual useful life of the asset or over the period of time until the next maintenance overhaul, whichever is shorter.

The residual values and useful lives of property, plant and equipment are reviewed and changed, if necessary, on the balance sheet date.

Gains and losses on the sale of property, plant and equipment are recognized in the income statement. They represent the difference between an item's carrying amount and its sales price.

In this and subsequent sections of these notes, the term "impairment" shall mean the adjustment made to the carrying amount of a non-current asset to make it consistent with the asset's recoverable value.

2.5 *Intangible Assets*

(a) *Goodwill*

Goodwill represents the excess of the price paid for net identifiable assets at the time of their acquisition over their fair value.

Goodwill generated by the acquisition of an interest in a subsidiary is recognized as an intangible asset.

Goodwill generated by the acquisition of an interest in an associated company is recognized as an addition to the value of the underlying equity investment.

Goodwill is recognized in the financial statements at the value determined on the date control is acquired and is thereafter adjusted for any impairment loss, based on a test performed at least once a year.

The calculation of a gain or loss on the sale of an equity investment must take into account the carrying amount of the applicable goodwill.

An impairment test is made by comparing the carrying amount of goodwill against the present value of the future cash flow that homogeneous groups of assets are expected to produce.

(b) Software and Other Licenses

The cost actually incurred to secure software licenses and other similar licenses, including the expenses required to put them into use, are capitalized and amortized over the estimated useful lives of the licenses (three to five years).

The costs incurred to develop and maintain software are treated as operating expenses and charged to income in the year they are incurred.

Costs incurred to develop software that can be identified and controlled by the Pininfarina Group and which has a high probability of producing greater economic benefits than the costs incurred during a single year are capitalized as an intangible asset and amortized over the useful life of the corresponding asset (not more than three years).

(c) Research and Development Costs

Research costs are charged to income in the year they are incurred.

Development costs, other than those referred to in the paragraph below, are capitalized as intangible assets only if they can be measured reliably and it is clear that the project for which they are being incurred has a high chance of success, both in terms of technical feasibility and commercial acceptance. Development costs that do not meet these characteristics are treated as operating expenses.

Development costs that were charged to income in previous years may not be capitalized at a later date, even if they then meet the requirements for capitalization.

Development costs with a finite useful life are amortized from the date the resulting product was brought to market over the length of time during which they are expected to produce economic benefits, but not more than five years.

Development costs incurred in the performance of automobile design, engineering or development contracts are included among the aggregate costs financed by the Company through arrangements that can be identified as leases in accordance with IFRIC 4.

(d) Other Intangibles

Other intangibles acquired separately are capitalized at cost. Those acquired through business combinations are capitalized at their fair value as of the date of acquisition.

After initial recognition, intangibles with a finite useful life are carried at cost less depreciation and impairment losses. Intangibles with an undefined useful life are carried at cost less impairment losses.

With the exception of research and development costs, internally produced intangibles cannot be capitalized. These costs are charged to income in the year they are incurred.

Other intangibles are tested once a year for impairment. Such testing can be carried out for individual intangible assets or for entire cash generating units.

The useful lives of other intangibles are reviewed once a year. Any resulting changes are applied from that point on.

2.6 Recoverable Amount of Assets

The recoverable amount of intangibles with an indefinite useful life that are not amortized should be tested for impairment at least once a year.

Assets that are amortized are tested for impairment only when there is an indication that their carrying amount may not be recoverable.

The amount of the impairment writedown should be equal to the difference between an assets' carrying amount and its recoverable amount, computed as the greater of the asset's sales price (net of transaction costs) and its value in use.

The recoverable amount of the assets is determined by grouping basic cash generating units.

2.7 Financial Assets

The Group divides its investments into four categories: a) financial assets carried at fair value through profit and loss; b) loans and other financial receivables; c) held-to-maturity investments; and d) available-for-sale financial assets.

The basis for this classification is the reasoning behind an asset's acquisition. Management allocates financial assets to the appropriate category at the time of purchase and reviews this allocation at the end of each year.

(a) Financial Assets Carried at Fair Value through profit and loss

This category is divided into two classes: 1) financial assets held for trading and 2) assets designated into the category from the inception. An asset is included in this category if it was acquired mainly to be resold over the short term or if it was placed in this category by the Company's management.

Any derivatives that do not qualify as hedges are included in the held-for-trading class.

Financial assets that fall into these two classes are listed as current assets when they are held for trading or are expected to be sold within 12 months from the balance sheet date.

(b) Loans and Other Financial Receivables

Loans and other financial receivables are non-derivative financial assets that entail fixed or determinable payments, are not traded on a regulated market and are not held for trading. They are listed as current assets, except for the portion due after one year, which is classified under non-current assets.

(c) Held-to-maturity Investments

These are non-derivative financial assets that entail fixed or determinable payments and have a fixed maturity and which the Group plans and has the financial ability to hold to maturity.

(d) Available-for-sale Financial Assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale and those non-derivative financial assets that do not fall into any of the previous categories. These assets are listed as current assets, unless management decides not to sell them within 12 months from the balance sheet date.

Purchases and sales of financial assets are recognized on the transaction date, which is the date when the Group agrees to buy or sell an asset.

All financial assets (except for financial assets carried at fair value) whose changes in value are recognized in earnings, are initially recognized at their fair value, plus transaction costs.

Financial assets are removed from the financial statements when they cease to deliver cash flow, or the right to receive such cash flow is transferred, or when the Group effectively transfers all of the risks and benefits inherent in ownership to a third party.

Following their purchase, assets that are categorized either as Available-for-sale financial assets or as Financial assets carried at fair value (whose changes in value are recognized in earnings) are valued at fair value. The assets included in the other two categories (Loans and other financial receivables and Held-to-maturity investments) are valued at their amortized cost, computed by the effective interest method.

Realized and unrealized gains and losses from changes in the fair value of financial assets categorized as Financial assets carried at fair value (whose changes in value are recognized in earnings) are reflected in the income statement in the year when they are generated.

Unrealized gains and losses from changes in the fair value of non-monetary securities categorized as Available-for-sale assets are recognized in equity. When securities categorized as Available-for-sale assets are sold or their value is impaired, adjustments to their fair value that have accumulated in a separate shareholders' equity reserve are recognized in earnings as a gain or loss on the sale.

The fair value of investments in listed securities is based on current bid prices. If an active market is not available for these financial assets or they are unlisted equity securities, fair value is determined by the Group using such valuation techniques as making reference to market transactions involving similar instruments or discounting future cash flows, adjusted as necessary to reflect the specific characteristics of the issuers.

At the end of each fiscal year, the Group tests its financial assets for objective indications of the existence of impairment losses. In the case of financial assets that represent equity investments categorized as Available-for-sale assets, a significant and prolonged decline in their fair value, as compared to their cost, is one of the elements that should be considered in determining a loss of value. If this type of evidence exists for a financial asset categorized as an Available-for-sale asset, the accumulated loss, calculated as the difference between the asset's cost and its current fair value (net of previous writedowns), is reversed out of shareholders' equity and posted to the income statement. Writedowns that have been recognized in earnings cannot be reversed.

2.8 Inventory

Inventory is carried at cost or estimated net realizable value, whichever is smaller. Net realizable value is the selling price in the ordinary course of business, less the variable costs necessary to make the sale.

Cost is determined by the FIFO ("first-in, first-out") method. The cost of finished goods and semifinished goods includes design, raw materials and direct labor costs, as well as other direct costs and other indirect costs that can be allocated to the manufacturing operations based on a normal level of production capacity. This costing formula does not include borrowing costs.

2.9 Trade Receivables and Other Receivables

Trade receivables are initially recognized at fair value. Subsequently, they are valued at amortized cost computed by the effective interest rate method, net of writedowns for uncollectible accounts. Writedowns of receivables are accounted for as if there was objective evidence that the Group will be unable to collect the full amounts that customers have agreed to pay on the dates due. The amount of the writedown, which should correspond to the difference between the carrying amount of the receivables and the present value of future collections, discounted at the effective interest rate, is recognized in the income statement.

2.10 Cash and Cash Equivalents

The Cash and cash equivalents account includes cash on hand, readily available bank deposits, overdraft facilities and liquid investments due within three months. Overdraft utilizations are recognized as current liabilities.

2.11 Share Capital

The Company's common share capital is listed in the shareholders' equity section of the balance sheet.

Incidental expenses incurred to issue share capital or options are recognized under shareholders' equity.

If a Group company buys shares of Pininfarina S.p.A. or Pininfarina S.p.A. purchases treasury shares (within the constraints of the applicable statutes), the price paid, net of any directly attributable incidental charges, is deducted from shareholders' equity until the shares are canceled, reissued, awarded to employees or sold.

2.12 Borrowings

Initially, borrowings are recognized at fair value, net of any incidental charges. Subsequently, they are valued by the amortized cost method. Any difference between the collection amount, net of any incidental charges, and the redemption amount is recognized in earnings on an accrual basis, computed by the effective interest rate method.

The portion of borrowings that is due within one year is listed among current liabilities. The portion due after one year is recognized as a non-current liability only if the Group has an unconditional contractual right to defer repayment.

2.13 Deferred Taxes

Deferred taxes are computed on all temporary differences between the carrying amount of assets and liabilities and the amount attributed to those assets and liabilities for tax purposes. Temporary differences are not computed on:

- Goodwill generated by a business combination;*
- Initial recognition of assets and liabilities upon the execution of a transaction that is not a business combination and has no impact on reported results for the period or on taxable income.*

Deferred-tax liabilities are computed using the tax rates in force in the business environments in which the companies of the Group operate and in accordance with the tax laws that have been enacted, or which can be deemed to have been virtually enacted, as of the balance sheet date and which are expected to apply when the temporary differences that required the recognition of a deferred-tax liability are reversed.

Deferred-tax assets are recognized only if it is likely that the Company will have earned sufficient taxable income to offset them when the temporary differences that required their recognition are reversed.

Deferred-tax assets are reviewed at each balance sheet date and are adjusted to reflect changes in the expectation that the Company will earn sufficient taxable income in the future to utilize all or part of the deferred-tax assets.

Deferred-tax liabilities are computed on temporary differences generated in connection with equity investments in subsidiaries, associated companies and joint ventures, except in those cases where the reversal of the temporary differences can be controlled by the Group and it is unlikely to occur in the near future.

Temporary differences on components of shareholders' equity are posted directly to shareholders' equity.

2.14 Employee Benefits

(a) Pension Plans

The employees of the Pininfarina Group have access to defined-contribution and defined-benefit plans. None of these plans has dedicated plan assets.

Based on IFRS guidelines (IAS 19), the Provision for termination indemnities attributable to employees of the Pininfarina Group, computed in accordance with Article 2120 of the Italian Civil Code, is a defined-benefit pension plan.

Defined-benefit plans are pension plans in which the pension benefit that an employee will receive at the end of the employment relationship is defined based on such factors as age, years of services and salary earned.

Defined-contribution plans are plans under which the Group pays a fixed contribution to a separate entity. The Group has no further statutory or implied obligations to pay additional sums, should the plan's assets prove to be inadequate to pay benefits for current or past service.

The liability recognized in the financial statements for defined-benefit plans is the present value of the obligation on the balance sheet date, adjusted for actuarial gains and losses and for the cost of benefits paid for past service. This liability is determined annually by an independent actuary, who must be a member of the relevant national board, using the Projected Unit Credit Method. The present value of the liability is determined by discounting future outlays at the exchange rate of government securities that are denominated in the same currency as that in which the benefits will be paid and have a maturity that approximates the due date of the underlying pension liability.

The portion of the cumulative amount of the actuarial gains and losses generated by changes in estimates that is larger than 10% of the fair value of plan assets or 10% of the plan's liabilities, whichever is greater, is recognized in the income statement on a pro rata basis over the average remaining working life of the employees who are enrolled in the plan.

Benefit costs for past service are recognized immediately in the income statement, except in those cases where changes in benefits are not predicated on the length of service of employees (vesting period). In such cases, benefit costs for past service are amortized on a straight line over the vesting period.

Under defined-contribution plans, the Group makes contributions to public and private pension funds on a statutory, contractual or voluntary basis. Once the Group has made these contributions, it incurs no further obligation. Contributions are reflected in the income statement as part of labor costs when they become due. Contributions made in advance are recognized as a prepaid expense only if the Group expects to receive a refund or a reduction in future payments.

(b) *Incentives, Bonuses and Profit Sharing Plans*

The Group recognizes the costs and liabilities that arise from profit sharing plans in accordance with a formula that is based on the profit attributable to shareholders, with appropriate adjustments. The Group sets aside a provision only if it is contractually obligated to do so or if established practice is to create such a provision.

(c) *Employee Benefits Paid in Shares of Stock*

The Group's management, at its sole discretion and from time to time, awards bonuses to key employees in the form of options to buy Company shares. The right to exercise the options vests after one year of service, if certain personal objectives are reached. The fair value of the options is a labor cost of the fiscal year and is added to a special equity reserve for the duration of the option vesting period. When the options are exercised, the amount collected, net of any transaction costs, is added to share capital (the portion corresponding to the par value of the shares) and to additional paid-in capital (the amount paid in excess of par value).

2.15 *Provisions for Risks and Charges*

Additions are made to the provisions for risks and charges when:

- The Group incurs a statutory or implied obligation as a result of past events;*
- It is likely that resources will have to be expended to satisfy this obligation;*
- The amount of the obligation can be determined reliably.*

Additions to these provisions are based on the present value of the best estimates made by the Company's management of the costs that the Pininfarina Group will incur on the balance sheet date to satisfy the obligations.

The provisions for risks and charges reflect primarily the best available estimates of the Group's liability for future warranty costs on the pool of cars in circulation that the Group has manufactured. The warranty commitment stems from contractual obligations to customers.

The provisions for risks and charges also include amounts set aside to cover the Group's pro rata share in losses of associated companies and joint ventures, in those cases where Pininfarina is contractually obligated to cover those losses.

2.16 Revenue Recognition

Revenues should reflect the fair value of the goods and services sold, net of VAT, returns, discounts and intra-Group transactions. Revenues are recognized as follows:

(a) Sale of Goods

Revenues are recognized when the Company has transferred all significant risks and benefits inherent in ownership, and the revenue amount can be estimated reliably.

(b) Provision of Services

Service revenues are recognized based on the progress made in delivering the services in question during the year in which they are being provided.

(c) Interest

Interest income is recognized on an accrual basis at amortized cost computed by the effective interest rate method. The effective interest rate is the rate used to accurately discount the cash flows that a financial instrument is expected to generate over its life.

(d) Royalties

Royalty income is recognized on an accrual basis, taking into account the terms of the underlying contracts.

(e) Dividends

Dividends are recognized in the year in which the shareholders acquire the right to receive payment.

2.17 Leases

(a) When the Pininfarina Group Is the Lessee

Leases covering property, plant and equipment are deemed to be finance leases when the Pininfarina Group assumes substantially all of the risks and rewards incidental to the ownership of an asset.

An asset acquired under a finance lease is recognized as a component of Property, plant and equipment and depreciated over the life of the asset or the term of the lease, whichever is shorter. Leased assets are capitalized at the start of the lease at the fair value of the leased asset or at the present value of the lease payments, whichever is smaller. Lease payments are broken down into principal repayment and interest, which is determined by applying a constant interest rate to the outstanding balance.

The current portion of the indebtedness to the lessor is recognized as a current liability and the portion due after one year is booked as a non-current liability.

The interest paid is charged to income over the term of the lease.

Leases in which the lessor (third party) retains substantially all of the risks and rewards incidental to ownership are recognized as operating leases. Payments, net of any incentives received from the lessor, are recognized in the income statement on an accrual basis over the term of the lease.

(b) When the Pininfarina Group Is the Lessor

The Pininfarina Group applies IFRIC 4 (Determining Whether an Arrangement Contains a Lease) to qualifying automobile design, engineering and production contracts.

IFRIC 4 applies to those arrangements that, while not having the legal formalities of a lease, convey to one of the parties the right to use certain assets in exchange for a series of payments.

According to IFRIC 4, an arrangement contains a lease if the following conditions are met:

- Fulfillment of the arrangement is dependent on the use of a specific asset;*
- The arrangement conveys to the buyer the right to control the use of the asset subject of the arrangement;*
- The determination that the arrangement contains a lease is made at the inception of the arrangement;*
- It is possible to separate lease-related payments from other payments required under the arrangement.*

In other words, IFRIC 4 can be used to identify a lease and separate it from an underlying arrangement between the parties and measure the lease in accordance with IAS 17 (Leases).

When a finance lease exists, the Pininfarina Group recognizes a receivable of an amount equal to the present value of minimum lease payments. The difference between the gross amount of the receivable and its present value, which represents the interest income component, is reflected in the income statement over the term of the lease at a constant periodic interest rate.

The Group does not own assets leased to third parties under operating leases.

2.18 Dividend distributions

The Pininfarina Group recognizes a liability for dividends that become payable when a dividend distribution is approved by the Shareholders' Meeting.

2.19 Construction Contracts

Costs incurred in connection with construction contracts are recognized when incurred.

When the outcome of a construction contract cannot be estimated reliably, revenue is recognized only to the extent of contract costs incurred and presumed recoverable.

When the outcome of a construction contract can be estimated reliably and it is likely that the contract will be profitable, revenues are recognized on an accrual basis over the life of the contract.

Conversely, if it is likely that the contract will produce a loss (that is, total contract costs exceed contract revenues), the entire loss should be recognized in the year in which the Company's management becomes aware of the loss.

The Pininfarina Group allocates contract costs and revenues to each fiscal year by the percentage of completion method. The percentage of completion is the ratio of total costs incurred through the reporting date and the overall estimated costs needed to complete the contract. Costs incurred in a given fiscal year in connection with activities that have not yet been performed are excluded from the percentage of completion computation. Instead, they are recognized as inventory, advances or other assets, depending on their nature.

Progress billings on account are included in Contract work in progress.

2.20 Government grants

Government grants are recognized in the financial statements at fair value only when there is reasonable certainty that the Group has satisfied all of the requirements set forth in the terms of the grants.

Government grant revenues are reflected in the income statement in proportion to the costs incurred.

Government grants toward the purchase of property, plant and equipment are recognized as deferred income and credited to the income statement in proportion to the depreciation of the assets for which they were awarded.

2.21 Valuations That Affect the Financial Statements

(a) Seasonal Factors

The operations of the Pininfarina Group are not affected by seasonal factors. On the other hand, the Pininfarina Group is affected by the cycles of orders placed with its manufacturing operations to design, engineer and, most importantly, produce automobiles.

(b) *Current and Deferred Taxes*

The computation of current taxes made in the financial statements represents a best estimate of the weighted average of the tax liability that will be reflected in the annual financial statements.

Estimates of deferred taxes are made based on the tax rates in force in the countries in which the Group operates at the time the estimates are made. As a result, these estimates are subject to change.

(c) *Costs*

Costs that arise in a non-uniform way over the course of the year are recognized or deferred in interim financial statements in the same way as they are in the annual financial statements.

(d) *Estimate of Fair Value*

The fair value of financial instruments that are traded on an active market is based on their market value on the balance sheet date. The reference market price for financial assets held by the Pininfarina Group is their current sales price (purchase price for financial liabilities).

The Group does not hold financial instruments that are not traded on an active market. Consequently, it does not use valuation techniques or make assumptions about the market conditions on the balance sheet date.

The fair value of receivables is assumed to approximate their face value, net of valuation adjustments made to reflect collectibility.

The fair value of financial liabilities is determined for reporting purposes by discounting the contractual cash flows at an interest rate that approximates the market rate at which the Group borrows.

(e) *Impairment of Goodwill*

An estimate of the impairment of goodwill is made by discounting the cash flows anticipated in the business plan prepared by the Group's management. Actual results can vary from the estimates in the business plan due to a variety of factors that are outside the control of the Group.

(f) *Financial Plans of Leases in Which the Group Is Either the Lessor or the Lessee*

Financial plans prepared to account for leases in which the Group is either the lessor or the lessee are by their very nature affected by the trend of future cash flows. In any event, leases in which the Group is either the lessor or the lessee are accounted for in compliance with the terms of the leases. Contracts covering design, engineering and production orders are subject to change while they are being performed (e.g., engineering change requests) and these changes are anticipated and provided for in the contracts. As a result, it is possible for the cash flows expected from these contracts to change.

(g) *Accounting for the Provision for Termination Indemnities*

The provision for termination indemnities is akin to a defined-benefit plan (a defined-benefit plan is one in which the pension benefit payable to employees at the end of the employment relationship is predefined based on such factors as age, years of service and salary). Estimates of these factors, while made conservatively based on historical Company data, are subject to change.

(h) *Stock Option Plans*

The fair value of the benefits awarded to beneficiaries of stock option plans is incorporated in the value of the options the beneficiaries are entitled to receive. The value of options, estimated in accordance with the binomial lattice model, is affected by the following:

- *Expected volatility, which is based on the historical price volatility of Pininfarina S.p.A. shares;*
- *The free risk rate, which is based on the gross yield on five-year Italian government bonds as determined by the Bank of Italy;*
- *An estimate of expected dividend distributions, based on dividend expectations for the years 2002 to 2005;*
- *The possibility of early expiration, which, based on the actual results of previous plans, is deemed to be nil.*

3. Managing Financial Risk

3.1 Financial Risk Factors

The financial instruments that the Group uses to finance its operations include bank borrowings, leases in which it is the lessee, leases in which it is the lessor and are recognized in accordance with IFRIC 4 and short-term bank deposits.

The Group uses other financial instruments, such as trade payables and receivables, for operating purposes.

The Group's cash resources are managed centrally by Pininfarina S.p.A.

The Group does not execute transactions involving derivatives such as interest rate swaps and forward currency contracts, either for speculative purposes or as cash flow hedges or to hedge changes in fair value.

The financial risks that affect the Group are summarized below:

- The risk that the value of a financial instrument could fluctuate as a result of changes in foreign exchange rates (currency risk);*
- The risk that the fair value of a financial instrument could change as a result of changes in market interest rates (interest rate risk on fair value);*
- The risk that the value of a financial instrument could fluctuate due to changes in market prices (price risk);*
- The risk that the counterparty could fail to perform its obligations (credit risk);*
- The risk of facing difficulties in securing the financial resources needed to meet commitments arising from financial instruments (liquidity risk);*
- The risk that future financial flows of a financial instrument could fluctuate due to changes in market interest rates (interest risk on financing instruments).*

Currency Risk: The Group borrows in euros. It operates in an international environment and is exposed to fluctuations in currency translation rates, particularly with regard to the value of the Swedish krona (SEK) and U.S. dollar (USD) versus the euro. The currency risk arises from the following commercial transactions:

- Sales of automobiles to Volvo through the Swedish joint venture Pininfarina Sverige AB. In this case, the currency risk is assumed by the counterparty pursuant to the terms of the underlying contracts.*
- Purchases of automobile components in U.S. dollars. In this case, the currency risk is minimal because the underlying contract sets maximum variability thresholds.*

Risk of Changes in Fair Value: The investment portfolio of Pininfarina S.p.A. consists of securities of top-rated companies. These assets are subject to significant changes in fair value caused by changes in stock market prices.

Price Risk: The Group's exposure to price risk is minimal because the price at which it sells cars is defined contractually.

Credit Risk: The Group does business with a limited number of customers. In all cases, the Group's customers are deemed to be reliable counterparties, and financial transactions are executed exclusively with financial institutions the reliability of which is beyond question. The high credit standing that the Group enjoys with financial institutions is demonstrated by the fact that none of its assets have been used to collateralize loans and these loans are not subject to restrictive covenants. Receivables recognized upon the accounting of leases in which the Group is the lessor identified in accordance with IFRIC 4 are booked under the assumption that the Group will continue to operate as a going concern and that such receivables will be collected upon the payment of the price of its cars and not based on a right held by the Group, even in the event of liquidation or other composition with creditors proceedings.

Liquidity Risk: The Group has entered into finance leases as lessee to finance capital investments. All or part of these capital investments will be reimbursed by the Group's customers when they pay for their cars. The Group also holds a very substantial amount of highly liquid, unrestricted assets. As a result, viewing the Group as a going concern, the liquidity risk is deemed to be low.

Interest Risk on Fair Value and Financing Instruments:: The Group receives financing from credit institutions at regular market rates. The Group is exposed to changes in interest rates, but its exposure in terms of interest payable is substantially offset by changes in interest receivable.

3.2 Accounting for Derivatives

The Group has not executed transactions involving derivatives, either for hedging or speculative purposes. The paragraphs that follow are not applicable to the Group at this point. They are provided solely for information purposes.

Derivatives are recognized in the financial statements at fair value when the contracts are signed. Valuations made subsequent to the purchase of the financial instruments are made at fair value, but the accounting treatment of gains and losses differs according to whether a financial instrument is classified as a hedge.

There are three types of hedges:

- Fair value hedge;*
- Cash flow hedge;*
- Hedging of a net investment in foreign operations.*

Before entering into a hedging contract, the Group documents the relationship between the hedge and the instrument that is being hedged and the Group's risk management strategies and objectives. The Group also assesses whether the derivative possesses and will continue to possess over its life the effectiveness requirements needed to qualify it for recognition as a hedge. Changes in the fair value of hedging instruments are recorded in the fair value reserve listed in the statement of changes in shareholders' equity.

(a) Fair Value Hedge

Changes in the fair values of fair value hedges are reflected in the income statement together with the changes in fair value of the hedged assets or liabilities.

(b) Cash Flow Hedge

The portion of the gain or loss on a hedging instrument that can be classified as effective is recognized directly in equity. The non-effective portion is reflected in earnings when incurred.

The amounts accumulated in a shareholders' equity account are transferred to the income statement in the year or years in which the planned transaction covered by the hedge has an impact on the income statement (for example, when a planned sale is executed).

When a financial instrument matures and/or is sold, or when it no longer meets the requirements for classification as a hedge, the gains and/or losses accumulated in a shareholders' equity account are held in that account until the planned transaction covered by the hedge has an impact on the income statement. If, instead, the Group no longer believes that the planned transactions will be executed, the gains and/or losses accumulated in a shareholders' equity account are transferred to the income statement.

(c) Hedging of a Net Investment in Foreign Operations

Instruments that hedge a net investment in foreign operations are accounted for in the same manner as cash flow hedges.

(d) Financial Instruments That Do Not Meet the Requirements to Be Classified as Hedges

Financial instruments that do not meet the requirements to be classified as hedges are classified among financial assets or liabilities carried at fair value, with changes of value recognized in earnings.

4. Key Financial Statement Estimates and Valuations

Estimates and disclosures presented in the financial statements are evaluated on an ongoing basis. They are based on historical data and such other factors as expectations about future events the occurrence of which is reasonable to expect.

The Group makes assessments and valuations regarding future events. By definition, the resulting restatements rarely coincide with the final outcome. The assessments and valuations that entail a high risk that the valuation of assets and liabilities will be restated the following year are reviewed below.

(a) Valuation of the Impairment of Goodwill

Consistent with its accounting policies, the Group tests goodwill annually for impairment. The recoverable amount of cash generating units is determined by a computation of their value in use. These computations require the use of valuations.

(b) Income taxes

The Group is taxed in a number of different jurisdictions. A significant judgment call is necessary to determine the amount of the reserve for taxes. There are numerous transactions and computations that can make the determination of the ultimate tax liability uncertain in the normal course of business.

(c) Provision for Termination Indemnities

The actuarial valuation of the amount that should be added to the provision for termination indemnities is determined by the Projected Unit Credit Method (IAS 19). This method uses actuarial assumptions to determine the probability that payment will occur at a given moment in the future and to associate with this event the amount that will have to be paid. The probable cash outflows are then harmonized by means of an appropriate discounting mechanism so as to determine the present value on the date when the value of the termination indemnities is being determined.

(d) Stock Options

The valuation of options available for award was made in accordance with the binomial lattice model, which is based on the original approach developed by Cox, Ross and Rubinstein.

The model incorporates the following assumptions:

1. Volatility

Expected volatility has been annualized and set at 18.32%. The estimate was made based on the historical price volatility of the shares. The time horizon used for estimate purposes was the same as the expected expiration of the option.

2. Risk-free Rate

The rate used for the purpose of this valuation was 2.79175%, which was the same as the gross yield on the benchmark five-year Italian government bond on July 15, 2005, as determined by the Bank of Italy.

3. Dividends

Consistent with the Group's accounting principles, the amount of expected dividends was the same as the amounts paid between 2002 and 2005.

4. Early Expiration

Based on the technical characteristics of the options and an analysis of other stock option plans, this phenomenon appeared to be nonexistent.

5. Segment Information

a) Primary Segment: Business Segment

Segment information at December 31, 2005 shows that the Group is organized on a global scale and operates in two main business segments: vehicle production and styling/engineering.

The results for 2005 are as follows:

	€000		
	Production	Styling & Engineering	Total for the Group
Value of production	304,600	174,260	478,859
Intra-segment value of production	(89,764)	(6,069)	(95,833)
Value of production	214,836	168,191	383,026
EBIT	(7,671)	(611)	(8,282)
Financial income (expense)			1,401
Interest in results of associates	(2,620)	-	(2,620)
Profit (Loss) before taxes			(9,501)
Income taxes			1,398
Profit (Loss) for the period			(8,103)

The results for 2004 were as follows:

	€000		
	Production	Styling & Engineering	Total for the Group
Value of production	499,831	157,942	657,773
Intra-segment value of production	(94,930)	(5,071)	(100,001)
Value of production	404,901	152,871	557,772
EBIT	12,819	(4,749)	8,070
Financial income (expense)			3,984
Interest in results of associates	(6,021)	-	(6,021)
Profit (Loss) before taxes			6,033
Income taxes			(8,437)
Profit (Loss) for the period			(2,404)

A breakdown of assets and liabilities at December 31, 2005 by business segment is as follows:

	Production	Styling & Engineering	Not allocated	€000 Total for the Group
Assets	543,913	107,228	171,817	822,957
Liabilities	338,021	199,129	97,250	634,400

A breakdown of assets and liabilities at December 31, 2004 by business segment is as follows:

	Production	Styling & Engineering	Not allocated	€000 Total for the Group
Assets	329,789	129,420	185,447	644,655
Liabilities	212,787	155,605	83,694	452,086

The assets of the segments consist mainly of property, plant and equipment, intangible assets, inventory and receivables. The above figures do not include deferred-tax assets, equity investments and financial assets.

The liabilities of the segments consist of operating liabilities. The above figures do not include such items as income tax liabilities and borrowings.

b) Secondary segment: Geographic Destination of Sales

A breakdown of sales by geographic destination is as follows:

	Million of €	
	12/31/05	12/31/04
ITALY	157.65	61.04
REST OF E.U.	296.71	321.79
OUTSIDE E.U.	7.07	83.41
Total	461.43	466.23

6. Property, Plant and Equipment

Land and buildings

	Land	Buildings	Leased property	Total
January 1, 2005				
Historical cost	22,611,579	71,026,100	12,180,261	105,817,940
Accumulated depreciation	0	(5,102,144)	(1,327,823)	(6,429,967)
Net value at January 1, 2005	22,611,579	65,923,956	10,852,438	99,387,973
December 31, 2005				
Net value at January 1, 2005	22,611,579	65,923,956	10,852,438	99,387,973
Foreign exchange differences	0	0	0	0
Additions	7,440	3,660,752	0	3,668,192
Retirements	0	(2,573)	0	(2,573)
Depreciation	0	(3,043,858)	(331,956)	(3,375,814)
Impairment losses	0	0	0	0
Net value at December 31, 2005	22,619,019	66,538,277	10,520,482	99,677,778

On January 1, 2004, as allowed under the recognition options provided in IFRS 1, pages 16-19, certain land and buildings owned by the Group were revalued based on reports by independent appraisers.

The revaluations, net of deferred taxes, were recognized with offsetting entries posted to shareholders' equity.

The decrease of 2,573 euros in the value of buildings refers to technical work performed at the Grugliasco technical headquarters.

Plant and machinery

	Machinery	Plant	Leased machinery and equip.	Total
January 1, 2005				
Historical cost	17,324,188	136,382,458	15,885,000	169,591,646
Accumulated depreciation	(10,893,630)	(106,234,802)	0	(117,128,432)
Net value at January 1, 2005	6,430,558	30,147,656	15,885,000	52,463,212
December 31, 2005				
Net value at January 1, 2005	6,430,557	30,147,655	15,885,000	52,463,212
Foreign exchange differences	1,316	122	0	1,438
Additions	647,666	14,204,232	34,769,502	49,621,400
Retirements	(41,724)	(477,289)	0	(519,013)
Depreciation	(1,267,906)	(9,020,840)	135,213	(10,153,533)
Impairment losses	0	0	0	0
Net value at December 31, 2005	5,769,909	34,853,880	50,789,715	91,413,504

Furniture, fixtures and other property, plant and equipment

	Furniture and fixtures	Hardware and Software	Other prop., plant and equipment	Total
January 1, 2005				
Historical cost	6,965,663	6,010,784	1,999,259	14,975,706
Accumulated depreciation	(4,444,973)	(4,829,419)	(968,257)	(10,242,649)
Net value at January 1, 2005	<u>2,520,689</u>	<u>1,181,365</u>	<u>1,031,002</u>	<u>4,733,056</u>
December 31, 2005				
Net value at January 1, 2005	2,520,689	1,181,365	1,031,002	4,733,056
Foreign exchange differences	0	0	0	0
Additions	1,167,286	2,050,649	149,437	3,367,373
Retirements	(228,738)	(27,961)	(7,218)	(263,917)
Depreciation	(451,268)	(911,417)	(134,588)	(1,497,273)
Impairment losses	0	0	0	0
Net value at December 31, 2005	<u>3,007,970</u>	<u>2,292,636</u>	<u>1,038,633</u>	<u>6,339,239</u>

Assets under construction

	Assets under construction
January 1, 2005	
Historical cost	5,024,871
Accumulated depreciation	(3,450,563)
Net value at January 1, 2005	<u>1,574,308</u>
December 31, 2005	
Net value at January 1, 2005	1,574,308
Foreign exchange differences	0
Additions	8,985,991
Allocation to the corresponding asset categories	(4,933,888)
Depreciation	0
Impairment losses	0
Net value at December 31, 2005	<u>5,626,411</u>

7. Intangible Assets

	<u>Goodwill</u>	<u>Licenses and trademarks</u>	<u>Other intangibles</u>	<u>Total</u>
January 1, 2005				
Historical cost	2,246,908	7,800,358	1,560,759	12,134,253
Accumulated amortization		<u>(4,681,569)</u>	<u>(1,182,650)</u>	<u>(6,390,447)</u>
Net value at January 1, 2005	<u>2,246,908</u>	<u>3,118,789</u>	<u>378,109</u>	<u>5,743,806</u>
December 31, 2005				
Net value at January 1, 2005	2,246,908	3,118,789	378,109	5,743,806
Foreign exchange differences	0	0	(2,099)	(2,099)
Additions	0	1,756,619	84,989	1,841,608
Retirements	0	0	(7,231)	(7,231)
Amortization	0	(1,248,847)	(97,129)	(1,345,976)
Impairment losses	54,104	0	0	54,104
Net value at December 31, 2005	<u>2,301,012</u>	<u>3,626,561</u>	<u>356,639</u>	<u>6,284,212</u>

The increase of 54,104 euros reflects a recomputation of the goodwill generated by the Drime acquisition, which the Matra Group completed on June 2, 2004.

8. Equity Investments

Investments in associated companies

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Pasiphae S.a.r.l	744,800	744,800	0
Total	<u>744,800</u>	<u>744,800</u>	<u>0</u>

There was no change in the value of the investment in Pasiphae Sarl.

Investments in joint ventures

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Pininfarina Sverige AB	33,373,701	0	33,373,701
Open Air System GmbH	0	1,763,998	(1,763,998)
Total	<u>33,373,701</u>	<u>1,763,998</u>	<u>31,609,703</u>

The investment in Oasys was sold in 2005, generating a gain of 30,232,310 euros.

In December 2004, the carrying value of the investment in Pininfarina Sverige was negative due to a writedown. The negative balance was classified under provisions for other liabilities and charges.

In 2005, the Group's Parent Company underwrote capital increases carried out by Pininfarina Sverige A.B.

Investments in other companies

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Banca Passadore S.p.a.	257,196	257,196	0
Idroenergia Soc. cons. a r.l.	516	516	0
Unionfidi S.c.r.l.p.A. Torino	129	129	0
Midi Ltd	215,793	217,257	(1,464)
Other investments under asset management	0	33,052	(33,052)
Total	<u>473,634</u>	<u>508,150</u>	<u>(34,516)</u>

9. Financial Assets

Loans and other receivables from outsiders

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Non current loans and other receiv.	125,094,880	63,800,463	61,294,417
Current loans and other receivables	59,347,398	16,109,178	43,238,220
Total	<u>184,442,278</u>	<u>79,909,641</u>	<u>104,532,637</u>

Loans and other receivables from outsiders, which increased by 104,532,637 euros, refer to loans receivable under leases in which the Group is the lessor that were identified as such in accordance with IFRIC 4.

Loans and other receivables from related parties and joint ventures

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
<i>Pininfarina Sverige AB</i>	126,948,591	117,033,598	9,914,993
- non-current	116,377,156	94,543,074	21,834,082
- current	10,571,435	22,490,524	(11,919,089)
<i>Open air System</i>	0	2,860,629	(2,860,629)
- non-current	0	0	0
- current	0	2,860,629	(2,860,629)
Total	<u>126,948,591</u>	<u>119,894,227</u>	<u>7,054,364</u>

The increase in loans receivable from Pininfarina Sverige AB reflects support provided for the development of the P15 project, the collection of which has been deferred to provide this company with the necessary financing.

At December 31, 2004, the receivables owed by related parties and joint ventures totaled 25,351,153 euros, broken down as follows: 22,490,524 euros for Pininfarina Sverige AB and 2,860,629 euros for Open Air System.

Held-for-sale non-current assets

	San Paolo IMI SpA	Intermobiliare SpA	Beni stabili SpA	Total
Value at January 1, 2005	372,060	18,857,124	26,325	19,255,509
Fair value adjustment posted to shareholders' equity	91,295	6,666,248	2,317	6,759,860
Purchases/Reclassifications				0
Sales	0	0	0	0
Value at December 31, 2005	463,355	25,523,372	28,642	26,015,369

The balance at December 31, 2004 changed by 19,255,509 euros due to a reclassification from held-for-sale current assets.

The fair value adjustment required by IAS 39 was posted, net of deferred taxes, as an increase to the fair value reserve. These adjustments will be reflected in the income statement only upon the sale of the corresponding financial assets. The adjustment posted to the reserve amounted to 12,507,513 euros.

Held-for-sale current assets

	Equity securities	Fixed income securities	Mutual funds	Total
Value at January 1, 2005	2,949,600	63,396,848	22,063,533	88,409,981
Fair value adjustment posted to the income statement	288,047	2,294,380	(574,305)	2,008,122
Purchases	18,061,747	32,964,134	17,317,157	68,343,038
Sales	(15,260,302)	(68,489,834)	(14,146,614)	(97,896,750)
Value at December 31, 2005	6,039,092	30,165,528	24,659,771	60,864,391

10. Inventory and Contract Work in Progress

	12/31/05	12/31/04	Change
Raw materials	12,728,743	17,974,856	(5,246,113)
Work in process	2,475,939	1,978,161	497,778
Finished goods	2,378,704	1,994,520	384,184
Total	17,583,386	21,947,537	(4,339,151)

The value of raw materials is shown net of an allowance for inventory obsolescence, which totaled 225,000 euros at December 31, 2005.

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Contract work in progress	14,774,330	23,507,914	(8,733,584)
Total	14,774,330	23,507,914	(8,733,584)

Contract work in progress decreased due to the completion of work on development programs, particularly the work performed on the P15 order.

11. Trade Receivables and Other Receivables

Trade receivables from outsiders

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Receivables from customers	96,927,147	46,426,342	50,500,805
Allowance for doubtful accounts	(1,201,961)	(2,149,349)	947,388
Total	95,725,186	44,276,993	51,448,193

The main reasons for the decrease in the allowance for doubtful accounts are the placement of the Rover Group in receivership and the bankruptcy of Daewoo Motor Co. Ltd.

Other receivables

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Overpayments to social security institutions	1,369,121	1,326,846	42,275
Owed by employees	1,126,924	1,327,354	(200,430)
VAT overpayments	722,461	17,040,401	(16,317,940)
Current taxes	2,385,447	2,688,733	(303,286)
Advances to suppliers	1,798,274	197,051	1,601,223
Accrued income	1,661,915	186,189	1,475,726
Prepaid expenses	2,150,520	2,576,241	(425,721)
Sundry receivables	4,943,595	3,318,970	1,624,625
Total	16,158,257	28,661,785	(12,503,528)

12. Share Capital

	<u>Number of shares</u>	<u>Common shares</u>	<u>Treasury shares</u>	<u>Total</u>
Balance at January 1, 2005	9,317,000	9,317,000	134,498	9,182,502
Balance at June 30, 2005	9,317,000	9,317,000	3,689	9,313,311
Balance at December 31, 2005	9,317,000	9,317,000	4,845	9,312,155

The total number of authorized shares was 9,317,000, each with a par value of 1 euro.

All issued shares have been fully paid-in.

At December 31, 2005, the Company held a total of 4,845 of its own shares, the net value of which (134,206 euros) was deducted from shareholders' equity as required by the adoption of IAS 32 and IAS 39 as of January 2005.

These shares are held as treasury shares.

13. Earnings per Share

Basic earnings (loss) per share

Basic earnings per share are computed by dividing the profit for the year by the number of common shares outstanding at December 31, 2005.

	<u>12/31/05</u>	<u>12/31/04</u>
Net profit (loss)	(8,103,394)	(2,404,679)
Number of common shares, net	9,317,000	9,317,000
Basic earnings (loss) per share	(0.87)	(0.26)

Diluted earnings (loss) per share

The diluted earnings per share are the same as the basic earnings per share.

14. Stock Options

	Average exercise price	Number of shares
At January 1, 2004	19,408	369,319
Awarded	22,753	214,000
Exercised	20,159	(61,696)
At December 31, 2004	20,773	521,623
At January 1, 2005	20,773	521,623
Awarded	23,437	218,000
Exercised	21,023	(175,653)
At December 31, 2005	21,744	563,970

The stock options were exercised as follows:

- 92,261 at 19.408 euros per share;
- 54,312 at 20.909 euros per share;
- 29,080 at 22.753 euros per share.

As a result of the adoption of IFRS 2, a total of 793,042 euros was recognized as the cost of stock options in 2005.

This cost produced an increase of the same amount in the stock option reserve.

The 2002-2004 and 2005-2007 stock option plans are reserved for executives of the Pirella Göttsche & Partners Group who meet certain predetermined individual targets. The valuation of options available for award was made in accordance with the binomial lattice model, which is based on the original approach developed by Cox, Ross and Rubinstein. The model incorporates the following assumptions:

1. *Volatility:* Expected volatility has been annualized and set at 18.32%. The estimate was made based on the historical price volatility of the shares. The time horizon used for estimate purposes was the same as the expected expiration of the option.
2. *Risk-free Rate:* The rate used for the purpose of this valuation was 2.79175%, which was the same as the gross yield on the benchmark five-year Italian government bond on July 15, 2005, as determined by the Bank of Italy.
3. *Dividends:* Consistent with the Group's accounting principles, the amount of expected dividends was the same as the amounts paid between 2002 and 2005.
4. *Early Expiration:* Based on the technical characteristics of the options and an analysis of other stock option plans, this phenomenon appeared to be nonexistent.

15. Dividends per Share

The Shareholders' Meeting of May 10, 2005, which approved the 2004 Annual Report and the appropriation of the net profit, voted to distribute a portion of the net profit equal to 3,167,780 euros, which corresponds to 0.34 euros per share.

16. Borrowings

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Non-current	363,632,728	194,326,300	169,306,428
Liabilities under finance leases	205,204,788	74,127,286	131,077,502
Bonds outstanding and other borrowings	158,427,940	120,199,014	38,228,926
Current	46,545,406	42,775,329	3,770,077
Due to banks	500,816	467,781	33,035
Liabilities under finance leases	46,044,590	42,307,548	3,737,042
Total	<u>410,178,134</u>	<u>237,101,629</u>	<u>173,076,505</u>

No Group assets have been pledged as collateral.

Liabilities under leases (accounted for under IAS 17), which were incurred to finance new development and production orders, added a total of 134,814,544 euros to total borrowings.

A breakdown of long-term borrowings by maturity is as follows:

	<u>12/31/05</u>
due within 12 months	46,545,406
due between 1 and 5 years	341,772,486
due after 5 years	21,860,242
Total	<u>410,178,134</u>

17. Provision for Termination Indemnities and Benefit Plans

	Pininfarina spa		Pininfarina Extra Srl		Total	
	12/31/05	12/31/04	12/31/05	12/31/04	12/31/05	12/31/04
Financial coverage:						
Liability for future benefits	30,934,932	27,387,081	272,799	211,146	31,207,731	27,598,227
Present value of coverage	0	0	0	0	0	0
Liability in the balance sheet	30,934,932	27,387,081	272,799	211,146	31,207,731	27,598,227
Actuarial gains (losses) not reflected in the income statement	(2,918,939)	(1,740,345)	(44,576)	(24,839)	(2,963,515)	(1,765,184)
Cost of services attributable to prior years	0	0	0	0	0	0
Miscellaneous items	0	0	0	0	0	0
Liability in the balance sheet	28,015,993	25,646,736	228,223	186,307	28,244,216	25,833,043
Income statement:						
Cost of current service	2,556,456	2,247,025	37,296	30,991	2,593,752	2,278,016
Interest costs	1,121,868	1,107,845	8,701	7,412	1,130,569	1,115,257
Actuarial losses recognized in the current year	0	0	0	0	0	0
Other changes	1,009,422	901,579	17,753	4,806	1,027,175	906,385
Total cost included in the income statement	4,687,746	4,256,449	63,750	43,209	4,751,496	4,299,658
Liability in the balance sheet						
Liability at January 1	25,646,736	24,038,658	186,307	156,900	25,833,043	24,195,558
Total costs	4,687,746	4,256,449	63,750	43,209	4,751,496	4,299,658
Benefits paid	(2,318,486)	(2,648,370)	(21,834)	(13,802)	(2,340,320)	(2,662,172)
Other changes	0	0	0	0	0	0
Liability in the balance sheet at December 31	28,015,996	25,646,737	228,223	186,307	28,244,219	25,833,044

The Group avails itself of the option provided under IAS 19, according to which the amount in excess of 10% of the fair value of plan assets or 10% of the plan's liabilities of define-benefit plans can be recognized in the income statement on a pro rata basis over the average remaining working life of the employees who are enrolled in the plan.

The defined-benefit plans of the Matra Group provide for compensation payable upon reaching the retirement age. Short of reaching that age, employees receive no benefit whatsoever. At December 31, 2005, the provision for pensions and severance pay totaled 464,732 euros, compared with 179,205 euros at the end of 2004. The recomputation required by the IASs accounts for the increase of 285,527 euros.

18. Trade Accounts Payable and Other Payables

Accounts payable to outsiders

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Accounts payable to suppliers	129,072,214	120,600,273	8,471,941
Advances received for work in progress	7,215	95,810	(88,595)
Total	<u>129,079,429</u>	<u>120,696,083</u>	<u>8,383,346</u>

Accounts payable to associated companies and joint ventures

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Open Air System Srl	0	4,917,099	(4,917,099)
Total	<u>0</u>	<u>4,917,099</u>	<u>(4,917,099)</u>

Other liabilities

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Income tax withheld from employees	1,707,875	1,796,014	(88,139)
Income tax withheld from outsiders	39,580	13,621	25,959
Amounts owed to employees	368,973	320,089	48,884
VAT payable	8,938,943	0	8,938,943
Miscellaneous payables	5,621,697	12,538,373	(6,916,676)
Total	<u>16,677,068</u>	<u>14,668,097</u>	<u>2,008,971</u>

19. Provisions for Other Liabilities and Charges

	<u>12/31/04</u>	<u>Utilizations</u>	<u>Additions</u>	<u>12/31/05</u>
Provision for warranties	2,591,298	(2,591,298)	900,000	900,000
Provision for legal disputes	0	0	0	0
Provision for restructuring programs	0	0	0	0
Provision for incentives	0	0	0	0
Provision for invent. disposal	0	0	0	0
Other provisions	1,718,804	(1,897,625)	2,006,391	1,827,570
Total	<u>4,310,102</u>	<u>(4,488,923)</u>	<u>2,906,391</u>	<u>2,727,570</u>

The utilization of the provision for warranties reflects the liquidation of PF RE. The addition of 900,000 euros reflects expectations of future charges on the Mitsubishi contract.

The increase in other provisions refers mainly to an addition to the allowance for doubtful accounts (354,316 euros) and an addition to the provision for risks required by the placement in receivership of the Rover Group (1,112,870 euros), which the Group's Parent Company booked in 2005.

20. Provision for Taxes

Tax liabilities

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Liability for current taxes	9,057	45,571	(36,514)
Liability for corporate income taxes	41,748	62,268	(20,520)
Liability for revaluation of provision for termination indemnities	242	105	137
Total	<u>51,047</u>	<u>107,944</u>	<u>(56,897)</u>

Income taxes for the year

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Current taxes	(1,977,869)	(6,264,601)	4,286,732
Prepaid taxes	(3,064,261)	(2,943,025)	(121,236)
Deferred taxes	6,439,734	770,071	5,669,663
Total	<u>1,397,604</u>	<u>(8,437,555)</u>	<u>9,835,159</u>

Deferred-tax assets

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Taxed reserves	1,098,782	423,343	675,439
Tax loss carryforward	10,115,039	6,267,144	3,847,895
Recognition of expected leasing costs	7,264,570	14,999,287	(7,734,717)
Other items	2,448,419	3,614,667	(1,166,248)
Total deferred-tax assets	<u>20,926,810</u>	<u>25,304,441</u>	<u>(4,377,630)</u>

The provision for deferred taxes and the deferred-tax assets were adjusted to reflect the tax rates in force in the fiscal year after December 31, 2005.

Deferred-tax liabilities

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Deferred capital gains	238,617	319,605	(80,988)
Accelerated depreciation	7,637,420	7,220,118	417,302
Recognition of expected leasing costs	247,037	6,000,669	(5,753,632)
Measurement of securities at fair value	8,172,813	5,297,654	2,875,159
Revaluation of real property	10,946,503	11,093,679	(147,176)
Other items	784,344	2,037,585	(1,253,241)
Total deferred-tax liabilities	<u>28,026,734</u>	<u>31,969,310</u>	<u>(3,942,576)</u>

21. Other Income and Revenues

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Amounts rebilled	258,866	320,677	(61,811)
Out-of-period income	713,738	5,686,757	(4,973,019)
Insurance settlements	33,517	769,538	(736,021)
Royalties	500,000	500,000	0
Utilization of tax credit on advance tax payment on provision for severance indemnities	31,904	34,859	(2,955)
Rebilling of lease payments	1,752,561	24,981,783	(23,229,222)
Operating grants	717,982	7,200	710,782
Sundry items	1,382,328	1,625,186	(242,858)
Total	<u>5,390,896</u>	<u>33,926,000</u>	<u>(28,535,104)</u>

22. Gain on the Sale of Non-current Assets

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Gain on the sale of equity investments	32,323,748	0	32,323,748
Gain on the sale of other assets	119,134	1,066,075	(946,941)
Total	<u>32,442,882</u>	<u>1,066,075</u>	<u>31,376,807</u>

The gain of 32,323,748 euros on the sale of equity investments reflects the divestiture of the investment in Oasys GmbH on January 20, 2005 (30,232,310 euros) and the gain on the liquidation of Pininfarina Re S.A. (2,091,472 euros).

23. Employees

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Executives	64	55	9
Office staff	1,200	1,069	131
Production staff	1,469	1,461	8
Total	<u>2,733</u>	<u>2,585</u>	<u>148</u>

At December 31, 2004, the Group's staff did not include the employees of RHTU Sverige AB, which had 6 employees on its payroll.

At December 31, 2005, the Pininfarina Sverige AB joint venture had 672 employees (9 executives, 126 office staff and 537 production staff) on its payroll.

In 2005, the Group's average workforce numbered 2,656 employees. If the staff of Pininfarina Sverige is included, the average workforce increases to 3,312 employees.

24. Other Expenses

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Rentals	6,585,368	6,867,510	(282,142)
Additions to provisions and allowances	2,367,185	0	2,367,185
Consulting fees	13,204,501	11,492,364	1,712,137
Travel	4,572,323	3,311,888	1,260,435
Other personnel costs	2,132,728	2,743,536	(610,808)
Settlements	1,357,000	1,377,000	(20,000)
General services	4,181,292	4,739,118	(557,826)
Insurance	1,082,101	1,356,766	(274,665)
Taxes	511,730	581,512	(69,782)
Sundry expenses	5,007,691	5,100,894	(93,203)
Total	<u>41,001,919</u>	<u>37,570,588</u>	<u>3,431,331</u>

The balance at December 31, 2004 was reduced by 15,983,784 euros due to a reclassification to variable external engineering services.

The main components of additions to provisions and allowance are 354,316 euros added to the allowance for doubtful accounts, 900,000 euros added to the provision for future charges in connection with warranties on the Mitsubishi production order and 1,112,870 euros added to the provision for risks as a result of the placement of the Rover Group in receivership.

25. Financial Income (Expense), Net

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Financial expense paid to banks	(416,195)	(713,970)	297,775
Financial expense paid under leases	(6,156,872)	(3,186,426)	(2,970,446)
Financial expense on medium- and long-term borrowings	(4,067,628)	(1,512,705)	(2,554,923)
Total financial expense	<u>(10,640,695)</u>	<u>(5,413,101)</u>	<u>(5,227,594)</u>
Bank interest earned	105,640	125,448	(19,808)
Gains from marking securities to market	2,714,552	2,522,670	191,882
Interest earned on long-term loans to outsiders	4,786,162	1,532,247	3,253,915
Interest earned on long-term loans to associated cos.	3,420,429	2,117,062	1,303,367
Gains on trading securities	67,869	34,158	33,711
Total financial income	<u>11,094,652</u>	<u>6,331,585</u>	<u>4,763,067</u>
Net financial income	<u>453,957</u>	<u>918,484</u>	<u>(464,527)</u>

26. Dividends

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Banca Passadore	37,500	37,500	-
San Paolo IMI	16,497	13,689	2,808
Banca Intermobiliare	594,594	509,652	84,942
Italian securities under asset management	267,951	66,946	201,004
Other securities	-	20,921	(20,921)
Total	<u>916,542</u>	<u>648,708</u>	<u>267,833</u>

27. Value adjustments

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Oasys writedown	0	5,392,518	(5,392,518)
Pininfarina Sverige AB writedown	2,620,233	629,074	1,991,159
Total	<u>2,620,233</u>	<u>6,021,592</u>	<u>(3,401,359)</u>

The lack of a writedown for Open Air Systems (Oasys) GmbH in 2005 reflects the sale of this investment in 2005.

28. Nonrecurring Income (Expense)

	<u>12/31/05</u>	<u>12/31/04</u>	<u>Change</u>
Nonrecurring income	47,317	2,422,760	(2,375,443)
Nonrecurring expense	(16,594)	(5,636)	(10,958)
Total	<u>30,723</u>	<u>2,417,124</u>	<u>(2,386,401)</u>

Nonrecurring income decreased by 2,375,443 euros because the figure for 2004 includes out-of-period income generated by the derecognition of items booked in the past exclusively for tax purposes.

29. Transition to IFRS Principles

29.1 First-Time Adoption of International Financial Reporting Standards

As required by IFRS 1, this Report includes the reconciliation schedules concerning the transition to the IFRSs and the corresponding notes.

The closing date of these financial statements is December 31, 2005. In the preparation of its financial statements, the Pininfarina Group adopted all of the mandatory exceptions to the retrospective application of the IFRSs provided in IFRS 1, Paragraphs 27 to 34A, and some of the optional exceptions.

29.2 Optional Exceptions to the Retrospective Application of the IFRSs

The choices made by the Pininfarina Group with regard to the retrospective application of certain IFRSs provisions is described below. More detailed information is provided in the paragraphs that follow.

(a) IFRS 1, Paragraph 15 – Business Combinations

The Pininfarina Group adopted the optional exception available under IFRS 1, Appendix B, Business Combinations. As a result, the cost of the combination with the Matra Group, which is based in France, was allocated to assets and liabilities that were identifiable on the date of acquisition (September 30, 2003).

This exemption (IFRS 3, Appendix B1) requires that if any business combination is restated, all later business combinations must be restated. Since September 30, 2003, the Group has not been a party to any business combination that was not recognized in accordance with the provisions of IFRS 3.

Detailed information about this issue is provided below in Paragraph 29.7 IFRS 3 - Restatement of the Business Combination with the Matra Group.

(b) IFRS 1, Paragraph 16 – Fair Value or Revaluation as Deemed Cost

For certain categories of land and buildings, the Pininfarina Group adopted the optional exception provided in IFRS 1, Paragraph 16, Fair Value or Revaluation as Deemed Cost. Detailed information about the impact of this allocation is available in the notes to the reconciliation schedules provided later in this Report.

(c) IFRS 1, Paragraph 20 – Employee Benefits

The Pininfarina Group adopted the available optional exemption, choosing to postpone to after the transition date the recognition of actuarial gains and losses generated by valuing the Provision for termination indemnities in accordance with IAS 19, Paragraphs 48 to 62.

(d) IFRS 1, Paragraphs 21 and 22 – Cumulative Translation Differences

The Pininfarina Group adopted the available optional exemption, choosing to eliminate the Reserve for currency translations. This reserve, which was offset against retained earnings and losses brought forward as of the transition date, originated from the translation of the net assets of subsidiaries from the functional currency of the subsidiaries to the presentation currency (euro).

(e) IFRS 1, Paragraph 23 – Compound Financial Instruments

The Group has not issued compound financial instruments and the corresponding exemption does not apply.

(f) IFRS 1, Paragraph 24 – Assets and Liabilities of Subsidiaries, Associates and Joint Ventures

Not applicable to the consolidated financial statements.

(g) IFRS 1, Paragraph 25A – Designation of Previously Recognized Financial Instruments

The Pininfarina Group opted for early adoption of IAS 32 (Financial Instruments: Disclosure and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement). Consequently, the available exemption does not apply.

(h) IFRS 1, Paragraph 25B – Share-based Payment Transactions

The Pininfarina Group adopted the exemption provided by IFRS 2, Paragraphs 53 to 59 for the first and second tranche of the 2002/2010 stock option plan. This choice was made in part because these tranches were awarded after November 7, 2002 and the option rights matured at the farthest of the transition date (January 1, 2004) and January 1, 2005.

The third tranche of the plan was valued in accordance with IFRS 2, Share-based Payment.

(i) IFRS 1, Paragraph 25D – Insurance Contracts

The Pininfarina Group opted for early adoption of IFRS 4, Insurance Contracts.

(l) IFRS 1, Paragraph 25E – Changes in Recognized Liabilities Due to Decommissioning, Reinstatements and Similar Liabilities Included in the Cost of Property, Plant and Equipment

The Group availed itself of this exemption and measured its liabilities on the transition date in accordance with the provisions of IAS 37 (Provisions, Contingent Liabilities and Contingent Assets), discounting them to the date when they were incurred and recomputing amortization from that date.

29.3 Exceptions to the Retrospective Application of IFRSs

(a) IFRS 1, Paragraph 27 – Derecognition of Financial Assets and Financial Liabilities

Financial assets and financial liabilities that do not meet the requirements of IAS 39 (Financial Instruments: Recognition and Measurement) for inclusion in the financial statements cannot be re-recognized in the financial statements if they were derecognized before the transition date. No items of this kind existed in the financial statements of the Pininfarina Group. There is no impact on the financial statements of the Pininfarina Group because the Group does not use factoring arrangements or other devices for the assignment of receivables.

(b) IFRS 1, Paragraphs 28 to 30 – Hedge Accounting

On the date of transition to IFRSs, an entity shall: a) measure all derivatives at fair value; and b) eliminate all deferred losses and gains arising on derivatives that were reported under previous accounting principles as if they were assets or liabilities. Since the Pininfarina Group has not executed derivative contracts, this exception had no impact on its IFRS financial statements.

(c) IFRS 1, Paragraphs 31 to 34 – Estimates

Estimates under IFRSs at the date of transition to IFRSs must be consistent with estimates made for the same date under previous accounting principles (after adjustments to reflect any differences in accounting policies), unless there is objective evidence that those estimates were in error. The Group is in compliance with this exception.

(d) IFRS 1, Paragraph 34A – Non-current Assets Classified as Held for Sale and Discontinued Operations

The Pininfarina Group adopted IFRS 5 prospectively, as of the transition date.

29.4 Early Adoption of Certain IFRSs

The Pininfarina Group opted for early adoption of the international accounting principles listed below. The early adoption of these principles, which went into effect on January 1, 2005, is allowed.

- IAS 39, *Financial Instruments: Recognition and Measurement*;
- IAS 32, *Financial Instruments: Disclosure and Presentation*.

The Pininfarina Group opted for early adoption of the international accounting principles listed below. The early adoption of these principles, which went into effect on January 1, 2005, is recommended.

- IFRS 4, *Insurance Contracts*;
- IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*.

29.5 IFRIC Interpretations That Have Not Yet Been Approved

In recent months, the IASB (International Accounting Standard Board) and the IFRIC (International Financial Reporting Interpretation Committee) published the following new Principles and Interpretations:

- IAS 39, Amendment to the Fair Value Option;
- IFRS 6, Exploration Rights and Valuation of Mineral Assets;
- IFRIC 2, Members' Shares in Cooperative Entities and Similar Instruments;
- IFRIC 3, Emission Rights;
- IFRIC 4, Determining Whether an Arrangement Contains a Lease;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.

The IFRIC interpretations listed above are not relevant to the Pininfarina Group, with the exception of IFRIC 4, Determining Whether an Arrangement Contains a Lease. IFRIC 4 applies to financial statements prepared after January 1, 2006, but early adoption is recommended.

Provided that the requirements listed below are met, IFRIC 4 can be used to identify and separate from an arrangement a lease, which should be valued in accordance with IAS 17 (Leases).

IFRIC 4 applies to arrangements that are not formally leases but convey to one of the parties the right to use certain assets in exchange for a series of payments.

According to IFRIC 4, the following requirements must be met to determine whether an arrangement contains a lease:

- Fulfillment of the arrangement is dependent on the use of a specific asset;
- The arrangement conveys to the buyer the right to use the underlying asset;
- The assessment of whether an arrangement contains a lease must be made at the inception of the arrangement;
- It must be possible to separate payments for the lease from other payments required under the arrangement.

The Pininfarina Group applies IFRIC 4 to the following production contracts:

- Mitsubishi Pajero Pinin;
- Ford Street Ka;
- Alfa 946 Brera;
- Mitsubishi Colt convertible;

The production contract signed with Ford for the development, engineering and production of the Ford Focus Convertible is accounted for in accordance with IAS 31, Paragraphs 13 to 17 (Equity Investments in Joint Ventures: Jointly Controlled Operations).

Overall, the consequences of the adoption of IFRIC 4 on the balance sheet of the Pininfarina Group consist of the recognition of loans to contract customers in accordance with IAS 17, Paragraph 36 (Leases).

The consequences of the adoption of IFRIC 4 on the income statement of the Pininfarina Group consist of the following:

- *Reversal of the pro rata share of revenues per car earmarked for recovery of capital investments and, when applicable, reversal of the revenues generated by the rebilling to contract customers of payments made under leases for capital assets;*
- *Recognition of financial income generated by leases in which the Group is the lessor in accordance with IAS 17, Paragraph 39 (Leases).*

29.6 IAS 17 – Leases in Which the Group Is the Lessee

Accounting for finance leases in accordance with the IFRSs instead of Italian accounting principles created significant differences for the Pininfarina Group.

In the financial statements prepared in accordance with Italian accounting principles, the Group accounts for leases in accordance with the allowed method whereby property, plant and equipment financed through leases is recognized in the consolidated financial statements only when the assets have been bought out, while lease payments are recognized as expenses in the income statement.

According to IAS 17, Paragraph 20 (Leases), lessees shall recognize finance leases as assets (property, plant and equipment) and liabilities (loans payable to leasing companies) in their balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

The consequences of the adoption of IAS 17 are discussed in detail in the notes provided to explain the restatements. Overall, the adoption of IAS 17, Paragraph 20 creates indebtedness toward a leasing company. The recognition of assets is governed by IFRIC 4, for development and production contracts covered by this interpretation, and by IAS 16 (Property, Plant and Equipment), for the remaining contracts.

29.7 Restatement of the Business Combination with the Matra Group

On September 30, 2003, Pininfarina S.p.A. acquired control of the Matra Group, which is based in France, by purchasing the entire share capital of Matra Automobile Engineering SAS.

In the financial statements prepared in accordance with Italian accounting principles, on the date of the first consolidation there were positive consolidation differences attributable to the subsidiaries D-Trois (1,590,000 euros) and Ceram (2,420,000 euros), a negative consolidation difference attributable to the subsidiary Plazolles (493,000 euros) and a negative consolidation difference arising from the elimination of the cost of the investment in Matra Automobile Engineering SAS held by Pininfarina S.p.A. against the shareholders' equity of the Matra Group.

In the financial statements prepared in accordance with Italian accounting principles, positive consolidation differences were amortized based on their estimated useful lives. Negative consolidation differences were posted to a Provision for consolidation risks and charges. This provision was used in the years after the acquisition to offset losses incurred by the French group, as allowed under Italian accounting principles and IAS 22 (Business Combinations), which was replaced by IFRS 3.

IFRS 3, Paragraph 56b, which must be applied prospectively from the date of transition, prohibits the allocation of a negative consolidation difference to a Provision for consolidation risks and charges that can be used to offset future losses.

Consequently, as part of the transition to the IFRSs, the Pininfarina Group restated the business combination with the Matra Group. The table below shows the effects under the IFRSs of the acquisition at September 30, 2003 in accordance with IFRS 3, Paragraph 67:

Cost of Business Combination

- Price paid equal to the cost of the equity investment	16,997	
- Incidental acquisition expenses	903	
Total cost of business combination	17,900	[a]

Fair value of net acquired assets

Property, plant and equipment	24,513	
Intangible assets	121	
Deferred-tax assets	1,020	
Inventory	408	
Trade receivables and other receivables	13,400	
Cash and cash equivalents	6,328	
Loans and other borrowings	(383)	
Deferred-tax liabilities	(4,018)	
Trade payables and other payables	(16,451)	
Total net acquired assets	24,938	[b]
Negative consolidation difference	(7,038)	[a] - [b]

In order to adjust the carrying value of the acquired assets to their fair value when accounting for this business combination, the Pininfarina Group revalued a property (including both land and building) owned by Matra Automobile Engineering SAS and a building owned by Ceram SAS. The revaluation was recognized on the basis of the real estate values provided in the report prepared by an independent appraiser one year after the date of acquisition.

In accordance with IAS 12 (Income Taxes), the deferred-tax liability on the revaluation amount was computed based on the tax rates in force in France. The table below provides a breakdown of the impact of the entries discussed above on the date of acquisition:

	Carrying value	Revaluation	Deferred taxes	Shareholders' equity
		[a]	[b]	[a] - [b]
MAE land	1,680	1,900	627	1,273
MAE building	6,635	7,600	2,508	5,092
Total MAE	8,315	9,500	3,135	6,365
Ceram building	820	2,500	825	1,675
Total Matra Group	9,135	12,000	3,960	8,040

The excess over cost of the buyer pro rata interest in the net fair value of the assets, liabilities and identifiable contingent liabilities on the date of acquisition (equal to 7,038,000 euros) was charged in full to income on the date of acquisition in accordance with IFRS 3, Paragraph 56b.

The table below provides the requisite disclosure as to the cash outflow incurred by the Pininfarina Group on the date of acquisition:

Cash flow absorbed by acquisition

- Price paid equal to the cost of the equity investment	(16,997)
- Incidental acquisition expenses	(903)
- Acquired cash and cash equivalents	6,328
Total cash flow used for business combination	<u>(11,572)</u>

The effects of accounting for the Matra business combination in accordance with the IFRSs, as opposed to Italian accounting principles, are the following:

- Reversal of positive consolidation differences attributable to Ceram and D-Trois and of the amortization of the consolidation difference;
- Recognition of the revaluation of land and buildings and computation of the depreciation of buildings;
- Recording of the deferred-tax liabilities and recognition in the income statement in proportion to the depreciation of the revaluation amount;
- Reversal of the utilization of the Reserve for consolidation risks and charges.

The effects listed above apply only up to and including the financial statements at June 30, 2004, because in subsequent consolidated financial statements prepared in accordance with Italian accounting principles, the business combination with the Matra Group was restated. The effects of this restatement on the consolidated financial statements prepared in accordance with Italian accounting principles are virtually identical to those required for IFRS financial statements, except for the utilization of the Reserve for consolidation risks and charges, which was used until the end of the 2004 fiscal year and reflected in the financial statements for that year prepared in accordance with Italian accounting principles.

29.8 IAS 27 – Consolidation of the Pininfarina Sverige AB Joint Venture

Pininfarina Sverige AB, a joint venture in which Pininfarina S.p.A. holds a 60% interest, was consolidated line by line in the financial statements prepared in accordance with Italian accounting principles, based on the fact that Pininfarina S.p.A. exercises statutory control pursuant to Article 2359 of the Italian Civil Code.

IAS 31 (Interests in Joint Ventures) and IAS 27, Paragraph 14 (Consolidated and Individual Financial Statements – Potential Voting Rights) give prevalence to the substance of the agreement, according to which both partners have an equal ability to influence the joint venture's operational and financial decisions. As a result, in IFRS financial statements, Pininfarina Sverige AB is no longer consolidated line by line. Instead, it is valued by the equity method, in accordance with IAS 31, Paragraph 38.

With regard to this issue, it is important to note that the different approach used to value the investment in this joint venture has no impact on the consolidated result, but significantly alters the structure of the balance sheet in the IFRS financial statements. The main changes in balance sheet structure are reviewed below:

- The value of the investment in Pininfarina Sverige AB is re-recognized in the IFRS financial statements at a value that reflects the pro rata interest held in the underlying shareholders' equity;
- Loans receivable owed to Pininfarina S.p.A. by the joint venture, which had been eliminated upon consolidation under Italian accounting principles, are re-recognized in the IFRS consolidated financial statements;
- The design and engineering order, which originated as Contract work in progress in the financial statements of Pininfarina S.p.A. and, after a restatement to eliminate the intra-Group margin, had been classified under Intangible assets in the consolidated financial statements, was re-recognized under Construction contracts, net of advances received, in the IFRS financial statements;
- Loans payable by Pininfarina Sverige AB that were recognized in the consolidated financial statements under Italian accounting principles to reflect the financial accounting of a finance lease, were derecognized in the IFRS financial statements. This indebtedness of the joint venture, while derecognized in the IFRS financial statements, continues to be guaranteed by Pininfarina S.p.A.

30 Audit of Reconciliation Schedules

As for the selection of the independent auditors retained to perform a full audit of the IFRS reconciliation schedules, the CONSOB, considering the highly critical issues raised by the first-time adoption of the IFRSs in Italy, explicitly recommended that issuers entrust this audit to the same auditors who had been retained to audit the consolidated financial statements at December 31, 2004. Consequently, the assignment to perform a full audit of the reconciliations of consolidated shareholders' equity of the Group at January 1, 2004 and December 31, 2004, of the consolidated result of the Group in the first half of 2004 and the year ended December 31, 2004, and of the respective notes was entrusted to PricewaterhouseCoopers S.p.A.

31 Reconciliation of IFRSs and Italian Accounting Principles

In accordance with IFRS 1, Paragraphs 39 and 45, the reconciliations that follow provide an explanation of the effects of the transition to the IFRSs.

The first reconciliation shows the impact on shareholders' equity at January 1, 2004 and December 31, 2004 (IFRS 1, Paragraph 45b).

The other reconciliations (IFRS 1, Paragraph 39a(i)) show the effects of the transition on:

- Shareholders' equity at January 1, 2004;
- Shareholders' equity at December 31, 2004;
- Reconciliation of IAS/IFRS financial statements to the statutory consolidated financial statements at January 1, 2004 (Annex A);
- Reconciliation of IAS/IFRS financial statements to the statutory consolidated financial statements at December 31, 2004 (Annex B);

ACCOUNTING DETAIL IAS FINANCIAL STATEMENTS OF PININFARINA

Changes in Shareholders' Equity to Reconcile IFRS Restatement Amounts

Description of IFRS restatements of Pininfarina's shareholders' equity	<u>IAS Notes</u> 1/1/04 bridge	<u>1/1/04</u> (A)	<u>IAS Notes</u> 12/31/04 bridge	<u>12/31/04</u> (B)
Valuation of shares at fair value – Pininfarina S.p.A.	1	8,599,119	1	8,265,701
Valuation of managed assets at fair value – Pininfarina S.p.A	2	392,244	2	658,535
Derecognition of multi-year costs – Pininfarina S.p.A	3	(691,343)	3	(347,983)
Redefinition of useful life of equipment of Pininfarina S.p.A	4	(1,636,023)	4	(1,780,301)
IFRS 1 – Fair value or revaluation as deemed cost	5	14,492,462	5	12,332,864
Leases received – Pininfarina S.p.A	6	(32,580,505)	6	(8,891,880)
Leases given – Pininfarina S.p.A	7	35,128,733	7	10,108,509
Actuarial computation of provision for termination indemnities - Pininfarina S.p.A	8	1,137,800	8	1,195,467
Restatement of receivables and payables in foreign currencies at year-end exchange rates	9	91,569		
Valuation of inventory at FIFO – Pininfarina S.p.A	10	(439,509)	10	(348,487)
Derecognition of treasury share asset – Pininfarina S.p.A.	11	(2,997,154)	11	(2,994,867)
Valuation of loans at amortized cost			12	181,390
Valuation of loans payable under new leases			13	(311,965)
Orders valued by the percentage of completion method – Pininfarina Deutschland	14	68,984	14	33,950
Net effect of derecognition of multi-year costs of Pininfarina Extra and minimum adjustments to entries to the provision for termination indemnities	15	(68,452)	15	133,035
Deconsolidation of PF Sverige	16	(20,973)	16	(793,454)
Impact of accelerated depreciation	17	(2,250,982)		
Reversal of provision for Matra's losses	18	1,434,406	18	1,079,816
Restatement of incidental costs incurred for the Matra acquisition	19	(903,858)		
Fair value of Matra property, plant and equipment	20	7,955,413	20	131,312
Impact of goodwill originated by Matra acquisition	21	(3,940,000)	21	
Other adjustments to restatements made to Matra opening balances	22	134,979	22	11,848
Total IFRS restatements		23,906,911		18,663,491

Comments to the Restatements to Shareholders' Equity

All restatements listed in the schedule of reconciliation of shareholders' equity are shown net of the corresponding tax effect, when applicable.

(1) Valuation of Shares at Fair Value – Pininfarina S.p.A.

This restatement has to do with the valuation at fair value of the following listed shares: Banca Intermobiliare S.p.A., Beni Stabili S.p.A. and San Paolo S.p.A. In the process of transition to the IFRSs, they were classified as Available-for-sale financial assets. IAS 39, Paragraph 55b, requires that changes in the fair value of these assets be recognized in equity until the assets are sold, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss.

(2) Valuation of Managed Assets at Fair Value – Pininfarina S.p.A.

This restatement reflects the impact of valuing at fair value the investment portfolios managed by Azimut Fondi, Banca Intermobiliare S.p.A. and Ersel SIM. In accordance with IAS 39, Paragraph 9, these managed assets, which are deemed to be financial assets acquired primarily for the purpose of selling them or repurchasing them over the short term, constitute a subcategory of the class called Financial assets carried at fair value, with changes of value recognized in earnings. Consistent with IAS 39, Paragraph 55a, gains and losses that arise from the valuation at fair value are recognized in the income statement.

(3) Derecognition of Multi-year Costs – Pininfarina S.p.A.

This restatement reflects the impact of the elimination of certain types of multi-year costs recognized by Pininfarina S.p.A. that do not meet the requirements of IAS 38, Paragraph 10, for inclusion among the intangible assets and the attribution of goodwill to Pininfarina Deutschland GmbH in connection with the purchase of the Sollner business operations in the caliper business segment, which is also the current core business of this German subsidiary.

(4) Redefinition of the Useful Life of Equipment – Pininfarina S.p.A.

This restatement was necessary to adjust the depreciation period of certain production equipment owned by Pininfarina S.p.A. to match its useful life, which is the same as the production run of the respective automobiles.

(5) IFRS 1 - Fair Value or Revaluation as Deemed Cost

This restatement shows the impact of adopting the optional exemption to apply retroactively the IFRSs, as allowed under IFRS 1, Paragraphs 16 to 19 ("Fair Value or Revaluation as Deemed Cost). The adoption of the optional exemption was necessary to separate the value of land from the following properties owned by Pininfarina S.p.A.:

- Grugliasco (TO);
- Cambiano (TO) – portion not covered by a finance lease;
- Bairo Canavese (TO);
- San Giorgio Canavese (TO);

In the financial statements prepared in accordance with the old principles, land that was appurtenant to a building was included in the Land and buildings category and depreciated.

The fair value of land and buildings on the transition date is the value assigned to these assets by an independent appraiser who was retained to provide an expert appraisal.

(6) Leases Received – Pininfarina S.p.A.

In the financial statements prepared under Italian accounting principles, the Group recognized finance leases in accordance with accepted practice, i.e., in the consolidated financial statements it recognized the assets financed by means of a lease only upon payment of the asset's buyout amount. Lease payments were recognized as expenses in the income statement.

Under IAS 17, Paragraph 20 (Leases), lessees are required to recognize finance leases as assets (property, plant and equipment) and liabilities (loans payable to leasing companies) in their balance sheets at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

This restatement resulted in the recognition of indebtedness toward leasing companies under leases executed in connection with the capital expenditures required for the Ford Street Ka and Mitsubishi Pajero Pinin orders and for a building in Cambiano, where the styling center is located.

(7) Leases Given – Pininfarina S.p.A.

This restatement was required to recognize the Ford (Street Ka) and Mitsubishi (Pajero Pinin) production orders in accordance with IFRIC 4. The method of accounting used entails the recognition of a loan receivable from contract customers for the portion that will be recovered by the Pininfarina Group by means of a surcharge on the price at which the cars are being sold. Additional information is provided in Paragraph 29.5 - IFRIC Interpretations That Have Not Yet been Approved.

(8) Actuarial Computations of Provision for Termination Indemnities – Pininfarina S.p.A. and Pininfarina Extra

The Provision for termination indemnities, computed and recognized in the financial statements prepared under Italian accounting principles in accordance with Article 2120 of the Italian Civil Code, is deemed to be a defined-benefit pension plan, as defined by IAS 19, Paragraphs 48 to 62. It must then be valued as such by the Projected Unit Credit Method (IAS 19, Paragraph 68). This liability was determined by an independent actuary, who is a member of the relevant national board.

(9) Restatement of Receivables and Payables in Foreign Currencies at Year-end Exchange Rates – Pininfarina S.p.A.

In previous financial statements, Pininfarina S.p.A. posted to the Provision for foreign exchange fluctuations any liability generated by translating receivables and payables in foreign currencies at the exchange rate in force on the balance sheet date. In keeping with a conservative approach, assets generated by the translation were not recognized.

IAS 21, Paragraphs 23 and 28, requires that foreign currency monetary items be translated using the year-end rate and must be recognized in the income statement. This adjustment was applied only to the data at January 1, 2004 because in subsequent financial statements the Italian accounting method was consistent with the international accounting method.

(10) Valuation of Inventory at FIFO – Pininfarina S.p.A.

This restatement reflects the financial impact of switching from the LIFO method (not allowed under IAS 2 - Inventories) to the FIFO method to value inventories.

(11) Derecognition of Treasury Share Asset – Pininfarina S.p.A.

Under Italian accounting principles, treasury shares were recognized as a current asset and valued at the lower of cost or market value. Pursuant to law, a corresponding reserve for purchases of treasury shares was included in shareholders' equity. The financial effects of transactions involving treasury shares were reflected in the income statement.

Under IAS 32, Paragraph 33, treasury shares and any trading gain or loss generated after the transition date must be recognized as a deduction from shareholders' equity.

(12) Valuation of Loans at Amortized Cost – Pininfarina S.p.A.

This restatement reflects the valuation of loans owed by Pininfarina S.p.A. by the amortized cost method.

(13) Valuation of Loans Payable Under New Leases – Pininfarina S.p.A.

This restatement reflects the valuation of loans payable owed by Pininfarina S.p.A. in accordance with IAS 17, which provides different criteria than those used to prepare statutory financial statements in accordance with Italian accounting principles.

(14) Orders Valued by the Percentage of Completion Method – Pininfarina Deutschland GmbH

This restatement was necessary to value a long-term order received by Pininfarina Deutschland GmbH in accordance with the percentage of completion method provided by IAS 11, Paragraph 25.

(15) Derecognition of Multi-year Costs – Pininfarina Extra Srl

This restatement reflects the net effect of the elimination of certain multi-year costs capitalized by Pininfarina Extra Srl that do not meet the requirements of IAS 38, Paragraph 10, for recognition as intangibles.

(16) Deconsolidation of Pininfarina Sverige AB

This restatement reflects the effect of the deconsolidation of Pininfarina Sverige AB. Additional information is provided in paragraph 29.8 IAS 27 – Consolidation of the Pininfarina Sverige AB Joint Venture.

(18) (19) (20) (21) (22) Restatement of the Business Combination with the Matra Group

The entries listed from item (s) to item (v) reflect the impact on the Group's shareholders' equity of the restatement of the data recognized in connection with the purchase of the Matra Group, which is based in France. Additional information is provided in Paragraph 29.7 IFRS 3 - Restatement of the Business Combination with the Matra Group. The main entries are listed below:

- *The provision for consolidation risks and charges was reversed against consolidated shareholders' equity (restatement 18);*
- *Incidental costs incurred by Pininfarina S.p.A. in connection with its purchase of the Matra Group (restatement 19) were included in the allocation of fair value price to the assets and liabilities that were identifiable at the acquisition date;*
- *Buildings owned by Matra Automobile Engineering and Ceram were recognized at fair value, determined by an independent appraiser (restatement 20);*
- *Goodwill generated in the financial statements under Italian accounting principles is derecognized (restatement 21).*

IAS/IFRS Financial Statements Reconciled to the Statutory Consolidated Financial Statements of Pininfarina ANNEX A	Note reference	Statutory financial statements (a) 1/1/04	IFRS changes (b) 1/1/04	IFRS financial statements (a) + (b) 1/1/04
Non-current assets	1	193,807,597	61,378,087	255,185,684
Property, plant and equipment	.1.1.	104,311,490	39,959,271	144,270,761
Intangible assets	.1.2.	59,990,543	(55,562,041)	4,428,502
Investments in associates	.1.3.	8,379,823	(531,947)	7,847,876
Deferred-tax assets	.1.4.	19,048,764	20,689,853	39,738,617
Non-current financial assets	.1.5.	2,076,977	56,822,951	58,899,928
Current assets	2	291,138,372	21,549,397	312,687,769
Inventory	.2.1.	34,694,271	(700,412)	33,993,859
Contract work in progress	.2.2.	51,532,581	9,733,639	61,266,220
Trade receivables and other receivables	.2.3.	96,868,304	1,283,592	98,151,896
Current financial assets	.2.4.	69,052,076	11,331,712	80,383,788
Derivatives	.2.5.	-	-	-
Cash and cash equivalents	.2.6.	38,991,140	(99,134)	38,892,006
<u>TOTAL ASSETS</u>		484,945,969	82,927,484	567,873,453
SHAREHOLDERS' EQUITY	3	173,727,727	23,885,931	197,613,658
Share capital	.3.1.	74,153,352	(2,997,154)	71,156,198
Other reserves	.3.2.	102,236,410	8,325,622	110,562,032
Profit (Loss) for the previous year	.3.3.01	(2,683,009)	18,578,437	15,895,428
Profit (Loss) for the current year	.3.3.02	-	-	-
Minority interest in profit (including current)	.3.4.	20,974	(20,974)	-
Non-current liabilities	4	36,467,828	36,112,478	72,580,306
Long-term borrowings	.4.1.	1,868,312	-	1,868,312
Deferred-tax liabilities	.4.2.	7,945,873	37,993,770	45,939,643
Provision for termination indemnities	.4.3.	26,653,643	(1,881,292)	24,772,351
Provisions for other liabilities and charges	.4.4.	-	-	-
Current liabilities	5	274,750,414	22,929,075	297,679,489
Current borrowings	.5.1.	312,226	95,949,343	96,261,569
Trade accounts payable and other payables	.5.2.	251,211,616	(71,585,862)	179,625,754
Provision for current taxes	.5.3.	17,661,152	-	17,661,152
Provisions for other liabilities and charges	.5.4.	5,565,420	(1,434,406)	4,131,014
Derivatives	.5.5.	-	-	-
<u>TOTAL LIABILITIES</u>		311,218,242	59,041,553	370,259,795
<u>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</u>		484,945,969	82,927,484	567,873,453

IAS/IFRS Financial Statements Reconciled to the Statutory Consolidated Financial Statements of Pininfarina	Note reference	Statutory financial statements (a)	IFRS changes (b)	IFRS financial statements (a) + (b)
ANNEX B		12/31/04	12/31/04	12/31/04
Non-current assets	1	260,098,338	89,844,214	349,942,552
Property, plant and equipment	.1.1.	116,738,367	41,420,182	158,158,549
Intangible assets	.1.2.	107,902,518	(102,158,712)	5,743,806
Investments in associates	.1.3.	3,016,948	(624,729)	2,392,219
Deferred-tax assets	.1.4.	19,238,820	6,065,621	25,304,441
Non-current financial assets	.1.5.	13,201,685	145,141,852	158,343,537
Current assetsAttività correnti	2	281,860,239	12,228,265	294,088,504
InventoryMagazzino	.2.1.	22,541,513	(593,976)	21,947,537
Contract work in progress	.2.2.	61,016,131	(37,508,217)	23,507,914
Trade receivables and other receivables	.2.3.	74,812,602	23,477,329	98,289,931
Current financial assets	.2.4.	96,438,466	27,336,202	123,774,668
Derivatives Strumenti finanziari derivati	.2.5.	-	-	-
Cash and cash equivalents	.2.6.	27,051,527	(483,073)	26,568,454
TOTAL ASSETS		541,958,577	102,072,479	644,031,056
SHAREHOLDERS' EQUITY	3	173,970,956	18,598,477	192,569,433
Share capital	.3.1.	73,636,864	(3,109,200)	70,527,664
Other reserves	.3.2.	98,967,807	9,583,213	108,551,020
Profit (Loss) for the previous year	.3.3.01	(2,683,009)	18,578,437	15,895,428
Profit (Loss) for the current year	.3.3.02	3,258,380	(5,663,059)	(2,404,679)
Minority interest in profit (including current)	.3.4.	790,914	(790,914)	-
Non-current liabilities	4	160,749,528	91,558,331	(252,307,859)
Long-term borrowings	.4.1.	120,199,014	74,127,286	194,326,300
Deferred-tax liabilities	.4.2.	12,586,686	19,382,624	31,969,310
Provision for termination indemnities	.4.3.	27,963,828	(1,951,579)	26,012,249
Provision for other liabilities and charges	.4.4.	-	-	-
Current liabilities	5	207,238,093	(8,084,329)	199,153,764
Current borrowings	.5.1.	498,165	42,277,164	42,775,329
Trade accounts payable and other payables	.5.2.	201,431,379	(48,846,261)	152,585,118
Provision for current taxes	.5.3.	107,944	-	107,944
Provision for other liabilities and charges	.5.4.	5,200,605	(1,515,232)	3,685,373
Derivatives	.5.5.	-	-	-
TOTAL LIABILITIES		367,987,621	83,474,002	451,461,623
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		541,958,577	102,072,479	644,031,056

**BRIDGE - BS - STATUTORY -
IAS/IFRS Reconciliation
Consolidated Income Statement**

Net revenues	.6.1.	507,600,878	(41,372,244)	466,228,634
Revenues from multi-year contracts	.6.2.	-	-	-
Change in inventory of finished goods and work in progress	.6.3.	57,507,330	110,021	57,617,351
Work performed by the Company and capitalized	.6.4.	-	-	-
Other income and revenues	.6.5.	34,744,525	(818,525)	33,926,000
TOTAL VALUE OF PRODUCTION	6	599,852,733	(42,080,748)	557,771,985
Gain on the sale of non-current assets	.7.1.	1,066,075	-	1,066,075
Raw materials and consumables used	.7.2.	(287,080,954)	(38,619)	(287,119,573)
Other variable production costs	.7.3.	(8,776,634)	-	(8,776,634)
Variable external engineering services	.7.4.	(81,584,194)	(221,627)	(81,805,821)
Wages, salaries and employee benefits	.7.5.	(100,664,321)	(430,796)	(101,095,117)
Depreciation, amortization and writedowns	.7.6.	(18,169,090)	313,772	(17,855,318)
Utilization of negative goodwill	.7.7.	-	-	-
Foreign exchange gains (losses)	.7.8.	1,007,335	(1,568,410)	(561,075)
Other expenses	.7.9.	(94,523,493)	40,969,123	(53,554,370)
PROFIT (LOSS) FORM OPERATIONS		11,127,457	(3,057,305)	8,070,152
Finance costs, net	.8.1.	(117,554)	1,036,038	918,484
Dividends	.8.2.	648,708	-	648,708
Change in valuation of investments by the equity method	.8.3.	(5,392,518)	(629,074)	(6,021,592)
Extraordinary income (expense)	.8.4.	6,004,346	(3,587,222)	2,417,124
PROFIT (LOSS) BEFORE TAXES		12,270,439	(6,237,563)	6,032,876
Income taxes for the year/period	.9.1.	(8,597,107)	159,552	(8,437,555)
Minority interest in profit (loss)	.9.2.	(414,952)	414,952	-
PROFIT (LOSS) FOR THE YEAR/PERIOD		3,258,380	(5,663,059)	(2,404,679)

1.1 PROPERTY, PLANT AND EQUIPMENT

Description	1/1/04 (000/euros)	12/31/04 (000/euros)
Restatement of value of buildings	19,509	19,654
Recognition of assets acquired under finance leases	11,184	25,886
Redefinition of the useful lives of equipment	(2,607)	(2,837)
Net revaluation of Matra buildings	11,869	11,368
Deconsolidation of Pininfarina Sverige	-	(1,208)
Derecognition and revaluation of Matra provision	-	(11,550)
Other	4	107
Total	39,959	41,420

a. IFRS 1 - Fair Value or Revaluation as Deemed Cost

The Group applied the optional exemption provided under IFRS 1, Paragraphs 16 to 19 ("Fair Value or Revaluation as Deemed Cost") in order to separate the value of land from the following properties owned by Pininfarina S.p.A.:

- Grugliasco – via Pininfarina (TO);
- Cambiano (TO) - portion not covered by a finance lease;
- Bairo Canavese (TO);
- San Giorgio Canavese (TO);

In the financial statements prepared in accordance with the old principles, land that was appurtenant to a building was included in the Land and buildings category and depreciated.

The fair value of land and buildings on the transition date is the value assigned to these assets by an independent appraiser who was retained to provide an expert appraisal.

The revaluation of buildings required the recognition of the resulting tax effect (deferred-tax liability), which was computed on the difference between the carrying amount of the assets and their tax base, in accordance with IAS 12.

The revaluation of land also required the recognition of the resulting tax effect (deferred-tax liability) in accordance with SIC 21 (Income Taxes – Recovery of Revalued Non-depreciable Assets).

The new carrying value attributed to the property located on via Di Vittorio, in Grugliasco, is the same as its carrying amount under Italian accounting principles, due to the fact that this property was appraised and revalued in 1991.

b. IAS 17 – Recognition of Assets Acquired Under Finance Leases

This restatement reflects the recognition of the finance lease held by Pininfarina S.p.A. on a building in Cambiano (TO). In accordance with IAS 17 Paragraph 20, the Pininfarina Group recognizes the fair value of the building as property, plant and equipment and the indebtedness toward the leasing company as a financial liability.

The Group also computed and recognized the resulting tax impact, as required under IAS 12.

c. **IAS 16 - Redefinition of the Useful Life of Equipment**

This restatement was necessary to adjust the depreciation period of certain production equipment owned by Pininfarina S.p.A. to match their useful life, which is the same as the production run of the respective automobiles.

This restatement required the computation and recognition of the resulting tax effect (deferred-tax asset), which was computed on the difference between the carrying amount of the assets and their tax base, in accordance with IAS 12.

d. **IFRS 3 - Restatement of the Business Combination with the Matra Group**

This adjustment reflects the revaluation of property (land and building) owned by Matra Automobile Engineering SAS and of a building owned by Ceram SAS. The revaluation was carried out as part of the restatement of the business combination in accordance with IFRS 3 as of the date of acquisition. Additional information is provided above in Paragraph 29.7 IFRS 3 - Restatement of the Business Combination with the Matra Group.

e. **IAS 31/27 - Impact of the Deconsolidation of Pininfarina Sverige AB**

This adjusting entry reflects the impact of the deconsolidation of Pininfarina Sverige on intangible assets. For additional information for the reasons for deconsolidation, see above under Paragraph 29.8 IAS 27 - Consolidation of the Pininfarina Sverige AB Joint Venture.

1.2 INTANGIBLE ASSETS

Description	1/1/04 (000/euros)	12/31/04 (000/euros)
Derecognition of multi-year costs	(1,102)	(555)
Derecognition of Matra goodwill	(3,940)	(3,563)
Derecognition and revaluation of Matra provision	-	3,659
Deconsolidation of Pininfarina Sverige	(49,497)	(101,798)
Amortization of PF Extra goodwill	-	158
Reallocation of expenses for Matra acquisition	(903)	
Other	(120)	(61)
Total	(55,562)	(102,159)

a. **IAS 38 - Derecognition of Multi-year Costs**

This adjustment reflects the derecognition of multi-year costs of Pininfarina S.p.A. and Pininfarina Extra Srl that do not meet the requirements of IAS 38, Paragraph 10, for recognition as intangibles.

This restatement required the computation and recognition of the resulting tax effect (deferred-tax asset), which was computed on the difference between the carrying amount of the assets and their tax base, in accordance with IAS 12.

b. IFRS 3 – Incidental Expenses Incurred for the Matra Group Acquisition

This reclassification concerns the classification of incidental expenses (mainly legal fees) incurred in connection with the acquisition of the Matra Group, which is based in France. These expenses were classified as intangible assets in the financial statements prepared in accordance with Italian principles but were added to the cost of the business combination under IFRS 3, Paragraph 29. Additional information is provided above in Paragraph 29.7 IFRS 3 - Restatement of the Business Combination with the Matra Group.

c. IFRS 3 – Derecognition of First-Level Consolidation Differences Attributed to the Matra Group

This adjustment, which reflects the derecognition of the consolidation differences, net of amortization, that were attributed to the Matra Group in the consolidated financial statements prepared in accordance with the old principles, was made in connection with the restatement of the business combination referred to above in Paragraph 29.7 IFRS 3 - Restatement of the Business Combination with the Matra Group.

d. IAS 38 - Sollner KG Goodwill

This adjustment was booked to re-recognize the goodwill booked by Pininfarina Deutschland GmbH in 1995 upon the purchase of the Sollner business operations in the caliper business segment, which is also the current core business of this German subsidiary. In the consolidated financial statements prepared in accordance with the old principles, this goodwill and the carrying amount of the Pininfarina brand had been removed from the financial statements of Pininfarina Deutschland.

This goodwill is being recognized in the IFRS financial statements because it passed the impairment test both at the transition date and at subsequent balance sheet dates.

e. IAS 31/27 – Impact of the Deconsolidation of Pininfarina Sverige AB

This adjustment reflects the impact on intangible assets of the deconsolidation of Pininfarina Sverige AB. For additional information on the reasons for deconsolidation and the impact on the IFRS financial statements, see above under Paragraph 29.8 IAS 27 - Consolidation of the Pininfarina Sverige AB Joint Venture.

1.3 EQUITY INVESTMENTS IN ASSOCIATED COMPANIES AND JOINT VENTURES

Description	1/1/04 (000/euros)	12/31/04 (000/euros)
Valuation of Pf Sverige by the equity method	(532)	(625)
Total	(532)	(625)

a. IAS 31/27 – Recognition of the Value of the Investment in Pininfarina Sverige AB

The deconsolidation of the Pininfarina Sverige joint venture (see also Paragraph 29.8 IAS 27 - Consolidation of the Pininfarina Sverige AB Joint Venture) required Pininfarina S.p.A. to recognize the value of this investment. This equity investment is valued by the equity method.

1.4 DEFERRED-TAX ASSETS

Description	1/1/04 (000/euros)	12/31/04 (000/euros)
Recognition of credits for taxes on reversal of intangibles	410	207
Recognition of credits for taxes on reversal of equipment reserves	971	1,057
Recognition of credits for taxes on finance leases	19,340	5,341
Recognition of credits for taxes on three new leases for the following cars: Alfa, Ford and ZM28	-	186
Recognition of credits for taxes on changes in inventory	261	207
Deconsolidation of Pininfarina Sverige	-	(894)
Reversal of Matra effect	-	(60)
Sundry entries	(292)	23
Total	20,690	6,066

IAS 12 – Redefinition of the Useful Life of Equipment (tax effect)

This item represents the deferred-tax asset generated as a result of the adjustment explained in Paragraph 1.1c.

IAS 12 – Leases in Which the Group Is the Lessee (Tax Effect)

This item reflects the tax impact of the recognition of indebtedness toward leasing companies. Additional information is provided in Paragraph 29.6 IAS 17 - Leases in Which the Group Is the Lessee.

IAS 12 – Effect of the Deconsolidation of Pininfarina Sverige AB

This restatement, which is the result of the deconsolidation of the abovecaptioned joint venture, reflects the reversal of deferred-tax assets recognized on the consolidation adjustment under the old accounting principles.

1.5 NON-CURRENT FINANCIAL ASSETS

Description	1/1/04 (000/euros)	12/31/04 (000/euros)
Loans receivable under finance leases	55,982	63,602
Deconsolidation of Pininfarina Sverige	840	81,539
Total	56,822	145,141

a. IFRIC 4 – Recognition of Loans Receivable from Contract Customers

This restatement stems from the recognition of Ford (Street Ka) and Mitsubishi (Pajero Pinin) production contracts in accordance with IFRIC 4. This approach calls for the recognition of loans receivable from contract customers equal to the portion of capital expenditures that will be recovered by the Pininfarina Group through a surcharge on the price of cars. Additional information is provided above in Paragraph 29.5 IFRIC Interpretations That Have Not Yet Been Approved.

b. IAS 31/27 – Impact of the Deconsolidation of Pininfarina Sverige AB

The loans receivable from Pininfarina Sverige AB that Pininfarina S.p.A. recognized in its statutory financial statements were eliminated in the consolidation process, since this joint venture was consolidated line by line. In the IFRS financial statements, Pininfarina Sverige AB is a joint venture valued by the equity method. As a result, these loans were re-recognized in the IFRS consolidated financial statements.

Additional information about the reasons for the deconsolidation are provided above in Paragraph 29.8 IAS 27 - Consolidation of the Pininfarina Sverige AB Joint Venture.

2.1 INVENTORY

Description	1/1/04 (000/euros)	12/31/04 (000/euros)
Adjustment for restatement of inventory by the FIFO method	(700)	(555)
Deconsolidation of Pininfarina Sverige	-	(39)
Total	(700)	(594)

a. IAS 2 – Valuation of Inventory by the FIFO Method

In the financial statements prepared in accordance with Italian accounting principles, inventory was valued by the LIFO method, which is not allowed under the IFRSs. Consequently, consistent with the requirements of IAS 2, Paragraph 25, inventory was valued by the FIFO method.

2.2 CONSTRUCTION CONTRACTS

Description	1/1/04 (000/euros)	12/31/04 (000/euros)
Reversal of intra-Group adjustment to contract work in progress	48,544	100,273
Reversal of advances	(38,880)	(137,815)
Other entries	70	34
Total	9,734	(37,508)

a. IAS 31/27 – Impact of the Deconsolidation of Pininfarina Sverige AB

As explained in detail in Paragraph 29.8 IAS 27 - Consolidation of the Pininfarina Sverige AB Joint Venture, this restatement reflects the re-recognition in the IFRS financial statements of the value of a design and engineering contract, which was posted to the Construction contracts account, net of advance billings.

b. IAS 11 – Reclassification of Advances on Contract Orders

In accordance with IAS 11, which deals with accounting for contract work in progress, the underlying orders should be recognized in the financial statements net of advances received.

2.3 TRADE RECEIVABLES AND OTHER RECEIVABLES

Description	1/1/04 (000/euros)	12/31/04 (000/euros)
Restatement of accrued income of Pininfarina	1,284	997
Deconsolidation of Pininfarina Sverige	-	22,480
Total	1,284	23,477

a. IAS 17 - Reversal of Accrued Income

This adjustment reflects the recognition of prepaid expenses corresponding to the portion payable in subsequent years of interest expense generated by the use of the finance method to account for leases (IAS 17, Paragraph 20).

2.4 CURRENT FINANCIAL ASSETS

Description	1/1/04 (000/euros)	12/31/04 (000/euros)
Revaluation of held-for-trading securities	625	1,049
Revaluation of available-for-sale securities	13,704	13,172
Reversal of treasury shares	(2,997)	(2,995)
Short-term loans receivable	-	16,109
Total	11,332	27,336

a. IAS 39 - Financial assets carried at fair value, with changes of value recognized in earnings

This restatement reflects the impact of valuing at fair value the investment portfolios managed by Azimut Fondi, Banca Intermobiliare S.p.A. and Ersel SIM. In accordance with IAS 39, Paragraph 9, these managed assets, which are deemed to be financial assets acquired primarily for the purpose of selling them or repurchasing them over the short term, constitute a subcategory of the class called Financial assets carried at fair value, with changes of value recognized in earnings. Consistent with IAS 39, Paragraph 55a, gains and losses that arise from the valuation at fair value are recognized in the income statement.

The booking of this restatement entailed the computation and recognition of the corresponding deferred tax liability in accordance with IAS 12.

b. IAS 39 - Available-for-sale Financial Assets

This restatement has to do with the valuation at fair value of listed shares (Banca Intermobiliare S.p.A., Beni Stabili S.p.A. and San Paolo S.p.A.), which were classified as Available-for-sale financial assets. IAS 39, Paragraph 55b, requires that changes in the fair value of these assets be recognized in equity until the assets are sold, at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss.

c. IAS 32 - Treasury Shares

Under Italian accounting principles, treasury shares were recognized as a current asset and valued at the lower of cost or market value. Pursuant to law, a corresponding reserve for purchases of treasury shares was included in shareholders' equity. The financial effects of transactions involving treasury shares were reflected in the income statement.

Under IAS 32, Paragraph 33, treasury shares and any trading gain or loss generated after the transition date must be recognized as a deduction from shareholders' equity. The Reserve for treasury shares was reclassified to Retained earnings (Loss carryforward).

d. Loans Receivable from Contract Customers

This item is the current portion of the loans discussed in Paragraph 1.5.a).

2.6 CASH AND CASH EQUIVALENTS

Description	1/1/04 (000/euros)	12/31/04 (000/euros)
Deconsolidation of Pininfarina Sverige	(99)	(483)
Total	(99)	(483)

a. IAS 31/27 - Impact of the Deconsolidation of Pininfarina Sverige AB

This entry shows the impact on Cash and cash equivalents of the deconsolidation of Pininfarina Sverige AB, which is discussed in detail in Paragraph 29.8 IAS 27 - Consolidation of the Pininfarina Sverige AB Joint Venture.

4.1 NON-CURRENT LIABILITIES

Description	1/1/04 (000/euros)	12/31/04 (000/euros)
Liabilities under finance leases received	-	74,127
Total	-	74,127

The current portion of liabilities under finance leases received is discussed in Item 5.1.a below.

4.2 DEFERRED-TAX LIABILITIES

Description	1/1/04 (000/euros)	12/31/04 (000/euros)
Deferred-tax liabilities on valuation of available-for-sale securities	5,105	4,907
Deferred-tax liabilities on valuation of held-for-trading securities	-	391
Deferred-tax liabilities on revaluations of buildings	8,603	7,321
Deferred-tax liabilities on adjustments to the provision for termination indemnities	-	589
Deferred-tax liabilities on adjustment made to account for leases	20,853	6,001
Deferred-tax liabilities on Matra revaluation	3,917	3,762
Derecognition and revaluation of Matra provision	-	(3,812)
Tax effect of reversal of advances	(1,336)	-
Sundry items	852	224
Total	37,993	19,383

a. IAS 12 - *Deferred-tax Liabilities on the Valuation of Securities at Fair Value*

This entry reflects the tax consequences of the restatements discussed in Paragraphs 2.4.a and 2.4.b.

b. IAS 12 - *Deferred-tax Liabilities on the Revaluation of Buildings*

This entry reflects the tax consequences of the restatements discussed in Paragraph 29.7 IFRS 3 - Restatement of the Business Combination with the Matra Group and Paragraph 1.1.a IFRS 1 - Fair Value or Revaluation as Deemed Cost.

c. IAS 12 - *Deferred-tax Liabilities on Leases*

This entry reflects the net tax consequences of accounting for leases received in accordance with IAS 17, Paragraph 20 (see Paragraph 29.6 IAS 17 - Leases in Which the Group Is the Lessee) and of leases given in accordance with IFRIC 4 (see Paragraph 5.2a4 IFRIC Interpretations That Have Not Yet Been Approved).

4.3 POST-EMPLOYMENT BENEFITS

Description	1/1/04 (000/euros)	12/31/04 (000/euros)
Restatement of entry concerning Matra employee benefits	(174)	(174)
Restatement for transition to IFRS treatment of provision for termination indemnities	(1,707)	(1,778)
Total	(1,881)	(1,952)

a. IAS 19 - *Provision for Termination Indemnities*

The Provision for termination indemnities, computed and recognized in the financial statements prepared under Italian accounting principles in accordance with Article 2120 of the Italian Civil Code, is deemed to be a defined-benefit pension plan, as defined by IAS 19, Paragraphs 48 to 62. It must then be valued as such by the Projected Unit Credit Method (IAS 19, Paragraph 68). This liability was determined by an independent actuary, who is a member of the relevant national board.

The tax impact of this restatement was computed in accordance with IAS 12.

5.1 CURRENT BORROWINGS

Description	1/1/04 (000/euros)	12/31/04 (000/euros)
Current portion of loans payable under leases	95,949	41,946
Application of amortized cost method to loans	-	331
Restatement of loans payable	-	-
Total	95,949	42,277

a. IAS 17 - Accounting for Leases Received

As explained in detail in Paragraph 29.6 IAS 17 - Leases in Which the Group Is the Lessee, this restatement reflects the liability toward leasing companies under a long-term lease executed to finance the capital expenditures needed for the Ford Street Ka and Mitsubishi Pajero Pinin orders and to erect a building in Cambiano that houses the Style Center.

5.2 TRADE ACCOUNTS PAYABLE AND OTHER PAYABLES

Description	1/1/04 (000/euros)	12/31/04 (000/euros)
Other (reversal of accruals and deferrals due to adoption of amort. cost)	-	(1,029)
Derecognition of accrued expenses due to accounting for leases under IAS 17	-	(25,680)
Deconsolidation of Pininfarina Sverige	(1,003)	100,475
Restatement of derecognition of accrued expenses on Ford order	(31,556)	-
Reclassification of advances for derecognition of contract work in progress	(38,880)	(122,613)
Foreign exchange adjustment to trade payables	(146)	-
Other entries	-	-
Total	(71,585)	(48,846)

a. IAS 17 - Derecognition of Accrued Expenses for Lease Payments

In the financial statements prepared in accordance with Italian accounting principles, in order to match the revenues from the sale of automobiles with the payment made under leases received to finance the corresponding capital expenditures, the Group recognized as accrued expenses the portion of lease payments that had not yet been invoiced to Pininfarina S.p.A.

In the IFRS financial statements, these accrued expenses have to be eliminated because the financial statements include the loans payable to the leasing companies (IAS 17, Paragraph 20) and the loans receivable from contract customers (IFRIC 4). For additional information, see Paragraph 29.5 IFRIC Interpretations That Have Not Yet Been Approved.

b. Reclassification of Advances for Derecognition of Contract Work in Progress

With regard to this item, see comments in Paragraph 2.2.b).

5.4 PROVISIONS FOR OTHER LIABILITIES AND CHARGES

Description	1/1/04 (000/euros)	12/31/04 (000/euros)
Deconsolidation of Pininfarina Sverige	-	(435)
Reversal of revaluation and utilization of Matra provision	-	(1,080)
Reversal of provision for Matra consolidation risks	(1,434)	-
Total	(1,434)	(1,515)

a. *Impact of the Business Combination with the Matra Group*

See Paragraph 29.7 IFRS 3 Restatement of the Business Combination with the Matra Group.

6.1 SALES AND SERVICE REVENUES

Description		12/31/04
Proceeds from the sale of intangibles		33
Reversal of sales revenues from cars provided to Ford and MMC under leases		(41,405)
Total	(000/euros)	(41,372)

a. *IFRIC 4 - Sales and Service Revenues*

This restatement reflects the derecognition of the portion of revenues that represents the recovery of the capital expenditures incurred for the Ford Street Ka order and the rebilling to Mitsubishi of payments under leases in which the Group is the lessee. For more detailed information, see Paragraph 29.5 IFRIC Interpretations That Have Not Yet been Approved.

6.3 CHANGE IN INVENTORY

Description		12/31/04
Switch to FIFO to value inventory of raw materials		145
Ending inventory of contract work in progress of Pininfarina Deutschland		(35)
Total	(000/euros)	110

a. *IAS 2 - Valuation of Inventory by the FIFO Method*

This restatement reflects the impact on the income statement of the switch from LIFO (not allowed under IAS 2) to FIFO to value inventory.

b. *IAS 11 - Valuation of contract orders of Pininfarina Deutschland by the percentage of completion*

The purpose of this restatement was to value a long-term contract order held by Pininfarina Deutschland GmbH by the percentage of completion method, in accordance with IAS 11, Paragraph 25.

6.5 OTHER INCOME AND REVENUES

Description		12/31/04
Gain on the sale of production equipment		301
Out-of-period income from adjustments to accelerated depreciation		3,587
Reversal of establishment and utilization of Matra provision		(4,550)
Out-of-period income from restatement of carrying amounts of PF Deutschland		(156)
Revenues from the financial statements of Pininfarina Sverige		
Total	(000/euros)	(819)

a. *Reversal of the Reserve for Consolidation Risks and Charges*

In the IFRS financial statements, the business combination with the Matra Group was recognized as of the date when Pininfarina S.p.A. purchased Matra Automobile Engineering SAS. More detailed information is provided in Paragraph 29.7 IFRS 3 - Restatement of the Business Combination with the Matra Group.

The difference between the cost paid and the buyer pro rata interest in the net fair value of the assets, liabilities and contingent liabilities that were identifiable on the purchase date was recognized in the income statement for the full amount as of the date of purchase, in accordance with IFRS 3, Paragraph 56b.

This restatement refers to the reversal of the portion of the Reserve for consolidation risks and charges that was charged to income in the income statement prepared in accordance with Italian accounting principles to offset the losses incurred by the Matra Group.

b. *IAS 16 - Redefinition of the Useful Life of Equipment – Gain*

The restatement of the gain recognized in the financial statements prepared in accordance with Italian accounting principles became necessary as a result of the restatement described in Paragraph 1.1., which reflected a redefinition of the useful life of equipment.

c. *IAS 31/27 - Impact of the Deconsolidation of Pininfarina Sverige AB*

d. *IAS 11 - Contract Orders Held by Pininfarina Deutschland GmbH*

This restatement corrects an error that existed in the consolidated financial statements at December 31, 2003 and needed to be corrected in the consolidation entries, since the adjustment had already been corrected in the financial statements of Pininfarina Deutschland, which is consolidated line by line.

e. *Difference on Accelerated Depreciation*

This restatement reflects the difference in the accelerated depreciation recognized in the consolidated financial statements under Italian accounting principles and the IAS consolidated financial statements.

7.2 CHANGE IN RAW MATERIALS AND CONSUMABLES

Description		12/31/04
Deconsolidation of Pininfarina Sverige		(39)
Total	(000/euros)	(39)

7.4 VARIABLE EXTERNAL ENGINEERING SERVICES

Description		12/31/04
Reversal of multi-year costs that cannot be capitalized under IAS 38		(222)
Service costs transferred from intangible assets		
Reversal of service costs from financial statements of Pininfarina Sverige		
Total	(000/euros)	(222)

These are smaller, unrelated adjustments.

7.5 LABOR COSTS

Description	12/31/04
Increase in labor costs of PF Spa for recognition of stock options	(528)
Difference in amount shown as addition to provision for termination indemnities in statutory and IAS financial statements	86
Adjustment to labor costs of Pininfarina Extra	11
Total	(431)

a. IFRS 2 - Stock Option Plans

This restatement reflects the determination of the fair value of the benefits provided by the Group to the beneficiaries of the last tranche of the stock option plan described in section (h) of Paragraph 29.2 Optional Exceptions to the Retrospective Application of IFRSs.

b. IAS 19 - Provision for Termination Indemnities

This restatement reflects the net impact of accounting for the Provision for termination indemnities in accordance with IAS 19, Paragraphs 48 to 62.

7.6 DEPRECIATION, AMORTIZATION AND WRITEDOWNS

Description	12/31/04
Derecognition of amortization of derecognized intangibles	736
Difference in depreciation of assets revalued in accordance with IFRS 1	146
Depreciation of a building in Cambiano held under a finance lease	
Entries to adjust depreciation of equipment	(531)
Net depreciation of leased assets	(226)
Derecognition of amortization of PF Extra goodwill	157
Derecognition of amortization of PF Extra other intangibles	59
Higher depreciation of Matra buildings	
Lower depreciation and amortization of Matra hardware and software	
Other Matra entries	(28)
Total	314

a. IAS 38 - Elimination of Multi-year Costs

This entry reflects the impact of the reversal of the amortization of the multi-year costs discussed in Paragraph 1.2.a.

b. IAS 16 - Redefinition of the Useful Life of Equipment – Reversal of Depreciation for the period

This restatement was necessary to adjust the depreciation period of certain production equipment owned by Pininfarina S.p.A. to match its useful life, which is the same as the production run of the respective automobiles.

c. IAS 17 - Depreciation of a Building in Cambiano Held Under a Finance Lease

This restatement reflects the depreciation of a building in Cambiano that Pininfarina S.p.A. holds under a finance lease. For additional information, see Paragraph 29.6 IAS 17 – Leases in which the Group is the Lessee.

d. IAS 38 - Amortization of Pininfarina Extra Consolidation Difference

This restatement reflects the elimination of the amortization, booked over ten years, of the consolidation difference attributable to Pininfarina Extra. In accordance with IFRS 3, Paragraph 55, goodwill cannot be amortized. It can only be written down for impairment losses.

e. IAS 16 - Depreciation of Matra Group Buildings

This restatement reflects the depreciation of the revaluation amount added to property owned by the subsidiaries Matra Automobile Engineering SAS and Ceram SAS upon the restatement of the business combination. For additional information, see Paragraph 29.7 IFRS 3 - Restatement of the Business Combination with the Matra Group.

f. IAS 38 - Reversal of the Consolidation Differences Attributable to Ceram and D-Trois

In the financial statements prepared in accordance with Italian accounting principles, the consolidation differences attributable to Ceram and D-Trois were amortized over 20 years and 10 years, respectively. As a result of the restatement of the business combination with the Matra Group upon first-time adoption of the IFRSs, which has been discussed in great detail in the preceding paragraphs, these differences were allocated to cover the difference between the higher market value of buildings and their book value. As a result, the amount of the consolidation difference must be derecognized in the IFRS financial statements.

7.8 FOREIGN EXCHANGE DIFFERENCES

Description	12/31/04
Adjusting entries to restate foreign exchange differences	(92)
Entries to reflect gains in financial statements of Pininfarina Sverige	(1,477)
Total	(1,568)

In the financial statements prepared in previous years, Pininfarina S.p.A. added to the Provision for foreign exchange fluctuations any losses generated by the translation of receivables and payables in foreign currencies at the exchange rate in force on the balance sheet date. Gains, if any, were not recognized.

IAS 21, Paragraphs 23 and 28, requires that any adjustment stemming from the translation of monetary items be made at the exchange rate in force at the end of the year and reflected in the income statement. This restatement was made to recognize the abovementioned adjustment.

7.9 OTHER EXPENSES

Description	12/31/04
Reversal of lease payments made	40,602
Reversal of Matra costs	165
Deconsolidation of Pininfarina Sverige	87
Reversal of taxes on financing facilities for amortized costs	115
Total	(000/euros) 40,969

a. IAS 17 - Reversal of Lease Payments Made

This entry removes from the income statement the lease payments made under leases executed for a building in Cambiano and to finance the capital expenditures needed to finance production of the Ford Street Ka and Mitsubishi lines. For additional information, see Paragraph 29.6 IAS 17 - Leases in which the Group is the Lessee.

b. IAS 38 - Reversal of Substitute Tax on Financing Facilities

This entry reverses the substitute tax on the financing received during the period, which was capitalized as an intangible in the financial statements in accordance with Italian accounting principles but did not meet the capitalization requirements of IAS 38.

8.1 FINANCIAL INCOME AND EXPENSE

Description	12/31/04
Interest paid on finance leases received	(3,187)
Interest earned on finance leases given	
Derecognition of charges and fees - amortized cost	107
Interest paid on borrowings - amortized cost	176
Deconsolidation of Pininfarina Sverige	1,868
Total	(000/euros) (1,036)

a. IAS 39 - Financial Assets Carried at Fair Value, with Changes of Value Recognized in Earnings

This restatement reflects the impact of valuing at fair value the investment portfolios managed by Azimut Fondi, Banca Intermobiliare S.p.A. and Ersel SIM. In accordance with IAS 39, Paragraph 9, these managed assets are classified as financial assets carried at fair value, with changes of value recognized in earnings. Consistent with IAS 39, Paragraph 55a, the resulting gains and losses are recognized in the income statement.

b. IAS 17 - Interest Paid on Leases

This item represents the interest payable accrued during the period on liabilities recognized in the financial statements in accordance with IAS 17, Paragraph 20. For additional information, see Paragraph 29.6 IAS 17 - Leases in which the Group is the Lessee.

c. IAS 17 - Interest Earned on Leases

This item represents the interest receivable accrued during the period in accordance with IAS 17, Paragraph 39, on liabilities recognized in the financial statements in accordance with IFRIC 4. For additional information, see Paragraph 29.5 IFRIC Interpretations That Have Not Yet Been Approved.

d. IAS 31 - Valuation of Pininfarina Sverige AB by the Equity Method

This entry was made to reflect the impact of certain consolidation adjustments on the valuation of this investment by the equity method.

e. Use of Amortized Cost for Financing Facilities

Consistent with IAS 39, the impact of loans payable on the income statement was recomputed by the amortized cost method.

8.3 CHANGES IN THE VALUATION OF INVESTMENTS BY THE EQUITY METHOD

Description		12/31/04
PF Sverige deconsolidation entry - equity adjustment		(629)
Total	(000/euros)	(629)

8.4 EXTRAORDINARY INCOME AND EXPENSE

Description		12/31/04
Restatement of entry made to eliminate the impact of tax-related items on Pininfarina property, plant and equipment		(3,587)
Total	(000/euros)	(3,587)

9.1 DEFERRED TAXES

Description		12/31/04
Reversal of deferred-tax asset on leases received		(13,999)
Reversal of deferred-tax liability on leases given		14,853
Deconsolidation of Pininfarina Sverige		(231)
Reversal for the period of entries to held-for-trading securities		(158)
Deferred taxes on entries to inventories		
Reversal for the period of entries to intangibles		(203)
Other entries		(102)
Total	(000/euros)	160

a. IAS 38 - Elimination of Multi-year Costs

This entry reflects the tax impact of eliminating multi-year costs recognized by Pininfarina S.p.A. and Pininfarina Extra Srl that do not meet the requirements of IAS 38, Paragraph 10, for inclusion among intangible assets. See also Paragraph 1.2.a.

b. IAS 2 - Valuation of Inventory by the FIFO Method

This restatement reflects the tax impact of the switch from the LIFO method (not allowed under IAS 2) to the FIFO method to value inventory.

c. IAS 31/27 - Impact of the Deconsolidation of Pininfarina Sverige AB

This entry was made to reflect the impact of certain consolidation adjustments on the valuation of this investment by the equity method.

d. IAS 17 - Tax Impact of Restatements Made in Connection with Leases Received

This restatement reflects the reversal of the deferred-tax asset on leases received recognized as a result of the liability incurred toward the leasing company. For additional information, see Paragraph 29.6.5 IAS 17 - Leases in Which the Group is the Lessee.

e. IAS 17 - Tax Impact of Restatements Made in Connection with Leases Given

This restatement reflects the reversal of the deferred-tax liability on leases received recognized as a result of the liability incurred toward the leasing company identified in accordance with IFRIC 4. For additional information, see Paragraph 29.5 IFRIC Interpretations That Have Not Yet Been Approved.

9.2 MINORITY INTEREST IN PROFIT/LOSS

Description		12/31/04
Deconsolidation of Pininfarina Sverige		415
Total	(000/euros)	415

**REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE
SHAREHOLDERS' MEETING ON THE CONSOLIDATED FINANCIAL
STATEMENTS AT DECEMBER 31, 2005**

Dear Shareholders:

The Board of Directors submits for your approval the consolidated financial statements at December 31, 2005, which comprise the balance sheet, income statements and notes to the financial statements.

The consolidated financial statements at December 31, 2005 show consolidated shareholders' equity of 188,557,116 euros, net of consolidated net loss of 8,103,394 euros.

We wish to point out that, as explained in the Report of the Board of Directors, the consolidated financial statements at December 31, 2005 were no longer prepared in accordance with Italian accounting principles, but according to the International Financial Reporting Standards (IAS/IFRSs).

The consolidated shareholders' equity and the income statement for the previous year have been restated in accordance with the new principles, and the impact of this change in valuation criteria is shown in a separate schedule included in the Report of the Board of Directors.

The consolidated financial statements were provided to us within the statutory deadlines, together with the statutory financial statements and the Report on Operations.

The Report on Operations presents fairly the operating results, balance sheet, financial position and individual and consolidated performance of Pininfarina S.p.A. and its subsidiaries during and after the close of the fiscal year, and provides a breakdown by principal lines of business of the Group's revenues and consolidated results.

The Report clearly defines the scope of consolidation, which at December 31, 2005 included the Group's Parent Company, 9 subsidiaries, all of which were consolidated line by line, and 2 associated companies, which were valued by the equity method.

The audit performed by PricewaterhouseCoopers S.p.A. has shown that the amounts listed in the consolidated financial statements at December 31, 2005 match the Parent Company's accounting records and the statutory financial statements of the subsidiaries, and are consistent with the official information provided by these companies.

The financial statements provided to the Parent Company by the subsidiaries for consolidation purposes were prepared by the respective corporate governance bodies. They were reviewed by the entities and/or individuals that have authority over the individual companies pursuant to local laws and by the independent auditors as part of their audit of the consolidated financial statements.

The Board of Statutory Auditors did not review these financial statements.

On April 26, 2006, PricewaterhouseCoopers S.p.A., the independent auditors retained to audit the consolidated financial statements of the Pininfarina Group, issued their report, which states that, in their opinion, the consolidated financial statements of the Pininfarina Group at December 31, 2005 comply with the applicable statutes.

Based on the checks and tests we made, we attest to the following:

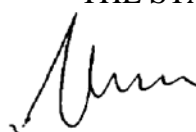
- The scope of consolidation has been determined correctly.
- The consolidation procedures adopted are consistent with statutory requirements and were applied correctly.
- Our review of the Report on Operations found that the Report is consistent with the consolidated financial statements.
- All of the information used for consolidation purposes applies to the entire administrative period comprising the 2005 fiscal year.
- The valuation criteria applied are consistent with those used in 2004, except for those that changed due to the adoption of the IAS/IFRSs.
- The associated companies Pasiphae S.à.r.l and Pininfarina Sverige AB have been valued by the equity method.

Lastly, we remind you that our three-year term of office has ended. In tendering our resignation, we recommend that you take appropriate action.

Turin, April 26, 2006

THE STATUTORY AUDITORS

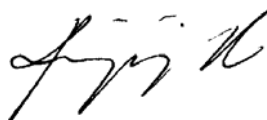
(Giacomo Zunino)



(Giorgio Giorgi)



(Piergiorgio Re)



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

To the Shareholders of
Pininfarina SpA

- 1 We have audited the consolidated financial statements of Pininfarina SpA and its subsidiaries ("Pininfarina Group"), which comprise the balance sheet, income statement, cash flow statement, statement of changes in shareholders' equity and the related notes as of 31 December 2005. These consolidated financial statements are the responsibility of Pininfarina's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The aforementioned consolidated financial statements have been prepared for the first time in accordance with the International Financial Reporting Standards ("IFRS") as adopted by the European Union.

- 2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. In accordance with those standards and criteria, the audit has been planned and performed to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are reliable. An audit includes examining, on a sample basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements present the prior year corresponding figures prepared in accordance with the same accounting principles. Furthermore, the paragraph number 29 of the notes explains the effects of the transition to IFRS as adopted by the European Union and includes the information related to the Reconciliation Schedules required by IFRS 1, which have been approved and published for the first time with the semiannual reports, that we have audited; reference is made to our report dated 28 September 2005.

- 3 In our opinion, the consolidated financial statements of Pininfarina Group as of 31 December 2005 comply with IFRS as adopted by the European Union; accordingly, they give a true and fair view of the financial position, the results of operations, the changes in shareholder's equity and cash flows of Pininfarina Group for the year then ended.

Turin, 26 April 2006

PricewaterhouseCoopers SpA


Massimo Aruga
(Partner)

ANNEXES

The following Annexes contain additional data that supplement the information shown in the notes to the financial statements and are an integral part of the notes.

ANNEX 1

Reclassified Income Statement

Reclassified Balance Sheet

Net Financial Position

Cash Flow Statement

Reclassified Consolidated Income Statement

(in thousands of euros)

	Data at				Change
	12/31/05	%	12/31/04	%	
Net revenues	461,426	120.47	466,229	83.59	(4,803)
Changes in inventory of work in process and finished products	(85,206)	(22.25)	57,617	10.33	(142,823)
Other income and revenues	5,391	1.41	33,926	6.08	(28,535)
Work performed internally and capitalized	1,419	0.37	0	0	1,419
Value of production	383,030	100	557,772	100	(174,742)
Net gain on disposal of non-current assets	32,443	8.47	1,066	0.19	31,377
Raw materials and outside services	(296,307)	(77.36)	(423,355)	(75.90)	127,048
Change in inventory of raw materials	(5,794)	(1.51)	(8,237)	(1.48)	2,443
Value added	113,372	29.60	127,246	22.81	(13,874)
Labor costs	(102,906)	(26.87)	(101,095)	(18.12)	(1,811)
EBITDA	10,466	2.73	26,150	4.69	(15,685)
Depreciation and amortization	(16,373)	(4.27)	(17,855)	(3.20)	1,483
Additions to provisions and reserves	(2,374)	(0.62)	(225)	(0.04)	(2,149)
EBIT	(8,281)	(2.16)	8,070	1.45	(16,351)
Net financial income	1,370	0.36	1,567	0.28	(197)
Other income (expense), net	(2,590)	(0.68)	(3,604)	(0.65)	1,014
Profit before taxes	(9,501)	(2.48)	6,033	1.08	(15,534)
Income taxes	1,398	0.36	(8,438)	(1.51)	9,836
Profit (Loss) for the year	(8,103)	(2.12)	(2,405)	(0.43)	(5,698)

Reclassified Consolidated Balance Sheet

(in thousands of euros)

	Data at		Change
	12/31/05	12/31/04	
Net non-current assets (A)			
Net intangible assets	6,284	5,744	540
Net property, plant and equipment	203,057	158,159	44,898
Equity investments	34,592	3,017	31,575
Total A	243,933	166,920	77,013
Working capital (B)			
Inventory	32,358	45,455	(13,097)
Net trade receivables and other receivables	122,455	98,290	24,165
Deferred-tax assets	20,927	25,304	(4,377)
Trade accounts payable	(129,079)	(125,613)	(3,466)
Provision for risks and charges	(2,728)	(4,310)	1,582
Other liabilities	(63,706)	(59,050)	(4,656)
Total B	(19,773)	(19,924)	151
Net invested capital (C=A+B)	224,160	146,996	77,164
Provision for termination indemnities (D)	28,709	26,012	2,697
Net capital requirements (E=C-D)	195,451	120,984	74,467
Shareholders' equity (F)	188,557	192,569	(4,012)
Net financial position (G)			
Long-term debt	96,146	16,727	79,419
(Net liquid assets)	(89,252)	(88,312)	(940)
Total G	6,894	(71,585)	78,479
Total as in E (H=F+G)	195,451	120,984	74,467

Net Financial Position

(in thousands of euros)

	Data at		Change
	12/31/05	12/31/04	
Cash and cash equivalents	15,585	26,568	(10,983)
Current assets held for trading	60,865	88,410	(27,545)
Current loans receivable and other receivables	59,348	16,110	43,238
Available-for-sale current assets	0	0	0
Loans receivable from associates and joint ventures	0	0	0
Bank account overdrafts	(501)	(468)	(33)
Current liabilities under finance leases	(46,045)	(42,308)	(3,737)
Loans payable to associates and joint ventures	0	0	0
Net liquid assets	89,252	88,312	940
Long-term loans and other receivables from outsiders	125,095	63,800	61,295
Long-term loans and other receivables from associates and joint ventures	116,377	94,543	21,834
Available-for-sale non-current assets	26,015	19,256	6,759
Long-term liabilities under finance leases	(205,205)	(74,127)	(131,078)
Long-term bank debt	(158,428)	(120,199)	(38,229)
Long-term debt	(96,146)	(16,727)	(79,419)
Net financial position	(6,894)	71,585	(78,479)

Cash Flow Statement

	Data at	
	12/31/05	12/31/04
Profit for the period	(8,103,394)	(2,404,679)
Restatements	(13,102,221)	30,597,636
- Income taxes	(1,397,604)	8,437,555
- Depreciation of property, plant and equipment	15,026,620	16,419,756
- Amortization of intangibles	1,345,925	1,435,562
- Writedowns	481,955	1,003,939
- Provision for pensions and seniority indemnities	2,696,702	1,239,898
- (Gains) Losses on sale of non-current assets	(32,442,882)	(1,066,075)
- (Gains) Losses on derivatives	-	-
- (Gains) Losses on available-for-sale financial assets	-	-
- (Financial income)	(11,026,783)	(6,297,427)
- Financial expense	10,572,826	4,000,413
- (Dividends)	(916,542)	(648,708)
- Value adjustment to shareholders' equity	2,620,233	6,021,592
- Unrealized (gains) losses on foreign exchange transactions	(62,671)	51,131
Changes in working capital	56,564	4,035,881
- Inventories	4,364,151	12,046,322
- Contract work in progress	8,733,584	37,758,306
- Trade accounts receivable	(24,164,947)	(138,035)
- Trade accounts payable	3,528,918	(20,350,061)
- Other changes	7,594,858	(25,280,651)
Cash flow from operating activities	(21,149,051)	32,228,838
(Financial expense)	(10,572,826)	(4,000,413)
(Income taxes)	1,397,604	(8,437,555)
Net cash from operating activities	(30,324,273)	19,790,870
- Acquisition of a subsidiary, net of cash acquired		
- Purchases of property, plant and equipment	(64,924,329)	(35,702,500)
- Proceeds from sale of property, plant and equipment	35,555,877	3,710,165
- Non-current financial assets	18,872,612	(38,648,748)
- Financial income	11,026,783	6,297,427
- Dividends received	916,542	648,708
- Other equity investments	(34,820,149)	(565,935)
Net cash used in investing activities	(63,696,937)	(44,470,013)
- Purchases of treasury shares	2,434,864	(112,046)
- Long-term borrowings from lenders outside the Group	126,531,099	96,196,419
- Dividends paid	(3,122,051)	(3,124,779)
Net cash used in financing activities	62,146,975	48,489,581
- Other non-cash items	536,452	930,697
Increase (Decrease) in cash and cash equivalents	62,683,427	49,420,278
- Cash and cash equivalents at January 1	26,568,454	38,892,006
Net liquid assets at December 31	89,251,881	88,312,284

ANNEX 2

List of Companies Included in the Scope of Consolidation

Key Data of the Principal Group Companies

LIST OF COMPANIES CONSOLIDATED LINE BY LINE

<i>Name</i>	<i>Registered office</i>	<i>Share capital</i>	<i>% interest held directly or indirectly in 2005</i>	<i>% interest held directly or indi- rectly in 2004</i>
Parent Company				
<i>Pininfarina S.p.A.</i>	<i>Via Bruno Buozzi 6 - Turin - IT</i>	<i>9,317,000 EUR</i>		
Italian subsidiaries				
<i>Pininfarina Extra S.r.l.</i>	<i>Via Bruno Buozzi 6 – Turin - IT</i>	<i>388,000 EUR</i>	<i>100</i>	<i>100</i>
Foreign subsidiaries				
<i>Pininfarina Deutschland GmbH</i>	<i>Industriestrasse 10 – Renningen - DE</i>	<i>3,100,000 EUR</i>	<i>100</i>	<i>100</i>
<i>Matra Automobile Engineering SAS</i>	<i>8. avenue J. D'Alembert – Trappes cedex - FR</i>	<i>971,200 EUR</i>	<i>100</i>	<i>100</i>
<i>CERAM S.A.S.</i>	<i>Mortefontaine – FR</i>	<i>1,000,000 EUR</i>	<i>100</i>	<i>100</i>
<i>D3 S.A.S.</i>	<i>11. rue Paul Bert – Courbevoie - FR</i>	<i>306,000 EUR</i>	<i>100</i>	<i>100</i>
<i>Plazolles Modelage S.a.r.l.</i>	<i>ZAC de l'Argentine – 9. rue J. Anquetil Garges Les Gonesses – FR</i>	<i>8,000 EUR</i>	<i>100</i>	<i>100</i>
<i>Matra Automobile Engineering Maroc S.A.S.</i>	<i>Km 12. Autoroute de Rabat - Sidi Bernoussi – Zenata Casablanca – MA</i>	<i>8,000,000 MAD</i>	<i>100</i>	<i>100</i>
<i>Matra Developpement S.A.S.</i>	<i>8. avenue J.D'Alembert – Parc d'Activites Pissaloup - Trappes – FR</i>	<i>37,000 EUR</i>	<i>100</i>	<i>100</i>
<i>RHTU Sverige AB</i>	<i>Varvsvagen 1 - Uddevalla - SE</i>	<i>100,000 SEK</i>	<i>100</i>	<i>100</i>

LIST OF COMPANIES CONSOLIDATED BY THE EQUITY METHOD

<i>Name</i>	<i>Registered office</i>	<i>Share capital</i>	<i>% interest held directly or indirectly in 2005</i>	<i>% interest held directly or indi- rectly in 2004</i>
<i>Pasiphae S.a.r.l.</i>	<i>4. Boulevard Royal – LU</i>	<i>5,000,000 EUR</i>	<i>20</i>	<i>20</i>
<i>Pininfarina Sverige AB</i>	<i>Varvsvagen 1 - Uddevalla - SE</i>	<i>8,965,000 SEK</i>	<i>60</i>	<i>60</i>

Key Data of the Principal Group Companies
(data in accordance with the IAS/IFRSs)

Pininfarina Extra S.r.l.

Head office: Turin - IT
Share capital: 388,000 euros
% interest held: 100%

	12/31/05	12/31/04
	(millions of euros)	
Value of production	5.6	4.3
Net profit	0.74	0.59
Shareholders' equity	2.2	1.7
Net financial position	1.6	0.8

Matra Automobile Engineering Group

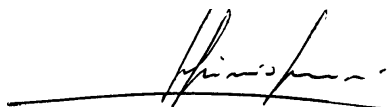
Head office: Trappes - FR
Share capital: 971,200 euros
% interest held directly: 100%

	12/31/05	12/31/04
	(millions of euros)	
Value of production	52.4	46.4
Net loss	(3.0)	(4.5)
Shareholders' equity	11.2	14.3
Net indebtedness	(15.1)	(10.4)

Pininfarina Deutschland GmbH

Head office: Renningen - DE
Share capital: 3,100,000 euros
% interest held directly: 100%

	12/31/05	12/31/04
	(millions of euros)	
Value of production	7.5	9.2
Net loss	(1.4)	(1.8)
Shareholders' equity	16.2	17.7
Net indebtedness	(5.1)	(5.3)



Sergio Pininfarina
Chairman of the Board of Directors

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