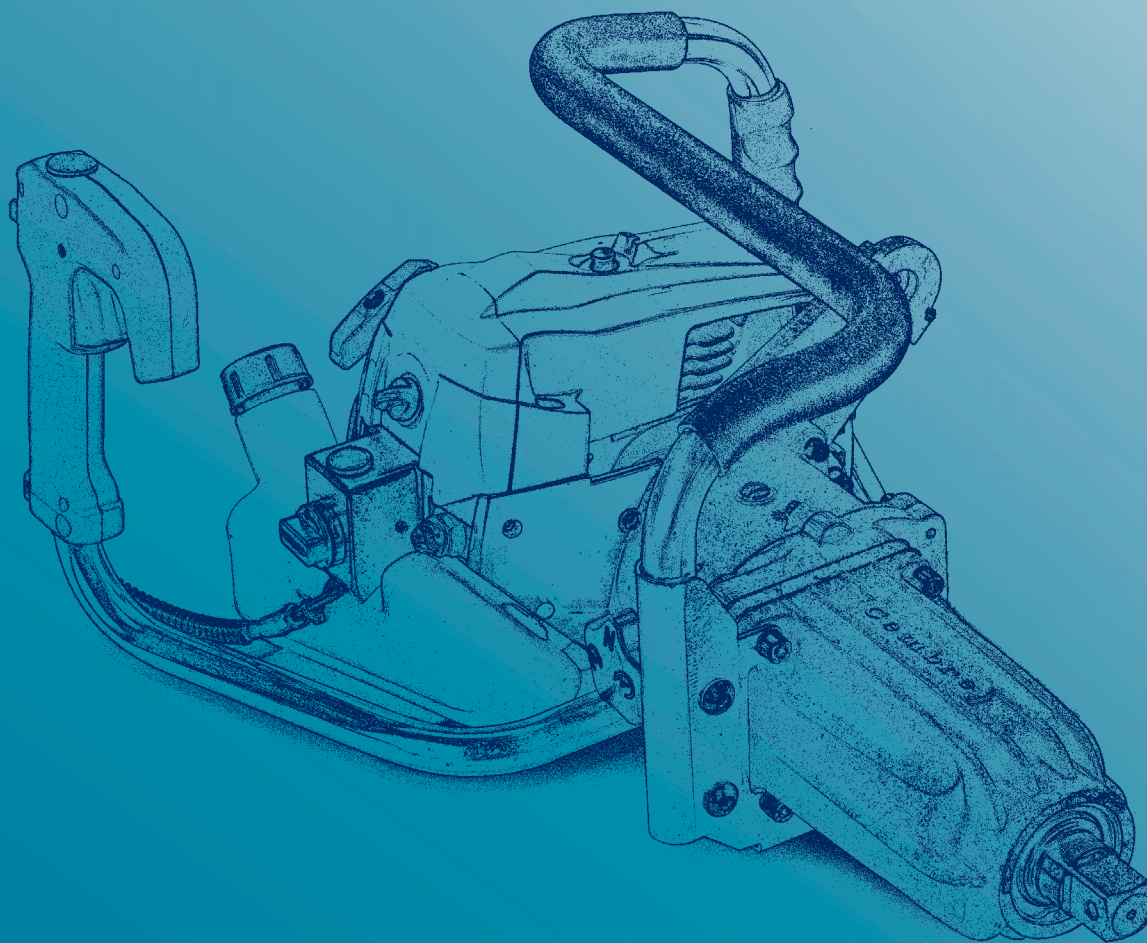




COSTRUZIONI Elettromeccaniche BRESCIANE



REPORT and ACCOUNTS  
6 months to 30th June 2004

# Cembre S.p.A.

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Head Office: Via Serenissima 9, Brescia, Italy

Share Capital: EUR 8,840,000 (fully paid-up).

Registration no: CF 00541390175 (Commercial Register of Brescia)

This document contains translations of the report prepared in the Italian language for the purpose of the Italian law and of CONSOB regulations (CONSOB is the public authority responsible for regulating the Italian securities market)

The cover page shows the new portable impact wrench ÒNR-11PÓ powered by petrol engine, ideal for railways, construction sites, oil and mining industries, shipyards.

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# CONTENTS

<b>The Cembre Group</b>	<b>2</b>
-------------------------	----------

<b>Corporate Boards</b>	<b>3</b>
-------------------------	----------

## Cembre Group

<b>Report on operations of the Cembre Group for the 1<sup>st</sup> Half of 2004</b>	<b>4</b>
---	----------

Attachments: Reclassified Consolidated Income Statement for the 1 <sup>st</sup> Half of 2004	<b>8</b>
--	----------

## **Financial Statements at June 30, 2004**

<i>Consolidated Balance Sheet and Income Statement</i>	<b>9</b>
--	----------

<i>Notes to the consolidated accounts</i>	<b>14</b>
---	-----------

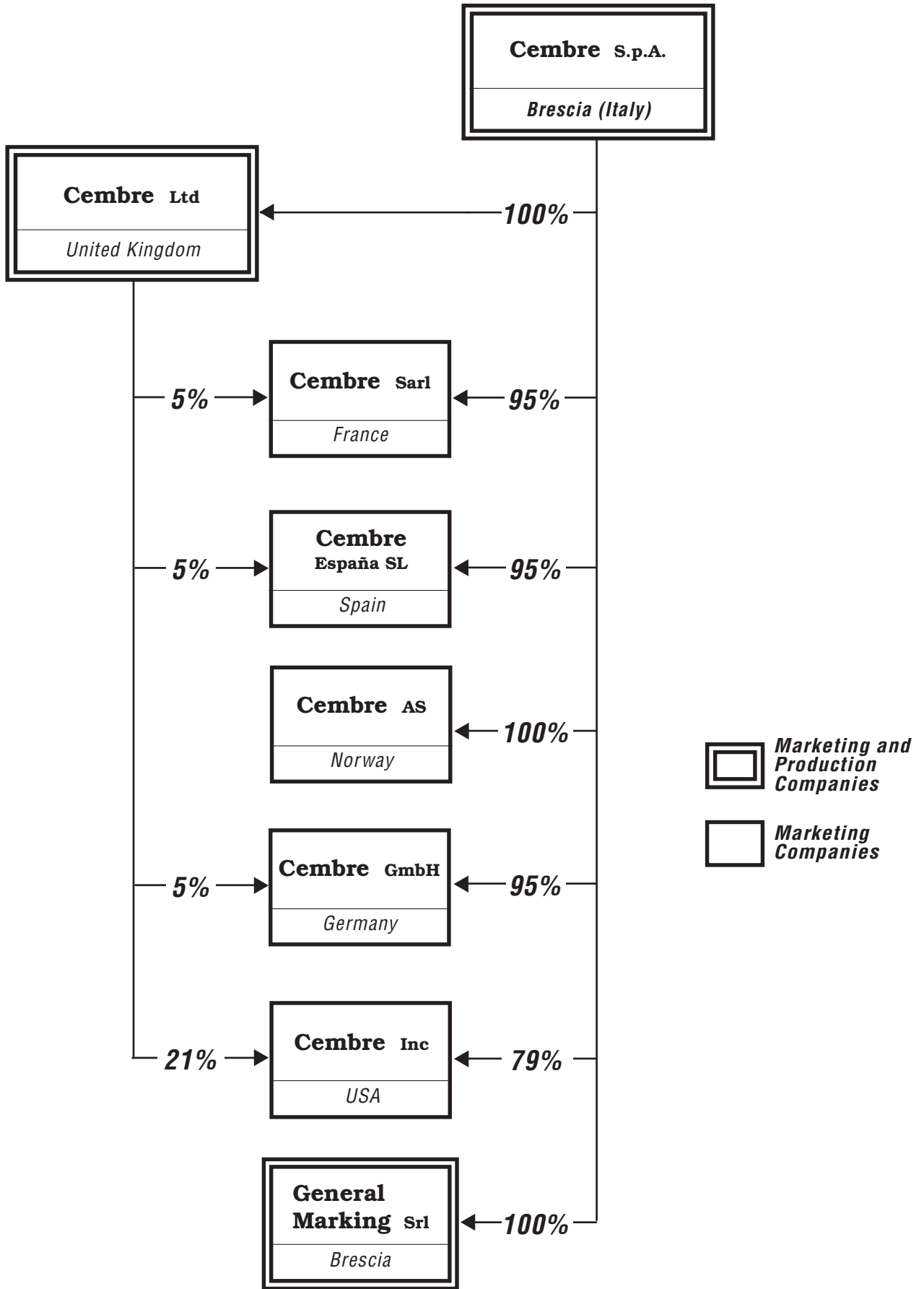
## Cembre S.p.A.

### **Financial Statements of Cembre S.p.A. at June 30, 2004**

<i>Balance Sheet and Income Statement</i>	<b>30</b>
---	-----------

<b>Auditors Report on the Consolidated Financial Statements of Cembre S.p.A. at June 30, 2004</b>	<b>35</b>
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# THE CEMBRE GROUP



The above structure is as of 29 September 2004

**Cembre S.p.A. Boards**  
**(Attachment B of the Cembre Group Management Report for the 1<sup>st</sup> Half of 2004)**

**Board of Directors**

<i>Chairman and Managing Director</i>	Carlo Rosani
<i>Vice Chairman and Managing Director</i>	Anna Maria Onofri
<i>Managing Director</i>	Aldo Copetta
<i>Director</i>	Giovanni De Vecchi
<i>Director</i>	Aldo Bottini Bongrani
<i>Independent Director</i>	Mario Comana
<i>Independent Director</i>	Paolo Lechi di Bagnolo
<i>Director</i>	Giovanni Rosani

**Secretary**

Giorgio Rota

**Board of Statutory Auditors**

<i>Chairman</i>	Guido Astori
<i>Auditor</i>	Leone Scutti
<i>Auditor</i>	Andrea Boreatti
<i>Substitute auditor</i>	Maria Grazia Lizzini
<i>Substitute auditor</i>	Giorgio Astori

The above list is updated at September 29, 2004.

The Board of Directors and Board of Statutory Auditor's term expires with the approval of the Financial Statements at December 31, 2005.

The Chairman and Managing Director Carlo Rosani holds by statute (article 18) powers of legal representation of the Company. The Board of Directors conferred to the Chairman all the ordinary management powers not specifically reserved to it by law. All Managing Directors must keep the Board of Directors informed of all relevant transactions concluded in the context of their mandate. The Board of Directors has approved rules that define which particularly relevant transactions may be concluded exclusively by the same.

Vice Chairman and Managing Director Anna Maria Onofri holds all ordinary management powers not reserved to the Board by law, with the exception of the appointment of professionals, in case of absence or impediment of the Chairman.

Managing Director Aldo Copetta holds powers to represent the company with Trade Unions, employees, administrative Authorities and in any litigation.

## **Cembre S.p.A.**

Head Office: Via Serenissima 9, Brescia, Italy  
Share Capital: €8,840,000 (fully paid-up)  
Brescia Commercial Register registration no.: 00541390175

### **Cembre Group Management Report for the 1<sup>st</sup> Half of 2004**

The Cembre Group closed the 1<sup>st</sup> Half of 2004 reporting an 8.4% increase in revenues from the sale of goods and services, up from €30,917 thousand in the 1<sup>st</sup> Half of 2003, to €33,502 thousand for the same period in 2004. In the first six months of 2004, domestic sales grew by 4.2%, while exports increased by 12.4%. A total of 47.4% of Group sales were represented by Italy (as compared with 49.3% in the 1<sup>st</sup> Half of 2003), 43.7% by the rest of Europe (42.3% in the 1<sup>st</sup> Half of 2003), and the remaining 8.9% by the rest of the World (8.4% in the 1<sup>st</sup> Half of 2003).

#### **Sales by geographical area**

(€000)	1 <sup>st</sup> Half 2004	1 <sup>st</sup> Half 2003
Italy	15,876	15,235
Rest of Europe	14,649	13,091
Rest of the World	<u>2,977</u>	<u>2,591</u>
Total	33,502	30,917

#### **Revenues by Group company**

(€000)	1 <sup>st</sup> Half 2004	1 <sup>st</sup> Half 2003
Parent company	19,698	18,441
Cembre Ltd. (UK)	5,088	4,148
Cembre S.a.r.l. (France)	2,261	1,997
Cembre España S.L. (Spain)	3,422	2,891
Cembre GmbH (Germany)	1,539	1,869
Cembre AS (Norway)	185	196
Cembre Inc. (USA)	1,057	971
General Marking Srl (Italy)	<u>252</u>	<u>404</u>
Total	33,502	30,917

Financial highlights of Group companies for the first six months of 2004 are provided in the table below.

	Currency	Revenues		Net profit	
		1 <sup>st</sup> Half 2004	1 <sup>st</sup> Half 2003	1 <sup>st</sup> Half 2004	1 <sup>st</sup> Half 2003
Cembre S.p.A.	€	26,310,753	24,316,867	4,396,146*	1,348,550
Cembre Ltd. (UK)	€	5,472,444	4,545,200	349,400	263,974
Cembre S.a.r.l. (France)	€	2,265,745	2,076,141	76,457	59,459
Cembre España S.L. (Spain)	€	3,422,349	2,891,436	132,968	91,004
Cembre AS (Norway)	€	184,772	196,303	18,622	(6,094)
Cembre GmbH (D)	€	1,562,687	1,877,244	13,908	41,314
Cembre Inc. (USA)	€	1,058,092	1,042,500	26,106	(49,015)
General Marking Srl	€	618,877	742,130	(422,891)	(265,958)

\* the net profit of the parent company is commented upon in the appropriate note in the paragraph relating to the reversal of tax-related entries carried out pursuant to new tax regulations.

To allow an evaluation of the impact of foreign exchange translations, the table that follows shows financial data for those Group companies whose financial statements are expressed in currencies other than the euro.

	Currency	Revenues		Net profit	
		1 <sup>st</sup> Half 2004	1 <sup>st</sup> Half 2003	1 <sup>st</sup> Half 2004	1 <sup>st</sup> Half 2003
Cembre Ltd. (UK)	£	3,684,626	3,115,839	235,332	180,960
Cembre AS (Norway)	Nok	1,561,064	1,523,752	157,330	(47,302)
Cembre Inc. (USA)	US\$	1,298,639	1,151,890	32,041	(54,158)

The decline in sales of German subsidiary Cembre GmbH is due to the continuing stagnation of the German market. The reduction in sales of General Marking is due to a number of products deemed not strategic, while higher losses of the same are due to the accrual of €200,000 to the provision for inventory depletion to take into account of slow moving items.

A reclassified Consolidated Income Statement for the first six months of 2004 is enclosed as attachment A to provide a better description of the company's operating performance.

Gross operating profit for the first six months of 2004 is equal to €6,093,160, corresponding to an 18.2% margin on sales, up 6.8% on €5,704,703 reported in the first six months of 2003 (18.5% of sales).

Operating profit amounts to €4,084,834, representing a 12.2% margin on sales, up by 15.7% from €3,531,534 in the 1<sup>st</sup> Half of 2003, when it represented an 11.4% margin on sales, due to the lower weight of depreciation.

Consolidated profit before taxes amounts to €4,010,129, representing a 12% margin on sales, up from €3,145,529 in the 1<sup>st</sup> Half of 2003, when it represented a 10.2% margin on sales. The increase is due to the lower interest expense resulting from the reduction in debt, declining from €9.9 million at June 30, 2003, to €6.3 million at June 30, 2004, in addition to positive foreign exchange differences

Net profit amounts to €2,143,103, representing a 6.4% margin on sales, up from €1,590,362 in the 1<sup>st</sup> Half of 2003 in which it represented a 5.1% margin on sales.

#### Consolidated net financial position

(in euro)	June 30, 2004	June 30, 2003
Long-term financial debt	(2,746,733)	(2,707,064)
Total medium and long-term debt	(2,746,733)	(2,707,064)
Cash	5,031,735	4,058,777
Short-term bank loans	(9,110,654)	(9,373,384)
Short-term financial debt	(54,114)	(36,817)
Marketable securities	574,278	588,230
Total short-term financial assets	(3,558,755)	(4,763,194)
Consolidated net financial position	(6,305,488)	(7,470,258)

The activity carried out is not subject to cycles or seasonal swings, with the exception of the slowdown registered in August for the summer holidays and in December for the Christmas season.

#### Capital expenditure

Capital expenditure for the first six months of 2004, gross of amortization, depreciation and disposals, amounted to €2.3 million. It includes the €1.4 million expense made by Cembre Ltd. for the construction of a building at its Birmingham complex.

Cembre SpA made investments in plant, machinery and equipment amounting to €94 thousand.

#### Relationships with related parties

The parent company provided guarantees for loans extended to Cembre SL, Cembre Inc. and General Marking, amounting respectively to €1,500,000, €21,177 and €3,500,000.

The parent company also leases an industrial building to subsidiary General Marking. The current yearly lease cost is €2 thousand per year. Among property leased to the parent company by third parties are an industrial building adjacent to the Company's main office complex measuring about 5,960 square meters on three floors, and office space in Milan, Padua and Bologna, all of which are owned by Tha Immobiliare Spa, a company with head office in Bergamo, whose share capital is held by various members of the Rosani family, with the exception of Carlo Rosani. Yearly lease payments amount in 2004 to €322 thousand for the building adjacent to the company's main industrial complex, €8 thousand for the Sesto S. Giovanni (Milan) office, €48 thousand for the Selvazzano (Padua) office, and €41 thousand for the Bologna office. All leasing contracts are in line with current market conditions. Such relationships are in the Company's interest due to the fact that they ensure continuity and reduce the risk of termination of leasing contracts.

Cembre S.p.A. does not have direct relationships with its parent company Lysne SpA other than those relating to the exercise of the rights of the latter



in its quality of shareholder. Lysne does not direct or coordinate any activity of Cembre.

**Subsequent events**

No event having significant effects on the Group's financial position and operations occurred after June 30, 2004.

**Outlook**

In the second half of 2004, the company expects to expand its activity, while profit levels are expected to remain in line with the previous year.

**Additional information required by Consob**

As required by Consob, a list of Company boards' members is included in Attachment B.

Brescia, September 29, 2004

**THE CHAIRMAN OF THE BOARD OF DIRECTORS  
CEMBRE SPA – GROUP PARENT COMPANY**

CARLO ROSANI

Attachment A - Management Report  
Cembre Group Consolidated financial statement

Reclassified Consolidated Income Statement at June 30, 2004

(in euro)	<b>1<sup>st</sup> Half 2004</b>	%	<b>1<sup>st</sup> Half 2003</b>	%	<b>Full year 2003</b>	%	<b>% change</b>
Sales	33.502.202	100,0	30.917.422	100,0	59.870.282	100,0	8,4
Other revenues and gains	17.322		49.729		78.045		(65,2)
<b>TOTAL REVENUES</b>	<b>33.519.524</b>		<b>30.967.151</b>		<b>59.948.327</b>		<b>8,2</b>
Change in work in progress, semi-finished and finished goods inventories	12.246	0,0	(26.971)	(0,1)	(61.138)	(0,1)	(145,4)
Increase in assets due to internal construction	213.279	0,6	290.068	0,9	824.509	1,4	(26,5)
<b>TOTAL OPERATING VALUE</b>	<b>33.745.049</b>	100,7	<b>31.230.248</b>	101,0	<b>60.711.698</b>	101,4	8,1
Materials and services used	(17.029.379)	(50,8)	(15.720.576)	(50,8)	(30.774.957)	(51,4)	8,3
Other operating costs	(125.722)	(0,4)	(120.962)	(0,4)	(256.242)	(0,4)	3,9
<b>VALUE ADDED</b>	<b>16.589.948</b>	49,5	<b>15.388.711</b>	49,8	<b>29.680.499</b>	49,6	7,8
Personnel costs	(10.435.738)	(31,1)	(9.608.247)	(31,1)	(18.613.448)	(31,1)	8,6
Accruals to provision for doubtful accounts	(57.678)	(0,2)	(72.513)	(0,2)	(150.213)	(0,3)	(20,5)
Accruals to risk provision	(3.372)		(3.247)		(25.669)		3,8
<b>GROSS OPERATING MARGIN (EBITDA)</b>	<b>6.093.160</b>	18,2	<b>5.704.703</b>	18,5	<b>10.891.169</b>	18,2	6,8
Intangible asset amortization	(113.364)	(0,3)	(180.830)	(0,6)	(401.451)	(0,7)	(37,3)
Tangible asset depreciation and other assets write-downs	(1.894.962)	(5,7)	(1.992.339)	(6,4)	(4.126.199)	(6,9)	(4,9)
<b>OPERATING PROFIT (EBIT)</b>	<b>4.084.834</b>	12,2	<b>3.531.534</b>	11,4	<b>6.363.519</b>	10,6	15,7
Financial income (expense)	27.052	0,1	(350.742)	(1,1)	(617.848)	(1,0)	(107,7)
<b>PROFIT BEFORE EXTRAORDINARY ITEMS</b>	<b>4.111.886</b>	12,3	<b>3.180.792</b>	10,3	<b>5.745.671</b>	9,6	29,3
Extraordinary items and adjustments to the value of financial assets	(101.757)	(0,3)	(35.263)	(0,1)	(66.141)	(0,1)	188,6
<b>PROFIT BEFORE TAXES</b>	<b>4.010.129</b>	12,0	<b>3.145.529</b>	10,2	<b>5.679.530</b>	9,5	27,5
Income taxes	(1.867.026)	(5,6)	(1.555.167)	(5,0)	(2.691.420)	(4,5)	20,1
<b>NET PROFIT</b>	<b>2.143.103</b>	6,4	<b>1.590.362</b>	5,1	<b>2.988.110</b>	5,0	34,8
<b>CASH FLOW (net income plus depreciation and amortization)</b>	<b>4.151.429</b>	12,4	<b>3.763.531</b>	12,2	<b>7.515.760</b>	12,6	10,3

# Cembre SpA

Registered Office: Via Serenissima 9, Brescia, Italy

Share Capital: Euro 8.840.000 (fully paid-up)

Registration no: FC 00541390175 (Commercial Register of Brescia)

## Consolidated Financial Statements at June 30, 2003

### Balance Sheet

(in euro)

<b>Assets</b>	<b>June 30, 2.004</b>	<b>June 30, 2.003</b>	<b>Dec. 31, 2.003</b>
<b>A) Capital not paid-in</b>	-	-	-
<b>B) Fixed assets</b>			
I - Intangible assets			
1) Incorporation and capital increase costs	-	76.841	-
3) Industrial patents and intellectual property rights	315.964	355.917	359.627
4) Concessions, licenses and trademarks	229.880	244.286	224.422
5) Goodwill	-	87.797	-
5)a Consolidation differences	-	71.488	-
7) Other assets	722.763	792.056	760.754
<u>Total</u>	<u>1.268.607</u>	<u>1.628.385</u>	<u>1.344.803</u>
II - Tangible assets			
1) Land and buildings	13.018.225	11.768.826	11.672.858
2) Plant and machinery	7.542.946	8.755.425	8.314.899
3) Equipment	1.969.463	2.133.184	2.071.311
4) Other assets	1.682.541	1.893.534	1.722.681
5) Work in progress and advances	59.089	293.240	89.556
<u>Total</u>	<u>24.272.264</u>	<u>24.844.209</u>	<u>23.871.305</u>
III - Financial assets			
1) Investments in:			
d) other companies	5.224	5.224	5.224
2) Receivables			
d) short-term receivables from others	-	-	-
d) long-term receivables from others	95.637	163.463	119.840
<u>Total</u>	<u>100.861</u>	<u>168.687</u>	<u>125.064</u>
<b>Total assets</b>	<b>25.641.732</b>	<b>26.641.281</b>	<b>25.341.172</b>

### C) Current assets

I - Inventories			
1) Raw materials	4.083.889	4.836.025	4.382.694
2) Work in progress and semi-finished goods	5.281.456	4.732.705	4.655.508
4) Finished goods	11.062.435	12.041.306	11.595.665
<u>Total</u>	<u>20.427.780</u>	<u>21.610.036</u>	<u>20.633.867</u>
II - Receivables	<b>June 30, 2.004</b>	<b>June 30, 2.003</b>	<b>Dec. 31, 2.003</b>
1) Trade - short-term	21.034.126	18.901.326	18.198.715

5) From others			
- short-term	1.363.770	1.027.254	1.194.259
- long-term	165.075	92.294	178.972
<b>Total receivables from others</b>	<b>1.528.845</b>	<b>1.119.548</b>	<b>1.373.231</b>
<b>Total receivables</b>	<b>22.562.971</b>	<b>20.020.874</b>	<b>19.571.946</b>
<b>III - Marketable securities</b>			
5) Own shares (par value euro 126,360)	574.278	528.331	588.230
<b>IV - Cash and cash equivalents</b>			
1) Bank deposits	5.012.029	2.177.543	4.040.875
3) Cash	19.706	12.831	17.902
<b>Total cash and cash equivalents</b>	<b>5.031.735</b>	<b>2.190.374</b>	<b>4.058.777</b>
<b>Total current assets</b>	<b>48.596.764</b>	<b>44.349.615</b>	<b>44.852.820</b>
<b>D) Accrued income and prepaid expenses</b>	<b>664.881</b>	<b>696.012</b>	<b>465.943</b>
<b>Total assets</b>	<b>74.903.377</b>	<b>71.686.908</b>	<b>70.659.935</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>A) Shareholders' Equity</b>			
I - Share capital	8.840.000	8.840.000	8.840.000
II - Paid-in capital in excess of par value	12.244.869	12.244.869	12.244.869
III - Revaluation reserve	585.159	585.159	585.159
IV - Legal reserve	1.366.445	1.244.028	1.244.028
V - Reserve for own shares	574.278	528.331	588.231
VI - Statutory reserves	-	-	-
VII - Other reserves			
Provisions for suspended tax reserves	68.412	68.412	68.412
Consolidation reserve	5.500.133	5.026.933	5.042.619
Translation difference reserve	46.182	(155.140)	(265.206)
Extraordinary reserve	10.807.414	9.750.704	9.690.804
VIII - Retained earnings	-	-	-
IX - Net profit	2.143.103	1.590.362	2.988.110
<b>Consolidated Shareholders' Equity</b>	<b>42.175.995</b>	<b>39.723.658</b>	<b>41.027.026</b>
<b>B) Provision for risks and charges</b>			
2) Deferred Income taxes	1.949.239	2.064.396	1.993.651
3) Other	274.132	413.282	385.744
<b>Total provisions for risks and charges</b>	<b>2.223.371</b>	<b>2.477.678</b>	<b>2.379.395</b>

	<b>June 30, 2.004</b>	<b>June 30, 2.003</b>	<b>Dec. 31, 2.003</b>
<b>C) Employee termination indemnities</b>	<b>3.736.167</b>	<b>3.640.499</b>	<b>3.611.298</b>

#### **D) Payables**

3) Bank loans			
- short-term	9.110.654	8.255.798	9.373.384
- long-term	2.656.744	4.271.001	2.666.677
<b>Total bank loans</b>	<b>11.767.398</b>	<b>12.526.799</b>	<b>12.040.061</b>

4) Other financial payables			
- short-term	54.114	43.634	36.817
- long-term	89.989	57.286	40.387
<b>Total other financial payables</b>	<b>144.103</b>	<b>100.920</b>	<b>77.204</b>

5) Advances	39.234	86.096	6.624
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6) Trade payables	8.349.118	8.010.659	6.811.380
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11) Taxes payable	2.225.599	1.392.266	1.416.603
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12) Social security payables	745.527	748.260	875.334
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13) Other payables	3.382.732	2.888.095	2.251.396
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<b>Total payables</b>	<b>26.653.711</b>	<b>25.753.095</b>	<b>23.478.602</b>
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<b>E) Accrued expenses and deferred income</b>	<b>114.133</b>	<b>91.978</b>	<b>163.614</b>
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<b>Total liabilities</b>	<b>74.903.377</b>	<b>71.686.908</b>	<b>70.659.935</b>
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#### **Commitments**

2) Guarantees given	87.393	37.423	63.205
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3) Guarantees received	19.821	81.796	81.796
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## Consolidated Income Statement

<i>(in euro)</i>	<b>1<sup>st</sup> Half 2004</b>	<b>1<sup>st</sup> Half 2003</b>	<b>Full year 2003</b>
<b>A) Revenues</b>			
1) Sales	33.502.202	30.917.422	59.870.282
2) Change in work in progress, semi-finished and finished goods inventories	12.246	(26.971)	(61.138)
4) Increase in assets due to internal construction	213.279	290.068	824.509
5) Other revenues:			
a) sundry	4.807	49.729	45.268
b) contributions received	12.515	-	32.777
<b>Total operating value</b>	<b>33.745.049</b>	<b>31.230.248</b>	<b>60.711.698</b>
<b>B) Operating Costs</b>			
6) Raw materials	(10.726.858)	(9.858.048)	(18.816.949)
7) Services	(5.464.946)	(5.360.260)	(10.586.661)
8) Leases and rentals	(477.193)	(512.768)	(971.789)
9) Personnel			
a) Wages and salaries	(7.937.405)	(7.246.765)	(13.973.666)
b) Social security	(2.032.465)	(1.900.748)	(3.797.468)
c) Employee termination indemnities	(398.224)	(398.346)	(706.138)
d) Retirement benefits	(4.272)	(5.664)	(11.549)
e) Other costs	(63.372)	(56.724)	(124.627)
<b>Total personnel costs</b>	<b>(10.435.738)</b>	<b>(9.608.247)</b>	<b>(18.613.448)</b>
10) Depreciation and write-downs			
a) Amortization of intangible assets	(113.364)	(180.830)	(401.451)
b) Depreciation of tangible assets	(1.894.962)	(1.992.339)	(3.977.703)
c) other write-downs of assets	-	-	(148.496)
d) Write-down in the value of current assets	(57.678)	(72.513)	(150.213)
<b>Total depreciation and write downs</b>	<b>(2.066.004)</b>	<b>(2.245.682)</b>	<b>(4.677.863)</b>
11) Change in raw material inventories	(360.382)	10.500	(399.558)
12) Accruals to risk provisions	(3.372)	(3.247)	(25.669)
14) Other operating costs	(125.722)	(120.962)	(256.242)
<b>Total Operating Costs</b>	<b>(29.660.215)</b>	<b>(27.698.714)</b>	<b>(54.348.179)</b>
<b>Operating income (A-B)</b>	<b>4.084.834</b>	<b>3.531.534</b>	<b>6.363.519</b>
<b>C) Finance Income and expense</b>			
16) Other financial income:			
d) other income	298.971	48.048	101.395
17) Interest and other financial charges	(271.919)	(398.790)	(719.243)
<b>Total</b>	<b>27.052</b>	<b>(350.742)</b>	<b>(617.848)</b>

	<b>1<sup>st</sup> Half 2004</b>	<b>1<sup>st</sup> Half 2003</b>	<b>Full year 2003</b>
<b>D) Adjustments to the value of financial assets</b>			
18) Revaluations			
b) long-term financial assets	1.123	2.376	2.930
c) marketable securities (excluding subsidiaries)	-	63.034	122.934
19) Write-downs			
c) marketable securities (excluding subsidiaries)	(13.952)	-	-
<b>Total adjustments to the value of financial assets</b>	<b>(12.829)</b>	<b>65.410</b>	<b>125.864</b>
<b>E) Extraordinary items</b>			
20) Income	42.646	53.899	33.760
21) Losses	(131.574)	(154.572)	(225.765)
<b>Total extraordinary items</b>	<b>(88.928)</b>	<b>(100.673)</b>	<b>(192.005)</b>
<b>Profit before taxes (A-B+C+D+E)</b>	<b>4.010.129</b>	<b>3.145.529</b>	<b>5.679.530</b>
22) Income taxes			
a) current	(2.210.404)	(1.531.104)	(2.882.708)
b) deferred	343.378	(24.063)	191.288
<b>Total income taxes</b>	<b>(1.867.026)</b>	<b>(1.555.167)</b>	<b>(2.691.420)</b>
<b>23) NET PROFIT</b>	<b>2.143.103</b>	<b>1.590.362</b>	<b>2.988.110</b>

Brescia, September 29, 2004

**CHAIRMAN OF THE BOARD OF DIRECTORS  
CEMBRE S.P.A. – GROUP PARENT COMPANY**

CARLO ROSANI

## **Cembre S.p.A.**

Head Office: Via Serenissima 9, Brescia, Italy  
Share Capital: euro 8,840,000 (fully paid-up)  
Brescia Commercial Register registration no.: 00541390175

### **Notes to the Consolidated Financial Statements of the Cembre Group at June 30, 2004**

The Consolidated Financial Statements for the first six months of 2004 were prepared in accordance with Legislative Decree no. 127, April 9, 1991. The present notes contain the following information:

- 1 Content and form of the Consolidated Financial Statements
- 2 Consolidation principles and valuation criteria
- 3 Significant information relating to Balance Sheet items
- 4 Sales revenues
- 5 Cost of services received
- 6 Other financial income
- 7 Interest and other financial expense
- 8 Extraordinary charges
- 9 Reversal of tax-related entries
- 10 Personnel
- 11 Consolidated companies
- 12 Additional information required by Consob

Valuation criteria used in the Consolidated Financial Statements are those adopted by the Parent Company. These have been consistently and uniformly applied with the exception, consistent with prior years, of the Parent Company's raw material inventories, valued at the average cost instead of the cost determined by applying the LIFO method, to allow for consistency in valuation criteria applied throughout the Group.

We also bring to your attention that:

- no event requiring the application of exemptions provided for by Article 29, paragraphs 4 and 5 of the mentioned Legislative Decree occurred;
- amounts recorded in the Consolidated Financial Statements at June 30, 2004 are consistent with those at June 30, 2003 and at December 31, 2003. Changes in Balance Sheet and Income Statement items due to changes in the scope of consolidation are explained and commented upon in the notes, where significant;
- valuation criteria applied are in compliance with current regulations and are unchanged from the previous year with the exception of the adoption of a new criteria for the recording of receivables and payables denominated in currencies other than euro, explained below;
- significant changes in Balance Sheet and Income Statement items are commented upon. In particular, significant changes occurred in Balance



Sheet items relating to the Parent Company are commented upon in the notes;

- risks and charges relating to the period, including those whose existence became known after the date of the Financial Statements, were taken into account.

## 1. FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements of the Group include the statutory accounts at June 30, 2004 of Parent Company Cembre SpA and those of the following companies:

	Group share at June 30, 2004	Group share at June 30, 2003
1. Cembre Ltd (UK)	100%	100%
2. Cembre Sarl *(France)	100%	100%
3. Cembre España SL *(Spain)	100%	100%
4. Cembre AS (Norway)	100%	100%
5. Cembre GmbH*(Germany)	100%	100%
6. Cembre Inc.**(US)	100%	100%
7. General Marking Srl (Italy)	100%	100%

\* 5% share held through Cembre Ltd

\*\*29% share held through Cembre Ltd

The Group has control of the above companies pursuant to Article 2359 of the Italian Civil Code.

The consolidation area is unchanged both with respect to June 30, 2003 and December 31, 2003.

Criteria used in the preparation of the above mentioned financial statements were applied consistently within the Group. Where necessary, financial data was adjusted and reclassified.

## 2. CONSOLIDATION PRINCIPLES AND VALUATION CRITERIA

### 2.1 Consolidation principles

Consolidation was carried out under the line-by-line method, in accordance with principles defined in articles 31, 32 and 33 of Legislative Decree no. 127, April 9, 1991.

Criteria adopted in applying this method were the following:

- a) assets, liabilities, revenues, expenses, gains and losses of consolidated companies were included in full in the Consolidated Financial Statements. The following items were instead eliminated:
  - 1) equity investments in consolidated companies and the corresponding share in the respective Shareholders' Equity;
  - 2) receivables and payables between consolidated companies;
  - 3) gains and losses on transactions between the same;

- 4) gains and losses arising from transactions concluded between consolidated companies included in the value of the related assets, other than contract work in progress for third parties;
  - b) value adjustments and accruals made exclusively pursuant to tax regulations were also eliminated;
  - c) differences between the acquisition cost and the related book value of consolidated companies existing at the time of their first consolidation or at the time at which shares were acquired were recorded as follows:
    - under “Consolidation reserve”, where negative;
    - subtracted from the “Consolidation reserve” in case it relates to previous years’ losses, or recorded under assets as a “Consolidation difference” when relating to goodwill and in case it cannot be allocated to other asset items, where positive.
- Income and losses recorded by subsidiaries following their first consolidation are added or subtracted from the Consolidation reserve.

## 2.2 Valuation criteria applied

### Intangible assets

Intangible assets are recorded at cost, net of amortization calculated on a straight-line basis over their expected useful economic life, as provided by the Italian Civil Code.

Goodwill and consolidation differences are amortized over 5 years.

Leasehold improvements involving work on buildings leased from others are amortised over the shorter period between their useful economic life and the residual term of the lease, inclusive of renewal.

The amortization expense for the first six months of the year was calculated in proportion to the yearly amortization expense.

### Tangible assets

Tangible assets are recorded at the acquisition or production cost, inclusive of all costs directly attributable to the assets. They are adjusted to take into account revaluations made in accordance with the Law, and the recording, where appropriate, of the difference between the cost of the investment and the corresponding share in the Shareholders’ Equity acquired. The book value of intangible assets is adjusted to take into account depreciation calculated on a straight-line basis over the expected residual useful life of the assets, reflecting their physical depletion, in accordance with the provisions of Article 2426 of the Italian Civil Code.

Fixed assets acquired through leasing transactions are recorded at cost under assets in the Balance Sheet, net of accumulated depreciation. The amount of the loan relating to the respective asset is recorded under liabilities as payable to other financing entities, in accordance with international accounting principles.

Depreciation rates applied, unchanged from the previous year, are:

Buildings and light installations	2% – 10%
Plant and machinery	5% – 25%
Equipment	6% – 25%
Other assets (office furniture and equipment, vehicles)	6% – 33%

Ordinary maintenance and repair costs are recorded in the Income Statement in the period in which they are incurred.

The depreciation expense for the first six months of the year was calculated based on yearly depreciation rates.

#### Inventories

Inventories are valued at the lower of acquisition or production cost and their expected realizable value. Raw materials, semi-finished and finished goods inventories are valued under the weighted-average purchase or production cost method.

Work in progress inventories are valued at their processing cost, inclusive of raw materials, labour, direct and indirect manufacturing costs, taking into account stages of completion.

#### Receivables and payables

Receivables are recorded at the expected realizable value, represented by the face value, adjusted, where necessary, for provisions for doubtful accounts. Payables are recorded at face value, representative of liabilities actually accrued. Receivables and payables denominated in currencies other than euro are recorded at the exchange rate at the time of the transaction. Gains and losses resulting from the difference in the exchange rate between the date of recording and the date of the financial statements, are credited or debited as appropriate to the Income Statement. Until the 2003 financial year, the method adopted provided for the translation at the end of the financial period of payables and receivables originally expressed in currencies other than the euro and the accrual, in case there emerged a negative difference, of a Provision for foreign exchange translation differences. Positive foreign exchange differences were not recorded.

#### Marketable securities

Marketable securities are recorded at the lower of cost, represented by the weighted average acquisition cost, and market value. Write-downs are reversed whenever the impairment in value ceases to exist.

#### Accrued income and prepaid expenses, accrued expenses and deferred income

These are accounted for under the accrual method.

#### Provisions for risks and charges

Provisions for risks and charges are accrued against known or probable liabilities whose amount and timing could not be determined at the date of the financial statements.

#### Provision for employee termination indemnities

The provision for employee severance indemnities reflects the amount owed by the Group at the end of the period to its employees upon termination of their employment, in accordance with labour agreements and laws applicable in Italy. Special retirement benefits, due in accordance with French regulations to persons employed in France, are also included in the provision.

### Deferred tax provision and prepaid taxes

The provision includes deferred taxes resulting from differences between taxable and reported income, consisting mainly of accelerated depreciation and the difference arising between the current valuation of the Parent Company's inventories at cost and their value calculated under the LIFO method.

Prepaid taxes, resulting from the netting of unrealized gains embodied in inventories of goods not sold to a third party at the end of the period, in addition to amounts recorded by Group companies as prepaid taxes relating to taxed accruals, are classified as 'receivable from third parties' under current assets in the Balance Sheet. Deferred tax assets are recorded only where there exists reasonable certainty of their retrieval through future profits.

### Tax payables

They include taxes payable for the period, net of prepaid and withholding taxes. The tax expense for the year is determined according to applicable tax rates and expected taxable income. Taxes payable include the amount payable by Group companies as taxes withheld from employee's salaries.

### Commitments

These represent commitments and guarantees given and received from others, excluding those relating to receivables or payables recorded in the Balance Sheet, in accordance with accounting principles applied. Secured guarantees are recorded at face value.

### Revenues and expenses

Revenues and expenses are recorded under the accrual method, net of returns, discounts, allowances and bonuses.

## 2.3 Translation of financial statements denominated in currencies other than the euro

Criteria adopted in the conversion of financial statements denominated in currencies other than the euro are as follows:

- assets and liabilities are translated at the exchange rate in force at the date of the financial statements, with the exception of Balance Sheet items, translated at the historical exchange rate;
- revenues and expenses are translated at the average exchange rate for the period.

Differences emerging from the translation of amounts denominated in currencies other than the euro are recorded in the Provision for currency translation adjustments under Shareholders' Equity.

Exchange rates applied were:

Currency	Exchange rate (€curr.) at June 30, 2004	Average exchange rate for the first six months of 2004
Pound Sterling	0.6707	0.6735
US Dollar	1.2155	1.2273
Norwegian Krone	8.4365	8.4486

## 2.4 Methods used in the preparation of the financial statements for the first half of the year

The Balance Sheet and Income Statement reflect amounts recorded in the accounts of Group companies, integrated and adjusted as necessary.

## 2.5 Notes and comparative data

In the notes, figures contained in the Consolidated Balance Sheet at June 30, 2004 are compared with those contained in the Consolidated Balance Sheet at June 30, 2003 and at December 31, 2003. Notes and comparisons relating to the Income Statement make reference to changes occurred in individual items contained in the Consolidated Income Statement for the first six months of 2004 and those contained in the Consolidated Income Statement for the first six months of 2003. Notes on the statutory accounts of Cembre SpA (the Parent Company) are included in the present notes whenever significant.

## 3. BALANCE SHEET

### 3.1 Intangible assets

Intangible assets (€ '000)	Net book value at Dec. 31, 2003	Increases	Amortiza tion expense	Net book value at June 30, 2004
Industrial patents and intellectual property rights	360	12	(56)	316
Franchises, licenses and trademarks	224	25	(19)	230
Other	761		(38)	723
Total	1,345	37	(113)	1,269

Amortization of intangible assets (€ '000)	Gross book value	Accumulated amortization	Net book value
Industrial patents and intellectual property rights	2,384	(2,024)	360
Franchises, licenses and trademarks	290	(66)	224
Other	912	(151)	761
Total	3,586	(2,241)	1,345

Item *Industrial patents* includes the value of the patent acquired by subsidiary General Marking in 2002, and the value of open-ended software licenses.

Item *Franchises, licenses and trademarks* consists almost entirely of trademarks acquired by General Marking.

*Other intangible assets* consist of capitalized costs relating to improvements made to the industrial building leased from third parties to allow the company to adapt it to its production needs. These are amortized over 12 years, in line with the term of the lease contract, assuming its renewal.

### 3.2 Tangible assets

(€ '000)	Gross book value	Accumulated depreciation	June 30, 2004	December 31, 2003
Land and buildings	16,808	3,790	13,018	11,673
Plant and machinery	25,873	18,330	7,543	8,315
Industrial and commercial equipment	6,019	4,050	1,969	2,071
Other assets	5,406	3,864	1,542	1,645
Leased assets	220	79	141	77
Work in progress	<u>59</u>	<u>      </u>	<u>59</u>	<u>90</u>
Total	54,385	30,113	24,272	23,871

A description of capital expenditure for the first six months of 2004 is included in the Report on operations.

Assets held under a financial lease relate exclusively to the Spanish subsidiary.

The Parent Company carried out the following revaluations:

(€ '000)	<i>Law 576/75</i>	<i>Law 72/83</i>	<i>Law 413/91</i>	<i>Total</i>
Land and buildings		248	687	935.0
Plant and equipment	3	129		132
Other assets		8		8.0
	<b>3</b>	<b>385</b>	<b>687</b>	<b>1,075</b>

As a result of the mentioned merger of Oelma, the building located in San Giuliano Milanese was recorded in the accounts of the Parent Company at €93 thousand, gross of the €17 revaluation resulting from the allocation of part of the consolidation difference on the merger.

### 3.3 Long-term financial assets

#### 3.3.1 Investments in other companies

These are made up by equity investments in Consorzio Nazionale Imballaggi and Inn.tec. Srl, a technology innovation consortium, both with registered office at the Brescia Province main office.

#### 3.3.2 Investments in consolidated subsidiaries

In addition to the information recorded in the accounts of Cembre SpA, we provide a list of investments of the company in consolidated subsidiaries at June 30, 2004, all held directly (amounts expressed in euro):

Name and Registered Office	Capital stock	Sh. Equity	Net profit	%
Cembre Ltd (Sutton Coldfield, Birmingham, UK)	2,534,665	6,329,972	349,400	100
Cembre Sarl (Morangis, Paris, France)	1,071,000	2,037,484	76,457	95(a)
Cembre España SL (Coslada – Madrid, Spain)	900,000	1,566,983	132,968	95(a)
Cembre AS (Stokke - Norway)	284,478	174,414	18,622	100
Cembre GmbH (Munich, Germany)	512,000	1,072,858	13,908	95(a)
Cembre Inc. (Edison - New Jersey-USA)	1,184,698	785,020	26,106	71(b)
General Marking Srl (Brescia, Italy)	99,000	(190,920)	(422,891)	100

(a) the residual 5% share is held through Cembre Ltd.

(b) the residual 29% share is held through Cembre Ltd.

Criteria adopted in the translation into euro of financial statements expressed in other currencies are described in paragraph 2.3.

The book value at which investments in Cembre AS and Cembre Inc., the latter of which operational since March 1999, are carried in the Parent Company's accounts is significantly higher than the corresponding portion of equity held. Higher book values are justified by expected profits. To take into account losses reported by General Marking in 2002, the Parent Company carried out a €31,970 write-down in the value of the investment in the subsidiary, incorporated in July 2002, in addition to a €190,920 accrual to provisions, making a contribution to General Marking that covers the residual loss.

### 3.3.3 Long-term receivables

The item includes mainly security deposits and prepaid withholding tax receivables on employee severance indemnities relating to the parent company.

### 3.4 Inventories

(€ '000)	June 30, 2004	Dec. 31, 2003	Change
Raw materials	4,084	4,383	(299)
Work in progress and semi-finished goods	5,282	4,655	627
Finished goods	<u>11,062</u>	<u>11,596</u>	<u>(534)</u>
Total	20,428	20,634	(206)

The value of finished goods inventories is adjusted through a provision for slow-moving stock amounting approximately to €1,357 thousand. In the first six months of 2004 a €803 thousand accrual was made to the provision to bring the value of a number of slow moving items in inventory with their expected realisable value.

The weighted-average cost valuation of inventories at June 30, 2004 is in line with the value of the same at current costs.

The valuation of inventories in the parent company's accounts according to the LIFO method is about €633 thousand less than the valuation at current costs.

### 3.5 Trade receivables

(€ '000)

June 30, 2004

Dec. 31, 2003

Gross trade receivables	21,727	18,830
Provision for doubtful accounts	<u>(693)</u>	<u>(631)</u>
Net trade receivables	21,034	18,199

The increase in trade receivables is due to higher sales.

### 3.6 Other receivables

#### 3.7

#### Short-term receivables

(€ '000)	June 30, 2004	Dec. 31, 2003
Prepaid taxes	1,293	919
VAT and related foreign taxes	13	66
Tax advances	0	129
Other	<u>58</u>	<u>80</u>
Total	1,364	1,195

Prepaid tax receivables result primarily from the elimination of intra-group profits included in inventory not resold to third parties at the end of the period, amounting to €61 thousand, and prepaid taxes on the provision for slow-moving stock, equal to €35 thousand.

### 3.8 Marketable securities

#### 3.7.1 Own shares

At June 30, 2004, the Parent Company held 243,000 of its own shares. A revaluation of €13,952 was carried out to bring the acquisition cost of the shares into line with the average of listed prices for the month of June. At September 29, 2004, the number of own shares held was unchanged.

### 3.9 Accrued income and prepaid expenses

The item consists primarily of a prepaid expense amounting to €268,450 against a non-competition agreement expiring in 2006 recorded in the financial statements of subsidiary General Marking in the context of the acquisition of a business unit operating in the industrial marking segment. The agreement was stipulated with the former exclusive distributor of products manufactured by the business unit acquired.

The long-term portion of the prepaid expense amounts to €85,850.

### 3.9 Shareholders' Equity

At June 30, 2004, the capital stock of the Parent Company, fully underwritten and paid-up, amounted to €8,840,000, made up of 17 million ordinary shares of par value €0.52 each.

Consolidation adjustments resulted in the following differences between the statutory accounts of Parent Company Cembre SpA at June 30, 2004 and the Consolidated Financial Statements at the same date:

<b>Reconciliation between the Parent Company's statutory accounts and the consolidated financial statements of the Group (€ '000)</b>	Shareholders' Equity	Net income
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Shareholders' Equity and net profit reported in the Parent Company's statutory accounts at June 30, 2004	38,883	4,396
<b>Elimination of entries made exclusively for tax purposes:</b>		
- Cembre GmbH provision for product warranty (net of tax effect)	12	
- adjustment of Parent Company's inventories to Group's valuation method	457	115
tax effect	(170)	(43)
	<u>287</u>	<u>72</u>
Elimination of write-down on investment in General Marking Srl and provision for losses of the same at June 30, 2004	423	423
Elimination of accrued income statement effect of change in criteria for the recording of accelerated depreciation		(2,933)
<b>Elimination of book value of consolidated companies:</b>		
- difference between book value of the investment and Shareholders' Equity, and net profit acquired	3,988	195
<b>Elimination of transactions between consolidated companies:</b>		
- unrealized intra-group gains included in the value of inventories, net of the tax effect	(1,451)	(170)
- currency translation differences on elimination of intra-group payables and receivables	34	160
	<u>42,176</u>	<u>2,143</u>
Consolidated Shareholders' Equity and net profit at June 30, 2004		

The consolidation reserve is made up as follows:

(€'000)	<u>June 30, 2004</u>	<u>Dec. 31, 2003</u>
Equity elimination reserve	3,747	3,118
Accelerated depreciation reversal	2,933	3,081
Adjustment for difference in inventory valuation criteria	214	247
Elimination of intra-group profits	(1,280)	(1,300)
Currency translation difference on elimination of intra-group payables and receivables	(126)	(115)
German subsidiary product warranty provision reversal	12	12
Total	<u>5,500</u>	<u>5,043</u>

In previous years, item *accelerated depreciation reversal* included the elimination of accelerated depreciation accruals made by the parent company, recorded in the Income Statement. From 2004, the parent company adopted the accounting principle in line with Italian accounting standards providing for the lack of the recording of accelerated depreciation accruals, made exclusively for tax purposes, and the recording in the Income Statement of the cumulative effect of such elimination of tax-related entries. This resulted in the recording in the statutory accounts of the parent company of an extraordinary gain of €4,674 thousand, and of a related extraordinary charge of €1,741 thousand (against the related deferred tax expense). The net effect on the parent company's net profit amounts to €2,933 thousand, while at the consolidated level such component was recorded under the *Consolidation reserve* due to the fact that the consolidated depreciation expense was in line with depreciation recorded in the statutory accounts already in previous years.

### 3.10 Provisions for risks and charges

Deferred tax provision (€ '000)	June 30, 2004	Dec. 31, 2003
Deferred taxes on reversal of accelerated depreciation	1,771	1,859
Deferred taxes resulting from the use of weighted average vs. LIFO in valuing Parent Company's inventories	170	127
German subsidiary product warranty provision reversal	<u>8</u>	<u>8</u>
Total	1,949	1,994

The accrual of a product warranty provision by the German subsidiary, made solely for tax reporting purposes, was reversed.

Other provisions for risks and charges (€ '000)	June 30, 2004	Dec. 31, 2003
Social Security (Inail) litigation	221	208
Foreign exchange fluctuations	0	127
Supplementary client compensation	<u>39</u>	<u>36</u>
Other	14	15
Total	274	386

In 2004, a new criteria for the recording of receivables and payables denominated in currencies other than euro was adopted. These are currently recorded at the exchange rate at the time of the transaction, while gains and losses resulting from the difference in the exchange rate between the date of recording and the date of the financial statements, are credited or debited as appropriate to the Income Statement. Until the 2003 financial year, the method adopted provided for the translation at the end of the financial period of payables and receivables originally expressed in currencies other than the euro and the accrual, in case there emerged a negative difference, of a Provision for foreign exchange translation differences, while positive foreign-exchange differences were not recorded.

Positive foreign exchange differences recorded in the first six months of 2004 amount to €3,099 and relate to the translation of payables and receivables denominated in currencies other than euro at June 30, 2004. Had the criteria used in the past been applied, such amount would have not been recorded.

### 3.11 Payables

#### 3.11.1 Bank debt

(€ '000)	June 30, 2004		Dec. 31, 2003	
	Current	Long-term	Current	Long-term
Short-term loans and bank overdrafts	8,465	2,334	8,728	2,021
Medium- and long-term loans	<u>645</u>	<u>323</u>	<u>646</u>	<u>645</u>
Total	9,110	2,657	9,374	2,666

#### 3.11.2 Tax payables

(€ '000)	June 30, 2004	Dec. 31, 2003
Withholding taxes payable	290	764
Current taxes	1,192	157
VAT and similar foreign taxes	713	474
Other taxes	<u>31</u>	<u>22</u>
Total	2,226	1,417

#### 3.11.3 Other payables

(€ '000)	June 30, 2004	Dec. 31, 2003
Payable to employees	2,278	819
Bonuses owed to customers	803	1,181
Commissions payable	124	131
Other	<u>178</u>	<u>121</u>
Total	3,383	2,252

Payables to employees at June 30, 2004 are considerably higher than those at December 31, 2003 as the amount includes bonuses for the period paid-out in the second half of the year, and payables for holidays accrued in the first six months of the year and not enjoyed, also considerably higher than at the end of the previous year.

## 4. SALES REVENUES

### Sales by geographical area

(€ '000)	June 30, 2004	Dec. 31, 2003
Italy	15,876	15,234
Rest of Europe	14,649	13,091
Rest of the World	<u>2,977</u>	<u>2,592</u>
Total	33,502	30,917

## 5. COST OF SERVICES RECEIVED

(€ '000)	June 30, 2004	Dec. 31, 2003
Subcontracted work	1,157	1,050
Electricity, heating and water	427	384
Transport of goods sold	832	790
Fuel	109	106
Travelling expenses	286	307
Maintenance and repair	520	529
Consulting	517	559
Advertising and promotion	162	181
Insurance	174	175
Boards' compensation	298	347
Postage and telephone	151	164
Commissions	120	120
Security and cleaning	173	165
Other	<u>539</u>	<u>483</u>
Total	5,465	5,360

## 6. OTHER FINANCIAL INCOME

(€ '000)	June 30, 2004	Dec. 31, 2003
Interest on current accounts	9	15
Foreign exchange gains	152	6
Other	1	19
Positive foreign exchange conversion differences	<u>137</u>	<u>8</u>
Total	299	48

Positive foreign currency exchange conversion differences result from the elimination of foreign currency transactions between Group companies.

## 7. INTEREST AND OTHER FINANCIAL EXPENSE

(€ '000)	June 30, 2004	Dec. 31, 2003
Interest on bank accounts	175	214
Other	15	12
Foreign exchange losses and accruals	<u>82</u>	<u>173</u>
Total	272	399

## 8. EXTRAORDINARY CHARGES

(€ '000)	June 30, 2004	Dec. 31, 2003
Returns on previous years' sales	74	47
Previous years' taxes	20	42
Previous years' commissions	0	22
Other	<u>38</u>	<u>44</u>
Total	132	155

## 9. REVERSAL OF TAX-RELATED ENTRIES

As already described in the note on the *Consolidation reserve*, the reversal of tax-related entries carried out by the parent company did not produce an effect on the consolidated financial statements as such entries were already eliminated in the consolidation.

With reference to the statutory accounts of the parent company, the table that follows shows the accrued effect of the reversal of tax-related entries on the income for the first six months of 2004 limited to the adoption of the criteria contained in the Italian accounting standards according to which accelerated depreciation is not recorded in the Balance Sheet. Columns relating to previous accounting periods show the effect on the income for the period that would have been produced by the elimination of accelerated depreciation charges, thus obtaining figures comparable with those for the first six months of 2004.

	1 <sup>st</sup> Half 2004	1 <sup>st</sup> Half 2003	2003
Net profit as recorded in the accounts	4,396,146	1,348,550	2,448,336
- Accelerated depreciation not recorded for the period		244,831	315,975
- Related deferred tax effect		(93,648)	(167,600)
- Extraordinary income due to accumulated effect of recalculation of depreciation charges	4,673,933		
- Extraordinary charge due to deferred taxes on accrued effect of recalculation	(1,741,040)		
Total effect, net of taxes	2,932,893	151,183	148,375
Restated net income (on comparable terms)	1,463,253	1,197,367	2,299,961

The cumulative effect recorded under extraordinary items in the statutory accounts of the parent company at December 31, 2003 is described in the related note on *fixed asset depreciation*.

## 10. PERSONNEL

The average number of employees by category is shown in the table below.

	<u>June 30, 2004</u>	<u>Dec. 31, 2003</u>	<u>June 30, 2003</u>
Managers	16	16	17
Administrative and commercial staff	223	225	221
Workers	<u>222</u>	<u>227</u>	<u>223</u>
Total	461	468	461

## 11. CONSOLIDATED COMPANIES

Investments in companies consolidated line-by-line, pursuant to Article 26 of Legislative Decree no. 127, April 9, 1991, are listed below:

Company	Registered office	Share capital	Share held at June 30, 2004	Share held at June 30, 2003
Cembre Ltd.	Sutton Coldfield (Birmingham - UK)	£ 1,700,000	100%	100%
Cembre Sarl	Morangis (Paris, France)	€1,071,000	100% (*)	100% (*)
Cembre España SL	Coslada (Madrid, Spain)	€900,000	100% (*)	100% (*)
Cembre AS	Stokke (Norway)	NOK 2,400,000	100%	100%
Cembre GmbH	Munich (Germany)	€512,000	100% (*)	100% (*)
Cembre Inc.	Edison (New Jersey – USA)	US \$ 1,440,000	100% (**)	100% (***)
General Marking Srl	Brescia (Italy)	€99,000	100%	100%

(\*) 5% share held through Cembre Ltd.

(\*\*) 29% share held through Cembre Ltd.

(\*\*\*) 50% share held through Cembre Ltd.

## 12. ADDITIONAL INFORMATION REQUIRED BY CONSOB

As required by Consob, we include below a list of investments higher than 10% of the capital stock, represented by voting shares, in unlisted joint-stock companies and limited liability companies owned by Cembre SpA at June 30, 2004. The company has full title to all shares held.

Company	Registered office	Share capital	Ownership share				% of shares with voting rights
			direct	indirect	through	total	
Cembre Ltd.	Sutton Coldfield (Birmingham, UK)	£ 1,700,000	100%			100%	100%
Cembre Sarl	Morangis (Paris, France)	€1,071,000	95%	5%	Cembre Ltd	100%	100%
Cembre España SL	Coslada (Madrid, Spain)	€900,000	95%	5%	Cembre Ltd	100%	100%
Cembre AS	Stokke (Norway)	Nok 2,400,000	100%			100%	100%

Cembre GmbH Munich (Germany)	€512,000	95%	5%	Cembre Ltd	100%	100%
Cembre Inc. Edison (New Jersey, USA)	US \$ 1,440,000	71%	29%	Cembre Ltd	100%	100%
General Marking Srl Brescia (Italy)	€99,000	100%			100%	100%

Brescia, September 29, 2004

**THE CHAIRMAN OF THE BOARD OF  
PARENT COMPANY CEMBRE S.P.A.**

CARLO ROSANI

## Cembre S.p.A.

Registered Office: Via Serenissima 9, Brescia, Italy  
Share Capital: €8.840.000 (fully paid-up)  
Registration no: FC 00541390175 (Brescia Commercial Register)

### Financial Statements at June 30, 2004

#### Balance Sheet

(in euro)

<b>Assets</b>	<b>June 30, 2004</b>	<b>June 30, 2003</b>	<b>Dec. 31, 2003</b>
<b>A) Capital not paid-in</b>	-	-	-
<b>B) Fixed assets</b>			
I - Intangible assets			
3) Industrial patents and intellectual property rights	72.479	86.929	102.299
5) Goodwill	-	71.488	-
7) Other	716.657	792.056	754.356
Total	<u>789.135</u>	<u>950.473</u>	<u>856.655</u>
II - Tangible assets			
1) Land and buildings	8.009.582	7.918.228	7.766.778
2) Plant and machinery	6.035.967	3.829.989	3.581.785
3) Equipment	845.625	435.219	367.375
4) Other assets	888.589	577.423	421.126
5) Work in progress and advances	59.089	292.995	89.556
Total	<u>15.838.851</u>	<u>13.053.854</u>	<u>12.226.620</u>
III - Financial assets			
1) Investments in:			
a) subsidiaries	7.006.983	5.842.079	5.743.079
d) other companies	5.224	5.224	5.224
2) Receivables			
a) from subsidiaries			
- short-term	-	-	494.112
d) from others			
- long-term	79.739	153.299	105.194
Total	<u>7.091.945</u>	<u>6.000.602</u>	<u>6.347.609</u>
	-	-	-
<b>Total fixed assets</b>	<u><b>23.719.932</b></u>	<u><b>20.004.929</b></u>	<u><b>19.430.884</b></u>



<b>C) Current assets</b>	<b>June 30, 2004</b>	<b>June 30, 2003</b>	<b>Dec. 31, 2003</b>
I - Inventories			
1) Raw materials	3.459.505	4.333.861	3.862.423
2) Work in progress and semi-finished goods	5.153.653	4.628.412	4.543.450
4) Finished goods	5.846.915	6.661.288	6.189.369
<b>Total</b>	<b>14.460.072</b>	<b>15.623.561</b>	<b>14.595.242</b>
II - Receivables			
1) Trade	13.661.273	12.434.729	12.266.404
2) From subsidiaries	5.949.576	7.965.443	5.205.729
5) From others			
- short-term	393.386	259.076	286.368
- long-term	82.304	3.482	97.647
<b>Total</b>	<b>475.691</b>	<b>262.558</b>	<b>384.015</b>
<b>Total receivables</b>	<b>20.086.540</b>	<b>20.662.730</b>	<b>17.856.148</b>
III - Marketable securities			
5) Own shares (par value € 126,360)	574.278	528.331	588.230
IV - Cash and cash equivalents			
1) Bank deposits	3.201.095	83.315	2.634.659
3) Cash	8.769	7.170	11.224
<b>Total cash and cash equivalents</b>	<b>3.209.864</b>	<b>90.485</b>	<b>2.645.883</b>
<b>Total current assets</b>	<b>38.330.754</b>	<b>36.905.107</b>	<b>35.685.503</b>
<b>D) Accrued income and prepaid expenses</b>	<b>215.959</b>	<b>188.373</b>	<b>25.079</b>
<b>Total assets</b>	<b>62.266.645</b>	<b>57.098.409</b>	<b>55.141.466</b>

## Liabilities and Shareholders' Equity

### A) Shareholders' Equity

I - Share capital	8.840.000	8.840.000	8.840.000
II - Paid-in capital in excess of par value	12.244.869	12.244.869	12.244.869
III - Revaluation reserve	585.159	585.159	585.159
IV - Legal reserve	1.366.445	1.244.028	1.244.028
V - Reserve for own shares	574.278	528.331	588.231
VI - Statutory reserves	-	-	-
VII - Other reserves			
Provisions for suspended tax reserves	68.412	68.412	68.412
Extraordinary reserve	10.807.414	9.750.704	9.690.804
VIII - Retained earnings	-	-	-
IX - Net profit	4.396.146	1.348.550	2.448.336
<b>Total Shareholders' Equity</b>	<b>38.882.724</b>	<b>34.610.053</b>	<b>35.709.839</b>

<b>B) Provision for risks and charges</b>	<b>June 30, 2004</b>	<b>June 30, 2003</b>	<b>Dec. 31, 2003</b>
2) Deferred Income taxes	1.647.952	-	-
3) Other	450.655	603.221	651.050
<b>Total provisions for risks and charges</b>	<b>2.098.607</b>	<b>603.221</b>	<b>651.050</b>
<b>C) Employee termination indemnities</b>	<b>3.640.569</b>	<b>3.556.038</b>	<b>3.521.002</b>
<b>D) Payables</b>			
3) Bank loans			
- short-term	5.656.748	4.565.962	5.752.504
- long-term	322.750	3.468.250	645.500
<b>Total bank loans</b>	<b>5.979.498</b>	<b>8.034.212</b>	<b>6.398.004</b>
5) Advances	39.234	86.095	6.625
6) Trade payables	7.320.699	6.891.945	5.907.917
8) Payables to subsidiaries	97.712	136.772	69.488
11) Taxes payable	1.160.010	465.206	567.177
12) Social security payables	617.331	621.109	711.011
13) Other payables	2.418.920	2.079.349	1.584.763
<b>Total payables</b>	<b>17.633.404</b>	<b>18.314.688</b>	<b>15.244.985</b>
<b>E) Accrued expenses and deferred income</b>	<b>11.342</b>	<b>14.409</b>	<b>14.590</b>
<b>Total liabilities and Shareholders' Equity</b>	<b>62.266.645</b>	<b>57.098.409</b>	<b>55.141.466</b>

## Commitments

2) Guarantees given	5.584.483	37.423	5.562.295
of which in favor of subsidiaries	5.521.177	-	5.521.177
3) Guarantees received	19.821	81.796	81.796

**Income Statement***(in euro)***A) Revenues**

	1st Half 2004	1st Half 2003	full year 2003
1) Sales	26.310.753	24.316.867	47.286.914
2) Change in work in progress, semi-finished and finished goods inventories	267.748	(307.857)	(864.738)
4) Increase in assets due to internal construction	213.279	290.067	824.509
5) Other revenues:			
a) sundry	48.959	42.686	94.544
b) contributions received	12.515	-	32.777
<b>Total operating value</b>	<b>26.853.254</b>	<b>24.341.763</b>	<b>47.374.006</b>

**B) Operating costs**

6) Raw materials	(9.493.525)	(8.570.786)	(15.880.856)
7) Services	(3.790.622)	(3.690.860)	(7.342.689)
8) Leases and rentals	(345.126)	(343.208)	(691.081)
9) Personnel			
a) Wages and salaries	(5.457.138)	(4.888.239)	(9.366.757)
b) Social security	(1.545.968)	(1.467.943)	(2.862.773)
c) Employee severance indemnities	(388.580)	(360.095)	(684.562)
d) Retirement benefits	(2.701)	(2.644)	(5.373)
e) Other costs	(19.738)	(18.758)	(39.476)
<b>Total personnel costs</b>	<b>(7.414.125)</b>	<b>(6.737.679)</b>	<b>(12.958.941)</b>
10) Depreciation and write-downs			
a) Amortization of intangible assets	(72.343)	(139.216)	(301.133)
b) Depreciation of tangible assets	(1.512.721)	(1.403.361)	(2.966.220)
d) Write-down in the value of current assets	(49.916)	(51.697)	(91.380)
<b>Total depreciation and write-downs</b>	<b>(1.634.980)</b>	<b>(1.594.274)</b>	<b>(3.358.733)</b>
11) Change in raw material inventories	(402.918)	6.221	(465.218)
12) Accruals to risk provisions	(194.292)	(193.187)	(290.975)
14) Other operating costs	(81.545)	(83.673)	(167.918)
<b>Total operating costs</b>	<b>(23.357.134)</b>	<b>(21.207.446)</b>	<b>(41.156.411)</b>
<b>Operating profit (A-B)</b>	<b>3.496.120</b>	<b>3.134.317</b>	<b>6.217.595</b>

**C) Financial income and expense**

16) Other financial income:			
a) on receivables from subsidiaries recorded under long-term financial assets			-
d) other income	125.356	12.691	20.238
17) Interest and other financial charges	(172.434)	(263.120)	(487.678)
<b>Total</b>	<b>(47.079)</b>	<b>(250.429)</b>	<b>(467.440)</b>

<b>D) Adjustments to the value of financial assets</b>	<b>1st Half 2004</b>	<b>1st Half 2003</b>	<b>full year 2003</b>
18) Revaluations			
b) of long-term financial assets	1.123	2.376	2.930
c) of marketable securities	-	63.034	122.934
19) Write-downs			
a) Investments in subsidiaries	(231.970)	(76.018)	(549.699)
c) marketable securities	(13.952)	-	-
<b>Total adjustments to the value of financial assets</b>	<b>(244.799)</b>	<b>(10.608)</b>	<b>(423.835)</b>
<b>E) Extraordinary items</b>			
20) Gains (see note 1)	4.684.426	44.468	19.296
21) Losses (see note 2)	(1.869.303)	(281.519)	(421.737)
<b>Total extraordinary items</b>	<b>2.815.123</b>	<b>(237.051)</b>	<b>(402.441)</b>
<b>Profit before taxes (A-B+C+D+E)</b>	<b>6.019.365</b>	<b>2.636.229</b>	<b>4.923.878</b>
22) Income taxes			
a) current	(1.908.339)	(1.321.786)	(2.544.774)
b) deferred	285.120	34.107	69.231
Total income taxes	(1.623.219)	(1.287.679)	(2.475.543)
<b>23) Net profit</b>	<b>4.396.146</b>	<b>1.348.550</b>	<b>2.448.336</b>

nota 1: relativamente al primo semestre 2004 i componenti positivi straordinari conseguenti al disinquinamento fiscale sono pari a 4.673.933 euro, vedasi il punto 9 delle note esplicative.

nota 2: relativamente al primo semestre 2004 i componenti negativi straordinari conseguenti al disinquinamento fiscale sono pari a 1.741.040 euro, vedasi il punto 9 delle note esplicative.

Brescia, September 29, 2004

**The Chairman of the Board of  
parent company Cembre S.p.A.**

CARLO ROSANI

**AUDITORS' REPORT ON THE REVIEW  
OF THE MANAGEMENT REPORT  
FOR THE SIX MONTHS PERIOD ENDED JUNE 30, 2004 OF  
CEMBRE S.p.A.**  
(Translation from the original Italian version)

To the Shareholders of  
Cembre S.p.A.

1. We have performed the review of the statements of Consolidated Balance Sheet and Consolidated Statement of Income (the "Statements") and related Notes included in the Management Report of Cembre S.p.A. for the six months period ended June 30, 2004. The Management Report is the responsibility of the Cembre S.p.A.'s management. Our responsibility is to issue the present report based on our review. We have also reviewed that part of the financial information presented by the Board of Directors in the Management Report with respect of their discussions and analyses of the consolidated operations of Cembre S.p.A., solely for the purpose of evaluating its consistency with the remaining part of the Management Report.
2. Our review was conducted in accordance with auditing standards governing review of interim financial statements recommended by CONSOB (the Italian Stock Exchange Regulatory Agency) in its resolution No. 10867 of July 31, 1997. A review consists mainly of obtaining information with respect to the accounts included in the Statements and the consistency of the accounting principles applied through discussions with appropriate members of management, and analytical procedures applied to the financial data presented in such Statements. A review does not include performing auditing procedures such as tests of compliance of internal controls and substantive procedures on assets and liabilities. Consequently, the scope of a review engagement provides significantly less assurance than a full scope audit performed in accordance with generally accepted auditing standards. Accordingly, we do not express an audit opinion on the Management Report of Cembre S.p.A. as of and for the six months period ended June 30, 2004, as we do in connection with reporting on our full scope audit of the annual consolidated financial statements of Cembre S.p.A..
3. With respect to the consolidated comparative data as of and for the year ended December 31, 2003 and for the six months period ended June 30, 2004, reference should be made to our audit and review reports issued on March 30, 2004 and on September 30, 2003 respectively.

4. Based on our review, we did not become aware of any significant modifications that should be made to the Statements and related Notes, identified in paragraph 1. of this report, in order for them to be in conformity with the criteria for the presentation of the six months period Management Report, stated by Consob regulations as approved in its resolution No. 11971 of May 14, 1999 and subsequent modifications.

Brescia 30, September 2004

Reconta Ernst & Young S.p.A.  
Signed by: Stefano Colpani, partner