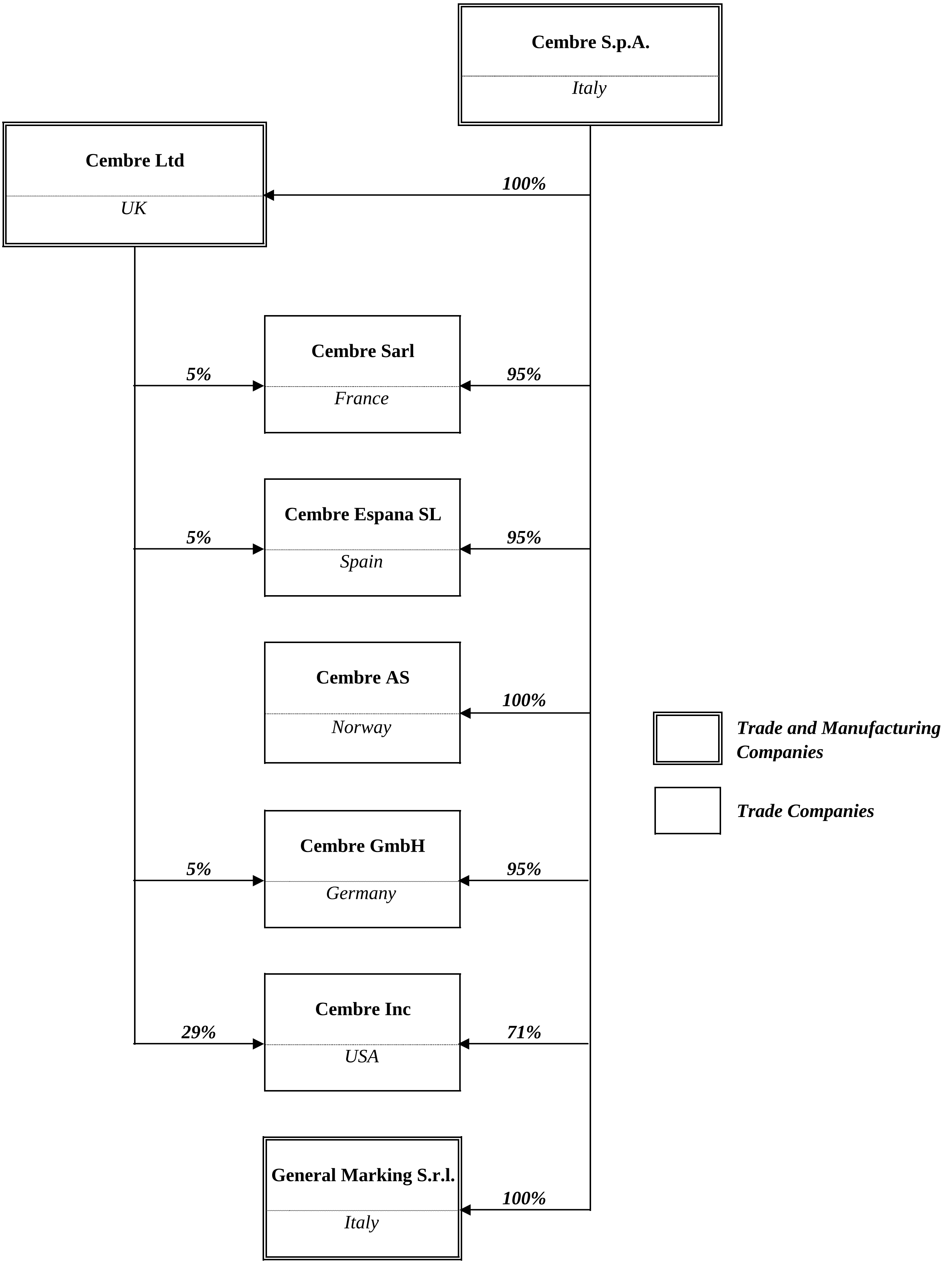
# CONTENTS

## Cembre Group



## Cembre S.p.A.

# GROUP STRUCTURE



## 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

# Report on Operations of the Cembre Group for the 1st Half of 2006

The Cembre Group closed the 1st Half of 2006 reporting a 19.8% increase in revenues from the sale of goods and services, up from €34.9 million in the 1st Half of 2005, to €41.9 million for the same period in 2006.

In the first six months of 2006, domestic sales amounted to €18.4 million, up 20.4%, while sales outside Italy amounted to €19.3 million, up 16.4%. A total of 43.9% of Group sales were represented by Italy (as compared with 43.7% in the 1st Half of 2005), 46.1% by the rest of Europe (47.5% in the 1st Half of 2005), and the remaining 10% by the rest of the World (8.8% in the 1st Half of 2005).

**Sales by geographical area**

| *(€'000)* | 1st Half 2006 | 1st Half 2005 |
|---|---|---|
| Italy | 18,416 | 15,300 |
| Rest of Europe | 19,322 | 16,600 |
| Rest of the World | 4,187 | 3,082 |
| Total | 41,925 | 34,982 |

**Sales by Group company (net of intragroup sales):**

| *(€'000)* | 1st Half 2006 | 1st Half 2005 |
|---|---|---|
| Parent company | 23,192 | 19,494 |
| Cembre Ltd. (UK) | 6,466 | 5,624 |
| Cembre S.a.r.l. (France) | 2,694 | 2,706 |
| Cembre España S.L. (Spain) | 5,262 | 4,109 |
| Cembre GmbH (Germany) | 1,920 | 1,446 |
| Cembre AS (Norway) | 275 | 153 |
| Cembre Inc. (USA) | 1,944 | 1,263 |
| General Marking S.r.l. (Italy) | 172 | 187 |
| Total | 41,925 | 34,982 |

Sales of subsidiary General Marking reported in the table above include only sales to third parties managed directly by the same. Sales made by General Marking to other Group companies for resale are not attributed to General Marking in the table above. Such sales grew by 55.4% from €484 thousand in the 1st Half of 2005, to €753 thousand in the same period in 2006.

In the first six months of 2005, Group companies reported the following pre-consolidated results.

| | Revenues | | Net profit | |
|---|---|---|---|---|
| *(€'000)* | 1st Half 2006 | 1st Half 2005 | 1st Half 2006 | 1st Half 2005 |
| Cembre S.p.A. | 32,703 | 26,599 | 3,743 | 2,419 |
| Cembre Ltd. (UK) | 6,928 | 5,989 | 404 | 393 |
| Cembre S.a.r.l. (France) | 2,706 | 2,712 | 174 | 162 |
| Cembre España S.L. (Spain) | 5,264 | 4,110 | 488 | 239 |
| Cembre AS (Norway) | 275 | 153 | 28 | 11 |
| Cembre GmbH (D) | 1,926 | 1,480 | 70 | (3) |
| Cembre Inc. (USA) | 1,981 | 1,284 | 147 | 187 |
| General Marking S.r.l. | 924 | 672 | 19 | (339) |

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 | |
|---|---|---|---|---|---|
| | | 1st Half 2006 | 1st Half 2005 | 1st Half 2006 | 1st Half 2005 |
| Cembre Ltd. (UK) | £ | 4,759 | 4,108 | 277 | 269 |
| Cembre AS (Norway) | Nok | 2,181 | 1,245 | 225 | 93 |
| Cembre Inc. (USA) | US$ | 2,436 | 1,650 | 181 | 240 |

The growth in sales of German subsidiary Cembre GmbH is due to the recovery of the German market in 2006.

To provide a better description of the company's operating performance for the 1st Half of 2006, a reclassified Consolidated Income Statement for the first six months of 2006 that includes comparative figures for same period in the previous year, is enclosed as Attachment 1.

Gross operating profit for the first six months of 2006 is equal to €9,963 thousand, corresponding to a 23.8% margin on sales, up 30.5% on €7,637 thousand reported in the first six months of 2005 (21.8% of sales).

Operating profit amounts to €8,424 thousand, representing a 20.1% margin on sales, up 47.8% on €5,701 in the 1st Half of 2005, when it represented a 16.3% margin on sales, due to the lower weight of depreciation.

Consolidated profit before taxes amounted to €8,349 thousand, representing a 19.9% margin on sales, up from €5,926 thousand in the 1st Half of 2005, when it represented a 16.9% margin on sales.

The net financial position declined from €2.8 million at December 31, 2005, to €2.1 million at June 30, 2006, after the payment in May of €2,550 million in dividends.

Net profit amounts to €5,002 thousand, representing an 11.9% margin on sales, up 43.1% from €3,496 thousand in the 1st Half of 2005 in which it represented a 10% margin on sales.

Consolidation adjustments resulted in the emergence of the following differences between the accounts of the parent company and the consolidated accounts at June 30, 2006.

| **Reconciliation between the statutory accounts of the parent company and the consolidated accounts** | **Shareholders' Equity** | **Net profit** |
|---|---|---|
| **Parent company's Shareholders' Equity and net profit** | **48,651** | **3,743** |
| Elimination of Cembre GmbH provision for product warranty (*) | 12 | – |
| Elimination of write-down in the investment in General Marking S.r.l. | 432 | – |
| Elimination of book value of consolidated companies | 7,597 | 1,331 |
| Elimination of unrealized intra-group gains included in the value of inventories (*) | (1,782) | (122) |
| Currency translation differences on elimination of intra-group payables and receivables | 50 | 50 |
| **Consolidated Shareholders' Equity and net profit** | **54,960** | **5,002** |

(*) Net of the related tax effect

The activity of the Group 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 2006, gross of amortization, depreciation and disposals, amounted to €1.6 million, registering a strong growth from €0.9 million in the same period in 2005.

The increase is due to the Group's intention to improve its production process in line with new technologies, widening the product range to fulfill market needs.

**Research & Development**

In the first six months of 2006, Research and Development activities focused in the field of cable terminals, railroad equipment, cable glands, hydraulic tools, and cable marking. Research costs were not capitalized, while development costs were instead capitalized. Research activities and projects launched or carried out in the first six month of the year consist in:

- the widening of the product range included in the catalogue, with the introduction of new innovative products until now not available on the market;
- the improvement of technologies and the efficiency of the production process;
- the enhancement of the company's presence on foreign markets.

Activities focused on the continuation and completion of projects started in the previous year, the launch of a new projects for the development of innovative products in line with new market trends, in addition to the development of innovative processes.

Research costs for the first six months of the year included €204 thousand of personnel costs, while development costs for the same period included €19 thousand of personnel costs.

A description of Research and Development activities by sector is included in the section that follows.

*Research projects in the field of cable terminals*

Work continued on the study and development of a new range of cable terminals and joints, in addition to the optimization of pipe terminals.

*Railroad Equipment research projects*

A number of projects in this field were launched or developed further. Projects underway include:

- connectors for the maintenance of catenary (wires) supplying power to locomotives through pantographs;
- a new range of products for the mechanical and electrical connection to rail tracks.

*Cable glands Research projects*

Development of the metric cable glands range continued with the design and manufacturing of the related dies, the development of brass and stainless steel cable glands and the study of the production process and manufacturing of dies and tools for related components.

*Hydraulic Tools research projects*

The following studies were undertaken in the first six months of 2006:

- new battery-operated tool for the compression of connectors that may be used for different types of dies for the US market;
- a hydraulic head for the compression of connectors;
- a battery-operated hydraulic station;
- a new small-size battery-operated hydraulic tool;
- introduction of two-speed controls on battery-operated tools.

*Cable marking research projects*

The development of the following products continued:

- a system for the labeling of pole terminal blocks consisting of labels and related supports;
- a new label-marking heat-transfer system;

**Relationships with related parties**

Relationships with related parties are discussed in the notes.

**Own shares**

In the first six months of 2006 Cembre S.p.A. did not acquire, disposed of or owned directly or indirectly through subsidiary companies, trust companies or intermediaries, shares or holdings in companies having a controlling share in the Company.

**Subsequent events**

No event having significant effects on the Group's financial position and operations occurred after June 30, 2006.

**Outlook**

In the second half of 2006, the company expects to expand its activity, while profit levels are expected to remain in line with the previous year.

Brescia, September 27, 2006

*CHAIRMAN OF THE BOARD OF DIRECTORS*

*CARLO ROSANI*

# Cembre S.p.A.

Registered Office: Via Serenissima 9, Brescia, Italy
Share Capital: Euro 8,840,000 (fully paid-up)
Registration no: FC 00541390175 (Commercial Register of Brescia)

**Attachment 1 to the Report on Operations for the First Half of 2006**

## Consolidated Income Statement

| *(€ '000)* | **1/1 - 06/30 2006** | **%** | **1/1 - 06/30 2005** | **%** | **change** |
|---|---|---|---|---|---|
| Revenues from sales and services provided | 41.925 | 100 | 34.982 | 100 | 19,8% |
| Other revenues | 107 | | 12 | | |
| **TOTAL REVENUES** | **42.032** | | **34.994** | | |
| Cost of goods and marchandise | (17.325) | (41,3) | (11.329) | (32,4) | 52,9% |
| Cost of services received | (6.088) | (14,5) | (5.330) | (15,2) | 14,2% |
| Lease and rental costs | (518) | (1,2) | (567) | (1,6) | -8,6% |
| Personnel costs | (11.178) | (26,7) | (10.598) | (30,3) | 5,5% |
| Other operating costs | (198) | (0,5) | (166) | (0,5) | 19,3% |
| Change in inventories | 3.073 | 7,3 | 401 | 1,1 | |
| Increase in assets due to internal construction | 231 | 0,6 | 294 | 0,8 | -21,4% |
| Write-down of current assets | (58) | (0,1) | (55) | (0,2) | 5,5% |
| Accruals to provisions for risks and charges | (8) | (0,0) | (7) | (0,0) | 14,3% |
| **GROSS OPERATING PROFIT** | **9.963** | **23,8** | **7.637** | **21,8** | 30,5% |
| Tangible assets depreciation | (1.499) | (3,6) | (1.662) | (4,8) | -9,8% |
| Intangible assets amortization | (40) | (0,1) | (47) | (0,1) | -14,9% |
| Write-down of long-term assets | 0 | 0,0 | (227) | (0,6) | |
| **OPERATING PROFIT** | **8.424** | **20,1** | **5.701** | **16,3** | 47,8% |
| Financial income (expense) | (9) | (0,0) | (93) | (0,3) | |
| Foreign exchange gains (losses) | (66) | (0,2) | 318 | 0,9 | |
| **PROFIT BEFORE TAXES** | **8.349** | **19,9** | **5.926** | **16,9** | 40,9% |
| Income taxes | (3.347) | (8,0) | (2.430) | (6,9) | 37,7% |
| **NET PROFIT FROM ORDINARY ACTIVITIES** | **5.002** | **11,9** | **3.496** | **10,0** | 43,1% |
| **NET PROFIT FROM ASSETS HELD FOR DISPOSAL** | **0** | | **0** | | 0,0% |
| **NET PROFIT** | **5.002** | **11,9** | **3.496** | **10,0** | 43,1% |

# Corporate Boards
## (Attachment 2 – Report of the Board)

**Board of Directors**

| | |
|---|---|
| *Chairman and Managing Director* | Carlo Rosani |
| *Vice Chairman and Managing Director* | Anna Maria Onofri |
| *Managing Director* | Giovanni Rosani |
| *Director* | Giovanni De Vecchi |
| *Director* | Aldo Bottini Bongrani |
| *Independent Director* | Mario Comana |
| *Independent Director* | Paolo Lechi di Bagnolo |
| *Director* | Sara Rosani |

**Secretary**

| | |
|---|---|
| | Giorgio Rota |

**Board of Statutory Auditors**

| | |
|---|---|
| *Chairman* | Guido Astori |
| *Permanent Auditor* | Leone Scutti |
| *Permanent Auditor* | Andrea Boreatti |
| *Substitute Auditor* | Maria Grazia Lizzini |
| *Substitute Auditor* | Giorgio Astori |

The above list is updated at September 27, 2006.
The Board of Directors and Board of Statutory Auditor's term expires with the approval of the Financial Statements at December 31, 2008.
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. The Board of Directors conferred to Managing Director Giovanni Rosani all the ordinary management powers not specifically reserved to it by law and exclusive powers over the organization, management and monitoring of the internal control system.
In case of absence or impediment of the Chairman and of Managing Director Carlo Rosani, 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. 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.

# Cembre S.p.A.

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## Condensed Consolidated Financial Statements at June 30, 2006

### Balance Sheet

| | Notes | 06/30/2006 | 12/31/2005 | 06/30/2005 |
|---|---|---|---|---|
| *(euro '000)* | | | | |
| **ASSETS** | | | | |
| **A) NON-CURRENT ASSETS** | | | | |
| Tangible assets | *1* | 28.016 | 28.204 | 28.935 |
| Intangible assets | | 152 | 154 | 136 |
| Financial assets available for sale | | 5 | 5 | 5 |
| Other non-current assets | | 95 | 100 | 108 |
| Deferred tax assets | *7* | 1.676 | 1.633 | 1.522 |
| **TOTAL NON-CURRENT ASSETS** | | **29.944** | **30.096** | **30.706** |
| **B) CURRENT ASSETS** | | | | |
| Inventories | *2* | 22.696 | 19.746 | 20.753 |
| Trade receivables | *3* | 26.082 | 21.676 | 22.564 |
| Tax receivables | | 0 | 0 | 65 |
| Other receivables | | 294 | 166 | 112 |
| Cash and cash equivalents | | 4.620 | 6.026 | 4.836 |
| **TOTAL CURRENT ASSETS** | | **53.692** | **47.614** | **48.330** |
| **C) NON-CURRENT ASSETS AVAILABLE FOR SALE** | | **0** | **0** | **0** |
| **TOTAL ASSETS(A+B+C)** | | **83.636** | **77.710** | **79.036** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | |
| **A) SHAREHOLDERS' EQUITY** | | | | |
| Capital stock | *4* | 8.840 | 8.840 | 8.840 |
| Reserves | *4* | 41.118 | 37.237 | 37.278 |
| Net profit | *4* | 5.002 | 6.605 | 3.496 |
| **TOTAL SHAREHOLDERS' EQUITY** | | **54.960** | **52.682** | **49.614** |
| **B) NON-CURRENT LIABILITIES** | | | | |
| Non-current financial liabilities | *5* | 102 | 89 | 152 |
| Employee Severance Indemnity and other personnel benefits | *6* | 4.567 | 4.478 | 4.328 |
| Provisions for risks and charges | | 302 | 295 | 287 |
| Deferred tax liabilities | *7* | 4.127 | 4.054 | 4.148 |
| **TOTAL NON-CURRENT LIABILITIES** | | **9.098** | **8.916** | **8.915** |
| **C) CURRENT LIABILITIES** | | | | |
| Current financial liabilities | *5* | 2.460 | 3.139 | 6.581 |
| Liabilities on derivative instruments | | 7 | 21 | 37 |
| Trade payables | *8* | 9.768 | 7.017 | 7.556 |
| Tax payables | | 1.986 | 1.851 | 1.454 |
| Other payables | *9* | 5.357 | 4.084 | 4.879 |
| **TOTAL CURRENT LIABILITIES** | | **19.578** | **16.112** | **20.507** |
| **D) LIABILITIES ON ASSETS HELD FOR DISPOSAL** | | **0** | **0** | **0** |
| **TOTAL LIABILITIES (B+C+D)** | | **28.676** | **25.028** | **29.422** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (A+B+C+D)** | | **83.636** | **77.710** | **79.036** |

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# Condensed Consolidated Financial Statements at June 30, 2006

## Income Statement

| (euro '000) | Notes | 01/01 - 06/30 2006 | 01/01 - 06/30 2005 | 01/01 - 12/31 2005 |
|---|---|---|---|---|
| Revenues from sales and services provided | *10* | 41.925 | 34.982 | 69.997 |
| Other revenues | | 107 | 12 | 105 |
| **TOTAL REVENUES** | | **42.032** | **34.994** | **70.102** |
| Cost of goods and merchandise | | (17.325) | (11.329) | (22.599) |
| Cost of services received | *11* | (6.088) | (5.330) | (10.395) |
| Lease and rental costs | | (518) | (567) | (1.014) |
| Personnel costs | *12* | (11.178) | (10.598) | (20.579) |
| Other operating costs | | (198) | (166) | (470) |
| Change in inventories | | 3.073 | 401 | (605) |
| Increase in assets due to internal construction | | 231 | 294 | 508 |
| Write-down of receivables | | (58) | (55) | (209) |
| Accruals to provisions for risks and charges | | (8) | (7) | (21) |
| **GROSS OPERATING PROFIT** | | **9.963** | **7.637** | **14.718** |
| Tangible asset depreciation | | (1.499) | (1.662) | (3.364) |
| Intangible asset amortization | | (40) | (47) | (104) |
| Write-down of long-term assets | | 0 | (227) | (227) |
| **OPERATING PROFIT** | | **8.424** | **5.701** | **11.023** |
| Financial income (expense) | | (9) | (93) | (142) |
| Foreign exchange gains (losses) | | (66) | 318 | 311 |
| **PROFIT BEFORE TAXES** | | **8.349** | **5.926** | **11.192** |
| Income taxes | *13* | (3.347) | (2.430) | (4.587) |
| **NET PROFIT FROM ORDINARY ACTIVITIES** | | **5.002** | **3.496** | **6.605** |
| **NET PROFIT FROM ASSETS HELD FOR DISPOSAL** | | **0** | **0** | **0** |
| **NET PROFIT** | | **5.002** | **3.496** | **6.605** |
| **BASIC EARNINGS PER SHARE** | *14* | **0,29** | **0,21** | **0,39** |

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# Condensed Consolidated Financial Statement as at June 30, 2006

## Statement of Cash Flows

| | 06/30/2006 | 06/30/2005 | 12/31/2005 |
|---|---|---|---|
| **A) CASH FLOW FROM OPERATING ACTIVITIES** | | | |
| Net profit for the period | 5.002 | 3.496 | 6.605 |
| Depreciation, amortization and write-downs | 1.539 | 1.936 | 3.697 |
| (Gains)/Losses on disposal of assets | (22) | 1 | (32) |
| Net change in Employee Severance Indemnity | 89 | 75 | 225 |
| Net change in provisions for risks and charges | 7 | 6 | 14 |
| **Operating profit (loss) before change in working capital** | **6.615** | **5.514** | **10.509** |
| (Increase) Decrease in trade receivables | (4.406) | (3.090) | (2.202) |
| (Increase) Decrease in inventories | (2.949) | (650) | 357 |
| (Increase) Decrease in other receivables and deferred tax assets | (172) | 178 | 79 |
| Increase (Decrease) of trade payables | 2.752 | 132 | (407) |
| Increase (Decrease) of other payables and deferred tax liabilities | 1.480 | 109 | (383) |
| **Change in working capital** | **(3.295)** | **(3.321)** | **(2.556)** |
| **NET CASH FLOW (USED IN)/FROM OPERATING ACTIVITIES** | **3.320** | **2.193** | **7.953** |
| **B) CASH FLOW FROM INVESTING ACTIVITIES** | | | |
| Capital expenditure on fixed assets: | | | |
| - intangible | (38) | (66) | (142) |
| - tangible | (1.622) | (906) | (1.910) |
| Proceeds from disposal of tangible, intangible, available-for-sale financial assets | 333 | (56) | 9 |
| **NET CASH FLOW (USED IN)/FROM INVESTING ACTIVITIES** | **(1.327)** | **(1.028)** | **(2.043)** |
| **C) CASH FLOW FROM FINANCING ACTIVITIES** | | | |
| (Increase) Decrease in other non current assets | 5 | 37 | 45 |
| Increase (Decrease) in bank loans and borrowings | (687) | (1.878) | (5.406) |
| Increase (Decrease) in other loans and borrowings | 21 | 9 | 32 |
| Increase (Decrease) in derivative instruments | (14) | 7 | (9) |
| Change in reserves | (174) | 686 | 645 |
| Dividends distributed | (2.550) | (1.698) | (1.698) |
| **NET CASH FLOW (USED IN)/FROM FINANCING ACTIVITIES** | **(3.399)** | **(2.837)** | **(6.391)** |
| **D) INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)** | **(1.406)** | **(1.672)** | **(481)** |
| **E) CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | **6.026** | **6.507** | **6.507** |
| **F) CASH AND CASH EQUIVALENTS AT END OF PERIOD (D+E)** | **4.620** | **4.835** | **6.026** |

| | | | |
|---|---|---|---|
| **CASH AND CASH EQUIVALENTS AT END OF PERIOD** | **4.620** | **4.835** | **6.026** |
| Current financial liabilities | (2.460) | (6.582) | (3.139) |
| Non current financial liabilities | (102) | (152) | (89) |
| Liabilities on derivative instruments | (7) | (37) | (21) |
| **NET CONSOLIDATED FINANCIAL POSITION** | **2.051** | **(1.936)** | **2.777** |
| **INTEREST PAID** | **(39)** | **(136)** | **(194)** |

| | | | |
|---|---|---|---|
| **BREAKDOWN OF CASH AND CASH EQUIVALENTS AT END OF PERIOD** | | | |
| Cash | 21 | 14 | 9 |
| Banks | 4.599 | 4.822 | 6.017 |
| | **4.620** | **4.836** | **6.026** |

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## Condensed Consolidated Financial Statements at June 30, 2006

### Statement of Changes in the Consolidated Shareholders' Equity for the 1st Half of 2006

| (€ '000) | Capital stock | Share premium reserve | Legal reserve | Reserve for own shares | Suspended-tax reserves | Consolidation reserve | Conversion differences | Extraordinary reserve | Urealized gains reserve | Exchange gain reserve | Retained earnings | Net profit | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2005** | **8.840** | **12.245** | **1.663** | **0** | **68** | **3.367** | **(9)** | **16.104** | **3.799** | **0** | **0** | **6.605** | **52.682** |
| Conversion differences | 0 | 0 | 0 | 0 | 0 | 16 | (190) | 0 | 0 | 0 | 0 | 0 | (174) |
| Elimination of own shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Allocation of net profit | 0 | 0 | 105 | 0 | 0 | 1.866 | 0 | 2.069 | 0 | 15 | 0 | (6.605) | (2.550) |
| Sale of own shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other changes | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Net profit for the 1st Qter of 2006 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5.002 | 5.002 |
| **Balance at June 30, 2006** | **8.840** | **12.245** | **1.768** | **0** | **68** | **5.249** | **(199)** | **18.173** | **3.799** | **15** | **0** | **5.002** | **54.960** |

### Statement of Changes in the Consolidated Shareholders' Equity for the 1st Half of 2005

| (€ '000) | Capital stock | Share premium reserve | Legal reserve | Reserve for own shares | Suspended-tax reserves | Consolidation reserve | Conversion differences | Extraordinary reserve | Urealized gains reserve | Exchange gain reserve | Retained earnings | Net profit | Total Shareholders' Equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance at December 31, 2004** | **8.840** | **12.245** | **1.366** | **(291)** | **68** | **2.407** | **(385)** | **15.210** | **3.840** | **0** | **0** | **3.830** | **47.130** |
| Conversion differences | | | | | | (82) | 472 | | | | | | 390 |
| Elimination of own shares | | | | 262 | | | | | | | | | 262 |
| Allocation of net profit | | | 297 | | | 1.023 | | 812 | | | | (3.830) | (1.698) |
| Sale of own shares | | | | | | | | 34 | | | | | 34 |
| Other changes | | | | | | | | 41 | (41) | | | | 0 |
| Net profit for the 1st Qter of 2005 | | | | | | | | | | | | 3.496 | 3.496 |
| **Balance at June 30, 2005** | **8.840** | **12.245** | **1.663** | **(29)** | **68** | **3.348** | **87** | **16.097** | **3.799** | **0** | **0** | **3.496** | **49.614** |

**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 condensed consolidated accounts

## I. CORPORATE INFORMATION

Cembre S.p.A. is a joint-stock company with registered office in Brescia, Via Serenissima 9.

Cembre S.p.A. and its subsidiaries (hereinafter referred to jointly as “the Cembre Group” or “the Group”) are active primarily in the manufacturing and sale of electrical connectors and related tools.

The publication of the Consolidated Financial Statements of Cembre S.p.A. for the half-year ended June 30, 2006 was authorized by a resolution of the Board of Directors dated September 27, 2006.

Cembre S.p.A. is controlled by Lysne S.p.A., a holding company based in Bergamo.

## II. FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND ACCOUNTING PRINCIPLES

### Form and content

The present consolidated interim report for the first six months of 2006 was prepared under IAS 34 on Interim Reports and article 81 of Consob Issuers’ Regulation no. 11971/1999.

The consolidated interim report does not include all additional information required for annual reports and should be read in conjunction with the Financial Statements at December 31, 2005.

**Accounting principles**

Principles adopted in the preparation of the consolidated interim report are consistent with those adopted in the preparation of the Financial Statements at December 31, 2005. The adoption of mandatory amendments for accounting periods beginning on January 1, 2006 or later had no effect on the operating results or the financial position of the Group.

Principles adopted in the preparation of the present consolidated interim report are those formally approved by the European Union, in force at June 30, 2006.

Unless otherwise indicated, figures reported in the financial statements and the related notes are expressed in thousands of euro.

Translation of financial statements expressed in currencies other than the euro

The functional currency of the Group is the euro.

Exchange rates applied in the translation of financial statements of subsidiaries are shown in the table below.

| | Exchange rate at June 30, 2006 | Average exchange rate for the 1st Half of 2006 |
|---|---|---|
| British pound (€/£) | 0.6921 | 0.6870 |
| US dollar ($/€) | 1.2713 | 1.2296 |
| Norway kroner (NOK/€) | 7.9360 | 7.9293 |

## III. SEASONAL SWINGS IN ACTIVITY

The activity of the Group 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.

## IV. INFORMATION BY SECTOR

Cembre adopted as its primary reporting focus information by geographical area based on the location in which the operations of the company are based or the production process takes place.

Information by sector of activity is not provided as the Cembre Group operates in a single sector denominated "Electric connectors and related tools".

As required under IAS 14, sector information by geographical area, based on the location in which the operations of the company are based or the production process takes place is provided below.

| 1st Half 2006 | Italy | Rest of Europe | Rest of World | Elimination of intragroup transactions | TOTAL |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Sales to customers | 23,364 | 16,617 | 1,944 | | 41,925 |
| Sales to other Group companies | 10,263 | 483 | 37 | (10,783) | – |
| Revenues by sector | 33,627 | 17,100 | 1,981 | (10,783) | 41,925 |
| Operating profit by sector | 6,415 | 1,753 | 256 | | 8,424 |
| Overhead costs not assigned | | | | | – |
| Operating profit | | | | | 8,424 |
| Financial income (expense) | | | | | (75) |
| Income taxes | | | | | (3,347) |
| Net profit | | | | | 5,002 |

| 1st Half 2005 | Italy | Rest of Europe | Rest of World | Elimination of intragroup transactions | TOTAL |
|---|---|---|---|---|---|
| **Revenues** | | | | | |
| Sales to customers | 19,681 | 14,038 | 1,263 | | 34,982 |
| Sales to other Group companies | 7,621 | 406 | 21 | (8,048) | – |
| Revenues by sector | 27,302 | 14,444 | 1,284 | (8,048) | 34,982 |
| Operating profit by sector | 4,303 | 1,196 | 202 | | 5,701 |
| Overhead costs not assigned | | | | | – |
| Operating profit | | | | | 5,701 |
| Financial income (expense) | | | | | 225 |
| Income taxes | | | | | (2,430) |
| Net profit | | | | | 3,496 |

As the breakdown of sales by geographical area is different from that of the related Group activities, a breakdown of sales by geographical area of customers is shown below.

| | 1st Half 2006 | 1st Half 2005 |
|---|---|---|
| Italy | 18,416 | 15,300 |
| Europe | 19,322 | 16,600 |
| Rest of World | 4,187 | 3,082 |
| | **41,925** | **34,982** |

The breakdown of assets and liabilities is shown below:

| **June 30, 2006** | **Italy** | **Rest of Europe** | **Rest of World** | **TOTAL** |
|---|---|---|---|---|
| **Assets and Liabilities** | | | | |
| Assets of the sector | 58,895 | 24,344 | 2,332 | 85,571 |
| Unassigned assets | | | | (1,934) |
| Total assets | | | | 83,637 |
| | | | | |
| Liabilities of the sector | 24,588 | 3,930 | 149 | 28,667 |
| Unassigned liabilities | | | | 9 |
| Total liabilities | | | | 28,676 |
| | | | | |
| **Other information by sector** | | | | |
| Capital expenditure: | | | | |
| - Tangible assets | 1,410 | 198 | 15 | 1,623 |
| - Intangible assets | 36 | 2 | – | 38 |
| | | | | 1,661 |
| Depreciation and amortization: | | | | |
| - Tangible assets | (1,184) | (296) | (19) | (1,499) |
| - Intangible assets | (36) | (4) | – | (40) |
| | | | | |
| Write-downs | – | – | – | – |
| | | | | |
| No. of employees | 338 | 123 | 10 | 471 |

| **June 30, 2005** | **Italy** | **Rest of Europe** | **Rest of World** | **TOTAL** |
|---|---|---|---|---|
| **Assets and Liabilities** | | | | |
| Assets of the sector | 49,054 | 21,867 | 2,228 | 73,149 |
| Unassigned assets | | | | 4,561 |
| Total assets | | | | 77,710 |
| | | | | |
| Liabilities of the sector | 18,120 | 3,958 | 232 | 22,310 |
| Unassigned liabilities | | | | 2,718 |
| Total liabilities | | | | 25,028 |
| | | | | |
| **Other information by sector** | | | | |
| Capital expenditure: | | | | |
| - Tangible assets | 1,328 | 481 | 101 | 1,910 |
| - Intangible assets | 138 | 4 | – | 142 |
| | | | | 2,052 |
| Depreciation and amortization: | | | | |

| | | | | |
|---|---|---|---|---|
| - Tangible assets | 2,764 | 573 | 27 | 3,364 |
| - Intangible assets | 87 | 17 | – | 104 |
| Write-downs | 227 | – | – | 227 |
| No. of employees | 336 | 118 | 9 | 463 |

# V. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. TANGIBLE ASSETS

| | Land and buildings | Plant and machinery | Equipment | Other assets | Leased assets | Work in progress | Total |
|---|---|---|---|---|---|---|---|
| Historical cost | 23,837 | 26,609 | 6,331 | 5,726 | 229 | 254 | 62,986! |
| Accumulated depreciation | (4,525) | (20,872) | (4,972) | (4,325) | (88) | 0 | (34,782) |
| **Balance at Dec. 31, 2005** | **19,312** | **5,737** | **1,359** | **1,401** | **141** | **254** | **28,204** |
| Increases | 29 | 940 | 116 | 181 | 55 | 303 | 1,624 |
| Currency differences | (37) | (7) | (1) | (10) | – | – | (55) |
| Depreciation | (217) | (757) | (215) | (275) | (35) | – | (1,499) |
| Net divestments | – | – | – | (4) | – | (254) | (258) |
| Reclassifications | – | – | – | – | – | – | – |
| **Balance at June 30, 2006** | **19,087** | **5,913** | **1,259** | **1,293** | **161** | **303** | **28,016** |

| | Land and buildings | Plant and machinery | Equipment | Other assets | Leased assets | Work in progress | Total |
|---|---|---|---|---|---|---|---|
| Historical cost | 23,671 | 25,879 | 6,198 | 5,466 | 220 | 92 | 61,526 |
| Accumulated depreciation | (4,082) | (19,282) | (4,444) | (3,973) | (109) | – | (31,890) |
| **Balance at Dec. 31, 2004** | **19,589** | **6,597** | **1,754** | **1,493** | **111** | **92** | **29,636** |
| Increases | 55 | 864 | 142 | 509 | 86 | 254 | 1,910 |
| Currency differences | 106 | 19 | – | 15 | – | – | 140 |
| Depreciation | (438) | (1,735) | (539) | (598) | (54) | 0 | (3,364) |
| Net divestments | – | (6) | – | (20) | – | (92) | (118) |
| Reclassifications | – | (2) | 2 | 2 | (2) | – | – |
| **Balance at Dec. 31, 2005** | **19,312** | **5,737** | **1,359** | **1,401** | **141** | **254** | **28,204** |

Capital expenditure for the 1st Half of 2006 consists primarily of purchases made by the parent company for the scheduled replacement of obsolete assets.

In the first six months of 2006 a work station was acquired for €445 thousand to strengthen production.

Leased assets consist exclusively of motor vehicles acquired by the Spanish subsidiary.

## 2. INVENTORIES

| | June 30, 2006 | Dec. 31, 2005 | Change |
|---|---|---|---|
| Raw materials | 5,581 | 4,405 | 1,176 |
| Work in progress and semi-finished goods | 5,743 | 4,986 | 757 |
| Finished goods and merchandise | 11,373 | 10,355 | 1,018 |
| **Total** | **22,697** | **19,746** | **2,951** |

The value of finished goods inventories is adjusted through a provision for slow-moving stock amounting approximately to €1,602 thousand. In the first six months of 2006, the provision declined by €9 thousand due to currency translation differences and grew by €112 thousand due to accruals made by the US and UK subsidiaries.

## 3. TRADE RECEIVABLES

| | June 30, 2006 | Dec. 31, 2005 | Change |
|---|---|---|---|
| Gross trade receivables | 26,609 | 22,181 | 4,428 |
| Provision for doubtful accounts | (527) | (505) | (22) |
| **Total** | **26,082** | **21,676** | **4,406** |

**Trade receivables by geographical area**

| | June 30, 2006 | Dec, 31, 2005 | Change |
|---|---|---|---|
| Italy | 14,700 | 13,008 | 1,692 |
| Europe | 10,616 | 8,422 | 2,194 |
| North America | 601 | 40 | 561 |
| Oceania | 205 | 389 | (184) |
| Middle East | 312 | 137 | 175 |
| Other | 175 | 185 | (10) |
| **Total** | **26,609** | **22,181** | **4,428** |

As shown in the table above, the growth in sales resulted in a parallel increase in trade receivables, both in the domestic and foreign markets. Average collection time remained however stable, up slightly from 113 days in 2005 to 115 days in the first six months of 2006.

## 4. SHAREHOLDERS' EQUITY

At June 30, 2006, the capital stock of the parent company amounted to €8,840,000, made up of 17 million ordinary shares of par value €0.52 each, fully underwritten and paid-up.

At June 30, 2006 the Company did not hold own shares.

A reconciliation between the Shareholders' Equity and profit of the parent company and the consolidated Shareholders' Equity and profit is provided in the Report on operations.

Changes in individual components of the Consolidated Shareholders' Equity are shown in the Statement of Changes in the Consolidated Shareholders' Equity included in the Consolidated Financial Statements.

## 5. FINANCIAL LIABILITIES

| | Effective interest rate (%) | Maturity | June 30, 2006 | Dec. 31, 2005 |
|---|---|---|---|---|
| Bank overdrafts of the parent | 2.5 | on demand | 2,095 | 303 |
| Bank overdrafts of Cembre Ltd (limit £400 thousand) | 6% (rate+1.5% spread) | on demand | 106 | 354 |
| General Marking loan | 3,2 | July 2006 | 200 | 2,200 |
| Loan to Cembre Inc. ($200 thousand) | 4,22 | March 2006 | – | 170 |
| | | | **200** | **2,370** |
| Leasing Spanish subsidiary (short-term portion) | 3.75-4.59 | 2006-2010 | 67 | 59 |
| Deferrals | | | (8) | 53 |
| **CURRENT FINANCIAL LIABILITIES** | | | **2,460** | **3,139** |
| Leasing Spanish subsidiary (long-term portion) | 3.75-4.59 | 2006-2010 | 102 | 89 |
| **NON-CURRENT FINANCIAL LIABILITIES** | | | **102** | **89** |

The present value of minimum future lease payments on lease contracts currently held by the Company and their current value (for each individual year) is shown in the table that follows:

| Year | Cash flow | No. of days | Current value |
|---|---|---|---|
| 2006 | 67 | 184 | 65 |
| 2007 | 29 | 549 | 27 |
| 2008 | 43 | 914 | 39 |
| 2009 | 28 | 1,279 | 24 |
| 2010 | 2 | 1,644 | 2 |
| **Total** | **169** | | **157** |
| | | **Difference** | **12** |
| | | **Avg. discounting rate** | **3,52%** |

**Long-term portion of leasing commitments by maturity**

| | 2007 | 2008 | 2009 | 2010 | Total |
|---|---|---|---|---|---|
| Minimum lease payments | 29 | 43 | 28 | 2 | 102 |
| Present value | 27 | 39 | 24 | 2 | 92 |

The parent company granted guarantees against loans provided to subsidiary General Marking S.r.l..

## 6. EMPLOYEE SEVERANCE INDEMNITY AND OTHER RETIREMENT BENEFITS

The item includes the Employee Severance Indemnity accrued for employees of Italian companies. Special retirement benefits, due in accordance with French regulations to persons employed in France at the time of retirement, are also included in the provision. Indemnities accrued for the current period will be discounted at year-end.

| | June 30, 2006 | Dec, 31, 2005 |
|---|---|---|
| **Beginning balance** | **4,478** | **4,253** |
| Accruals | 365 | 675 |
| Uses | (276) | (603) |
| Actuarial effect | 0 | 153 |
| **Closing balance** | **4,567** | **4,478** |

## 7. DEFERRED TAX LIABILITIES AND ASSETS

Deferred tax liabilities and assets at June 30, 2006 are shown below:

| | June 30, 2006 | Dec, 31, 2005 |
|---|---|---|
| *Deferred tax liabilities* | | |
| Average cost valuation of inventories of the parent company | (433) | (259) |
| Accelerated depreciation | (1,399) | (1,500) |
| Elimination of Cembre GmbH product warranty provision | (8) | (8) |
| Elimination of land depreciation | (32) | (32) |
| Valuation of land at fair value | (2,255) | (2,255) |
| **Gross deferred tax liabilities** | **(4,127)** | **(4,054)** |
| *Deferred tax assets* | | |
| Elimination of unrealized intra-group gains included in the value of inventories | 1,058 | 985 |
| Write-down of inventories | 335 | 335 |
| Amortization of goodwill | 66 | 69 |
| Write-down of investment | 10 | 13 |
| Discounting of Employee Severance Indemnity | 164 | 164 |
| Provision for social security risks (INAIL) | 8 | 6 |
| Other | 35 | 61 |
| **Gross deferred tax assets** | **1,676** | **1,633** |
| **Net deferred tax liabilities** | **(2,451)** | **(2,421)** |

## 8. TRADE PAYABLES

| | June 30, 2006 | Dec, 31, 2005 | Change |
|---|---|---|---|
| Trade payables | 9,737 | 7,015 | 2,722 |
| Advances | 31 | 2 | 29 |
| **Total** | **9,768** | **7,017** | **2,751** |

**Trade payables by geographical area**

| *(€'000)* | June 30, 2006 | Dec, 31, 2005 | Change |
|---|---|---|---|
| Italy | 6,981 | 5,392 | 1,589 |
| Europe | 2,645 | 1,518 | 1,127 |
| North America | 10 | 21 | (11) |
| Oceania | 96 | 82 | 14 |
| Other | 5 | 2 | 3 |
| **Total** | **9,737** | **7,015** | **2,722** |

## 9. OTHER PAYABLES

Other payables are made up as follows:

| | June 30, 2006 | Dec, 31, 2005 | Change |
|---|---|---|---|
| Payables to employees | 2,362 | 825 | 1,537 |
| Bonuses owed to customers | 1,096 | 1,452 | (356) |
| VAT and similar foreign taxes payable | 766 | 428 | 338 |
| Commissions payable | 151 | 157 | (6) |
| Payable to Statutory Auditors and similar foreign boards | 48 | 50 | (2) |
| Social security payables | 1,002 | 1,153 | (151) |
| Other | (96) | 19 | (115) |
| **Total** | **5,357** | **4,084** | **1,273** |

## 10. REVENUES FROM SALES AND SERVICES PROVIDED

In the first six months of 2006, revenues grew by 19.8% as compared to the previous year. Domestic sales represented 43.9% of total sales, up 20.4% on the 1$^{st}$ Half of 2005, while sales in the rest of Europe represented 46.1% of the total, up 16.4% on the same period in the previous year. Sales in the rest of the world grew sharply by 35.8% and represented 10% of total sales.

## 11. COST OF SERVICES

The item is made up as follows:

| | June 30, 2006 | Dec, 31, 2005 | Change |
|---|---|---|---|
| Subcontracted work | 1,500 | 1,057 | 443 |
| Electricity, heating and water | 566 | 440 | 126 |
| Transport of goods sold | 1,041 | 831 | 210 |
| Fuel | 136 | 128 | 8 |
| Traveling expenses | 331 | 312 | 19 |
| Maintenance and repair | 486 | 510 | (24) |
| Consulting | 318 | 426 | (108) |
| Advertising and promotion | 155 | 176 | (21) |
| Insurance | 208 | 186 | 22 |

| | | | |
|---|---|---|---|
| Boards' compensation | 347 | 307 | 40 |
| Postage and telephone | 181 | 155 | 26 |
| Commissions | 143 | 159 | (16) |
| Security and cleaning | 149 | 177 | (28) |
| Other | 527 | 466 | 61 |
| **Total** | **6,088** | **5,330** | **758** |

The increase in the cost of services is closely connected with the growth in sales, as shown by the first three items in the table above which are more closely connected with the production cycle and sales.

Item "Other" includes prevalently banking charges and costs for the canteen service.

## 12. PERSONNEL COSTS

Personnel costs are made up as follows:

| | June 30, 2006 | Dec, 31, 2005 | Change |
|---|---|---|---|
| Wages and salaries | 8,576 | 7,922 | 654 |
| Social security contributions | 2,124 | 2,168 | (44) |
| Employee severance indemnity | 394 | 431 | (37) |
| Retirement benefits | 42 | 34 | 8 |
| Other costs | 42 | 43 | (1) |
| **Total** | **11,178** | **10,598** | **580** |

Item "Wages and Salaries" include €62 thousand relating to temporary employment, borne by the parent company.

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

| | 1st Half 2006 | 2005 | Change |
|---|---|---|---|
| Managers | 15 | 16 | (1) |
| Administrative and commercial staff | 224 | 222 | 2 |
| Workers | 232 | 225 | 7 |
| Temporary employees | 8 | – | 8 |
| **Total** | **479** | **463** | **16** |

## 13. INCOME TAXES

**Income taxes**

| | June 30, 2006 | Dec, 31, 2005 | Change |
|---|---|---|---|
| Current | 3,313 | 2,529 | 784 |
| Deferred | 34 | (99) | 133 |
| | **3,347** | **2,430** | **917** |

Due to the complexity of the calculation and the immateriality of differences recorded in the past, the tax expense of some foreign subsidiaries was calculated based on the theoretical tax rate. We therefore limit our analysis to the comparison between the actual tax expense and the theoretical tax expense for the 1st Half of 2006 and 2005, referring the full reconciliation to the Financial Statements at December 31, 2006.

| | June 30, 2006 | June 30, 2005 |
|---|---|---|
| Profit before taxes | 8,349 | 5,926 |
| Income taxes | (3,347) | (2,430) |
| **Actual tax rate** | **40.09%** | **41.01%** |
| Theoretical tax expense | 37.25% | 37.25% |

The table that follows shows temporary differences and accumulated losses that could give rise to the recording of prepaid taxes. Such taxes were not recorded as, at the present time, their retrieval is not deemed probable.

| Subsidiary | Temporary differences and accumulated losses | Tax rate | Amount | Prepaid taxes |
|---|---|---|---|---|
| General Marking: | Losses carried forward | 33% | 901 | 297 |
| | Temporary differences on intangible asset amortization | 33% | 393 | 130 |
| | Non-deductible accruals | 33% | 200 | 66 |
| Cembre AS: | Losses carried forward | 28% | 89 | 25 |

Accumulated losses of General Marking date from years prior to 2004 and cannot therefore be set against profits of parent company Cembre S.p.A. for the purposes of the tax consolidation. Such losses may be carried forward indefinitely due to the fact that they relate to the first two years of activity of the company. Losses of Norwegian subsidiary Cembre AS may also be carried forward indefinitely for tax purposes.

Deferred and prepaid taxes are made up as follows:

| | 1st Half 2006 | 1st Half 2005 |
|---|---|---|
| *Deferred tax liabilities* | | |
| Valuation of parent company's inventories at average cost | (174) | (53) |
| Accelerated depreciation | 101 | 110 |
| | **(73)** | **57** |
| *Deferred tax assets* | | |
| Elimination of unrealized intra-group gains included in the value of inventories | 73 | (5) |
| Amortization of goodwill | (3) | (5) |
| Write-down of investment | (3) | (4) |
| Discounting of Employee Severance Indemnity | – | 12 |
| Provision for social security (INAIL) charges | 2 | 1 |

| | | |
|---|---:|---:|
| Other | (26) | 10 |
| | **43** | **9** |
| Previous years' taxes | – | 39 |
| Foreign-exchange differences | (4) | (6) |
| **Deferred tax assets accrued in the period** | **(34)** | **99** |

## 14. EARNINGS PER SHARE

Earnings per share are calculated by dividing net profit by the weighted average number of shares in circulation for the period, excluding own shares.

| | **1st Half 2006** | **1st Half 2005** |
|---|---:|---:|
| Consolidated net profit *(€'000)* | 5,002 | 3,496 |
| No. of ordinary shares *('000)* | 17,000 | 16,990 |
| **Earnings per share** *(€)* | **0.29** | **0.21** |

## 15. RELATED PARTIES

Transactions concluded between Cembre S.p.A. and its subsidiaries in the 1st Half of 2006 are summarized in the table below:

| | **Receivables** | **Payables** | **Revenues** | **Expenses** |
|---|---:|---:|---:|---:|
| Cembre Ltd. | 1,688 | 26 | 3,385 | 52 |
| Cembre S.a.r.l. | 592 | 5 | 1,172 | 8 |
| Cembre España S.L. | 2,824 | 1 | 2,625 | 1 |
| Cembre AS | 134 | – | 127 | – |
| Cembre GmbH | 391 | 3 | 1,129 | 1 |
| Cembre Inc. | 717 | 6 | 925 | 32 |
| General Marking S.r.l. | 19 | 154 | 148 | 528 |
| **Total** | **6,365** | **195** | **9,511** | **622** |

The parent company extended to subsidiary General Marking a €2,000 thousand one-year loan (expiring January 27, 2007) at an annual rate of 2.5%. At June 30, interest accrued on the said loan amounted to €21 thousand, to be paid upon expiration. The parent company has also leased an industrial building to subsidiary General Marking. Rent for the first six months of 2006 amounts to €93 thousand.

Among assets leased to Cembre by third parties are an industrial building adjacent to the Company's registered office measuring a total of 5,960 square meters on three floors, in addition to the Milan, Padua and Bologna sales offices owned by company Tha Immobiliare S.p.A., with registered office in Bergamo, controlled by Anna Maria Onofri, Giovanni Rosani and Sara Rosani, directors of the parent company. Rent for 2006 amounts to €331 thousand for the building adjacent to the Company's head office, €60 thousand for the Sesto S. Giovanni (Milan) office, €50 thousand for the Selvazzano (Padua) office, and €43 thousand for the Bologna office. Rent is in line with market conditions. It is in the Company's interest to benefit from the continuity of office space reducing the risk of early termination of leases. At June 30, 2006, all payments due to Tha Immobiliare had been settled.

With reference to assets and liabilities relating to subsidiaries shown above, we confirm that transactions with the same and with related parties fall within the scope of normal operating activities.

Cembre S.p.A. does not have direct relationships with its parent company Lysne S.p.A. of any other nature than that of the exercise of shareholders' rights on the part of the parent. Lysne S.p.A. does not carry out any management or coordination activity with respect to Cembre S.p.A.

*<u>Boards' compensation</u>*

In the first six months of 2006, compensation for the Board of Directors and the Board of Statutory Auditors amounted to:

*(€'000)*

| | |
|---|---:|
| Emoluments as directors of Cembre S.p.A. | 237 |
| Emoluments as directors of subsidiaries | 9 |
| Retribution as employees | 54 |
| Non-monetary benefits | 6 |

Non-monetary benefits relate to the use of a company car and insurance policies underwritten on their behalf.

## 16. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Group does not make significant use of derivative instruments to hedge against interest risk and currency exposure. At June 30, 2006, the sole hedging contracts were:

- an interest rate swap having a nominal value of €2.5 million stipulated by the parent company, terminated on July 24, 2006 and
- two currency (€) forward purchase agreements stipulated by UK subsidiary Cembre Ltd., amounting to €300 thousand each, expired and reimbursed respectively on July 21, 2006 and August 18, 2006.

<u>Interest rate risk</u>

The Group normally stipulates floating rate loan contracts. To hedge against exposure to interest rate fluctuations (cash flow hedge) the company enters into interest rate swap transactions.

At June 30, 2006, no loan remained outstanding.

<u>Currency risk</u>

Despite a strong international presence, Cembre S.p.A. does not have a significant exposure to currency risk (on an operating or equity basis), as it operates mainly in the euro area, the currency in which its trade transactions are mainly denominated.

Exposure to currency risk is determined mainly by sales in US dollars, British pounds and Norway kroners. The size of these transactions is not significant in influencing the overall performance of the Company. To hedge part of the risk deriving from purchases of supplies in euro from the parent company, UK subsidiary Cembre Ltd. Entered into forward currency purchase agreements to acquire euro, as described in the table that follows.

| Date of contract | Amount in euro | Forward exchange-rate (€/£) | £ amount | Expiration | Actual exchange-rate (€/£) | Forward £ amount | Effect |
|---|---|---|---|---|---|---|---|
| April 24, 2006 | 300.000 | 1.4354 | 209,001 | 21/07/2006 | 1.4643 | 204,876 | 4,125 |
| May 18, 2006 | 300.000 | 1.4443 | 207,713 | 18/08/2006 | 1.4698 | 204,105 | 3,608 |

As apparent, the hedge resulted a in an overall loss for Cembre Ltd. at July 21, 2006 and August 18, 2006 of £8 thousand (€11 thousand).

<u>Liquidity risk</u>

The exposure of the Group to liquidity risk is not material.

<u>Credit risk</u>

Exposure to credit risk relates exclusively to trade receivables.

None of the areas in which the Group operates poses relevant credit risks.

Operating procedures limit the sale of products or services to customers who do not possess an adequate credit profile or provide guarantees.

<u>Price risk</u>

The exposure of the Company to price risk is minimal and relates exclusively to market conditions.

The book value of financial instruments is in line with their fair market value, as for the most part they have short-term maturities.

## 17. SUBSEQUENT EVENTS

No event having significant effects on the Group's financial position or operating performance occurred after June 30, 2006.

## 18. CONSOLIDATED COMPANIES

The consolidation area is unchanged from December 31, 2005. Companies consolidated line-by-line are:

| Subsidiary | Registered office | Share capital | Share held at June 30, 2006 | Share held at Dec. 31, 2005 |
|---|---|---|---|---|
| Cembre Ltd | Sutton Coldfield (Birmingham) | £ 1,700,000 | 100% | 100% |

| | | | | |
|---|---|---|---|---|
| Cembre Sarl | Morangis (Paris) | € 1,071,000 | 100% (*) | 100% (*) |
| Cembre España SL | Coslada (Madrid) | € 1,902,000 | 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$ 840,000 | 100%(**) | 100%(**) |
| General Marking S.r.l. | Brescia (Italy) | € 99,000 | 100% | 100% |

(*) of which 5% held through Cembre Ltd.
(**) of which 29% held through Cembre Ltd.

Brescia, September 27, 2006

*CHAIRMAN OF THE BOARD OF DIRECTORS*
*CARLO ROSANI*

# Cembre S.p.A.

Registered Office: Via Serenissima 9, Brescia, Italy
Share Capital: Euro 8,840,000 (fully paid-up)
Registration no: FC 00541390175 (Commercial Register of Brescia)

# Parent company statements of accounts at June 30, 2006

## Balance sheet

| | 06/30/06 | 12/31/05 | 06/30/05 |
|---|---|---|---|
| *(euro '000)* | | | |
| **ASSETS** | | | |
| **A) NON CURRENT ASSETS** | | | |
| Tangible assets | 20.135 | 20.128 | 20.803 |
| Intangible assets | 145 | 145 | 127 |
| Investments in subsidiaries | 8.115 | 8.115 | 7.007 |
| Financial assets available for sale | 5 | 5 | 5 |
| Loans to subsidiaries | 2.000 | 0 | 0 |
| Other non-current assets | 10 | 10 | 16 |
| Deferred tax assets | 615 | 648 | 553 |
| **TOTAL NON-CURRENT ASSETS** | **31.025** | **29.051** | **28.511** |
| **B) CURRENT ASSETS** | | | |
| Inventories | 16.904 | 14.277 | 15.549 |
| Trade receivables | 15.883 | 14.310 | 14.165 |
| Trade receivables from subsidiaries | 6.366 | 5.154 | 6.455 |
| Other receivables | 212 | 73 | 45 |
| Cash and cash equivalents | 2.429 | 3.110 | 1.668 |
| **TOTAL CURRENT ASSETS** | **41.794** | **36.924** | **37.882** |
| **C) NON-CURRENT ASSETS AVAILABLE FOR SALE** | | | |
| **TOTAL ASSETS(A+B+C)** | **72.819** | **65.975** | **66.393** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **A) SHAREHOLDERS' EQUITY** | | | |
| Capital stock | 8.840 | 8.840 | 8.840 |
| Reserves | 36.068 | 33.879 | 33.841 |
| Net profit | 3.743 | 4.739 | 2.419 |
| **TOTAL SHAREHOLDERS' EQUITY** | **48.651** | **47.458** | **45.100** |
| **B) NON-CURRENT LIABILITIES** | | | |
| Employee Severance Indemnity and other personnel benefits | 4.449 | 4.352 | 4.221 |
| Provisions for risks and charges | 288 | 281 | 407 |
| Deferred tax liabilities | 3.973 | 3.898 | 3.989 |
| **TOTAL NON-CURRENT LIABILITIES** | **8.710** | **8.531** | **8.617** |
| **C) CURRENT LIABILITIES** | | | |
| Current financial liabilities | 2.095 | 292 | 2.122 |
| Liabilities on derivative instruments | 7 | 21 | 37 |
| Trade payables | 8.562 | 5.863 | 6.413 |
| Trade payables to subsidiaries | 207 | 196 | 310 |
| Tax payables | 1.233 | 1.024 | 839 |
| Other Payables | 3.354 | 2.590 | 2.955 |
| **TOTAL CURRENT LIABILITIES** | **15.458** | **9.986** | **12.676** |
| **D) LIABILITIES ON ASSETS HELD FOR DISPOSAL** | | | |
| **TOTAL LIABILITIES (B+C+D)** | **24.168** | **18.517** | **21.293** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (A+B+C+D)** | **72.819** | **65.975** | **66.393** |

# Cembre S.p.A.

Registered Office: Via Serenissima 9, Brescia, Italy
Share Capital: Euro 8,840,000 (fully paid-up)
Registration no: FC 00541390175 (Commercial Register of Brescia)

# Parent company statements of accounts at June 30, 2006

## Income Statement

| *(euro '000)* | **1/1 - 06/30 2006** | **1/1 - 06/30 2005** | **01/01-12/31 2005** |
|---|---|---|---|
| Revenues from sales and services provided | 32.703 | 26.599 | 53.463 |
| Other revenues | 88 | 51 | 128 |
| **TOTAL REVENUES** | **32.791** | **26.650** | **53.591** |
| Cost of goods and merchandise | (15.513) | (9.933) | (19.504) |
| Cost of services received | (4.302) | (3.738) | (7.285) |
| Lease and rental costs | (368) | (359) | (721) |
| Personnel costs | (7.712) | (7.426) | (14.024) |
| Other operating costs | (81) | (111) | (220) |
| Change in inventories | 2.627 | 589 | (683) |
| Increase in assets due to internal construction | 231 | 294 | 508 |
| Write-down of receivables | (57) | (52) | (200) |
| Accruals to provisions for risks and charges | (8) | (141) | (15) |
| **GROSS OPERATING PROFIT** | **7.608** | **5.773** | **11.447** |
| Tangible asset depreciation | (1.074) | (1.256) | (2.550) |
| Intangible asset amortization | (36) | (34) | (87) |
| **OPERATING PROFIT** | **6.498** | **4.483** | **8.810** |
| Financial income (expense) | 34 | (224) | (432) |
| Foreign exchange gains (losses) | (52) | 236 | 253 |
| **PROFIT BEFORE TAXES** | **6.480** | **4.495** | **8.631** |
| Income taxes | (2.737) | (2.076) | (3.892) |
| **NET PROFIT FROM ORDINARY ACTIVITIES** | **3.743** | **2.419** | **4.739** |
| **NET PROFIT FROM ASSETS HELD FOR DISPOSAL** | **0** | **0** | **0** |
| **NET PROFIT** | **3.743** | **2.419** | **4.739** |
| **BASIC EARNINGS PER SHARE** | **0,22** | **0,14** | **0,28** |

**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

# TRANSITION TO INTERNATIONAL ACCOUNTING PRINCIPLES (IAS/IFRS)

## Reconciliations required under IFRS 1 to the financial statements of the parent company at January 1, 2005 and at December 31, 2005

(Appendix A to the Interim Report at June 30, 2006)

# INTRODUCTION

As a result of the coming into operation of EU Regulation 1606/2002 issued by the European Parliament and the European Council in July 2002, companies whose securities are admitted to listing in a regulated market of a Member State of the European Union, are required to prepare from 2005 their consolidated financial statements under international accounting principles (IAS/IFRS) issued by the International Accounting Standard Board (IASB) and approved by the European Commission.

Consequently, the consolidated financial statements of Cembre S.p.A. at December 31, 2005 will be prepared under IAS/IFRS.

Legislative Decree no. 38 dated February 28, 2005, issued in application of the Proxy Law 306 dated October 31, 2003 (EU Law 2003) required listed companies already required by EU Regulation 1606/2002 to prepare their consolidated financial statements under IFRS, to prepare also their statutory accounts under IFRS starting with 2006.

Consequently, the statutory accounts of Cembre S.p.A. at December 31, 2006 will be prepared under IFRS, which require, among other things, the preparation of comparative financial statements at December 31, 2005 under the same principles.

In accordance with said decree and the provisions of IFRS 1, the Company issued information regarding the impact of the conversion to IAS/IFRS. In particular, to fulfill disclosure requirements contained in paragraphs 39a, 39b and 40 of IFRS 1 on the effect of the first-time adoption of IFRS, Cembre followed the example contained in IFRS 1 IG 63. To this end, the following were prepared:

- notes regarding the rules for the first-time application of IFRS (contained in IFRS 1) and other selected IFRS principles, including assumptions of Directors on principles and interpretations of IFRS that will be applicable at the time of the separate financial statements, in compliance with IFRS, at December 31, 2006;
- IFRS Balance Sheets at January 1, 2005 and at December 31, 2005, in addition to the IFRS Income Statement for the year ended December 31, 2005;

- the reconciliation between the Consolidated Shareholders' Equity under Italian GAAP and under IFRS at the following dates:
  - date of transition to IFRS (January 1, 2005);
  - closing date of the last financial year in which the Financial Statements were prepared under Italian GAAP (December 31, 2005);
- the reconciliation between net profit reported for last financial year in which the Financial Statements were prepared under Italian GAAP (December 31, 2005) and that reported under IFRS for the same year;
- the reconciliation between the Balance Sheet at the date of transition to IFRS (January 1, 2005) and that prepared under IFRS for the same year;
- the reconciliation between the Balance Sheet at the date of the last financial year in which the Financial Statements were prepared under Italian GAAP (December 31, 2005) and that prepared under IFRS for the same year;
- the reconciliation between the Net Financial Position under Italian GAAP and that under IFRS at January 1, 2005 and December 31, 2005;
- the Statement of Cash Flows prepared under IFRS at December 31, 2005.

As discussed more in detail below, IFRS Balance Sheets and Income Statement were obtained by applying to figures resulting from the application of Italian GAAP, the appropriate IFRS adjustments and reclassifications, carried out to reflect changes in the criteria for the presentation, recording and valuation of items required under IFRS.
Statements and reconciliations are prepared only for the purposes of the first-time preparation of the Financial Statements under IFRS, as approved by the EU Commission.
Said Statements therefore lack comparative figures and the related notes that would be required to provide a true and correct representation of the financial position and the results of Cembre in compliance with IFRS.

Adjustments were carried out in compliance with IFRS currently in force. The approval on the part of the European Commission and the related adjustments and interpretations of official organisms to which these are demanded is still underway. At the time of the preparation of the first complete IFRS financial statements at December 31, 2006, new IFRS may have come into force and new interpretations of the IFRIC may have been issued, for which the early application of the same may be allowed. For these reasons, figures reported in the statements and reconciliations provided could be subject to changes in view of their use as comparative data for the first complete IFRS financial statements.

In compliance with Consob notice DEM 5025723 dated April 15, 2005, Cembre has appointed independent auditors Reconta Ernst & Young to audit the preliminary IFRS reconciliation statements at January 1, 2005 and at December 31, 2005. The audit report is disclosed together with the audit report issued for the Financial Statements at June 30, 2006 of the Cembre Group, as provided by Law.

It should be noted that Cembre adopts IFRS for the first time in the preparation of its statutory accounts at a later date than the adoption of the same for its consolidated accounts, and has therefore recorded the same figures relating to assets and liabilities in both financial statements, with the exception of adjustments due to the consolidation.

## FIRST-TIME APPLICATION OF IFRS 1

As required under IFRS 1, at the date of transition to the new accounting principles (January 1, 2005), the company prepared a consolidated balance sheet in which:
all and exclusively assets and liabilities whose recording is allowed under the new accounting principles were recorded;
items previously reported in the financial statements in a manner different from that required under IFRS were reclassified;

IFRS were applied in the valuation of all assets and liabilities recorded.

The effect of the adjustment to new accounting principles of beginning balances of assets and liabilities was recorded under Shareholders' Equity in a specific retained earnings reserve, net of the related tax effect recorded each time in the deferred tax provision or under deferred tax assets. The adoption of IFRS implied the use of estimates formerly formulated under Italian GAAP, unless such adoption requires the formulation of estimates using different methods.

Upon the first-time application of IAS/IFRS, it has been necessary to make choices among exemptions allowed under IFRS 1.

The most significant choices made by Cembre were:

- aggregations of companies carried out before the transition date were not reviewed retrospectively by restating both assets and liabilities in line with their current value at the time of their acquisition by the Group;
- the use in the valuation of fixed assets, limited to land, of the fair value in place of cost.

## ACCOUNTING PRINCIPLES AND VALUATION CRITERIA

IAS/IFRS accounting principles and valuation criteria used in the preparation of the balance sheet at January 1, 2005 and of the financial statements at December 31, 2005 are illustrated below.

**Tangible assets**

Tangible assets are recorded at the historical cost and carried in the balance sheet net of the related provision for accumulated depreciation and write-downs.

Maintenance and repair costs are not capitalized and are recorded in the income statement in the year or financial period in which they are incurred. Depreciation commences when the asset is available for use and is calculated on a straight line basis over the estimated residual useful life of the asset. Depreciation rates applied reflect the useful life generally attributed to the various classes of assets and are unchanged from the previous year. These are:

| | |
|---|---|
| Buildings and light installations | 2% – 10% |
| Plant and machinery | 5% – 25% |
| Industrial and commercial equipment | 6% – 25% |
| Other assets | 6% – 33% |

Land has an undetermined useful life and is therefore not subject to depreciation. Assets acquired in the year are depreciated on the basis of actual usage.

The book value of tangible assets is subjected to impairment test whenever events or changes occurred indicate that the book value of the same can no longer be retrieved in line with the depreciation schedule originally set. Whenever there exists such an indication, the assets or cash generating units are written down to reflect their expected realizable value.

The residual value of assets, their useful life and methods applied are reviewed annually and adjusted, where necessary, at the end of each year.

Tangible assets are eliminated from the Balance Sheet at the time of their sale or when there no longer exists the expectation of future economic benefits from its use or disposal. Losses and gains (calculated as the difference between net revenues from the disposal and book value of the asset) are recorded in the Income Statement in the year in which they are disposed of.

**Leased assets**

Assets held under a financial lease, through which all risks and benefits relating to ownership are transferred to the Group, are recorded under assets at the lower of their current value and the present value of minimum lease payments due according to the contract, including the bullet payment due at the end of the lease to exercise the repurchase option.

The liability corresponding to the lease contract is recorded under financial liabilities.

Leased asset are classified under the respective category among buildings, plant and equipment, and depreciated over the shorter period between the term of the lease and the expected residual useful life of the asset.

Lease contracts in which the lessor holds all risks and enjoys all benefits deriving from the leased asset are classified as operating leases and recorded as costs in the Income Statement over the term of the contract.

**Intangible assets**

Intangible assets are recorded under assets, as provided by IAS 38 (Intangible assets), whenever it is probable that future economic benefits are generated through use and when the cost of the intangible asset can be determined in a reliable manner.

Intangible assets acquired separately are initially capitalized at cost, while those acquired through mergers are capitalized at their fair value at the time of acquisition.

With the exception of development costs, assets constructed internally cannot be recorded as intangible assets.

After the initial recording, intangible assets are carried in the balance sheet at cost, net of accumulated amortization calculated on a straight-line basis over their expected useful economic life, and of write-downs carried out as a result of durable losses in value. Intangible assets having an indefinite useful life are not amortized and subjected periodically to an impairment test to assess possible loss in value.

The useful life generally attributed to the various classes of assets is the following:

| | |
|---|---|
| - concessions and licenses: | 5 to 10 years |
| - development costs: | 5 years |
| - trademarks: | 10 to 20 years |

Amortization commences when the asset is available for use, that is, when it is in a position and in the necessary condition to operate in the manner intended by the management of the company.

The book value of intangible assets is subjected to impairment test whenever events or changes occurred indicate that the book value of the same can no longer be retrieved in line with the amortization schedule originally set. Whenever there exists such an indication and the book value of the asset exceeds its realizable value, the value of the asset is written-down to its expected realizable value.

**Investments**

In compliance with IAS 27, all investments held by the company are valued at cost.

**Financial assets**

Financial assets are initially recorded at cost, inclusive of accessory purchase costs, representing the fair value of the price paid. After the initial recording, financial assets are valued in accordance with their final purpose as described below.

*Financial assets valued at fair value, whose change is recorded in the Income Statement*

These are financial assets held for trading purposes, acquired for the purpose of obtaining a profit from short-term fluctuations in price. Unless specifically designated as effective hedging instruments, derivatives are classified as financial assets held for trading purposes. Gains and losses on financial assets held for trading purposes are recorded in the income statement.

*Financial assets held to maturity*

These are financial assets other than derivatives that generate fixed financial flows or flows that may be determined, that have a set maturity and which the Group intends to and is capable of holding to maturity.

Financial assets that the Group decides to hold for an indefinite period of time do not fall under this category.

Long-term financial investments held to maturity, such as bonds, after their initial recording are accounted for at the amortized cost, using the effective rate of interest method, representing the rate at which estimated future payments or collections over the expected useful life of the asset are discounted to their present value.

The amortized cost is calculated keeping into account discounts and premiums, amortized over the term of the financial asset.

*Loans extended and receivables*

Loans and receivables are non-derivative financial assets providing for fixed payments or payments that may be determined, not listed on an active market. Such assets are recorded at the amortized cost using the actual discount rate method. Gains and losses are recorded in the Income Statement whenever loans extended and receivables are eliminated from the accounts or they experience losses in value, in addition to the amortization process.

*Financial assets available for sale*

Financial assets available for sale include all financial assets that do not fall under the above categories. After the initial recording, these are accounted for at fair value, while gains and losses are recorded under a specific Shareholders' Equity reserve until the assets are not sold or a loss in value is ascertained. In such case, gains and losses accrued are charged to the income statement.

In the case of securities widely traded on a regulated market, the fair value is determined with reference to the listed price at the closing of trading on the date of the financial statements. In the case of financial assets for which there does not exist an active market, the fair value is determined through valuation techniques based on the price recorded in recent transactions between unrelated parties or on the basis of the current market value of a similar instrument, or on discounted cash flows or option pricing models. Investments in other companies fall in this category.

*Loss in value of financial assets*

The Company verifies at least yearly the possible loss in value of individual financial assets. These are recorded only at the time when there exists objective evidence, at the occurrence of one or more events, that the asset has experienced a loss of value with respect to its initial recorded value.

**Own shares**

Own shares are recorded as a reduction of Shareholders' Equity in a specific reserve.

The purchase, sale, issue or cancellation of own shares does not determine the recording of any gain or loss in the Income Statement.

**Inventories**

Inventories are valued at the lower of cost and their expected realizable value, represented by their normal sale price, net of completion and selling costs.

The cost of inventories includes the acquisition cost, the transformation cost and other costs incurred to take inventories to their current location and state.

The cost of inventories is determined under the weighted-average method, inclusive of the cost of beginning inventories.

**Payables and receivables**

Receivables are recorded initially at fair value and subsequently carried at the amortized cost, written-down in case of permanent loss in value. Payables are valued at the amortized cost.

**Cash and cash equivalents**

Cash and cash equivalents are recorded at face value.

**Loans**

Loans are initially recorded at cost, corresponding to the fair value of the amount received, net of accessory costs incurred in the extension of the loan. After the initial recording, loans are valued at the amortized cost, using the effective interest method.

**Translation of amounts denominated in currencies other than the euro**

Transactions denominated in currencies other than the euro are initially accounted for in euro at the exchange rate at the date of the transaction. Currency translation differences arising at the time at which foreign currency receivables are collected and payables are paid out, are recorded in the income statement.

At the date of the financial statements, monetary assets and liabilities denominated in currencies other than the euro – consisting of cash on hand or assets and liabilities to be received or paid out, whose amount is set and may be determined – are translated into euro at the exchange rate at the date of the financial statements, recording in the income statement the currency translation difference where appropriate.

Non-monetary items denominated in currencies other than the euro are translated into euro at the exchange rate at the time of the transaction, representing the historical exchange rate. Non-monetary elements recorded at fair value are instead translated into euro at the date at which their fair value is determined. When a gain or loss on a non-monetary element is recorded directly under Shareholders' Equity, each currency component of the gain or loss must also be recorded directly under Shareholders' Equity. On the contrary, when a gain or loss on a non-monetary element is recorded in the income statement, each currency component of the gain or loss must be recorded in the income statement.

**Provisions for risks and charges**

Provisions for risks and charges are accrued against known liabilities whose amount and expiration cannot however be determined at the date of the financial statements. Accruals are made when the existence of a current obligation, legal or implicit, deriving from a past event, the fulfillment of which is expected to require the use of resources whose amount can be reliably estimated, is probable.

Provisions are valued at the fair value of liabilities. When the financial effect and the timing of the cash outflow can be estimated in a reliable manner, provisions include the interest component, recorded in the Income Statement among financial income (expense). Provisions accrued are reviewed at each accounting date and adjusted to bring them into line with the best estimate available at that date.

**Employee benefits**

Post-employment benefits falling under the category of defined benefit plans and other long-term benefits are subject to actuarial valuations. The resulting liability recorded in the financial statements is represented by the current value of the related liability of the Group, net of assets set aside to service post-employment benefit plans.

Under IAS 19, the Employee Severance Indemnity is classified among defined benefit plans.

It is to be noted that Cembre S.p.A. opted not to use the so-called corridor approach and to record gains and losses resulting from changes in actuarial assumptions directly in the income statement.

**Elimination of financial assets and liabilities**

Financial assets are eliminated when the Group ceases to hold rights to receive financial flows deriving from the same or when such rights are transferred to another entity, that is when risks and benefits of the financial instrument cease to have an effect on the financial position and operating performance of the Group.

A financial liability is written-off exclusively when the related obligation is cancelled, fulfilled or expired. Any material change in the contractual terms relating to the liability result in its cancellation and in the recording of a new liability. Any difference between the book value and the amount paid to extinguish the liability is recorded in the Income Statement.

**Revenues**

Revenues are valued at the current value of the amount received or receivable.

Disposal of assets

The revenue is recognized when the Group has transferred the risks and benefits connected with the ownership of the good, and ceases to exercise the activity associated with ownership and the actual control over the asset sold.

Services rendered

Revenues are recorded based on the stage of completion of the operation at the date of the financial statements. When the result of the service rendered cannot be reliably estimated, revenues are recorded only to the extent of retrievable costs.

The stage of completion is determined by valuing work carried out or by determining the proportion between costs incurred and total estimated costs to completion.

Interest

Interest is recorded in the period in which it accrues, using the effective interest method.

Dividends

Dividends are recorded when the right of shareholders to receive them arises.

**Grants**

Grants are recorded when there exists a reasonable certainty that that the same will actually be received and the company meets the conditions for the entitlement to the grant.

Grants linked to cost components (e.g. operating grants) are recorded under "other revenues" and amortized over several years so that revenues match the costs they are intended to compensate.

For grants linked to assets (e.g. grants on the purchase of plant and equipment or grants for capitalized R&D costs), its fair value is suspended under long-term liabilities and released to the income statement under "other revenues" over the useful life of the asset to which it relates, thus in the period over which the depreciation expense relating to the asset is charged to the income statement.

**Financial charges**

Financial charges are recorded as a cost in the period in which they accrue.

**Cost of goods purchased and services**

The cost of goods purchased and services received is recorded in the income statement based on the accrual method.

**Income taxes (current, prepaid and deferred)**

Current taxes are determined based on a realistic estimate of the tax expense for the period. The Company records deferred and prepaid taxes arising from temporary differences between the book value of assets and liabilities and the related values reported for tax purposes.

Prepaid taxes are recorded only where there exists reasonable certainty of their retrieval through future profits within the term in which tax benefits are enjoyed. Deferred tax assets are recorded also where there exist deductible losses or tax credits whenever it is deemed probable that sufficient future profits will be generated in the medium-term (3 to 5 years).

**Financial derivatives**

Derivative financial instruments are valued at market value (*fair value*). A derivative financial instrument can be acquired for trading or hedging purposes.

Gains and losses on financial instruments acquired for trading purposes are charged to the income statement.

Derivatives acquired for hedging purposes may be accounted for under the hedge accounting method – offsetting the recording of the derivative in the income statement with adjustments to the value of assets and liabilities hedged – only when derivatives meet specific criteria.

Hedge derivatives are classified as “fair value hedges” when they are acquired to hedge against the risk of fluctuations in the market value of the underlying asset or liability or fluctuations in the financial flows deriving from the same, both in the case of existing assets and liabilities or those deriving from a future transaction.

In the case of fair value hedges, gains and losses on the restatement of the market value of a derivative instrument are taken to the income statement.

With regard to the hedging of financial flows, gains and losses on the hedge instrument are recorded under Shareholders’ Equity when they relate to the portion of the hedge considered effective, while the portion not hedged is recorded in the income statement.

**Earnings per share**

Earnings per share are calculated by dividing net profit of the Group by the weighted average of the number of shares in circulation for the period.

For the purposes of the calculation of diluted earnings per share, the weighted average of the number of shares in circulation is adjusted by assuming the conversion into shares of all stock options relating to shares having a diluting effect.

## EFFECT OF THE ADOPTION OF IFRS ON THE BALANCE SHEET AT JANUARY 1, 2005

A summary balance sheet at the date of transition, reclassified by separating current and non-current assets and liabilities is provided below.

## Balance Sheet at January 1, 2005

| *(€'000)* | **Reclassified Italian GAAP** | **Reclassification due to adoption of IAS/IFRS** | | **Effect of adoption of IAS/IFRS** | | **IAS/IFRS** |
|---|---|---|---|---|---|---|
| | | ***Notes*** | ***Amounts*** | ***Notes*** | ***Amounts*** | |
| **ASSETS** | | | | | | |
| **A) NON-CURRENT ASSETS** | | | | | | |
| Tangible assets | 14.715 | ***3*** | 685 | ***6-9*** | 6.140 | 21.540 |
| Intangible assets | 779 | ***3*** | (685) | | 0 | 94 |
| Investments in subsidiaries | 7.007 | | 0 | | 0 | 7.007 |
| Financial assets available for sale | 5 | | 0 | | 0 | 5 |
| Other non-current assets | 346 | ***2*** | (291) | | 0 | 55 |
| Deferred tax assets | 433 | | 0 | ***7*** | 115 | 548 |
| **TOTAL NON-CURRENT ASSETS** | **23.285** | | **(291)** | | **6.255** | **29.249** |
| **B) CURRENT ASSETS** | | | | | | |
| Inventories | 14.425 | | 0 | ***8*** | 535 | 14.960 |
| Trade receivables | 18.032 | | 0 | | 0 | 18.032 |
| Tax receivables | 16 | ***5*** | (16) | | 0 | 0 |
| Other receivables | 98 | ***1-5*** | (24) | | 0 | 74 |
| Cash and cash equivalents | 4.737 | | 0 | | 0 | 4.737 |
| **TOTAL CURRENT ASSETS** | **37.308** | | **(40)** | | **535** | **37.803** |
| **C) NON-CURRENT ASSETS AVAILABLE FOR SALE** | | | | | | |
| **TOTAL ASSETS (A+B+C)** | **60.593** | | **(331)** | | **6.790** | **67.052** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | | |
| **A) SHAREHOLDERS' EQUITY** | | | | | | |
| Capital stock | 8.840 | | 0 | | 0 | 8.840 |
| Reserves | 31.577 | ***2*** | (291) | ***6-7-8-9*** | 3.956 | 35.242 |
| Net profit | 0 | | 0 | | 0 | 0 |
| **TOTAL SHAREHOLDERS' EQUITY** | **40.417** | | **(291)** | | **3.956** | **44.082** |
| **B) NON-CURRENT LIABILITIES** | | | | | | |
| Employee Severance Indemnity and other personnel benefits | 3.806 | | 0 | ***7*** | 347 | 4.153 |
| Provisions for risks and charges | 639 | ***4*** | (30) | | 0 | 609 |
| Deferred tax liabilities | 1.566 | | 0 | ***6-8-9*** | 2.487 | 4.053 |
| **TOTAL NON-CURRENT LIABILITIES** | **6.011** | | **(30)** | | **2.834** | **8.815** |
| **C) CURRENT LIABILITIES** | | | | | | |
| Current financial liabilities | 3.041 | ***1*** | 23 | | 0 | 3.064 |
| Liabilities on derivative instruments | 0 | ***4*** | 30 | | 0 | 30 |
| Trade payables | 7.042 | ***1*** | (37) | | 0 | 7.005 |
| Tax payables | 1.576 | ***1*** | (3) | | 0 | 1.573 |
| Other payables | 2.506 | ***1*** | (23) | | 0 | 2.483 |
| **TOTAL CURRENT LIABILITIES** | **14.165** | | **(10)** | | **0** | **14.155** |
| **D) LIABILITIES ON ASSETS AVAILABLE FOR SALE** | | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| **TOTAL LIABILITIES (B+C+D)** | **20.176** | | **(40)** | | **2.834** | **22.970** |
| | | | | | | |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (A+B+C+D)** | **60.593** | | **(331)** | | **6.790** | **67.052** |

## NOTES

**Reclassifications**

1. As international accounting standards do not provide for the recording under Shareholders' Equity of accrued income, prepaid expenses, accrued liabilities and deferred income, in the balance sheet prepared under IAS/IFRS, amounts previously recorded under current assets among "Other payables" (amounting to a residual value of €40 thousand), and under current liabilities among "Other payables" (amounting to €23 thousand), were reclassified among other current liabilities items according to their nature.
2. Under Italian GAAP, own shares are recorded among assets and against such recording a reserve is accrued under Shareholders' Equity. Under IAS/IFRS own shares are instead recorded as a reduction of the Shareholders' Equity using, also in this case, a specific reserve. The different accounting treatment reduces, at January 1, 2005, the Shareholders' Equity by €291 thousand, against the elimination from assets of an equivalent amount relating to own shares, and the simultaneous recording of a negative reserve of the same amount.
3. Costs relating to improvements made to assets leased (€685 thousand, net of the related accumulated depreciation), that meet the requirement of being identifiable and distinct from the asset to which they relate, were reclassified from "Intangible assets" to "Tangible assets".
4. As provided by IAS 32 we have reclassified €30 thousand into a specific current liability item denominated "Financial liabilities on derivative instruments", the fair value of the interest rate swap underwritten by Cembre, previously recorded under other provisions.
5. As under IFRS item Tax receivables include only direct taxes, we have

reclassified €16 thousand in VAT receivables among Other receivables.

**Value adjustments**

6. In compliance with IAS 16, the Company reported land separately from buildings, also in case these were acquired jointly. Land has in fact as a norm an unlimited useful life and is therefore not subjected to depreciation.

   In particular:

   - the value of land was separated from buildings and amounts to €611 thousand. Such value was determined through an expert opinion;
   - the value at January 1, 2005 of accumulated depreciation relating to land, equal to €86 thousand, was eliminated.

   The adjustment, net of the related tax effect, resulted in a €54 thousand increase in the Shareholders' Equity at January 1, 2005.

7. Italian GAAP require the recording of the liability for the Employee Severance Indemnity on the basis of the nominal amount due at the date of the financial statements. IAS 19 classifies the Employee Severance Indemnity among post-employment benefits as a defined benefit plan. Such classification requires the liability accrued to be valued according to actuarial criteria, using the projected unit credit method which consists in the projection of future outflows on the basis of historical data and the population curve, in addition to the discounting of these flows on the basis of a market interest rate. The application of such valuation method resulted in a €347 thousand increase in the value of the Employee Severance Indemnity at January 1, 2005, and a corresponding decline in the Shareholders' Equity, net of the related tax effect, of €233 thousand.

8. As IAS do not allow the valuation of inventories at LIFO, the same have been valued at the average cost. The application of such valuation method resulted in a €535 thousand increase in the value of inventories, a €200 thousand

increase in deferred taxes and a €335 increase in the Shareholders' Equity.

9. Having assessed through an independent survey that the value of land recorded in the financial statements differed significantly from the market value of the same, as allowed under IFRS 1, in the transition to IAS, land was recorded at its fair value at the date of the transition in place of cost. The resulting increase in the value of land is equal to €6,054 thousand, while the effect on the Shareholders' Equity, net of taxes, is equal to €3,799 thousand.
10. Adjustments to item "Deferred tax liabilities" are determined net of the deferred tax effect generated by increases in assets or decreases in liabilities resulting from the introduction of IAS/IFRS.

Total adjustments amount to €2,487 thousand and consist of:

| | |
|---|---|
| Reversal of accumulated depreciation on land (note 6) | 32 |
| Valuation of inventories at average cost (note 8) | 200 |
| Fair value valuation of land (note 9) | 2,255 |
| **Total** | **2,487** |

**Effect of the introduction of IAS on the Shareholders' Equity of Cembre SpA: summary**

The table that follows shows main changes in the Shareholders' Equity at January 1, 2005.

| **RECONCILIATION OF SHAREHOLDERS' EQUITY AT JAN. 1, 2005**<br>*(€'000)* | ***Note*** | |
|---|---|---|
| **SHAREHOLDERS' EQUITY UNDER ITALIAN GAAP** | | **40,417** |
| Reclassification of own shares | *2* | (291) |
| Reversal of accumulated depreciation on land | *6* | 86 |
| Discounting of Employee Severance Indemnity | *7* | (347) |
| Valuation of inventories at the average cost | *8* | 535 |
| Fair value valuation of land | *9* | 6,054 |
| Tax effect of reversal of accumulated depreciation on land | *6* | (32) |
| Tax effect of discounting of Employee Severance Indemnity | *7* | 114 |
| Tax effect of valuation of inventories at the average cost | *8* | (199) |
| Tax effect of fair value valuation of land | *9* | (2,255) |
| **SHAREHOLDERS' EQUITY UNDER IAS/IFRS** | | **44,082** |

# EFFECT OF THE ADOPTION OF IFRS ON THE 2005 INCOME STATEMENT AND BALANCE SHEET AT DECEMBER 31, 2005

## *INCOME STATEMENT FOR THE YEAR ENDED DEC. 31, 2005*

Below we report a reconciliation of the income statement for the year ended December 31, 2005 prepared under Italian GAAP and IAS/IFRS.

As a result of reclassifications and adjustments shown in the income statement reconciliation that follows, revenues decline from €53,661 thousand to €53,461 thousand, the operating profit from €8,877 thousand to €8,809 thousand, and net profit from €4,866 thousand to €4,738 thousand.

The income statement that follows was prepared under IFRS 1:

**Income Statement for the year ended December 31, 2005**

| *(€ '000)* | **Reclassified Italian GAAP** | **Reclassification due to adoption of IAS/IFRS** | | **Effect of adoption of IAS/IFRS** | | **IAS/IFRS** |
|---|---|---|---|---|---|---|
| | | ***Note*** | ***Importi*** | ***Note*** | ***Importi*** | |
| Revenues from sales and services provided | 53.661 | ***2*** | (198) | | 0 | 53.463 |
| Other revenues | 247 | ***2*** | (119) | | 0 | 128 |
| **TOTAL REVENUES** | 53.908 | | (317) | | 0 | 53.591 |
| Cost of goods and merchandise | (19.504) | | 0 | | 0 | (19.504) |
| Cost of services received | (7.279) | ***2*** | (6) | | 0 | (7.285) |
| Lease and rental costs | (720) | ***2*** | (1) | | 0 | (721) |
| Personnel costs | (13.872) | ***2*** | (3) | ***4*** | (149) | (14.024) |
| Other operating costs | (468) | ***2*** | 248 | | 0 | (220) |
| Change in inventories | (843) | | 0 | ***5*** | 160 | (683) |
| Capitalized costs | 508 | | 0 | | 0 | 508 |
| Write-down of receivables | (200) | | 0 | | 0 | (200) |
| Accruals to provisions for risks and charges | (15) | | 0 | | 0 | (15) |
| **GROSS OPERATING PROFIT** | 11.515 | | (79) | | 11 | 11.447 |
| Tangible asset depreciation | (2.474) | ***1*** | (76) | | 0 | (2.550) |
| Intangible asset amortization | (163) | ***1*** | 76 | | 0 | (87) |
| **OPERATING PROFIT** | 8.878 | | (79) | | 11 | 8.810 |

| *(€ '000)* | **Reclassified Italian GAAP** | **Reclassification due to adoption of IAS/IFRS** | | **Effect of adoption of IAS/IFRS** | | **IAS/IFRS** |
|---|---|---|---|---|---|---|
| | | ***Note*** | ***Importi*** | ***Note*** | ***Importi*** | |
| Financial income (expense) | (364) | ***3*** | (68) | | 0 | (432) |
| Foreign exchange gains (losses) | 253 | | 0 | | 0 | 253 |
| **PROFIT BEFORE TAXES** | 8.767 | | (147) | | 11 | 8.631 |
| Income taxes | (3.900) | ***2-3*** | 19 | ***4-5*** | (11) | (3.892) |
| **NET PROFIT** | 4.867 | | (128) | | 0 | 4.739 |

## NOTES

### Reclassifications

1. The reclassification of leasehold improvement costs from "Intangible assets" to "Tangible assets", resulted in the reclassification of €76 thousand from the related amortization.
2. As provided by IAS 1, extraordinary items, amounting under Italian GAAP to negative €146 thousand, were reclassified as follows:
   - *Revenues: €198 decline;*
   - *Other operating revenues:* €119 thousand decline;
   - *Personnel costs:* €3 thousand increase*;*
   - *Cost of services received:* €6 thousand increase;
   - *Leases and rentals:* €1 thousand increase;
   - *Other operating costs:* €248 thousand decrease;
   - *Taxes*: €6 thousand increase.

   Revenues amounting to €86 thousand relating to the reversal of accumulated depreciation on land were also reclassified into the Extraordinary reserve.
3. Under IAS 32, revenues from the sale of own shares were netted from the income statement and recorded directly as an increase to the Shareholders' Equity. This reclassification, equal to €68 thousand, resulted in a €43 thousand reduction in the profit for the year, net of the related tax effect.

## Value adjustments

4. The different accounting treatment of employee benefits involving the recalculation of the Employee Severance Indemnity using actuarial techniques, resulted in a €149 thousand increase in personnel costs, and a €49 thousand decline in taxes, representing the related tax effect.
5. As IAS do not allow the valuation of inventories at LIFO, the same have been valued at the average cost. The application of such valuation method resulted in a €101 thousand increase in the value of inventories, net of the related tax effect.

## Effect on net profit for 2005: summary

The table that follows shows main changes occurred in the net profit. Adjustments are classified by type, in line with the table above.

| **RECONCILIATION OF NET PROFIT FOR 2005**<br>*('000)* | *Note* | |
|---|---|---|
| **NET PROFIT UNDER ITALIAN GAAP** | | **4,867** |
| Reversal of accumulated depreciation on land | *2* | (86) |
| Revenues from sale of own shares recorded under Shareholders' Equity | *3* | (68) |
| Discounting of Employee Severance Indemnity | *4* | (149) |
| Valuation of inventories at average cost | *5* | 160 |
| Tax effect of revenues from sale of own shares recorded under Shareholders' | *3* | 25 |
| Tax effect of discounting of Employee Severance Indemnity | *4* | 49 |
| Tax effect of valuation of inventories at average cost | *5* | (59) |
| **NET PROFIT UNDER IAS/IFRS** | | **4,739** |

## *BALANCE SHEET AT DECEMBER 31, 2005*

A summary consolidated balance sheet at December 31, 2005, reclassified by separating current and non-current assets and liabilities is provided below.

## Balance Sheet at December 31, 2005

| *(€' 000)* | Reclassified Italian GAAP | Reclassification due to adoption of IAS/IFRS | | Effect of adoption of IAS/IFRS | | IAS/IFRS |
|---|---|---|---|---|---|---|
| | | ***Note*** | | ***Note*** | | |
| **ASSETS** | | | | | | |
| **A) NON-CURRENT ASSETS** | | | | | | |
| Tangible assets | 13,465 | ***2*** | 609 | ***8*** | 6,054 | 20,128 |
| Intangible assets | 754 | ***2*** | (609) | | 0 | 145 |
| Investments in subsidiaries | 8,115 | | 0 | | 0 | 8,115 |
| Financial assets available for sale | 5 | | 0 | | 0 | 5 |
| Other non-current assets | 10 | | 0 | | 0 | 10 |
| Deferred tax assets | 484 | | 0 | ***7*** | 164 | 648 |
| **TOTAL NON-CURRENT ASSETS** | **22,833** | | **0** | | **6,218** | **29,051** |
| **B) CURRENT ASSETS** | | | | | | |
| Inventories | 13,582 | | 0 | ***9*** | 695 | 14,277 |
| Trade receivables | 19,464 | | 0 | | 0 | 19,464 |
| Tax receivables | 16 | ***5*** | (16) | | 0 | 0 |
| Other receivables | 88 | ***1-5*** | (15) | | 0 | 73 |
| Cash and cash equivalents | 3,110 | | 0 | | 0 | 3,110 |
| **TOTAL CURRENT ASSETS** | **36,260** | | **(31)** | | **695** | **36,924** |
| **C) NON-CURRENT ASSETS AVAILABLE FOR SALE VENDITA** | | | | | | |
| **TOTAL ASSETS (A+B+C)** | **59,093** | | **(31)** | | **6,913** | **65,975** |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | | |
| **A) SHAREHOLDERS' EQUITY** | | | | | | |
| Capital stock | 8,840 | | 0 | | 0 | 8,840 |
| Reserves | 29,880 | ***4*** | 129 | ***6-7-8-9*** | 3,870 | 33,879 |
| Net profit | 4,867 | | | | | 4,739 |
| **TOTAL SHAREHOLDERS' EQUITY** | **43,587** | | **129** | | **3,870** | **47,458** |
| **B) NON-CURRENT LIABILITIES** | | | | | | |
| Employee Severance Indemnity and other personnel benefits | 3,856 | | 0 | ***7*** | 496 | 4,352 |
| Provisions for risks and charges | 302 | ***3*** | (21) | | 0 | 281 |
| Deferred tax liabilities | 1,352 | | 0 | ***6-8-9*** | 2,546 | 3,898 |
| **TOTAL CURRENT LIABILITIES** | **5,510** | | **(21)** | | **3,042** | **8,531** |
| **C) CURRENT LIABILITIES** | | | | | | |
| Current financial liabilities | 291 | | 0 | | 0 | 291 |
| Liabilities on derivative instruments | 0 | ***3*** | 21 | | 0 | 21 |
| Trade payables | 6,088 | ***1*** | (28) | | 0 | 6,060 |
| Tax payables | 1,024 | | 0 | | 0 | 1,024 |
| Other payables | 2,593 | ***1*** | (3) | | 0 | 2,590 |
| **TOTAL CURRENT LIABILITIES** | **9,996** | | **(10)** | | **0** | **9,986** |
| **D) LIABILITIES ON ASSETS AVAILABLE FOR SALE** | | | | | | |
| **TOTAL LIABILITIES (B+C+D)** | **15,506** | | **(31)** | | **3,042** | **18,517** |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (A+B+C+D)** | **59,093** | | **98** | | **6,912** | **65,975** |

**NOTES**

## Reclassifications

1. As international accounting standards do not provide for the recording under Shareholders' Equity of accrued income, prepaid expenses, accrued liabilities and deferred income, in the balance sheet prepared under IAS/IFRS, amounts previously recorded under current assets among "Other receivables" (amounting to a residual value of €31 thousand) were reclassified among other current liabilities items according to their nature.
2. Costs incurred in improvements made to assets leased (€609 thousand, net of the related accumulated depreciation), that meet the requirement of being identifiable and distinct from the asset to which they relate, were reclassified from "Intangible assets" to "Tangible assets".
3. The risk provision on interest rate swaps, amounting to €21 thousand, was reclassified under a specific item denominated "Financial liabilities on derivative instruments". This reflects the current value of the spread between cash flows from hedged loans and those from the hedging instrument.
4. As provided under IAS 32, revenues from the sale of own shares held are netted from the income statement and recorded directly as an increase in the Shareholders' Equity. This reclassification, net of the related tax effect, resulted in a reduction of the profit for the period of €43 thousand, while it had no effect on the Shareholders' Equity. The additional €86 thousand change in the reserves is justified by the reclassification of extraordinary items, as described in note 2 to the income statement.
5. As under IFRS item Tax receivables include only direct taxes, we have reclassified €16 thousand in VAT receivables among Other receivables.

## Value adjustments

6. In compliance with IAS 16, the Company reported land separately from buildings, also in case these were acquired jointly. Land has in fact as a norm an unlimited useful life and is therefore not subjected to depreciation.

In particular:

- the value of land was separated from buildings and amounts to €611 thousand;
- the value at December 31, 2005 of accumulated depreciation relating to land, equal to €86 thousand, was eliminated. Under IFRS, such amount was reclassified as an increase of the Extraordinary reserve. The related tax effect resulted in a €32 thousand increase in the Shareholders’ Equity at December 31, 2005.

**7.** Italian GAAP require the recording of the liability for the Employee Severance Indemnity on the basis of the nominal amount due at the date of the financial statements. IAS 19 classifies the Employee Severance Indemnity among post-employment benefits as a defined benefit plan. Such classification requires the liability accrued to be valued based on actuarial criteria, using the projected unit credit method which consists in the projection of future outflows on the basis of historical data and the population curve, in addition to the discounting of these flows on the basis of a market interest rate. The application of such valuation method resulted in a €496 thousand increase in the value of the Employee Severance Indemnity at December 31, 2005, and a corresponding decrease in the Shareholders’ Equity, net of the related tax effect, of €332 thousand.

**8.** Having assessed through an independent survey that the value of land recorded in the financial statements differed significantly from the market value of the same, as allowed under IFRS 1, in the transition to IAS land was recorded at its fair value at the date of the transition in place of cost. The resulting increase in the value of land is equal to €6,054 thousand, while the effect on the Shareholders’ Equity, net of taxes, is equal to €3,799 thousand.

**9.** As IAS do not allow the valuation of inventories at LIFO, the same have been valued at the average cost. The application of such valuation method resulted in a €696 thousand increase in the value of inventories, a €259 thousand increase in deferred taxes and a €437 increase in the Shareholders' Equity.

**10.** Adjustments to item "Deferred tax assets" are determined by the deferred tax effect generated by decreases in assets or increases in liabilities resulting from the introduction of IAS/IFRS. Total adjustments amount to €164 thousand and relate to the tax effect of the increase in the Employee Severance Indemnity resulting from its discounting.

**11.** Adjustments to item "Deferred tax liabilities" are determined by the deferred tax effect generated by increases in assets or decreases in liabilities resulting from the introduction of IAS/IFRS. Total adjustments amount to €2,546 thousand and consist of:

| | |
|---|---:|
| Reversal of accumulated depreciation on land (note 6) | 32 |
| Average cost valuation of inventories (note 9) | 259 |
| Fair value valuation of land (note 8) | 2,255 |
| **Total** | **2,546** |

**<u>Effect of the adoption of IAS/IFRS on the Shareholders' Equity: summary.</u>**

The table that follows shows main changes in the Shareholders' Equity at December 31, 2005.

| **RECONCILIATION OF SHAREHOLDERS' EQUITY AT DECEMBER 31, 2005** | | |
|---|---|---:|
| *(€ '000)* | *Note* | |
| **SHAREHOLDERS' EQUITY UNDER ITALIAN GAAP** | | **43,587** |
| Discounting of Employee Severance Indemnity | *7* | (496) |
| Valuation of land at fair value | *8* | 6,054 |
| Average cost valuation of inventories | *9* | 695 |
| Tax effect of reversal of accumulated depreciation on land | *6* | (32) |
| Tax effect of discounting of Employee Severance Indemnity | *7* | 164 |
| Tax effect of fair value valuation of land | *8* | (2,255) |
| Tax effect of valuation of inventories at the average cost | *9* | (259) |
| **SHAREHOLDERS' EQUITY UNDER IAS/IFRS** | | **47,458** |

# EFFECT OF THE ADOPTION OF IAS/IFRS ON THE NET FINANCIAL POSITION AT JANUARY 1, 2005 AND DECEMBER 31, 2005 – SUMMARY

The table that follows shows the effect of the adoption of IAS/IFRS commented above on the financial position of Cembre SpA at January 1, 2005 and December 31, 2005:

| **RECONCILIATION OF NET FINANCIAL POSITION** | **Jan. 1, 2005** | **Dec. 31, 2005** |
|---|---|---|
| **NET FINANCIAL POSITION UNDER ITALIAN GAAP** | **1,987** | **2,819** |
| Netting of own shares | (291) | 0 |
| Reclassifications of bank accruals | (23) | 0 |
| Reclassification of provision for Interest Rate Swap losses | (30) | (21) |
| **NET FINANCIAL POSITION UNDER IAS/IFRS** | **1,643** | **2,798** |

The effect on the opening net financial position (at January 1, 2005) is due to the netting of own shares (€291 thousand), the reclassification of bank accruals (€23 thousand) and the reclassification of the provision for losses on interest rate swaps (€30 thousand).

Brescia, September 27, 2006

*CHAIRMAN OF THE BOARD OF DIRECTORS*
*CARLO ROSANI*