**Cembre SpA**

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

# Report on the Operations of the First Quarter 2006

## Consolidated financial statements at March 31, 2006

### Consolidated income statement

| *(euro '000)* | **1/1 - 31/03 2006** | **1/1 - 31/03 2005** |
|---|---|---|
| Revenues from sales and services provided | 19.930 | 15.804 |
| Other revenues | 46 | 9 |
| **TOTAL REVENUES** | **19.976** | **15.813** |
| Cost of goods and merchandise | (7.851) | (5.290) |
| Cost of services received | (3.011) | (2.491) |
| Lease and rental costs | (257) | (281) |
| Personnel costs | (5.568) | (5.054) |
| Other operating costs | (99) | (84) |
| Change in inventories | 1.080 | 584 |
| Increase in assets due to internal construction | 128 | 115 |
| Write-down of receivables | (76) | (23) |
| Accruals to provisions for risks and charges | (4) | (3) |
| **GROSS OPERATING PROFIT** | **4.318** | **3.286** |
| Tangible asset depreciation | (732) | (830) |
| Intangible asset amortization | (16) | (43) |
| Write-down of long-term assets | 0 | 0 |
| **OPERATING PROFIT** | **3.570** | **2.413** |
| Financial income (expense) | 5 | (42) |
| Foreign exchange gains (losses) | (44) | 163 |
| **PROFIT BEFORE TAXES** | **3.531** | **2.534** |

### Consolidated net financial position at March 31, 2006

| *(euro '000)* | **31/03/2006** | **31/03/2005** | **31/12/2005** |
|---|---|---|---|
| Cash and cash equivalents | 5.040 | 6.853 | 6.026 |
| Non-current financial liabilities | (118) | (241) | (89) |
| Current financial liabilities | (1.049) | (6.244) | (3.139) |
| Liabilities on derivative instruments | (13) | (29) | (21) |
| **NET FINANCIAL POSITION** | **3.860** | **339** | **2.777** |

# Cembre S.p.A.

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

# Notes to the consolidated accounts

# for the 1st Quarter of 2006

**Accounting principles, form and content of the Financial Statements, estimates**

Principles of consolidation and valuation criteria adopted are consistent with international accounting principles (IAS/IFRS). The present Quarterly Report was prepared in accordance with Regulations for the implementation of Legislative Decree no. 58 dated February 24, 1998 concerning rules for listed companies, adopted by Consob.

The Consolidated Financial Statements are based on the Statutory Accounts of Cembre SpA (parent company) at March 31, 2006, and those of the following companies at the same date:

| | Share owned by the Group at March 31, 2006 | Share owned by the Group at March 31, 2005 |
|---|---|---|
| 1. Cembre Ltd (UK) | 100% | 100% |
| 2. Cembre Sarl *(France) | 100% | 100% |
| 3. Cembre España SL *(Spain) | 100% | 100% |
| 4. Cembre AS (Norway) | 100% | 100% |
| 5. Cembre GmbH *(Germany) | 100% | 100% |
| 6. Cembre Inc. **(USA) | 100% | 100% |
| 7. General Marking Srl | 100% | 100% |

* 5% share held through Cembre Ltd
** 29% share held through Cembre Ltd

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

Criteria used in the preparation of the financial statements were applied consistently within the Group. Where necessary, financial data was adjusted and reclassified. In compliance with IFRS 1, in the financial statements costs were classified by nature. The scope of the consolidation is unchanged from March 31, 2005 and March 31, 2005.

The present Quarterly Report was prepared in accordance with the "period separation criteria", based on which the period considered is treated as an independent financial period. The income statement for the quarter thus reflects the income components relating to the period based on the accrual method.

Year-end bonuses recognized to customers were estimated based on sales and their expected performance.

**Reconciliation to IAS/IFRS of the income statement for the first three months of 2005**

Below we report a reconciliation to IAS/IFRS of the income statement for the first three months of 2005 prepared under Italian GAAP.

As a result of reclassifications and adjustments shown and commented in the income statement reconciliation that follows, revenues decline from €15,855 thousand to €15,804 thousand, the operating profit increases from €2,294 thousand to €2,413 thousand, and net profit from €2,455 thousand to €2,534 thousand.

The income statement that follows was prepared under IFRS 1:

**Income Statement for the first three months of 2005**

| *(€ '000)* | **Reclassified Italian GAAP** | **Reclassification due to adoption of IAS/IFRS** | | **Effect of adoption of IAS/IFRS** | | **IAS/IFRS** |
|---|---|---|---|---|---|---|
| | | ***Note*** | | ***Note*** | | |
| Revenues from sales and services provided | 15,855 | ***2*** | (51) | | – | 15,804 |
| Other revenues | 10 | ***2*** | (1) | | – | 9 |
| **TOTAL REVENUES** | 15,865 | | (52) | | | 15,813 |
| Cost of goods and merchandise | (5,290) | | – | | – | (5,290) |
| Cost of services received | (2,508) | ***2-3*** | 17 | | – | (2,491) |
| Lease and rental costs | (280) | ***2*** | (1) | | – | (281) |
| Personnel costs | (5,172) | ***2*** | (1) | ***5*** | 119 | (5,054) |
| Other operating costs | (141) | ***2*** | 57 | | – | (84) |
| Change in inventories | 584 | | – | | – | 584 |
| Increase in assets due to internal construction | 115 | | – | | – | 115 |
| Write-down of receivables | (23) | | – | | – | (23) |
| Accruals to provisions for risks and charges | (3) | | – | | – | (3) |
| **GROSS OPERATING PROFIT** | 3,147 | | 20 | | 119 | 3,286 |
| Tangible asset depreciation | (811) | ***1*** | (19) | | – | (830) |
| Intangible asset amortization | (42) | ***1-3*** | (1) | | – | (43) |
| **OPERATING PROFIT** | 2,294 | | – | | 119 | 2,413 |
| Financial income (expense) | (2) | ***4*** | (40) | ***6*** | – | (42) |
| Foreign exchange gains (losses) | 163 | | – | | – | 163 |
| **PROFIT BEFORE TAXES** | 2,455 | | (40) | | 119 | 2,534 |

Reclassifications shown in the above income statement are described below:

<u>Reclassifications</u>

**1.** The reclassification of leasehold improvement costs from "Intangible assets" to "Tangible assets", resulted in the reclassification of €19 thousand from the related amortization and depreciation.

**2.** As provided by IAS 1, extraordinary items, amounting under Italian GAAP to negative €78 thousand, were reclassified as follows:

- *Revenues from sales and services:* €51 thousand decline;
- *Other revenues:* €1 thousand decline;
- *Personnel costs:* €1 thousand increase;
- *Cost of services received:* €4 thousand increase;

- *Lease and rental costs:* €1 thousand increase;
- *Other operating costs:* €57 thousand decline;

**3.** The reclassification of the non-competition agreement underwritten by subsidiary General Marking among intangible assets, resulted in the reclassification of €21 thousand, corresponding to the share for the period, from “Cost of services received” to “Intangible asset amortization”.

**4.** Under IAS/IFRS, financial gains from the sale of own shares. are not recorded in the income statement, but recorded directly in the Shareholders’ Equity and thus the €40 thousand gain was reclassified as an increase in equity reserves.

<u>Value adjustments</u>

**5.** The different accounting treatment of employee benefits involving the recalculation of the Employee Severance Indemnity using actuarial techniques, resulted in a €119 thousand decline in personnel costs.

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

| **RECONCILIATION OF CONSOLIDATED PROFIT BEFORE TAXES FOR THE FIRST THREE MONTHS OF 2005** | | |
|---|---|---|
| *(‘000)* | *Note* | |
| **PROFIT BEFORE TAXES UNDER ITALIAN GAAP** | | **2,455** |
| Reclassification of gains from sales of own shares | *4* | (40) |
| Discounting of Employee Severance Indemnity | *5* | 119 |
| **PROFIT BEFORE TAXES UNDER IAS/IFRS** | | **2,534** |

## Notes to the accounts

The increase of production costs resulted from the growth in sales and the increase in the cost of raw materials.

The improvement of the net financial position from €2.8 million at December 31, 2005, to positive €3.9 million at March 31, 2006 is due to the good operating performance in the quarter. The net financial expense in the first three months of 2006 amounts to €39 thousand, as compared with a net financial income of €122 thousand in the same period in 2005. The decline is due to the unfavorable exchange rate performance.

**Sales by geographical area**

| *(€'000)* | 1st Quarter 2006 | 1st Quarter 2005 |
|---|---|---|
| Italy | 8,894 | 7,044 |
| Rest of Europe | 9,242 | 7,371 |
| Rest of the World | 1,794 | 1,389 |
| Total | 19,930 | 15,804 |

**Outlook**

In 2006, turnover is expected to grow over the previous year, while profit levels are expected to remain good.

The Company's activity is not characterized by cyclical or seasonal factors, with the exception of the slowdown registered in August, due to the closing of production facilities for the summer holydays, and in December for the Christmas season.

Brescia, May 15, 2006

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

CARLO ROSANI

# Cembre S.p.A.

Head Office: Via Serenissima 9, Brescia, Italy

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Registration no. 00541390175 (Brescia Commercial Register)

# Management Report

# on the consolidated accounts for the 1st Quarter of 2006

In the 1st Quarter of 2006, sales grew by 26.1% on the same period in 2005, from €15,804 thousand to €19,930.

In the first three months of 2006, 44.6% of Group sales were represented by Italy (as compared with 44.6% in the first three months of 2005), 46.4% by the rest of Europe (46.6% in the first three months of 2005), and the remaining 9% by the rest of the World (8.8% in the first three months of 2005). In the 1st Quarter of 2006 domestic sales grew by 26.3% on the same period in 2005, while exports grew by 26%.

**Net revenues by Group company**

| (*€ '000*) | 1st Quarter 2006 | 1st Quarter 2005 |
|---|---|---|
| Parent company | 11,008 | 8,922 |
| Cembre Ltd. (UK) | 3,055 | 2,454 |
| Cembre S.a.r.l. (France) | 1,261 | 1,138 |
| Cembre España S.L. (Spain) | 2,544 | 2,027 |
| Cembre GmbH (Germany) | 867 | 571 |
| Cembre AS (Norway) | 103 | 70 |
| Cembre Inc. (USA) | 1,004 | 542 |
| General Marking Srl (Italy) | 88 | 80 |
| Total | 19,930 | 15,804 |

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 grew by 37% from €229 thousand in the first three months of 2005, to €314 thousand in the same period in 2006.

To provide a better understanding of the Group's financial performance for the 1st Quarter of 2006, a Reclassified Consolidated Income Statement is enclosed as Attachment A.

Gross operating profit for the 1st Quarter of 2006 is equal to €4,318 thousand, corresponding to a 21.7% margin on sales, up 31.4% on €3,286 thousand reported in the 1st Quarter of 2005 (20.8% of sales).

Operating profit for the first three months of 2006 amounts to €3,570 thousand, representing a 17.9% margin on sales, up 47.9% from €2,413 in the first three months of 2005 (a 15.3% margin on sales) due to the lower weight of depreciation and amortization charges.

Consolidated profit before taxes in the first three months of 2006 is equal to €3,531 thousand, representing a 17.7% margin on sales, up 39.3% on €2,534 thousand in the first three months of 2005, when it represented a 16% margin on sales.

Net consolidated financial position improved sharply from positive €0.3 million at the end of March 2005, to positive €3.9 million at March 31, 2006, thanks to positive operating results, that allowed the company to repay all financial debt. Short-term financial debt does not include 2005 dividends, amounting to €2,550 thousand, payable to Shareholders from May 25, 2006, as resolved today by the Shareholders' Meeting.

**Events subsequent to March 31, 2006**

No particular event that may significantly affect the economic performance, asset structure or financial performance of the Group occurred after March 31, 2006.

Brescia, May 15, 2006

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

CARLO ROSANI

# Cembre SpA

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

**Attachment A to the Report on Operations for the 1st Quarter of 2006**

## Consolidated Income Statement

| (€ '000) | 1/1 - 03/31 2006 | % | 1/1 - 03/31 2005 | % | change | 1/1 - 12/31 2005 | % |
|---|---|---|---|---|---|---|---|
| Revenues from sales and services provided | 19.930 | 100 | 15.804 | 100 | 26,1% | 69.997 | 100 |
| Other revenues | 46 | | 9 | | | 105 | |
| **TOTAL REVENUES** | **19.976** | | **15.813** | | | **70.102** | |
| Cost of goods and marchandise | (7.851) | (39,4) | (5.290) | (33,5) | 48,4% | (22.599) | (32,3) |
| Cost of services received | (3.011) | (15,1) | (2.491) | (15,8) | 20,9% | (10.395) | (14,9) |
| Lease and rental costs | (257) | (1,3) | (281) | (1,8) | -8,5% | (1.014) | (1,4) |
| Personnel costs | (5.568) | (27,9) | (5.054) | (32,0) | 10,2% | (20.579) | (29,4) |
| Other operating costs | (99) | (0,5) | (84) | (0,5) | 17,9% | (470) | (0,7) |
| Change in inventories | 1.080 | 5,4 | 584 | 3,7 | | (605) | (0,9) |
| Increase in assets due to internal construction | 128 | 0,6 | 115 | 0,7 | 11,3% | 508 | 0,7 |
| Write-down of current assets | (76) | (0,4) | (23) | (0,1) | 230,4% | (209) | (0,3) |
| Accruals to provisions for risks and charges | (4) | 0,0 | (3) | 0,0 | 33,3% | (21) | (0,0) |
| **GROSS OPERATING PROFIT** | **4.318** | **21,7** | **3.286** | **20,8** | 31,4% | **14.718** | **21,0** |
| Tangible assets depreciation | (732) | (3,7) | (830) | (5,3) | -11,8% | (3.364) | (4,8) |
| Intangible assets amortization | (16) | (0,1) | (43) | (0,3) | -62,8% | (104) | (0,1) |
| Write-down of long-term assets | 0 | 0,0 | 0 | 0,0 | | (227) | (0,3) |
| **OPERATING PROFIT** | **3.570** | **17,9** | **2.413** | **15,2** | 47,9% | **11.023** | **15,7** |
| Financial income (expense) | 5 | 0,0 | (42) | (0,3) | -111,9% | (142) | (0,2) |
| Foreign exchange gains (losses) | (44) | (0,2) | 163 | 1,0 | -127,0% | 311 | 0,4 |
| **PROFIT BEFORE TAXES** | **3.531** | **17,7** | **2.534** | **15,9** | 39,3% | **11.192** | **16,0** |