



COSTRUZIONI ELETTROMECCANICHE BRESCIANE

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REPORT and ACCOUNTS

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# Cembre S.p.A.

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Head Office: Via Serenissima, 9, Brescia, Italy

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

Registration no: CF 00541390175 (Commercial Register of Brescia)

*This document contains translations of the official financial statements and managements reports prepared in the Italian language for the purpose of the Italian law.*



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# C e m b r e



**Cembre S.p.A.**  
*Group headquarters located in Brescia, Italy*

Cembre is today the leading Italian manufacturer\* and one of the largest European manufacturers of electric compression connectors and related installation tools.

The company's extensive know-how in the field of electrical connectors, strong R&D activity and the continuous innovation in manufacturing technologies and product specifications, allow Cembre to respond quickly

to the needs of an increasingly demanding market offering high-quality products that are reliable, durable and safe.

The wide product range, the capillary and efficient domestic and international sales network and the strong focus on customer needs represent the strengths of the Cembre Group and ensure a strong competitive advantage in a continuously evolving world market.



\* Source Cembre S.p.A.

# Products

## PRODUCT RANGE

Cembre designs and manufactures a wide range of electrical connectors and tools for their installation.

Cembre, in particular, has adopted and developed a 'compression' connection system that enables it to exploit the hardening properties of selected metals (copper and aluminium), whereby these metals acquire greater strength and resistance when bent by force, thereby guaranteeing the achievement of better performances by these types of connectors than would have otherwise been obtained by more conventional welding and mechanical clamping (screws and bolts) connection methods.





Compression connectors are characterised by lower electrical resistance and by excellent quality electrical contact.

Installation tools used for compressing the connectors and cutting the cables enable quick installation and the achievement of easy and safe optimal connections. The range of tools includes, according to the application, mechanical, pneumatic, hydraulic and electrical tools.



## STRATEGIES

The Cembre Group is growing rapidly and investing strongly in the development of its product range and the consolidation of its sales and distribution network, seeking to increase its presence in the international markets.

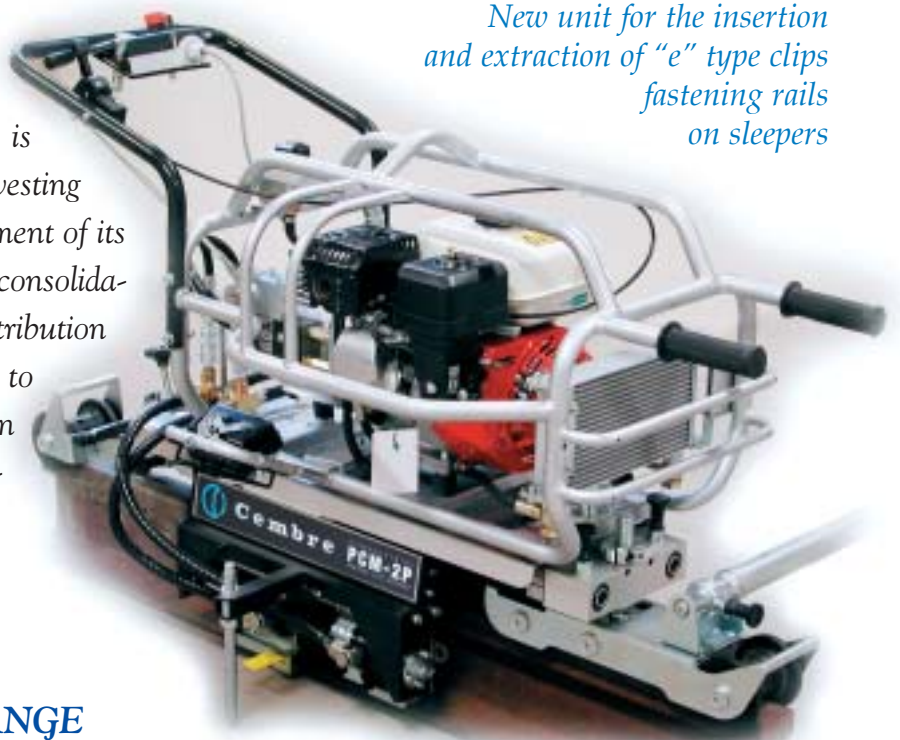
## DEVELOPMENT OF THE PRODUCT RANGE

R&D activities focus primarily on the development of new products aimed at markets with the highest growth potential such as rail transport, civil and industrial equipment. Implementation of new European Union safety regulations require the adoption of modern connection systems as those manufactured by Cembre Group. Constant attention devoted to trends in demand and the monitoring of customer satisfaction allowed Cembre to develop solutions in line with an increasingly demanding market, stretching the use of own technologies to a growing number of applications.

Cembre Group's expansion of product offer was achieved by launching leading-edge technology products, including new battery powered hydraulic tools, a new range of professional mechanical tools, electrically insulated hydraulic tools, linked cable terminals insulated with halogen free material, drills for wooden rail-sleepers etc. Whole families of already existing products were moreover updated and improved to enhance user friendliness and qualitative and performance standards.

The wide knowledge of the sector and the strong presence

*New unit for the insertion and extraction of "e" type clips fastening rails on sleepers*



*New hydraulic, battery operated pump*

*New range of hydraulic tools featuring extended head*



on the territory allowed Cembre to identify and understand the needs of the different local markets, adapting products to the specific requirements in terms of quality imposed by safety regulations in the different countries in which it operates.

## **INTERNET SITE**

The Internet site allows the company to interact with customers, providing a number of services such as technical assistance, promotions, the presentation of new products and the possibility to liaise with wholesalers operating in the territory.



Internet

## INCREASE IN PRODUCTION CAPACITY

*Cembre made significant investments in the optimization of its manufacturing activities and enlarging its production capacity at the Brescia, Birmingham and Bergamo facilities.*

*In Brescia, Cembre have modern numerical control work centres as well as other equipment guaranteeing high flexibility and quality of the production. The Company has an automated warehouse and its own tinplating department which allows to reduce production time and costs, ensuring tight quality control.*

*The strengthening of production capacity and efficiency involved also the Birmingham plant, dedicated to the production of particular specific production lines for some markets.*

*General Marking Srl during the 2003 moved its operating headquarters nearby Bergamo, in a new bigger building suitable to cope with the development foreseen for the next years.*



*Selection of our current hydraulic, battery operated tools*

## QUALITY

To ensure a high quality standard, since 1990 Cembre's Quality System has been certified by the Lloyd's Register Quality Assurance in accordance with the ISO 9002 standard.

Since 1992 the certification of the Quality System was extended also to the design process, in accordance with the ISO 9001 standard.

The activities of the Brescia head office, those of regional offices in Italy and of subsidiaries in the United Kingdom, France, Spain, Norway, Germany and the United States are currently managed according to a single Quality System. In 1998, this Quality System was successfully audited for

compliance with the ISO 9001 standard, following its 1994 successful audit for certification by the Lloyd's Register Certification regarding the design, manufacture and commercialisation of accessories for cables, electric connectors and related equipment, and for the repair, overhaul and related recalibration of equipment.

**This ensures a high and uniform quality for the products and services supplied by Cembre to its customers.**



Multi-site Certificates attesting the conformity to ISO 9001-2000 standards have been issued relating to the Group's head office, its regional offices in Italy and its associated companies in the United Kingdom, France, Spain, Norway, Germany and the United States.



# Manufacturing

## MANUFACTURING

*Cembre quickly developed after its creation in 1969, until it became the leading company\* in Italy specialising in the manufacture of electrical compression connectors and related installation tools, while gaining important market shares elsewhere in Europe, where it is now recognised as the leading crimping tools manufacturer.*



*CNC Machine  
Department*

*Cembre Group's growth has traditionally been driven by its ability to continually anticipate the evolution of the electrical connectors market, enabling it to develop new products with the highest standards in quality, reliability and safety, as well as to improve the performance of existing products.*



*Press and high speed press  
machines department*





*View of insulated connectors and terminal blocks assembly department*

***Cembre is currently a group employing 468 persons, with a turnover in 2003 amounting to € 60 million.***

*The parent company, Cembre S.p.A., is based in Brescia where, on an area of approximately 47,000 square meters, are the Head Office, sales offices, technical offices, Research & Development, the automated warehouse, production facilities and test laboratories.*



*View of the automated warehouse*

*Tin plating department*



*\* Source Cembre S.p.A.*

# Group Structure

## GROUP STRUCTURE

Cembre SpA  
Brescia (Italy)

Cembre AS  
Stokke (Norway)

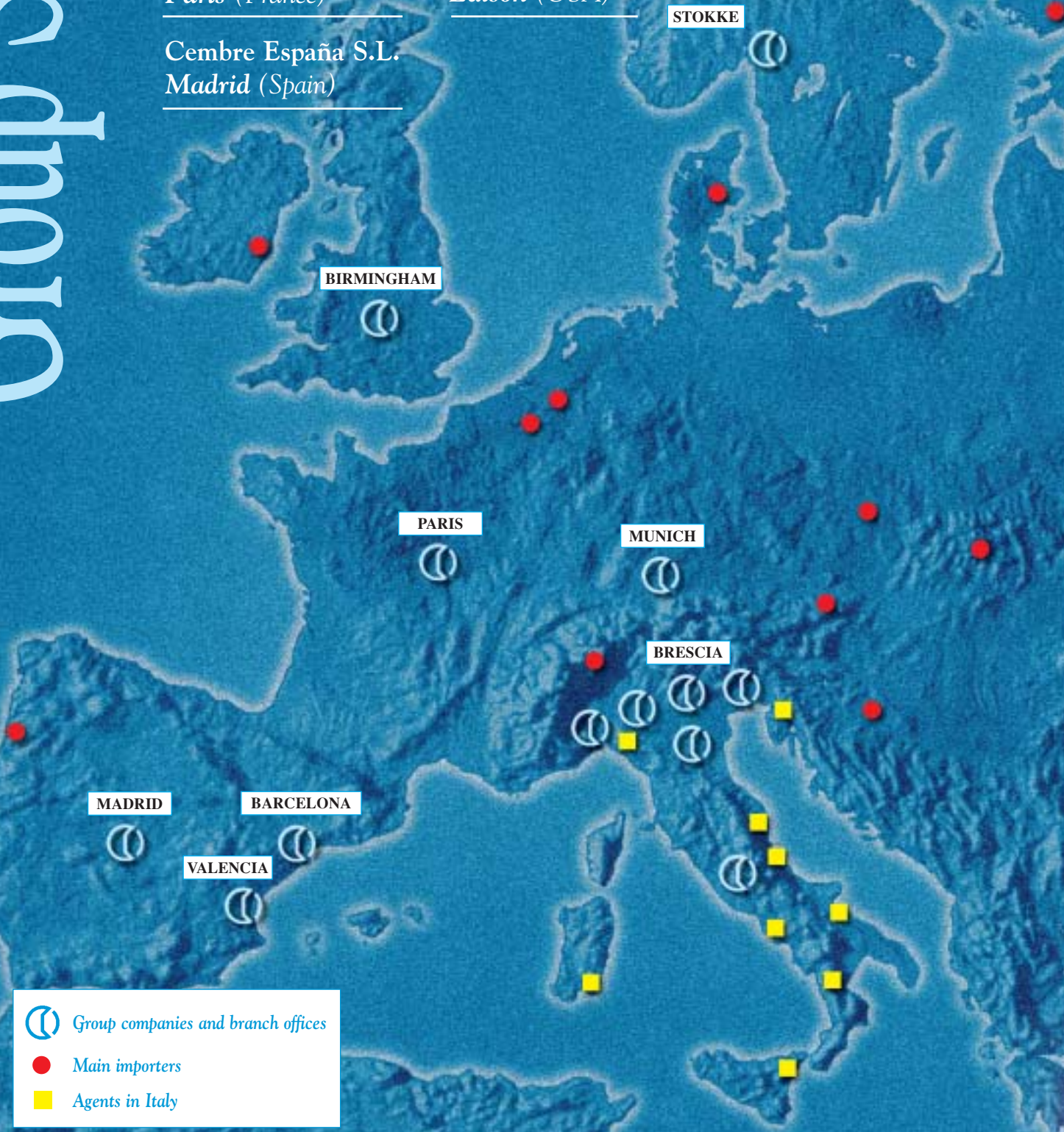
Cembre Ltd  
Birmingham (UK)

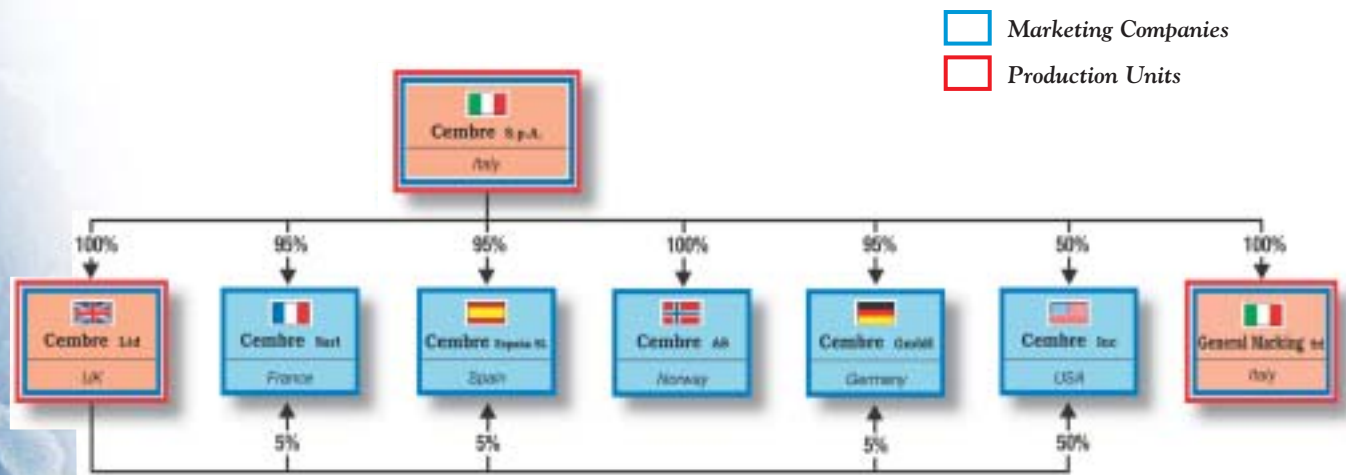
Cembre GmbH  
Munich (Germany)

Cembre S.a.r.l.  
Paris (France)

Cembre Inc.  
Edison (USA)

Cembre España S.L.  
Madrid (Spain)





Participation situation updated to 29/03/2004

The Cembre Group consists of eight companies. The parent company is based in Brescia and is the largest manufacturer of the Group. Other manufacturing companies are the UK subsidiary, based in Birmingham, and Italian subsidiary General Marking, based in Brescia and with manufacturing facilities in Bergamo. The other five subsidiaries are all commercial companies and are based in Paris, Madrid, Stokke (Norway), Munich, and Edison (New Jersey, USA).

Direct presence in important Western European countries allows the Group to effectively reach individual markets, establishing close contact with its customers and ensuring timely and qualified technical and sales assistance.

Cembre operates in Italy through a capillary distribution network, with offices and own warehouses in Milan, Turin, Padua, Bologna and Rome. Other regions in Italy are served by agents trained to provide both technical and commercial assistance and by warehouses providing fast deliveries.

The sales network assists customers in the choice of the product and the maintenance of tools, optimizing efficiency and speed of delivery. It also informs management of market trends, national standards and competitors.



**Cembre Group is present in the USA market through Cembre Inc. located in Edison (New Jersey).**



# Cembre Ltd

## Cembre Ltd Birmingham

*Cembre Ltd is Cembre Group's second largest manufacturing operation. Since its establishment in 1986, it has enjoyed constant growth and presently benefits from a good positioning in the market.*

*Cembre Ltd is located in a manufacturing centre on the north-eastern outskirts of Birmingham, England's second largest city, in the heart of the Midlands region, recognised for its high concentration of manufacturing industries, particularly in the areas of steel and motor vehicles. It therefore provides Cembre with an excellent source of highly trained labour skilled in the advanced mechanical technologies fundamental to Cembre's manufacturing needs. Its operations cover an area of 8,000 m<sup>2</sup>, of which 5,100 m<sup>2</sup> are occupied by manu-facturing facilities and office buildings.*

*Cembre Ltd is primarily focused on serving the specific needs of the United Kingdom market. In addition, its flexibility enables it to support other Group operations.*

*Productions  
Departments*

*Test  
Laboratory*



*Oelma Srl was acquired by Cembre in February 1999 and subsequently merged into the parent company from January 1, 2002.*

*Oelma's product line consists of over 1,500 articles for industrial and civil applications.*



# Oelma line



*Maxiblock and brass cable glands*



*Brass terminal block and cable clamps*



# General Marking



**GENERAL MARKING**

Group Company Cembre



## “Industrial Marking Systems”

General Marking was recently incorporated and is a wholly-owned subsidiary of Cembre SpA. The company is active in the sector of industrial marking, manufacturing cable marking equipment and products for the marking of cables and electrical components. The company has its registered office in Brescia, has operating facilities in Calcinato (Bergamo) and a catalogue of over 12,000 articles.



Pc-driven thermal transfer marker printing system

MARKIN  
Genius



Pc-driven ink plotter marker printing system



**RING**  
cablesys

Manual cable marking systems



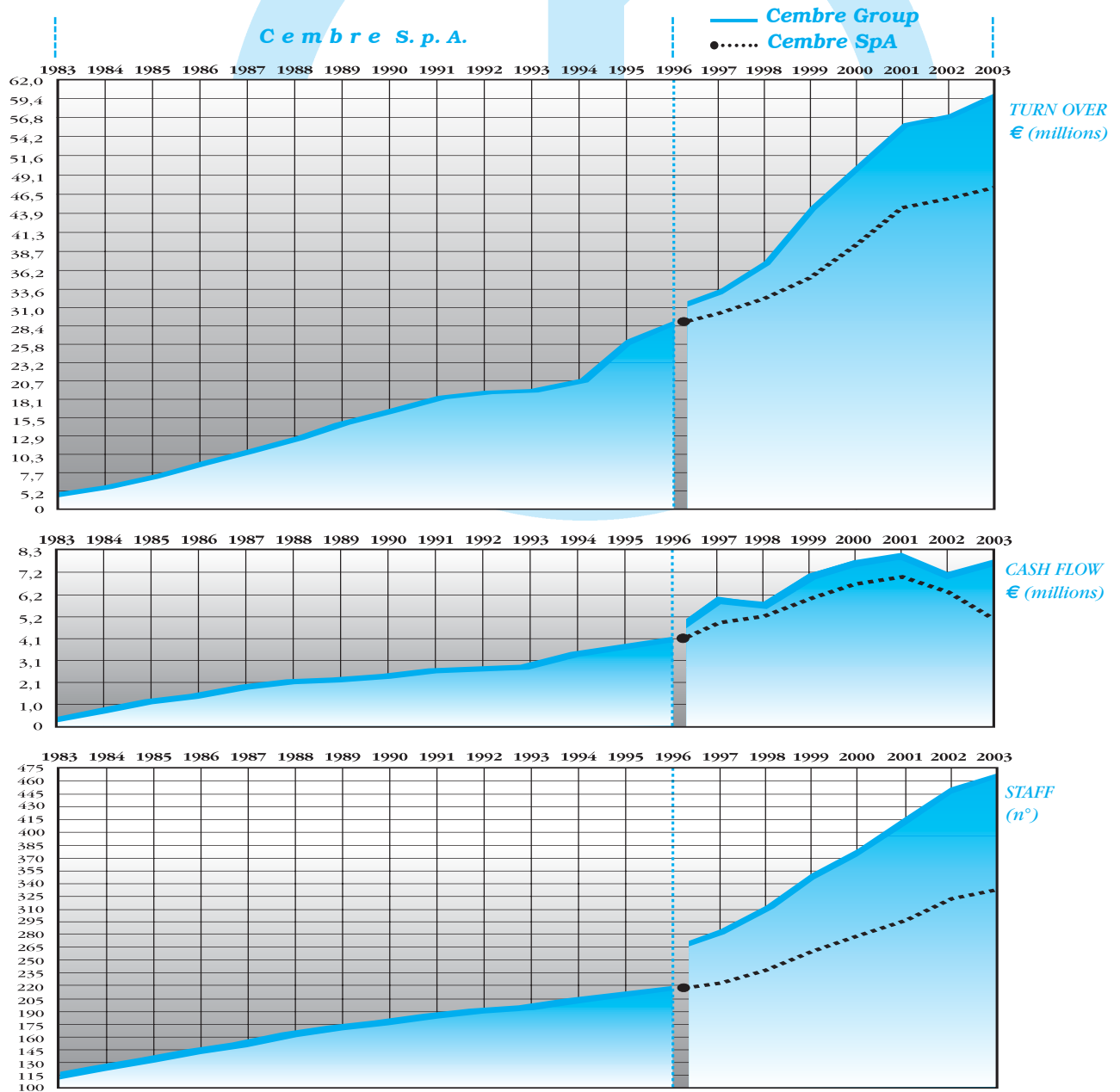
**SIGN**  
stick-onsys

Warning and safety signs



# Development

Cembre has progressed and developed steadily with the dedication and responsible attitude of all the staff. We can look forward to the future with confidence and commitment.



	C e m b r e S . p . A .															Group						
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	
TURN OVER € (millions)	4,6	5,8	7,1	8,8	10,9	11,4	14,4	16,4	18	18,5	18,4	20,5	26,7	28,7	33,5	37,8	45	50,4	56	56,9	59,9	
EXPORT € (millions)	1,5	1,7	2,2	2,1	2,3	2,9	3,7	4,4	5,8	5,9	6,2	7,2	9,3	9,4	14,7	17,3	20,8	24	27,9	29,4	30,1	
% of turn over	32	28	30	23	20	24	25,7	26,8	32	32	33,7	34,8	35	32,7	44	45,6	46,2	47,7	49,8	51,7	50,3	
CASH FLOW € (millions)	0,6	0,8	1	1,4	1,8	1,7	2,2	2,4	2,6	2,3	2,5	2,8	4,5	4,1	5,8	5,5	7	7,5	7,9	7,2	7,5	
STAFF (N°)	107	122	128	141	142	153	172	174	176	183	183	192	214	216	285	312	353	384	417	453	468	

QUOTED ON THE ITALIAN STOCK EXCHANGE

Our balance sheets are audited by  
**RECONTA ERNST & YOUNG S.p.A.**  
 since 1989.



## Appendix C – Cembre SpA Management Report

# Company Boards

### Board of Directors

<i>Chairman and Chief Executive Officer</i>	Carlo Rosani
<i>Vice-Chairman and Managing Director</i>	Anna Maria Onofri
<i>Managing Director</i>	Aldo Copetta
<i>Director and Italy Division General Manager</i>	Giovanni De Vecchi
<i>Director (and foreign subsidiaries' Managing Director)</i>	Aldo Bottini Bongrani
<i>Director</i>	Mario Comana
<i>Director</i>	Paolo Lechi di Bagnolo
<i>Director</i>	Giovanni Rosani

### Secretary of the Board

Giorgio Rota

### Board of Statutory Auditors

<i>Chairman</i>	Guido Astori
<i>Statutory Auditor</i>	Leone Scutti
<i>Alternate Auditor</i> <sup>(1)</sup>	Maria Grazia Lizzini
<i>Alternate Auditor</i>	Giorgio Astori

The above list reflects the situation at March 29, 2004.

The Board of Directors and the Board of Auditors term expires with the approval of the 2005 Financial Statements.

The Chairman of the Board of Directors and CEO, Mr. Carlo Rosani, acts as the Company's legal representative pursuant Article 18 of the Statute, and has been conferred all executive management powers that may be conferred by the Board of Directors.

In the event of absence or inability of the Chairman to exercise his duties, Vice-Chairman of the Board of Directors Ms. Anna Maria Onofri is appointed with all delegable executive management powers, with the exception of resolving professional appointments.

Mr. Aldo Copetta is appointed to represent the Company in all matters relating to labour unions, employees, State authorities and in any litigation.

As Italy Division General Manager, Mr. Giovanni De Vecchi has been conferred by the Board of Directors ample contractual and legal representation powers.

<sup>(1)</sup> Maria Grazia Lizzini changed her status from Alternate Auditor to Auditor replacing Augusto Rezzola pursuant to article 2401 of the Italian Civil Code.

*Cembre S.p.A. - Brescia*  
*Management Report at 31 December 2003*

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## Cembre SpA Management Report for the financial year ended December 31, 2003

To our Shareholders:

we submit to Your attention the Financial Statements for the year ended December 31, 2003, in which Cembre SpA reported net profits of €2,448,336. In the present Report we summarise the most significant events and transactions that occurred in the year and describe our Company's expectations for the year 2004.

As in the previous year, in 2003 the market registered a period of stagnation, both at the domestic and European level, with the only exception of the Spanish market, helped by strong investment in infrastructure.

Sales by geographical area are shown in the table below:

(€ '000)	2003	2002
Italy	29,305	27,371
Rest of Europe	14,405	14,581
Rest of the World	3,577	3,648
<b>Total</b>	<b>47,287</b>	<b>45,600</b>

Sales revenues grew by 3.7% from €45,600 thousand in 2002 to €47,287 thousand in 2003 due mainly to a 7.1% growth in sales on the Italian market. Sales in other European countries and in the rest of the world were in line with 2002.

The largest distribution channels continues to be that of electrical supplies wholesalers, accounting both in Italy and abroad to about 60% of overall sales.

Gross operating profit (EBITDA) amounts to €9,485 thousand, representing a 20.1% margin on sales, up 7.5% on the previous year when it amounted to €8,820 thousand, representing a 19.3% margin on sales. The increase is due to the growth in the overall margin, up from €21,833 thousand, representing a 47.9 margin on sales, to €22,826 thousand, equal to a 48.3% margin on sales, in addition to the lower weight of personnel costs, declining from 28% to 27.4% of sales.

Operating profit (EBIT) increased from €6,318 thousand, equal to 13.9% of sales, to €7,168 thousand, 15.2% of sales.

Net financial expense amounted to €467 thousand, as compared with €334 thousand in 2002, representing about 1% of sales, up slightly from the previous year due to negative foreign exchange differences recorded in the year.

Profit before taxes for 2003 is equal to €4,924 thousand, up 13% on pre-tax profit for 2002, amounting to €4,356 thousand.

Net profit declined by 9.1% from €2,693 thousand to €2,448 thousand, representing a 5.2% margin on sales, due to the strong increase in current taxes as a result of the expiration of the benefits provided by the Tremonti-bis Law that in 2002 accounted for a reduction in the tax expense of about



€767 thousand. The cash flow (considered as the sum of net profit, depreciation and amortization) declined by 7.2% from €6,156 thousand in 2002 to €5,716 thousand in 2003.

To provide a better understanding of the Company's financial performance for 2003, a Reclassified Income Statement at December 31, 2003 and a Statement of Cash Flows for 2003 are enclosed respectively as Attachments A and B.

Sources of funds, equal to €9,145 thousand, consist primarily of funds generated internally, amounting to €6,336 thousands, in addition to €2,500 relating to a new loan. Uses of funds amount to €9,675 thousand and relate prevalently to the transfer of long-term debt to current debt, accounting for €5,145 thousand, and capital expenditure amounting to €2,259.

Net financial position

(€)	2003	2002
Long-term financial debt	(645,500)	(3,291,000)
Total long-term financial debt	(645,500)	(3,291,000)
Cash and short-term financial receivables	3,139,995	1,645,196
Short-term bank debt	(5,752,504)	(5,843,793)
Marketable securities	588,230	465,296
Total short-term debt	(2,024,279)	(3,733,301)
Net financial position	(2,669,779)	(7,024,301)

The reduction in debt on the previous year is due both to the decline in investments made, down from €6.7 million in 2002, to €2.2 in 2003, and the absence of extraordinary operations.

Revenues by subsidiary

	Currency	Sales		Net profit (loss)	
		2003	2002	2003	2002
Cembre Ltd. (GB)	€	8,434,764	8,012,686	289,955	479,418
Cembre S.a.r.l. (F)	€	4,111,049	4,048,131	70,730	110,733
Cembre España S.L.	€	5,600,660	4,724,430	175,890	223,441
Cembre AS (NOR)	€	380,922	553,711	7,998	99,080
Cembre GmbH (D)	€	3,772,712	3,678,065	96,235	70,443
Cembre Inc (Usa)	€	2,185,159	2,406,721	97,663	(100,564)
General Marking srl (Ita)	€	1,173,904	423,698	(829,403)	(234,577)



For a more direct evaluation of the effect of foreign exchange translation, we include below sales figures of companies operating outside the euro area in the respective currency.

	Currency	Sales		Net profit (loss)	
		2003	2002	2003	2002
Cembre Ltd. (GB)	£	5,838,066	5,041,170	200,647	301,473
Cembre AS (NOR)	NKR	3,048,641	4,157,612	64,008	743,952
Cembre Inc (Usa)	US\$	2,471,765	2,275,733	110,473	(95,091)

Italian subsidiary General Marking, incorporated in July 2002, closed its first year reporting a loss. An improvement is however expected in future years. Key financial data from subsidiaries' last Balance Sheet and Income Statement are attached to the Notes to the Financial Statements, in accordance with Article 2429 of the Italian Civil Code.

#### ADOPTION OF IAS/IFRS PRINCIPLES

Following the recommendation of the Committee of European Securities Regulators (CESR) published on December 30, 2003, containing the guidelines for the transition to the IAS/IFRS accounting standards by companies listed in the EU, we illustrate in the section that follows the regulatory framework and steps to be followed in the adoption of international accounting principles by the Cembre Group. The main steps that characterized the adoption of common accounting standards in the European Union were:

- the adoption of Regulation no. 1606 issued by the European Parliament and the European Council in July 2002, introducing the mandatory adoption of IAS/IFRS in the consolidated accounts of companies listed in regulated markets of the European Union;
- the adoption on the part of the European Commission of Regulation no. 1725 dated September 29, 2003, defining international accounting principles and the respective interpretation of the same at September 14, 2002, to be adopted; the adoption excludes IAS 32 and 39, regarding respectively disclosure and the fair market valuation of financial instruments, in addition to the related interpretations (SIC 5, 16 e 17), due to their current revision by the IASB;
- the issue by the Italian legislator of the 2003 EU Law (Law no. 306, October 31, 2003) whose article 25 provides, among other things, for the adoption by listed companies of IAS/IFRS principles in the preparation not only of the consolidated accounts (as already provided by EU Regulation no. 1606/2002), but also of the respective statutory accounts.

At the same time, the IASB planned a series of projects aimed at the implementation of international principles applied by the EU, including rules regarding transactions not currently regulated. Some of these projects have already been concluded, while other projects are being defined and/or being initiated.

In 2003 Cembre S.p.A. launched a specific project regarding the adoption of international principles, carrying out an analysis to identify main differences between accounting principles adopted in Italy and



IAS/IFRS, and to quantify, based on differences determined, the most significant impacts on the Consolidated Financial Statements of the Cembre Group. The project is aimed at the achievement of the following objectives:

- to identify main differences between accounting principles adopted in Italy and IAS/IFRS, including those for first-time the preparation of the financial statements (January 1, 2004 representing the date of the transition), and to quantify the related impacts;
- the implementation of corporate administrative processes and information systems to allow the preparation of annual reports and semi-annual reports according to IAS/IFRS.

In line with IAS 1, the financial statements prepared in accordance with IAS/IFRS must include, in terms of comparative information, data for the previous year and the one under consideration. The financial statements at December 31, 2005 will be the first yearly statements issued by the Cembre Group in accordance with international accounting principles and will therefore include for comparative purposes, the financial statements prepared in accordance with the IAS/IFRS at December 31, 2004. The analysis thus far carried out resulted in the determination of some differences between accounting principles adopted in Italy and IAS/IFRS (on the basis of the implementation of the Exposure Drafts currently available and excluding differences deriving from the first-time application of international accounting principles), the most relevant of which are illustrated below:

- own shares: according to IAS/IFRS, own shares may no longer be recorded as assets and will have to be cancelled out together with the related reserve. The amount of own shares will also have to be subtracted from the Shareholders' Equity;
- Employee severance indemnities: accounting principles applied in Italy require the recording of the Employee termination indemnity (ETI) based on the face value of the liability accrued at the date of the financial statements. According to IAS/IFRS, the ETI can be assimilated to benefit plans subject to actuarial discounting in determining the present value of the benefit payable at time at which the employee terminates his or her employment, accrued by employees at the date of the financial statements;
- derivative instruments: according to IAS/IFRS, all derivative instruments must be reported in the financial statements at their fair value. The accounting treatment of derivative instruments varies according to the characteristics of the same (hedging instruments and non-hedging instruments);
- exceptions of accounting principles provided for by special laws: for the purposes of IAS/IFRS, the accounting treatment shall not take into account the effect of special legal or tax provisions.

The possibility of allowing the accounting of tangible assets – currently accounted for at the historical cost – at the fair market value is being considered.

A number of projects for the definition of operating procedures aimed at quantifying differences identified were initiated.

### **Capital expenditure**

Capital expenditure made in 2003, gross of depreciation and disposals, amounted to about €2.3 million, as compared with €6.7 million in 2002. Expenditure concentrated on plant and equip-



ment in which the company invested €1.3 million, prevalently on equipment built in-house (€0.7 million) and the construction of plant (€0.5 million). Expenditure for additions or the completion of existing industrial buildings amounted to €0.46 million.

### **Research, Development and Technological Innovation**

In 2003 Research and Development activities focused in the field of cable terminals, pole terminal blocks, railroad equipment, cable glands, hydraulic tools, and cable marking. R&D costs were not capitalized.

Research activities and projects carried out in the year consist in the expansion of the Company's product range through the introduction of innovative products not offered on the market, the improvement of technologies and efficiency of manufacturing processes and the strengthening of the Company's presence on foreign markets.

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

Research and development costs for the year included €825,853 of personnel costs, €630 relating to instruments and equipment, and €39,720 of costs relating to technical advice and the acquisition of know-how.

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

#### *Cable terminals*

Work focused on the study and development of a new range of colour cable terminals for the US market, an advanced digitally-controlled automatic cutting machine for copper tube straight lengths, the study of the innovative process for the production of bi-metallic cable lugs, and the study and design of a new process for the manufacturing of reinforced nylon insulated terminals.

#### *Terminal Blocks*

In the terminal blocks field, research continued on four new models of power distribution blocks, for which dies were designed and manufactured.

#### *Railroad Equipment R&D Projects*

A number of projects in this field were launched or developed further. Main projects relate to: a railtrack maintenance machine, including foreign market versions; a new machine for the maintenance of wooden railroad ties; tools and connectors for the maintenance of catenary (wires) supplying power to locomotives through pantographs; a hydraulic drill for rails; a battery-operated rail drill; a new internal-combustion rail drill and two railtrack traffic control devices.



#### *Cable glands R&D Projects*

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

#### *Hydraulic Tools R&D Projects*

The project for the development of a new battery-operated version universal tool for the compression of connectors continued. The following projects were undertaken in 2003:

- new battery-operated tool for the compression of connectors that may be used for different types of dies;
- a hydraulic head for the compression of connectors;
- a portable battery-operated hydraulic pump, including the normal, insulated and high-pressure version;
- a battery-operated hydraulic unit.

#### *Cable marking R&D Projects*

The development and the manufacturing of dies for the following products started:

- a system for the labelling of pole terminal blocks consisting of labels and related supports;
- a support for cable marking rings.

#### *Related parties*

Transactions concluded between Cembre SpA and its subsidiaries in 2003 were exclusively of a commercial nature and are summarized in the table below:

(€)	Receivables	Payables	Revenues	Expenses
Cembre Ltd.	1,923,528	489	3,812,161	227,715
Cembre S.a.r.l.	496,130	162	1,316,829	118,238
Cembre España S.L.	1,452,676	1,945	2,956,098	2,020
Cembre AS	60,727	4,238	163,150	4,238
Cembre GmbH	705,176	–	2,261,585	35,345
Cembre Inc.	1,047,162	109	999,281	68,551
General Marking Srl	14,441	62,544	87,044	417,667
<b>TOTAL</b>	<b>5,699,841</b>	<b>69,488</b>	<b>11,596,149</b>	<b>870,774</b>



Cembre S.p.A. issued guarantees for loans extended to Cembre SL, Cembre Inc. and General Marking, amounting respectively to €1,500,000, €521,177 and €3,500,000. Cembre S.p.A. leased an industrial building to subsidiary General Marking. Rent for the building in 2003 amounted to €91 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 SpA, with registered office in Bergamo, controlled by some members of the Rosani family, with the exception of Carlo Rosani. Lease payments for 2003 amount to €311 thousand for the building adjacent to the Company's head office, €56 thousand for the Sesto S. Giovanni (Milan) office, €46 thousand for the Selvazzano (Padua) office, and €40 thousand for the Bologna office. Rental fees for 2003 are in line with market terms and conditions. It is in the Company's interest to benefit from the continuity of office space with minimal risks of lease termination.

In 2003 Aldo Copetta, the Company's Managing Director, received €5,000 in payment for services rendered regarding personnel safety, health and hygiene, labour agreements and general personnel issues, thanks to his wide experience gained in the Company's affairs.

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.

### **Own shares**

At December 31, 2003, Cembre SpA held 243,000 of its own shares recorded at cost, amounting to €588,230, net of €119,026 write-down carried out to reflect their current market value. Cembre SpA own shares have a total par value of €126,360, representing 1.43% of its share capital. No shares were acquired or disposed of in the year. At December 31, 2003, Cembre SpA had not acquired, 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.

### **Handling of personal information**

Cembre S.p.A. (responsible for the handling of personal information) drafted a Privacy Plan through its Director for the Handling of Private Information.

### **Subsequent events**

Cembre S.p.A. underwrote a capital increase carried out by Cembre Ltd. amounting to £500,000,



in addition to resolving the underwriting of capital increase carried out by Cembre Inc. amounting to \$600,000.

Following changes introduced to article 2426 of the Italian Civil Code by Legislative Decree no. 6 dated January 17, 2003, coming into effect on January 1, 2004, Cembre S.p.A. will record in the income statement only ordinary depreciation and will accrue a Provision for accelerated depreciation, reclassifying in the same the portion of the provision for depreciation in excess of ordinary depreciation at the beginning of 2004. The related deferred taxes will be accrued to a provision by debiting the extraordinary reserve. The operation will be submitted for approval to the Shareholders' Meeting called to approve the Financial Statements at December 31, 2004.

No event having significant effects on Cembre's assets or financial performance occurred after the closing of the financial year.

## Outlook

In 2004, the company expects a growth in activity, both in the domestic market and foreign markets. Profit levels are expected to remain good.

## Secondary offices

The Company has no secondary registered office.

## Proposal for the Allocation of the Company's Net Profit for the 2003 financial year

In order to complete the Company's planned investments and benefit from self-financed growth, it is advisable that at least a portion of net profit generated be retained. In seeking the approval for our actions by submitting to you the present Financial Statements and Management Report, we also invite you to approve our proposed allocation of net profit for 2003, amounting to €2,448,336.02 (rounded off to 2,448,336) as follows:

- €122,417, or 5% of net profit, to the legal reserve;
- €0.073 to be distributed to each of the Company's 16,757,000 shares, whose holders are entitled to dividends with full tax credits pursuant Article 2357 of the Italian Civil Code, for a total of €1,223,261, payable from May 27, 2004, and a coupon date of May 27, 2004; eligible shareholders – those shareholders whose financial year does not correspond to the calendar year and for which tax credits continue to apply for 2004, are entitled to a full tax credit;
- the remainder, amounting to €1,102,658.02, to the extraordinary reserve.



## **Attachments**

This Management Report includes four Attachments:

Attachment A: Reclassified Income Statement of Cembre SpA for the year ended December 31, 2003;

Attachment B: Statement of Cash Flows of Cembre SpA for the year ended December 31, 2003;

Attachment C: Company Boards;

Attachment D: Company shares held by Board Members.

Brescia, Italy March 29, 2004

*CHAIRMAN OF THE BOARD OF DIRECTORS*

*CARLO ROSANI*



ATTACHMENT A - MANAGEMENT REPORT - CEMBRE SPA FINANCIAL STATEMENTS  
RECLASSIFIED INCOME STATEMENT AT DECEMBER 31, 2003

(in euro)	Dec. 31, 2003	%	Dec. 31, 2002	%
Sales	47,286,914	100	45,600,252	100
Other revenues and gains	127,321		39,711	
<b>TOTAL REVENUES</b>	<b>47,414,236</b>		<b>45,639,963</b>	
Change in work in progress, semi-finished and finished goods inventories	(864,738)	(1.83)	928,459	2.04
Increase in assets due to internal construction	824,509	1.74	871,871	1.91
<b>TOTAL OPERATING VALUE</b>	<b>47,374,007</b>	<b>100.18</b>	<b>47,440,293</b>	<b>104.04</b>
Materials and services used	(24,379,844)	(51.56)	(25,485,344)	(55.89)
Other operating costs	(167,918)	(0.36)	(121,946)	(0.27)
<b>VALUE ADDED</b>	<b>22,826,244</b>	<b>48.27</b>	<b>21,833,003</b>	<b>47.88</b>
Personnel costs	(12,958,941)	(27.40)	(12,775,515)	(28.02)
Accruals to provision for doubtful accounts	(91,380)	(0.19)	(95,129)	(0.21)
Accruals to risk provisions	(290,975)	(0.62)	(142,086)	(0.31)
<b>GROSS OPERATING MARGIN (EBITDA)</b>	<b>9,484,949</b>	<b>20.06</b>	<b>8,820,273</b>	<b>19.34</b>
Intangible asset amortization	(301,133)	(0.64)	(325,420)	(0.71)
Tangible asset depreciation	(2,015,560)	(4.26)	(2,176,758)	(4.77)
<b>OPERATING PROFIT (EBIT)</b>	<b>7,168,255</b>	<b>15.16</b>	<b>6,318,095</b>	<b>13.86</b>
Financial income (expense)	(467,440)	(0.99)	(334,259)	(0.73)
<b>PROFIT BEFORE EXTRAORDINARY ITEMS</b>	<b>6,700,815</b>	<b>14.17</b>	<b>5,983,836</b>	<b>13.12</b>
Extraordinary items and adjustments to the value of financial assets	(826,277)	(1.75)	(666,250)	(1.46)
Accelerated depreciation	(950,659)	(2.01)	(961,633)	(2.11)
<b>PROFIT BEFORE TAXES</b>	<b>4,923,879</b>	<b>10.41</b>	<b>4,355,953</b>	<b>9.55</b>
Income taxes	(2,475,543)	(5.24)	(1,663,322)	(3.65)
<b>NET PROFIT</b>	<b>2,448,336</b>	<b>5.18</b>	<b>2,692,631</b>	<b>5.90</b>
<b>CASH FLOW (net profit plus depreciation and amortization)</b>	<b>5,715,689</b>	<b>12.09</b>	<b>6,156,442</b>	<b>13.50</b>



**ATTACHMENT B - CEMBRE SPA FINANCIAL STATEMENTS - MANAGEMENT REPORT**  
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2003

(in euro)

<b>SOURCES OF FUNDS:</b>	<b>Dec. 31, 2003</b>	<b>Dec. 31, 2002</b>
Net profit	2,448,336	2,692,631
Adjustments for items not having an impact on cash flow:		
Depreciation expense	3,267,353	3,463,811
Employee termination indemnities	620,756	652,901
Cash flow generated by operating activities	6,336,445	6,809,343
Net book value of assets sold	308,989	633,641
New loans	2,500,000	2,000,000
Decline in long-term receivables	-	44,473
<b>TOTAL SOURCES OF FUNDS</b>	<b>9,145,434</b>	<b>9,487,457</b>
<b>USES OF FUNDS:</b>		
Increase in intangible assets	103,837	1,285,305
Acquisition of tangible assets	2,258,570	6,654,340
Increase in long-term receivables	515,942	-
Increase in investments	-	(1,962,522)
Change in provisions for risks and charges	(210,226)	(392,412)
Transfer of current portion of long-term debt	5,145,500	3,300,437
Payment of employee termination indemnities	520,453	342,797
Dividends paid	1,340,560	1,675,700
<b>TOTAL USES OF FUNDS</b>	<b>9,674,636</b>	<b>10,903,645</b>
<b>Changes not affecting cash flows:</b>		
Net contribution of merger with Oelma	-	1,076,829
<b>INCREASE (DECREASE) IN WORKING CAPITAL</b>	<b>(529,201)</b>	<b>(2,493,017)</b>
<b>CHANGES IN WORKING CAPITAL</b>		
<b>Current assets:</b>		
Cash and banks	1,000,688	(1,514,527)
Short-term financial assets	122,934	(101,404)
Trade receivables	(1,230,662)	1,573,602
Other receivables	(323,679)	196,537
Inventories	(1,329,956)	2,031,245
Accrued income and prepaid expenses	848	(6,518)
	<b>(1,759,827)</b>	<b>2,178,935</b>
<b>Current liabilities:</b>		
Bank overdrafts	(91,289)	4,199,492
Trade payables	(1,535,031)	877,738
Taxes and Social security payables	67,438	(251,492)
Other payables	336,804	(137,838)
Accrued expenses and deferred income	(8,548)	(15,948)
	<b>(1,230,627)</b>	<b>4,671,952</b>
<b>CHANGES IN WORKING CAPITAL</b>	<b>(529,201)</b>	<b>(2,493,017)</b>



**ATTACHMENT D - CEMBRE SPA MANAGEMENT REPORT**  
**COMPANY SHARES HELD BY BOARD MEMBERS**

	COMPANY	SHARES HELD AT DEC. 31, 2002	SHARES PURCHASED	SHARES SOLD	SHARES HELD AT DEC. 31, 2003	OWNERSHIP RIGHTS	OWNERSHIP METHOD
Carlo Rosani	Cembre SpA	10,090,704	15,188		10,105,892	full	directly and indirectly (1)
Anna Maria Onofri	Cembre SpA	900,000	96		900,096	full	directly
Aldo Copetta	Cembre SpA	5,000			5,000	full	directly and indirectly (2)
Giovanni De Vecchi	Cembre SpA	400,661		(20,000)	380,661	full	directly
Aldo Boffini Bongrani	Cembre SpA	370,000		(5,000)	365,000	full	directly
Mario Comana	Cembre SpA	5,000			5,000	full	directly
Sara Rosani	Cembre SpA	560,000			560,000	full	directly
Giovanni Rosani	Cembre SpA	540,000			540,000	full	directly

Statutory Auditors and Directors not listed above did not hold Cembre SpA shares at December 31, 2002 and did not acquire Cembre SpA shares in 2003.

(1) 9,065,892 shares are held through Lysne SpA, controlled by Carlo Rosani to whom changes in the year reported above relate; this figure excludes the 243,000 own shares held by Cembre SpA, controlled by Carlo Rosani through Lysne SpA  
(2) 2,000 shares are held by his spouse.

*Cembre S.p.A. - Brescia*  
*Balance Sheet at December 31, 2003*

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## Financial Statements at December 31, 2003 Cembre S.p.A. - Brescia

Balance Sheet - Assets (in euro)	Dec. 31, 2003	Dec. 31, 2002
<b>A) Capital not paid-in</b>	-	-
<b>B) Fixed assets</b>		
<i>I - Intangible assets</i>		
3) Industrial patents and intellectual property rights	102,299	81,219
5) Goodwill	-	142,976
7) Other	754,356	829,756
<b>Total</b>	<b>856,655</b>	<b>1,053,951</b>
<i>II - Tangible assets</i>		
1) Land and buildings	7,766,778	7,633,392
2) Plant and machinery	3,581,785	4,014,336
3) Equipment	367,375	563,771
4) Other assets	421,126	716,596
5) Work in progress and advances	89,556	315,164
<b>Total</b>	<b>12,226,620</b>	<b>13,243,259</b>
<i>III - Financial assets</i>		
1) Investments in:		
a) subsidiaries	5,743,079	5,743,079
d) other companies	5,224	5,224
2) Receivables		
a) from subsidiaries		
- short-term	494,112	-
d) from others		
- long-term	105,194	177,528
<b>Total</b>	<b>6,347,609</b>	<b>5,925,831</b>
<b>Total fixed assets</b>	<b>19,430,884</b>	<b>20,223,041</b>



<b>C) Current assets</b>		
<i>I - Inventories</i>		
1) Raw materials	3,862,423	4,327,641
2) Work in progress and semi-finished goods	4,543,450	4,571,804
4) Finished goods	6,189,369	7,025,753
<b>Total</b>	<b>14,595,242</b>	<b>15,925,198</b>
<i>II - Receivables</i>		
1) Trade	12,266,404	12,019,976
2) From subsidiaries	5,205,729	6,682,819
5) From others		
- short-term	286,368	610,047
- long-term	97,647	3,482
<b>Total</b>	<b>384,015</b>	<b>613,529</b>
<b>Total receivables</b>	<b>17,856,148</b>	<b>19,316,324</b>
<i>III - Marketable securities</i>		
5) Own shares (par value € 126,360)	588,230	465,296
<i>IV - Cash and cash equivalents</i>		
1) Bank deposits	2,634,659	1,625,412
3) Cash	11,224	19,783
<b>Total cash and cash equivalents</b>	<b>2,645,883</b>	<b>1,645,195</b>
<b>Total current assets</b>	<b>35,685,503</b>	<b>37,352,013</b>
<b>D) Accrued income and prepaid expenses</b>		
	25,079	24,232
<b>Total assets</b>	<b>55,141,466</b>	<b>57,599,286</b>



Liabilities and Shareholders' Equity	Dec. 31, 2003	Dec. 31, 2002
<b>A) Shareholders' Equity</b>		
I - Share capital	8,840,000	8,840,000
II - Paid-in capital in excess of par value	12,244,869	12,244,869
III - Revaluation reserve	585,159	585,159
IV - Legal reserve	1,244,028	1,109,396
V - Reserve for own shares	588,231	465,296
VI - Statutory reserves	-	-
VII - Other reserves		
Provisions for suspended tax reserves	68,412	68,412
Extraordinary reserve	9,690,804	8,596,299
VIII - Retained earnings	-	-
IX - Net profit	2,448,336	2,692,631
<b>Total Shareholders' Equity</b>	<b>35,709,839</b>	<b>34,602,062</b>
<b>B) Provision for risks and charges</b>		
3) Other	651,050	440,824
<b>Total provisions for risks and charges</b>	<b>651,050</b>	<b>440,824</b>
<b>C) Employee termination indemnities</b>		
	<b>3,521,002</b>	<b>3,420,698</b>
<b>D) Payables</b>		
3) Bank loans		
- short-term	5,752,504	5,843,793
- long-term	645,500	3,291,000
Total bank loans	6,398,004	9,134,793
5) Advances	6,625	115,930
6) Trade payables	5,907,917	7,305,800
8) Payables to subsidiaries	69,488	97,331
11) Taxes payable	567,177	568,722
12) Social security payables	711,011	642,029
13) Other payables	1,584,763	1,247,959
<b>Total payables</b>	<b>15,244,985</b>	<b>19,112,564</b>
<b>E) Accrued expenses and deferred income</b>		
	<b>14,590</b>	<b>23,138</b>
<b>Total liabilities and Shareholders' Equity</b>	<b>55,141,466</b>	<b>57,599,286</b>
<b>Commitments</b>		
2) Guarantees given	5,562,295	37,423
of which in favor of subsidiaries	5,521,177	-
3) Guarantees received	81,796	236,746



Income Statement (in euro)	Dec. 31, 2003	Dec. 31, 2002
<b>A) Revenues</b>		
1) Sales	47,286,914	45,600,252
2) Change in work in progress, semi-finished and finished goods inventories	(864,738)	928,459
4) Increase in assets due to internal construction	824,509	871,871
5) Other revenues:		
a) sundry	94,544	39,711
b) contributions received	32,777	-
<b>Total operating value</b>	<b>47,374,006</b>	<b>47,440,293</b>
<b>B) Operating costs</b>		
6) Raw materials	(15,880,856)	(17,750,207)
7) Services	(7,342,689)	(7,177,254)
8) Leases and rentals	(691,081)	(663,153)
9) Personnel		
a) Wages and salaries	(9,366,757)	(9,187,004)
b) Social security	(2,862,773)	(2,843,228)
c) Employee severance indemnities	(684,562)	(702,459)
d) Retirement benefits	(5,373)	(5,309)
e) Other costs	(39,476)	(37,515)
<b>Total personnel costs</b>	<b>(12,958,941)</b>	<b>(12,775,515)</b>
10) Depreciation and write-downs		
a) Amortization of intangible assets	(301,133)	(325,420)
b) Depreciation of tangible assets	(2,966,220)	(3,138,391)
d) Write-down in the value of current assets	(91,380)	(95,129)
<b>Total depreciation and write-downs</b>	<b>(3,358,733)</b>	<b>(3,558,940)</b>
11) Change in raw material inventories	(465,218)	105,270
12) Accruals to risk provisions	(290,975)	(142,086)
14) Other operating costs	(167,918)	(121,946)
<b>Total operating costs</b>	<b>(41,156,411)</b>	<b>(42,083,831)</b>
<b>Operating profit (A-B)</b>	<b>6,217,595</b>	<b>5,356,462</b>



<b>C) Financial income and expense</b>		
16) Other financial income:		
a) on receivables from subsidiaries recorded under long-term financial assets	-	1,277
d) other income	20,238	26,020
17) Interest and other financial charges	(487,678)	(361,556)
<b>Total</b>	<b>(467,440)</b>	<b>(334,259)</b>
<b>D) Adjustments to the value of financial assets</b>		
18) Revaluations		
b) of long-term financial assets	2,930	5,611
c) of marketable securities	122,934	-
19) Write-downs		
a) Investments in subsidiaries	(549,699)	(99,000)
c) marketable securities	0	(101,404)
<b>Total adjustments to the value of financial assets</b>	<b>(423,835)</b>	<b>(194,793)</b>
<b>E) Extraordinary items</b>		
20) Gains	19,296	28,847
21) Losses	(421,737)	(500,304)
<b>Total extraordinary items</b>	<b>(402,441)</b>	<b>(471,457)</b>
<b>Profit before taxes (A-B+C+D+E)</b>	<b>4,923,878</b>	<b>4,355,953</b>
22) Income taxes		
a) current	(2,544,774)	(1,776,998)
b) deferred	69,231	113,676
<b>Total income taxes</b>	<b>(2,475,543)</b>	<b>(1,663,322)</b>
<b>23) Net profit</b>	<b>2,448,336</b>	<b>2,692,631</b>

Brescia, March 29, 2004

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



## Notes to the Financial Statements of Cembre SpA at December 31, 2003

### *Foreword*

To our Shareholders:

before commenting upon individual Balance Sheet and Income Statement items for the year ended December 31, 2003, pursuant to Article 2427 of the Italian Civil Code, we illustrate the accounting policies and methods used in the preparation of the Financial Statements.

### *Valuation principles and methods*

The financial statements of Cembre SpA are consistent with provisions contained in Articles 2423 and following of the Italian Civil Code. The following criteria were applied in their preparation:

- items are valued according to prudent criteria and on the basis of an ongoing concern;
- revenues and expenses are recorded under the accrual method;
- risks and losses are charged to the year also when their existence becomes known after the date of the financial statements;
- revenues and gains are recorded only when realized at the date of the financial statements, in accordance with prudent principles;
- no exceptional case requiring recourse to exemptions contained in Article 2423 paragraph 4 and Article 2423 paragraph 2 of the Italian Civil Code occurred;
- no item of the Balance Sheet or Income Statement was reclassified;
- no asset or liability item appears more than once in the Balance Sheet;
- amounts recorded in the financial statements are consistent with those reported for the previous year. Where necessary for comparative purposes, figures for the previous year were reclassified.

Valuation criteria and methods used are in accordance with those set in Article 2426 of the Italian Civil Code, and consistent with those adopted in the previous financial year.

Valuation criteria adopted in the preparation of the financial statements are described in the section that follows.

### *Intangible assets*

Intangible assets are recorded at cost, net of amortization calculated on a straight line basis over their expected useful economic life.

### *Tangible assets*

Tangible assets are recorded at their acquisition or production cost which includes all related costs directly attributable to the assets, all revaluations pursuant to Laws no. 576 of December 2, 1975 and no. 72 of March 19, 1983, and all other revaluations pursuant to Law no. 413 of December 30, 1991, carried out pursuant to applicable regulations, up to their related fair market values.

Tangible assets are depreciated on straight line basis over the expected useful life of the assets, taking into account their residual values

The net book value of tangible assets is reported net of accelerated depreciation recorded in the cur-



rent and previous years exclusively to take advantage of benefits provided for by Article 67 of Presidential Decree no. 917/86.

The net book value of tangible assets is reported net of accelerated depreciation recorded in the current and previous years exclusively to take advantage of benefits provided for by Article 67 of Presidential Decree no. 917/86.

Information regarding the value of accelerated depreciation, as well as the related tax benefit accruing to the Company, is reported in the note to the Income Statement concerning property, plant and equipment depreciation.

Assets having an acquisition cost not exceeding € 516,46 were expensed in full in the year.

Ordinary maintenance costs are charged to the Income Statement for the year in which they were incurred. Extraordinary maintenance expenses are attributed to the asset to which they relate and are depreciated over the residual useful life of the same.

### ***Investments***

Investments in subsidiaries are recorded at the acquisition or underwriting cost, adjusted where necessary for ongoing losses in value.

Consolidated financial statements have been prepared in accordance with Legislative Decree no. 127, April 9, 1991.

### ***Inventories***

Inventories are valued at the lower of acquisition or production cost and their expected realisable value. Raw materials, semi-finished and finished goods inventories are valued using the LIFO method. Work in progress inventories are valued at their processing cost, inclusive of raw materials, labour, direct and indirect manufacturing costs, taking into account stages of completion.

### ***Receivables and Payables***

Receivables are recorded at their expected realizable value, taking into account the solvency of debtors, the credit term, litigation in process and guarantees received.

The expected realisable value is represented by the difference between the face value of receivables and the amount accrued to the provision for doubtful accounts, deducted from the amount of trade receivables whenever appropriate.

Payables are recorded at face value, representative of the value of liabilities accrued.

Tax liabilities are based on realistic estimates reflecting the tax expense for the year, adjusted for pre-paid and withholding taxes paid. Tax credits are recorded only where there exists reasonable certainty that sufficient taxable income will be generated in future years to cover future tax deductions.

Payables and receivables denominated in currencies other than euro are recorded at the exchange rate at the time of the transaction. Exchange rate gains and losses are credited or debited to the Income Statement on the day of payment or collection. At the end of the year, receivables and payables originally expressed in currencies other than the euro are translated at the exchange rate applicable at such time. Relevant negative differences arising from such translation are recorded in the Provision for translation differences under liabilities. Significant differences arising from the application of the above mentioned method over the historical exchange rate method, requiring the recording of differences resulting from the application of year-end exchange rates directly as a debit or credit to the liability to which they relate, are commented in the note to the respective item.

***Marketable securities***

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

***Provisions for risks and charges***

Provisions for risks and charges are accrued against known or probable liabilities whose amount and timing could not be determined at the date of their recording. Deferred taxes payable, recorded in the related provision, represent taxes payable in future years generated by timing differences.

***Provision for employee termination indemnities***

The provision for employee termination indemnities reflects the amount owed by the Company at the end of the year to its employees upon termination of their employment, in accordance with labour agreements and laws applicable in Italy. The amount accrued in the year reflects liabilities accrued at year-end.

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

These are determined based on the accrual method.

***Income taxes***

Current, deferred and prepaid taxes are determined according to applicable tax rates and expected taxable income, keeping into account tax facilitations provided by current regulations.

***Revenues and expenses***

Revenues for the sale of products are recognized at the time title is transferred, normally identifiable with the delivery or shipping of the goods. Financial revenues are recognized based on the accrual method. Revenues and expenses are recorded net of returns, discounts, allowances and bonuses.

***Commitments***

These represent guarantees given to and received from others and commitments made. Guarantees are recorded at face value.



## Assets

### B) NON-CURRENT ASSETS

#### I - Intangible assets

Balance at Dec. 31, 2003	€	856,655
Balance at Dec. 31, 2002	€	1,053,951
<b>Change</b>	<b>€</b>	<b>(197,296)</b>

	Book value at Dec. 31, 2002	Increases	Amortization 2002	Book value at Dec. 31, 2003
Industrial patents and intellectual property rights	81,219	103,837	(82,758)	102,298
Goodwill	142,976		(142,976)	
Other	829,756		(75,400)	754,356
	1,053,951	103,837	(301,134)	856,654

The book value at the beginning of the year is made up as follows:

	Gross book value	Accumulated amortisation	Net book value
Industrial patents and intellectual property rights	188,263	(107,044)	81,219
Goodwill	285,953	(142,977)	142,976
Other	905,155	(75,399)	829,756
	1,379,371	(325,420)	1,053,951

Industrial patents and intellectual property rights are made up exclusively of software open-ended licenses. Goodwill arises from the merger of Oelma into Cembre from January 1, 2002. The amount recorded is net of the goodwill relating to the building transferred, as described in the note on Tangible assets. The residual share of the goodwill relating to Oelma is amortised over two years due to the fact that at the time of the acquisition of the company, in 1999, the consolidation difference arising in the consolidated financial statements was originally amortized over a period of five years.

Other assets are represented by capitalized costs incurred in work relating to a leased industrial building adjacent to the Brescia main complex to adapt it to the specific production needs of the Company. Intangible assets are amortised systematically. Software licenses are amortized over 3 years while leasehold improvements are expensed over 12 years, corresponding to the duration of the lease contract.

*II - Tangible assets*

Balance at Dec. 31, 2003	€	12,226,620
Balance at Dec. 31, 2002	€	13,243,259
<b>Change</b>	<b>€</b>	<b>(1,016,639)</b>

*1) Land and buildings*

Gross book value	10,003,783
Revaluation	935,661
less: accumulated depreciation	(3,306,052)
Balance at Dec. 31, 2002	7,633,392
Increases	458,509
Depreciation expense	(325,123)
Balance at Dec. 31, 2003	7,766,778

The increase in the year is due to the extension or completion of already existing buildings.

*2) Plant and machinery*

Gross book value	22,041,929
Revaluation	131,770
Accumulated depreciation	(18,159,363)
Balance at Dec. 31, 2002	4,014,336
Increases	1,307,658
Decreases	(199,586)
Use of provisions	194,404
Depreciation expense	(1,735,027)
Balance at Dec. 31, 2003	3,581,785

Capital expenditure in the year includes mainly internal construction of equipment, amounting to €702 thousand, and internal construction of plant, amounting to €475 thousand. Decreases consist of disposals and equipment taken out of service in the year.



### 3) *Equipment*

Gross book value	4,049,577
Accumulated depreciation	(3,485,806)
Balance at Dec. 31, 2002	563,771
Increases	288,585
Decreases	(484,981)
Balance at Dec. 31, 2003	367,375

Capital expenditure on equipment relates almost exclusively to the manufacture and purchase of dies, of which €228 thousand were manufactured in-house.

### 4) *Other assets*

Gross book value	3,508,245
Revaluation	7,976
Accumulated depreciation	(2,799,625)
Balance at Dec. 31, 2002	716,596
Increases	130,454
Decreases	(280,154)
Use of provisions	275,320
Depreciation expense	(421,090)
Balance at Dec. 31, 2003	421,126

The increase in other assets is due prevalently to the acquisition of hardware and accessories amounting to €71 thousand.

### 5) *Work in progress and advances*

Balance at Dec. 31, 2002	315,164
Increases	73,364
Decreases	(298,972)
Balance at Dec. 31, 2003	89,556

Increases in work in progress and advances are due mainly to advances paid to suppliers of plant and equipment, amounting to €18 thousand and to the in-house construction of assets, accounting for €72 thousand. The table enclosed in the present Notes shows changes in property, plant and equipment for the year.

**Revaluation of property, plant and equipment carried out in the year**

Pursuant to Article 10, Law no. 72/1983, revaluations of property, plant and equipment recorded in the financial statements at December 31, 2003 are listed in the table that follows.

	<i>Law 576/75</i>	<i>Law 72/83</i>	<i>Law 413/91</i>	<i>Total</i>
Land and buildings		248,220	687,441	935,661
Plant and machinery	2,386	129,384		131,770
Other assets	312	7,664		7,976
	<b>2,698</b>	<b>385,268</b>	<b>687,441</b>	<b>1,075,407</b>

Following the merger of Oelma Srl into Cembre SpA in 2002, the building located in San Giuliano Milanese was recorded in the financial statements of Cembre SpA at €993 thousand, a value that includes the €917 revaluation carried out as a result of the allocation of goodwill on the merger.

**III - Investments**

Balance at Dec. 31, 2003	€	6,347,609
Balance at Dec. 31, 2002	€	5,925,831
Change	€	421,778

**1) Investments in:****a) subsidiaries**

<i>Subsidiary</i>	<i>Dec. 31, 2002</i>	<i>Change</i>	<i>Write-downs</i>	<i>Dec. 31, 2003</i>
Cembre Ltd	2,681,918			2,681,918
Cembre Sarl	1,048,197			1,048,197
Cembre España SL	858,104			858,104
Cembre AS	293,070			293,070
Cembre GmbH	481,508			481,508
Cembre Inc.	380,282			380,282
General Marking		549,699	(549,699)	
<b>Total</b>	<b>5,743,079</b>	<b>549,699</b>	<b>(549,699)</b>	<b>5,743,079</b>



Subsidiary General Marking Srl was incorporated in July 2002. The company has its registered office in Brescia and a capital stock equal to €99 thousand. In 2003 it reported a loss of €829,403, as a result of which the investment was written-down in full for an amount equal to €549,699, while a provision of €279,704 was accrued against the remaining portion of loss reported by the subsidiary. In February 2004, €378,704 were paid to the subsidiary for the coverage of losses and its recapitalization.

The table that follows shows information on subsidiaries, all held directly by the parent company. Amounts are expressed in euro:

<i>Name and head office</i>	<i>Capital stock</i>	<i>Shareholders' Equity</i>	<i>Net profit (loss)</i>	<i>% held</i>
Cembre Ltd (Sutton Coldfield - Birmingham)	1,705,514	4,988,886	289,955	100
Cembre Sarl (Morangis - Paris)	1,071,000	1,961,027	70,730	95(a)
Cembre España SL (Coslada - Madrid)	900,000	1,434,014	175,890	95(a)
Cembre AS (Stokke - Norway)	285,002	156,052	7,998	100
Cembre GmbH (Munich - Germany)	512,000	1,058,950	96,235	95(a)
Cembre Inc. (Edison - New Jersey-Usa)	672,215	257,803	97,663	50(b)
General Marking (Brescia - Italy)	99,000	(279,705)	(829,403)	100

(a) the remaining 5% is held through Cembre Ltd

(b) the remaining 50% is held through Cembre Ltd

Financial data relating to the capital stock, shareholders' equity and net profit for the year are those contained in the financial statements for 2003 approved by the respective boards of subsidiaries. The translation of capital stocks expressed in currencies different from the euro was carried out at the exchange rate on the last day of the financial year, while net profits were translated at the average exchange rate for the year.

The book value of investments in Cembre AS and Cembre Inc., the latter of which became operational in March 1999, recorded in the financial statements of the Group parent company, is significantly higher than the share in the shareholders' equity held. Such difference is justified by expected profits, already achieved in 2003 by both subsidiaries.

#### **b) other companies**

	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>
Inn.tec. srl	5,165	5,165
Conai	59	59
<b>Total</b>	<b>5,224</b>	<b>5,224</b>



The above represent non-controlling shares in Consorzio Nazionale Imballaggi (National Packaging Consortium) and Inn.tec Srl, a technology innovation consortium, with registered head offices at the Brescia Province main office.

## 2) Receivables

### a) from subsidiaries

Long-term receivables from subsidiaries consist exclusively of receivables from US subsidiary Cem-bre Inc. for funds to be used in 2004 to repay debt resulting from the capital increase of the same amounting to \$600,000.

### d) from others

	Dec. 31, 2003	Dec. 31, 2002
Deposits	10,721	11,804
Prepaid taxes on employee termination indemnities	94,473	165,724
<b>Total</b>	<b>105,194</b>	<b>177,528</b>

Prepaid taxes on employee termination indemnities (Article 2, Law no. 140/97) includes prior years' revaluations.

## C) CURRENT ASSETS

<i>I - Inventories</i>	Dec. 31, 2003	Dec. 31, 2002	Change
Raw materials	3,862,423	4,327,641	(465,218)
Work in progress and semi-finished goods	4,543,450	4,571,804	(28,354)
Finished goods	6,189,369	7,025,753	(836,384)
<b>Total</b>	<b>14,595,242</b>	<b>15,925,198</b>	<b>(1,329,956)</b>

Valuation criteria are unchanged from the previous year and are described in the first part of the present Notes. The provision for slow moving inventory, amounting to € 354,937, was increased by €200,000. The provision is recorded directly as a reduction in the value of finished products to bring them into line with their expected realisable value. The value of inventories at current prices is approximately €453 thousand higher than the reported value.

## II - Receivables

Balance at Dec. 31, 2002	€	17,856,148
Balance at Dec. 31, 2003	€	19,316,324
<b>Change</b>	€	<b>(1,460,176)</b>



### 1) Trade receivables

	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>
Gross book value	12,576,120	12,343,006
Provision for doubtful accounts	(309,716)	(323,030)
Trade receivables, net	12,266,404	12,019,976

### 2) Receivables from subsidiaries

Amounts receivable from subsidiaries relate to commercial transactions, as shown below:

<i>Subsidiary</i>	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>
Cembre Ltd	1,923,528	988,065
Cembre Sarl	496,130	1,137,810
Cembre España SL	1,452,677	2,551,793
Cembre AS	60,727	59,831
Cembre GmbH	705,176	721,700
Cembre Inc.	553,050	1,196,590
General Marking	14,441	27,030
Total	5,205,729	6,682,819

The increase of receivables from Cembre Ltd is due to stronger activity of the company, up about 16%, and the extension of payment terms. The reduction in receivables from Cembre Inc. is due to the reclassification of €494,112 under long-term receivables, as they were used in March 2004 to repay the liability resulting from the \$600,000 capital increase carried out by the subsidiary.

### 5) Other receivables

Current receivables

	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>
VAT receivables	9,008	301,854
Current tax receivables	65,593	63,057
Prepaid taxes	154,997	179,930
Other	56,770	65,206
<b>Total</b>	<b>286,368</b>	<b>610,047</b>

Prepaid tax receivables are recorded against the provision for inventory depletion described above, the non-deductible portion of the amortization of Oelma's goodwill and the provision for the loss reported by subsidiary General Marking. Current tax receivables relate to excess corporate income taxes paid over the amount due for the year.

Non-current receivables amount to € 97,647, and include the long-term portion of prepaid tax receivables, amounting to €94,164.

No receivables are due beyond five years.

**III – Marketable securities**

Balance at Dec. 31, 2003	€	588,230
Balance at Dec. 31, 2002	€	465,296
<hr/>		
Change	€	122,934

A the end of 2003, the Company held 243,000 own shares, the same number as at December 31, 2002. The value of such shares was written-up by €122,934 to bring their acquisition price in line with average listed prices recorded in December. At March 24, 2004, the number of shares held was unchanged.

**IV - Cash and cash equivalents**

Balance at Dec. 31, 2003	€	2,645,883
Balance at Dec. 31, 2002	€	1,645,195
<hr/>		
Change	€	1,000,688

The balance represents cash and cash equivalents at year-end.

**D) ACCRUED INCOME AND PREPAID EXPENSES**

Balance at Dec. 31, 2003	€	25,079
Balance at Dec. 31, 2002	€	24,232
<hr/>		
Change	€	847

Accrued income and prepaid expenses include income and charges that are either deferred or prepaid with respect to the year in which they accrue. They are made up as follows:

	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>
Contributions accrued		1,772
Prepaid maintenance fees	15,884	6,087
Sundry accrued income and prepaid expenses	9,195	16,373
<hr/>		
<b>Total</b>	<b>25,079</b>	<b>24,232</b>

All prepaid expenses and accrued income are current.



## Liabilities and Shareholders' Equity

### A) SHAREHOLDERS' EQUITY

Balance at Dec. 31, 2003	€	35,709,839
Balance at Dec. 31, 2002	€	34,602,063
Change	€	1,107,776

The share capital of the company amounts to €8,840,000 and is made up of 17 million ordinary shares of par value €0.52 each, fully underwritten and paid-up. Following the €122,934 write-up in the value of own shares held, the part of a correspondent amount was transferred from the extraordinary reserve to the provision for own shares that came available.

A Statement of Changes in the Shareholders' Equity is enclosed below as Attachment 2 and constitutes an integral part of the present Notes. Changes in all Shareholders' Equity items are detailed. Other reserves are made up by suspended-tax reserves amounting to €68,412.

### B) PROVISIONS FOR RISKS AND CHARGES

Balance at Dec. 31, 2003	€	651,050
Balance at Dec. 31, 2002	€	440,824
Change	€	210,226

Changes in the year are shown in the table that follows:

	<i>Dec. 31, 2002</i>	<i>Increases</i>	<i>Decreases</i>	<i>Dec. 31, 2003</i>
Customer indemnities	37,560		(1,869)	35,691
Foreign exchange	67,687	59,569		127,256
Labour litigation	200,000	18,527	(10,128)	208,399
Loss reported by General Marking	135,577	279,704	(135,577)	279,704
<b>Total</b>	<b>440,824</b>	<b>357,800</b>	<b>(147,574)</b>	<b>651,050</b>

The provision for customer indemnities was made pursuant to the applicable national agent agreement. The provision for litigation regarding labour issues was accrued to cover charges that may arise on a different retroactive classification of risk contested by INAIL (Social Security Agency), against whose requests Cembre filed a grounded and substantiated appeal. The provision for the loss reported by General Marking corresponds to the portion of the loss in excess of the capital stock and was used up in full in February 2004, as described in the note on investments.



## C) EMPLOYEE TERMINATION INDEMNITIES

Changes in the year are shown below.

(€)	
Balance at December 31, 2002	3,420,698
Amounts accrued in the year	620,756
Advances paid	(163,000)
Termination indemnities and Social Security contributions paid	(357,453)
Balance at December 31, 2003	3,521,001

Indemnities accrued in the year and paid to employees terminating their employment with the company was equal to €23,022. The amount is not included in the accrual for the year. The provision covers in full all amounts accrued by employees at the closing date of the financial statements, net of advances paid.

## D) PAYABLES

Balance at Dec. 31, 2003	€	15,244,985
Balance at Dec. 31, 2002	€	19,112,564
Change	€	(3,867,579)

Payables are recorded at face value. Their breakdown by expiration date is reported in the table below.

	<i>Less than 1 year</i>	<i>Over 1 year</i>	<i>Over 5 years</i>	<i>Total</i>
Bank loans	5,752,504	645,500		6,398,004
Advances	6,625			6,625
Trade payables	5,907,917			5,907,917
Payables to subsidiaries	69,488			69,488
Tax payables	567,177			567,177
Social Security payables	711,011			711,011
Other payables	1,584,763			1,584,763
	<b>14,599,485</b>	<b>645,500</b>		<b>15,244,985</b>



### 3) Bank loans

Balance at Dec. 31, 2003	€	6,398,004
Balance at Dec. 31, 2002	€	9,134,793
<hr/>		
Change	€	(2,736,789)

Bank loans include principal amounts, interest accrued and related charges. The item is made up as follows:

	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>
Overdrafts	607,004	2,543,356
Short-term loans (current portion)	4,500,000	2,500,000
Short-term loans (non-current portion)		2,000,000
Medium-term loans (current portion)	645,500	645,500
Medium-term loans (non-current portion)	645,500	1,291,000
Long-term loans (current portion)		154,937
<hr/>		
Total	6,398,004	9,134,793

Short-term loans are loans up to 18 months while medium-term loans are loans with a term included between 18 months and five years.

A €2.5 million 18-month loan was extended to the Company in May 2003. The loan bears a fixed 2.6% interest rate and is repayable in full at expiration.

### 6) Trade payables

Balance at Dec. 31, 2003	€	5,907,917
Balance at Dec. 31, 2002	€	7,305,800
<hr/>		
Change	€	(1,397,883)

Trade payables are stated net of trade discounts. Cash discounts are recognised only at the time of payment. The book value of such payments is adjusted for returns or discounts (invoicing adjustments), in line with the amount agreed upon with the supplier.

### 8) Payables to subsidiaries

Balance at Dec. 31, 2003	€	69,488
Balance at Dec. 31, 2002	€	97,331
<hr/>		
Change	€	(27,843)



Trade payables to subsidiaries are shown below:

	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>
Cembre Ltd	489	1,730
General Marking	62,544	82,548
Cembre A.S.	4,238	–
Cembre GMBH	0	8,768
Cembre España SL	1,945	–
Cembre Sarl	163	4,167
Cembre Inc.	109	118
Total	69,488	97,331

### 11) Tax payables

Balance at Dec. 31, 2003	€	567,177
Balance at Dec. 31, 2002	€	568,722
Change	€	(1,545)

The item includes local income taxes (IRAP) and taxes withheld on employee remuneration.

	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>
Taxes withheld on employee remuneration	517,746	518,075
Current taxes payable	49,431	50,647
Total	567,177	568,722

Advances paid in 2003 on corporate income taxes (IRPEG) were in excess of taxes payable for the year. The difference was recorded among other receivables.

### 12) Social Security payables

Balance at Dec. 31, 2003	€	711,011
Balance at Dec. 31, 2002	€	642,029
Change	€	68,982

The balance represents amounts payable to Social Security institutions relating to employees and agents.



### 13) Other payables

Balance at Dec. 31, 2003	€	1,584,763
Balance at Dec. 31, 2002	€	1,247,959
Change	€	336,804

	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>
Payable to employees	652,976	495,178
Customer bonuses payable	768,748	584,685
Agent fees payable	131,196	136,566
Insurance payables	22,887	21,204
Statutory Auditors' compensation payable	8,956	10,326
Total	1, 584,763	1,247,959

### E) ACCRUED EXPENSES AND DEFERRED INCOME

Balance at Dec. 31, 2003	€	14,590
Balance at Dec. 31, 2002	€	23,138
Change	€	(8,548)

These represent expenses accrued and deferred revenues recorded on the accrual method. All items are short-term.

	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>
Interest accrued on loans	14,355	23,138
Deferred income	235	0
Total	14,590	23,138

### Commitments

	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>	<i>Change</i>
Guarantees given	41,118	37,423	3,695
Guarantees in favour of subsidiaries	5,521,177	0	5,521,177
Guarantees received	81,796	236,062	(154,266)



## Income Statement

Before commenting items in the Income Statement, we draw your attention on the analysis of costs and revenues contained in the Management Report pursuant to article 2428, first comma, of the Italian Civil Code.

The current analysis focuses on significant changes in Income Statement items from the previous year, and is supplemented by more detailed analysis included in the notes to the Balance Sheet.

### A) REVENUES

#### 1) Sales

Balance at Dec. 31, 2003	€	47,286,914
Balance at Dec. 31, 2002	€	45,600,252
Change	€	1,686,662

<i>Sales by geographical area (€'000)</i>	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>	<i>Change</i>
Italy	29,305	27,371	1,934
Rest of Europe	14,405	14,581	(176)
Rest of world	3,577	3,648	(71)
Total	47,287	45,600	1,687

Changes are due to factors described in the Management Report.

#### 5) Other revenues

	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>	<i>Change</i>
Capital gains on disposal of assets	10,959	22,701	(11,742)
Rent	68,250		68,250
Other	15,335	17,010	(1,675)
Total	94,544	39,711	54,833



## B) OPERATING COSTS

### 6) Raw materials

Balance at Dec. 31, 2003	€	15,880,856
Balance at Dec. 31, 2002	€	17,750,207
Change	€	(1,869,351)

	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>
Raw materials and goods	13,590,225	15,046,300
Consumables	2,232,034	2,667,610
Transport costs and customs duties	58,597	36,297
Total	15,880,856	17,750,207

### 7) Services

Balance at Dec. 31, 2003	€	7,342,689
Balance at Dec. 31, 2002	€	7,177,254
Change	€	165,435

	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>
Subcontracted work	2,005,098	2,008,127
Transport	949,610	828,741
Maintenance and repairs	1,040,798	1,024,252
Electricity, heating, water	592,260	598,453
Consulting services	676,750	628,195
Directors' compensation	399,462	461,239
Auditors' compensation	49,677	48,493
Commissions	245,999	243,075
Postage and telephone	139,292	158,535
Fuel	105,101	106,267
Travel and transfers	206,946	223,442
Insurance	158,591	152,233
Canteen	185,659	187,042
Bank expenses	73,270	77,400
Personnel training	11,537	27,211
Advertising and trade fairs	96,160	34,665
Security and cleaning	274,777	247,790
Other	131,702	122,094
Total	7,342,689	7,177,254



### 8) Leases and rentals

Balance at Dec. 31, 2003	€	691,081
Balance at Dec. 31, 2002	€	663,153
<hr/>		
Change	€	27,928

Lease and rental costs relate primarily to the lease of buildings owned by third parties and related parties, as described in the Management Report, and by vehicle leasing costs.

### 9) Personnel costs

Balance at Dec. 31, 2003	€	12,958,941
Balance at Dec. 31, 2002	€	12,775,515
<hr/>		
Change	€	183,426

The item includes personnel costs, including paid leave and accruals made pursuant to the Law and collective labour contracts in force. Employee termination indemnities include the accrual at December 31, 2003 and amounts paid to personnel terminating their employment with the company in the year and pension benefits payable to the COMETA Pension Fund.

<i>Average number of employees by category</i>	<b>2003</b>	<b>2002</b>
Management	7	7
Administrative and commercial staff	142	140
Warehouse workers	182	175
<hr/>		
<b>Total</b>	<b>331</b>	<b>322</b>

### 10) Depreciation and accruals

#### b) Tangible asset depreciation

Depreciation rates are unchanged from the previous year, and are as follows:

<b>Category</b>	<b>Depreciation rate</b>
Buildings and light construction	3% - 10%
Plant and machinery	10% - 15.5%
Equipment	25%
Other assets	12% - 25%

Ordinary depreciation for 2003 amounted to €2,015 thousand while accelerated depreciation was equal to €951 thousand. Had amortisation been calculated over the expected residual useful life of the assets, tangible assets would have been higher by €4,674 thousand, and shareholders' equity by



€2,933 thousand, net of the related tax expense. Net profit benefited from €1,267 thousand of accelerated depreciation charges accrued in previous years. Net profit, gross of accelerated depreciation, would therefore have been lower by €316 thousand (€148 thousand net of the tax expense for the year).

## 12) Accrual to provisions for risks and charges

The item is made up as follows:

	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>
Coverage of losses reported by General Marking srl	279,705	135,577
Customer indemnities	6,692	6,509
Other	4,578	
<b>Total</b>	<b>290,975</b>	<b>142,086</b>

An accrual of €279,705 was made against the loss reported by subsidiary General Marking in 2003. The accrual consists of loss in excess of the write-down of the investment in the subsidiary, as described in the note to Provisions for risks and charges.

The accrual to the provision for customer indemnities, equal to €6,692 thousand, was made in view of charges relating to the possible termination of agent contracts.

## 14) Other operating costs

Balance at Dec. 31, 2003	€	167,918
Balance at Dec. 31, 2002	€	121,946
Change	€	45,972

Other operating costs

	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>
Donations	40,216	53,193
Taxes	111,328	59,820
Other	16,374	8,933
<b>Total</b>	<b>167,918</b>	<b>121,946</b>

## C) FINANCIAL INCOME (EXPENSE)

### 16) Other financial income

Balance at Dec. 31, 2003	€	20,238
Balance at Dec. 31, 2002	€	27,297
Change	€	(7,059)



## Other financial income

	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>
Interest on bank deposits	10,574	12,912
Foreign exchange gains	8,404	7,718
Other	1,260	5,390
<b>Total</b>	<b>20,238</b>	<b>26,020</b>

**17) Interest and other financial expense**

Balance at Dec. 31, 2003	€	487,678
Balance at Dec. 31, 2002	€	361,556
Change	€	126,122

The item is made up as follows:

	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>
Bank interest charges	198,496	179,539
Interest on loans	52,793	100,692
Provision for exchange rate fluctuations	59,569	67,687
Foreign exchange losses	176,820	13,638
<b>Total</b>	<b>487,678</b>	<b>361,556</b>

**D) WRITE-DOWNS**

The €549,699 write-down in the value of investments relates to the write-down in full of the investment in subsidiary General Marking due to the loss reported in 2003.

**E) EXTRAORDINARY ITEMS**

Balance at Dec. 31, 2003	€	(402,441)
Balance at Dec. 31, 2002	€	(471,457)
Change	€	69,016



The item is made up as follows:

	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>
Extraordinary gains	19,296	28,847
Extraordinary losses	(76,165)	(113,162)
Returns of goods sold in past years	(326,671)	(187,142)
Accrual against labour litigation	(13,949)	(200,000)
Losses due to theft	(4,952)	0
<b>Total</b>	<b>(402,441)</b>	<b>(471,457)</b>

Extraordinary losses include €42 thousand of taxes relating to the previous year, and €16 thousand of agent fees also relating to the previous year.

Returns of merchandise sold in previous years represent goods returned following agreements with customers.

## 22) Income taxes

Balance at Dec. 31, 2003	€	(2,475,543)
Balance at Dec. 31, 2002	€	(1,663,322)
Change	€	812,221

The increase in the tax expense for the year is due primarily to the termination of tax facilitations provided by the Tremonti-bis Law which in 2002 resulted in a reduction of €767,000 in the tax expense. The accrual to the tax provision is made in accordance with expected taxable income, taking into account adjustments made to income reported in the statutory accounts.

Deferred taxes

	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>
Increase in provision for inventory depletion	73	
Accrual to provision for goodwill amortization	41	44
Write-down of investment		27
Accrual to risk provision for losses reported by subsidiaries in 2002		46
Uses of risk provision for losses reported by subsidiaries in 2002	(46)	
Other	1	(3)
<b>Total</b>	<b>69</b>	<b>114</b>

Pursuant to paragraph 14 of Article 2427 of the Italian Civil Code, we assert that no value adjustments made for tax purposes were carried out other than those previously discussed relating to tangible asset depreciation.

Please refer to the Management Report for information relating to events subsequent to the closing date of the financial statements and transactions with related parties.



Compensation of Directors and emoluments paid to the Board of Statutory Auditors are reported under item B7 “Costs for services” of the Income Statement. Pursuant to disclosure requirements set by Consob, implementing Legislative Decree no. 58 of 2001, we also include in Attachment 4 the breakdown of compensation paid to Directors and Auditors of the company.

The present Notes include the following attachments:

- no. 1 Changes in tangible assets
- no. 2 Changes in the shareholders' equity
- no. 3 Summary financial information relating to subsidiaries, pursuant to Article 2429 of the Italian Civil Code
- no. 4 Directors and Auditors' compensation

The present financial statements, that include a Balance Sheet, Income Statement and explanatory Notes, truly and fairly represent the Company's assets, liabilities and financial position, in addition to its operating performance for the 2003 financial year, and correspond to its accounting records.

### **Supplementary information required by Consob**

Pursuant to a CONSOB requirement, the Company's (Cembre S.p.A) shareholdings over 10% held in limited liability publicly traded companies and unlisted joint-stock companies at December 31, 2003, are shown in the table below. The Company holds full title to the investments listed below.

Company	Head office	Capital stock	% held				% of voting rights
			directly	indirectly	through	total	
Cembre Ltd	Sutton Coldfield (Birmingham - UK)	Gbp 1,200,000	100%			100%	100%
Cembre Sarl	Morangis (Paris - Francia)	Euro 1,071,000	95%	5%	Cembre Ltd	100%	100%
Cembre España SL	Coslada (Madrid-Spain)	Euro 900,000	95%	5%	Cembre Ltd	100%	100%
Cembre AS	Stokke (Norway)	Nok 2,400,000	100%			100%	100%
Cembre GmbH	Munich (Germany)	Euro 512,000	95%	5%	Cembre Ltd	100%	100%
Cembre Inc.	Edison (New Jersey - USA)	Us \$ 840,000	50%	50%	Cembre Ltd	100%	100%
General Marking	Brescia (Italy)	Euro 99,000	100%			100%	100%

Oelma Srl, a wholly-owned subsidiary since 1999, was merged into Cembre SpA, effective January 1, 2002.

Brescia, March 29, 2004

THE CHAIRMAN OF THE BOARD OF DIRECTORS  
CARLO ROSANI



**ATTACHMENT NO.1 NOTES TO THE FINANCIAL STATEMENTS OF CEMBRE SPA AT DECEMBER 31, 2003**  
**CHANGES IN TANGIBLE ASSETS (in euro)**

	GROSS BOOK VALUE			DEPRECIATION				NET BOOK VALUE		
	Balance at Dec. 31, 2002	Increases	Decreases and write-downs	Balance at Dec. 31, 2003	Accumulated depreciation at Dec. 31, 2002	Depreciation expense	Uses of provision for accumulated depreciation	Accumulated depreciation at Dec. 31, 2003	Net book value at Dec. 31, 2003	Net book value at Dec. 31, 2002
Land and buildings	10,939,444	458,509		11,397,953	3,306,052	325,123		3,631,175	7,766,778	7,633,392
Plant and machinery	22,173,700	1,307,658	(199,586)	23,281,772	18,159,364	1,735,026	(194,404)	19,699,987	3,581,785,29	4,014,336
Equipment	4,049,576	288,585		4,338,161	3,485,805	484,981		3,970,786	367,375	563,771
Other assets	3,516,221	130,454	(280,154)	3,366,521	2,799,625	421,090	(275,320)	2,945,396	421,126	716,596
	<b>40,678,941</b>	<b>2,185,206</b>	<b>(479,740)</b>	<b>42,384,407</b>	<b>27,750,846</b>	<b>2,966,220</b>	<b>(469,724)</b>	<b>30,247,343</b>	<b>12,137,064</b>	<b>12,928,095</b>
Work in progress and advances (1)	315,164	73,364	(298,973)	89,556					89,555,68	315,164
<b>TOTAL</b>	<b>40,994,105</b>	<b>2,258,570</b>	<b>(778,713)</b>	<b>42,473,963</b>	<b>27,750,846</b>	<b>2,966,220</b>	<b>(469,724)</b>	<b>30,247,343</b>	<b>12,226,620</b>	<b>13,243,259</b>

(1) Decreases and write-downs relating to work in progress and advances include transfers made.

**ATTACHMENT NO.2 NOTES TO THE FINANCIAL STATEMENTS OF CEMBRE SPA AT DECEMBER 31, 2003**  
**STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2003**

(in euro)	Share capital	Share premium	Restatement reserve	Legal reserve	Reserve for own shares	Extraordinary reserve	Suspended tax reserves	Net profit	Total Shareholders' equity
Balance at December 31, 2002	8,840,000	12,244,869	585,159	1,109,396	465,296	8,596,299	68,412	2,692,631	34,602,062
Transfer due to write-down of own shares					122,935	(122,935)			
Allocation of 2002 net profit <sup>(1)</sup>				134,632		1,217,439		(2,692,631)	(1,340,560)
Net profit								2,448,336	2,448,336
<b>Balance at December 31, 2003</b>	<b>8,840,000</b>	<b>12,244,869</b>	<b>585,159</b>	<b>1,244,028</b>	<b>588,231</b>	<b>9,690,803</b>	<b>68,412</b>	<b>2,448,336</b>	<b>35,709,838</b>

(1) With reference to the allocation of 2002 net profit, item Total Shareholders' Equity includes dividends approved by resolution at the Shareholders' Meeting held on May 12, 2003.



**ATTACHMENT 3 - NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS  
AT DEC. 31, 2003**

**FINANCIAL HIGHLIGHTS OF COMPANIES INCLUDED IN THE  
CONSOLIDATION PURSUANT TO ARTICLE 2429 OF THE ITALIAN CIVIL CODE**

(in euro)	Totale fixed assets	Current assets accruals and prepayments	Total assets	Shareholders' Equity	Total liabilities, provisions, accruals and deferrals	Totale liabilities and Shareholders' Equity
Cembre Ltd	3,865,283	3,935,071	7,800,354	4,988,886	2,811,468	7,800,354
Cembre Sarl	594,144	2,449,111	3,043,256	1,961,027	1,082,229	3,043,256
Cembre España SL	999,822	4,443,359	5,443,181	1,434,014	4,009,167	5,443,181
Cembre AS	3,174	234,398	237,572	156,052	81,520	237,572
Cembre GmbH	72,285	1,908,751	1,981,036	1,058,950	922,086	1,981,036
Cembre Inc	62,149	1,729,580	1,791,729	257,803	1,533,925	1,791,729
General Marking srl	2,399,462	1,265,126	3,664,588	-279,705	3,944,293	3,664,588

	Total operating value	Operating costs	Financial income (expense)	Extraordinary items	Income taxes	Net profit (loss)
Cembre Ltd	8,545,013	(8,087,202)	(40,883)	4,335	(131,308)	289,955
Cembre Sarl	4,118,188	(3,995,413)	(9,222)	(2,696)	(40,127)	70,730
Cembre España SL	6,030,324	(5,739,326)	(21,443)	1,044	(94,710)	175,890
Cembre AS	384,670	(375,016)	(1,657)	0	0	7,998
Cembre GmbH	3,780,798	(3,617,959)	1,354	0	(67,958)	96,235
Cembre Inc	2,185,159	(2,056,823)	(30,673)	0	0	97,663
General Marking srl	1,283,312	(2,016,385)	(91,440)	(1,057)	(3,832)	(829,403)

Figures relate to the Financial Statements at Dec. 31, 2003

The translation of amounts denominated in currencies other than the euro was carried out in accordance with the methods described in the notes to the Consolidated Financial Statements at Dec. 31, 2003

Brescia, March 29, 2004

THE CHAIRMAN OF THE BOARD  
CARLO ROSANI



**ATTACHMENT NO. 4 – NOTES TO THE FINANCIAL STATEMENTS OF CEMBRE S.P.A.  
DIRECTORS AND STATUTORY AUDITORS' COMPENSATION**

	POSITION		Term (1)	Emoluments for position	COMPENSATION in euro (1)		
	Position	Term (1)			Non-monetary benefits (5)	Bonuses and other incentives	Other compensation
CARLO ROSANI	Chairman & Chief Executive Officer	2003-2005	140,356				
ANNA MARIA ONOFRI	Vice Chairman & Managing Director	2003-2005	70,533				
ALDO COPETTA	Managing Director	2003-2005	57,368			5,000 (2)	
GIOVANNI DE VECCHI	Director	2003-2005	16,107	4,859	19,604	104,688 (3)	
ALDO BOTTINI BONGRANI	Director	2003-2005	16,107	3,214	2,839	100,346 (4)	
MARIO COMANA	Director	2003-2005	47,094				
PAOLO LECHI	Director	2003-2005	16,107				
SARA ROSANI	Director	1/1/03-12/5/03	6,507	2,796		30,039 (4)	
GIOVANNI ROSANI	Director	2003-2005	16,107	3,130		29,805 (4)	
GUIDO ASTORI	Chairman of the Board of Statutory Auditors	2003-2005	21,862				
AUGUSTO REZZOLA	Statutory Auditor (6)	May 12, 2003 Oct. 16, 2003	11,589				
MARIA GRAZIA LIZZINI	Statutory Auditor (6)	2003-2005	1,370				
LEONE SCUTTI	Statutory Auditor	2003-2005	14,855				

(1) The expiration of the term coincides with the approval of the 2005 Financial Statements for both Board of Directors and Board of Statutory Auditors.

(2) Compensation for services. See Relationships with related parties in the Management report.

(3) Gross retribution for employment amounts to 89,688; emoluments for positions held in subsidiaries amount to 15,000.

(4) Gross retribution for employment.

(5) Made up by fringe benefits represented by the use of a company car and insurance coverage.

(6) Maria Grazia Lizzini changed her status from Alternate Auditor to Auditor replacing Augusto Rezzola pursuant to article 2401 of the Italian Civil Code.



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**AUDITORS' REPORT**  
**pursuant to article 156 of Legislative Decree of February 24, 1998, n. 58**  
**(Translation from the original Italian text)**

To the Shareholders  
of Cembre S.p.A.

1. We have audited the financial statements of Cembre S.p.A. as of and for the year ended December 31, 2003. These financial statements are the responsibility of the Cembre S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. Our audit was made in accordance with auditing standards and procedures recommended by CONSOB **(the Italian Stock Exchange Regulatory Agency<sup>1</sup>)**. In accordance with such standards and procedures we planned and performed our audit to obtain the information necessary in order to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

For our opinion on the financial statements of the prior year, which are presented for comparative purposes as required by the law, reference should be made to our report dated March 26, 2003.

3. In our opinion, the financial statements of Cembre S.p.A. comply with the **Italian<sup>1</sup>** regulations governing financial statements; accordingly, they clearly present and give a true and fair view of the financial position of Cembre S.p.A. as of December 31, 2003, and the results of its operations for the year then ended.

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(1) Words added in translation from original Italian text

■ Reconta Ernst & Young S.p.A.  
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Capitale Sociale € 1.111.000,00 i.v.  
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma  
Codice fiscale e numero di iscrizione 00434000584  
P.I. 00891231003  
(vecchio numero R.I. 6697/89 - numero R.E.A. 250904)



■ Reconta Ernst & Young S.p.A.

4. As in prior years, the Company booked accelerated depreciation expenses in addition to those based on useful lives of the fixed assets; the effects on the financial statements of the accelerated depreciation expenses are illustrated in the Notes to the financial statements.
5. The Company, together with the financial statements, has prepared the consolidated financial statements as requested by the law. The consolidated financial statements, also audited by us, has enclosed our audit report dated March 30, 2004.

Brescia March 30, 2004

RECONTA ERNST & YOUNG S.P.A.  
Signed by: Stefano Colpani, partner

*Cembre Group Management Report  
at 31 December 2003*

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## Cembre Group Management Report for the financial year ended December 31, 2003

As in the previous year, in 2003 the market registered a period of stagnation, both at the domestic and European level, with the only exception of the Spanish market, helped by strong investment in infrastructure.

Revenues increased from €56,946 thousand in 2002, to €59,870 thousand in the current year, up 5.1%.

### Revenues by Group company

(€ '000)	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>
Parent company	35,722	34,106
Cembre Ltd. (UK)	7,700	7,373
Cembre S.a.r.l. (France)	3,990	4,006
Cembre España S.L.	5,598	4,723
Cembre GmbH (Germany)	3,737	3,611
Cembre AS (Norway)	376	543
Cembre Inc (USA)	2,115	2,361
General Marking srl (Italy)	632	223
<b>Total</b>	<b>59,870</b>	<b>56,946</b>

### Sales by geographical area

	<i>Dec. 31, 2003</i>	<i>Dec. 31, 2002</i>
Italy	29,765	27,518
Rest of Europe	25,310	24,246
Rest of the World	4,795	5,182
<b>Total</b>	<b>59,870</b>	<b>56,946</b>

A total of 49.7% of Group sales in 2003 were represented by Italy (as compared with 48.3% in 2002), 42.3% by the rest of Europe (42.6% in 2002), and the remaining 8.0% by the rest of the World (9.1% in 2002). Sales in Italy grew by 8.2%, while sales for the rest of Europe registered a 4.4% increase.

The increase in sales outside Europe is due to the strengthening of the euro against other currencies. At current exchange rates, sales outside Europe would have increased only slightly and would have been equal to €5.2 million. The growth in sales of the parent company is due primarily to the development of new products that allowed to counter the effect of the stagnant domestic market. The latter affected also the French and German market, where local subsidiaries reported stable revenues. The Spanish subsidiary benefited from the good market conditions generated by strong investment in infrastructure. The US subsidiary closed the financial year in which it reported a profit, increasing its turnover in dollar terms.



General Marking, incorporated in July 2002, reported a loss; profits are however expected to be generated in future years.

Gross operating profit improved from €10,252 thousand in 2002, to €10,891 thousand in 2003, representing an 18.2% margin on sales.

Operating profit amounts to €6,363 thousand, representing a 10.6% margin on sales, as compared with €6,271 thousand in 2002, corresponding to an 11% margin on sales.

Pre-tax profit amounts to €5,680 thousand, up 9.1% on €5,204 thousand in 2002. Due to the sharp increase in the tax expense, the year however closes with a net profit of €2,988 thousand, equal to 5% of sales, declining from €3,213 thousand in 2002 in which it amounted to 5.6% of sales. The increase in taxes from the previous year is due to the expiration of the benefits provided to the parent company by the Tremonti-bis Law that in 2002 accounted for a reduction in the tax expense of about €767 thousand.

The cash flow (considered as the sum of net profit, depreciation and amortization) grew from €7,195 thousand in 2002 to €7,516 thousand in 2003, representing a 12.6% margin on sales. To provide a better understanding of the Company's financial performance for 2003, a Reclassified Consolidated Income Statement at December 31, 2003 is enclosed as Attachment A.

### Net financial position

(€ '000)	Dec. 31,2003	Dec. 31,2002
Long-term financial debt	(2,707)	(3,978)
Total long-term financial debt	(2,707)	(3,978)
Cash and short-term financial receivables	4,059	3,327
Short-term bank debt	(9,373)	(9,564)
Short-term financial debt	(37)	(47)
Marketable securities	588	465
Total short-term debt	(4,763)	(5,819)
Net financial position	(7,470)	(9,797)

The decline in debt on the previous year is due to the reduction in capital expenditure, declining from €7.2 million in 2002, to €3.7 million in the current year, and to the absence of extraordinary operations.

### Adoption of IAS/IFRS principles

Following the recommendation of the Committee of European Securities Regulators (CESR) published on December 30, 2003, containing the guidelines for the transition to the IAS/IFRS accounting standards by companies listed in the EU, we illustrate in the section that follows the regulatory framework and steps to be followed in the adoption of international accounting principles by the Cembre Group.



The main steps that characterized the adoption of common accounting standards in the European Union were:

- the adoption of Regulation no. 1606 issued by the European Parliament and the European Council in July 2002, introducing the mandatory adoption of IAS/IFRS in the consolidated accounts of companies listed in regulated markets of the European Union;
- the adoption on the part of the European Commission of Regulation no. 1725 dated September 29, 2003, defining international accounting principles and the respective interpretation of the same at September 14, 2002, to be adopted; the adoption excludes IAS 32 and 39, regarding respectively disclosure and the fair market valuation of financial instruments, in addition to the related interpretations (SIC 5, 16 e 17), due to their current revision by the IASB;
- the issue by the Italian legislator of the 2003 EU Law (Law no. 306, October 31, 2003) whose article 25 provides, among other things, for the adoption by listed companies of IAS/IFRS principles in the preparation not only of the consolidated accounts (as already provided by EU Regulation no. 1606/2002), but also of the respective statutory accounts.

At the same time, the IASB planned a series of projects aimed at the implementation of international principles applied by the EU, including rules regarding transactions not currently regulated. Some of these projects have already been concluded, while other projects are being defined and/or being initiated.

In 2003 Cembre S.p.A. launched a specific project regarding the adoption of international principles, carrying out an analysis to identify main differences between accounting principles adopted in Italy and IAS/IFRS, and to quantify, based on differences determined, the most significant impacts on the Consolidated Financial Statements of the Cembre Group. The project is aimed at the achievement of the following objectives:

- to identify main differences between accounting principles adopted in Italy and IAS/IFRS, including those for first-time the preparation of the financial statements (January 1, 2004 representing the date of the transition), and to quantify the related impacts;
- the implementation of corporate administrative processes and information systems to allow the preparation of annual reports and semi-annual reports according to IAS/IFRS.

In line with IAS 1, the financial statements prepared in accordance with IAS/IFRS must include, in terms of comparative information, data for the previous year and the one under consideration. The financial statements at December 31, 2005 will be the first yearly statements issued by the Cembre Group in accordance with international accounting principles and will therefore include for comparative purposes, the financial statements prepared in accordance with the IAS/IFRS at December 31, 2004. The analysis thus far carried out resulted in the determination of some differences between accounting principles adopted in Italy and IAS/IFRS (on the basis of the implementation of the Exposure Drafts currently available and excluding differences deriving from the first-time application of international accounting principles), the most relevant of which are illustrated below:

- own shares: according to IAS/IFRS, own shares may no longer be recorded as assets and will have to be cancelled out together with the related reserve. The amount of own shares will also have to be subtracted from the Shareholders' Equity;
- Employee severance indemnities: accounting principles applied in Italy require the recording of the Employee termination indemnity (ETI) based on the face value of the liability accrued at the date of the financial statements. According to IAS/IFRS, the ETI can be assimilated to benefit plans subject to actuarial discounting in determining the present value of the benefit payable at time at which the employee terminates his or her employment, accrued by employees at the date of the financial state-



ments;

- derivative instruments: according to IAS/IFRS, all derivative instruments must be reported in the financial statements at their fair value. The accounting treatment of derivative instruments varies according to the characteristics of the same (hedging instruments and non-hedging instruments);
- exceptions of accounting principles provided for by special laws: for the purposes of IAS/IFRS, the accounting treatment shall not take into account the effect of special legal or tax provisions.

The possibility of allowing the accounting of tangible assets – currently accounted for at the historical cost – at the fair market value is being considered. A number of projects for the definition of operating procedures aimed at quantifying differences identified were initiated.

### **Capital expenditure**

Capital expenditure was carried out primarily by the parent company and Cembre Ltd. and amounted, net of depreciation and disposals, respectively to €2.3 million and €0.9 million. Capital expenditure made by the parent company was concentrated on plant and machinery (€1.3 million) and additions to or the completion of existing industrial buildings (€0.46 million). Cembre Ltd. invested €0.7 million in the renovation of its Birmingham offices.

### **Research & Development**

Thanks to its greater experience and numerous technicians, Cembre SpA carries out most of the Group's research and development activities, described in the Parent Company management report. Nevertheless, other Group companies participate actively in product development and research.

### **Related Parties**

For details regarding transactions with related parties, please refer to the Parent Company management report.

### **Own shares**

At December 31, 2003, Cembre SpA held 243,000 of its own shares recorded at cost, amounting to €588,230, net of the €119,026 write-down carried out to reflect their current market value. Cembre SpA own shares have a total par value of €126,360, representing 1.43% of its share capital. No shares were acquired or disposed of in the year. At December 31, 2003, Cembre SpA had not acquired, 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**

In March 2004, Cembre S.p.A. underwrote a capital increase carried out by Cembre Ltd. amounting to £500,000, in addition to resolving the underwriting of a capital increase carried out by Cembre Inc. amounting to \$600,000.

No event having significant effects on Cembre Group assets or financial performance occurred after the closing of the financial year.



## **Outlook**

In 2004, the Group expects a growth in activity, both in the domestic market and foreign markets. Profit levels are expected to remain good.

## **ATTACHMENTS**

The present document includes two attachments:

Attachment A: Reclassified Consolidated Income Statement at December 31, 2003;

Attachment B: Consolidated Statement of Cash Flows for the year ended December 31, 2003.

Brescia, Italy March 29, 2004

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



**ATTACHMENT A - MANAGEMENT REPORT**  
**CEMBRE GROUP CONSOLIDATED FINANCIAL STATEMENTS**  
RECLASSIFIED CONSOLIDATED INCOME STATEMENT AT DECEMBER 31, 2003

(in euro)	Dec. 31,2003	%	Dec. 31,2002	%
Sales	59,870,282	100.0	56,945,939	100.0
Other revenues and gains	78,045		49,559	
<b>TOTAL REVENUES</b>	<b>59,948,327</b>		<b>56,995,498</b>	
Change in work in progress, semi-finished and finished goods inventories	(61,138)	(0.1)	1,566,451	2.8
Increase in assets due to internal construction	824,509	1.4	871,870	1.5
<b>TOTAL OPERATING VALUE</b>	<b>60,711,698</b>	<b>101.4</b>	<b>59,433,819</b>	<b>104.4</b>
Materials and services used	(30,774,957)	(51.4)	(30,800,794)	(54.1)
Other operating costs	(256,242)	(0.4)	(194,633)	(0.3)
<b>VALUE ADDED</b>	<b>29,680,499</b>	<b>49.6</b>	<b>28,438,392</b>	<b>49.9</b>
Personnel costs	(18,613,448)	(31.1)	(18,034,460)	(31.7)
Accruals to provision for doubtful accounts	(150,213)	(0.3)	(107,053)	(0.2)
Accruals to risk provision	(25,669)		(44,416)	
<b>GROSS OPERATING MARGIN (EBITDA)</b>	<b>10,891,169</b>	<b>18.2</b>	<b>10,252,463</b>	<b>18.0</b>
Intangible asset amortization	(401,451)	(0.7)	(427,898)	(0.8)
Tangible asset depreciation and other assets write-downs	(4,126,199)	(6.9)	(3,553,728)	(6.2)
<b>OPERATING PROFIT (EBIT)</b>	<b>6,363,519</b>	<b>10.6</b>	<b>6,270,837</b>	<b>11.0</b>
Financial income (expense)	(617,848)	(1.0)	(615,832)	(1.1)
<b>PROFIT BEFORE EXTRAORDINARY ITEMS</b>	<b>5,745,671</b>	<b>9.6</b>	<b>5,655,005</b>	<b>9.9</b>
Extraordinary items and adjustments to the value of financial assets	(66,141)	(0.1)	(450,692)	(0.8)
<b>PROFIT BEFORE TAXES</b>	<b>5,679,530</b>	<b>9.5</b>	<b>5,204,313</b>	<b>9.1</b>
Income taxes	(2,691,420)	(4.5)	(1,990,813)	(3.5)
<b>NET PROFIT</b>	<b>2,988,110</b>	<b>5.0</b>	<b>3,213,500</b>	<b>5.6</b>
<b>CASH FLOW (net income plus depreciation and amortization)</b>	<b>7,515,760</b>	<b>12.6</b>	<b>7,195,126</b>	<b>12.6</b>



**ATTACHMENT B - CEMBRE GROUP CONSOLIDATED FINANCIAL STATEMENTS  
MANAGEMENT REPORT**

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2003

(€ '000)

Sources of funds	Dec. 31,2003	Dec. 31,2002
Net profit	2,988	3,214
Adjustments for items not having an impact on cash flow:		
Tangible assets depreciation and write-downs	3,978	3,554
Intangible assets amortization and write-downs	549	428
Accruals to provisions for risks and charges	26	44
Employee termination indemnities	639	717
Working capital generated by operations	8,180	7,957
Increase in long-term bank debt	4,000	2,000
Increase in other long-term debt	0	2
Book value of assets sold	555	660
Change in provisions for risks and charges	(148)	9
Other changes in assets	(374)	(279)
<b>TOTAL SOURCES OF FUNDS</b>	<b>12,213</b>	<b>10,349</b>
Uses of funds		
Increase in intangible assets	130	1,812
Acquisition of tangible assets	3,687	8,858
Increase in long-term receivables	17	50
Decline in long-term bank debt	2,099	2,536
Transfer to current portion of long-term debt	3,146	308
Decline in other long-term debt	26	0
Payment of employee termination indemnities	530	343
Dividends paid	1,341	1,676
<b>TOTAL USES OF FUNDS</b>	<b>10,976</b>	<b>15,583</b>
<b>INCREASE (DECREASE) IN WORKING CAPITAL</b>	<b>1,237</b>	<b>(5,234)</b>



<b>Changes in net current assets:</b>		
<b>Current assets</b>		
Cash and banks	732	(1,520)
Current financial receivables	123	(101)
Short-term receivables	(1)	(1)
Trade receivables	546	781
Other receivables	(320)	351
Inventories	(1,276)	1,329
Accrued income and prepaid expenses	(56)	412
	<b>(252)</b>	<b>1,251</b>
<b>Current liabilities</b>		
Bank overdrafts	(191)	5,692
Other long-term financial payables	(10)	2
Trade payables	(1,883)	1,027
Tax payables	70	(238)
Other payables	545	(111)
Accrued expenses and deferred income	(20)	113
	<b>(1,489)</b>	<b>6,485</b>
<b>INCREASE (DECREASE) IN NET CURRENT ASSETS</b>	<b>1,237</b>	<b>(5,234)</b>

*Consolidated Balance Sheet  
at 31 December 2003*

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## Consolidated Financial Statements at December 31, 2003

Balance Sheet (in euro) - Assets	Dec. 31,2003	Dec. 31,2002
<b>A) Capital not paid-in</b>		
<b>B) Fixed assets</b>		
<i>I - Intangible assets</i>		
1) Incorporation costs	–	87,846
3) Industrial patents and intellectual property rights	359,627	363,422
4) Concessions, licenses and trademarks	224,422	247,244
5) Establishment (setting-up)	–	92,962
5)a Consolidation differences	–	142,977
7) Other assets	760,754	829,756
<b>Total</b>	<b>1,344,803</b>	<b>1,764,207</b>
<i>II - Tangible assets</i>		
1) Land and buildings	11,672,858	10,954,956
2) Plant and machinery	8,314,899	8,981,120
3) Equipment	2,071,311	2,390,903
4) Other assets	1,722,681	2,076,256
5) Work in progress and advances	89,556	315,409
<b>Total</b>	<b>23,871,305</b>	<b>24,718,644</b>
<i>III - Financial assets</i>		
1) Investments in:		
d) other companies	5,224	5,224
2) Receivables		
d) short-term receivables from others	–	1,034
d) long-term receivables from others	119,840	180,648
<b>Total</b>	<b>125,064</b>	<b>186,906</b>
<b>Total assets</b>	<b>25,341,172</b>	<b>26,669,757</b>
<b>C) Current assets</b>		
<i>I - Inventories</i>		
1) Raw materials	4,382,694	4,851,554
2) Work in progress and semi-finished goods	4,655,508	4,664,993
4) Finished goods	11,595,665	12,393,919
<b>Total</b>	<b>20,633,867</b>	<b>21,910,466</b>



<i>II - Receivables</i>		
1) Trade		
- short-term	18,198,715	17,652,516
5) From others		
- short-term	1,194,259	1,514,106
- long-term	178,972	100,338
<b>Total receivables from others</b>	<b>1,373,231</b>	<b>1,614,444</b>
<b>Total receivables</b>	<b>19,571,946</b>	<b>19,266,960</b>
 <i>III - Marketable securities</i>		
5) Own shares (par value € 126,360)	588,230	465,296
 <i>IV - Cash and cash equivalents</i>		
1) Bank deposits	4,040,875	3,299,967
3) Cash	17,902	27,270
<b>Total cash and cash equivalents</b>	<b>4,058,777</b>	<b>3,327,237</b>
<b>Total current assets</b>	<b>44,852,820</b>	<b>44,969,959</b>
<b>D) Accrued income and prepaid expenses</b>	<b>465,943</b>	<b>522,103</b>
<b>Total assets</b>	<b>70,659,935</b>	<b>72,161,819</b>

<b>Liabilities and Shareholders' Equity</b>	<b>Dec. 31,2003</b>	<b>Dec. 31,2002</b>
<b>A) Shareholders' Equity</b>		
I - Share capital	8,840,000	8,840,000
II - Paid-in capital in excess of par value	12,244,869	12,244,869
III - Revaluation reserve	585,159	585,159
IV - Legal reserve	1,244,028	1,109,396
V - Reserve for own shares	588,231	465,296
VI - Statutory reserves	–	–
VII - Other reserves		
Provisions for suspended tax reserves	68,412	68,412
Consolidation reserve	5,042,619	4,443,057
Translation difference reserve	(265,206)	189,753
Extraordinary reserve	9,690,804	8,596,299
VIII - Retained earnings	–	–
IX - Net profit	2,988,110	3,213,500
<b>Consolidated Shareholders' Equity</b>	<b>41,027,026</b>	<b>39,755,741</b>



<b>B) Provision for risks and charges</b>		
2) Income taxes	1,993,651	2,196,715
3) Other	385,744	305,247
<b>Total provisions for risks and charges</b>	<b>2,379,395</b>	<b>2,501,962</b>
<b>C) Employee termination indemnities</b>		
	<b>3,611,298</b>	<b>3,501,976</b>
<b>D) Payables</b>		
3) Bank loans		
- short-term	9,373,384	9,564,392
- long-term	2,666,677	3,912,019
<b>Total bank loans</b>	<b>12,040,061</b>	<b>13,476,411</b>
4) Other financial payables		
- short-term	36,817	47,070
- long-term	40,387	66,256
<b>Total other financial payables</b>	<b>77,204</b>	<b>113,326</b>
5) Advances	6,624	115,930
6) Trade payables	6,811,380	8,583,963
11) Taxes payable	1,416,603	1,447,828
12) Social security payables	875,334	774,048
13) Other payables	2,251,396	1,706,586
<b>Total payables</b>	<b>23,478,602</b>	<b>26,218,092</b>
<b>E) Accrued expenses and deferred income</b>		
	<b>163,614</b>	<b>184,048</b>
<b>Total liabilities and Shareholders' Equity</b>	<b>70,659,935</b>	<b>72,161,819</b>

### Commitments

2) Guarantees given	63,205	59,510
3) Guarantees received	81,796	236,746



Consolidated Income Statement (in euro)	Dec. 31,2003	Dec. 31,2002
<b>A) Revenues</b>		
1) Sales	59,870,282	56,945,939
2) Change in work in progress, semi-finished and finished goods inventories	(61,138)	1,566,451
4) Increase in assets due to internal construction	824,509	871,870
5) Other revenues:		
a) sundry	45,268	49,559
b) contributions received	32,777	–
<b>Total operating value</b>	<b>60,711,698</b>	<b>59,433,819</b>
<b>B) Operating Costs</b>		
6) Raw materials	(18,816,949)	(19,980,602)
7) Services	(10,586,661)	(10,016,860)
8) Leases and rentals	(971,789)	(935,136)
9) Personnel		
a) Wages and salaries	(13,973,666)	(13,545,771)
b) Social security	(3,797,468)	(3,638,452)
c) Employee termination indemnities	(706,138)	(712,522)
d) Retirement benefits	(11,549)	(12,134)
e) Other costs	(124,627)	(125,581)
<b>Total personnel costs</b>	<b>(18,613,448)</b>	<b>(18,034,460)</b>
10) Depreciation and write-downs		
a) Amortization of intangible assets	(401,451)	(427,898)
b) Depreciation of tangible assets	(3,977,703)	(3,553,728)
c) other write-downs of assets	(148,496)	–
d) Write-down in the value of current assets	(150,213)	(107,053)
<b>Total depreciation and write downs</b>	<b>(4,677,863)</b>	<b>(4,088,679)</b>
11) Change in raw material inventories	(399,558)	131,804
12) Accruals to risk provisions	(25,669)	(44,416)
14) Other operating costs	(256,242)	(194,633)
<b>Total Operating Costs</b>	<b>(54,348,179)</b>	<b>(53,162,982)</b>
<b>Operating income (A-B)</b>	<b>6,363,519</b>	<b>6,270,837</b>



<b>C) Finance Income and expenses</b>		
16) Other financial income:		
d) other income	101,395	73,906
17) Interest and other financial charges	(719,243)	(689,738)
<b>Total</b>	<b>(617,848)</b>	<b>(615,832)</b>
<b>D) Adjustments to the value of financial assets</b>		
18) Revaluations		
b) long-term financial assets	2,930	5,611
c) marketable securities (excluding subsidiaries)	122,934	–
19) Write-downs		
c) marketable securities (excluding subsidiaries)	–	(101,404)
<b>Total adjustments to the value of financial assets</b>	<b>125,864</b>	<b>(95,793)</b>
<b>E) Extraordinary items</b>		
20) Income	33,760	49,178
21) Losses	(225,765)	(404,077)
<b>Total extraordinary items</b>	<b>(192,005)</b>	<b>(354,899)</b>
<b>Profit before taxes (A-B+C+D+E)</b>	<b>5,679,530</b>	<b>5,204,313</b>
22) Income taxes		
a) current	(2,882,708)	(2,194,040)
b) deferred	191,288	203,227
<b>Total income taxes</b>	<b>(2,691,420)</b>	<b>(1,990,813)</b>
<b>23) Net profit</b>	<b>2,988,110</b>	<b>3,213,500</b>

Brescia, March 29, 2004

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

CARLO ROSANI



## Notes to the Consolidated Financial Statements for the year ending December 31, 2003

The Consolidated Financial Statements for the year ended December 31, 2003 have been prepared in accordance with Legislative Decree no. 127, April 9, 1991.

The included notes contain the following information:

1. Content and form of the consolidated financial statements
2. Consolidation principles and valuation criteria
3. Significant information relating to Balance Sheet items
4. Sales revenues
5. Cost of services received
6. Personnel costs
7. Write-downs of fixed assets
8. Other financial income
9. Interest and financial charges
10. Adjustments to the value of financial assets
11. Extraordinary charges
12. Income taxes
13. Boards' compensation
14. List of consolidated companies

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

- no event requiring the application of exemptions provided for by Article 29, paragraphs 4 and 5 of the mentioned Legislative Decree occurred;
- amounts recorded in the Consolidated Financial Statements for the year ended December 31, 2003, are consistent with those reported for the previous year. Where necessary, items for the previous year have been reclassified. Changes in Balance Sheet and Income Statement items due to changes in the area of consolidation are explained and commented upon in the notes, where significant;
- valuation criteria applied are in compliance with current regulations;
- significant changes relating to Balance Sheet and Income Statement items are commented upon;
- risks and charges relating to the year whose existence became known after the closing date of the Financial Statements were taken into account.



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

The Consolidated Financial Statements of the Group include the statutory accounts at December 31, 2003 of Cembre S.p.A., its parent company, and those of the following companies:

	Group share at Dec. 31, 2003	Group share at Dec. 31, 2002
1. Cembre Ltd (UK)	100%	100%
2. Cembre Sarl *(France)	100%	100%
3. Cembre España SL *(Spain)	100%	100%
4. Cembre AS (Norway)	100%	100%
5. Cembre GmbH *(Germany)	100%	100%
6. Cembre Inc **(US)	100%	100%
7. General Marking s.r.l. (Italy)	100%	100%

\* 5% share held through Cembre Ltd.

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

The Group has control of the above companies pursuant to Article 2359 of the Italian Civil Code. The consolidation area is unchanged from the previous year. Subsidiary General Marking was incorporated in July 2002 and included in the consolidation from such date.

The Consolidated Financial Statements include the statutory accounts at December 31, 2003 approved by the boards of the respective subsidiaries and by the Board of Directors of parent company Cembre SpA.

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

## 2. CONSOLIDATION PRINCIPLES AND VALUATION CRITERIA

### 2.1 Consolidation principles

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

Criteria adopted in applying this method were the following:

- a) assets, liabilities, revenues, expenses, gains and losses of consolidated companies were included in full in the consolidated financial statements. The following items were instead eliminated:
  - 1) equity investments in consolidated companies and the corresponding share in the respective Shareholders' Equity;
  - 2) receivables and payables between consolidated companies;
  - 3) revenues and expenses arising from transactions between consolidated companies;
  - 4) gains and losses arising from transactions concluded between consolidated companies, and the related assets, other than contract work in progress;
- b) value adjustments and accruals made exclusively pursuant to tax regulations have been eliminated;
- c) differences between the acquisition cost and the related book value of consolidated companies existing at the time of their first consolidation or at the date shares in consolidated companies were acquired, were recorded as follows:



- under “Consolidation reserve”, where negative;
- subtracted from the “Consolidation reserve” or recorded under assets as a “Consolidation difference” when relating to goodwill and in case it cannot be allocated to other asset items, where positive.

Income and losses recorded by subsidiaries following their first consolidation are added or subtracted from the Consolidation reserve.

## 2.2 Valuation criteria applied

### *Intangible assets*

Intangible assets are recorded at cost, net of amortization calculated on a straight line basis over their expected useful economic life, as provided by the Italian Civil Code. Goodwill and consolidation differences are amortized over 5 years.

### *Tangible assets*

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

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

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

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

Ordinary maintenance and repair costs are recorded in the income statement in the year in which they are incurred.

### *Inventories*

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

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

### *Receivables and payables*

Receivables are recorded at the expected realizable value, represented by the face value, adjusted, where necessary, for provisions for doubtful accounts. Payables are recorded at face value, representative of liabilities actually accrued.



#### *Marketable securities*

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

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

These are accounted for under the accrual method.

#### *Provisions for risks and charges*

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

#### *Provision for employee termination indemnities*

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

#### *Deferred tax provision and prepaid taxes*

The provision includes deferred taxes resulting from differences between taxable and reported income, consisting mainly of accelerated depreciation and the difference between the valuation of the parent company's inventories at the average cost and the LIFO method.

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

#### *Taxes payable*

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

#### *Commitments*

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

#### *Revenues and expenses*

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

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

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

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

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

Currency	Year-end exchange rate (€/curr.)	Average exchange rate for 2003
Pound Sterling	0.703	0.691
US Dollar	1.249	1.131
Norwegian Krone	8.421	8.003

## 3. BALANCE SHEET ITEMS

### 3.1 Intangible assets

#### 3.1.1 Incorporation costs

Incorporation costs incurred by subsidiary General Marking, amounting to €65,863 were prudentially written-down in full as the company has not reached a breakeven in 2003.

#### 3.1.2 Industrial patents and intellectual property rights

The item includes the value of the patent acquired by subsidiary General Marking in 2002, and open-ended software licenses.

#### 3.1.3 Concessions, licenses and trademarks

The item consists primarily of patents acquired by subsidiary General Marking.

#### 3.1.4 Goodwill

Goodwill amounting to €82,633, originally recorded in the financial statements of General Marking following the acquisition of a business unit operating in the cable marking segment in 2002, was prudentially written-down in full as the subsidiary did not generate profits in 2003.

#### 3.1.5 Other intangible assets

These consist of capitalized costs incurred in the adaptation of the industrial building adjacent to the Brescia main complex to the specific production needs of the Group.



### 3.2 Property, plant and equipment

(€'000)	Gross book value	Accumulated depreciation	December 31, 2003	December 31, 2002
Land and buildings	15,267	3,594	11,673	10,955
Plant and machinery	25,553	17,238	8,315	8,981
Equipment	5,802	3,731	2,071	2,391
Other assets	5,270	3,625	1,645	1,969
Leased assets	183	106	77	107
Work in progress	90	–	90	315
<b>Total</b>	<b>52,165</b>	<b>28,294</b>	<b>23,871</b>	<b>24,718</b>

The largest investments were made by the parent company and consisted of industrial buildings, plant, machinery and industrial equipment, as described in the accounts of Cembre SpA. Subsidiary Cembre Ltd. made additions to its Birmingham site, investing about €700 thousand primarily for the construction of a new industrial building.

Assets leased relate exclusively to the Spanish subsidiary.

Parent company's tangible assets were written-up by €1,076 thousand, as detailed in the accounts of the same.

### 3.3 Investments

#### 3.3.1 Investments in other companies

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

#### 3.3.2 Long-term receivables

The item includes mainly security deposits and prepaid withholding tax receivables on employee termination indemnities of the parent company.

### 3.4 Inventories

(€'000)	Dec. 31, 2003	Dec. 31, 2002	Change
Raw materials	4,383	4,851	(468)
Work in progress and semi-finished goods	4,655	4,665	(10)
Finished goods	11,596	12,394	(798)
<b>Total</b>	<b>20,634</b>	<b>21,910</b>	<b>(1,276)</b>



The value of finished goods inventories is adjusted through a provision for slow-moving stock amounting to approximately €552 thousand, recorded in the financial statements of the parent company to bring the value of inventories in line with their expected realizable value. A €216 thousand accrual to the provision was made in 2003, while uses of the same amounted to €10 thousand.

The weighted-average cost valuation of inventories is in line with the market value at December 31, 2003.

### 3.5 Trade receivables

(€ '000)	Dec. 31, 2003	Dec. 31, 2002
Gross trade receivables	18,830	18,249
Provision for doubtful accounts	(631)	(596)
<b>Net trade receivables</b>	<b>18,199</b>	<b>17,653</b>

The increase over the previous year is due to higher sales.

### 3.6 Other receivables

At December 31, 2003, short-term receivables from other parties were made up as follows:

(€ '000)	Dec. 31, 2003	Dec. 31, 2002
Prepaid taxes	919	950
Tax advances	66	63
VAT and similar foreign taxes	129	396
Other	80	105
<b>Total</b>	<b>1,195</b>	<b>1,514</b>

Prepaid taxes consist of €760 thousand relating to unrealized gains on inventories not resold to third parties and €159 thousand recorded by the parent company as described in the related statutory accounts.

Receivables on tax advances are due to tax advances paid in excess of income taxes payable for the year.

### 3.7 Own shares

At December 31, 2003, the parent company held 243,000 own shares. At March 29, 2004, the number of own shares held had not changed.

### 3.8 Accrued income and prepaid expenses

The item consists primarily of a prepaid expense amounting to €309,750 against a non-competition agreement expiring in 2006 recorded in the financial statements of subsidiary General Marking in the context of the acquisition of a business unit operating in the industrial marking segment. The agreement was stipulated with the former exclusive distributor of products manufactured by the business unit acquired. The long-term portion of the prepaid expense amounts to €227,150.



### 3.9 Shareholders' Equity

The capital stock of the Group parent company amounts to €8,840,000 and is made up of 17 million ordinary shares of par value €0.52 each, fully underwritten and paid-up.

Following the €122,934 revaluation of own shares held, the part of the extraordinary reserve that came available was transferred to the Provision for own shares.

A Statement of Changes in the Shareholders' Equity is enclosed below and constitutes an integral part of the present Notes. Changes in all Shareholders' Equity items are detailed.

Consolidation adjustments resulted in the following differences between the statutory accounts of parent company Cembre SpA at December 31, 2003 and the Consolidated Financial Statements at the same date:

<b>Reconciliation between the parent company's statutory accounts and the consolidated financial statements of the Group (€ '000)</b>	<i>Shareholders' Equity</i>	<i>Net income</i>
Shareholders' Equity and net profit reported in the parent company's statutory accounts at December 31, 2003	35,710	2,448
<i>Elimination of entries made exclusively for tax purposes:</i>		
- accelerated depreciation – Italian companies tax effect	4,674 (1,741)	(316) 168
	2,933	(148)
- Cembre Gmbh provision for product warranty (net of tax effect)	11	0
- adjustment of parent company's inventories to Group's valuation method tax effect	341 (127)	(59) 26
	214	(33)
Elimination of write-down of investment in subsidiary General Marking and provision for the loss reported by the same in 2002 (net of the related tax effect)	803	803
<i>Elimination of book value of consolidated companies:</i>		
- difference between book value of the investment and shareholders' equity and net income acquired	2,762	(91)
<i>Elimination of inter-company transactions:</i>		
- unrealized intra-group gains included in the value of inventories (net of tax effect)	(1,280)	20
- conversion difference on elimination of intra-group payables and receivables	(126)	(11)
<b>Consolidated Shareholders' Equity and net income at December 31, 2003</b>	<b>41,027</b>	<b>2,988</b>



<b>The consolidation reserve is made up as follows (€ '000):</b>	<b>Dec. 31, 2003</b>	<b>Dec. 31, 2002</b>
Investment elimination reserve	3,118	2,228
Accelerated depreciation and German subsidiary product warranty provision reversal	3,093	2,973
Provision for inventory depletion	247	370
Elimination of intra-group income	(1,300)	(1,177)
Conversion difference on elimination of intra-group payables and receivables	(115)	49
<b>Total</b>	<b>5,043</b>	<b>4,443</b>

### **3.10 Provisions for risks and charges**

<b>Provision for deferred taxes is made up as follows (€ '000)</b>	<b>Dec. 31, 2003</b>	<b>Dec. 31, 2002</b>
Consolidated companies' provisions	118	127
Deferred taxes on reversal of accelerated depreciation	1,741	1,909
Deferred taxes resulting from the use of weighted average vs. LIFO in valuing parent company's inventory	127	153
German subsidiary product warranty provision reversal	8	8
<b>Total</b>	<b>1,994</b>	<b>2,197</b>

Consolidated companies' reserves include accruals made for amortization charges of Cembre UK recorded solely for tax purposes amounting to €118 thousand. The provision for product warranties accrued exclusively for tax purposes by the German subsidiary, was eliminated.

Other provisions for risks and charges are made up as follows:  
(€ '000)

	<b>Dec. 31, 2003</b>	<b>Dec. 31, 2002</b>
Provision for Social Security litigation	208	200
Provision for currency fluctuations	127	68
Additional customer indemnities provision	36	37
Other	15	
<b>Total</b>	<b>386</b>	<b>305</b>



### 3.11 Provision for employee termination indemnities

(€ '000)	Dec. 31, 2002	Accruals	Uses	Dec. 31, 2003
	3,502	639	(530)	3,611

Extraordinary termination indemnities recognized pursuant to French law to French employees terminating their employment was classified under the provision.

### 3.12 Payables

#### 3.12.1 Bank debt

(€ '000)	Dec. 31, 2003		Dec. 31, 2002	
	Current	Long-term	Current	Long-term
Short-term loans and bank overdrafts	8,728	2,021	9,256	
Medium- and long-term loans	646	645	308	3,912
<b>Total</b>	<b>9,374</b>	<b>2,666</b>	<b>9,564</b>	<b>3,912</b>

A €2.5 million 18-month loan was extended to the parent company in May 2003. The loan bears a fixed 2.6% interest rate and is repayable in full at expiration. In September 2003, a €1.5 million 18-month loan bearing a fixed 3.0375% interest rate and repayable in full at expiration was extended to the Cembre España.

Cembre S.p.A. issued guarantees against loans extended Cembre España SL, Cembre Inc. and General Marking, amounting respectively to €1,500,000, €521,177 and €3,500,000.

#### 3.12.2 Taxes payable

(€ '000)	Dec. 31, 2003	Dec. 31, 2002
Withholding taxes payable	764	726
Current taxes	157	265
VAT and similar foreign taxes	474	427
Other taxes	22	30
<b>Total</b>	<b>1,417</b>	<b>1,448</b>



### 3.12.3 Other payables

(€'000)	Dec. 31, 2003	Dec. 31, 2002
Payable to employees	819	641
Bonuses owed to customers	1,181	805
Commissions payable	131	137
Board of Statutory Auditors and equivalent foreign board compensation	51	21
Other	70	103
<b>Total</b>	<b>2,252</b>	<b>1,707</b>

The increase in bonuses payable to customers is due to higher sales.

## 4. SALES REVENUES

Sales by geographical area

(€'000)	Dec. 31, 2003	Dec. 31, 2002
Italy	29,765	27,518
Rest of Europe	25,310	24,246
Rest of the World	4,795	5,182
<b>Total</b>	<b>59,870</b>	<b>56,946</b>



## 5. COST OF SERVICES RECEIVED

(€ '000)	Dec. 31, 2003	Dec. 31, 2002
Subcontracted work	2,082	2,066
Electricity, heating and water	745	667
Transport of goods sold	1,557	1,333
Fuel	192	190
Travelling expenses	571	623
Maintenance and repair	1,169	1,165
Consulting	1,060	981
Advertising and promotion	346	326
Insurance	371	345
Boards compensation	662	600
Postage and telephone	326	317
Commissions	273	259
Security and cleaning	311	274
Other	922	871
<b>Total</b>	<b>10,587</b>	<b>10,017</b>

## 6. PERSONNEL COSTS

The increase in the cost of personnel is due to the higher number of Group employees. The average number of employees by category is shown in the table below.

	2003	2002
Management	16	17
Administrative and commercial staff	225	224
Warehouse workers	227	212
<b>Total</b>	<b>468</b>	<b>453</b>



## 7. WRITE-DOWN OF FIXED ASSETS

Incorporation costs amounting to €65,863 and goodwill amounting to €82,633 recorded in the previous year by subsidiary General Marking, were prudentially written-down in full due to the failure of the subsidiary to report an income in 2003.

(€ '000)	Dec. 31, 2003	Dec. 31, 2002
Interest on bank accounts	33	48
Interest on trade receivables	6	2
Foreign exchange gains	31	127
Other	4	4
<b>Total</b>	<b>74</b>	<b>181</b>

## 8. OTHER FINANCIAL INCOME

(€ '000)	Dec. 31, 2003	Dec. 31, 2002
Interest on bank accounts	22	33
Interest on trade receivables	1	6
Foreign exchange gains	9	31
Foreign exchange translation differences	44	
Other	25	4
<b>Total</b>	<b>101</b>	<b>74</b>

Foreign exchange conversion differences in 2003 relate to the elimination of intragroup transactions denominated in currencies other than the euro.

## 9. INTEREST AND OTHER FINANCIAL EXPENSES

(€ '000)	Dec. 31, 2003	Dec. 31, 2002
Interest on bank loans	395	374
Bank and other charges	22	83
Foreign currency losses and accruals	302	43
Foreign currency translation difference	–	190
<b>Total</b>	<b>719</b>	<b>690</b>

Foreign exchange conversion differences for 2002 relate to the elimination of intragroup transactions denominated in currencies other than the euro.



## 10. ADJUSTMENT TO THE VALUE OF FINANCIAL ASSETS

The revaluation of marketable securities relates to own shares held by the parent company.

## 11. EXTRAORDINARY CHARGES

(€ '000)	Dec. 31, 2003	Dec. 31, 2002
Extraordinary losses	77	105
Returns of goods sold in previous years	119	75
Commissions	--	24
Bonuses to customers relating to the previous year	16	–
Social Security payable	14	200
<b>Total</b>	<b>226</b>	<b>404</b>

Extraordinary losses include also €16 thousand of commissions pertaining to the previous year.

## 12. INCOME TAXES

The increase in the tax expense for the year is due primarily to the termination of tax facilitations provided by the Tremonti-bis Law which in 2002 resulted in a reduction of €767,000 in the tax expense.

## 13. BOARDS' COMPENSATION

Compensation of the Board of Directors and Board of Statutory Auditors is indicated in the Notes to the statutory accounts of Cembre SpA. The only Director of the parent company who received compensation from other Group companies is Giovanni De Vecchi, Chairman of General Marking Srl, who received €15,000 for this position.



#### 14. LIST OF CONSOLIDATED COMPANIES

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

Company	Registered office	Share capital	Share held at Dec. 31, 2003	Share held at Dec. 31, 2002
Cembre Ltd	<i>Sutton Coldfield</i> (Birmingham)	UK £ 1,200,000	100%	100%
Cembre Sarl	<i>Morangis</i> (Paris)	€ 1,071,000	100% (*)	100% (*)
Cembre España SL	<i>Coslada</i> (Madrid)	€ 900,000	100% (*)	100% (*)
Cembre AS	<i>Stokke</i> (Norway)	NOK 2,400,000	100%	100%
Cembre GmbH	<i>Munich</i> (Germany)	€ 512,000	100% (*)	100% (*)
Cembre Inc	<i>Edison</i> (New Jersey - Usa)	US \$ 840,000	100%**)	100%**)
General Marking srl	<i>Brescia</i> (Italy)	€ 99,000	100%	100%

(\*) of which 5% held through Cembre Ltd

(\*\*) of which 50% held through Cembre Ltd

To provide more complete information regarding the financial and economic situation of the Company, the Consolidated Financial Statements contain – in addition to the Balance Sheet, Income Statement and Notes – a Statement of Changes in the Consolidated Shareholders' Equity for the year ended December 31, 2003 (Attachment no. 1)

Brescia, March 29, 2004

CHAIRMAN OF THE BOARD OF  
PARENT COMPANY CEMBRE S.P.A.  
CARLO ROSANI



**ATTACHMENT NO.1 TO THE CONSOLIDATED FINANCIAL STATEMENTS OF THE CEMBRE GROUP  
FOR THE YEAR ENDED DECEMBER 31, 2003  
STATEMENT OF CHANGES IN THE SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2003**

(in euro)	Share capital	Paid-in capital in excess of par value	Restatement reserve	Legal reserve	Reserve for own shares	Suspended tax reserves	Consolidation reserve	Foreign currency translation reserve	Extraordinary reserve	Net profit	Group Shareholders' equity	Total Shareholders' equity
Balance at December 31, 2002	8,840,000	12,244,869	585,159	1,109,396	465,296	68,412	4,443,057	189,753	8,596,299	3,213,500	39,755,741	0
Foreign currency translation differences (1)							78,694	(454,959)			(376,265)	0
Write-down to write-down					122,935				(122,935)			
Accruals				134,632			520,868		1,217,440	(3,213,500)	(1,340,560)	0
2003 net profit										2,988,110	2,988,110	0
Balance at December 31, 2003	8,840,000	12,244,869	585,159	1,244,028	588,231	68,412	5,042,619	(265,206)	9,690,804	2,988,110	41,027,026	0

(1) The consolidation reserve includes foreign exchange translation differences resulting from the translation of shares held by Cembre Ltd in other Group companies.



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**AUDITORS' REPORT**  
**pursuant to article 156 of Legislative Decree of February 24, 1998, n. 58**  
(Translation from the original Italian text)

To the Shareholders  
of Cembre S.p.A.

1. We have audited the consolidated financial statements of Cembre S.p.A. as of and for the year ended December 31, 2003. These financial statements are the responsibility of the Cembre S.p.A.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. Our audit was made in accordance with auditing standards and procedures recommended by CONSOB **(the Italian Stock Exchange Regulatory Agency) (1)**. In accordance with such standards and procedures we planned and performed our audit to obtain the information necessary in order to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles applied and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

For our opinion on the consolidated financial statements of the prior year, which are presented for comparative purposes as required by the law, reference should be made to our report dated March 26, 2003.

3. In our opinion, the consolidated financial statements of Cembre S.p.A. comply with the **Italian (1)** regulations governing consolidated financial statements; accordingly, they clearly present and give a true and fair view of the consolidated financial position of Cembre S.p.A. as of December 31, 2003, and the consolidated results of its operations for the year then ended.

Brescia March 30, 2004

RECONTA ERNST & YOUNG S.P.A.  
signed by: Stefano Colpani, partner

**(1) Words added in translation from original Italian text**

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Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma  
Codice fiscale e numero di iscrizione 00434000584  
P.I. 00891231003  
(vecchio numero R.I. 6697/89 - numero R.E.A. 250904)



*Abstract of 14 May 2004 Shareholders  
General Meeting resolutions regarding  
the Financial Statement for the year  
ending 31 December 2003*

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## Abstract of 14 May 2004 Shareholders General Meeting resolutions regarding the Financial Statement for the year ending 31 December 2003

- Shareholders General Meeting approved the parent company Financial Statement for the financial year ending 31 December 2003 and the documents annexed. Shareholders General meeting approved the allocation of the Company's 2003 financial year net profit of € 2,448,336.02 (rounded of to € 2,448,336 in Financial Statement) as follows:

- 5% of Net Profit to the legal reserve	€	122,417
- dividend payments to shareholders, in the amount of € 0,073 for each of the Company's 16,757,000 outstanding shares, whose holders are entitled to dividends pursuant to Article 2357 of the Italian Civil Code	€	1,223,261
- to the extraordinary reserve	€	1,102,658.02

The dividend, is payable from 27 May 2004 with a date of record of 24 May 2004 and eligible shareholders – those shareholders whose financial year does not correspond to the calendar year and for which tax credits continue to apply for 2004 – are entitled to a full tax credit.

The consolidated financial statement and the documents annexed have been presented to Shareholders General meeting.



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