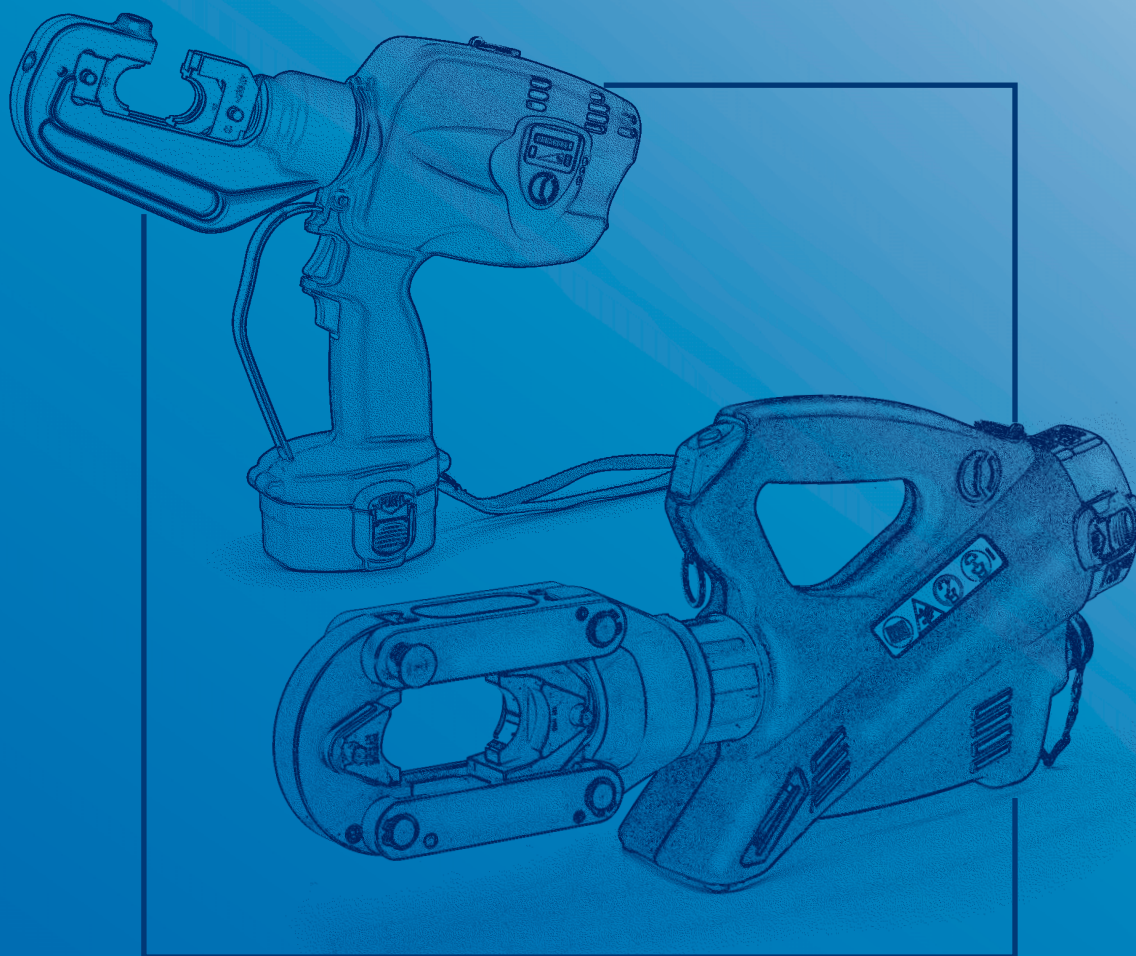




COSTRUZIONI ELETTROMECCANICHE BRESCIANE



REPORT and ACCOUNTS
6 months to 30th June 2005

Cembre S.p.A.

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

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

*The cover page shows the new
portable 14.4 V cordless hydraulic crimping tools.*

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CONTENTS

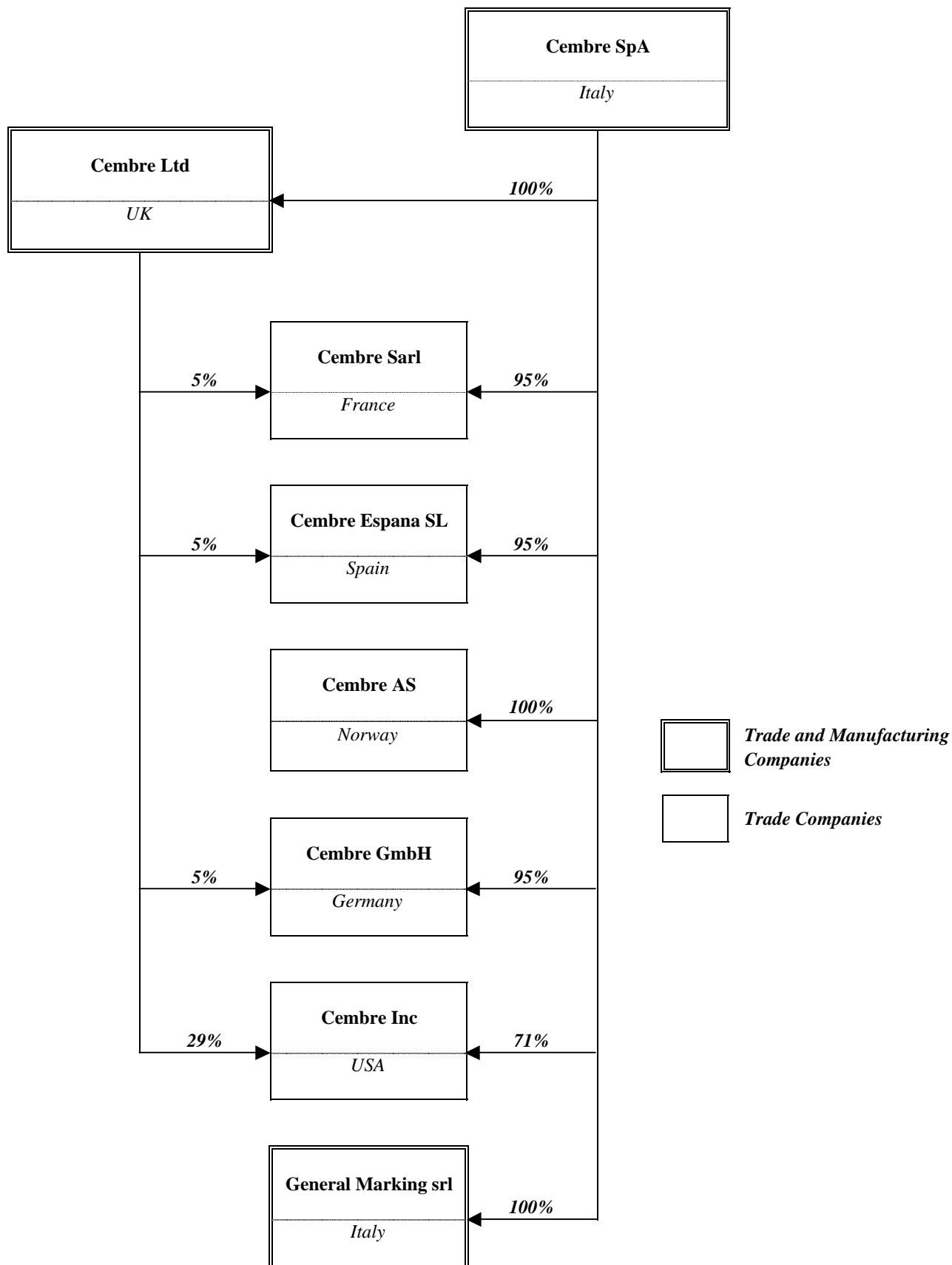
Cembre Group

The Cembre Group	2
Report on operations of the Cembre Group for the 1st Half of 2005	3
Corporate Boards	8
Consolidated Financial Statements at June 30, 2005	
<i>Consolidated Balance Sheet</i>	9
<i>Consolidated Income Statement</i>	10
<i>Consolidated Statement of Cash Flows</i>	11
<i>Statement of Changes in the Consolidated Shareholders' Equity</i>	12
Notes to the accounts	13

Cembre S.p.A.

Financial Statements of Cembre S.p.A. at June 30, 2005	
<i>Balance Sheet and Income Statement</i>	36
Appendixes to the Cembre Group Consolidated Half-year Report at June 30, 2005	
<i>Transition to IAS/IFRS: Reconciliation required under IFRS 1 at January 1, 2004 and December 31, 2004 (Appendix A)</i>	42
<i>Transition to IAS/IFRS: Reconciliation required under IFRS 1 at June 30, 2004 (Appendix B)</i>	57
Auditing Report on the Cembre Group Consolidated Half-year Report at June 30, 2005	66
Auditing Report on IFRS reconciliation schedules and notes on the effect of the transition to IFRS	68

GROUP STRUCTURE



Cembre S.p.A.

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

Report on Operations of the Cembre Group for the 1st Half of 2005

The Cembre Group closed the 1st Half of 2005 reporting a 4.7% increase in revenues from the sale of goods and services, up from €33.4 million in the 1st Half of 2004, to €35 million for the same period in 2005.

In the first six months of 2005, domestic sales amounted to €15.3 million, down 3.2%, while sales outside Italy amounted to €19.7 million, up 11.7%. A total of 43.7% of Group sales were represented by Italy (as compared with 47.3% in the 1st Half of 2004), 47.5% by the rest of Europe (43.8% in the 1st Half of 2004), and the remaining 8.8% by the rest of the World (8.9% in the 1st Half of 2004).

Sales by geographical area

(€000)	1 st Half 2005	1 st Half 2004
Italy	15,300	15,800
Rest of Europe	16,600	14,649
Rest of the World	3,082	2,977
Total	34,982	33,426

Sales by Group company (net of intragroup sales):

(€000)	1 st Half 2005	1 st Half 2004
Parent company	19,494	19,622
Cembre Ltd. (UK)	5,624	5,088
Cembre S.a.r.l. (France)	2,706	2,261
Cembre España S.L. (Spain)	4,109	3,422
Cembre GmbH (Germany)	1,446	1,539
Cembre AS (Norway)	153	185
Cembre Inc. (USA)	1,263	1,057
General Marking Srl (Italy)	187	252
Total	34,982	33,426

In the first six months of 2005, Group companies reported the following pre-consolidated results accounted for under IAS/IFRS.

(€'000)	Revenues		Net profit	
	1 st Half 2005	1 st Half 2004	1 st Half 2005	1 st Half 2004
Cembre S.p.A.	26,599	26,220	2,419	1,420
Cembre Ltd. (UK)	5,989	5,472	393	349
Cembre S.a.r.l. (France)	2,712	2,266	162	76
Cembre España S.L. (Spain)	4,110	3,422	239	133
Cembre AS (Norway)	153	185	11	19
Cembre GmbH (D)	1,480	1,563	(3)	14
Cembre Inc. (USA)	1,284	1,058	187	26
General Marking Srl	672	619	(339)	(423)

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

	Currency	Revenues		Net profit	
		1 st Half 2005	1 st Half 2004	1 st Half 2005	1 st Half 2004
Cembre Ltd. (UK)	£	4,108	3,685	269	235
Cembre AS (Norway)	Nok	1,245	1,561	93	157
Cembre Inc. (USA)	US\$	1,650	1,299	240	32

Sales of subsidiary General Marking reported in the table above include only sales to third parties managed directly by the same. The decline relates to a number of products deemed not strategic.

Sales made by General Marking to other Group companies for resale are not attributed to General Marking in the table above. Sales to other Group companies grew by 32% from €367 thousand in the 1st Half of 2004, to €484 thousand in the same period in 2005. The decline in sales of German subsidiary Cembre GmbH is due to the continuing stagnation of the German market.

A reclassified Consolidated Income Statement for the first six months of 2004 is enclosed as Attachment 1 to provide a better description of the company's operating performance.

Gross operating profit for the first six months of 2005 is equal to €7,637 thousand, corresponding to a 21.8% margin on sales, up 29.5% on €5,894 thousand reported in the first six months of 2004 (17.6% of sales). The improvement can be attributed to operating efficiency improvements and efforts to reduce costs.

Operating profit amounts to €5,701 thousand, representing a 16.3% margin on sales, up 47.9% on €3,854 in the 1st Half of 2004, when it represented an 11.5% margin on sales, due to the lower weight of depreciation.

Consolidated profit before taxes amounts to €5,926 thousand, representing a 16.9% margin on sales, up from €3,855 thousand in the 1st Half of 2004, when it represented an 11.5% margin on sales. The increase is due to the lower interest expense resulting from the reduction in debt, declining from €6.9 million at June 30, 2004, to €1.9 million at June 30, 2005, in addition to positive foreign exchange differences.

Net profit amounts to €3,496 thousand, representing a 10% margin on sales, up from €2,026 in the 1st Half of 2004 in which it represented a 6.1% margin on sales. The balance was affected by the payment in the 2nd Quarter of 2005 of dividends and by tax advances made by the parent company. Consolidated financial debt is stable on December 31, 2004 when it amounted to €2.1 million.

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

Capital expenditure

Capital expenditure for the first six months of 2005, gross of amortization, depreciation and disposals, amounted to €0.9 million, registering a strong decline from €3.1 million in the same period in 2004.

The reduction is due to strong investments made in previous years to increase the covered area of industrial buildings and to upgrade plant and industrial equipment.

Relationships with related parties

Relationships with related parties are described in the related section of the Notes to the accounts.

Subsequent events

No event having significant effects on the Group's financial position and operations occurred after June 30, 2005.

Outlook

In the second half of 2005, the company expects to expand its activity, while profit levels are expected to remain in line with the previous year.

Additional information

As required by Consob regulations, in the table that follows we report all equity investments held by Cembre SpA in shares controlling over 10% of the voting rights of an unlisted joint stock company or limited partnership at June 30, 2005. Cembre holds full title to all investments.

Name	Registered office	Capital stock	% ownership				% of voting rights
			<i>direct</i>	<i>indirect</i>	<i>through</i>	<i>total</i>	
Cembre Ltd	Sutton Coldfield (Birmingham-UK)	£ 1,700,000	100%			100%	100%
Cembre Sarl	Morangis (Paris - France)	€1,071,000	95%	5%	Cembre Ltd	100%	100%
Cembre España SL	Coslada (Madrid - Spain)	€900,000	95%	5%	Cembre Ltd	100%	100%
Cembre AS	Stokke (Norway)	Nok 2,400,000	100%			100%	100%
Cembre GmbH	Munich (Germany)	€512,000	95%	5%	Cembre Ltd	100%	100%
Cembre Inc.	Edison (New Jersey - USA)	US\$ 1,440,000	71%	29%	Cembre Ltd	100%	100%
General Marking	Brescia (Italy)	€99,000	100%			100%	100%

The composition of company boards is enclosed in the present document as Attachment 2.

Brescia, September 28, 2005

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

CARLO ROSANI

Cembre SpA

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

Attachment 1 to the Report on Operations for the 1st Half of 2005

Consolidated Income Statement

(€ '000)	1st Half 2005	%	1st Half 2004	%	change	2004	%
Revenues from sales and services provided	34.982	100	33.426	100	4,7%	65.149	100
Other revenues	12		49			208	
TOTALE RICAVI E PROVENTI	34.994		33.475			65.357	
Cost of goods and merchandise	(11.329)	(32,4)	(10.728)	(32,1)	5,6%	(21.102)	(32,4)
Cost of services received	(5.330)	(15,2)	(5.428)	(16,2)	-1,8%	(10.414)	(16,0)
Lease and rental costs	(567)	(1,6)	(478)	(1,4)	18,6%	(963)	(1,5)
Personnel costs	(10.598)	(30,3)	(10.605)	(31,7)	-0,1%	(20.208)	(31,0)
Other operating costs	(166)	(0,5)	(146)	(0,4)	13,7%	(320)	(0,5)
Change in inventories	401	1,1	(348)	(1,0)	-215,2%	(349)	(0,5)
Increase in assets due to internal construction	294	0,8	213	0,6	38,0%	345	0,5
Write-down of receivables	(55)	(0,2)	(58)	(0,2)	-5,2%	(141)	(0,2)
Accruals to provisions for risks and charges	(7)	(0,0)	(3)	(0,0)	133,3%	(18)	(0,0)
				0,0			0,0
GROSS OPERATING PROFIT	7.637	21,8	5.894	17,6	29,6%	12.187	18,7
Tangible asset depreciation	(1.662)	(4,8)	(1.924)	(5,8)	-13,6%	(3.869)	(5,9)
Intangible asset amortization	(47)	(0,1)	(116)	(0,3)	-59,5%	(257)	(0,4)
Write-down of long-term assets	(227)	(0,6)	0	0,0		(405)	(0,6)
OPERATING PROFIT	5.701	16,3	3.854	11,5	47,9%	7.656	11,8
Financial income (expense)	(93)	(0,3)	(206)	(0,6)	-54,9%	(297)	(0,5)
Foreign exchange gains (losses)	318	0,9	207	0,6	53,6%	(96)	(0,1)
PROFIT BEFORE TAXES	5.926	16,9	3.855	11,5	53,7%	7.263	11,1
Income taxes	(2.430)	(6,9)	(1.829)	(5,5)	32,9%	(3.433)	(5,3)
NET PROFIT	3.496	10,0	2.026	6,1	72,6%	3.830	5,9

Corporate Boards

(Attachment 2 – Report of the Board)

Board of Directors

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

Secretary

Giorgio Rota

Board of Statutory Auditors

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

The above list is updated at September 28, 2005.

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

The Chairman and Managing Director Carlo Rosani holds by statute (article 18) powers of legal representation of the Company. The Board of Directors conferred to the Chairman all the ordinary management powers not specifically reserved to it by law. The Board of Directors conferred to Managing Director Giovanni Rosani all the ordinary management powers not specifically reserved to it by law and exclusive powers over the organization, management and monitoring of the internal control system.

In case of absence or impediment of the Chairman and of Managing Director Carlo Rosani, Vice Chairman and Managing Director Anna Maria Onofri holds all ordinary management powers not reserved to the Board by law, with the exception of the appointment of professionals. All Managing Directors must keep the Board of Directors informed of all relevant transactions concluded in the context of their mandate. The Board of Directors has approved rules that define which particularly relevant transactions may be concluded exclusively by the same.

Cembre SpA

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

Consolidated Balance Sheet

(€ '000)	Notes	June 30, 2005	June 30, 2004	Dec. 31, 2004
ASSETS				
A) NON-CURRENT ASSETS				
Tangible assets	1	28.935	31.126	29.636
Intangible assets	2	136	815	344
Financial assets available for sale	3	5	5	5
Other non-current assets	4	108	179	145
Deferred tax assets	13	1.522	1.415	1.520
TOTAL NON-CURRENT ASSETS		30.706	33.540	31.650
B) CURRENT ASSETS				
Inventories	5	20.753	20.427	20.103
Trade receivables	6	22.564	21.034	19.474
Tax receivables	7	117	13	153
Other receivables	8	60	58	205
Cash and cash equivalents		4.836	5.032	6.507
TOTAL CURRENT ASSETS		48.330	46.564	46.442
C) NON-CURRENT ASSETS AVAILABLE FOR SALE		-	-	-
TOTAL ASSETS(A+B+C)		79.036	80.104	78.092
LIABILITIES AND SHAREHOLDERS' EQUITY				
A) SHAREHOLDERS' EQUITY				
Capital stock	9	8.840	8.840	8.840
Reserves	9	37.278	34.502	34.460
Net profit	9	3.496	2.026	3.830
TOTAL SHAREHOLDERS' EQUITY		49.614	45.368	47.130
B) NON-CURRENT LIABILITIES				
Non-current financial liabilities	10	152	2.747	282
Employee Severance Indemnity and other personnel benefits	11	4.328	3.843	4.253
Provisions for risks and charges	12	287	274	281
Deferred tax liabilities	13	4.148	4.233	4.205
TOTAL NON-CURRENT LIABILITIES		8.915	11.097	9.021
C) CURRENT LIABILITIES				
Current financial liabilities	10	6.581	9.227	8.320
Liabilities on derivative instruments	14	37	14	30
Trade payables	15	7.556	8.259	7.424
Tax payables	16	2.197	2.218	2.714
Other payables	17	4.136	3.921	3.453
TOTAL CURRENT LIABILITIES		20.507	23.639	21.941
D) LIABILITIES ON ASSETS AVAILABLE FOR SALE		-	-	-
TOTAL LIABILITIES (B+C+D)		29.422	34.736	30.962
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (A+B+C+D)		79.036	80.104	78.092

Cembre SpA

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Consolidated Income Statement

(€ '000)	Notes	1st half 2005	1st half 2004	2004
Revenues from sales and services provided	18	34.982	33.426	65.149
Other revenues	19	12	49	208
TOTAL REVENUES		34.994	33.475	65.357
Cost of goods and merchandise		(11.329)	(10.728)	(21.102)
Cost of services received	20	(5.330)	(5.428)	(10.414)
Lease and rental costs		(567)	(478)	(963)
Personnel costs	21	(10.598)	(10.605)	(20.208)
Other operating costs	22	(166)	(146)	(320)
Change in inventories		401	(348)	(349)
Increase in assets due to internal construction		294	213	345
Write-down of receivables		(55)	(58)	(141)
Accruals to provisions for risks and charges		(7)	(3)	(18)
GROSS OPERATING PROFIT		7.637	5.894	12.187
Tangible asset depreciation		(1.662)	(1.924)	(3.869)
Intangible asset amortization		(47)	(116)	(257)
Write-down of long-term assets		(227)	0	(405)
OPERATING PROFIT		5.701	3.854	7.656
Financial income (expense)	23	(93)	(206)	(297)
Foreign exchange gains (losses)		318	207	(96)
PROFIT BEFORE TAXES		5.926	3.855	7.263
Income taxes	24	(2.430)	(1.829)	(3.433)
NET PROFIT		3.496	2.026	3.830
BASIC EARNINGS PER SHARE	25	0,21	0,12	0,23

Cembre SpA

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Consolidated Statement of Cash Flows for the 1st Half of 2005

	1st Half 2005	1st Half 2004	2004
A) CASH FLOW FROM OPERATING ACTIVITIES			
Profit (loss) for the period	3.496	2.026	3.830
Depreciation, amortization and write-downs	1.936	2.040	4.531
(Gains) losses on disposal of assets	1	(10)	9
Net change in Employee Severance Indemnity	75	294	704
Net change in provisions for risks and charges	6	(112)	(105)
Operating profit (loss) before change in working capital	5.514	4.238	8.969
(Increase) decrease in trade receivables	(3.090)	(2.835)	(1.275)
(Increase) decrease in inventories	(650)	207	531
(Increase) decrease in other current assets and deferred tax assets	179	(211)	(603)
Increase (decrease) in trade payables	132	1.473	638
Increase (decrease) in other current liabilities and deferred tax liabilities	109	1.598	1.598
Change in working capital	(3.320)	232	889
NET CASH FLOW FROM OPERATING ACTIVITIES	2.194	4.470	9.858
B) CASH FLOWS FROM INVESTING ACTIVITIES			
Capital expenditure on fixed assets:			
- intangible	(66)	(37)	(112)
- tangible	(906)	(2.304)	(3.092)
Proceeds from disposal of tangible, intangible, available-for-sale assets	(56)	19	333
NET CASH FLOW FROM INVESTING ACTIVITIES	(1.028)	(2.322)	(2.871)
C) CASH FLOWS FROM FINANCING ACTIVITIES			
(Increase) Decrease in other non-current assets	37	26	60
Increase (Decrease) in bank loans and borrowings	(1.878)	(301)	(3.645)
Increase (Decrease) in other loans and borrowings	9	67	39
Increase (Decrease) in derivative instruments	7	14	30
Change in reserves	686	243	201
Dividends distributed	(1.698)	(1.223)	(1.223)
NET CASH FLOW FROM FINANCING ACTIVITIES	(2.837)	(1.174)	(4.538)
D) INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	(1.671)	974	2.449
E) CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	6.507	4.058	4.058
F) CASH AND CASH EQUIVALENTS AT END OF PERIOD (D+E)	4.836	5.032	6.507

CASH AND CASH EQUIVALENTS AT END OF PERIOD	4.836	5.032	6.507
Current financial liabilities	(6.581)	(9.227)	(8.320)
Non-current financial liabilities	(152)	(2.747)	(282)
Liabilities on derivative instruments	(37)	(14)	(30)
NET CONSOLIDATED FINANCIAL POSITION	(1.934)	(6.956)	(2.125)

BREAKDOWN OF CASH AND CASH EQUIVALENTS AT END OF PERIOD			
Cash	14	20	18
Banks	4.822	5.012	6.489
	4.836	5.032	6.507

Cembre SpA

Registered Office: Via Serenissima 9, Brescia, Italy
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Statement of Changes in the Consolidated Shareholders' Equity for the 1st Half of 2005

(€'000)	Capital stock	Share premium reserve	Legal reserve	Reserve for own shares	Suspended-tax reserves	Consolidation reserve	Conversion differences	Extraordinary reserve	Unrealized gains reserve	Retained earnings	Net profit	Total Shareholders' Equity
Balance at January 1, 2004	8.840	12.245	1.244	(588)	68	1.896	(265)	17.042	3.840			44.322
Conversion differences						(29)	(120)					(149)
Elimination of own shares				297								297
Allocation of net profit			122			540		(1.885)				(1.223)
Sale of own shares								53				53
Other changes												0
Net profit for 2004											3.830	3.830
Balance at December 31, 2004	8.840	12.245	1.366	(291)	68	2.407	(385)	15.210	3.840	0	3.830	47.130
Conversion differences						(82)	472					390
Elimination of own shares				262								262
Allocation of net profit			297			1.023		812			(3.830)	(1.698)
Sale of own shares								34				34
Other changes								41	(41)			0
Net profit for the 1st Half of 2005											3.496	3.496
Balance at June 30, 2005	8.840	12.245	1.663	(29)	68	3.348	87	16.097	3.799	0	3.496	49.614

Cembre S.p.A.

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

Notes to the accounts

The present interim report was prepared in compliance with international accounting principles whose adoption is mandatory in the preparation of consolidated accounts for the 2005 financial year. The same were adopted in accordance with the procedure set in article 6 of EU Regulation 1606/2002 (*International Financial Reporting Standards*, referred to in the present document individually as IAS/IFRS) as approved at the date of the present interim report.

In compliance with IFRS 1, Appendix A of the present interim report provides reconciliations prescribed in paragraphs no. 39 and 40 of IFRS 1, while Appendix B includes reconciliations prescribed in paragraph no. 45 of the same. These appendixes constitute an integral part of the present document. Information reported in the present interim report is that required under IAS 34.

Criteria adopted in the preparation of the Consolidated Financial Statements at June 30, 2005 are those currently in force, which are assumed to be adopted also in the preparation of the Consolidated Financial Statements at December 31, 2005. Such principles may however not coincide with those in force at December 31, 2005 due to new orientations of the European Commission with regards to their approval, or the issue of new principles or the interpretation of the same by competent organisms.

The auditing of the accounts limited to the Half-year Report at June 30, 2005, that includes Appendix B – *Reconciliation required under IFRS 1 at June 30, 2004*, and the full audit of opening balances of accounts prepared under IAS/IFRS at January 1, 2004 and December 31, 2004 included in Appendix A – *Transition to IAS/IFRS*, is carried out by independent auditors Reconta Ernst & Young.

FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements of the Cembre Group include the statutory accounts at June 30, 2005 Cembre SpA (the parent company) and those of the following companies:

	Group share at June 30, 2005	Group share at June 30, 2004
1. Cembre Ltd (UK)	100%	100%
2. Cembre Sarl *(France)	100%	100%
3. Cembre España SL *(Spain)	100%	100%
4. Cembre AS (Norway)	100%	100%
5. Cembre GmbH*(Germany)	100%	100%
6. Cembre Inc.**(US)	100%	100%
7. General Marking Srl (Italy)	100%	100%

* 5% share held through Cembre Ltd

**29% share held through Cembre Ltd

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

The consolidation area is unchanged both with respect to June 30, 2004 and December 31, 2004.

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.

The Consolidated Financial Statements of Cembre S.p.A. are expressed in thousands of euro.

Exchange rates applied are:

Currency	Exchange rate at June 30, 2005	Average exchange rate for the first six months of 2005
British Pound (£/€)	0.6742	0.6859
US Dollar (\$/€)	1.2092	1.2847
Norwegian Kroner (NOK/€)	7.9155	8.1413

Further detail is provided under “Consolidation principles and valuation criteria” below.

CONSOLIDATION PRINCIPLES AND VALUATION CRITERIA

Form of the financial statements

The financial statements are prepared as follows:

- current and non-current assets and liabilities are reported separately in the balance sheet;
- the analysis of costs in the income statement is carried out based on the nature of the same;
- the statement of cash flows is prepared by applying the indirect method.

Consolidation principles

The consolidated financial statements include the statutory accounts of Cembre S.p.A. and its subsidiaries. The financial statements of consolidated subsidiaries are consolidated under the line-by-line method, thus including all items, irrespective of the share held by the Group, of the elimination of

intragroup transactions and of unrealized gains on transactions with third parties.

The book value of investments was netted against the related share in the shareholders' equity of consolidated companies, attributing to assets and liabilities the respective current value at the time control was acquired and recording contingent liabilities, where appropriate. Where positive, the residual amount was recorded among non-current assets as goodwill. Negative residual differences were recorded in the income statement.

All subsidiaries are wholly-owned and in no case therefore have minority interests been recorded.

Translation of financial statements expressed in currencies other than the euro

The functional currency of the Group is the euro.

Financial statements denominated in functional currencies other than the euro are translated according to the following criteria:

- assets and liabilities are translated at the exchange rate applicable at the date of the financial statements;
- income statement items are translated at the average exchange rate for the year or the period;
- shareholders' equity items are translated at the historical exchange rate, keeping into account the possible stratification of reserves.

Exchange rate differences arising from such translation process are recorded directly under shareholders' equity and reported separately in the Statement of Changes in the Shareholders' Equity under "Currency translation adjustments".

Tangible assets

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

Maintenance and repair costs are not capitalized and are recorded in the income statement in the period in which they are incurred.

Depreciation commences when the asset is available for use and is calculated on a straight line basis over the estimated residual useful life of the asset. Depreciation rates applied reflect the useful life generally attributed to the various classes of assets and are unchanged from the previous year. These are:

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

Land has an undetermined useful life and is therefore not subject to depreciation. Assets acquired in the period are depreciated on the basis of actual usage. Spare parts and small maintenance tools are recorded under inventories and charged as a cost at the time they are used. Spare parts having a significant value and stand-by equipment expected to be used over a period longer than one year are recorded under fixed assets and depreciated as described above.

accounted for at fair value, while gains and losses on the same are recorded in the income statement.

Financial assets held to maturity

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

After the initial recording, such assets are accounted for at the amortized cost, applying the effective interest rate method.

Loans extended

Loans extended are accounted for in the same manner as “financial assets held to maturity”.

Financial assets available for sale

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

When the fair value of the assets cannot be reliably estimated, investments in other companies are recorded at cost.

Own shares

Own shares are recorded as a reduction of Shareholders’ Equity. The original cost of own shares and capital gains resulting from subsequent sales are recorded under Shareholders’ Equity.

Inventories

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

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

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

Payables and receivables

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

Cash and cash equivalents

Cash and cash equivalents are recorded at face value.

Loans

Loans are initially recorded at cost, corresponding to the fair value of the amount received, net of accessory costs incurred in the extension of the loan.

After the initial recording, loans are valued at the amortized cost, using the effective interest method.

Translation of amounts denominated in currencies other than the euro

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

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

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

Functional currencies adopted by Cembre Group companies correspond to the currencies of the countries in which the registered offices of the same are located.

Provisions for risks and charges

Provisions for risks and charges include accruals made against current obligations (legal or implicit) deriving from a past event, the fulfillment of which is expected to require the use of resources whose amount can be reliably estimated.

Employee benefits

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

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

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

Leased assets

Assets held under a financial lease are recorded among tangible assets, with a related entry representing the related portion of debt. Lease payments are divided into the interest component, recorded in the income statement, and principal component, recorded as a reduction of debt.

Revenues

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

Disposal of assets

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

Services rendered

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

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

Interest

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

Dividends

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

Grants

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

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

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

Financial charges

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

Cost of goods purchased and services received

The cost of goods purchased and services received is recorded in the income statement based on the accrual method. They consist in declines in economic benefits, resulting in a financial outflow, reductions in the value of assets or the creation of liabilities.

Income taxes (current, prepaid and deferred)

Current taxes are determined based on a realistic estimate of the tax expense for the period in accordance with tax regulations applicable in the respective countries in which the group company operates.

The Group records deferred and prepaid taxes arising from temporary differences between the book value of assets and liabilities and the related values reported for tax purposes, in addition to differences in the value of assets and liabilities generated by consolidation adjustments.

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

Financial derivatives

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

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

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

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

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

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

INFORMATION BY SECTOR

Cembre adopted, as its primary reporting focus, information by geographical area based on the location in which the operations of the company are based or the production process takes place. Information by sector of activity is not provided as the Cembre Group operates in a single sector denominated “Electric connectors and related tools”.

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

1st half 2005	Italy	Rest of Europe	Rest of World	TOTAL
Revenues				
Sales to customers	19,681	14,038	1,263	34,982
Sales to other Group companies	7,621	406	21	8,048
Revenues by sector	<u>27,302</u>	<u>14,444</u>	<u>1,284</u>	<u>43,030</u>
Operating profit by sector	<u>4,303</u>	<u>1,196</u>	<u>202</u>	<u>5,701</u>
Overhead costs not assigned				–
Operating profit				5,701
Financial income (expense)				225
Income taxes				(2,430)
Net profit				<u>3,496</u>

1st half 2004	Italy	Rest of Europe	Rest of World	TOTAL
Revenues				
Sales to customers	19,874	12,495	1,057	33,426
Sales to other Group companies	6,980	413	1	7,394
Revenues by sector	<u>26,854</u>	<u>12,908</u>	<u>1,058</u>	<u>40,820</u>
Operating profit by sector	<u>2,942</u>	<u>858</u>	<u>54</u>	<u>3,854</u>
Overhead costs not assigned				0
Operating profit				3,854
Financial income (expense)				1
Income taxes				(1,829)
Net profit				<u>2,026</u>

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

	1st half 2005	1st half 2004
Italy	15,300	15,800
Europe	16,600	14,649
Rest of World	<u>3,082</u>	<u>2,977</u>
	34,982	33,426

The breakdown of assets and liabilities is shown below:

June 30, 2005	Italy	Rest of Europe	Rest of World	TOTAL
Assets and Liabilities				
Assets of the sector	49,273	23,326	1,889	74,488
Unassigned assets				4,548
Total assets				79,036
Liabilities of the sector	21,506	5,379	342	27,227
Unassigned liabilities				2,195
Total liabilities				29,422
Other information by sector				
Capital expenditure:				
- Tangible assets	22,525	6,310	100	28,935
- Intangible assets	127	9	-	136
				29,071
Depreciation and amortization:				
- Tangible assets	1,362	287	13	1,662
- Intangible assets	34	13	-	47
Write-downs	-	-	-	-
No. of employees	336	116	7	459

June 30, 2004	Italy	Rest of Europe	Rest of World	TOTAL
Assets and Liabilities				
Assets of the sector	51,252	20,291	1,709	73,252
Unassigned assets				4,840
Total assets				78,092
Liabilities of the sector	23,255	4,929	496	28,680
Unassigned liabilities				2,282
Total liabilities				30,962
Other information by sector				
Capital expenditure:				
- Tangible assets	23,356	6,229	51	29,636
- Intangible assets	322	22	-	344
				29,980
Depreciation and amortization:				
- Tangible assets	3,294	552	23	3,869
- Intangible assets	226	31	-	257
Write-downs	-	-	-	-
No. of employees	343	112	7	462

NOTES

Amounts reported are in thousands of euro, unless otherwise specified.

BALANCE SHEET

1. TANGIBLE ASSETS

	Land and buildings	Plant and machinery	Equipment	Other assets	Leased assets	Work in progress	Total
Historical cost	23,671	25,879	6,198	5,466	220	92	61,526
Accumulated depreciation	(4,082)	(19,282)	(4,444)	(3,973)	(109)	—	(31,890)
Balance at Dec. 31, 2004	19,589	6,597	1,754	1,493	111	92	29,636
Increases	36	234	40	321	34	241	906
Currency differences	168	26	2	18	(1)	—	213
Depreciation	(218)	(854)	(266)	(300)	(24)	—	(1,662)
Net divestments	—	(1)	—	(65)	—	(92)	(158)
Reclassifications	8	(2)	2	(8)	—	—	—
Balance at June 30, 2005	19,583	6,000	1,532	1,459	120	241	28,935

	Land and buildings	Plant and machinery	Equipment	Other assets	Leased assets	Work in progress	Total
Historical cost	22,312	25,560	5,802	5,270	183	90	59,217
Accumulated depreciation	(3,762)	(17,239)	(3,731)	(3,624)	(106)	—	(28,462)
Balance at Jan. 1, 2004	18,550	8,321	2,071	1,646	77	90	30,755
Increases	1,571	397	398	547	87	92	3,092
Currency differences	(2)	4	—	2	—	—	4
Depreciation	(430)	(2,122)	(651)	(614)	—	—	(3,869)
Net divestments	(100)	(3)	(64)	(88)	(1)	(90)	(346)
Balance at June 30, 2004	19,589	6,597	1,754	1,493	111	92	29,636

Capital expenditure for the first six months of 2005 consists primarily of purchases made by the parent company for the replacement of obsolete assets.

2. INTANGIBLE ASSETS

	Development costs	Patents	Licenses	Other intangible assets	Total
Historical cost	54	2,238	—	310	2,602
Accumulated amortization	(10)	(2,165)	—	(83)	(2,258)
Balance at Dec. 31, 2004	44	73	—	227	344
Increases	57	9	—	—	66
Write-downs	—	—	—	(227)	(227)
Amortization	(12)	(35)	—	—	(47)
Reclassifications	—	(4)	4	—	—
Balance at June 30, 2005	89	43	4	—	136

At December 31, 2004, the non-competition agreement signed by General Marking was classified under “Other intangible assets”. As a result of the

failure to achieve a breakeven by the subsidiary, in the first six months of 2005 an impairment test was carried out, leading to the write-down in full of the capitalized cost of the contract.

3. FINANCIAL ASSETS AVAILABLE FOR SALE

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.

4. OTHER NON-CURRENT ASSETS

The item includes primarily security deposits and receivables on withholding taxes on employee severance indemnities of the parent company.

	June 30, 2005	Dec. 31, 2004	Change
Security deposits and other receivables	102	102	-
Receivables on prepaid withholding taxes on employee severance indemnities	6	43	(37)
	108	145	(37)

5. INVENTORIES

	June 30, 2005	Dec. 31, 2004	Change
Raw materials	4,488	4,056	432
Work in progress and semi-finished goods	6,755	4,754	2,001
Finished goods and merchandise	9,510	11,293	(1,783)
Total	20,753	20,103	650

The value of finished goods inventories is adjusted through a provision for slow-moving stock amounting approximately to €1,458 thousand. In the first six months of 2005, accruals to the provision amounted to €14 thousand and related to currency translation differences, while uses amounted to €2 thousand. The book value of inventories at June 30, 2005 is in line with the value of the same at current costs.

6. TRADE RECEIVABLES

	June 30, 2005	Dec. 31, 2004	Change
Gross trade receivables	23,146	20,006	3,140
Provision for doubtful accounts	(582)	(532)	(50)
Total	22,564	19,474	3,090

Trade receivables by geographical area

	June 30, 2005	Dec. 31, 2004	Change
Italy	12,752	12,448	304
Europe	9,148	6,761	2,387
North America	508	414	94
Oceania	209	195	14
Middle East	247	117	130
Other	282	71	211
Total	23,146	20,006	3,140

7. TAX RECEIVABLES

Tax receivables are made up as follows:

	June 30, 2005	Dec. 31, 2004	Change
VAT receivable	51	106	(55)
Tax credits	66	47	19
Total	117	153	(36)

8. OTHER RECEIVABLES

	June 30, 2005	Dec. 31, 2004	Change
Receivable from employees	27	20	7
Other	33	185	(152)
	60	205	(145)

Item "Other" includes prevalently advances to suppliers and bills receivable. The change is due to the fact that in the previous year the item included €130 million relating to extraordinary gains on the settlement of legal proceedings.

9. SHAREHOLDERS' EQUITY

At June 30, 2005, the capital stock of the Parent Company, fully underwritten and paid-up, amounted to €8,840,000, made up of 17 million ordinary shares of par value €0.52 each, fully underwritten and paid-up.

At the same date the company held 10,000 own shares equal to €29 thousand at an average historical cost of €2.91 per share and corresponding to 0.06% of the capital stock of the company.

As a result of the adoption of IAS 32 and 39, from January 1, 2004 own shares held are recorded as a reduction of the Shareholders' Equity.

Changes in individual items of Shareholders' Equity are shown in the Statement of Changes in the Shareholders' Equity included on page 9.

The consolidation reserve is made up as follows:

	June 30, 2005	Dec. 31, 2004
Elimination of book value of consolidated companies	5,027	3,801
Elimination of unrealized intra-group gains included in the value of inventories	(1,640)	(1,280)
Elimination of Cembre GmbH provision for product warranty	12	12
Currency translation differences on elimination of intra-group payables and receivables	(51)	(126)
	3,348	2,407

10. FINANCIAL LIABILITIES

	Effective interest rate (%)	Maturity	June 30, 2005	Dec. 31, 2004
Bank overdrafts	2.5	On demand	1,838	416
Banca Popolare di Verona loan extended to Cembre SpA	2.7	Dec. 2005	323	2,646
Banca Popolare di Sondrio loan extended to General Marking	3	Jan. 2006	2,500	3,000
Banca Lombarda International loan extended to Cembre España	3	March 2006	1,300	0
Lloyds TSB Bank loan extended to Cembre Ltd (£95 thousand)	6.25	Nov. 2005	141	138
Lloyds TSB Bank loan extended to Cembre Ltd (£50 thousand)	6	June 2006	74	0
Banca S.Paolo IMI Int. loan extended to Cembre Inc. (US\$400 thousand)	4.22	March 2006	331	478
Banca Lombarda International loan extended to Cembre España	3.04	March 2005	-	1,500
			4,669	7,762
Leasing Cembre España (short-term portion)	2.97-4.18	2006-2009	48	47
Deferrals			26	95
CURRENT FINANCIAL LIABILITIES			6,581	8,320
Lloyds TSB Bank loan extended to Cembre Ltd (£50 thousand)	6	June 2006	74	213
Leasing Cembre España (long-term portion)	2.97-4.18	2006-2009	78	69
NON-CURRENT FINANCIAL LIABILITIES			152	282

Parent company Cembre provided guarantees against loans extended to subsidiaries Cembre España, Cembre Inc. and General Marking.

11. EMPLOYEE SEVERANCE INDEMNITY AND OTHER RETIREMENT BENEFITS

The item includes the Employee Severance Indemnity accrued for employees of Italian companies. Special retirement benefits, due in accordance with French regulations to persons employed in France at the time of retirement, are also included in the provision.

As required under IAS 19, Employee Severance Indemnity liabilities were discounted to their present value through recognized actuaries. The table that

follows shows changes in the provision occurred in 2005 and the actuarial effect recorded under personnel costs.

	June 30, 2005	Dec. 31, 2004
Beginning balance	4,253	3,549
Accruals	365	685
Uses	(328)	(387)
Actuarial effect	38	406
Closing balance	4,328	4,253

Actuarial calculations are based on the following assumptions:

- life expectancy statistics relating to the probability of death or inability of employees, were obtained by confronting INPS studies and ISTAT figures on the Italian population;
- the discounting rate, inflation rate and revaluation rate applied to expected personnel retributions and to the Employee Severance Indemnity are shown in the table below:

	1st half 2005	Dec. 31, 2004
Annual discounting rate	4.00%	4.25%
Annual inflation rate	2.00%	2.00%
Real annual rate of increase in retributions due to career advancements	1.00%	1.00%
Total annual rate of increase in retributions	3.00%	3.00%
Gross annual rate of increase in Employee Severance Indemnity	3.00%	3.00%

12. PROVISIONS FOR RISKS AND CHARGES

Changes in the provision for risks and charges in the first six months of 2005 are shown in the table below:

	Social Security (INAIL) litigation	Supplementary customer indemnity	Other	Total
At December 31, 2004	224	42	15	281
Accruals	3	4	0	7
Uses	0	0	(1)	(1)
At June 30, 2005	227	46	14	287

As the effect of discounting is not significant, the above balances were not discounted to take into account the implicit financial component.

DEFERRED TAX LIABILITIES AND ASSETS

Deferred tax liabilities and assets at June 30, 2005 are shown below:

	June 30, 2005	Dec. 31, 2004
<i>Deferred tax liabilities</i>		
Average cost valuation of inventories of the parent company	(253)	(200)
Accelerated depreciation	(1,600)	(1,710)
Elimination of Cembre GmbH product warranty provision	(8)	(8)
Elimination of land depreciation	(32)	(32)
Land revaluation	(2,255)	(2,255)
Gross deferred tax liabilities	(4,148)	(4,205)
<i>Deferred tax assets</i>		
Elimination of unrealized intra-group gains included in the value of inventories	969	974
Write-down of inventories	335	335
Amortization of goodwill	69	74
Write-down of investment	16	20
Discounting of Employee Severance Indemnity	125	113
Provision for risks	5	4
Other	3	-
Gross deferred tax assets	1,522	1,520
Net deferred tax liabilities	(2,626)	(2,685)

13. FINANCIAL LIABILITIES ON DERIVATIVE INSTRUMENTS

	June 30, 2005	Dec. 31, 2004	Change
Fair value interest rate swap	37	30	7

The parent company is a party in an interest rate swap having a nominal value of €2.5 million. The swap terminates in July 2006 and until such date the company pays a fixed interest of 2.81% and receives a floating interest equal to the 3-month Euribor rate at each settlement date. Such financial instrument cannot be considered as a hedging instrument since the underlying loan was repaid in full in 2004. The instrument was accounted for at fair value, which at June 30, 2005 was equal to negative €37 thousand (negative €30 thousand at December 31, 2004).

14. TRADE PAYABLES

	June 30, 2005	Dec. 31, 2004	Change
Trade payables	7,550	7,404	146
Advances	6	20	(14)
	7,556	7,424	132

Trade payables by geographical areas

(€ '000)	June 30, 2005	Dec. 31, 2004	Change
Italy	5,307	5,062	245
Europe	2,175	2,247	(72)
North America	10	25	(15)
Oceania	56	65	(9)
Other	2	5	(3)
	7,550	7,404	146

15. TAX PAYABLES

Tax payables are made up as follows:

	June 30, 2005	Dec. 31, 2004	Change
Employee withholding taxes payable	248	839	(591)
Current taxes payable	1,084	1,256	(172)
VAT and similar foreign taxes payable	742	593	149
Other taxes payable	123	26	97
Total	2,197	2,714	(517)

16. OTHER PAYABLES

Other payables are made up as follows:

	June 30, 2005	Dec. 31, 2004	Change
Payables to employees	1,925	786	1,139
Bonuses owed to customers	994	1,301	(307)
Commissions payable	174	148	26
Payable to Statutory Auditors and similar foreign boards	56	69	(13)
Social security payables	907	966	(59)
Other	80	183	(103)
Total	4,136	3,453	683

Payables to employees at June 30, 2005 are higher than those at December 31, 2004 as the amount includes payables for holidays accrued in the first six months of the year and not enjoyed, production bonuses paid-out in July and December, and the portion of the thirteenth salary payment to be paid out at the end of the year.

INCOME STATEMENT**17. REVENUES FROM SALES AND SERVICES PROVIDED**

The performance of Revenues from sales and services provided is commented upon in the Report on Operations.

18. OTHER REVENUES

Other revenues are made up as follows:

	1 st half 2005	1 st half 2004	Change
Capital gains	2	20	(18)
Uses of provisions	1	-	1
Other	9	16	(7)
Operating grants	-	13	(13)
Total	12	49	(37)

At June 30, 2004, capital gains included a €9 thousand gain on the disposal of vehicles by subsidiary Cembre España SL.

19. COST OF SERVICES RECEIVED

The item is made up as follows:

	1 st half 2005	1 st half 2004	Change
Subcontracted work	1,057	1,157	(100)
Electricity, heating and water	440	427	13
Transport of goods sold	831	832	(1)
Fuel	128	109	19
Traveling expenses	312	286	26
Maintenance and repair	510	520	(10)
Consulting	426	517	(91)
Advertising and promotion	176	162	14
Insurance	186	174	12
Boards' compensation	307	298	9
Postage and telephone	155	151	4
Commissions	159	120	39
Security and cleaning	177	173	4
Other	466	502	(36)
Total	5,330	5,428	(98)

Item Other includes prevalently bank charges and employee canteen costs.

20. PERSONNEL COSTS

The cost of personnel is made up as follows:

	1 st half 2005	1 st half 2004	Change
Wages and salaries	7,922	7,937	(15)
Social security contributions	2,168	2,033	135
Employee severance indemnity	431	568	(137)
Retirement benefits	34	4	30
Other costs	43	63	(20)
	10,598	10,605	(7)

Employee termination indemnities at June 30, 2005 include €38 thousand of actuarial effect.

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

	1 st half 2005	1 st half 2004	Change
Managers	17	16	1
Administrative and commercial staff	222	229	(7)
Workers	220	217	3
Total	459	462	(3)

21. OTHER OPERATING COSTS

Other operating costs are made up as follows:

	1 st half 2005	1 st half 2004	Change
Sundry taxes	112	91	21
Losses on receivables	4	10	(6)
Capital losses	1	2	(1)
Donations	22	20	2
Other	27	23	4
Total	166	146	20

Item Other includes prevalently extraordinary losses.

22. FINANCIAL INCOME (EXPENSE)

	1st half 2005	1st half 2004	Change
Loans and bank overdrafts	(132)	(175)	43
Other financial charges	(4)	(41)	37
	(136)	(216)	80
Interest earned on bank account balances	33	9	24
Other financial income	10	1	9
	43	10	33
Financial income (expense)	(93)	(206)	113

23. INCOME TAXES

Income taxes

	1 st half 2005	1 st half 2004	Change
Current	2,529	2,210	319
Deferred	(99)	(381)	282
	2,430	1,829	601

Deferred and prepaid taxes are made up as follows:

	1 st half 2005	1 st half 2004
<i>Deferred tax liabilities</i>		
Valuation of parent company's inventories at average cost	(53)	(43)
Accelerated depreciation	110	88
Reversal of depreciation on land	–	(3)
	57	42
<i>Deferred tax assets</i>		
Elimination of unrealized intra-group gains included in the value of inventories	(5)	101
Write-down of inventories	–	203
Amortization of goodwill	(5)	(6)
Write-down of investment	(4)	(3)
Discounting of Employee Severance Indemnity	12	56
Fair value of interest rate swap	–	5
Risk provision	1	1
Other	10	2
	9	359
Tax consolidation	39	0
Reclassification	(6)	(20)
Deferred tax assets accrued in the period	99	381

24. EARNINGS PER SHARE

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

	1 st half 2005	1 st half 2004
Consolidated net profit (€ '000)	3,496	2,021
No. of ordinary shares ('000)	16,990	16,757
Earnings per share (€)	0.21	0.12

25. DIVIDENDS

On May 26, 2005 (with coupon date May 23) the company distributed a dividends amounting to €1,698 thousand on net profit for the year ended December 31, 2004, equal to €0.1 for each share entitled to dividends.

26. COMMITMENTS AND RISKS

At June 30, 2005, guarantees granted and received by the Cembre Group were:

	1 st half 2005	Dec. 31, 2004	Change
Guarantees granted	91	62	29
Guarantees received	20	20	–

RELATED PARTIES

Transactions concluded between Cembre SpA and its subsidiaries in the first six months of 2005 are summarized in the table below:

	Receivables	Payables	Revenues	Expenses
Cembre Ltd.	1,635	17	2,432	55
Cembre S.a.r.l.	821	5	1,162	5
Cembre España S.L.	2,546	–	2,131	–
Cembre AS	68	–	68	–
Cembre GmbH	917	–	730	30
Cembre Inc.	450	–	560	35
General Marking srl	18	160	54	378
TOTAL	6,455	182	7,137	503

Cembre S.p.A. leased an industrial building to subsidiary General Marking. The yearly rent for the building for 2005 amounts to €3 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 2005 amount to €326 thousand for the building adjacent to the Company's head office, €9 thousand for the Sesto S. Giovanni (Milan) office, €49 thousand for the Selvazzano (Padua) office, and €42 thousand for the Bologna office. Rent received for 2005 is in line with market conditions. It is in the Company's interest to benefit from the continuity of office space reducing the risk of early termination of leases.

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.

Board compensation

In the first six months of 2005, compensation for the Board of Directors, whose composition is provided in Attachment B of the Report on Operations for the first six months of 2005, amounted to:

Emoluments as directors of Cembre SpA	158
Emoluments as directors of subsidiaries	9
Retribution as employees	129
Fringe benefits	6

Fringe benefits consist of the use of a company car and insurance policies underwritten on their behalf.

27. CONSOLIDATED COMPANIES

The consolidation area is unchanged from December 31, 2004. Companies consolidated line-by-line are:

Company	Registered office	Share capital	Share held at June 30, 2005	Share held at Dec. 31, 2004
Cembre Ltd	Sutton Coldfield (Birmingham)	£ 1,200,000	100%	100%
Cembre Sarl	Morangis (Paris)	€1,071,000	100% (*)	100% (*)
Cembre España SL	Coslada (Madrid)	€900,000	100% (*)	100% (*)
Cembre AS	Stokke (Norway)	NOK 2,400,000	100%	100%
Cembre GmbH	Munich (Germany)	€512,000	100% (*)	100% (*)
Cembre Inc.	Edison (New Jersey - Usa)	US\$ 840,000	100%**)	100%**)
General Marking srl	Brescia (Italy)	€99,000	100%	100%

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

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

28. RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

The Group does not make significant use of derivative instruments to hedge against interest risk and currency exposure. The sole contracts in which the company is currently a counterpart are:

- an interest rate contract stipulated by the parent company having a nominal value of €2.5 million, and
- two forward currency purchase agreements (euro) stipulated by British subsidiary Cembre Ltd and amounting to a total of €500 thousand, both expired and settled on August 19, 2005.

Interest rate risk

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

At June 30, 2005 the portion of debt that was either stipulated on a fixed-rate basis or hedged through an interest rate swap was equal to slightly more than 37% (as compared with slightly more than 27% at December 31, 2004).

Currency risk

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

Currency risk exposure is determined mainly by sales denominated in US dollars, British Pounds and Norwegian Kroner. The amount of such sales is not significant in influencing the overall performance of the Group. To hedge part of the risk deriving from purchases in euro from the parent company, British subsidiary Cembre Ltd entered into forward currency purchase agreements to acquire euro.

Liquidity risk

The exposure of the Group to liquidity risk is immaterial.

Credit risk

Exposure to credit risk relates exclusively to trade receivables.

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

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

Price risk

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

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

Brescia, September 28, 2005

Carlo Rosani

*Chairman
CEMBRE S.P.A.*

Cembre S.p.A.

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

**FINANCIAL STATEMENTS OF
CEMBRE SPA AT
JUNE 30, 2005**

Cembre S.p.A.

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

Financial Statements at June 30, 2005**Balance Sheet***(in euro)*

Assets	Jun. 30, 2005	Jun. 30, 2004	Dec. 31, 2004
A) Capital not paid-in	0	0	0
B) Fixed assets			
I - Intangible assets			
2) Research and development costs and advertising expenses	89	0	43
3) Industrial patents and intellectual property rights	38	72	51
7) Other	647	717	685
Total	774	789	779
II - Tangible assets			
1) Land and buildings	7.905	8.010	7.950
2) Plant and machinery	4.649	6.036	5.178
3) Equipment	509	846	641
4) Other assets	797	889	854
5) Work in progress and advances	242	59	92
Total	14.102	15.840	14.715
III - Financial assets			
1) Investments in:			
a) subsidiaries	7.007	7.007	7.007
d) other companies	5	5	5
2) Receivables			
d) from others			
- long-term	16	80	55
Total	7.028	7.092	7.067
Total fixed assets	21.904	23.721	22.561

C) Current assets	Jun. 30, 2005	Jun. 30, 2004	Dec. 31, 2004
I - Inventories			
1) Raw materials	3.820	3.459	3.460
2) Work in progress and semi-finished goods	4.580	5.154	4.627
4) Finished goods	6.469	5.847	6.338
Total	14.869	14.460	14.425
II - Receivables			
1) Trade	14.165	13.661	12.949
2) From subsidiaries	6.455	5.950	5.083
4-bis) Taxes receivables	0	0	16
4-ter) Deferred tax assets			
- short-term	357	355	356
- long-term	68	82	77
Total	425	437	433
5) From others			
- short-term	45	38	58
Total	45	38	58
Total receivables	21.090	20.086	18.539
III - Marketable securities			
5) Own shares (par value € 10,400)	29	574	291
IV - Cash and cash equivalents			
1) Bank deposits	1.662	3.201	4.727
3) Cash	6	9	10
Total cash and cash equivalents	1.668	3.210	4.737
Total current assets	37.656	38.330	37.992
D) Accrued income and prepaid expenses	242	216	40
Total assets	59.802	62.267	60.593

Liabilities and Shareholders' Equity

A) Shareholders' Equity

I - Share capital	8.840	8.840	8.840
II - Paid-in capital in excess of par value	12.245	12.245	12.245
III - Revaluation reserve	585	585	585
IV - Legal reserve	1.663	1.366	1.366
V - Reserve for own shares	29	574	291
VI - Statutory reserves	0	0	0
VII - Other reserves			
Provisions for suspended tax reserves	68	68	68
Extraordinary reserve	15.375	10.807	11.091
VIII - Retained earnings	0	0	0
IX - Net profit	2.388	4.396	5.931
Total Shareholders' Equity	41.193	38.881	40.417

	Jun. 30, 2005	Jun. 30, 2004	Dec. 31, 2004
B) Provision for risks and charges			
2) Deferred Income taxes	1.449	1.648	1.566
3) Other	444	451	639
Total provisions for risks and charges	1.893	2.099	2.205
C) Employee termination indemnities	3.835	3.641	3.806
D) Payables			
4) Bank loans			
- short-term	2.119	5.657	3.041
- long-term	0	323	0
Total bank loans	2.119	5.980	3.041
6) Advances	6	39	21
7) Trade payables	6.494	7.321	6.598
9) Payables to subsidiaries	310	98	424
12) Taxes payable	873	1.160	1.575
13) Social security payables	804	617	896
14) Other payables	2.272	2.419	1.587
Total payables	12.878	17.634	14.142
E) Accrued expenses and deferred income	3	12	23
Total liabilities and Shareholders' Equity	59.802	62.267	60.593

Commitments

2) Guarantees given	4.375	5.584	5.540
of which in favor of subsidiaries	4.286	5.521	5.478
3) Guarantees received	20	20	20

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

	First Half 2005	First Half 2004	Full Year 2004
1) Sales	26.711	26.311	51.115
2) Change in work in progress, semi-finished and finished goods inventories	84	268	232
4) Increase in assets due to internal construction	294	213	345
5) Other revenues:			
a) sundry	50	49	104
b) contributions received	0	12	12
Total operating value	27.139	26.853	51.808

B) Operating costs

6) Raw materials	(9.933)	(9.494)	(18.502)
7) Services	(3.731)	(3.791)	(7.195)
8) Leases and rentals	(357)	(345)	(698)
9) Personnel			
a) Wages and salaries	(5.302)	(5.457)	(9.920)
b) Social security	(1.677)	(1.546)	(3.067)
c) Employee severance indemnities	(381)	(389)	(713)
d) Retirement benefits	(3)	(3)	(5)
e) Other costs	(22)	(20)	(44)
Total personnel costs	(7.385)	(7.415)	(13.749)
10) Depreciation and write-downs			
a) Amortization of intangible assets	(72)	(72)	(163)
b) Depreciation of tangible assets	(1.218)	(1.513)	(3.042)
d) Write-down in the value of current assets	(52)	(50)	(92)
Total depreciation and write-downs	(1.342)	(1.635)	(3.297)
11) Change in raw material inventories	360	(403)	(403)
12) Accruals to risk provisions	(141)	(194)	(355)
14) Other operating costs	(93)	(82)	(185)
Total operating costs	(22.622)	(23.359)	(44.384)
Operating profit (A-B)	4.517	3.494	7.424

C) Financial income and expense

16) Other financial income:			
c) marketable securities (excluding subsidiaries)	55	0	84
d) other income	31	6	20
17) Interest and other financial charges	(50)	(92)	(192)
17-bis) Foreign exchange gains and losses	236	40	(173)
Total	272	(46)	(261)

D) Adjustments to the value of financial assets	First Half 2005	First Half 2004	Full Year 2004
18) Revaluations			
b) of long-term financial assets	0	1	1
c) of marketable securities	0	0	49
19) Write-downs			
a) Investments in subsidiaries	(205)	(232)	(693)
c) marketable securities	0	(14)	0
Total adjustments to the value of financial assets	(205)	(245)	(643)
E) Extraordinary items			
20) Gains (note 1)	1	4.685	4.705
21) Losses (note 2)	(148)	(1.869)	(2.023)
Total extraordinary items	(147)	2.816	2.682
Profit before taxes (A-B+C+D+E)	4.437	6.019	9.202
22) Income taxes			
a) current	(2.159)	(1.908)	(3.634)
b) deferred and prepaid	110	285	363
Total income taxes	(2.049)	(1.623)	(3.271)
23) Net profit	2.388	4.396	5.931

note 1: for full year 2004 and first half 2004, gains arising from the elimination of the entries made only for tax purposes, amounts to € 4.673.933

note 2: for full year 2004 and first half 2004, losses arising from the elimination of the entries made only for tax purposes, amounts to € 1.741.040

Brescia, September 28, 2005

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

CARLO ROSANI

Cembre S.p.A.

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

**TRANSITION TO INTERNATIONAL
ACCOUNTING PRINCIPLES
(IAS/IFRS)**

**Reconciliations required under IFRS 1
at January 1, 2004
and at December 31, 2004**

(Appendix A to the Half-year Report at June 30, 2005)

INTRODUCTION

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

Consequently, the financial statements at December 31, 2005 of Cembre S.p.A. will be prepared under IAS/IFRS which require, among other things, the preparation of comparative financial statements at December 31, 2004 under international accounting principles.

Based on Resolution 14990 dated April 14, 2005 with which Consob amended and integrated Regulation 11971 dated May 14, 1999, the Group opted to prepare its interim reports under IAS/IFRS, starting with the financial statements at June 30, 2005. In line with the provisions of article 81 of Regulation 11971, Cembre has provided in a separate appendix, reconciliations pursuant to paragraphs 39 and 40 of IFRS 1 “*First-time adoption of International Financial Reporting Standards*”, applied in accordance with the procedure set in article 6 of EU Regulation 1606/2002.

The above reconciliations are complemented with a summary of international accounting principles applied and of choices made by the Group in the application of the said accounting principles, in the context of the preparation of the consolidated financial statements at December 31, 2005.

Figures provided in the reconciliations are provisional and could be subject to adjustments upon their use as comparative data in the context of the financial statements at December 31, 2005 prepared under the IFRS approved by the European Commission.

Such approval by the European Commission and adjustments and interpretations by competent official organisms is still underway. New IFRS and IFRIC interpretations of the same could however be issued before the date of the first IFRS financial statements (December 31, 2005), whose early application could also be allowed.

Preliminary IFRS reconciliations lack comparative figures, information and the related notes that would be necessary to provide a true and correct representation of the consolidated financial position and profit of the Cembre Group under IFRS. Such

additional information will be provided with the consolidated financial statements at December 31, 2005.

The Cembre Group has appointed independent auditors Reconta Ernst & Young to audit the opening IAS/IFRS balance sheet at January 1, 2004 and the IAS/IFRS Shareholders' Equity at December 31, 2004 and net profit for the year ended at the same date.

FIRST-TIME APPLICATION OF IFRS 1

As required under IFRS 1, at the date of transition to the new accounting principles (January 1, 2004), the company prepared a consolidated balance sheet in which:

- all and exclusively assets and liabilities, whose recording is allowed under the new accounting principles, were recorded;
- items previously reported in the financial statements in a manner different from that required under IFRS were reclassified;
- IFRS were applied in the valuation of all assets and liabilities recorded.

The effect of the adjustment to new accounting principles of beginning balances of assets and liabilities was recorded under Shareholders' Equity in a specific retained earnings reserve, net of the related tax effect recorded each time in the deferred tax provision or under deferred tax assets.

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

The most significant choices made by the Cembre Group were:

- aggregations of companies carried out before the transition date were not reviewed retrospectively by restating both assets and liabilities in line with their current value at the time of their acquisition by the Group;
- the fair value criteria was used instead of cost in the valuation of land.

The Group did not opt for the postponement of the transition date for the classification and valuation of financial assets and liabilities. Consequently, IAS 32 and 39 were adopted from January 1, 2004. Other exemptions allowed under IFRS 1 are not applicable for the Cembre Group.

ACCOUNTING PRINCIPLES AND VALUATION CRITERIA

IAS/IFRS accounting principles and valuation criteria used in the preparation of the balance sheet at January 1, 2004 and of the financial statements at December 31, 2004 are illustrated in the notes to the interim financial statements at June 30, 2005 to which we refer for further information.

EFFECT OF THE ADOPTION OF IFRS ON THE BALANCE SHEET AT JANUARY 1, 2004

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

Balance Sheet at January 1, 2004

(€'000)	Reclassified Italian GAAP	Reclassification due to adoption of IAS/IFRS		Effect of adoption of IAS/IFRS		IAS/IFRS
		Note		Note		
ASSETS						
A) NON-CURRENT ASSETS						
Tangible assets	23,872	3	761	5-6	6,122	30,755
Intangible assets	1,345	1-3	(451)			894
Financial assets available for sale	5		–			5
Other non-current assets	793	2	(588)			205
Deferred tax assets	1,013					1,013
TOTAL NON-CURRENT ASSETS	27,028		(278)		6,122	32,872
B) CURRENT ASSETS						
Inventories	20,634					20,634
Trade receivables	18,199					18,199
Tax receivables	194					194
Other receivables	547	1	(479)			68
Cash and cash equivalents	4,058		–		–	4,058
TOTAL CURRENT ASSETS	43,632		(479)		–	43,153
C) NON-CURRENT ASSETS AVAILABLE FOR SALE						
TOTAL ASSETS (A+B+C)	70,660		(757)		6,122	76,025

(€ '000)	Reclassified Italian GAAP	Reclassification due to adoption of IAS/IFRS		Effect of adoption of IAS/IFRS		IAS/IFRS
		Note		Note		
LIABILITIES AND SHAREHOLDERS' EQUITY						
A) SHAREHOLDERS' EQUITY						
Capital stock	8,840		–		–	8,840
Reserves	32,187	2	(588)	4-5-6	3,883	35,482
Net profit	–		–		–	–
TOTAL SHAREHOLDERS' EQUITY	41,027		(588)		3,883	44,322
B) NON-CURRENT LIABILITIES						
Non-current financial liabilities	2,707		–		–	2,707
Employee Severance Indemnity and other personnel benefits	3,611		–	4	(62)	3,549
Provisions for risks and charges	386		–		–	386
Deferred tax liabilities	1,994		–	4-5-6-7	2,301	4,295
TOTAL NON-CURRENT LIABILITIES	8,698		–		2,239	10,937
C) CURRENT LIABILITIES						
Current financial liabilities	9,410	1	91		–	9,501
Liabilities on derivative instruments	–		–		–	0
Trade payables	6,818	1	(32)		–	6,786
Tax payables	1,417	1	(2)		–	1,415
Other payables	3,290	1	(226)		–	3,064
TOTAL CURRENT LIABILITIES	20,935		(169)		–	2–,766
D) LIABILITIES ON ASSETS AVAILABLE FOR SALE						
TOTAL LIABILITIES (B+C+D)	29,633		(169)		2,239	31,703
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	70,660		(757)		6,122	76,025

NOTES

Reclassifications

- In line with IFRS, the residual amount relating to the non-competition agreement signed by subsidiary General Marking in the context of the acquisition of a business unit operating in the industrial marking sector (with a residual value of €310 thousand), formerly classified among prepaid expenses, was reclassified among intangible assets.

As international accounting standards do not provide for the recording under Shareholders' Equity of accrued income, prepaid expenses, accrued liabilities and deferred income, in the balance sheet prepared under IAS/IFRS, amounts previously recorded under current assets among "Other payables" (amounting to a residual value

of €156 thousand), and under current liabilities among “Other payables” (amounting to €164 thousand), were reclassified among other current liabilities items according to their nature.

2. Under Italian GAAP, own shares are recorded among assets and against such recording a reserve is accrued under Shareholders’ Equity. Under IAS/IFRS own shares are instead recorded as a reduction of the Shareholders’ Equity using, also in this case, a specific reserve. The different accounting treatment reduces, at January 1, 2004, the Shareholders’ Equity by €88 thousand, against the elimination from assets of an equivalent amount relating to own shares, and the simultaneous recording of a negative reserve of the same amount (see “Statement of Changes in the Shareholders’ Equity” on page 12).
3. Costs relating to improvements made to assets leased (€761 thousand, net of the related accumulated depreciation), that meet the requirement of being identifiable and distinct from the asset to which they relate, were reclassified from “Intangible assets” to “Tangible assets”.

Value adjustments

4. Italian GAAP require the recording of the liability for the Employee Severance Indemnity on the basis of the nominal amount due at the date of the financial statements. IAS 19 classifies the Employee Severance Indemnity among post-employment benefits as a defined benefit plan. Such classification requires the liability accrued to be valued according to actuarial criteria, using the projected unit credit method which consists in the projection of future outflows on the basis of historical data and the population curve, in addition to the discounting of these flows on the basis of a market interest rate. The application of such valuation method resulted in a €62 thousand reduction in the value of the Employee Severance Indemnity at January 1, 2004, and a corresponding increase in the Shareholders’ Equity, net of the related tax effect, of €41 thousand.
5. In compliance with IAS 16, the Group reported land separately from buildings, also in case these were acquired jointly. Land has in fact as a norm an unlimited useful life and is therefore not subjected to depreciation.

In particular:

- the value of land was separated from buildings and amounts to €11 thousand. Such value was determined through an expert opinion;
- the value at January 1, 2004 of accumulated depreciation relating to land, equal to €8 thousand, was eliminated.

The adjustment, net of the related tax effect, resulted in a €3 thousand increase in the Shareholders' Equity at January 1, 2004.

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

Total adjustments amount to €2,301 thousand and consist of:

Employee benefits – Employee Severance Indemnity (note 4)	21
Elimination of accumulated depreciation on land (note 5)	25
Fair value valuation of land (note 6)	2,255
Total	2,301

Effect of the introduction of international accounting principles on the consolidated Shareholders' Equity: summary

The table that follows shows main changes in the consolidated Shareholders' Equity at January 1, 2004.

RECONCILIATION OF CONSOLIDATED SHAREHOLDERS' EQUITY AT JAN. 1, 2004		
(€ '000)	<i>Note</i>	
SHAREHOLDERS' EQUITY UNDER ITALIAN GAAP		41,027
Reclassification of own shares	2	(588)
Discounting of Employee Severance Indemnity	4	62
Elimination of accumulated depreciation relating to land	5	68
Revaluation of land	6	6,054
Tax effect	7	(2,301)
SHAREHOLDERS' EQUITY UNDER IAS/IFRS		44,322

EFFECT OF THE ADOPTION OF IFRS ON THE BALANCE SHEET AND INCOME STATEMENT AT DECEMBER 31, 2004

INCOME STATEMENT FOR THE YEAR ENDED DEC. 31, 2004

Below we report a reconciliation of the income statement for the year ended December 31, 2004 prepared under Italian GAAP and IAS/IFRS.

As a result of reclassifications and adjustments shown in the income statement reconciliation that follows, revenues decline from €65,310 thousand to €65,149 thousand, the operating profit from €8,024 thousand to €7,656 thousand, and net profit from €4,144 thousand to €3,830 thousand.

The income statement that follows was prepared under IFRS 1:

Income Statement for the year ended December 31, 2004

(€'000)	Reclassified Italian GAAP	Reclassification due to adoption of IAS/IFRS	Effect of adoption of IAS/IFRS	IAS/IFRS
		Note		Note
Revenues from sales and services provided	65,310	2	(161)	–
Other revenues	238	2	(30)	–
TOTAL REVENUES	65.548		(191)	–
Cost of goods and merchandise	(21,105)	2	3	–
Cost of services received	(10,496)	2-3	82	–
Lease and rental costs	(962)	2	(1)	–
Personnel costs	(19,796)	2	(6)	6 (406)
Other operating costs	(520)	2	200	–
Change in inventories	(349)		–	–
Increase in assets due to internal construction	345		–	–
Write-down of receivables	(141)		–	–
Accruals to provisions for risks and charges	(18)		–	–
GROSS OPERATING PROFIT	12.506		87	(406)
Tangible asset depreciation	(3,826)	1-2	(61)	5 18
Intangible asset amortization	(251)	1-3	(6)	–
Write-down of long-term assets	(405)		–	–
OPERATING PROFIT	8.024		20	(388)
Financial income (expense)	(213)	4	(84)	–
Foreign exchange gains (losses)	(96)		–	–
PROFIT BEFORE TAXES	7.715		(64)	(388)
Income taxes	(3,571)	2-4	11	5-6 127
NET PROFIT	4.144		(53)	(261)

NOTES

Reclassifications

1. The reclassification of leasehold improvement costs from “Intangible assets” to “Tangible assets”, resulted in the reclassification from the related amortization and depreciation amounting to €77 thousand.
2. As provided by IAS 1, extraordinary items, amounting under Italian GAAP to negative €29 thousand, were reclassified as follows:
 - *Revenues*: €161 thousand decline;
 - *Other operating revenues*: €30 thousand decline;
 - *Raw materials and consumables*: €3 thousand decline;
 - *Personnel costs*: €6 thousand decline;
 - *Cost of services received*: €1 thousand increase;
 - *Leases and rentals*: €1 thousand increase;
 - *Other operating costs*: €200 thousand decline;
 - *Tangible asset depreciation*: €16 thousand decline;
 - *Taxes*: €20 thousand increase;
3. The reclassification of the non-competition agreement underwritten by subsidiary General Marking among intangible assets, resulted in the reclassification of €33 thousand corresponding to the share for the period from “Cost of services received” to “Intangible asset amortization”.
4. Under IAS 32, revenues from the sale of own shares were netted from the income statement and recorded directly as an increase to the Shareholders’ Equity. This reclassification, equal to €4 thousand, resulted in a €3 thousand reduction in the profit for the year, net of the related tax effect.

Value adjustments

5. Under IAS 16, the value of land must be separated from that of buildings, as, contrary to the latter, land has an unlimited useful life and is not therefore subject to depreciation. The Group has therefore eliminated the depreciation expense relating to land for the year. The adjustment resulted in a €18 thousand reduction in tangible asset depreciation and a €7 thousand increase in taxes, representing the related tax effect.

6. The different accounting treatment of employee benefits involving the recalculation of the Employee Severance Indemnity using actuarial techniques, resulted in a €406 thousand increase in personnel costs, and a €134 thousand decline in taxes, representing the related tax effect.

Effect on consolidated net profit for 2004: summary

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

RECONCILIATION OF CONSOLIDATED NET PROFIT FOR 2004		
(€ '000)	Note	
NET PROFIT UNDER ITALIAN GAAP		4,144
Recording of revenues from sale of own shares under Shareholders' Equity	4	(84)
Elimination of land depreciation	5	18
Discounting of Employee Severance Indemnity	6	(406)
Tax effect of recording of revenues from sale of own shares under Shareholders' Equity	4	31
Tax effect of elimination of land depreciation	5	(7)
Tax effect of discounting of Employee Severance Indemnity	6	134
NET PROFIT UNDER IAS/IFRS		3,830

BALANCE SHEET AT DECEMBER 31, 2004

A summary consolidated balance sheet at December 31, 2004, reclassified by separating current and non-current assets and liabilities is provided below.

Balance Sheet at December 31, 2004

(€'000)	Reclassified Italian GAAP	Reclassification due to adoption of IAS/IFRS		Effect of adoption of IAS/IFRS		IAS/IFRS
		Note		Note		
ASSETS						
A) NON-CURRENT ASSETS						
Tangible assets	22,805	3	691	6-8	6,140	29,636
Intangible assets	807	1-3	(463)		–	344
Financial assets available for sale	5		–		–	5
Other non-current assets	436	2	(291)		–	145
Deferred tax assets	1,407		–	7-9	113	1,520
TOTAL NON-CURRENT ASSETS	25,460		(63)		6,253	31,650
B) CURRENT ASSETS						
Inventories	20,103		–		–	20,103
Trade receivables	19,474		–		–	19,474
Tax receivables	153		–		–	153
Other receivables	577	1	(372)		–	205
Cash and cash equivalents	6,507		–		–	6,507
TOTAL CURRENT ASSETS	46,814		(372)		–	46,442
C) NON-CURRENT ASSETS AVAILABLE FOR SALE						
TOTAL ASSETS(A+B+C)	72,274		(435)		6,253	78,092
LIABILITIES AND SHAREHOLDERS' EQUITY						
A) SHAREHOLDERS' EQUITY						
Capital stock	8,840		–		–	8,840
Reserves	30,815	2-5	(238)	6-7-8	3,883	34,460
Net profit	4,144		–		–	3,830
TOTAL SHAREHOLDERS' EQUITY	43,799		(238)		3,883	47,130
B) NON-CURRENT LIABILITIES						
Non-current financial liabilities	282		–		–	282
Employee Severance Indemnity and other personnel benefits	3,909		–	7	344	4,253
Provisions for risks and charges	311	4	(30)		–	281
Deferred tax liabilities	1,918		0	6-8-10	2,287	4,205
TOTAL CURRENT LIABILITIES	6,420		(30)		2,631	9,021

(€'000)	Reclassified Italian GAAP	Reclassification due to adoption of IAS/IFRS		Effect of adoption of IAS/IFRS		IAS/IFRS
		Note		Note		
C) CURRENT LIABILITIES						
Current financial liabilities	8,225	1	95		0	8.320
Liabilities on derivative instruments	0	4	30		0	30
Trade payables	7,471	1	(47)		0	7.424
Tax payables	2,717	1	(3)		0	2.714
Other payables	3,642	1	(189)		0	3.453
TOTAL CURRENT LIABILITIES	22,055		(114)		0	21,941
D) LIABILITIES ON ASSETS AVAILABLE FOR SALE						
TOTAL LIABILITIES (B+C+D)	28,475		(144)		2,631	30,962
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (A+B+C+D)	72,274		(382)		6,514	78,092

NOTES

Reclassifications

1. In compliance with IFRS, the residual amount relating to the non-competition agreement signed by subsidiary General Marking in the context of the acquisition of a business unit operating in the industrial marking sector (with a residual value of €227 thousand), formerly classified among prepaid expenses, was reclassified among intangible assets.

As international accounting standards do not provide for the recording under Shareholders' Equity of accrued income, prepaid expenses, accrued liabilities and deferred income, in the balance sheet prepared under IAS/IFRS, amounts previously recorded under current assets among "Other receivables" (amounting to a residual value of €62 thousand), and under current liabilities among "Other payables" (amounting to €150 thousand), were reclassified among other current liabilities items according to their nature.

2. Under Italian GAAP, own shares are recorded among assets and, against such recording, a reserve is accrued under Shareholders' Equity. Under IAS/IFRS own shares are instead recorded as a reduction of the Shareholders' Equity using, also in this case, a specific reserve. The different accounting treatment reduces, at December

31, 2004, the Shareholders' Equity by €291 thousand, against the elimination from assets of an equivalent amount relating to own shares, and the simultaneous recording of a negative reserve of the same amount (see "Statement of Changes in the Shareholders' Equity" on page 12).

3. Costs incurred in improvements made to assets leased (€91 thousand, net of the related accumulated depreciation), that meet the requirement of being identifiable and distinct from the asset to which they relate, were reclassified from "Intangible assets" to "Tangible assets".
4. The risk provision on interest rate swaps, amounting to €30 thousand, was reclassified under a specific item denominated "Financial liabilities on derivative instruments". This reflects the current value of the spread between cash flows from hedged loans and those from the hedging instrument.
5. As provided under IAS 32, revenues from the sale of own shares held are netted from the income statement and recorded directly as an increase in the Shareholders' Equity. This reclassification, net of the related tax effect, resulted in a reduction of the profit for the period of €53 thousand, while it had no effect on the Shareholders' Equity.

Value adjustments

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

In particular:

- the value of land was separated from buildings and amounts to €11 thousand;
 - the value at December 31, 2004 of accumulated depreciation relating to land, equal to €86 thousand, was eliminated. The adjustment, net of the related tax effect, resulted in a €4 thousand increase in the Shareholders' Equity at December 31, 2004.
7. Italian GAAP require the recording of the liability for the Employee Severance Indemnity on the basis of the nominal amount due at the date of the financial statements. IAS 19 classifies the Employee Severance Indemnity among post-employment benefits as a defined benefit plan. Such classification requires the liability accrued to be valued based on actuarial criteria, using the projected unit credit method which consists in the projection of future outflows on the basis of

historical data and the population curve, in addition to the discounting of these flows on the basis of a market interest rate. The application of such valuation method resulted in a €344 thousand increase in the value of the Employee Severance Indemnity at December 31, 2004, and a corresponding decrease in the Shareholders' Equity, net of the related tax effect, of €231 thousand.

8. Having assessed through an independent survey that the value of land recorded in the financial statements differed significantly from the market value of the same, as allowed under IFRS 1, in the transition to IAS land was recorded at its fair value at the date of the transition in place of cost. The resulting increase in the value of land is equal to €6,054 thousand, while the effect on the Shareholders' Equity, net of taxes, is equal to €3,799 thousand.
9. Adjustments to item "Deferred tax assets" are determined by the deferred tax effect generated by decreases in assets or increases in liabilities resulting from the introduction of IAS/IFRS. Total adjustments amount to €13 thousand (€34 thousand on the 2004 income statement and negative €21 million as initial effect at January 1, 2004) and relate to the tax effect of the increase in the Employee Severance Indemnity resulting from its discounting.
10. Adjustments to item "Deferred tax liabilities" are determined by the deferred tax effect generated by increases in assets or decreases in liabilities resulting from the introduction of IAS/IFRS. Total adjustments amount to €2,287 thousand and consist of:

Elimination of accumulated depreciation on land (note 6)	32
Fair value valuation of land (note 8)	2,255
Total	2,287

Effect of the adoption of IAS/IFRS on the Consolidated Shareholders' Equity: summary.

The table that follows shows main changes in the Consolidated Shareholders' Equity at December 31, 2004.

RECONCILIATION OF CONSOLIDATED SHAREHOLDERS' EQUITY AT DECEMBER 31, 2004		
(€'000)	Note	
SHAREHOLDERS' EQUITY UNDER ITALIAN GAAP		43,799
Reclassification of own shares	2	(291)
Elimination of accumulated depreciation relating to land	6	86
Discounting of Employee Severance Indemnity	7	(344)
Valuation of land at fair value	8	6,054
Tax effect of elimination of accumulated depreciation relating to land	6	(32)
Tax effect of discounting of Employee Severance Indemnity	7	113
Tax effect of valuation of land at fair value	8	(2,255)
SHAREHOLDERS' EQUITY UNDER IAS/IFRS		47,130

EFFECT OF THE ADOPTION OF IAS/IFRS ON THE NET FINANCIAL POSITION AT JANUARY 1, 2004 AND DECEMBER 31, 2004 – SUMMARY

The table that follows shows the effect of the adoption of IAS/IFRS commented above on the consolidated financial position of the Group at January 1, 2004 and December 31, 2004:

RECONCILIATION OF NET FINANCIAL POSITION	Jan. 1, 2004	Dec. 31, 2004
NET FINANCIAL POSITION UNDER ITALIAN GAAP	(7,471)	(1,709)
Netting of own shares	(588)	(291)
Reclassification of bank accrued expenses and deferred income	(91)	(95)
Reclassification of employee severance indemnity	–	(30)
NET FINANCIAL POSITION UNDER IAS/IFRS	(8,150)	(2,125)

The effect on the opening net financial position (at January 1, 2004) is due to the netting of own shares (€588 thousand) and the reclassification of bank accrued expenses and deferred income (€91 thousand).

Brescia, September 28, 2005

Carlo Rosani

*Chairman
CEMBRE S.P.A.*

Cembre S.p.A.

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

**TRANSITION TO INTERNATIONAL
ACCOUNTING PRINCIPLES
(IAS/IFRS)**

**Reconciliations required under IFRS 1
at June 30, 2004**

(Appendix B to the Half-year Report at June 30, 2005)

EFFECT OF THE ADOPTION OF IFRS ON THE FINANCIAL STATEMENTS AT JUNE 30, 2004

INCOME STATEMENT FOR THE FIRST SIX MONTHS OF 2004

Below we report a reconciliation of the income statement for the first six months of 2004, prepared under Italian GAAP and IAS/IFRS.

As a result of reclassifications and adjustments shown in the income statement reconciliation that follows, revenues decline from €33,502 thousand to €33,426 thousand, the operating profit from €3,995 thousand to €3,854 thousand, and net profit from €2,143 thousand to €2,026 thousand.

The income statement that follows was prepared under IFRS 1:

Income Statement for the first six months of 2004

(€)	Reclassified Italian GAAP	Reclassification due to adoption of IAS/IFRS		Effect of adoption of IAS/IFRS		IAS/IFRS
		Note		Note		
Revenues from sales and services provided	33,502	2	(76)		-	33,426
Other revenues	60	2	(11)		-	49
TOTALE RICAVI E PROVENTI	TOTAL		(87)		-	33,475
Cost of goods and merchandise	(10,727)	2	(1)		-	(10,728)
Cost of services received	(5,465)	2-3	37		-	(5,428)
Lease and rental costs	(477)	2	(1)		-	(478)
Personnel costs	(10,436)	2	1	5	(170)	(10,605)
Other operating costs	(258)	2	112		-	(146)
Change in inventories	(348)		-		-	(348)
Increase in assets due to internal construction	213		-		-	213
Write-down of receivables	(58)		-		-	(58)
Accruals to provisions for risks and charges	(3)		-		-	(3)
GROSS OPERATING PROFIT			61		(170)	5,894
Tangible asset depreciation	(1,895)	1	(38)	4	9	(1,924)
Intangible asset amortization	(113)	1-3	(3)		-	(116)
OPERATING PROFIT	3,995		20		(161)	3,854
Financial income (expense)	(192)		-	6	(14)	(206)
Foreign exchange gains (losses)	207		-		-	207
PROFIT BEFORE TAXES	4,010		20		(175)	3,855
Income taxes	(1,867)	2	(20)	4-5-6	58	(1,829)
NET PROFIT	2,143		-		(117)	2,026

NOTES

Reclassifications

1. The reclassification of leasehold improvement costs from “Intangible assets” to “Tangible assets”, resulted in the reclassification from the related amortization and depreciation amounting to €38 thousand.
2. As provided by IAS 1, extraordinary items, amounting under Italian GAAP to negative €89 thousand, were reclassified as follows:
 - *Revenues*: €76 thousand decline;
 - *Other operating revenues*: €1 thousand decline;
 - *Raw materials and consumables*: €1 thousand increase;
 - *Personnel costs*: €1 thousand decline;
 - *Cost of services received*: €4 thousand increase;
 - *Leases and rentals*: €1 thousand increase;
 - *Other operating costs*: €12 thousand decline;
 - *Taxes*: €20 thousand increase;
3. The reclassification of the non-competition agreement underwritten by subsidiary General Marking among intangible assets, resulted in the reclassification of €41 thousand corresponding to the share for the period from “Cost of services received” to “Intangible asset amortization”.

Value adjustments

4. Under IAS 16, the value of land must be separated from that of buildings, as, contrary to the latter, land has an unlimited useful life and is not therefore subject to depreciation. The Group has therefore eliminated the depreciation expense relating to land for the year. The adjustment resulted in a €9 thousand reduction in tangible asset depreciation and a €3 thousand increase in taxes, representing the related tax effect.
5. The different accounting treatment of employee benefits involving the recalculation of the Employee Severance Indemnity using actuarial techniques, resulted in a €70 thousand increase in personnel costs, and a €56 thousand decline in taxes, representing the related tax effect.

6. The recording at fair value of the interest rate swap in which the parent company is a counterpart resulted in a €14 thousand reduction in Financial income (expense) and a related tax effect amounting to €5 thousand.

Effect on consolidated net profit for the first six months of 2004: summary

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

RECONCILIATION OF CONSOLIDATED NET PROFIT FOR THE FIRST SIX MONTHS OF 2004		
(€'000)	Note	
NET PROFIT UNDER ITALIAN GAAP		2,143
Elimination of land depreciation	4	9
Discounting of Employee Severance Indemnity	5	(170)
Fair value valuation of interest rate swap	6	(14)
Tax effect of elimination of land depreciation	4	(3)
Tax effect of discounting of Employee Severance Indemnity	5	56
Tax effect of fair value valuation of interest rate swap	6	5
NET PROFIT UNDER IAS/IFRS		2,026

BALANCE SHEET AT JUNE 30, 2004

A summary consolidated balance sheet at June 30, 2004, reclassified by separating current and non-current assets and liabilities is provided below.

Balance Sheet at June 30, 2004

(€'000)	Reclassified Italian GAAP	Reclassification due to adoption of IAS/IFRS		Effect of adoption of IAS/IFRS		IAS/IFRS
		Note		Note		
ASSETS						
A) NON-CURRENT ASSETS						
Tangible assets	24,272	3	723	4-6	6,131	31,126
Intangible assets	1,269	1-3	(454)		—	815
Financial assets available for sale	5		—		—	5
Other non-current assets	753	2	(574)		—	179
Deferred tax assets	1,375		—	5-7-8	40	1,415
TOTAL NON-CURRENT ASSETS	27,674		(305)		6,171	33,540

(€ '000)	Reclassified Italian GAAP	Reclassification due to adoption of IAS/IFRS		Effect of adoption of IAS/IFRS		IAS/IFRS
		Note		Note		
B) CURRENT ASSETS						
Inventories	20,427		–		–	20,427
Trade receivables	21,034		–		–	21,034
Tax receivables	13		–		–	13
Other receivables	723	1	(665)		–	58
Cash and cash equivalents	5,032		–		–	5,032
TOTAL CURRENT ASSETS	47,229		(665)		–	46,564
C) NON-CURRENT ASSETS AVAILABLE FOR SALE						
TOTAL ASSETS(A+B+C)	74,903		(970)		6,171	80,104
LIABILITIES AND SHAREHOLDERS' EQUITY						
A) SHAREHOLDERS' EQUITY						
Capital stock	8,840		–		–	8,840
Reserves	31,193	2	(574)	4-5-6	3,883	34,502
Net profit	2,143					2,026
TOTAL SHAREHOLDERS' EQUITY	42,176		(574)		3,883	45,368
B) NON-CURRENT LIABILITIES						
Non-current financial liabilities	2,747		–		–	2,747
Employee Severance Indemnity and other personnel benefits	3,736		–	5	107	3,843
Provisions for risks and charges	274		–		–	274
Deferred tax liabilities	1,949		–	4-6-9	2,284	4,233
TOTAL CURRENT LIABILITIES	8,706		–		2,391	11,097
C) CURRENT LIABILITIES						
Current financial liabilities	9,165	1	62		–	9,227
Liabilities on derivative instruments	–		–	7	14	14
Trade payables	8,388	1	(129)		–	8,259
Tax payables	2,226	1	(8)		–	2,218
Other payables	4,242	1	(321)		–	3,921
TOTAL CURRENT LIABILITIES	24,021		(396)		14	23,639
D) LIABILITIES ON ASSETS AVAILABLE FOR SALE						
TOTAL LIABILITIES (B+C+D)	32,727		(396)		2,405	34,736
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (A+B+C+D)	74,903		(970)		6,288	80,104

NOTES

Reclassifications

1. In compliance with IFRS, the residual amount relating to the non-competition agreement signed by subsidiary General Marking in the context of the acquisition of a business unit operating in the industrial marking sector (with a residual value of €269 thousand), formerly classified among prepaid expenses, was reclassified among intangible assets.

As international accounting standards do not provide for the recording under Shareholders' Equity of accrued income, prepaid expenses, accrued liabilities and deferred income, in the balance sheet prepared under IAS/IFRS, amounts previously recorded under current assets among "Other receivables" (amounting to a residual value of €96 thousand), and under current liabilities among "Other payables" (amounting to €14 thousand), were reclassified among other current liabilities items according to their nature.

2. Under Italian GAAP, own shares are recorded among assets and, against such recording, a reserve is accrued under Shareholders' Equity. Under IAS/IFRS own shares are instead recorded as a reduction of the Shareholders' Equity using, also in this case, a specific reserve. The different accounting treatment reduces, at June 30, 2004, the Shareholders' Equity by €574 thousand, against the elimination from assets of an equivalent amount relating to own shares, and the simultaneous recording of a negative reserve of the same amount (see "Statement of Changes in the Shareholders' Equity").
3. Costs for improvements to assets leased (€723 thousand, net of the related accumulated depreciation), that meet the requirement of being identifiable and distinct from the asset to which they relate, were reclassified from "Intangible assets" to "Tangible assets".

Value adjustments

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

In particular:

- the value of land was separated from buildings and amounts to €11 thousand;
 - the value at June 30, 2004 of accumulated depreciation relating to land, equal to €77 thousand, was eliminated. The adjustment, net of the related tax effect, resulted in a €48 thousand increase in the Shareholders' Equity at June 30, 2004.
5. Italian GAAP require the recording of the liability for the Employee Severance Indemnity on the basis of the nominal amount due at the date of the financial statements. IAS 19 classifies the Employee Severance Indemnity among post-employment benefits as a defined benefit plan. Such classification requires the liability accrued to be valued using actuarial criteria, using the projected unit credit method which consists in the projection of future outflows on the basis of historical data and the population curve, in addition to the discounting of these flows on the basis of a market interest rate. The application of such valuation method resulted in a €107 thousand increase in the value of the Employee Severance Indemnity at June 30, 2004, and a corresponding decrease in the Shareholders' Equity, net of the related tax effect, of €72 thousand.
 6. Having assessed through an independent survey that the value of land recorded in the financial statements differed significantly from the market value of the same, as allowed under IFRS 1, in the transition to IAS land was recorded at its fair value at the date of the transition in place of cost. The resulting increase in the value of land is equal to €6,054 thousand, while the effect on the Shareholders' Equity, net of taxes, is equal to €3,799 thousand.
 7. As provided by IAS 32, the interest rate swap in which Cembre is a counterpart is recorded at fair value (€14 thousand) under current liabilities among "Liabilities on derivative instruments", with the parallel recording of €5 thousand of deferred tax assets.
 8. Adjustments to item "Deferred tax assets" are determined by the deferred tax effect generated by increases in assets or decreases in liabilities resulting from the introduction of IAS/IFRS. Total adjustments amount to €40 thousand and consist of:

Discounting of Employee Severance Indemnity (note 5)	35
Fair value valuation of interest rate swap (note 7)	5
Total	40

9. Adjustments to item “Deferred tax liabilities” are determined by the deferred tax effect generated by increases in assets or decreases in liabilities resulting from the introduction of IAS/IFRS. Total adjustments amount to €2,284 thousand and consist of:

Elimination of accumulated depreciation on land (note 4)	29
Fair value valuation of land (note 6)	2,255
Total	2,284

Effect of the adoption of IAS/IFRS on the Consolidated Shareholders’ Equity: summary.

The table that follows shows main changes in the Consolidated Shareholders’ Equity at June 30, 2004.

RECONCILIATION OF CONSOLIDATED SHAREHOLDERS’ EQUITY AT JUNE 30, 2004		
(€'000)	Note	
SHAREHOLDERS’ EQUITY UNDER ITALIAN GAAP		42,176
Reclassification of own shares	2	(574)
Elimination of accumulated depreciation relating to land	4	77
Discounting of Employee Severance Indemnity	5	(107)
Valuation of land at fair value	6	6,054
Fair value valuation of interest rate swap	7	(14)
Tax effect of elimination of accumulated depreciation relating to land	4	(29)
Tax effect of discounting of Employee Severance Indemnity	5	35
Tax effect of valuation of land at fair value	6	(2,255)
Tax effect of fair value valuation of interest rate swap	7	5
SHAREHOLDERS’ EQUITY UNDER IAS/IFRS		45,368

EFFECT OF THE ADOPTION OF IAS/IFRS ON THE NET FINANCIAL POSITION AT JUNE 30, 2004

The table that follows shows the effect of the adoption of IAS/IFRS commented above on the consolidated financial position of the Group at June 30, 2004:

RECONCILIATION OF NET FINANCIAL POSITION	June 30, 2004
NET FINANCIAL POSITION UNDER ITALIAN GAAP	(6,306)
Netting of own shares	(574)
Reclassification of bank accrued expenses and deferred income	(62)
Fair value valuation of interest rate swap	(14)
NET FINANCIAL POSITION UNDER IAS/IFRS	(6,956)

Brescia, September 28, 2005

Carlo Rosani

Chairman
CEMBRE S.P.A.

**Auditors' Report on the review of the Half-Yearly Management Report, drawn up in compliance with Art. 81 of CONSOB (Italian Stock Exchange Regulatory Agency) regulations as approved in Resolution No. 11971 of 14 May 1999, as subsequently amended and supplemented.
(Translation from the original Italian Version)**

To the Shareholders of
Cembre S.p.A.

1. We have performed the review of the Consolidated Balance Sheet and Consolidated Statement of Income (the "Statements") and related Notes, included in the Management Report of Cembre S.p.A. for the six months period ended 30 June, 2005. The Management Report is the responsibility of Cembre S.p.A.'s management. Our responsibility is to issue the present report based on our review. We have also reviewed that part of the financial information presented by the Board of Directors in the Management Report in respect of their discussions and analyses of the consolidated operations of Cembre S.p.A., solely for the purpose of evaluating its consistency with the remaining part of the Management Report.
2. Our review was conducted in accordance with auditing standards governing the review of interim financial statements recommended by CONSOB (the Italian Stock Exchange Regulatory Agency) in its Resolution No. 10867 of 31 July 1997. A review consists mainly of obtaining information with respect to the accounts included in the Statements and the consistency of the accounting principles applied, through discussions with appropriate members of management, and analytical procedures applied to the financial data presented in such Statements. A review does not include performing auditing procedures such as tests of compliance of internal controls and substantive procedures on assets and liabilities. Consequently, the scope of a review engagement provides significantly less assurance than a full scope audit performed in accordance with generally accepted auditing standards. Accordingly, we do not express an audit opinion on the Management Report of Cembre S.p.A. as of and for the six months period ended 30 June 2005, as we do in connection with reporting on our full scope audit of the annual consolidated financial statements of Cembre S.p.A..
3. With respect to the comparative data relating to the consolidated financial statements for the previous financial year reference should be made to our report issued on 29 September 2005.

The comparative data for the half-yearly report of the previous year, restated in compliance with IFRS and the relevant IFRS reconciliation statements, derive from the interim financial statements drawn up in accordance with the law provisions and accounting standards formerly in force, which we had previously reviewed, and with regard to which reference should be made to our report issued on 30 September 2004.

4. Based on our review, we did not become aware of any significant modifications that should be made to the Statements and related notes, identified in paragraph 1 of this report, in order for them to be in conformity with the criteria for the presentation of the half-yearly Management Report, pursuant to Art. 81 of CONSOB Regulations as approved in its Resolution No. 11971 of 14 May 1999, as subsequently amended and supplemented.
5. It should be noted that the accounting standards adopted in presenting the non-consolidated Parent Company's data relating to the six month period ended 30 June 2005, enclosed to the consolidated half-yearly Management Report of Cembre S.p.A. at 30 June 2005, were drawn up in accordance with the law provisions and accounting standards formerly in force, as allowed by applicable regulations.
6. Furthermore, as illustrated in the introductory chapter of explanatory notes, the half-yearly Management Report at 30 June 2005 was drawn up on the basis of the criteria currently in force, which are assumed to be the same criteria that will be adopted in preparing the consolidated financial statements at 31 December 2005. However, such standards may not coincide with those that will be applicable as at 31 December 2005, as a consequence of changes in the European Commission's view with regard to their ratification, or new standards or interpretations being issued by the competent authorities.

Brescia, 29 September 2005

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

Independent Auditors' Report on the IFRS reconciliation statements illustrating the effects of the transition to the International Financial Reporting Standards (IFRS)
(Translation from the original Italian Version)

To the Board of Directors
of Cembre S.p.A.

1. We have audited the enclosed reconciliation statements, consisting of the consolidated balance sheets as at 1 January 2004 and 31 December 2004, the consolidated statement of income for the financial year ended 31 December 2004, as well as the reconciliation in consolidated shareholders' equity as at 1 January 2004 and 31 December 2004, and the consolidated result of operations for the financial year ended 31 December 2004 (hereinafter, the "IFRS reconciliation statements) of Cembre Group, as well as the relevant explanatory notes, set forth in the Appendix A "Transizione ai principi IAS/IFRS" of the report for the six months period ended 30 June 2005. Said IFRS reconciliation statements derive from the consolidated Financial Statements of Cembre S.p.A as of and for the year ended 31 December 2004, drawn up in compliance with the Italian regulations governing financial statements, with regard to which we performed our audit and issued our report on 24 March 2005. The IFRS reconciliation statements were prepared within the scope of the transition process to the International Financial Reporting Standards (IFRS) ratified by the European Commission. The IFRS reconciliation statements are the responsibility of Cembre S.p.A.'s management. Our responsibility is to express an opinion on these statements based on our audit.
2. Our audit was made in accordance with generally accepted auditing standards and procedures. In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the IFRS reconciliation statements are materially misstated. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the IFRS reconciliation statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the IFRS reconciliation statements identified in paragraph 1 above, taken as a whole, have been drawn up in compliance with the standards and criteria set forth by Art. 81 of the Issuers' Regulations No. 11971/1999 as approved by CONSOB (the Italian Stock Exchange Regulatory Agency) in its Resolution No. 14990 of 14 April 2005.

4. We would like to draw your attention to the fact that, as illustrated in introductory chapter, since the IFRS reconciliation statements were drawn up to the sole purpose of the transition plan for the preparation of the first complete consolidated financial statements according to the IFRS ratified by the European Commission, they do not include any comparative data or the explanatory notes that would be required to provide a reliable representation of the consolidated financial position of Cembre Group and the consolidated result of its operations in compliance with IFRS.
5. Moreover, as illustrated in introductory chapter, it should be pointed out that the data shown in the IFRS reconciliation statements will be used as comparative in the first complete consolidated financial statements according to the IFRS and may be subject to some variations, which may be required in the event that any international accounting standard is reviewed or modified before the publication of said financial statements.

Brescia, 29 September 2005

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