



## ANNUAL REPORT 2004



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**CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2004**

(THE CONSOLIDATED FINANCIAL STATEMENTS  
HAVE BEEN TRANSLATED FROM THOSE ISSUED IN ITALY  
FROM THE ITALIAN INTO ENGLISH LANGUAGE  
SOLELY FOR THE CONVENIENCE OF INTERNATIONAL READERS)

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**I . M . A .** I N D U S T R I A M A C C H I N E A U T O M A T I C H E S . P . A .  
A N D S U B S I D I A R I E S

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**REPORT ON OPERATIONS**  
**CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2004**  
(TRANSLATION FROM THE ORIGINAL ISSUED IN ITALIAN)

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**I . M . A .** I N D U S T R I A M A C C H I N E A U T O M A T I C H E S . P . A .  
A N D S U B S I D I A R I E S

## **DIRECTORS AND OFFICERS**

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(In accordance with CONSOB recommendation no. 97001574 of February 20, 1997)

The Board of Directors' Meeting has powers to resolve upon matters which cannot be delegated by law, and is entitled to resolve exclusively on the following:

- Company's strategic, industrial, financial plans, and any decision regarding the Group company structure;
- any economic and financial transaction being materially relevant to the Company and not exceeding €10,000,000.00, with the only exception of the renewal or extension of credit facilities granted to the Company which can be delegated;
- any transactions to be made with related parties, with the sole exception of the transactions to be made with its subsidiaries regarding which the Board should always approve any economic and financial transaction being materially significant.

## **BOARD OF DIRECTORS**

(In office until approval of the financial statements as of December 31, 2005)

### **CHAIRMAN AND MANAGING DIRECTOR**

Marco Vacchi

*Powers:* legal representation and signature powers in accordance with article 22 of the Articles of Association;

*Delegated powers:* all powers of ordinary and extraordinary administration, excluding the following powers:

- to transfer or receive for whatever purpose or reason, shares or interests in companies, associations or entities, lines of business, businesses or combinations of businesses and real estate of any kind, except for the power to rent or rent out real estate for periods not exceeding nine years;
- to give secured or other guarantees, and give sureties or letters of patronage, except (in relation to the sureties and letters of patronage) for those given on behalf of direct or indirect subsidiaries of the Company;
- to give life estate (right of use) over the assets of the Company.

### **MANAGING DIRECTOR**

Alberto Vacchi

*Delegated powers* all powers of ordinary and extraordinary administration, excluding the following powers:

- to transfer or receive for whatever purpose or reason, shares or interests in companies, associations or entities, lines of business, businesses or combinations of businesses and real estate of any kind;
- to give secured or other guarantees, and give sureties or letters of patronage, except (in relation to the sureties and letters of patronage) for those given on behalf of direct or indirect subsidiaries of the Company;
- to give life estate (right of use) over the assets of the Company.

**DIRECTOR WITH POWERS**

Andrea Malagoli

*Delegated powers:*

- banking operations;
- signing of contracts, arrangement and administration of insurances with any insurance institution or entity covering all types of risk;
- representing the Company before civil, administrative and judicial authorities or entities at any level, as well as before any fiscal authority or fiscal tribunal;
- representing the Company for all transactions regarding the shipment, release and collection of valuables and goods.

**DIRECTORS**

Gino Benedetti, Paolo Braghieri (appointed by the Board of Directors in the meeting of 12 November 2004), Paolo Dari, Italo Giorgio Minguzzi, Luca Poggi, Maria Carla Schiavina, Gianluca Vacchi, Stefano Visentini, Romano Volta.

**BOARD OF STATUTORY  
AUDITORS**

(in office until December 31, 2006)

**STATUTORY AUDITORS**

Giorgio Comini – Chairman - Auditor

Amedeo Cazzola - Auditor

Piero Aicardi - Auditor

**ALTERNATE STATUTORY AUDITORS**

Vittorio Coraducci - Auditor

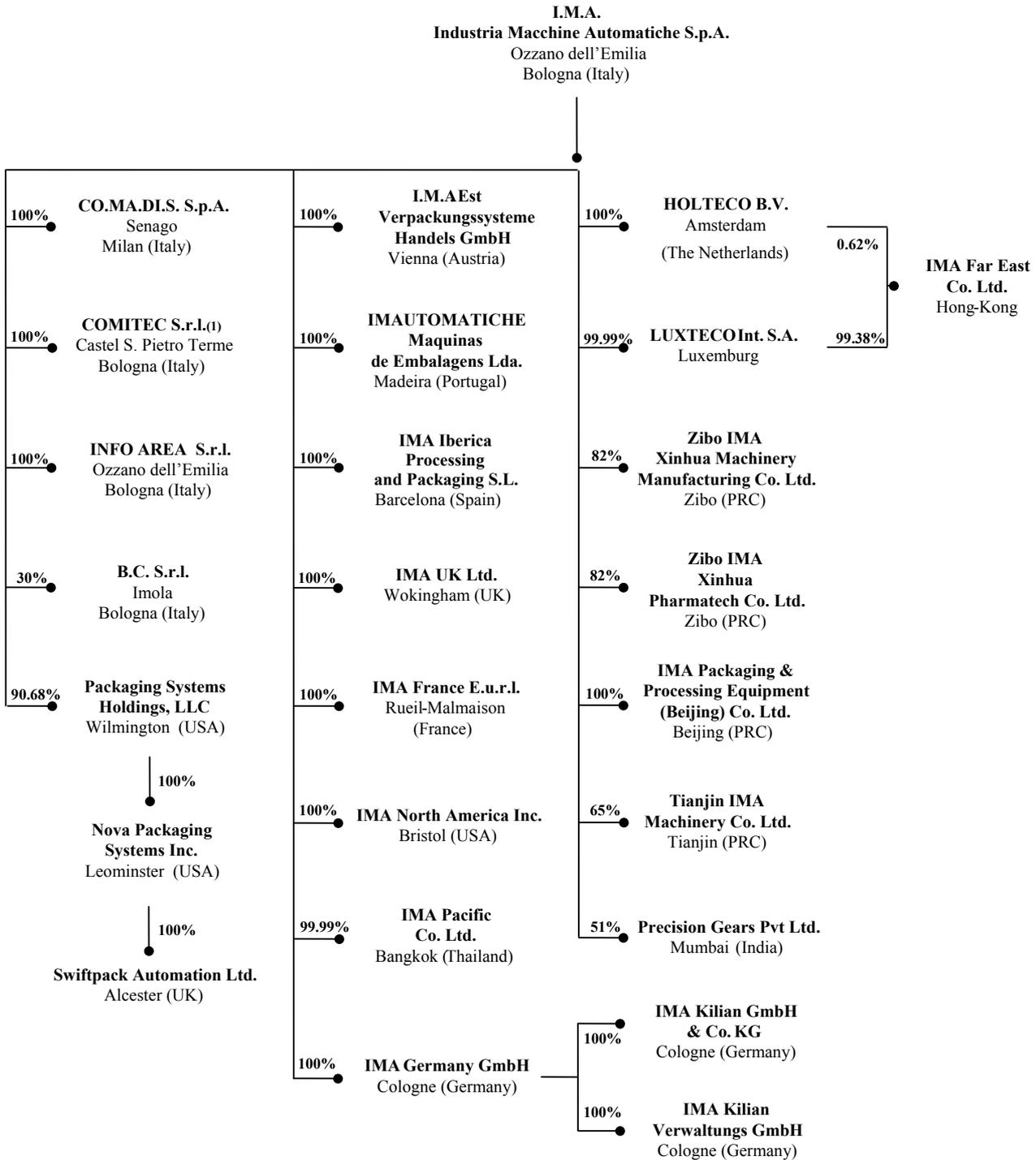
Chiara Gallina - Auditor

Antonella Grassigli - Auditor

**INDEPENDENT AUDITORS**

PricewaterhouseCoopers S.p.A.

GROUP STRUCTURE



(1) Company absorbed by IMA S.p.A. with effect from January 1, 2005

GROUP COMPANIES BY BUSINESS ACTIVITY

**MANUFACTURING  
ACTIVITIES**

**I.M.A.  
Industria Macchine  
Automatiche S.p.A.**  
Ozzano dell'Emilia  
Bologna (Italy)

**CO.MA.DI.S. S.p.A.**  
Senago – Milan (Italy)

**B.C. S.r.l.**  
Imola – Bologna (Italy)

**IMA Kilian GmbH & Co. KG**  
Cologne (Germany)

**Precision Gears Pvt Ltd.**  
Mumbai (India)

**Zibo IMA  
Xinhua Machinery  
Manufacturing Co. Ltd.**  
Zibo (PRC)

**Zibo IMA  
Xinhua Pharmatech Co. Ltd.**  
Zibo (PRC)

**Tianjin IMA  
Machinery Co. Ltd.**  
Tianjin (PRC)

**Nova Packaging  
Systems Inc.**  
Leominster (USA)

**Swiftpack Automation Ltd.**  
Alcester (UK)

**COMMERCIAL  
ACTIVITIES**

**IMA Germany GmbH**  
Cologne (Germany)

**I.M.A. Est  
Verpackungssysteme  
Handels GmbH**  
Vienna (Austria)

**IMA France E.u.r.l.**  
Rueil-Malmaison (France)

**IMA UK Ltd.**  
Wokingham (UK)

**IMAUTOMATICHE  
Maquinas de Embalagens Lda.**  
Madeira (Portugal)

**IMA Iberica  
Processing and Packaging S.L.**  
Barcelona (Spain)

**IMA North America Inc.**  
Bristol (USA)

**IMA Far East Co. Ltd.**  
Hong-Kong

**IMA Packaging and  
Processing Equipment  
(Beijing) Co. Ltd.**  
Beijing (PRC)

**IMA Pacific Co. Ltd.**  
Bangkok (Thailand)

**OTHER ACTIVITIES**

**INFO AREA S.r.l.**  
Ozzano dell'Emilia  
Bologna (Italy)

**COMITEC S.r.l. (1)**  
Castel S. Pietro Terme  
Bologna (Italy)

**IMA Kilian  
Verwaltungs GmbH**  
Cologne (Germany)

**FINANCIAL ACTIVITIES**

**Luxteco International S.A.**  
Luxembourg

**HOLTECO B.V.**  
Amsterdam (the Netherlands)

**Packaging Systems  
Holdings LLC**  
Wilmington (USA)

*(1) Company absorbed by IMA S.p.A. with effect from January 1, 2005*

## SECTORS OF ACTIVITY

I.M.A. Industria Macchine Automatiche S.p.A. is listed in the S.T.A.R. segment of Borsa Italiana S.p.A.'s screen-traded market. The Company designs, manufactures and sells plant and machinery principally for the pharmaceutical and cosmetics sectors and for the packaging of tea bags. In addition, IMA is the holding company for a Group of industrial, commercial and service companies that also operate in the above sectors.

### TEA, COFFEE AND HERBAL TEA PACKAGING

#### PRODUCTS

Machines for the packaging of tea and herbs in filter bags and the packaging of coffee in pods.

#### FACTORIES

Factory located in Ozzano dell'Emilia (Bologna) – Italy

#### MAIN COMPANIES

IMA S.p.A. – Tea Division

#### MARKETS

Producers of tea bags, herbal drinks and coffee. Dominance of Multinational Groups that, however, leave room for local operators to focus with success on specific segments and/or markets. In geographic terms, demand is still heavily concentrated in Europe and North America.

### PHARMACEUTICALS PACKAGING

#### PRODUCTS

Machines for the packaging of capsules and tablets in blisters and bottles, for the filling of bottles and vials with liquid products and powders, under both sterile and non-sterile conditions, for cartoning and for end-of-line activities.

#### FACTORIES

Factories located in:

- Ozzano dell'Emilia (Bologna) – Italy
- Bentivoglio (Bologna) – Italy
- Calenzano (Florence) – Italy
- Senago - Milan (Italy)
- Mumbai and Indore – India
- Leominster – USA
- Alcester - UK

#### MAIN COMPANIES

- IMA S.p.A. – Blister, Win.Pack, Aseptic filling and processing Divisions, production of machines for cartoning and end-of-line activities.
- Nova Packaging Systems Inc. – production of slat counters
- Swiftpack Automation Ltd. – production of electronic tablet counters
- CO.MA.DI.S. S.p.A. – production of tube-filling machines

- Precision Gears Pvt. Ltd. (Mumbai) production of blister and cartoning machines, mainly for the emerging nations.

## MARKETS

The pharmaceuticals industry represents by far the largest market, while the cosmetics market is growing. Both sectors are dominated by multinational groups, although the activities of fast-growing local businesses cannot be overlooked, particularly in the field of biotechnology. In geographic terms, demand mostly comes from North America and Europe, although there is also strong growth in the demand from emerging nations in the Far East.

## PHARMACEUTICALS PROCESSING

### PRODUCTS

Machines for the production of tablets and capsules, and for coating, as well as fluid-bed granulators.

### FACTORIES

Factories located in:

- Ozzano dell'Emilia (Bologna) – Italy
- Cologne (Germany)
- Zibo – People's Republic of China

### MAIN COMPANIES

- IMA S.p.A. - Solid dose division
- IMA Kilian GmbH & Co. KG – production of tablet pressing machines.
- Zibo IMA Xinhua Machinery Manufacturing Co. Ltd. and Zibo IMA Xinhua Pharmatech Co. Ltd. – assembly of machines.

## MARKETS

Prevalence of the pharmaceutical and health-food industries, with important prospects offered by the detergents, foods, engineering and ceramics industries. The health food industry mainly comprises local operators that are experiencing strong growth.

## OTHER ACTIVITIES

The Group is completed by a number of largely commercial companies dedicated to serving the sectors of activity referred to above.

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## GROUP PERFORMANCE

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### INTRODUCTION

Dear Fellow Stockholders,

in international economy 2004 was one of the highest-growth year over three decades: worldwide gross domestic product rose by 4.7% (3.4% in 2003), while the expansion of world trade neared 10% (5.5% in 2003). The recovery in 2004 was mainly driven by the US (+4.4%) and Asia (+7.2%). In China, despite the cooling-off measures adopted during the year, growth was more than 9.5%, marking the best achievement since 1996. Japanese GDP performance almost reached 3% thanks to a good first quarter followed by a marked slow-down later in the year. The economies in Latin America benefited from the strength of US and Asiatic development, and had the best expansion year (+5.5%) since 1980. The improvement in international economic condition helped to drive Europe out of the stagnation of 2002-03; recovery in the euro-zone was still moderate (the GDP is estimated to have increased by 1.8%, after a 0.5% increase in the prior year) and still lower than growth potentials in the area (an estimate of about 2%).

The positive performance of the prior year, which saw high development accompanied by a moderate inflation rate, was achieved in spite of an increase in the international prices of raw materials and the effects of US instability on currency markets. With specific regard to the rise in the price of raw materials, with steel prices 50% higher than the 2003 average and Brent crude oil prices far higher than 50 US Dollars a barrel, this performance has had little impact on our industry, which is marked by a modest absorption of energy raw materials, while the overall amount of raw materials used (ferrous and non-ferrous metals included) accounts for less than 3% of net revenues. The impact of the instability of Euro-US dollar exchange rates on the industry margins is different. Concerns were raised over instability, rather than the absolute value of the Euro-US dollar exchange rate, because it thwarts the margin recoveries resulting from the increases in US dollar price lists. If on one side, thanks to the structure of our industry, which is dominated by producers in the euro-zone, prices can be easily adjusted to the new exchange rates, on the other side new prices will produce effects later than when they are determined, because they do not apply to offers already made to clients (an average of more than 8 months of orders). In 2005 this will not be recovered owing to an additional depreciation of the US currency. At the end of December, the US dollar was above €1.36, and current price lists in US dollars comply with that exchange rate. The US dollar is estimated to be weak in the first part of 2005. Then, following the opposite behavior of US and EU monetary authorities, and signs pointing to an improvement in the US public finances, there might be a turnaround. The US dollar might be strengthening during the last months of 2005 and in 2006.

In this scenario, forecasts for 2005 are affected by a modest worldwide growth. The slowdown, considering the cyclical peak of 2004, should be modest, and should still benefit from a significant support from emerging areas and, more specifically, Asia.

Turning to the sectors of specific interest to the IMA Group, provisional data for the pharmaceutical industry indicates a 7% rise in the sale of pharmaceuticals in 2004, with US\$550 million, compared with 9% in 2003, both on a constant US dollar basis. Even though the development rate of the pharmaceutical industry is steady, 2004 marked a sharp slowdown, mainly in North America, the European Union and Japan, which represent more than 85% of worldwide medicine consumption. In

these areas, demand was affected by pressures and uncertainties due to prices and concerns over the efficiency/safety of some widespread products and stricter statutory laws. Specifically, government agencies and insurance focused on healthcare cost control, and this has boosted the distribution of general products, which in countries like the US, Germany, Canada and the UK account for more than 30% of pharmaceuticals consumed as volume (some 10% in other countries). Nevertheless, 2004 growth in these areas (North America +8%; E.U. +6%; Japan +1.5%) was the result of a demand which is far from being overstocked, owing to underlying demographic elements. The situation in emerging countries was dramatically different, where pharmaceutical expenditure is far from reaching the expenditure in OECD countries, but as pharmaceuticals are not a primary need, demand is subject to macroeconomical cycles. Thanks to the positive trend of world economy in 2004, sale of pharmaceuticals was very strong in these areas and in Asia, Japan excluded, up 13%, with a peak of 28% in China. However, it accounts for less than 2% of worldwide consumption of pharmaceuticals (US\$9.5 billion). Sale of pharmaceuticals was also very strong in Latin America (+13.4%), after a marked contraction in 2003; in Eastern Europe the growth rate was approximately 12.5%, quite in line with that for 2003.

Demand for plant and machinery from the pharmaceutical industry reflects the performance of sale of pharmaceutical, even though at a later stage. EU demand was weak, partly due to production rationalization measures resulting from business concentrations in the recent past. US demand is moderately growing. Demand from South-East Asia and China had a sharp rise, after suffering the consequences of the SARS epidemic in 2003. Demand from the Middle East grew significantly as well. In South America demand was still held back by production plants, which can address an upswing in the sale of pharmaceuticals. However, later in the year, there was a weak upturn in orders in this area.

The market of tea-packaging machines was marked for the third consecutive year by a positive performance of demand from Eastern and Western Europe. The North American corporations' growing interest for coffee pods machines is a confirmation of the high potentials of this market, which our Group has accessed lately and for which its has proposed very innovative solutions.

## CONSOLIDATED STATEMENT OF INCOME

The Group ended 2004 with net income of €13.30 million, down €5.66 million from 2003.

The following table sets out on a comparative basis the most significant figures from the Group's 2004 reclassified statement of income:

millions of euros	2004		2003		Change %
	Amount	%	Amount	%	
<b>Net revenues</b>	<b>371.10</b>		<b>351.33</b>		<b>5.6</b>
Cost of sales	(222.69)		(201.79)		
<b>Gross industrial income</b>	<b>148.41</b>	<b>40.0</b>	<b>149.54</b>	<b>42.6</b>	<b>(0.8)</b>
R&D costs	(17.35)		(18.21)		
Selling costs	(45.93)		(42.13)		
General and administrative costs	(47.78)		(44.87)		
<b>(E.B.I.T.A.)*</b>	<b>37.35</b>	<b>10.1</b>	<b>44.33</b>	<b>12.6</b>	<b>(15.7)</b>
Amortization of goodwill and goodwill arising on consolidation	(5.35)		(5.08)		
<b>Net operating income</b>	<b>32.00</b>	<b>8.6</b>	<b>39.25</b>	<b>11.2</b>	<b>(18.5)</b>
Net financial income (expense)	(4.18)		(4.01)		
Adjustments to the value of financial assets and dividends	0.10		0.01		
Extraordinary items, net	–		0.93		
<b>Result before income taxes</b>	<b>27.92</b>	<b>7.5</b>	<b>36.18</b>	<b>10.3</b>	<b>(22.8)</b>
Income taxes	(14.21)		(16.92)		
<b>Total net income including minority interests</b>	<b>13.71</b>	<b>3.7</b>	<b>19.26</b>	<b>5.5</b>	<b>(28.8)</b>
Minority interests	(0.41)		(0.30)		
<b>Group's net income for the year</b>	<b>13.30</b>	<b>3.6</b>	<b>18.96</b>	<b>5.4</b>	<b>(29.9)</b>
<b>Gross operating income (E.B.I.T.D.A.)</b>	<b>47.87</b>	<b>12.9</b>	<b>54.90</b>	<b>15.6</b>	<b>(12.8)</b>
<b>Order book</b>	<b>158.62</b>		<b>151.45</b>		<b>4.7</b>

\* Net operating income before amortization of goodwill and goodwill arising on consolidation

#### NET REVENUES BY SECTOR

millions of euros	2004		2003		Change %
	Amount	%	Amount	%	
Tea, coffee and herbal tea packaging	65.69	17.7	56.96	16.2	15.3
Pharmaceuticals packaging	202.09	54.5	208.52	59.4	(3.1)
Pharmaceuticals processing	103.32	27.8	85.85	24.4	20.3
<b>Total</b>	<b>371.10</b>	<b>100.0</b>	<b>351.33</b>	<b>100.0</b>	<b>5.6</b>

Net revenues rose by 5.6% from 2003, but it must be considered that the consolidation area of the IMA Group expanded in the last quarter of 2004 and included the Nova Group (i.e.: Packaging Systems Holdings LLC – with registered offices in Delaware, USA – which controls Nova Packaging Systems Inc. – with registered offices in Massachusetts, USA – which in turn controls the British Swiftpack Automation Ltd.), which was purchased at the end of September 2004. The Nova Group brought net revenues of €6.62 million from pharmaceuticals packaging. Accordingly, on a consistent comparative basis, Group net revenues rose by 3.7%. The increase would have been 6.0% if the US dollar-Euro exchange rate was consistent with the 2003 average exchange rate. If revenues denominated in US dollars (20% of total revenues) were translated at the 2003 average exchange rate (1.068 US dollars for one euro), instead of the 2004 final exchange rate (1.19), net revenues denominated in euros would have been greater by some €8.0 million. The gradual and relevant weakening of the US dollar against the euro was addressed by implementing a successful policy for hedging orders denominated in US dollars (the average exchange rate US dollar-euro for 2004 was 1.243) and by repeatedly adjusting prices in US dollars, which was possible because competitors are in the euro-zone. Given the time span between offer and order, changes in prices give their effects a long time after they were applied.

The performance of revenues by sector is discussed in detail in the section entitled “Analysis of performance by sector”. However, in this regard:

- revenues of the tea, coffee and herbal tea packaging sector rose by 15.3%, due to an increase in the market share within the European Union and continuous lively demand from the countries of Central and Eastern Europe;
- revenues of the pharmaceuticals packaging and cosmetics sector dropped from the prior year, despite lower demand especially from the European Union, and the effect of the exchange-rate changes. Sales in the cosmetics segment were good, representing about 13% of sector revenues, and were made to leading cosmetics companies;
- net revenues from sales of pharmaceuticals processing machinery, after the fall in 2003, grew significantly (+20.3%) mostly driven by new lines for the treatment and handling of pharmaceutical powders. Sales of capsule production machines are showing good signs of recovery.

NET REVENUES BY  
GEOGRAPHICAL AREA

millions of euros	2004		2003		Change %
	Amount	%	Amount	%	
E.U. (excluding Italy)	150.42	40.5	146.56	41.7	2.6
Other European countries	26.06	7.0	37.37	10.6	(30.3)
North America	75.13	20.2	71.86	20.5	4.6
Asia & Middle East	54.42	14.7	37.36	10.6	45.7
Other countries	34.36	9.3	28.92	8.2	18.8
<b>Total foreign markets</b>	<b>340.39</b>	<b>91.7</b>	<b>322.07</b>	<b>91.6</b>	<b>5.7</b>
Italy	30.71	8.3	29.26	8.4	5.0
<b>Total</b>	<b>371.10</b>	<b>100.0</b>	<b>351.33</b>	<b>100.0</b>	<b>5.6</b>

91.7% of net revenues were earned outside of Italy (91.6% in 2003). About 65% of revenues were generated by plant and machines, while 35% came from after-sales activities (support, spares, kits, etc.).

A comparison with 2003 should take into account that of total net revenues of the Nova Group (only net revenues for the last quarter of 2004 amounting to €6.6 million were consolidated), €1.8 million were earned in the European Union, €2.3 million in North America, €1.2 million in Asia, €1.0 million in other countries and €0.3 million in Italy. The enlargement of the European Union, with the accession of countries which in 2003 had not accessed the European Union yet, brought net revenues of €11 million to the detriment of the “other European countries”.

Specifically:

- net revenues from sales to countries in the European Union, on a consistent comparative basis, fell by some 6%, with heavier drops in the UK, France and Spain. The contraction in net revenues almost exclusively affected pharmaceutical packaging;
- on a consistent comparative basis, sales in other European countries were in line with those for 2003, when sales were satisfactory, but with differences in sectors: pharmaceutical processing increased and tea-packaging machines fell down;
- with regard to the North American market, considering that net revenues denominated in euros grew by 1.32%, excluding the Nova Group, net revenues denominated in US dollars rose by more than 13.2%, confirming that demand in the pharmaceutical and cosmetics sectors will continue to grow. Orders for coffee pods machines rose as well;

- in 2003 extraordinary events like the SARS epidemic (China and South-East Asia) and the war in Iraq affected Asian and Middle East countries. In 2004, sales grew by 53.1%, on a consistent comparative basis. The rise was more marked in China, South Korea, Singapore, Vietnam, Iran and Turkey. Sales growth involved both tea-packaging factories, especially in the Far East, and pharmaceutical factories;
- revenues from other nations, not included in the above groupings, were broadly unchanged with respect to the prior year, on a consistent comparative basis. In this context, demand from the Latin American nations still contracted, although there were some signs of recovery.

## GROSS INDUSTRIAL INCOME

Gross industrial income has decreased as a percentage of sales by 2.6 points from 42.6% to 40.0%. This reduction follows up a similar reduction in 2003, which was entirely due to the pharmaceutical sector. In 2003 margin contraction was mainly due to the heavy and fast weakening of the US dollar against the euro, which generated lower margins amounting to some €9 million. The following drop of the US dollar prevented a margin recovery that could have been achieved by applying new prices and will be achieved as soon as the US dollar-euro exchange rates find a balance. In 2004 the drop in Gross industrial income is mainly due to two reasons. On one side, the Group incurred in exceptional charges amounting to €5 million; on the other side, strong price tensions, already reported in the notes to the financial statements 2003, with discounts levels very unusual for our sector, caused a reduction in industrial margin of one percentage point of revenues.

By exceptional costs and charges we mean:

- €1.1 million relating to the unfavorable and unforeseen outcome of a dispute for the sale of a factory in an Asian country;
- costs significantly higher than estimated regarding very innovative lines designed on the technical specifications of leading multinational Groups;
- costs for redesigning some critical modules in a new family of products which required retrofitting. We believe we are right to consider these costs exceptional and non-repeatable, as those reported above, because they are due to the introduction of new families of products with innovative technology which was harder to set up than estimated. Products under development will benefit from this experience.

With regard to price tensions, we believe that this stems from a heated competitive environment, which is the result of behaviors driven by several reasons. On one hand, some industry companies, more verticalized and with a smaller number of offices outside Europe, due to the drop in demand of the last two years, had to take in new orders giving up on margins. On the other hand, companies which made less innovations in the last years tried to protect their market shares by using price improperly. However, in the light of the above, with a pharmaceutical industry marked by continuous and significant development rates, we are led to believe that our sector is going through a period of steadiness, at the end of which new and more stable balances will be found.

## R&D COSTS

R&D costs for the year totaled €17.35 million, a slight decrease from 2003 when they amounted to €18.21 million. They account for 4.7% of total revenues. R&D

costs only include costs incurred to develop new products or upgrade the technology of products already in distribution. The balance therefore excludes the cost of development work ordered by specific clients and the cost of personalizing products that are already being distributed. Such expenditure is included in the cost of sales since it is invoiced to the clients concerned. Interestingly, in terms of man-hours of design work, the Group's commitment to contract design and customization work is equivalent to that dedicated to the development of new products. The scale of this commitment is a concrete confirmation of our strong orientation to be seen as a solution provider rather than a vendor of products. This approach has always been a distinguishing characteristic of our Group and, over the years, has resulted in a strong market leadership position.

During the year we continued to develop two families of products, newer than those presented so far by the Group, which complete our range of products. Specifically, these are an innovative line of counting machines which can depack individual tablets, and coffee pods machines for the North American market. The costs incurred on these projects amounted to about €1.66 million and have been deferred as intangible fixed assets. They will be amortized from the time the products begin to generate the related economic benefits. The market launch for the new products is planned for the Interpack fair in Düsseldorf next April.

At Divisional level, R&D costs were also essentially unchanged with respect to the prior year. Design work focused on the extension and completion of the range for each line of products, in order to better meet the needs of clients that have extremely diverse price/performance requirements.

#### SELLING COSTS

Selling costs inclusive of commissions paid to sales agents and intermediaries amounted to €45.93 million, up 9% from 2003. They also grew as a percentage of sales from 12.0% in 2003 to 12.4% in 2004. The growth was mainly due to higher commissions paid to merchandise brokers (from €6.4 million in 2003 to €8.8 million in 2004) as sales boosted in areas, such as South-East Asia and Middle East, where the Group operates via agents. In the prior year the situation was opposite.

Despite stagnant demand from the OECD markets, IMA has continued to invest in 2004 to strengthen its sales organization, especially with regard to cosmetics, in the conviction that the transitory nature of these unfavorable conditions does not justify imposing a delay on planned activities.

In the belief that in the future the winner will be a company proposing more services to its clients, the Group redesigned its organization structure among specific Sectors, Divisions/Companies, with offers justifying a unified business approach. We believe that going down this road will make us stronger on the market and will bring significant synergies in both the industrial and the commercial areas.

#### GENERAL AND ADMINISTRATIVE COSTS

General and administrative costs grew by 6.5% from the prior year from €44.87 million in 2003 to €47.78 million in 2004, increasing by one percentage point as a percentage of net revenues. This growth is mainly due to a rise in labor unit cost, which grew by 4.5% in Italy.

#### NET OPERATING INCOME

The amortization of goodwill increased by €0.27 million (from €5.08 million in 2003 to €5.35 million in 2004), mainly due to the consolidation of the Nova Group

in the last quarter of the year. Accordingly, Net operating income was €32.00 million from €39.25 million in the prior year, accounting for a lower portion of net revenues (2.6 percentage points, from 11.2% in 2003 to 8.6% in 2004).

As already mentioned, this achievement was adversely affected by a negative economic situation of the pharmaceutical sector, with heavy price tensions and, accordingly, on margins, and by exceptional costs amounting to €5 million. At the same time, further weakening of the US dollar prevented margin recovery which, during the prior year, was estimated to amount to €8 million. These circumstances affected the results of the last two years and we believe they will cease soon, because it is a cyclical tension our sector is going through. Also, we believe that the US dollar will not be weak for long. As soon as these circumstances no longer obtain, Net operating income will account for a portion of net revenues similar to that for 2002.

Our belief that Group earnings can be improved stems from our awareness that we have areas and processes which can and must be significantly improved in efficiency. That is where the above mentioned Group reorganization of industrial and commercial activities came from. We expect that this reorganization will bring significant improvements in cost-of-sales- and structure-cost-efficiency, and more efficacy from the commercial standpoint, so as to ensure a stronger market penetration.

#### NET FINANCIAL INCOME (EXPENSE)

Net financial expense, analyzed in the explanatory notes, is quite unchanged from the prior year (€4.18 million from €4.01 million in 2003). With reference to the two principal captions:

- interest charges to service borrowing, including the interest on discounted notes, have decreased by €0.41 million (from €4.94 million in 2003 to €4.53 million in 2004), due to average borrowing, that was slightly lower than in 2003, and fall in interest rates during the intervening period;
- the difference between exchange gains and losses was essentially in line with that reported for 2003.

#### ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS AND DIVIDENDS

The caption “Adjustments to the value of financial assets and dividends” contributed €100 thousand due to the adjustment of the book value of the investee B.C. S.r.l. By contrast, the balance was essentially nil in 2003.

#### NET INCOME

Net extraordinary income amounted to nil with respect to €0.93 million in 2003.

Income taxes amounted to €14.21 million, equal to 50.9% of the Results before income taxes, compared with 46.8% in 2003. The deterioration of about four percentage points was due to greater IRAP (Regional Income Tax on Productive Activities) with a decrease in result, and to the different allocation of income among consolidated companies.

As a result of the above, Group net income for the year was €13.30 million, down €5.66 million with respect to the prior year.

**CONSOLIDATED  
BALANCE SHEET AND  
FINANCIAL POSITION**

This table summarizes the Group's balance sheet as at December 31, 2004:

millions of euros	Dec 31, 2004		Dec 31, 2003		Change %
	Amount	%	Amount	%	
Trade receivables	75.29	44.8	76.67	46.0	(1.8)
Inventories	128.67	76.5	117.42	70.4	9.6
Trade payables	(109.80)	(65.3)	(94.51)	(56.7)	16.2
Other payables, net	(19.04)	(11.3)	(21.38)	(12.8)	(10.9)
<b>Operating capital</b>	<b>75.12</b>	<b>44.7</b>	<b>78.20</b>	<b>46.9</b>	<b>(3.9)</b>
Intangible fixed assets	50.38	30.0	42.99	25.8	17.2
Tangible fixed assets	59.52	35.4	58.66	35.2	1.5
Equity investments	0.58	0.3	0.49	0.3	18.4
<b>Fixed assets</b>	<b>110.48</b>	<b>65.7</b>	<b>102.14</b>	<b>61.3</b>	<b>8.2</b>
Employee termination indemnities and other	(17.51)	(10.4)	(13.74)	(8.2)	27.4
<b>Net capital invested</b>	<b>168.09</b>	<b>100.0</b>	<b>166.60</b>	<b>100.0</b>	<b>0.9</b>
<b>FINANCED BY:</b>					
<b>Net debt</b>	<b>71.58</b>	<b>42.6</b>	<b>68.49</b>	<b>41.1</b>	<b>4.5</b>
Minority interests	2.95	1.8	2.25	1.4	31.1
<b>Stockholders' equity pertaining to the Group</b>	<b>93.56</b>	<b>55.7</b>	<b>95.86</b>	<b>57.5</b>	<b>(2.4)</b>
<b>Total sources of finance</b>	<b>168.09</b>	<b>100.0</b>	<b>166.60</b>	<b>100.0</b>	<b>0.9</b>

**NET CAPITAL INVESTED**

Capital invested net of operating liabilities, €168.09 million, increased by €1.49 million since December 31, 2003. As net capital invested from the Nova Group amounted to €15.13 million, on a consistent comparative basis net capital invested decreased by €13.64 million.

**OPERATING CAPITAL**

Operating capital amounts to €75.12 million as of December 31, 2004, of which €3.11 million is attributable to the Nova Group, down €6.19 million over the year, compared on a consistent comparative basis. This important achievement follows a similar decrease in 2003 over 2002 and rewards management's commitment to a project launched during 2003, with a time horizon of at least three years, designed to make significant improvements, at a structural level, to the Group's operating capital indices with respect to those reported in the past.

Comments on the changes in the main balances are given below:

- on a consistent comparative basis, trade receivables have decreased by €3.40 million, from €76.67 million as of December 31, 2003, to €73.27 million at the end of 2004. This reduction reflects the action referred to above and is even more significant if we consider the higher level of sales in December which totaled €84.3 million in 2004 compared with €73.7 million in 2003. The size of this balance as a percentage of net revenues (about 23%) reflects the seasonal nature of deliveries: in 2004, 38% of sales were concentrated in the last quarter, as in 2003;

- inventories have increased by €11.25 million (from €117.42 million in 2003 to €128.67 million in 2004). Excluding the amount attributable to the Nova Group, the increase amounted to €5.94 million. This is clearly high and reflects quite erratic demands, which therefore are harder to plan, and a considerable number of orders for highly-customized lines, with preparation times longer than the year. This has enlarged the volume of “contract work in progress”. We are dedicating considerable attention to this element of operating capital and believe that inventory levels will be significantly lower in 2005;
- trade payables have decreased by €15.29 million, of which €3.50 million comes from the Nova Group. The increase was mainly due to advances received from clients, which amounted to €40.17 million in 2004 (of which €1.88 million is from the Nova Group) from €28.38 million in 2003.

## FIXED ASSETS

In total, fixed assets have decreased by €8.34 million since December 31, 2003. This reflects:

- the modest increase in equity investments by €0.1 million, due to the adjustment of the book value of the investee B.C. S.r.l.; sale at essentially book value of the 7.8% interest in Medinvest International S.C.A. held by Luxteco International S.A.;
- tangible and intangible fixed assets, net of depreciation and amortization, have increased by €8.25 million since December 31, 2003, as the net effect of the following movements:

millions of euros	Fixed assets		
	Tangible	Intangible	Total
Additions during the year	8.08	4.31	12.39
Net book value of disposals	(0.23)	–	(0.23)
Goodwill arising on consolidation	–	7.27	7.27
Change in scope of consolidation	0.38	4.85	5.23
Amortization and depreciation charges for the year	(7.15)	(8.71)	(15.86)
Reclassifications	(0.03)	–	(0.03)
Exchange differences on consolidated fixed assets	(0.19)	(0.33)	(0.52)
<b>Total</b>	<b>0.86</b>	<b>7.39</b>	<b>8.25</b>

Details of changes in individual items are described in the notes. As the Nova Group’s fixed assets amounted to €11.91 million, on a consistent comparative basis, fixed assets decreased by €3.66 million due to a different performance of new investments with respect to amortization and depreciation charges for the year. Lower investment compared with 2003 stems from the completion of the 2001-2003 plan, and we estimate a further decrease in 2005.

## NET DEBT

Net debt of €71.58 million is a little higher than net debt as of December 31, 2003, amounting to €68.49 million, after €12.39 million of investments, €14.44 million of dividends distributed and €12.5 million due to the purchase of the Nova Group. This is positive, considering lower cash flow due to Group results lower than in 2003. This is a reward for our dedication to contain operating capital, and it benefits from lower investment. As in 2005 we estimate to further contain investments and

operating capital, and due to expectations for better results, we expect strong cash flow generation in 2005, which could be used to support the Group's important plans for expansion.

**STATEMENT OF CONSOLIDATED  
CASH FLOWS**

The following statement of consolidated cash flows relates to the years ended December 31, 2004 and 2003:

millions of euros	2004	2003
Net operating income	32.00	39.25
Amortization and depreciation	10.51	10.57
Amortization of goodwill and goodwill arising on consolidation	5.35	5.08
Investment in fixed assets (net)	(12.80)	(18.14)
Change in operating capital	3.09	6.75
Change in other assets / liabilities	3.76	(0.5)
<b>Cash flow from operations</b>	<b>41.91</b>	<b>43.01</b>
Net financial income (expense)	(4.18)	(4.01)
Extraordinary items and dividends	–	0.93
Income taxes	(14.21)	(16.92)
<b>Cash flow from ordinary activities</b>	<b>23.52</b>	<b>23.01</b>
(Acquisitions)/Disposals	(11.30)	6.08
<b>Available cash flow</b>	<b>12.22</b>	<b>29.09</b>
Dividends paid to stockholders	(14.44)	(28.56)
Other changes in stockholders' equity	(0.87)	(1.77)
<b>Change in net borrowing</b>	<b>(3.09)</b>	<b>(1.24)</b>

The statement of cash flows effectively shows that cash generation during 2004 made €12.22 million available to the stockholders, and that this considerable result was obtained by the incisive and rigorous management of net capital invested, which offsets the reduction in self-financing generated from operations.

**STOCKHOLDERS' EQUITY  
PERTAINING TO THE GROUP**

Stockholders' equity pertaining to the Group, €93.56 million, has decreased by €2.29 million since December 31, 2003, due to the net effect of the following movements:

Dividends paid during the year	(14.44)
Exchange differences on the translation of foreign currency financial statements	(1.15)
Net income for the year	13.30
<b>Total</b>	<b>(2.29)</b>

**ANALYSIS OF  
PERFORMANCE BY SECTOR**

The following schedule analyzes consolidated operations during 2004 by business sector, as required by Consob decision no. 98084143 of October 27, 1998.

millions of euros	Tea	Packaging	Process	Other	Total
Net revenues	65.69	202.09	103.32		371.10
Net operating income before amortization of goodwill and goodwill arising on consolidation	20.84	9.64	6.87		37.35
Net operating income	20.84	7.50	3.66		32.00
Net capital invested	10.65	75.69	73.16	8.59	168.09
R&D costs	3.38	9.59	4.38		17.35
Personnel at Dec 31, 2004 (*)	233	1,492	439	444	2,608
Order book	44.35	88.46	25.81		158.62

(\*) The personnel allocated to the various sectors are those directly employed in those sectors, while the figure reported in the "Other" column reflects those employed by the sales organizations at branches and in the Group's administrative and central offices.

Net capital invested includes €40.48 million in goodwill and goodwill arising on consolidation, of which €15.23 million relates to the packaging sector and €25.25 million to the process sector.

The net capital invested allocated to the "Other" column mainly reflects the value of equity investments that cannot be reallocated, as well as tax credits and debits.

**TEA, COFFEE AND HERBAL  
TEA PACKAGING**

millions of euros	2004	2003	Change %
Net revenues	65.69	56.96	15.3
Net operating income before amortization of goodwill and goodwill arising on consolidation	20.84	16.37	27.3
Net operating income	20.84	16.37	27.3
Net capital invested	10.65	8.71	22.3
R&D costs	3.38	3.26	3.7
Personnel as of Dec. 31 (direct)	233	223	
Orders acquired during the year	64.30	70.52	(8.8)
Order book	44.35	45.74	(3.0)

The tea, coffee and herbal tea packaging sector essentially comprises the activities performed directly by the parent company IMA S.p.A., via its Tea Division.

Product sales and the related after-sales support in North America, Central and Eastern Europe and the UK are handled by the Group's branches operating in these countries, while all other locations are covered by the Division, either directly or via agents.

As shown by the above data and as previously discussed, the tea sector of the IMA Group performed extremely well in 2004. On the basis of available data, we expect this performance to continue in the 2005-2006 period.

The year-end high number of orders will result in 2005 in net revenues not lower than 2004, while the drop by 8.8% in new orders is not indicative of typical demand performance in this industry. It is to be noted that in 2003 orders were acquired regarding deliveries to be made over several years.

As often stated, the market for tea-bagging machines is not growing and is primarily concentrated in the western nations (Europe and the United States) which, however, represent less than 20% of the world's tea consumption. There are currently no signs that the Eastern nations, major tea drinkers, are ready to "migrate" towards the use of bags. Accordingly, the market for tea-bagging machines is restricted to the

replacement of existing machines and, therefore, is both unlikely to expand and exposed to the effects of economic cycles. Nevertheless, over the past three years the nations of Central and Eastern Europe, including Russia in particular, have benefited from the strong upturn in their economies to start upgrading their local industry in order to reduce reliance on imports. In the meantime, elsewhere in Europe, IMA has been awarded major orders from leading groups, thus expanding market share and becoming strategic with regard to the future decisions of those clients, whose decisions to select IMA were based on the unique performance characteristics of our products.

Demand for machines to produce pods for coffee has also expanded, from 5 units delivered in 2003 to 9 in 2004, with more-than-doubled net sales accounting for 8% of the Division machine net sales.

The major improvement in net operating income, both in absolute terms (+27.3%) and as a percentage of net revenues (31.7% in 2004 compared with 28.7% in 2003), was due to an increase in contribution margin which has the effect of an operational leverage deriving from higher revenues despite a moderate increase in R&D costs, commercial and general expenses. In particular, the investment in innovation amounted to €3.38 million €3.26 million in 2003 reflects the Group's determination to further strengthen its leadership of this sector, via the expansion of the product range. The Division also invested €0.9 million to develop an innovative production line for coffee pods for the North American market. These costs have been deferred as intangible fixed assets.

The sharp containment of net capital invested, which despite a growth in net sales was essentially in line with 2003 (€10.65 million in 2004 from €8.71 million at the end of 2003) was entirely due to effective action taken by the Division to lower the level of operating capital. In particular, trade receivables have further contracted from the prior year, while advances from clients have risen considerably, with an order backlog similar to that at the end of 2003. The decrease in trade receivables and the increase in advances received from clients offset the rise in the level of inventories, necessary in order to meet the deliveries scheduled for the first half of 2005.

## PHARMACEUTICALS PACKAGING

millions of euros	2004	2003	Change %
Net revenues	202.09	208.52	(3.1)
Net operating income before amortization of goodwill and consolidation difference	9.64	23.79	(59.5)
Net operating income	7.50	21.92	(65.8)
Net capital invested (*)	75.69	69.97	8.2
R&D costs	9.59	9.56	0.3
Personnel as of Dec. 31 (direct)	1,492	1,326	
Orders acquired during the year (**)	199.45	193.20	3.2
Order book	88.46	79.98	10.6

(\*) Net capital invested includes goodwill and goodwill arising on consolidation of €15.23 million. (\*\*) Nova Group excluded.

The sector of packaging machines for the pharmaceuticals industry includes the activities directly performed by the parent company IMA S.p.A. via the Blister Division, the Win.Pack Division, the Filling and Sterile Division, the Cartoning Division and the End-of-Line Division, in its factories at Ozzano and Bentivoglio

(Bologna), together with those carried out by Libra P.T. S.r.l., at Calenzano (Florence), which was absorbed by IMA S.p.A. from January 1, 2004, by Co.MA.D.I.S. S.p.A., located in Senago (Milan), and by Precision Gears Pvt Ltd., the Indian subsidiary with locations in Mumbai and Indore (India). In addition, COMITEC S.r.l., a wholly-owned subsidiary based in Castel San Pietro Terme – Bologna, carries out design activities for the Pharmaceuticals packaging sector. From September 2004, the IMA Group has increased its product offer in the pharmaceutical packaging sector by purchasing Packaging Systems Holdings LLC. This company holds 100% of Nova Packaging Systems Inc., with registered offices in Leominster (Massachusetts), which owns 100% of Swiftpack Automation Ltd., with registered office and factory in Alcester (UK). This increase in products offered and the expansion of the industrial base is strategically fundamental to the IMA Group, as described below in more detail.

IMA's network of branches covering 16 countries sells these products and provides the related after-sales service. The rest of the world is covered by an established network of agents, which works for the processing machines sector as well. The pharmaceuticals industry represents the principal market, although there is growing demand from the cosmetics industry. Recognizing the considerable potential offered by the cosmetics market, the IMA Group has identified this sector as a primary target for diversification and growth in the coming years, not least in view of the major synergies in technological and product terms with the pharmaceutical sector. We are moving in this direction with great determination and extremely satisfactory results so far. In particular, sales to the cosmetics industry in 2004, up from 2003, accounted for 13% of net sales in the pharmaceutical sector. We expect market penetration to leap as the new models specifically designed to meet the requirements of this sector become available.

The Group's product range in the packaging sector is extremely wide, placing it in a leadership position worldwide. The range covers a family of machines for the production of blisters, with speeds ranging from 60 blisters/minute up to 1,200 blisters/minute; capsule and tablet bottle packaging lines; a wide range of filling equipment for liquids/powders/creams both in sterile and normal environments; tube-filling machines, cartoners, end of line products (wrapping machines, shrinkwrappers, case-packing and palletizing systems, etc.) and labeling machines.

Net revenues from the principal product lines are analyzed as follows:

millions of euros	2004	2003	Change %
Blister *	79.47	75.49	5.3
Filling and Sterile	64.52	70.34	(8.3)
Cartoning	20.64	22.87	(9.8)
End of line	35.50	35.84	(0.9)
Other	1.95	3.98	(51.0)
<b>Total</b>	<b>202.09</b>	<b>208.52</b>	<b>(3.1)</b>

(\*) €6.62 million is from the Nova Group.

In spite of the increase in new orders, amounting to €199.45 million, up 3.2% from the prior year, net revenues fell by 6.3% compared with 2003 (-€13.05 million), on a consistent comparative basis.

The dynamics of sales in the various parts of the world reflected reasonably closely the overall performance of the pharmaceutical sector described earlier. There was good growth in the North American market, strong weakening in the European

Union, despite differences between individual countries and product lines, weakening in Latin America, stability in Eastern Europe and good growth in Asia.

With reference to the individual product lines, the reduction in the sales of blister machines on a consistent comparative basis (-€2.64 million) was entirely due to lower lines delivered, while the sales of kits and supports slightly increased. The fall in net revenues from the Filling and sterile line, after a good performance in 2003, is due to weak demand from the pharmaceutical industry and selling price tension with which the Division could not always cope and due to which it had to give up important negotiations. The good growth in sales of lines to the cosmetics industry has not offset the fall. The slight fall in net revenues from cartoners was due to lower sales of machines, partly resulting from the drop in filling lines. The stable performance of net revenues from End-of-Line products includes highly-customized lines for the cosmetics industry. The Other caption comprises sales of third-party products sold on an exclusive basis by the IMA sales force to complete the range on offer.

The rise in net capital invested is due to the change in the scope of consolidation with the inclusion of the Nova Group, which accounts for €15.13 million of Net capital invested. On a consistent comparative basis, Net capital invested fell by €9.41 million, mainly due to our dedication to operating capital, which had very positive effects on the reduction of trade receivables and the increase in advances received from clients, but not on inventories yet. The performance of new investments and amortization/depreciation for the year was good, owing to the ending of a challenging number of investments by completing new factories at Calenzano and Bentivoglio.

R&D costs are in line with the prior year, confirming an intense vocation for innovation that was demonstrated by the numerous new products to be presented at the Interpack fair in Düsseldorf.

The drop in net operating income from €21.92 million in 2003 to €7.50 million in 2004 was due to the above said non-recurring expenses incurred by the pharmaceutical sector and the price tension, owing to weak demand from the European Union. The year-end order backlog included the Nova Group and amounted to €4.50 million. On a consistent comparative basis, the order backlog was €83.96 million, up 5% from December 31, 2003. This is not satisfactory, but performance during the first months of 2005 reveals signs of acceleration in demand from the pharmaceutical and cosmetics industries.

#### **PURCHASE OF THE NOVA GROUP**

Reference is made to the comments above on the purchase of Packaging Systems Holdings LLC (Nova Group).

As earlier mentioned, at the end of September 2004 IMA S.p.A. purchased 90.68% of Packaging Systems Holdings LLC. The remaining shares of the US company are held by management, with which IMA S.p.A. signed an agreement providing for IMA S.p.A.'s right to a call option on the remaining shares in exchange for a put option. This company holds 100% of the shares of Nova Packaging Systems Inc. with registered offices in Leominster (Massachusetts), a company created last March from a spin-off of the pharmaceutical packaging activities of the North American Group DT Industries. With its wholly-owned subsidiary Swiftpack Automation Ltd., with registered offices and factory in Alcester (UK), Packaging Systems Holdings

LLC owns pharmaceutical packaging trademarks such as Swiftpack, Lakso, Merrill, Kalish. An annualized turnover of some US\$35 million, the Nova Group is the worldwide leading company in the sector of capsule and tablet packaging machines for the pharmaceutical industry (counting machines). This is an alternative packaging method with respect to blisters, a segment where the IMA Group is a leader. This packaging method is quite common in certain areas, such as North America, which alone accounts for more than 50% of world pharmaceutical consumption. Below are described the characteristics of this acquisition:

- As a stand-alone Group, Nova already offers value creation, meaning before considering possible synergies with the IMA Group. The purchase was made on the basis of an enterprise value of US\$18.8 million (price acknowledged plus average net debt), 5 times the EBITDA. The acknowledged valuation does not have dilutive effects on IMA indices, even considering the exercise of the call option for the shares held by management. According to the management's plan, that we deem realistic, EBITDA will considerably grow in the next three years. Return on investment is expected to be considerable and cash generated is expected to pay off the initial investment, due to the above estimate, together with the Nova Group's balance sheet revealing a significant efficiency of Operating net capital invested (less goodwill) (€5.68 million as of September 30, 2004, quite similar to that as of December 31, 2004).
- Commercial synergies between the two sales network are very strong, because companies using counting machines also use blister machines. Thus, Nova's excellent positioning in North America will help the diffusion of IMA blisters lines in the North American market as well as the diffusion of Nova counting machines in Europe. At the same time, Nova can rely on the IMA Group's worldwide after-sale assistance network. And Nova agents' indirect network in the USA will offer IMA products to medium- and small-sized clients which typically are not included in IMA North America's target.
- Nova's complete counting lines will now include IMA's wide range of products: capping machines, crimping machines, labeling machines, cartoning and end-of-line machines. Accordingly, sales of IMA Group's products are expected to increase.
- R&D synergies are very important, as was shown by the new announcements made at the Packexpo fair in Chicago.
- Through this purchase, the IMA Group has a production base in the USA, the most important world market for our products. To that end, IMA is developing a special industrial strategy, so that it will turn to the North American client as a local enterprise which is able to meet the growing demand for additional services from pharmaceutical multinationals.

Above is a list of some of the reasons for the acquisition of the Nova Group.

PHARMACEUTICALS  
PROCESSING

millions of euros	2004	2003	Change%
Net revenues	103.32	85.85	20.3
Net operating income before amortization of goodwill and goodwill arising on consolidation	6.87	4.17	64.7
Net operating income	3.66	0.96	281.3
Net capital invested (*)	73.16	80.81	(9.5)
R&D costs	4.38	5.39	(18.7)
Personnel as of Dec. 31 (direct)	439	473	
New order	103.40	87.58	18.1
Order book	25.81	25.73	0.3

(\*) Net capital invested includes goodwill and goodwill arising on consolidation of €25.25 million.

The sector of processing machines for the pharmaceuticals industry includes the activities performed directly by the parent company IMA S.p.A. through its Solid Dose Division at Ozzano, as well as the activities of the subsidiaries IMA Kilian KG, located in Cologne (Germany), Zibo IMA Xinhua Machinery Manufacturing Co. Ltd. and Zibo IMA Xinhua Pharmatech Co. Ltd. (China).

IMA's network of branches in the 16 countries covered sells these products and provides the related after-sales service. The rest of the world is covered by an established network of agents. The Group's main product lines in this sector include machines for producing capsules and tablets, machines for weighing capsules and tablets, coating systems, systems for fluid-bed powder granulation and mixing, and, from 2003, pharmaceutical powder handling, processing and storage systems. The breadth and depth of the Group's range in this sector make it the only real provider of complete solutions, from the treatment of powders to the production of medicines in capsule and tablet form, with the related control systems.

After falls in the two prior years, 2004 saw strong growth in net revenues (+20.3%) from all families of products, though in a diverse manner. Powder processing and handling performed particularly well, accounting for almost 16% of the sector net sales over three years, and estimates for future years are really good. The strong increase in sales of capsuling machines in a no-growth market marks the increasing success of the IMATIC series, whose exclusive features are appreciated by clients, which have also shown appreciation for the new Synthesis tablet pressing machines, a market with stiff competition.

After renewing and increasing its offer by getting into new segments of the pharmaceutical production process, the pharmaceutical processing sector highly committed in 2004 to optimize its own industrial and production processes, also through outsourcing and production hiving-off policies regarding mechanical components and finished goods. Specifically, IMA Kilian GmbH & Co. KG enhanced outsourcing policies regarding mechanical components and re-engineered its own internal processes, partly due to the introduction of the SAP Information System, used by all the rest of the IMA Group. 35 jobs were axed following this implementation, but relations never strained and there were no conflicts with trade unions. At the same time, works for building the new Cologne factory were completed. The entire company relocated to these offices at the start of January 2005. The entire complex was designed with the aim to optimize production and logistic processes. We believe that, once it is fully operational, cost-efficiency will be further improved. Always in 2004, this sector invested in factories and

professional commitment to increase production site levels at the two subsidiaries in Zibo (China) with very satisfactory results.

The level of Net capital invested fell from 2003 (-9.5%) despite a strong growth of sales. The increase in sales brought destocking, and because of a better logistic planning an increasing portion of inventories was financed through trade payables. The performance of trade receivables reflects sales performance. The modest level of investments against amortization and depreciation charge for the year had a positive impact on Capital invested.

Net operating income before amortization of goodwill and goodwill arising on consolidation was far from being satisfactory, but there was a turnaround after two years of considerable reductions, rising from €4.17 million in 2003 to €6.87 million in 2004. Its incidence on net revenues rose from 4.8% in 2003 to 6.6% in 2004. This is a positive result, considering that margins could not be recovered due to weakness of the US dollar, and price tensions in the pharmaceutical packaging sector also affected the processing sector. Particularly strained was the tablet pressing machines segment, where the increasing success of the new IMA offer was addressed with unusual discount levels.

The year-end order backlog is on the same level as in 2003. We look at 2005 with tentative optimism, due to a greater number of negotiations, compared with the prior year, and the reaping of the first fruits of the actions reported above to optimize production and logistic processes.

## INVESTMENT

During 2004, the Group invested €4.31 million (€3.05 million in 2003) in intangible fixed assets and €8.08 million (€17.78 million in 2003) in tangible fixed assets, with an overall total of €12.39 million (€20.83 million in 2003).

The additions to intangible fixed assets mainly related to two captions: the filing of patents, software and the capitalization of development costs for new products, with relation to families of products which increase the Group offer in new segments. The item which has most grown from the prior year is assets under development for capitalization of development costs, which rose from €0.5 million in 2003 to €1.66 million, and relates to new developments, as described above. Investments in tangible assets included: machinery for the production of mechanical components invested on by the Chinese subsidiary Zibo IMA Xinhua Pharmatech Co. Ltd.; the completion works for the new warehouse located in Ozzano; systems for the new warehouse and the new Cologne factory, to where IMA Kilian GmbH & Co. KG and IMA Germany GmbH relocated earlier in 2005. The factory is property of a non-related party which rents it out to the two German companies.

Investment during the period 2001-2003 was significantly higher than the amortization and depreciation charged in the same period and this was largely due to objective requirements that will help the Group to grow, as well as to certain investment that was accelerated in order to obtain the benefits available under related legislation. New investment will be further curtailed in 2005.

## HUMAN RESOURCE POLICY, INDUSTRIAL RELATIONS AND TRAINING

For our clients, the IMA Group is not merely a supplier of products, albeit incorporating highly sophisticated technology, but rather a solver of complex problems via specially-designed solutions that are custom-tailored to meet their

individual requirements. This means that all our business processes, from preparing bids, to sales, from production/design to after-sales support, including contractual and administrative matters, have to be conducted with an extremely low level of redundancy. Accordingly, the proper functioning of these processes depends on the initiative and pro-active approach of the individuals who work within them, and on their ability to work together with everyone else in the organization, in teamwork at its best. As such, although it is true for every firm that the quality of its human resources represents a critical success factor, this is even more true for the IMA Group where our people represent our principal asset, incorporating all our knowledge and skill. Knowledge and skill that cannot easily be documented and codified, for the very reason that it is non-repetitive.

Consistent with this vision, IMA dedicates considerable attention to the proper management of the human resources that form part of the Group, investing heavily and continually in their professional growth, adopting an organizational model with a high degree of participation, and applying a bonus system based on the rigorous identification and assessment of the skills acquired by each person.

## EMPLOYEES

The Group employs 2,608 persons as of December 31, 2004, compared with 2,419 at the end of 2003. The geographical breakdown of workforce is as follows:

	2004	2003	Var.
Italy	1,570	1,559	11
India	380	357	23
Germany	250	278	(28)
USA	168	66	102
China	76	61	15
U.K.	93	33	60
France	26	26	–
Eastern Europe	29	25	4
Thailand	3	–	3
Spain	11	12	(1)
Portugal	2	2	–
<b>Total</b>	<b>2,608</b>	<b>2,419</b>	<b>189</b>

As the Nova Group's workforce was 162 employees, staff rose by 27 employees (+1.1%) on a consistent comparative basis.

The excellent educational standard of the human resources employed by the Group is demonstrated by the fact that more than 80% possess a high-school diploma and/or a university degree.

With reference to the Group's organizational structure, around 20% of employees work in the commercial area, including pre-sales and after-sales, 18% in our R&D laboratories, 25% in central functions (Administration, IT, Procurement, Quality, Human Resources, etc.) and 37% in production/logistics. This last percentage would fall to 31% on exclusion of our Indian subsidiary, Precision Gears Pvt Ltd., which has a highly internalized and labor-intensive production model. This distribution of workforce is a good reflection of IMA's business model, which is designed to retain the activities that represent critical and distinctive skills and outsource all other activities. The high degree of professionalism is partly reflected in the fact that clerical and managerial grades occupy 70% of our employees.

## PERSONNEL COSTS

Payroll amounted to €108.54 million, of which €21 million is from the Nova Group, compared with €103.24 million in the prior year (+3.1% on a consistent comparative basis), absorbing 29.2% of net revenues compared with 29.4% in 2003. In particular, the unit labor cost of Italian employees rose by about 4.5% in 2004. This was mainly due to the various pay-rise tranches envisaged in the national payroll contract for engineering workers, a company agreement signed in September 2003, and the Company's incentive policy.

## HUMAN RESOURCE POLICY

In 2004 the IMA Group continued to focus on individuals. This is confirmed by:

- improvement in the selection process for the more strategic roles (75% of new recruits had to pass a test);
- the average age of recruits is less than 30 and their pre-IMA seniority of service is greater, with increasingly greater expectation levels;
- employment on permanent contracts (81% of hiring) with the conversion to permanent of 42% of fixed-term contracts, in the various forms envisaged by current legislation;
- closer ties with University and excellence centers at national and international levels, as well as traditional contacts with and assistance from local technical high schools (*Istituti Tecnici*);
- extensive training/orientation programs for new recruits that are structured to facilitate entry and communicate our system of business values in a clear and transparent manner;
- adjustment of follow-up actions.

This focus on individuals continues throughout their professional career, with continual monitoring and assessment of their skills in order to plan the appropriate training within a professionally-advanced system of human resource management. The Group's attention to human resources is evidenced by the low turnover rate (less than 4.5%), by the degree of absenteeism at physiological levels, and by the climate of involvement and constant participation.

We strive continually to create favorable conditions for the expression of individual talent, founded on our business culture with its system of strongly-shared values. These include, by way of example, comprehensive health and accident cover, agreements for discounted purchases and best terms for numerous aspects of the employment contract (salary level, post-natal leave, basis for granting advances against termination indemnities, use of part-time working, etc.). In this light, we have been providing a psychological counseling service for the past twenty years or so, recently backed up by the introduction of the role of Employee Representative, in order to confirm the importance to us of our people. We take action to promote conditions of wellbeing in the workplace, especially with reference to phenomena that might result in social exclusion.

## TRAINING

More than 87% of employees were involved during the year in around 20,000 man-hours of training geared towards improving the expertise of the Group's technical, administrative and commercial personnel. This is an area in which we must invest even more in the future. Consistent with this belief and in order to avoid erratic and unplanned actions, the Company prepared a plan named *Corporate training system*,

with assistance from experts. This plan required full involvement of the top management and specifies strategic guidelines for both on-the-job and technical and specialized training, through courses by population target. Great dedication was given to managerial development and economics.

## INDUSTRIAL RELATIONS

In terms of Industrial Relations, our ongoing and long-established relations with the Trade Unions have once again enabled continuously evolving conditions to be managed on a dynamic basis, with a wide degree of agreement that reflects a substantial absence of strife in a climate of proper union relations.

During the second year of implementation of the in-house agreement, appreciation was shown for some innovative aspects aiming to help employees in trouble and difficulty. Among these is support to female staff, such as income integration during parental leave. To meet demands from employees' union structures, the Company accepted to set a minimum threshold for one of the two metrics determining performance bonus.

## HEALTH, SAFETY AND THE ENVIRONMENT

For the Group, environmental protection includes full compliance with current regulations, not least via specific training designed to create a "culture of safety".

In the course of 2004 the Company insisted in personnel training on workplace safety and prevention to 250 employees, 600 hours in total. All new recruits (about 100) were involved. Much stress was placed on the implementation of procedures in production units, with particular emphasis on first aid. Continuing training and education on the topics of security and accident prevention have helped further reduce accident rates to less than one third of average rates for the mechanical industry (index UNI/7249 of 14 against a sector average of 53.5) and wasted hours by 41% compared with 2003.

There has been further capital investment to improve the micro-climate in working environments and the general level of comfort by involving of all the Company's production sites. Particular dedication was given to the specifications agreed for the new IMA-Kilian factory in Cologne, and works were started to extend the company restaurant at Bentivoglio.

Special attention was paid to company mobility. In order to identify tools for sustainable mobility in urban areas (Ministerial Decree 27 March 1998), needs were analyzed by submitting to all employees a questionnaire prepared together with the Province of Bologna.

With reference to the security measures required for the processing of personal data, the Company has complied with current regulations by updating the security plan during the year.

## RELATED PARTY TRANSACTIONS

Many infra-group transactions were effected in the ordinary course of business and were conducted at arm's length. As also described below, infra-group transactions are strictly related with the Group's organization structure. These transactions take place at the commercial level (some IMA S.p.A.'s wholly-owned subsidiaries organized under the laws of several countries distribute the Group's products as agents or licensees) and at the production level (as some IMA S.p.A.'s subsidiaries

are producers of a certain type of machinery, IMA S.p.A.'s or these subsidiaries' offer(s) is/are completed with machinery sold to or purchased from IMA S.p.A.). There also have been financial transactions among Group companies effected in the ordinary course of business and at arm's length, even though there have been no atypical transactions.

Also some existing transactions relate to persons in charge of the Company, i.e., persons with administration and management duties within the Company or persons controlled by them.

These transactions are approved from time to time by the Board of Directors (the only body entitled to resolve on these non-delegable transactions), which gives reason and opportunity for each of them.

These transactions mainly include real estate transactions (Company's or Group's business-operating premises leased) or commercial transactions and/or transactions to supplement production. None of these is particularly relevant economically or strategically for the Company or the Group. Transactions are conducted at arm's length.

However, the comments below describe and provide economic reasons for the main commercial transactions and/or transactions to supplement production with related parties as described above.

Naturapack S.r.l. is a company – related party – performing set-up and repair of used tea packaging machines. IMA S.p.A. sells used tea packaging machines to Naturapack S.r.l. or causes its clients to sell them to Naturapack S.r.l. and, as envisaged by an exclusive agency agreement with IMA S.p.A. and the IMA Group, then places them back on the market.

In this way IMA S.p.A. and the Group are allowed to control indirectly through a related party the used tea packaging machines market, in which the Group has some interest, although it is not included in its usual activities (sale of new directly-produced machines).

Vima S.r.l. designs and produces powder handling machines, an offer which complements IMA S.p.A. Solid Dose Division's. In this way clients are given a choice of complete lines for the production of pharmaceuticals in tablets.

Advantech S.r.l. produces tablet control and depowdering optional units. By purchasing these products, IMA S.p.A. and IMA Kilian GmbH & Co. KG will no longer purchase products from foreign suppliers.

Purchases from Vima S.r.l. and Advantech S.r.l. are at market prices, as is revealed by comparing these companies' prices with competitors' prices for similar goods.

Viaggi Nuova Era S.r.l., a travel agency owned by Lopam Fin S.p.A., provides services to Group companies at market prices.

Below are details of the main related party transactions of IMA S.p.A. and other Group companies as reported in the financial statements at December 31, 2004.

These transactions have been mainly made by directors of the Parent Company:

thousands of euros	Receivables	Payables
Advantech S.r.l.	1	700
Lopam S.r.l.	–	50
Medinvest International S.c.a.	–	355
Naturapack S.r.l.	1,134	–
Luca Poggi	19	103
Viaggi Nuova Era S.r.l.	–	1,167
Vima S.r.l.	1	2,120

thousands of euros	Revenues	Purchase cost	Cost of services	Other costs
Advantech S.r.l.	1	1,214	35	–
Fondazione Ramazzini	–	–	–	61
Italbe S.r.l.	–	–	–	60
Lopam S.r.l.	–	–	–	298
Medinvest International S.c.a.	–	–	782	–
Naturapack S.r.l.	1,515	499	–	–
Luca Poggi	13	–	210	–
Sporting Club Gira S.r.l.	–	–	304	–
Viaggi Nuova Era S.r.l.	–	–	3,101	3
Vima S.r.l.	18	4,857	462	–

Related party receivables and payables included in the consolidated balance sheet are trade receivables and payables.

Other related party costs included in the consolidated statement of income mainly relate to rent expense.

The transactions listed above mainly relate to the Parent Company.

For the overall impact of related party transactions on the consolidated financial statements at December 31, 2004, reference should be made to the relevant section of the notes.

## IAS/IFRS TRANSITION

Under Regulation (EC) No. 1606/2002 regarding the application of international accounting standards from the year 2005, any company that holds financial instruments listed in regulated markets is required to prepare consolidated accounts according to the international accounting standards approved by the European Union.

In order to handle the transition process properly, the IMA Group had started actions for the adoption of the new standards since the half-year report 2003. Specifically, the Group prepared an opening balance sheet as of transition date (January 1, 2004), and quarterly balance sheets and statements of income for comparison in 2005, as well as an overview of effects on stockholders' equity and result for the year as of December 31, 2004.

The IMA Group is going to adopt the new standards starting from the first quarterly report 2005 for the Group accounts and from January 1, 2006 for the Parent IMA S.p.A. accounts. To that end, independent auditors PricewaterhouseCoopers S.p.A. have been appointed to control transition process information and are still working on it.

Below are the main effects of the adoption of IAS/IFRS. This information is preliminary and subject to changes. It was based on currently applicable IAS/IFRS according to currently available interpretations.

millions of euros January 1, 2004 (transition date)	Net debt	Group equity
• Current accounting standards	68.5	95.9
• IAS/IFRS	73.6	106.5
<b>Effect of adoption of new standards</b>	<b>5.1</b>	<b>10.6</b>

millions of euros December 31, 2004	Net debt	Group equity
• Current accounting standards	71.6	93.6
• IAS/IFRS	74.1	107.6
<b>Effect of adoption of new standards</b>	<b>2.5</b>	<b>14.0</b>

The effect of the adoption of IAS/IFRS on net debt is essentially due to:

- different recognition of debt assignment to factoring companies, because new standards apply stricter requirements for the recognition of debt assignment on a final basis. The result is an increase in net debt of €3.3 million as of December 31, 2004 (€5.8 million as of transition date);
- valuation of loans for applied research and technological innovation at amortized cost and valuation of some financial instruments at fair value. The result is a decrease in net debt of €0.8 million as of December 31, 2004 (€0.7 million as of transition date).

The effect of the adoption of IAS/IFRS on Group equity is essentially due to:

- valuation of some tangible assets (under Land and Buildings) at fair value, in compliance with IFRS 1; the effect of such valuation is €8.0 million, net of tax effects at December 31, 2004 (€8.2 million as of transition date);
- impact of goodwill amortization and goodwill arising on consolidation on the statement of income 2004 amounting to €4.1 million, net of tax effects, because according to IAS/IFRS goodwill is not amortized annually, but is subject to an annual impairment test;
- different valuation of intangible assets, inventories, termination indemnities, and derivative financial instruments amounting to €1.9 million as of December 31, 2004 (€2.4 million as of transition date).

millions of euros year 2004	Net revenues	Operating income	Group net income
• Current accounting standards	371.1	32.0	13.3
• IAS/IFRS	371.9	36.9	17.1
<b>Effect of adoption of new standards</b>	<b>0.8</b>	<b>4.9</b>	<b>3.8</b>

The effect of the adoption of IAS/IFRS on operating income is essentially due to:

- lower costs for goodwill amortization and goodwill arising on consolidation, as described above (€5.3 million);
- other minor negative impacts amounting to €0.4 million.

The effect of the adoption of IAS/IFRS on Group equity is essentially due to the above effects, net of tax effects.

PERFORMANCE OF IMA S.P.A.

Our commentary on Group performance has implicitly covered the activities of the parent company, whose sales, including those to marketing subsidiaries, accounted for 80% of the IMA Group's consolidated net revenues.

Libra P.T S.r.l. and Ignition Team S.r.l., wholly-owned subsidiaries, were absorbed by IMA S.p.A. with effect from January 1, 2004. As a result of this move to simplify the corporate structure, the data reported in the financial statements for 2004 is partly comparable with that for 2003. Accordingly, in order to provide meaningful comparative information, merger effects on the most relevant items have been highlighted in the Notes.

STATEMENT OF INCOME

The highlights of the parent company's results for 2004 are summarized below on a comparative basis:

millions of euros	2004		2003		Change %
	Amount	%	Amount	%	
<b>Net revenues</b>	<b>298.07</b>		<b>273.73</b>		<b>8.9</b>
Cost of sales	(177.04)		(159.69)		
<b>Gross industrial income</b>	<b>121.03</b>	<b>40.6</b>	<b>114.04</b>	<b>41.7</b>	<b>6.1</b>
R&D costs	(15.90)		(14.88)		
Selling costs	(43.73)		(35.21)		
General and administr. costs	(35.95)		(31.57)		
<b>Net operating income before amortization of goodwill and goodwill arising on consolidation (E.B.I.T.A.)</b>	<b>25.45</b>	<b>8.5</b>	<b>32.38</b>	<b>11.8</b>	<b>(21.4)</b>
Amortization of goodwill	(1.91)		(1.91)		
<b>Net operating income</b>	<b>23.54</b>	<b>7.9</b>	<b>30.47</b>	<b>11.1</b>	<b>(22.8)</b>
Net financial income (expense)	(2.11)		(1.19)		
Dividends	2.38		9.60		
Writedown of equity investments	–		(1.97)		
Accelerated depreciation	–		(1.81)		
Extraordinary items, net	4.09		2.29		
<b>Result before income taxes</b>	<b>27.90</b>	<b>9.4</b>	<b>37.39</b>	<b>13.7</b>	<b>(25.4)</b>
Income taxes	(11.80)		(16.47)		
<b>Net income for the year</b>	<b>16.10</b>	<b>5.4</b>	<b>20.92</b>	<b>7.6</b>	<b>(23.1)</b>
<b>Gross operating income (E.B.I.T.D.A.)</b>	<b>34.01</b>	<b>11.4</b>	<b>39.29</b>	<b>14.4</b>	<b>(13.4)</b>

The company reported net income of €16.10 million in 2004, a decrease from the prior year.

Net revenues rose 3% compared with 2003 on a consistent comparative basis.

The lower incidence of gross industrial income on net revenues was due to the reasons described in relation to Group performance and, above all, to the impact of the deterioration of the US dollar-euro exchange rate over the year.

R&D costs were broadly unchanged at around 5.3% of net revenues.

Selling costs increased as a percentages of net revenues to 14.6%.

This rise was solely due to the increase in commissions paid, due to greater revenues and the increase in business coverage through subsidiaries.

The main changes in non-operating items of the Statement of Income are:

- decrease in dividends by €7.22 million following the absorption of Libra P.T. S.r.l., and the statutory change in recognition of tax credits;
- due to statutory changes, elimination of “tax interferences” in the financial statements, which resulted in non-recognizing accelerated depreciation and recognizing as extraordinary gain the elimination of the connected tax benefits from prior years.

**REPORT ON OPERATIONS  
BY BUSINESS**

The following schedule analyzes operations during 2004 by business sector, as required by Consob decision no. 98084143 of October 27, 1998.

millions of euros	Tea	Packaging	Process	Other	Total
Net revenues	63.94	170.13	64.00		298.07
Net operating income before amortization and goodwill	17.67	3.11	4.68		25.45
Net operating income	17.67	2.77	3.10		23.54
Net capital invested	8.89	24.41	27.81	63.90	125.01
R&D costs	3.38	10.31	2.21		15.90
Personnel at Dec. 31, 2004 (*)	226	877	207	178	1,488
Order book	43.94	79.17	19.36		142.47

*(\*) The personnel allocated to the various sectors are those directly employed in those sectors, while the figure reported in the “Other” column reflects those employed in the administrative and central offices.*

Net capital invested includes €9.23 million in goodwill relating to the process sector. The amount of net capital invested reported in the “Other” column mainly comprises the value of equity investments and financial receivables due from group companies and tax credits and debits.

Comments on the performance of the various sectors of activity have already been presented in the section dedicated to the performance of the Group.

**EMPLOYEES**

As at December 31, 2004, IMA S.p.A. employed 1,488 persons compared with 1,368 at the end of 2003.

The breakdown of the workforce by grade is summarized below:

	Dec. 31, 2004	Dec. 31, 2003
Managers	44	42
Clerical staff	1,094	998
Factory workers	350	328
<b>Total</b>	<b>1,488</b>	<b>1,368</b>

The absorption of Libra Pharmaceutical Technology S.r.l. and Ignition Team S.r.l. BFB S.p.A. with effect from January 1, 2004, increased employment by 105 persons.

**PERSONNEL COSTS**

Personnel costs totaled €74.77 million compared with €71.54 million in the prior year on a consistent comparative basis.

This increase (+4.5%) is in line with the rise in personnel costs during 2003 of about 5%.

**BALANCE SHEET AND FINANCIAL POSITION**

The company's balance sheet and financial position as at December 31, 2004 are summarized below:

millions of euros	Dec. 31, 2004		Dec. 31, 2003		Change %
	Amount	%	Amount	%	
Trade receivables	64.39	47.6	62.61	48.0	2.8
Inventories	97.65	72.2	87.50	67.0	11.6
Trade payables	(112.54)	(83.2)	(99.80)	(76.5)	12.8
Other payables, net	(14.46)	(10.7)	(16.86)	(12.9)	(14.3)
<b>Operating capital</b>	<b>35.04</b>	<b>25.9</b>	<b>33.45</b>	<b>25.6</b>	<b>4.8</b>
Intangible fixed assets	17.34	12.8	17.73	13.6	(2.2)
Tangible fixed assets, net	43.42	32.1	37.30	28.6	16.4
Equity investments and financial fixed assets	59.33	43.9	49.97	38.3	18.7
<b>Fixed assets</b>	<b>120.09</b>	<b>88.8</b>	<b>105.00</b>	<b>80.5</b>	<b>14.4</b>
Employee termination indemnities and other	(19.85)	(14.7)	(8.00)	(6.1)	148.2
<b>Net capital invested</b>	<b>135.28</b>	<b>100.0</b>	<b>130.45</b>	<b>100.0</b>	<b>3.7</b>
<b>FINANCED BY :</b>					
<b>Net debt</b>	<b>50.91</b>	<b>37.6</b>	<b>53.02</b>	<b>40.6</b>	<b>(4.0)</b>
<b>Stockholders' equity</b>	<b>84.37</b>	<b>62.4</b>	<b>77.43</b>	<b>59.4</b>	<b>9.0</b>
<b>Total sources of finance</b>	<b>135.28</b>	<b>100.0</b>	<b>130.45</b>	<b>100.0</b>	<b>3.7</b>

Operating capital is essentially in line with that for the prior year, despite the absorption of Libra P.T. S.r.l. and Ignition Team S.r.l., mainly due to incisive action to reduce capital invested in this area.

Fixed assets increased mainly due to the elimination of “tax interferences” (accelerated depreciation), and the acquisition of 90.68% of the Nova Group in September 2004.

Investment in tangible and intangible assets were equivalent to amortization and depreciation.

Net debt, amounting to €50.91 million, decreased from December 31, 2003 (€53.02 million, less €0.7 million of liquid assets from absorbed companies).

This is very good, considering that this figure is net of dividends paid (€14.4 million) and the acquisition of the Nova Group (€12.5 million).

**STATEMENT OF CASH FLOWS**

The following statement of cash flows relates to the years ended December 31, 2004 and 2003. The pro forma statement of cash flows for 2003 has been presented since this better reflects the operating cash flows during the year.

millions of euros	2004	2003 PF
Net operating income	23.54	30.46
Amortization and depreciation	8.55	8.72
Amortization of goodwill	1.91	1.91
Investment in fixed assets (net)	(9.76)	(9.15)
Change in operating capital	(1.60)	8.97
Change in other assets / liabilities	9.52	(4.04)
<b>Cash flow from operations</b>	<b>32.16</b>	<b>36.87</b>
Net financial income (expense)	(2.11)	(1.19)
Dividends	2.38	9.60
Extraordinary items and accelerated depreciation	–	(1.48)
Taxes	(11.80)	(16.47)
<b>Cash flow from ordinary activities</b>	<b>20.63</b>	<b>27.33</b>
Change in equity investments and goodwill	(9.36)	(0.40)
<b>Cash flow from extraordinary activities</b>	<b>11.27</b>	<b>(0.40)</b>
Dividends paid to stockholders	(14.44)	(28.56)
Other changes in stockholders' equity	5.28	–
<b>Change in net debt</b>	<b>2.11</b>	<b>(1.63)</b>

#### STOCKHOLDERS' EQUITY

Stockholders' equity as of December 31, 2003 of €84.37 million decreased during the year by €6.94 million due to the net effect of the following movements:

Dividends paid during the year	(14.44)
Merger surplus	5.28
Net income for the year	16.10
<b>Total</b>	<b>6.94</b>

#### TREASURY STOCK

No treasury stock is held as of December 31, 2004. No transactions took place during the year. In 2005 no. 1,349,121 shares amounting to €13.31 million were purchased, as resolved by the Stockholders in the Meeting of 26 April 2004.

#### COMPANY LOCATIONS

The activities of IMA S.p.A. are carried out at the following locations:

Via Tosarelli, 184	Castenaso (BO)	Head office
Via 1° Maggio, 14/16	Ozzano dell' Emilia(BO)	Factory and offices
Via Emilia, 428/442	Ozzano dell'Emilia (BO)	Factory and offices
Via Emilia, 237	Ozzano dell'Emilia (BO)	Offices
Via Emilia, 217/219	Ozzano dell'Emilia (BO)	Factory and offices
Via S. Pietro, 16/18/20	Ozzano dell'Emilia (BO)	Factory and offices
Via Romagnoli, 2	Bentivoglio (BO)	Factory and offices
Via Romagnoli, 9/3	Bentivoglio (BO)	Factory and offices
Via Romagnoli, 13	Bentivoglio (BO)	Factory and offices
Via Romagnoli, 11-11/2	Bentivoglio (BO)	Factory and offices
Via F. Petrarca, 34/38/40	Calenzano (FI)	Factory and offices

## OTHER INFORMATION

### SIGNIFICANT EVENTS AFTER YEAR-END

With effective date 1 January 2005, IMA S.p.A. absorbed the wholly-owned subsidiary Comitec S.r.l.. The merger is part of the strategy to simplify the IMA Group's shareholding structure.

In January and February 2005 no. 1,349,121 treasury stocks were purchased. The stocks were purchased to stabilize the stock price, as required by Consob decision no. 92005334 of July 23, 1992.

### PERFORMANCE DURING THE CURRENT YEAR

Following below-expectations results for 2004, we are preparing prudent estimates for 2005.

On a consistent comparative basis, opening order backlog is slightly higher than that for 2004 (€154.1 million from €151.4 million at the start of 2004); however the number of negotiations at the final stage is much greater. Therefore, we believe it is very prudent to estimate a growth in revenues, on a consistent comparative basis, between 3% and 5%. When we add the Nova Group's revenues for the entire year, estimated net revenues are slightly greater than €400 million. With regard to estimated operating income, in 2005 there will no longer be the effects of the exceptional events which adversely affected the 2004 result, and the Group will benefit from the corrective measures adopted. However, it is still premature to assume remarkably different competitive scenario and demand performance with respect to those for the last two years. But it is quite difficult that the aggressive discount policy of some competitors can last for long, as revealed during the latest negotiations. Therefore, tentatively assuming an unfavorable scenario, estimated operating income 2005 is slightly higher than €40 million. This assumption is also affected by the further strong weakening of the US dollar at the end of 2004. As a percentage, this weakening is very much like the one at the end of 2003. Margin recovery, an estimate of €10 million, following increases in US dollar prices in 2004, will be thwarted. At the start of 2005 US dollar prices were again adjusted to the new exchange rates, but effects will only be felt starting later in the year.

With regard to estimated net debt, if the previous years' capital invested policy is maintained, debt will decrease.

Net revenues through the end of February totaled €31.40 million, of which €1.52 million was from the Nova Group, an increase from the prior-earlier period (€22.81 million).

The order book as of February 28, 2005 was €166.79 million, of which €4.26 million was from the Nova Group. Accordingly, orders acquired during the first two months of the current year are in line with orders acquired during the first two months of 2004, which were very good.

## TRANSACTIONS WITH PARENT COMPANIES AND OTHER GROUP COMPANIES

With regard to relations with parent companies, IMA S.p.A. is 51% owned by Fin Vacchi Finanziaria Vacchi S.p.A., itself a subsidiary of Lopam Fin S.p.A. As disclosed below and in the explanatory notes, there were no dealings of any significance with parent companies Fin Vacchi S.p.A. and Lopam Fin S.p.A. during the year. There were no transactions with Lopam Fin S.p.A. IMA S.p.A. has dealings mainly of a commercial nature with the Group's manufacturing companies, involving the purchase and sale of machines required for the assembly of complete product lines. It also provides these companies with administrative services.

IMA's dealings with the Group's marketing companies relate to the sale, distribution and related customer service activities in their respective territories of products manufactured by IMA's various divisions. IMA's manufacturing subsidiaries have similar relationships with the marketing companies. The holding companies own the Group's interests in some of its foreign companies, and have dealings of a financial nature with them. Service companies have been formed as a result of the outsourcing of non-strategic activities. They work mainly for the Group, but also for other companies.

To summarize, the parent company, IMA S.p.A., manufactures packaging and filling equipment for the tea and pharmaceutical sectors, as well as end-of-line machines for the pharmaceutical and cosmetics markets. The entire product range is sold via the marketing companies, which also provide customer service in their various territories; sales in regions not covered by Group companies are made through an extensive network of agents.

The principal financial and operating information of subsidiary companies is provided in the section entitled "Summary of the financial statements of subsidiary companies".

The effect of transactions between Group companies on the 2004 financial statements is reported below.

## RECEIVABLES

thousands of euros	2004	2003
Trade receivables		
• Subsidiary companies	20,171	16,033
• Associated companies	–	–
• Parent companies	–	3
	<b>20,171</b>	<b>16,036</b>
Financial receivables		
• Subsidiary companies	10,267	15,349
	<b>10,267</b>	<b>15,349</b>
Others		
• Subsidiary companies	–	6,000
	–	<b>6,000</b>
<b>Total</b>	<b>30,438</b>	<b>37,385</b>

Trade and financial receivables derive mainly from the sale of goods in the ordinary course of business, from the provision of administrative and marketing services, and from the granting of loans.

**PAYABLES**

thousands of euros	2004	2003
Trade payables		
• Subsidiary companies	25,713	22,924
• Associated companies	491	562
• Parent companies	–	14
	<b>26,204</b>	<b>23,500</b>
Other payables		
• Subsidiary companies	1,947	2,299
	<b>1,947</b>	<b>2,299</b>
<b>Total payables</b>	<b>28,151</b>	<b>25,799</b>

Trade payables derive from services received, the supply of goods and commissions. Other payables relate to the capital stock not yet paid into Ima Pacific Company Ltd and the amount due to Holteco B.V. for the purchase of the equity investment in Precision Gears Pvt. Ltd.

**MEMORANDUM ACCOUNTS**

thousands of euros	Dec. 31, 2004	Dec. 31, 2003
<i>Unsecured guarantees given</i>		
Guarantees given in the interests of:		
• Subsidiary companies	44,499	19,754
	<b>44,499</b>	<b>19,754</b>
Letters of patronage in the interests of:		
• Subsidiary companies	24,243	13,547
	<b>24,243</b>	<b>13,547</b>
<b>Total memorandum accounts</b>	<b>68,742</b>	<b>33,301</b>

The various forms of guarantee given in the interests of subsidiary companies assist the lines of credit and loans granted to them by the banking system, and also secure an obligation to a leasing company.

**VALUE OF PRODUCTION**

REVENUES

thousands of euros	2004	2003
• Subsidiary companies	52,754	47,149
• Associated companies	–	–
• Parent companies	2	2
<b>Total</b>	<b>52,756</b>	<b>47,151</b>

Revenues from subsidiary companies essentially derive from the sale of goods in the ordinary course of business and from the provision of administrative and marketing services.

**PRODUCTION COSTS**

RAW, ANCILLARY AND CONSUMABLE MATERIALS AND GOODS FOR RESALE

thousands of euros	2004	2003
• from subsidiary companies	2,188	8,665
• from associated companies	2,042	2,322
<b>Total</b>	<b>4,230</b>	<b>10,987</b>

SERVICES

thousands of euros	2004	2003
• from subsidiary companies	26,849	23,553
• from associated companies	273	329
<b>Total</b>	<b>27,122</b>	<b>23,882</b>

OTHER OPERATING EXPENSES

thousands of euros	2004	2003
• from subsidiary companies	97	63
<b>Total</b>	<b>97</b>	<b>63</b>

The costs charged by Group companies mainly relate to the purchase of machines, agency commissions and consultancy.

**FINANCIAL INCOME AND EXPENSE**

OTHER FINANCIAL INCOME

thousands of euros	2004	2003
• Interest on amounts due from subsidiaries	428	437
<b>Total</b>	<b>428</b>	<b>437</b>

This interest relates to loans made.

INTEREST AND OTHER FINANCIAL EXPENSE

thousands of euros	2004	2003
• Interest and other financial expense from parent companies	25	14
<b>Total</b>	<b>25</b>	<b>14</b>

This relate to interest and charges on guarantees given.

**IMA SPA'S  
TRANSACTIONS WITH  
RELATED PARTIES**

With regard to financial and economic related party transactions, which have been mainly made by directors of the Parent Company, reference should be made to the above section "Group performance". Amounts for IMA S.p.A. are not much different from those for the Group.

Details of items in the Balance Sheet and the Statement of Income involved in related party transactions are provided in the Explanatory Notes.

**CONSOB  
RECOMMENDATIONS  
97001574 OF FEBRUARY 20,  
1997 AND 98015375 OF  
FEBRUARY 27, 1998**

The Company has complied with the recommendations made by Consob in its communications 97001574 of February 20, 1997 and 98015375 of February 27, 1998 since their enactment; in detail:

- article 17 of the Company's articles of association requires, since a long time ago, that the directors to whom powers have been delegated, provide an up-to-date report during board meetings and, in any case, at least every quarter, on the results of their activities and on the most important operations undertaken by the Company and its subsidiaries and any transactions that may present a potential

conflict of interests. This provision means that the Board of Statutory Auditors receives the information required under article 150 of Decree Law 58 of February 24, 1998, while allowing the other members of the Board of Directors to have regular information concerning the conduct of those directors invested with executive powers.

The reform of company law requires that the persons with delegated powers report to the Board of Directors and the Board of Statutory Auditors, with the frequency specified in the Statute (every quarter in the Company's case), on the results of operations and the outlook for the future, as well as on the principal transactions, in terms of size and nature, carried out by the Company and its subsidiaries; there was no need for compliance with these new provisions;

- the directors with delegated powers have therefore provided proper and timely information on significant transactions carried out in the exercise of their powers, including major transactions carried out within the Group. Transactions with related parties can exclusively be authorized by (and cannot be delegated to) the Board of Directors, except for those that the Company carries out with its subsidiaries. In this latter case, the Board must still always give consent for transactions with a major economic, capital or financial impact. This Board responsibility was confirmed by the resolution adopted at the meeting held on May 5, 2003, regarding the delegation of operational powers;
- certain members of the Board of Statutory Auditors of IMA also hold positions at CO.Ma.DI.S. S.p.A. and INFO AREA S.r.l.; many of the subsidiaries are governed by foreign laws, while other Italian companies do not meet the requirements for appointing a Board of Statutory Auditors.

## CORPORATE GOVERNANCE AND CODE OF CONDUCT

For information on the Company's system of Corporate Governance and its application of the Code of Conduct, you are referred to the communication provided to stockholders together with documentation for the annual general meeting. This communication was made in accordance with Section IA.2.14. of the Instructions for the Regulation of organized markets managed by Borsa Italiana S.p.A. dated March 1, 2005.

Pursuant to art. 4.3 of the Code of Self-Regulation, it is confirmed that the Board Meeting held on May 5, 2003, granted the Chairman powers of ordinary and extraordinary administration, with certain exceptions that are set out on page 6 of this report.

The reason for this decision is that, despite the presence of a Managing Director, the Chairman has also been given operational responsibilities.

As per art. 1.3 of the Code of Conduct, the Board hereby discloses the other directorships and auditor positions held by the Company's directors in listed companies, including foreign companies, and in finance companies, banks, insurance companies and other large companies, based on declarations received from these persons:

### **Paolo Braghieri**

- Interbanca Gestione Investimenti (Director)

### **Andrea Malagoli**

- Fin Vacchi Finanziaria Vacchi S.p.A. (Managing Director)

### **Italo Giorgio Minguzzi**

- Ferretti S.p.A. (Statutory Auditor)
- Ducati S.p.A. (Statutory Auditor)
- GRTN S.p.A. (Member of the Board of Directors)

**Luca Poggi**

- Emil Europe '92 S.r.l. (Chairman of the Board of Statutory Auditors)
- Immobiliare Nettuno S.p.A. (Statutory Auditor)
- San Paolo IMI Insurance Broker S.p.A. (Chairman of the Board of Statutory Auditors)
- Consumer Financial Service S.r.l. (Statutory Auditor)
- SIX S.p.A. (Statutory Auditor)
- S.E.A. Società Europea Autocaravan S.p.A. (Statutory Auditor)

**Maria Carla Schiavina**

- Fin Vacchi Finanziaria Vacchi S.p.A. (Member of the Board of Directors)

**Marco Vacchi**

- Fin Vacchi Finanziaria Vacchi S.p.A. (Chairman)
- Lopam Fin S.p.A. (Chairman)
- B Group S.p.A. (Vice Chairman)
- Banca di Bologna Credito Cooperativo SCRL (Member of the Board of Directors)
- Fondazione Cassa di Risparmio in Bologna (Stockholder)

**Alberto Vacchi**

- Fin Vacchi Finanziaria Vacchi S.p.A. (Member of the Board of Directors)
- B Group S.p.A. (Member of the Board of Directors)
- ALVA s.r.l. (Sole Director)

**Gianluca Vacchi**

- Fin Vacchi Finanziaria Vacchi S.p.A. (Member of the Board of Directors)
- Cofiva Holding S.p.A. (Sole Director)
- G.V. Invest S.r.l. (Sole Director)
- AL.GI. S.r.l. (Sole Director)
- W.I.N. Web Investment Network N.V. (Director)
- Cofiva S.A. (Director)
- Medinvest International SCA (Member of the Supervisory Board)
- S.E.A. Società Europea Autocaravan S.p.A. (Member of the Board of Directors)

**Romano Volta**

- Datalogic S.p.A. (Chairman)
- Datasensor S.p.A. (Chairman)
- Aczon Pharma S.p.A. (Chairman)
- San Paolo IMI Fondi Chiusi SGR S.p.A. (Member of the Board of Directors)
- Summa Finance (Chairman)
- Fondazione Cassa di Risparmio in Bologna (Stockholder and Member of the Steering Council)

**Stefano Visentini**

- La Roggia S.p.A. (Member of the Board of Directors)

**CONSOB DECISION NO.11971  
OF MAY 14, 1999**

In compliance with the requirements of this decision, the following schedule sets out the equity investments held by directors, statutory auditors, general managers and their spouses and under-age children in IMA and its subsidiary companies.

Name and surname	Company held	No. shares held at end of previous year	No. shares purchased	No. shares sold	No. shares held at end of current year
Piero Aicardi	IMA S.p.A.	3,000	–	–	3,000
Gino Benedetti	IMA S.p.A.	65,000	–	–	65,000
Luca Poggi	IMA S.p.A.	200,000	–	–	200,000
Alberto Vacchi	IMA S.p.A.	9,884	–	–	9,884
Gianluca Vacchi	IMA S.p.A.	4,742,843	–	4,105,540	637.303
Stefano Visentini	IMA S.p.A.	73,500	–	–	73,500
Romano Volta	IMA S.p.A.	42,000	–	–	42,000

THE CHAIRMAN OF THE BOARD OF DIRECTORS  
MARCO VACCHI

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CONSOLIDATED BALANCE SHEET AND  
CONSOLIDATED STATEMENT OF INCOME  
AS OF DECEMBER 31, 2004

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I . M . A . I N D U S T R I A M A C C H I N E A U T O M A T I C H E S . P . A .  
A N D S U B S I D I A R I E S

## CONSOLIDATED BALANCE SHEET

AS OF DECEMBER 31, 2004 COMPARED WITH DECEMBER 31, 2003 (THOUSANDS OF EURO)

ASSETS	December 31, 2004		December 31, 2003	
	Partial	Total	Partial	Total
<b>A. SUBSCRIBED CAPITAL</b>				
UNPAID		-		-
<b>B. FIXED ASSETS</b>				
<i>I. Intangible assets</i>				
Incorporation and subsequent expenses	621		874	
Research and development costs	-		-	
Industrial patent and intellectual property rights	692		549	
Concessions, licenses, trademarks and similar rights	4.001		4.783	
Goodwill	16.082		14.251	
Goodwill arising on consolidation	24.395		20.233	
Assets under development and payments on account	2.521		587	
Other intangible assets	2.068		1.712	
<i>Total intangible assets</i>		50.380		42.989
<i>II. Tangible assets</i>				
Land and buildings	35.356		31.346	
Plant and machinery	16.635		15.155	
Industrial and commercial equipment	1.893		2.044	
Other tangible assets	4.289		3.831	
Assets under construction and payments on account	1.346		6.287	
<i>Total tangible assets</i>		59.519		58.663
<i>III. Financial assets</i>				
Investments in				
- subsidiaries	25		25	
- associated companies	488		388	
- other companies	71		71	
Receivables from others	763		1.021	
Other securities	3.199		3.641	
<i>Total financial assets</i>		4.546		5.146
<b>TOTAL FIXED ASSETS (B)</b>		114.445		106.798
<b>C. CURRENT ASSETS</b>				
<i>I. Inventories</i>				
Raw materials, supplies and consumable stores	12.877		12.079	
Work in progress and semi-finished goods	97.934		96.115	
Contract work in progress	14.302		6.596	
Finished goods and merchandise	3.555		2.617	
Advances	2.735		3.633	
<i>Total inventories</i>		131.403		121.040
<i>II. Receivables and collectibility</i>				
Receivables due after one year				
- From customers	334		941	
- Deferred tax assets	2.772		3.099	
- From others	194		73	
Total receivables due after one year		3.300		4.113
Receivables due within one year				
- From customers	74.954		75.726	
- From subsidiaries	-		77	
- From parent companies	-		3	
- From the Tax Office	8.225		4.663	
- Deferred tax assets	3.742		3.607	
- From others	3.329		2.606	
Total receivables due within one year		90.250		86.682
<i>Total receivables</i>		93.550		90.795
<i>III. Current financial assets</i>				
Marketable securities	556		340	
Current financial receivables	163		127	
<i>Total current financial assets</i>		719		467
<i>IV. Cash and cash equivalents</i>		50.304		54.827
<b>TOTAL CURRENT ASSETS (C)</b>		275.976		267.129
<b>D. ACCRUED INCOME AND PREPAID EXPENSES</b>		3.046		2.619
<b>TOTAL ASSETS</b>		393.467		376.546

**CONSOLIDATED BALANCE SHEET**

AS OF DECEMBER 31, 2004 COMPARED WITH DECEMBER 31, 2003 (THOUSANDS OF EUROS)

LIABILITIES	December 31, 2004		December 31, 2003	
	Partial	Total	Partial	Total
<b>A. STOCKHOLDERS' EQUITY</b>				
<i>I. Capital stock</i>	18.772		18.772	
<i>II. Share premium reserve</i>	16.382		16.382	
<i>III. Revaluation reserves</i>	395		395	
<i>IV. Legal reserve</i>	4.323		4.397	
<i>V. Reserve for treasury stocks in portfolio</i>	–		–	
<i>VI. Other reserves</i>	24.175		17.801	
<i>VII. Accumulated translation adjustments</i>	(2.567)		(1.413)	
<i>VIII. Retained earnings/losses carried forward</i>	18.785		20.562	
<i>IX. Net income of the Group</i>	13.297		18.963	
<b>Total consolidated stockholders' equity - Group</b>		93.562		95.859
<b>Capital and reserves of minority interests</b>		2.947		2.246
CONSOLIDATED STOCKHOLDERS' EQUITY OF THE GROUP AND MINORITY INTERESTS (A)		96.509		98.105
<b>B. PROVISIONS FOR RISKS AND CHARGES</b>				
Other provisions	6.911		6.096	
<b>TOTAL PROVISIONS FOR RISKS AND CHARGES (B)</b>		6.911		6.096
<b>C. PROVISION FOR EMPLOYEE TERMINATION INDEMNITIES</b>		22.528		21.453
<b>D. PAYABLES AND COLLECTIBILITY</b>				
Payables due after one year				
- Banks	47.876		44.170	
- Other lenders	6.513		7.394	
- Suppliers	2		10	
- Social security institutions	25		–	
- Others	2.424		–	
Total payables due after one year		56.840		51.574
Payables due within one year				
- Banks	70.375		74.627	
- Other lenders	1.038		1.238	
- Advances	40.168		28.379	
- Suppliers	73.445		69.722	
- Associated companies	491		562	
- Parent companies	–		14	
- Taxes payable	3.969		4.772	
- Social security institutions	4.174		3.904	
- Others	11.459		11.123	
Total payables due within one year		205.119		194.341
<b>TOTAL PAYABLES (D)</b>		261.959		245.915
<b>E. ACCRUED EXPENSES AND DEFERRED INCOME</b>		5.560		4.977
<b>TOTAL LIABILITIES</b>		<b>393.467</b>		<b>376.546</b>
<b>MEMORANDUM ACCOUNTS</b>				
Guarantees given	10.213		8.396	
Contingencies	12.392		14.998	
Commitments	73.076		47.679	
<b>TOTAL MEMORANDUM ACCOUNTS</b>		<b>95.681</b>		<b>71.073</b>

**CONSOLIDATED STATEMENT OF INCOME**

FOR THE YEAR 2004 COMPARED WITH 2003 (THOUSANDS OF EUROS)

	2004		2003	
	Partial	Total	Partial	Total
<b>A. VALUE OF PRODUCTION</b>				
<i>Revenues from sales and services</i>		363.399		345.633
<i>Change in contract work in progress, semi-finished and finished goods</i>		121		(818)
<i>Change in contract work in progress</i>		7.706		4.679
<i>Capitalization of internal construction works</i>		2.059		1.608
<i>Other revenues and income</i>				
- operating grants	223		494	
- revenues and other income	2.472		3.159	
<i>Total other revenues and income</i>		2.695		3.653
<b>TOTAL VALUE OF PRODUCTION (A)</b>		<b>375.980</b>		<b>354.755</b>
<b>B. PRODUCTION COSTS</b>				
<i>Raw materials, supplies and consumable stores</i>		128.034		116.197
<i>Services</i>		78.789		71.497
<i>Rent, leasing and similar costs</i>		5.790		5.429
<i>Personnel costs</i>				
- wages and salaries	79.978		76.086	
- social contributions	23.239		22.317	
- employee termination indemnities	4.252		4.109	
- other costs	1.068		733	
<i>Total production costs</i>		108.537		103.245
<i>Amortization, depreciation and write-downs</i>				
- amortization of intangible fixed assets	8.712		8.833	
- depreciation of tangible fixed assets	7.151		6.818	
- write-downs of receivables included in current assets	390		382	
<i>Total, amortization, depreciation and write-downs</i>		16.253		16.033
<i>Change in raw materials, supplies, consumable stores and merchandise</i>		1.968		(493)
<i>Provision for risks and other provisions</i>		1.299		1.043
<i>Sundry operating expenses</i>		3.306		2.555
<b>TOTAL PRODUCTION COSTS (B)</b>		<b>343.976</b>		<b>315.506</b>
<b>OPERATING PROFIT (LOSS) (A-B)</b>		<b>32.004</b>		<b>39.249</b>
<b>C. FINANCIAL INCOME AND EXPENSES</b>				
<i>Income from investments</i>				
- dividends and other income from other companies	1		8	
<i>Total income from investments</i>		1		8
<i>Other financial income</i>				
- from securities classified under fixed assets other than investments	23		274	
- from securities classified under current assets other than investments:				
capital gains	-		756	
interest	13		15	
- income other than the above:				
other interest and financial income	2.218		2.006	
<i>Total other financial income</i>		2.254		3.051
<i>Interest expense and other financial charges</i>				
- other interest and expenses to parent companies	25		14	
- other interest and expenses	6.095		6.918	
<i>Total interest expense and other financial charges</i>		6.120		6.932
<i>Exchange gains (losses)</i>		(318)		(136)
<b>TOTAL FINANCIAL INCOME AND EXPENSES (C)</b>		<b>(4.183)</b>		<b>(4.009)</b>
<b>D. VALUE ADJUSTMENTS TO FINANCIAL ASSETS</b>				
<i>Revaluations</i>		100		77
<i>Write-downs</i>		-		64
<b>TOTAL VALUE ADJUSTMENTS TO FINANCIAL ASSETS (D)</b>		<b>100</b>		<b>13</b>
<b>E. EXTRAORDINARY INCOME AND EXPENSES</b>				
<i>Extraordinary income</i>				
- gains on disposal of fixed assets	-		45	
- other extraordinary income	-		1.488	
<i>Total extraordinary income</i>		-		1.533
<i>Extraordinary expenses</i>				
- losses on disposal of fixed assets	-		97	
- prior years' taxes	-		505	
<i>Total extraordinary expenses</i>		-		602
<b>TOTAL EXTRAORDINARY ITEMS (E)</b>		<b>-</b>		<b>931</b>
<b>RESULT BEFORE TAXES</b>		<b>27.921</b>		<b>36.184</b>
<i>Income taxes for the year</i>				
- current taxes	13.940		18.746	
- deferred taxes	820		(155)	
- prepaid taxes	(551)		(1.674)	
<i>Total taxes</i>		14.209		16.917
<b>NET INCOME INCLUDING MINORITY INTERESTS</b>		<b>13.712</b>		<b>19.267</b>
<b>NET INCOME ATTRIBUTABLE TO MINORITY INTERESTS</b>		<b>415</b>		<b>304</b>
<b>NET INCOME FOR THE YEAR</b>		<b>13.297</b>		<b>18.963</b>

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EXPLANATORY NOTES  
TO THE CONSOLIDATED FINANCIAL STATEMENT AS OF DECEMBER 31, 2004  
(TRANSLATION FROM THE ORIGINAL ISSUED IN ITALIAN)

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## **1) ACTIVITY OF GROUP COMPANIES**

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The IMA Group's main activity is the construction and sale of automatic machinery and related spare parts and accessories for the pharmaceutical, cosmetics and food markets.

The IMA Group acts as a trader of machines manufactured by other companies which complete the Group's range of products. Moreover, certain Group companies provide services also to third parties, as part of an outsourcing process of non-strategic activities.

## **2) STRUCTURE AND CONTENT OF CONSOLIDATED FINANCIAL STATEMENTS**

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The consolidated financial statements have been prepared in accordance with the regulations of paragraph III (Articles from 24 to 43) of Legislative Decree no. 127/91 and subsequent amendments, interpreted and integrated by the accounting principles issued by the Italian Accounting Profession and the Italian Accountancy Body ("OIC") and, as necessary, by the International Accounting Standards issued by the I.A.S.B. (International Accounting Standards Board).

The explanatory notes explain, analyze and in certain instances integrate consolidated financial statements information, and contain information required by Article 38 of Legislative Decree no. 125/91 and subsequent amendments. In addition, all supplementary information deemed necessary to give a true and fair view of the Group's financial position is provided even though it is not specifically required by law.

The consolidated financial statements at December 31, 2004 were prepared using the statutory financial statements of the individual consolidated companies as of the same date and drafted in accordance with applicable laws, except for the Indian subsidiary, whose statutory financial statements end at March 31, and preparing its interim accounts at December 31 for consolidation purposes only.

The financial statements were suitably modified, where necessary, to bring them in line with the accounting standards listed below and reclassified as to conform them with the form set forth in the current legislation taking into account the changes introduced in the Italian Civil Code by the Company Law Reform.

Significant events occurred after the closing of the financial year are illustrated in the Report on operations.

## **3) CONSOLIDATION PRINCIPLES**

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### **A) CONSOLIDATION METHODS**

Consolidation is carried out on a line-by-line basis. The criteria used in the application of this method are primarily the following:

- the book value of the equity investments held by the Parent Company or by other consolidated companies is written off against the related net equity, and the assets and liabilities of investee companies are entered in the consolidated accounts;
- the difference between the acquisition cost of the investments and the related net equity of the consolidated companies is allocated, if possible, to the assets to reflect their fair value and the unallocated portion is recorded under "Goodwill arising on consolidation" of intangible assets;

- significant transactions between consolidated subsidiaries are eliminated as well as debit and credit entries and unrealized income resulting from intercompany transactions, net of any tax effects;
- the portion of stockholders' equity attributable to minority interests is disclosed as a special heading, and the related net result for the year is shown separately in the consolidated statement of income;
- investments purchased or disposed of during the year are consolidated as long as they are held by the Group.

**B) CONVERSION OF FINANCIAL STATEMENTS OF FOREIGN COMPANIES TO EURO**

The financial statements of consolidated foreign companies outside the Euro Area are converted into euros by valuing balance sheet items at the year-end current exchange rate, and items on the income statement at the average rates for the year.

The differences arising from the conversion of the opening net equity at the current exchange rates at year-end and the conversion of the income statement items at the average rates for the period are included in a special heading of stockholders' equity named "Accumulated translation adjustments".

Exchange rates used are the following:

Currency	2004		2003	
	Year-end exchange rate	Average exchange rate	Year-end exch. rate	Average exchange rate
US Dollar	0.73416	0.80412	0.79177	0.88417
Pound sterling	1.41834	1.47362	1.41884	1.44571
Indian Rupee	0.01674	0.01776	0.01737	0.01884
Thai Baht	0.01880	0.01999	0.01999	0.02132

**4) SCOPE OF CONSOLIDATION**

The consolidated financial statements at December 31, 2004 include the accounts of IMA Industria Macchine Automatiche S.p.A. (Parent Company) and those of all of its directly and indirectly controlled subsidiaries according to Article 2359 of the Italian Civil Code, except for IMA Kilian Verwaltungs GmbH because of the reasons reported below.

The list of consolidated equity investments with indication of the consolidation method used is the following:

COMPANIES CONSOLIDATED USING  
THE LINE-BY-LINE  
METHOD

	HQ		Capital stock	Directly owned	Indirectly owned
<b>Italian companies:</b>					
• I.M.A. Industria Macchine Automatiche S.p.A.	Ozzano E. (BO)	EUR	18,772,000	Parent Company	
• CO.MA.DI.S. S.p.A.	Senago (MI)	EUR	1,540,000	100%	–
• Info Area S.r.l.	Ozzano E. (BO)	EUR	98,800	100%	–
• Comitec S.r.l.	Castel S. Pietro (BO)	EUR	52,000	100%	–
<b>Foreign companies:</b>					
• Luxteco International S.A.	Luxembourg	EUR	3,600,000	99.99%	–
• Holteco B.V.	Amsterdam (NL)	EUR	920,000	100%	–
• IMA UK Ltd.	Wokingham (GB)	LST	50,000	100%	–
• IMA North America Inc.	Bristol (USA)	USD	2,500	100%	–
• I.M.A. Est Verp. Handels GmbH	Vienna (A)	EUR	280,000	100%	–
• IMA Germany GmbH	Cologne (D)	EUR	90,000	100%	–
• IMA France E.u.r.l.	Rueil-Malmaison (F)	EUR	45,735	100%	–
• Precision Gears Pvt. Ltd.	Bombay (India)	RS	17,852,100	51%	–
• IMA Far East Co. Ltd.	Hong Kong	USD	6,672,969	–	100% (1)
• Zibo IMA Xinhua Machinery Manufacturing Co. Ltd.	Zibo (PRC)	USD	800,000	82%	–
• Zibo IMA Xinhua Pharmatech Co. Ltd.	Zibo (PRC)	USD	978,000	82%	–
• Tianjin IMA Machinery Co. Ltd.	Tianjin (PRC)	USD	200,000	65%	–
• Ima Pacific Co. Ltd.	Bangkok (Thailand)	THB	100,000,000	99.99%	–
• IMA Packaging and Processing Equipment (Beijing) Co. Ltd.	Beijing (PRC)	USD	850,000	100%	–
• Imautomatiche Lda	Madeira (P)	EUR	5,000	100%	–
• IMA Iberica Processing and Packaging S.L.	Barcelona (E)	EUR	590,000	100%	–
• IMA Kilian GmbH & Co. KG	Cologne (D)	EUR	3,600,000	–	100% (2)
• Packaging Systems Holdings LLC	Wilmington (USA)	USD	8,050,000	90.68%	–
• Nova Packaging Systems Inc.	Leominster (USA)	USD	8,050,000	–	90.68% (3)
• Swiftpack Automation Ltd.	Alcester (GB)	LST	1,403,895	–	90.68% (4)

**EQUITY INVESTMENTS VALUED  
USING THE  
EQUITY METHOD**

	HQ		Stock capital	Directly Owned	Indirectly owned
B.C. S.r.l.	Imola (BO)	EUR	36,400	30%	–

**EQUITY INVESTMENTS VALUED  
USING THE COST METHOD**

	HQ		Stock capital	Directly owned	Indirectly owned
IMA Kilian Verwaltungs GmbH	Cologne (D)	EUR	25,000	–	100% (2)

*Notes (detail of indirectly owned investments):*

(1) Owned by Luxteco Int. S.A. (99.38%) and Holteco B.V. (0.62%)

(2) Owned by IMA Germany GmbH

(3) Owned by Packaging Systems Holdings LLC

(4) Owned by Nova Packaging Systems Inc.

IMA Kilian Verwaltungs GmbH mainly operates as active partner of IMA Kilian GmbH & Co. KG. The investment in IMA Kilian Verwaltungs GmbH has been valued at cost as it is not significant for the purpose of giving a true and fair view of the consolidated financial statements.

**OTHER INFORMATION**

During the financial year 2004 the main changes in the scope of consolidation were as follows:

- Merger by incorporation of Libra P.T. S.r.l. and Ignition Team S.r.l. into IMA S.p.A. effective from 1 January 2004.
- As part of the reorganization of the Group productive and commercial policies in South-East Asia:
  - in February 2004 the 82% equity interest held in Zibo IMA Xinhua Machinery Manufacturing Co. Ltd. was transferred from IMA Far East Co. Ltd. to IMA SpA;
  - on April 13, 2004 the 53% equity interest held in Tianjin IMA Machinery Co. Ltd. was disposed of by IMA Far East Co. Ltd. to IMA SpA;
  - at the same time the Parent Company purchased an additional 12% stake in Tianjin IMA Machinery Co. Ltd. from the minority stakeholder Chan Nai Kit, and the total equity interest came to 65%.
- On September 29, 2004 IMA S.p.A. purchased 90.68% of Packaging Systems Holdings LLC, based in Delaware (USA); the remaining stakes of this company are held by its management with whom IMA S.p.A. has made a deal. Thanks to such deal IMA will have a call option on the remaining stocks against a put option granted on such stocks. Packaging Systems Holdings LLC owns 100% of the stake of Nova Packaging Systems Inc. based in Leominster (Massachusetts). Nova Packaging Systems was established in March 2004 after the spin-off of the pharmaceutical business of the North-American DT Industries Group which has, together with its 100% controlled subsidiary Swiftpack Automation Ltd. having registered office and production seat in Alcester (UK), pharmaceutical packaging brands such as Swiftpack, Lakso, Merrill, Kalish. The Nova Group is a global leader providing packaging equipment for capsules and tablets in bottle for the pharmaceutical industry (electronic counters). This is a packaging system as an



**B) TANGIBLE FIXED ASSETS**

Tangible assets are stated at purchase or production cost, or at their appraisal value if supplied. The values of certain assets are adjusted in accordance with specific provisions of law or in the case of merger put in place in previous accounting periods. Costs include the portion of additional charges and direct and indirect expenses reasonably related to the asset, except for financial charges.

Tangible assets are systematically depreciated on a straight-line basis depending on the estimated useful life of the asset. Depreciation rates are as follows:

- Properties 3%
- Plant and machinery 10% / 15.5% / 20%
- Industrial and commercial equipment 25%
- Other tangible assets:
  - Electronic office machines 40%
  - Office furniture and fittings 12% / 15%
  - Vehicles 20% / 25%

In the case of permanent impairment, regardless of the depreciation already recorded, the related asset is written down accordingly. Ordinary maintenance costs are charged in full to the statement of income.

Maintenance costs incurred to extend the estimated useful life of the asset are incorporated into the value of the asset to which they refer, and depreciated over its residual useful life.

**C) LEASED ASSETS**

Leased assets are stated as specified in document no. 17 of the International Accounting Standards Board (I.A.S.B.). It sets out that:

- the cost of leased assets is recorded within tangible assets and depreciated according to the straight-line method over the assets' useful lives. A payable to the leasing company reflecting the value of the leased asset is entered as a counter-item.
- lease instalments are accounted for to reflect interest from principal separately, and are deemed as the repayment of the payable to the lessor.

**D) FIXED INVESTMENTS AND SECURITIES**

Investments in unconsolidated associated and subsidiary companies are valued according to the equity method or at cost if significant. Investments in other companies are valued at purchase or subscription cost. The cost is reduced for permanent impairment if the investee companies have suffered losses, and sufficient profits to offset the losses are not expected to be earned in the near future.

Fixed-income receivables included under fixed assets are stated at purchase cost after issue premiums and discounts are recorded as accrued income/expenses.

The purchase cost of an asset is written down in case of permanent impairment.

**E) INVENTORIES**

Inventories are stated at the lower of purchase/production cost and corresponding market value or estimated realizable value. For raw materials, supplies and consumable stores, the cost is calculated according to the LIFO method, and for the other inventories based on the specific cost. The estimated realizable value takes account of possible manufacturing costs yet to be incurred, and direct selling expenses.

Obsolete or slow-moving inventories are valued according to their estimated utilization or sale in relation with the average duration of the production cycle.

Contract work in progress includes medium/long-term contracts. They are valued based on the fees accrued with a reasonable certainty according to the percentage-of-completion method and by applying the cost-to-cost method. Likely losses on contracts are charged in full to the statement of income in the period they become known.

#### **F) CURRENT FINANCIAL SECURITIES AND ASSETS**

These are stated at the lower of cost and market value calculated on the basis of prices at year-end.

#### **G) RECEIVABLES**

Receivables are stated at their expected realizable value.

#### **H) ACCRUALS AND DEFERRALS**

Accruals and deferrals include the portion of revenues and expenses covering two or more financial periods in accordance with the accruals method of accounting.

#### **I) PROVISIONS FOR RISKS AND CHARGES**

Provisions for risks and charges are accrued to cover certain or probable losses or liabilities whose amount and effective date are not determinable at year-end. The provisions reflect the best possible estimate based on available information. Potential risks for which no provisions have been made are outlined in the notes to the consolidated financial statements.

#### **L) PROVISION FOR EMPLOYEE TERMINATION INDEMNITIES**

The provision for employee termination indemnities is accrued to cover in full the liability due to employees in accordance with current legislation, national labor agreements and additional indemnities agreed at company level. The provision is subject to revaluation on the basis of indexes.

#### **M) PAYABLES**

Payables are stated at their nominal value.

#### **N) TAXES**

Income taxes are recorded by each consolidated company on the basis of a reasonable estimate of tax charges taking into account applicable tax exemptions and benefits, and tax credits due.

Deferred tax assets and liabilities are recognized on the temporary differences between the balance sheet carrying values of assets and liabilities and the related values recognized for tax purposes for each consolidated company.

Deferred tax assets and liabilities on consolidation adjustments are stated as well. In particular, deferred tax assets are recognized when it is probable that the company will earn future taxable income to cover which deferred tax assets will be utilized.

#### **O) CAPITAL AND OPERATING GRANTS**

Capital grants are directly disclosed, when the amounts become certain, as a special heading under Accrued Expenses and Deferred Income, and are charged to the statement of income over the residual useful lives of the fixed assets they refer to. Operating grants are accounted for in the statement of income when the related amounts become certain.

#### **P) REVENUE RECOGNITION**

Revenues from the sale of products are recognized at the moment the property is transferred, which generally coincides with shipping. Contract work in progress covering several years are recognized in the manner previously described.

#### **Q) TRANSLATION CRITERIA FOR FOREIGN CURRENCY ITEMS**

Assets and liabilities denominated in a foreign currency, except for fixed assets, are stated at the spot exchange rate at year-end, and the related exchange gains and losses are charged to the statement of income as financial revenues and costs.

Fixed assets denominated in a foreign currency are stated at the exchange rate in force at the time of their purchase or at the lower rate at year-end, if the reduction is deemed permanent.

Exchange differences realized when receivables and payables in foreign currency are collected/paid are recorded in the statement of income.

### **6) OTHER INFORMATION**

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#### **A) STATEMENT OF VALUE**

For a better reading and understanding of the consolidated financial statements figures are expressed in thousands of euros.

#### **B) INFORMATION BY BUSINESS SECTOR AND GEOGRAPHICAL AREAS**

In compliance with Consob requirements, the Report on operations includes a schedule summarizing information by business sector (tea, processing and packaging) on the performance of the Group's most significant operating sectors.

In addition, revenues by geographical area do not differ greatly from those described in the Report on operations: the distribution by geographical area is provided in a relevant section of the comments on the statement of income.

### C) ADJUSTMENT OF PRIOR YEAR FINANCIAL STATEMENTS

The consolidated financial statements have been properly adjusted to comply with the amendments and additions introduced by the Company Law Reform (Decree Law no. 6 of January 17, 2003 and subsequent amendments). In particular, the main adjustments relate to “Tax credits”, “Deferred tax assets”, “Accumulated translation adjustments” and “Income taxes for the year”. Furthermore, the “Provision for risks and charges for contract work in progress” existing at December 31, 2003 has been reclassified to decrease inventories.

### D) TRANSITION TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Based on Regulation (EC) no. 1725/2003 of the European Communities and as provided for by Regulation (EC) no. 1606/2002 of the European Parliament and of the Council, European companies whose shares are traded on a regulated market are required to adopt IASs/IFRSs when preparing 2005 consolidated accounts.

In order to pilot the transition to the new financial reporting standards, the IMA Group formed *ad-hoc* work teams in which an active part is played by those in charge of the various company functions that will be more affected by the change.

We summarize below the approach followed by the IMA Group for the transition to the international accounting standards:

1. Diagnosis and planning: analysis of the main accounting and organizational effects due to the application of the new standards and planning of activities to perform.
2. Detail of the impacts on the administrative processes and information systems.
3. Adaptation of the company systems and processes to the application of the new standards: implementation of the planned measures, training to internal resources, application of the new standards to the 2003 and 2004 financial statements in order to prepare the opening balance sheet and a comparison with the financial year 2005.
4. Based on the work performed until now and the importance of the assets impacted, the main effects of IFRSs chiefly involve the valuation of the following items:

Intangible Assets, according to IAS 38 and IFRS 3:

- development costs incurred by the Group will be capitalized and recorded within intangible assets;
- goodwill and goodwill arising on consolidation will be no longer amortized but will be tested for impairment annually.

Tangible Assets, according to IAS 16 and IFRS 1:

- certain tangible assets belonging to the category “Land and Buildings” are valued at the fair value.

Inventories, according to IAS 2 and IAS 11:

- a part of contract work in progress currently valued at cost will be valued based on the percentage of completion method;
- final inventories, which have been measured until now under the LIFO method, will be valued according to the average weighted cost.

Provision for employee termination indemnities, according to IAS 19:

- post-employment benefits on the basis of defined benefit plans will be recognized in the financial statements at values calculated applying actuarial methods, instead of at nominal value.

Financial derivatives, according to IAS 32 and IAS 39:

- financial instruments will be valued at fair value;
- additional charges for research and development grants will be included in the value of such grants calculated at amortized cost.

As envisaged in IFRS 1, all adjustments due to the first-time adoption of the international financial reporting standards will be recognized as retained earnings effective from 1 January 2004.

For the main impacts deriving from the application of IFRSs on the consolidated financial statements, reference is made to the Report on operations.

## 7) COMMENTS ON THE MAIN BALANCE SHEET ASSET CAPTIONS

### FIXED ASSETS

#### A) INTANGIBLE ASSETS

The table below shows the movements of intangible assets occurred during 2004 (in thousands of euros):

	Incorporation and subsequent expenses	Industrial patent and intel. property rights	Conc. lic. trade marks and sim. rights	Goodwill and goodwill on consol.	Assets under dev. and payments on account	Other intangible assets	Total
<b>Balance at 12/31/03</b>	<b>874</b>	<b>549</b>	<b>4.783</b>	<b>34,484</b>	<b>587</b>	<b>1,712</b>	<b>42,989</b>
Increases for the year	148	468	1,112	–	2,145	442	4,315
Disposals	–	–	–	–	–	(5)	(5)
Goodwill on consol.	–	–	–	7,269	–	–	7,269
Change in cons. scope.	–	–	–	4,318	–	535	4,853
Amortization	(388)	(536)	(1,807)	(5,347)	–	(634)	(8,712)
Reclassifications	–	211	(83)	–	(211)	83	–
Translation differences	(13)	–	(4)	(247)	–	(65)	(329)
<b>Balance at 31/12/04</b>	<b>621</b>	<b>692</b>	<b>4,001</b>	<b>40,477</b>	<b>2,521</b>	<b>2,068</b>	<b>50,380</b>

“Incorporation and subsequent expenses”, amounting to €621 thousand (€874 thousand at December 31, 2003), mainly include:

- start-up costs of €135 thousand incurred by the subsidiary Zibo IMA Xinhua Pharmatech Co. Ltd. for the reorganization of the Group production and commercial policies in South East Asia;

- costs incurred in the prior year to establish IMA Pacific Co. Ltd. and IMA Packaging and Processing Equipment (Beijing) Co. Ltd., €84 thousand and €80 thousand respectively;
- costs borne by the Parent Company in prior years in connection with the merger by incorporation of BFB S.p.A. (€56 thousand) and the acquisition of the business branch from ICO OLEODINAMICI S.p.A. (€65 thousand);
- costs amounting to €27 thousand incurred in 2002 and 2003 by Libra P.T. S.r.l., a company merged into IMA S.p.A., for the demerger of the real estate business and the merger decision;
- charges due to the acquisition of CO.MA.DI.S. S.p.A. occurred in 2001 (€169 thousand).

Expansion and subsequent costs include €87 thousand for advisory services provided by a director in connection with the formation and merger of companies in prior years and during 2004.

“Industrial patents and intellectual property rights”, amounting to €692 thousand (€549 thousand at December 31, 2003), include costs incurred to acquire royalties connected with patent applications, net of related amortization.

Investments for the year (€468 thousand) are mainly due to charges for the protection and extension of patents abroad.

“Concessions, licences, trademarks and similar rights” amounting to €4,001 thousand (€4,783 thousand at December 31, 2003), mainly refer to application, management and technical software.

Investments for the year (€1,112 thousand) chiefly relate to the purchase of new software.

“Goodwill” changed as follows (in thousands of euros):

	Balance at Dec. 31, 2003	Change in cons. scope	Amortiz.	Translation diff.	Balance at Dec. 31, 2004
Purchase of business branch G.S. S.r.l. Coating System	7,402	–	(1,153)	–	6,249
Purchase of business branch ICO OLEODINAMICI S.p.A.	3,067	–	(423)	–	2,644
Purchase of CO.MA.DI.S. S.p.A.	3,782	–	(516)	–	3,266
Purchase of Nova Packaging Systems Inc.	–	2,176	(110)	(194)	1,872
Purchase of Swiftpack Automation Ltd.	–	2,142	(38)	(53)	2,051
<b>Total</b>	<b>14,251</b>	<b>4,318</b>	<b>(2,240)</b>	<b>(247)</b>	<b>16,082</b>

Goodwill amortization of G.S. S.r.l. Coating Systems, ICO OLEODINAMICI S.p.A. and CO.MA.DI.S. S.p.A. covers 10 years, as this is the estimated duration of the benefits resulting from the know-how acquired and the existing product range.

The goodwill of Nova Packaging Systems Inc. and Swiftpack Automation Ltd. arises from the spin-off of the pharmaceutical packaging business of the DT Industries group, as commented on in the consolidation scope section.

Goodwill amortization of Nova Packaging Systems Inc. and Swiftpack Automation Ltd. is calculated over fifteen years, considering the consolidated leading position of these companies in packaging equipment for capsules and tablets in bottle for the pharmaceutical industry (electronic counters). This choice reflects the ample consideration given to the value creation of the Nova Group as stand-alone

companies and possible strong synergies with the other companies of the IMA Group.

“Goodwill arising on consolidation” relates to the acquisition of BFB S.p.A., IMA Kilian GmbH & Co. KG and Comitec S.r.l. occurred in prior years and to the excess price paid with respect to the relevant net equity for the acquisition of Packaging Systems Holdings LLC in 2004.

Goodwill on consolidation is the goodwill paid for these companies which own competitive products and technical knowledge.

Below is the movement of this item (in thousands of euros):

	Amortiz. period.	Balance at 12/31/2003	Goodwill recorded in 2004	Amortiz. and Write-down	Balance at 12/31/2004
B.F.B. S.p.A.	10	1,788	–	(895)	893
IMA Kilian GmbH & Co. KG	15	17,990	–	(1,636)	16,354
Comitec S.r.l.	4	455	–	(455)	–
Packaging Systems Holdings LLC.	15	–	7,269	(121)	7,148
<b>Total</b>		<b>20,233</b>	<b>7,269</b>	<b>(3,107)</b>	<b>24,395</b>

Goodwill on consolidation relating to BFB S.p.A. is amortized over ten years as this is the estimated duration of the benefits resulting from the know-how acquired and the existing product range.

Goodwill on consolidation of IMA Kilian GmbH & Co. KG is amortized over fifteen years. The longer amortization period has been stated considering both the particular steadiness of the company’s sector (compressing machines) - from a technological and competitive point of view - and the leadership position reached by the company since a long time.

Based on the characteristics above, the Group management considers the 15-year amortization period as the period in which the benefits expected from the acquisition will take place.

In 2002 the amortization period of goodwill on consolidation of Comitec S.r.l. was reduced from ten to four years considering the changed framework in which this company operates which brought a reduction of utility of the goodwill on consolidation. During 2004 the amortization of Comitec goodwill was concluded.

The goodwill on consolidation of Packaging Systems Holdings LLC, recorded following the acquisition of the Nova Group occurred in 2004, is amortized over fifteen years. We believe that during such period the benefits expected from this acquisition will obtain considering these companies’ leadership position as commented on in the “Goodwill” section.

“Assets under development and payments on account”, amounting to €2,521 thousand, mainly include the capitalization of R&D costs incurred by the Parent Company during 2003 and 2004 (€2,166 thousand). These costs are mainly made up of internal design and production, and materials; they are due to the manufacture of brand-new products for the pharmaceutical and tea packaging business and have the characteristics to be included within “Intangible assets”. The item also encompasses €312 thousand for advances to suppliers in respect of the future acquisition of intangible assets.

“Other intangible assets”, amounting to €2,068 thousand, chiefly refer to leasehold improvements and consulting services to obtain soft loans connected with applied reaserach projects.

**B) TANGIBLE ASSETS**

Below is the movement of tangible assets during the year (in thousands of euros):

	Land and buildings	Plant and machinery	Industrial and comm. equipment	Other t. ass.	Assets under construction and advances	Total
<b>Saldi al 31/12/03</b>	<b>31,346</b>	<b>15,55</b>	<b>2,044</b>	<b>3,831</b>	<b>6,287</b>	<b>58,663</b>
Increases for the year	1,350	2,801	391	2,232	1,305	8,079
Sales and disposals	–	(57)	(5)	(168)	–	(230)
Change in scope of cons.	–	160	–	216	–	376
Depreciation	(1,039)	(3,422)	(774)	(1,916)	–	(7,151)
Reclassifications	3,715	2,068	250	172	(6,236)	(31)
Transalation differences	(16)	(70)	(13)	(78)	(10)	(187)
<b>Balance at Dec. 31, 2004</b>	<b>35,356</b>	<b>16,635</b>	<b>1,893</b>	<b>4,289</b>	<b>1,346</b>	<b>59,519</b>

Below is a breakdown of tangible assets and their accumulated depreciation at December 31, 2004 (in thousands of euros):

	Dec. 31, 2004		Dec. 31, 2003	
	Groos value	Accum. deprec.	Net value	Net value
Land and buildings	44,401	(9,045)	35,356	31,346
Plant and machinery	41,775	(25,140)	16,635	15,155
Equipment	12,439	(10,546)	1,893	2,044
Other tangible assets	19,439	(15,150)	4,289	3,831
Assets under construction and pay. on account	1,346	–	1,346	6,287
<b>Total</b>	<b>119,400</b>	<b>(59,881)</b>	<b>59,519</b>	<b>58,663</b>

The main increases for the year related to:

- Land and buildings for €1,350 thousand, mainly related to the enlargement of the building located in Ozzano dell’Emilia at Via Emilia 428/442 (€199 thousand) and costs to increase the value of buildings owned by the Parent Company in Ozzano dell’Emilia and Bentivoglio amounting to €695 thousand and €202 respectively. Increases relating to the buildings include €14 thousand for services provided by a related party connected with the directors.
- Plant and machinery (€2,801 thousand) are mainly made up of the acquisition of plants for the enlargement of the building in Ozzano dell’Emilia at Via Emilia 428/442, the purchase of plants for the preparation of the new factory rent by IMA Kilian GmbH & Co. KG in Cologne (Germany), and the acquisition of machinery for the development of the fitting shops of the Parent Company and of the subsidiaries IMA Kilian GmbH & Co. KG and Zibo IMA Xinhua Pharmatech Co. Ltd.
- Industrial and commercial equipment for €391 thousand, of which €164 thousand relating to the capitalization of internally produced equipment to be permanently used in the production process.

- Assets under construction and payments on account for €1,305 thousand mainly related to charges for the urbanization of the land at Via Tolara in Ozzano dell'Emilia incurred by the Parent Company, for the renovation of the plant and machinery of the subsidiary IMA Kilian GmbH & Co. KG and the progress in the construction of a new factory in Bombay (India) by PG Bombay Pvt Ltd. During 2004 the construction of the new service centre and the enlargement of the east side in Via Emilia 428/448 in Ozzano dell'Emilia were completed. Costs connected with these investments, classified among "Assets under construction and payments on account" at December 31, 2003 have been reclassified under the relevant item after the completion and entry into operation of these assets.

The main decreases related to obsolete plant, machinery and other tangible assets which have been almost entirely amortized.

Below is a breakdown at December 31, 2004 of the revaluations made in prior years (in thousands of euros):

Category	Rev. under Law 72/83	Rev. under Law 413/91	Other reval.	Total
Land and buildings	831	1.587	29	2,447
Plant and machinery	100	–	336	436
Industrial and commercial equipment	48	–	55	103
Other tangible assets	8	–	98	106
<b>Total</b>	<b>987</b>	<b>1,587</b>	<b>518</b>	<b>3,092</b>
(less) Accumulated depreciation	(724)	(547)	(518)	(1,789)
<b>Total</b>	<b>263</b>	<b>1.040</b>	<b>–</b>	<b>1,303</b>

"Other revaluations" include the voluntary revaluation of plant and machinery made in 1998 based on special appraisal by Nuova Zanasi S.p.A., a company absorbed by IMA SpA in 1990.

## C) FINANCIAL ASSETS

### INVESTMENTS

Investments comprise the following (in thousands of euros):

	Percentage of ownership	12/31/2004	12/31/2003
Subsidiaries:			
• IMA Kilian Verwaltungs GmbH	100%	25	25
		<b>25</b>	<b>25</b>
Associated companies:			
• B.C. S.r.l.	30%	488	388
		<b>488</b>	<b>388</b>
Other companies		71	71
<b>Total</b>		<b>584</b>	<b>484</b>

### INVESTMENTS IN SUBSIDIARIES

As previously commented, the winding-up procedure of the investee IMA Lanka Ltd., 100% owned by Holteco B.V. and having no carrying value, was completed in November 2004. The winding-up brought significant charges on the Group.

INVESTMENTS IN ASSOCIATED COMPANIES

The movement in this item reflects the €100 thousand increase due to the adjustment of the book value of the interest held in B.C. S.r.l. to the corresponding net equity, as a result of the net result for 2003 that may be taken from the last approved financial statements of the company.

RECEIVABLES FROM OTHERS

The item chiefly includes receivables for advanced payments of taxes on the provision for employee severance indemnities and various guarantee deposits.

OTHER SECURITIES

These are made up of treasury bonds, bond funds and other bonds held on pledge as a guarantee of loans. As regards the connection between these securities and medium/long-term loans, securities have been classified within financial assets of the consolidated balance sheet.

CURRENT ASSETS

A) INVENTORIES

At December 31, 2004 inventories broke down as follows (in thousands of euros):

	12/31/2004		12/31/2003	
	Gross value	Obsolesc. provision	Net value	Net value
Raw materials, supplies and consumable stores	17,132	(4,255)	12,877	12,079
Work in progress and semi-finished goods	108,857	(10,923)	97,934	96,115
Contract work in progress	14,302	–	14,302	6,596
Finished goods	5,535	(1,980)	3,555	2,617
Advances	2,735	–	2,735	3,633
<b>Total</b>	<b>148,561</b>	<b>(17,158)</b>	<b>131,403</b>	<b>121,040</b>

The change in inventories is mainly ascribable to the enlargement of the scope of consolidation to the Nova Group (€5,314 thousand at December 31, 2004) and the increase in “Contract work in progress” of the Parent Company due to a sizeable number of orders of highly customized product lines carried out in a period longer than one year.

Orders included under “Contract work in progress”, carried out based on specific customer orders with a multi-annual duration, have been valued according to the stage of completion method. In particular, considering the contractual terms and conditions for these orders and their state of completion at December 31, 2004, we believe that the conditions of certainty required by the reference accounting standards exist as to apply the percentage of completion method. In connection with such work orders, €6,887 thousand in advances has been invoiced to customers and has been included under “Advances” of the balance sheet liabilities.

With an unchanged scope of consolidation, the value of the inventory obsolescence provisions decreased by €895 thousand mainly as a result of the utilization by the Parent Company and IMA Kilian GmbH & Co. KG to bring the net book value of inventories in line with their estimated realizable value.

Had raw materials, supplies and consumable stores and semi-finished goods measured according to the LIFO method been valued at their current values, at

December 31, 2004 they would be higher by €373 thousand (€419 thousand at December 31, 2003).

**B) RECEIVABLES**

RECEIVABLES FROM CUSTOMERS

Below is a breakdown (in thousands of euros):

	12/31/2004		12/31/2003	
	Gross value	Bad debt prov.	Net value	Net value
Receivables from customers due within one year	76,722	(1,768)	74,954	75,726
Receivables from customers due after one year	681	(347)	334	941
<b>Total</b>	<b>77,403</b>	<b>(2,115)</b>	<b>75,288</b>	<b>76,667</b>

At December 31, 2004 receivables from customers, with an unchanged scope of consolidation, decreased by €3,397 thousand over 2003 confirming the effective policies of control on working capital.

With an unchanged scope of consolidation the value of the bad debt provisions decreased by €293 thousand mainly for the utilizations by the Parent Company to adjust the net value of receivables to their estimated realizable value.

During the financial year 2004, the Parent Company sold non-recourse and recourse receivables with a nominal value of about €14,567 thousand and €622 thousand respectively. Total recourse receivables not yet due at December 31, 2004 amounted to about €13,353 thousand (€11,940 thousand at December 31, 2003), of which €9,093 thousand assigned to factoring companies and €4,260 thousand sold to other financial institutions.

Payment extensions granted to customers who reside in countries with particular risks are backed by appropriate financial instruments to secure collection.

There are no trade receivables due after five years.

Below is a breakdown of receivables from customers by geographical area (thousands of euros):

	12/31/2004
Italy	7,169
European Union (excluding Italy)	22,957
Other European countries	3,081
North America	17,737
Asia	15,498
Other countries	8,846
<b>Total</b>	<b>75,288</b>

RECEIVABLES FROM THE TAX OFFICE

These chiefly comprise receivables for direct taxes and are made up of advances (€5,253 thousand) and VAT credits (€2,803 thousand).

DEFERRED TAX ASSETS

At December 31, 2004 deferred tax assets due after one year amounted to €2,772 thousand (€3,099 thousand at December 31, 2003) and are stated net of €2,846 thousand for deferred tax liabilities (€2,654 thousand at December 31, 2003). At December 31, 2004 deferred tax assets due within one year amounted to €3,742

thousand (€3,607 thousand at December 31, 2003) and are stated net of €731 thousand of deferred tax liabilities (€225 thousand at December 31, 2003). In particular, prepaid taxes mainly relate to temporary differences due to provision accruals and to the write-off of unrealized intra-group profits on the sale of finished products and intangible assets. Deferred tax assets include €796 thousand relating to losses suffered during the current or in prior years that have been accrued by IMA Germany GmbH and CO.MA.DI.S. S.p.A.

Deferred tax assets are mainly due to temporary differences arising from the integration, for fiscal purposes, of assets' depreciation and accelerated depreciation.

RECEIVABLES FROM OTHERS

Below is a breakdown (in thousands of euros):

	12/31/2004	12/31/2003	Change
Receivables due after one year:			
• Other	194	73	121
	<b>194</b>	<b>73</b>	<b>121</b>
Receivables due within one year:			
• Advances to suppliers	1,569	545	1,024
• Advances to employees	198	144	54
• Other	1,562	1,917	(355)
	<b>3,329</b>	<b>2,606</b>	<b>723</b>
<b>Total</b>	<b>3,523</b>	<b>2,679</b>	<b>844</b>

Receivables due after one year are composed of guarantee deposits.

The increase in "Advances to suppliers" is mainly due to advances paid in connection with trade fairs which will be held between 2005 and 2006.

Receivables from others due within one year include €436 thousand (€292 thousand at December 31, 2003) of IMA Kilian & Co. KG relating to the deposit as a guarantee of the provision accrued in compliance with German labor laws and classified within "Provisions for liabilities and charges".

There are no receivables due after five years.

Receivables "From others", amounting to €3,523 thousand, mainly relate to companies/individuals resident in the European Union.

C) CURRENT FINANCIAL ASSETS

OTHER SECURITIES

At December 31, 2004 securities are made up of the following bonds (in thousands of euros):

Description	Nominal value	Book value	Market value
CRBO 1998/2005	88	88	88
CRBO 2000/2005	32	32	32
P.O. 2000/2005	31	31	31
CCT 2001/2006	402	404	404
BIMER 1994/2006	1	1	1
<b>Total</b>	<b>554</b>	<b>556</b>	<b>556</b>

Compared with the prior year, the item rose by €216 thousand mainly as a result of the unfreezing of securities from pledged deposits for the decrease in the related guarantee and their transfer from "Financial assets" of current assets.

*CURRENT FINANCIAL RECEIVABLES*

At December 31, 2004 current financial receivables amounted to €163 thousand and included €86 thousand relating to the balance of about 12 million yen of a 17 million yen loan granted by the Pranet Company to Ima Tech Ltd., a concession-holder of IMA S.p.A. in Japan. The loan is disbursed in eight quarterly installments with equal amount and paid out within February 2005. The repayment is expected in the next two years at market interest rates.

**D) CASH AND CASH EQUIVALENTS**

The item is composed as follows (in thousands of euros):

	12/31/2004	12/31/2003	Change
Bank current accounts	48,760	48,837	(77)
Free deposits	1,398	5,791	(4,393)
Checks, cash and valuables on hand	146	199	(53)
<b>Total</b>	<b>50,304</b>	<b>54,827</b>	<b>(4,523)</b>

Cash and cash equivalents are mainly made up of several foreign currency forward sales falling due, together with the year-end sales and the collection of the compensation for the non-recourse receivables sold, as commented on above. Thanks to the good cash generation, the impact deriving from the acquisition of the Nova Group was almost completely cushioned.

A change has however occurred in this item together with the variation in short-term financial debt; explanations on these changes are given in the cash flow statement attached hereto.

Free deposits relate to very short-term investments.

**ACCRUED INCOME AND PREPAID EXPENSES**

Below is a breakdown (in thousands of euros):

	12/31/2004	12/31/2003	Change
Accrued income:			
• Interest on securities	9	15	(6)
• Interest subsidies	926	960	(34)
• Other	23	35	(12)
	<b>958</b>	<b>1,010</b>	<b>(52)</b>
Prepaid expenses:			
• Insurance	514	221	293
• Interest on discounted notes	186	435	(249)
• Guarantees	175	40	135
• Discounts on currency forwards	446	64	382
• Other	767	849	(82)
	<b>2,088</b>	<b>1,609</b>	<b>479</b>
<b>Total accrued income and prepaid expenses</b>	<b>3,046</b>	<b>2,619</b>	<b>427</b>

“Accrued income – other” mainly relates to maintenance fees and patent annual fees. The item includes about €263 thousand in accrued income and €223 thousand in prepaid expenses due after December 31, 2005.

## 8) COMMENTS ON MAIN LIABILITY AND STOCKHOLDERS' EQUITY ITEMS

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### STOCKHOLDERS' EQUITY

The movements in the items making up consolidated stockholders' equity are described in the section "Other complementary notes".

We comment below on the main items of stockholders' equity and related changes:

#### A) CAPITAL STOCK

The capital stock as of December 31, 2004 is the capital stock (fully subscribed and paid up) of the Parent Company IMA S.p.A. consisting of 36,100,000 ordinary shares with a nominal value of €0.52 each.

#### B) SHARE PREMIUM RESERVE

The reserve, amounting to €16,382 thousand, was set up in 1995 and derives from the issue of 6,100,000 shares, to be exclusively placed to third parties. Share premium has been of €2.69 for each share.

#### C) REVALUATION RESERVES

At December 31, 2004, consolidated stockholders' equity included revaluation reserves of the Parent Company accrued in accordance with law that amounted to €395 thousand. These reserves are not taxable and no accrual has been made because no plans exist in respect of transactions that may generate the taxation.

#### D) ACCUMULATED TRANSLATION ADJUSTMENTS

This caption decreased by €1,154 thousand mainly because of the performance of the US Dollar during 2004.

Stockholders' equity of consolidated companies includes €3,784 thousand of non-distributable legal reserves and €2,482 thousand (including €2,313 thousand of the Parent Company) pledged to secure incorporation and subsequent costs, research and development costs of the Italian companies. Stockholders' equity of the Group includes €1,880 thousand denominated in the Chinese currency not freely convertible.

**E) RECONCILIATION BETWEEN STOCKHOLDERS' EQUITY AND NET INCOME FOR THE YEAR OF THE PARENT COMPANY AND THE CORRESPONDING CONSOLIDATED FIGURES**

The statement of changes between stockholders' equity and net income for the year as appearing in the Parent Company's accounts and the corresponding consolidated figures at December 31, 2004 is as follows (in thousands of euros):

	Stockholders' equity	Net income of Group
<b>Figures appearing in the annual statutory financial statements of I.M.A. Industria Macchine Automatiche S.p.A.</b>	<b>84,366</b>	<b>16,097</b>
<i>Consolidation adjustments:</i>		
a) Write-off of the book value of consolidated investments and value of investments on the equity method	11,794	3,271
b) Derecognition of effects of tax adjustments	–	(3,923)
c) Accounting standard harmonization:		
• Lease accounting according to the financial lease method	1,017	732
• Adjustments to intercompany receivables /payables	257	(282)
d) Write-off of dividends distributed by Group companies	–	(2,521)
e) Write-off of intercompany items:		
• Intangible assets	(336)	128
• Tangible assets	–	39
• Inventories	(5,094)	(3)
f) Tax effect of consolidation adjustments	1,558	(241)
Net effect of consolidation adjustments	9,196	(2,800)
<b>Amounts attributable to the Group as appearing in the consolidated financial statements</b>	<b>93,562</b>	<b>13,297</b>

**PROVISIONS FOR RISKS AND CHARGES**

These provisions are composed as follows (in thousands of euros):

	Balance at 12/31/2003	Accrued	Utilized	Change in consol. area	Translation differences	Balance at 12/31/2004
Product guarantee	4,269	433	(704)	204	(18)	4,184
Agency termination allowances	690	70	(33)	197	(6)	918
Personnel allowances	502	381	(48)	–	–	835
Other risk provisions	635	796	(442)	–	(15)	974
<b>Total</b>	<b>6,096</b>	<b>1,680</b>	<b>(1,227)</b>	<b>401</b>	<b>(39)</b>	<b>6,911</b>

The provision for product guarantee has been accrued to cover the estimated charges for technical assistance to be provided after December 30, 2004 on machines under warranty sold before that date.

The provision for personnel allowances includes the provision accrued by IMA Kilian GmbH and Co. KG to cover future charges as required by German legislation on social security.

The other risk provisions have been mainly set aside to cover contingencies that might arise from the ordinary operations of the Group companies.

The increase in the other provisions is essentially due to the accruals made by IMA SpA to reflect charges connected with an ongoing dispute in the Asian region. The

decrease in other provisions is mainly ascribable to the adjusted current value of two Interest Rate Swaps, as commented on below, and to the emergence during 2004 of expenses to cover which accruals had been set aside in previous years.

FINANCIAL DERIVATIVE TRANSACTIONS

At December 31, 2004 “Financial derivative transactions” were in place and regarded currency forward sales and options connected with sale commitments amounting to USD 37.2 million and YEN 120 million (corresponding to a total of €43,354 thousand) that are disclosed in the memorandum accounts. No losses appear in the financial statements in respect of these sale commitments. During 2004 the Group completed other currency forward sales and options amounting to USD 46.8 million and YEN 274.3 million.

In respect of the currency forward sales, premiums of €90 thousand and discounts of €28 thousand matured (included within “Other financial income” and “Interest expense and other financial charges” respectively).

The Group also yielded profits amounting to €1,733 thousand and suffered losses of €187 thousand that, deriving from transactions placed to specific sale commitments, have been classified as adjustments to the revenues from the assets sold. The total effect is reflected as income of €1,608 thousand.

During the financial year 2004, put options for currency forward sales were concluded that brought the collection of premiums of €511 thousand and the payment of premiums of €732 thousand (classified within “Other interest and financial income” and “Other interest expense and charges” respectively). These transactions ended during 2004 generated profits equal to €1,222 thousand and losses of €6 thousand recorded as adjustments to the revenues from the assets sold. The total effect is reflected as income of €967 thousand.

At December 31, 2004 IMA Kilian GmbH & Co. KG put in place “Financial derivative transactions” relating to currency forward sales connected with trade receivables of USD 4.2 million (equal to €3,187 thousand) in respect of which no losses are reflected in the financial statements. Furthermore, during 2004 other currency forward sales and options were concluded for a total of USD 8.3 million which generated profits of €322 thousand and losses of €143 thousand (included within “Financial income and charges”).

At December 31, 2004 two Interest Rate Swaps were in place expiring within the first half of 2005 between the Parent Company and leading banks regarding interest rates. In respect of these contracts, during 2001 and 2002 the Parent Company accounted for a loss of €300 thousand in the “Provision for sundry charges and risks”. During the year €245 thousand was utilized to cover costs for the year related to the Swap to adjust them to the remaining current value.

**PROVISION FOR EMPLOYEE  
TERMINATION  
INDEMNITIES**

Below are shown movements in the provision during the year (in thousands of euros):

<b>Balance at 12/31/2003</b>	<b>21,453</b>
Accrued and recorded in the statement of income	4,252
Indemnities paid during the year	(3,177)
<b>Balance at 12/31/2004</b>	<b>22,528</b>

PAYABLES

A) BANKS

Payables to banks are composed as follows (in thousands of euros):

	Balance at 12/31/2004 Due (in years)				Balance at 12/31/2003
	Total	Within 1	From 1 to 5	After 5	
Overdrawn current accounts	8,814	8,814	–	–	1,919
Advances on exports	30,650	30,650	–	–	54,824
Applied research and technology					
Innovation loans	22,139	4,011	13,469	4,659	21,933
Other loans	56,648	26,900	29,748	–	40,121
<b>Total</b>	<b>118,251</b>	<b>70,375</b>	<b>43,217</b>	<b>4,659</b>	<b>118,797</b>

With an unchanged scope of consolidation, payables to banks decreased by €3,666 thousand, despite a loan of €9,500 thousand to the Parent Company granted during the fourth quarter of 2004 included among the other loans to be used for the acquisition of the Nova Group. Such decrease is mainly due to the reduction in current indebtedness and in particular to advances on exports.

At December 31, 2004 consolidated companies' borrowing from banks totalled €191,586 thousand, of which €42,037 thousand for bank overdrafts and €149,549 thousand for advances and financing on export and other short-term borrowing. Loans and financings granted encompass €75,837 thousand in euros, €2,936 thousand in US dollar and €14 thousand in Indian Rupees.

Applied research and technology innovation loans and other loans are backed by the following guarantees:

- bank guarantees (€9,719 thousand);
- guarantees of IMA S.p.A. (€7,665 thousand);
- other guarantees given by IMA S.p.A. (€4,038 thousand);
- guarantees of the ultimate parent FIN-VACCHI S.p.A. (€1,407 thousand);
- securities held in pledge (€3,184 thousand).

A breakdown of “Applied research and technology innovation loans” and “Other loans” is included in the schedules at the end of the “Comments on the main liabilities and stockholders' equity items”. As reported in these schedules, certain loans and financings are guaranteed by the compliance with certain financial covenants calculated on the Parent Company's financial statements and/or the Group consolidated accounts.

B) OTHER LENDERS

At December 31, 2004 “Other lenders” mainly included €7,393 thousand relating to the lease contract signed by Libra P.T. S.r.l., merged into IMA S.p.A. effective from 1 January 2004. The lease contract covers the lease of a land and the industrial building built on such property which was delivered in August 2003.

The medium-term portion of payables to other lenders (€6,485 thousand) includes payables due after five years amounting to €2,548 thousand.

**C) ADVANCES**

The caption includes advances from customers for supplies still to be delivered. Such advances are covered by guarantees of €17,292 thousand. The high increase is due to the improved management of working capital to provide better financial cover for the production cycle which is extending.

Below is a breakdown by geographic area of advances (thousands of euros):

	<b>12/31/2004</b>
Italy	1,796
European Union (excluding Italy)	15,461
Other European countries	3,702
North America	15,269
Asia	2,996
Other countries	944
<b>Total</b>	<b>40,168</b>

**D) SUPPLIERS**

The increase in payables due within one year, amounting to €3,723 thousand, reflects the enlargement of the consolidation area and to a lesser extent the rise in payables to agents amounting to €5,508 thousand at December 31, 2004 (€4,236 thousand at December 31, 2003).

There are no payables to suppliers due after five years.

Amounts due to suppliers, amounting to €73,447 thousand at December 31, 2004, mainly refer to Italian suppliers.

**E) PAYABLES TO SUBSIDIARY, ASSOCIATED, AND PARENT COMPANIES**

This caption includes the following balances (in thousands of euros):

	<b>12/31/2004</b>	<b>12/31/2003</b>	<b>Change</b>
Associated companies:			
• B.C. S.r.l.	491	562	(71)
Parent companies:			
• FIN-VACCHI S.p.A.	–	14	(14)
<b>Total</b>	<b>491</b>	<b>576</b>	<b>(85)</b>

Payables to associated companies relate to commercial purchases.

There are no payables due after five years.

**F) TAXES PAYABLE**

Taxes payable are composed as follows (in thousands of euros):

	<b>12/31/2004</b>	<b>12/31/2003</b>	<b>Change</b>
• Income taxes for the year	1,281	1,600	(319)
• Prior years' taxes	–	415	(415)
• IRPEF (employee withholding taxes)	2,348	2,212	136
• VAT payable to Tax Office	207	436	(229)
• Other	133	109	24
<b>Total</b>	<b>3,969</b>	<b>4,772</b>	<b>(803)</b>

The decrease in taxes payable on income for the year is the result of higher advance payments of taxes during 2004.

As far as the Parent Company is concerned, fiscal years up to 1999 (included) have been already agreed for both direct taxes and VAT purposes, as the Company has taken advantage of the benefits granted by Law 298/2002.

During the first quarter of 2004 the Tax Revenue Authority (Emilia Romagna Head Office) completed its general inspection on the company absorbed by the parent company BFB S.p.A. in respect of the 2001 tax year. No liabilities resulted from this inspection, because the higher tax base assessed by the Tax Authorities resulted lower than the aggregate taxable income for the same period as provided for by Law 289/2002.

During 2004 the German Tax Authorities expressed their intention to inspect IMA Kilian GmbH & Co. KG and IMA Germany GmbH as from May 2005 for the tax periods from 2000 to 2002.

Also thanks to the support given by tax advisors, we believe that no significant liabilities exist that are not reflected in the consolidated accounts at December 31, 2004.

**G) SOCIAL SECURITY INSTITUTIONS**

This caption refers to amounts due at year-end to social security institutions by the Group and Group employees for the wages and salaries of December as well as matured and deferred pays.

**H) OTHER PAYABLES**

Other payables include (in thousands of euros):

	12/31/2004	12/31/2003	Change
Other payables due after one year			
• Payables for acquisitions	2,423	–	2,423
• Other	1	–	1
	<b>2,424</b>	<b>–</b>	<b>2,424</b>
Other payables due within one year			
• Payables to employees	9,857	10,002	(145)
• Payables for acquisitions	–	163	(163)
• Other	1,602	958	644
	<b>11,459</b>	<b>11,123</b>	<b>336</b>
<b>Total</b>	<b>13,883</b>	<b>11,123</b>	<b>2,760</b>

At December 31, 2004 payables for acquisitions due after one year related to the residual debt for the purchase of the 99.68% interest in Packaging Systems Holdings LLC amounting to USD 3.3 million, of which USD 3 million due in May 2006 and the remaining part in May 2009.

“Other payables”, amounting to €13,883 thousand, mainly refer to companies/individuals resident in the European Union.

**ACCRUED EXPENSES AND DEFERRED INCOME**

Below is a breakdown (in thousands of euros):

	12/31/2004	12/31/2003	Change
Accrued expenses:			
• Interest expense on financial debts	822	871	(49)
• Insurance	281	282	(1)
• Discounts on financial derivatives	42	252	(210)
• Other	492	372	120
	<b>1,637</b>	<b>1,777</b>	<b>(140)</b>
Deferred income:			
• Interest income	200	410	(210)
• Machinery installation and testing	3,311	2,698	613
• Premiums on derivative transactions	355	40	315
• Other	57	52	5
	<b>3,923</b>	<b>3,200</b>	<b>723</b>
<b>Total accrued expenses and deferred income</b>	<b>5,560</b>	<b>4,977</b>	<b>583</b>

€109 thousand of deferred income is due after December 31, 2005.

**BREAKDOWN OF APPLIED REASERCH AND TECHNOLOGY INNOVATION LOANS**

AT DECEMBER 31, 2004 (THOUSANDS OF EUROS)

Description	Original amount	Balance	Repayments	Disbursements	Balance	Short-term	Medium/long-term
		at 12/31/2003	for 2.004	for 2.004	at 12/31/2004		
<b>IMA S.p.A.</b>							
<b>SPIMI No. 57409 Law 346/88</b>	6.384	2.676	1.254	–	1.422	1.422	–
— Duration: from 11/21/1995 to 07/01/2005							
— Repayment of interest: up to 01/01/2000							
— Repayment: 12 half-year instalments							
— Yearly interest rate: 2.01%							
— Guarantees							
– €1,422 CRBO/UNICREDIT to SPIMI							
– € 357 IMA bonds to CRBO/UNICREDIT (*)							
<b>SPIMI No. 62297 Law 346/88</b>	9.660	9.660	1.363	–	8.297	1.454	6.843
— Duration: from 12/30/1999 to 07/01/2009							
— Repayment of interest: up to 01/01/2004							
— Repayment: 12 half-year instalments							
— Yearly interest rate: 1.28%							
— Guarantees							
– €8,297 INTESA/UNICREDIT to SPIMI							
– €2,827 IMA bonds to INTESA/UNICREDIT (*)							
<b>SPIMI No. 64216 Law 46/82</b>	1.397	984	171	–	813	174	639
— Duration: from 06/08/2001 to 01/01/2009							
— Repayment of interest: none							
— Repayment: 16 half-year instalments							
— Yearly interest rate: 2%							
— Guarantees: €854 FIN-VACCHI S.p.A.							
<b>SPIMI No. 57298 Law 46/82</b>	566	108	71	–	37	37	–
— Duration: from 11/18/1996 to 07/01/2005							
— Repayment of interest: none							
— Repayment: 18 half-year instalments							
— Yearly interest rate: 1.85%							
— guarantees: €37 FIN-VACCHI S.p.A.							
<b>MIN. PROD. ACTIV. No. 2545 Law 46/82</b>	3.003	3.003	258	–	2.745	267	2.478
— Duration: from 04/06/2001 to 12/21/2013							
— Repayment of interest: up to 12/21/2004							
— Repayment: 10 half-year instalments							
— Yearly interest rate:							
0.825% (interest) / 3.3% (principal)							
<b>SPIMI No. 64295 Law 46/82</b>	690	569	83	–	486	84	402
— Duration: from 07/31/2001 to 01/01/2010							
— Repayment of interest: up to 07/01/2002							
— Repayment: 16 half-year instalments							
— Yearly interest rate: 2%							
— Guarantees: €516 FIN-VACCHI S.p.A.							
<b>SPIMI No. 65159 Law 46/82</b>	3.406	2.315	562	–	1.753	573	1.180
— Duration: from 07/25/2000 to 07/01/2007							
— Repayment of interest: up to 01/01/2002							
— Repayment: 12 half-year instalments							
— Yearly interest rate: 2%							
— Guarantees: Covenants							
<b>INTERBANCA No. 45356 Law 346/88</b>	7.318	2.618	–	3.968	6.586	–	6.586
— Duration: from 02/27/2003 to 07/01/2012							
— Repayment of interest: up to 07/01/2006							
— Repayment: 12 half-year instalments							
— Yearly interest rate:							
Half-year Euribor +spread-contribution							
— Guarantees: Covenants							
<b>TOTAL</b>	<b>32.424</b>	<b>21.933</b>	<b>3.762</b>	<b>3.968</b>	<b>22.139</b>	<b>4.011</b>	<b>18.128</b>

(\*) IMA S.p.A counter-guarantees given in favor of lenders

**BREAKDOWN OF OTHER LOANS - IMA S.P.A.**

AT DECEMBER 31, 2004 (THOUSANDS OF EUROS)

Description	Original	Balance at	Repayments	Disbursements	Balance at	Short-term	Medium/long-
	amount	12/31/03	2004	2004	12/31/04		term
<b>INTERBANCA No. 38844/302</b> <ul style="list-style-type: none"> <li>• Duration: from 05/29/2000 to 05/29/2007</li> <li>• Repayment: 14 half-year installments</li> <li>• Yearly interest rate: Half-year Euribor+spread</li> <li>• Guarantees: covenants</li> </ul>	5.165	2.582	738	–	1.844	738	1.106
<b>INTERBANCA No. 38844/301</b> <ul style="list-style-type: none"> <li>• Duration: from 05/29/2000 to 05/29/2007</li> <li>• Repayment: 14 half-year installments</li> <li>• Yearly interest rate: 3.53%</li> <li>• Guarantees: covenants</li> </ul>	5.165	2.582	738	–	1.844	738	1.106
<b>INTESA MEDIO CREDITO No. 1921089</b> <ul style="list-style-type: none"> <li>• Duration: from 03/23/2001 to 03/13/2006</li> <li>• Repayment: 10 half-year installments</li> <li>• Yearly interest rate: Half-year Euribor+spread</li> <li>• Guarantees: covenants</li> </ul>	4.390	2.195	878	–	1.317	878	439
<b>DEUBA POOL INTESA/UNICR/BAM</b> <ul style="list-style-type: none"> <li>• Duration: from 05/15/2000 to 05/15/2005</li> <li>• Repayment: 10 half-year installments</li> <li>• Yearly interest rate: Half-year Euribor+spread</li> <li>• Guarantees: covenants</li> </ul>	11.000	3.300	2.200	–	1.100	1.100	–
<b>CREDITO EMILIANO No. 6025104</b> <ul style="list-style-type: none"> <li>• Duration: from 01/23/2001 to 01/22/2004</li> <li>• Repayment: 3 annual installments</li> <li>• Yearly interest rate: Half-year Euribor+spread</li> </ul>	5.165	1.722	1.722	–	–	–	–
<b>BNL London</b> <ul style="list-style-type: none"> <li>• Duration: from 03/29/2000 to 09/29/2005</li> <li>• Repayment: 1 installment at the end of period</li> <li>• Yearly interest rate: Half-year Euribor+spread</li> <li>• Guarantees: covenants</li> </ul>	8.000	8.000	–	–	8.000	8.000	–
<b>SPIMI No. 68737</b> <ul style="list-style-type: none"> <li>• Duration: from 04/30/2001 to 04/30/2006</li> <li>• Repayment: 10 half-year installments</li> <li>• Yearly interest rate: Half-year Euribor+spread</li> <li>• Guarantees: covenants</li> </ul>	1.549	775	310	–	465	310	155
<b>POPEM No. 4859558</b> <ul style="list-style-type: none"> <li>• Duration: from 01/08/2001 to 01/08/2007</li> <li>• Repayment: 12 half-year installments</li> <li>• Yearly interest rate: Monthly half-year Euribor+spread</li> </ul>	3.099	1.935	514	–	1.421	544	877
<b>CREDITO EMILIANO No. 6105137</b> <ul style="list-style-type: none"> <li>• Duration: from 06/26/2003 to 06/26/2006</li> <li>• Repayment: 3 annual installments</li> <li>• Yearly interest rate: Half-year Euribor+spread</li> </ul>	5.000	5.000	1.666	–	3.334	1.667	1.667
<b>CARISP. PISTOIA E PESCIA</b> <ul style="list-style-type: none"> <li>• Duration: from 11/28/2003 to 05/26/2005</li> <li>• Repayment: 1 installment at the end of period</li> <li>• Yearly interest rate: Quarterly Euribor+spread</li> </ul>	3.000	3.000	–	–	3.000	3.000	–
<b>CREDITO EMILIANO No. 6122556</b> <ul style="list-style-type: none"> <li>• Duration: from 03/01/2004 to 03/01/2007</li> <li>• Repayment: 6 half-year installments</li> <li>• Yearly interest rate: Half-year Euribor+spread</li> </ul>	5.000	–	833	5.000	4.167	1.666	2.501
<b>SPIMI No. 222860</b> <ul style="list-style-type: none"> <li>• Duration: from 03/11/2004 to 03/11/2009</li> <li>• Repayment: 10 half-year installments</li> <li>• Repayment of interest: up to 03/11/2005</li> <li>• Yearly interest rate: Half-year Euribor+spread</li> <li>• Guarantees: covenants</li> </ul>	5.000	–	–	5.000	5.000	625	4.375
<b>INTESA BCI No. 627789</b> <ul style="list-style-type: none"> <li>• Duration: from 04/09/2004 to 04/30/2009</li> <li>• Repayment: 10 half-year installments</li> <li>• Yearly interest rate: Half-year Euribor+spread</li> <li>• Guarantees: covenants</li> </ul>	5.000	–	468	5.000	4.532	956	3.576
<b>INTERBANCA No. 48488/301</b> <ul style="list-style-type: none"> <li>• Duration: from 07/30/2004 to 06/30/2009</li> <li>• Repayment: 10 half-year installments</li> <li>• Yearly interest rate: Half-year Euribor+spread</li> </ul>	5.000	–	500	5.000	4.500	1.000	3.500
<b>UNICREDIT BANCA No. 4021360</b> <ul style="list-style-type: none"> <li>• Duration: from 11/30/2004 to 11/30/2009</li> <li>• Repayment: 10 half-year installments</li> <li>• Yearly interest rate: Half-year Euribor+spread</li> </ul>	9.500	–	–	9.500	9.500	1.780	7.720
<b>Total IMA S.p.A.</b>	<b>81.033</b>	<b>31.091</b>	<b>10.567</b>	<b>29.500</b>	<b>50.024</b>	<b>23.002</b>	<b>27.022</b>

**BREAKDOWN OF OTHER LOANS - SUBSIDIARIES**

AT DECEMBER 31 2004 (THOUSANDS OF EUROS)

Description	Original amount	Balance at 12/31/03	Repayment for 2004	Disbursements for 2004	Balance at 12/31/2004	Short-term	Medium/long-term
<b>IMA GERMANY GmbH</b>							
<b>DEUBA POOL INTESA/UNICR/BAM</b>	17.000	6.375	4.250	–	2.125	2.125	–
• Duration: from 05/15/2000 to 05/15/2005							
• Repayment of interest: up to 11/15/2001							
• Repayment: 8 half-year installments							
• Yearly interest rate: Half-year Euribor+spread							
• Guarantees: €2,500 IMA S.p.A.							
<b>CO.MA.DI.S. S.p.A.</b>							
<b>SPIMI No. 68831</b>	5.165	2.582	1.033	–	1.549	1.033	516
• Duration: from 04/30/2001 to 04/30/2006							
• Repayment: 10 half-year installments							
• Yearly interest rate: Half-year Euribor+spread							
• Guarantees: €5,165 IMA S.p.A.							
<b>NOVA PACKAGING SYSTEMS INC. (*)</b>							
<b>CAPITALSOURCE FINANCE LLC</b>	2.936	–	–	2.936	2.936	734	2.202
• Duration: from 04/08/2004 to 12/31/2008							
• Repayment: 9 half-year installments							
• Yearly interest rate: max between 9% and P.R. Citibank + spread							
• Guarantees: €4,038 IMA S.p.A.							
<b>OTHER GROUP COMPANIES</b>							
<b>Other loans</b>	179	73	76	17	14	6	8
<b>Total subsidiaries</b>	<b>25.280</b>	<b>9.030</b>	<b>5.359</b>	<b>2.953</b>	<b>6.624</b>	<b>3.898</b>	<b>2.726</b>
<b>TOTAL OTHER LOANS</b>	<b>106.313</b>	<b>40.121</b>	<b>15.926</b>	<b>32.453</b>	<b>56.648</b>	<b>26.900</b>	<b>29.748</b>

NOTE:

(\*) The loan granted to Nova Packaging Systems Inc., originally amounting to USD 4.5 million, amounted to USD 4 million at December 31, 2004.

**9) MEMORANDUM ACCOUNTS**

**GUARANTEES GIVEN**

This caption includes unsecured guarantees given for third parties' payables and bonds.

**A) GUARANTEES**

At December 31, 2004, this caption included: insurance policies for VAT credit already collected (€204 thousand), guarantees to secure advances not yet collected and the proper operation of machines (€7,072 thousand), guarantees to cover the Parent Company's commitment to purchase the remaining shares (€1,259 thousand) of Packaging Systems Holdings LLC as commented on below, and guarantees of €1,678 thousand in favor of others to secure leases, utilities and various commitments.

**CONTINGENCIES**

**A) DISCOUNTED NOTES**

At December 31, 2004, discounted notes amounted to €2,117 thousand.

**B) RECEIVABLES SOLD**

At December 31, 2004, receivables sold amounted to €10,275 thousand. These are made up of €9,093 thousand as receivables sold without recourse to factoring companies not due yet at December 31, 2004 that have been disclosed under this

caption for information purposes only, and €1,182 thousand as receivables sold with recourse not due yet at year-end.

## COMMITMENTS

At December 31, 2004 commitments amounted to €73,076 thousand and consisted of €46,541 thousand for forward sale agreements priced in foreign currencies and options connected with purchase and sale transactions which will be made or collected in subsequent years.

The increase of about €22,451 thousand compared with 2003 is due to higher amounts priced in foreign currencies and the mix of hedging instruments which, at December 31, 2004, mainly consisted of call and put options stated in the memorandum accounts for each hedging transaction.

The caption includes €19,590 thousand for the commitment undertaken by Kilian GmbH & Co. KG to pay lease instalments for 15 years for the new offices and production facilities, and other commitments of €5,849 thousand mainly for tenancy and leasing agreements.

It is worth noting that, regarding the purchase of 90.68% of Packaging Systems Holdings LLC shares, the Parent Company signed an agreement granting the put option on the remaining shares in exchange of a call option on the same shares. Both put and call options will be exercised within May 2009 at a price indexed to the gross operating margin results reached between 1 January 2005 to 31 December 2008 by the Nova Group. The amount included within commitments in relation to the agreement above is €1,096 thousand and corresponds to the value at the 2004 year-end of the minimum amount of the commitment.

## 10) COMMENTS ON MAIN INCOME STATEMENT ITEMS

### VALUE OF PRODUCTION

#### A) REVENUES

The IMA Group's revenues are broken down by geographic area and business category as follows (in thousands of euros):

##### REVENUES BY GEOGRAPHIC AREA

	2004	2003	Change
Italy	29,722	29,119	603
European Union	146,069	141,709	4,360
Other European countries	26,173	36,669	(10,496)
North America	72,648	71,856	792
Asia	54,425	37,355	17,070
Other countries	34,362	28,925	5,437
<b>Total</b>	<b>363,399</b>	<b>345,633</b>	<b>17,766</b>

##### REVENUES BY BUSINESS CATEGORY

	2004	2003	Change
Machines and formats	280,365	267,036	13,329
Spare parts	48,674	45,648	3,026
Technical assistance	19,694	18,872	822
Other services	14,666	14,077	589
<b>Total</b>	<b>363,399</b>	<b>345,633</b>	<b>17,766</b>

The Report on operations provides an analysis of sales revenues and the influence of the various geographic areas on the results and the performance by each production division.

**B) OTHER REVENUES AND INCOME**

OPERATING GRANTS

This caption includes €223 thousand recorded by the Parent Company accounting for 10% of total costs incurred during the year for research activity under Law 346/88. This grant was assigned on October 16, 2002 by the Ministry of Education, University and Research in connection with a financing of €7,318 thousand including interest subsidies as well.

REVENUES AND OTHER INCOME

These mainly encompass contingent assets (€893 thousand), gains on disposal of assets (€284 thousand) and the utilization of the product guarantee provision (€667 thousand).

**PRODUCTION COSTS**

**RAW MATERIALS, SUPPLIES,  
CONSUMABLE STORES AND  
MERCHANDISE**

Below is a breakdown of this item (in thousands of euros):

	2004	2003	Change
Raw materials and semi-finished goods	103,606	9,796	7,810
Supplies and consumable stores	3,503	3,968	(465)
Marketable goods	19,023	14,644	4,379
Other purchases	1,902	1,789	113
<b>Total</b>	<b>128,034</b>	<b>116,197</b>	<b>11,837</b>

It should be noted that the amount for 2004 includes purchase costs attributable to the Nova Group (€2,147 thousand).

**FINANCIAL INCOME  
AND EXPENSES**

**A) OTHER FINANCIAL INCOME**

FROM SECURITIES CLASSIFIED UNDER FIXED ASSETS

These relate to interest income on bonds classified under fixed assets as they are pledged by contractual guarantees and amount to €23 thousand.

FROM SECURITIES CLASSIFIED UNDER CURRENT ASSETS

These relate to interest income from temporary cash amounting to €13 thousand.

OTHER INTEREST AND FINANCIAL INCOME

This item is composed as follows (in thousands of euros):

	2004	2003	Change
Interest income from banks	264	213	51
Interest income from customers	313	276	37
Grants on interest expense as per law 346/88	900	925	(25)
Premiums on financial derivatives	601	486	115
Sundry	140	106	34
<b>Total</b>	<b>2,218</b>	<b>2,006</b>	<b>212</b>

**B) INTEREST EXPENSE AND OTHER FINANCIAL CHARGES**

This caption encompasses (in thousands of euros):

	2004	2003	Change
Other interest expense and charges:			
Interest expense on payables to banks	3.876	4.178	(302)
Charges on guarantees	180	193	(13)
Interest expense on discounted notes	469	571	(102)
Discounts on financial derivatives	760	586	174
Sundry	810	1.390	(580)
	<b>6,095</b>	<b>6,918</b>	<b>(823)</b>
Other interest and expenses to parent companies	25	14	11
<b>Total</b>	<b>6,120</b>	<b>6,932</b>	<b>(812)</b>

The decrease in interest expense on payables to banks reflects the lower cost of money incurred during 2004 and lower medium-term debt over the previous year.

**C) EXCHANGE GAINS (LOSSES)**

This caption includes exchange gains of €5,242 thousand (€6,040 thousand in 2003) and exchange losses of €5,560 thousand (€6,176 thousand in 2003).

At December 31, 2004 exchange differences included €2,320 thousand as unrealized gains and €1,989 thousand as unrealized losses, as resulting from the valuation of items denominated in foreign currencies at year-end exchange rates. It is worth noting that the exchange rates applied at the reporting date do not significantly differ from current rates.

**VALUE ADJUSTMENTS TO FINANCIAL ASSETS**

The revaluation of €100 thousand regards the investment in B.C. S.r.l. and reflects the book value of the investment adjusted to the corresponding net equity as a consequence of the 2003 net result.

**TAXES**

Income taxes for the year amounted to €14,209 thousand and were made up of current taxes (€13,940 thousand), prepaid taxes (€551 thousand) and deferred taxes (€820 thousand).

Prepaid taxes include €310 thousand accrued during the year in connection with the tax benefit for losses that can be carried forward.

Deferred taxes mainly refer to consolidation adjustments and accruals by the Parent Company.

The higher percentage value of income taxes compared with 2003 (up around 4 percentage points) is due to: on the one hand, higher IRAP (regional tax on productive activities), and on the other hand the diverse allocation of net income among the consolidated Group companies.

## RELATED PARTIES TRANSACTIONS

The Report on operations provides a detailed analysis of transactions with related parties other than parent companies, unconsolidated subsidiary and associated companies.

The statement of income as of December 31, 2004 included revenues of €1,556 thousand to related parties, mainly with Naturapack S.r.l., as a result of the sale to this company of used machine picked up by Group customers. The consolidated statement of income includes costs for the purchase of machines and formats (€6,569 thousand) mainly from Vima S.r.l. and Advantech S.r.l. and other expenses to other related parties (€2,362 thousand) chiefly for consulting services, rent and other services. Furthermore, the Group companies usually make recourse to services rendered by Viaggi Nuova Era S.r.l., a travel agency controlled by Lopam Fin S.p.A.: costs related to such services and incurred during the year amount to around €3,104 thousand.

Related party transactions were conducted at arm's length.

At December 31, 2004 the balance sheet includes receivables and payables from/to related parties amounting to €1,394 thousand and €4,549 thousand respectively.

## WORKFORCE

During 2004 the IMA Group employed on average 2,480 people. Below is a breakdown of workforce:

	12/31/2004	of which Nova Group	12/31/2003	Change
Managers	126	4	111	15
Office workers	1,593	16	1,537	56
Manual workers	761	20	752	9
<b>Total</b>	<b>2,480</b>	<b>40</b>	<b>2,400</b>	<b>80</b>

For a better understanding of the table above, we underline that "Managers" also include 63 managers of the foreign companies who should be classified among "Office workers" as required by the Italian legislation.

At the 2004 year-end, the 162 employees of the Nova Group were considered for the calculation of the annual average workforce only with reference to one quarter.

## DIRECTORS' AND STATUTORY AUDITORS' FEES

IMA SpA's directors and statutory auditors matured the following fees (in thousands of euros):

	Fees from Parent Company		Fees from other consolidated companies	
	2004	2003	2004	2003
Parent Company's directors	981	950	53	71
Parent Company's statutory auditors	67	67	23	43

## 11) OTHER COMPLEMENTARY NOTES

### STATEMENT OF CHANGES IN CONSOLIDATED STOCKHOLDERS' EQUITY OF THE GROUP

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 (THOUSANDS OF EUROS)

Description	Capital stock	Share premium reserve	Reval. reserve	Legal reserve	Reserve treasury stocks	Other reserves	Accumul. transl. differen.	Retained earnings/ loss. c.f.	Net income of Group
<b>Balance at 12.31.2002</b>	<b>18.772</b>	<b>16.382</b>	<b>395</b>	<b>4.675</b>	<b>3.260</b>	<b>24.328</b>	<b>(11)</b>	<b>14.625</b>	<b>24.431</b>
Effect of merger of BFB S.p.A. into IMA S.p.A.	-	-	-	(278)	-	267	-	11	-
Allocation of profits for 2002:									
- dividends	-	-	-	-	-	-	-	-	(14.119)
- reserves	-	-	-	-	-	4.386	-	5.926	(10.312)
Distribution of reserves of profits as per resolution of the Stockholder's meeting of December 5, 2003	-	-	-	-	-	(14.440)	-	-	-
Purchase of treasury stocks	-	-	-	-	5.490	(5.490)	-	-	-
Sale of treasury stocks	-	-	-	-	(8.750)	8.750	-	-	-
Translation adjustments to financial statements in foreign currencies	-	-	-	-	-	-	(1.402)	-	-
Net income for the year	-	-	-	-	-	-	-	-	18.963
<b>Balance at 12.31.2003</b>	<b>18.772</b>	<b>16.382</b>	<b>395</b>	<b>4.397</b>	<b>-</b>	<b>17.801</b>	<b>(1.413)</b>	<b>20.562</b>	<b>18.963</b>
Effect of merger of Libra S.r.l. and IT S.r.l. into IMA S.p.A.	-	-	-	(74)	-	(315)	-	389	-
Distribution of profits for 2003:									
- dividends	-	-	-	-	-	-	-	-	(14.440)
- reserves	-	-	-	-	-	6.689	-	(2.166)	(4.523)
Purchase of treasury stocks	-	-	-	-	-	-	-	-	-
Sale of treasury stocks	-	-	-	-	-	-	-	-	-
Translation adjustments to financial statements in foreign currencies	-	-	-	-	-	-	(1.154)	-	-
Net income for the year	-	-	-	-	-	-	-	-	13.297
<b>Balance at 12.31.2004</b>	<b>18.772</b>	<b>16.382</b>	<b>395</b>	<b>4.323</b>	<b>-</b>	<b>24.175</b>	<b>(2.567)</b>	<b>18.785</b>	<b>13.297</b>

**STATEMENT OF CONSOLIDATED CASH FLOW**

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003 (THOUSANDS OF EUROS)

thousands of euros	2004	2003
<b>A. Opening short-term financial debt</b>	<b>(20,571)</b>	<b>(19,622)</b>
<b>B. Cash flow from (for) operating activities</b>		
- Net income for the year	13,297	18,963
- Amortization/depreciation	15,863	15,651
- (Gains) losses on disposal of fixed assets	(240)	(1,797)
- (Revaluations) write-downs of fixed assets	(100)	(13)
- Net change in provision for employee termination indemnities	1,075	1,539
Cash flow from operating activities before changes in working capital	29,895	34,343
- (Increase) decrease in current receivables	(2,755)	17,644
- (Increase) decrease in inventories	(10,363)	(2,261)
- Increase (decrease) in payables to suppliers and other payables	17,671	(10,816)
- Increase (decrease) in provisions for risks and charges	815	218
- Other (net)	888	(366)
	<b>36,151</b>	<b>38,762</b>
<b>C. Cash flow from (for) investing activities</b>		
Investments in fixed assets:		
- intangible assets	(11,584)	(3,047)
- tangible assets	(8,079)	(17,780)
- financial assets	(156)	(2,013)
Sales proceeds of reimbursement value of fixed assets	1,331	12,027
Change in scope of consolidation	(5,229)	248
	<b>(23,717)</b>	<b>(10,565)</b>
<b>D. Cash flow from (for) financing activities</b>		
- Increase in medium/long-term debts	2,825	316
<b>E. Changes in stockholders' equity</b>		
- Distribution of profits	(14,440)	(28,559)
<b>F. Net effect of exchange rate change</b>	<b>(638)</b>	<b>(903)</b>
<b>G. Cash flow for the year (B + C + D + E + F)</b>	<b>181</b>	<b>(949)</b>
<b>H. Closing net short-term debt (A + G)</b>	<b>(20,390)</b>	<b>(20,571)</b>

THE CHAIRMAN OF THE BOARD OF DIRECTORS  
MARCO VACCHI

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SUMMARY OF THE FINANCIAL STATEMENTS  
OF SUBSIDIARY COMPANIES  
AS OF DECEMBER 31, 2004

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I . M . A . I N D U S T R I A M A C C H I N E A U T O M A T I C H E S . P . A .  
A N D S U B S I D I A R I E S

**SUMMARY OF THE FINANCIAL STATEMENTS OF SUBSIDIARY COMPANIES  
AS OF DECEMBER 31, 2004**

**SUMMARY OF THE FINANCIAL STATEMENTS OF SUBSIDIARY COMPANIES**

Pursuant to Article 2429 last paragraph of the Italian Civil Code, a summary of the financial statements of consolidated subsidiary companies is provided below.

**MANUFACTURING COMPANIES**

Statement of Income (thousands of euros)	IMA Kilian GmbH & Co.KG	P.G. Bombay	CO.MA.DI.S. S.p.A.	Tianjin IMA	Zibo IMA Machinery	Zibo IMA Pharmatech
Net revenues	39,931	9,497	4,505	524	734	974
Operating costs	(39,097)	(8,253)	(4,629)	(484)	(698)	(886)
Net operating income	834	1,244	(124)	40	36	88
Other income (charges)	(580)	(117)	(109)	(4)	(39)	1
Result before taxes	254	1,127	(233)	36	(3)	89
Income taxes for the year	(65)	(386)	15	(16)	–	–
<b>Net income for the year</b>	<b>189</b>	<b>741</b>	<b>(218)</b>	<b>20</b>	<b>(3)</b>	<b>89</b>

**MANUFACTURING COMPANIES**

Balance Sheet (thousands of euros)	IMA Kilian GmbH & Co.KG	P.G. Bombay	CO.MA.DI.S. S.p.A.	Tianjin IMA	Zibo IMA Machinery	Zibo IMA Pharmatech
Assets:						
short-term	13,721	4,081	2,073	226	759	330
inventories - net	18,397	1,973	2,150	21	324	1,330
fixed assets	3,111	1,359	3,743	20	50	739
<b>Total</b>	<b>35,229</b>	<b>7,413</b>	<b>7,966</b>	<b>267</b>	<b>1,133</b>	<b>2,399</b>
Liabilities:						
short-term	29,656	2,988	5,090	79	563	1,643
medium/long-term	1,536	242	908	–	–	–
Stockholders' equity	4,037	4,183	1,968	188	570	756
<b>Total</b>	<b>35,229</b>	<b>7,413</b>	<b>7,966</b>	<b>267</b>	<b>1,133</b>	<b>2,399</b>

**SUMMARY OF THE FINANCIAL STATEMENTS OF SUBSIDIARY COMPANIES  
AS OF DECEMBER 31, 2004**

**MARKETING COMPANIES**

Statement of Income (thousands of euros)	IMA Iberica SL	IMA N.A. Inc.	IMA Germany GmbH	IMA UK Ltd.	IMA France Eurl	I.M.A. Est GmbH	IMA Far East Co. Ltd.	Imauto- matiche Lda.
Net revenues	1,731	61,382	3,681	4,252	5,300	5,643	–	7,321
Operating costs	(1,216)	(60,886)	(3,231)	(4,168)	(4,923)	(4,015)	(46)	(7,004)
Net operating income	515	496	450	84	377	1,628	(46)	317
Other income (charges)	(8)	(77)	(252)	(31)	(18)	(69)	84	13
Result before taxes	507	419	198	53	359	1,559	38	330
Income taxes	(114)	(200)	229	(47)	(144)	(92)	–	–
<b>Net income for the year</b>	<b>393</b>	<b>219</b>	<b>427</b>	<b>6</b>	<b>215</b>	<b>1,467</b>	<b>38</b>	<b>330</b>

**MARKETING COMPANIES**

Balance Sheet (thousands of euros)	IMA Iberica SL	IMA N.A. Inc.	IMA Germany GmbH	IMA UK Ltd.	IMA France Eurl	I.M.A. Est GmbH	IMA Far East Co. Ltd.	Imauto- matiche Lda.
Assets:								
Short-term	1,330	20,967	5,509	2,445	3,991	4,061	635	5,550
inventories - net	7	6,732	–	77	101	–	–	–
fixed assets	58	1,799	28,733	608	31	350	–	2
<b>Total</b>	<b>1,395</b>	<b>29,498</b>	<b>34,242</b>	<b>3,130</b>	<b>4,123</b>	<b>4,411</b>	<b>635</b>	<b>5,552</b>
Liabilities:								
short-term	540	24,792	7,457	555	1,740	1,863	745	4,676
medium/long-term	–	–	–	–	223	123	–	–
Stockholders' equity	855	4,706	26,785	2,575	2,160	2,425	(110)	876
<b>Total</b>	<b>1,395</b>	<b>29,498</b>	<b>34,242</b>	<b>3,130</b>	<b>4,123</b>	<b>4,411</b>	<b>635</b>	<b>5,552</b>

**SUMMARY OF THE FINANCIAL STATEMENTS OF SUBSIDIARY COMPANIES  
AS OF DECEMBER 31, 2004**

**OTHER MANUFACTURING AND MARKETING COMPANIES**

Statement of Income (thousands of euros)	Swiftpack (*) Automation Ltd.	Nova Pack. (*) Systems Inc.	IMA Beijing	IMA Pacific
Net revenues	3,520	3,620	902	5,053
Operating costs	(3,026)	(3,654)	(905)	(3,876)
Net operating income	494	(34)	(3)	1.177
Other income (charges)	131	(138)	79	80
Result before taxes	625	(172)	76	1,257
Income taxes	(128)	–	(25)	(325)
<b>Net income for the year</b>	<b>497</b>	<b>(172)</b>	<b>51</b>	<b>932</b>

(\*) Figures relating to Q4 of 2004

**OTHER MANUFACTURING AND MARKETING COMPANIES**

Balance Sheet (thousands of euros)	Swiftpack Automation Ltd.	Nova Pack. Systems Inc.	IMA Beijing	IMA Pacific
Assets:				
short-term	2,866	3,840	897	4,898
inventories - net	1,663	4,040	–	–
fixed assets	2,133	4,636	67	34
<b>Total</b>	<b>6,662</b>	<b>12,516</b>	<b>964</b>	<b>4,932</b>
Liabilities:				
short-term	3,545	4,797	293	2,339
medium/long-term	255	2,323	–	–
Stockholders' equity	2,862	5,396	671	2,593
<b>Total</b>	<b>6,662</b>	<b>12,516</b>	<b>964</b>	<b>4,932</b>

**SUMMARY OF THE FINANCIAL STATEMENTS OF SUBSIDIARY COMPANIES  
AS OF DECEMBER 31, 2004**

Statement of Income (thousands of euros)	HOLDING COMPANIES		
	Luxteco Internat. SA	Holteco BV	Packaging Systems Holding LLC
Net revenues	–	–	–
Operating costs	(18)	(20)	–
Net operating income	(18)	(20)	–
Other income (charges)	(61)	151	–
Result before taxes	(79)	131	–
Income taxes	(7)	36	–
<b>Net income for the year</b>	<b>(86)</b>	<b>167</b>	<b>–</b>

Balance Sheet (thousands of euros)	HOLDING COMPANIES		
	Luxteco Internat. SA	Holteco BV	Packaging Systems Holding LLC
Assets:			
short-term	1,588	1,696	–
inventories - net	–	–	–
fixed assets	–	–	5,910
<b>Total</b>	<b>1,588</b>	<b>1,696</b>	<b>5,910</b>
Liabilities:			
short-term	23	–	–
medium/long-term	152	–	–
Stockholders' equity	1,413	1,696	5,910
<b>Total</b>	<b>1,588</b>	<b>1,696</b>	<b>5,910</b>

**SUMMARY OF THE FINANCIAL STATEMENTS OF SUBSIDIARY COMPANIES  
AS OF DECEMBER 31, 2004**

Statement of Income (thousands of euros)	OTHER COMPANIES	
	Info Area S.r.l.	Comitec S.r.l.
Net revenues	9,106	1,360
Operating costs	(7,735)	(640)
Net operating income	1,371	720
Other income (charges)	17	5
Result before taxes	1,388	725
Income taxes	(602)	(293)
<b>Net income for the year</b>	<b>786</b>	<b>432</b>

Balance Sheet (thousands of euros)	OTHER COMPANIES	
	Info Area S.r.l.	Comitec S.r.l.
Assets:		
short-term	7,963	1,078
inventories - net	17	-
fixed assets	167	5
<b>Total</b>	<b>8,147</b>	<b>1,083</b>
Liabilities:		
short-term	4,347	320
medium/long-term	346	54
Stockholders' equity	3,454	709
<b>Total</b>	<b>8,147</b>	<b>1,083</b>

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**REPORT OF THE INDEPENDENT AUDITORS**  
**ON THE CONSOLIDATED FINANCIAL STATEMENTS**  
**AS OF DECEMBER 31, 2004**  
(TRANSLATION FROM THE ORIGINAL ISSUED IN ITALY  
FROM THE ITALIAN INTO ENGLISH LANGUAGE  
SOLELY FOR THE CONVENIENCE OF INTERNATIONAL READERS)

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**I . M . A .** I N D U S T R I A M A C C H I N E A U T O M A T I C H E S . P . A .  
A N D S U B S I D I A R I E S

**AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 156 OF LAW  
DECREE N° 58 DATED 24 FEBRUARY 1998**

To the Shareholders of  
I.M.A. – Industria Macchine Automatiche SpA

- 1 We have audited the consolidated financial statements of I.M.A. – Industria Macchine Automatiche SpA (hereinafter “IMA” or “IMA Group”) as of 31 December 2004. These consolidated financial statements are the responsibility of IMA’s directors. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.  
The audit of the financial statements of two subsidiaries, whose total assets constitute 8 per cent of consolidated total assets and whose revenues constitute 8 per cent of consolidated revenues, is the responsibility of another auditor.

For the opinion on the consolidated financial statements of the prior period, which are presented for comparative purposes as required by law, reference is made to the report issued by other auditors dated 26 March 2004.

- 3 In our opinion, the consolidated financial statements of the IMA Group as of 31 December 2004 comply with the laws governing the criteria for their preparation; accordingly, they give a true and fair view of the financial position and of the results of operations of the group.

Bologna, 29 March 2005

PricewaterhouseCoopers SpA

Signed by  
Roberto Megna  
(Partner)

*This report has been translated from the original which was issued in accordance with Italian legislation.*