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QUARTERLY REPORT FOR THE THIRD QUARTER OF 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  
H E A D   O F F I C E :   O Z Z A N O   D E L L ' E M I L I A   ( B O L O G N A )  
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## INTRODUCTION

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This report was approved by the Board of Directors on November 12, 2004.

The report was prepared in accordance with article 82 of Consob circular no. 11971 of May 14, 1999 and subsequent amendments.

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REPORT ON OPERATIONS

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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

(in accordance with Consob recommendation no. 97001574 of February 20,1997)

In addition to the powers that, by law, cannot be delegated, the Board of Directors acting together has exclusive powers to approve:

- the Company's strategic, business and financial plans and any decisions relating to the Group structure;
- any transaction likely to have a significant impact on the Company's results, assets and liabilities or financial situation and, in any case, any transaction that exceeds a value of 10,000,000.00 euro, except for the power to renew credit lines already granted to the Company, which can be delegated;
- any transactions with related parties, except for those with subsidiary companies, which the Board must in any case approve if they have a significant effect on operations, assets and liabilities or the financial position.

### 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 quotas 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 concede real rights of enjoyment 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 quotas 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 concede real rights of enjoyment 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 Dari, Mauro Gambaro (resigned on October 5, 2004), Italo Giorgio Minguzzi, Luca Poggi, Maria Carla Schiavina, Gianluca Vacchi, Stefano Visentini, Romano Volta.

**BOARD OF STATUTORY  
AUDITORS**

(in office until December 31, 2006)

**AUDITORS**

Giorgio Comini - Chairman - Auditor

Amedeo Cazzola - Auditor

Piero Aicardi - Auditor

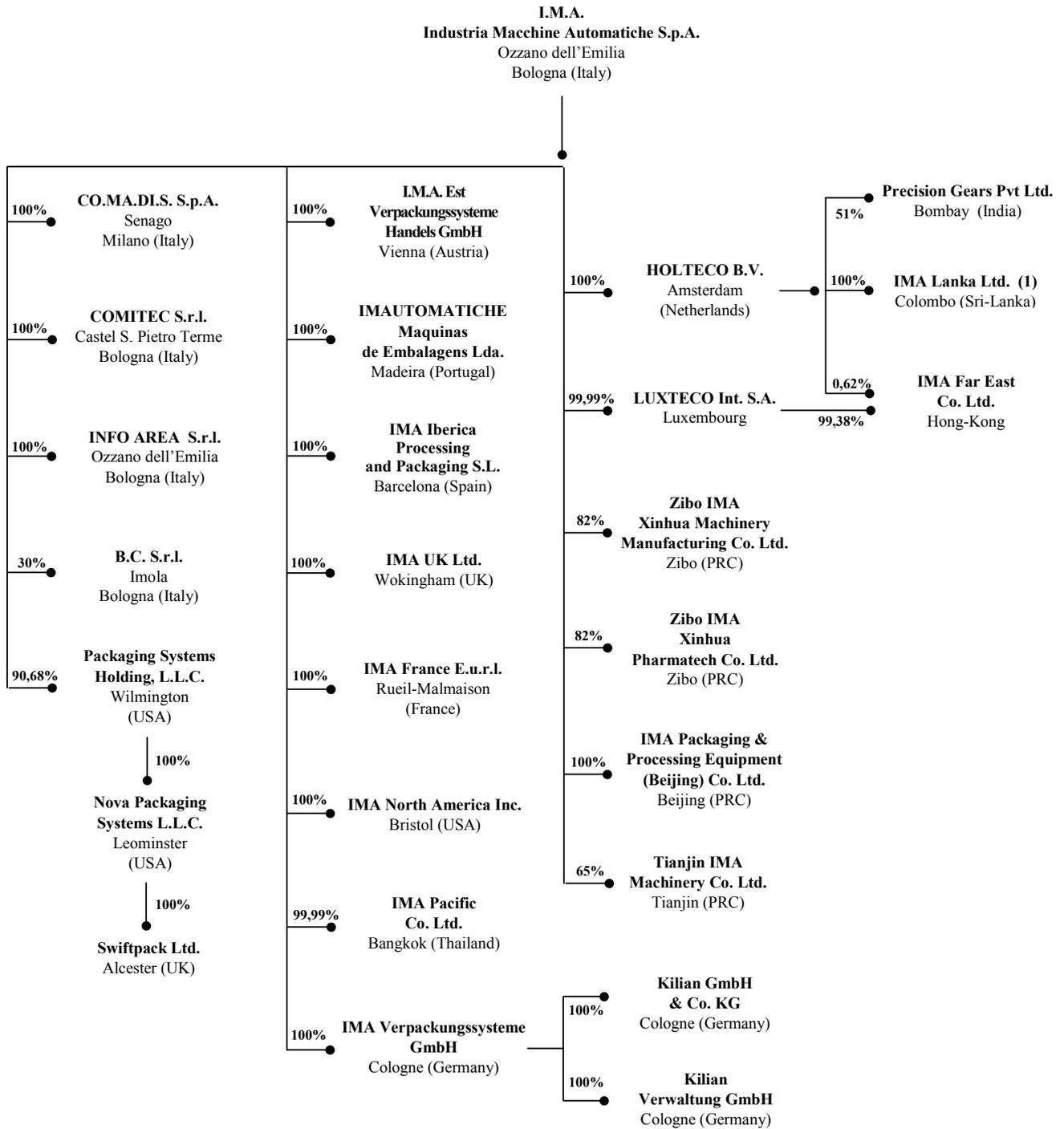
**ALTERNATE AUDITORS**

Vittorio Coraducci - Auditor

Chiara Gallina – Auditor

Antonella Grassigli - Auditor

GROUP STRUCTURE



(1) liquidation completed on Novembre 2, 2004

## 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)

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

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

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

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

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

**Nova Packaging**  
**Systems LLC**  
Leominster (USA)

**Swiftpack Ltd.**  
Alcester (UK)

COMMERCIAL  
ACTIVITIES

**IMA**  
**Verpackungssysteme 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)

**IMA Lanka Ltd (1)**  
Colombo (Sri Lanka)

## OTHER ACTIVITIES

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

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

**Kilian Verwaltung GmbH**  
Cologne (Germany)

## FINANCIAL ACTIVITIES

**Luxteco International S.A.**  
Luxembourg

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

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

(1) Liquidation completed on November 2, 2004

## RESULTS OF OPERATIONS

### GENERAL PERFORMANCE

In 2004, the rate of development of the world economy is expected to reach the highest level for the last twenty years (+5%), driven by strong growth in the US, headlong expansion on the part of the Chinese and an important recovery by the Japanese, while the European economy is expected to turn in a lower rate of growth because of stagnant domestic consumption, not offset by an upswing in exports, which are being held back by distinctly unfavorable exchange rates. This growth in the world economy has been accompanied from the start by a choral forecast of a subsequent and almost immediate slowdown, with scenarios that the more optimistic forecasters paint in terms of a rapid slowdown already in 2005, while the more pessimistic ones are even talking about economies collapsing, with the US dollar destined to grow significantly weaker in an attempt to repair the gaping hole that has opened in America's trade and budget figures.

This dichotomy between current growth and expectations of rapid decline has conditioned most businesses and continues to condition them, especially those that end up postponing any investment decision when it is not absolutely vital right now. This is what is happening in the pharmaceuticals industry as well, even though it is still enjoying high rates of growth (+8% in the first nine months of 2004) and with very positive prospects for years to come as well. In this case, the demand for new processing and packaging machines is clearly rising, though we cannot help but note a sluggishness in decision making which contrasts with the extremely high volume of requests for offers which continue to arrive. Indeed, it is these that reflect the real needs of factories that are having to cope with production volumes in continuous expansion. This behavior obviously makes plant manufacturers nervous, especially as the decline in orders that took place in 2003 resulted to a low order book at the beginning of this year. All of this has also led to tensions in terms of prices and discounts, as mentioned in previous quarterly reports.

The prospects for the tea-bagging machine sector continue to be very positive, with strong demand from both Eastern European and EU countries. Also of considerable interest are the prospects for the coffee pod machine sector, with demand in rapid expansion.

### KEY FIGURES

In the three-month period from July to September 2004, net sales, including changes in contract work-in-progress, totaled 78.44 million euro, with an increase of 6% on the corresponding quarter of last year (74.00 million euro). As a result, net sales at the end of September, 228.92 million euro were 5.1% higher than in 2003 (217.71 million euro). The table below illustrates the breakdown of net sales by sector during the first nine months of the year:

million euro	09.30.2004	09.30.2003	Change	
			+/-	%
Tea and herbal tea packaging	50.75	36.85	13.90	37.7
Pharmaceuticals packaging	118.24	131.43	(13.19)	(10.0)
Pharmaceuticals processing	59.93	49.43	10.50	21.2
<b>Total net sales</b>	<b>228.92</b>	<b>217.71</b>	<b>11.21</b>	<b>5.1</b>

New orders received in the third quarter amounted to 72.9 million euro, much the same as in the third quarter of 2003, when they amounted to 72.6 million euro. The following table shows the level of the order book at September 30, 2004 compared with that of 2003:

million euro	09.30.2004	09.30.2003	Change	
			+/-	%
Tea, coffee and herbal tea packaging	37.95	50.23	(12.28)	(24.5)
Pharmaceuticals packaging	99.08	95.91	3.17	3.3
Pharmaceuticals processing	43.74	39.56	4.18	10.6
<b>Total</b>	<b>180.77</b>	<b>185.70</b>	<b>(4.93)</b>	<b>(2.7)</b>

The figures at the end of September 2004 confirm the strong growth in orders from the pharmaceuticals industry (+9.3%), more for processing than for packaging machines and despite the deterioration in the euro/dollar exchange rate. The tea-bagging sector, on the other hand, has seen a lower level of new orders (-22%), but this is a delay that does not cause much worry as it is expected to be recovered during the last quarter.

As usual, sales in this sector are not spread evenly over the year; in fact, around 40% of total deliveries for the year are concentrated in the last quarter, which means that interim figures are not particularly meaningful as an indication of how the whole financial year is likely to turn out, as we have mentioned previously on various occasions. Operating income at the end of September 2004 comes to 9.35 million euro versus 7.83 million euro at the end of September 2003. This improvement was made possible partly by the increase in revenues and partly by a better delivery mix, with the tea-bagging sector representing around 22% of net sales for the period compared with 16.9% in the first nine months of 2003. On the other hand, we have to report that the actual margins earned on plant and machinery for the pharmaceuticals industry have suffered both as a result of the aggressive pricing policies adopted by certain leading competitors, and because of the higher costs that are a feature of the start-up phase of new products, which represent a significant proportion of deliveries during the period.

The balance of financial income and expense show a surplus of expenses of 3.04 million euro, an increase on the same period last year of 2.06 million euro, mainly due to the abolition of the tax credit on dividends, which at September 30, 2003 amounted to 2.91 million euro.

There were no extraordinary items during the period, whereas at the end of September 2003 there was extraordinary income of 1.17 million euro, largely thanks to the sale of Libra Immobiliare S.r.l. The result before income taxes therefore amounts to 6.22 million euro versus 7.76 at September 30, 2003.

Net capital invested, 190.21 million euro, is showing an increase of 16.75 million euro with respect to the figure at the end of June 2004. This growth is largely due to the acquisition of Packaging Systems Holding LLC for 12.93 million euro. It includes net working capital of 96.30 million euro, which increased by 9.34 million euro mainly due to a rise in inventories needed to cope with the large number of deliveries in the fourth quarter. The drop in amounts due to suppliers is also typical of this period of the year when most of the inventories are at an advanced stage of the production process. The trend in trade receivables was positive, as they

decreased by 7.92 million euro. Tangible and intangible fixed assets reflect a different trend in new investments compared with the depreciation and amortization charges for the period. The increase in equity investments (+12.93 million euro) comes as a result of buying 90.68% of Packaging Systems Holding LLC, located in Delaware (USA), on September 29, 2004. This is an acquisition of considerable strategic importance for the IMA Group, which we will comment on in greater detail in the next paragraph. As a result, net debt at September 30, 2004 totals 100.21 million euro compared with 87.53 million euro at June 30, 2004 and 91.42 million euro at September 30, 2003. Considering the outlays made for this acquisition (9.21 million euro) the level of debt at September 30, 2004 has remained much the same as last year, with slightly lower growth in the third quarter.

## ACQUISITION OF THE NOVA GROUP

As mentioned, IMA S.p.A. bought 90.68% of Packaging Systems Holding LLC at the end of September 2004. The remaining shares in this US company are held by management with whom IMA S.p.A. has signed an agreement which, inter alia, grants them a put option over such shares in exchange for a call option. This company holds 100% of Nova Packaging Systems LLC, which is based in Leominster (Massachusetts). This company was born last March from a spin-off of the pharmaceuticals packaging activities of the US group DT Industries which includes not only its 100% subsidiary Swiftpack Ltd, with head office and plant at Alcester (UK), but also prestigious brands in the area of pharmaceuticals packaging such as Swiftpack, Lakso, Merrill, and Kalish. With annual sales of around 35 million US dollars, the Nova Group is world leader in the field of counting machines that bottle pills and capsules for the pharmaceuticals industry. This is an alternative form of packaging to blisters, a segment where the IMA Group already has a leadership position and a widespread presence in certain areas, including North America, which alone represents more than 50% of world consumption of pharmaceuticals. This acquisition is very interesting because it responds to a whole series of requisites, which we will try to summarize here:

- Nova already offers considerable room for *value creation* as a “stand-alone” firm, i.e. before considering possible synergies with the IMA Group. The deal was settled on the basis of an “enterprise value” of 18.8 million dollars (recognized price plus average debt), which as a multiple comes to 5 times EBITDA; this should not have any dilutive effect on IMA's ratios, even if the option to buy the remaining shares held by the company's management is exercised. The plan drawn up by management, which we consider realistic, foresees strong growth in EBITDA over the next three years. This earnings forecast, together with the Nova Group's capital structure which shows considerable efficiency in its net operating capital invested (net of goodwill) amounting to 5.68 million euro at September 30, 2004, make it possible to foresee a good ROI and a level of cash generation that will rapidly repay the investment.
- Strong marketing synergies between the two sales networks as users of counting machines also tend to be users of blister machines, so Nova's excellent positioning in North America should facilitate the spread of IMA's blister lines in that market, while the reverse should apply in Europe. At the same time, Nova will be able to take advantage of the IMA Group's

widespread after-sales service network all over the world. On the other hand, Nova indirect network of agents in the USA will help introduce IMA products to a whole range of small and medium-sized customers that IMA North America does not traditionally follow.

- When offering complete counting lines, Nova will now be able to propose a wide range of IMA products, particularly capping machines, ringer machines, labeling machines, cartoning machines and end-of-line machines. This should be a way to help drive sales of IMA Group products.
- Important synergies in the field of R&D, as will be clear from the announcements expected to be made at the Packexpo trade fair in Chicago.
- Through this acquisition, the IMA Group at long last has a production base in the United States, which is by far the most important market in the world for our products. In this sense, we are developing a precise industrial strategy that will allow IMA to present itself increasingly as a local firm able to respond to the growing demand for add-on services, which pharmaceutical multinationals require more and more frequently.

Here we have listed some of the reasons that, in our opinion, make this acquisition extremely interesting. As anyone can see, they are all *good* reasons. Of course, only time will tell if they are really valid, though we think everyone would agree that all of the elements exist to justify this deal, which is of enormous strategic importance and which will probably have a very short pay-back time.

### **SIGNIFICANT EVENTS AFTER THE END OF THE THIRD QUARTER**

The main events that took place after September 30, 2004 are as follows:

- Mauro Gambaro resigned as a director on October 5, 2004; the board will take suitable steps to replace him and the new director will remain in office until the next shareholders' meeting;
- the liquidation of IMA Lanka Ltd was completed on November 2, 2004 without any material costs arising.

### **OUTLOOK FOR THE REST OF THE YEAR**

Analyzing the orders due for delivery in the last quarter of 2004 confirms the forecast growth in revenues of around 5%, excluding the effect of Nova's acquisition, which in any case is likely to be minimal as it will only impact the last quarter; on the other hand, it also reflects a more critical situation in terms of industrial margins compared with what was mentioned in previous reports; we therefore doubt that there will be any significant improvement in operating income in 2004. A different sales mix during the period October-December, higher discounts that we have had to recognize in certain cases, lower margins on new products still in the start-up phase, billings for machines ordered on the basis of price lists in US dollars prior to the latest increases, as well as non-recurring items that have had a negative impact on the operating result to the tune of around 1.5 million euro, suggest that operating income at the end of the year will be more or less the same as in 2003.

Even if this year's results are expected to be stable, various elements that we have at our disposal lead us to believe that there will be a positive trend in the Group's results in 2005, as many of the factors that conditioned 2004 will no longer exist. If, on the one hand, the price tensions that featured during 2004 seem to be gradually disappearing, on the other, we see that the margins on new products are improving; in the meantime, positive signals from the pharmaceuticals industry bode well for the trend in demand for machines over the coming months. Lastly, the tea-bagging machine sector does not appear to be showing any sign of slowing down.

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CONSOLIDATED BALANCE SHEET AND STATEMENT OF INCOME

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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**

(IN THOUSANDS OF EURO)

	09.30.2004	06.30.2004	12.31.2003	09.30.2003
Trade receivables	63,255	71,173	76,670	60,444
Inventories	145,124	140,189	117,416	139,267
Trade payables	(95,445)	(103,953)	(94,505)	(84,587)
Other payables, net	(16,634)	(20,449)	(21,379)	(15,209)
<b>Operating capital</b>	<b>96,300</b>	<b>86,960</b>	<b>78,202</b>	<b>99,915</b>
Intangible fixed assets	39,792	41,119	42,989	43,847
Tangible fixed assets	58,032	59,110	58,663	57,697
Equity investments	13,511	584	484	7,244
<b>Fixed assets, net</b>	<b>111,335</b>	<b>100,813</b>	<b>102,136</b>	<b>108,788</b>
Employee termination indemnities and other	(17,427)	(14,317)	(13,739)	(15,290)
<b>Net capital invested</b>	<b>190,208</b>	<b>173,456</b>	<b>166,599</b>	<b>193,413</b>
<b>FINANCED BY:</b>				
<b>Net financial position</b>	<b>100,205</b>	<b>87,533</b>	<b>68,494</b>	<b>91,416</b>
Minority interests	2,288	2,291	2,246	2,258
<b>Stockholders' equity pertaining to the Group</b>	<b>87,715</b>	<b>83,632</b>	<b>95,859</b>	<b>99,739</b>
<b>Total sources of finance</b>	<b>190,208</b>	<b>173,456</b>	<b>166,599</b>	<b>193,413</b>

**CONSOLIDATED STATEMENT OF INCOME**

(IN THOUSANDS OF EURO)

COMPONENTI ECONOMICHE	3° trimestre 2004	3° trimestre 2003	dal 01/01/2004 al 30/09/2004	dal 01/01/2003 al 30/09/2003
<b>A. VALORE DELLA PRODUZIONE</b>				
<i>Ricavi delle vendite e delle prestazioni</i>	75.475	72.373	224.677	214.259
<i>Variazione delle rimanenze di prodotti in corso di lavorazione, semilavorati e finiti</i>	2.336	4.054	23.727	22.891
<i>Variazione dei lavori in corso su ordinazione</i>	2.965	1.625	4.243	3.450
<i>Incrementi di immobilizzazioni per lavori interni</i>	358	37	1.465	208
<i>Altri ricavi e proventi</i>	148	561	1.816	1.449
<b>TOTALE VALORE DELLA PRODUZIONE (A)</b>	<b>81.282</b>	<b>78.650</b>	<b>255.928</b>	<b>242.257</b>
<b>B. COSTI DELLA PRODUZIONE</b>				
<i>Per materie prime, sussidiarie, consumo e merci</i>	28.275	25.904	93.176	87.420
<i>Per servizi</i>	17.301	15.617	54.774	50.300
<i>Per godimento beni di terzi</i>	1.373	1.448	4.032	4.035
<i>Per il personale</i>	24.086	24.028	79.845	77.348
<i>Ammortamenti e svalutazioni</i>				
- ammortamenti delle immobilizzazioni immateriali	2.122	2.204	6.158	6.464
- ammortamenti delle immobilizzazioni materiali	1.728	1.651	5.202	4.970
- svalutazione crediti nel circolante	(43)	51	131	309
<i>Totale ammortamenti e svalutazioni</i>	3.807	3.906	11.491	11.743
<i>Variazioni delle rimanenze di materie prime, sussidiarie, di consumo e merci</i>	130	563	377	921
<i>Accantonamento per rischi ed altri accantonamenti</i>	174	180	390	857
<i>Oneri diversi di gestione</i>	915	410	2.496	1.800
<b>TOTALE COSTI DELLA PRODUZIONE (B)</b>	<b>76.061</b>	<b>72.056</b>	<b>246.581</b>	<b>234.424</b>
<b>DIFFERENZA TRA VALORE E COSTI DELLA PRODUZIONE (A-B)</b>	<b>5.221</b>	<b>6.594</b>	<b>9.347</b>	<b>7.833</b>
<b>C. PROVENTI ED ONERI FINANZIARI</b>				
<i>Proventi finanziari</i>	378	1.173	1.498	4.691
<i>Oneri finanziari</i>	1.341	1.588	4.156	4.924
<i>Utile (perdita) su cambi</i>	171	(379)	(378)	(743)
<b>TOTALE PROVENTI ED ONERI FINANZIARI (C)</b>	<b>(792)</b>	<b>(794)</b>	<b>(3.036)</b>	<b>(976)</b>
<b>D. RETTIFICHE DI VALORE DI ATTIVITA' FINANZIARIE</b>	<b>-</b>	<b>256</b>	<b>100</b>	<b>13</b>
<b>E. PROVENTI ED ONERI STRAORDINARI</b>				
<i>Proventi</i>	-	1.533	-	1.533
<i>Oneri</i>	-	97	-	367
<b>TOTALE DELLE PARTITE STRAORDINARIE (E)</b>	<b>-</b>	<b>1.436</b>	<b>-</b>	<b>1.166</b>
<b>RISULTATO DI PERTINENZA DI TERZI</b>	<b>(43)</b>	<b>(183)</b>	<b>(191)</b>	<b>(280)</b>
<b>RISULTATO PRIMA DELLA IMPOSTE</b>	<b>4.386</b>	<b>7.309</b>	<b>6.220</b>	<b>7.756</b>

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EXPLANATORY NOTES

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## A) ACCOUNTING POLICIES

This quarterly report on operations has been prepared in accordance with the criteria laid down in current legislation, as interpreted and supplemented by the standards issued by the Commissione per la statuizione dei Principi Contabili dei Consigli Nazionali dei Dottori Commercialisti e dei Ragionieri and by the Organismo Italiano di Contabilità (O.I.C.) and, where these are insufficient, by the International Accounting Standards Board (I.A.S.B.).

The most significant accounting policies applied are as follows:

### INTANGIBLE FIXED ASSETS

Intangible fixed assets are recorded at purchase or production cost, including related charges and a reasonable allocation of direct and indirect expenses, and are systematically amortized over their estimated useful lives

The amortization periods for intangible fixed assets are described below:

- Incorporation and expansion costs 5 years
- R&D costs 5 years
- Industrial patents and intellectual property rights 3/5/10 years
- Concessions, licenses and similar rights 5 years
- Trademarks 10 years
- Goodwill 10 years
- Consolidation differences 4/10/15 years
- Other 5/10 years/duration of the contract

Advertising, research and development costs are usually charged to operations in the period they are sustained except, from last year, for the development costs incurred on projects related to totally new products that meet the requirements established by the applicable accounting standards for capitalization as intangible assets. These costs will be amortized over their expected useful lives from the time the products begin to generate the related economic benefits.

### TANGIBLE FIXED ASSETS

Tangible fixed assets are recorded at purchase or production cost, or at their appraisal value in the case of conferrals. Certain assets have been revalued in accordance with specific laws or pursuant to mergers carried out in previous accounting periods. Cost includes related charges and a reasonable allocation of direct and indirect expenses.

Tangible fixed assets are depreciated on a straight-line basis using the following annual rates that reflect their residual useful lives:

- Property 3%
- Plant and machinery 10% / 15.5% / 20%
- Manufacturing and commercial equipment 25%
- Other assets:

- Electronic office machines	30% / 40%
- Office fixtures and furniture	12% / 15%
- Vehicles	20% / 25%

Depreciation is halved in the period that assets are purchased.

In the event of a permanent impairment of value, the asset is written down accordingly, regardless of how much depreciation has already been charged.

Ordinary maintenance costs are expensed as incurred. Maintenance costs which enhance the value of assets are allocated to such assets and depreciated over their residual useful lives.

### TANGIBLE ASSETS HELD UNDER FINANCIAL LEASE

Finance leases are accounted for on the basis of document no. 17 issued by the International Accounting Standards Board (I.A.S.B.).

This provides that:

- the cost of leased assets is attributed to tangible assets and depreciated on a straight-line basis over the useful life of the assets; and on the liabilities side, the financial debt owed to the leasing company is booked for an amount equal to the value of the asset being leased
- lease payments are booked in such a way as to separate the financial element from the capital component, which is considered to be a liability to the lessor.

### INVESTMENTS AND SECURITIES CLASSIFIED AS FIXED ASSETS

Investments in non-consolidated subsidiaries and associated companies are carried at equity and at cost. Equity investments in other companies are valued at purchase or subscription cost. Cost is reduced to reflect any permanent impairment of value caused by losses that are unlikely to be recovered out of profits earned in the immediate future.

Fixed-income securities included in fixed assets are booked at purchase cost, after taking account of the accrued portion of any issue premium or discount. Cost is written down in case of a permanent impairment in value.

### INVENTORIES

Inventories are stated at the lower of purchase or production cost, or their corresponding market or estimated realizable value.

Cost is calculated using the LIFO method for raw, ancillary and consumable materials, and semi-finished products, and using their actual cost for other inventory items.

Estimated realizable value is calculated taking into account any production costs still to be incurred and direct selling expenses.

Obsolete and slow-moving inventories are written down to reflect the likelihood that they will be used or sold, considering the average length of the production cycle.

Contract work-in-progress relates to medium/long-term contracts which are valued on a stage-of-completion basis, determined with reference to revenues earned with reasonable certainty, applying the cost-to-cost method. Any losses on contracts that

can be estimated with reasonable accuracy are recognized in full during the period when they become known.

#### **SECURITIES NOT HELD AS FIXED ASSETS**

These are valued at the lower of cost or market, determined with reference to closing prices at the end of the period.

#### **RECEIVABLES**

Accounts receivable are stated at their estimated realizable value.

#### **ACCRUALS AND PREPAYMENTS**

Accruals and prepayments include the portion of revenues and expenses affecting two or more periods, in accordance with the matching principle.

#### **PROVISIONS FOR RISKS AND CHARGES**

Provisions for risks and charges are recorded to cover known or probable losses or liabilities, the timing and extent of which cannot be determined at the end of the period. Provisions reflect the best estimate of losses to be incurred based on the information available.

Risks which only might give rise to a liability are indicated in the explanatory notes but no provision is provided.

#### **PROVISION FOR EMPLOYEE TERMINATION INDEMNITIES**

The provision for employee termination indemnities covers the full liability to employees in accordance with current legislation, national labor contracts and in-house agreements. This liability is subject to revaluation using officially-established indices.

#### **PAYABLES**

Accounts payable are stated at their nominal value.

#### **TAXES**

The Group has taken advantage of its right as per appendix 3D, art. 82 of Consob resolution no. 11971 of May 14, 1999 and subsequent amendments, to report income for the period before tax: this means that it has not calculated the current taxes, nor the deferred tax assets and liabilities for the period, based on the accounting standard for income taxes. It follows that minority interests are based on the Group's pre-tax results.

#### **CAPITAL AND OPERATING GRANTS**

Capital grants are recorded, when the amounts become certain, to a specific caption within accrued expenses and deferred income and credited to the statement of income over the residual useful lives of the fixed assets to which they refer.

Operating grants are booked to income when the amounts become certain.

## REVENUE RECOGNITION

Revenue relating to the sale of products is recognized at the moment title passes, which generally coincides with shipping. The only exception to this is long-term contract work in progress, as explained above.

## TRANSLATION OF FOREIGN CURRENCY BALANCES

Foreign currency assets and liabilities, excluding fixed assets, are stated using the spot exchange rates applying at the end of the period; any adjustment gains or losses are recorded in the statement of income as financial items.

Fixed assets denominated in foreign currencies are recorded using the exchange rates in effect at the time of purchase, or using the lower period-end rates if the reduction is deemed to be permanent.

Exchange differences realized upon the collection of receivables or the settlement of payables denominated in foreign currencies are reflected in the statement of income.

## B) CONSOLIDATION PRINCIPLES

Consolidation is carried out on a line-by-line basis. The main criteria used in applying this method are as follows:

- The book value of consolidated investments held by the parent company or by other consolidated companies is eliminated against the Group share of their equity, while combining their assets and liabilities.
- The difference between the acquisition cost of investments and the related share of stockholders' equity at the time of acquisition is allocated, where possible, to assets to reflect their current value, while the unallocated portion is booked as "Differences on consolidation" as part of intangible assets.
- Significant transactions between consolidated companies are eliminated, as are the receivables and payables and any unrealized income resulting from intercompany transactions.
- Minority interests in stockholders' equity and net income are shown as separate items in the consolidated balance sheet and statement of income, respectively;
- Companies acquired or sold during the period are consolidated for the period in which a majority interest was held.

The financial statements of foreign consolidated companies not denominated in euro are translated to the functional currency using the spot rates at period end for balance sheet items and the average rates for the period for statement of income items.

The exchange differences arising from the translation of opening stockholders' equity using the spot rates at period end, and from the translation of the statement of income using the average rates for the period, are classified as part of stockholders' equity under Translation difference.

## C) SCOPE OF CONSOLIDATION

The quarterly report as of September 30, 2004 includes the statements of income and balance sheets of I.M.A. - Industria Macchine Automatiche S.p.A. (the Parent

Company) and all the companies in which it directly or indirectly holds a controlling interest, as per art. 2359 of the Italian Civil Code, except for IMA Lanka Ltd, Kilian Verwaltung GmbH, Packaging Systems Holding LLC, Nova Packaging Systems LLC and Swiftpack Ltd., for the reasons given below.

The following is a list of the companies included in the consolidation, with an indication of the consolidation method used:

#### COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS

	Registered offices		Capital stock	Direct investments	Indirect investments
<b>Italian companies:</b>					
• I.M.A. Industria Macchine Automatiche S.p.A.	Ozzano E. (BO)	EUR	18,772,000	Company Parent	
• 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 T. (BO)	EUR	52,000	100%	–
<b>Foreign companies:</b>					
• Luxteco International SA	Luxembourg	EUR	3,600,000	99.99%	–
• Holteco B.V.	Amsterdam (Netherlands)	EUR	920,000	100%	–
• IMA UK Ltd.	Wokingham (UK)	GBP	50,000	100%	–
• IMA North America Inc.	Bristol (USA)	USD	2,500	100%	–
• I.M.A. Est Verp. Handels GmbH	Vienna (Austria)	EUR	280,000	100%	–
• IMA Verp. GmbH	Cologne (Germany)	EUR	90,000	100%	–
• IMA France E.u.r.l.	Rueil-Malmaison (France)	EUR	45,735	100%	–
• Precision Gears Pvt. Ltd.	Bombay (India)	RS	5,950,700	–	51% (1)
• IMA Far East Co. Ltd.	Hong Kong	USD	6,672,969	–	100% (2)
• 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 (Portugal)	EUR	5,000	100%	–
• IMA Iberica Processing and Packaging SL	Barcelona (Spain)	EUR	590,000	100%	–
• Kilian GmbH & Co.	KGCologne (Germany)	EUR	3,600,000	–	–100%(3)

Note: (1) Held by Holteco B.V. – (2) Held by Luxteco Int. S.A. (99.38%) and Holteco B.V. (0.62%) – (3) Held by IMA Verpackungssysteme GmbH

#### COMPANIES VALUED USING THE EQUITY METHOD

	Registered offices		Capital stock	Direct investments	Indirect investments
• B.C. S.r.l.	Imola (BO)	EUR	36,400	30%	–

## EQUITY INVESTMENTS VALUED AT COST

	Registered offices		Capital stock	Direct investments	Indirect investments
• IMA Lanka Ltd	Colombo (Sri Lanka)	RSL	975,000	–	100% (1)
• Kilian Verwaltung GmbH	Cologne (D)	EUR	25,000	–	100% (2)
• Packaging Systems Holding LLC	Wilmington (USA)	USD	8,050,000	90.68%	–

Note: (1) Held by Holteco B.V. - (2) Held by IMA Verpackungssysteme GmbH

The equity investment in IMA Lanka Ltd., which is held by Holteco B.V., has been valued at cost less permanent losses. The company's liquidation began in 2003 and was completed in November 2004 without any material costs arising.

The investment in Kilian Verwaltung GmbH is carried at cost as it is immaterial for a true and fair representation of the consolidated financial statements.

The investment in Packaging Systems Holding LLC, which controls the whole of Nova Packaging Systems LLC and Swiftpack Ltd., was bought on 29 September 2004 and valued at cost because of the time needed to bring these companies into line with the Group's consolidation procedures. The impact of this acquisition on the Group's balance sheet should not be significantly different from what is shown here.

The following changes in the Group structure also took place during 2004:

- Merger of Libra P.T. S.r.l. and Ignition Team S.r.l. with IMA S.p.A., with effect from January 1, 2004.
- As part of the process of reorganizing the Group's production and marketing policies in South East Asia:
  - in February 2004, the 82% interest in Zibo IMA Xinhua Machinery Manufacturing Co. Ltd. was transferred from IMA Far East Co. Ltd. to IMA S.p.A.;
  - on April 13, 2004, the 53% interest in Tianjin IMA Machinery Co. Ltd. was transferred from IMA Far East Co. Ltd. to IMA S.p.A.;
  - at the same time, IMA S.p.A. acquired a further 12% interest in Tianjin IMA Machinery Co. Ltd. from the minority stockholder Chan Nai Kit, to achieve a total stake of 65%.
- On September 29, 2004 IMA S.p.A. bought 90.68% of Packaging Systems Holding LLC, located in Delaware (USA), which controls 100% of Nova Packaging Systems LLC, an industrial holding company based in Massachusetts (USA). It in turn controls 100% of Swiftpack, an industrial company located in the UK. See the report on operations for our comments on the acquisition of the Nova Group.

In addition, during 2004, the directors and officers of the Group decided to merge Comitec S.r.l. with IMA S.p.A., with effect from January 1, 2005.

## D) TRANSITION TO INTERNATIONAL ACCOUNTING STANDARDS (IAS/IFRS)

In accordance with Commission Regulation (EC) no. 1725/2003 and Regulation (EC) no.1606/2002 of the European Parliament and of the Council, European companies whose shares are traded on a regulated market must adopt International

Financial Reporting Standards (IFRS) for the preparation of their 2005 consolidated financial statements.

With a view to managing appropriately the transition to the new International Accounting Standards, the IMA Group created a number of special working parties during the first half of 2003 comprising the managers of all the principal functions concerned.

During the course of 2004, they continued to quantify the impact of the new accounting standards and to prepare the comparative data that will be needed in 2005 to draw up the consolidated financial statements of the IMA Group according to IAS/IFRS. Based on the work performed to date and as discussed in the notes to the consolidated financial statements as of December 31, 2003, the new accounting standards are likely to have the greatest impact in relation to the valuation of tangible and intangible fixed assets, inventories, the provision for termination indemnities and derivative financial instruments.

## E) INFORMATION ON THE CONSOLIDATED BALANCE SHEET

All the information contained in this report on operating performance is stated in thousands of euro.

### NET CAPITAL INVESTED

#### OPERATING CAPITAL

##### TRADE RECEIVABLES

	09.30.2004	12.31.2003
Trade receivables	63,255	76,670

Trade receivables at September 30, 2004 have decreased by 13,415 thousand euro as a result of collections during the period which confirm the effectiveness of the credit policy that the Group has been following. This has involved equipping ourselves with suitable tools and ensuring that the whole of the sales network is increasingly aware of the question of credit collection.

##### INVENTORIES

	09.30.2004	12.31.2003
Inventories	145,124	117,416

The increase of 27,708 thousand euro is the result of completing machinery that will be delivered to customers during the fourth quarter of the year, when deliveries are typically concentrated, and of work-in-progress on long-term contracts.

##### TRADE PAYABLES

	09.30.2004	12.31.2003
Trade payables	95,445	94,505

The change with respect to December 31, 2003 reflects both the decrease in payables to suppliers due to payments made during the period and an increase in advance payments from customers in relation to future deliveries.

OTHER PAYABLES, NET

	09.30.2004	12.31.2003
Other payables, net	16,634	21,379

The change during the period, 4,745 thousand euro, is due to higher income tax credits as a result of advance payments of IRPEG and IRAP, and to an increase in amounts due to employees for deferred salaries.

## FIXED ASSETS, NET

TANGIBLE AND INTANGIBLE FIXED ASSETS

The decrease in tangible and intangible fixed assets, 3,828 thousand euro compared with December 31, 2003, is mainly due to depreciation and amortization charges for the period of 11,360 thousand euro, only partly offset by the increase in capital expenditure.

EQUITY INVESTMENTS

	09.30.2004	12.31.2003
Equity investments	13,511	484

The increase in this item is mainly attributable to the Parent Company buying 90.68% of Packaging Systems Holding LLC on September 29, 2004 for 12,927 thousand euro. The remaining shares in this US company are held by management with whom IMA has signed an agreement which, inter alia, grants them a put option over such shares in exchange for a call option. Both of these options can be exercised before the end of 2009 at a price linked to the gross operating profit achieved in the meantime by the Nova Group. If these options are exercised, the total cost of the shares held by management will range from a minimum of 2 million to an expected maximum of about 8.5 million dollars.

EMPLOYEE TERMINATION  
INDEMNITIES AND OTHER

	09.30.2004	12.31.2003
Employee termination indemnities and other	17,427	13,739

The increase in this item refers principally to the booking of the residual debt following the acquisition of Packaging Systems Holding LLC, for 3.3 million dollars (equal to around 2.6 million euro) 3 million dollars will be due in May 2006 and the remainder in May 2009.

TOTAL SOURCES  
OF FINANCE

## NET FINANCIAL POSITION

	09.30.2004	06.30.2004	12.31.2003	09.30.2003
Net debt	100,205	87,533	68,494	91,416
Including:				
• Cash, banks and current financial assets	(22,966)	(24,152)	(55,294)	(28,719)
• Other long-term securities	(3,588)	(3,580)	(3,641)	(3,774)
• Short-term financial payables	79,724	59,939	75,865	70,182
• M/L-T financial payables	47,035	55,326	51,564	53,727

Compared with December 31, 2003, the increase in net debt is mainly due to the investment of 9,211 thousand euro in Packaging Systems Holding LLC during the third quarter of 2004, to the dividends paid during the period and to the high quantity of inventories needed to cope with the numerous deliveries planned for the last part of the year.

The consolidated debt of the Nova Group at September 30, 2004 amounted to around 2.7 million euro.

A short-term bridging loan was taken out in connection with this acquisition while arranging a medium-term financing contract, which is expected to be in place by the end of the year.

Having deducted that part of the increase caused by the investment in Packaging Systems Holding LLC, net debt is more or less the same as this time last year, confirming the effectiveness of the measures being taken to hold down working capital.

We expect the Group's financial position to improve considerably during the fourth quarter thanks to normal business flows, as generally took place in previous years.

#### STOCKHOLDERS' EQUITY PERTAINING TO THE GROUP

The change in stockholders' equity is due to dividends paid (14,440 thousand euro), to the result for the period and translation differences.

## F) INFORMATION ON THE CONSOLIDATED STATEMENT OF INCOME

### REMARKS ON KEY COMPONENTS OF THE STATEMENT OF INCOME

#### VALUE OF PRODUCTION

##### REVENUES FROM SALES AND SERVICES

Revenues from sales and services earned as of September 30, 2004 by the IMA Group can be broken down by geographic area and line of business as follows (in thousands of euro):

##### Revenues by geographic area

	from 01/01/2004 to 09/30/2004	from 01/01/2003 to 09/30/2003
E.U. (excluding Italy)	101,472	87,819
Other European countries	13,197	21,124
North America	43,695	50,429
Asia	29,235	21,490
Other countries	18,520	16,460
<b>Total foreign markets</b>	<b>206,119</b>	<b>197,372</b>
Italy	18,558	16,937
<b>Total</b>	<b>224,677</b>	<b>214,259466</b>

**Revenues by product**

	from 01/01/2004 to 09/30/2004	from 01/01/2003 to 09/30/2003
Machines and assemblies	168,251	160,329
Spares	33,626	32,068
Technical assistance	13,879	13,153
Other services	8,921	8,709
<b>Total</b>	<b>224,677</b>	<b>214,259466</b>

**FINANCIAL INCOME AND EXPENSES***FINANCIAL INCOME*

The decrease of 3,193 thousand euro with respect to the same period last year is mainly attributable to the abolition of the tax credit on dividends, which at September 30, 2003 amounted to 2,908 thousand euro.

*FINANCIAL CHARGES*

The decrease reflects the lower cost of money during 2004, as well as lower average debt compared with the same period last year.

**G) INFORMATION ON THE PARENT COMPANY**

The Parent Company IMA S.p.A. reports pre-tax income for the period of 12,043 thousand euro and stockholders' equity of 80,311 thousand euro.