

ANNUAL REPORT

AS OF 31 DECEMBER 2005

CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2005

(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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REPORT ON OPERATIONS
TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2005
(TRANSLATION FROM THE ORIGINAL ISSUED IN THE ITALIAN LANGUAGE)

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 20 February 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 euros, except for the power to renew or extend the 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 31 December 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

Benedetti Gino, Braghieri Paolo, Dari Paolo, Minguzzi Italo Giorgio, Poggi Luca, Schiavina Maria Carla, Vacchi Gianluca, Visentini Stefano, Volta Romano.

**BOARD OF STATUTORY
AUDITORS**

(in office until 31 December 2006)

AUDITORS

Comini Giorgio - Chairman - Auditor

Cazzola Amedeo - Auditor

Aicardi Piero - Auditor

ALTERNATE AUDITORS

Coraducci Vittorio - Auditor

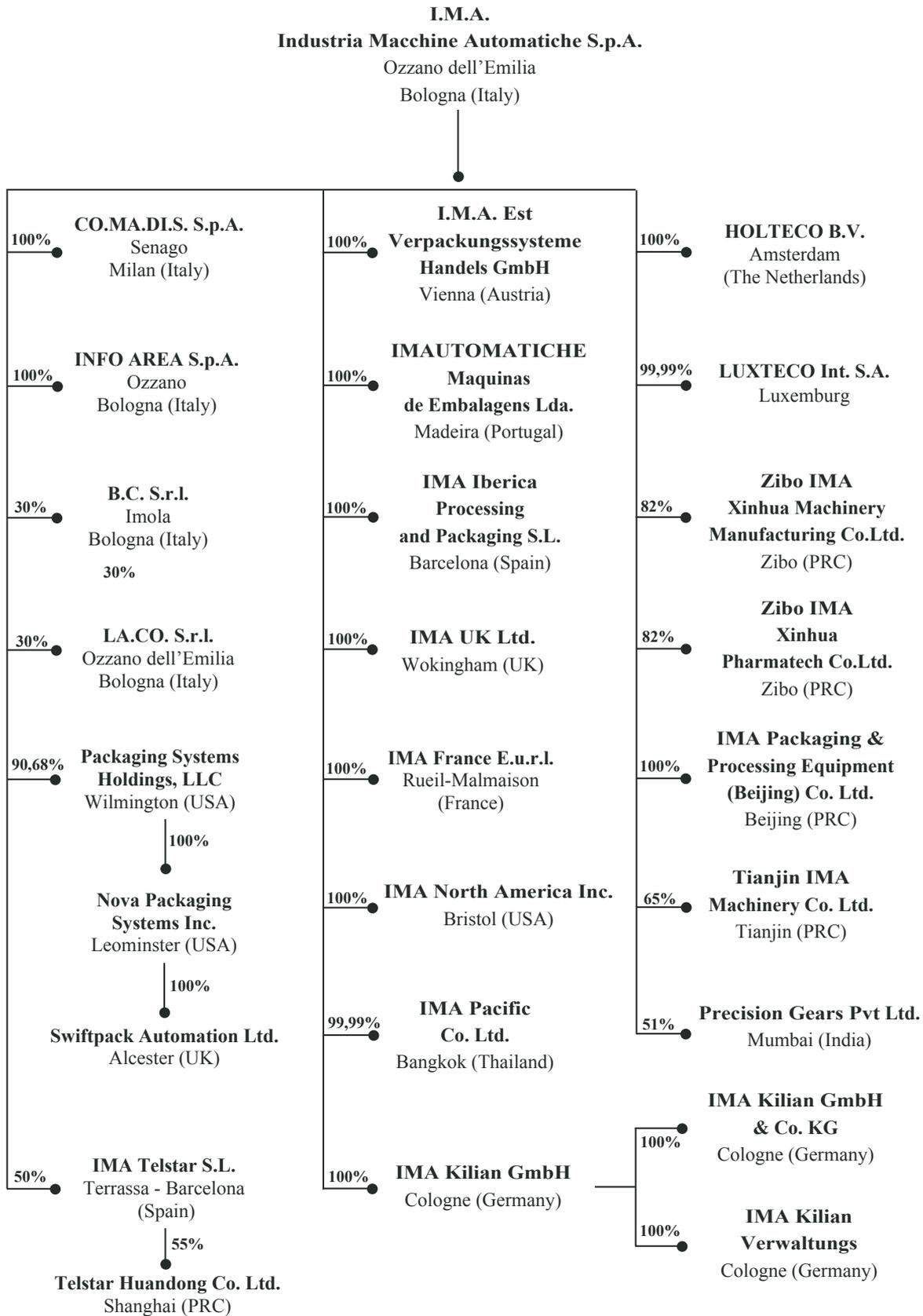
Gallina Chiara - Auditor

Grassigli Antonella - Auditor

INDEPENDENT AUDITORS

PricewaterhouseCoopers S.p.A.

GROUP STRUCTURE



GROUP COMPANIES BY BUSINESS ACTIVITY

**MANUFACTURING
ACTIVITIES**

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

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

LA.CO. S.r.l.
Ozzano dell'Emilia
Bologna (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)

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

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

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

Swiftpack Automation Ltd.
Alcester (UK)

IMA-Telstar S.L.
Terrassa – Barcelona (Spain)

Telstar Huadong Co. Ltd.
Shanghai (PRC)

**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 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)

IMA Kilian Verwaltungs GmbH
Cologne (Germany)

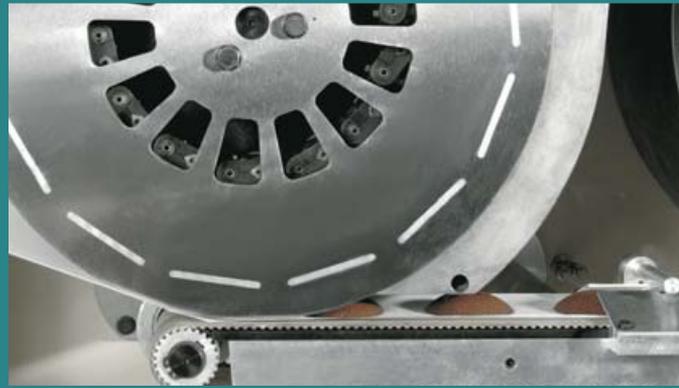
FINANCIAL ACTIVITIES

Luxteco International S.A.
Luxembourg

HOLTECO B.V.
Amsterdam (Netherlands)

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

IMA technology, coffee and filter paper make for an ideal partnership resulting in the production of the coffee pod, a perfect dose of coffee with the taste and flavour preserved within the pod. IMA, helping to start your day in the Italian tradition - with the aroma of the perfect cup of coffee.



GROUP PERFORMANCE

INTRODUCTION

The report on operations has been prepared in accordance with the IAS/IFRS, issued by the IASB and endorsed by the European Union. This report also complies with the SIC/IFRIC interpretations.

For reporting purposes, the Parent Company I.M.A. S.p.A. and its Italian and foreign subsidiaries have prepared their financial statements in compliance with international accounting standards.

The consolidated figures reported for comparative purposes have been appropriately adjusted to the IAS/IFRS. The adjustments made are shown in the reconciliation schedules and explained in the notes.

The information disclosed in the report on operations at 31 December 2005 is the same that disclosed in the report for the previous years, as it is consistent with the principles for disclosing operations. Additional explanatory information is provided in the section "Notes to the consolidated financial statements".

THE ECONOMIC SCENARIO

Shareholders,

In 2005 the global economy continued to show strong economic growth, with gross domestic product up 4.3% and growth in international trade up 7.5%.

This performance surprised the leading forecasters, who after the record growth in 2004 (global GDP +4.7%; international trade +10%), expected a sharp slow-down in 2005, originating in the United States, based on the belief that the internal and external imbalances in its economy had reached unsustainable levels. In fact, however, global growth was underpinned by the United States itself, where in spite of gradual increases in interest rates and the strong surge in oil prices, there was no significant slowdown in consumer spending. In 2005 US GDP grew 3.5%, less than the 4.2% registered in 2004 but still very rapid. Strong growth rates were posted throughout the world, including Japan (+2.5%), China (+9.4%) and India (+8%), in addition to Eastern Europe, particularly Russia, and Latin America. The only significant exception was the European Union, where GDP advanced by a modest 1.4%, as compared with growth of 1.8% in 2004. Bringing up the rear was Italy, with zero GDP growth.

As usual we have opened our report with a brief summary of the global economy. Given that the IMA Group has a significant presence throughout the world, the Group's performance can be influenced by global macroeconomic developments, even if, as we have often noted before, the sectors in which the Group operates tend not to follow the normal business cycle.

This is certainly true for the pharmaceutical industry, in which more than 85% of sales are made in developed countries where these products among the population's primary needs and therefore demand does not fluctuate. However, it also broadly applies to the tea industry, both in terms of its limited size, which means the investment decisions of a single company can lead to significant percentage changes in volume, and for its status as a valued niche product for which investment decisions are often guided more by marketing concerns than financial considerations.

These considerations have been confirmed by the performance of the pharmaceutical industry in recent years, where there has been a marked slowdown in the growth rate for the sector in spite of strong economic growth.

In 2005, according to provisional data, the global pharmaceutical industry grew at a rate of 5%, the weakest performance over the last decade, during which the growth rate had remained above 10%. Against this background, the greatest slowdown was registered by the United States, which accounts for over 45% of worldwide pharmaceutical sales. Note that over the past four years, growth rates in this area have declined from over 15% to just 4% in 2005.

There are various factors that have contributed to this performance. It is important to underscore the most important factors since some areas are now showing improvements, which suggests there will be stronger growth in 2006. Indeed, according to IMS Health, in 2006 the pharmaceutical industry will grow by around 7%.

These factors include concerns raised over the safety of certain widely-used pharmaceuticals after their recall by the Food and Drug Administration; the low levels of innovation of many pharmaceuticals launched in recent years, which do not therefore create additional demand, and are aimed at therapeutic categories already covered by other pharmaceuticals already present on the market (the so-called “me-too” drugs); more restrictive policies adopted by certain governments, particularly in Europe; and the expiry of patent protection on a number of major pharmaceuticals, which have therefore become generic, with a greater impact on profit levels than production volumes.

The slow-down in the growth rate of the pharmaceutical sector led to restricted demand in terms of production plants and in packaging in 2005, particularly in North America. This increased the strains that have affected our sector over the previous two years due to weak demand from some European countries, such as France and the UK, and the reduction in orders from emerging economies whose currencies are pegged to the US dollar. These countries are much more sensitive to prices and less bound by regulatory restrictions in terms of the quality of plant used, and are therefore more willing to consider low-cost alternatives.

Whereas at the start of the decade our sector was expanding, it has recently been necessary to face downsizing and consolidation. This process has inevitably put significant pressure on prices and therefore on margins, as also seen in 2005.

By contrast, the sector for tea packaging machinery showed strong growth in demand in 2005 as in the two previous years, in particular from Russia and the European Union. Growing interest in machinery for the production of coffee in pods, particularly in North America, confirms the excellent potential in this sector, in which our Group has made sizeable investments with the introduction of a new and highly innovative line of plant in 2005.

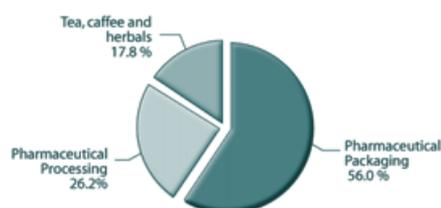
CONSOLIDATED INCOME STATEMENT

Net profit for the IMA Group in 2005 came to 12.46 million euros, down 4.33 million euros on 2004.

The table below reports the key figures for the reclassified consolidated income statement for 2005, with comparative figures for the previous year.

millions of euros	2005		2004		Change %
	Amount	%	Amount	%	
Revenues	398.79		371.98		7.2
Cost of sales	(242.40)		(222.84)		
Gross industrial income	156.39	39.2	149.14	40.1	4.9
R&D costs	(18.27)		(17.59)		
Sales costs	(49.44)		(46.02)		
General and administrative costs	(49.62)		(48.79)		
Operating profit before writedowns and amortisation of goodwill (EBITA)	39.06	9.8	36.74	9.9	6.3
Writedowns and amortisation of goodwill	(3.48)		–		
Operating profit (E.B.I.T.)	35.58	8.9	36.74	9.9	(3.2)
Net financial income (expense)	(7.54)		(4.14)		
Profits (losses) from investments in associates	(0.05)		0.10		
Result before tax	27.99	7.0	32.70	8.8	(14.4)
Income taxes	(15.01)		(15.55)		
Profit (loss) for the period	12.98	3.3	17.15	4.6	(24.3)
Profit (loss) pertaining to minority interests	(0.52)		(0.36)		
Group profit (loss)	12.46	3.1	16.79	4.5	(25.8)
Gross operating margin (E.B.I.T.D.A.)	49.18	12.3	47.63	12.8	3.3
Order book	163.97		150.71		8.8

REVENUES BY SECTOR



millions of euros	2005		2004		Change %
	Amount	%	Amount	%	
Tea, coffee and herbal tea packaging	70.88	17.8	67.13	18.0	5.6
Pharmaceutical packaging and other	223.43	56.0	202.02	54.3	10.6
Pharmaceutical processing	104.48	26.2	102.83	27.7	1.6
Total	398.79	100.0	371.98	100.0	7.2

Revenues increased by 7.2% compared with 2004. It should be noted that the expansion in the scope of consolidation, with the inclusion of IMA-Telstar in the second half of 2005 and the Nova Group for the entire period (in 2004 the Nova Group was not included in the scope of consolidation until October), led to an increase in revenues of 22.2 million euros. These revenues were included in the pharmaceutical packaging segment. Within a comparable scope of consolidation, Group revenues grew by around 2%. This is a small increase but one that should be viewed positively amid weak demand and a highly competitive scenario. This is combined with the fact that the euro conversion of revenues in dollars (around 20% of overall revenues) was negatively affected by the weakening of the US currency from the latter part of 2004 and into the first half of 2005. If revenues denominated in US dollars were translated at the average 2004 exchange rate (1.19 US dollars per euro) instead of the 2005 final exchange rate (1.29), revenues denominated in euros would have been around 6.2 million euros higher. The gradual and significant weakening of the US dollar against the euro was addressed by the repeatedly adjusting

prices in that currency. These adjustments were possible because all competitors are based in the euro area. However, given the lag between offer and order, the effects of price changes only take effect a considerable time after being introduced.

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

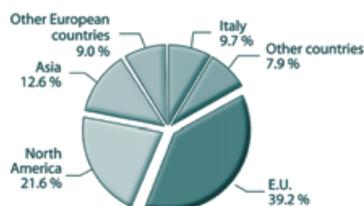
- revenues in the tea, herbal tea and coffee packaging division grew by 5.6% in 2005 after having increased by over 15% in 2004 compared with the previous year, thanks to an expansion of market share within the European Union and continued robust demand from Central and Eastern Europe;
- the pharmaceutical and cosmetics packaging sector saw revenues rise by 10.6%, which was entirely attributable to the increase in the scope of consolidation, as mentioned above. Sales were strong in the cosmetics division, accounting for 12% of sector revenues, with major installations in leading groups within the sector;
- after strong growth of around 20% in 2004, the pharmaceutical processing sector expanded by a further 1.6%, increasing its market penetration, particularly in the segment for the processing and handling of pharmaceutical powder.

The following table shows a breakdown of the order book at 31 December 2005:

millions of euros	12.31.2005		12.31.2004		Change %
	Amount	%	Amount	%	
Tea, coffee and herbal tea packaging	39.76	24.2	42.16	28.0	(5.7)
Pharmaceutical packaging and other	97.08	59.2	82.73	54.9	17.3
Pharmaceutical processing	27.13	16.6	25.82	17.1	5.1
Total order book	163.97	100.0	150.71	100.0	8.8

Within the packaging division the IMA-Telstar order book amounted to 7.67 million euros.

REVENUES BY GEOGRAPHICAL AREA



millions of euros	2005		2004		Change %
	Amount	%	Amount	%	
European Union (excluding Italy)	156.51	39.2	151.46	40.7	3.3
Other European countries	31.38	7.9	26.84	7.2	16.9
North America	86.25	21.6	74.04	19.9	16.5
Asia and the Middle East	50.28	12.6	53.27	14.3	(5.6)
Other countries	35.77	9.0	34.89	9.4	2.5
Total foreign markets	360.19	90.3	340.50	91.5	5.8
Italy	38.60	9.7	31.48	8.5	22.6
Total	398.79	100.0	371.98	100.0	7.2

Of the total, 90.3% of revenues came from outside of Italy (in 2004 this figure was 91.5%). Around 65% of revenues came from machinery and plant while 35% from after-sales activities (assistance, spare parts, kit, etc.)

Specifically:

- revenues from countries in the enlarged European Union (25 countries), excluding Italy, increased by 5.05 million euros exclusively thanks to Swiftpack (Nova Group) and IMA-Telstar. Within a comparable scope of consolidation and geographical area, revenues would have been largely unchanged from the previous year, with lower sales in France offset by the result in the UK, although this market remains weak;
- within a comparable geographical area, sales to other European countries were up sharply compared with 2004. Real growth was higher than indicated in the previous table, which includes product lines invoiced in the United States but intended for countries in Eastern Europe. The strongest growth occurred in Russia with tea packaging plant and in Switzerland with packaging lines for the pharmaceutical industry.
- in the North American market, revenues from the Nova Group increased by 12.7 million euros, while revenues in this area for product lines intended for outside of the US, as mentioned above, increased by around 5 million euros. Net of these effects, the North American market showed a decline in sales in euros of around 8%. This is the first time in the last five years that there has been a contraction in this key market, even if there were good signs of recovery in the last quarter of 2005, which were confirmed in the first two months of 2006. We believe that this area will once again play a significant role in the expansion of Group revenues in 2006.
- in the “Asia and the Middle East” area, developments in different countries and areas varied sharply. In particular, sales in the Far East, including China, fell by almost half compared with the previous year, with a decline of more than 15 million euros in absolute terms. This reduction is partly due to the fact that in 2004 the Group had delivered a large order in South East Asia which was not repeated in 2005. Another reason was a real drop in demand, which, in the face of the significant weakening of the US dollar, shifted to local products, even though they are of far inferior quality and do not comply with international standards for pharmaceutical processes.

The Group has been quick to respond to these problems, in particular by strengthening of its own production capacity in China and India. Meanwhile, as in 2004, there has been favourable demand growth from the Middle East, particularly Turkey, Iran and Israel.

- The pattern of revenues from “other countries” also varied, with strong growth in Latin America largely offset by poor performance in the North African countries.
- Strong growth in Italy, mainly in sterile product lines and those for powder handling, reflects specific investment policies of certain multinational groups with a long-standing relationship with our Group. It also confirms the positive results of expanding our presence in this market, which we have undertaken in recent years.

GROSS INDUSTRIAL INCOME

Gross industrial income as a percentage of revenues declined by around one percentage point, from 40.1% in 2004 to 39.2% in 2005.

This decrease is mainly due to the aggressive price war in the pharmaceutical segment throughout 2005, which had a greater impact on the processing division than on packaging. It should also be noted that certain product lines remained in the start-up and production stabilization stage, which reduced efficiency.

The significant weakening in the US currency, which at the end of 2004 was \$1.36 to the euro, with a greater depreciation than the previous year, was not sufficiently offset by price adjustments. Finally, performance was also adversely affected by the inefficiencies created by the relocation of IMA Kilian to its new facilities in Cologne.

Industrial margins showed a clear improvement towards the end of the year, allowing a significant recovery compared with the figure at June, when industrial income was 2.1% lower than at the same point a year earlier. Specifically, in the fourth quarter of 2005, gross industrial income as a percentage of revenues reached 41.7%, compared with 39.8% for the same period in 2004. This is the best quarterly result in the past two years.

The improvement is not due to a different mix of revenues, but rather an effective recovery of margins, made possible by actions to reduce the cost of sales and the initial effects of the increase in dollar prices at the beginning of 2005. Both of these factors should continue to strengthen in the coming months, since the actions taken on the cost side have been extended to new product ranges. In addition, the gradual strengthening of the US dollar from the second half of 2005 will undoubtedly help strengthen margins on sales in that currency, in addition to the full effect of the new price increases.

R&D EXPENDITURE

R&D expenditure in the period came to 18.27 million euros, a slight increase compared with 17.59 million euros in 2004, representing 4.6% of revenues. This item includes research costs and, above all, costs to upgrade and revamp the technology of products already in distribution. It does not include spending on development conducted at the request of specific customers or the cost of customizing existing products, which is included in the cost of sales since it is invoiced to the customers concerned. In terms of person-hours of design work, the Group's commitment to contract design and customization work is equivalent to that dedicated to its own research and development activity.

The scale of this commitment is a concrete confirmation of our strong orientation to be seen as a solution provider rather than a mere 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 completed work on two new product lines that are completely different from anything the Group had produced before and which therefore expand our range of products. Specifically, these are an innovative line of counting machines which can depack individual tablets, as well as a range of coffee pod machines for the North American market. We also initiated two innovative projects, with the aforementioned characteristics, one aimed at the biotechnology sector and the other at the segment for coating solid products. The costs incurred on these projects during the year amounted to about 2.23 million euros, compared with 1.66 million euros in 2004, and have been capitalized as intangible assets. Amortisation begins from the moment the products become available for economic use. In the case of the first two projects (new counting machine and machine for coffee pods) amortisation began during 2005.

At divisional level, R&D costs were also essentially unchanged with respect to the previous 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 our customers, who have extremely diverse price/performance requirements.

SALES COSTS

Sales costs, including commissions paid to agents and intermediaries, totalled 49.44 million euros, an increase of 7.4% compared with 2004. Sales costs as a percentage of revenues remained unchanged from 2004 at 12.4%. Since commissions paid to commercial intermediaries decreased by 1.51 million euros (from 8.89 million euros to 7.38 million euros), net of this amount sales costs grew by 4.93 million euros. Of this increase, 2.1 million euros were due to the change in the scope of consolidation (Nova Group and IMA-Telstar). A further 0.7 million euros came from a reclassification of costs which were previously included among general costs, while the remainder came from increased promotional and exhibition costs as well as developments in unit labour costs.

**GENERAL AND
ADMINISTRATIVE COSTS**

General and administrative costs rose by 0.83 million euros, from 48.79 million euros in 2004 to 49.62 million euros in 2005, an increase of 1.7%. This item includes differential costs for the Nova Group and IMA-Telstar of 2.6 million euros and non-recurring costs of 0.8 million euros, following the transfer of IMA Kilian and the associated restructuring charges. Meanwhile, a total of 0.7 million euros were reclassified as sales costs, where in 2004 they had been included among general costs. In conclusion, on a comparable scope of consolidation basis, general costs declined by 4% in 2005 in spite of a rise in unit labour costs. This confirms the effectiveness of actions undertaken in the past two years aimed at reducing costs.

OPERATING PROFIT

Consolidated EBITA totalled 39.06 million euros, equal to 9.8% of revenues, similar to the previous year's 9.9% of revenues. The containment of fixed costs, discussed above, made it possible to offset the narrowing of the industrial margin.

In line with the new accounting standards applied in drawing up the financial statements, we conducted an analytical valuation of the "sustainability" of the goodwill relating to the Group's cash generating units. Based on impairment testing, it was decided to reduce goodwill for IMA Kilian by 3.20 million euros. IMA Kilian's results reflected not just general unfavourable conditions, but also a slower than expected learning curve for the new product line, as well as inefficiencies caused by the relocation to its new facilities.

Performance there has clearly improved in recent months, both in terms of new orders and margins. Nevertheless, we elected to recognise the impairment, based on the value in use arising from measurement of forecast performance with the discounted cash flow method. Net of these costs, in addition to amortisation of goodwill on IMA-Telstar's intangible assets, the operating profit for the period comes to 35.58 million euros, as compared with 36.74 million euros at the end of 2004.

**NET FINANCIAL
(EXPENSE) AND INCOME**

Net financial expense, which is detailed in the explanatory notes, came to 7.54 million euros (compared with net expenses of 4.14 million euros in 2004). The deterioration is primarily due to exchange rate differences, as well as increased interest on the debt due both to higher interest rates, particularly for the US dollar, and greater average debt compared with the previous year.

NET PROFIT

Net profit came to 12.46 million euros in 2005, compared with 16.79 million euros the previous year, net of income tax broadly unchanged on that in 2004 (15.01 million euros at 31 December 2005 compared with 15.55 million euros at 31 December 2004).

The increase in taxation on profits before tax compared with the previous year is principally due to non-deductible charges, losses at subsidiaries that do not generate tax savings as well as a provision of 0.85 million euros in respect of the estimated liability resulting from tax audits of a number of Group companies.

CONSOLIDATED BALANCE SHEET AND FINANCIAL POSITION

The following table provides an overview of the balance sheet and financial situation of the Group at 31 December 2005:

millions of euros	12.31.2005		12.31.2004		change %
	Amount	%	Amount	%	
Trade receivables	98.79	54.3	88.09	48.0	12.1
Inventories	122.11	67.1	109.66	59.8	11.4
Trade payables	(115.39)	(63.4)	(100.42)	(54.8)	14.9
Other, net	(28.11)	(15.5)	(14.03)	(7.6)	100.4
Working capital	77.40	42.5	83.30	45.4	(7.1)
Property, plant and equipment	73.25	40.3	72.97	39.8	0.4
Intangible assets	59.31	32.6	57.32	31.2	3.5
Investments in associated companies	1.01	0.6	0.49	0.3	106.1
Non-current assets	133.57	73.5	130.78	71.3	2.1
Provision for severance indemnities and other provisions	(29.07)	(16.0)	(30.68)	(16.7)	(5.2)
Net capital employed	181.90	100.0	183.40	100.0	(0.8)
FINANCED BY :					
Net debt	86.84	47.7	73.96	40.3	17.4
Minority interests	3.58	2.0	2.29	1.3	56.3
Group equity	91.48	50.3	107.15	58.4	(14.6)
Total sources of financing	181.90	100.0	183.40	100.0	(0.8)

WORKING CAPITAL

Working capital at 31 December 2005 came to 77.40 million euros, of which 0.84 million euros contributed by IMA-Telstar. Within a comparable scope of consolidation, this represents a reduction of 6.74 million euros compared with 2004. Even if it was helped by the "Other, net" item, it is still an important achievement, particularly in the light of the concentration of revenues in the final quarter. This follows similar decreases in the previous two years and rewards management's commitment to a project launched in 2003 to make significant improvements, at a structural level, to the Group's working capital indices with respect to those reported in the past.

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

- trade receivables increased by 10.70 million euros, from 88.09 million euros at 31 December 2004 to 98.79 million euros at the end of 2005. The contribution from IMA-Telstar came to 2.77 million euros, and therefore within a comparable scope of

consolidation the increase was 7.93 million euros. It should be noted that revenues for the October-December period were 29.6 million euros higher than the same period in 2004 (160.1 million euros in 2005, compared with 130.5 million euros in 2004) and represented 40.2% of annual revenues compared with 35.1% in 2004. We therefore consider this item to be extremely positive, building upon improvements already achieved in recent years;

- inventories increased by 12.45 million euros (from 109.66 million euros in 2004 to 122.11 million euros in 2005). Excluding the contribution from IMA-Telstar, the increase came to 10.50 million euros. This is undoubtedly high and it reflects somewhat erratic demand, which is therefore harder to plan, and it confirms the greater concentration of orders for delivery in the first months of the year. We are devoting considerable attention to this item and we expect inventories will be significantly lower in 2006. Activities aimed at improving management of trade payables made it possible to cope with the increase in the value of inventories;
- trade payables increased by 14.97 million euros, of which 3.78 million euros from IMA-Telstar. In this context, customer advances were very positive, reaching a level of more than 20% of the order book;
- the sharp change in the “Other, net” item (payables up 14.08 million euros) is mainly due to a reduction in tax credits as well as an increase in employee payables following the finalization of the National Metalworkers Contract and a number of severance indemnity payments to be made.

NON-CURRENT ASSETS

In total non-current assets increased by 2.79 million euros compared with 31 December 2004. This reflects:

- the increase of 0.52 million euros in the equity investments item, due to the acquisition of a 30% holding in LA.CO. S.r.l., a mechanical components manufacturer, while the balance is principally associated with a marginal adjustment of the book value of B.C. S.r.l.;
- property, plant and equipment and intangible assets, net of depreciation and amortisation, increased by 2.27 million euros compared with 31 December 2004, as the net effect of the following movements:

millions of euros	Non-current assets		
	Prop., plant and equip.	Intangible	Total
Additions during the year	6.76	3.88	10.64
Net book value of disposals	(0.53)	–	(0.53)
Acquisition of Telstar Group	–	5.41	5.41
Change in scope of consolidation	0.96	0.01	0.97
Amortisation/depreciation charges for the year	(7.45)	(2.82)	(10.27)
Value decrease/increase	–	(2.01)	(2.01)
Writedowns / Impairment	–	(3.20)	(3.20)
Exchange rate differences on consolidated non-current assets	0.55	0.71	1.26
Total	0.29	1.98	2.27

Details of changes in individual items are described in the notes. The contribution from IMA-Telstar came to 5.41 million euros, of which 3.39 million euros as goodwill and 2.02 million euros as development costs, with a useful life of 7 years. Within a comparable

scope of consolidation, total non-current assets declined by 3.14 million euros, of which 3.20 million euros from the impairment of the goodwill of IMA Kilian. Amortisation and depreciation in the period came to 10.27 million euros, broadly in line with new investments. This balance will be largely maintained in 2006.

NET CAPITAL EMPLOYED

Compared with 31 December 2004, capital invested net of operating liabilities declined by 1.50 million euros, totalling 181.90 million euros. It should be noted that the net capital employed of IMA-Telstar came to 6.6 million euros, and therefore within a comparable scope of consolidation the decrease came to around 8.1 million euros.

NET DEBT

Net debt at 31 December 2005 totalled 86.84 million euros, and breaks down as follows:

	12.31.2005	12.31.2004
Net debt	86.84	73.96
Of which:		
• Cash and current financial assets	(62.43)	(47.73)
• Non-current financial assets	(3.59)	(3.34)
• Current financial liabilities	68.05	71.29
• Non-current financial liabilities	84.81	53.74

Net debt at the end of 2005 came to 86.84 million euros, compared with 73.96 million euros at 31 December 2004. Contributing to this increase were the following extraordinary components:

- during 2005 IMA S.p.A. bought and sold its own shares with a net financial outlay at the end of the year at 14.43 million euros;
- the acquisition of the holding in IMA-Telstar and other smaller holdings led to further net financial outlays of 6.3 million euros.

Without these items, net debt at 31 December 2005 would have been 66.1 million euros. This shows that in spite of difficulties posed by the considerable pressure on prices in a context of stagnant demand, the management of the Group's working capital allowed the generation of 7.9 million euros in cash flows after having distributed dividends of 13.96 million euros. Contrary to seasonal trends was the generation of cash in the last quarter of the year, which net of the aforementioned extraordinary operations was around 13 million euros higher than for the same period the previous year.

GROUP EQUITY

Group equity at 31 December 2005 totalled 91.48 million euros, a decline of 15.67 million euros compared with 31 December 2004, as a result of the following movements:

Dividends paid during the year	(13.96)
Acquisition and disposal of own shares	(14.70)
Valuation of financial instruments recognized in equity	(2.03)
Exchange differences on the translation of foreign currency financial statements	2.56
Net profit	12.46
Total	(15.67)

STATEMENT OF CASH FLOWS

The following statement of consolidated cash flows relates to the years ended December 31, 2005 and 2004:

millions of euros	2005	2004
Operating profit	35.58	36.74
Amortisation and depreciation	10.27	10.89
Writedowns and amortisation of goodwill	3.34	–
Investment in non-current assets (net)	(11.49)	(13.22)
Change in working capital	5.89	5.91
Change in other assets/liabilities	(0.50)	2.67
Cash flow generated by operations	43.09	42.99
Net financial income (expense)	(7.54)	(4.14)
Taxes	(15.01)	(15.55)
Cash flow generated by ordinary activities	20.54	23.30
(Acquisitions) / Disposals	(6.04)	(7.51)
Available cash flow	14.50	15.79
Dividends paid to shareholders	(13.96)	(14.44)
(Acquisition) and disposal of own shares	(14.70)	–
Other changes in shareholders' equity	1.30	(1.88)
Change in net borrowing	(12.86)	(0.53)

ANALYSIS OF
PERFORMANCE BY SECTOR

The following table analyses consolidated operations during 2005 by business sector, as required by Consob decision no. 98084143 of 27/10/1998.

millions of euros	Tea	Packaging	Processing	Other	Total
Revenues	70.88	223.43	104.48		398.79
Operating profit before writedowns and amortisation of goodwill (EBITA)	23.21	13.34	2.51		39.06
Operating profit (EBIT)	23.21	13.06	(0.69)		35.58
Net capital employed	13.42	93.64	75.46	(0.62)	181.90
R&D costs	4.09	9.87	4.31		18.27
Average personnel (*)	240	1.548	494	404	2.686
Order book	39.76	97.08	27.13		163.97

(*) 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 employed includes 47.51 million euros in goodwill, of which 22.25 million euros relates to the packaging sector and 25.26 million euros to the process sector.

TEA, COFFEE AND HERBAL
TEA PACKAGING

millions of euros	2005	2004	Change %
Revenues	70.88	67.13	5.6
Operating profit before writedowns and amortisation of goodwill (EBITA)	23.21	21.75	6.7
Operating profit (EBIT)	23.21	21.75	6.7
Net capital employed	13.42	16.23	(17.3)
R&D costs	4.09	3.42	19.6
Average personnel	240	233	
Order book	39.76	42.16	(5.7)

The tea, coffee and herbal tea packaging sector essentially comprises the activities performed directly by the parent company IMA S.p.A., through 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 through agents.

Demand for tea packaging machinery remained strong in 2005, particularly from large multinational groups in the UK, Germany and Russia. We are also pleased to note that an increasing proportion of revenues are coming from sales to companies with local operations, particularly in Europe and Asia.

This confirms that the IMA Group's strong leadership in this sector is not restricted to preferential relationships with large multinational tea manufacturers, but is much more widespread. This reach is set to expand thanks to new products introduced recently, which are better suited to combining the flexibility and price requirements of this area of customers. At the same time the Group continued its close collaboration with a number of large multinationals on the development of tailor-made solutions justified by marketing requirements. This has allowed the IMA Group to gain new market share, thereby further strengthening its leadership position.

The financial results for the Division, as detailed above, reflect this positive performance. Revenues in 2005 reached 70.88 million euros, an increase of 5.6% compared with 2004. EBITA as a percentage of revenues advanced to 32.7%, as compared with 32.4% in 2004. This is a highly significant achievement, not just because it builds on an already positive result, but above all because it was achieved in a year when the Division invested heavily both in R&D and in strengthening its own sales and general structures. R&D spending increased from 3.42 million euros in 2004 to 4.09 million euros in 2005. Spending centred on new machines for tea packaging and the new range of products for coffee pods, a range that attracted a great deal of interest when presented at Düsseldorf's Interpack fair. The Group's belief in the potential of this market segment led the Division to strengthen its own sales and production areas.

We expect that after the first pilot installation conducted in 2005, the new range of machinery for coffee pods could have a significant impact on the Division's growth from 2007 onwards.

The sharp reduction in net capital employed, which declined from 16.23 million euros in 2004 to 13.42 million euros in 2005, a fall of 17.3%, is principally due to further action taken to lower the level of working capital.

The substantial order portfolio at the end of 2005, only marginally smaller than at the end of 2004, together with numerous negotiations soon to be completed, should guarantee further increases in revenues for 2006.

PHARMACEUTICALS PACKAGING

millions of euros	2005	2004	Change %
Revenues	223.43	202.02	10.6
Operating profit before writedowns and amortisation of goodwill (EBITA)	13.34	8.56	55.8
Operating profit (EBIT)	13.06	8.56	52.6
Net capital employed (*)	93.64	84.41	10.9
R&D costs	9.87	9.73	1.4
Average personnel	1,548	1,492	
Order book	97.08	82.74	17.3

(*) Net capital employed includes goodwill of 22.25 million euros

The area of packaging for machines for the pharmaceutical industry includes the activities directly conducted by the parent company IMA S.p.A. through the Blister Division, the Win.Pack Division, the Filling & Sterile Division, the Cartonning Division and the End-of-Line Division, in its factories at Ozzano, Bentivoglio (Bologna), together with those carried out at Calenzano (Florence). It also includes the activities of CO.MA.DI.S S.r.l, a wholly-owned subsidiary based in Senago (Milan), Precision Gears Pvt Ltd., the Indian subsidiary with operations in Mumbai and Indore (India), Packaging Systems Holdings LLC, which holds 100% of Nova Packaging Systems Inc., with registered offices in Leominster (Massachusetts), which in turn owns 100% of Swiftpack Automation Ltd, with registered office and factory in Alcester (UK). The range of products offered by the Group in the segment of packaging in sterile environments increased from July 2005 with the acquisition of 50% of the Spanish company IMA-Telstar. The new company will hold the freeze-drying operations transferred to it by Spanish Group Telstar. IMA-Telstar S.L. has its registered offices in Terrassa, Spain, and controls 55% of the Chinese company Telstar Huadong Co. Ltd., which has its registered offices in Shanghai and also operates in the freeze-drying sector.

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 also works for the processing machines sector. The pharmaceutical 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 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.

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, cartonners, end-of-line products (wrapping machines, shrinkwrappers, case-packing and palletizing systems, etc.) and labelling machines.

Consolidated net revenues for the sector increased by 21.41 million euros in 2005, from 202.02 million to 223.43 million. The Nova Group was included in the scope of consolidation in the last quarter of 2004, and contributed total revenues of 6.62 million euros that year,

while in 2005 it contributed revenues of 22.24 million euros for the entire year. In addition, IMA-Telstar was included in the scope of consolidation from June 2005, contributing 50% of its revenues, which amounted to 4.28 million euros. The increase in revenues for the sector compared with 2004 can therefore be entirely attributed to the expansion of the scope of consolidation, without which revenues would have remained unchanged from the previous year. In spite of an unfavourable scenario, which had an adverse impact on all segments in which the Group operates in pharmaceutical packaging, there are broad variations between products in revenues and, especially, margins, depending on the level of competition in the respective areas. This means that product lines such as Blister and End-of-Line machines, for which the range of products at a global level has gradually been consolidated and for which IMA has simultaneously gained a position of leadership or co-leadership, have seen firmer prices. Other ranges have fared less well, such as the Filling & Sterile and Cartoning divisions, which have faced a much more fragmented competitive environment and where a number of companies compete in the market, without any one group having emerged in a position of leadership. Revenues from the Cartoning and End-of-Line divisions have remained largely unchanged from 2004, Blister revenues showed a modest improvement while revenues for the Filling & Sterile division registered a slight decline. In terms of margins, all divisions posted improvements compared with 2004. However, while the Blister and End-of-Line Divisions registered acceptable margins, albeit significantly lower than normal levels, the same cannot be said of the Cartoning and Filling divisions, where unsatisfactory results led to significant reorganizations that are expected to produce increased efficiency and stronger profit margins from 2006. EBITA for the sector increased from 8.56 million euros in 2004 to 13.34 million euros in 2005, of which the change in the scope of consolidation accounted for 1.5 million euros. Research and development expenditure totalled 9.87 million euros in 2005, largely stable from the previous year and confirming the focus on innovation, with many new products due to be presented at Frankfurt's Achema fair. The order book at the end of the year totalled 97.08 million euros, compared with 82.74 million euros at the end of 2004, with IMA-Telstar contributing 7.67 million euros to this total. On a comparable scope of consolidation basis, this item therefore showed an increase of 8%, all of which was registered in the final quarter, confirming the signs of recovery mentioned earlier.

Net capital employed increased to 93.64 million euros at the end of 2005, as compared with 84.41 million euros at year-end 2004, of which IMA-Telstar contributed 6.6 million euros, including 3.39 million euros in goodwill. The balance is accounted for by an increase in net working capital, chiefly in the Filling & Sterile division, as a result of the high concentration towards the end of the year of complex ranges, characterized by extended lead times and therefore measured on a stage of completion basis.

PHARMACEUTICAL PROCESSING

millions of euros	2005	2004	Change %
Revenues	104.48	102.83	1.6
Operating profit before writedowns and amortisation of goodwill (EBITA)	2.51	6.43	(61.0)
Operating profit (EBIT)	(0.69)	6.43	(110.7)
Net capital employed (*)	75.46	79.07	(4.6)
R&D costs	4.31	4.43	(2.7)
Average personnel	494	491	
Order book	27.13	25.82	5.1

(*) Net capital employed includes goodwill of 25.26 million euros.

The pharmaceutical processing sector 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 & Co. KG, located in Cologne (Germany), the subsidiaries 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.

The pharmaceutical processing sector was worst hit by the adverse economic climate in 2005, with a sharp erosion of profit margins, following disappointing results in the previous two years. The Group's activities in this sector have expanded since 2000, both through acquisitions (IMA Kilian in 2000 and GS Coating Systems in 2001) and through organic growth or the purchase of patents/projects (ICO Oleodinamici). This expansion also took the form of collaboration and alliances, such as with VIMA Impianti S.r.l., with discussions held in February 2006 concerning its acquisition, as discussed elsewhere. Over a period of three years IMA managed to achieve a significant market share in all segments of processing machinery for solid products, looking to challenge competitors' consolidated leadership positions. In view of the decline in growth faced by the sector from 2003 onwards, our Group's dynamism inevitably put our competitors on the defensive, which was reflected in significant pressure on prices. IMA decided to maintain its market share, even at the expense of considerable sacrifices in terms of contribution margins. Combined with these external factors in 2005 were certain internal factors that gave rise to non-recurring costs. Notable among these were IMA Kilian's relocation to the Cologne facilities, which took place in the first half of 2005 and which involved additional costs of around 2.5 million euros. The wide range of products was also important, with a preponderance of new product lines that still had narrower margins as they were not sufficiently stabilised. The situation began to show concrete signs of recovery in the final months of the year thanks to the consolidation of these lines, with the positive trend continuing in the first two months of 2006, particularly with regard to IMA Kilian.

Despite adverse conditions, the divisions within the sector continued to invest in innovating both products and productive processes. In particular, R&D expenditure totalled 4.31 million euros, as compared with 4.43 million euros in 2004, combined with around 0.70 million euros in capitalized spending relating to products for new market segments not currently covered by the Group's product range. On the manufacturing side, the start of operations at the new IMA Kilian plant in Cologne enabled further productivity gains, with a reduction of 33 employees without affecting the company's production capacity or customer service. These redundancies were achieved without labour strains and full agreement with the trade unions.

The excellent levels of quality and efficiency achieved by the two Chinese companies based in Zibo prompted to a decision to expand their production capacity quickly. This was achieved through a capital increase at Zibo IMA Pharmatech Co Ltd. of \$2.00 million, to which IMA contributed \$1.64 million.

The new machinery installed at Zibo is just now starting to produce components for the entire sector, and this will bring important benefits to the cost of sales from the second half of 2006.

The operating result, which showed a loss of 0.69 million euros, reflected a writedown of goodwill for IMA Kilian of 3.20 million euros, as mentioned above. The reduction in net capital employed, which declined from 79.07 million euros in 2004 to 75.46 million euros in 2006, was essentially the result of this writedown, as it includes goodwill of 25.26 million euros, compared with 28.45 million euros at the end of 2004.

The order book at 31 December 2005 totalled 27.13 million euros, a moderate increase on the 25.82 million euros registered at 31 December 2004.

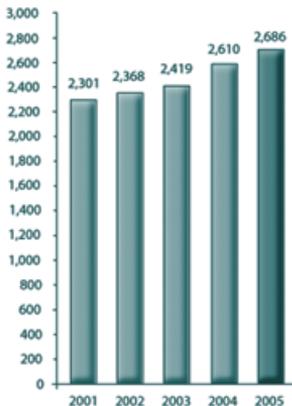
**HUMAN RESOURCES POLICY,
INDUSTRIAL RELATIONS
AND TRAINING**

For our customers, the IMA Group is not merely a supplier of products, albeit one incorporating highly sophisticated technology, but rather a solver of complex problems through specially-designed solutions that are tailor-made to meet their individual requirements. This means that all our business processes, from preparing our products, to sales, from production/design to after-sales support, including contractual and administrative matters, need to be conducted with an extremely low level of redundancy. Accordingly, the proper functioning of these processes depends on the initiative and proactive approach of the individuals who work within them, and on their ability to work together with everyone else in the organization as a team. As such, although it is true for every firm that the quality of its human resources represents a critical factor in its success, this is even more true for the IMA Group, where our employees represent our principal asset, incorporating all our knowledge and skill. This expertise cannot easily be documented and quantified, precisely because it is non-repetitive.

In line with this vision, IMA dedicates considerable attention to the proper management of the employees within the Group, investing heavily and continually in their professional development, 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

During 2005 average employment for the Group totalled 2,686 people, compared with 2,610 in 2004. The geographical breakdown of the workforce is as follows:



	2005	2004	Change
Italy	1,581	1,565	16
India	392	380	12
Germany	224	257	(33)
USA	163	168	(5)
China	128	76	52
U.K.	83	93	(10)
Spain	50	11	39
Eastern Europe	33	29	4
France	26	26	-
Thailand	4	3	1
Portugal	2	2	-
Total	2,686	2,610	76

IMA Telstar brought in 67 more employees, and therefore on a comparable scope of consolidation basis the number of employees increased by 9 (+0.3%).

The excellent educational levels of the people employed by the Group is demonstrated by the fact that more than 80% possess a secondary 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, 17% in our R&D laboratories, 23% in central functions (Administration, IT, Procurement, Quality, Human Resources, etc.) and 40% in manufacturing/logistics. This last percentage would fall to 32% on exclusion of our Indian subsidiary, Precision Gears Pvt Ltd., which has a highly internalized and labour-intensive production model. This distribution of the workforce is a good reflection of IMA's business model, which is designed to retain only 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 70% of our employees are occupied in office and managerial activities.

PERSONNEL COSTS

Payroll amounted to 126.42 million euros in 2005, compared with 114.87 million in 2004, accounting for 31.7% of net revenues compared with 30.9% in 2004. IMA Telstar, which was included in the scope of consolidation for just six months and only at a proportion of 50%, contributed 0.69 million euros, while the Nova Group, which in 2004 had contributed 2.08 million euros to personnel costs, accounted for 8.40 million euros in 2005. Therefore within a comparable scope of consolidation, personnel costs would have totalled 119.41 million euros, representing an increase of 3.9% over the previous year. Personnel costs for Italian workers increased by around 5.1% in 2005 compared with the previous year. It should be noted that the increase in the unit labour cost was 2.5%, due to the renewal of the National Metalworkers Contract and the Company's incentive scheme, while the remainder of the increase in personnel costs was caused by reorganization charges and changes in personnel.

HUMAN RESOURCE POLICY

In 2005 the IMA Group continued to focus on individuals. This is confirmed by:

- the improvement of the selection process for the more strategic roles (75% of new recruits had to undergo testing);
- the average age of new recruits is still less than 30;
- the pre-IMA seniority of service is greater, with increasingly high expectations;
- employment on permanent contracts (70% of hiring) with the conversion to permanent of 30% of fixed-term contracts, in the various forms envisaged by current legislation;
- closer ties with universities and centres of excellence at national and international levels, as well traditional contacts with and assistance from local technical institutes;
- extensive training/orientation programs for new recruits with widely consolidated methods that are structured to facilitate entry and communicate our system of business values. Our focus on the employee continues throughout their career, through a continuous process where their skills are monitored and evaluated to assist planning of appropriate training initiatives, within the context of a professionally evolved human resources system. The Group's attention to employees is demonstrated by staff turnover of less than 3%, normal levels of absenteeism (5.3%), albeit slightly higher than in 2004 due to more maternity leave than expected, and the atmosphere of constant involvement and participation.

We strive continually to create favourable 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, advances against severance pay, use of part-time work, etc.). In this respect, we have been providing a psychological counselling service for the past twenty years, recently backed up by the introduction of the role of Employee Representative, confirming how important our employees are to the Group. We take action to promote conditions of well-being in the workplace, especially with reference to phenomena that might result in social exclusion.

TRAINING

More than 80% of employees were involved during the year in around 16,000 person-hours of training geared towards improving the expertise of the Group's technical, administrative and commercial personnel. To achieve this goal, the *Corporate Training System*, introduced in 2004 and aimed at drawing up strategic guidelines and policies for training, facilitated the procedure for working with top management in the company's core business areas, differentiating training by population target. As in 2004, great attention was given to managerial development and economics.

INDUSTRIAL RELATIONS

On the industrial relations front, we pursued our ongoing and constructive relationship with the trade unions. Thanks to this consolidated relationship, this year also was largely free from disputes, in spite of a complicated situation for industrial relations, marked by the renewal of the National Metalworkers Contract. The third year of implementation of the supplementary company agreement confirmed approval of certain innovative aspects aimed at helping employees facing difficulties. Finally, we report the renewal – in accordance with trade unions – of contractual conditions for employees working away from their home base. In particular, it was decided to emphasize the “distinctive skills” of these individuals through a plan for skill development training and leveraging professional skills.

**HEALTH, SAFETY
AND THE ENVIRONMENT**

For the IMA Group, environmental protection includes full compliance with current legislation, not least through specific training designed to create a “culture of safety”. During 2005 the Company continued the training and information initiative that it had started in recent years, involving 240 employees over a total of 1,735 hours. All new recruits (around 60) were involved, as well as employees that had changed jobs. In all, since the introduction of Law 626 on workplace safety, more than 10,000 hours of training have been provided, involving all those currently working for the Company. Great stress was also placed on training all staff (in manufacturing and office areas) on fire prevention and how to act in emergency situations in general. This was conducted by organizing specific training and educational courses in conjunction with the Provincial Headquarters of the Bologna Fire Department. First aid training initiatives were also taken with the reorganization of internal facilities following the entry into force of Ministerial Decree 388/2003. As a result of this intensive training program, the achievements by the end of 2005 in terms of hours lost through accidents and the corresponding statistics (calculated in accordance with the UNI 7249 standard) repeated the extremely positive result achieved in 2004. The Company also paid particular attention to the prevention of possible orthopaedic problems associated with bad posture by those working at the computer, thanks to constant monitoring of workstations. This initiative was taken in view of the large number of employees working for long periods in these environments.

TREASURY STOCK

At 31 December 2005 treasury stock amounted to 15.24 million euros, represented by 1,591,235 shares with a part value of 0.83 million euros. The official market value at that date was 14.44 million euros.

During the year the following transactions were carried out:

- purchase of 2,287,340 shares amounting to 22.10 million euros, as resolved by the shareholders in the Meeting of 27 April 2005;
- sale of 696,105 shares amounting to 7.67 million euros under the mandate granted to the Board of Directors by the Shareholders’ Meeting.

OTHER INFORMATION

SIGNIFICANT EVENTS AFTER YEAR-END

The following significant events occurred after the closure of the financial year:

- on 16 February 2006 a holding of 20% was acquired in Scriba Nanotecnologie S.r.l. The acquisition is aimed at the joint study of high-tech solutions to trace pharmaceutical products and prevent adulteration. The agreement states that IMA will increase its holding by another 20% in 2007 through a capital increase, with an option to acquire a further 11% in 2008 provided specific technical results are achieved.
- In February 2006 the Board of Directors of IMA S.p.A. approved the proposal for the acquisition of the entire share capital of VIMA Impianti S.r.l., a company that produces tablet control and depowdering optional units. Since the majority of its share capital is held by related parties, the economic valuation and the congruity of the operation were evaluated on 20 March 2006 by Deloitte Financial Advisory Services S.p.A., which confirmed the propriety of the operation in a fairness opinion. The acquisition price was 5.90 million euros and payment will take place at the time the equity is acquired, no later than 30 March 2006. The purpose of the acquisition is to further integrate IMA's wide range of process machinery and to exploit various opportunities to expand VIMA Impianti S.r.l. on international markets.
- within the scope of the ongoing rationalization of the Group, on 28 February 2006 Holteco B.V was placed in liquidation. No significant charges are expected as a result of this operation.

OUTLOOK FOR THE CURRENT YEAR

As we have repeatedly emphasised, performance in 2005 was negatively affected by various factors: weak demand from the pharmaceutical and cosmetics industries, extremely strong pressure on prices after reductions in the previous two years, a weaker US dollar throughout most of the first half, a period when currency hedges are made for the year, and start-up problems for certain products. Nevertheless, the last quarter of 2005 showed concrete signs of a recovery in demand, in line with forecasts for 2006 made recently by IMS Health of improved growth in the pharmaceutical industry. These signs were also confirmed by orders in the first two months of 2006, which for the pharmaceutical sector, excluding IMA-Telstar, increased by 24.2% compared with the first two months of 2005. At the end of February 2006 consolidated revenues for the IMA Group came to 38.52 million euros, compared with 32.05 million euros at 28 February 2005, while the order book totalled 177.69 million euros compared with 166.75 million euros at the end of February 2005. In the first two months of 2006 new orders were acquired totalling 52.21 million euros as compared with 48.13 million euros in the first two months of 2005 (+8.5%). In particular, orders acquired by IMA-Telstar came to 1.9 million euros, the tea and coffee sector acquired new orders worth 4.0 million euros compared with 10.87 million euros in the same period in 2005, and the pharmaceutical/cosmetics sector acquired orders worth 46.31 million euros compared with 37.26 million euros the previous year, on a comparable scope of consolidation basis. The reduction in orders in the tea and coffee segment does not represent a negative trend, but rather reflects normal fluctuations in a small sector characterised by a small number of large orders. Negotiations and requests

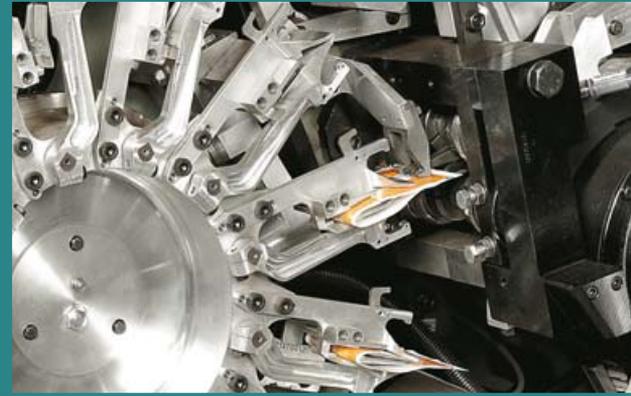
under way lead us to expect a quick recovery in the coming months. Pressure on prices in the pharmaceutical sector has not increased for several months, even though it will be some time before discount conditions return to normal levels. In the meantime the US dollar has gradually strengthened, while initiatives to reduce operating costs on the main production lines, including through the outsourcing of production of mechanical components, is beginning to have an effect on industrial margins. All of these elements, combined with the excellent order book at the start of the year, suggest that 2006 will show significant improvements over the previous year. If these signs are confirmed in the coming months, forecasts of increases in sales volume of more than 5% and of operating profit as a percentage of revenues of more than 10%, may yet prove to be conservative. In the meantime the Group is proceeding with a complete overhaul of its organizational structures in order to increase its own commercial effectiveness and achieve significant improvements in efficiency.

**CONSOB RESOLUTION
NO. 11971 OF 14 MAY 1999**

In compliance with the requirements of this resolution, the following table 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	Name of the Company held	Number of shares held at the end of 2004	Number of shares purchased	Number of shares sold	Number of shares held at the end of 2005
Piero Aicardi	IMA S.p.A.	3,000	3,000	–	6,000
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.	637,303	–	–	637,303
Stefano Visentini	IMA S.p.A.	73,500	–	23,000	50,500
Romano Volta	IMA S.p.A.	42,000	–	–	42,000

Hot water, a few quiet moments and a tea bag that whilst perfectly maintaining the characteristics of the product, releases the full flavour and aroma of the tea, *camellia sinensis* to give it its correct name. Two out of every three tea bags used world wide are produced on IMA machines.



CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 DECEMBER 2005
(TRANSLATION FROM THE ORIGINAL ISSUED IN THE ITALIAN LANGUAGE)

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

AT 31 DECEMBER 2005 AND 31 DECEMBER 2004 (THOUSANDS OF EUROS)

ASSETS	Note	31 December 2005	31 December 2004
NON-CURRENT ASSETS			
<i>Property, plant and equipment</i>	2	73,253	72,968
<i>Intangible assets</i>	3	59,305	57,317
<i>Investments in associates</i>	4	1,013	488
<i>Financial assets</i>	7	3,594	3,346
<i>Receivables from others</i>	6	731	763
<i>Derivative financial instruments</i>	8	68	–
<i>Deferred tax assets</i>	9	5,268	2,911
TOTAL NON-CURRENT ASSETS		143,232	137,793
CURRENT ASSETS			
<i>Inventories</i>	10	122,106	109,662
<i>Trade and other receivables</i>	11	108,886	98,496
<i>Income tax receivables</i>		827	5,262
<i>Financial assets</i>	7	4,622	725
<i>Derivative financial instruments</i>	8	–	1,577
<i>Cash and cash equivalents</i>	12	57,804	47,005
TOTAL CURRENT ASSETS		294,245	262,727
TOTAL ASSETS		437,477	400,520
EQUITY AND LIABILITIES			
EQUITY			
<i>Share capital</i>	13	18,772	18,772
<i>Share premium reserve</i>		16,382	16,382
<i>Treasury shares</i>	14	(14,698)	–
<i>Translation reserve</i>		1,366	(1,193)
<i>Fair value reserve</i>	15	(939)	1,094
<i>Other reserves</i>		30,525	28,498
<i>Retained earnings</i>		27,614	26,816
<i>Net profit (loss) for the period</i>		12,460	16,785
Total capital and reserves pertaining to the Group		91,482	107,154
Reserves pertaining to minority interests		3,064	1,929
<i>Profit pertaining to minority interests</i>		515	361
Total minority interests		3,579	2,290
EQUITY PERTAINING TO THE GROUP AND MINORITY INTERESTS		95,061	109,444
NON-CURRENT LIABILITIES			
<i>Borrowings</i>	16	84,811	53,741
<i>Severance and pension obligations</i>	17	25,311	24,164
<i>Provisions for risks and charges</i>	18	1,073	948
<i>Deferred tax liabilities</i>	9	4,111	3,677
TOTAL NON-CURRENT LIABILITIES		115,306	82,530
CURRENT LIABILITIES			
<i>Borrowings</i>	16	68,048	71,291
<i>Trade and other payables</i>	19	149,458	130,744
<i>Income tax liabilities</i>		2,980	1,281
<i>Provisions for risks and charges</i>	18	4,924	5,132
<i>Derivative financial instruments</i>	8	1,700	98
TOTAL CURRENT LIABILITIES		227,110	208,546
TOTAL LIABILITIES		342,416	291,076
TOTAL EQUITY AND LIABILITIES		437,477	400,520

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR 2005 COMPARED WITH 2004 (THOUSANDS OF EUROS)

INCOME STATEMENT	Note	2005	2004
REVENUES		398,792	371,982
<i>Other revenues</i>		7,363	3,829
OPERATING COSTS			
<i>Change in work in progress, semifinished and finished goods</i>		6,367	316
<i>Change in inventory of raw, ancillary and consumable materials and goods for resale</i>		2,298	(2,294)
<i>Cost of raw, ancillary and consumable materials</i>		(152,355)	(128,034)
<i>Services, rentals and leases</i>	20	(84,350)	(79,029)
<i>Personnel costs</i>	21	(126,417)	(114,873)
<i>Depreciation and amortisation expense</i>	22	(13,658)	(11,281)
<i>Provisions for risks and charges</i>		218	(536)
<i>Other operating costs</i>		(2,677)	(3,339)
TOTAL OPERATING COSTS		(370,574)	(339,070)
OPERATING PROFIT		35,581	36,741
FINANCIAL INCOME AND EXPENSE			
<i>Financial income</i>	23	8,111	8,757
<i>Financial expense</i>	24	(15,654)	(12,896)
TOTAL FINANCIAL INCOME AND EXPENSE		(7,543)	(4,139)
PROFIT (LOSS) FROM INVESTMENTS IN ASSOCIATES		(52)	100
PROFIT (LOSS) BEFORE TAX		27,986	32,702
INCOME TAXES FOR THE PERIOD	25	(15,011)	(15,556)
PROFIT (LOSS) FOR THE PERIOD		12,975	17,146
ATTRIBUTABLE TO:			
PARENT COMPANY SHAREHOLDERS		12,460	16,785
MINORITY INTERESTS		515	361
		12,975	17,146
EARNINGS PER SHARE (in euros)	26	0.36	0.46

CHANGES IN CONSOLIDATED EQUITY

FOR THE PERIOD ENDED 31 DECEMBER 2005 AND 31 DECEMBER 2004 – BASIS: STATUTORY FINANCIAL STATEMENTS AT 1 JANUARY 2004 AND 1 JANUARY 2005 (THOUSANDS OF EUROS)

Description	Share		Treasury shares	Translation reserve	Fair value		Other reserv.	Retained earnings	Net profit (loss) of Group	Total	
	Share capital	premium reserve			reserve	reserve				Group equity	Minority interests
Balances at 01.01.2004	18,772	16,382	–	–	1,503	22,198	28,593	18,963	106,411	2,206	108,617
Effect of merger of Libra S.r.l. and IT S.r.l. in IMA S.p.A.	–	–	–	–	–	(389)	389	–	–	–	–
Allocation of result for 2003											
- dividends	–	–	–	–	–	–	–	(14,440)	(14,440)	(150)	(14,590)
- reserves	–	–	–	–	–	6,689	(2,166)	(4,523)	–	–	–
Change in scope of consolidation	–	–	–	–	–	–	–	–	–	(23)	(23)
Valuation of financial instruments in equity	–	–	–	–	(409)	–	–	–	(409)	–	(409)
Exchange rate differences on translation of financial statements in for. cur.	–	–	–	(1,193)	–	–	–	–	(1,193)	(104)	(1,297)
Net profit (loss) for the period	–	–	–	–	–	–	–	16,785	16,785	361	17,146
Balances at 12.31.2004	18,772	16,382	–	(1,193)	1,094	28,498	26,816	16,785	107,154	2,290	109,444
Effect of merger of Comitec S.r.l. in IMA S.p.A.	–	–	–	–	–	(194)	194	–	–	–	–
Allocation of result for 2004											
- dividends	–	–	–	–	–	–	–	(13,960)	(13,960)	(200)	(14,160)
- reserves	–	–	–	–	–	2,221	604	(2,825)	–	–	–
Share capital increases	–	–	–	–	–	–	–	–	–	295	295
Change in scope of consolidation	–	–	–	–	–	–	–	–	–	354	354
Purchase and sale of own shares	–	–	(15,239)	–	–	–	–	–	(15,239)	–	(15,239)
Gains on transactions in own shares	–	–	541	–	–	–	–	–	541	–	541
Valuation of financial instruments in equity	–	–	–	–	(2,033)	–	–	–	(2,033)	–	(2,033)
Exchange rate differences on translation of financial statements in for. cur.	–	–	–	2,559	–	–	–	–	2,559	325	2,884
Net profit (loss) for the period	–	–	–	–	–	–	–	12,460	12,460	515	12,975
Balances at 12.31.2005	18,772	16,382	(14,698)	1,366	(939)	30,525	27,614	12,460	91,482	3,579	95,061

OTHER RESERVES MAINLY INCLUDE RETAINED EARNINGS POSTED BY THE PARENT COMPANY IMA S.p.A.

CONSOLIDATED STATEMENT OF CASH FLOWS

AT 31 DECEMBER 2005 AND 31 DECEMBER 2004 (THOUSANDS OF EUROS)

	31 december 2005	31 december 2004
OPERATIONS		
<i>Net profit (loss) for the period</i>	12,460	16,785
<i>Adjustments for:</i>		
- <i>Depreciation and amortisation</i>	10,264	10,891
- <i>(Reversals) or impairment of assets</i>	3,338	–
- <i>Capital (gains) losses on disposal of non-current assets</i>	(323)	(240)
- <i>Changes in provisions for risks and charges and staff severance obligations</i>	564	1,920
- <i>Unrealised losses (gains) on exchange rate differences</i>	1,027	(946)
- <i>Other non-monetary changes</i>	36	(203)
- <i>Income taxes</i>	15,011	15,556
- <i>Minority interests</i>	515	361
- <i>Share of income on investments in associates</i>	52	(100)
Operating profit (loss) before changes in working capital	42,944	44,024
<i>(Increase) decrease in trade and other receivables</i>	(10,390)	212
<i>(Increase) decrease in inventories</i>	(12,444)	(3,319)
<i>Increase (decrease) in trade and other payables</i>	19,750	12,287
<i>Income taxes paid</i>	(10,287)	(18,471)
CASH FLOW GENERATED (ABSORBED) BY OPERATIONS (A)	29,573	34,733
INVESTMENT ACTIVITY		
<i>Acquisitions of companies</i>	(5,668)	(6,064)
<i>Investments in intangible assets</i>	(3,880)	(3,724)
<i>Investments in property, plant and equipment</i>	(6,758)	(8,119)
<i>Exchange rate differences on property, plant and equipment and intangible assets</i>	(1,260)	498
<i>Repayment of finance lease debts</i>	(1,063)	(1,198)
<i>Investments in associates</i>	(365)	–
<i>Consideration received for sale of non-current assets</i>	856	501
<i>Net change in financial assets and other non-current receivables</i>	(4,007)	439
<i>Change in reserves attributable to minority interests</i>	774	(277)
<i>Payment/collection of interest</i>	(3,805)	(2,573)
CASH FLOW GENERATED (ABSORBED) BY INVESTMENT ACTIVITY (B)	(25,176)	(20,517)
FINANCE ACTIVITY		
<i>Granting of loans</i>	51,870	33,485
<i>Repayment of borrowings</i>	(31,416)	(19,688)
<i>Increase (decrease) in other payables to banks</i>	11,812	(14,475)
<i>Dividends paid</i>	(13,960)	(14,440)
<i>Purchase of own shares</i>	(14,431)	–
<i>Translation of financial statements in foreign currency</i>	2,527	(1,082)
CASH FLOW GENERATED (ABSORBED) BY FINANCE ACTIVITY (C)	6,402	(16,200)
NET CHANGE IN CASH AND CASH EQUIVALENTS (D=A+B+C)	10,799	(1,984)
CASH AND CASH EQUIVALENTS AT START OF PERIOD (E)	47,005	48,989
CASH AND CASH EQUIVALENTS AT END OF PERIOD (F=D+E)	57,804	47,005

THE CONSOLIDATED STATEMENT OF CASH FLOWS HAS BEEN PREPARED USING THE INDIRECT METHOD, BECAUSE IT IS CONSIDERED TO BETTER REFLECT THE CASH FLOWS FROM GROUP OPERATING ACTIVITIES.

FOR A BREAKDOWN OF 'CASH AND CASH EQUIVALENTS', REFERENCE SHOULD BE MADE TO NOTE 12.



Nature, in its harmony and perfection is a source of inspiration to the IMA designers. This, together with the rigorous criteria of precision and consistency in the production of solid oral doses, is incorporated into the vast range of IMA's automatic machines for the pharmaceutical, cosmetic and nutritional industries.



EXPLANATORY NOTES
TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF 31 DECEMBER 2005
(TRANSLATION FROM THE ORIGINAL ISSUED IN THE ITALIAN LANGUAGE)

A) OVERVIEW

The IMA Group designs, manufactures and sells machinery and plant mainly to the pharmaceuticals, cosmetics and tea-packaging industries. The business in which the IMA Group operates is generally marked by strong concentration of new orders purchased and operating revenues realised in the last quarter of the year.

The Parent Company of the IMA Group is I.M.A. Industria Macchine Automatiche S.p.A., with registered offices in Ozzano dell'Emilia (Bologna) at Via Emilia 428/442, and is listed in the electronic stock exchange of Borsa Italiana S.p.A. in the "S.T.A.R." segment.

As of 31 December 2005, I.M.A. S.p.A. was 51% owned by FINVACCHI S.p.A, in turn a subsidiary of Lopam Fin S.p.A.. During the year, no significant transactions were carried out between I.M.A. S.p.A. and its parent companies.

I.M.A. S.p.A.'s relations with the manufacturing companies in the Group are mainly of a commercial nature, and consist in the buying and selling of the machinery needed to build complete production lines. With those Group companies that carry out commercial activities in specific geographical areas, I.M.A. S.p.A. acts as an intermediary for the sale, distribution and delivery of after-sales assistance for products made by IMA manufacturing divisions.

The same commercial intermediation arrangements exist with other I.M.A. S.p.A. subsidiaries that carry out industrial activities. The financial companies of the Group hold equity investments in a number of foreign-based companies with which they have financial relations.

In brief, the Parent Company, I.M.A. S.p.A., manufactures packaging and filling machines used in the manufacturing and pharmaceutical industries as well as end-of-line equipment for the pharmaceutical and cosmetics industries. The entire product range is sold and serviced by commercial companies that cover specific geographical areas, and by an extensive network of agents covering other areas.

These financial statements ended 31 December 2005 have been prepared by the Board of Directors on 23 March 2006 to be approved by the Shareholders' meeting of 27 April 2006.

The figures in the consolidated financial statements at 31 December 2005 are expressed in thousands of euros, unless otherwise indicated.

B) GENERAL PREPARATION POLICIES

The consolidated financial statements were prepared in conformity with the IAS/IFRS issued by the International Accounting Standards Board (IASB) now in force and the interpretations issued to date by the Standing Interpretations Committee and the International Financial Reporting Interpretations Committee (SIC/IFRIC).

The consolidated figures reported for comparative purposes have been appropriately adjusted to the IAS/IFRS.

The consolidated financial statements of the IMA Group at 31 December 2005 are the first consolidated accounts prepared in accordance with the International Accounting Standards endorsed by the European Commission. Up to 31 December 2004, the Group prepared its consolidated accounts in compliance with Italian laws, as supplemented and construed in accordance with the Accounting Principles issued by the Italian Accounting Profession

(Italian Accounting Principles) and the Organismo Italiano di Contabilità (OIC, the Italian Standard setter).

As it is known, there are significant differences, between these principles and the IFRS. In preparing the IFRS consolidated financial statements at 31 December 2005, Company Directors have changed some of the accounting policies and consolidation principles applied to the Italian consolidated financial statements in order to adjust them to IFRS requirements.

As a result, the Group has determined the effects of the transition to the IFRS and has prepared the reconciliations required by paragraphs 39 and 40 of 'IFRS 1: First-Time Adoption of International Financial Reporting Standards', which are accompanied by explanatory comments on the basis of preparation and on items in the statements of reconciliation. These reconciliations are provided in an Appendix.

PricewaterhouseCoopers SpA was engaged to conduct a full audit of the IAS/IFRS reconciliations at 1 January 2004 and 31 December 2004. The auditors' report was made available within the time limits and in the manner envisaged by the above-said laws.

As permitted under Legislative Decree 38 of 28 February 2005, the Parent Company I.M.A. S.p.A. will adopt the International Accounting Standards from 1 January 2006 for its statutory financial statements.

For the purposes of preparing the present report, the Parent Company and the Group's Italian and foreign subsidiaries have drawn up balance sheets, income statements and cash flow statements that comply with international accounting standards.

The consolidated income statement reflects an analysis of costs by nature, as this classification was considered to be more significant in order to achieve a full understanding of the Group's earnings.

C) ACCOUNTING POLICIES

The most significant accounting policies are as follows:

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at purchase or construction cost including directly related charges, or at cost calculated as the fair value applying at the date of transition to the IFRS according to the exemption envisaged by IFRS 1.

Property, plant and equipment are depreciated each year on a straight-line basis over their estimated useful life, as follows:

- Buildings 30 - 40 years
- Plant and machinery 5 - 10 years
- Industrial and commercial equipment 4 years
- Other assets 3 - 9 years

The book value of property, plant and equipment is reviewed at the end of each financial year, if not more frequently.

Land is not depreciated because it has an unlimited useful life.

The cost of ordinary maintenance is recognised in full in the income statement. Incremental maintenance costs are attributed to the assets to which they refer and depreciated over

their residual useful life or until such time as they require extraordinary maintenance, whichever occurs first.

Financial charges directly attributable to the purchase, construction or production of property, plant and equipment are recognised in the income statement as they are incurred, as prescribed by IAS 23.

The carrying value of the assets is checked periodically for impairment losses in the manner described in the section on impairment of assets.

LEASES

Finance leases are accounted for in accordance with IAS 17, which envisages that:

- the cost of the leased assets is recognised under property, plant and equipment and depreciated on a straight-line basis over the assets' estimated useful life. A corresponding financial liability is recognised, consisting of the amount payable to the lessor, which is equal to the value of the leased asset;
- lease instalments are accounted for to reflect interest from principal separately, and are deemed as the repayment of the payable to the lessor.

Contracts in which the lessor retains substantially all the risks and rewards of ownership are classified as operating leases, and the related instalments are booked to the income statement on a straight-line basis over the duration of the contract.

INTANGIBLE ASSETS

Bought-in or internally produced intangible assets are recognised where it is likely that their use will generate economic benefits in the future and where their cost can be reliably determined. These assets are recognised at their purchase or production cost.

Intangible assets with a defined useful life are amortised each year on a straight-line basis over their estimated useful life, as follows:

- | | |
|---|--------------|
| • Industrial patents and intellectual property rights | 3 - 10 years |
| • Software, licences and similar rights | 5 years |
| • Trademarks | 10 years |
| • Development costs | 7 - 10 years |

Assets with unlimited useful life are not amortised but are tested for possible impairment of value on an annual basis, or more frequently if evidence suggests an impairment has occurred.

Research costs are charged to the income statement as soon as they are incurred. Development costs that qualify for capitalisation as assets under IAS 38 (in relation to their technical feasibility, the intention and ability of the enterprise to complete, use or sell the assets, the availability of the resources required for the completion of the development project and the ability to measure the expenditure reliably) are generally amortised over a period of 10 years in relation to their future economic utility. Amortisation begins from the moment the products become available for economic use. The estimate of useful life is reviewed and adjusted to reflect changes in the projected future utility.

Goodwill is the positive difference between the cost of a business combination and the Group share to the net fair value of the assets, liabilities and potential liabilities identified individually and recognised as separate items. Goodwill is an intangible asset with an indefinite useful life.

Goodwill is not amortised. It is allocated to the related cash-generating units (CGUs) and, pursuant to IAS 36 (Impairment of Assets), undergoes impairment testing annually, or more frequently if events or changed circumstances indicate a probable impairment of value. After the first valuation, Goodwill is recognised at acquisition price net of accumulated impairments.

IMPAIRMENT OF ASSETS

A tangible or intangible asset is impaired if its carrying value is greater than the amount that can be recovered from its use or sale. The impairment test required by IAS 36 ensures that tangible and intangible assets cannot be carried at a value greater than their recoverable value, which is the higher of their net selling price and their value in use.

The value in use equals the present value of estimated future cash flows expected to be generated from the continuing use of an asset or from a CGU. The present value of future cash flows is estimated using a pre-tax discount rate that reflects the current estimated market value referred to the cost of borrowing, which is calculated in relation to the time value of money and the specific risks associated with the asset.

If the carrying value exceeds the recoverable value, the asset or CGU is written down to the recoverable value. The impairment is recognised in the income statement.

Impairment tests are carried out when factors internal or external to the company suggest that the value of an asset may have been impaired. In the case of goodwill or other intangible assets with an indefinite period of use, the impairment test must be carried out at least once a year.

If the conditions that led to an impairment cease to obtain, the restoration of the value of the asset should not exceed the depreciated historical cost would have been if the impairment had not occurred. These reversals are recognised in the income statement.

International accounting standards prohibit the reversal of impairments to goodwill.

FINANCIAL ASSETS

Financial assets include investments in securities and equity interests in other companies classified as available-for-sale, as well as financial receivables.

Financial assets are initially booked at cost, which corresponds to the fair value including ancillary charges. Subsequently, financial assets classified as available-for-sale are valued at fair value and financial receivables are valued at amortised cost.

INVENTORIES

Inventories are booked at the lower of cost and estimated net realisable value.

Cost is determined using the weighted average cost method for raw, ancillary and consumable materials and semi-finished products, whereas actual cost is used for other inventory items.

CONSTRUCTION CONTRACTS

Construction contracts are defined in IAS 11 as a contract specifically negotiated for the construction of an asset or a group of interrelated assets with respect to their design, technology and function or final use. Contract costs are recognised in the year they are incurred.

Contract revenue are recognised on a state-of-completion basis at the reporting date if the outcome of a construction contract can be estimated reliably.

If the outcome of a construction contract cannot be estimated reliably, revenues are recognised only to the extent of the contract costs incurred and likely to be recovered.

An expected loss on a construction contract should be recognised as an expense as soon as such loss is probable.

Contract revenue and costs are recognised in proportion to the stage of completion of the contract activity using the percentage-of-completion method, applying the “cost-to-cost” method, which sets costs incurred up to the reporting date and total estimated costs required to complete the contract.

Construction contracts are presented on the Group’s balance sheet as follows:

- the amount due from customers is shown as an asset in trade receivables if the costs incurred plus recognised margins (less recognised losses) exceed advances received.
- the amount due to customers is shown as a liability in advances if the advances received exceed the costs incurred plus recognised margins (less recognised losses).

TRADE RECEIVABLES AND OTHER RECEIVABLES

Receivables falling due within a period considered to be normal commercial practice or which earn interest at market rates are not discounted. Instead, they are stated at original nominal value, net of any writedowns, which are deducted directly from the value of the receivables to bring them in line with the estimated recoverable value.

Receivables falling due beyond the period considered normal commercial practice and not earning explicit interest are recognised at amortised cost using the effective interest rate method, net of writedowns.

CASH AND CASH EQUIVALENTS

This item includes cash on hand, sight and short-term bank balances with an original maturity of not more than three months.

TREASURY SHARES

In accordance with IAS 32, the cost of the repurchase of own shares (‘treasury shares’) is deducted from equity. No gain or loss is recognised in income on the purchase, sale, issue, or cancellation of treasury shares.

Any consideration paid or received, including expenses directly attributable to the transactions, net of any related tax benefits, is recognised directly in equity.

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are set aside to cover present legal or constructive obligations deriving from past events, the amount of which can be reasonably estimated at the end of the period.

If a liability is considered potential only, no provision is recognised, although adequate information is provided in the notes to the financial statements.

EMPLOYEE BENEFITS

Employee benefits mainly include the staff severance pay of the Group Italian companies and pension funds. They fall under the category ‘defined-benefit plans’ applying after the termination of the employment contract and are valued as envisaged by IAS 19 using the Projected Unit Method and such valuation is to be carried out by an independent actuary.

This calculation defines the benefit that an employee will receive when the employment relationship ends using demographic assumptions (such as the mortality rate and the personnel turnover rate) and financial projections (such as the discount rate and estimated future pay increases). The amount thus determined is discounted and re-adjusted based on individual seniority over total seniority and constitutes a reasonable estimate of the benefits that each employee has already accrued for services rendered to date.

Actuarial gains and losses arising in relation to changes in the actuarial assumptions are recognised as income or expense.

BORROWINGS

Borrowings are initially booked at cost which, at the initial date, is the fair value of the amount received, net of ancillary charges. Subsequently, borrowings are valued at amortised cost using the effective interest rate method.

FINANCIAL RISK MANAGEMENT

Financial risk factors

The current business activities of the Group, which also operates in markets outside the euro area, expose it to exchange rate risk. The risk is particularly high in the dollar area but also exists to a lesser extent in relation to the Japanese yen.

To operate its business, the Group raises funds on the market through borrowing, usually by taking out floating-rate loans, with the result that it is also exposed to fluctuations in interest rates.

Risk management is the responsibility of the treasury departments of individual companies, in line with the Group’s Risk Management Policy approved by the Restricted Management Committee of the Parent Company.

a) Exchange rate risk

Exchange rate risk refers to the risk of adverse movements in exchange rates for the Group in the period from when the target exchange rate is agreed; that is, between the moment at which a Group entity commits itself to receive or pay in a foreign currency at a future date and the time when this commitment becomes an order and, finally, an invoiced item.

Operations to cover this risk are treated by the company using hedge accounting, since they are carried out for highly probable future transactions.

Changes in exchange rates that occur between the date of invoicing and the date of the receipt of funds are managed separately, without recourse to hedge accounting.

The exchange rate risk policy of the Group aims to cover between 50% and 90% of future transactions expressed in foreign currencies, depending on whether they consist of projected cash flows from sales in foreign currencies, or cash flows from the portfolio of received orders.

b) Interest rate risk

Interest rate risk is the risk of an uncontrolled rise in expenses arising from an increase in floating-rate interest payments on the Group's medium-term borrowings.

The objective of interest rate risk management is to contain and stabilise outflows in respect of the payment of interest on such loans.

Hedges are instituted for loans whenever it is thought advisable. The duration of the hedge may not exceed the maturity of the loan itself.

Financial hedging instruments and their accounting treatment

The Group mainly uses derivatives to hedge exchange rate and interest rate risk. Pursuant to the procedure approved by the Restricted Management Committee, the Group does not hold any speculative financial instruments.

Nevertheless, where financial instruments fail to satisfy the conditions for hedge accounting as set out by IAS 39, changes in their fair value are recognised in the income statement as financial expense/income.

Financial instruments are therefore treated under hedge accounting rules when:

- at the inception of the operation, the instrument is formally designated as a hedge and the hedging relationship is documented;
- the hedge is expected to be highly effective;
- the effectiveness can be reliably measured (both prospectively and retrospectively) and the hedge itself remains highly effective for the duration of the designated periods.

The Group therefore uses the cash flow hedge method for those cases in which it is formally documented that the exposure to variability in cash flows is attributable to a risk associated with a recognised asset or liability or a highly probable forecast transaction (the underlying) that could affect profit or loss.

Hedging instruments are valued at their fair value at the reporting date as estimated by independent surveyors.

The fair value of derivatives on exchange rates is calculated with reference to their intrinsic and time value. The intrinsic component is recognised in the fair value reserve in equity, while the time component is taken directly to the income statement under financial expense/income. When the hedged underlying becomes manifest, the fair value reserve is removed and attributed to the carrying value of the underlying itself.

The fair value of interest rate derivatives is determined by the market value at the designated date. The fair value is recognised in the relevant reserve in equity and reversed to income as soon as the underlying financial expense/income manifests itself.

TAXES

Income taxes include current and deferred taxes. Income taxes are generally recognised in profit or loss except when they regard items recognised directly in equity. In this case, the income taxes are also recognised in equity.

Current taxes are taxes which are expected to pay based on the taxable income for the year using the tax rate applying at the reporting date.

Deferred tax liabilities are calculated by applying the so-called liability method to differences between the value of consolidated balance sheet assets and liabilities and the corresponding values recognised for tax purposes. Deferred taxes are determined on the tax rate which is expected to apply when the assets is realised or the liability settled.

Deferred tax assets are recognised only when it is probable that taxable income in future years will be sufficient to realise them.

Deferred tax assets and liabilities are off-set only when there is a legal entitlement to off-setting and when they relate to taxes due to the same tax authority.

REVENUE RECOGNITION

Revenues are recognised to the extent that the economic benefits likely to be obtained and the amount concerned can be determined with reasonable accuracy. Revenues relating to the sale of products is recognised at the moment title passes, which generally coincides with shipping. The only exception is long-term construction contract, which, as explained above, is calculated on a percentage-of-completion basis.

TRANSLATION OF FOREIGN CURRENCY BALANCES

Functional and presentation currency

The balance sheets, income statements and statements of cash flows of Group companies are prepared using the currency of the primary economic environment in which the companies operate (functional currency).

The consolidated financial statements are presented in euros, the Parent Company's functional and presentation currency.

Transactions and balances

As envisaged in IAS 21, the amounts originally expressed in foreign currency are accounted for as follows:

- monetary items are translated at the spot exchange rate prevailing at the end of the period;
- non-monetary items recognised at cost are translated using the exchange rate prevailing at the time of the transaction;
- non-monetary items recognised at fair value are translated using the exchange rate prevailing at the time the fair value is determined.

Exchange rate gains and losses realised on the collection of receivables or the settlement of payables denominated in foreign currencies are taken to the income statement.

Group companies

The translation into euros of the financial statements of foreign companies brought within the scope of consolidation is carried out by applying the current exchange rate at the closing date to balance sheet assets and liabilities, and the average exchange rates for the period to items in the income statement.

Exchange differences deriving from the translation of initial net equity at the rates current at the end of the period and from the translation of income and expenses from the income statement at the average exchange rates in the period are recognised as a separate component of equity called the translation adjustment reserve.

Goodwill arising from the acquisition of a foreign operation is recognised as an asset of the foreign operation and translated at the spot exchange rate at the closing date of the financial statements, with differences being taken to the translation reserve.

SEGMENT INFORMATION

A business segment is a distinguishable component of the Group that is engaged in providing an individual product or service or a group of related products or services and that is subject to risks and returns that are different from those of other business segments.

A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and that is subject to risks and returns that are different from those of components operating in other economic environments.

The Group's primary reporting is divided by business segment, as follows:

- Machines for the packaging of tea and herbal teas in filter bags and coffee in pods, and related services;
- Machines for the packaging of pharmaceutical capsules and tablets in blisters and bottles, machines for filling bottles and vials with liquid and powdered products in sterile and non-sterile environments, machines for cartoning and end-of-line equipment;
- Machines for the production of tablets and capsules, machines for coating and fluid bed granulators, and related services.

The Group's secondary reporting is divided by geographical segment.

DIVIDENDS

Dividends distributed to shareholders of the Parent Company are recognised as a liability in the consolidated financial statements in the period in which the dividend is approved.

EARNINGS PER SHARE

Basic earnings per share are calculated as the ratio of Group net profit to the weighted average number of ordinary shares in circulation in the period.

USE OF ESTIMATES

When preparing consolidated financial statements, Directors must use accounting principles and methods which, in some cases, are based on difficult and subjective valuations and estimates, which are based on past experience, and on assumptions that are deemed from time to time as reasonable and realistic on a case-by-case basis. The application of these estimates and assumptions affects the amounts reported in the financial statements, more precisely in the balance sheet, the income statement and the statement of cash flows, and the disclosure made. Due to the uncertainty inherent in such assumptions and the conditions used for the above-said estimates, the final results of the items for which estimates and assumptions were used may be different from those reported in the financial statements.

Below is a list of the items for which Directors are required to use more subjectivity than for other items in preparing estimates. A change in the conditions underlying the assumptions used may have a significant impact on the Group consolidated financial statements:

- Goodwill;
- Write-down/Impairment of non-current assets;
- Construction contracts;
- Development costs;
- Deferred tax assets;
- Provisions for bad debts;
- Employee benefits;
- Provisions for risks and charges.

Estimates and assumptions are regularly revised and the effects of any change are immediately reflected in the income statement.

MAIN IFRS 1 EXEMPTIONS

For the purposes of preparing the present financial statements and the comparative figures contained herein, the accounting policies set out in the preceding sections and in the following section were applied retrospectively, with the exception of a number of exemptions to retrospective application permitted by IFRS 1 that the IMA Group elected to use:

- **Business combinations:** the values of business combinations that took place prior to 1 January 2004 have not been restated.
- **Property, plant and equipment:** certain property, plant and equipment classified as 'land and buildings' have been valued at fair value at the transition date and this value has been used as the so-called 'deemed cost'.
- **Employee benefits:** the cumulative actuarial gains and losses have been recognised in full at the transition date, so the option to use the 'corridor method' was not exercised.
- **Cumulative translation differences:** the option to cancel the translation reserve at the transition date was exercised, as envisaged under IAS 21, with translation differences being recognised from that date onwards.
- **Financial instruments:** IAS 32 and 39 have been applied from 1 January 2004; the comparative figures shown in the first year of transition therefore comply with these standards.

The other optional exemptions envisaged by IFRS 1 are not applicable to the IMA Group.

IFRS and IFRIC interpretations not yet adopted

In the last few months the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have published new standards and interpretations. Although to date these standards and interpretations have not been endorsed by the European Union, the Group has nevertheless considered their impact but has not reported that these may potentially impact its balance sheet and income statement in a significant manner.

D) CONSOLIDATION PRINCIPLES

Subsidiaries

Subsidiaries are companies which the Parent Company has the direct or indirect operational power, in order to achieve benefits from such operation. A company is controlled when the Group holds the majority of voting rights. In defining control, potential voting rights that can be exercised or converted are taken into consideration as well. The financial statements of subsidiaries are consolidated on a line-by-line basis from the date on which control is acquired to the date it ceases.

Under IFRS 3, the subsidiaries acquired by the Group are accounted for using the purchase method, which establishes that:

- the purchase cost is the fair value of the assets sold, taking into account the issue of equity instruments and liabilities acquired, plus any costs directly related to the purchase;
- the purchase cost excess over the fair value of net assets attributable to the Group is accounted for as goodwill;
- should the purchase cost be lower than the fair value of the subsidiary's net assets attributable to the Group, such difference is directly recognised in the income statement.

Payables and receivables and costs and revenues among the companies included in the consolidation, as the effects of all the transactions of significant relevance among them, have been eliminated.

Specifically, gains that have not been realised yet with third parties deriving from transactions among Group companies have been eliminated. Gains from the valuation of inventories at the reporting date have been included as well.

Minority interests in equity and net profit are shown as separate items in the consolidated balance sheet and income statement, respectively;

Associated companies

Associates are companies in which the Group has a significant influence but not operational control.

Such influence is presumed to exist when the Group holds an interest ranging from 20% to 50% of voting rights. The consolidated financial statements include the share of the net profits and losses of associated companies, valued using the equity method, from the date on which the significant influence emerged to the date it ceases.

Profits and losses pertaining to the Group after the purchase of associates are recognised in the income statement.

Joint ventures

IAS 31 defines joint venture as a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control and the accounting treatment allowed is the proportional consolidation.

The proportional consolidation involves that the financial statements of the venturer includes its share of each asset, liability, income and expenses in the financial statements of the investor. Companies acquired or sold during the period are consolidated for the period in which joint control was exercised.

E) SCOPE OF CONSOLIDATION

The consolidated financial statements at 31 December 2005 include the economic and financial highlights of I.M.A. - Industria Macchine Automatiche S.p.A. (Parent Company) and of all the companies over which it has direct or indirect control.

During the financial year 2005 the main changes in the Group structure were as follows:

- Merger by take-over of Comitec S.r.l. in I.M.A. S.p.A., with effects from 1 January 2005.
- on 23 May 2005, the Parent Company acquired 30% of LA.CO. S.r.l., a company based in Ozzano dell'Emilia operating in mechanical manufacturing, turning and milling, calibration and repair of machine tools. The purpose of the investment is to enable the Group to take a stake in suppliers that are important for its own manufacturing operations.
- On 22 July, the Board of Directors of IMA S.p.A. approved an increase of \$2,000,000 in the share capital of the Chinese company Zibo IMA Pharmatech Co. Ltd., which manufactures pharmaceutical process equipment. IMA S.p.A. has contributed \$1,640,000, and the Chinese shareholder Xinhua Medical Co. Ltd. \$400,000, in proportion to the shares held in the company (IMA S.p.A. 82%, Xinhua Medical Co. Ltd. 18%).
- Finally, in July 2005 a consortium was formed between I.M.A. S.p.A. (25%), Info Area S.r.l. (25%) and a third company (50%) to provide IT services to the consortium's members. The agreement will expire on 31 December 2007 unless the consortium members vote unanimously to extend it or terminate it early.
- On 30 September 2005, after completion of the formalities required for the transfer of Telstar's activities as requested by the antitrust authorities, IMA S.p.A. agreed to acquire 50% of the shares in a newly formed Spanish company, where the Spanish Group Telstar transferred its freeze-drying operations. The company will be named IMA-Telstar S.L. and will control 55% of the Chinese company Telstar Huadong Co. Ltd., which has its registered offices in Shanghai and also operates in the freeze-drying sector. IMA S.p.A. entered the transaction through a share capital increase in cash in IMA-Telstar S.L. of some 10.5 million euros. In 2004 the freeze-drying operations of the Telstar Group posted revenues of some 16 million euros and a gross operating margin (EBITDA) of 17.5%. IMA had long been assessing various options for entering the freeze-drying sector since the freeze-drying process is becoming increasingly widespread, especially in the production of biotech-derived pharmaceuticals. Commercially, this activity has synergies with filling equipment in sterile environments, a sector where the IMA Group has a significant market share and in which it has invested heavily. IMA-Telstar S.L. was consolidated from 1 July 2005, date when the joint venture reported the costs and revenues of the transfer of the freeze-drying operations, made on 30 June 2005, to the SPE. For more detailed information, reference should be made to Note 5.
- On 13 December 2005 the subsidiaries Luxteco Int. S.A. and Holteco B.V., which held 99.38% and 0.62% respectively of IMA Far East Co. Ltd., sold their interest to third parties. This transaction has not generated significant liabilities for the Group.

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

COMPANIES CONSOLIDATED
USING THE LINE-BY-LINE METHOD

	Registered office		Paid-up share capital	Direct investment	Indirect investment
Industrial companies:					
• I.M.A. Industria Macchine Automatiche S.p.A.	Ozzano E. (Bologna)	EUR	18,772,000	Company Company	
• CO.MA.DI.S. S.p.A.	Senago (Milan)	EUR	1,540,000	100%	–
• IMA Kilian GmbH & Co. KG	Cologne (Germany)	EUR	3,600,000	–	100% (1)
• Precision Gears Pvt Ltd.	Mumbai (India)	RS	(*) 17,852,100	51%	–
• Zibo IMA Xinhua Machinery Manufacturing Co. Ltd.	Zibo (PRC)	USD	820,727	82%	–
• Zibo IMA Xinhua Pharmatech Co. Ltd.	Zibo (PRC)	USD	3,047,216	82%	–
• Tianjin IMA Machinery Co. Ltd.	Tianjin (PRC)	USD	206,204	65%	–
• Nova Packaging Systems Inc.	Leominster (USA)	USD	8,050,000	–	90.68% (2)
• Swiftpack Automation Ltd.	Alcester (GB)	LST	1,403,895	–	90.68% (3)
Commercial companies:					
• 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 (Austria)	EUR	280,000	100%	–
• IMA Germany GmbH	Cologne (Germany)	EUR	90,000	100%	–
• IMA France E.u.r.l.	Rueil-Malmaison (France)	EUR	45,735	100%	–
• IMA Far East Co. Ltd.	Hong Kong	USD	6,672,969	–	100% (4)
• IMA Pacific Co. Ltd.	Bangkok (Thailand)	THB	(*) 40,219,000	99.99%	–
• IMA Packaging and Processing Equipment (Beijing) Co. Ltd.	Beijing (PRC)	USD	1,367,285	100%	–
• Imautomatiche Lda	Madeira (Portugal)	EUR	5,000	100%	–
• IMA Iberica Processing and Packaging S.L.	Barcelona (Spain)	EUR	590,000	100%	–
Other companies:					
• Info Area S.r.l.	Ozzano E. (Bologna)	EUR	98,800	100%	–
• IMA Kilian Verwaltungs GmbH	Cologne (Germany)	EUR	25,000	–	100% (1)
Financial companies:					
• Luxteco International S.A.	Luxembourg	EUR	2,400,000	99.99%	–
• Holteco B.V.	Amsterdam (Netherlands)	EUR	184,000	100%	–
• Packaging Systems Holdings LLC	Wilmington (USA)	USD	(**) 8,050,000	90.68%	–

(*) The nominal share capital of Precision Gears Pvt Ltd. and IMA Pacific Co. Ltd. amounts to RS 20,000,000 and THB 100,000,000 respectively.

(**) The percentage holding refers to the equity acquired in September 2004; as regards the acquisition of the Nova Group, an option exists that essentially constitutes a form of deferred payment for the remaining 9.32% of Packaging Systems Holdings LLC.

Notes (details of indirect investments):

(1) Owned by IMA Germany GmbH – (2) Owned by Packaging Systems Holdings LLC – (3) Owned by Nova Packaging Systems Inc. – (4) Sold to third parties in Q4 2005

COMPANIES CONSOLIDATED USING
THE PROPORTIONAL METHOD

	Registered office		Paid-up share capital	Direct investment	Indirect investment
IMA-Telstar S.L.	Terrassa (Spain)	EUR	4,946,400	50%	–
Telstar Huadong Co. Ltd.	Shanghai (PRC)	USD	2,152,143	–	27.5% (5)

Notes (details of indirect investments):

(5) Held by IMA-Telstar S.L. (55%)

INVESTMENTS VALUED
USING THE EQUITY METHOD

	Registered office		Paid-up share capital	Direct investment	Indirect investment
B.C. S.r.l.	Imola (Bologna)	EUR	36,400	30%	–
LA.CO. S.r.l.	Ozzano E. (Bologna)	EUR	30,000	30%	–
Consorzio Info Area	Ozzano E. (Bologna)	EUR	(*)50,000	25%	25% (6)

(*) Interests in consortium capital

Notes (details of indirect investments): (6) Held by Info Area S.r.l.

The consolidated financial statements at 31 December 2005 include the share of the net profits and losses of associated companies, valued using the equity method, from the date on which the significant influence emerged to the date it ceases. Equity investments in associates are initially recorded at purchase cost. Any excess in the purchase cost with respect to the Group's proportional share of the net value of the assets of the investee is included in the value of the equity investment.

F) NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

The changes reported below have been calculated on figures at 31 December 2004 for balance sheet items and on figures for the year 2004 for income statement items.

1. SEGMENT INFORMATION

Tea, herbal tea and coffee packaging

Machines for the packaging of tea and herbs in filter bags and the packaging of coffee in pods, and related services. Operations in this segment are mainly carried out by the Parent Company in the tea division.

Pharmaceuticals packaging

Machines for the packaging of pharmaceutical capsules and tablets in blisters and bottles, machines for filling bottles and vials with liquid and powdered products in sterile and non-sterile environments, machines for freeze-drying, cartoning and end-of-line equipment, and related services;

Operations in this segment are mainly carried out by these companies:

- IMA S.p.A. manufacture machines through the Blister, Win.Pack, Aseptic filling and processing Divisions, machines for cartoning and end-of-line activities;
- Swiftpack Automation Ltd. and Nova Packaging Systems Inc. manufacture machines for the bottling of capsules and tablets for the pharmaceutical industry;
- CO.MA.DI.S. S.p.A. manufactures tube-filling machines for the pharmaceutical, cosmetics, chemicals and food industries;
- Precision Gears Pvt. Ltd. manufactures blister and cartoning machines, mainly for emerging markets;

- IMA-Telstar S.L. and Telstar Huadong Co. Ltd. manufacture freeze-drying machines for the pharmaceutical industry.

Pharmaceuticals processing

Machines for the production of tablets and capsules, machines for coating and fluid bed granulators, and related services. Operations in this segment are mainly carried out by these companies:

- IMA S.p.A. Solid dose division;
- IMA Kilian GmbH & Co. KG manufactures tablet pressing machines for the pharmaceutical and chemicals industries;
- Zibo IMA Xinhua Machinery Manufacturing Co. Ltd. and Zibo IMA Xinhua Pharmatech Co. Ltd. assemble machinery for the pharmaceutical industry.

The Group's secondary reporting is divided by geographical segment.

PERFORMANCE BY SECTOR

Information on business sectors at 31 December 2005 is shown below (thousands of euros):

	Tea herbal tea & coffee packaging	Pharma. packaging and other	Pharma. processing	Total
Revenues	70,876	223,432	104,484	398,792
Segment operating income	23,209	13,061	(689)	35,581
Financial income (expenses)				(7,543)
Profits (losses) from investments in associates	–	(52)	–	(52)
Result before tax				27,986
Income taxes				(15,011)
Profit (loss) for the period				12,975

Information on business sectors at 31 December 2004 is shown below (thousands of euros):

	Tea herbal tea & coffee packaging	Pharma. packaging and other	Pharma. processing	Total
Revenues	67,135	202,020	102,827	371,982
Segment operating income	21,749	8,562	6,430	36,741
Financial income (expenses)				(4,139)
Profits (losses) from investments in associates	–	100	–	100
Result before tax				32,702
Income taxes				(15,556)
Profit (loss) for the period				17,146

The following table gives a breakdown of revenues by business segment, with changes in revenues over the corresponding period of 2004 (thousands of euros):

	2005	2004	Change
Tea, herbal tea and coffee packaging	70,876	67,135	3,741
Pharmaceuticals packaging and other	223,432	202,020	21,412
Pharmaceuticals processing	104,484	102,827	1,657
Total	398,792	371,982	26,810

Revenues from the tea, herbal tea and coffee packaging rose by 5.6% from the record level of the prior year. The Group leadership in this market was confirmed by the good performance of demand from major multinational groups in the UK, Germany and Russia; however, a growing portion of revenues was generated through sales to local companies, mainly European and Asian. As a result, if on one hand the collaboration with some leading tea multinational groups for the development of customer-tailored solutions has continued, on the other hand the market-wide distribution of newly-introduced products, which join the flexibility/price needs that mark this customer bracket, has grown.

The increase in revenues from the packaging sector is mainly due to the extension of the scope of consolidation following the inclusion of the Nova Group in January (in 2004 the Nova Group was consolidated only in the last quarter) and the consolidation of the Telstar Group in the last six months. The cosmetics sector showed good performance accounting for some 12% of the segment revenues, and ranked among the leading groups of the segment.

Revenues grew in the pharmaceuticals processing segment, even if demand was very reflective. After the 2004 strong rise (+20.3%), a further growth of 1.6% increased the market penetration, specifically in the powder processing and handling segment.

Below are changes in operating income by segment (thousands of euros):

	2005	2004	Change
Tea, herbal tea and coffee packaging	23,209	21,749	1,460
Pharmaceuticals packaging and other	13,061	8,562	4,499
Pharmaceuticals processing	(689)	6,430	(7,119)
Total	35,581	36,741	(1,160)

An analysis of the changes from the year-earlier period reveals the important growth of operating income in the tea segment. Even if heavy investment was made to develop new products and strengthen the marketing and commercial organisation, the incidence of revenues on operating income was essentially unchanged from the prior year.

The figures for the divisions of the pharmaceutical packaging segment rose from those for 2004, but are still unsatisfactory, since they are adversely affected by the strong price tensions which marked the pharmaceutical market and cannot benefit from greater stability of the US dollar. The performance of segment margins varies significantly from a product line to another, depending on the number of competitors of each. However, figures for the last quarter seem to confirm a significant improvement in earnings.

Earnings in the pharmaceuticals processing segment further decreased compared with the unfavourable figures for the prior year. Due to strong price tensions, the IMA Group felt it had to defend the market shares acquired, even if this meant lower contribution margins. Also, earnings were adversely affected by the non-recurring charges for the relocation of IMA Kilian GmbH & Co. KG to the new plant in Cologne, by the inefficiencies caused by the relocation, by the reorganisation costs incurred, the impairment of goodwill of IMA Kilian of 3,200 thousand euros following the impairment test. However, the scenario of the last months of the year has revealed solid signs of recovery thanks to the growing success of the new lines.

The table below provides other income statement information regarding the Group operations (thousands of euros):

	Tea, herbal tea and coffee		Packaging and other		Processing		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
Amortisation, depr. impairment and write-down	1,885	1,369	5,459	6,143	6,258	3,379	13,602	10,891
Other non monetary costs	1,244	772	5,421	3,992	2,197	54	8,862	4,818

The increase in other non-monetary costs mainly include greater amounts accrued to impairment charges for inventories in accordance with the Parent Company's standard practice.

Balance sheet information at 31 December 2005 is shown below (thousands of euros):

	Tea, herbal tea & coffee packaging	Pharma. packaging and other	Pharma. processing	Not allocated (*)	Total
Assets	53,151	194,649	116,557	72,107	436,464
Investments in associated companies	–	–	–	1,013	1,013
Total assets	53,151	194,649	116,557	73,120	437,477
Liabilities	39,730	101,011	41,093	160,582	342,416
Investments	1,357	10,655	4,033	4	16,049

(*) Non-allocated assets and liabilities mainly relate to income tax receivables and payables, financial assets and liabilities and other payables.

Balance sheet information at 31 December 2004 is shown below (thousands of euros):

	Tea, herbal tea & coffee packaging	Pharma. packaging and other	Pharma. processing	Not allocated (*)	Total
Assets	52,584	173,897	114,303	59,248	400,032
Investments in associated companies	–	–	–	488	488
Total assets	52,584	173,897	114,303	59,736	400,520
Liabilities	36,359	89,490	35,236	129,991	291,076
Investments	3,452	16,940	2,366	10	22,768

(*) Non-allocated assets and liabilities mainly relate to income tax receivables and payables, financial assets and liabilities and other payables.

REVENUES BY GEOGRAPHIC AREA

Below are revenues of the IMA Group by geographic area (thousands of euros):

	2005	2004	Change
European Union (excluding Italy)	156,512	151,459	5,053
Other European countries	31,385	26,836	4,549
North America	86,250	74,045	12,205
Asia & Middle East	50,277	53,273	(2,996)
Other countries	35,765	34,886	879
Total foreign markets	360,189	340,499	19,690
Italy	38,603	31,483	7,120
Total	398,792	371,982	26,810

Revenues are broken down based on the geographic area of final customers. Information on changes in the breakdown of revenues by geographic area is given below:

- revenues from the European Union, with the exclusion of Italy, essentially rose thanks to Swiftpack Automation Ltd. and IMA-Telstar S.L.;
- as regards the other European countries, the strongest growth was achieved in Russia and Switzerland;
- the increase in the US market is mainly due to the Nova Group;
- in the Asian area, revenues performed unevenly, as sales contracted in China, but rose in the Middle East;
- finally, the strong growth of Italy mainly in sterile and powder handling lines reflects the specific investment policies put in place by some multinational groups regarding IMA products and also shows the good achievements of the expansion of the Group in this market.

Operations of the IMA Group broken down by geographic area are provided below:

(thousands of euros)	12.31.2005	12.31.2004
Italy	284,318	281,972
European Union (excluding Italy)	87,602	65,945
North America	48,549	42,147
Asia & Middle East	17,008	10,456
Total	437,477	400,520

Operations are broken down based on the geographic area where they are located.

Regarding the increase in operations, the following must be noted:

- the acquisition of IMA-Telstar in the EU area accounted for 15 million euros;
- in North America figures relate to the normal selling operations of IMA North America Inc. (+4.5 million euros), and the production of Nova Packaging Systems Inc. (+2.7 million euros);
- Asia and the Middle East were affected by the consolidation of Telstar Huadong Co. Ltd. (1.4 million euros) and the investments made in China and India to strengthen production.

Consolidated investments by geographical area are broken down below:

(thousands of euros)	12.31.2005	12.31.2004
Italy	7,363	8,879
European Union (excluding Italy)	7,564	1,811
North America	161	11,061
Asia & Middle East	963	1,020
Total	16,051	22,771

During 2005 the EU area was affected by the acquisition of IMA-Telstar (5.4 million euros); the decrease in North America is due to the acquisition of Nova Packaging Systems Inc. in 2004 for an amount of 10.9 million euros.

REVENUES BY BUSINESS CATEGORY

The IMA Group's revenues are broken down by business category as follows:

(thousands of euros)	2005	2004	Change
Machines and formats	238,425	248,552	(10,127)
Construction contracts	74,690	40,396	34,294
Spare parts	51,608	48,674	2,934
Technical assistance	19,152	19,694	(542)
Other services	14,917	14,666	251
Total	398,792	371,982	26,810

**2. PROPERTY, PLANT
AND EQUIPMENT**

Property, plant and equipment show a net increase of 285 thousand euros. Movements in the item break down as follows (thousands of euros):

	Land	Buildings and leasehold improv.	Plant and machinery	Indust. & comm. equip.	Other assets	Assets under construct. and advan.	Total
Balances at 01.01.2004							
Gross amount	14,293	31,391	38,956	12,151	19,336	7,951	124,078
Accumulated depreciation	(5)	(2,583)	(23,842)	(10,110)	(15,634)	–	(52,174)
Net amount	14,288	28,808	15,114	2,041	3,702	7,951	71,904
Balances at 01.01.2004							
	14,288	28,808	15,114	2,041	3,702	7,951	71,904
Increases for the period	84	1,306	2,801	391	2,232	1,305	8,119
Sales and disposals	–	–	(57)	(5)	(168)	–	(230)
Change in scope of consolidation	–	535	160	–	216	–	911
Depreciation	(2)	(1,354)	(3,422)	(774)	(1,904)	–	(7,456)
Reclassifications	–	5,379	2,068	250	172	(7,900)	(31)
Translation differences	(3)	(85)	(66)	(10)	(75)	(10)	(249)
Balances at 12.31.2004							
	14,367	34,589	16,598	1,893	4,175	1,346	72,968
Balances at 01.01.2005							
Gross amount	14,374	38,553	41,800	12,439	19,377	1,346	127,889
Accumulated depreciation	(7)	(3,964)	(25,202)	(10,546)	(15,202)	–	(54,921)
Net amount	14,367	34,589	16,598	1,893	4,175	1,346	72,968
Balances at 01.01.2005							
	14,367	34,589	16,598	1,893	4,175	1,346	72,968
Increases for the period	–	1,487	1,364	597	1,158	2,152	6,758
Sales and disposals	–	(95)	(392)	(1)	(42)	–	(530)
Change in scope of consolidation	256	385	200	2	100	13	956
Depreciation	(2)	(1,520)	(3,307)	(785)	(1,832)	–	(7,446)
Reclassifications	–	342	417	160	74	(995)	(2)
Translation differences	29	166	153	29	151	21	549
Balances at 12.31.2005							
	14,650	35,354	15,033	1,895	3,784	2,537	73,253
Gross amount	14,659	41,102	43,386	13,351	20,683	2,537	135,718
Accumulated depreciation	(9)	(5,748)	(28,353)	(11,456)	(16,899)	–	(62,465)
Net amount	14,650	35,354	15,033	1,895	3,784	2,537	73,253
Balances at 12.31.2005							
	14,650	35,354	15,033	1,895	3,784	2,537	73,253

“Land” includes 10,717 thousand euros in respect of property in Ozzano dell’Emilia (Bologna) and Bentivoglio (Bologna) owned by the Parent Company; 3,181 thousand euros refers to land in Calenzano (Florence) under a finance lease.

Buildings and leasehold improvements mainly regard buildings located in Ozzano dell’Emilia, Bentivoglio, Calenzano, and buildings in France, the United Kingdom and India, which are owned by the subsidiaries IMA France E.u.r.l., IMA UK Ltd. And PG Bombay Pvt Ltd., respectively.

Certain property, plant and equipment classified as “land and buildings” have been valued at fair value at the transition date and this value has been used as the so-called ‘deemed cost’. The effect of this classification was an increase in the value of land of 6,316 thousand euros and in the value of buildings of 6,514 thousand euros. For more detailed information, reference should be made to the Appendix ‘Reconciliation with IFRS 1’.

Other assets comprise (thousands of euros):

	12.31.2005	12.31.2004
Electronic office machines	1,532	1,756
Office furniture and fittings	1,327	1,385
Vehicles	647	710
Others	278	324
Total	3,784	4,175

Assets under construction and advances mainly regard urban development works on the land in Via Tolara, at Ozzano dell’Emilia, incurred by the Parent Company, and internally produced machinery of the subsidiary IMA Kilian GmbH & Co. KG to be permanently used for demonstration purposes and for technical tests.

Increases for the period refer mainly to charges for the expansion and modification of existing buildings and plant, the purchase and internal production of machinery and equipment for Group manufacturing operations and the purchase of electronic machinery.

The change in the scope of consolidation reflects the acquisition of IMA-Telstar S.L. and Telstar Huadong Co. Ltd. as illustrated above.

Reclassifications mainly regards the capitalisation and start of depreciation by BG Bombay Pvt Ltd of the new plant in Mumbai (India), and the upgrade of plant and machinery at IMA Kilian GmbH & Co. KG.

The net book value of assets under finance lease is broken down by category as follows (thousands of euros):

	12.31.2005	12.31.2004
Land	3,181	3,181
Buildings	4,519	4,665
Plant and machinery	1,326	1,501
Other assets	40	56
Total	9,066	9,403

These assets mainly relate to the lease contract made by Libra P.T. S.r.l., which was merged into I.M.A. S.p.A. with effects from 1 January 2004, for the lease of land and the industrial building that was built on it and which was delivered in August 2003.

3. INTANGIBLE ASSETS

Movements in intangible assets for the period break down as follows (thousands of euros):

	Development costs	Industrial patent rights	Software, lic., trade marks & similar	Goodwill	Assets under dev. & advances	Total
Balances at 01.01.2004						
Gross amount	2,600	5,106	11,686	34,484	544	54,420
Accumulated amortisation	(873)	(4,557)	(6,956)	–	–	(12,386)
Net amount	1,727	549	4,730	34,484	544	42,034
Balances at 01.01.2004						
	1,727	549	4,730	34,484	544	42,034
Increases for period	–	468	1,111	–	2,145	3,724
Acquisition of the Nova Group	–	–	534	10,391	–	10,925
Change in scope of consolidation	–	–	–	4,318	–	4,318
Amortisation	(233)	(536)	(1,815)	–	–	(2,584)
Value decrease/increase	–	–	(396)	(455)	–	(851)
Reclassifications	–	211	–	–	(211)	–
Translation differences	–	–	(2)	(247)	–	(249)
Balances at 12.31.2004						
	1,494	692	4,162	48,491	2,478	57,317
Balances at 01.01.2005						
Gross amount	2,600	5,785	12,929	48,491	2,478	72,283
Accumulated amortisation	(1,106)	(5,093)	(8,767)	–	–	(14,966)
Net amount	1,494	692	4,162	48,491	2,478	57,317
Balances at 01.01.2005						
	1,494	692	4,162	48,491	2,478	57,317
Increases for period	1,104	668	986	–	1,122	3,880
Acquisition of the Telstar Group	2,023	–	–	3,388	–	5,411
Change in scope of consolidation	–	–	11	–	–	11
Amortisation	(520)	(577)	(1,721)	–	–	(2,818)
Value decrease/increase	–	–	(138)	(1,871)	–	(2,009)
Write-downs/Impairment	–	–	–	(3,200)	–	(3,200)
Reclassifications	2,056	309	2	–	(2,365)	2
Translation differences	–	–	8	703	–	711
Balances at 12.31.2005						
	6,157	1,092	3,310	47,511	1,235	59,305
Gross amount	7,783	6,748	13,816	47,511	1,235	77,093
Accumulated amortisation	(1,626)	(5,656)	(10,506)	–	–	(17,788)
Net amount	6,157	1,092	3,310	47,511	1,235	59,305
Balances at 12.31.2005						
	6,157	1,092	3,310	47,511	1,235	59,305

The 6,157 thousand euros in development costs (1,494 thousand euros at 31 December 2004) mainly include costs incurred in previous years by the Parent Company on projects that were eligible under IAS 38 for capitalisation as assets. Specifically, capitalised projects

refer to the CA1, machines for packaging filter bags and coffee in pods, the Sterifill F200 and F2000 products, Impressa 130 and the C300, an error-control tablet counting machine, which were considered new products since they were not available previously and are targeted at new market segments. The amount of 2,023 thousand euros included in the line item Acquisition of the Telstar Group relates to the know-how gained in the freeze-drying sector in the production of biotech-derived pharmaceuticals; such know-how can be treated as development costs whose useful life was estimated in 7 years.

As also indicated in the Report on Operations, R&D costs not eligible for capitalisation posted to the income statement for the year were 18,271 thousand euros (17,587 thousand euros in the prior year).

Software, licences, trademarks and similar rights, which amount to 3,310 thousand euros (4,162 thousand euros at 31 December 2004), mainly include applications, management and technical software. The decrease of 138 thousand euros listed under “Value decrease/increase” regards the realisation of the portfolio recognised as part of the Nova Group acquisition.

Goodwill comprises the following (thousands of euros):

	12.31.2005	12.31.2004
Acquisition of G.S. S.r.l. Coating System division	7,402	7,402
Acquisition of ICO OLEODINAMICI S.p.A. division	3,067	3,067
Acquisition of CO.MA.DI.S. S.p.A.	3,782	3,782
B.F.B. S.p.A.	1,788	1,788
IMA Kilian GmbH & Co. KG	14,790	17,990
Nova Group	13,294	14,462
Telstar Group	3,388	–
Total	47,511	48,491

The table above shows that the goodwill paid to purchase companies and/or firms and/or divisions is allocated to the Group CGUs which are then tested for impairment. Even if such companies had merged into the acquiring company after the acquisition and had thus lost their legal status, the Group organisation into divisions allows to identify the assets and the cash flows of said CGUs, and to check whether allocated goodwill is recoverable through the impairment test.

In compliance with the procedures in IAS 36, there is no need for impairment, except for the value of goodwill for the CGU IMA Kilian. The recoverable value of CGU IMA Kilian was determined based on its value in use. To determine the recoverable value, cash flow projections were used, as contained in the financial plan approved by the top management and covering a five-year time span. The discounting rate applied to the prospective cash flows was 6.95%, corresponding to the average weighted cost of capital calculated according to the financial statements of IMA Kilian (and substantially in line with the average weighted cost of capital of IMA).

Cash flows beyond 5 years have been extrapolated using a growth rate of 3%, which is lower than the average long-term growth rate in the pharmaceuticals sector (7-8%) since it relates to one single production type (tablet pressing machines).

Based on the above, the value in use of the Cash Generating Unit was lower by 3,200 thousand euros than the value of goodwill; so it was necessary to align the value of goodwill to the value in use of the Cash Generating Unit as shown in the impairment test.

Other changes to goodwill relate to the formation of the joint venture referred to in Note 5 below and to the subsidiary Packaging Systems Holdings LLC. More specifically, in

September 2004 the Company bought 90.68% of Packaging Systems Holdings LLC at the same time entering into a put&call option for the residual 9.32% to be exercised by the end of May 2009 at a price composed of a minimum fixed component and a variable component linked to certain balance sheet and performance parameters. Under IAS, such option constitutes a deferred component of the purchase price of 100% of the shares of said company; so the present value of the estimated exercise price was recognised as a liability to minority shareholders and, as a contra-item, it increased the value of goodwill. This estimate is revised from year to year based on available information.

The 1,871 thousand euros posted under “Value decrease/increase” is the change in the value of goodwill for the acquisition of the Nova Group associated with the estimated exercise price of the put&call option.

The translation difference of 711 thousand euros refers to the translation of Nova Group goodwill at the year-end spot exchange rate.

Assets under development and payments on account of 1,235 thousand (2,478 thousand at 31 December 2004) include 1,142 thousand euros for the capitalisation of development costs incurred by the Parent Company during the years 2004 and 2005 for projects that are still under development at the reporting date. These development costs relate to the implementation of brand new products in the pharmaceuticals packaging and processing segments and eligible for recognition as an intangible asset under IAS 38.

4. EQUITY INVESTMENTS IN ASSOCIATES

Below is a breakdown (thousands of euros):

	% holding	12.31.2005	12.31.2004
B.C. S.r.l.	30%	510	488
LA.CO. S.r.l.	30%	478	–
Consorzio Info Area	50%	25	–
Total		1,013	488

The change here reflects an increase of 478 thousand euros following the acquisition of 30% of LA.CO. S.r.l. during the second quarter of 2005, as noted previously.

The book value of the investment in LA.CO. S.r.l. includes 129 thousand euros in goodwill.

The following table summarises key financial data at 31 December 2004 of associated companies (thousands of euros):

	Assets	Liabilities	Revenues	Net profit
B.C. S.r.l.	2,723	1,025	2,780	73
LA.CO. S.r.l.	1,763	1,370	2,178	29

Key financial data of Consorzio Info Area at the end of 2005 are: assets 2,392 thousand euros, liabilities 2,342 thousand euros, revenues 1,954 thousand euros.

5. EQUITY INVESTMENTS IN JOINT VENTURES

These relate to the acquisition of 50% of IMA-Telstar S.L. which was carried out in 2005; relevant information is provided in the Section ‘Scope of consolidation’.

Key data of assets and liabilities at the acquisition date are (thousands of euros):

	Book value	Fair value (100%)	Fair value (50%)
Property, plant and equipment	1,257	1,257	629
Know-how	–	4,046	2,023
Inventories	2,607	2,607	1,303
Other assets/liabilities	(1,217)	(1,961)	(981)
Total	2,647	5,949	2,974
Cash contributed from IMA		10,480	5,240
		16,429	8,214 (A)
Book value of equity interest			11,264 (B)
Goodwill arising on formation of the joint venture (B-A)			3,050
Goodwill of Telstar Huadong			338
Goodwill			3,388

The difference in the fair value of ‘Other assets/liabilities’ relates to amounts due from customers for construction contracts net of the relevant tax charge and of the tax charge due to the recognition of know-how.

Below are total amounts at 31 December 2005 for the joint ventures consolidated using the equity method (thousands of euros):

	IMA Telstar	Telstar Huadong
<i>Balance sheet:</i>		
Current assets	18,844	1,473
Non-current assets	2,668	701
Current liabilities	7,746	599
Non-current liabilities	–	–
Equity	13,766	1,575
<i>Income statement:</i>		
Revenues	7,203	1,352
Other revenues	31	–
Operating costs	6,731	1,421
Financial income (expense)	9	(6)
Income tax	142	–
Net result	654	(75)

Income statement data relate to the second half of 2005.

6. RECEIVABLES FROM OTHERS

This item includes different security deposits and receivables in respect of advance payment of tax on severance indemnities.

7. FINANCIAL ASSETS

This item breaks down as follows (thousands of euros):

	12.31.2005	12.31.2004
Non-current:		
• Investments in securities	3,165	3,250
• Financial receivables	358	–
• Investments in other companies	71	96
	3,594	3,346
Current:		
• Investments in securities	433	562
• Deposits	4,150	–
• Financial receivables	39	163
	4,622	725
Total	8,216	4,071

Investments in non-current securities mainly include listed bond funds securing non-current borrowings. Their fair value is the official listing value on 30 December 2005. Their annual percentage variation (source: 'Il Sole 24 Ore') was an average 3.74% on 30 December 2005. Investments in current securities relate to government securities and bonds. Their fair value is the official listing value on 30 December 2005. The yield rate for the year 2005 was 2.30%.

Non-current financial receivables relate to the lease contract entered into by the German subsidiary IMA Kilian GmbH & Co. KG for its new offices and plants in Cologne, Germany.

Current deposits maturing in the fourth quarter of 2006 were made by IMA-Telstar S.L. with international leading credit institutions in order to use in the best way possible the liquidity deriving from the share capital increase paid by IMA S.p.A. in IMA-Telstar S.L. for the latter's acquisition. The yield rate in 2005 was an annual 2.18%.

This item breaks down as follows (thousands of euros):

	2005	2004
Opening balance	4,071	4,186
Increases	4,555	599
Decreases	(516)	(771)
Effect of the valuation at fair value on equity	106	57
Closing balance	8,216	4,071
Of which:		
Non-current financial assets	3,594	3,346
Current financial assets	4,622	725
Total	8,216	4,071

No impairment was recognised on financial assets available for sale in 2004 and 2005.

8. DERIVATIVE FINANCIAL INSTRUMENTS

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

	Assets 12.31.2005	Liabilities 12.31.2005	Assets 12.31.2004	Liabilities 12.31.2004
Exchange rate hedging instruments - cash flow hedges	–	1,700	1,577	–
Interest rate swaps cash flow hedges	68	–	–	14
Interest rate swaps fair value hedges	–	–	–	84
Total	68	1,700	1,577	98

FOREIGN EXCHANGE DERIVATIVES

The Group has foreign exchange derivatives to hedge future cash flows (cash flow hedges). The exchange rate risk exposure is managed through forward contracts in foreign currency and options denominated in the currency of sale (US Dollars and yens) of some markets where the Group operates.

The notional amount of exchange rate hedging instruments changed from US\$37.2 million and ¥120.0 million at 31 December 2004 to US\$39.4 million at 31 December 2005. The maturity date of all foreign currency derivatives at 31 December 2005 is within 12 months.

INTEREST RATE DERIVATIVES

The Group has interest rate derivatives (cash flow hedges) to manage the risk of changes in the interest rates applied to borrowings from banks; a part of them is changed from floating to fixed rate with the purchase of an interest rate cap.

At 31 December 2005 the amount of 68 thousand euros is the fair value of an option entered into during 2005 with a leading credit institution to hedge interest rate risk; such option is separately linked to a medium-term loan maturing in October 2011.

During 2005 an interest rate swap (IRS) entered into by the Parent Company in 2000 with a leading bank expired. The contract was eligible for hedge accounting and was used to hedge part of borrowings.

An IRS (fair value hedges) with a leading bank entered into by the Parent Company in 2000 also expired in 2005.

9. DEFERRED TAX ASSETS AND LIABILITIES

At 31 December 2005, deferred tax assets amounted to 5,268 thousand euros (2,911 thousand euros at 31 December 2004). They mainly regard temporary differences in respect of provisions and the elimination of unrealised intra-group profits on sales of finished goods and the tax benefit deriving from loss carry-forward.

At 31 December 2005 deferred taxes of 4,111 thousand euros (3,677 thousand euros at 31 December 2004) mainly relate to temporary differences between the book value and the value recognised for tax purposes of some of property, plant and equipment and intangible assets.

The tables below provide a breakdown by due dates and net changes for this item (thousands of euros):

	12.31.2005	12.31.2004
Deferred tax assets:		
• within 12 months	3,846	2,436
• after 12 months	1,422	475
	5,268	2,911
Deferred tax liabilities:		
• within 12 months	1,848	777
• after 12 months	2,263	2,900
	4,111	3,677
Net amount	1,157	(766)

	12.31.2005	12.31.2004
Net amount at the start of year	(766)	760
Exchange difference	31	(111)
Change in scope of consolidation	(710)	–
Charged / (Credited) to the income statement	1,643	(1,616)
Charged / (Credited) to equity	959	201
Net amount at the end of year	1,157	(766)

Below are the main components of deferred tax assets and liabilities and changes during the year at issue and the prior year (thousands of euros):

	Accrued to provisions	Losses carried forward	Amortisation	Income from fair val.	Finance lease	Others	Total
Balances at 1 Jan 2004	5,815	486	(5,598)	(739)	(106)	902	760
Effect on the income statement	1,094	310	(3,289)	–	(272)	541	(1,616)
Effect on equity	–	–	–	201	–	–	201
Exchange rate difference	–	–	(13)	(119)	–	21	(111)
Balances at 12.31.2004	6,909	796	(8,900)	(657)	(378)	1,464	(766)
Effect on the income statement	1,852	2,022	(733)	–	(308)	(1,190)	1,643
Effect on equity	–	–	–	959	–	–	959
Change in cons. scope	–	–	–	–	–	(710)	(710)
Exchange rate difference	49	17	(27)	–	–	(8)	31
Balances at 12.31.2005	8,810	2,835	(9,660)	302	(686)	(444)	1,157

At the reporting date, the IMA Group had unused prior years' losses of 10,965 thousand euros. Deferred tax assets were recognised during the year in respect of prior years' losses usable in the amount of 10,388 thousand euros. Since it is difficult to foresee taxable results, no deferred tax assets were recognised on the remaining amount of prior years' losses of 577 thousand euros.

No deferred taxes were calculated on retained earnings of subsidiaries, as it not possible to foresee the future allocation of such earnings, and of associates, as they were not significant.

For further information on deferred tax assets charged and credited to equity, reference should be made to Note 15 below.

10. INVENTORIES

Below is a breakdown (thousands of euros):

	Gross value	Impair. charges	Net value	Net value at 12.31.2004
Raw, ancillary and consumable materials	20,413	(4,769)	15,644	13,250
Work in progress and semifinished products	115,741	(15,023)	100,718	92,857
Finished goods	8,000	(2,256)	5,744	3,555
Total	144,154	(22,048)	122,106	109,662

The increase in inventories from 31 December 2004 mainly relates to the significant amount of the year-end order book and to the inclusion in the scope of consolidation of IMA-Telstar S.L. and Telstar Huadong Co. Ltd. (1,952 thousand euros at 31 December 2005). Please note that, during the period, the Parent Company and IMA Kilian GmbH & Co. KG made provisions of 3,974 thousand and 126 thousand euros respectively for the impairment of work in progress and semifinished goods.

**11. TRADE RECEIVABLES
AND OTHER RECEIVABLES**

This item breaks down as follows (thousands of euros):

	12.31.2005	12.31.2004
Trade receivables	98,788	88,086
Advances to suppliers	5,516	4,304
Tax receivables	1,564	2,962
Deferrals	1,955	1,759
Other receivables	1,063	1,385
Total	108,886	98,496

TRADE RECEIVABLES

Trade receivables include customer receivables of 81,332 thousand euros (75,277 thousand euros at 31 December 2004), amounts due on construction contracts of 15,752 thousand euros (12,809 thousand euros at 31 December 2004) and trade receivables from associates of 1,704 thousand euros.

Trade receivables from customers are carried net of the provision for bad debts amounting to 2,048 thousand euros (2,115 thousand euros at 31 December 2004).

The increase over the prior year is mainly due to greater revenues for the last quarter of the year as compared with the corresponding period of 2004. Trade receivables from customers falling due after one year (equal to 493 thousand euros) regard orders large enough to justify deferred payment terms. Payment extensions granted to customers who reside in countries with particular risks are backed by appropriate financial instruments to secure collection.

The period saw the non-recourse assignment of receivables with an overall nominal value of around 13,143 thousand euros. Assigned receivables that had not yet fallen due at 31 December 2005 amounted to around 11,913 thousand euros, of which 7,815 thousand euros are assigned to factoring companies and 4,098 thousand to other financial institutions.

Amounts due in respect of construction contracts, determined on a percentage-of-completion basis, are shown below net of advances (thousands of euros):

	12.31.2005	12.31.2004
Construction contracts (costs incurred plus recognised margins)	22,466	21,800
Advances received	(6,714)	(8,991)
Due from customers	15,752	12,809

Amounts due to customers (included in trade payables and other payables under advances) in respect of construction contracts, determined on a percentage-of-completion basis, are shown below net of the amounts due from customers (thousands of euros):

	12.31.2005	12.31.2004
Advances received	(5,897)	(1,084)
Construction contracts (costs incurred plus recognised margins)	4,605	566
Due to customers	(1,292)	(518)

Revenues from construction contracts in 2005, recognised on a percentage-of-completion basis were 74,690 thousand euros, of which 69,797 thousand euros was invoiced.

ADVANCES TO SUPPLIERS

At 31 December 2005 these relate to advances given mainly from the Parent Company to suppliers for inventory goods of 3,559 thousand euros (2,735 thousand euros at 31 December 2004) and services of 1,957 thousand euros (1,569 thousand euros at 31 December 2004).

TAX RECEIVABLES

Tax receivables mainly consist of VAT receivables.

DEFERRALS

This mainly include prepaid insurance premiums, maintenance fees and advisory fees. Amounts due after 31 December 2006 amounted to 140 thousand euros.

12. CASH AND CASH EQUIVALENTS

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

	12.31.2005	12.31.2004
Bank current accounts	55,761	45,461
Deposits	1,722	1,398
Cheques and cash	321	146
Total	57,804	47,005

The increase in cash and cash equivalents from 31 December 2004 of 10,799 thousand euros is due to the fact that collections were concentrated in December 2005.

13. SHARE CAPITAL

The share capital reported in the consolidated financial statements at 31 December 2005 refers to share capital issued (fully subscribed and paid-up) by the Parent Company I.M.A. S.p.A. made up of 36,100,000 ordinary shares with a par value of 0.52 euros each.

	Shares in thousands	Share capital	Share premium reserve	Treasury shares
Balance at 1 Jan 2004	36,100	18,772	16,382	–
Balance at 31 Dec 2004	36,100	18,772	16,382	–
Purchase of treasury shares	(2,287)	–	–	(22,096)
Sale of treasury shares	696	–	–	7,398
Balance at 31 Dec 2005	34,509	18,772	16,382	(14,698)

14. TREASURY SHARES

In 2005, the Parent Company carried out the following operations involving its equity instruments:

- acquisition of 2,287,340 own shares for 22,096 thousand euros;
- sale of 696,105 own shares for 7,665 thousand euros (7,398 thousand euros net of taxes on the relevant capital gain) from May to September 2005; these sales generated a capital gain of 541 thousand euros, net of tax effects.

These transactions were recognised directly in equity in accordance with IAS 32 and 39.

The table below shows the number of shares in circulation:

thousands	
Balance at 01.01.2004	36,100
Own shares acquired	–
Own shares sold	–
Balance at 12.31.2004	36,100
Own shares acquired	(2,287)
Own shares sold	696
Balance at 12.31.2005	34,509

In May 2005, a total dividend of 13,960 thousand euros was paid, equal to 0.40 euros (gross) per each ordinary share in circulation (14,440 thousand euros, equal to 0.40 euros per ordinary share in May 2004).

In the current year, the Board of Directors of the Parent Company IMA S.p.A. proposed to pay out a dividend of 0.40 euros (gross) per each share. The total dividend is estimated in 13,800 thousand euros. As this dividend is subject to approval of the Shareholders' meeting, it was not recognised as a liability at 31 December 2005.

15. FAIR VALUE RESERVE

Changes in the fair value reserve are as follows (thousands of euros):

Balance at 01.01.2004	1,503
Available for sale	
Valuation at fair value	66
Fair value - tax effect	(22)
Cash flow hedges / hedging instruments	
Valuation at fair value	1,737
Fair value - tax effect	(573)
Realisation recognised in income	(2,413)
Realisation recognised in income - tax effect	796
Balance at 12.31.2004	1,094
Available for sale	
Valuation at fair value	106
Fair value - tax effect	(35)
Realisation recognised in income	(18)
Realisation recognised in income - tax effect	6
Cash flow hedges / hedging instruments	
Valuation at fair value	(1,521)
Fair value - tax effect	509
Realisation recognised in income	(1,559)
Realisation recognised in income - tax effect	479
Balance at 12.31.2005	(939)

16. BORROWINGS

These include payables to banks of 146,067 thousand euros (117,451 thousand euros at 31 December 2004) and payables to other lenders of 6,792 thousand euros (7,581 thousand euros at 31 December 2004).

PAYABLES TO BANKS

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

	Total at 12.31.2005	Total at 12.31.2004
Non-current:		
Applied research and technology innovation loans	18,889	17,480
Other	60,352	29,733
	79,241	47,213
Current:		
Current accounts	6,973	8,839
Advances on export transactions	39,892	30,327
Advances on export transactions to be carried out	–	305
Applied research and technology innovation loans	3,357	3,612
Other	16,604	27,155
	66,826	70,238
Total	146,067	117,451

The increase in the exposure to banks compared with 31 December 2004 was due mainly to the capital contributions in IMA-Telstar S.L. and the purchase of own shares.

Applied research and technological innovation loans

Over the period, maturing instalments were paid regularly in the overall amount of 4,011 thousand euros. In addition, the Parent Company received new lending of 4,902 thousand euros.

Other

The main changes in this item regard ordinary repayments amounting to 27,008 thousand euros and new loans to the Parent Company of 44,650 thousand euros and to the subsidiary IMA Kilian GmbH & Co. KG for 1,680 thousand euros.

Payables to banks are broken down by maturity as follows (thousands of euros):

	12.31.2005	12.31.2004
Due within 1 year	66,826	70,238
Due from 1 to 5 years	73,750	42,554
Due after more than 5 years	5,491	4,659
Total	146,067	117,451

Applied research and technological innovation loans and other loans are broken down below by currency (thousands of euros):

	12.31.2005	12.31.2004
Euro	96,166	75,029
US Dollar	2,805	2,937
Indian Rupee	231	14
Total	99,202	77,980

Applied research and technology innovation loans and other loans are backed by the following guarantees (thousands of euros):

	12.31.2005	12.31.2004
Bank guarantees	7,219	9,719
Bank guarantees to the Parent Company IMA S.p.A.	5,165	7,665
Other guarantees given from the Parent Company IMA S.p.A.	3,545	4,038
Bank guarantees to the subsidiary FIN-VACCHI S.p.A.	1,086	1,407
Pledged securities	3,150	3,184
Total	20,165	26,013

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. At 31 December 2005 these covenants were complied with, with the exception of four loans with a nominal residual value of 8,619 thousand euros. However, no risk is deemed to exist concerning the termination of these contracts.

Interest rates on payables to banks are lower than 5% on average.

At 31 December 2005 the IMA Group had unused credit facilities of some 81 million euros (some 80 million euros at 31 December 2004).

PAYABLES TO OTHER LENDERS

This item is composed of the following (thousands of euros):

	12.31.2005	12.31.2004
Non-current:		
• Payables to leasing companies	5,562	6,513
• Other	8	15
	5,570	6,528
Current:		
• Payables to leasing companies	951	921
• Payables to factoring companies	260	–
• Other	11	132
	1,222	1,053
Total	6,792	7,581

Below is the reconciliation between total minimum future payments of finance leases at the reporting data and their present value (thousands of euros):

	Due within 1 year	Due from 1 to 5 years	Due after more than 5 years	Total
Year 2004:				
Minimum payments of finance leases	1,151	4,573	2,647	8,371
Less future financial charges	(230)	(608)	(99)	(937)
Present value of finance lease payables	921	3,965	2,548	7,434
Year 2005:				
Minimum payments of finance leases	1,151	4,558	1,511	7,220
Less future financial charges	(200)	(478)	(29)	(707)
Present value of finance lease payables	951	4,080	1,482	6,513

At 31 December 2005 this item mainly includes 6,485 thousand euros (7,393 thousand euros at 31 December 2004) of the lease contract, as noted in Note 2 above.

Net debt at 31 December 2005 amounted to 86,839 thousand euros and breaks down as follows:

	12.31.2005	12.31.2004
Net debt	86,839*	73,956
Of which:		
• Cash and current financial assets	(62,426)	(47,730)
• Non-current financial assets	(3,594)	(3,346)
• Current financial liabilities	68,048	71,291
• Non-current financial liabilities	84,811	53,741

(*) The net debt reflects the outlay of 14,431 thousand euros to buy treasury shares held at 31 December 2005.

At 31 December 2005, change in net debt is mainly due to the financial expense for treasury shares, which was not included in the prior year's financial statements. In September 2005, IMA S.p.A. finalised its presence in IMA-Telstar S.L. by contributing 10,480 thousand euros to the newly-formed company. At that date, net consolidated cash and cash equivalents of the Spanish investee amounted to 11,600 thousand euros. In October 2005 the Parent Company took out a non-current loan of 12,000 thousand euros with maturity date of October 2011 for this acquisition. The impact of this acquisition on net debt at 31 December 2005 was 5,878 thousand euros, including direct costs related to the acquisition.

17. SEVERANCE AND PENSION PROVISIONS

This item includes post-employment benefits valued on the basis of an actuarial assessment of the obligation. It mainly comprises severance indemnity provisions by the Group's Italian companies.

The principal economic and financial assumptions used by the actuary are as follows:

	12.31.2005	12.31.2004
Annual discount rate	4.25%	4.5%
Annual inflation rate	2.0%	2.0%
Annual rate of increase in total compensation	3.5%	3.5%
Annual rate of increase in severance indemnity	3.0%	3.0%

Movements in the provisions in the period were as follows (thousands of euros):

Balance at 01.01.2004		22,465
Costs in respect of employment services during the period		2,332
Financial charges		960
Net actuarial losses (gains) recognised during the period		858
Severance payments made during period		(2,451)
Balance at 12.31.2004		24,164
Costs in respect of employment services during the period		2,431
Financial charges		1,038
Net actuarial losses (gains) recognised during the period		469
Severance payments made during period		(2,791)
Balance at 12.31.2005		25,311

**18. PROVISIONS FOR RISKS
AND CHARGES**

These provisions break down as follows (thousands of euros):

	Balance at 12.31.2004	Alloc- ations	Uses	Change in cons.scope	Translation differences	Balance at 12.31.2005
Non-current:						
Agency termination indemnities	918	150	(30)	–	5	1,043
Legal disputes	30	–	–	–	–	30
	948	150	(30)	–	5	1,073
Current:						
Product guarantee provision	4,243	936	(869)	65	24	4,399
Other	889	525	(889)	–	–	525
	5,132	1,461	(1,758)	65	24	4,924
Total	6,080	1,611	(1,788)	65	29	5,997

The product guarantee provision is established on the basis of estimated expenses for interventions under guarantee after 31 December 2005 for machines sold previous to that date. Other risk provisions mainly include provisions for taxes covering any estimated liabilities as may come up following the controls carried out by the tax authorities during the year.

**19. TRADE PAYABLES
AND OTHER PAYABLES**

This item breaks down as follows (thousands of euros):

	12.31.2005	12.31.2004
Trade payables	86,443	74,114
Advances from customers	34,458	30,612
Social security payables	4,135	4,198
Tax payables	3,497	2,688
Employee payables	13,382	9,857
Payables in respect of acquisitions	5,559	6,498
Other	1,984	2,777
Total	149,458	130,744

TRADE PAYABLES

These include trade payables to suppliers of 78,019 thousand euros (67,939 thousand euros at 31 December 2004), agent payables of 5,530 thousand euros (5,684 thousand euros at 31 December 2004) and trade payables to associates of 2,894 thousand euros (491 thousand euros at 31 December 2004).

The increase from the prior year is mainly due to the increase in year-end inventories.

ADVANCES FROM CUSTOMERS

The increase in advances from customers for uncompleted contracts with respect to 31 December 2004 is due mainly to the improvements in the customer terms of payment in the last three years.

Information on the amounts due for construction contracts is provided in Note 11.

TAX PAYABLES

Tax payables refer mostly to withholding taxes for employees.

EMPLOYEE PAYABLES

The increase in this item from 31 December 2004 mainly relates to the one-off payment due to employees following the finalisation of the metal workers collective agreement and to some amounts due for contract termination.

PAYABLES IN RESPECT OF ACQUISITIONS

This item includes the residual debt from the acquisition of 90.68% of Packaging Systems Holdings LLC for \$3.3 thousand (equal to about 2,797 thousand euros); a further \$3 thousand is due in May 2006, and the rest in May 2009. As part of the acquisition, the Parent Company entered into put & call options for the remaining shares. Both can be exercised by May 2009 at a price indexed to the Nova Group's gross operating margin between 1 January 2005 and 31 December 2008. The estimated payable to acquire the remaining shares is 2,601 thousand euros (4,075 thousand euros at 31 December 2004).

The item also include 160 thousand euros in residual debt in respect of the acquisition of 30% of LA.CO. S.r.l. in May 2005.

**20. SERVICES,
RENTALS AND LEASES**

This item is composed of the following (thousands of euros):

	2005	2004	Change
External works and assembling	17,819	15,213	2,606
Maintenance and repair	3,040	2,730	310
Energy, telephone, gas, water and postal charges	6,115	5,637	478
Fees due	7,376	8,886	(1,510)
Technical, legal, tax and administrative consulting services	15,861	15,007	854
Advertising and promotions	1,747	1,693	54
Exhibitions	2,060	1,617	443
Travels and insurance	9,859	8,885	974
Transport	5,843	5,540	303
Bank charges	929	971	(42)
Rent expense and operating leasing fees	4,209	3,572	637
Rental fees	1,584	1,557	27
Other services	7,908	7,721	187
Total	84,350	79,029	5,321

21. PERSONNEL COSTS

Personnel costs break down as follows (thousands of euros):

	2005	2004	Change
Wages and salaries	89,185	80,939	8,246
Social security contributions	22,785	22,866	(81)
Remuneration of directors	1,087	1,179	(92)
Pensions - defined-benefit plans	4,540	4,800	(260)
Pensions - defined-contribution plans	1,188	678	510
Other personnel costs	7,632	4,411	3,221
Total	126,417	114,873	11,544

It should be noted that the figure for 31 December 2005 includes 8,401 thousand euros in personnel costs for the Nova Group, included in the scope of consolidation since the fourth quarter of 2004 (2,081 thousand euros in 2004).

Personnel costs for 2005 include 693 thousand euros for the Telstar Group.

Pension - defined-benefit plans break down as follows (thousands of euros):

	2005	2004	Change
Costs in respect of employment services during the period	2,431	2,332	99
Financial charges	1,038	960	78
Actuarial losses (gains) and other	1,071	1,508	(437)
Total	4,540	4,800	(260)

During 2005 the IMA Group employed on average 2,686 people as follows:

	12.31.2005	12.31.2004	Change
Management	65	67	(2)
Office workers	1,796	1,720	76
Production workers	825	823	2
Total	2,686	2,610	76

22. DEPRECIATION AND AMORTISATION EXPENSE

This item is composed of the following (thousands of euros):

	2005	2004	Change
Depreciation	7,446	7,456	(10)
Amortisation	2,818	2,584	234
Write-downs / Impairment	3,200	–	3,200
Value decrease / increase in intangible assets	138	851	(713)
Provision for bad debts	56	390	(334)
Total	13,658	11,281	2,377

23. FINANCIAL INCOME

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

	2005	2004	Change
Interest income from banks	1,025	1,164	(139)
Interest income from customers	120	313	(193)
Interest income on non-current investments available for sale	13	23	(10)
Interest income on current investments available for sale	17	13	4
Sundry interest income	63	140	(77)
Income from derivatives	1,372	1,248	124
Exchange rate gains	5,501	5,856	(355)
Total	8,111	8,757	(646)

24. FINANCIAL EXPENSE

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

	2005	2004	Change
Interest expense on bank payables	5,115	3,983	1,132
Interest expense on discounting	206	469	(263)
Interest expense on finance leases	228	253	(25)
Expense on bank guarantees	256	180	76
Expense on derivatives	1,767	1,623	144
Other interest and financial expense	300	828	(528)
Exchange rate losses	7,782	5,560	2,222
Total	15,654	12,896	2,758

Expense on bank guarantees include 9 thousand euros to the holding company FINVACCHI S.p.A.

The increase in interest expense on bank payables reflects both the higher cost of money (particularly on the US dollar exposure) in 2005 and increased debt compared with the same period in the previous year.

At 31 December 2005, exchange rate gains and losses included, respectively, an unrealised gain of 1,490 thousand euros and an unrealised loss of 2,517 thousand euros.

**25. INCOME TAXES
FOR THE PERIOD**

The theoretical tax rate used to determine the income taxes of Italian companies is 37.25% of the taxable income for the year. Income taxes of the foreign companies are calculated using the tax rates applied in each country.

Below is a breakdown by income taxes (thousands of euros):

	2005	2004	Change
Current taxes	16,654	13,940	2,714
Net deferred tax assets and liabilities	(1,643)	1,616	(3,259)
Total	15,011	15,556	(545)

At 31 December 2005 current taxes include 850 thousand euros to cover estimated liabilities arising from the completion of tax inspections on Group companies.

The provisions for taxes for the year can be reconciled with the net result shown in the financial statements as follows (thousands of euros):

	2005	2004
Result before tax	27,986	32,702
Taxes determined on the tax rate applicable in each single country	9,610	12,234
Non-taxable income	(921)	(765)
Tax effect of non-deductible costs	1,076	720
Tax effect of use of tax losses which previously had not been recognised	(65)	(157)
IRAP (Regional income tax on productive activities)	4,925	4,576
Prior years' taxes	895	(98)
Others	(509)	(954)
Total	15,011	15,556

The increase in the incidence of income taxes on the result before tax compared with the prior year is mainly due to non-tax-deductible costs and tax losses of subsidiaries which do not qualify for the recognition of the relevant deferred tax asset.

At 31 December 2005, current taxes of 267 thousands euros and net deferred tax assets of 959 thousand euros (201 thousand euros at 31 December 2004) were directly posted to equity.

26. EARNINGS PER SHARE

Basic earnings per share are calculated as the ratio of Group net profit to the weighted average number of ordinary shares in circulation in the period, as follows:

	2005	2004
Group's net income for the year (thousands of euros)	12,460	16,785
Average number of ordinary shares in circulation (thousands of shares)	35,094	36,100
Earnings per share (in euros)	0.36	0.46

For the IMA Group, basic earnings per share and diluted earnings per share are the same.

27. GUARANTEES GRANTED

At 31 December 2005, the Group had granted sureties to customers in the amount of 9,743 thousand euros for the proper operation of machinery, bid bonds and advances not yet received, sureties in favour of the municipality of Ozzano dell'Emilia (Bologna) totalling 699 thousand euros to secure performance of contracts, sureties totalling 1,454 thousand euros to guarantee the proper exercise of the options to acquire the remainder of the Nova Group and sureties to others amounting to 490 thousand euros to secure leases, sundry utilities and customs duties and insurance policies for VAT credits already collected.

Sureties granted against advances received amounted to about 23,552 thousand euros (17,292 thousand at 31 December 2004).

28. COMMITMENTS

At 31 December 2005 commitments to purchase property, plant and equipment and intangible assets came to 87 thousand euros and 8 thousand euros respectively, mainly in respect of plant and machinery.

The Group has commitments of 1,899 thousand euros of future minimum payments for non-cancellable operating lease transactions for software and motor vehicles (542 thousand euros is due within one year, 1,036 thousand euros is due from one to five years and 321 thousand euros is due after more than five years), commitments for rents of 30,059 thousand euros (3,818 thousand euros is due within one year, 22,873 thousand euros is due from one to five years and 3,368 thousand euros is due after more than five years). Fees paid during the year for operating lease contracts and rentals were 4,209 thousand euros (3,572 thousand euros in the prior year).

29. RELATED-PARTY TRANSACTIONS

At 31 December 2005 the Group holding company was I.M.A. Industria Macchine Automatiche S.p.A., 51% owned by FINVACCHI S.p.A, in turn a subsidiary of Lopam Fin S.p.A.. During the year, no significant transactions were carried out between I.M.A. S.p.A. and its parent companies.

As described earlier, intra-group transactions are related to the organisational structure of the Group itself. Such transactions are carried out as part of ordinary operations on an arm's length basis.

In addition to intra-group transactions, the Group also conducts operations with other related parties, mainly persons responsible for the administration and management of the company or entities controlled by such persons.

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 are mainly real estate operations (leased premises used by the Company or the Group) or commercial and/or supplementary production agreements. None is of special economic or strategic interest to the Company or the Group, and they are conducted on an arm's length basis.

In any event, the following notes describe and explain the reasons for the main commercial or manufacturing relationships with related parties with the characteristics described above.

Naturapack S.r.l. is a company – related party - performing set-up and repair of used tea packaging machines. I.M.A. S.p.A. sells – or arranges for its customers to sell - used tea packaging machinery to Naturapack S.r.l., which refurbishes the equipment and, as part of an exclusive agency agreement with I.M.A. S.p.A. and the Group, sells it to the market.

Vima S.r.l. designs and manufactures machinery for powder handling. Its product line is integrated with that of I.M.A. S.p.A.'s Solid Dose Division, making it possible to offer customers complete lines of machinery for the production of pharmaceuticals in tablet form. Advantech S.r.l., which was merged into VIMA Impianti S.r.l. in October 2005, produces tablet control and depowdering optional units. These purchases replaced those previously made by IMA S.p.A. and IMA Kilian GmbH & Co. KG from foreign suppliers. Purchases from VIMA S.r.l. and formerly from Advantech S.r.l. are at market prices, as is revealed by comparing these companies' prices with competitors' prices for similar goods. In February 2006 the Board of Directors of IMA S.p.A. approved the proposal for the purchase of the entire share capital of VIMA Impianti S.r.l.

The purchase price is 5.9 million euros, considering net debt of 2.4 million euros at 31 December 2005; the payment will be made as the shares are purchased, not later than 30 March 2006. At 31 December 2005 the turnover of VIMA Impianti S.r.l. was 9.1 million euros, and EBIDTA (MOL) was 1.1 million euros. Deloitte Financial Advisory Services S.p.A., as independent expert, made an appraisal of the enterprise value of VIMA S.r.l. Their findings confirmed the consistency of the purchase price.

The purchase aims at further integrating the wide range of processing machinery without dissipating the commercial developments of the last few years in product promotion, and at exploiting the additional possibilities of growth in international markets for VIMA Impianti S.r.l.

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

The following table details the main transactions carried out by I.M.A. S.p.A. and other Group companies with related parties, primarily the directors of the Parent Company (thousands of euros):

	Receivables at 12.31.2005	Receivable at 12.31.2004	Payables at 12.31.2005	Payables at 12.31.2004
Advantech S.r.l.	–	1	–	700
Datasensor S.p.A.	–	–	61	34
Ferretti S.p.A.	21	6	–	–
Lopam S.r.l.	–	–	25	50
Medinvest International S.c.a.	n.a.	–	n.a.	355
Naturapack S.r.l.	748	1,134	–	–
Poggi Luca	22	19	174	103
Viaggi Nuova Era S.r.l.	–	–	1,211	1,167
Vima S.r.l.	379	1	3,085	2,120

	Revenues 2005	Revenues 2004	Costs 2005	Costs 2004
Advantech S.r.l.	16	1	1,031	1,249
Datasensor S.p.A.	–	–	135	123
Ferretti S.p.A.	420	1,016	–	–
Fondazione Ramazzini	–	–	52	61
Italbe S.r.l.	–	–	145	60
Lopam S.r.l.	–	–	302	298
Medinvest International S.c.a.	n.a.	–	n.a.	782
Naturapack S.r.l.	1,350	1,515	762	499
Poggi Luca	21	13	247	210
Sporting Club Gira S.r.l.	–	–	254	304
Viaggi Nuova Era S.r.l.	–	–	3,151	3,104
Vima S.r.l.	15	18	7,619	5,319

Transactions with Italbe S.r.l. and Lopam S.r.l. mainly relate to rent expense.

Transactions with associated companies are summarised below (thousands of euros):

	Receivables at 12.31.2005	Payables at 12.31.2004	Revenues 2005	Costs 2005
B.C. S.r.l.	–	604	–	2,640
LA.CO. S.r.l.	23	783	–	1,564
Consorzio Info Area	1,697	1,507	1,414	1,256

B.C. S.r.l. manufactures machine parts for Group and external companies, LA.CO. S.r.l. manufactures mechanical constructions and repairs machine tools, and Consorzio Info Area provides IT services to consortium members. In 2004 transactions with B.C. S.r.l. include costs of 2,315 thousand euros and payables of 491 thousand euros at 31 December 2004.

Receivables and payables vis-à-vis related parties included in the consolidated balance sheet are of commercial origin.

The above positions are primarily held by the Parent Company.

Fees paid during the year to directors, statutory auditors and general managers are shown in the section dealing with the CONSOB resolution no. 11971 of 14 May 1999.

30. POST-BALANCE SHEET EVENTS

Below is a description of the main events subsequent to the year-end:

- on 16 February 2006 the Group purchased 20% of Scriba Nanotecnologie S.r.l. The purchase aims at the joint study of high-tech anti-adulteration and tracing of pharmaceutical products. Under the agreement, IMA's interest is to increase by an additional 20% in 2007 through share capital increase and a call option for 11% of the shares in 2008, provided that specific technical results are achieved.
- In February 2006 the Board of Directors of IMA S.p.A. approved the proposal for the purchase of the entire share capital of VIMA Impianti S.r.l., which produces tablet control and depowdering optional units. The purchase price is 5,900 thousand euros and it will be paid when the shares are purchased, not later than 30 March 2006. The purchase aims to further increase the wide range of processing machinery and exploit the additional possibilities of growth in international markets for VIMA Impianti S.r.l.
- as part of the Group ongoing rationalisation process, on 28 February 2006 Holteco B.V. was put in liquidation. No significant liabilities are expected to arise from this.

**G) DISCLOSURE REQUIRED UNDER CONSOB RESOLUTION NO. 11971
OF 14 MAY 1999**

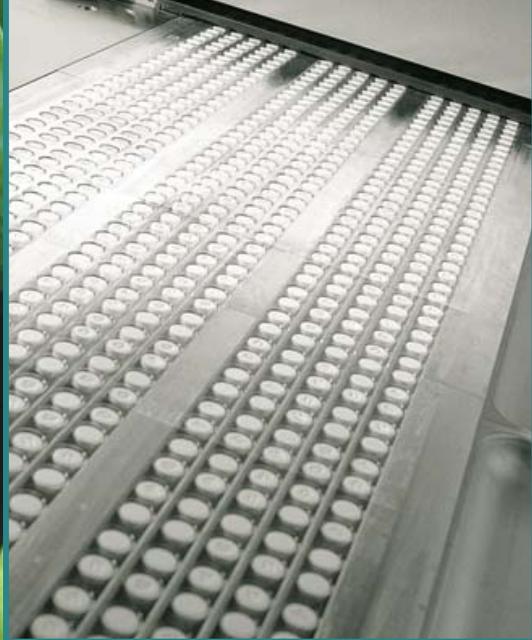
In compliance with the requirements of this resolution, below are details of fees paid for any reason and in any form by the Company and other Group companies to Directors, Statutory Auditors and General Managers.

TABLE OF FEES PAID TO DIRECTORS, STATUTORY AUDITORS AND GENERAL MANAGERS

(THOUSANDS OF EUROS)

PERSON		DESCRIPTION OF OFFICE			FEES			
Name and surname	Company	Office	Term of office	Office fees	Non-monetary benefits	Bonuses and other incentives	Other fees	
							reason	amount
Marco Vacchi	IMA S.p.A.	Chairman	Entire year	250.00	6.87	61.67		
	I.M.A.Est GmbH	Chairman	Entire year	4.00				
	IMA Germany GmbH	Chairman	Entire year	3.07				
	IMA France Eurl	Chairman	Entire year	4.00				
	IMA N. A. Inc.	Chairman	Entire year	5.06				
	IMA U.K. Ltd.	Chairman	Entire year	4.08				
	IMA Iberica SL	Chairman	Entire year	2.25				
Alberto Vacchi	IMA S.p.A.	Managing Director	Entire year	150.00	6.97	67.83	Salary Bonus	207.59 65.37
Gino Benedetti	IMA S.p.A.	Director	Entire year	20.00				
Paolo Braghieri (1)	IMA S.p.A.	Director	Entire year	20.00				
Paolo Dari	IMA S.p.A.	Director	Entire year	20.00	3.13		Salary Severance pay (2)	203.59 1,068.83
		Head of Group management and strategic control	Entire year					
Andrea Malagoli	IMA S.p.A.	Director CFO	Entire year Entire year	80.00	4.29	27.00	Salary Bonus	199.76 31.20
	CO.Ma.Di.S. S.p.A.	Managing Director	Entire year	3.10				
Italo G. Minguzzi	IMA S.p.A.	Director and Secretary Chairman of the Internal Control Committee	Entire year	55.00				
			Entire year	12.00				
Luca Poggi	IMA S.p.A.	Director	Entire year	20.00				
	IMA S.p.A.	Member of the Remun. Committee	Entire year	12.00			Consulting services	260.00
	Info Area S.r.l.						Consulting services	30.00
Maria Carla Schiavina	IMA S.p.A.	Director	Entire year	20.00				
	IMA S.p.A.	Member of the Remun. Committee	Entire year	12.00				
	IMA S.p.A.	Member of the Internal Control Committee	Entire year	12.00				
Gianluca Vacchi	IMA S.p.A.	Director	Entire year	20.00				
Stefano Visentini	IMA S.p.A.	General Manager and Director	Entire year	20.00	13.00		Salary Bonus	372.68 100.00
	I.M.A.Est GmbH	Director	Entire year	4.00				
	IMA Germany GmbH	Director	Entire year	3.07				
	IMA France Eurl	Director	Entire year	4.00				
	IMA N. A. Inc.	Director	Entire year	5.06				
	IMA U.K. Ltd.	Director	Entire year	4.08				
	IMA Iberica SL	Director	Entire year	2.25				
Romano Volta	IMA S.p.A.	Director	Entire year	20.00				
	IMA S.p.A.	Member of the Remun. Committee	Entire year	12.00				
	IMA S.p.A.		Member of the Internal Control Committee	Entire year	12.00			
Giorgio Comini	IMA S.p.A.	Chairman of the Statutory Auditors	Entire year	27.60				
	Info Area S.r.l.	Chairman of the Statutory Auditors	Entire year	6.66				
	Co.Ma.Di.S. S.p.A.	Chairman of the Statutory Auditors	Entire year	4.11				
Amedeo Cazzola	IMA S.p.A.	Statutory Auditor	Entire year	19.60				
	Co.Ma.Di.S. S.p.A.	Statutory Auditor	Entire year	2.84				
	Info Area S.r.l.	Statutory Auditor	Entire year	4.44				
Piero Aicardi	IMA S.p.A.	Statutory Auditor	Entire year	19.60				
	InfoArea S.r.l.	Statutory Auditor	Entire year	4.44				

NOTES: (1) Fee paid for the office as Member of the Board, but paid to Interbanca S.p.A. - (2) Amount paid at the termination of the employment contract with the Company.



Protect, contain and preserve - thereby ensuring the integrity and maintaining the benefits and effects of the product for the long term. This is the philosophy of IMA blisters, the style of packaging which IMA brought to the pharmaceutical market 30 years ago.

IFRS 1 RECONCILIATIONS:
FIRST-TIME ADOPTION OF
INTERNATIONAL FINANCIAL REPORTING STANDARDS
(TRANSLATION FROM THE ORIGINAL ISSUED IN THE ITALIAN LANGUAGE)

In application of Regulation (EC) 1606/2002 the consolidated financial statements of the IMA Group at 31 December 2005 are the first consolidated financial statements prepared in conformity with the international accounting standards endorsed by the European Commission (individually IAS/IFRS or collectively IFRS).

As envisaged by IFRS 1 'First-Time Adoption of International Financial Reporting Standards', the Group has determined the effects of the transition to the IFRS and has prepared the reconciliations required by paragraphs 39 and 40 of IFRS 1, which are accompanied by explanatory comments on the basis of preparation and on items in the reconciliation statements.

The following sections provide:

- a description of the IFRS-based accounting policies that the Group is likely to adopt to prepare its consolidated accounts at 31 December 2005 and used to prepare the reconciliations below;
- the reconciliation of consolidated equity in accordance with Italian GAAP and that under IFRS at 1 January 2004 (the transition date) and 31 December 2004 (comparative figures for the financial statements at 31 December 2005), with a description of the effects of the transition on the individual items of the balance sheet;
- the reconciliation of the consolidated net income prepared in accordance with Italian GAAP and that prepared under IFRS for 2004 (comparative figures for the financial statements at 31 December 2005), with a description of the effects of the transition on the individual items of the income statement;
- a description of significant adjustments to the statement of cash flows at 31 December 2004 as a result of the application of said accounting policies;

ACCOUNTING POLICIES

The most significant accounting policies are as follows:

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at purchase or construction cost including directly related charges, or at cost calculated as the fair value applying at the date of transition to the IFRS according to the exemption envisaged by IFRS 1.

Property, plant and equipment are depreciated each year on a straight-line basis over their estimated useful life, as follows:

- | | | |
|---------------------------------------|---------|-------|
| • Buildings | 30 - 40 | years |
| • Plant and machinery | 5 - 10 | years |
| • Industrial and commercial equipment | 4 | years |
| • Other assets | 3 - 9 | years |

The book value of property, plant and equipment is reviewed at the end of each financial year, if not more frequently.

Land is not depreciated because it has an unlimited useful life.

The cost of ordinary maintenance is recognised in full in the income statement. Incremental maintenance costs are attributed to the assets to which they refer and depreciated over

their residual useful life or until such time as they require extraordinary maintenance, whichever occurs first.

Financial charges directly attributable to the purchase, construction or production of property, plant and equipment are recognised in the income statement as they are incurred, as prescribed by IAS 23.

The carrying value of the assets is checked periodically for impairment losses in the manner described in the section on impairment of assets.

LEASES

Finance leases are accounted for in accordance with IAS 17, which envisages that:

- the cost of the leased assets is recognised under property, plant and equipment and depreciated on a straight-line basis over the assets' estimated useful life. A corresponding financial liability is recognised, consisting of the amount payable to the lessor, which is equal to the value of the leased asset;
- Lease payments are separated into interest and principal components, which are treated as the reimbursement of the liability with the lessor.

Contracts in which the lessor retains substantially all the risks and rewards of ownership are classified as operating leases, and the related instalments are booked to the income statement on a straight-line basis over the duration of the contract.

INTANGIBLE ASSETS

Bought-in or internally produced intangible assets are recognised where it is likely that their use will generate economic benefits in the future and where their cost can be reliably determined. These assets are recognised at their purchase or production cost.

Intangible assets with a defined useful life are amortised each year on a straight-line basis over their estimated useful life, as follows:

- | | |
|---|--------------|
| • Industrial patents and intellectual property rights | 3 - 10 years |
| • Software, licences and similar rights | 5 years |
| • Trademarks | 10 years |
| • Development costs | 7 - 10 years |

Assets with unlimited useful life are not amortised but are tested for possible impairment of value on an annual basis, or more frequently if evidence suggests an impairment has occurred.

Research costs are charged to the income statement as soon as they are incurred. Development costs that qualify for capitalisation as assets under IAS 38 (in relation to their technical feasibility, the intention and ability of the enterprise to complete, use or sell the assets, the availability of the resources required for the completion of the development project and the ability to measure the expenditure reliably) are generally amortised over a period of 10 years in relation to their future economic utility. Amortisation begins from the moment the products become available for economic use. The estimate of useful life is reviewed and adjusted to reflect changes in the projected future utility.

Goodwill is the positive difference between the cost of a business combination and the Group share to the net fair value of the assets, liabilities and potential liabilities identified individually and recognised as separate items. Goodwill is an intangible asset with an indefinite useful life.

Goodwill is not amortised. It is allocated to the related cash-generating units (CGUs) and, pursuant to IAS 36 (Impairment of Assets), undergoes impairment testing annually, or more frequently if events or changed circumstances indicate a probable impairment of value. After the first valuation, Goodwill is recognised at acquisition price net of accumulated impairments.

IMPAIRMENT OF ASSETS

A tangible or intangible asset is impaired if its carrying value is greater than the amount that can be recovered from its use or sale. The impairment test required by IAS 36 ensures that tangible and intangible assets cannot be carried at a value greater than their recoverable value, which is the higher of their net selling price and their value in use.

The value in use equals the present value of estimated future cash flows expected to be generated from the continuing use of an asset or from a CGU. The present value of future cash flows is estimated using a pre-tax discount rate that reflects the current estimated market value referred to the cost of borrowing, which is calculated in relation to the time value of money and the specific risks associated with the asset.

If the carrying value exceeds the recoverable value, the asset or CGU is written down to the recoverable value. The impairment is recognised in the income statement.

Impairment tests are carried out when factors internal or external to the company suggest that the value of an asset may have been impaired. In the case of goodwill or other intangible assets with an indefinite period of use, the impairment test must be carried out at least once a year.

If the conditions that led to an impairment cease to obtain, the restoration of the value of the asset should not exceed the depreciated historical cost would have been if the impairment had not occurred. These reversals are recognised in the income statement. International accounting standards prohibit the reversal of impairments to goodwill.

FINANCIAL ASSETS

Financial assets include investments in securities and equity interests in other companies classified as available-for-sale, as well as financial receivables.

Financial assets are initially booked at cost, which corresponds to the fair value including ancillary charges. Subsequently, assets classified as available-for-sale are valued at fair value and financial receivables are valued at amortised cost.

INVENTORIES

Inventories are booked at the lower of cost and estimated net realisable value.

Cost is determined using the weighted average cost method for raw, ancillary and consumable materials and semi-finished products, whereas actual cost is used for other inventory items.

CONSTRUCTION CONTRACTS

Construction contracts is defined in IAS 11 as a contract specifically negotiated for the construction of an asset or a group of interrelated assets with respect to their design, technology and function or final use. Contracts costs are recognised in the year they are incurred.

Contract revenues are recognised on a state-of-completion basis at the balance sheet date where the outcome of a construction contract can be estimated reliably.

If the outcome of a construction contract cannot be estimated reliably, revenues are recognised only to the extent of the contract costs incurred and likely to be recovered.

An expected loss on a construction contract should be recognised as an expense as soon as such loss is probable.

Contract revenue and costs are recognised in proportion to the stage of completion of the contract activity using the percentage-of-completion method, applying the 'cost-to-cost' method, which sets costs incurred up to the reporting date and total estimated costs required to complete the contract.

Construction contracts are presented on the Group's balance sheet as follows:

- the amount due from customers is shown as an asset in trade receivables if the costs incurred plus recognised margins (less recognised losses) exceed advances received.
- the amount due to customers is shown as a liability in advances if the advances received exceed the costs incurred plus recognised margins (less recognised losses).

TRADE RECEIVABLES AND OTHER RECEIVABLES

Receivables falling due within a period considered to be normal commercial practice or which earn interest at market rates are not discounted. Instead, they are stated at original nominal value, net of any writedowns, which are deducted directly from the value of the receivables to bring them in line with the estimated recoverable value.

Receivables falling due beyond the period considered normal commercial practice and earning no explicit interest are recognised at amortised cost using the effective interest rate method, net of writedowns.

CASH AND CASH EQUIVALENTS

This item includes cash on hand, sight and short-term bank balances with an original maturity of not more than three months.

TREASURY SHARES

In accordance with IAS 32, the cost of the repurchase of own shares ('treasury shares') is deducted from equity. No gain or loss is recognised in income on the purchase, sale, issue, or cancellation of treasury shares. Any consideration paid or received, including expenses directly attributable to the transactions, net of any related tax benefits, is recognised directly in equity.

PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges are set aside to cover present legal or constructive obligations deriving from past events, the amount of which can be reasonably estimated at the end of the period.

If a liability is considered potential only, no provision is recognised, although adequate information is provided in the notes to the financial statements.



Before IMA, no producer of tablet and capsule counters ever hoped to solve the problem of identifying and promptly ejecting foreign matter during the feeding stage. Only IMA has achieved the solution.

EMPLOYEE BENEFITS

Employee benefits mainly include the staff termination pay of the Group Italian companies and pension funds. They fall under the category ‘defined-benefit plans’ applying after the termination of the employment contract and are valued as envisaged by IAS 19 using the Projected Unit Method and such valuation is to be carried out by an independent actuary.

This calculation defines the benefit that an employee will receive when the employment relationship ends using demographic assumptions (such as the mortality rate and the personnel turnover rate) and financial projections (such as the discount rate and estimated future pay increases). The amount thus determined is discounted and re-adjusted based on individual seniority over total seniority and constitutes a reasonable estimate of the benefits that each employee has already accrued for services rendered to date.

Actuarial gains and losses arising in relation to changes in the actuarial assumptions are recognised as income or expense.

BORROWINGS

Borrowings are initially booked at cost which, at the initial date, is the fair value of the amount received, net of ancillary charges. Subsequently, borrowings are valued at amortised cost using the effective interest rate method.

FINANCIAL RISK MANAGEMENT

Financial risk factors

The current business activities of the Group, which also operates in markets outside the euro area, expose it to exchange rate risk. The risk is particularly high in the dollar area but also exists to a lesser extent in relation to the Japanese yen.

To operate its business, the Group raises funds on the market through borrowing, usually by taking out floating-rate loans, with the result that it is also exposed to fluctuations in interest rates.

Risk management is the responsibility of the treasury departments of individual companies, in line with the Group’s Risk Management Policy approved by the Restricted Management Committee of the Parent Company.

c) Exchange rate risk

Exchange rate risk refers to the risk of adverse movements in exchange rates for the Group in the period from when the target exchange rate is agreed; that is, between the moment at which a Group entity commits itself to receive or pay in a foreign currency at a future date and the time when this commitment becomes an order and, finally, an invoiced item.

Operations to cover this risk are treated by the company using hedge accounting, since they are carried out for highly probable future transactions.

Changes in exchange rates that occur between the date of invoicing and the date of the receipt of funds are managed separately, without recourse to hedge accounting.

The exchange rate risk policy of the Group aims to cover between 50% and 90% of future transactions expressed in foreign currencies, depending on whether they consist of projected cash flows from sales in foreign currencies, or cash flows from the portfolio of received orders.

d) Interest rate risk

Interest rate risk is the risk of an uncontrolled rise in expenses arising from an increase in floating-rate interest payments on the Group's medium-term borrowings.

The objective of interest rate risk management is to contain and stabilise outflows in respect of the payment of interest on such loans.

Hedges are instituted for loans whenever it is thought advisable. The duration of the hedge may not exceed the maturity of the loan itself.

Financial hedging instruments and their accounting treatment

The Group mainly uses derivatives to hedge exchange rate and interest rate risk. Pursuant to the procedure approved by the Restricted Management Committee, the Group does not hold any speculative financial instruments.

Nevertheless, where financial instruments fail to satisfy the conditions for hedge accounting as set out by IAS 39, changes in their fair value are recognised in the income statement as financial expense/income.

Financial instruments are therefore treated under hedge accounting rules when:

- at the inception of the operation, the instrument is formally designated as a hedge and the hedging relationship is documented;
- the hedge is expected to be highly effective;
- the effectiveness can be reliably measured (both prospectively and retrospectively) and the hedge itself remains highly effective for the duration of the designated periods.

The Group therefore uses the cash flow hedge method for those cases in which it is formally documented that the exposure to variability in cash flows is attributable to a risk associated with a recognised asset or liability or a highly probable forecast transaction (the underlying) that could affect profit or loss.

Hedging instruments are valued at their fair value at the reporting date as estimated by independent surveyors.

The fair value of derivatives on exchange rates is calculated with reference to their intrinsic and time value. The intrinsic component is recognised in the fair value reserve in equity, while the time component is taken directly to the income statement under financial expense/income. When the hedged underlying becomes manifest, the *fair value* reserve is removed and attributed to the carrying value of the underlying itself.

The fair value of interest rate derivatives is determined by the market value at the designated date. The fair value is recognised in the relevant reserve in equity and reversed to income as soon as the underlying financial expense/income manifests itself.

TAXES

Income taxes include current and deferred taxes. Income taxes are generally recognised in profit or loss except when they regard items recognised directly in equity. In this case, the income taxes are also recognised in equity.

Current taxes are taxes which are expected to pay based on the taxable income for the year using the tax rate applying at the reporting date.

Deferred tax liabilities are calculated by applying the so-called liability method to differences between the value of consolidated balance sheet assets and liabilities and the corresponding values recognised for tax purposes. Deferred taxes are determined on the

tax rate which is expected to apply when the assets is realised or the liability settled.

Deferred tax assets are recognised only when it is probable that taxable income in future years will be sufficient to realise them.

Deferred tax assets and liabilities are off-set only when there is a legal entitlement to off-setting and when they relate to taxes due to the same tax authority.

REVENUE RECOGNITION

Revenues are recognised to the extent that the economic benefits likely to be obtained and the amount concerned can be determined with reasonable accuracy. Revenues relating to the sale of products is recognised at the moment title passes, which generally coincides with shipping. The only exception is long-term contract work in progress, which, as explained above, is calculated on a percentage-of-completion basis.

TRANSLATION OF FOREIGN CURRENCY BALANCES

Functional and presentation currency

The balance sheets, income statements and cash flow statements of Group companies are prepared using the currency of the primary economic environment in which the companies operate (functional currency).

The consolidated financial statements are presented in euros, the Parent Company's functional and presentation currency.

Transactions and balances

As envisaged in IAS 21, the amounts originally expressed in foreign currency are accounted for as follows:

- monetary items are translated at the spot exchange rate prevailing at the end of the period;
- non-monetary items recognised at cost are translated using the exchange rate prevailing at the time of the transaction;
- non-monetary items recognised at fair value are translated using the exchange rate prevailing at the time the fair value is determined.

Exchange rate gains and losses realised on the collection of receivables or the settlement of payables denominated in foreign currencies are taken to the income statement.

Group companies

The translation into euros of the financial statements of foreign companies brought within the scope of consolidation is carried out by applying the current exchange rate at the closing date to balance sheet assets and liabilities, and the average exchange rates for the period to items in the income statement.

Exchange differences deriving from the translation of initial net equity at the rates current at the end of the period and from the translation of income and expenses from the income statement at the average exchange rates in the period are recognised as a separate component of equity called the translation adjustment reserve.

Goodwill arising from the acquisition of a foreign operation is recognised as an asset of the foreign operation and translated at the spot exchange rate at the closing date of the financial statements, with differences being taken to the translation reserve.

DIVIDENDS

Dividends distributed to shareholders of the Parent Company are recognised as a liability in the consolidated financial statements in the period in which the dividend is approved.

APPLICATION OF IFRS 1

The date for the transition to IFRS is 1 January 2004 and an opening balance sheet has been prepared as of that date with retrospective application of the policies described above. IFRS 1: First-Time Adoption of International Financial Reporting Standards provides for a series of voluntary and obligatory exemptions to retrospective application to facilitate the transition process, while still providing adequate disclosure.

The main voluntary exemptions used by the IMA Group are as follows:

- **Business combinations:** the values of business combinations that took place prior to 1 January 2004 have not been restated.
- **Property, plant and equipment:** certain property, plant and equipment classified as 'land and buildings' have been valued at fair value at the transition date and this value has been used as the so-called "deemed cost".
- **Employee benefits:** the cumulative actuarial gains and losses have been recognised in full at the transition date, so the option to use the 'corridor method' was not exercised.
- **Translation differences:** the option to cancel the translation reserve at the transition date was exercised, as envisaged under IAS 21, with translation differences being recognised from that date onwards.
- **Financial instruments:** IAS 32 and 39 have been applied from 1 January 2004; the comparative figures shown in the first year of transition therefore comply with these standards.

The other optional exemptions envisaged by IFRS 1 are not applicable to the IMA Group.

The accounting standards used in the preparation of the opening balance sheet at 1 January 2004 were uniformly applied to the balance sheet and income statement for 2004, including those regarding the recognition and measurement of financial assets and liabilities (IAS 32 and IAS 39).

The effects of adopting IFRS were recognised in equity in a 'retained earnings' reserve, with the exception of the application of fair value accounting to financial assets, which were taken to the 'fair value reserve'.

SIGNIFICANT EVENTS SUBSEQUENT TO 31 DECEMBER 2004

No significant events occurred subsequent to 31 December 2004 that would require an adjustment to the figures and information provided at that date.

As required by IFRS 1, in preparing the required balance sheets and income statements, the estimates and assumptions underlying the measurement of assets and liabilities recognised at 31 December 2004 in conformity with Italian GAAP have not been changed.

No material errors were found in making the transition to IFRS.

IFRS AND IFRIC INTERPRETATIONS NOT YET ADOPTED

In the last few months the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) have published new standards and interpretations. Although to date these standards and interpretations have not been endorsed by the European Union, the Group has nevertheless considered their impact but has not reported that these may potentially impact its balance sheet and income statement in a significant manner.

AUDITING OF THE RECONCILIATIONS

Independent auditors PricewaterhouseCoopers S.p.A. audited the reconciliations of the consolidated balance sheet at 1 January 2004 and 31 December 2004 and of the consolidated income statement for the year ended 31 December 2004 of the IMA Group accompanied by explanatory notes; the auditors' report is attached to these reconciliations.



White room processing under controlled conditions is important for liquid filling and is particularly paramount in injectables. IMA is rightly renowned for the rigorous protection of both the product and the machine operator, guaranteed by the advanced state-of-the-art and beyond technology of the IMA machines.

RECONCILIATION OF THE BALANCE SHEET AT 1 JANUARY 2004

Notes	ASSETS	Italian GAAP	IFRS transition effects	IFRS
	NON-CURRENT ASSETS			
1.	<i>Property, plant and equipment</i>	58,663	13,241	71,904
2.	<i>Intangible assets</i>	42,989	(955)	42,034
	<i>Investments in associates</i>	388	–	388
	<i>Financial assets</i>	3,737	(24)	3,713
	<i>Receivables from others</i>	1,021	–	1,021
3.	<i>Deferred tax assets</i>	6,706	(5,946)	760
	TOTAL NON-CURRENT ASSETS	113,504	6,316	119,820
	CURRENT ASSETS			
4.	<i>Inventories</i>	117,407	(11,064)	106,343
	<i>Trade and other receivables</i>			
5.	- Trade receivables	76,667	10,709	87,376
6.	- Advances, tax credits and other receivables	12,624	(1,292)	11,332
	<i>Total trade and other receivables</i>	<u>89,291</u>	<u>9,417</u>	<u>98,708</u>
	<i>Income tax receivables</i>	1,050	–	1,050
	<i>Financial assets</i>	467	6	473
7.	<i>Derivative financial instruments</i>	–	1,851	1,851
8.	<i>Cash and cash equivalents</i>	54,827	(5,838)	48,989
	TOTAL CURRENT ASSETS	263,042	(5,628)	257,414
	TOTAL ASSETS	376,546	688	377,234
	EQUITY AND LIABILITIES			
	EQUITY			
	<i>Share capital</i>	18,772	–	18,772
	<i>Share premium reserve</i>	16,382	–	16,382
9.	<i>Other reserves</i>	22,593	(395)	22,198
10.	<i>Translation reserve</i>	(1,413)	1,413	–
11.	<i>Fair value reserve</i>	–	1,503	1,503
12.	<i>Retained earnings</i>	20,562	8,031	28,593
	<i>Net profit (loss) for the period</i>	18,963	–	18,963
	Total equity of the Group	95,859	10,552	106,411
	<i>Minority interests</i>	2,246	(40)	2,206
	EQUITY PERTAINING TO THE GROUP AND MINORITY INTERESTS	98,105	10,512	108,617
	NON-CURRENT LIABILITIES			
13.	<i>Borrowings</i>	51,564	(655)	50,909
14.	<i>Severance and pension obligations</i>	21,453	1,012	22,465
15.	<i>Provisions for risks and charges</i>	1,615	(802)	813
	TOTAL NON-CURRENT LIABILITIES	74,632	(445)	74,187
	CURRENT LIABILITIES			
16.	<i>Borrowings</i>	75,865	(111)	75,754
	<i>Trade and other payables</i>			
	- Trade payables	70,308	90	70,398
17.	- Advances received	28,379	(6,080)	22,299
18.	- Tax and other payables	23,176	(3,910)	19,266
	<i>Total trade and other payables</i>	<u>121,863</u>	<u>(9,900)</u>	<u>111,963</u>
	<i>Income tax liabilities</i>	1,600	–	1,600
19.	<i>Provisions for risks and charges</i>	4,481	164	4,645
20.	<i>Derivative financial instruments</i>	–	468	468
	TOTAL CURRENT LIABILITIES	203,809	(9,379)	194,430
	TOTAL LIABILITIES	278,441	(9,824)	268,617
	TOTAL EQUITY AND LIABILITIES	376,546	688	377,234

NOTES TO THE RECONCILIATION OF THE BALANCE SHEET AT 1 JANUARY 2004

The figures in the Italian GAAP column have been reclassified to comply with the provisions of IAS 1 on the presentation of financial statements.

The following notes describe the main adjustments to balance sheet items:

1. The impact on property, plant and equipment is mainly attributable to the recognition at fair value at the transition date of certain assets carried under land and buildings, as permitted by IFRS 1. The impact of this valuation came to 12,830 thousand euros. To this the following amounts have to be added: 27 thousand euros from the change in the depreciation method of some property, plant and equipment, and 384 thousand euros from the reclassification of costs incurred on assets not owned by the company, as mentioned in note 2.

The following table details the effect of the fair value recognition of certain assets at the transition date:

	Book value	Fair value	Difference
• Land	3,705	10,021	6,316
• Buildings	21,521	28,035	6,514
Total	25,226	38,056	12,830

2. The changes in intangible assets are as follows:
 - i. capitalisation of development costs recognised in previous years in the income statement, as permitted under Italian GAAP 1,726
 - ii. elimination of start-up and expansion costs (874)
 - iii. elimination of costs included in other intangible assets (see Note A below) (1,423)
 - iv. reclassification to property, plant and equipment of costs incurred on assets not owned by the company (384)

Total impact (955)

(Note A)

The adjustments to other intangible assets regard 895 thousand euros in respect of advisory fees relating to R&D loans (see note 13) and 528 thousand euros for other deferred charges that do not meet IFRS requirements for capitalisation.

3. The amount reflects the tax effects of the adjustments for transition to IFRS; specifically, 739 thousand euros regards the fair value reserve (see note 11) and 5,207 thousand euros regards retained earnings (see note 12).
4. The effect on inventories is due to:
 - i. higher value of inventories due to their valuation at weighted average cost compared with LIFO 699
 - ii. reclassification of the cost of construction contracts valued in accordance with the completed contract method under Italian GAAP and under the percentage-of-completion method according to IAS (5,167)
 - iii. reclassification to trade receivables of construction contracts in progress previously recognised on a percentage-of-completion basis (6,596)

Total impact (11,064)

5. The impact on Trade receivables is due to:	
i. the amounts due from customers for construction contracts valued on an accrued revenue basis that were previously recognised on a completed contract basis (see note 4 ii.)	7,053
ii. reclassification of contract work in progress (see note 4 iii.)	6,596
iii. advances from customers for construction contracts mentioned in points i. and ii. above, which under previous GAAP had been recognised under payables in respect of advances	(5,401)
iv. trade receivables in respect of construction contracts for which the amount of advances received exceeded accrued and recognised revenues	(679)
v. reclassification of deferred income on machinery installation	(2,698)
vi. different method of accounting for the assignment of receivables to factoring companies (note 8)	5,838
Total impact	10,709
6. The impact mainly regards accrued income and prepayments, which have been reclassified to trade receivables, other receivables and cash at banks based on their nature.	
7. The amount regards the fair value at the transition date of derivatives designated as hedges of the exchange rate risk on sales.	
8. The amount refers to the different method of accounting for the assignment of receivables to factoring companies, since IFRS establish more restrictive criteria for the recognition of definitive assignments of receivables than Italian GAAP.	
9. The amount refers to the elimination of revaluations carried out in accordance with the law to assets carried under land and buildings valued at fair value at the transition date, as permitted by IFRS 1 (see note 1).	
10. The adjustment regards the value of the translation reserve at 31 December 2003 as determined under previous GAAP. It is deemed equal to zero at the transition date, as permitted by IFRS 1.	
11. The fair value reserve regards the intrinsic fair value of forward foreign exchange sales and options (2,024 thousand euros), export financing (614 thousand euros) and IRS contracts (-378 thousand euros) and securities (-18 thousand euros), totalling 2,242 thousand euros; the amount of the fair value reserve comes to 1.503 thousand euros (2,242 thousand net of the tax effect of 739 thousand euros).	
12. The changes in retained earnings are as follows:	
Fair value of land and buildings	12,897
Valuation of inventories and construction contracts	2,402
Liabilities for employee benefits	(822)
Provisions for risks and charges	300
Intangible assets	(498)
Other reserves	(1,041)
Tax effect	(5,207)
Adjustment to retained earnings	8,031

13. The amount refers to the different value of borrowings valued at amortised cost using the effective interest rate method; as mentioned in note 2, the advisory fees relating to R&D loans have been eliminated from intangible assets, where they had been recognised under Italian GAAP, and included in the calculation of amortised cost.
14. The amount refers to the adjustment of the value of post-retirement benefit obligations, represented mainly by the employee severance indemnities of the Italian companies and the reclassification explained in the following note.
15. The impacts on provisions for risks and charges are as follows:
- | | |
|---|-------|
| i. Reversal of provisions for losses on IRS contracts | (300) |
| ii. Reclassification of provision for personnel charges of the German company (see note 14) | (502) |
| Total impact | (802) |
16. The amount relates to the reduction in payables to banks through reclassification of financial amounts posted as Accrued income and prepayments based on Italian GAAP.
17. Of the total, 5,401 thousand euros regard the reduction through reclassification of receivables (see note 5) for advances received from customers on contracts for which the revenues recognised on a percentage-of-completion basis exceeded the advances, while 679 million regard the reduction through reclassification of advances from customers for contracts on which advances exceed accrued and recognised revenues.
18. The adjustment regards accrued expenses and deferred income, which were reclassified in the amount of 2,698 thousand euros in trade receivables, as reported in note 5, and 1,212 thousand euros in payables to banks.
19. The amount regards the provision for increase charges in respect of guarantees on construction contracts measured on a completed contract basis under previous GAAP, compared with the percentage-of-completion method under IAS 11.
20. The amount regards the recognition at fair value of two interest rate swaps, only one of which qualifies for hedge accounting under IAS 39.

RECONCILIATION OF THE BALANCE SHEET AT 31 DECEMBER 2004

Notes	ASSETS	Italian GAAP	IFRS transition effects	IFRS
	NON-CURRENT ASSETS			
1.	<i>Property, plant and equipment</i>	59,519	13,449	72,968
2.	<i>Intangible assets</i>	50,380	6,937	57,317
	<i>Investments in associates</i>	488	–	488
	<i>Financial assets</i>	3,295	51	3,346
	<i>Receivables from others</i>	763	–	763
3.	<i>Deferred tax assets</i>	6,514	(3,603)	2,911
	TOTAL NON-CURRENT ASSETS	120,959	16,834	137,793
	CURRENT ASSETS			
4.	<i>Inventories</i>	128,668	(19,006)	109,662
	<i>Trade and other receivables</i>			
5.	- Trade receivables	75,288	12,798	88,086
6.	- Advances, tax credits and other receivables	12,266	(1,856)	10,410
	<i>Total trade and other receivables</i>	<u>87,554</u>	<u>10,942</u>	<u>98,496</u>
	<i>Income tax receivables</i>	5,262	–	5,262
	<i>Financial assets</i>	719	6	725
7.	<i>Derivative financial instruments</i>	–	1,577	1,577
8.	<i>Cash and cash equivalents</i>	50,304	(3,299)	47,005
	TOTAL CURRENT ASSETS	272,507	(9,780)	262,727
	TOTAL ASSETS	393,466	7,054	400,520
	EQUITY AND LIABILITIES			
	EQUITY			
	<i>Share capital</i>	18,772	–	18,772
	<i>Share premium reserve</i>	16,382	–	16,382
9.	<i>Other reserves</i>	28,893	(395)	28,498
10.	<i>Translation reserve</i>	(2,567)	1,374	(1,193)
11.	<i>Fair value reserve</i>	–	1,094	1,094
12.	<i>Retained earnings</i>	18,785	8,031	26,816
13.	<i>Net profit (loss) for the period</i>	13,297	3,488	16,785
	Total equity of the Group	93,562	13,592	107,154
14.	<i>Minority interests</i>	2,947	(657)	2,290
	EQUITY PERTAINING TO THE GROUP AND MINORITY INTERESTS	96,509	12,935	109,444
	NON-CURRENT LIABILITIES			
15.	<i>Borrowings</i>	54,389	(648)	53,741
16.	<i>Severance and pension obligations</i>	22,528	1,636	24,164
17.	<i>Provisions for risks and charges</i>	1,838	(890)	948
18.	<i>Deferred tax liabilities</i>	–	3,677	3,677
	TOTAL NON-CURRENT LIABILITIES	78,755	3,775	82,530
	CURRENT LIABILITIES			
19.	<i>Borrowings</i>	71,412	(121)	71,291
	<i>Trade and other payables</i>			
20.	- Trade payables	73,938	176	74,114
21.	- Advances received	40,168	(9,556)	30,612
22.	- Tax and other payables	26,330	(312)	26,018
	<i>Total trade and other payables</i>	<u>140,436</u>	<u>(9,692)</u>	<u>130,744</u>
	<i>Income tax liabilities</i>	1,281	–	1,281
	<i>Provisions for risks and charges</i>	5,073	59	5,132
	<i>Derivative financial instruments</i>	–	98	98
	TOTAL CURRENT LIABILITIES	218,202	(9,656)	208,546
	TOTAL LIABILITIES	296,957	(5,881)	291,076
	TOTAL EQUITY AND LIABILITIES	393,466	7,054	400,520



Lyophilisation of a drug, by means of sublimation using a freeze dryer, is one of the best methods of ensuring that a drug never loses its efficacy during its lifetime. Whilst the appearance of the product is radically changed its quality and performance stay the same.

NOTES TO THE RECONCILIATION OF THE BALANCE SHEET AT 31 DECEMBER 2004

The figures in the Italian GAAP column have been reclassified to comply with the provisions of IAS 1 on the presentation of financial statements. The following notes describe the main adjustments to balance sheet items:

1. The impact on property, plant and equipment is mainly attributable to the recognition at fair value at the transition date of certain assets carried under land and buildings, as permitted by IFRS 1. The impact of this valuation at 31 December 2004 came to 12,592 thousand euros, equal to 12,830 thousand euros at the transition date, net of additional depreciation in 2004 of 238 thousand euros. To this the following amounts have to be added: 33 thousand euros from the change in the depreciation method of some property, plant and equipment, and 824 thousand euros from the reclassification of costs incurred on assets not owned by the company, as mentioned in note 2.
2. The changes in intangible assets are as follows:

i. capitalisation of development costs recognised in previous years in the income statement, as permitted under Italian GAAP	1,493
ii. elimination of start-up and expansion costs	(621)
iii. elimination of amortisation of goodwill and goodwill arising on consolidation recognised in 2004	4,892
iv. reclassification to property, plant and equipment of costs incurred on assets not owned by the company	(824)
v. recalculation of goodwill in respect of Nova acquisition in accordance with IFRS 3 (see Note A below)	3,260
vi. elimination of costs included in other intangible assets (see Note B below)	(1,263)
Total impact	6,937

(Note A)

In September 2004 the Company bought 90.68% of Packaging Systems Holdings at the same time entering into a put&call option for the residual 9.32% to be exercised by the end of May 2009 at a price composed of a minimum fixed component and a variable component linked to certain balance sheet and performance parameters. Under IFRS, this option contract merely represents extended payment terms for the remainder of the company's share capital; the overall goodwill has therefore been recalculated taking account of the estimated price of the option.

(Note B)

The adjustments to other intangible assets regard 866 thousand euros in respect of advisory fees relating to R&D loans and 397 thousand euros for other deferred charges that do not meet IFRS requirements for capitalisation.

3. The amount regards the tax effects associated with the IFRS transition adjustments at 31 December 2004.

- | | |
|--|----------|
| 4. The effect on inventories is due to: | |
| i. higher value of inventories due to their valuation at weighted average cost compared with LIFO | 373 |
| ii. construction contracts valued in accordance with the completed contract method under Italian GAAP and under the percentage-of-completion method according to IAS 11 | (5,077) |
| iii. reclassification to trade receivables of construction contracts in progress previously recognised on a percentage-of-completion basis | (14,302) |
| Total impact | (19,006) |
| 5. The impact on trade receivables is due to: | |
| i. the amounts due from customers for construction contracts valued on an accrued revenue basis (see note 4 ii.) | 8,064 |
| ii. reclassification of contract work in progress (see note 4 iii.) | 14,302 |
| iii. advances from customers for construction contracts mentioned in points i. and ii. above | (8,991) |
| iv. trade receivables in respect of construction contracts for which the amount of advances received exceeded accrued and recognised revenues | (565) |
| v. reclassification of deferred income on machinery installation | (3,311) |
| vi. different method of accounting for the assignment of receivables to factoring companies (note 8) | 3,299 |
| Total impact | 12,798 |
| 6. The impact mainly regards accrued income and prepayments, which have been reclassified to trade receivables, other receivables and cash at banks based on their nature. | |
| 7. The amount regards the fair value of hedges of the exchange rate risk on sales represented by forward foreign exchange transactions and options. | |
| 8. The amount refers to the different method of accounting for the assignment of receivables to factoring companies, since IFRS establish more restrictive criteria for the recognition of definitive assignments of receivables than Italian GAAP. | |
| 9. The amount refers to the revaluations carried out in accordance with the law to assets carried under land and buildings valued at fair value at the transition date, as permitted by IFRS 1. | |
| 10. The adjustment regards cumulative translation differences, which are deemed equal to zero at the transition date, as permitted by IFRS 1. | |
| 11. The fair value reserve regards the intrinsic fair value of forward foreign exchange sales and options (1,609 thousand euros), export financing (43 thousand euros) and IRS contracts (-68 thousand euros) and securities (48 thousand euros), totalling 1,632 thousand euros; the amount of the fair value reserve comes to 1,094 thousand euros (1,632 thousand net of the tax effect of 538 thousand euros). | |
| 12. The changes in retained earnings are the same as those presented in the reconciliation of equity at the transition date. | |

13. The changes in net profit for the period are the same as those presented in the reconciliation of the income statement for 2004.
14. As indicated at point 2, Note A, under IFRS the acquisition of Packaging Systems Holdings effectively involved the purchase of 100% of that company; accordingly, the minority interest was eliminated for IFRS purposes.
15. The amount refers to the different value of borrowings valued at amortised cost using the effective interest rate method; as mentioned in note 2, the advisory fees relating to R&D loans have been eliminated from intangible assets, where they had been recognised under Italian GAAP, and included in the calculation of amortised cost.
16. The amount refers to the adjustment of the value of post-retirement benefit obligations, represented mainly by the employee severance indemnities of the Italian companies and the reclassification explained in the following note.
17. The impacts on provisions for risks and charges are as follows:
- | | |
|---|-------|
| i. Reversal of provisions for losses on IRS contracts | (55) |
| ii. Reclassification of provision for personnel charges of the German company | (835) |
| Total impact | (890) |
18. The impact on deferred tax liabilities consists of the tax effects of the IFRS transition adjustments at 31 December 2004.
19. The amount relates to the reclassification of financial amounts posted as Accrued income and prepayments based on Italian GAAP. The effect of the reclassification is a decrease in payables to banks.
20. The amount refers to the costs and related commissions payable booked according to the percentage of completion of the contract; as mentioned in note 4, part of the contract work in progress was previously valued on a completed contract basis under Italian GAAP
21. Of the total, 8,991 thousand euros regard the reduction through reclassification of receivables (see note 5) for advances received from customers on contracts for which the revenues recognised exceeded the advances, while 565 thousand euros regard the reduction through reclassification of advances from customers for contracts on which advances exceed recognised revenues.
22. Tax and other payables:
- | | |
|---|---------|
| i. Reclassification of accrued liabilities and deferred income | (4,387) |
| ii. Payables for the acquisition of Packaging Systems Holdings (see point 2 note A) | 4,075 |
| Total impact | (312) |

RECONCILIATION OF THE 2004 INCOME STATEMENT

Notes	INCOME STATEMENT	Italian GAAP	IFRS transition effects	IFRS
1.	REVENUES	371,105	877	371,982
	<i>Other revenues</i>	(3,991)	162	(3,829)
	OPERATING COSTS			
2.	<i>Change in work in progress, semifinished and finished goods</i>	(121)	(195)	(316)
3.	<i>Change in inventory of raw, ancillary and consumable materials and goods for resale</i>	1,968	326	2,294
	<i>Cost of raw, ancillary and consumable materials</i>	128,034	–	128,034
4.	<i>Services, rentals and leases</i>	84,579	(5,550)	79,029
5.	<i>Personnel costs</i>	108,537	6,336	114,873
6.	<i>Depreciation and amortisation expense</i>	16,253	(4,972)	11,281
	<i>Provisions for risks and charges</i>	536	–	536
	<i>Other operating costs</i>	3,306	33	3,339
	TOTAL OPERATING COSTS	343,092	(4,022)	339,070
	OPERATING PROFIT	32,004	4,899	36,741
	FINANCIAL INCOME AND EXPENSE	(4,183)	44	(4,139)
	PROFIT (LOSS) FROM INVESTMENTS IN ASSOCIATES	100	–	100
	PROFIT (LOSS) BEFORE TAX	27,921	4,943	32,702
7.	INCOME TAXES FOR THE PERIOD	(14,209)	(1,347)	(15,556)
	PROFIT (LOSS) AFTER TAXES	13,712	3,596	17,146
	PROFIT (LOSS) PERTAINING TO MINORITY INTERESTS	(415)	54	(361)
	RESULT FOR THE PERIOD	13,297	3,650	16,785

NOTES TO THE RECONCILIATION OF THE 2004 INCOME STATEMENT

The figures in the Italian GAAP column have been reclassified to comply with the provisions of IAS 1 on the presentation of financial statements.

The following notes describe the main adjustments to income statement items:

1. Revenues are 877 thousand euros higher because of the different method of valuing construction contracts (previously under the completed-contract method, now under the percentage-of-completion method in accordance with IAS 11).
2. The impact on change in inventories of work in progress, semifinished and finished goods is due to the new recognition treatment of part of the construction contracts, as described in point 1.
3. The impact is attributable to the different method of valuing inventories (previously at LIFO, now at weighted average cost).
4. Of the total change in services, rentals and leases, 5,772 thousand euros are attributable to the reclassification to personnel costs of freelancers' and directors' fees and other personnel-related expenses such as insurance, accommodation, company cars and canteen, which under IAS/IFRS must be included in labour costs. Another 87 thousand euros relate to additional costs for fees of construction contracts recognised on a percentage-of-completion basis and 135 thousand euros of additional costs for the capitalisation of start-up and expansion costs by one of the Group's Chinese companies, which cannot be capitalised under IAS/IFRS.
5. The changes in personnel costs are as follows:

Reclassification from services (see note 3)	5,772
Reclassification from other operating costs	16
Increased charges for defined-benefit pension plans (TFR)	548
Total impact	6,336
6. This effect mainly regards lower costs in respect of amortisation of goodwill and goodwill arising on consolidation, since IAS/IFRS do not envisage the systematic amortisation of goodwill, but only a periodic impairment test.
7. The amount regards the tax effects of the adjustments explained in notes 1 to 5.



No machine more than the cartoning machine evokes the memory of the many hands it once took to open, erect, fill, glue and close boxes. IMA cartoning machines now do the job far more speedily and efficiently whilst still presenting a final product which has been handled with all the care and attention typical of manual craftsmanship.

MAIN CHANGES TO THE STATEMENT OF CASH FLOWS

The statement of cash flows prepared by the IMA Group prior to the adoption of IFRS meant to highlight the Group net financial requirements or surplus resulting from the change in short-term net debt in the period at issue, while the statement of cash flows envisaged by IAS 7 reveals the IMA Group's propensity to generate liquid assets, i.e. cash and other equivalents.

The principal impact of the adoption of IFRS on net debt is the different method of accounting for the assignment of receivables as mentioned in note 8 to the balance sheet reconciliations at the transition date and at 31 December 2004.

IAS/IFRS envisage more restrictive criteria for the recognition of definitive assignments of receivables than previous GAAP. The different treatment entailed a reclassification from cash and cash equivalents to trade receivables of 5,838 thousand euros at the transition date and 3,299 thousand euros at 31 December 2004.

The statement of cash flows for the year 2004 prepared under IAS 7 is presented in the section 'Consolidated financial statements'.

End-of-line packaging was once a fairly simple affair, the fully processed product needing only to be wrapped or boxed to protect it during handling and transport. This is not the case today, where stringent standards demand environmentally friendly packaging materials conducive to safe handling, transport, storage, distribution and disposal - whilst also being used to convey important information pertinent to the contents of the package.



**REPORT OF THE INDEPENDENT AUDITORS
ON THE CONSOLIDATED FINANCIAL STATEMENT
AS OF 31 DECEMBER 2005**

(TRANSLATION FROM THE ORIGINAL ISSUED IN ITALY FROM
THE ITALIAN INTO ENGLISH LANGUAGE SOLELY FOR
THE CONVENIENCE OF INTERNATIONAL READERS)



PricewaterhouseCoopers SpA

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

To the Shareholders of
IMA - Industria Macchine Automatiche SpA

- 1 We have audited the consolidated financial statements of I.M.A. – Industria Macchine Automatiche SpA and its subsidiaries (IMA Group), which comprise the balance sheet, income statement, cash flow statement, statement of changes in shareholders' equity and the related notes as of 31 December 2005. These consolidated financial statements are the responsibility of IMA Group's Directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The aforementioned consolidated financial statements have been prepared for the first time in accordance with the International Financial Reporting Standards as adopted by the European Union.
- 2 We conducted our audit in accordance with the auditing standards and criteria recommended by the National Commission for Companies and the Stock Exchange (CONSOB). In accordance with those standards and criteria, the audit has been planned and performed to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements present the prior year corresponding figures prepared in accordance with the same accounting principles. Furthermore, the document "IFRS 1 Reconciliations: First time adoption of International Financial Reporting Standards", attached as an appendix to the consolidated financial statements, explains the effects of the transition to the International Financial Reporting Standards as adopted by the European Union and includes the information related to the reconciliation schedules required by IFRS 1, which have been approved and published as an appendix to the interim financial reporting as at 30 June 2005, audited by us, for which reference should be made to our report issued on 29 September 2005.

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. 3.754.400,00 Euro i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n. 43 dell'Albo Consob – Altri Uffici: **Bari** 70125 Viale della Repubblica 110 Tel. 0805429863 – **Bologna** 40122 Via delle Lame 111 Tel. 051526611 – **Brescia** 25124 Via Cefalonia 70 Tel. 0302219811 – **Firenze** 50129 Viale Milton 65 Tel. 0554627100 – **Genova** 16121 Piazza Dante 7 Tel. 01029041 – **Napoli** 80121 Piazza dei Martiri 30 Tel. 0817644441 – **Padova** 35137 Largo Europa 16 Tel. 0498762677 – **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 – **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 – **Roma** 00154 Largo Fochetti 29 Tel. 06570251 – **Torino** 10129 Corso Montevicchio 37 Tel. 011556771 – **Trento** 38100 Via Manzoni 16 Tel. 0461237004 – **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 – **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 – **Udine** 33100 Via Poscolle 43 Tel. 043225789 – **Verona** 37122 Corso Porta Nuova 125 Tel. 0458002561



- 3 In our opinion, the consolidated financial statements of I.M.A. – Industria Macchine Automatiche SpA as of 31 December 2005 comply with the International Financial Reporting Standards as adopted by the European Union; accordingly, they give a true and fair view of the financial position, the results of operations, the changes in shareholders' equity and cash flows of IMA Group for the year then ended.

Bologna, 29 March 2006

PricewaterhouseCoopers SpA

Signed by
Roberto Megna
(Partner)

This report has been translated from the original which was issued in accordance with Italian legislation. References in this report to the Financial Statements refer to the Financial Statements in original Italian and not to their translation.

