

Annual Report **2005**



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Message from the CEO



The first results presented by Prysmian show a positive business performance, confirming the competitive capacity of the company and the wisdom of the organizational and strategic decisions that were taken. Considering the year 2005 as a whole compared to year 2004, the increase in sales of 10% is evidence that the transaction which led to the creation of the new Group, with the acquisition of Pirelli's activities in the cable sector by Goldman Sachs Group, did not have a negative impact on business. On the contrary, despite the obviously complex process of transition, the company and its employees have seized the significant opportunities to strengthen the position in the market. A new process of strategic growth has also commenced which will further strengthen the company's role as a key global player in the sector, both in terms of market share and in terms of capacity to generate profits. The decision initiated in 2005 to focus on the activities with higher added value has brought about an improvement in profit indicators: recurring EBITDA increased from 6.6% in 2004 to 7% in 2005, in line with the objectives defined in the plans.

Bringing together 130 years of history and managerial culture under a new name with a new framework in terms of ownership and organization was no simple task. Yet, the commitment and the acknowledged professional worth of our people made it possible, in only a few months, to create something which, for many reasons, can be regarded as a "new" Group, with a new identity incorporated within and expressed by the name we adopted in October 2005. Prysmian is now a completely independent Group, with a deep-rooted international presence in 41 countries across the 5 continents, with 51 production plants (at December 2005) and more than 12,000 employees.

If we analyze the performance of the various business areas in greater detail, we can see that Prysmian's leadership and competitive capacity were also confirmed by the acquisition of contracts of global importance, particularly in the infrastructures sector, such as land and underwater electrical power systems: in the U.S.A., the link between the networks of New York and New Jersey worth Dollar 190 million; in the Middle East, the contract for Dollar 170 million for a submarine link between Saudi Arabia and Bahrain; and in Australia, the completion of the "Basslink" project linking the State of Victoria and Tasmania, worth Euro 196 million.

Still in the Energy business, important projects involving the creation of high and extra-high voltage links were acquired or were in the process of being completed which again confirm Prysmian's position as the absolute leader in this sector of the market: in Italy, the 400-kV link between Turbigo and Rho; in Singapore, two 400-kV lines to complete the local power transmission network; the first 400-kV link in Turkey; two 400-kV links in Abu Dhabi and new 220-kV and 345-kV links in North America, in California and Chicago.

The Telecom cable business also showed signs of a significant recovery, particularly in the optical fiber sector. Prysmian seized the opportunities provided by the development of ADSL connections by various global



operators. During 2005, sales of Telecom cables began to rise again, by approximately 5% compared to 2004. This trend acquired even greater importance in the first months of 2006. A further significant increase in 2006 sales (compared to the corresponding period of 2005) confirmed that, after the serious crisis of the first years of the new millennium, the market is beginning a new period of investment in networks.

Finally, I would like to draw attention to the company's demonstrable capacity to react to the marked increase in the price of raw materials, both in terms of profitability and in terms of managing its working capital and its relative indebtedness. Liabilities arising from the ownership transfer have been significantly reduced and maintained under control, despite the increase in the price of metal reported since the beginning of 2005.

In other words, 2005 was not only the year which led to the creation of Prysmian. The wisdom of the organizational decisions taken and the new development strategies set in motion have already been illustrated by the performance during the first year of operations. The future prospects of the company are also positive. Prysmian can rely on a solid order portfolio for 2006, benefiting, for example, from the significant investments and development projects now in progress in the utilities sector, and from the growth of investments in the industrial sector.

The capacity and the vocation for growth are, therefore, borne out by the facts. Prysmian will aim to grow, both internally, by strengthening its production capacity in carefully selected sectors of the market (special cables and cables for electrical infrastructures and telecommunications, in particular), and externally, through goal-oriented acquisitions, like the acquisition in 2006 of the cable sector operations of the Tianjin Angel Group, one of the leaders in China's special cable sector. Another market with important development projects is Brazil, where, by the end of 2006, there are plans to start operations at a new key production plant for manufacturing umbilical cables. When fully operational, the factory will record sales of approximately Euro 60 million a year. Finally, in North America, an important strategic development market, after the rationalization achieved in the last few years Prysmian now intends to further increase its presence in the Oil Gas and Petrochemicals (OGP) special cables market, and to strengthen its leadership in the field of high-voltage cables for electrical utilities and data-transmission networks for telecommunications.

The company has therefore reached a stable, solid position by laying the foundations for future growth and the creation of value, and is supported in its development by a shareholder with a reputation for solidity and international prestige.

Valerio Battista
CEO

Company profile

A story made up of innovation

The story of Prysmian: 130 years of growth in the world

The story of Prysmian has its roots in the history of the Pirelli Group, a name that symbolizes Italian business excellence all over the world. Technological know-how, a capacity for research and innovation, competence on the part of management and human resources have always been the key factors in the competitiveness of the Pirelli Group, together with its strict Code of Ethics and a system of Corporate Governance recognized at international level.

With the inheritance of the prestigious Pirelli DNA, Prysmian has the will and the ability to continue to play a key role in the national and international economic system.

The operations of Pirelli Cables and Systems began in 1879, a few years after the creation of the Pirelli Group. From the outset, the company distinguished itself by building up its international reputation, completing projects of strategic importance worldwide.

In 1886, a telegraph line was installed on the bed of the Red Sea. In the early 20th century, the company began to expand: in 1902 the Group built its first foreign factory in Spain, followed a few years later by the first non-European affiliate in Argentina and, from its association with General Electric, the creation of Pirelli General Cable Work Ltd., with a factory in Southampton, in the U.K.

1925 was the year of a landmark project which led to the start of Pirelli Cables and Systems in America: the installation of 5,150 km of submarine telegraph cable across the Atlantic to connect Italy to North and South America. In the following years, 132 thousand-volt fluid-oil cables were installed in New York and Chicago; operations got under way in Brazil, with a factory for manufacturing insulated conductors and cables for power and telecommunications systems; the trans-oceanic link was created between North Africa and Brazil; cable production began in Canada and the longest and most important submarine link in the world was created with the installation of seven 138 thousand-volt submarine fluid-oil cables.

In the 1970s Pirelli Cables & Systems began to study optical fibers with the aim of improving the transmission capacity of telephone cables. In 1981, the first fiber optic telephone line in the Italian national network was installed between the cities of Padua and Mestre and the following year the first Italian factory to manufacture optical fibers was opened in Battipaglia, soon to be followed by other foreign affiliates.

Between the end of the 1990s and the first years of the new millennium, the company launched a goal-oriented "acquisition campaign" with the aim of extending its offering, acquiring specific know-how and developing its international presence. New players became part of the universe of Pirelli Cables and Systems: the cables operations of Siemens in Europe, Asia and Africa, BICC and Metal Manufacturers Ltd. and two NKF factories. Pirelli Cables and Systems "changed its skin" between 2001 and 2004. Under the guidance of its current management, it began a radical restructuring process which transformed the company so that it had a more streamlined, flexible, efficient organization, which enabled it to survive the difficult macro-economic context of recent years.



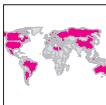
A new name for continued growth

In July 2005, with the acquisition by Goldman Sachs Group of the control of the company and the consolidation of Pirelli Cavi e Sistemi Energia and Pirelli Cavi e Sistemi Telecom, Prysmian Cables and Systems was created. Its name conveys an idea of light, analysis, brilliance and perfection of the geometrical shape, synonymous with the excellence, the research and the reliability of the company.

From the outset, the new shareholder, one of the world's most prestigious financial institutions, made it clear that it intended to support the development of the company, first of all confirming the management team with whom it subsequently formulated a new industrial program.

2005
Goldman Sachs Group acquires all cables operations from Pirelli. The company takes the name of Prysmian



	Consolidation of the organizational structure of the company	2001/04	
		2000	Acquisition of BICC General in Europe, Asia and Africa and creation of Pirelli Labs in Milan, the group's R&D centre 
	Expansion in Asia (Indonesia and China). Acquisition of the cables operations of Siemens in Europe, Asia and Africa, Metal Manufacturers in Australia and two NKF factories in Holland and Finland	1990's	
		1980's	Installation of the first fiber optic telephone line in Italy and first Italian factory for optical fibers (Battipaglia). New plant for submarine cables in the UK and consolidation in France 
	New production units in Southern Italy and worldwide expansion with new sites in Brazil, Australia and USA	1970's	
		1960's	Installation of the world longest submarine link (Long Island - Connecticut) and new sites in Southern Italy and the UK
	Trans-oceanic link between North Africa and Brazil. Start up of cable production in Canada and concentration of submarine cables production in the Arco Felice (Italy) plant	1950's	
		1930's	Consolidation in France 
	Submarine telegraph link between Italy and North and South America. New affiliate in Brazil	1920's	
		1910's	First affiliate outside Europe (Argentina) and first cable factory in the UK
	Beginning of worldwide expansion and first foreign factory in Spain	1902	
		1886	Installation of a telegraph line on the bed of the Red Sea 
	Pirelli Cables and Systems is founded	1879	

**A truly
multinational company**

Prysmian Cables and Systems: a world leader

The sector of cables and systems for power and telecommunications is gaining ever-increasing strategic importance in the development of economies and international relations. Cross-border interconnection projects, new regulations in the energy sector, the current phase of consolidation among utility companies and the growth of new, larger groups with a higher capacity in terms of expenditure, the growth of new ADSL connections and the migration of the large telephone operators towards optical fiber connections: these are the main factors behind the growth and development of this market.

With 2005 sales of Euro 3.75 billion and a market share of more than 10%, Prysmian Cables and Systems is a world leader in the sector, both in terms of its market position and in terms of the sheer size of its geographical presence. It is present in 41 countries across the five continents, with 51 production units and more than 12,000 employees. It has 33 sites in Europe, 4 in North America, 6 in South America and 8 sites in Asia and other parts of the world.

Prysmian is a partner of the leading operators on world markets - utilities, industrial and distribution groups and telecommunications operators - with a clientele which includes primary companies such as EDF, Endesa, Enel, Hagemeyer, Rexel, Sonepar, Siemens, ABB, Toyo, British Telecom, Telstra and Verizon.

Prysmian stands out as a key player in the sector, particularly in the segments with higher added value and in geographical areas with very high development potential.

From the planning stage to design, development, production and installation, Prysmian is distinguished first and foremost by its capacity to innovate, and is one of the very few companies that can offer its services not only as a supplier of hi-tech technological solutions, but also as an integrator of complex systems, with one of the most complete and highly diversified product portfolios on the market.

The Group is organized into two business units: Energy (92% of sales in 2005) and Telecommunications (8% of sales in 2005). The management of the two business units is based on an approach which segments each of the two Energy and Telecommunications business units into two separate categories, depending on the technological content and profitability margins involved: "Specialty" (with a higher level of profitability and technology) and "Standard". In the "Specialty" segment in particular, when cables typically have higher technological content and higher added value or are tailor-made for specific requirements, Prysmian is the only player able to deliver.

**Turnover 2005
Euro 3.75 billion**

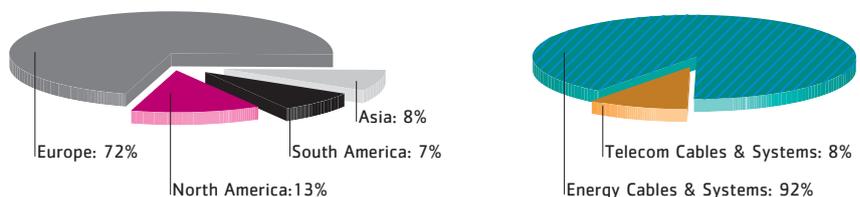
Quality of human resources and capacity for innovation

The quality of human resources and the focus on research, innovation and new technologies are some of the company’s most positive features and factors which continuously enable it to develop.

Managerial development and training lie at the basis of the company’s human resources policies. The Corporate catalogue includes courses on subjects such as leadership, change management and the inter-cultural dimension, open to worldwide management. In addition to training, Prysmian regards international mobility as a further factor in stimulating professional growth and this is part of a broader and more intensive process of job rotation between functions and business units.

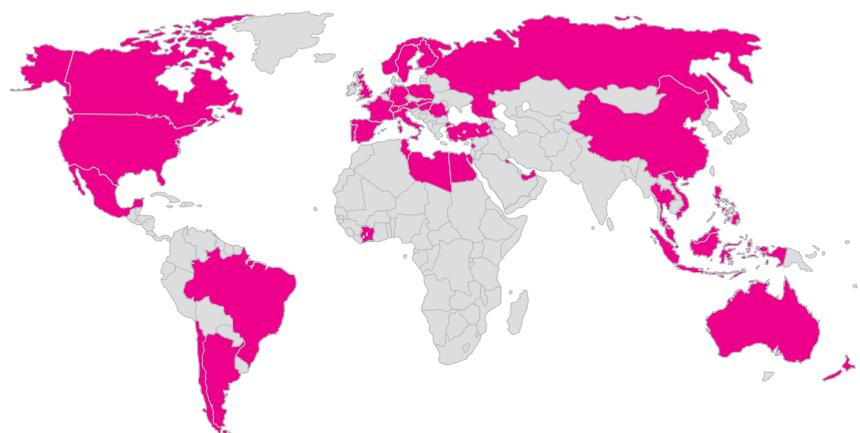
R&D activities are conducted in the company’s research centers in Europe, the United States and South America, which are regarded as being among the most advanced in the sector. To date, thousands of patents have been registered, for some of the most important and innovative products and technologies in the world. Finally, one of Prysmian’s most exclusive assets is the most advanced and well-equipped cable-laying vessel in the world, the “Giulio Verne”.

Geographical distribution of sales



Global presence

41 countries, 5 continents, 12,000 employees



51 production units in the world

Our mission



Prysmian is committed to consolidating its prestigious role in Energy and Telecommunications, the two strategic sectors where its products are used and where it is already a key player.

Our growth depends on our capacity for innovation and offering new solutions and responses to the ever-more specific and complex requirements of global operators, with whom we intend to work in a form of partnership that goes far beyond the normal supplier-customer rapport.

We recognize that the growing need to transport power and the continuous development of telecommunications networks are of such crucial importance that they can influence the performance of world economies and international relations.

With the aim of consolidating and strengthening its technological leadership and knowledge, Prysmian intends to develop its range of products with higher added value and service content. It is by ever-greater supervision of the segments where innovation can be generated that Prysmian intends to ensure greater satisfaction for its stakeholders: quotaholders, employees, customers and anyone who stands to gain from better distribution of energy resources and improvements to telecommunications networks.

Leadership

Innovation

Value creation

Development strategy



Prysmian's goal is to consolidate its world leadership in terms of size and geographical presence, while improving corporate profitability by building on the company's capacity for innovation and the quality of its offering. Prysmian's development strategy is three-fold:

> **Growth in the utilities and industrial market segments with higher added value (Specialty business). Prysmian intends to emphasize the difference in approach for the "Specialty" and "Standard" segments by:**

- Expanding in countries and markets with a higher level of growth in segments with higher added value, such as Brazil, where a new production plant for manufacturing umbilical cables for the Brazilian and West African markets is under construction, and North America and China, especially in the Industrial Specials segment (OGP, marine, mining, wind and railways).
- Introducing new value added products such as the P-Laser system, a product with increased resistance to extremes of temperature that will allow utilities to transmit power more efficiently while remaining compatible with existing power networks.
- Focusing on the opportunities arising both from the new regulations introduced in Europe and North America, which will increase the demand for products with added value (for example, flame-resistant cables and lead-free cables in Europe), and from the overall increase in demand for cables by leading utility companies.

> **Efficient cash-flow management of the "Standard" business:**

- In the Energy sector, strategy focuses on the optimal management of logistics and manufacturing, reducing production costs to a minimum through an efficient use of materials and employment of the workforce.
- In Telecommunications, Prysmian intends to take advantage of the dynamism of the market and from the rapid expansion of the customer base in the broadband access segments (ADSL).

> **Search for further ways of reducing costs and increasing brand value.**

Focus on research and innovation



Four main research centers in Europe, the United States and South America in addition to the Research, Development and Innovation Headquarter in Milan, more than 340 employees, an overall investment of over Euro 40 million in the last year (about 1.1% of sales) and a global portfolio of approximately 3,000 active proprietary-technology patents make Prysmian Cables and Systems a leader in terms of its capacity to generate innovation.

Other real strengths of Prysmian Research and Innovation are its consolidated relationships with important university research departments, including the Politecnico University of Milan and the CNR: this provides opportunities for observing and testing new technologies and a privileged insight into developments in the academic world and new technological frontiers.

The mission of Prysmian Research and Innovation is to create “competitive advantages”.

The operations of Prysmian’s Research and Innovation centers focus on three main areas:

- > **Alternative products and materials**
- > **Hi-tech processes on the cutting edge**
- > **“Tailor-made” solutions for specific applications**

Higher up, the activities of the Research and Innovation structure combine with the commercial strategy to provide the fastest and most efficient response to the requirements of the customer by supplying a high level of service and establishing long-term relations, especially in some segments of the market with higher added value such as high-voltage cable systems, submarine cable systems and specific industrial and optical fiber applications.

Projects destined for medium- and long-term use and marketing and breakthrough technologies are the other areas where Prysmian Research and Innovation concentrates its energies.

During the three-year period 2006–2009, Prysmian will be focusing particularly on projects and applications ranging from the transmission of electrical energy in the area of dynamic application (Mobis Line), innovative technologies for eliminating lead metal screens in land and submarine cables (SCS Leadless Line), and the screening of magnetic fields produced by high- and medium-voltage cable systems (Zero Electric Magnetic Field Line).

**Investment 2005 – Euro 40 million
1.1% of sales**

**4 R&D centres
3,000 patents**

Product and quality development

Prysmian's commitment to Product and Quality Development (P&QD) is geared to safeguarding and maintaining know-how at the highest levels, so that product quality and the actual competitiveness of the company continue to constitute a benchmark for the whole sector. For this reason, the P&QD function keeps a continuous watch on the technologies being applied at the various affiliates of the Group, ensuring that the procedures used and the know-how employed are suited to the competitive requirements of the market. The continuous training of local people and the homogenization of the product and process specifications then shape the industrialization phase of the new products at the premises of the Group's affiliates.

The Product and Quality Development function also plays a crucial role by constantly optimizing production efficiency, which is necessary if our products are to maintain their competitive advantage on the market. In particular, the standardization in the use of raw materials and the sophisticated level of know-how about materials and compounds, as well as compounding processes and their application to products, are handled within their various applications at a central level, so that we can be sure that our products maintain their competitiveness on the market.

The Prysmian Group's Quality Policy is also monitored and safeguarded centrally by the P&QD function, through quality control procedures which are transmitted to the Group's affiliates and which become part of their own Quality System.

Systematic monthly monitoring of deviations from standard practice in individual production units enable us to pick up any straying from the path in terms of technology or quality, so that rapid and timely corrections can be made.

Overall, in addition to the Group's 51 production units, the P&QD manages a portfolio of more than 600 projects a year, with an emphasis on the efficiency of materials and new designs, the industrialization of new products and the development of highly reliable processes.

Finally, as a leader in the sector, Prysmian plays a primary role on many international Standardization Committees, from Building Wire to Submarine and Extra High Voltage cables, optical fiber and Optical Ground Wire cables (EPC, CENELEC, IEC, CIGRE, ETC, IEEE, ITU).

600 projects/year



A unique range of cables and systems



From the planning stage to design, production and installation Prysmian Cables and Systems takes pride in the completeness of its product range as well as the quality. One of its real strengths, setting it apart from the rest of the market, is that it has developed the capacity to integrate complex systems as well as supply hi-tech solutions. Prysmian has concentrated particularly its resources and commitment on developing this new approach.

The "Specialty" segment, cables with hi-tech content and higher added value, created mainly for "tailor-made" projects, is a market dominated almost exclusively by Prysmian worldwide. In fact, Prysmian is the only company on the market capable of creating and installing this type of solution effectively, anywhere in the world.

The Prysmian range has nine main product lines, covering all the market segments, including the mostly highly specialized niches.

In the Energy sector:

- > Complete range of low to extra-high voltage cables, for land, submarine and overhead applications, with the related accessories
- > Cables for special applications (resistant to high temperatures, fire, chemical agents and nuclear radiations) and for all the major industrial sectors: petrochemical, shipbuilding, mining, railways, electro-medical applications, crane, and so on
- > Turn-key projects involving land and submarine interconnection systems

In the Telecommunications sector:

- > Complete range of optical fiber cables and optical fibers; copper cables (xDSL, overhead cables, underground cables, cables for indoor applications) and premises/data cables. The product range is completed by the Sirocco Blown Fiber installation system and a vast series of accessories for connectivity
- > Turn-key projects to install and operate network and asset management services

Prysmian has recently created and launched some of the most innovative products on the market.

In the sector of electrical energy distribution cables, the new P-LASER technology has been introduced to a few selected markets (Italy and Holland). Based on patented technological solutions and on a continuous, modular, integrated process, the product has a compact, recyclable architecture which is compatible with conventional cables and accessories; it is easy to handle while it is being installed and guarantees superior performance when overloading occurs. Furthermore, it offers the customer

Advanced technological solutions

"Tailor made" projects



a lower total cost of ownership of the system as a whole.

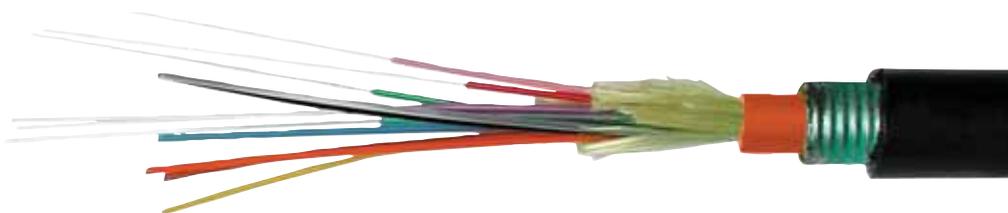
In cables for the petrochemical industry (OGP), especially in the North American market, the new AIRGUARD cable has been introduced for installation in environments which are critical because of aggressive chemical agents and mechanical stresses. The new product, which is based on patented technologies, aims to replace heavy armored cables with protective lead or aluminum sheaths. These have highly superior mechanical characteristics, provide adequate protection against chemical agents and have considerable advantages during installation and in terms of environmental impact.

In Telecommunications, special attention is being devoted to the part of the network called the "access network". To minimize costs and encourage an ever-greater number of private users to adopt Broadband, Prysmian is launching new products for Fiber-To-The-Home (FTTH) together with the proven SIROCCO Blown Fiber System. Within the sphere of optical fibers, PrimaLight™, which has an innovative smaller external diameter, makes it possible to manufacture smaller, lighter cables, or, alternatively, to increase the density of the optical fibers within the same amount of space.

Prysmian is also devoting resources and attention to the network of customer "management services": monitoring network performance, maintaining and repairing networks and emergency management (black-outs, disaster recovery).

Increasingly, Prysmian is moving towards complex, tailor-made projects, which not only use state-of-the-art products and technologies but also involve a progressively more sophisticated level of design and correlated service.

Product innovation

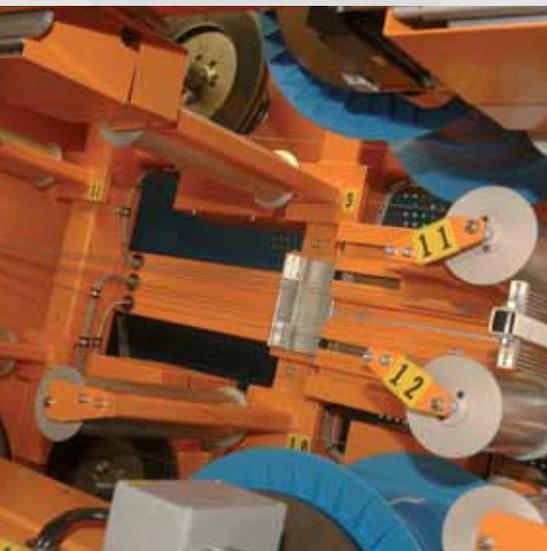


Directors' report

Call to the Annual General Meeting

The quotaholders Prysmian Srl are convened to the session of the quotaholders to be held in Milan, Viale Sarca n. 222, at 12.00 a.m. on 29 June 2006, and in second call on 30 June 2006, in the same place and at the same time to pass resolutions on the following order of business:

1. The Board of Directors' report on operations;
The Board of Statutory Auditors' Report and Independent Report;
The Financial Statements at 31 December 2005 and related resolutions.
2. Determination of the compensation to be assigned to the members of the Supervisory Panel.



Prysmian inception

Prysmian Srl (formerly named GSCP Athena Srl) is an Italian company incorporated on 12 May 2005.

On 1 June 2005, Prysmian Srl signed an agreement to purchase the Energy and Telecom Cables and Systems activities of Pirelli & C. SpA through, respectively, its subsidiaries and newly incorporated companies GSCP Athena Energia Srl (now Prysmian Energia Srl) and GSCP Athena Telecom Srl (now Prysmian Telecom Srl).

The transaction was completed on 28 July 2005, after receipt of the necessary regulatory approvals from the relevant Antitrust Authorities.

The total consideration for the acquisition, including transaction and financing fees, intellectual property rights and a license for the use of Pirelli trademark, was Euro 1.4 billion.

Besides the equity, the acquisition was funded by Euro 1,030 million drawing under the Euro 1,730 million Secured Credit Facilities arranged and underwritten by a syndicate of banks. Goldman Sachs International, J.P. Morgan PLC, Lehman Brothers International (Europe), Banca Intesa SpA and Unicredit Banca Mobiliare SpA acted as mandated lead arrangers.

The total equity contribution and shareholders loan for the transaction was Euro 340 million at 31 December 2005, with further Euro 20 million contributed as equity in February 2006.

Before and after the closing of the transaction, the Group structure has been altered through reorganizations, new companies, mergers, mainly involving the companies of the Energy sector. At the same time, the acquisition and refinancing debt has been allocated to selected operating companies within the Group.

Under the leverage buy-out debt financing agreements, the Prysmian Group is required to comply with customary restrictions and covenants, together with periodical reporting information requirements.

The Prysmian Group was formally born on 1 August 2005, as considered in this Annual Report, date on which the parent company Prysmian Srl took control of the Energy and Telecom Cables and Systems businesses. In September 2005, the companies of the former "Pirelli Energy and Telecom Cables & Systems" group changed their names to "Prysmian Cables & Systems". Prysmian continued to operate and develop its business in the two core cable sectors, maintaining its existing portfolio which covers the full range of Energy cable products from very high voltage cable for submarine and terrestrial installation through to industrial applications (including amongst others OGP, mining, shipping and railways). The Telecom portfolio is equally comprehensive featuring a full range of optical cables and fibers together with conventional copper and xDSL cable products.



Prysmian Srl

Board of Directors

Chairman and Managing Director

Paolo Zannoni

Managing Directors

Valerio Battista

Stefan Goetz

Hugues Bernard Charles Lepic

Directors

Wesley Clark*

Giulio Del Ninno*

Christian Streiff*

* Independent Directors

Board of Statutory Auditors

Chairman

Paolo Francesco Lazzati

Standing Members

Marcello Garzia

Luigi Guerra

Alternate Members

Guido Brazzoduro

Paolo Domenico Sfameni

Independent Auditors

PricewaterhouseCoopers SpA



Summary of consolidated financial data



(in thousands of Euro)	From 12 May to 31 December 2005
Net sales	1,635,825
Gross operating profit	79,826
% of Net sales	4.9%
Operating profit (*)	34,204
% of Net sales	2.1%
Finance costs	(44,687)
Income taxes	(16,558)
Net Income (Loss)	(25,921)
Net Income (Loss) attributable to equity holders	(27,159)
Total equity	213,854
Net Equity attributable to Parent Company	189,244
Net financial/(liquidity) debt position (**)	899,583
Capital expenditures	28,568
R&D expenditures	17,186
Employees (No. at year-end)	12,082
Factories (number)	51

* Reported period profitability negatively impacted by one-off opening balance sheet IFRS3 revaluations (see infra).

** Including Shareholders' loan of Euro 115 million and reduced by Euro 59 million of fees to be amortized.

2005 Major events

The major events which occurred from August 2005 onwards, when the Group started trading under the Prysmian name, are described below:

Corporate

On 19 October, 2005, Prysmian (Lux) II SàRL transferred to:

- > Prysmian Cable Holding BV, the two years Pirelli trademark license, for Euro 40 million;
- > Prysmian Cavi e Sistemi Energia Srl, the patent rights and trademarks registrations for Euro 14 million and Euro 6 million respectively;

On 14 December 2005, the Secured Long Term Facilities Agreement was signed, following a "bridge" financing agreements dated 28 July 2005.

Energy Cables and Systems

In July 2005, Prysmian Energy Cables and Systems was awarded a contract of Dollar 190 million by a US customer, Neptune Regional Transmission System LLC, for engineering, procurement and construction of a high voltage direct current submarine cable system that will interconnect the New Jersey and New York grids.

The project involves the manufacturing and laying of a submarine power



cable system with a transmission capability of 660 MW at 500 kV, consisting of high voltage submarine and terrestrial cables together with a fiber optic submarine cable for telecommunications. The complete system is planned to be in operation by July 2007.

In November 2005, Prysmian Energy Cables & Systems signed an agreement of Euro 140 million with GG CIA (Gulf Cooperation Council Interconnection Activity) for a high voltage AC submarine cable system between Saudi Arabia and Bahrain. The contract covers the engineering, construction and laying of 120 Km of submarine cable, 24 Km of underground cable and the installation of 128 Km of fiber optic telecommunication cable. This project represents an important breakthrough in the multi-country grids interconnection market and will help reducing the occurrence of black-out periods in the region.

Before the acquisition from Pirelli, the following important events, which are expected to affect Prysmian results beyond the current year, occurred:

In March 2005, Prysmian Energy Cables and Systems, through its subsidiary Comergy Ltd, was awarded a Euro 25 million contract by the Singaporean company SP Power Assets Ltd for a high voltage turnkey connection in order to strengthen the Singaporean electrical grid.

Comergy will supply and install oil-filled insulated 400 kV cables, auxiliary cables and accessories. The project also includes the installation of cables inside an undersea tunnel, with construction activities being carried out by Comergy Ltd under a separate contract.

This is the second contract that Comergy Ltd signed in Singapore during the year (for an overall amount of Euro 75 million) and is a further confirmation of Prysmian's worldwide leadership in the Energy cable business.

In March 2005, Prysmian Energy Cables and Systems was also awarded a contract of Euro 21 million to provide a high-voltage cable within the project related to the new 380 kV link between Turbigio and Rho (Milan hinterland).

The project, which is expected to be completed by May 2006, completes a mixed ultra high-voltage link comprising both underground cables (8 Km) and overhead power lines (20 Km).

Prysmian Cables and Systems will supply about 48 km of XLPE-insulated cables.

In April 2005, Prysmian Energy Cables and Systems started works to build a new Brazilian factory of "umbilicals" cables, used in offshore oil platforms. The new plant, planned to be completed end 2006, will serve the most important world markets in the sector and will produce umbilical cables both with thermoplastic and steel-tube technologies. The overall investment for Prysmian amounts to approximately Euro 20 million. With the new factory in Brazil, Prysmian aims to accelerate its growth strategy in the sector of "umbilicals", top-level cables in the OGP segment, through the Company's know-how and global leadership in submarine systems for energy transmission.



During 2005 Prysmian continued to work on the Basslink project (link between Australia and Tasmania). The contract, which is worth approximately Euro 196 million, provides the supply and installation of 295 kilometers of paper insulated cable and 195 kilometers of extruded cable. During the year both the production and installation activities were completed and the start-up phase began. The Basslink project is the longest interconnection system ever installed.

Prysmian has also continued to deliver on the "Spain-Morocco II" contract, which involved the extension of the existing interconnection system, laid down by Prysmian in 1997, between the two countries' electrical grids. The project consists of the production of two 400 kV oil filled paper-insulated submarine power cables with a total length of 57 Kilometers, together with an optical cable. The overall value of the contract to Prysmian is Euro 58 million.

Prysmian also focused on various other smaller projects: Sar-Co project, a link between Sardinia (Italy) and Corsica (France) involving the supply and installation of a 150 kV power interconnection system; Nantucket 2 project, a link between Massachusetts' island and mainland which involves the supply and installation of a 46 kV interconnection system. Cable laying activities have been started for both projects and are expected to be completed in 2006.

Additional supplies have included cables for the projects RasGas WH9, Orkney Island, Mc Neil Island, Barrow Windfarm and Near Shore Windmill (production for the latter has not yet been completed).

Telecom Cables and Systems

In February 2005, the former Pirelli Telecomunicacoes Cabos e Sistemas do Brasil S.A. signed an agreement with Furukawa Industrial Produtos Eletricos to set up a joint venture for fiber optic production in Brazil. The new company, named Sociedade Produtora de Fibras Opticas S.A. is 51% owned by Prysmian Telecomunicacoes Cabos e Sistemas do Brasil S.A. and 49% by Furukawa.

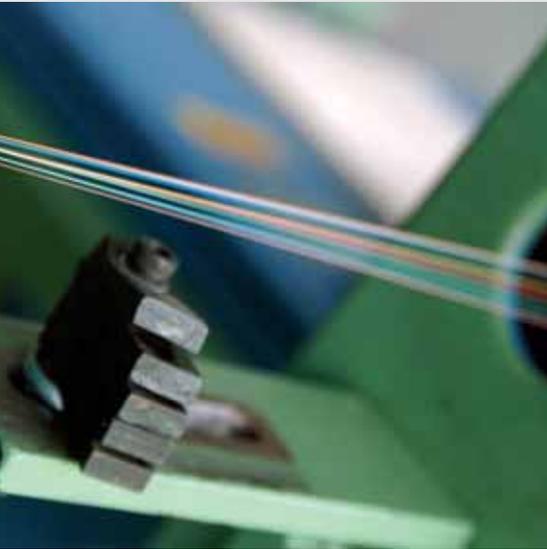
Prysmian and Furukawa are confident that the joint venture will generate important industrial synergies enabling them to offer a wider portfolio of competitive products and advanced optical solutions for the growing Latin American Telecommunication market.

In June 2005, Prysmian Telecom Cables and Systems Australia Pty Ltd signed a five year term agreement to supply Telstra with optical and metallic communication cable.

This agreement extends a 'preferred supplier' commercial relationship which began in 1998. Since then, a total of more than eight million pair kilometers of copper cable and one million kilometers of optical fibre have been supplied to Telstra.

In June 2005 a three year supply agreement (with an option for two further years) was signed with BT in the UK for the majority supply of all of their optical fibre cable needs over the period.

In November 2005 Prysmian Telecom Cables and Systems played a major



role at the International Wire and Cable Symposium, held at Providence, RI. (USA) presenting technical innovations on a variety of topics including: new designs and applications of optical fibre, advanced manufacturing methods for optical cable and new construction concepts for Optical Ground Wire (OPGW).

In December 2005, Prysmian Telecom Cables and Systems announced an important breakthrough in optical fiber design with the production of a reduced size, 200 micron diameter singlemode fiber named PrimaLight™. This departure from the traditional 250 micron diameter of optical fibers for telecom use has provided a major opportunity to diversify on the cable design side.

Economic and financial performance of the Group

The consolidated financial statements of the Prysmian Group include the operations of the Energy and Telecom business from 1 August 2005 through 31 December 2005. Prysmian Srl was formally incorporated on 12 May 2005, but it was only at the end of July that the parent company took control of the Energy and Telecom Systems businesses. Hence, while the financials presented for the consolidated business apply to the 12 May 2005-31 December 2005 period, they only reflect the operating performance for the last five calendar months of 2005.

The year was characterized by a competitive market environment in all areas of the business, cost increases for key raw materials and the consequent need to focus on net working capital.

In that context Prysmian achieved good results both on the commercial side, securing of a number of strategic contracts, and on the operational side, achieving significant reductions in both fixed and variable costs.

The Energy cables business was able to expand its leading market position, notably in Submarine and High Voltage, generating high margins throughout the period and building a satisfactory order book for 2006.

All business units were also able to successfully manage the cost increases in both raw materials (mostly metals) and energy costs.

Volumes in the standard business segment were robust despite the continuous pressure on prices. In particular, the Power Distribution business managed to increase volumes in North and South America.



The Telecom cable business started to demonstrate real signs of recovery following a long period of tough trading environment spanning the previous few years. Overcapacity in the manufacturing base continued to put pressure on price levels and further reductions were experienced during the year, especially for optical cables. However, these effects were largely balanced by a significant volume increase in both sales and market size, primarily in the USA, where major initiatives by several of the main operators to provide fibre-rich broadband networks have continued to drive levels of demand. This trend is expected to continue for the foreseeable future.

Latin America again proved to be a good market for traditional copper telecoms cable whilst the European market remained relatively firm and stable with strong demand for both optical and copper cables, again coming primarily from the incumbent operators.

Overall levels of demand for optical cable rose by 18% compared with the previous year and this had a corresponding effect on production levels for optical fiber within the Group.

Prysmian Group

Income statement

Prysmian Srl was incorporated on 12 May 2005. As a result, no comparable data are available for previous year.

(in thousands of Euro)	From 12 May to 31 December 2005
Net sales	1,635,825
Change in inventories	(53,523)
Other revenues	27,979
Production costs:	
Raw material and services	(986,462)
Personnel	(212,596)
Depreciation and amortization	(45,622)
Other operating expenses	(331,397)
Operating profit (loss)	34,204
Finance costs	(44,687)
Share of earnings (losses) of equity inv., Dividends and evaluation of Fin. assets	1,120
Loss before income taxes	(9,363)
Income taxes	(16,558)
Net Income (loss)	(25,921)
Parent Company interest	(27,159)
Minority interest	1,238

Net sales

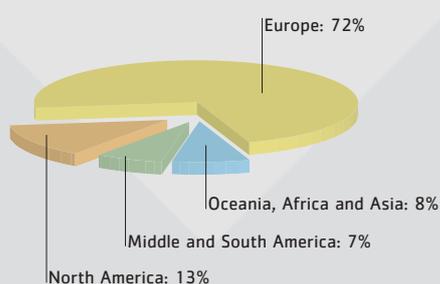
Net sales amount to Euro 1,636 million and relates to 5 months of operating activity of the Energy and Telecom business acquired by Prysmian Srl on 28 July 2005.

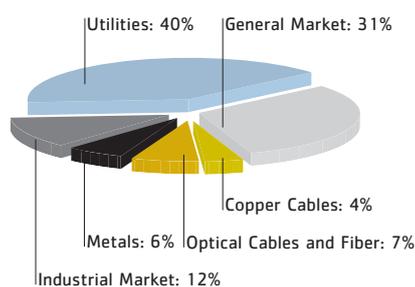
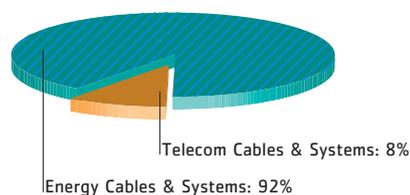
The detail is as follows (in Euro million):

Sales of finished goods	1,513
Sales of services	95
Other sales	28
Net sales	1,636

The distribution of net sales by geographical area is as follows:

	From 12 May to 31 December 2005
Italy	14%
Rest of Europe	58%
Eliminations	
Total Europe	72%
North America	13%
Middle and South America	7%
Oceania, Africa and Asia	8%
Total	100%





Operating result

The distribution of net sales by sector is as follows:

From 12 May to 31 December 2005

Energy Cables & Systems	92%
Telecom Cables & Systems	8%

The distribution of net sales by business unit is as follows:

From 12 May to 31 December 2005

General Market	31%
Utilities	40%
Industrial Market	12%
Metals	6%
Optical Cables and Fiber	7%
Copper Cables	4%
Total	100%

Operating result amounts to Euro 34.2 million, or 2.1% of net sales. The Energy Cables and Systems business recorded an operating profit of Euro 33.7 million, 2.2% of net sales. The Telecom Cables and Systems business recorded an operating profit of Euro 2.9 million, equal to 1.9% of net sales. The Corporate companies recorded an operating loss of Euro 2.4 million. Reported operating profit for the period has been diminished by the revaluation of stock made on opening balances in the Balance Sheet under IFRS 3, which has led to a negative impact of Euro 33 million in the period (Euro 32 million in Energy business and Euro 1 million in Telecom business).

Net result

Net result of the period is a loss of Euro 25.9 million, after income taxes of Euro 16.6 million. The Energy business recorded a net loss equal to Euro 17.7 million, the Telecom business recorded a net loss of Euro 5.8 million and the Corporate recorded a loss equal to Euro 2.4 million.

Balance sheet

The consolidated balance sheet can be summarized as follows:

(in thousands of Euro)	31 December 2005
Intangible Assets	123,111
Property, Plant and Equipment	800,961
Financial Assets	27,678
Net Working Capital	493,235
	1,444,985
Total Equity	213,854
Provisions	331,548
Net Financial Position*	899,586
	1,444,985

* including Euro 115 million Shareholders' loan and reduced by Euro 59 million of fees to be amortized

Net working capital

Total net working capital is Euro 493 million, detailed as follows:

(in thousands of Euro)	31 December 2005
Trade payables current	(602,919)
Other payables current	(317,485)
Other payables non current	(45,331)
Other receivables non current	16,000
Other receivables current	119,992
Trade receivables current	838,822
Inventories	464,239
Derivative instruments	19,917
Net Working capital	493,235

Equity

Total equity is Euro 214 million, detailed as follows:

(in thousands of Euro)	31 December 2005
Quota capital	10
Reserves	216,393
Net result of the period	(27,159)
Net equity Group	189,244
Third parties reserves	23,372
Net result of Minority interest	1,238
Net equity third parties	24,610
Equity	213,854

Net financial position

The net financial position is equal to Euro 900 million and reflects the new financial structure of the Group. The financing agreements, signed with the syndicated banks, consist of:

- > Term Loan - Senior Credit Facilities;
- > Term Loan - Second Lien Facilities;
- > Revolving Senior Credit Facility;
- > Bonding Senior Credit Facility.

The facilities have been provided to finance the acquisition (the Senior and the Second Lien) and the working capital of the Group in the form of Bonding and Revolving credit lines.

Here below the summary of the Facilities:

Facility	Senior Facilities				Second Lien	Senior Facility Revolving facilities	Senior Facility Bonding facilities
	A1	A2	B	C			
Amount (Euro Million)	150	200	265	225	190	400	300
Maturity (years)	7 (amortiz.)	7 (bullet)	8 (bullet)	9 (bullet)	9,5 (bullet)	7 (revolving)	7 (revolving)

The Senior Facilities amount to Euro 1,540 million and the Second Lien to Euro 190 million.



A number of Group members are parties to the Secured Loan Term Facilities Agreement as Guarantors, or as Borrowers and Guarantors (Obligors). The Guarantors guarantee to the Banks that each of the Obligors will perform its obligations under the Agreements and grant security over its assets in favour of the Banks.

The Borrowers of the Term Loans are the following companies:

- > Prysmian (French) Holdings SAS
- > Prysmian Kabel und Systeme GmbH
- > Prysmian (Spanish) Holding SL
- > Prysmian (Finnish) Holding OY
- > Prysmian Power Cables and Systems USA LLC
- > Prysmian Cavi e Sistemi Energia Srl
- > Prysmian Cavi e Sistemi Energia Italia Srl
- > Prysmian Cables and Systems Ltd

Banca Intesa SpA is the facility agent for the Senior Facilities, JP Morgan Europe Limited is the facility agent for the Second Lien Facilities. In addition, Banca Intesa SpA is the security agent taking the benefit of the security as agent or on trust on behalf of the other banks under the facilities.

The Banks have taken security over the share and assets (including bank accounts, receivables and intellectual property) of the Obligors except where local law restrictions prevent this. The security created does not restrict the Group's business being operated in the ordinary course.

The Parent and other Obligors are required to provide the banks periodically with customary financial information and confirm covenant compliance.

The bank, financing and other fees paid under the bank agreements have been accounted with the related financing facilities under IAS 39 Amortized costs.

The new financing structure also includes a shareholders' loan that amounts to Euro 115 million.

The net financial position is as follows:

(in thousands of Euro)	31 December 2005
Long term debt*	1,115,886
Short term debt	75,408
Long term receivable	(22,018)
Short term receivable	(13,712)
Financial assets held for trading	(22,896)
Cash and cash equivalents	(233,085)
Net financial position**	899,583

* including Shareholders' loan of Euro 115 million;

** The net financial position is reduced by Euro 59 million of fees to be amortized; the fees are classified in Long term debt for Euro 35 million, in Long term receivable for Euro 20 million and in Short term receivables for Euro 4 million.



Employees

The cash flow statement is reported in the Notes to the Financial Statements.

Headcount of employees at 31 December 2005 was 12,082 (including 795 temporary workers).

Factories

The number of factories at 31 December 2005 was 51, of which 46 producing Energy cables, 9 Telecom cables, including respectively 4 factories shared by Energy and Telecom.

Capital expenditure

Capital expenditure amounts to Euro 28.6 million and is related to 5 months of operating activity.

R&D expenditure

R&D expenditure sustained by the Group and wholly expensed in the income statement was Euro 17.2 million. R&D as a percentage of net sales is 1.1 %.

Economic and financial performance of the business

Energy Cables and Systems sector

The highlights of the consolidated financial statements data at 31 December 2005 of Energy Cables and Systems can be summarized as follows:

(in thousands of Euro)	From 12 May to 31 December 2005
Net sales	1,513,445
Gross operating profit (loss)	77,308
% of Net sales	5.1%
Operating profit (loss)	33,693
% of Net sales	2.2%
Finance costs	(39,335)
Income taxes	(14,891)
Net income (loss)	(17,719)

Net sales

Net sales amount to Euro 1.513 million and relate to:

- > Sales of finished goods for Euro 1.391 million;
- > Sales of services for Euro 94 million;
- > Other sales Euro 28 million.

Gross operating profit (loss)

Gross operating profit is Euro 77 million (5.1% of net sales) and relates to the 5 months of business activity. As stated before, the Gross Operating Profit of the period has been negatively impacted, for some Euro 32 million, by the opening balances revaluation of the inventories.

Factories

At year-end 2005 there were 46 factories operating in Energy Cables and Systems (4 of which are shared with Telecom Cables and Systems). They are geographically spread as follows: 30 in Europe, 3 in North America, 6 in South America and 7 in Australia, Asia and Africa.

Before August 2005, some events related to factories occurred:

- > the Merlino plant (Italy) reached full capacity integrating the production of the San Giuliano Milanese plant which was closed in 2004;
- > the cable and cordset activities of Desco, the Portuguese affiliate, were sold;
- > the transfer of machinery in Spain, from the old plant of Cavimar to the new plant of Cavinova, was completed and the plant became fully operational.

After August 2005:

- > the works to build the new factory in Vila Velha (Brazil) for the production of umbilical cables started, with completion expected in the second half of 2006;
- > the reorganization of the Danubian area production facilities started with completion scheduled for 2006. The Bratislava (Slovakia) plant will be closed and the production will be mainly transferred to the Hungarian plants of Balassagyarmat and Kistelek, with a portion also to Slatina (Romania).

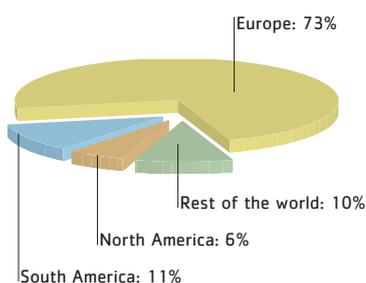
Capital expenditure

Capital expenditure amounts to Euro 22 million.

The main projects are:

- > first phase of a new factory construction in Vila Velha (Brazil) for umbilical cables production;
- > further development of special cables capacity/capability in Tianjin (China);
- > machinery upgrade to meet production and technological requirements (new products) and actions to improve production efficiency.

Capital expenditure can be broken down by geographical area as follows:



Europe	73%
South America	11%
North America	6%
Rest of the world	10%

Industrial operations

The mix change to higher margins products continued with production reduction of product lines with lower margins. There has been a significant increase of LSOH cables for building applications, particularly in Spain and Germany. At the same time, an important increase has been achieved in labour efficiency (+7%) and material efficiency (reduction in scrap, usage/overusage) leading to a reduction in material consumption.

A more comprehensive set of indicators has been introduced both for labour and material efficiency evaluation with robust action plans to support improvements on which 2006 targets have been based.

Materials

In the year 2005 most of Prysmian's raw materials have been subject to heavy price increases compared to the 2004 levels. The exception to this

Italy

trend has been experienced with PVC, which on average was stable year-on-year. The general upward trend of raw material prices has also been aggravated by the strong demand in North America and Asia, coupled with some shortages of ethylene, which reached record price levels.

The strong demand and continuing high crude oil prices experienced in the 1st quarter of 2006 have pushed overall raw material prices beyond average 2005 levels.

In relation to 2004 and on an average year-on-year basis copper and aluminum prices have increased by 28% and 11% respectively on the London Metal Exchange in 2005. In addition, copper cathodes and aluminum rod have been in short supply, especially in the second half of the year, fuelled mainly by stronger demand.

At the end of the 1st quarter of 2006 copper and aluminum respectively were trading at 50% and 30% higher than average 2005 prices with continuing shortages jeopardizing continuity of supply.

Energy Cables and Systems Sector

Performance by geographical area

Main trends within the business units of **Prysmian Cavi e Sistemi Energia Italia Srl** for 2005 were as follows:

- > **Trade & Installers** prices increased, offsetting the higher cost of copper. Volumes reduced by 7% although compensated for by an improvement in mix. Afumex introduced across the full product range, for all applications, from low to medium voltage.
- > In the **Utilities** market, **Medium and Low Voltage Power Cables** reported a small increase in terms of volume and price compared to reductions in previous years. **High Voltage** cables registered higher volumes. **Land Installations** reported a further rise in volume by focusing on higher margin opportunities.
- > The **Accessories** market reported overall higher volumes. Some slow down was registered in the last quarter for Extra High Voltage accessories (400 kV) and reduced sales to Enel affected domestic sales of Medium Voltage accessories. However these effects have been offset by growth in other areas such as increased exports into the Chinese market.
- > In **OEM & Contractors** production volumes and sales increased, as well as services and product mix, thanks to the expansion of the Merlino and Ascoli Piceno factories. Export share increased to 45% mainly for the Oil & Gas sector (cables for submerged pumps and off-shore platforms), petrochemical and railways.

The weakness of the U.S. dollar against the Euro adversely affected competitiveness and margins in the Middle and Far East.



In the domestic market the industry continues to suffer due to lack of new investments following the migration of production to East Europe and the Far East.

- > In the Submarine Energy cables market the main activities were related to three projects: Basslink project (interconnection system between Australia and Tasmania); Spain Morocco II project (interconnection system between Spain and Morocco); Neptune project (interconnection system between New Jersey and Long Island).

In general the period was characterized by price increases, mostly in the non-ferrous metals. Net of the effect of these, prices held quite steady. Regarding other raw materials, there were increases in the unit costs of materials such as compounds and other oil related ingredients compared to the previous year. The energy cost was substantially in line with the previous year.

Significant attention was paid to optimization of production processes and materials consumption as well as to factory costs.

France

Prismian Energie Cables et Systèmes France Sas

- > **General Market:** improvement in performance driven by success in reducing fixed progress costs. Strategy of reducing volumes in low margin products and segments contributed to the positive result.
- > **Utilities:** reduction in volume and price, due primarily to the new contract with EDF.
- > **High Voltage:** growth of volumes and profitability thanks to the optimization of cable production through selected affiliates.
- > **Accessories:** some adverse effects on profitability due to lower volumes and product/channel mix.
- > **Special cables:** Improved performance supported by major orders from defence segment, including French navy.
- > **Automotive:** Generally stable market conditions in terms of volume. Effect of raw material prices has been an overall reduction on margin levels.

In general the domestic market was stable with the main trend being the raw material price increase. This affected the profitability and cash flow of the whole industry although the actions taken to improve efficiency in the factories together with the reorganization and restructuring undertaken during the period made it possible to maintain the operating margins of the previous year.

Spain

Prismian Cables Y Sistemas SL

Despite the increasingly competitive local market profitability targets were maintained. Efforts were focused in high margin segments such as LSOH (low smoke zero halogen) cables where Prismian's trademark Afumex has become synonymous with this cable type, emphasizing our position of leadership in this sector. Other high value areas of business which contributed to the success were high voltage systems and special cables such as those for windmill power generators. Current areas of interest also include railways, undergrounding of aerial cables and selected export territories such as Mexico.

United Kingdom

As with most other regions material price increases have impacted on the business and efforts are being made to manage the situation and maintain margin levels.

Prysmian Cables & Systems Ltd

Trade & Installers business saw deterioration in both Domestic and Export sales volumes through 2005, although this was largely compensated by an improved sales mix resulting from a more focused channel and product strategy.

Power Distribution continued to benefit from the significant cost reduction and efficiency programmes undertaken since 2004. Further efficiencies made during 2005 and the successful implementation of price increases on a number of contracts helped to deliver a significant improvement in annual performance. The Group continues to be the main supplier for the domestic market.

Sales of **High Voltage** cables, accessories and Installations which included a contract for 400kV oil-filled cable for Singapore, delivered a major improvement in results. The order book remains strong with project work scheduled throughout 2006.

The market for **Copper Rod**, however, showed the first deterioration in volumes for many years, reflecting the downturn experienced within the T&I and cable plant rationalizations within both the domestic and export markets. Such factors together with difficult conditions experienced in the Metals trading markets resulted in a significant deterioration in performance of the Metals business.

The Energy Cables market continued to be strong in most areas, but was significantly affected by increases in raw material prices - in particular metals, which towards the end of 2005 achieved record high Sterling prices. However, the business successfully passed on these increases throughout 2005, and also made efficiency improvements thereby generating an increase in operating profitability.

Germany

Prysmian Kabel und Systeme Holding GmbH

Main areas of activity are:

Trade and Installers: a highly mature and competitive sector with prices under constant downward pressure.

Utilities: high levels of demand, particularly for medium Voltage cable to the domestic utilities. Positive impact on sales mix and volume.

OEM and Contractor Markets: Germany's industrial market remained relatively stable. - excluding the impact of copper price increase.

Germany's weak economical development over recent years continued through 2005, thus failing to induce any positive impact on the domestic markets. A major focus in 2005 has been the optimization of the customer portfolio using differentiated approach strategies.

The 14% increase in overall sales over the period August through December 2005 is mainly attributable to the increase of strategic materials, primarily of copper. The company is successfully withdrawing

from underachieving standard mass products and focusing on more profitable niche market segments, together with a reduction in fixed costs, thus generating good results compared to the previous year.

The Netherlands

Prysmian Cable and Systems BV

The demand for Medium Voltage paper cable (10 to 30 kV) continued to decline in line with the market trend to switch to xlpe. Existing export orders for paper cable continue to mid 2006, when the product will be stopped completely. Domestic supply of paper cable ended in the second half of 2005 and the plant in Delft has since worked to improve efficiency for the production of MV xlpe cables in line with the needs of the market. The current order book levels and long term contracts already in place indicate that the transition has been a success.

The market for Low Voltage products remains competitive with volume levels stable in comparison to the previous year.

High Voltage production levels remained high with 400kv cable being supplied into the domestic market. New product developments include HV xple cable with first orders received and deliveries scheduled for early 2006.

Utilities, Trade and installers and **special cables** activities were supported by cable products supplied from other group affiliates.

Finland

Prysmian Cables and Systems OY operates in the domestic market of Finland and, through its affiliates, also in Sweden and Norway.

High Voltage: demand remained strong in the two main markets of Southern Europe and North America. These two regions together represent approximately 80% of total sales.

Power Distribution: the company maintained its market position despite increased competition from local and foreign suppliers. Export sales suffered due to a sharp fall in price level in Baltic countries however the situation was partially compensated by increased business in Russia.

Trade & Installers: market share grown in Finland and other Scandinavian countries, mainly due to the introduction of building wires imported from Prysmian affiliates in Central Europe.

Industrial and Special Cables: marine business showed a significant growth although margins remained low.

Copper price increase had an overall negative effect on margin levels.

Austria

Prysmian-OEKW GmbH

Main activities included supply of 380kV cable to Vienna electricity transmission network and supply of MV cable into the Austrian windmill power generation business. The product portfolio was further enhanced with the supply of LV, MV and HV accessories to Wienstrom and the growth of the installation activity utilizing OEKW. The relocation of the Austrian warehouse to the logistic platform in Slovakia in July 2005 will continue to provide a better cost structure ensuring ongoing competitiveness in the Austrian market.

Slovakia

KABLO Bratislava Spol. Sro maintained its market position in the Czech Republic and achieved strong growth in Slovakia through increased sales in MV cable, supported significantly by deliveries to the new KIA car factory in the second half of 2005. Despite increased competition in the Domestic Market, margins were maintained in line with the previous year due to strategic focus on main utility customer base with correct selection of product mix.

Hungary

MKM Magyar Kabel Muvek RT was able to improve its result compared with 2004 and maintain its lead position in the domestic market despite a reduction in the level of state investments and highly competitive environment. Overall volume was reduced although margins were maintained due to optimization of product mix, particularly on the MV product range, and a widening of the customer base. As the only domestic producer in Hungary, MVM is able to provide a high level of customer service and together with an increased product portfolio in its two factories is in an ideal position to improve market share in the LV and Building Wire sectors in 2006.

2005 was a positive year for the Export business. Growth in the Polish market, a more balanced customer mix and a large order for 2,600 km of AI conductor to be delivered in 2005 and 2006 helped to significantly to improve the overall result.

Romania

Prysmian Cabluri Si Sisteme SA, enjoyed a strong 2005 compared with the same period in the previous year.

Within the Energy cable business, Cabluri maintained its leading position for all cables in the Domestic market. Successes included a turnkey project for HV cables plus Installation, several orders for the delivery of LV and MV cables and cable deliveries for the newly built Pirelli Tyre factory in Slatina.

Export volume was almost doubled in the last five months of 2005 vs. 2004. The result was supported by strong growth in Poland together with a contract for MV cables in Bosnia.

Turkey

Turk Prysmian Kablo Sistemleri AS continued to improve its financial and commercial results consolidating production, sales and efficiency levels.

Energy Cable volumes increased by 45% compared with the same period in 2004 and towards the end of the year the company was awarded the first 380 kV cables turnkey contract in Turkey with an overall project value of US 28 million, to be implemented in 2006. Turk Prysmian also produced and installed the country's first 1,600 mm sq. high voltage cables during the year.

North America

Prysmian North America Power activity in the period from 1 August 2005 through 31 December 2005, operated by **Prysmian Cables and Systems Usa LLC** and **Prysmian Cables and Systems Canada Ltd**, continued to improve profitability and cash flow, despite facing strong upward price pressure from commodity raw material suppliers throughout the period. In particular cables activity continued to improve its profitability, driven by favourable price and mix in both the utilities and trade and installers

segment. Significant contributors to the total profitability in the segment **Trade and Installers** have been windfarm cables sold to the windfarm projects, in which Prysmian is leading the market in N.A.

The **High Voltage** systems activity also improved the level of profitability vs. last year, mainly due to significant projects completed in the period such as TXU Oncor and Comed Exelon.

Brazil

Prysmian Energia Cabos e Sistemas do Brasil SA produced a positive financial result for the period despite a year of high interest rates imposed by the Brazilian Central Bank in order to hold inflationary pressure together with strong price pressure of commodities in the main stock exchanges of the world.

The Energy market was stable during the period with most investment being on the basis of Brazilian Government projects which are forecast to continue in 2006.

Amongst the major Prysmian activities in Brazil was the commencement of work at the new umbilical cables factory in the State of Espírito Santo. This is due to start production in the second half of 2006 and will satisfy both domestic and export demand including areas such as the West African coast and the Gulf of Mexico. In 2005 Prysmian worked on several important Umbilical Cable projects such as the Curima Project (Petrobrás).

During the year the company also concluded the sale of PPE (magnet wire Brazilian company) and the Installation Company Uruguay (CITE).

Argentina

Prysmian Energia Cables y Sistemas de Argentina SA generated a positive financial result for the period compared with the previous year. Main contributors were:

- > **Trade and Installers:** the sales volume followed the positive trend of the construction industry. Volumes grew by 17% compared to the previous period, in spite of the high copper price.
- > **Power Distribution:** the sales volume decreased in comparison with the previous year but with a better net result due to good mix and price levels.
- > **High Voltage:** the major power utilities increased investments in high and medium voltage networks resulting in sales for Prysmian at double the level of the previous period.

The Argentinean economy enjoyed another positive year with a growth of 9.2%, mainly due to strong performance in the agriculture and petroleum sectors.

Australia

Prysmian Power Cables & Systems Australia PTY Ltd performed strongly as it increased its orientation to the robust utility and mining sectors of the Australian market.

Key relationships were further developed, notably the creation of a long term strategic alliance with Western Power, and local manufacturing capability was effectively supplemented by close co-operation with affiliates in South-East Asia and China.

The short term outlook is for the continuation of favourable market conditions in the utility and mining sectors counterbalanced by significant weakness in the domestic construction market.

Indonesia

P.T. Prysmian Cables Indonesia Energy sales were mainly (60%) to other Group affiliates, Spain and Australia. The remaining 40% was for Domestic and Export markets, better than the expectations.

China

Tianjin Pirelli Power Cables Co. Ltd, mainly operating in **OEM & Contractors** and **Power Distribution** businesses, reported a loss due to sale mix and a lower industrial performance.

Pirelli Baosheng Cable Co. Ltd, operating in **High Voltage** and **Power Distribution** businesses, respectively achieved good volumes despite manufacturing problems and lower results than expected, due to cost increases not passed on through sales: the final result is globally satisfactory.



Energy Cables and Systems Sector

Markets

Trade & Installers

Prysmian performed strongly during the last five months of 2005. The period was characterized by significant price increases in base metals and raw materials together with further increases in energy costs. Copper prices registered a rise by 45% in 2005 vs. previous period, and December average prices were 27% higher than in July.

The Group has historically been able to successfully pass-through such increases to its customers by raising selling price; however, this proved to be increasingly difficult during the last quarter as it was accompanied by the price rises in other materials and the shortage in availability of aluminum.

The Trade & Installers sales trend compared to the same period of the previous year was extremely positive (+19%) thanks to the selling price effect driven by higher copper prices, even if accompanied by a slight decline in volumes. In general the demand of T&I products started to grow in the second half of the year in all areas of the world and this made it possible to pass-through the rising costs of raw materials to the customer. Prysmian actions were not only limited to price increases, but were also aimed at moving product and channel mix towards more profitable segments. Overall the progressive upward shift of mix to higher end products, such as Fire Performance and Flexible Building Wires, offset the volume decline mainly in the European markets and generated better profitability.

Utilities

In **High Voltage Systems** sales exceeded the value of the same period of the previous year by 32%. Such increase was entirely driven by the volumes of both cables and services and the mix, as the metals price effect was marginal (approximately +2%). During 2005, the European markets showed strong growth especially for turn-key projects, installations and services which generated additional sales in the UK with domestic Utilities (such as NGT/EDF) and to export markets (such as Singapore with 400 kV cables and Kuwait), as well as in France (EDF), Italy (ACEA Rome - Terna), Spain (Endesa) and Turkey (new project in Ankara area). This growth in demand was addressed in particular to the high-end products (> 150 kV), as the most important European Utilities restarted their investment projects.

In North America demand improved over the last four months thanks to additional cables and services required by major customers (Holy Cross, Commonwealth Edison).

In South America the demand of 132 kV cables and of related services significantly recovered in Argentina.

In China, sales increased by approximately 51% vs. previous year, thanks to the strong demand and to the improved availability of the products, as the new machinery in the Baoying plant is coming fully on-stream.

The positive trend of the sales entirely transferred to the Contribution Margin that exceeded previous year by 33% or Euro 10 million.

- In Power Distribution sales out-performed the previous year by Euro 67 million benefiting from the acceleration in demand during the last four months. The sale increase was due to a better pricing environment (+2.5% without the metals effect), an improved product (more MV cables sold) and customer mix (higher sales to European large Utilities, mainly in the UK and Spain).



Industrial Market

The European markets enjoyed a recovery underlined by the improvement in product mix, thanks to strong demand for Medium Voltage cables by the major Utilities companies (Endesa in Spain and all private utilities in the UK). Contribution Margin amounted to Euro 68 million (+9% vs. previous year), driven by higher volumes and increased net price level, even if the trend slowed down in the last four months.

The sole exception to the trend described above was relating to China, where difficulties in passing-through cost increases negatively impacted sales growth.

In Accessories sales outperformed the results of last year by 10%, due to fast growing volumes in all areas (except Europe), driven by the release of new products and the commercial actions put in place to penetrate new markets. In Europe, HV projects continued to develop (partially intended for Asia Pacific) but volumes reduced significantly in Components and MV. Sales in MV were limited by capacity saturation at the Gron (France) plant.

The performance of the period is the result of the combined effect of an improvement in the mix and the increase in prices, linked also to the price trend of strategic metals. In particular:

OEM & Contractors: in the last five months of the year the demand of OEM cables steadily rose in terms of quantity and improved in terms of mix (more specialized cables for Oil, Gas and Petrochemical use) in all areas of the world.

Prysmian was able to follow the trend of the market, despite manufacturing constraints in the Italian factories resulting from the recent restructuring actions.

The orders book on hand should guarantee the full saturation in factories for the next 3 to 6 months.

Automotive volumes were lower than previous year (-5%), mainly due to a lower demand from the car industry in Europe, partially offset by good results achieved in South America for the new Yazaki contract with Ford and increased competition from Delphi & GM.

In 2005, **Branchement** demand changed significantly as the European Cord sets market declined in volume. During the latter months the company carried out several efficiency actions to adapt its structure to the new market scenario.

Submarine Power Systems

During the last five months of the year, Prysmian implemented several projects such as the extended Basslink project in Australia-Tasmania, the Spain-Morocco connection as well as some smaller schemes such as Nantucket II/Barrow Windmills in the U.S.

In the same period the newly awarded Neptune project became operational and Prysmian won the GCC project in Bahrain.

Thanks to the current order book the Group has good visibility over the next year 2006.

Telecom Cables and Systems sector

The highlights of the consolidated financial data at 31 December 2005 of Telecom Cables and Systems can be summarized as follows:

(in thousands of Euro)	From 12 May to 31 December 2005
Net sales	152,305
Gross operating profit (loss)	4,886
% of Net sales	3.2%
Operating profit (loss)	2,879
% of Net sales	1.9%
Finance costs	(7,047)
Income taxes	(1,667)
Net income (loss)	(5,834)

Net sales

Net Sales amount to Euro 152 million and are related to:

- > Sales of finished goods for Euro 146 million;
- > Sales of service for Euro 4 million;
- > Other sales for Euro 2 million.

Gross operating profit (loss)

Gross operating profit is Euro 4.9 million (3.2% of net sales) and is related to 5 months of business activity. As stated before, the Gross operating profit of the period has been negatively impacted, for some Euro 1 million, by the opening balances revaluation of the inventories.

Factories

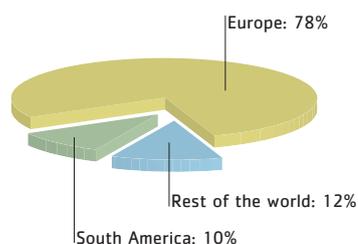
At year-end 2005, there were 9 factories operating in the Telecom sector. Geographically, the factories are distributed as follows: 5 in Europe, 1 in North America, 1 in South America, 1 in Australia and 1 in Asia. Including in these are 4 shared facilities with the Energy sector (Turkey, Romania, Argentina and Indonesia).

At the end of 2005, the FOS (Italian company) expansion project was completed and the plant reached full capacity.

Capital Expenditure

New capital expenditure in property, plant and equipment amounted to Euro 6 million.

Capital expenditure can be analyzed by geographical area as follows:



Europe	78%
South America	10%
Rest of the world	12%

Industrial operations

In 2005, factories manufacturing telecommunications cables produced higher volumes than in the prior year. Volumes of copper cables increased by 3%, whereas optical fiber cables increased by 20% mainly driven by North American demand.

The labour productivity in 2005 was 24% better than 2004 in optical cables and 2% below 2004 for copper cables.

Indicators have been introduced both for labour and material efficiency evaluation with solid action plans to support improvements on which 2006 targets have been based.

Materials

For telecom cables, raw materials (strategic metals not included) costs in year 2005 decreased approximately 5% on average (vs. year 2004).

In particular, average price of Optical fibres decreased by approximately 15% (including the exchange rate effect EUR:USD).

Market price levels of other raw materials for cable manufacture rose by almost 5% in the period, particularly in Q4 where petrochemical product prices increased by more than 20%. Prysmian was able to partially compensate for these increases through its ongoing cost reduction programme, including the introduction of new materials and suppliers (material replacement), with the overall cost of the non-fibre materials remaining stable.



Telecom Cables and Systems Sector

Performance by geographical area

Italy

Prysmian Cavi e Sistemi Telecom Italia Srl increased optical cable sales by 7% in the five month period compared to the previous year. This was in a stable market and was achieved through actions with the main telephone operators and the public utility sectors.

Activities within the export markets allowed Prysmian to grow sales by more than 50% in these territories.

For the copper telecom cables business 2005 also showed a slight recovery following several years of reduced sales. Prysmian has established a leading position in the relatively new market sector of Asymmetric Digital Subscriber Line (ADSL) cables used to support the upgrade of existing copper networks to provide broadband services.

In the copper data cables sector the company decided to focus its production on the High Quality / High Specification segment. This strategic decision has allowed greater levels of profitability despite the higher copper cost and an overall reduction in turnover.

France

Prysmian Telecom Cables et Systèmes France SA, enjoyed a return to profitability primarily due to increased sales of copper cables to the local incumbent operator, France Telecom. Together with internal cost reductions and actions to improve efficiency these were able to offset the effects on margin levels caused by material price increases, especially copper.

Spain

Prysmian Telecom Cables y Sistemas España SL is the group Centre of Excellence for Optical Ground Wire (OPGW) cable which is sold primarily in the export markets. In 2005 the company faced fierce competition from suppliers in the US and Korea which was further compounded by the exchange rate situation of Euro vs USD resulting in a negative effect on profitability. A major product redesign exercise has now been undertaken which will significantly reduce overall costs. Together with an internal restructuring programme completed in late 2005 these actions are designed to return the division to profitability in 2006.

United Kingdom

2005 represented a year of consolidation after the strong gains seen in 2004. **Optical Cable:** a new three year supply contract was signed with British Telecom. Price levels have reduced but margins have been maintained after successfully reducing material costs and achieving further manufacturing and fixed cost efficiencies.

Copper Cable: volumes increased and costs reduced in order to offset some negative mix effects.

Connectivity: the business continued to benefit from high margins and positive product mix and the last quarter of 2005 marked a positive sales trend.

Germany

Prysmian Telekom Kabel und Systeme Deutschland GmbH. Increased levels of demand for both Optical and copper cables more than offset the price reductions experienced during the year producing an overall positive result.

North America

In the period from July 2005 through December 2005, **Prysmian Communications Cables and Systems USA LLC** showed a positive trend of profitability and cash flow, mainly driven by improved volumes and internal cost efficiencies.

Rationalization of the customer and product mix portfolio combined together with improved manufacturing costs allowed the company to achieve a positive level of profitability, and positive cash flow.

Significant contribution to the results has been the result of Prysmian's strong supply position to Verizon with respect to their fibre-to-the-home network deployment of a fibre-to-the-home network. Prysmian maintains a significant overall market share for supply of fibre optic cable to Verizon and also to the other major Regional Bell Operating Companies (RBOC's) which are also now beginning to deploy FTTX networks. In addition, Prysmian is a major supplier to the leading Cable TV companies as well as the to other various market segments for fibre optic cable.

Brazil

Prysmian Telecomunicacoes Cabos e Sistemas do Brasil SA Despite a reduced level of investment in the telecommunications infrastructure, Prysmian was able to maintain positive margins and profitability by effective cost control and improved efficiencies in the manufacturing sector.

Further investments were made at the joint venture SPF (Prysmian/Furukawa) for optical fibre production providing Prysmian with a competitive advantage in supplying latest technological developments into the local market.

Australia

In 2005, the key event of **Prysmian Telecom Cables & Systems Australia PTY Ltd** was the finalization of a five year preferred supplier agreement with Telstra, renewing and extending the business' highly successful relationship with Australia's major telecommunication company.

The business was also able to react quickly, to increase manufacturing output to benefit from renewed growth in the level of investment in optical fibre networks in both Australia and New Zealand.

China

In 2005, **Pirelli Telecom Cables Co. Ltd Wuxi** improved its result compared to the previous year, despite the persistence of difficult market conditions in terms of price pressure.

Subsequent events



On 31 January 2006, Prysmian Telecom Cables and Systems signed a frame contract for the supply of upgradeable copper telecom cables for KPN, the national telecoms operator in the Netherlands.

In line with current trends to take advantage of the opportunities presented by Fiber to the Home (FTTH) systems, Prysmian and KPN have decided to build an upgradeable system facilitating migration to optical networks in the future.

Furthermore, with much of the Netherlands lying below sea level, a significant part of the KPN cable system is permanently immersed in water. Consequently, a highly effective water blocking system has been developed to ensure that there is no danger of water penetration and to ensure the long term integrity of the cables.

In March 2006, Prysmian Telecom Cables and Systems exhibited its latest optical fiber solutions targeted specifically at the rapidly growing 'last mile' sector of the market in the CeBIT exhibition held in Hannover, Germany.

The heart of the Prysmian offering was the Sirocco Blown Fiber System, together with other new product developments including the new xDSL cable range.

In April 2006, Prysmian Telecom Cables and Systems announced that it had reached the 750,000 installed fiber kilometres mark with its latest delivery of Blown Fiber.

The Blown Fiber concept, supplied by Prysmian under the Sirocco brand, involves the pre-installation of a tube network with the optical fibers subsequently being blown into the tubes as the network evolves and the customer connections are completed.

On 28 March 2006, the Group acquired 20 % of the capital share of EKSA, a Polish company operating in power and telecommunication cables distribution business, for a cash consideration of Euro 0.5 million. The interest in EKSA, which may be increased in the near future, is expected to facilitate the growth of the Group activity in the Polish market.

On 27 April 2006 Prysmian Cavi e Sistemi Energia Srl signed an agreement to acquire, for a preliminary purchase price of Euro 11.2 million, all the cables business activity of Tianjin Angel Group Co. Ltd, one of China's leading manufacturers of specialized cables for industrial and OEM applications. The acquisition of all Angel's activities represents a significant step forward in Prysmian's expansion strategy in China and of targeted investments in selected business sectors. Leveraging on a Euro 20.4 million investment plan for the next years, including Angel's acquisition, Prysmian aims to double its turnover in China (2005 sales: Euro 100 million).

Due to the time constraints, disclosure of details of net assets acquired and goodwill was not practicable for EKSA and Tianjin Angel acquisitions.



On 2 June 2006, Prysmian Cables & Systems Ltd announced the closure of the Prescott site and the disposal of the non-core "copper rod rolling activities". As a result of the disposal, the Group will be paid a consideration of Euro 11 million which will be off-set by relocation and lay-off costs for an estimated amount of Euro 11.9 million. Those disposals and expenses will be incurred between 2006 and 2007.

2006 outlook

The economic environment in which the Prysmian Group operates is expected to remain positive in line with the trend of the second half 2005 in spite of the sharp increase on non-ferrous metal prices which has characterized this market over the last year.

In this context, Prysmian delivered a strong performance on the commercial side, being able to expand its leading market position in Submarine and High Voltage Businesses.

Prysmian's strong results are the consequence of a consistent strategy of redefining our product portfolio, growing in the specialties business, being focused on efficiencies and high value added products more than on volumes, reinforcing our geographical presence in the fastest growing markets and continuously improving the company's competitiveness.

The effectiveness of this approach is being validated by having won important new contracts in the Specialties Business which are providing good visibility on future results and further improving the company's leading market position.

To accelerate its market penetration Prysmian is in the process of acquiring a company in China, reinforcing its special products facilities in the Asian region. At the same time, the Umbilical Brazilian factory, which will be commissioned during the second half of this year, will strengthen the Company's presence in South America through a more complete product portfolio.

On this basis, Management expects top line growth of more than 4% (at constant metals prices) with a corresponding positive effect on EBITDA, in spite of highly volatile and upwards trending non-ferrous metals prices, which moreover will lead to increased working capital funding needs.

Intellectual property rights



By the sale agreement effective as of 28 July 2005, Pirelli & C. SpA assigned to Prysmian:

- > 331 patent families, of which 179 referred to the Energy operations and 152 to the Telecom operations;
- > 699 trademark registrations, of which 497 Energy and 202 Telecom.

Pirelli & C. SpA also granted Prysmian a license on certain of its know-how and on the usage of the Pirelli Trademark for a period of between three months and two years (for use on websites, printed material, buildings, signs, vehicles, products).

The major license agreements required for Prysmian's operating activities, particularly those with Lucent and Corning, have been transferred in full and remain in force for the relevant licensee companies as they were with Pirelli.

From 28 July to 31 December 2005, 12 new patent applications have been filed, of which 9 are in the Energy area and 3 in the Telecom area.

The Prysmian trademark has been submitted for registration as a national and international trademark, in the countries of actual or expected activity, both as a word and as a figure.

Research and innovation

Prysmian has established itself as the leading innovator in the industry and research & development is an essential part of the entire business process.

Prysmian's R&D and engineering activities are focused on developing alternative products/materials, improving production processes and studying customized cabling solutions for particular cables applications: Prysmian co-ordinates its R&D activities and its marketing strategy, with a view to responding more closely to customer demands, providing a superior level of assistance and service, and establishing long term relationships, above all in value-added and customized product market segment such as high voltage, submarine cables, specific industrial applications and optical cables.

More than 340 employees were involved in the following R&D activities in 2005:

Energy business

- > Development of Airguard-type special cables
- > Development of protection systems based on Air-Bag™ technology
- > Pilot production of 30 Km of single phase P-laser cable for the Enel



Telecom business

- utility and of 10 Km of single phase P-Laser for NUON (Netherlands) utility
 - > Research and development of new materials for P-Laser and special cables
 - > Continuation, together with the Politecnico di Milano, of the research/development of an innovative DTS (Distributed Thermal Sensor) used for temperature monitoring from fibre optical sensor embedded into the energy cable, for medium voltage and high voltage systems. Activation and Commissioning of the thermal monitoring system Optopower™ RTTR (Real Time Thermal Rating) for Wienstrom (wholly circuit) and Basslink (only the land spans)
 - > Research, design and assistance for the magnetic shielding apparatus using re-closeable raceways in special ferromagnetic steel, for a part of the 400 kV Turbigo-Rho underground link
 - > Research and development of cable systems heavy metal free
 - > Official prequalification of 250 kV DC XLPE cable and accessories is successfully going on, including polarity reversal tests. Contract for the revision of the EPRI Green Book awarded to Prysmian
-
- > Development and commercial sales start up of an innovative family of copper cables up to 50 quads, fit for both POTS (Plain Old Telephone Service) and ADSL (Asymmetric Digital Subscriber Line). The single quad drop cable supplied to Dutch KPN has a further external sheath, slightly loose, that in future will allow the last 20 - 30 mm of copper cable to be pulled out, replacing it with an optical cable, thus making it easy to move from ADSL/VDSL (copper) to FTTH (Fiber to the Home)
 - > Product range extension of ADSL copper cables for Central Office (with screened sub-units), in order to meet the demands of a growing number of customers (Alcatel, Marconi, Nokia, Wind, Telecom Italia, etc)
 - > Development and qualification of two high fibre count "micromodule" cables - stranded tube type - having 432 and 864 fibres respectively, intended for use in metropolitan rings
 - > Development and industrialization of "micromodule type" minicables, having a fibre count of 24 and a diameter less than 6 mm, to be installed in the FTTX access networks
 - > Industrialization of "single fibre cables" to be used as connectorized patchcords, (for customers such as Tyco, British Telecom, etc)
 - > Qualification of a 24 fibre "fire resistant" cable, according to Specs. DIN 4102, for German and Austrian market (e.g. Metro-Vienna)
 - > Product range widening and commercial sales, on the worldwide market, of very compact OPGW (Optical Ground Wires), having a fibre count of 48

Optical Fibres

Five Optical Fibers products have been developed:

- > Primalight™: reduced diameter coating: 200 m instead of typical 250 m in full compliance with ITU-T G.652
- > SharpLight™: high level of resistance to the phenomenon of Stimulated Brillouin Scattering (SBS) - compatible with "Triple Play" (Voice, video, data) and particularly effective with Analog Cable TV. Compliant to ITU-T G.652



- > CasaLight™: high optical resistance to bending - suitable for indoor cabling and FTTH applications. Compliant to ITU-T G.652
- > Smart Fiber: specialty product - multimode OM2 - capable to resist very small bending radius (2-3 mm)
- > Power Light: very high power - low fire risk fibre

Health, safety and environment

Prysmian continues to focus on the areas of Health, Safety and the Environment (HSE).

The HSE function within Prysmian controls critical Safety and Environmental parameters such as Gravity Index and Frequency Index for safety and Water, Energy and organic solvents consumption for the environment.

The internal auditing procedures are responsible for the maintenance of HSE certifications (System Audits) and additionally provide support to the affiliate companies in the day to day management of HSE activities (Operational Audits). Regular visits to all 51 sites around the world ensure correct implementation of HSE actions.

With regard to **Safety**, internal indexes have shown an improvement in performance due to the strong commitment of the workers and to the Prysmian safety training strategy. A pilot project for Safety Certification (OSHAS 18001) has been carried out, and first sites have already achieved the certification.

Regarding **Environmental Compliance**, about 90% of sites have now been certified (ISO 14001).

Human resources

Employee headcount at 31 December 2005 was 12,082, of which 3,171 were Executives/Staff Office and 8,911 Workers (including 795 employees with temporary contracts (401 Temporary Workers, 394 Agency Workers)).

The Headcount is split as follows:

	Executives Staff Office	Workers	Total
Europe	1,886	5,963	7,849
North America	228	712	940
South America	320	1,062	1,382
Australia	147	446	593
China	188	463	651
R.O.W.*	87	206	293
HQ Milan	315	59	374
Total	3,171	8,911	12,082

* R.O.W.= Middle East, Indonesia, Singapore, Tunisia, Ivory Coast

The Energy Sector headcount at 31 December 2005 was 10,372, of which 2,771 were Executives/Staff Office and 7,601 Workers (including 732 employees with temporary contracts (366 Temporary Workers, 366 Agency Workers)).

The Energy Headcount is split as follows:

	Executives Staff Office	Workers	Total
Europe	1,677	5,316	6,993
North America	194	573	767
South America	292	882	1,174
Australia	110	286	396
China	143	282	425
R.O.W.*	87	206	293
HQ Milan	268	56	324
Total	2,771	7,601	10,372

* R.O.W.= Middle East, Indonesia, Singapore, Tunisia, Ivory Coast

In some Energy companies (Romania, Turkey, Argentina, Indonesia), Headcount also includes 325 persons involved in the Telecom Business.

The Telecom Sector Headcount at 31 December 2005 was 1,710, of which 400 were Executives/Staff Office and 1,310 Workers (including 63 employees with temporary contracts (35 Temporary Workers, 28 Agency Workers)).



The Telecom headcount is split as follows:

	Executives Staff Office	Workers	Total
Europe	209	647	856
North America	34	139	173
South America	28	180	208
Australia	37	160	197
China	45	181	226
HQ Milan	47	3	50
Total	400	1,310	1,710

Worldwide training 2005

In 2005 several customer orientation training programmes were held in Europe, mainly designed to pass to all functions the Prysmian approach to customer service, both inside and outside the organization.

In addition a number of training programmes are planned which are aimed at strengthening the leadership skills of people in key positions and in key projects.

Organizational initiatives

Since July 2005 Prysmian has become a stand alone Group and has adopted an organizational model based on Staff Functions, Central Operating Functions and Countries/Regions.

Staff functions have been completed and integrated: four new functions (General and Legal Affairs, Internal Audit, Industrial Property, IT) have been created and Finance, Administration and Control, Personnel & Organization have been strengthened.

Research and Development has been split in two new functions: Research & Innovation, dedicated to scientific research on specific and highly innovative projects, and Product Development and Quality, focused on materials and process development and the coordination of development activities in all countries.



Introduction

Corporate governance

Our Company has recently approved and implemented a new corporate governance model.

The corporate governance structure focuses on the transparency of operational decisions and on the central role of the Board of Directors in providing strategic guidance, including internal and external business decision processes.

All key decisions relating to Prysmian Srl and its subsidiaries have to be adopted and approved at Prysmian Srl level. In addition Prysmian Srl is qualified as the entity which directs and coordinates the entire Prysmian Group activities in the light of the Italian corporate laws.

The major purposes of the structure are to:

- > enable the quotaholders of Prysmian Srl to provide the appropriate level of supervision over the major business decisions of the entire Prysmian Group.
- > orchestrate a multi-level decision making structure, allowing the proper involvement of the Quotaholders and the Board of Directors of Prysmian Srl on the major business decisions of the Prysmian Group delegating the day to day operations to the executives;
- > require the executives to strictly comply with the governance procedures with all the relevant consequences in the event of non compliance.

The remainder of this report describes the main features of the Company's corporate governance model.

Allocation of Powers

The decision making process at Prysmian Srl level is split amongst:

- > Quotaholders' Meeting
- > Board of Directors
- > Four Managing Directors

1) Quotaholders' Meeting

The Quotaholders' Meeting is responsible for and able to resolve matters when:

- > A Quotaholders Meeting decision is required by law, such as:
 - Approval of annual accounts;
 - Appointment and Dismissal of directors and statutory auditors;
 - Amendment of constitutional documents (including capital increases);
 - Decision on transactions which in substance alter the corporate object of the company.
- > A decision is referred to the Quotaholders's Meeting by any director or by the quotaholder itself
- > The Board of Directors fails to pass a resolution with the favourable vote of at least five directors. Within limited exceptions, the Quotaholders' Meeting may pass written resolutions; attendance to meetings may be by video or teleconference.





2) Board of Directors

Prysmian Srl Board of Directors is composed of seven members, including three independent directors and the Prysmian Group CEO.

The Board of Directors remains in office for a one year term (unless a longer or shorter period is established by the Quotaholders' Meeting when they are appointed) and may be re-elected.

The Board of Directors meeting held on 15 December 2005 appointed four Managing Directors and delegated significant powers to the Managing Directors, but the board retains:

- > those powers which cannot be delegated by law (e.g. the responsibility for the preparation of the draft of the financial statements to be approved of the Quotaholders' Meeting);
- > the power to adopt major decisions, such as the approval of the Prysmian Group-wide business plan and budget or a significant change in the nature of the Prysmian Group business;
- > the right/power to supervise and direct the overall developments of the Prysmian Group business;

The Board of Directors would meet on a quarterly basis, but could be convened more frequently (with one day notice) in case urgent resolutions need to be taken. The resolutions of the Board of Directors will be passed only if approved by at least five directors. The Board of Directors may pass written resolutions; attendance to meetings may be by video or teleconference.

The Board of Directors appointed the **Chairman** of Prysmian Srl. The Chairman has:

- > the general power to represent the company vis-à-vis third parties (the other directors will have power to represent the company only in so far as the power they have been delegated);
- > certain specific powers and duties relating to the proceedings of the quotaholders' and Board of Directors meetings (calling, chairing and handling such meetings, overseeing the procedures for adoption of quotaholders' and Board of Directors' decision in written form).

The Board of Directors constituted two internal committees:

- > the **Audit Committee**, entrusted with certain tasks relating to (i) monitoring and reviewing the effectiveness of the Company's internal audit function, (ii) advising on and reviewing the financial statements, reports and any other documents prepared by the auditors of the Company, (iii) liaising and overseeing the relationship with the external auditors of the Company and (iv) periodically reporting its findings to the Board of Directors of the Company and to make recommendations to them;
- > the **Compensation Committee**, entrusted with the task, among others, of determining the remuneration of the directors of Prysmian Srl and advising on the compensation of the top management of Prysmian Srl.

Subsidiaries

Implementation

Privacy defense and data protection

Related parties transactions

3) Managing Directors

The Managing Directors are delegated two sets of powers relating to Prysmian Srl and/or its subsidiaries:

- > day to day administration powers relating to Prysmian Srl together with other ordinary powers relating to the various entities within the Prysmian Group which can be exercised individually by each of them;
- > powers to adopt and approve more material matters relating to the various entities within the Prysmian Group which can be exercised jointly by at least two of them.

All directors and executives of any subsidiary vested with representative powers will be required to undertake to comply with the Governance procedures as part of their duties as employees of the relevant subsidiary. The mechanics and restrictions relating to the implementation of the governance structure relating to the directors and the executives of the subsidiaries may vary depending on the laws of each jurisdiction where the subsidiaries are located and the nature of the relationship between the individual and the relevant subsidiary.

The entire structure was implemented in two subsequent steps. During the first step, which involved Prysmian Srl and took place in December 2005, were approved the new by-laws of the company by the Quotaholders' Meeting and were allocated the powers between the Board of Directors and the four Managing Directors.

The second step will also involve the subsidiaries and shall be completed during the first half of year 2006. All the Governance procedures will be drafted at Prysmian Srl level and will be adopted by each subsidiary, to the extent permitted by the applicable laws in each relevant jurisdiction.

Other information

In compliance with what provided for by Legislative Decree 30 June 2003 n.196, Enclosure B, paragraph 26, Prysmian Cavi e Sistemi Energia Srl updated the Programmatic Document on Security for the year 2005.

Consolidated Financial Statements

The Group is directly controlled by Prysmian (Lux) II Sarl (incorporated in Luxembourg), which owns 100 percent of the Company's shares. The ultimate control of the Group stands with The Goldman Sachs Group, Inc.

Transaction between Prysmian Srl and subsidiaries, affiliated companies



and the parent company mainly consist of:

- > commercial transactions including inter-company purchases and sales of raw materials and finished goods;
- > service transactions (technical, organizational and general) provided by the headquarter to the subsidiaries on a worldwide basis;
- > financial transactions carried out by Group Treasury on behalf of Group subsidiaries.

All the transactions listed above fall under the normal business operation of the Group. Such transactions are carried out on an arm's length basis.

Transactions with related parties are reported as follows:

(in thousands of Euro)	Amount	Description
Associates		
Sales made to associates	836	Amounts relate to goods and serviced sold to Power Cable Malaysia during the period. Goods are sold on the basis of the price lists in force with non-related parties.
Associated companies receivables	730	
Associated companies receivables	1,616	Amounts relate to dividends by Kabeltrommel GmbH & Co.K.G
Prysmian Lux (II) Sarl		
Purchases of intellectual properties	60,000	In october 2005, Prysmian (Lux) II Sarl has transferred to Prysmian Cavi e Sistemi energia Srl patent assignments bought Pirelli in July 2005 (Euro 20,000 thousand) and to Prysmian Cable Holding B.V. the right of use the Pirelli trademark for a two years period (Euro 40,000 thousand).
Payables	20,000	
Interest paid	5,064	As part of financing the acquisition of the power and telecom activities, the shareholder financed the Group by the mean of a shareholders loan. Interest were charged on an arm's length basis.
Borrowing	115,026	
Goldman Sachs Group, Inc		
Consulting services received	16,074	During the acquisition process, Goldman Sachs Group supplied consulting services to the Group. Advisory fees were charged on an arm's length basis.
Payables	3,000	
Derivative receivables	2,775	During the period the group entered into an interestswap arrangement negotiated between Trefin Srl and Goldman Sachs. This's the fair value of derivative receivables to 31 December 2005.



Key management compensations

During the period, the compensation for key management which includes 13 corporate directors is as follows:

(in thousands of Euro)

Salaries and other short-term benefits	3,009
Other benefits	1,108
Share based payments	1,400
Total	5,517

Financial Statements of Prysmian Srl

Transaction between Prysmian Srl and its subsidiaries, affiliated companies and its controlling company consist of:

- > transactions involving the provision of services (organizational, legal and administrative);
- > financial transactions involving lending and current account facilities established within the framework of the Trefin Srl (renamed Prysmian Treasury Srl).

All the transactions listed above fall under the normal business operation of the Group companies. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case conducted at arm's length.

Economic and patrimonial effects of the operations with related parties on the Prysmian Srl Balance Sheet to 31 December 2005 are presented in the following table:

(in Euro)	Relation with subsidiaries
Revenues for goods and services	1,115,500
Financial income/expenses	1,822,207
Trade and other receivables	2,951,849
Trade and other payables	2,147,538

Relation with Prysmian Srl controlling company

Prysmian Srl is controlled by Prysmian (Lux) II Sarl and this company has effected equity contributions into Prysmian Srl of Euro 149,485 thousand from July to December 2005.

Information about financial instruments

In compliance with the dispositions indicated by art. 2427 bis of the Civil Code, the company did not have or did not draw up any agreement during the period derivatives. The financial receivables and payables shown on the balance sheet are in Euro. With reference to the financial current assets and borrowings, they are due within 12 months.

Milan, 27 June 2006

THE BOARD OF DIRECTORS
BY THE PRESIDENT
Paolo Zannoni

Resolutions



Dear quotaholders,

Prysmian's financial statements at 31 December 2005 shows a loss of Euro 55.381.090.

If you concur with the criteria used to prepare the financial statements and with the accounting principles and methods applied, we propose that you adopt the following resolutions:

Resolution on item 1

The Quotaholders' Meeting:

- > having reviewed the statutory and consolidated financial statements at 31 December 2005 and the Director's report submitted by the Board of Directors;
- > being cognizant of the Report of the Statutory Auditors;
- > being cognizant of the Report of the Independent Auditors on the financial statements at 31 December 2005;
- > considering that the balance sheet shows reserves for the amount of Euro 149,484,669 in the item "VII) Other reserves";

resolves to:

- > approve the Director's report;
- > approve the financial statements for the fiscal year ended 31 December 2005, and the individual items contained therein;
- > balance the net loss of Euro 55,381,090 incurred in the fiscal year ended 31 December 2005, through the utilization, for the same amount, of the item "VII) Other reserves".

Milan, 27 June 2006

THE BOARD OF DIRECTORS
BY THE PRESIDENT
Paolo Zannoni

Consolidated financial statements

Consolidated balance sheet

Asset

(in thousands of Euro)

31 December 2005

Non current assets	
6 Property, plant and equipment	800,961
7 Intangible assets	123,111
8 Investments in associates	16,965
9 Available-for-sale financial assets	10,713
13 Derivative financial instruments	5,672
21 Deferred income tax assets	3,516
10 Other receivables	38,020
	998,958
Current assets	
11 Inventories	464,236
10 Trade receivables	838,822
10 Other receivables	133,705
12 Financial assets held for trading	22,896
13 Derivative financial instruments	30,712
14 Cash and cash equivalents	233,085
	1,723,456
Total assets	2,722,414

Equity and liabilities

(in thousands of Euro)

31 December 2005

Capital and reserve attributable to Group Share	
15 Capital	10
16 Other reserves	216,393
Result of the period	(27,159)
Minority interests	24,610
16 Capital and reserves	23,372
Result of the period	1,238
Total Equity	213,854
Non-Current Liabilities	
17 Borrowings from banks and other financial liabilities	1,115,886
18 Other payables	45,331
19 Provisions	22,684
21 Deferred income tax liabilities	69,552
20 Retirement benefits obligations	132,228
	1,385,681
Current liabilities	
17 Borrowings from banks and other financial liabilities	75,408
18 Trade payables	602,919
18 Other payables	317,485
13 Derivative financial instruments	16,467
19 Provisions	108,129
21 Current income tax liabilities	2,471
	1,122,879
Total liabilities	2,508,560
Total equity and liabilities	2,722,414



Consolidated income statement

(in thousands of Euro)	May to December 2005
22 Revenue from sales of finished products and services	1,635,825
Change in inventories of work in progress and finished goods	(53,523)
23 Other revenue and income	27,979
24 Raw materials and services used	(986,462)
25 Personnel costs	(212,596)
27 Depreciation and amortization	(45,622)
28 Other expenses	(331,397)
Operating result (EBIT)	34,204
29 Finance costs	(44,687)
30 Dividends and share of result of associates and joint ventures	1,120
Result before taxes	(9,363)
31 Income taxes	(16,558)
Result of the period	(25,921)
Attributable to: Group	(27,159)
Minority interest	1,238

Consolidated cash flow statement

(in thousands of Euro)	May to December 2005
Net income attributable to the equity Group and Minority interest	(25,921)
Ammortization of tangible assets	26,464
Depreciation of intangible assets	19,159
Exchange rates differences cash and cash equivalents	1,347
Share of income (loss) of associated and joint ventures	(74)
Finance costs	44,687
Change in Inventories	68,419
Change in trade receivables/payables	47,330
Net change in derivatives financial instruments	(4,879)
Change in Provisions (including employee benefits)	(17,114)
Change in other payables and other receivables	65,406
Current and deferred income taxes	25,300
A Net cash flows provided by (used for) operating activities	250,124
Acquisition of the cables and system power and telecom business	(1,261,645)
Investments in property, plant and equipment	(28,568)
Disposals of property, plant and equipment	7,664
Investments in intangible assets	(2,243)
Disposals of intangible assets	3,072
Change in financial assets held for trading	34,645
Dividends received	1,357
B Net cash flows provided by (used for) investing activities	(1,245,718)
Change in share capital and reserves	207,783
Finance costs	(44,687)
Change in net financial payables	1,066,920
C Net cash flows provided by financing activities	1,230,016
D Total cash flows provided by (used) during the period (A+B+C)	234,422
E Cash and cash equivalents, at beginning of period	10
F Exchange differences on translation of cash and cash equivalents	(1,347)
G Cash and cash equivalents, at end of period (D+E+F)	233,085

Consolidated statement of recognised income and expense

(in thousands of Euro) May to December 2005

Available for sale financial assets fair value gains (losses)	(187)
Cash flow hedges gains (losses) - gross	5,672
Cash flow hedges - tax effect	(2,154)
Currency translation differences	3,456
Actuarial gains (losses) - net of tax	2,270
Net income recognised directly in equity	9,057
Profit (loss) for the year	(25,921)
Total recognised loss for the year	(16,864)
Attributable to: Group	(18,251)
Minority interests	1,387



Notes to consolidated financial statement

1.

General information

Prysmian Srl ('the Company') is a limited liability company incorporated and domiciled in Italy, organised under the laws of the Republic of Italy.

The Company was incorporated on 12 May 2005 and the registered office of the company is in Milan, Italy. The address of its registered office is 222, Viale Sarca, Milan (Italy).

The Company and its subsidiaries (together "the Group" or the "Prysmian Group") manufacture, distribute and sell energy and telecom cables and systems and accessories on a worldwide basis.

The Prysmian Group started its operating activities as a result of the acquisition of the energy and telecom cables and systems business of Pirelli, completed on 28 July 2005.

These consolidated financial statements have been prepared and submitted to the group shareholder by the Board of Directors on 27 June 2006.

All amounts in the notes are expressed in thousand of Euro, unless otherwise indicated.

2.

Summary of significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) and endorsed by the European Union. Adoption of IFRS for the purpose of the preparation of these consolidated financial statements was made by the Group on a voluntary basis.

The consolidated financial statements have been prepared under the



historical cost convention, as modified by the revaluation of available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

Interpretations and amendments to published standards effective in 2005

The following amendments and interpretations to standards are mandatory for the Group's accounting periods beginning on or after 1 September 2004:

- > IFRIC 2, Members' Shares in Co-operative Entities and Similar Instruments (effective from 1 January 2005);
- > SIC 12 (Amendment), Consolidation - Special Purpose Entities (effective from 1 January 2005); and
- > IAS 39 (Amendment), Transition and Initial Recognition of Financial Assets and Financial Liabilities (effective from 1 January 2005).

Management assessed the relevance of these amendments and interpretations with respect to the Group's operations and concluded that they are not relevant to the Group.

Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006.

The group early adopted the following amendment to an existing standard:

IAS 19 (AMENDMENT), EMPLOYEE BENEFITS (EFFECTIVE FROM 1 JANUARY 2006)

This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. The Group decided to adopt the option allowed under new standard, resulting in all actuarial gains and losses being recognised to equity in the consolidated financial statements at 31 December 2005.

New standards, amendments and interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2006 or later periods but which the Group has not early adopted, are summarised below:

AMENDMENTS TO IAS 1 - PRESENTATION OF FINANCIAL STATEMENTS-CAPITAL DISCLOSURES

This amendment, endorsed by the European Union in January 2006 (Regulation EC 108/2006), states that an entity should disclose



information that enables users of its financial statements to evaluate the entity's objectives, policies and methods for managing capital. Such amendments will be effective from 1 January 2006.

AMENDMENT TO IAS 39 - CASH FLOW HEDGE ACCOUNTING OF FORECAST INTRAGROUP TRANSACTIONS

Such amendment, endorsed by the European Union in December 2005 (Regulation EC 2106/2005), allows the foreign currency risk of a highly probable forecast intra-group transaction to qualify as a hedged item in a cash flow hedge in the consolidated financial statements, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect the consolidated statement of operations. The amendment is effective from 1 January 2006. The application of the amendment will not produce a significant impact on the Group consolidated financial statement.

AMENDMENTS TO IAS 39 AND IFRS 4 - FINANCIAL GUARANTEE CONTRACTS

Such amendments, endorsed by the European Union in January 2006 (Regulation EC 108/2006), extend the scope of IAS 39 to include the recognition of financial guarantee contracts by the issuer (guarantor). However, if an issuer has previously stated explicitly that such contracts are considered as insurance contracts and has accounted for them as such, it may elect to apply either IAS 39 or IFRS 4 to such financial guarantee contracts.

The application of the amendment will not produce a significant impact on the Group consolidated financial statement.

IFRS 6, EXPLORATION FOR AND EVALUATION OF MINERAL RESOURCES

IFRS 6 is effective from 1 January 2006 and is not relevant to the Group's operations.

IFRS 7 - FINANCIAL INSTRUMENTS: DISCLOSURES

IFRS 7 is effective from 1 January 2007 and is not relevant to the Group's operations.

IFRIC 4 - DETERMINING WHETHER AN ARRANGEMENT CONTAINS A LEASE

Such Interpretation, endorsed by the European Union in November 2005 (Regulation EC 1910/2005), provides that if an arrangement does not take the legal form of a lease but contains a lease, such lease should be classified as a finance lease or an operating lease in accordance with IAS 17.

Such interpretation is effective from 1 January 2006. The application of such Interpretation will not produce a relevant impact on the Group consolidated financial statements.

IFRIC 5, RIGHTS TO INTERESTS ARISING FROM DECOMMISSIONING, RESTORATION AND ENVIRONMENTAL REHABILITATION FUNDS

IFRIC 5 is effective from 1 January 2006 and is not relevant to the Group's operations.



IFRIC 6 - LIABILITIES ARISING FROM PARTICIPATING IN A SPECIFIC MARKET - WASTE ELECTRICAL AND ELECTRONIC EQUIPMENT

Such interpretation, endorsed by the European Union in January 2006 (Regulation EC 108/2006), was published after the adoption of the European Union Directive on Waste Electrical and Electronic Equipment (WE&EE) which requires member states to implement a regulated system for the collection, treatment, recovery and ecologically correct decommissioning of the waste of electrical and electronic equipment. This interpretation provides guidelines on the recognition of liabilities for such waste management in the financial statements of manufacturers of electrical equipment based on the sales of such equipment to private households before 13 August 2005 (so-called historical waste). IFRIC 6 has clarified that what triggers the recognition of a provision for the management costs of such waste, in accordance with IAS 37 (Provisions, contingent liabilities and contingent assets), is participation in the market during the measurement period. Consequently, since the obligation arises only on condition that a share of the market exists during the measurement period, the time frame for recognition can be independent of the specific period in which the activities for the management of the waste were undertaken and the relative costs were incurred. The interpretation is applicable starting from 2006.

The Italian government has not as yet enacted the necessary decrees for implementation: therefore, in the absence of a reference framework, the Group is not currently able to evaluate the impact, if any, of the application of this interpretation on the consolidated financial statements.

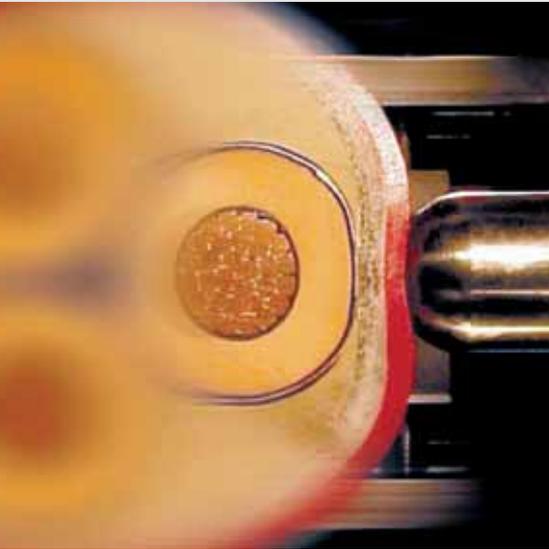
2.2 Business combinations

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

2.3 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the



date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Euro, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency



using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

(c) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates; and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the balance sheet date exchange rate.

2.5 Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and buildings comprise mainly manufacturing facilities and offices. Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives. Depreciation rates applied are as follows:

Buildings	2 - 4 %
Plant	7 - 10 %
Machinery	5 - 10 %
Equipment and other assets	10 - 33 %

The assets' residual values and useful lives are reviewed, and adjusted



if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

Assets acquired under financial lease arrangements are recognized as under property, plant and equipment. The liability is gradually paid in accordance with the principal repayment schedule of the lease agreement. The value of the related asset is depreciated on a straight-line basis, based on its useful life.

Government grants related to property, plant and equipment are recorded as deferred income and credited to the income statement over the period of depreciation of the relevant asset. Borrowing costs incurred for the purchase of an asset are expensed.

2.6 Intangible Assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates'. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(b) Trademarks and licences

Trademarks and licences are shown at historical cost. Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives (12 years).

(c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (5 years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred.

2.7 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation



and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial Assets

The Group classifies its financial assets in the following categories: financial assets held for trading, derivatives, loans and receivables, and available for sales. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets held for trading

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Assets in this category are classified as current assets.

Financial assets held for trading are initially recognised at fair value and transaction costs are expensed in the income statement.

Gains or losses arising from changes in the fair value of held for trading financial assets are presented in the income statement within net finance cost in the period in which they arise.

(b) Derivatives

All derivatives are classified separately in the face of the balance sheet, including those designated as hedges. Derivatives are classified as current assets if they are expected to be realised within 12 months from the balance sheet date.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as cash flow hedge.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions.

The Group also documents its assessment, both at the inception of the hedge and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.



Hedging derivatives (cash flow hedge)

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within finance cost.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

Derivatives not qualifying as hedges

Gains or losses arising from changes in the fair value of derivatives not qualifying as hedges are presented in the income statement within net finance cost.

(c) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet.

Loans and receivables are initially recognised at fair value plus transaction costs and then carried at amortised cost using the effective interest method.

(d) Available for sale

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available for sale financial assets are initially recognised at fair value including any transaction cost. Available for-sale financial assets are subsequently carried at fair value. Changes in the fair value of available-for-sale financial assets are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest



method is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overhead (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Trade receivables and trade payables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within other expenses.

Trade payables are measured at amortized cost.



2.11 Construction contracts

Contract costs are recognised when incurred. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

The Group uses the 'percentage of completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract.

Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings. Progress billings not yet paid by customers and retention are included within 'trade and other receivables'.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

2.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.



2.14 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2.15 Pension obligations

Group companies operate various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically, defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recognized directly in equity.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.



Other post-employment obligations

Some Group companies provide post-retirement healthcare benefits to their retirees. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions are recognized in equity. These obligations are valued annually by independent qualified actuaries.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

2.16 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

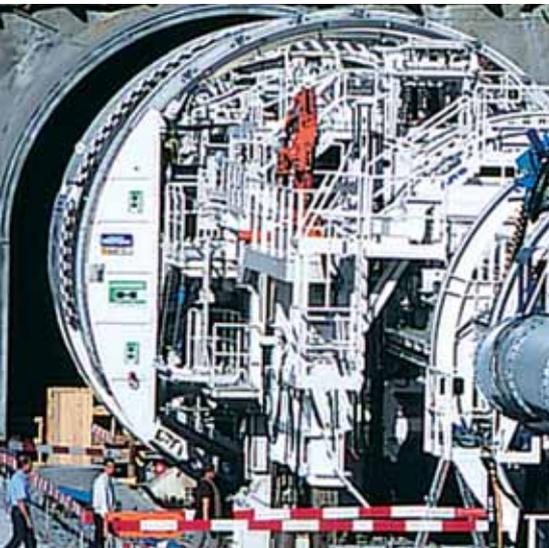
Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Contingent liabilities recognised separately as liabilities as part of allocating the cost of a business combination are measured at the higher of the principle discussed above (IAS 37) and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18.

2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable



for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, estimated returns, rebates and discounts and after eliminated sales within the Group. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(b) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(c) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

2.18 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2.19 Dividend distribution

Dividend distribution to the Company's shareholder is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholder.

2.20 Share-based payments

Share-based payments to group management are accounted for in accordance with the feature of the plan.

Equity-settled

Equity-settled share-based payments include plans in which the participants

3.

Financial risk factors

acquire shares of the company at a fixed price whenever specific conditions are met. The difference between the fair value of the shares, determined at the grant date, and the purchase price, is recognized as a compensation expense over the vesting period with a contra-entry to increase the equity reserves;

Cash-settled

Cash-settled share-based payments include plans which provide for put options on behalf of the beneficiary, combined with call options on behalf of the issuer, or plans in which the beneficiary directly receives the monetary equivalent amount of the benefit originating from the exercise of the stock option or the sale of the shares. The fair value of the liability, remeasured at the end of every reporting period, is recognized as a compensation expense over the vesting period.

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to mitigate certain risk exposures.

Risk management is carried out by the Corporate which identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units. The Corporate provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

(a) Foreign exchange risk

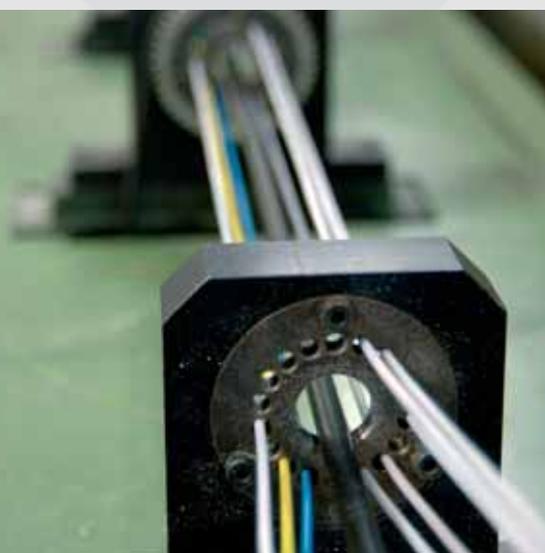
The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, the UK pound and the Brazilian real. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities. To manage their foreign exchange risk arising from future commercial transactions and recognised assets and liabilities, the majority of entities in the Group use forward contracts, transacted with Group Treasury. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. Group Treasury is responsible for managing the net position in each foreign currency by using external forward currency contracts.

The Group's risk management policy is to hedge all anticipated transactions (mainly export sales) in each major currency.

Forward contracts negotiated between the subsidiaries of the Group and Group Treasury as well as those between Group Treasury and external parties are not designated as hedges.

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies





in place to ensure that sales of products and services are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Finance department aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Interest rate risk

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. Group has approximately 50% of its borrowings in fixed rate instruments.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and swaps them into fixed rates that are lower than those available if the Group borrowed at fixed rates directly.

Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

(e) Commodity price risk

The Group is exposed to commodity price risk because of purchases and sales being affected by volatility of market price of strategic metal commodities. To manage the commodity price risk arising from future commercial transactions, entities in the Group negotiates metals derivatives. Forward contracts on commodity are not designated as hedges.

4. Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Business combination accounting

The initial accounting for the acquisition of the energy and telecom cables and systems activities of Pirelli & C. SpA involved identifying and determining the fair values to be assigned to the acquired identifiable assets, liabilities

and contingent liabilities and the cost of the combination.

As certain price adjustments are still under discussion between the parties, the consideration paid for business combination accounting purpose will most likely still vary.

Due to time constraints and considering the degree of complexity of the acquisition process, fair values to be assigned to the acquired identifiable assets, liabilities or contingent liabilities have only been determined on a provisional basis.

As a consequence, the business combination was accounted for using those provisional values. In accordance with IFRS 3, the Group will recognize any adjustments to the provisional values as a result of completing the initial accounting within twelve months from the acquisition date. The carrying amount of all identifiable assets, liabilities or contingent liabilities of the Group will be re-measured as if its fair value or adjusted fair value at the acquisition date had been recognised from the acquisition date together with goodwill. The group will be required to restate comparative information for the prior period and to account for the change in provisional values on a retrospective basis when preparing the financial statements at 31 December 2006.

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Revenue recognition on construction contract accounting

The Group uses the percentage-of-completion method in accounting for construction contracts. Use of the percentage-of-completion method requires the Group to estimate the expected costs for completing a construction contract. Where the actual cost to complete the contract is different from the expected amount, this will impact the profit and loss of future periods.



5.

Business combinations

Notes to the balance sheet

Several assets of the Group are subject to pledges as securities for borrowings as described in Note 17.

On 1 June 2005, Prysmian signed an agreement to purchase the Energy and Telecom Cables and Systems activities of Pirelli & C. SpA. The transaction was completed on 28 July 2005, after receipt of the necessary regulatory approvals from the relevant Antitrust Authorities.

Initial accounting for the Energy and Telecom Cable and Systems business has been determined on a provisional basis, as external appraisal on some acquired long-lived assets has not been finalized yet.

In accordance with IFRS 3 the purchase accounting will be finalized within twelve months of the acquisition date.

Details of net assets and goodwill acquired are as follows:

Purchase consideration:

Cash paid/Liabilities assumed	1,385,300
Direct costs relating to the acquisition	18,217
Total purchase consideration (A)	1,403,517
Fair value of net assets acquired (B)	(1,349,697)
Goodwill (A-B)	53,820
Purchase consideration settled in cash	1,403,517
Cash and cash equivalents in subsidiary acquired	(141,872)
Cash outflow on acquisition	1,261,645

As the acquisition is still subject to certain price adjustments as per agreed purchase agreement, the final purchase consideration might still change.

Goodwill acquired in the business combination was not allocated to individual cash generating units (CGU) or group of CGU, as the fair value of the acquired assets was still provisional at the reporting date.



Details of the provisional fair values of net assets acquired are as follow:

(in thousands of Euro)

	Acquiree's carrying amount	Fair value
Cash and cash equivalents	141,872	141,872
Property, plant and equipment	735,715	800,325
Trademarks		40,000
IPR		20,000
Other intangibles assets	22,876	27,059
Investments in associates and available-for-sale financial assets	28,642	28,907
Financial assets held for trading	57,541	57,541
Inventories	499,939	532,655
Receivables	1,032,731	1,081,218
Payables	(920,058)	(912,219)
Employee benefits obligations	(125,854)	(132,710)
Borrowings	(117,513)	(124,374)
Provisions and contingent liabilities	(58,095)	(144,147)
Net deferred tax liabilities	(16,628)	(40,491)
Current income tax liabilities	(2,716)	(2,716)
Minority interests	(26,077)	(23,223)
Net assets acquired	1,252,375	1,349,697



6. Property, plant and equipment

Property, plant and equipment at year end amount to Euro 800,961 thousand. A breakdown is provided below:

(in thousands of Euro)

	Land	Buildings	Plant and machinery	Manufact. and distrib. equipment	Other assets	Construction in progress and advances	Total
Balance at 12 May 2005	-	-	-	-	-	-	-
Change in 2005:							
Acquis.through business combinations	214,212	316,517	219,641	8,525	9,250	32,180	800,325
Exchange difference	(23)	1,435	4,113	147	120	404	6,196
Addition	3,822	2,553	7,532	920	2,359	11,382	28,568
Disposal	(3,379)	-	-	(1,838)	-	(2,447)	(7,664)
Ammortamenti	-	(4,647)	(18,930)	(1,108)	(1,779)	-	(26,464)
Depreciation	123	15,715	5,778	1,779	706	(24,101)	-
Total changes	214,755	331,573	218,134	8,425	10,656	17,418	800,961
Balance at 31 December 2005	214,755	331,573	218,134	8,425	10,656	17,418	800,961

Breakdown:

Historical cost	214,755	336,220	237,064	9,533	12,435	17,418	827,425
Accumulated depreciation	-	(4,647)	(18,930)	(1,108)	(1,779)	-	(26,464)
Net book amount	214,755	331,573	218,134	8,425	10,656	17,418	800,961

Property, plant and equipment acquired through business combination were valued at 28 July 2005 based on internal and external valuations. The fair values of such assets were determined on a provisional bases, as described in Note 5.

The net book value of buildings under finance lease arrangements acquired through business combination is Euro 13,252 thousand.

The expirations of the lease contracts are from 2007 to 2012.

Such arrangements include purchase options.

The finance lease liabilities are included as part of borrowings; minimum lease payments at the balance sheet date are as follow:

(in thousands of Euro)	2005
No later than 1 year	992
Later than 1 year but not later than 5 years	4,866
Later than 5 year	1,166
Minimum leasing payment	7,024
Future financial expenses	(244)
Total on balance sheet*	6,780

* Nota 17



7.

Intangible assets

The amount of finance lease liabilities expires as follows:

(in thousands of Euro)	2005
No later than 1 year	951
Later than 1 year but not later than 5 years	4,703
Later than 5 year	1,126
Total on balance sheet*	6,780

* Nota 17

A breakdown of intangible assets is provided below:

	(in thousands of Euro)						
	Patent and design patent rights	Concession, licenses, trademarks and similar rights	Goodwill	Software	Other intangible assets	Construction in progress and advances	Total
Balance at 12 May 2005	-	-	-	-	-	-	-
Change in 2005:							
Acquis.through business combinations	14,517	45,581	53,820	4,331	21,382	1,248	140,879
Exchange difference	1	-	-	16	180	13	210
Increase	-	1,036	-	814	393	-	2,243
Decrease	-	-	-	-	(2,553)	(519)	(3,072)
Amortisation	(506)	(8,582)	-	(1,656)	(8,415)	-	(19,159)
Other changes	-	-	-	(90)	2,028	72	2,010
Total changes	14,012	38,035	53,820	3,415	13,015	814	123,111
Balance at 31 December 2005	14,012	38,035	53,820	3,415	13,015	814	123,111
Breakdown:							
Historical cost	14,518	46,617	53,820	5,071	21,430	814	142,270
Accumulated depreciation	(506)	(8,582)	-	(1,656)	(8,415)	-	(19,159)
Net book amount	14,012	38,035	53,820	3,415	13,015	814	123,111

The main items include:

- > Patent and design patent rights are related to patent assignments acquired through business combination.
- > Concessions, licenses, trademarks and similar rights are related to the right of use of the Pirelli trademark for a two years period, which was acquired through the business combination.
- > Goodwill, acquired in the Business Combination, amounting to Euro 53,820 thousand which is described in Note 5.

8.

Investment in associates

A breakdown of investment in associates is provided below:

(in thousands of Euro)	Investments in associates
Balance at 12 May 2005	-
Change in 2005:	
Acquis.through business combinations	18,025
Exchange difference	36
Change in share capital	-
Share of (loss)/profit	261
Other movements	(1,357)
Total changes	16,965
Balance at 31 December 2005	16,965

Details of investment in associates:

(in thousands of euro)	
Power Cables Malaysia	8,878
Radco Ltd	2,924
Kabeltrommel Gmbh & Co.K.G.	5,163
	16,965

	Power Cables Malaysia	Rodco Ltd	Kabeltrommel Gmbh & Co.K.G.	
Country	Malaysia	UK	Germany	
% ownership	40.00%	40.00%	27.48%	1.00%
Held by	Prysmian Cables Asia-Pacific PTE LTD	Prysmian Cables & Systems Limited	Prysmian Kabel und Systeme GmbH	Bergmann Kabel und Leitungen GmbH

Financial information at 31 December 2005

(in thousands of Euro)

Assets	13,025	7,269	31,696
Liabilities	4,478	-	13,903
Equity	8,547	7,269	17,793

9.

Available for sale financial assets

A breakdown of available for sale financial assets is provided below:

(in thousands of Euro)	
Balance at 12 May 2005	-
Change in 2005:	
Acquis.through business combinations	10,883
Exchange difference	18
Fair value gains	94
Fair value losses	(281)
Total changes	10,713
Balance at 31 December 2005	10,713

Details of investment in available for sales:

(in thousands of Euro)	
Invex Securities	6,000
Entek Elektrik Uretim Otoproduktor Grubu AS	1,880
Tunisie Cables SA	913
American Superconductor	626
Cesi Motta SpA	388
Voltimum SA	267
Other	640
	10,713

Invex Securities relate to convertible bonds issued by Invex SpA on 18 March 2003 held by Prysmian Cavi e Sistemi Energia Srl at a nominal value of Euro 6,000 thousand. The bond has an annual coupon of 2 percent and matures on 1 January 2010.

The fair values of the receivable component and the equity conversion component were not measured for the purpose of preparing the group financial statements, due to all necessary information not being available. This resulted in convertible bonds be measured at cost on a provisional basis in the consolidated financial statements at 31 December 2005. In accordance to IFRS3, fair value calculation will be finalized within twelve months from the acquisition date.

The following investment in available for sales were measured at cost: Cesi Motta SpA, Voltimum SA, Tunisie Cables SA and other. The fair value of these investments cannot be measured reliably, as they are unquoted instruments and there are no comparative investments quoted in the market at the balance sheet date.



10.

Trade and other receivables

Trade and Other Receivables are detailed as follows:

	(in thousands of Euro)		31 December 2005
	Non current	Current	Total
Trade receivables	-	838,822	838,822
Total trade receivables	-	838,822	838,822
Other receivables:			
Tax credits	5,635	45,146	50,781
Advances to suppliers	-	31,653	31,653
Receivables from employees	2,427	1,036	3,463
Other	29,958	55,870	85,828
Total other receivables	38,020	133,705	171,725
Total	38,020	972,527	1,010,547

Trade and other receivables are presented net of the allowance for doubtful accounts of Euro 62,212 thousand; the bad debt expense for the period is Euro 4,230 thousand.

Receivables related to government grants at balance sheet date are Euro 7,383 thousand.

Other receivables include amounts due from customers for construction contracts of Euro 29,192 thousand; such asset represents the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceeds progress billings.

The aggregate amount of costs incurred and recognised profits (less recognised losses) for contracts in progress at the balance sheet date was Euro 333,192 thousand.

11.

Inventories

Inventories amount to Euro 464,236 thousand. A breakdown of inventories is provided below:

	(in thousands of Euro)	31 December 2005
Raw materials		107,819
Work in process and semifinished products		135,420
Contract work in process		4,566
Finished products and goods		216,431
Total Current Assets		464,236

12. Financial assets held for trading

Financial assets held for trading mainly includes securities and investment funds; a breakdown of financial assets held for trading is provided below:

(in thousands of Euro)	31 December 2005
Equity securities - eurozone	591
Equity securities - other	22,305
Total	22,896

13. Derivative financial instruments

Derivative financial instruments are presented in the following table:

(in thousands of Euro)	31 December 2005	
	Assets	Liabilities
Non current		
Interest rate swaps		
cash flow hedge	5,672	-
Total non current	5,672	-
Current		
Forward foreign exchange		
Contracts	12,435	13,144
Commodities instruments	18,277	3,323
Total current	30,712	16,467
Total	36,384	16,467

Interest rate swaps

The notional principal amounts of the outstanding interest-rate swap contracts at 31 December 2005 amounted to Euro 529,332 thousand. At 31 December 2005, fixed interest rates vary from 2.9% to 4.6% and the floating rate is EURIBOR.

Commodities instruments

The notional principal amounts of the outstanding commodities instruments at 31 December 2005 was Euro 111,281 thousand.

Compared to last year copper and aluminium prices have increased by 28% and 11%, respectively. At the end of the first quarter 2006 copper and aluminium were traded at 50% and 30% higher than average 2005 prices, respectively.



14. Cash and cash equivalent

A breakdown of cash and cash equivalent is as follows:

(in thousands of Euro)	31 December 2005
Cash on hand	3,476
Bank and postal deposits	229,609
Total	233,085

15. Capital

At 31 December 2005 capital amounted to Euro 10,000.

16. Movements in equity

(in thousands of Euro)

	Attributable to the Group			Minority interest	Total equity
	Quota capital	Other reserves	Result	Other reserves and result	
Balance at 12 May 2005	10	-	-	-	10
Capital contributions*	206,085				206,085
Share based payments		1,400			1,400
Change in minority interest as a result of the business combination				23,223	23,223
Change in fair value of available-for-sale financial assets		(187)			(187)
Cash flow hedges, net of tax		3,518			3,518
Currency translation differences		3,307		149	3,456
Employee benefits actuarial gains and losses		2,270			2,270
Profit (loss) for the year			(27,159)	1,238	(25,921)
Balance at 31 December 2005	206,095	10,308	(27,159)	24,610	213,854

* Capital contribution includes the equity component of the shareholders' loan net of relevant deferred tax liabilities as described in Note 17.

17. Borrowings from banks and other financial liabilities

(in thousands of Euro)

31 December 2005

	Non current	Current	Total
Bank borrowings and payables to other lenders	994,484	65,952	1,060,436
Financial leasing	5,828	952	6,780
Shareholders loan	115,026	-	115,026
Other	548	8,504	9,052
Total	1,115,886	75,408	1,191,294



Bank borrowings are broken down as follows:

(in thousands of Euro)	31 December 2005
Financing Agreement	995,231
Other borrowings	65,205
Total	1,060,436

For the purpose of financing the acquisition of the energy and telecom cables and systems activities of Pirelli & C. SpA and working capital requirements, in July 2005 the Group entered into a loan arrangement with a pool of financial institutions (Financing Agreement). The loan includes senior credit lines and second lien credit facilities which were negotiated with Goldman Sachs International, J.P. Morgan Plc, Lehman Brothers International (Europe), Banca Intesa SpA and Unicredit Banca Mobiliare SpA. Total borrowings related to the loan arrangement amounted to Euro 995,231 thousand at 31 December 2005.

The Finance Agreement includes Senior facilities, Second lien facilities and Revolving facilities.

Banca Intesa SpA is the facility agent for the Senior Facilities, JP Morgan Europe Limited is the facility agent for the Second Lien Facilities.

In addition, Banca Intesa SpA is the security agent taking the benefit of the security as agent or on trust on behalf of the other banks under the facilities.

The Banks have taken security over certain shares and assets of the Group (including properties, bank accounts, receivables and intellectual property) which are pledged as a security. Security arrangements do not restrict the ordinary operations of the business. Based on the terms of the Financing Agreement, the Group is required to provide information to the lenders.

Key terms and conditions of the Financing Agreement are reported in the following table:

(in thousands of Euro)

	Amount drawn	Starting date	Maturity	Repayment
Tranche A1	150,000	31 July 2005	7 years	Amortising
Tranche A2	200,000	31 July 2005	7 years	Bullet
Tranche B	265,000	31 July 2005	8 years	Bullet
Tranche C	225,000	31 July 2005	9 years	Bullet
Subtotal senior facilities	840,000			
Second secured debt	190,000	31 July 2005	9.5 years	Bullet
Total Financing Agreement Debt	1,030,000			
Unamortised transaction costs	(34,769)			
Total Financing Agreement	995,231			



Financing Agreement borrowings bear a Euribor six months floating rate plus a credit spread.

Effective interest rates on senior and second lien facilities related to the Financing Agreement were as follows:

Senior facilities	5.2%
Second lien	9.2%

On 31 July 2005, the Group received a loan from the shareholder (shareholder loan) for an amount of Euro 191,000 thousand. Interest and principal amount are payable on demand after 31 July 2016. Considering the terms of the arrangement, the loan was treated as a compound instrument, which contains both a liability and an equity component. The liability component, discounted using the effective annual interest rate of 10.75%, classified as a non-current liability amounted to Euro 115,026 at 31 December 2005. The equity component, net of relevant deferred tax liabilities, amounted to Euro 56,600.

The Group has Euro 400,000 thousand of revolving floating rate facilities, expiring beyond one year, of which Euro 86,000 thousand have been drawn in the form of bonds at year end.

The maturity of non current borrowing (net of related up-front fees and other financial costs amortisation) is as follow:

(in thousands of Euro)	31 December 2005
Between 1 and 2 years	12,491
Between 2 and 5 years	66,821
Over 5 years	1,036,573
Total	1,115,886

The carrying amounts of the Group's borrowings are denominated in the following foreign currencies:

(in thousands of Euro)	31 December 2005
Euro	1,039,214
US Dollar	88,455
Pound sterling	39,469
Other currencies	24,155
Total	1,191,294

The carrying amount of borrowings approximates their fair value.

18. Trade and other payables

Trade and Other Payables are detailed as follows:

(in thousands of Euro) 31 December 2005

	Non current	Current	Total
Trade payables	-	602,919	602,919
Total trade payables	-	602,919	602,919
Other payables:			
Social securities and other tax payables	35,454	82,156	117,610
Advances	2,205	67,573	69,778
Payables to employees	-	30,281	30,281
Accrued expenses	7,672	137,475	145,147
Total other payables	45,331	317,485	362,816
Total	45,331	920,404	965,735

Trade and other payables include amounts due to customers for construction contracts of Euro 28,605 thousand; such liability represents the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

The aggregate amount of costs incurred and recognised profits (less recognised losses) for contracts in progress at the balance sheet date is disclosed in Note 10.

19. Provisions

Provisions are presented in the following table:

(in thousands of Euro) 31 December 2005

	Non current	Current	Total
Restructuring costs	23	9,041	9,064
Risks for disputes, litigation and contracts	22,661	2,461	25,122
Environmental risks	-	1,850	1,850
Tax audit	-	4,635	4,635
Other risks and charges	-	90,142	90,142
Total	22,684	108,129	130,813

(in thousands of Euro)

	Restructuring costs	Risks for disputes, litigation and contracts	Environmental risks	Tax audit	Other risks and charges
Balance at 12 May 2005	-	-	-	-	-
Acquis. through business comb.	16,759	17,441	-	11,941	98,009
Exchange difference	20	-	-	-	489
Addition	-	13,320	1,850	-	9,300
Utilization	(6,123)	(2,646)	-	(7,306)	(6,187)
Other	(1,592)	(2,993)	-	-	(11,469)
Total changes	9,064	25,122	1,850	4,635	90,142
Balance at 31 December 2005	9,064	25,122	1,850	4,635	90,142

20.

Retirement benefit obligation

This reserve, which amounts to Euro 132,228 thousand, reflects the accrued severance indemnities and other benefits owed to employees, computed in accordance with the actuarial guidelines provided in IAS 19. Provisions for retirement benefit obligation are detailed in balance sheet as follows:

(in thousands of Euro)	31 December 2005
Pension benefits	72,747
Employees' leaving indemnity	27,447
Medical assistance plans	13,832
Other benefits	18,202
Total	132,228

Income statement charge for employee benefit expenses is:

(in thousands of Euro)	31 December 2005
Pension funds	2,906
Employees' leaving indemnity	946
Medical assistance plans	409
Total	4,261

Pension plans

The composition of pension plans is as follows:

(in thousands of Euro)

	Germany	France	Turkey	UK	Netherland	USA	Canada	Total
Funded Pension plans:								
Present value of benefit obligations				3,082	9,033	23,539	22,612	58,266
Fair value of plan assets				(2,960)	(7,042)	(13,720)	(19,872)	(43,594)
Unfunded Pension plans:								
Present value of benefit obligations	49,733	5,531	2,811					58,075
Total	49,733	5,531	2,811	122	1,991	9,819	2,740	72,747



Changes in benefit obligation related to pension funds are as follows:

(in thousands of Euro)

Balance at 12 May 2005	-
Acquis.through business combinations	110,592
Change in income statement	5,124
Actuarial (gains)/losses recognised in equity reserve	(896)
Exchange rate changes	2,163
Plan participants' contributions	872
Curtailment	(246)
Utilisation	(1,267)
Total change	116,342
Total at 31 December 2005	116,342

Changes in plan assets related to pension funds are as follows:

(in thousands of Euro)

Balance at 12 May 2005	-
Acquis.through business combinations	(37,960)
Change in income statement	(979)
Actuarial (gains)/losses recognised in equity reserve	33
Exchange rate changes	(1,721)
Benefit paid from company	(718)
Plan participants' contributions	(2,249)
Total change	(43,594)
Total at 31 December 2005	(43,594)

Composition of plan asset and related expected return on plan asset are reported followed:

31 December 2005

	Expected Return on Plan Assets	Percentage of Plan Assets
Equity Securities	8.02%	58.00%
Debt Securities	4.34%	33.83%
Real Estate	0.00%	0.00%
Other	3.52%	8.17%
Total	6.41%	100.00%



Employees' leaving indemnities

The composition of employees' leaving indemnities (TFR – Trattamento di fine rapporto lavoro) is as follows:

(in thousands of Euro)

Balance at 12 May 2005	-
Acquis.through business combinations	27,937
Change in income statement	1,384
Actuarial (gains)/losses recognised in equity reserve	(790)
Utilisation	(1,084)
Total change	27,447
Total at 31 December 2005	27,447

Medical plans

The composition of medical assistance plans is as follows:

(in thousands of Euro)

Balance at 12 May 2005	-
Acquis.through business combinations	16,875
Change in income statement	754
Exchange rate changes	368
Actuarial (gains)/losses recognised in equity reserve	(618)
Curtailment	(3,291)
Utilisation	(256)
Total change	13,832
Total at 31 December 2005	13,832

Other information

Actuarial gains and losses on defined benefit plans have impacted in a specific reserve of equity for Euro 2,270 thousand.

The weighted average actuarial assumptions, related to determine benefit obligation, are reported followed:

	Pension plans	Employees' leaving indemnity	Medical assistance plans
Discount rate	4.43%	4.00%	5.50%
Rate of compensation increase	2.75%	2.14%	4.00%
Rate of price inflation	2.00%	2.00%	5% - 10%

21. Deferred and current taxes

The composition of deferred and current taxes is as follows:

(in thousands of Euro)	31 December 2005
a) Deferred Tax Liabilities	69,552
b) Deferred Tax Assets	(3,516)
Total a)-b)	66,036
c) Current Tax Liabilities	2,471
Total a)-b)-c)	68,507

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The offset amounts are as follows:

(in thousands of Euro)	31 December 2005
Deferred tax assets:	
Deferred tax assets after 12 months	(1,873)
Deferred tax assets within 12 months	(1,643)
Total	(3,516)
Deferred tax liabilities:	
Deferred tax liabilities after 12 months	57,835
Deferred tax liabilities within 12 months	11,717
Total	69,552

The movements on the deferred taxes are as follows:

(in thousands of Euro)	
Balance at 12 May 2005	-
Change in 2005:	
Acquis.through business combinations	40,492
Exchange difference	716
Income statement charge	(1,226)
Tax charged to equity	26,054
Total changes	66,036
Balance at 31 December 2005	66,036

The Group did not recognize deferred tax assets of Euro 124,058 thousand, in respect of losses of Euro 409,440 thousand which can be carried forward against future taxable income, and Euro 52,465 thousand on temporary differences of Euro 169,941 thousand.



Notes to the income statement

The consolidation accounts of the Prysmian Group include the operations of the Energy and Telecom business from 1 August 2005 through 31 December 2005.

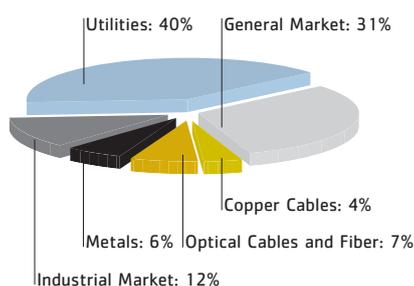
22. Revenues from sales of finished goods and services

Sales Revenues amount to Euro 1,635,825 thousand, and are referred to:

- > Finished goods for Euro 1,512,259 thousand;
- > Services for Euro 94,643 thousand;
- > Other materials for Euro 28,923 thousand.

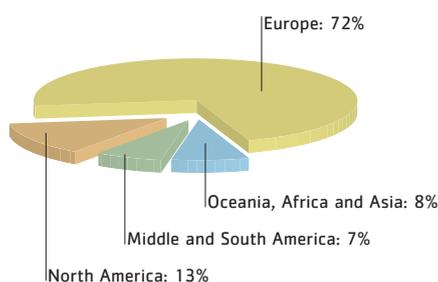
A breakdown by business and geographical area is reported below:

Sales Revenues by Business



(in thousands of Euro)	May to December 2005	%
General Market	513,316	31%
Utilities	642,902	39%
Industrial Market	201,776	12%
Metals	100,223	6%
Optical Cables and Fiber	108,911	7%
Copper cables	63,771	4%
Connectivity	4,926	0%
Total	1,635,825	100%

Sales Revenues by geographic area



(in thousands of Euro)	May to December 2005	%
Italy	229,016	14%
Rest of Europe	948,779	58%
Total Europe	1,177,794	72%
North America	212,657	13%
Middle and South America	114,508	7%
Oceania, Africa and Asia	130,866	8%
Total	1,635,825	100%

23. Other revenues and income

Other revenues and income totalled Euro 27,979 thousand and include rent income (Euro 1,255 thousand), recovery of costs (Euro 7,684 thousand), insurance indemnities and refunds (Euro 2,384 thousand) and miscellaneous revenues and income (Euro 16,656 thousand).

24. Raw materials and services used

The cost of raw materials and services used amount Euro 986,462 thousand as detailed below:

(in thousands of Euro)	May to December 2005	%
Raw materials	921,323	93%
Other materials	54,715	6%
Change in inventory	10,424	1%
Total	986,462	100%

This expense items consist mainly of purchases of raw materials and other materials used in production process.

25. Personnel costs

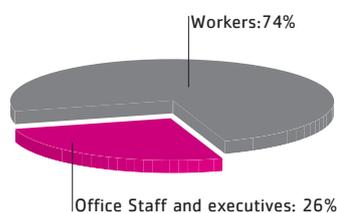
The personnel costs are Euro 212,596 thousand and are detailed as follows:

(in thousands of Euro)	May to December 2005	%
Wages and salaries	158,534	74.6%
Social security costs	34,338	16.2%
Pension costs	2,906	1.4%
Employees' leaving indemnity costs	946	0.4%
Medical assistance plans costs	409	0.2%
Other Personnel Expenses	15,463	7.3%
Total	212,596	100%

In July 2005 the controlling shareholder of the Prysmian Group offered irrevocably to some managers of the Group the right to co-invest in the share-capital of the ultimate parent company (i.e. Prysmian (Lux) Sarl) at the same terms of Goldman Sachs (i.e. par value of the capital instruments). The capital structure of Prysmian (Lux) Sarl is composed of shares, non Interest Bearing Preferred Equity Certificate (nPec) and Interest Bearing Preferred Equity Certificate (iPec) with a par value of Euro 28,16, Euro 1 and Euro 1, respectively.

At the date of the General Meeting the managers are in the process of signing the co-investment plan, having in the meantime defined the final terms and conditions agreed between the parties.

In accordance with IFRS 2 the Group has accounted the cost of the co-investment plan. This cost has been determined as the difference between the fair value of the financial instruments as of April 2006 (i.e. latest actual financial information available) and the par value of the financial instruments based on a vesting period of five years. The estimated cost for 2005, accounted for as payroll cost, is Euro 1,400 thousand.



In the following table is reported the average number of employees by category compared with the actual number of employees at 31 December 2005:

	31 December 2005			
	Average Number from May to December 2005	%	Headcount at 31 December 2005	%
Workers	9,058	74%	8,911	74%
Office Staff and executives	3,232	26%	3,171	26%
Total	12,290	100%	12,082	100%

26.

Construction contracts

Revenues and costs from contraction contracts have been recognised in profit and loss using the percentage of completion method; revenues and costs measured during the period are reported below:

(in thousands of Euro)	May to December 2005
Contract revenues	108,808
Contract costs	(91,909)
Gross profit	16,899

Amounts due from customers and amounts due to the customers for contract work are included as part of other receivables (Note 10) and other payables (Note 18).

27.

Depreciation and amortization

A breakdown of depreciation, amortization and write-down is provided below:

(in thousands of Euro)	May to December 2005	
Depreciation of property, plant and equipment	24,549	54%
Depreciation of other tangible assets	1,915	4%
Amortization of intangible assets	19,158	42%
Total	45,622	100%

Depreciation of property plant and equipment includes the effect of the revaluation and write-off made after the acquisition process under IFRS 3, already described in Note 5.

Amortization of intangible assets includes Euro 8,333 thousand for Pirelli trademark that has been licensed by Pirelli for a two years period and Euro 694 thousand for patents purchased from Pirelli which are amortized in twelve years, according to their useful life.

28.

Other expenses

Other expenses amount to Euro 331,397 thousand. Details are as follows:

(in thousands of Euro)	May to December 2005	%
Professional services	24,364	7%
Insurance	7,356	2%
Maintenance services	12,576	4%
Selling costs	68,101	21%
Sundry expenses	21,114	6%
Operating expenses	101,678	31%
Use of third parties	11,121	3%
Charges for risks	13,804	4%
Other costs	71,283	22%
Total	331,397	100%

During the period, the Group incurred research and development expenditure and technical management costs for a total of Euro 17,186 thousand, entirely charged to operating expenses.

29.

Finance costs

A breakdown of finance costs is provided below:

(in thousands of Euro)	May to December 2005
Interests accrued on shareholders loan	(5,064)
Interests on syndacated bank loan paid/accrued	(24,856)
Amortization of bank, financing and other fees	(3,470)
Interest costs for pension plans jubilee, medical plans	(3,176)
Other banks interests	(8,399)
Commitment fees	(1,562)
Bonding, fronting & administration fees	(824)
Interest accrued on banks and other fin. institutes accounts	5,394
Others	(5,935)
Total Financial Expenses	(47,892)
Foreign exchange losses	(110,610)
Foreign exchange gains	113,775
Net foreign exchange gains (losses)	3,165
Revenues on forward contracts for commercial trans.	52,043
Costs on forward contracts for commercial trans.	(57,754)
Costs on other forward contracts	(1,632)
Gains on metals derivatives	7,383
Fair value gains on financial instruments	40
Total	(44,687)

The amounts are primarily referred to:

- > Power Cables Malaysia (Euro 261 thousand);
- > Kabeltrommel GmbH & Co.K.G (Euro 673 thousand);
- > Other shares of results of Associates (Euro 186 thousand).

30.

Dividends and share of result of associates and joint ventures

31.

Income taxes

Income taxes amounted to Euro 16,558 thousand broken down as follows:

(in thousands of Euro)	May to December 2005
Current taxes	17,784
Deferred taxes	(1,226)
Total	16,558

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

(in thousands of Euro)	May to December 2005
Loss before tax	9,363
Tax calculated at domestic tax rates applicable to profits in the respective countries	955
Deferred tax not recognized	4,503
Expense not deductible for tax purposes (*)	11,100
Tax charge	16,558

* The amount includes IRAP (Italy) and withholding taxes not refundable.

32.

Contingencies

The Group has contingent liabilities in respect of bank and other guarantees and other matters arising in the ordinary course of the business. It is not anticipated that any material liabilities will arise from those contingent liabilities.



33. Related parties transactions

The Group is directly controlled by Prysmian (Lux) II Sarl (incorporated in Luxembourg), which owns 100 percent of the Company's share. The ultimate control of the Group stands with the Goldman Sachs Group, Inc.

Transaction between Prysmian Srl and subsidiaries, affiliated companies and the parent company mainly consist of:

- > commercial transactions including inter-company purchases and sales of raw materials and finished goods;
- > service transactions (technical, organizational and general) provided by the headquarter to the subsidiaries on a worldwide basis;
- > financial transactions carried out by Group Treasury on behalf of Group subsidiaries.

All the transactions listed above fall under the normal business operation of the Group. Such transactions are carried out on an arm's length basis.

Transactions with related parties are reported as follows:

(in thousands of Euro)	Amount	Description
Associates		
Sales made to associates	836	Amounts relate to goods and serviced sold to Power Cable Malaysia during the period. Goods are sold on the basis of the price lists in force with non-related parties.
Associated companies receivables	730	
Associated companies receivables	1,616	Amounts relate to dividends by Kabeltrommel Gmbh & Co.K.G
Prysmian Lux (II) Sarl		
Purchases of intellectual properties	60,000	In october 2005, Prysmian (Lux) II Sarl has transferred to Prysmian Cavi e Sistemi energia Srl patent assignments bought Pirelli in July 2005 (Euro 20,000 thousand) and to Prysmian Cable Holding B.V. the right of use the Pirelli trademark for a two years period (Euro 40,000 thousand).
Payables	20,000	
Interest paid	5,064	As part of financing the acquisition of the power and telecom activities, the shareholder financed the Group by the mean of a shareholders. loan. Interest were charged on an arm's length basis.
Borrowing	115,026	
Goldman Sachs Group, Inc		
Consulting services received	16,074	During the acquisition process, Goldman Sachs Group supplied consulting services to the Group. Advisory fees were charged on an arm's length basis.
Payables	3,000	
Derivative receivables	2,775	During the period the group entered into an interestswap arrangement negotiated between Trefin Srl and Goldman Sachs. This's the fair value of derivative receivables to 31 December 2005.



Key management compensations

During the period, the compensation for key management which includes 13 corporate directors is as follows:

(in thousands of Euro)

Salaries and other short-term benefits	3,009
Other benefits	1,108
Share based payments	1,400
Total	5,517

34.

Hyperinflation

The Turkish company, included in the Prysmian scope of consolidation, has adopted inflation accounting for its Financial Statement to 31 December 2005.

The level of the price index of the Turkey at the Balance Sheet date is 2.7%; impacts on the net monetary position are in:

- > other profits for Euro 1,628 thousand;
- > finance costs for Euro 403 thousand.

35.

Exchange rates

The main exchange rates used in the translation of foreign currency financial statements in the consolidated financial statements are as follows (local currency against Euro):

	Period end		Change in %	Average		Change in %
	31 December 05	29 July 05		1 August 05 31 Decembre 05	until al 19 July 05	
Europe						
British pound	0.6853	0.6893	-0.58%	0.6806	0.6861	-0.82%
Swiss franc	1.5551	1.5607	-0.36%	1.5488	1.5478	0.06%
Hungarian forint	252.8700	244.9900	3.12%	249.0567	247.3073	0.70%
Slovakian koruna	37.8800	38.9350	-2.79%	38.5339	38.6536	-0.31%
North America						
American dollar	1.1797	1.2093	-2.51%	1.2047	1.2733	-5.69%
Canadian dollar	1.3725	1.4856	-8.24%	1.4242	1.5713	-10.33%
Suth America						
Brazilian real	2.7613	2.8908	-4.69%	2.7515	3.2390	-17.72%
Venezuela bolivar	2,536.3550	2,599.9950	-2.51%	2,586.8682	2,653.3153	-2.57%
Argentine peso	3.5769	3.4598	3.27%	3.5523	3.6986	-4.12%
Oceania						
Australian dollar	1.6109	1.5904	1.27%	1.6020	1.6538	-3.24%
Asia						
Yuan (Chinese) renminbi	9.5181	9.8021	-2.98%	9.7353	10.5298	-8.16%
Singapore dollar	1.9628	2.0100	-2.40%	2.0257	2.1034	-3.84%
Indonesia rupiah	11,590.5525	11,851.1400	-2.25%	12,083.9738	12,055.1467	0.24%

36.

Events after the balance sheet date

On 31 January 2006, Prysmian Telecom Cables and Systems signed a frame contract for the supply of upgradeable copper telecom cables for KPN, the national telecoms operator in the Netherlands.

In line with current trends to take advantage of the opportunities presented by Fibre to the Home (FTTH) systems, Prysmian and KPN have decided to build an upgradeable system facilitating migration to optical networks in the future.

Furthermore, with much of the Netherlands lying below sea level, a significant part of the KPN cable system is permanently immersed in water. Consequently, a highly effective water blocking system has been developed to ensure that there is no danger of water penetration and to ensure the long term integrity of the cables.

In March 2006, Prysmian Telecom Cables and Systems exhibited its latest optical fiber solutions targeted specifically at the rapidly growing 'last mile' sector of the market in the CeBIT exhibition held in Hannover, Germany.

The heart of the Prysmian offering was the Sirocco Blown Fiber System, together with other new product developments including the new xDSL cable range.

In April 2006, Prysmian Telecom Cables & Systems announced that it had reached the 750,000 installed fibre kilometres mark with its latest delivery of Blown Fibre.

The Blown Fibre concept, supplied by Prysmian under the Sirocco brand, involves the pre-installation of a tube network with the optical fibres subsequently being blown into the tubes as the network evolves and the customer connections are completed.

On 28 March 2006, the Group acquired 20 % of the capital share of EKSA, a Polish company operating in power and telecommunication cables distribution business, for a cash consideration of Euro 0.5 million. The interest in EKSA, which may be increased in the near future, is expected to facilitate the growth of the Group activity in the Polish market.

On 27 April 2006 Prysmian Cavi e Sistemi Energia Srl signed an agreement to acquire, for a preliminary purchase price of Euro 11.2 million, all the cables business activity of Tianjin Angel Group Co. Ltd, one of China's leading manufacturers of specialized cables for industrial and OEM applications. The acquisition of all Angel's activities represents a significant step forward in Prysmian's expansion strategy in China and of targeted investments in selected business sectors. Leveraging on a Euro 20.4 million investment plan for the next years, including Angel's acquisition, Prysmian aims to double its turnover in China (2005 sales: Euro 100 million).

Due to the time constraints, disclosure of details of net assets acquired and goodwill was not practicable for EKSA and Tianjin Angel acquisitions.





On 2 June 2006, Prysmian Cables & Systems Ltd announced the closure of the Prescott site and the disposal of the non-core "copper rod rolling activities". As a result of the disposal, the Group will be paid a consideration of Euro 11 million which will be off-set by relocation and lay-off costs for an estimated amount of Euro 11.9 million. Those disposals and expenses will be incurred between 2006 and 2007.

Milan, 27 June 2006

THE BOARD OF DIRECTORS
BY THE PRESIDENT
Paolo Zannoni

Scope of consolidation

List of investments

Companies consolidated using the full consolidation method.

Company	Headquarters	Share Capital	% ownershipHeld by		
Europe					
Austria					
Prysmian OEKW GmbH	Vienna	Euro	2,071,176*	100.00%	Prysmian Energia Holding S.r.l.
Finland					
Prysmian (Finnish) Holdings OY	Kirkonummi	Euro	8,000	100.00%	Prysmian Energia Holding S.r.l.
Prysmian Cables and Systems OY	Kirkonummi	Euro	10,000,000	100.00%	Prysmian (Finnish) Holdings OY
France					
Prysmian (French) Holdings SAS	Paris	Euro	17,018,500	100.00%	Prysmian Cavi e Sistemi Energia S.r.l.
Prysmian (French) Holdings II SA	Paris	Euro	37,000*	100.00%	Prysmian (French) Holdings SAS
Prysmian Energie Cables et Systèmes France S.A.	Paron de Sens	Euro	136,800,000	100.00%	Prysmian (French) Holdings SAS
Eurelectric S.A.	La Bresse	Euro	4,036,500	100.00%	Prysmian Energie Cables et Systèmes France S.A.
Prysmian Telecom Cables et Systèmes France S.A.	Chavanox P-Decheruy	Euro	7,455,000	100.00%	Prysmian Cavi e Sistemi Telecom S.r.l.
Germany					
Prysmian Kabel und Systeme GmbH	Berlin	Euro	25,600	93.75%	Prysmian Energia Holding S.r.l.
				6.25%	Prysmian S.r.l.
Bergmann Kabel und Leitungen GmbH	Schwerin	Euro	1,022,600	100.00%	Prysmian Kabel und Systeme GmbH
Prysmian Telekom Kabel und Systeme Deutschland GmbH	Berlin	Euro	25,000	100.00%	Prysmian Cavi e Sistemi Telecom S.r.l.
Hungary					
Prysmian MKM Magyar Kabel Muvek RT	Budapest	Hun. Fiorint	6,981,070,000	100.00%	Prysmian Energia Holding S.r.l.
Kabel Keszletertekeesito BT	Budapest	Hun. Fiorint	1,239,841,361	100.00%	Prysmian MKM Magyar Kabel Muvek RT
Italy					
Prysmian Cavi e Sistemi Energia S.r.l.	Milan	Euro	100,000,000	100.00%	Prysmian S.r.l.
Prysmian Energia Holding S.r.l.	Milan	Euro	10,000	99.99%	Prysmian Cavi e Sistemi Energia S.r.l.
				0.01%	Prysmian Cavi e Sistemi Energia Italia S.r.l.
Prysmian Cavi e Sistemi Energia Italia S.r.l.	Milan	Euro	59,749,502	100.00%	Prysmian Cavi e Sistemi Energia S.r.l.
Prysmian Telecom S.r.l.	Milan	Euro	10,000	100.00%	Prysmian S.r.l.
Prysmian Cavi e Sistemi Telecom S.r.l.	Milan	Euro	31,930,000	100.00%	Prysmian Telecom S.r.l.
Trefin S.r.l.	Milan	Euro	4,242,476	100.00%	Prysmian Cavi e Sistemi Energia S.r.l.
Prysmian (US) Energia Italia S.r.l.	Milan	Euro	10,000	100.00%	Prysmian Energia Holding S.r.l.
Prysmian (US) Telecom Italia S.r.l.	Milan	Euro	10,000	100.00%	Prysmian Cavi e Sistemi Telecom S.r.l.
Prysmian Cavi e Sistemi Telecom Italia S.r.l.	Milan	Euro	20,000,000	100.00%	Prysmian Cavi e Sistemi Telecom S.r.l.
Fibre Ottiche Sud - F.O.S. S.r.l.	Battipaglia	Euro	47,700,000	100.00%	Prysmian Cavi e Sistemi Telecom S.r.l.
Luxembourg					
Prysmian Treasury (LUX) S.a.r.l.	Luxembourg	Euro	50,000	100.00%	Prysmian Cavi e Sistemi Energia S.r.l.
Norway					
Prysmian Kabler og Systemer A.S.	Ski	Nor. Krone	100,000	100.00%	Prysmian Cables and Systems OY
Romania					
Prysmian Holdings S.r.l.	Bucarest	Ron	200	100.00%	Prysmian Dutch Holdings B.V.
Prysmian Cabluri Si Sisteme S.A.	Slatina	Ron	20,892,770	100.00%	Prysmian Holdings S.r.l.
Slovakia					
Prysmian Kablo s.r.o.	Bratislava	Slov. Koruna	640,057,000	99.995%	Prysmian Energia Holding S.r.l.
				0.005%	Prysmian S.r.l.
Spain					
Prysmian (Spanish) Holdings S.L.	Barcelona	Euro	60,104	100.00%	Prysmian Energia Holding S.r.l.
Prysmian Cables Y Sistemas S.L.	Barcelona	Euro	12,000,000	100.00%	Prysmian (Spanish) Holdings S.L.
Fercable S.L.	Barcelona	Euro	3,606,073	100.00%	Prysmian Cables y Sistemas S.L.
Prysmian Telecom Cables y Sistemas Espana S.L.	Barcelona	Euro	12,000,000	100.00%	Prysmian Cavi e Sistemi Telecom S.r.l.
Sweden					
Prysmian Kablar och System AB	Hoganas	Swed. Krona	100,000	100.00%	Prysmian Cables and Systems OY
Switzerland					
Prysmian Cables and Systems SA	Manno	Swiss Franc	500,000	100.00%	Prysmian Cable Holding B.V.
The Netherlands					
Prysmian Cable Holding B.V.	An Delft	Euro	272,515,065	100.00%	Prysmian Cavi e Sistemi Energia S.r.l.
Prysmian Cables and Systems B.V.	An Delft	Euro	5,000,000	100.00%	Prysmian Cable Holding B.V.
Prysmian (Dutch) Holdings B.V.	Amsterdam	Euro	18,000	100.00%	Prysmian Energia Holding S.r.l.
Pirelli Cable Overseas B.V.	An Delft	Euro	10,000,000	100.00%	Prysmian Cavi e Sistemi Telecom S.r.l.
Tuchia					
Turk Prysmian Kablo Ve Sistemleri A.S.	Mudanya Bursa	Turk Lira	39,312,000	83.75%	Prysmian Cable Holding B.V.
				16.25%	Terzi
United Kingdom					
Prysmian Cables & Systems Ltd.	Eastleigh	Brit. Pound	145,329,120	100.00%	Prysmian Cavi e Sistemi Energia S.r.l.
Prysmian Construction Company Ltd	Eastleigh	Brit. Pound	8,000,000	100.00%	Prysmian Cables & Systems Ltd.
Prysmian Cables (2000) Ltd	Eastleigh	Brit. Pound	118,653,473	100.00%	Prysmian Cables & Systems Ltd.
Prysmian Cables (Industrial) Ltd	Eastleigh	Brit. Pound	9,010,935	100.00%	Prysmian Cables & Systems Ltd.
Prysmian Cables (Supertension) Ltd	Eastleigh	Brit. Pound	5,000,000	100.00%	Prysmian Cables & Systems Ltd.
Prysmian Makers Properties & Services Limited	East Molesey	Brit. Pound	33	63.53%	Prysmian Cables & Systems Ltd.
				36.47%	Terzi
Prysmian Cables Limited	Eastleigh	Brit. Pound	100,000	100.00%	Prysmian Cables & Systems Ltd.

Prysmian Telecom Cables and Systems Uk Ltd	Eastleigh	Brit. Pound	100,000	100.00%	Prysmian Cables & Systems Ltd.
Prysmian Metals Limited	Eastleigh	Brit. Pound	100,000	100.00%	Prysmian Cables & Systems Ltd.
Comergy Ltd.	Eastleigh	Brit. Pound	1,000,000	100.00%	Prysmian Energia Holding S.r.l.
Prysmian Pension Scheme Trustee Limited	London	Brit. Pound	1	100.00%	Prysmian S.r.l.
GSCP Athena UK Holdings Limited	London	Brit. Pound	1	100.00%	Prysmian S.r.l.
North America					
Canada					
Prysmian Power Cables and Systems Canada Ltd	New Brunswick	\$Can.	1,000,000*	100.00%	Prysmian Cable Holding B.V.
U.S.A.					
Prysmian Power Cables and Systems Usa LLC	Lexington	US\$	10	100.00%	Prysmian (US) Energia Italia S.r.l.
Prysmian Construction Services Inc	Dover	US\$	1,000	100.00%	Prysmian Power Cables and Systems Usa LLC
Prysmian Communications Cables and Systems USA LLC	Lexington	US\$	10	100.00%	Prysmian (US) Telecom Italia S.r.l.
Prysmian Communications Cables Corporation	Wilmington	US\$	1	100.00%	Prysmian Communication Cables and Systems USA
Central/South America					
Argentina					
Prysmian Energia Cables y Sistemas de Argentina S.A.	Buenos Aires	Arg.Peso	44,509,458	24.69%	Prysmian Cable Holding B.V.
				74.92%	Pirelli Consultora Conductores e Instalaciones SAIC
				0.39%	Terzi
Pirelli Telecomunicaciones Cables y Sistemas de Argentina S.A.	Buenos Aires	Arg. Peso	12,000	99.99%	Prysmian Telecom. Cabos e Sistemas do Brasil S.A.
				0.01%	Capalbo
				99.996%	Prysmian Cable Holding B.V.
Pirelli Consultora Conductores Instalaciones SAIC	Buenos Aires	Arg. Peso	2,228	0.004%	Prysmian Ener. C. et Systèmes France S.A.
Brasil					
Prysmian (Brasil) Holdings Limitada	San Paulo	Bra. Real	4,700	99.98%	Prysmian Cavi e Sistemi Energia S.r.l.
				0.02%	Prysmian S.r.l.
Prysmian Energia Cabos e Sistemas do Brasil S.A.	Sorocaba	Bra. Real	106,824,993	99.44%	Prysmian Cavi e Sistemi Energia S.r.l.
				0.56%	Terzi
Prysmian Telecomunicacoes Cabos e Sistemas do Brasil S.A.	Sorocaba	Bra. Real	81,288,046	99.57%	Prysmian Cavi e Sistemi Telecom S.r.l.
				0.43%	Terzi
Sociedade Produtoria de Fibras Opticas SA	Sorocaba	Bra. Real	100	51.00%	Prysmian Telecom. Cabos e Sistemas do Brasil S.A.
				49.00%	Furukawa Industrial S.A. Produtos Eletricos
Chile					
Prysmian Instalaciones Chile S.L.	Santiago	Chile Peso	918,707,000	100.00%	Prysmian Consultora Conductores e Instalaciones SAIC
Africa					
Ivory Coast					
Sociète Ivoirienne de Cables S.A.	Abidijan	Cfa Franc	740,000,000	51.00%	Prysmian Energie et Systèmes France S.A.S.
				9.03%	Ivorial
				4.97%	Sidelaf
				35.00%	Terzi
Tunisia					
Auto Cables Tunisie	Grombalia	Tun. Dinar	4,450,000*	51.00%	Prysmian Energie et Systèmes France S.A.S.
				49.00%	Terzi
Oceania					
Australia					
Prysmian Power Cables & Systems Australia Pty Ltd	Liverpool	\$Austr.	15,000,000	100.00%	Prysmian Cavi e Sistemi Energia S.r.l.
Prysmian Telecom Cables & Systems Australia Pty Ltd	Liverpool	\$Austr.	38,500,000	100.00%	Prysmian Cavi e Sistemi Telecom S.r.l.
New Zeland					
Prysmian Power Cables & Systems New Zeland Ltd	Auckland	\$Nz	10,000	100.00%	Prysmian Power Cables & Systems Australia Pty Ltd
Prysmian Telecom Cables & Systems New Zeland Ltd	Auckland	\$Nz	10,000	100.00%	Prysmian Telecom Cables & Systems Australia Pty Ltd
Asia					
China					
Tianjin Pirelli Power Cables Company Ltd	Tianjin	\$US	13,100,000	67.00%	Prysmian Cable Holding B.V.
				33.00%	Tianjin General Cable Works Co. Ltd.
Pirelli cables (Shanghai) Trading Co. Ltd	Shanghai	\$US	500,000	100.00%	Prysmian Cables Asia-Pacific Pte Ltd
Pirelli Baosheng Cable Co. Ltd	Jiangsu	\$US	19,500,000	67.00%	Prysmian Cables Asia-Pacific Pte Ltd
				33.00%	Jangsu Baosheng Group Co. Ltd.
Pirelli Telecom Cables Co. Ltd Wuxi	Wuxi	\$US	29,941,250	86.71%	Pirelli Cable overseas B.V.
				13.29%	Xishan Xue Lang Industry and Commerce General Comp.
Indonesia					
P.T. Prysmian Cables Indonesia	Jakarta	\$US	67,300,000	99.48%	Prysmian Cable Holding B.V.
				0.52%	Prysmian Cavi e Sistemi Energia S.r.l.
Singapore					
Prysmian Cables Asia-Pacific Pte Ltd	Singapore	\$Sing.	213,324,000	100.00%	Prysmian Cable Holding B.V.
Trans-Power Cables Pte Ltd	Singapore	\$Sing.	1,500,000	100.00%	Prysmian Cable Holding B.V.
PrysmianCables Systems Pte Ltd	Singapore	\$Sing.	25,000	50.00%	Prysmian Cable Holding B.V.
				50.00%	Prysmian Cables & Systems Ltd

* Undrawn but not totally paid

Independent Auditors' Report



PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 2409-TER OF THE CIVIL CODE

To the Shareholders of
Prysmian Srl

- 1 We have audited the consolidated financial statements of Prysmian Srl and its subsidiaries ("Prysmian Group"), which comprise the balance sheet, income statement, cash flow statement, statement of recognised income and expense and the related notes as of 31 December 2005 and for the period from 12 May 2005 through 31 December 2005. These consolidated financial statements are the responsibility of Prysmian Srl directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
- 2 We conducted our audit in accordance with Italian standards on auditing. In accordance with those standards the audit has been planned and performed to obtain reasonable assurance about whether the financial statements are free of material misstatement and, taken as a whole, are reliable. An audit includes examining, on a sample basis, evidence supporting the amounts and disclosures in the financial statements as well as assessing the appropriateness of the accounting policies used and the reasonableness of estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.
- 3 The responsibility for the audit of the financial statements of certain subsidiaries, representing 0.7 per cent of the consolidated assets and 0.4 per cent of consolidated net revenues, lies with other auditors.
- 4 The consolidated financial statements of the Prysmian Group at 31 December 2005 do not present comparative information as Prysmian Srl was incorporated on 12 May 2005.
- 5 In our opinion, the consolidated financial statements present fairly the financial position of the Prysmian Group as of 31 December 2005 and the results of its operations and cash flow for the period from 12 May 2005 through 31 December 2005 in accordance with the International Financial Reporting Standards as adopted by the European Union.

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 Montevecchio 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



- 6 On 28 July 2005 Prysmian Group acquired the energy and telecom cable and system business from Pirelli & C. SpA. As described in the notes to the financial statements, the cost of the business combination and the fair values assigned to the acquired identifiable assets, liabilities and contingent liabilities were determined provisionally.

Milan, 29 June 2006

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

(This report has been translated from the original version which was issued in accordance with Italian legislation. Reference in this report to the Financial Statements relates to the Italian Financial Statements and not to their translation.)

Statutory financial statements

Balance sheet

Assets

(amounts in Euro) 31 December 2005

A) Capital subscription rights receivable	-
B) Fixed assets	
I) Intangible assets	-
II) Property, plant and equipment	-
III) Financial assets	
1) Investments in:	
a) subsidiaries	151,368,320
Total	151,368,320
Total fixed assets	151.368.320
C) Current assets	
I) Inventories	-
II) Receivables	
2) Subsidiaries	
a) Due within one year	2,951,849
4-bis) Taxes receivable	
a) Due within one year	123,670
Total	3,075,519
III) Current financial assets	-
IV) Cash and banks	
1) Bank and postal account deposits	20,619
Total	20,619
Totale current assets	3,096,138
D) Accrued income and prepaid expenses	
2) Prepaid expenses	16,106
Total	16,106
Total Assets	154,480,564

Quotaholders' equity and liabilities

A) Quotaholders' equity	
I) Capital	10,000
II) Premium reserve	-
III) Revaluation reserve	-
IV) Legal reserve	-
V) Statutory reserve	-
VI) Reserve for treasury stock in portfolio	-
VII) Other reserves	149,484,669
VIII) Retained earnings (accumulated deficit)	-
IX) Net loss for the period	(55,381,090)
Total	94,113,579
B) Provisions for liabilities and expenses	
3) Other provisions	55,000,000
C) Employees' leaving indemnity	-



(amounts in Euro)

31 dicembre 2005

Memorandum account

D) Payables	
4) Bank borrowings	
a) Due within one year	370
7) Trade accounts payable	
a) Due within one year	850,094
9) Payables to subsidiaries	
a) Due within one year	2,147,538
c) Financial payables due within one year	2,075,674
14) Other payables	
a) Due within one year	78,625
Total	5,152,301
E) Accrued liabilities and deferred income	
1) Accrued liabilities	214,684
Total	214,684
Total equity and liabilities	154,480,564
Guarantees provided on behalf of subsidiaries	58,847,084
Total memorandum accounts	58,847,084

Income statement

from 12 May to 31 December 2005

A) Production value	
5) Other revenues and income	1,115,500
Totale A)	1,115,500
B) Production costs	
7) Service expenses	(1,498,007)
12) Accruals for liabilities and expenses	(55,000,000)
14) Other operating expenses	(507)
Total B)	(56,498,514)
Difference between production value and production costs (A-B)	(55,383,014)
C) Financial income and expenses	
16) Other financial income	
d1) Other income from subsidiaries	1,836,349
d4) Other income from others	26,330
17) Interest and other financial expenses	
a) From subsidiaries	(14,142)
d) From others	(1,846,613)
Total C)	1,924
D) Valuation adjustments to financial assets	-
E) Extraordinary items	-
Result before income taxes	(55,381,090)
22) Income taxes	-
23) Result of the period	(55,381,090)



Summary of significant accounting policies

Subsequent events

Structure of asset and liability statement and of profit and loss account

Criteria of valuation

Notes to financial statements

These financial statements are the first such statements ever prepared by the Company; it was set up on 12 May 2005, under the name of GSCP Athena Srl, and on 28 October 2005, the holders' meeting changed the name of the company to Prysmian Srl.

The financial statement at 31 December 2005 was drawn up in compliance with the dispositions indicated by art. 2423 bis of the Civil Code, considering the modifications carried out by Legislative Decree n. 6 of 17 January 2003 and following integrations, and in particular:

- > the valuation of the balance items was made according to the general principle of prudence and with the prospect to carry on the business;
- > proceeds and charges were considered according to the principle of competence;
- > risks and losses concerning the fiscal year were taken into consideration even if acknowledged after its closing;
- > profits were included only if created at the date the fiscal year closed, following the principle of competence.

In compliance with art. 27 paragraph 4 letter A of Legislative Decree 127/91 the company did not use the possibility of not preparing the consolidated balance sheet since this was already prepared by the controlling company Prysmian Srl.

On 1 February 2006 the controlling company Prysmian (Lux) II Sarl made payments against capital increases for a total of Euro 20,000 thousands.

The asset and liability statement and the profit and loss account reflect the dispositions of art. 2423-ter, 2424 and 2425 of the Civil Code.

The recording of the items composing the above documents was made following the principles provided for by art. 2424-bis and 2425-bis of the Civil Code.

The amounts indicated on the supplementary note, unless otherwise specified, are shown in Euro.

In the valuations the following criteria were respected: those provided for by art. 2426 of the Civil Code, recalled and integrated by Consob dispositions and the Accounting principles issued by the Domestic Boards of Public Accountants and Simple Accountants as well as the Italian Accounting Institution.

In particular, the criteria listed below:

- > financial fixed assets are shown at their purchase cost, and in case reduced due to permanent losses in value.



- > credits are shown at their presumable value of sale;
- > debts are shown at their nominal value;
- > cash balances are shown at their nominal value;
- > current taxes are calculated according to a realistic forecast of the obligations to fulfil applying the actual tax regulations;
- > deferred and advanced taxes are calculated according to the temporary differences existing between the value on balance of assets and liabilities and their fiscal value (method of global allocation). Deferred taxes are recorded under fund for taxes. Advanced taxes are shown among credits under item advanced taxes (in the working capital) only if considered as recoverable with reasonable certainty on taxable incomes of next fiscal years;
- > dividends of the controlled companies are calculated at collection.

Assets

Notes to balance sheet

We inform that the different items of asset are charged by liens and mortgages in compliance with what described by paragraph "Real guarantees given" in section Interim accounts.

Fixed assets (B)

Financial assets (B-III-1-a)

Investments in subsidiaries

The list of shareholdings in controlled companies and value of the period are shown in the supplementary tables that are to be considered as integrating part of this supplementary note. As for those shareholdings where the book value is higher than the concerning net worth, the cost valuation was maintained and the difference as permanent loss of value was not identified.

During the period investments in subsidiaries have been made for an amount of Euro 2,168 thousands. During the period, the company made some additional paid in capital to subsidiaries for an amount of Euro 149,200 thousands.

Current assets (C)

Receivables (C-II-a)

Receivables, none of which are due beyond five years, total Euro 2,951,849 and refer to invoices to be issued to subsidiaries for the recovery of costs. Details are as follows:

- > Euro 1,836,349, for fees on the Bonding/Revolving Line (Senior Facilities Agreement);
- > Euro 1,115,500, for audit fees in connection with the sale of the activities of Pirelli Energy and Telecom Cables and Systems to Prysmian Group.

Taxes receivable (C-II-4 bis)

Taxes receivable amount to Euro 123,670 and mainly refer to VAT receivables.

Cash and banks (C-IV-1)

Cash and banks total Euro 20,619 and refer to cash in bank accounts.

Accrued income and prepaid expenses (D)

Prepaid expenses (D-2)

Prepaid expenses amount to Euro 16,106 and refer to insurance premiums paid in advance.



Quotaholders' equity and liabilities

Quotaholders' equity (A)

Capital (A-I)

Capital is equal to Euro 10,000 and entirely held by Prysmian (Lux) II Sàrl.

Other reserves (A-VII)

During 2005, the parent made payments against capital increases for a total of Euro 149,484,669.

Net loss for the period (A-IX)

The net loss for the period is Euro 55,381,090.

An analysis of the composition of equity at 31 December 2005, with indication of distributable and available amounts pursuant to ex art. 2427-bis of the Italian Civil Code, is as follows:

	Amount	Possibility of utilization	Amount available	Summary of amounts utilized in the last three years	
				For coverage of losses	For other reasons
Capital	10,000	-	-	-	-
Income reserves:					
Legal reserve	-	-	-	-	-
Other reserves:					
Payments against capital increases	149,484,669	A, B	149,484,669	-	-
Retained earnings (accumulated deficit)	-	-	-	-	-
Result of the period	(55,381,090)	-	-	-	-
Total	94,113,579	-	149,484,669	-	-
Portion not distributable	-	-	-	-	-
Remaining portion distributable	-	-	-	-	-

Key

A: for capital increase

B: for coverage of losses

C: for distribution to quotaholders

Changes in equity are as follows:

	Capital	Payments against capital increases	Net loss for the period	Total
Balance at 12 May 2005	-	-	-	-
Payments against capital increases	10,000	149,484,669		149,494,669
Net loss for the period			(55,381,090)	(55,381,090)
Balance at 31 December 2005	10,000	149,484,669	(55,381,090)	94,113,579



Provisions for liabilities and expenses (B)

Other provisions (B-3)

The provision to cover the losses of subsidiaries amounts to Euro 55,000,000 and refers to an accrual made to cover the losses and at the same time recapitalize the subsidiary Prysmian Telecom Srl, which was carried out on 24 March 2006.

Payables (D)

Payables total Euro 5,152,301. Details are as follows:

Bank borrowings (D-4-a)

Bank borrowings amount to Euro 370 and relate to bank account balances.

Trade accounts payable (D-7-a)

Trade accounts payable amount to Euro 850,094 and principally relate to invoices to be received for audit fees.

Payables to subsidiaries – Due within one year (D-9-a)

Payables to subsidiaries amount to Euro 2,147,538 and are due to the subsidiary Prysmian Cavi e Sistemi Energia Srl and refer to the purchase of the investment in Prysmian Kabel und Systeme GmbH.

Payables to subsidiaries – Financial payables due within one year (D-9-c)

This item amounts to Euro 2,075,674 and refers to the balance on the current account with the subsidiary Trefin Srl. The balance includes interest due for the period at market rates.

Other payables (D-14-a)

Other payables amount to Euro 78,625 and refer to:

- > compensation payable to the directors and board of statutory auditors for Euro 58,380;
- > others for Euro 20,245.

Accrued liabilities and deferred income (E)

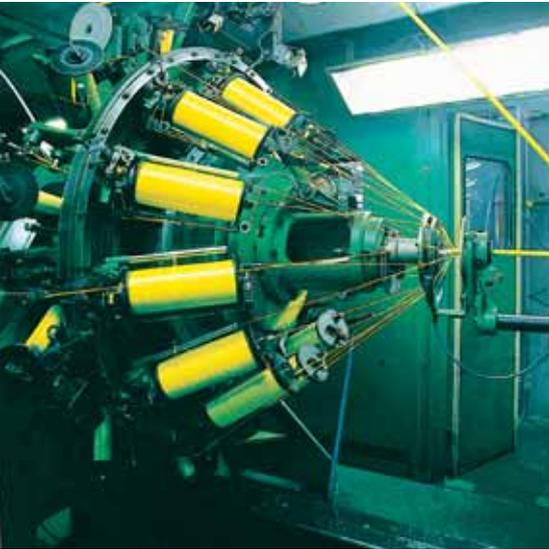
Accrued liabilities (E-1)

Accrued liabilities total Euro 214,684 and refer to accruals for the commissions on borrowings.

Subscribed real securities

During the period Group Prysmian (“the Group”) subscribed a financing with a pool of banks (called Financial Agreement) comprising Senior Credit Lines and Subordinate Credit Lines (called Second Lien). Against such Financial Agreement the Group subscribed a series of guarantees of which the different companies of the Group, including Prysmian Srl, answer at various levels.

Memorandum accounts



The overall amount of the guarantees subscribed with the financing banks by the companies of the Group is equal to the total amount received, directly or indirectly, consequently to the Financial Agreement. As for the Italian companies such value shall not exceed in any case the conventional amount of Euro 3,660,000,000.

Said guarantees are given by the single companies of the Group in joint and several from to the financing banks.

The pool of banks that paid out this financing includes the following main joint-stock banks: Goldman Sachs International, J.P. Morgan Plc, Lehman Brothers International (Europe), Banca Intesa S.p.A. and Unicredit Banca Mobiliare S.p.A..

The other companies belonging to the Group that gave guarantees to the financing banks are the following: Prysmian Cavi e Sistemi Energia Srl, Prysmian Telecom Srl, Prysmian Cavi e Sistemi Energia Italia Srl, Prysmian Cavi e Sistemi Telecom Srl, Fibre Ottiche Sud Srl, Prysmian Cavi e Sistemi Telecom Italia Srl, Trefin Srl, Prysmian Energia Holding Srl, Prysmian (US) Energia Srl and Prysmian (US) Telecom Srl.

Below there are the guarantees given by Prysmian Srl in compliance with the terms of the Financial Agreement:

- > security on bank current accounts;
- > assignment to guarantee those credits resulting from the contract of purchase of shares undersigned in the month of July 2005;
- > security on quota equal to 100 % of the capital stock of Prysmian Cavi e Sistemi Energia Srl;
- > security on quota equal to 100 % of the capital stock of Prysmian Telecom Srl.

Guarantees provided on behalf of subsidiaries

These guarantees total Euro 58,847,084 and were provided to the following:

- > Euro 28,354,094 - Prysmian Cavi e Sistemi Energia Srl;
- > Euro 25,844,159 - Prysmian Power Cables and Systems USA LLC;
- > Euro 2,451,530 - Prysmian Cavi e Sistemi Energia Italia Srl;
- > Euro 1,344,792 - Prysmian Construction Services Inc.;
- > Euro 459,022 - Prysmian Cable Systems Pte Ltd;
- > Euro 251,702 - Prysmian Power Cables and Systems Canada Ltd;
- > Euro 141,785- Prysmian Power Cables & Systems Australia Pty Ltd.

Notes to income statement

Production value (A)

Other revenues and income (A-5)

Other revenues and income amount to Euro 1,115,500 and related to the recovery of audit fees from subsidiaries.

Production costs (B)

Service expenses (B-7)

Service expenses amount to Euro 1,498,007. Details are as follows:

- > Euro 1,405,500, for audit fees;
- > Euro 58,153, for compensation paid to directors and statutory auditors;
- > Euro 31,365, for legal and notary fees;
- > Euro 2,442, for insurance premiums;
- > Euro 320, for social security charges in respect of professionals;
- > Euro 227, for INPS social security charges on compensation to the board of statutory auditors and other.

Accruals for liabilities and expenses (B-12)

Accruals for liabilities and expenses amount to Euro 55,000,000 and are commented under the balance sheet item "Provisions for liabilities and expenses".

Other operating expenses (B-14)

Other operating expenses amount to Euro 507 and refer to the costs incurred for the register authentication tax and revenue stamps.

Financial income and expenses (C)

Other financial income from subsidiaries (C-16-d1)

Other financial income amounts to Euro 1,836,349 and relates to the recovery of bank commissions from subsidiaries.

Other financial income from others (C-16-d4)

Other financial incomes refer to interest income on current account transactions and amount to Euro 26,330.

Interest and other financial expenses from subsidiaries (C-17-a)

This item totals Euro 14,142 and refers to the interest expense on the current account with Trefin Srl.

Interest and other financial expenses from others (C-17-d)

Euro 1,846,613 includes:

- > Euro 1,838,685, for commissions on the Bonding/Revolving line;
- > Euro 7,920, for bank commissions;
- > Euro 8, for interest expenses on current account transactions.

Income taxes(E-22)

During the period no income taxes have been accrued.



Other information **Compensations to directors and statutory auditors**

- > compensations, to which the directors of the Company are entitled, amount to Euro 45,000;
- > compensations, to which the statutory auditors of the Company are entitled, are Euro 13,153.

Transactions with Related Parties

Transaction between Prysmian Srl and its subsidiaries are reported in Director's Report.

Milan, 27 June 2006

THE BOARD OF DIRECTORS
BY THE PRESIDENT
Paolo Zannoni

List of equity investments in subsidiaries

(in thousand of Euro)

Financial Fixed assets Subsidiaries	Head office	Cost	% interest held	Capital stock	Total net equity	Pro-quota interest in equity	Net income (loss)
Italian companies							
Prysmian Cavi e Sistemi Energia Srl	Milan, Viale Sarca 222	149,010	100	10	394,678	394,678	245,668
Prysmian Telecom Srl	Milan, Viale Sarca 222	210	100	10	(54,558)	(54,558)	(54,768)
Total italian companies		149,220					
Foreign companies							
Prysmian UK Holding Limited	London, Peterborough Court, 133 Fleet Street	1	100	1	1	1	-
Prysmian Pension Scheme Trustee Limited	Hampshire, Chkenhall Lane, Eastleigh	1	100	1	1	1	-
Total foreign companies		2					
Prysmian Kabel und Systeme GmbH	Berlin, Germany	2,147	6.25	25,600	27,364	1,710	275
Other foreign companies		2,147					
Total		151,369					

Independent Auditors' Report



PricewaterhouseCoopers SpA

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLE 2409-TER OF THE ITALIAN CIVIL CODE

To the Shareholders of
Prysmian Srl

- 1 We have audited the financial statements of Prysmian Srl as of 31 December 2005 and for the period from 12 May 2005 through 31 December 2005. These financial statements are the responsibility of Prysmian Srl directors. Our responsibility is to express an opinion on these financial statements based on our audit.
- 2 We conducted our audit in accordance with Italian standards on auditing. Those standards require that we plan and perform the audit to obtain the necessary assurance about whether the 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 accounting principles used and the reasonableness of estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

The financial statements of Prysmian Srl do not present comparative information as Prysmian Srl was incorporated on 12 May 2005.

- 3 In our opinion, the financial statements of Prysmian Srl as of 31 December 2005 and for the period from 12 May 2005 through 31 December 2005 comply with the Italian civil law governing the preparation of financial statements; accordingly, they give a true and fair view of the financial position and of the results of operations of the company.

Milan, 29 June 2006

PricewaterhouseCoopers SpA

Signed by

Paolo Caccini
(Partner)

(This report has been translated from the original which was issued in accordance with Italian legislation. Reference in this report to the Financial Statements relates to the Financial Statements in original Italian and not to their translation. We assume no responsibility on the translation of the financial statements into the English language.)

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