



PRIMA INDUSTRIE

**REPORT ON OPERATIONS – 2006 FINANCIAL YEAR
CONSOLIDATED FINANCIAL STATEMENTS 12/31/06**

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**STATUTORY FINANCIAL STATEMENTS 12/31/2006**

**Approved by Board of Directors on 26 March 2007**

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**PRIMA INDUSTRIE S.P.A.**

Fully-paid share capital 11,500,000 euro

Registry of Business Enterprises of Turin  
under no. 03736080015  
Turin R.E.A. no. 582421

Registered offices in Collegno (Turin)  
Via Antonelli, 32  
Website: <http://www.primaindustrie.com>  
e-mail: [ir@primaindustrie.com](mailto:ir@primaindustrie.com)

**BOARD OF DIRECTORS (1)**

Chairman and Managing Director  
Gianfranco Carbonato

Directors  
Sandro D'Isidoro  
Fabrizio Lugaresi (2)  
Mario Mauri (2)  
Domenico Peiretti  
Pio Pellegrini (2) (3)  
Marco Pincioli (Managing Director) (5)

Secretary  
Massimo Ratti

**General Manager**

Ezio Basso

**BOARD OF STATUTORY AUDITORS (4)**

Chairman  
Riccardo Formica

Auditors  
Andrea Mosca  
Roberto Petrignani

Alternate Auditors  
Roberto Coda  
Gianluigi Frigerio

**AUDITING COMPANY**

PricewaterhouseCoopers S.p.A.

(1) Appointed at the Shareholders' Meeting held on 13 May 2005 for the three-year period 2005-2007

(2) Independent director

(3) Appointed at the Shareholders' Meeting held on 8 September 2005 for the three-year period 2005-2007

(4) Appointed at the Shareholders' Meeting held on 14 May 2004 for the three-year period 2004-2006

(5) Appointed by the Board of Directors on 14 June 2006 for the activities of Merger & Acquisition and external growth.

**POWERS RELATING TO COMPANY APPOINTMENTS**

In terms of resolutions dated 13 May and 7 June 2005 the Board of Directors appointed Gianfranco Carbonato as the Chief Executive Officer and determined his powers.

In terms of clause 25 of the Articles of Association, the Chairman and Chief Executive Officer is the legal representative of the company.

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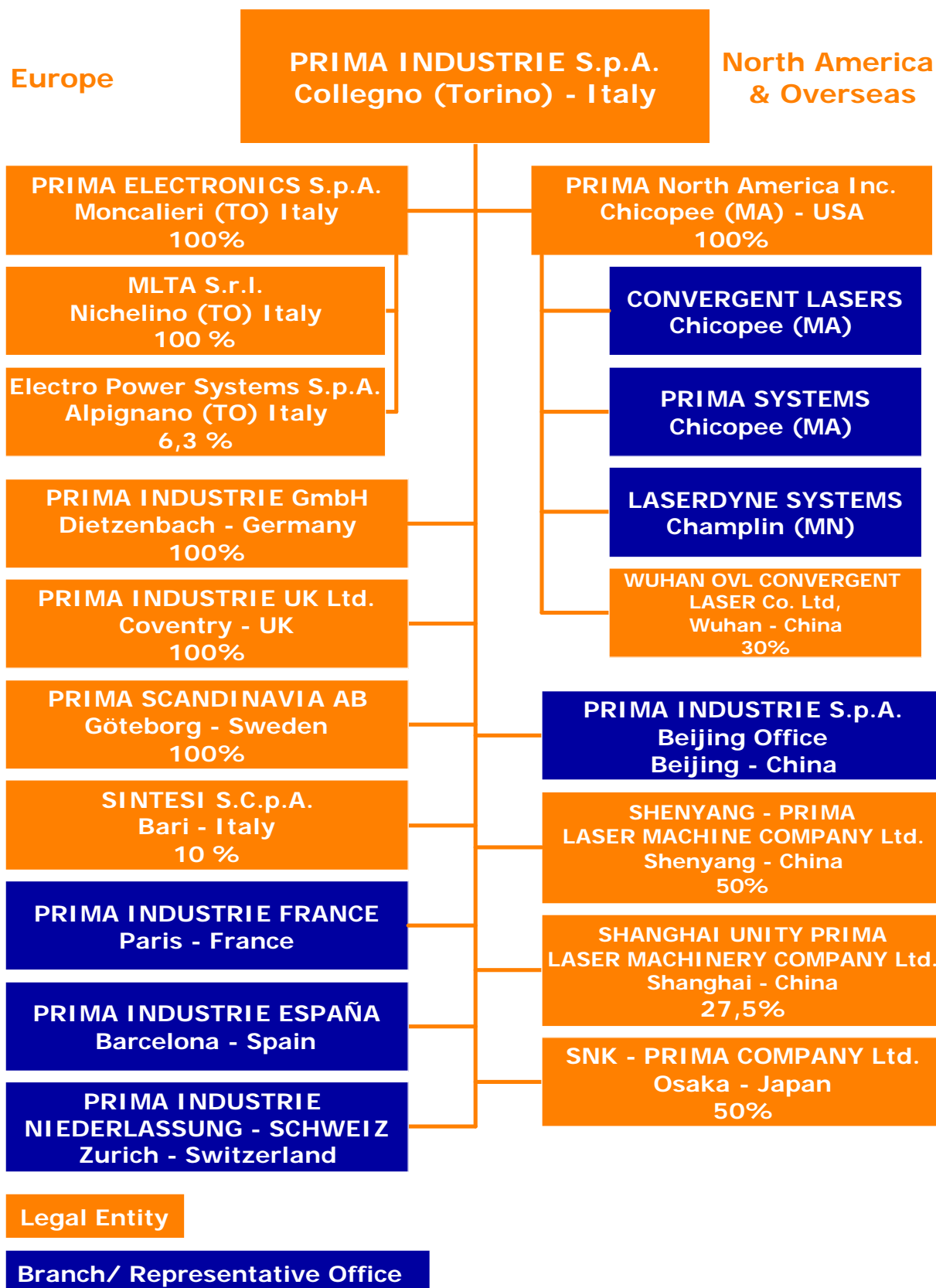


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**REPORT ON OPERATIONS  
FOR THE FINANCIAL YEAR 2006**

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# 1. STRUCTURE OF THE PRIMA INDUSTRIE GROUP AT 31/12/2006



## 2. INTRODUCTION

### □ NORMATIVE FRAMEWORK

In application of European Regulation No. 1606 dated 19 July 2002, the PRIMA INDUSTRIE Group prepared the consolidated financial statements to 31 December 2006 in accordance with the International Accounting Principles approved by the European Commission (hereinafter referred to individually as the IAS/IFRS or together, as IFRS).

The consolidated financial statements to 31/12/06 includes the following components

- a) balance sheet;
- b) income statement;
- c) statement of changes in Shareholders' Equity;
- d) cash-flow statement;
- e) report on operations;
- f) supplementary notes

In accordance with Legislative Decree 38/2005, as from 1 January 2006, the financial statements of the parent company PRIMA INDUSTRIE S.p.A. are also drafted according to IAS / IFRS accounting principles, which are the reference used for disclosure of data concerning the parent company.

At 31/12/2006, the following companies were included in the area of consolidation:

| SUBSIDIARIES         | REGISTERED OFFICE                                                                            | Share Capital  | Stake  | Consolidation Method |
|----------------------|----------------------------------------------------------------------------------------------|----------------|--------|----------------------|
| PRIMA ELECTRONICS    | Strada Carignano 48/2, 10024 Moncalieri,                                                     | € 1,500,000    | 100%   | Full                 |
| PRIMA North America, | CONVERGENT LASERS Division<br>PRIMA LASER TOOLS<br>711 East Main Street, Chicopee, MA 01020, | USD 24,000,000 | 100%   | Full                 |
|                      | LASERDYNE SYSTEMS<br>8600, 109th Av. North, Champlin, MN 55316,                              |                |        |                      |
| PRIMA INDUSTRIE      | Lise-Meitner Strasse 5, Dietzenbach,                                                         | € 500,000      | 100%   | Full                 |
| PRIMA SCANDINAVIA    | Möndalsvägen 30 C, Göteborg,                                                                 | SEK 100,000    | 100%   | Full                 |
| PRIMA INDUSTRIE UK   | Unit 1, Phoenix Park, Bayton Road, Coventry CV7 9QN,                                         | GBP 1          | 100%   | Full                 |
| M.L.T.A. S.r.l.      | Via Cuneo, 31, 10042 Nichelino,                                                              | € 46,800       | 57,84% | Full                 |

| ASSOCIATED COMPANIES AND JOINT VENTURES | REGISTERED OFFICE                                                                                                                                | Share capital  | Stake  | Consolidation Method |
|-----------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------|----------------|--------|----------------------|
| Shenyang PRIMA Laser Company Ltd        | 45 Huanghai Rd, Yuhong                                                                                                                           | USD 2,000,000  | 50%    | Equity method        |
| SNK PRIMA Company                       | Misaki Plant Fuke,<br>Sennan-Gun, Osaka<br>Japan, Shanghai 201111                                                                                | Yen 90,000,000 | 50%    | Equity Method        |
| Shanghai Unity PRIMA Machinery Co Ltd.  | 2019, Kuyang Rd., Shanghai 201111 -                                                                                                              | Rmb 16,000,000 | 27,50% | Equity Method        |
| Wuhan OVL Convergent Laser Co.,         | Building No.1, Great Wall Technology Industry<br>no.1, Townson Lake Road,<br>Wuhan East Lake High-Tech Development<br>Wuhan, 430223, Hubei, P.R. | USD 6,800,000  | 30%    | Equity Method        |



On 12/01/2006, the Group through its subsidiary company PRIMA ELECTRONICS S.p.A increased its holding in M.L.T.A. S.r.l. to 57.84%. (M.L.T.A. S.r.l. operates in the power electronics sector). Thus, with effect from 01/01/2006, MLTA entered the area of consolidation. Subsequently to the closing of the financial year (23/01/07) the holding in Prima Electronics went up to 100%.

#### ALTERNATIVE PERFORMANCE INDICATORS

In addition to the indicators provided for in the layout of the Financial Statement prepared in accordance with International Accounting Standards, the Group and the company also used EBITDA ("Earnings before interest, taxes, depreciation and amortization), to measure its income performance; EBITDA is determined by adding the Operating Income, as per the layout of the Financial Statements, to the items "Amortization, depreciation and writedowns" and the Working Capital, calculated as the sum of "Inventories" and "Trade receivable" net of "Trade payables" and "Advances".

## □ GENERAL INFORMATION

Founded in 1977, PRIMA INDUSTRIE S.p.A. (“the company”) designs, manufactures and markets high power laser systems for cutting, welding and surface treatment of three-dimensional (3D) and flat (2D) components.

Since the decision to start focusing on industrial laser systems, the company has repeatedly posted double-figure growth, becoming one of the market leaders in laser systems. More recently, maintaining its own leadership in three-dimensional applications, PRIMA INDUSTRIE has also become an important manufacturer on the market relating to the laser cutting of flat surfaces, thanks to its strong commitment to product innovation and its extensive sales and customer service network.

Together with its subsidiary company PRIMA ELECTRONICS S.p.A., PRIMA INDUSTRIE S.p.A. has accumulated significant skill and know-how in the industrial electronics field, as well as in control technology and real-time software, success factors in the continuous innovation of the product necessary to maintain its leadership in a high-tech sector with highly developmental dynamics.

In May 2000, the Company acquired Convergent Energy Inc. in the United States. Through this acquisition, the PRIMA Group integrated the knowledge required to internationalize its design and manufacture of CO<sub>2</sub> and solid-state lasers, in addition to strengthening its own presence on the US market.

In April 2001 the company bought the Laserdyne division from GSI Lumonics. Laserdyne is the leading industrial company in the design, manufacture and sale of multi-axis laser systems, particularly in the field of precision drilling, cutting and welding for the aerospace and energy industries. Thanks to this acquisition, the PRIMA Group has broadened its presence in North America and in the aerospace market.

In 2002, the USA activities were combined and consolidated into a single legal entity – PRIMA North America Inc. - located at two productive premises: Chicopee in Massachusetts (CONVERGENT LASERS and PRIMA SYSTEMS) and Champlin in Minnesota (LASERDYNE SYSTEMS).

Between 1999 and 2003, the company gained ground on the Asian market, with the set-up of three joint ventures, two in China and one in Japan.

During the period 2004-2005, the Company further consolidated its sales and service structures in Europe through the incorporation of PRIMA SCANDINAVIA AB and PRIMA INDUSTRIE UK Ltd., as well as through the acquisition on 01/07/2005 by PRIMA INDUSTRIE GmbH of the activities of the previous German distributor. In addition to the three companies mentioned above there are also branch offices in Spain, France, Switzerland and China, as well as the Research and Development centre set up in Bari in 2003.

In 2005 the Group enhanced its hold in the laser sources sector with the set-up of a joint venture in China between the Convergent Lasers division of PRIMA North America and Wuhan Optics Valley Laser Technology for the manufacture and distribution of CO<sub>2</sub> lasers in China; during 2006, we strengthened our direct presence in the power electronics sector with acquisition of a controlling stake in M.L.T.A. S.r.l.

The PRIMA Group's mission is to systematically expand the range of its production and services and to continue to grow as a world supplier of laser systems and solutions for industrial applications and industrial electronics - markets that are characterized by high technology with elevated growth rates.

The Parent Company, PRIMA INDUSTRIE S.p.A., has been listed on the Italian Stock Exchange since October 1999 (currently STAR section); the company has its registered office and its business premises in via Antonelli 32, Collegno (Turin).

The proposed financial statements were approved by the Board of Directors on 26 March 2007.

### 3. BUSINESS TREND

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#### MESSAGE TO SHAREHOLDERS

Shareholders,

30 years ago, on 25 March 1977, the first Group company was founded, Prima Progetti S.p.A., which began operating in June 1977.

Thus, it is with great satisfaction that the Board of Directors, in the thirtieth anniversary of its founding, submits for your approval the best financial statements in the history of the Group, with sales of €147.6m up 33% on the previous year and a strong increase in profitability:

- EBITDA at €19.8m (13.4% of turnover), more than double the 2005 value;
- EBIT at €18.5m (12.5% of turnover) up 130% on 2005;
- Net profits of €13.7m up 168% on 2005, thanks also to a reduction in tax rates due to previous tax losses of PRIMA North America.

Other major elements are a strong increase in order intake (+40% at €165m) with a corresponding increase in the year-end backlog (+36% at €55.6m). The considerable generation of cash during the year (€10.8m) rendered the net financial position positive by the end of the year (€3.1m) for the first time in the history of the company. This value highlights the balance between short-term liquidity of €21 and mainly short- to medium-term financial indebtedness of €17.9m.

The 2006 results are the effect of external variables and an industrial vision that has inspired the business choices made over the last few years.

With regards to external factors, faced with a moderate but significant growth in GDP, finally registered also in Europe's "traditional" markets (particularly Germany, France and Italy), the industrial laser systems sector posted an increase of more than 20% during the year. This value, corroborated by external analyses (Optech Consulting), underlines the strength of the reference market in which the company operates, guided by solid growth drivers resulting from the high level of competitiveness of laser technologies over more traditional technologies. In this context, despite being subject to cyclical phases, as in all capital goods markets, this sector has in the past registered (and is expected to continue registering in the coming years) average growth rates above 10%. This average stems from rates rising above 20% in the years of positive economic cycles (such as last year), and from situations of zero growth (or marginal reductions) when the general situation is negative. It is nevertheless, certain that since mid-2005, even the economies of European countries, whose negative trend had until then diluted the strong growth of emerging countries, have picked up, thanks to exports (particularly towards eastern Europe), and investments.

However, it would be reductive to see the Group's excellent performance merely as the result of a good trend in its reference market. Indeed, even in strictly numerical terms, compared to 2005, growth outperformed (+33%, achieved almost completely domestically) the market, thanks to the right business strategies made particularly in the last few years, which we highlight below:

- *“ Internalisation” of technological components fundamental for laser systems.*  
After the acquisition of Convergent Energy in 2000, the Group, which was already manufacturing its own mechanical and electronic components and software, also gradually achieved production independence for laser sources. In 2006, around 80% of the sources sold on systems delivered to customers were manufactured internally.
- *Continuous investment in Research, Development and Innovation.*  
Even in the most difficult years, the group continued to set aside a portion of resources, dedicated to basic research, expensed in the financial statements, for competitive renewal of the product range. Sincrono, the revolutionary 2D cutting system, at the end of 2005, and Rapido Evoluzione, a new performance benchmark in 3D systems, at the end of 2006, represent the latest significant examples of this policy;
- *Increased direct presence in the main geographical markets.*  
During the year, in addition to confirming its presence in terms of sales and customer service in Western Europe, North America and China, the Group laid the ground for improving its footing in Eastern Europe and Asia. This consolidation will continue throughout the current year and the coming year;
- *Continuous emphasis on the quality and training of human resources.*  
In 2006 the Group's workforce increased by approximately 50 units (10% of the total, not including the joint ventures in China). As usual, by far the largest portion of new entries concerned young graduates and/or school-leavers, in whose recruitment and training the Group invests concern and resources.

During the year, the company benefited from a significant improvement in its image on the markets, both in industrial and financial terms, as a result of the increasing success of its products worldwide. In particular, prestigious recognition was obtained in Germany and the United Kingdom for the innovative Sincrono system, which also received enthusiastic appreciation from the best in world competition.

The continuous improvement in company performance, communicated progressively to the market through quarterly reports, was reflected in the share value, which rose from €12.74 per share at 01/01/06 to €22.46 per share at 31/12/06. For this performance, PRIMA INDUSTRIE shares received the Value Creators Prize 2006 for the best share of the year in Borsa Italiana's Mid Caps segment.

The additional acceleration of results, posted in the last quarter and communicated to the market in the quarterly report of 13/02/07, further improved appreciation of the company by investors with a consequent intense increase in capitalization during the first months of 2007.

For the current year, the group proposes to consolidate the strong internal growth achieved during 2006, also as a result of the substantial orders backlog at 31/12/06 and the ongoing positive situation in the markets, confirmed during January and February 2007. The sizeable liquidity will also enable the company to follow up any external growth opportunities arising in the areas of business in which the Group operates (laser systems, complementary machinery and industrial electronics).

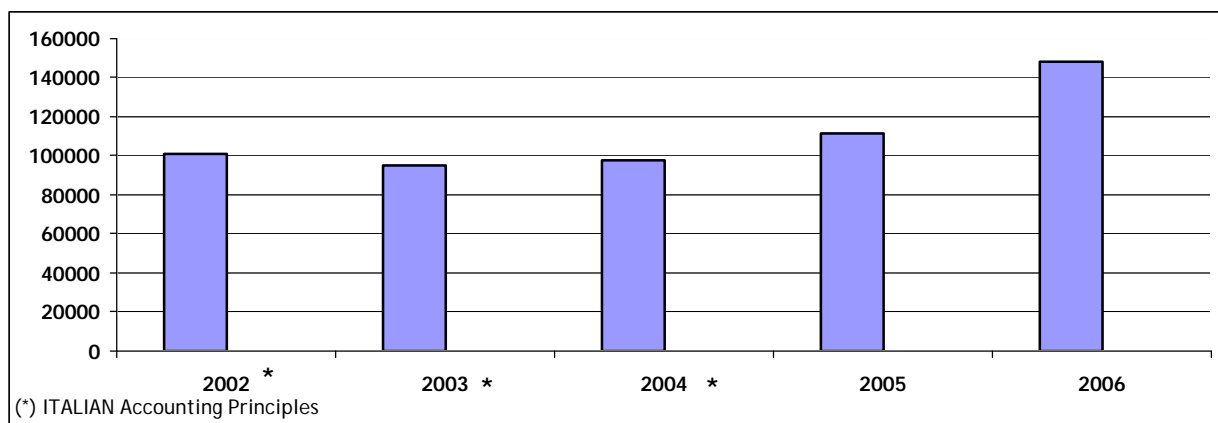
In light of the above, the Board of Directors has decided to submit for approval to the next General Meeting of Shareholders a dividend of €0.65 per share, which is more than double the dividend distributed on 2005 profits, and which follows the doubling of dividends from €0.14 to €0.28 already approved in the previous year.

While preparing for celebrations for the company's 30<sup>th</sup> birthday, the Board and the Management would like to thank shareholders, customers and partners for the support received and express their heartfelt congratulations to all Group employees for the brilliant results achieved last year.

□ INCOME AND PROFITABILITY

Consolidated revenues for 2006, valued in accordance with IAS 18 (that provides for the recognition of revenue generally at the time at which the risks and benefits of ownership of the product are transferred to the end customer) amount to €147,569,000, up 33% compared to €110,885,000 at 31/12/2005.

**Consolidated sales turnover (in thousands of euro)**



The distribution of sales into geographical area is as follows:

|                        | 12 MONTHS<br>31/12/2006 |            | 12 MONTHS<br>31/12/2005 |            |
|------------------------|-------------------------|------------|-------------------------|------------|
|                        | thousands<br>of Euro    | %          | thousands<br>of Euro    | %          |
| ITALY                  | 35,786                  | 24.2       | 30,050                  | 27.1       |
| EUROPE                 | 68,400                  | 46.4       | 45,574                  | 41.1       |
| NORTH AMERICA          | 29,412                  | 19.9       | 21,179                  | 19.1       |
| ASIA AND REST OF WORLD | 13,971                  | 9.5        | 14,082                  | 12.7       |
| <b>TOTAL</b>           | <b>147,569</b>          | <b>100</b> | <b>110,885</b>          | <b>100</b> |

The data show an increase of sales in Europe of around 50%. This important result derives from the overall improved situation in the economies of European countries and from the strong growth in the emerging countries of Eastern Europe (Poland, Czech Republic, Slovakia, Russia, Turkey). Growth in the markets of Western Europe was supported by an improved macroeconomic climate, in addition to important investments made to increase its direct presence (this applies to Germany, Sweden, United Kingdom).

The Italian market, which was substantially stable until September, saw sales grow in the last quarter of the year bringing the year's increase to around 19%.

The increase in sales recorded in North America was similarly significant (+38%) with a strong trend in all three divisions; before consolidation adjustments, overall growth recorded by PRIMA North America stood at around 55%.

In Asia and the rest of the world, sales remained stable, owing to non-consolidation of proceeds from joint ventures in China and Japan in which the Group does not have a controlling stake. In particular, sales from Shanghai Unity Prima (around 100m RMB, without considering the value of directly imported lasers) were up around 40% on the previous year.

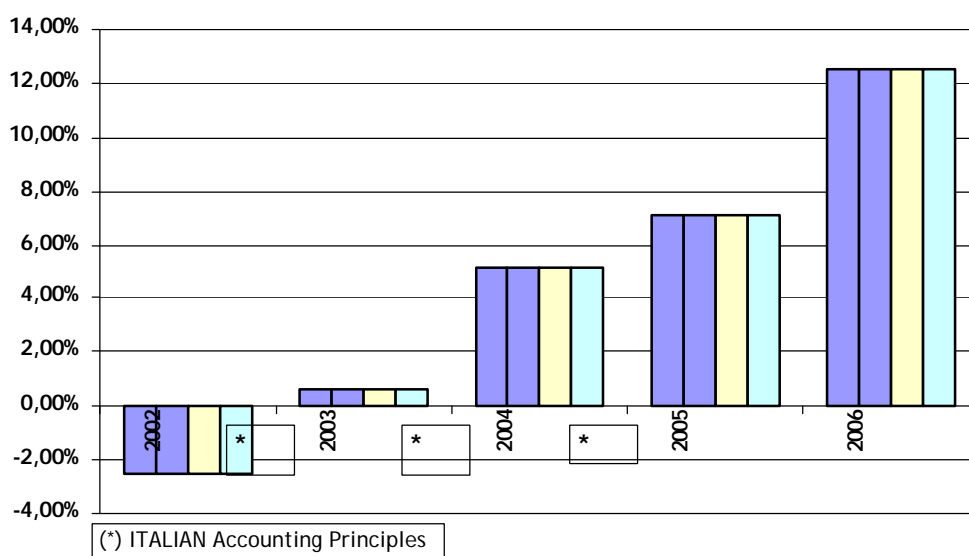
At a product level, the expansion of sales in the 2D systems sector (in particular PLATINO and SINCRONO) continued. This was accompanied by a satisfactory increase in the revenues from electronic products, after-sales services and spare parts and a substantial stability in the sales of 3D systems, where a growth in the aerospace segment was matched by a decline in the automobile sector because of the unfavourable business trend in this industry, mainly in the European and North American market.

As a consequence, the value of production at 31/12/2006 stood at €145,873,000, 26% higher than the corresponding figure for the previous year (€115,851,000).

All the profitability indexes showed significant growth compared to the previous year's figures. Group EBITDA at €19,797,000 (13.4% of turnover) more than doubled the figure at 31/12/2005 of €9,125,000.

Consolidated EBIT (€18,467,000, 12.5% of turnover) grew by more than 130% compared to €7,917,000 at 31/12/2005.

### Operating profit – (EBIT)/Turnover



The increase in operating profit is reflected in the profit before tax at 31/12/2006, which amounted to €17,577,000, compared to €7,113,000 at 31/12/2005.

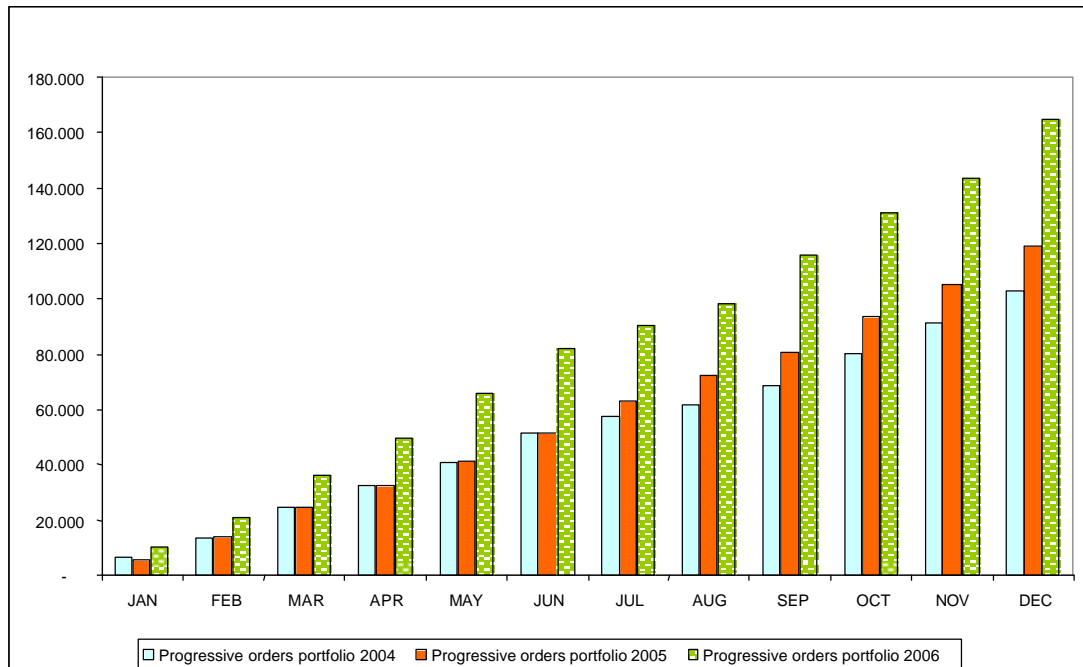
The Group's net result at 31/12/2006 stood at €13,706,000, up 168% on the €5,108,000 at the same date in the previous period.

As far as the tax burden is concerned, the results to 31/12/2006 benefit from a reduced tax rate, mainly due to utilization during the period of previous tax losses of PRIMA North America and, considering the favourable trend of this company, due to the registration at 31/12/2006 of deferred taxes corresponding to previous tax losses not yet utilized at that date amounting to €1.716m. These deferred taxes are to be utilized during 2007.



## ORDERS ACQUISITION AND THE ORDERS BACKLOG

At 31/12/2006 the consolidated order acquisition amounted to €164,988,000, with an increase of almost 40% compared to the €118,821,000 in 2005, thus continuing and reinforcing the favourable trend already observed from the middle of 2005.



In particular, order intake in the laser systems and sources segment stood at €120.421m (€105.513m in 2005), while in the electronic products segment for third-party customers it was €17.631m in 2006 (€13.308m in 2005).

In addition to the positive economic climate, the growth in order intake was due to important activities which saw the Group take part in the most important tradeshows in the sector in all the main European markets, including, by way of example, BIMU Mediterranea (Bari - Italy), BIEMH (Bilbao - Spain), Tech-Show (Utrecht Netherlands), MACH (Birmingham -UK), LAMIERA (Bologna - Italy), METALLOBRABOTKA (Moscow - Russia), and EUROBLECH (Hannover - Germany), where the new 3D machine, Rapido Evoluzione, was officially presented. It also attended a number of trade fairs in the emerging countries of Eastern Europe, such as Poland, the Czech Republic and Turkey, which have become indubitably important for the Group.

Outside of Europe, the Group took part in other prestigious exhibitions namely CCMT 2006 (Shanghai - China), FABTECH (Atlanta - USA), JIMTOF (Tokyo - Japan) and AUSTECH (Sydney - Australia).

The excellent orders collection results during the year were also a consequence of the Group's commercial policy, whereby our direct presence on the main geographical reference markets was increased.

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As a result the orders backlog at 31/12/06 stood at €55.568m, with an increase of 36.4% compared to €40.742m at 31/12/2005.

At the end of February 2007, the orders backlog further increased to €65.086m.

□ NET FINANCIAL POSITION

|                                   | 31/12/06     | 30/09/06       | 31/12/05       |
|-----------------------------------|--------------|----------------|----------------|
| CASH                              | 20,971       | 13,956         | 11,767         |
| SHORT-TERM BORROWINGS (*)         | (5,232)      | (3,757)        | (13,913)       |
| MEDIUM-, LONG-TERM BORROWINGS (*) | (12,663)     | (15,476)       | (5,587)        |
| <b>TOTAL NET EXPOSURE</b>         | <b>3,076</b> | <b>(5,277)</b> | <b>(7,733)</b> |

(\*) Also includes the leasing charges and the debt entries relating to existing Sabatini pro-solvendo transactions.

The improvement in the net financial position continue throughout 2006, thanks also to cash flow generated by revenues and a careful management of working capital.

The net financial position (€3,076,000 at 31/12/2006) became active, with an improvement of €10.8m compared to 31/12/2005 (€-7,733,000) and by about €8.4m compared to 30/09/2006. Financial indebtedness highlights an overall exposure towards credit institutions and other lenders and includes leasing instalments and debt entries relating to Sabatini recourse loans for an overall €1.053m (compared to €1.348m at 30/09/2006 and €1.827m at 31/12/2005).

Compared to 31/12/2005, new loans were entered into for €13.674m (€7.842m in 2005), whereas loan instalments totalling €15.121m were repaid (€9.657m in 2005).

The *Cash* item also includes the item “*Other financial assets*”.

The item “*Short-term borrowings from banks*” almost entirely consists of medium-term loan instalments, which expire during 2007.

Bank overdrafts at 31 December 2006 stood at €413,000, compared with €1,036,000 at 12 /31/2005.

The composition of net indebtedness includes:

- €384,000 (against €896,000 at 31 December 2005) for Sabatini recourse loans. It should be emphasized that the Group could be called upon to honour these loans only in the event of insolvency on the part of the customers involved;
- €669,000 in lease instalments (against €931,000 at 31/12/2005), most of which are due in connection with the capital lease taken out on PRIMA INDUSTRIE Plant 2 in Collegno, Turin.
- €1,542,000 in subsidized R&D loans and market inserting programmes issued by government agencies; these were €1,761,000 at 31/12/2005;
- net balance of €7,000 on interest rate and exchange rate derivatives, (against €11,000 at 31/12/2005).
- €268,000 for other financial assets, consisting almost entirely of a capitalization agreement (€272,000 at 31/12/2005).

This means a net balance of €5.410m held within the banking system, compared to the net indebtedness of €4.405m at 31/12/2005, with an improvement of €9.815m.

## Financial position

| <i>Amounts in thousands of Euros</i>        | <b>31/12/2006</b> | <b>31/12/2005</b> |       |
|---------------------------------------------|-------------------|-------------------|-------|
| NET FIXED ASSETS                            | 19,093            | 17,378            |       |
| NET WORKING CAPITAL                         | 25,734            | 26,131            |       |
| <b>TOTAL ASSETS</b>                         | <b>44,827</b>     | <b>43,509</b>     |       |
| SHAREHOLDERS' EQUITY                        | 42,359            | 30,839            |       |
| EMPLOYEE SEVERANCE FUND AND PENSION BENEFIT | 5,544             | 4,937             |       |
| NET FINANCIAL POSITION                      | (3,076)           | 7,733             |       |
| MEDIUM-TERM LIABILITIES                     |                   | 12,395            | 5,315 |
| SHORT-TERM LIABILITIES                      |                   | (15,471)          | 2,418 |
| <b>TOTAL LIABILITIES</b>                    | <b>44,827</b>     | <b>43,509</b>     |       |

The decrease in net working capital of €397,000 compared to 31/12/2005 corresponds to a reduction in turnover from 23.6% at 31 December 2005 to 17.4% at 31 December 2006.

Operating working capital at 31 December 2006 was €39,388,000, an increase over the same period in 2005 (€34,729,000) and below the Group's turnover. There was hence a considerable reduction in inventory turnover from 114 days at 31 December 2005 to 97 days at 31 December 2006.

The average number of days for collection went from 131 at 31 December 2005 to 96 days at 31/12/2006 (from 71 days in 2005 to 78 in 2006, considering trade receivables net of customer advances, which were reduced at 31/12/2006 compare to 31/12/2005), and the average payment days remained roughly stable going from 101 days in 2005 to 102 in 2006.

The slight increase in overall net working capital is hence related to the reduction in other non-operating assets and the increase in other non-operating liabilities. One of the most significant variations is the allocation made to the product guarantee fund of €3.397m (gross of utilizations in the period), due to the increase in sales during 2006, the increase in tax liabilities for €3.038m current taxes, and the increase in other liabilities for employees at €307,000 owing to the increase in employees and salary dynamics.

## □ RESEARCH

Expenditure on research during the year went up to €8.077m compared to €7.723m at 31/12/2005, and accounted for 5.5% of turnover.

The parent company PRIMA INDUSTRIE continued its research to introduce structures made of innovative, lightweight yet very solid composite materials, on new and existing products, to obtain machines with increasingly high acceleration and better performance.

In particular, the following activities were reached thanks to the activities of the parent group in 2006:

- development of an Optimo system equipped with a welding head and wirefeeder for stainless steel and aluminium welding;
- introduction of a completely automated and highly flexible production line for the manufacture of car spare parts, which integrates two Rapido machines and an Optimo through a series of moulding presses, dedicated to the cutting of components;
- completion of development of the Rapido Evoluzione (the new machine officially presented to the market at the Euroblech fair in Hanover in October) with particular emphasis on completing the machine options requested by customers with the numerous orders already taken.
- completion of design of the new rotating axis, which will be installed in all 2D machines during the next year;

In addition, in collaboration with PRIMA ELECTRONICS, the migration of the 3D systems to the new P20L control, continued. This transition will be put into production by the start of 2007. Moreover, through the subsidiary MLTA, development of a new and innovative High Voltage Power Supply (HVPS) continued for high power CO2 laser sources.

In addition to the above activities, other work carried out by PRIMA ELECTRONICS includes:

- development of Teach Pendant Wireless, a portable terminal operated by rechargeable batteries and using international WiFi technology, used for self-taught programming of articulated robots and 3D machine tools. The project began in 2005 and was completed successfully in 2006 and taken to production in the last quarter of that year;
- development of hardware and software modules for application of P20L numerical control to PRIMA INDUSTRIE 3D laser machines. Introduction of these modules on all 3D models, which began during 2006 on the Rapido Evoluzione machine, presented at the Hanover fair in October, will be completed by the first half of 2007. The new numerical control model also provides an increase in dynamic performance, which can be quantified as a 30% reduction in the cycle time.

- development of TelePRIMA, an intelligent remote monitoring module equipped with CanOpen interface, using GSM/GPRS technology to send pre-recorded SMS messages from industrial equipment to a mobile telephone in the event of machine failure or to request maintenance intervention. Development was completed by obtaining the certification needed to market the module on the European, US and Canadian markets.
- development of a control unit for a medium-power co-generator using an innovative active electrical excitation technique for the asynchronous generator.

In addition to the above, the year also saw the start of a collaboration with the subsidiary MLTA to develop a new generation of high-power supply units to be used in CO2 laser generators, possessing extremely high technical performance in terms of power, modularity, response speed and bus standard.

Plans are to complete the project by the first half of the current year so that standard delivery can begin by the end of 2007.

Research and development in the American subsidiary PRIMA North America mainly touched:

- in the LASERDYNE SYSTEMS division, greater integration of the CONVERGENT P50L for microdrilling on LASERDYNE 5-axis machines to improve the performance of these systems for the microdrilling of aerospace components;
- Development of CO2 laser sources with power equal to or greater than 5kW and solid-state expansion of the laser range.

□ PERSONNEL AND ORGANIZATION

At year-end 2006 the Group's workforce stood at 546 employees, up 9.6% compared with the previous year (498 units).

Per capita sales at 31/12/2006 (€270,000) increased by around 21% compared to €223,000 at 31/12/2005.

The breakdown by Group company is shown below:

|                                                      | 31/12/2006 | 31/12/2005 |
|------------------------------------------------------|------------|------------|
| ➤ PRIMA INDUSTRIE S.p.A. – Italy                     | 276        | 251        |
| ➤ PRIMA INDUSTRIE European branch offices            | 28         | 25         |
| ➤ PRIMA INDUSTRIE UK Ltd. – United Kingdom           | 12         | 11         |
| ➤ PRIMA INDUSTRIE GmbH - Germany                     | 13         | 12         |
| ➤ PRIMA SCANDINAVIA AB - Sweden                      | 5          | 4          |
| ➤ PRIMA INDUSTRIE branch office China                | 1          | 1          |
| ➤ PRIMA ELECTRONICS S.p.A. + M.L.T.A. S.r.l. – Italy | 104        | 88         |
| ➤ PRIMA North America, Inc. – USA                    | 107        | 106        |
| <b>Total</b>                                         | <b>546</b> | <b>498</b> |

Breakdown of employees by department:

| Department                | 2006       | 2005       |
|---------------------------|------------|------------|
| Production                | 240        | 208        |
| Quality                   | 8          | 6          |
| Research and development  | 83         | 76         |
| Marketing and sales       | 51         | 44         |
| After sales service       | 100        | 101        |
| Management/Administration | 62         | 56         |
| Employees on leave        | 2          | 7          |
| <b>Total employees</b>    | <b>546</b> | <b>498</b> |

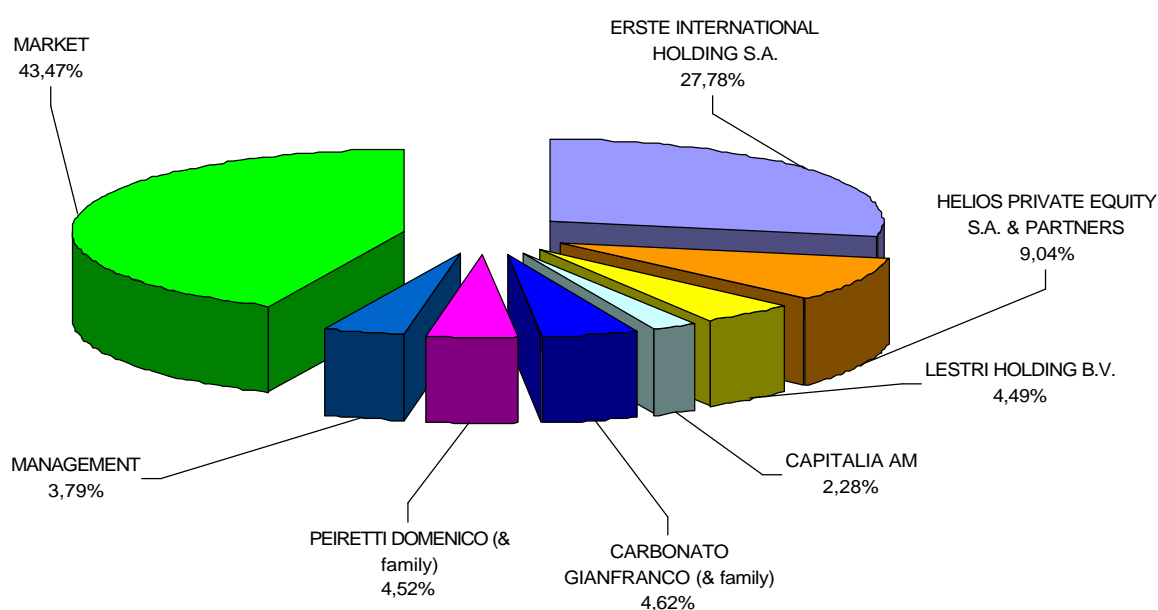
## OWNERSHIP STRUCTURE

PRIMA INDUSTRIE share capital at 31/12/2006 was made up of 4,600,000 common shares with a unit face value of €2.50.

The Group has issued no bonds or securities other than ordinary shares.

As recorded in the Shareholders' Register, updated with the distribution of dividends, which took place in May 2006, and integrated with the communications subsequently received, the share structure at 31/12/2006 looks like this:

### Ownership structure



### TREASURY SHARES AND THE SHARE TREND

PRIMA INDUSTRIE shares, which rose from €13.74 per share at 01/01/2006 to €22.46 per share at 31/12/2006, closed the year with an appreciation of 76.30%, considerably outperforming the reference STAR index, which went from 16.788 to 20.766 points (+23.70%).

The minimum value of the share during the year was €12.60 per share, with a maximum value of €22.46 per share.

At 31/12/06 the share stood at €22.46 per share; the strong appreciation increased even further during the first months of 2007 taking it to €39.66 per share at 28/02/07.

Volumes went from a daily average of 36,108 shares in 2005 to a daily average of 32,525 shares during 2006.

Overall, during 2006, 8,194,602 shares were exchanged with a counter value of €150.1m, against 9,207,522 shares and €96.8m in 2005.

The graph shows the above trends.



At 31/12/2006 PRIMA INDUSTRIE S.p.A. held 5,036 ordinary shares (equal to approximately 0.11% of the share capital) at an average weighted price of €21.7552 per share; these shares were acquired in the performance of the mandates granted by the Ordinary Shareholders' Meeting of 11/05/2006, which authorizes the purchase and sale of the Company's treasury shares up to a maximum of 200,000 shares (equal to approximately 4.3% of the subscribed and paid-up capital) for the duration of 18 months from the date of the resolution.

This resolution involves a minimum buying and selling price of €2.50 per share (equal to the par value) and a maximum buying price of €30, whereas the maximum selling price can be determined on the basis of terms and conditions deemed appropriate on a case-by-case basis. As far as off-market deals are concerned, the agreed price must in any event not give rise to any loss for the Company.

Following the continuing stock exchange appreciation of the company's shares, given that the aforesaid resolution for the sale and purchase of treasury shares was under threat, in the event of a market price that was higher than the maximum buying price (€30), thus preventing the activities of the Specialist, Banca Intermobiliare, which does not act on its own behalf, but rather with the treasury shares of the company, the shareholders' meeting of PRIMA ELECTRONICS resolved on 06/02/07 and, subsequently, on 23/02/07 to purchase and sell shares in the parent company PRIMA INDUSTRIE, raising the maximum buying price first to €45 and later to €60 per share. By virtue of this latest resolution (valid until 06/08/2007), which revokes the previous resolution on the same matter, PRIMA ELECTRONICS can hold up to 50,000 shares in the parent company (1.1% of the share capital of PRIMA INDUSTRIE).



On 28/02/2007 the portfolio of shares held in PRIMA INDUSTRIE S.p.A. dropped to 3000 shares at an average weighted price of €29.2934 per share.

The portfolio of shares held in PRIMA ELECTRONICS S.p.A. stood at 1000 shares at an average weighted price of €39.5244 per share.

### ***Earnings per share and dividend per share***

#### **(a) Basic earnings per share**

The basic earnings per share is determined by dividing the profit due to the shareholders of the Parent Company, by the average number of shares in circulation during the period, excluding the ordinary shares acquired by the Parent Company, held as treasury shares in portfolio.

During the year, the shares in circulation amounted to 4,600,000 shares, whereas the average treasury shares held during the period amounted to 5,861 shares; thus the earnings per share for 2006 amounts to €2.98 per share (compared to €1.11 per share for 2005).

| Earnings per share                           | 31 December 2006 | 31 December 2005 |
|----------------------------------------------|------------------|------------------|
| Earnings due to shareholders (Euro/1.000)    | 13,706           | 5,108            |
| Weighted average - number of ordinary shares | 4,594,139        | 4,588,553        |
| Basic earnings per share (Euro)              | 2.98             | 1.11             |

#### **(b) Diluted earnings per share**

The diluted earnings per share are determined by dividing the profit due to the shareholders of the Parent Company by the average number of shares in circulation during the period, corrected by the potential number of shares, represented by pre-emptive rights. The potential number of shares are determined as an estimate of the number of shares that can be subscribed for, at the exercise price, given the value of the option.

Because at 31/12/2006 no subscription rights were in circulation on PRIMA INDUSTRIE's shares, the calculation of diluted profit per share was not applicable.

#### **(c) Dividend per share**

On 11/05/2006 the Shareholders' Meeting resolved to pay a gross dividend of €0.28 per share on the 2005 profit, to be paid for all the shares in circulation, excluding treasury shares held in portfolio at the cut-off date for the payment of the said dividend. On that date, the treasury shares in portfolio stood at 2,667 shares and thus the dividend to be distributed was €1,287,253.24.

#### □ STOCK OPTIONS PLAN

(as contemplated by CONSOB recommendation No. 11508 of 15/02/2000)

There is currently no stock option plan for employees of Group companies and the plan resolved on 14/05/1999 (and subsequently amended on 11/05/2001) has expired.

#### □ FULFILMENT OF DATA PROTECTION OBLIGATIONS IN CONFORMANCE WITH ANNEX B OF LEGISLATIVE DECREE N°196 OF 30 JUNE 2003

Pursuant to section 19 of the technical specifications for minimum security requirements - Annex B of Legislative Decree no. 196/2003 "Data Protection Code", in 2006 the company drew up the Documento Programmatico sulla Sicurezza (DPS – Planning Document for Security) on 27 March 2006. The assessment phase is underway for 2007, following which the document will be updated by 31 March 2007.

#### □ SUBSEQUENT EVENTS

On 23 February 2007, the Group, through its subsidiary company PRIMA ELECTRONICS S.p.A, acquired the entire share capital of M.L.T.A. S.r.l. (registered office in Nichelino – Turin). M.L.T.A. S.r.l. is highly skilled in the power electronics sector, and already supplies sophisticated components for laser sources manufactured by Convergent Lasers (division of the US subsidiary, Prima North America).

In particular, PRIMA ELECTRONICS S.p.A., which already owned 57.84% of the share capital of M.L.T.A., purchased the remaining shares from the company's shareholders (42.16% of the capital) paying a unit price of €3.80 per share for each stake (the face value being €0.52 per stake), and disbursing a total of around €144,000.

The agreed price corresponds to the overall evaluation of the company of €340,000, obtained by applying a multiple of around 6 to the EBITDA forecast for 2006, net of the expected net financial position.

Founded in 1982, MLTA operates in the power electronics sector and boasts major customers in the rail, naval and automobile sectors. The last financial statements approved to 31/12/2006 saw a turnover of €2,130,000 (of which €651,000 to PRIMA ELECTRONICS and around €22,000 towards the rest of the Group), with EBITDA and EBIT of €137,000 and €97,000 respectively. The net financial position is negative and expected to be €480,000.

Subsequently, on 23/02/2007, in order to achieve greater synergy in existing technical and production relations, and consolidate company know-how in the power electronics sector, the Board of Directors of PRIMA ELECTRONICS resolved the full merger with MLTA.

#### □ ATYPICAL AND/OR UNUSUAL TRANSACTIONS

There were no atypical and/or unusual transactions during the period.

**RECONCILIATION BETWEEN THE FINANCIAL STATEMENTS OF THE PARENT COMPANY AND THE CONSOLIDATED  
FINANCIAL STATEMENTS TO 31 DECEMBER 2006 WITH REGARD TO SHAREHOLDERS' EQUITY AND EARNINGS**

|                                                              | Shareholders' Equity<br>at 31/12/2005 | Increases/decreases<br>Shareholders' Equity | Earnings          | Shareholders' Equity<br>at 31/12/2006 |
|--------------------------------------------------------------|---------------------------------------|---------------------------------------------|-------------------|---------------------------------------|
| As per the financial statements of the parent company        | 30.187.102                            | (1.248.480)                                 | 3.158.000         | 32.096.622                            |
| Parent company shares owned by Group companies               |                                       | -                                           |                   | -                                     |
| Financial statements of fully consolidated companies         | 14.658.345                            | (1.637.913)                                 | 11.510.214        | 24.530.646                            |
| <b>Adjustments for adoption of IAS-IFRS:</b>                 |                                       |                                             |                   |                                       |
| - Adjustments on intangible fixed assets and amortization    | (816.487)                             | 85.123                                      |                   | (731.364)                             |
| - Value adjustment on MLTA shareholding by PRIMA ELECTRONICS | (40.580)                              | 68.950                                      |                   | 28.370                                |
| <b>Consolidation adjustments:</b>                            |                                       |                                             |                   |                                       |
| - Elimination of book value of shareholdings                 | (12.840.913)                          | (132.503)                                   |                   | (12.973.416)                          |
| - Reversal of effect of infragroup and JV margins            | (1.772.794)                           | 114.790                                     | (947.427)         | (2.605.431)                           |
| - Reversal of Prima Electronics dividends                    | -                                     | 600.000                                     | (600.000)         | -                                     |
| - Other minor adjustments                                    | 10.298                                | (10.298)                                    | -                 | -                                     |
| - Adjustment of valuation of JV to Shareholders' Equity      | 532.378                               | (4.634)                                     | 250.368           | 778.112                               |
| - Net deferred taxes on consolidation adjustments            | 921.864                               | (35.038)                                    | 348.710           | 1.235.536                             |
| - Minority interest in equity and earnings                   |                                       | (46.322)                                    | (13.944)          | (60.266)                              |
| <b>As per consolidated financial statements</b>              | <b>30.839.213</b>                     | <b>(2.246.325)</b>                          | <b>13.705.921</b> | <b>42.298.809</b>                     |

#### 4. PERFORMANCE OF GROUP COMPANIES

An overview of the Group companies' performance during the year is provided below.

***Beginning with the financial year 2006, PRIMA INDUSTRIE S.p.A. is obliged to prepare the Financial Statements in accordance with International Accounting Standards. The corresponding data relating to the previous financial period have thus been redetermined according to IAS/IFRS.***

##### □ PRIMA INDUSTRIE S.p.A.

The parent company's sales turnover in 2006 amounted to €93.675m, 27.7% down from 2005's €73.337m.

The increase in turnover took place in all the main sectors of activity (2D, 3D, Service and After Sales). The growth in the 2D segment (+49%) was particularly evident, thanks to an exceptionally favourable market and to the excellent performance of the PLATINO systems and the growing contribution of the new SYNCRONO.

Highlights of the 2006 consolidated income statement are shown below. All amounts are expressed in thousands of Euros:

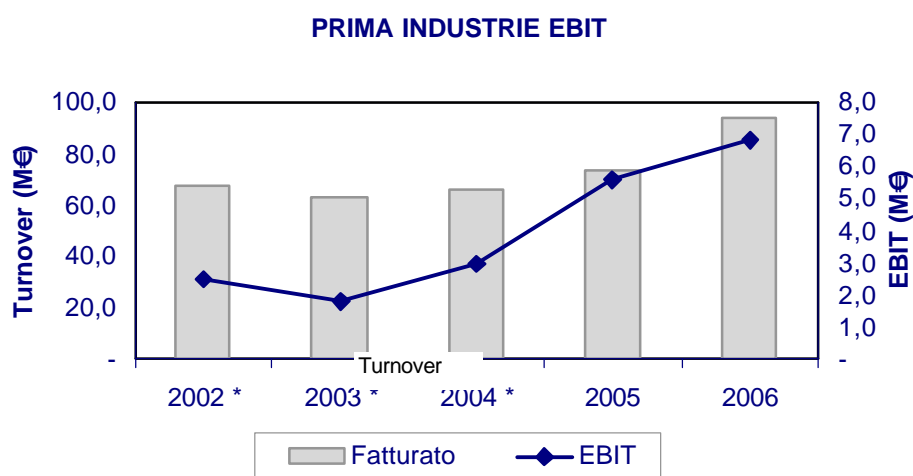
|                                              | 31/12/06      | 31/12/05      |
|----------------------------------------------|---------------|---------------|
| <b>SALES AND SERVICE REVENUES</b>            | <b>93,675</b> | <b>73,337</b> |
| CHANGES IN INVENTORY AND OTHER REVENUES      | 1,609         | 3,190         |
| TOTAL VALUE OF PRODUCTION                    | 95,284        | 76,527        |
| TOTAL COST OF PRODUCTION                     | (71,976)      | (58,239)      |
| ADDED VALUE                                  | 23,308        | 18,288        |
| PERSONNEL EXPENSES                           | (15,825)      | (14,047)      |
| IMPAIRMENT & WRITEDOWNS                      | -             | 2,037         |
| <b>GROSS OPERATING MARGIN – EBITDA</b>       | <b>7,483</b>  | <b>6,278</b>  |
| AMORTIZATION                                 | (654)         | (628)         |
| <b>OPERATING PROFIT – EBIT</b>               | <b>6,829</b>  | <b>5,650</b>  |
| NET FINANCIAL INCOME (EXPENSE)               | (11)          | (76)          |
| VALUE ADJUSTMENTS AND EXTRAORDINARY EXPENSES | (240)         | (125)         |
| <b>INCOME (LOSS) BEFORE TAXES</b>            | <b>6,578</b>  | <b>5,449</b>  |
| INCOME TAX (CURRENT AND DEFERRED)            | (3,420)       | (1,544)       |
| <b>NET PROFIT (LOSS)</b>                     | <b>3,158</b>  | <b>3,905</b>  |

The Company's EBITDA margin stood at €7.483m or 8% of turnover, against €6.278m or 8.6% of turnover in the previous year. Alongside the slight increase in absolute value, came a modest percentage decrease, in that the value at 31/12/2005 included more than €2m mainly ascribable to the partial recovery of the written-down shareholding in PRIMA North America.

In addition to the aforementioned provision, EBITDA included:

- a balance of provisions/utilizations of funds for various risks corresponding to a total of €1.073m; in particular, €611,000 were allocated to Doubtful Accounts and €462,000 to Contractual Risks and Charges to cover installation and guarantee costs for machines and systems delivered and invoiced in 2006 (€1.896m of the fund were utilized during the year);
- €375,000 for inventory obsolescence.
- research and development costs totalling €4.473m (against €4.267m in 2005), all charged directly against income.
- additional provisions of €497,000 to cover staff severance indemnities matured at year-end.

After €654,000 in depreciation and amortization, EBIT amounted to €6.829m or 7.3% of turnover, against €5.650m or 7.7% of turnover in 2005.



\* = ITALIAN Accounting Principles

The Group's pre-tax profits stood at €6.578m up 20.7% on the figure at 2005 (€5.449m).

The following factors contributed:

- Net financial expenses and bank commissions totalling €714,000, against €671,000 in 2005. The increase is the result of an increase in the cost of money during the year, following various EURIBOR hikes by the ECB (e.g. 1 month EURIBOR at 31/12/2005 was 2.44% against 3.68% at 31/12/2006).
- Dividends of €600,000 from subsidiaries (amount unchanged compared to 31/12/2005).
- Exchange rate earnings of €103,000.
- €240,000 writedown of stake in JV SHENYANG - PRIMA LASER MACHINE Co. Ltd., due to losses.

Net profits after provisions for overall current tax liabilities and deferred taxes of €3.420m, totalled €3.158m against €3.905m in 2005.

Key performance indicators for the year are shown below by comparison with 2005:

| <i>Amounts in thousands of Euros</i>                             |      | <b>31/12/06</b> | <b>31/12/05</b> |
|------------------------------------------------------------------|------|-----------------|-----------------|
| WEIGHTED-AVERAGE ORDINARY SHARES OUTSTANDING DURING THE YEAR (*) |      | 4,600,000       | 4,600,000       |
| BOOK VALUE PER SHARE                                             | EURO | 2.50            | 2.50            |
| NET EARNINGS PER SHARE                                           | EURO | 0.69            | 0.85            |
| NET ASSET VALUE PER SHARE                                        | EURO | 6.98            | 6.56            |

(\*) includes treasury shares

The Company's financial position can be summarized as follows:

| <i>Amounts in thousands of Euros</i>                  | <b>31/12/2006</b> | <b>31/12/2005</b> |
|-------------------------------------------------------|-------------------|-------------------|
| NET FIXED ASSETS                                      | 20.637            | 24.047            |
| NET WORKING CAPITAL                                   | 17.327            | 18.294            |
| <b>TOTAL ASSETS</b>                                   | <b>37.964</b>     | <b>42.341</b>     |
| SHAREHOLDERS' EQUITY                                  | 32.097            | 30.187            |
| EMPLOYEES' SEVERANCE FUND AND OTHER EMPLOYEE BENEFITS | 3.935             | 3.617             |
| NET FINANCIAL POSITION                                | 1.932             | 8.537             |
| MEDIUM-TERM                                           | 11.686            | 4.552             |
| SHORT-TERM                                            | (9.754)           | 3.985             |
| <b>TOTAL LIABILITIES</b>                              | <b>37.964</b>     | <b>42.341</b>     |

The most significant factor is the further improvement in the net financial position, thanks to the increase in cash flow generated by operational management and Net Working Capital, which went down despite the considerable increase in turnover.

Short-term indebtedness consists entirely of medium-term loan amortization instalments due during 2007, net of the Company's cash in bank accounts, which totalled €14.470m at 31/12/2006 (against €7.138m at 31/12/2005).

The Company's debt to equity ratio showed an improvement for the fourth year running, passing from 0.19 at 31/12/2005 to 0.04 at year-end 2006.

## SALES

Sales for 2006 amounted to €93.675m. The breakdown by product type and geographical area is shown in the tables below, where amounts are expressed in thousands of Euros:

### *Sales breakdown by product type*

|                             | 31/12/2006    | %          | 31/12/2005    | %          |
|-----------------------------|---------------|------------|---------------|------------|
| LASER MACHINES              | 78,870        | 84         | 61,516        | 84         |
| CUSTOMER AND OTHER SERVICES | 14,805        | 16         | 11,821        | 16         |
| <b>TOTAL</b>                | <b>93,675</b> | <b>100</b> | <b>73,337</b> | <b>100</b> |

### *Sales breakdown by geographical area*

|               | 31/12/2006    | %          | 31/12/2005    | %          |
|---------------|---------------|------------|---------------|------------|
| ITALY         | 30.482        | 33         | 25.064        | 34         |
| EUROPE        | 47.599        | 51         | 31.600        | 43         |
| USA           | 5.058         | 5          | 4.364         | 6          |
| REST OF WORLD | 10.536        | 11         | 12.309        | 17         |
| <b>Total</b>  | <b>93.675</b> | <b>100</b> | <b>73.337</b> | <b>100</b> |

As can be seen from the breakdown by product type, the considerable increase was evenly produced by the sale of systems and the supply of after-sales service, standing at 84% of turnover for the former and 16% for the latter, as in 2005.

In terms of the sales breakdown by geographical area, with a situation of substantial stability in percentage terms in the Italian market and in exports to the North American subsidiary, there was a significant increase in the number of sales in Europe, particularly in emerging countries in Eastern Europe (Poland, Czech Republic, Slovakia, Russia, Turkey). Also significant is the growth in Western Europe's markets, where the group has recently invested to improve its direct presence (Germany, Sweden, United Kingdom).

Turnover in Asia and the rest of the world was down, also due to the fact that the Shenyang Prima Machine Tools JV produces greater assets locally.

## SALES ACTIVITY

Orders intake in 2006 from third-party customers and subsidiary companies totalled €111.226m against €74.057m in the previous year, confirming the excellent trend of the Company's reference market.

Consequently, the orders backlog increased considerably to €39.893m at 01/01/2007 from €21.118m at 01/01/2006.

**EQUITY INVESTMENTS HELD DIRECTLY OR INDIRECTLY IN PRIMA INDUSTRIE SPA AND ITS SUBSIDIARIES BY DIRECTORS, STATUTORY AUDITORS, GENERAL MANAGERS AND EXECUTIVES (DISCLOSURE PURSUANT TO ARTICLE 79, CONSOB REGULATION 11971 and subsequent amendments)**

As required by Article 79 of CONSOB Regulation 11971 and subsequent amendments, highlights of equity investments held by company directors, statutory auditors and general managers are disclosed below.

**Investee: PRIMA INDUSTRIE S.p.A.**

| <b>SURNAME Name</b>   | <b>Owned at 01/01/2006</b> | <b>Purchased during 2006</b> | <b>Sold during 2006</b> | <b>Owned at 31/12/2006</b> |
|-----------------------|----------------------------|------------------------------|-------------------------|----------------------------|
| BASSO Ezio            | 8,074                      | 1000                         | 7,000                   | 2,074                      |
| CARBONATO Gianfranco  | 174,500                    | 0                            | 0                       | 174,500                    |
| GAGLIARDI Franca (i)  | 41,500                     | 0                            | 3,500                   | 38,000                     |
| DELLE PIANE Alberto   | 25,300                     | 0                            | 5,300                   | 20,000                     |
| D'ISIDORO Sandro      | 3,000                      | 0                            | 3,000                   | 0                          |
| FORMICA Riccardo      | 5,000                      | 1,000                        | 5,000                   | 1,000                      |
| LUGARESI Fabrizio     | 6,000                      | 0                            | 5,900                   | 100                        |
| MAURI Mario           | 0                          | 0                            | 0                       | 0                          |
| MOSCA Andrea          | 0                          | 0                            | 0                       | 0                          |
| PEIRETTI Domenico     | 130,000                    | 8,000                        | 0                       | 138,000                    |
| MONTICONE Emilia (ii) | 78,000                     | 7,800                        | 15,800                  | 70,000                     |
| PELLEGRINI Pio        | 0                          | 0                            | 0                       | 0                          |
| PETRIGNANI Roberto    | 0                          | 0                            | 0                       | 0                          |
| PINCIROLI Marco       | 0                          | 0                            | 0                       | 0                          |
| RATTI Massimo         | 5,500                      | 0                            | 2,650                   | 2,850                      |

*(i) SPOUSE OF MR. CARBONATO - (ii) SPOUSE OF MR. PEIRETTI*

*None of the parties listed above has direct or indirect shareholdings or quotas in the subsidiaries PRIMA ELECTRONICS S.p.A, PRIMA INDUSTRIE GmbH, PRIMA INDUSTRIE UK Ltd, PRIMA SCANDINAVIA AB, PRIMA North America Inc.*



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**TRANSACTIONS WITH RELATED PARTIES**

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PRIMA ELECTRONICS S.p.A.

Sales made by PRIMA ELECTRONICS for PRIMA INDUSTRIE amounted to €4.012m, up 27.7% from €3.142m in the previous year.

All sales were made at current market prices, and involved:

|                                                                                 | 2006         | 2005         |
|---------------------------------------------------------------------------------|--------------|--------------|
| SUPPLIES OF NUMERICAL CONTROL UNITS,<br>ACCESSORIES, SERVICES AND MISCELLANEOUS | 3,598        | 2,683        |
| DESIGN ACTIVITIES                                                               | 414          | 459          |
| <b>Total</b>                                                                    | <b>4,012</b> | <b>3,142</b> |

Furthermore, PRIMA ELECTRONICS received €51,000 interest earned on the €1.5m loan granted to the Parent Company.

Conversely, during the year PRIMA INDUSTRIE billed a total of €106,000 to PRIMA ELECTRONICS against €116,000 in 2005 for goods and technical and administrative consulting and other services, provided by PRIMA INDUSTRIE to other Group companies on a centralized basis. The amounts thus billed included licences, maintenance fees and customization costs for the corporate information system, as well as management and financial expenses incurred by PRIMA INDUSTRIE on behalf of PRIMA ELECTRONICS.

PRIMA INDUSTRIE also involved €52,000 to the subsidiary, for contributions to the greater costs for in-field intervention and activation of laser machines caused by PRIMA ELECTRONICS products.

Intercompany payables and receivables at year-end are shown below in thousands of Euros:

|                           | PRIMA INDUSTRIE<br>RECEIVABLES | PRIMA INDUSTRIE<br>PAYABLES |
|---------------------------|--------------------------------|-----------------------------|
| TRADE ACCOUNTS RECEIVABLE | 139                            | --                          |
| INVOICES PENDING ISSUE    | --                             | --                          |
| CONSOLIDATED TAXATION     | 458                            | --                          |
| TRADE ACCOUNTS PAYABLE    | --                             | 1,546                       |
| FINANCIAL PAYABLES        | --                             | 1,500                       |
| <b>Total</b>              | <b>597</b>                     | <b>3,046</b>                |

*PRIMA North America, Inc.*

In 2006, PRIMA INDUSTRIE billed PRIMA North America €4.116m for machinery (against €3.836m in 2005) and €958,000 for accessories and spare parts (compared with €515,000 in 2005). In addition, PRIMA INDUSTRIE charged €26,000 for commission and invoices pending issue, and €126,000 in interest on intercompany loans.

In turn, PRIMA North America billed PRIMA INDUSTRIE €12.643m for laser sources (against €6.615m in 2005), and €779,000 for the sale of systems, spares, commission and services carried out under contract (against €1.437m in 2005). Intercompany payables and receivables at year-end are shown below in thousands of Euros:

| PRIMA INDUSTRIE RECEIVABLES   |            | PRIMA INDUSTRIE PAYABLES |
|-------------------------------|------------|--------------------------|
| TRADE ACCOUNTS RECEIVABLE     | 810        | --                       |
| INVOICES PENDING ISSUE        | 24         | --                       |
| TRADE ACCOUNTS PAYABLE        | --         | 1,690                    |
| INVOICES STILL TO BE RECEIVED | --         | 1,163                    |
| <b>Total</b>                  | <b>834</b> | <b>2,853</b>             |

*PRIMA INDUSTRIE GmbH*

Following several years of inactivity, PRIMA INDUSTRIE GmbH returned to operations on 01/07/2005 with the acquisition of the sales and after-sales division of Matra (member of the Linde Group) for PRIMA INDUSTRIE laser systems in Germany.

In 2006 PRIMA INDUSTRIE invoiced €5.719m to PRIMA INDUSTRIE GmbH for laser systems (against €1.293m at 31/12/2005), €528,000 for accessories and spare parts (against €133,000 at 31/12/2005), €482,000 for technical assistance (against €184,000 at 31/12/2005), and €33,000 for interest on intercompany loans and other minor items.

Conversely, during the year PRIMA INDUSTRIE GmbH invoiced €136,000 to PRIMA INDUSTRIE S.p.A., for spare parts and services (against €62,000 at 31/12/2005).

Intercompany payables and receivables in thousands of Euros at the year-end were as follows:

| PRIMA INDUSTRIE RECEIVABLES |              | PRIMA INDUSTRIE PAYABLES |
|-----------------------------|--------------|--------------------------|
| TRADE ACCOUNTS RECEIVABLE   | 4.072        | --                       |
| INVOICES PENDING ISSUE      | 37           | --                       |
| TRADE ACCOUNTS PAYABLE      | --           | 101                      |
| <b>Total</b>                | <b>4,109</b> | <b>101</b>               |

*PRIMA INDUSTRIE UK LTD.*

PRIMA INDUSTRIE S.p.A. invoiced the British subsidiary €2.948m for the sale of machinery, assistance and spare parts (€3.137m in 2005), €31,000 for the rental of premises and €28,000 for interest on loans.

In turn, PRIMA INDUSTRIE UK billed PRIMA INDUSTRIE S.p.A. €101,000 for the sale of materials and services (against €56,000 in 2005).

Intercompany payables and receivables in thousands of Euros at the year-end were as follows:

|                               | PRIMA INDUSTRIE<br>RECEIVABLES | PRIMA INDUSTRIE<br>PAYABLES |
|-------------------------------|--------------------------------|-----------------------------|
| TRADE ACCOUNTS RECEIVABLE     | 1,936                          | --                          |
| FINANCIAL RECEIVABLES         | 626                            | --                          |
| TRADE ACCOUNTS PAYABLE        | --                             | 10                          |
| INVOICES STILL TO BE RECEIVED | --                             | 2                           |
| FINANCIAL PAYABLES            | --                             | 6                           |
| <b>Total</b>                  | <b>2,652</b>                   | <b>18</b>                   |

#### *PRIMA SCANDINAVIA AB*

In 2006 PRIMA INDUSTRIE S.p.A. invoiced its subsidiary €5.653m for the sale of machinery, technical assistance and spare parts (€639,000 in 2005) and €1,000 for interest on loans. Furthermore, PRIMA SCANDINAVIA invoiced the parent company for €111,000 for sales and services (€59,000 in 2005).

Intercompany payables and receivables in thousands of Euros at the year-end were as follows:

|                               | PRIMA INDUSTRIE<br>RECEIVABLES | PRIMA INDUSTRIE<br>PAYABLES |
|-------------------------------|--------------------------------|-----------------------------|
| TRADE ACCOUNTS RECEIVABLE     | 1,753                          | --                          |
| INVOICES STILL TO BE RECEIVED | --                             | 3                           |
| <b>Total</b>                  | <b>1,753</b>                   | <b>3</b>                    |

#### *M.L.T.A. Srl*

In 2006 MLTA invoiced PRIMA INDUSTRIE for €22,000.

Intercompany payables and receivables in thousands of Euros at the year-end were as follows:

|                        | PRIMA INDUSTRIE<br>RECEIVABLES | PRIMA INDUSTRIE<br>PAYABLES |
|------------------------|--------------------------------|-----------------------------|
| TRADE ACCOUNTS PAYABLE | --                             | 15                          |
| <b>Total</b>           | <b>--</b>                      | <b>15</b>                   |

#### *SHENYANG- PRIMA LASER MACHINE COMPANY Ltd.*

PRIMA INDUSTRIE billed the Shenyang Prima joint venture approximately €1.257m for sales of 2D laser cutting machine subsystems. In 2005, sales totalled €3.478m.

At the end of the year, receivables from the joint venture stood at €1.210m.

*SHANGHAI UNITY PRIMA LASER MACHINERY CO. Ltd.*

No transactions took place between PRIMA INDUSTRIE S.p.A. and Shanghai Unity Prima Laser Machinery Co. Ltd during the year.

*SNK - PRIMA COMPANY Ltd.*

There were no commercial transactions between PRIMA INDUSTRIE and the Japanese joint venture with SNK.

*OVL CONVERGENT LASER Ltd.*

The new joint venture company, with registered office in Wuhan (China) is still in the start-up phase and as such produced no transactions with PRIMA INDUSTRIE S.p.A.

□ **SUBSIDIARIES - PRIMA ELECTRONICS S.p.A.**

The company ended 2006 with the best results in its history, in terms of turnover, profitability and orders.

A turnover of €20.130m was posted for the year, an increase of 23% on the previous period (€16.369m) The €3.761m increase is particularly satisfying, both in terms of size and also for the fact that it was achieved through contributions from all lines of business.

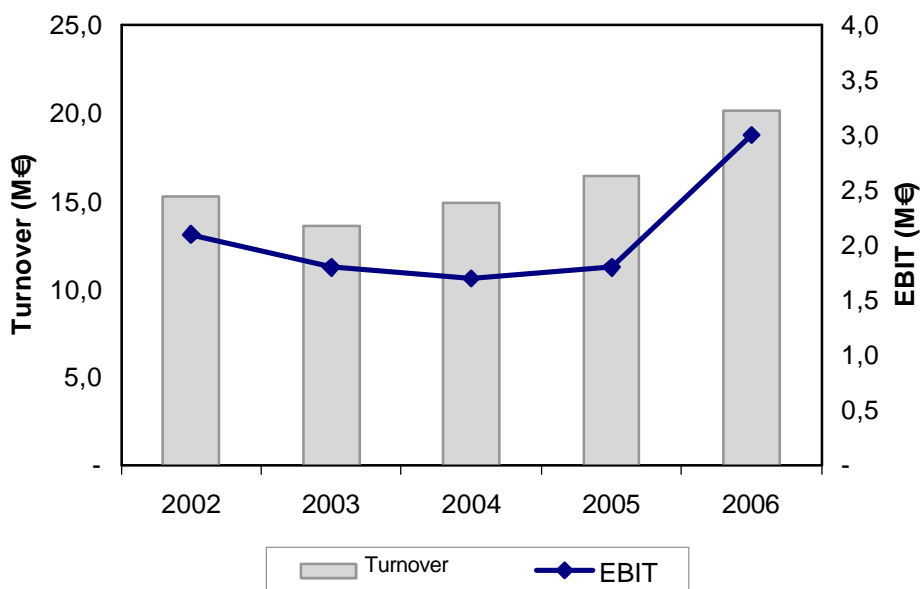
In particular:

- the range of electronic regulators for air compressors generated revenues of €9.223m, an increase of 15.4%, and still represents the largest share of turnover (45.8%), despite falling since the previous year (48.8%);
- the range of Motion Control products, comprising numerical controls and drives for electrical motors, generated revenues of €5.237m, up 25.5%, maintaining a 26% share of revenues, perfectly in line with the previous year's 25.5%;
- lastly, the share of turnover relating to Other Electronic Products and including design activities for third parties and revenues from after sales service (repairs and spare parts) was €5.670m, up 35% on the previous year and representing 28.2% of overall turnover.

The distribution of revenues by geographical area shows that the share of exports within Europe was 53.1% against 54.2% in the previous year; the share of revenues from outside the EU went up to 5.6% from 4.1%, while domestic turnover represented a share of 41.3%, which is more or less in line, in percentage terms, with 2005's 41.7%.

The income statement showed an EBIT of €2.955m, or 14.7% of turnover, against €1.786m in the previous year.

#### PRIMA ELECTRONICS EBIT



Net profits were almost double the previous year's, at €1.702m, or 8.5% of the total turnover (these were €998,000 in 2005).

It was a favourable year for sales with orders totalling €22.390m, 29.4% higher than in the previous year, which produced €17.297m. This enabled us to close the year with a good orders portfolio, confirming the positive outlook for the business trend in the current year.

All product lines and all the company's principal historic customers contributed to the good orders result, as well as new customers operating in sectors other than the automation industry and which show the potential to generate new business opportunities over the coming years.

Among the significant events taking place during the year, we remind you that on 12 January 2006 the company increased its stake in MLTA srl from 41.63 to 57.84%, thereby taking control.

Later, on 23/01/2007, our shareholding went to 100%, after purchasing the remaining stakes from the other shareholders, with an overall disbursement of €144,000.

This is first step towards full integration with PRIMA ELECTRONICS, already resolved by the Board of Directors on 23/02/07, with the aim of achieving greater synergy in existing technical and production relations.

Furthermore, during 2006, the company gained a minority stake (6.34%) in several phases between June and December in Electro Power Systems S.p.A. (formerly an S.r.l.), a start-up company operating in the sector of power systems based on hydrogen fuel-cell technology.

The orders backlog at 1 January 2007 stood at €10.333m, compared to €6.684m in January 2006.

R&D activities during the year involved costs totalling €1.331m, or 6.6% of turnover, all charged directly against income.

The company's net financial position at 31/12/2006 was in profit at €1.845m, against €2.054m at the end of the previous year.

At 31/12/2006, the company had 92 employees (in addition to 4 temporary workers) against 88 at the end of the previous year.

□ **SUBSIDIARIES - PRIMA North America, Inc.**

2006 was a very positive year with the best results in the company's history in terms of turnover and profitability.

The positive trend was even more remarkable given that it was generated by all business units.

The growing use of the CP laser source on Group machines produced an excellent effect, while a strong demand sustained sales of Laserdyne systems for the aerospace market and systems produced by PRIMA INDUSTRIE on the North American market (around 56% more systems were sold compared to 2005).

The positive developments for the company were on the whole demonstrated by the fact that all three divisions posted positive operating results.

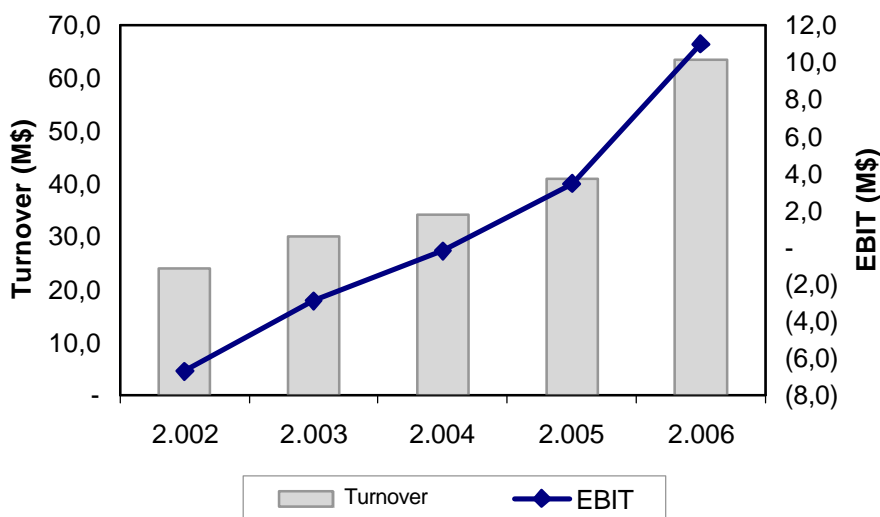
The company's turnover rose to \$63.5m (against \$41m in 2005) with an increase of 55%, following in the heels of those achieved in previous years.

In particular:

- the Convergent Lasers division posted a turnover of \$27.2m before consolidation adjustments;
- the Laserdyne Systems division posted a turnover of \$21.9m;
- the PRIMA Systems division posted a turnover of \$18m;

The operating result stood at \$11.3m, a more than three-fold increase on the \$3.8m posted in 2005.

**PRIMA NORTH AMERICA EBIT**



On the whole, PRIMA North America, which benefited from a balance of tax receivables of around \$0.8m (due from current tax liabilities of \$0.7m and deferred tax assets of \$1.5m), closed the year with net profits of \$11.5m (against \$2.8m at 31/12/05).

Investments in research and development, all of which were expensed during the year, totalled \$2.7m against \$2.9m in 2005.

The increase in profitability was confirmed by the improvement in the Net Financial Position, which stood at \$29,000 at 31/12/2006.

At 31/12/06 the company had a workforce of 107 (in addition to 11 temporary workers), compared to 106 at the end of 2005 (118 including temporary workers).

#### □ **OTHER SUBSIDIARY COMPANIES**

##### *PRIMA INDUSTRIE UK Ltd.*

During 2006 PRIMA INDUSTRIE UK Ltd produced a good turnover of £3.597m (against £3.184m in 2006) while profitability dropped slightly with net profits of £114m (against £151m in 2005).

At 31/12/2006 the company had a workforce of 12, compared to 11 employees at year-end 2005.

##### *PRIMA SCANDINAVIA AB*

Sales at PRIMA SCANDINAVIA AB totalled €7.039m (against €950,000 in 2005), and profits stood at €392,000 (against losses of €164,000 in 2005).

At 31/12/2006 the company had a workforce of 5, compared to 4 employees at year-end 2005.

##### *PRIMA INDUSTRIE GmbH*

2006 was the first year of full activity for PRIMA GmbH, which, on 01/07/05, took over distribution and after-sales assistance for PRIMA INDUSTRIE S.p.A. laser machines on the German market.

2006 turnover was €9.110m (€2.478m in 2005), with net earnings of €124,000 (€151,000 in 2005).

At 31/12/2006 the company had a workforce of 13 (12 at 31/12/2005).

□ **UNCONSOLIDATED EQUITY INVESTMENTS**

*SHENYANG PRIMA LASER MACHINE COMPANY LTD.*

During 2006, the joint venture, in which PRIMA INDUSTRIE holds a 50% stake, produced a volume of sales of 26.17m RMB (€2.61m), compared to 33.92m RMB in 2005.

Net losses of 4.9m RMB (€0.5m) were due to insufficient absorption of higher structure costs and financial charges (exchange rate losses).

*SNK PRIMA COMPANY LTD.*

The company's operations in 2006 were limited to marketing activities, which included participation at the main trade fair in the sector in Japan, JIMTOF, in November.

*SHANGHAI UNITY PRIMA*

During 2006, the turnover of the Shanghai joint venture in which Prima holds a 27.5% stake, totalled 99.982m RMB (€9.989m), against 72.838m RMB in 2005. The net financial position at 31/12/06 was in profit with 20.797m RMB.

The net result was 10.739m RMB (€1.073m), against 14.942m RMB in 2005, largely due to higher structure costs and taxes.

*MACRO MECCANICA S.p.A (in liquidation)*

No commercial transactions with this company took place in 2006.  
There were no outstanding accounts payable to or receivable from Prima Industrie at year-end.

PRIMA INDUSTRIE's 35% equity investment in the company was written off in 1999.  
Though the liquidation process is not yet complete, no further expenses are expected to emerge in the future.



### *M.L.T.A. S.r.l.*

On 12/01/2006 PRIMA ELECTRONICS increased its stake in M.L.T.A. from 41.63% to 57.84% and hence the company was fully consolidated for the first time with the 2006 financial statements. Subsequently, on 23/01/2007 PRIMA ELECTRONICS purchased the remaining 42.16% of share capital.

On 23/2/2007 the company approved the proposed financial statements for 2006, which closed with a turnover of 2.130m, EBITDA of €137,000 and EBIT at €97,000.

### *ELECTRO POWER SYSTEMS S.p.A. (EPS)*

On 7 June 2006 PRIMA ELECTRONICS S.p.A. gained a minority stake (2.2%) in Electro Power Systems S.p.A., a start-up company operating in the sector of power systems based on hydrogen fuel-cell technology.

At 31/12/2006, following subscription of two tranches for capital increases in the company, the stake held in EPs is 6.34% of the share capital.

The first financial statements to 31/12/2005, closed with a turnover of €80,000 and losses of €180,000. The data for the 2006 financial year are not currently available.

Following the agreement reached between Electro Power Systems and PRIMA ELECTRONICS at the time of purchase of the minority shareholding, during 2006 our company collaborated on the development of electronic components for Electro7 (product based on fuel-cell technology, for which production began in November 2006) and supplied a number of units, achieving a turnover of €204,000 and closing the year with an orders portfolio from EPS of €460,000.

### *SINTESI Soc. Consortile p. A.*

The company, in which PRIMA INDUSTRIE holds a 10% stake, has its registered office in Modugno (Bari) and the object of industrial research and pre-competitive development in various technological areas, mainly of interest to PRIMA INDUSTRIE.

In 2006 the company continued developing a series of projects in the sector of numerical control, composite materials and inertial sensors and achieved a pre-tax results of 3.4% of turnover, or €3.360m.

### *OVL - CONVERGENT*

In November 2005, PRIMA North America signed an agreement with Wuhan Optics Valley Laser Technology to set up a joint venture company for manufacture and distribution of CO<sub>2</sub> lasers.

The new company, with registered office in Wuhan (8 million inhabitants, one of the largest cities in China) was named OVL CONVERGENT LASERS and has a share capital of \$6.8m, 30% of which from PRIMA North America, Inc. The joint venture will manufacture CO<sub>2</sub> laser sources developed by PRIMA North America ( 3-4Kw sources in the CP range) and by Wuhan Optics Valley Laser Technology destined to the Chinese market and a number of other Asian countries.

In April 2006 the company completed authorisation procedures and in the last months of the year it was still in the start-up phase, in that training of Chinese technicians at PRIMA North America had not yet been completed.

Acquisition of the 30% stake in the joint venture company is subject to a non-exclusive licence to use held by Prima North America Inc.

The Group has entered its 30% holding in the joint venture with a nil value for the following reasons: a) the difficulty of reliably attributing a fair value to the licence to use; b) maintenance of managerial involvement in the transferred activities, a factor preventing the recording of revenues in accordance with IAS 18 par. 14b; c) the lack of a cash disbursement on the part of the Prima Industrie Group.

□ *THE OUTLOOK FOR 2007*

For the current year, the Group proposes to consolidate the strong internal growth achieved during 2006, also as a result of the substantial orders backlog at 31/12/2006 and the ongoing positive situation in the markets, confirmed during January and February 2007. The sizeable liquidity will also enable the company to follow up any external growth opportunities arising in the areas of business in which the Group operates (laser systems, complementary machinery and industrial electronics).

In light of the above, the Board of Directors has decided to submit for approval to the next General Meeting of Shareholders a dividend of €0.65 per share, which is more than double the dividend distributed on 2005 profits, and which follows the doubling of dividends from €0.14 to €0.28 already approved in the previous year.

Shareholders,


We hope that you are in favour of continuing the Company's return on risk capital policy, and, taking this opportunity to thank you for the confidence that you have placed in us, we invite you to approve these financial statements, and to allocate the year's earnings of 3,158,000 as follows:

- €169,950 as reserve prescribed by Articles of Association;
- €2,988,050 as dividends valued at €0.65 per share, excluding 3000 treasury shares held in portfolio at 26/03/2007.

Given that the specialist contract currently underway may cause a variation in the number of shares held in treasury shares, in the event of an increase in their number from the time of the date of the Shareholders' Meeting, the dividend relating to these additional shares will be allotted to the extraordinary reserve.

On behalf of the Board of Directors

The Chairman



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Gianfranco Carbonato



**PRIMA INDUSTRIE GROUP**

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**5. CONSOLIDATED FINANCIAL STATEMENTS AT 31  
DECEMBER 2006**

**ACCOUNTING STATEMENTS**

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## THE PRIMA INDUSTRIE GROUP - Consolidated Financial Statements at 31 December 2006

### CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2006 AND DECEMBER 31, 2005

| VALUES IN EURO                                      | NOTE | 12/31/2006         | 12/31/2005         |
|-----------------------------------------------------|------|--------------------|--------------------|
| Tangible fixed assets                               | 9.1  | 6.427.108          | 5.778.520          |
| Intangible fixed assets                             | 9.2  | 2.511.075          | 2.738.927          |
| Equity investments valued using the equity method   | 9.3  | 1.787.906          | 1.809.079          |
| Equity investments valued using the cost method     | 9.4  | 801.885            | 51.832             |
| Other financial assets                              | 9.5  | 267.999            | 272.117            |
| Tax assets for prepaid taxes                        | 9.6  | 7.525.805          | 6.946.898          |
| Other receivables                                   | 9.7  | 38.791             | 52.391             |
| <b>TOTAL NON CURRENT ASSETS</b>                     |      | <b>19.360.569</b>  | <b>17.649.764</b>  |
| Inventories                                         | 9.8  | 33.870.201         | 36.319.402         |
| Trade receivables                                   | 9.9  | 38.960.582         | 39.869.959         |
| Other receivables                                   | 9.10 | 2.802.967          | 3.048.672          |
| Other tax assets                                    | 9.11 | 1.643.701          | 1.357.085          |
| Derivative financial instruments                    | 9.12 | -                  | 4.595              |
| Trading securities valued at fair value             |      | -                  | -                  |
| Cash and cash equivalents                           | 9.13 | 20.702.707         | 11.495.383         |
| <b>TOTAL CURRENT ASSETS</b>                         |      | <b>97.980.158</b>  | <b>92.095.096</b>  |
| <b>TOTAL ASSETS</b>                                 |      | <b>117.340.727</b> | <b>109.744.860</b> |
| Share Capital                                       |      | 11.500.000         | 11.500.000         |
| Treasury stock                                      |      | (109.034)          | (92.872)           |
| Treasury stock owned by subsidiaries                |      | -                  | -                  |
| Legal reserve                                       |      | 2.300.000          | 770.910            |
| Other reserves                                      |      | 16.849.034         | 15.885.517         |
| Conversion reserve                                  |      | (639.537)          | 329.937            |
| Profits (Losses) carried forward                    |      | (1.307.575)        | (2.661.910)        |
| Profit (losses) for the year                        |      | 13.705.921         | 5.107.631          |
| Total Group stockholders' equity                    |      | <b>42.298.809</b>  | <b>30.839.213</b>  |
| Minority interests                                  |      | 60.266             | -                  |
| <b>TOTAL NET EQUITY</b>                             |      | <b>42.359.075</b>  | <b>30.839.213</b>  |
| Loans                                               | 9.14 | 12.657.033         | 5.570.596          |
| Employee benefits                                   | 9.15 | 5.544.236          | 4.936.694          |
| Deferred tax liabilities                            | 9.16 | 2.384.507          | 2.502.156          |
| Provisions for risks and charges                    | 9.17 | 33.500             | 29.110             |
| Derivative financial instruments                    | 9.12 | 6.071              | 15.970             |
| <b>TOTAL NON CURRENT LIABILITIES</b>                |      | <b>20.625.347</b>  | <b>13.054.526</b>  |
| Trade payables                                      | 9.18 | 26.054.651         | 23.089.151         |
| Advances                                            | 9.18 | 7.387.989          | 18.371.290         |
| Other payables                                      | 9.18 | 5.905.438          | 4.668.838          |
| Amounts due to banks and in respect of loans        | 9.14 | 5.231.281          | 13.918.168         |
| Tax liabilities - current taxes                     | 9.19 | 5.066.445          | 2.027.955          |
| Provision for risks and charges                     | 9.17 | 4.709.897          | 3.775.719          |
| Derivative financial instruments                    | 9.12 | 604                | -                  |
| <b>TOTAL CURRENT LIABILITIES</b>                    |      | <b>54.356.305</b>  | <b>65.851.121</b>  |
| Liabilities due to non current assets held for sale |      | -                  | -                  |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>   |      | <b>117.340.727</b> | <b>109.744.860</b> |

**THE PRIMA INDUSTRIE GROUP –  
Consolidated Financial Statements at 31 December 2006**

**CONSOLIDATED INCOME STATEMENT AT DECEMBER 31, 2006 & DECEMBER 31, 2005**

| VALUES IN EURO                                               | NOTE        | 31/12/06          | 31/12/05         |
|--------------------------------------------------------------|-------------|-------------------|------------------|
| Net revenues from sales and services                         |             | 147.569.053       | 110.884.661      |
| Other operating income                                       | <b>9.20</b> | 1.644.672         | 3.000.218        |
| Changes in inventories of semifinished and finished products |             | (3.480.276)       | 1.903.152        |
| Increases in fixed assets for internal work                  | <b>9.21</b> | 138.510           | 62.886           |
| Use of raw materials, consumables, supplies and goods        |             | (64.817.871)      | (55.422.679)     |
| Personnel cost                                               | <b>9.22</b> | (30.075.984)      | (26.040.097)     |
| Amortization & Depreciation                                  | <b>9.23</b> | (1.330.386)       | (1.208.232)      |
| Impairment & Writedowns                                      |             | -                 | -                |
| Other operating costs                                        | <b>9.24</b> | (31.181.168)      | (25.263.299)     |
| <b>OPERATING INCOME</b>                                      |             | <b>18.466.550</b> | <b>7.916.610</b> |
| Financial income                                             | <b>9.25</b> | 667.089           | 475.513          |
| Financial expenses                                           | <b>9.25</b> | (1.580.007)       | (1.638.575)      |
| Net income from transactions in foreign exchange             | <b>9.25</b> | 12.628            | 22.758           |
| Net income from associated companies & joint ventures        | <b>9.26</b> | 10.384            | 336.716          |
| <b>INCOME BEFORE TAX</b>                                     |             | <b>17.576.644</b> | <b>7.113.022</b> |
| Current and deferred taxes                                   | <b>9.27</b> | (3.856.779)       | (2.005.391)      |
| <b>NET PROFIT</b>                                            |             | <b>13.719.865</b> | <b>5.107.631</b> |
| <b>NET PROFIT</b>                                            |             | <b>13.719.865</b> | <b>5.107.631</b> |
| - Group Stockholders' net profit                             |             | <b>13.705.921</b> | <b>5.107.631</b> |
| - Minorities net profit                                      |             | 13.944            | -                |
| <b>EARNING PER SHARE (euro)</b>                              |             | <b>2,98</b>       | <b>1,11</b>      |

## THE PRIMA INDUSTRIE GROUP - Consolidated Financial Statements at 31 December 2006

### CHANGE IN STOCKHOLDERS' EQUITY AT DECEMBER 31, 2005 & DECEMBER 31, 2006

From January 1<sup>st</sup>, 2005 to December 31<sup>st</sup>, 2005

| VALUES IN EURO                       | 01/01/2005        | Variation of Consolidation Area | Purchase/ Sale of treasury stock | Gains on disposal of treasury stock | Losses on disposal of treasury stock | Allocation of Previous Financial Year's income | Dividends Distribution | Profit of the period | Conversion Reserve | 12/31/2005        |
|--------------------------------------|-------------------|---------------------------------|----------------------------------|-------------------------------------|--------------------------------------|------------------------------------------------|------------------------|----------------------|--------------------|-------------------|
| Share Capital                        | 11.500.000        |                                 |                                  |                                     |                                      |                                                |                        |                      |                    | 11.500.000        |
| Treasury stock                       | (170.606)         |                                 | 77.734                           |                                     |                                      |                                                |                        |                      |                    | (92.872)          |
| Treasury stock owned by Subsidiaries | -                 |                                 |                                  |                                     |                                      |                                                |                        |                      |                    | 0                 |
| Share premium reserve                | 15.664.893        |                                 |                                  |                                     |                                      |                                                |                        |                      |                    | 15.664.893        |
| Legal reserve                        | 729.550           |                                 |                                  |                                     |                                      | 41.360                                         |                        |                      |                    | 770.910           |
| Other reserve                        | 0                 |                                 | 77.735                           |                                     |                                      | 142.889                                        |                        |                      |                    | 220.624           |
| Conversion reserve                   | (173.718)         |                                 |                                  |                                     |                                      |                                                |                        |                      | 503.655            | 329.937           |
| Profit / (loss) carried forward      | (2.911.767)       |                                 | (77.735)                         | 123.176                             | (11.597)                             | 216.013                                        |                        |                      |                    | (2.661.910)       |
| Income for the year                  | 1.043.212         |                                 |                                  |                                     |                                      | (400.262)                                      | (642.950)              | 5.107.631            |                    | 5.107.631         |
| <b>Stockholders'equity</b>           | <b>25.681.564</b> |                                 | <b>77.734</b>                    | <b>123.176</b>                      | <b>(11.597)</b>                      | <b>-</b>                                       | <b>(642.950)</b>       | <b>5.107.631</b>     | <b>503.655</b>     | <b>30.839.213</b> |

From January 1<sup>st</sup>, 2006 to December 31<sup>st</sup>, 2006

| VALUES IN EURO                       | 01/01/2006        | Variation of Consolidation Area | Purchase/ Sale of treasury stock | Gains on disposal of treasury stock | Losses on disposal of treasury stock | Allocation of Previous Financial Year's income | Dividends Distribution | Profit of the period | Conversion Reserve | 12/31/2006        |
|--------------------------------------|-------------------|---------------------------------|----------------------------------|-------------------------------------|--------------------------------------|------------------------------------------------|------------------------|----------------------|--------------------|-------------------|
| Share Capital                        | 11.500.000        |                                 |                                  |                                     |                                      |                                                |                        |                      |                    | 11.500.000        |
| Treasury stock                       | (92.872)          |                                 | (16.162)                         |                                     |                                      |                                                |                        |                      |                    | (109.034)         |
| Treasury stock owned by Subsidiaries | 15.664.893        |                                 |                                  |                                     |                                      |                                                |                        |                      |                    | 15.664.893        |
| Share premium reserve                | 770.910           |                                 |                                  |                                     |                                      | 1.529.090                                      |                        |                      |                    | 2.300.000         |
| Legal reserve                        | 220.624           |                                 |                                  |                                     |                                      | 963.517                                        |                        |                      |                    | 1.184.141         |
| Other reserve                        | 329.937           |                                 |                                  |                                     |                                      |                                                |                        |                      | (969.474)          | (639.537)         |
| Conversion reserve                   | (2.661.910)       | (28.370)                        |                                  | 71.273                              | (16.339)                             | 1.327.771                                      |                        |                      |                    | (1.307.575)       |
| Profit / (loss) carried forward      | 5.107.631         |                                 |                                  |                                     |                                      | (3.820.378)                                    | (1.287.253)            | 13.705.921           |                    | 13.705.921        |
| Income for the year                  |                   |                                 |                                  |                                     |                                      |                                                |                        |                      |                    |                   |
| <b>Net Equity</b>                    | <b>30.839.213</b> | <b>(28.370)</b>                 | <b>(16.162)</b>                  | <b>71.273</b>                       | <b>(16.339)</b>                      | <b>-</b>                                       | <b>(1.287.253)</b>     | <b>13.705.921</b>    | <b>(969.474)</b>   | <b>42.298.809</b> |
| Minorities'interest                  |                   |                                 |                                  |                                     |                                      |                                                |                        |                      |                    | 60.266            |
| <b>Total Net Equity</b>              |                   |                                 |                                  |                                     |                                      |                                                |                        |                      |                    | <b>42.359.075</b> |

**THE PRIMA INDUSTRIE GROUP –  
Consolidated Financial Statements at 31 December 2006**

**CONSOLIDATED CASH FLOW STATEMENT AT 31 DECEMBER 2006 AND 31 DECEMBER 2005**

| THOUSAND OF EURO                                            | 12/31/2006         | 12/31/2005         |
|-------------------------------------------------------------|--------------------|--------------------|
| Profit (Loss) before tax                                    | 17.576.644         | 7.113.022          |
| Adjustments for non-monetary elements                       | 3.295.984          | 2.753.959          |
| Amortization for the financial year                         | 1.330.386          | 1.208.232          |
| Provisions raised to Employees' severance fund              | 1.075.692          | 742.139            |
| Loss (Profit) on foreign currency transactions              | (12.628)           | (22.758)           |
| Loss (Income) from equity investments                       | (10.384)           | (336.716)          |
| Financial expenses                                          | 1.580.007          | 1.638.575          |
| Financial (income)                                          | (667.089)          | (475.513)          |
|                                                             | 20.872.628         | 9.866.981          |
| (Increase) /Decrease in trade and other receivables         | 1.103.099          | 785.423            |
| (Increase) /Decrease in inventories                         | 2.825.901          | (3.174.596)        |
| Increase / (Decrease) in trade payables                     | (8.469.238)        | 4.224.541          |
| Increase / (Decrease) in other payables                     | 2.366.271          | 1.170.024          |
| Cash flow from typical activity                             | 18.698.661         | 12.872.373         |
| Interest payment                                            | (1.580.007)        | (1.570.730)        |
| Tax payment                                                 | (1.725.654)        | (1.465.060)        |
| <b>Cash flow derived from operating activity</b>            | <b>15.393.000</b>  | <b>9.836.583</b>   |
| Cash flow derived from investment activity                  |                    |                    |
| Purchase of MLTA S.r.l.                                     | (38.622)           | -                  |
| Purchase of PRIMA INDUSTRIE GmbH                            | -                  | (969.515)          |
| Purchase of tangible fixed assets                           | (1.899.046)        | (902.608)          |
| Purchase of intangible fixed assets                         | 58.727             | (362.842)          |
| Sale /(Purchase) of financial assets (at cost)              | (745.935)          | (51.600)           |
| Sale /(Purchase) investments in associates                  | 31.557             | (502.795)          |
| Receipts from sales of fixed assets                         | 167.063            | 68.239             |
| Interest encashed                                           | 667.089            | 475.513            |
| <b>Net Cash flow derived from investment activity</b>       | <b>(1.759.167)</b> | <b>(2.245.608)</b> |
| Cash flow derived from financing activity                   |                    |                    |
| Variation in the conversion reserve                         | (969.474)          | 503.655            |
| (Purchase)/sale of treasury stock                           | 38.772             | 189.313            |
| Variation of other reserves                                 | 17.952             |                    |
| Changes in balance- derivative instruments (FV)             | (4.700)            | 254.984            |
| Loan agreement                                              | 13.674.366         | 7.842.106          |
| Repayments of loans and financing                           | (15.120.949)       | (9.657.420)        |
| (Repayments)/ Raising of financial leases                   | (262.861)          | (776.027)          |
| (Repayments)/ Raising of Sabatini transactions              | (512.362)          | (257.535)          |
| Dividends paid                                              | (1.287.253)        | (642.950)          |
| <b>Net Cash flow derived from financing activity</b>        | <b>(4.426.509)</b> | <b>(2.543.874)</b> |
| <b>Increase (decrease) in the cash and cash equivalents</b> | <b>9.207.324</b>   | <b>5.047.101</b>   |
| <b>Cash and cash equivalents at start of year</b>           | <b>11.495.383</b>  | <b>6.448.282</b>   |
| <b>Cash and cash equivalents at year end</b>                | <b>20.702.707</b>  | <b>11.495.383</b>  |



## THE PRIMA INDUSTRIE GROUP - Consolidated Financial Statements at 31 December 2006

### CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006 CONSOLIDATED BALANCE SHEET ACCORDING TO CONSOB RESOLUTION N. 15519 DATED JULY 27TH, 2006

| VALUES IN EURO                                    | NOTE | 12/31/2006         | related parties<br>(9.30) | 12/31/2005         | related parties<br>(9.30) |
|---------------------------------------------------|------|--------------------|---------------------------|--------------------|---------------------------|
| Tangible fixed assets                             | 9.1  | 6.427.108          |                           | 5.778.520          |                           |
| Intangible fixed assets                           | 9.2  | 2.511.075          |                           | 2.738.927          |                           |
| Equity investments valued using the equity method | 9.3  | 1.787.906          | 1.787.906                 | 1.809.079          | 1.809.079                 |
| Equity investments valued using the cost method   | 9.4  | 801.885            |                           | 51.832             |                           |
| Other financial assets                            | 9.5  | 267.999            |                           | 272.117            |                           |
| Tax assets for prepaid taxes                      | 9.6  | 7.525.805          |                           | 6.946.898          |                           |
| Other receivables                                 | 9.7  | 38.791             |                           | 52.391             |                           |
| <b>TOTAL NON CURRENT ASSETS</b>                   |      | <b>19.360.569</b>  |                           | <b>17.649.764</b>  |                           |
| Inventories                                       | 9.8  | 33.870.201         |                           | 36.319.402         |                           |
| Trade receivables                                 | 9.9  | 38.960.582         | 1.632.587                 | 39.869.959         | 2.236.737                 |
| Other receivables                                 | 9.10 | 2.802.967          |                           | 3.048.672          |                           |
| Other tax assets                                  | 9.11 | 1.643.701          |                           | 1.357.085          |                           |
| Tax assets for prepaid taxes                      | 9.12 | -                  |                           | 4.595              |                           |
| Derivative financial instruments                  |      | -                  |                           | -                  |                           |
| Cash and cash equivalents                         | 9.13 | 20.702.707         |                           | 11.495.383         |                           |
| <b>TOTAL CURRENT ASSETS</b>                       |      | <b>97.980.158</b>  |                           | <b>92.095.096</b>  |                           |
| <b>TOTAL ASSETS</b>                               |      | <b>117.340.727</b> |                           | <b>109.744.860</b> |                           |
| Share Capital                                     |      | 11.500.000         |                           | 11.500.000         |                           |
| Treasury stock                                    |      | (109.034)          |                           | (92.872)           |                           |
| Treasury stock owned by subsidiaries              |      | -                  |                           | -                  |                           |
| Legal reserve                                     |      | 2.300.000          |                           | 770.910            |                           |
| Other reserves                                    |      | 16.849.034         |                           | 15.885.517         |                           |
| Conversion reserve                                |      | (639.537)          |                           | 329.937            |                           |
| Profits (Losses) carried forward                  |      | (1.307.575)        |                           | (2.661.910)        |                           |
| Profit (loss) for the year                        |      | 13.705.921         |                           | 5.107.631          |                           |
| Total Group stockholders' equity                  |      | 42.298.809         |                           | 30.839.213         |                           |
| Minority interests                                |      | 60.266             |                           | -                  |                           |
| <b>TOTAL NET EQUITY</b>                           |      | <b>42.359.075</b>  |                           | <b>30.839.213</b>  |                           |
| Loans                                             | 9.14 | 12.657.033         |                           | 5.570.596          |                           |
| Employee benefits                                 | 9.15 | 5.544.236          |                           | 4.936.694          |                           |
| Deferred tax liabilities                          | 9.16 | 2.384.507          |                           | 2.502.156          |                           |
| Provision for risks and charges                   | 9.17 | 33.500             |                           | 29.110             |                           |
| Derivative financial instruments                  | 9.12 | 6.071              |                           | 15.970             |                           |
| <b>TOTAL NON CURRENT LIABILITIES</b>              |      | <b>20.625.347</b>  |                           | <b>13.054.526</b>  |                           |
| Trade payables                                    | 9.18 | 26.054.651         |                           | 23.089.151         |                           |
| Advances                                          | 9.18 | 7.387.989          |                           | 18.371.290         |                           |
| Other payables                                    | 9.18 | 5.905.438          | 165.937                   | 4.668.838          | 51.750                    |
| Amounts due to banks and in respect of loans      | 9.14 | 5.231.281          |                           | 13.918.168         |                           |
| Tax liabilities - current taxes                   | 9.19 | 5.066.445          |                           | 2.027.955          |                           |
| Provision for risks and charges                   | 9.17 | 4.709.897          |                           | 3.775.719          |                           |
| Derivative financial instruments                  | 9.12 | 604                |                           | -                  |                           |
| <b>TOTAL CURRENT LIABILITIES</b>                  |      | <b>54.356.305</b>  |                           | <b>65.851.121</b>  |                           |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> |      | <b>117.340.727</b> |                           | <b>109.744.860</b> |                           |

## THE PRIMA INDUSTRIE GROUP – Consolidated Financial Statements at 31 December 2006

CONSOLIDATED FINANCIAL STATEMENTS AT DECEMBER 31, 2006  
CONSOLIDATED INCOME STATEMENT ACCORDING TO CONSOB RESOLUTION N. 15519 DATED JULY 27TH, 2006

| VALUES IN EURO                                               | NOTE | 31/12/06          | related parties<br>(9.30) | 31/12/05         | related parties<br>(9.30) |
|--------------------------------------------------------------|------|-------------------|---------------------------|------------------|---------------------------|
| Net revenues from sales and services                         | 9.20 | 147.569.053       | 1.814.632                 | 110.884.661      | 3.493.421                 |
| Other operating income                                       | 9.20 | 1.644.672         |                           | 3.000.218        |                           |
| Changes in inventories of semifinished and finished products |      | (3.480.276)       |                           | 1.903.152        |                           |
| Increases in fixed assets for internal work                  | 9.21 | 138.510           |                           | 62.886           |                           |
| Use of raw materials, consumables, supplies and goods        |      | (64.817.871)      |                           | (55.422.679)     |                           |
| Personnel cost                                               | 9.22 | (30.075.984)      | 1.208.486                 | (26.040.097)     | 530.666                   |
| Amortization & Depreciation                                  | 9.23 | (1.330.386)       |                           | (1.208.232)      |                           |
| Impairment & Writedowns                                      |      | -                 |                           |                  |                           |
| Other operating costs                                        | 9.24 | (31.181.168)      | 795.681                   | (25.263.299)     | 469.236                   |
| <b>OPERATING INCOME</b>                                      |      | <b>18.466.550</b> |                           | <b>7.916.610</b> |                           |
| Financial income                                             | 9.25 | 667.089           |                           | 475.513          |                           |
| Financial expenses                                           | 9.25 | (1.580.007)       |                           | (1.638.575)      |                           |
| Net income from transactions in foreign exchange             | 9.25 | 12.628            |                           | 22.758           |                           |
| Net income from associated companies & joint ventures        | 9.26 | 10.384            | 10.384                    | 336.716          | 336.716                   |
| Net income from financial assets held for sale               |      | -                 |                           | -                |                           |
| <b>INCOME BEFORE TAX</b>                                     |      | <b>17.576.644</b> |                           | <b>7.113.022</b> |                           |
| Current and deferred taxes                                   | 9.27 | (3.856.779)       |                           | (2.005.391)      |                           |
| <b>NET PROFIT</b>                                            |      | <b>13.719.865</b> |                           | <b>5.107.631</b> |                           |
| <b>NET PROFIT</b>                                            |      | <b>13.719.865</b> |                           | <b>5.107.631</b> |                           |
| - Group Stockholders' net profit                             |      | <b>13.705.921</b> |                           | <b>5.107.631</b> |                           |
| - Minorities net profit                                      |      | 13.944            |                           | -                |                           |
| <b>EARNING PER SHARE (euro)</b>                              |      | <b>2,98</b>       |                           | <b>1,11</b>      |                           |
|                                                              |      | -                 |                           | -                |                           |



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**SUPPLEMENTARY NOTES  
EXPLANATORY NOTES TO THE CONSOLIDATED  
FINANCIAL STATEMENTS**

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## **6. DESCRIPTION OF ACCOUNTING PRINCIPLES**

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### **□ GROUP ACTIVITIES**

PRIMA INDUSTRIE S.p.A.'s corporate mission is the design, manufacture and sale of electrical and electronic equipment, instruments, machines and mechanical systems and the related software programs for use in industrial automation or in other sectors in which the company's technology may be usefully employed.

The company is also capable of providing industrial services of a technical, planning and organizational nature in the field relating to the production of capital goods and industrial automation.

The main activity is focused in the cutting and welding laser machines sector.

PRIMA ELECTRONICS S.p.A.'s corporate mission is the design, manufacture and sale of mechanical, electrical and electronic equipment, systems and installations and the relevant software programs.

The company may also acquire and grant manufacturing licences.

PRIMA NORTH AMERICA Inc. (incorporated in terms of American law) has three divisions:

- **CONVERGENT LASERS DIVISION:** which designs, manufactures, sells and renders assistance in respect of industrial lasers throughout the world.
- **LASERDYNE SYSTEMS DIVISION:** which designs, manufactures, sells and renders assistance in respect of Laserdyne systems throughout the world. These systems are specialized in the use of lasers for the production of components for aeronautic motors and turbines for the generation of energy.
- **PRIMA SYSTEMS DIVISION:** which is engaged in the sale and installation in North America of Prime Industrie's products, as well as the provision of technical assistance in respect thereof.

PRIMA INDUSTRIE GmbH, a company incorporated in terms of German law, is primarily engaged in providing after-sales service. The company recommenced operations with effect from 01/07/2005 pursuant to the acquisition of the branch of the business from Matra, responsible for distributing PRIMA machines on the German market.

PRIMA SCANDINAVIA AB (incorporated in terms of Swedish law) carries out management and promotional activities and also provides assistance for Prima Industrie's products on the Scandinavian market.

PRIMA INDUSTRIE UK LTD. (incorporated in terms of English law) carries out management and promotional activities and also provides assistance for Prima Industrie's products on the English and neighbouring markets.

M.L.T.A. S.r.l., of which PRIMA ELECTRONICS took control in January 2006, operates in the power electronics sector.

### **□ VALUATION CRITERIA**

The 2006 consolidated financial statements have been drafted in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union. IFRS refers to all reviewed international accounting standards ("IAS") and all interpretations of the International Financing Reporting Interpretations Committee ("IFRIC"), previously known as the Standing Interpretations Committee ("SIC").

The PRIMA INDUSTRIE Group adopted the IFRS on 1 January 2005 following enforcement of European Regulation no. 1606 of 19 July 2002.

The information statement required by IFRS1 - *First-time adoption of the IFRS*, regarding the effects of transition to the IFRS, was included as an annex to the consolidated financial statements to 31 December 2005, to which you are referred.

The financial statements are drawn up on a historical cost basis, modified, as required, for evaluation of a number of financial instruments.

## □ **CONSOLIDATION PRINCIPLES**

### (a) *Subsidiaries*

All companies, including any vehicle-company, in which the Group has the capacity to control the financial and operating choices, are defined as subsidiary companies.

Generally, control is presumed to exist if the Group holds more than half of the voting rights, also via paracorporate agreements or potential voting rights. The subsidiary companies are consolidated from the time that the Group is able to exercise control and they are de-consolidated when control ceases.

The Group accounts for the acquisition of a controlling interest via the purchase method.

The cost of the acquisition is the sum of the price paid and any ancillary charges.

The identifiable assets and liabilities acquired are initially recorded in the consolidated financial statements at fair value, determined at the date of acquisition.

The excess of the fair value of the net asset acquired over the cost of the shareholding is capitalized as goodwill and is included amongst the intangible fixed assets, if positive and if negative, it is immediately reflected in the Income Statement.

Goodwill is subject to an impairment test on a minimum annual basis.

The costs, income, receivables, payables and gains realized amongst companies belonging to the group are eliminated. Where necessary, the accounting principles of the Subsidiaries are amended to bring them into line with those of the Parent Company.

### (b) *Associated companies & Joint Ventures*

Associated companies are those in which the Group has a significant influence but does not have control. The significant influence is presumed in the case of possession of 20% to 50% of the voting rights. Associated companies are initially recorded at cost and then accounted for using the *equity method*.

Joint Ventures are companies subject to common control. They are accounted for in accordance with the provisions of IAS 31, paragraph 38, which provides for the recording of the stake using the *equity method*.

The Group's shareholdings in associated companies and Joint Ventures includes goodwill calculated at the time of acquisition, net of any accumulated losses in value.

The Group's Income Statement reflects the applicable share of the associated company and Joint Venture's result. If the associated company or the Joint Venture records an adjustment with a direct

effect on shareholders' equity, the Group determines the portion that applies to it, reflecting such change in the Statement of Changes in Shareholders' Equity.

Recognition in the Group's accounts of a share of an associated company or Joint Venture's loss has as the limit of writing off the value of the investment; further shares of losses are recorded amongst the liabilities, only if the Group has commitments or has effected payments on behalf of the associated company or Joint Venture.

The earnings realized through transactions with the associated company or the Joint Venture are eliminated against the value of the shareholding. The same procedure is adopted in the case of losses, on condition that there is no impairment of the assets that are the object of the transaction. Where necessary, the accounting principles of the associated companies are modified to bring them into line with those of the Parent Company.

## □ **SEGMENT REPORT**

A market sector is a group of activities or operations, which produce products or services that are subject to risks and benefits, which differ from those of other market sectors.

A geographical sector distinguishes itself from others in that, within that sector, products and services are produced that are subject to risks and benefits, differing from those of other geographical sectors.

The PRIMA INDUSTRIE Group highlights the following sectors as the main object of the report:

- Laser systems and sources (sector 1);
- Numeric controls (sector 2)

The Group's choice is justified by the clear differentiation of the two activities in terms of products, customers and productive cycles.

Although important, laser source production was not identified as a sector on its own, in that it is "captive" for the Group.

In terms of IAS 14, in relation to the information relating to the assets and liabilities of the two market sectors, the assets and liabilities specifically inherent to the activity carried out were allocated to the sectors. Accordingly, the assets and liabilities of a financial and tax nature were not included.

## □ **CONVERSION OF ITEMS IN FOREIGN CURRENCY**

### *(a) Functional currency and presentation currency*

The Financial Statements of the subsidiaries, associated companies and Joint Ventures are prepared using the applicable functional currency, i.e. the currency used in their primary economic environment. The presentation currency adopted by the Prima Industrie Group is the Euro.

### *(b) Assets, liabilities and transactions in non-Euro currencies*

Transactions in non-Euro currencies are initially reflected at the exchange rate applicable on the date of the transaction.

The monetary assets and liabilities in non-Euro currencies are converted into Euro using the exchange rate in force at the date of closure of the Financial Statements. All the exchange differences are reflected in the Income Statement.

The non-monetary items recorded at historical cost are converted into Euro using the exchange rate in force at the starting date of the disclosure of the transaction. The non-monetary entries recorded at fair value are converted using the exchange rate at the date of determination of that value.

(c) *Companies of the Group*

At the date of closure of the Financial Statements the assets and liabilities of the companies of the Group, in non-Euro currencies, were converted into Euro at the exchange rate in force at the date of closure of the Financial Statements. Their Income Statements are converted using the average exchange rate for the period. The exchange differences are disclosed directly in shareholders' equity and are shown separately in the "Conversion reserve". When the subsidiary company is disposed of, the sum of the reserve is reversed to the Income statement.

The goodwill and the adjustments to the fair value of the assets and liabilities of the foreign company are converted into Euro at the exchange rate at the end of the period.

□ **TANGIBLE ASSETS**

All the tangible fixed asset categories are included in the Financial Statements at historical cost, reduced by depreciation and impairment, with the exception of land, which is recorded at historical cost reduced by any impairment. The cost includes any expenses directly attributable to the purchase.

The costs incurred after the purchase of the asset are accounted for as an increase to its value or are recorded separately, only if it is likely that they will generate future financial benefits and their cost can be reliably measured.

The depreciation on the tangible fixed assets is calculated using the straight-line method so as to allocate their residual accounting value over their technical-financial life estimated as follows:

|                                            |        |       |
|--------------------------------------------|--------|-------|
| - Buildings and incremental work           | 33     | years |
| - Plants and machinery                     | 10 - 5 | years |
| - Equipment                                | 4 - 5  | years |
| - Furniture, fixtures and office equipment | 9 - 5  | years |
| - Electronic office equipment              | 5      | years |
| - Motor vehicles                           | 3 - 5  | years |

The extraordinary maintenance capitalized as an increase to an existing asset is depreciated on the basis of its residual useful life, or if less, in the period that remains until the next maintenance work.

The residual value and the useful life of the tangible fixed assets are reviewed and modified, if necessary, at the closing date of the Financial Statements.

Impairment: the carrying value of the tangible fixed assets is immediately written down to the recoverable value, whenever the former value exceeds the latter.

Gains and losses on the disposal of tangible fixed assets are recorded in the Income Statement and are determined by comparing their carrying value with the selling price.

Financial expenses incurred for the construction of tangible assets are allocated to the Income Statement of the applicable financial year.

## □ INTANGIBLE ASSETS

### (a) *Goodwill*

Goodwill represents the excess of the price paid, over the fair value of the stake in the net assets identifiable at the date of acquisition.

Goodwill generated by the acquisition of a stake in a subsidiary company is included in the intangible assets. Goodwill generated by the acquisition of a stake in associated companies is recorded as an increase to the value of the shareholding. Goodwill is recorded in the Financial Statements at cost adjusted for impairment, which is reviewed annually. Gains or losses arising from the sale of the shareholding also takes into account the residual carrying value of the related goodwill.

### (b) *Software*

Software licences are capitalized at the cost incurred to obtain and put them into operation and are amortized on the basis of their estimated useful life (from 3 to 5 years).

Costs linked to the development and maintenance of software programs are considered as costs for the period and are therefore allocated to the applicable Income Statement.

### (c) *Research and development costs*

Research costs are recorded in the Income Statement in the financial year in which they are incurred.

Development costs incurred for an identifiable project are capitalized amongst the intangible fixed assets, if they can be reliably measured and if it is likely that the project to which they are tied will generate a cash flow justifying their inclusion in the financial statements.

Development costs allocated to the Income Statement in previous financial years are capitalized retrospectively if, at a later date, they possess the necessary characteristics.

Development costs having a defined useful life are amortized from the date of marketing the product, on the basis of the period over which it is estimated that they will produce a financial benefit and, in any event, over a period not exceeding 5 years.

Development costs that do not have these features are charged to the Income Statement in the year in which they were incurred.

### (d) *Other intangible assets*

Other intangible fixed assets that were acquired separately are capitalized at cost, whereas those acquired via business combinations are capitalized at fair value, identified at the date of acquisition.

After the first determination, the intangible fixed assets with a defined useful life are recorded at cost reduced by amortization and impairment; the intangible fixed assets with an indefinite useful life are shown at cost reduced by impairment only;

The intangible fixed assets which are produced internally are not capitalized but are reflected in the Income Statement of the financial year in which they were incurred.

Other intangible assets are tested annually for impairment - this analysis can be carried out on the individual intangible asset or on the basis of the asset's income-generating unit.



The useful life of other intangible fixed assets is reviewed annually: where possible, any changes are shown in schedules.

#### □ **RECOVERY VALUE OF THE ASSET (IMPAIRMENT)**

Assets with an indefinite useful life, not subject to amortization, are tested at least annually for impairment and whenever there is any indication that their carrying value is not recoverable.

Assets that are amortized are tested for impairment only if there is an indication that their carrying value is no longer recoverable.

The writedown amount for impairment is determined as the difference between the carrying value of the asset and its recoverable value, determined as the higher of the selling price, net of the transaction costs, and its value in use, or the actual value of the cash generated.

The recoverable value of the asset is determined by grouping the smallest cash-generating units.

#### □ **FINANCIAL ASSETS**

The Group classifies its investments into the following categories: a) financial assets at fair value with changes in value recorded in the Income Statement, b) loans and financial receivables, c) investments held to maturity and d) financial assets held for sale.

The reclassification is dependant on the purpose of the purchase; the Directors allocate the financial assets to the applicable category at the time of the purchase, re-assessing the allocation at the end of each financial year.

##### *(a) Financial assets at "fair value with changes in value recorded in the Income Statement",*

This category is divided into two classes: 1) financial assets held for trading and 2) those assigned to this category from the start. A financial asset is included in this category if it has been purchased for short-term resale or if has been included by the Directors.

Derivative financial instruments that do not have the requirements to be defined as hedging instruments are placed in the "held for trading" category.

Financial assets belonging to these two classes are entered among current assets if they are not "held for trading" or if they are not to be sold within 12 months of the close of the financial statements.

##### *(b) Loans and financial receivables*

Loans and financial receivables are non-derivative financial assets with fixed or determinable payments, not listed on a regulated market and not intended for trading. They are included amongst the current assets, (except for the portion that exceeds twelve months of closure of the statements) in the category "Trade and other receivables".

##### *(c) Investments held to maturity*

This relates to non-derivative financial assets with fixed or determinable payments and fixed maturity, which the Group both intends and has the capacity to hold until maturity

(d) *Financial investments held for sale*

This refers to non-derivative financial assets allocated to this category, including those allocated here as a residual classification compared to the ones mentioned above. These financial assets are placed in current assets, provided that the Directors do not decide to sell them after the 12 months following the closure of the financial year.

The purchases and sales of financial assets are recognized at the trading date that coincides with the date on which the Group undertakes to buy or sell the asset.

All financial assets, with the exception of those at "fair value with changes in value recorded in the Income statement", are initially reflected at fair value increased by the costs to sell.

The financial assets are reversed from the financial statements at the time when the right to receive the financial flows deriving from them has been transferred, or when the Group has effectively transferred all the risks and benefits of ownership to third parties.

The two classes of financial assets "held for sale" and at "fair value with changes in value recorded in the Income Statement" class, are thereafter valued at fair value. The other two classes, "loans and financial receivables" and "financial assets held to maturity" are valued using the cost criterion depreciated using the effective interest rate method.

Gains and losses, whether realized or not, arising from a change in the fair value of the financial asset belonging to the "fair value with changes in value recorded in the Income Statement" category, are recorded in the Income Statement for the financial year in which they are generated.

Unrealized gains and losses arising from the change in fair value of the non-monetary securities classified in the "held for sale" category are recorded in shareholders' equity. When the securities classified as "held for sale" are sold or undergo impairment in value, the accumulated adjustments to their fair value in shareholders' equity are transferred to the Income Statement as gains or losses arising from the sale.

The fair value of listed shareholdings is based on the current asking price. When there is no active market for the financial asset or if the shareholding is not listed, the fair value is set by the Group using valuation techniques, (including recent comparable market transactions, the discounted financial flows method,) which are adjusted to reflect the issuers' specific characteristics.

The Group tests, on the closure of each set of Financial Statements, whether objective evidence of the impairment of the financial assets exists. In the case of financial assets that are representative of shareholders' equity classified in the "held for sale" category, a significant or prolonged decline in fair value compared to cost is considered as one of the elements in the assessment of loss in value. If this evidence exists for financial assets in the "held for sale" category, the accumulated loss in value, determined as the difference between the purchase cost and the current fair value, net of writedowns already made, is reversed out of shareholders' equity and allocated to the Income Statement. The writedowns recorded in the Income Statement can no longer be reversed.

## □ **INVENTORIES**

Inventories are stated at the lower of cost and the estimated realizable value of the inventories, which is represented by the normal sales value in the ordinary course of business, net of variable sales expenses.

The cost is determined using the average weighted cost method. The cost of finished and semi-finished products includes design costs, raw materials, the cost of direct labour, other direct costs and other indirect costs that can be allocated to the production activity on the basis of normal production capacity and the state of progress. This cost configuration does not include financial expenses.

## □ **TRADE AND OTHER RECEIVABLES**

Trade receivables are initially stated at their fair value and are measured after the cost has been depreciated using the effective interest method, net of writedowns to take account of irrecoverability. The debt is written off if there exists objective evidence that the Group is not able to collect the entire amount due on the date agreed to with the customer. The amount of the writedown is the difference between the book value of the debt and the actual value of future receipts, discounted on the basis of the effective interest rate. The writedown of receivables is recorded in the Income Statement.

## □ **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash, immediately available bank deposits and the current account overdraft and other liquid investments maturing within three months. The overdraft on the current account is recorded amongst short-term loans.

## □ **CAPITAL STOCK**

Ordinary shares are classified in shareholders' equity.

Additional expenses directly tied to the issue of shares or options are recorded in the equity as a reduction of the cash received.

Whenever the Group buys Parent Company shares (treasury shares), the purchase price net of any additional expenses that can be directly attributed to the purchase (net of taxes) is deducted from Group Shareholders' Equity until such time as the treasury shares is eliminated, re-issued or sold. When this latter situation occurs, all additional expenses incurred net of the related tax effect is included in Group Shareholders' Equity

## □ **LOANS**

Loans are recorded in the Financial Statements at their fair value net of any additional expenses. After their first disclosure, they are accounted for as amortized costs. Each difference between receipts, net of any additional expenses, and the value of repayment is recorded in the Income Statement for the period on the basis of the effective interest rate method.

The loans are recorded amongst short-term liabilities, provided that the Group has no unconditional rights to defer the loan beyond 12 months of the closure of the Financial Statements.

## □ **DEFERRED TAXES**

Current taxes are determined through prudent interpretation of the fiscal legislation in force in the countries in which the Group operates.

Deferred taxes are calculated on all the temporary differences between tax value and the carrying value of the assets and liabilities of the Consolidated Financial Statements. Deferred taxes are not calculated:

- on goodwill arising out of a business combination;
- on the initial recording of assets and liabilities arising from a transaction that is not a business combination and that does not entail effects either on the result for the financial year calculated for the purposes of the Financial Statements or on the taxable amount.

Deferred taxes are calculated using the tax rates and laws that are in force at the date of closure of the Financial Statements, or using ones that are effectively in place and that are expected to be applicable at the time of the reversal of the temporary differences that gave rise to the recording of the deferred taxes.

Receivables for prepaid taxes are recorded in the Financial Statements only if, at the time of the reversal of the temporary difference, the likelihood exists of sufficient taxable income for them to be set off.

Receivables for prepaid taxes are re-examined at the close of each financial year and they are reduced if it is no longer likely that sufficient taxable income will become available in the future for whole or partial utilization of the receivable.

Deferred taxes are also calculated on temporary differences that arise out of the shareholdings in subsidiaries, associated companies and Joint Ventures, with the exemption of the case in which the reversal of the temporary differences can be controlled by the Group and it is likely that it will not occur in the immediate future.

Deferred taxes relating to the components disclosed directly in the shareholders' equity are also allocated directly to shareholders' equity.

## □ **EMPLOYEE BENEFITS**

### (a) *Pension schemes*

The Group considers the Employees' Severance Fund to be a defined benefits plan, the Cometa Fund (a supplementary fund to the national collective labour contract for the metal industry) and the Previndai Fund (supplementary fund to the national collective labour contract for industry executives) as defined contributions plans.

For Group companies outside of Italy, there are defined contributions plans with the exception of PRIMA INDUSTRIE GmbH, which has a defined benefits plan.

Defined benefits schemes are pension plans that define the amount of the pension benefit due to the employee at the time of termination of the employment relationship - a sum that depends on different factors such as age, years of service and salary.

The defined contribution schemes are pension plans in respect of which the Group pays a fixed sum to a separate entity. The Group does not have any legal or implicit obligation to pay further sums should the assets serving the scheme become insufficient to pay the employees the benefits due to them for current and past services.

The liability recorded in the Financial Statements for the defined benefits plan is the actual value of the obligation at the date of closure of the Financial Statements, net of the fair value of the assets available in the plan (where they exist), both corrected for actuarial gains and losses and for the cost of social security for past services. The obligation is determined annually by an independent actuary using the projected unit credit method.

The present value of the obligation is determined by discounting estimated future disbursements at the interest rate for the gilt-edged bonds, issued in the same currency with which the benefits will be paid and which fall due approximately at the same time as the correlated retirement liability.

The cumulative total of the actuarial losses and gains, derived from the variations on the estimates made, which exceeds 10% of the greater of the fair value of the assets available in the plan (where they exist) and 10% of the obligation relating to the defined benefits plan, is allocated to the Income Statement, using the accrual principal on the basis of the expected average residual working life of the employees who participate in the plans.

The employee benefit cost relating to past services is immediately recorded in the Income Statement, unless the changes to the pension plan are not dependant on the employees' remaining in service for a certain period of time. In this case the employee benefit cost for past services is amortized on a straight-line basis in the period in which it accrued.

For defined contribution plans the Group pays contributions to state or private pension funds on a compulsory, contractual or voluntary basis. Once these contributions have been paid, the Group has no further obligations. The contributions paid are recorded in the Income Statement under labour costs when they fall due. Contributions paid in advance are recorded amongst the prepaid expenses only if a refund or a reduction of future payments is expected.

*(b) Benefits granted on achieving a certain level of seniority in the company*

Certain companies of the Group grant benefits to their employees when they reach a certain seniority of service in the company.

The liability recorded in the Financial Statement for these benefits is the present value of the obligation at the date of closure of the Financial Statements, net of the fair value of the assets serving the plans (where they exist), both corrected for actuarial gains and losses and for the cost of matured benefits. The obligation is determined annually by an independent actuary using the projected unit credit method. The present value of the obligation is determined by discounting the estimate of future disbursements at the interest rate for gilt-edged bonds, issued in the same currency with which the benefits will be paid and which fall due approximately at the same time as the correlated liability.

The cumulative total of actuarial losses and gains, deriving from variations in the estimates made, are posted in the income statement.

*(c) Benefits granted on termination of the employment relationship*

Workers are entitled to receive these benefits on early termination of the employment relationship, prior to the retirement date or in the case of termination due to a corporate restructuring plan. The Group records a liability in the Financial Statements to meet such benefits when: a) a formal and detailed incentive plan exists for early retirement which the employee will not refuse b) an offer is made to employees to encourage voluntary retirement. The amounts payable beyond 12 months of the closure of the Financial Statements are discounted back.

(d) *Incentives, bonuses and profit-sharing schemes*

The Group records a cost and a debt to meet the liabilities that arise for bonuses, employee incentives and profit-sharing schemes, determined using a formula that considers profits attributable to shareholders after certain adjustments are made. The Group records a liability to a reserve only if contractually obliged or if there is a customary obligation to do so.

(e) *Employee benefits granted in shares*

The management of the Group, on a discretionary and periodical basis, allocates bonuses to key-employees, in the form of options on company shares (stock option plans). The right to exercise the options matures on the basis of personal objectives after a year's service. The fair value of the options is a working cost for the financial year, which, for the entire maturity period of the options, causes a particular reserve to be raised to shareholders' equity. When the option is exercised, the amount received, net of any transaction costs, is allocated to share capital (for the par value portion of the shares) and to the share premium reserve (for the premium portion). There are currently no stock option plans for Group employees.

□ **PROVISIONS FOR RISKS AND CHARGES**

Provisions are allocated to risks and charges when:

- a legal or implied obligation arises for the Group as a result of past events,
- an outflow of resources will probably be required to settle the obligation, and its amount
- it can be reliably determined.

Provisions cannot be allocated to risks and charges to meet future operating losses.

Provisions are recorded by discounting the Directors' best estimates of the total costs that the Group must incur to settle the obligation, at the date of closure of the Financial Statements.

□ **RECOGNITION OF REVENUES**

Revenues include the fair value arising from the sale of goods and services net of VAT, returns, discounts and transactions between Group companies. Revenues are recorded according to the following rules:

(a) *Sale of goods*

Revenues are recognized when the company transfers the risks and important benefits implicit in ownership of the goods, and the amount thereof can be reliably estimated.

Revenues from the sale of laser systems are accounted for when the machines are accepted by the end-customer, which generally coincides with the date of signing of the testing report by the customer.

On the other hand, invoicing takes place when the goods are taken on by the carrier in accordance with international commercial terms (known as "incoterms"). From that time onwards, the PRIMA INDUSTRIE Group is free from all liability relating to transportation.

As a result of the difference between the invoicing date and the date of recognition of the revenue, the value of the machines invoiced but not yet accepted by the customer is brought back into the accounts amongst the inventories of finished products, net of the margin, with the contra-entry being made to "advances" under Balance Sheet liabilities. The Group has chosen this presentation, instead of reducing the "trade receivables" account, because this option ensures correct portrayal of underlying contractual relationships.

*(b) Services*

Revenues from services are accounted for on a state-of-progress basis in the financial year in which they are rendered.

*(c) Interest*

Interest received is accounted for on the accrual principle using the effective interest rate (a rate which exactly discounts the future expected financial flows on the basis of the expected life of the financial instrument).

*(d) Royalties*

Revenues from royalties are accounted for on the accrual principle on the basis of the contents of the underlying contracts.

*(e) Dividends*

Dividends are accounted for in the financial year in which shareholders are entitled to receive payment. Dividends received from Group companies are eliminated during the consolidation process.

□ **LEASING**

Leasing contracts for tangible fixed assets are considered financial leases if the Group effectively bears all the risks and benefits incidental to the ownership of the asset. The assets under financial leases are capitalized at the start of the leasing contract at the lower of the fair value of the leased asset and the present value of the lease instalments. Lease instalments are broken down between the capital portion and the interest portion, determined by applying a constant interest rate to the residual debt.

The financial debt owed to the leasing company is recorded amongst short-term liabilities, for the current portion and amongst long-term liabilities for the portion to be repaid after the close of the financial year.

Interest liabilities are allocated to the Income Statement for the duration of the contract.

The asset under financial lease is recorded amongst the tangible fixed assets and is depreciated on the basis of the estimated financial-technical useful life of the asset.

Leasing contracts in which the lessor effectively retains all the risks and benefits incidental to ownership are accounted for as operating leases. Payments made net of any incentives received from the lessor are allocated to the Income Statement on the accrual principle for the duration of the lease.

## □ **DISTRIBUTION OF DIVIDENDS**

The distribution of dividends to shareholders gives rise to a debt upon approval of the dividend by the shareholders' meeting.

## □ **STATE GRANTS**

State grants are recorded in the Financial Statements at their fair value, only if there exists a reasonable certainty that they will be granted and the Group has satisfied all the conditions required to obtain them (obtaining the decree from the competent Ministry).

Revenues from state grants are recorded in the Income Statement if the costs for which they were granted are actually incurred.

State grants for the purchase of tangible fixed assets are recorded amongst deferred income and credited to the Income Statement on the basis of the depreciation of the assets for which they were granted.

## □ **THE FINANCIAL RISK FACTORS**

The Group's financial instruments, earmarked to finance its operating activity, include bank loans, financial leases, sight bank deposits and short-term bank deposits.

There are other financial instruments such as trade payables and receivables, arising out of the operating activity and derivative financial instruments, such as "interest rate swap" contracts and forward contracts in foreign currency.

The financial risk factors affecting the Group can be summed up as follows:

- the risk that the value of a financial instrument will fluctuate as a result of changes in the rate of exchange (*currency risk*);
- the risk that the fair value of a financial instrument will fluctuate as a result of changes in market interest rates (*interest rate risk on fair value*);
- the risk that the value of a financial instrument will fluctuate following variations in market price (*price risk*);
- the risk that the counter-party will not fulfil its obligations (*credit risk*);
- the risk deriving from the difficulty of raising funds to meet commitments towards financial instruments (*liquidity risk*);
- the risk that the future financial flows of a financial instrument will fluctuate as a result of changes in market interest rates (*interest rate risk on financial flows*);

*Currency risk:* the Group operates in an international environment and is exposed to exchange rate fluctuations mainly in regard to the USD/Euro exchange. Currency risk arises in relation to the following business transactions, mainly in US Dollars:

- sales to third parties of machines, components and technical assistance on the part of PRIMA North America Inc.;
- purchase by PRIMA INDUSTRIE S.p.A. of laser sources from Prima North America Inc.;
- sales of machines by PRIMA INDUSTRIE S.p.A. to PRIMA North America Inc.;

The purchases and sales indicated in the last two points constitute a "natural hedge" in that one is dealing with opposing flows whose monetary regulation takes place in the same currency.



The Group's central treasury signs forward contracts to manage the currency risk arising out of the deficit in the financial flows, stemming from the operations described above. The central treasury also stipulates forward contracts on the financial flows between Group companies.

The Group holds stakes in the Chinese Joint Ventures, Shenyang Prima Machine Laser Co. Ltd (50%) and Shanghai Unity Prima Laser Machinery Co. Ltd (27.5%) and OVL Convergent Laser (30%). The value of these shareholdings is subject to currency risk arising from variations in the USD and the Renminbi (RMB) against the Euro. The Group does not believe that the value of the shareholdings is such that specific hedging activity is required to cover currency risk.

*Price risk:* the Group's exposure to price risk is minimal.

*Credit risk:* within the Group there are no elevated concentrations of credit risk. The Group only engages in business transactions with customers that it considers to be reliable, and financial transactions are only entered into with highly trustworthy financial institutions.

New customers undergo special audits to certify their ability to meet financial commitments.

*Liquidity risk:* the Group's objective is to maintain an equilibrium (including by optimizing the management of working capital), between the funding and financial flexibility by using overdrafts, loans and financial leasing contracts. The Group's objective is to keep the net debt to equity ratio between 0.5 and 1. The Group has short-term credit lines that exceed its immediate liquidity requirements.

*Interest rate risk on the fair value and on liquidity flows:* the Group's exposure to interest rate risk is mainly in relation to financial payables to leasing companies and medium- and long-term loans due to credit institutions and other lenders, mainly entered into at the Euribor rate increased by a "spread". Interest rate risk is partially covered by interest rate swap contracts (IRS), aimed at translating the variable rate into a fixed rate and, in any case, the rate is lower than the rate that the Group would obtain from the credit market. IRS contracts require that, on a quarterly basis, the two counterparties exchange the net value of the net variable/fixed interest flows.

#### □ **ACCOUNTING IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS**

The hedging instruments indicated in the previous paragraph, although not speculative in nature, do not reflect the requirements of IAS 39 for hedge accounting. As a result of this, in accordance with IAS 39, they are classified in the financial assets and liabilities category at "fair value with changes in fair value recorded in the Income Statement".

## □ ESTIMATE OF FAIR VALUE

The fair value of the financial interests quoted on an active market is determined on the basis of the market price at the date of closure of the Financial Statements. The reference market price for the financial assets held by the Group is the current selling price (the purchase price for financial liabilities).

The fair value of financial instruments that are not traded on an active market is determined using various valuation techniques and assumptions depending on the market conditions existing at the time of closure of the Financial Statements. Medium/long-term liabilities are compared with the prices of similar listed financial instruments, for other categories of financial instruments the financial flows are discounted.

The fair value of IRS contracts is determined by discounting the estimated financial flows deriving from these, whereas for forward contracts, the forward market rates at year-end are used.

For receivables it is assumed that the nominal value, net of any adjustments made to take account of possible non-collectability, approximates the fair value.

For reporting purposes, the fair value of financial liabilities is determined by discounting the financial flows from the contract at an interest rate that approximates the market rate at which the Group obtains financing.

## INFORMATION IN TERMS OF § 116 ET SEQ. OF IAS 1

Preparation of the Financial Statements requires Management to make a series of subjective assumptions and estimates based on past experience.

These estimates and assumptions influence the amounts for assets and liabilities recorded in the Balance Sheet, as well as the costs and income disclosed in the Income Statement. The actual results can differ significantly from the estimate made, in view of the natural uncertainty that surrounds the assumptions and the conditions on which the estimates are based.

We set out hereunder a list of the main accounting entries whose formulation required greater subjective assumptions and estimates on the part of management.

### Impairment of goodwill

The goodwill relating to the Laserdyne and Convergent Lasers divisions of PRIMA North America is periodically subject to the impairment test on the basis of the forecasted cash flows generated by the said business units.

The cash flow estimates are based on the best forecast of the future results and require a series of assumptions on the trend in the reference markets, the competitive scenario and the cost of production.

In the event that the estimate is found to be inadequate, a re-determination of the value of the goodwill recorded in the Financial Statements will be made, with possible negative effects on income.

### Deferred taxes

Deferred tax assets and liabilities recorded in the Financial Statements are determined by applying the tax rates applicable in a given country in the year in which the temporary differences are expected to cease to the differences between the statutory values and fiscal values attributed to an asset or a liability.

Deferred taxes for fiscal losses that can be carried forward to future financial years are recorded in the Financial Statements only if and to the extent that management believes that in future financial

years the company concerned will achieve a positive tax result that will allow the deferred tax loss to be absorbed.

If, after the estimate has been made, circumstances intervene that result in a change to the estimates or the rate used for the calculation of deferred taxes, the items recorded in the Financial Statements will be adjusted.

#### Allocation of the value of the assets and liabilities deriving from business combinations

In the case of a business combination, the purchaser is required to effect a valuation of the assets and liabilities acquired, attributing a fair value to them, which may differ significantly from their book value.

In determining the fair value, the purchaser is required to make a series of valuations that take into account future cash flows, the economic and market outlook and a series of factors that may be useful for determining the correct value.

The actual results may differ significantly from the estimates made, thus requiring an adjustment to the amounts recorded in the Financial Statements in relation to the assets and liabilities acquired.

#### Provisions for inventory obsolescence

In determining the provision for inventory obsolescence, the Group companies make a series of estimates regarding future demand for the various types of products and materials in stock, on the basis of the production plan and past experience of customer demand.

If these estimates are found to be inappropriate, this will be translated into an adjustment to the provision for obsolescence with the associated effect on the Income Statement.

#### Provisions for doubtful debts

Provisions for doubtful debts are determined from an analysis of the individual debt positions, on the basis of past experience of debt recovery and relationships with individual customers.

If there is an unexpected worsening of the income-financial condition of an important customer, this could result in the need to adjust the allowance for doubtful debts, with negative effects on the Income Statement.

#### Employee benefits

In many Group companies (particularly in Italy and Germany) benefit programmes are in place, as prescribed by labour agreements or by law; employees receive these benefits on termination of the working relationship.

The amount recorded in the Financial Statements is determined through actuarial estimates made by making assumptions regarding a number of parameters such as the annual inflation rate, wage growth, the annual staff turnover rate and other variables.

Any changes in these parameters require a re-adjustment of the actuarial estimates and consequently the amounts disclosed in the Financial Statements.

## 7. BUSINESS COMBINATION

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On 12/01/2006, PRIMA ELECTRONICS S.p.A increased its holding in M.L.T.A. S.r.l., through an increase in capital for this purpose, to 57.84%, thereby acquiring control. (M.L.T.A. S.r.l. operates in the power electronics sector).

Thus, with effect from 01/01/2006, MLTA entered the area of consolidation of the PRIMA INDUSTRIE Group.

Despite increasing the stake in MLTA over several phases, goodwill was not determined for the purchase of shares, in that, owing to the small sums paid at each stage, the results would not have differed significantly from determination of goodwill for a single transaction.

The purchase price for the 57.84%, net of previous value adjustments and the increase in shareholder's equity net of the increase in the share capital subscribed in January 2006, was €54,000.

In accordance with IFRS 3 paragraph 67, below is a breakdown of the assets and liabilities acquired, and to contrast, the balance of net assets:

| <b>ASSETS</b>                                                                | <b>(thousands of Euros)</b> |
|------------------------------------------------------------------------------|-----------------------------|
| Intangible fixed assets                                                      | 3                           |
| Tangible fixed assets                                                        | 78                          |
| Financial fixed assets (at cost)                                             | 3                           |
| Finished product and raw material inventories                                | 377                         |
| Trade and other receivables                                                  | 787                         |
| Cash                                                                         | 6                           |
| <b>TOTAL ASSETS</b>                                                          | <b>1.254</b>                |
| <b>LIABILITIES</b>                                                           | <b>(thousands of Euros)</b> |
| Deferred payables due to employees for defined benefit plan (Severance Fund) | 117                         |
| Financial payables                                                           |                             |
| current                                                                      | 493                         |
| non-current                                                                  | 128                         |
| Trade and other payables                                                     | 451                         |
| <b>TOTAL LIABILITIES</b>                                                     | <b>1.189</b>                |
| <b>ACQUIRED NET ASSETS</b>                                                   | <b>65</b>                   |

Here are the results of the analysis required by IFRS 3 for entry of various asset and liability classes into the financial statements:

| <b>ASSETS</b>                                                                | <b>(thousands of Euros)</b> |
|------------------------------------------------------------------------------|-----------------------------|
| Intangible fixed assets                                                      | 3                           |
| Tangible fixed assets                                                        | 75                          |
| Financial fixed assets (at cost)                                             | 0                           |
| Finished product and raw material inventories                                | 377                         |
| Trade and other receivables                                                  | 787                         |
| Deferred taxes                                                               | 13                          |
| Cash                                                                         | 6                           |
| <b>TOTAL ASSETS</b>                                                          | <b>1.261</b>                |
| <b>LIABILITIES</b>                                                           | <b>(thousands of Euros)</b> |
| Deferred payables due to employees for defined benefit plan (Severance Fund) | 108                         |
| Financial payables                                                           |                             |
| current                                                                      | 493                         |
| non-current                                                                  | 128                         |
| Trade and other payables                                                     | 452                         |
| Deferred taxes                                                               | 3                           |
| Provision for risks                                                          | 32                          |
| <b>TOTAL LIABILITIES</b>                                                     | <b>1.216</b>                |
| <b>NET ASSETS ACQUIRED AND ENTERED IN FINANCIAL STATEMENTS</b>               | <b>45</b>                   |

The difference of €45,000 and the balance of net assets in the financial statements (€65,000) can be attributed to a risk fund set up for additional employee expenses, and to the tax effect of the changes made. A number of tangible fixed assets and long-term investments were also eliminated, which lacked the requisites for inclusion as per IAS/IFRS.

This analysis revealed a surplus of €28,000 between the purchase price paid by PRIMA ELECTRONICS net of previous writedowns (€54,000) and the net balance of assets and liabilities entered into the consolidated financial statements of the PRIMA Group (€26,000), which is taken as goodwill.

During 2006, the first year in which this division was included in the Group consolidated financial statements, MLTA achieved EBIT of €97,000, with sales of €2.130m.

These figures are reclassified according to IAS/IFRS accounting principles for the purposes of the consolidated financial statements.

## 8. SEGMENT REPORT

### Primary Sector

(VALUES IN THOUSANDS OF EURO)

| <b>Segment results - 31/12/2006</b>       | <b>Laser systems</b> | <b>Electronics</b> | <b>Not allocated</b> | <b>Group</b>   |
|-------------------------------------------|----------------------|--------------------|----------------------|----------------|
| Total segment revenues                    | 131.035              | 21.592             | -                    | 152.627        |
| (inter-sector revenues)                   |                      | (5.058)            | -                    | (5.058)        |
| <b>Revenues</b>                           | <b>131.035</b>       | <b>16.534</b>      | -                    | <b>147.569</b> |
| Operating result                          | 16.806               | 1.661              | -                    | 18.467         |
| Net financial income/expenses             | (870)                | (30)               | -                    | (900)          |
| Income/expenses from associated companies | 10                   | -                  | -                    | 10             |
| <b>Income (loss) before tax</b>           | <b>-</b>             | <b>-</b>           | <b>-</b>             | <b>17.577</b>  |
| Tax                                       | -                    | -                  | -                    | (3.857)        |
| <b>Net profit (loss)</b>                  | <b>-</b>             | <b>-</b>           | <b>-</b>             | <b>13.720</b>  |

| <b>Segment results - 31/12/2005</b>            | <b>Laser systems</b> | <b>Electronics</b> | <b>Not allocated</b> | <b>Group</b>   |
|------------------------------------------------|----------------------|--------------------|----------------------|----------------|
| Total segment revenues                         | 98.287               | 16.369             | -                    | 114.656        |
| (inter-sector revenues)                        |                      | (3.771)            | -                    | (3.771)        |
| <b>Revenues</b>                                | <b>98.287</b>        | <b>12.598</b>      | -                    | <b>110.885</b> |
| Operating result                               | 6.901                | 1.015              | -                    | 7.916          |
| Net financial income/expenses                  | (1.114)              | (26)               | -                    | (1.140)        |
| Income/expenses from subsidiaries and joint ve | 337                  | -                  | -                    | 337            |
| <b>Income (loss) before tax</b>                | <b>-</b>             | <b>-</b>           | <b>-</b>             | <b>7.113</b>   |
| Tax                                            | -                    | -                  | -                    | (2.005)        |
| <b>Net profit (loss)</b>                       | <b>-</b>             | <b>-</b>           | <b>-</b>             | <b>5.108</b>   |

Infra-sector revenues were determined on the basis of the market price using the cost plus method.

(VALUES IN THOUSANDS OF EURO)

| <b>Segment information - 31/12/2006</b> | <b>Laser systems</b> | <b>Electronics</b> | <b>Not allocated</b> | <b>Group</b> |
|-----------------------------------------|----------------------|--------------------|----------------------|--------------|
| Depreciation of tangible fixed assets   | 806                  | 353                | -                    | 1.159        |
| Depreciation of intangible fixed assets | 116                  | 56                 | -                    | 172          |
| <b>Total</b>                            | <b>922</b>           | <b>409</b>         | -                    | <b>1.331</b> |

| <b>Segment information - 31/12/2005</b> | <b>Laser systems</b> | <b>Electronics</b> | <b>Not allocated</b> | <b>Group</b> |
|-----------------------------------------|----------------------|--------------------|----------------------|--------------|
| Depreciation of tangible fixed assets   | 787                  | 285                | -                    | 1.072        |
| Depreciation of intangible fixed assets | 84                   | 52                 | -                    | 136          |
| <b>Total</b>                            | <b>871</b>           | <b>337</b>         | -                    | <b>1.208</b> |

## Primary Segment

(VALUES IN THOUSANDS OF EURO)

| <b>Assets and liabilities - 31/12/2006</b> | <b>Laser systems</b> | <b>Electronics</b> | <b>Not allocated</b> | <b>Group</b>   |
|--------------------------------------------|----------------------|--------------------|----------------------|----------------|
| Activity                                   | 68.556               | 16.054             | 30.141               | 114.751        |
| Associated companies & joint ventures      | 2.590                | -                  | -                    | 2.590          |
| <b>Total assets</b>                        | <b>71.146</b>        | <b>16.054</b>      | <b>30.141</b>        | <b>117.341</b> |
| <b>Liabilities</b>                         | <b>41.868</b>        | <b>7.769</b>       | <b>25.345</b>        | <b>74.982</b>  |
| <b>Investments</b>                         | <b>1.246</b>         | <b>631</b>         | <b>0</b>             | <b>1.877</b>   |

| <b>Assets and liabilities - 31/12/2005</b> | <b>Laser systems</b> | <b>Electronics</b> | <b>Not allocated</b> | <b>Group</b>   |
|--------------------------------------------|----------------------|--------------------|----------------------|----------------|
| Assets                                     | 82.491               | 12.264             | 13.129               | 107.884        |
| Associated companies & joint ventures      | 1.793                | 68                 | -                    | 1.861          |
| <b>Total assets</b>                        | <b>84.284</b>        | <b>12.332</b>      | <b>13.129</b>        | <b>109.745</b> |
| <b>Liabilities</b>                         | <b>48.622</b>        | <b>6.249</b>       | <b>24.035</b>        | <b>78.906</b>  |
| <b>Investments</b>                         | <b>1.956</b>         | <b>279</b>         | <b>0</b>             | <b>2.235</b>   |

## Secondary Segment

(VALUES IN THOUSANDS OF EURO)

| <b>Geographical segment - 31/12/2006</b> | <b>Italy</b> | <b>Europe</b> | <b>USA</b> | <b>Rest of the world</b> | <b>Group</b> |
|------------------------------------------|--------------|---------------|------------|--------------------------|--------------|
| Revenues from sales                      | 35.786       | 68.400        | 29.412     | 13.971                   | 147.569      |
| Assets                                   | 79.835       | 13.468        | 24.039     | -                        | 117.341      |
| Investments                              | 1.323        | 130           | 424        | -                        | 1.877        |

| <b>Geographical segment - 31/12/2005</b> | <b>Italy</b> | <b>Europe</b> | <b>USA</b> | <b>Rest of the world</b> | <b>Group</b> |
|------------------------------------------|--------------|---------------|------------|--------------------------|--------------|
| Revenues from sales                      | 30.050       | 45.574        | 21.179     | 14.082                   | 110.885      |
| Assets                                   | 74.171       | 8.497         | 27.077     | -                        | 109.745      |
| Investments                              | 1.167        | 974           | 94         | -                        | 2.235        |



**PRIMA INDUSTRIE GROUP**

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**ILLUSTRATIVE DETAILS OF THE CONSOLIDATED  
FINANCIAL STATEMENTS TO 31 DECEMBER 2006**

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## 9. EXPLANATORY DETAILS TO THE CONSOLIDATED FINANCIAL STATEMENTS TO 31 DECEMBER 2006

CHANGES IN THE AREA OF CONSOLIDATION REFERS TO INCLUSION OF M.L.T.A. S.R.L., WHICH WAS NOT INCLUDED IN THE FINANCIAL STATEMENTS TO 31/12/2005

### Note 9.1

| Tangible fixed assets                                 | Land and buildings | Plants and machinery | Industrial and commercial equipment | Other assets   | TOTAL            |
|-------------------------------------------------------|--------------------|----------------------|-------------------------------------|----------------|------------------|
| <b>01-gen-05</b>                                      |                    |                      |                                     |                | -                |
| Historical cost                                       | 3.479.360          | 3.868.670            | 4.412.155                           | 4.743.480      | 16.503.665       |
| Accumulated depreciation                              | (384.195)          | (2.388.295)          | (3.714.313)                         | (4.032.351)    | (10.519.154)     |
| <b>Net value at 1 January 2005</b>                    | <b>3.095.165</b>   | <b>1.480.375</b>     | <b>697.842</b>                      | <b>711.129</b> | <b>5.984.511</b> |
| <b>Year 2005</b>                                      |                    |                      |                                     |                | -                |
| Net value at 1 January 2005                           | 3.095.165          | 1.480.375            | 697.842                             | 711.129        | 5.984.511        |
| Exchange rate differences                             |                    | 190.751              | 96.835                              | 272.264        | 559.850          |
| Increases                                             | 10                 | 360.626              | 141.424                             | 256.392        | 758.452          |
| Reclassifications                                     |                    | 868.358              | (726.962)                           | 378.049        | 519.445          |
| Disposals                                             |                    | (29.836)             |                                     | (38.403)       | (68.239)         |
| Depreciation                                          | (91.892)           | (330.720)            | (268.992)                           | (383.498)      | (1.075.102)      |
| Utilization of accumulated depreciation               |                    |                      |                                     | 35.486         | 35.486           |
| Exchange rate differences on accumulated depreciation |                    | (93.414)             | (84.283)                            | (238.741)      | (416.438)        |
| Reclassification of accumulated depreciation          |                    | (771.607)            | 630.211                             | (378.049)      | (519.445)        |
| <b>Net value at 31 December 2005</b>                  | <b>3.003.283</b>   | <b>1.674.533</b>     | <b>486.075</b>                      | <b>614.629</b> | <b>5.778.520</b> |
| <b>Year 2006</b>                                      |                    |                      |                                     |                | -                |
| Historical cost                                       | 3.479.370          | 5.258.569            | 3.923.452                           | 5.611.782      | 18.273.173       |
| Accumulated depreciation                              | (476.087)          | (3.584.036)          | (3.437.377)                         | (4.997.153)    | (12.494.653)     |
| <b>Net value at 1 January 2006</b>                    | <b>3.003.283</b>   | <b>1.674.533</b>     | <b>486.075</b>                      | <b>614.629</b> | <b>5.778.520</b> |
| <b>Year 2006</b>                                      |                    |                      |                                     |                | -                |
| Net value at 1 January 2006                           | 3.003.283          | 1.674.533            | 486.075                             | 614.629        | 5.778.520        |
| Change to area of consolidation                       |                    | 43.109               |                                     | 32.224         | 75.333           |
| Exchange rate differences                             |                    | (238.317)            | 623                                 | (256.802)      | (494.496)        |
| Increases                                             | 56.500             | 807.287              | 456.757                             | 419.538        | 1.740.082        |
| Reclassifications                                     |                    |                      |                                     |                | -                |
| Disposals                                             |                    |                      | (6.227)                             | (168.366)      | (174.593)        |
| Depreciation                                          | (93.684)           | (411.393)            | (302.196)                           | (341.414)      | (1.148.687)      |
| Utilization of accumulated depreciation               |                    |                      | 6.227                               | 160.072        | 166.299          |
| Exchange rate differences on accumulated depreciation |                    | 163.924              | (216)                               | 320.942        | 484.650          |
| Reclassification of accumulated depreciation          |                    |                      |                                     |                | -                |
| <b>Net value at 31 December 2006</b>                  | <b>2.966.099</b>   | <b>2.039.143</b>     | <b>641.043</b>                      | <b>780.823</b> | <b>6.427.108</b> |
| <b>31 dicembre 2006</b>                               |                    |                      |                                     |                | -                |
| Historical cost                                       | 3.535.870          | 5.870.648            | 4.374.605                           | 5.638.376      | 19.419.499       |
| Accumulated depreciation                              | (569.771)          | (3.831.505)          | (3.733.562)                         | (4.857.553)    | (12.992.391)     |
| <b>Net value at 31 December 2006</b>                  | <b>2.966.099</b>   | <b>2.039.143</b>     | <b>641.043</b>                      | <b>780.823</b> | <b>6.427.108</b> |

Land and buildings were valued at 31/12/2003 by an outside expert, which determined the fair value; at 31/12/2006 this value was not below the value entered in the financial statements.

These refer to:

- 2 properties, with a net value at 31/12/2006 of €783,000 for the buildings and €552,000 for the land;
- 1 property under financial leasing, with a net value at 31/12/2006 of €996,000 for the building and €463,000 for the land;
- Light buildings with a net value at 31/12/2006 of €173,000.

“Other assets” includes electronic office machinery under financial leasing with a net value of €59,000.

The exchange rate differences stem from the conversion of the financial statements of companies operating in non-Euro areas.

In accordance with IAS 16 para. 74, there are no restrictions on the ownership of property, plants and machinery, with the exception of the goods under financial leasing mentioned above, which remain the property of the leasing company.

## Note 9.2

| Intangible fixed assets              | Goodwill         | Other assets   | TOTAL            |
|--------------------------------------|------------------|----------------|------------------|
| <b>Year 2005</b>                     |                  |                | -                |
| Net value at 1 January 2005          | 2.297.665        | 189.757        | <b>2.487.422</b> |
| Exchange rate differences            | 346.272          | -              | <b>346.272</b>   |
| Increases                            | (56.978)         | 98.502         | <b>41.524</b>    |
| Depreciation                         | -                | (136.291)      | <b>(136.291)</b> |
| <b>Net value at 31 December 2005</b> | <b>2.586.959</b> | <b>151.968</b> | <b>2.738.927</b> |
| <b>Year 2006</b>                     |                  |                | -                |
| Net value at 1 January 2006          | 2.586.959        | 151.968        | <b>2.738.927</b> |
| Change to area of consolidation      |                  | 2.533          | <b>2.533</b>     |
| Exchange rate differences            | (269.570)        | 3.977          | <b>(265.593)</b> |
| increases/decreases                  | 28.324           | 178.499        | <b>206.823</b>   |
| Depreciation                         |                  | (171.615)      | <b>(171.615)</b> |
| <b>Net value at 31 December 2006</b> | <b>2.345.713</b> | <b>165.362</b> | <b>2.511.075</b> |

Goodwill corresponds to the higher value paid to the seller, in relation to the difference between the acquired assets and liabilities, for the acquisition in 2000 and 2001 of divisions of LASERDYNE SYSTEMS and CONVERGENT LASERS now merged into PRIMA North America, Inc.

“Other assets” refers to software with a value of €99,000 and concessions, licences and trademarks with the value of €66,000.

## IMPAIRMENT ON GOODWILL

Goodwill was subjected to the impairment test.

Given that the outcome of the test was positive, goodwill was not reduced.

For the purposes of the impairment test, good will was allocated to the smallest cash-generating units, which correspond to the operating units identified in their respective sectors of activity

In these financial statements, goodwill was produced by two cash-generating units, namely LASERDYNE SYSTEMS and CONVERGENT LASERS, divisions of PRIMA North America, Inc.

The recoverable of the smallest cash-generating units is determined by calculating their use value, that is, by discounting back the future cash flow projections for each revenue-generating unit, taken from management's 5-year plans.

Below is a summary of the main assumptions for each cash-generating unit:

### Main hypothesis for analysing the recoverable value

| Intangible fixed assets | Laserdyne Systems Division | Convergent Lasers Division |
|-------------------------|----------------------------|----------------------------|
| EBITDA (2007-2011)      | 13%                        | 13,50%                     |
| CAGR 2007-2011          | 0%                         | 0%                         |
| Discount factor         | 13,71%                     | 13,71%                     |

In particular, the above assumptions are based on the following estimates:

As a matter of prudence, the CAGR for 2006 was taken to be nil for the 5 years in question;

- operating margins were taken to be stable, in that the Laserdyne Division holds a leadership position in the market for laser systems for aerospace, while the Convergent Division has an effectively captive market.
- the above prudential hypotheses mean that structure costs were effectively considered fixed.

The EBITDA was discounted back to take account of the average cost of capital in PRIMA North America at 31/12/2006, (high, given that PRIMA North America had no indebtedness on that date), and this amount was compared with the figure posted for goodwill.

## Note 9.3

### Stakes valued using the equity method

| Shareholdings in associated companies  | MLTA          |   |   | TOTAL           |
|----------------------------------------|---------------|---|---|-----------------|
| <b>01-gen-05</b>                       | 10.525        |   |   | <b>10.525</b>   |
| Share of earnings                      | (40.580)      | - |   | <b>(40.580)</b> |
| Increases                              | -             |   | - | -               |
| Other shareholders' equity movements   | 56.978        |   |   | <b>56.978</b>   |
| <b>31 dicembre 2005</b>                | <b>26.923</b> | - | - | <b>26.923</b>   |
| Share of earnings                      | -             |   |   | -               |
| Increases                              | -             | - | - | -               |
| Inclusion in the area of consolidation | (26.923)      |   |   | <b>(26.923)</b> |
| Other shareholders' equity movements   | -             |   |   | -               |
| <b>31 dicembre 2006</b>                | -             | - | - | -               |

| Stakes in joint ventures             | SPMLT <sup>(1)</sup> | SNK            | SHANGHAI UNITY PRIMA <sup>(2)</sup> | WHUAN OVL CONVERGENT | TOTAL            |
|--------------------------------------|----------------------|----------------|-------------------------------------|----------------------|------------------|
| <b>01-gen-05</b>                     | 244.777              | 264.755        | 449.227                             | -                    | <b>958.759</b>   |
| Share of earnings                    | (74.830)             | (49.848)       | 501.973                             | -                    | <b>377.295</b>   |
| Increases                            | 415.697              |                | -                                   | -                    | <b>415.697</b>   |
| Other shareholders' equity movements |                      |                | 30.405                              | -                    | <b>30.405</b>    |
| <b>31 dicembre 2005</b>              | <b>585.644</b>       | <b>214.907</b> | <b>981.605</b>                      | -                    | <b>1.782.156</b> |
| Share of earnings                    | (239.985)            | (41.561)       | 287.296                             | -                    | <b>5.750</b>     |
| Increases                            | -                    | -              | -                                   | -                    | -                |
| Other shareholders' equity movements | -                    |                |                                     | -                    | -                |
| <b>31 dicembre 2006</b>              | <b>345.659</b>       | <b>173.346</b> | <b>1.268.901</b>                    | -                    | <b>1.787.906</b> |

(1) SHENYANG-PRIMA LASER MACHINERY CO. LTD.

(2) SHANGHAI UNITY PRIMA LASER MACHINERY CO. LTD.

With reference to shareholdings in associated companies, the investments in Macromeccanica SpA (placed into liquidation at the end of 1999) and in Mechanical Industries S.r.l. (which was declared bankrupt from 26-31/03/2003) are carried in the Financial Statements at nil, having been written off completely.

M.L.T.A. was included in the area of consolidation, in that the stake held by the Group went from 41.63% (31/12/05) to 57.84% (31/12/06). In January of the current year, all remaining stakes were bought from the other shareholders, hence, PRIMA ELECTRONICS S.p.A. currently owns 100% of the company.

More specifically, the purchase cost of the remaining 42.16% was €144,000 and this generated goodwill of €84,000.

The Group has entered its 30% holding in the Venture Wuhan OVL Convergent joint venture with a nil value for the following reasons:

- difficulty in reliably attributing a fair value to the licence to use;
- maintenance of managerial involvement in the transferred activities, a factor preventing the recording of revenues in accordance with IAS 18 par. 14b;
- the lack of a cash disbursement on the part of the PRIMA INDUSTRIE Group.

The main movements during the year for investments in joint ventures were as follows:

- c. €240,000 set aside for SPLMT writedowns;
- c. €42,000 set aside for SNK writedowns;
- c. €287,000 entered for revaluation of Shanghai Unity PRIMA;

These represent the results for investee companies valued using the equity method.

#### Information on joint-venture investments:

| <b>SHENYANG-PRIMA LASER MACHINE CO. LTD.</b>         | <b>31/12/2006</b> | <b>31/12/2005</b> |
|------------------------------------------------------|-------------------|-------------------|
| Non-current assets                                   | 147               | 149               |
| Current assets                                       | 2.948             | 3.256             |
| Non-current liabilities                              | -                 | -                 |
| Current liabilities                                  | 2.597             | 2.362             |
| <b>Net assets</b>                                    | <b>498</b>        | <b>1.043</b>      |
| Revenues                                             | 2.542             | 3.287             |
| Costs                                                | (3.038)           | (4.823)           |
| <b>Income before taxation</b>                        | <b>(496)</b>      | <b>(1.536)</b>    |
| Stake in commitments of JV                           | <b>500</b>        | <b>500</b>        |
| Stake in JV                                          | <b>50,0%</b>      | <b>50,0%</b>      |
| <b>SHANGHAI UNITY PRIMA LASER MACHINERY CO. LTD.</b> | <b>31/12/2006</b> | <b>31/12/2005</b> |
| Non-current assets                                   | 685               | 580               |
| Current assets                                       | 12.658            | 8.043             |
| Non-current liabilities                              | -                 | -                 |
| Current liabilities                                  | 8.931             | 5.018             |
| <b>Net assets</b>                                    | <b>4.412</b>      | <b>3.605</b>      |
| Revenues                                             | 9.989             | 7.115             |
| Costs                                                | (8.707)           | (5.650)           |
| <b>Income before taxation</b>                        | <b>1.282</b>      | <b>1.465</b>      |
| Stake in JV                                          | <b>27,5%</b>      | <b>27,5%</b>      |
| <b>SNK PRIMA CO. LTD.</b>                            | <b>30/09/2006</b> | <b>30/09/2005</b> |
| Non-current assets                                   | 59                | 187               |
| Current assets                                       | 131               | 153               |
| Non-current liabilities                              | -                 | -                 |
| Current liabilities                                  | -                 | -                 |
| <b>Net assets</b>                                    | <b>191</b>        | <b>340</b>        |
| Revenues                                             | -                 | -                 |
| Costs                                                | (89)              | (98)              |
| <b>Income before taxation</b>                        | <b>(89)</b>       | <b>(98)</b>       |
| Stake in JV                                          | 50,0%             | 50,0%             |

“*Investments in Joint Ventures*” refers to the credit line granted by Sanpaolo IMI to PRIMA INDUSTRIE and used by Shenyang PRIMA LASER TOOLS to pay for machines purchased from the parent company.

For more details on Group companies, please see **Chapter 4** of the **Report on Operations**.

## **Note 9.4**

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### **Stakes valued using the cost method**

The variation with respect to the previous year refers to the acquisition by PRIMA ELECTRONICS S.p.A. of a 6.34% investment over several tranches in the share capital of Electro Power Systems S.p.A. At 31 December 2006 this stake has a net book value of €750,053, with the following movements. on 07/06/2006 a stake was purchased for €1,121 and a capital investment of €248,879 was made; following these transactions, Electro Power Systems S.p.A was transformed from a limited liability company (Srl) into a limited company (S.p.A.) and the number of subscribed shares held after its conversion into an S.p.A. were 6,726.

Subsequent increases in capital totalled €500,053, increasing the number of subscribed shares by a further 14,086 (with a face value of c. €1.00 each, and a price above par value of €34.50). Hence the investment consists of 20,812 shares.

For more information on the company, please see the Report on Operations.

The sum of €52,000 remains unchanged, which refers to a 10% stake in the share capital of Consorzio Sintesi.

This consortium, with private and public organisations numbering among its partners, led by CNR, carries out research and development studies and technological industrialisation for the manufacturing sector.

The holding in Rambaudi Industriale S.p.A. retains a nil value under this item.

This investment has been completely written off, in that the company was declared bankrupt by the Court of Turin on 30/09 – 27/10/2003.

## Note 9.5

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| <b>Other financial assets, movement</b> |                  |                |
|-----------------------------------------|------------------|----------------|
|                                         | <b>01-gen-05</b> | <b>249.478</b> |
| Acquisitions                            |                  | 13.633         |
| Sales                                   |                  | -              |
| Exchange rate differences               |                  | -              |
| Revaluations                            |                  | 9.006          |
|                                         | <b>01-gen-06</b> | <b>272.117</b> |
| Acquisitions                            |                  |                |
| Sales                                   |                  | (13.633)       |
| Exchange rate differences               |                  |                |
| Revaluations                            |                  | 9.515          |
|                                         | <b>31-dic-06</b> | <b>267.999</b> |
| (minus current portion)                 |                  |                |
| Current                                 |                  |                |
| Other financial assets, detail          |                  |                |
| <b>UNLISTED SHARES</b>                  |                  |                |
| Insurance policy                        |                  | -              |
| Single-premium capitalization agreement |                  | 267.999        |
| <b>TOTAL</b>                            |                  | <b>267.999</b> |

These are available financial assets at fair value with changes in value recorded in the Income Statement.

The amount refers to €268,000 for a 5-year single premium capitalization agreement.

This amount was revaluated at 31/12/2006, by applying 3.4% revaluation for the days between the last annual recurrence on 08/09/2006 and 31/12/2006.

Until 08/09/2006 revaluation was carried out by rigorously applying the fund's financial yield (3.96%).

## Note 9.6

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| <b>Tax assets for prepaid taxes</b> | <b>31/12/2006</b> | <b>31/12/2005</b> |
|-------------------------------------|-------------------|-------------------|
| Initial balance                     | 6.946.898         | 7.071.463         |
| Change to area of consolidation     | 12.580            |                   |
| Allocations made for the year       | 3.814.645         | 480.480           |
| Utilizations during the year        | (3.045.373)       | (861.130)         |
| Exchange rate difference            | (202.945)         | 256.085           |
| <b>TOTAL</b>                        | <b>7.525.805</b>  | <b>6.946.898</b>  |

The main variation in the year is attributed to tax entries for tax liabilities from PRIMA North America, which had still not been utilized at 31/12/2006 (see also Chapter 3 – Report on Operations), but which will be used during 2007.

## Note 9.7

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### Other receivables

This item shows €39,000 against €52,000 at 31/12/2005.

Contains advances on the Employees' Severance Fund from the Italian company between 1997-1998, in accordance with Law 140/97, increased by accrued interest and net of utilizations since 01/01/2000.

## Note 9.8

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| <b>Inventories</b>                         | <b>31/12/2006</b> | <b>31/12/2005</b> |
|--------------------------------------------|-------------------|-------------------|
| Raw materials                              | 16.987.804        | 15.423.367        |
| (Provision for writedown of raw materials) | (2.758.456)       | (2.554.326)       |
| Semi-finished products                     | 9.769.767         | 6.877.487         |
| Finished products                          | 10.516.205        | 17.203.750        |
| (Provision for writedown of finished prod) | (645.119)         | (630.876)         |
| Stock advances                             |                   | -                 |
| <b>TOTAL</b>                               | <b>33.870.201</b> | <b>36.319.402</b> |

The increase in raw materials and semi-finished products compared to 31/12/2005 can be attributed to greater requirements needed to handle the substantial orders portfolio at 31/12/2006.

The decrease in finished products compared to the previous year can be ascribed to the high number of laser systems delivered, but not yet accepted with testing report at 31/12/2006.

Movements in writedowns are as follows:

| <b>Provision for Inventory Writedowns</b> | <b>Raw materials</b> | <b>Finished products</b> |
|-------------------------------------------|----------------------|--------------------------|
| Balance 01/01/06                          | 2.554.326            | 630.876                  |
| Utilizations                              | (226.449)            | (48.033)                 |
| Allocations                               | 540.632              | 128.048                  |
| Sums acquired through acquisitions        | -                    | -                        |
| Exchange rate differences                 | (110.053)            | (65.772)                 |
| <b>Balance 31/12/06</b>                   | <b>2.758.456</b>     | <b>645.119</b>           |



## Note 9.9

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| <b>Accounts receivable</b>                 | <b>31/12/2006</b> | <b>31/12/2005</b> |
|--------------------------------------------|-------------------|-------------------|
| Trade receivables                          | 40.303.952        | 39.857.176        |
| Provision for doubtful debts               | (2.596.306)       | (2.223.954)       |
| <b>Net trade receivables</b>               | <b>37.707.646</b> | <b>37.633.222</b> |
| Receivables due from related parties       | 1.403.352         | 2.236.737         |
| Provision for doubtful debts from rel. par | (150.416)         |                   |
| Loans issued to related parties            | -                 | -                 |
| <b>TOTAL</b>                               | <b>38.960.582</b> | <b>39.869.959</b> |

These remain effectively unchanged since the previous year, despite the considerable increase in sales, as a result of the careful management of collections and successful credit recovery by all Group companies.

### Movements in the doubtful accounts are as follows:

| <b>Provision for doubtful debts</b> | <b>Customers</b> | <b>Related parties</b> |
|-------------------------------------|------------------|------------------------|
| Balance 01/01/06                    | 2.223.954        |                        |
| Utilizations                        | (224.170)        |                        |
| Allocations                         | 772.630          |                        |
| Change to area of consolidation     | 18.054           |                        |
| Reclassifications                   | (150.416)        | 150.416                |
| Exchange rate differences           | (43.746)         |                        |
| <b>Balance 31/12/06</b>             | <b>2.596.306</b> | <b>150.416</b>         |

The purpose of reclassification of the Provision for doubtful debts from customers to doubtful debts from related parties was to provide a better picture of the Group's debt positions. They refer to receivables due from Mechanical Industries S.r.l. declared bankrupt at 26-31/03/2003.

## Note 9.10

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### Other receivables

This amount refers to €1.231m (€1.866m at 31/12/2005) for contributions still to be made for research and development agreements signed with the Ministry of Universities and Scientific and Technological Research.

The remaining amount of €1.572m (€1.183m at 31/12/2005) refers to advances paid to suppliers for orders to be delivered in the future, advances on travel expenses paid to employees and accrued income & prepaid expenses.

## Note 9.11

| Other tax assets                              | 31/12/2006       | 31/12/2005       |
|-----------------------------------------------|------------------|------------------|
| VAT                                           | 696.291          | 415.400          |
| Regional Trade Tax (IRAP)                     | -                | 18.281           |
| Group corporate tax (IRES)                    | 885.221          | 635.990          |
| Corporate Income Tax (IRPEG) on previous year | -                | 243.445          |
| Other tax receivables                         | 62.189           | 43.969           |
| <b>TOTAL</b>                                  | <b>1.643.701</b> | <b>1.357.085</b> |

The most important variations are due to greater advances on IRES (corporate tax) and collection of IRPEG (corporate income tax) receivables on previous years.

## Note 9. 12

| Derivative financial instruments  | 31/12/2006 |                | 31/12/2005   |                 |
|-----------------------------------|------------|----------------|--------------|-----------------|
|                                   | Assets     | Liabilities    | Assets       | Liabilities     |
| IRS                               | -          | (6.675)        | -            | (15.970)        |
| Currency Option                   | -          | -              | -            | -               |
| Foreign currency future           | -          | -              | -            | -               |
| Foreign currency forward purchase | -          | -              | 4.595        | -               |
| <b>Total</b>                      | <b>-</b>   | <b>(6.675)</b> | <b>4.595</b> | <b>(15.970)</b> |
| minus non-current portion         |            |                |              |                 |
| IRS                               | -          | (6.071)        | -            | (15.970)        |
| Currency Option                   | -          | -              | -            | -               |
| Foreign currency future           | -          | -              | -            | -               |
| Foreign currency forward purchase | -          | -              | -            | -               |
| <b>Non-Current</b>                | <b>-</b>   | <b>(6.071)</b> | <b>-</b>     | <b>(15.970)</b> |
| <b>Current</b>                    | <b>-</b>   | <b>(604)</b>   | <b>4.595</b> | <b>-</b>        |

Financial derivatives existing at 31/12/2006 refer to 3 interest rate swap agreements signed by the parent company to protect interest rates on existing medium/long/term loans.

## Note 9.13

| Cash                           | 31/12/2006        | 31/12/2004        |
|--------------------------------|-------------------|-------------------|
| Cash and cheques               | 414.734           | 20.103            |
| Bank accounts                  | 20.287.973        | 11.475.280        |
| Other short-term bank deposits | -                 | -                 |
| <b>Total</b>                   | <b>20.702.707</b> | <b>11.495.383</b> |

This item accounts for €20.703m, against €11.495m at 31/12/05 and consists of cash on hand and available liquidity in bank accounts.

The increase over the figure at 31/12/2005 is the result of better management of working capital and cash flow by Group companies.

## Note 9.14

### Loans

| <b>Payables due to banks and other loans</b>       | <b>31/12/2006</b> | <b>31/12/2005</b> |
|----------------------------------------------------|-------------------|-------------------|
| <b>Current</b>                                     |                   |                   |
| Bank overdrafts                                    | 413.297           | 1.035.832         |
| Short-term payables for recourse discount transact | 273.699           |                   |
| Financial leasing                                  | 199.663           | 262.871           |
| Short-term payables for bank loans                 | 4.257.487         | 12.533.734        |
| Short-term payables for other loans                | 87.135            | 85.731            |
| <b>Total</b>                                       | <b>5.231.281</b>  | <b>13.918.168</b> |
| <b>Non-current</b>                                 |                   |                   |
| Long-term payables for recourse discount transacti | 110.317           | 896.378           |
| Financial leasing                                  | 468.516           | 668.179           |
| Long-term payables for bank loans                  | 10.622.815        | 2.330.634         |
| Long-term payables for other loans                 | 1.455.385         | 1.675.405         |
| <b>Total</b>                                       | <b>12.657.033</b> | <b>5.570.596</b>  |

For more details see **Chapter 3** of the **Report on Operations** regarding developments of the Net Financial Position.

| <b>Payables due to banks and other loans, movement</b> | <b>Balance 31/12/06</b> | <b>Change to consolidation area</b> | <b>Creation</b>   | <b>Repayments</b>   | <b>Reclassifications §</b> | <b>Δ exchange</b> | <b>Balance 31/12/06</b> |
|--------------------------------------------------------|-------------------------|-------------------------------------|-------------------|---------------------|----------------------------|-------------------|-------------------------|
| <b>Current</b>                                         |                         |                                     |                   |                     |                            |                   |                         |
| Bank overdrafts                                        | 1.035.832               | 493.362                             |                   | (1.028.740)         |                            | (87.157)          | 413.297                 |
| Short-term payables for recourse discount transactions |                         |                                     |                   |                     | 273.699                    |                   | 273.699                 |
| Financial leasing                                      | 262.871                 |                                     |                   | (262.871)           | 199.663                    |                   | 199.663                 |
| Short-term payables for bank loans                     | 12.533.734              |                                     | 1.199.698         | (13.556.688)        | 4.257.487                  | (176.744)         | 4.257.487               |
| Short-term payables for other loans                    | 85.731                  |                                     |                   | (85.731)            | 87.135                     |                   | 87.135                  |
| <b>Total</b>                                           | <b>13.918.168</b>       | <b>493.362</b>                      | <b>1.199.698</b>  | <b>(14.934.030)</b> | <b>4.817.984</b>           | <b>(263.901)</b>  | <b>5.231.281</b>        |
| <b>Non-current</b>                                     |                         |                                     |                   |                     |                            |                   |                         |
| Long-term payables for Sabatini discount transactions  | 896.378                 |                                     | 352.070           | (864.432)           | (273.699)                  |                   | 110.317                 |
| Financial leasing                                      | 668.179                 |                                     |                   |                     | (199.663)                  |                   | 468.516                 |
| Long-term payables for bank loans                      | 2.330.634               | 127.994                             | 12.474.668        | (52.994)            | (4.257.487)                |                   | 10.622.815              |
| Long-term payables for other loans                     | 1.675.405               |                                     |                   | (132.885)           | (87.135)                   |                   | 1.455.385               |
| <b>Total</b>                                           | <b>5.570.596</b>        | <b>127.994</b>                      | <b>12.826.738</b> | <b>(1.050.311)</b>  | <b>(4.817.984)</b>         | <b>-</b>          | <b>12.657.033</b>       |

§ this refers to the reclassification from m/l-term to short-term of payables expiring during 2007

At 31/12/2006 there were no loans in foreign currencies.

## Note 9.15

| <b>Employee benefits</b>       | <b>31/12/2006</b> | <b>31/12/2005</b> |
|--------------------------------|-------------------|-------------------|
| Employees' Severance Fund      | 4.900.947         | 4.391.884         |
| Fidelity premium               | 643.289           | 544.810           |
| <b>Total employee benefits</b> | <b>5.544.236</b>  | <b>4.936.694</b>  |

Employees' Severance Fund refers exclusively to Italian companies and is presented net of advances made to employees.

Fidelity premium refers to the seniority premium for employees of PRIMA INDUSTRIE and PRIMA ELECTRONICS paid at the end of 20, 30 and 35 years of service, corresponding to two gross monthly salaries.

Here are the movements of this item during the year:

| <b>Employees' Severance Fund</b>                           | <b>31/12/2006</b> | <b>31/12/2005</b> |
|------------------------------------------------------------|-------------------|-------------------|
| <b>Opening liabilities</b>                                 | <b>4.391.884</b>  | <b>4.013.838</b>  |
| Severance indemnities paid out during period               | (565.331)         | (188.096)         |
| Other movements                                            | 192.108           | (115.677)         |
| Change to area of consolidation                            | 108.306           | -                 |
| Employee benefit costs on current services                 | 583.657           | 493.141           |
| Financial expenses                                         | 190.323           | 188.678           |
| <b>Total recorded in income statement</b>                  | <b>773.980</b>    | <b>681.819</b>    |
| <b>Total final liabilities - Employees' Severance Fund</b> | <b>4.900.947</b>  | <b>4.391.884</b>  |

| <b>Fidelity Premium</b>                           | <b>31/12/2006</b> | <b>31/12/2005</b> |
|---------------------------------------------------|-------------------|-------------------|
| <b>Opening liabilities</b>                        | <b>544.810</b>    | <b>484.490</b>    |
| Decreases                                         | (25.092)          | -                 |
| Merger increases                                  | -                 | 25.092            |
| Allocations                                       | 123.571           | 35.228            |
| <b>Total recorded in income statement</b>         | <b>123.571</b>    | <b>60.320</b>     |
| <b>Total final liabilities - Fidelity Premium</b> | <b>643.289</b>    | <b>544.810</b>    |
| <b>Total employee benefits</b>                    | <b>5.544.236</b>  | <b>4.936.694</b>  |

The main hypotheses used to estimate liabilities from employee benefits are as follows:

| <b>Actuarial hypotheses</b>         | <b>31/12/2006</b> | <b>31/12/2005</b> |
|-------------------------------------|-------------------|-------------------|
| Annual discount rate                | 4,6%              | 4,0%              |
| Annual inflation rate               | 2,0%              | 2,0%              |
| Annual pay increase rate            | 3,5%              | 3,5%              |
| Annual severance fund increase rate | 3,0%              | 3,0%              |

The demographic hypotheses used for actuarial valuation include:

- the probability of death as estimated by ISTAT in 2002, divided by sex;
- the probability of incapacity adopted in the INPS model for projections to 2010;
- retirement age, the first retirement requisite of Compulsory General Insurance;
- probability of leaving for causes other than death, with annual frequency of 5-7.5% depending on the company;
- probability of advances with an annual rate of 3%.

Starting from 1 January 2007, the Financial Law and related decrees have introduced amendments to Employees' Severance Fund regulations, including the employees' right to choose where to allocate their maturing share of the Fund. In particular, employees may direct new Severance Fund flows towards pension plans of their choosing or keep them within the company (in which case, the company will pay Severance Fund contributions to a treasury account held with INPS - the National Social Security Institute). Given the current doubts regarding interpretation of this recently issued law, the different possible interpretations in relation to IAS 19 on maturing Severance Funds and consequent amendments to actuarial calculations of matured Funds, and given the impossibility of anticipating employees' decisions on how to allocate their maturing portion of the Severance Fund (for which they have until 30 June 2007), it is premature to hypothesise the actuarial modifications to the Severance Fund calculation made to 31 December 2006.

## **Note 9.16**

| <b>Deferred tax liabilities</b> | <b>31/12/2006</b> | <b>31/12/2005</b> |
|---------------------------------|-------------------|-------------------|
| Initial balance                 | 2.502.156         | 2.538.233         |
| Change to area of consolidation | 2.822             |                   |
| Allocations made for the year   | 476.987           | 317.223           |
| Utilizations during the year    | (565.058)         | (394.918)         |
| Exchange rate difference        | (32.400)          | 41.618            |
| <b>Total</b>                    | <b>2.384.507</b>  | <b>2.502.156</b>  |

## Note 9.17

| Medium/long-term provisions for risks | Cust. agent. ind. provision | Provision for litigation risk | Other minor provisions | Restructuring provisions | OTHER PROVISIONS | TOTAL    |
|---------------------------------------|-----------------------------|-------------------------------|------------------------|--------------------------|------------------|----------|
| 01-gen-05                             | 88.890                      | -                             | -                      | -                        | -                | 88.890   |
| Income statement:                     | -                           | -                             | -                      | -                        | -                | -        |
| - Allocations                         | 8.758                       | -                             | -                      | -                        | -                | 8.758    |
| - Reversal of surplus provisions      | -                           | -                             | -                      | -                        | -                | -        |
| Utilizations in the period            | (68.538)                    | -                             | -                      | -                        | -                | (68.538) |
| Sums acquired through acquisitions    | -                           | -                             | -                      | -                        | -                | -        |
| Exchange rate differences             | -                           | -                             | -                      | -                        | -                | -        |
| 31-dic-05                             | 29.110                      | -                             | -                      | -                        | -                | 29.110   |
| Income statement:                     | -                           | -                             | -                      | -                        | -                | -        |
| - Allocations                         | 5.500                       | -                             | -                      | -                        | -                | 5.500    |
| - Reversal of surplus provisions      | -                           | -                             | -                      | -                        | -                | -        |
| Utilizations in the period            | (1.110)                     | -                             | -                      | -                        | -                | (1.110)  |
| Sums acquired through acquisitions    | -                           | -                             | -                      | -                        | -                | -        |
| Exchange rate differences             | -                           | -                             | -                      | -                        | -                | -        |
| 31-dic-06                             | 33.500                      | -                             | -                      | -                        | -                | 33.500   |

| Short-term provisions for risks    | Guarantee fund | Exch. rate fluct. reserve | Profit sharing provisions | Restructuring provisions | OTHER PROVISIONS | TOTAL       |
|------------------------------------|----------------|---------------------------|---------------------------|--------------------------|------------------|-------------|
| 01-gen-05                          | 1.968.972      | -                         | -                         | -                        | -                | 1.968.972   |
| Income statement:                  | -              | -                         | -                         | -                        | -                | -           |
| - Allocations                      | 5.013.287      | -                         | -                         | -                        | 233.552          | 5.246.839   |
| - Reversal of surplus provisions   | -              | -                         | -                         | -                        | -                | -           |
| Utilizations in the period         | (3.744.219)    | -                         | -                         | (5.125)                  | (376.702)        | (4.126.046) |
| Sums acquired through acquisitions | -              | -                         | 46.000                    | 150.000                  | 350.000          | 546.000     |
| Exchange rate differences          | 139.954        | -                         | -                         | -                        | -                | 139.954     |
| 31-dic-05                          | 3.377.994      | -                         | 46.000                    | 144.875                  | 206.850          | 3.775.719   |
| Income statement:                  | -              | -                         | -                         | -                        | -                | -           |
| - Allocations                      | 3.396.794      | -                         | -                         | -                        | 6.488            | 3.403.282   |
| - Reversal of surplus provisions   | -              | -                         | -                         | -                        | -                | -           |
| Utilizations in the period         | (2.335.846)    | -                         | (11.000)                  | -                        | -                | (2.346.846) |
| Sums acquired through acquisitions | -              | -                         | -                         | -                        | -                | -           |
| Exchange rate differences          | (122.258)      | -                         | -                         | -                        | -                | (122.258)   |
| 31-dic-06                          | 4.316.684      | -                         | 35.000                    | 144.875                  | 213.338          | 4.709.897   |

### Guarantee fund

This refers to provisions for work on Group products under warranty and is proportionate to the warranty costs that will be incurred.

### Profit Sharing Fund

This fund derives from the acquisition of the MATRA division and refers to provisions for commitments, in the form of bonuses, towards employees of PRIMA INDUSTRIE GmbH.

During 2006, the fund was partially used for contractually established payments to employees.

### Restructuring provision

This fund derives from the acquisition of the MATRA division and refers to sums set aside for a staff reduction plan.

### Other Risk Provisions

This refers mainly to future commitments of PRIMA INDUSTRIE GmbH for legal expenses and employee costs for unused holidays and overtime.

### Note 9.18

The increase in trade payables reflects the increased production volumes and careful management of working capital.

| Trade and other payables             | 31/12/2006        | 31/12/2005        |
|--------------------------------------|-------------------|-------------------|
| Payables owed to suppliers           | 26.054.651        | 23.089.151        |
| Payables due to related parties      |                   |                   |
| <b>Total accounts payable</b>        | <b>26.054.651</b> | <b>23.089.151</b> |
| Advances from customers              | 7.387.989         | 18.371.290        |
| <b>Total advances from customers</b> | <b>7.387.989</b>  | <b>18.371.290</b> |
| Social security payables             | 1.445.012         | 1.090.953         |
| Amounts due to employees             | 2.932.765         | 2.625.638         |
| Short-term payables                  | 465.321           | 257.633           |
| Accruals and deferrals               | 1.062.340         | 694.614           |
| <b>Total other payables</b>          | <b>5.905.438</b>  | <b>4.668.838</b>  |

The increase in trade payables can be attributed to the greater volume of assets achieved in 2006 against 2005.

“Advances from customers” contains advances on orders for machines that have not been delivered, and advances generated by application of IAS18 for machines that have been delivered but not yet accepted by the end customer and thus cannot be entered among revenues. The strong drop in this item over 31/12/2005 is linked to the high number of systems already delivered in 2005 and accepted in 2006.

## Note 9.19

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This item totals €5.066m (€2.028m at 31/12/2005) and includes:

| <b>Deferred tax liabilities for current taxes</b> | <b>31/12/2006</b> | <b>31/12/2005</b> |
|---------------------------------------------------|-------------------|-------------------|
| VAT owed by foreign companies and branches        | 815.383           | 454.040           |
| Group corporate tax (IRES)                        | 2.948.291         | 912.383           |
| Regional Trade Tax (IRAP)                         | 279.875           | 64.508            |
| Income tax deductions (IRPEF)                     | 408.163           | 311.651           |
| Substitute tax                                    |                   |                   |
| Other taxes and duties                            | 614.733           | 285.373           |
| <b>TOTAL</b>                                      | <b>5.066.445</b>  | <b>2.027.955</b>  |

The increase is mainly due to Group corporate tax (IRES) liabilities, which went from €912,000 at 31/12/2005 to €2.948m at 31/12/2006.

This increase was created by the increase in profits and because the parent company was no longer able to take advantage of prior tax losses.

## Note 9.20

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| <b>Net revenues from sales and services</b>    | <b>31/12/2006</b> | <b>31/12/2005</b> |
|------------------------------------------------|-------------------|-------------------|
| <b>Other operating income</b>                  |                   |                   |
| Grants for research projects                   | 838.200           | 1.449.000         |
| Extraordinary income                           | 471.706           | 1.067.758         |
| Goodwill from acquisition of business division |                   | 190.080           |
| Insurance refunds                              | 12.833            | 93.773            |
| Other                                          | 321.933           | 199.607           |
| <b>TOTAL</b>                                   | <b>1.644.672</b>  | <b>3.000.218</b>  |

The drop in operating income is largely ascribable to the smaller research grants.

The research grants recorded in the 2006 Income Statement relate to the portions of forgivable loans for research and development, accrued during 2006, made to PRIMA INDUSTRIE for the PAMELA project (€481,000) and the RESALT project (€357,000).

Non-operating losses mainly refer to adjustments to appropriations made in the previous year.

For an analysis of net income from sales and services, please see **Chapter 3** of the **Report on Operations** and **Chapter 8, Sector Report**.



## Note 9.21

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### Increases in for internal work

Capitalization for increases for internal work was €138,000 in 2006 against €63,000 in 2005.

The amount entered in the income statement refers to the whole of costs incurred for the production of equipment, which was included among tangible fixed assets.

## Note 9.22

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| <b>Personnel costs</b>        | <b>31/12/2005</b> | <b>31/12/2004</b> |
|-------------------------------|-------------------|-------------------|
| Salaries and wages            | 21.649.303        | 18.860.438        |
| Social security contributions | 6.924.097         | 5.775.852         |
| Employees' Severance Fund     | 691.925           | 498.266           |
| Pension fund provisions       | 72.794            | 143.795           |
| Fidelity Premium              | 109.605           | 35.228            |
| Other costs                   | 628.260           | 726.518           |
| <b>TOTAL</b>                  | <b>30.075.984</b> | <b>26.040.097</b> |

The Employees' Severance Fund item refers exclusively to Employee Severance provisions set aside by Italian companies.

Pension fund provisions refers to employee benefits for PRIMA INDUSTRIE GmbH, PRIMA INDUSTRIE UK Ltd. and PRIMA SCANDINAVIA AB.

## Note 9.23

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| <b>Depreciation</b>     | <b>31/12/2006</b> | <b>31/12/2005</b> |
|-------------------------|-------------------|-------------------|
| Tangible fixed assets   | 1.158.728         | 1.071.895         |
| Intangible fixed assets | 171.658           | 136.337           |
| <b>Total</b>            | <b>1.330.386</b>  | <b>1.208.232</b>  |

Tangible fixed assets were amortized on the basis of the financial-technical useful life of assets.

Intangible assets were amortized on the basis of their future useful life.

For more details, see Chapter 6, Description of Accounting Principles.

## Note 9.24

| Other operating costs                 | 31/12/2006        | 31/12/2005        |
|---------------------------------------|-------------------|-------------------|
| Work by third parties                 | 7.550.097         | 6.060.291         |
| Travel expenses                       | 3.852.737         | 3.124.431         |
| Transport and custom duties           | 2.633.031         | 2.029.039         |
| Commissions                           | 2.275.120         | 1.756.905         |
| Consultancy fees                      | 2.703.285         | 1.935.764         |
| Temporary work                        | 506.540           | 893.256           |
| Advertising                           | 919.371           | 803.573           |
| Third-party maintenance               | 711.135           | 739.883           |
| Utilities                             | 726.029           | 536.122           |
| Postal and telecommunication expenses | 535.019           | 490.497           |
| Insurance                             | 478.552           | 467.836           |
| Directors' remuneration               | 799.254           | 451.117           |
| Statutory auditors' remuneration      | 129.114           | 132.560           |
| Other service expenses                | 1.869.996         | 1.114.464         |
| Rent                                  | 1.309.323         | 1.111.331         |
| Hire and other third-party costs      | 699.231           | 545.151           |
| Guarantee fund (net of utilizations)  | 1.082.905         | 1.321.772         |
| Provision for doubtful debts          | 752.375           | 861.406           |
| Other provisions                      | 21.347            | 68.758            |
| Extraordinary liabilities             | 485.996           | 594.322           |
| Other operating costs                 | 1.140.711         | 224.821           |
| <b>Total</b>                          | <b>31.181.168</b> | <b>25.263.299</b> |

The €5.918m increase in operating costs compared to 31/12/2005 is mainly due to the increased volume of sales in 2006.

Provisions for *doubtful loans* were made to bring the fund into line with nonperforming loans existing at the end of the year.

*Other service costs* includes cost for labour, cleaning and security and entertainment costs.

*Other operating costs* includes indirect taxes, company expenses and subscriptions.

*Remuneration for Directors and Statutory Auditors* refers to €719,000 in fees to members of the Board of Directors and €105,000 in fees for members of the Board of Auditors of the parent group (in accordance with article 38 of Legislative Decree 127/91). For more information see the table included in the **Supplementary Notes to the Financial Statements of the Parent Company**, and required by article 78 of CONSOB Issuers Regulation.

## Note 9.25

| <b>Financial income and expenses</b>      | <b>31/12/2006</b>  | <b>31/12/2005</b>  |
|-------------------------------------------|--------------------|--------------------|
| Expenses                                  |                    |                    |
| Interest on short-term bank loans         | (105.921)          | (316.060)          |
| Interest on m/l-term loans                | (575.631)          | (526.300)          |
| Interest and trade allowances             | (322.318)          | (313.061)          |
| Interest on leasing agreements            | (39.053)           | (25.809)           |
| Interest as per IAS 19                    | (190.684)          | (194.764)          |
| Writedown of derivatives                  | (47.054)           | (8.861)            |
| Other                                     | (299.346)          | (253.720)          |
| <b>Total financial expenses</b>           | <b>(1.580.007)</b> | <b>(1.638.575)</b> |
| Income                                    |                    |                    |
| Interest on bank accounts                 | 222.822            | 69.694             |
| Interest and trade allowances             | 379.319            | 330.294            |
| Interest on securities                    | 9.515              | 9.006              |
| Income from derivatives                   | 4.700              | 36.621             |
| Other                                     | 50.733             | 29.898             |
| <b>Total financial income</b>             | <b>667.089</b>     | <b>475.513</b>     |
| Negative foreign exchange differences     | (672.824)          | (801.131)          |
| Positive exchange differences             | 685.452            | 823.889            |
| <b>Total foreign exchange differences</b> | <b>12.628</b>      | <b>22.758</b>      |
| <b>Net financial income</b>               | <b>(900.290)</b>   | <b>(1.140.304)</b> |

## Note 9.26

| <b>Net earnings from associated companies and joint ventures</b> | <b>31/12/2006</b> | <b>31/12/2005</b> |
|------------------------------------------------------------------|-------------------|-------------------|
| MLTA                                                             |                   | (40.580)          |
| Shenyang Prima Laser Machine Co. Ltd.                            | (239.984)         | (74.830)          |
| Shanghai Unity Prima Laser Machinery Co. Ltd.                    | 295.038           | 501.973           |
| SNK Prima Co. Ltd.                                               | (44.670)          | (49.847)          |
| <b>Net earnings from associated companies and joint ventures</b> | <b>10.384</b>     | <b>336.716</b>    |

The item shows the results of the equity method valuation of associated companies and joint ventures.

For more details on these companies, please see **Chapter 4** of the **Report on Operations**.

## Note 9.27

| Current tax liabilities and deferred taxes | 31/12/2006         | 31/12/2005         |
|--------------------------------------------|--------------------|--------------------|
| Current                                    | -                  | -                  |
| IRAP (Regional trade tax)                  | (1.187.117)        | (850.232)          |
| IRES (Corporation tax)                     | (2.984.980)        | (1.554.458)        |
| Foreign                                    | (632.739)          | (75.790)           |
| Prepaid                                    | 1.079.955          | 1.253.375          |
| Deferred                                   | (131.898)          | (853.651)          |
| Income from consolidated taxation          | -                  | 110.422            |
| Substitute tax on building revaluation     | -                  | (35.057)           |
| <b>Total</b>                               | <b>(3.856.779)</b> | <b>(2.005.391)</b> |

| CORPORATE AND FOREIGN TAXES | Reconciliation between ordinary and actual tax rates              | Taxable amount  | Income tax                |
|-----------------------------|-------------------------------------------------------------------|-----------------|---------------------------|
|                             | EARNINGS BEFORE TAX                                               | 17.577          | 7.055                     |
|                             | PERMANENT INCREASE                                                | 1.652           | 543                       |
|                             | PERMANENT DECREASE                                                | (2.782)         | (944)                     |
|                             | TEMPORARY CHANGES                                                 | (2.613)         | (1.071)                   |
|                             | <b>TAXABLE INCOME</b>                                             | <b>13.834</b>   | <b>5.583</b>              |
|                             | UTILIZATION OF PREVIOUS LOSSES                                    | (7.521)         | (2.522)                   |
|                             | FEDERAL TAX, ETC.                                                 |                 | 557                       |
|                             | <b>TAXES</b>                                                      | <b>6.313</b>    | <b>3.618</b>              |
|                             | <b>TOTAL CORPORATE AND FOREIGN TAXES</b>                          | <b>-</b>        | <b>3.618</b>              |
| IRAP (Regional trade tax)   |                                                                   | Taxable amount  | IRAP (Regional trade tax) |
|                             | VALUE OF PRODUCTION                                               | 118.054         |                           |
|                             | PERMANENT INCREASES/DECREASES                                     | (290)           |                           |
|                             | <b>TOTAL POSITIVE</b>                                             | <b>117.764</b>  |                           |
|                             | COST OF PRODUCTION (EXCLUDING LABOUR COSTS)                       | (87.447)        |                           |
|                             | PERMANENT INCREASES/DECREASES                                     | 2.268           |                           |
|                             | <b>TOTAL NEGATIVE</b>                                             | <b>(85.179)</b> |                           |
|                             | TOTAL NET VALUE OF PRODUCTION                                     | 32.585          |                           |
|                             | DEDUCTION OF PERSONNEL COSTS, R&D, ETC.                           | (2.646)         |                           |
|                             | TAXABLE AMOUNT                                                    | 29.939          |                           |
|                             | DEDUCTION FOR FOREIGN COMPENSATION                                | (2.020)         |                           |
|                             | <b>TAXES</b>                                                      | <b>27.919</b>   | <b>1.187</b>              |
|                             | <b>TOTAL IRAP (regional trade tax only for Italian companies)</b> |                 | <b>1.187</b>              |

The rate applied to income before taxes is the weighted average of rates applied in the different countries in which the Group operates.

## Note 9.28 Earnings per share

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See **Chapter 3, Business Trend** for more details on this subject.

## Note 9.29

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The following contractual obligations were open at the end of the year:

### LEASES (THOUSANDS OF USD)

| <b>Contractual commitments</b> | <b>31/12/2006</b> | <b>31/12/2005</b> |
|--------------------------------|-------------------|-------------------|
| Chicopee plant                 | 8.761             | 8.430             |
| Champlin plant                 | 255               | 444               |
| <b>TOTAL</b>                   | <b>9.016</b>      | <b>8.874</b>      |
|                                |                   |                   |
| Within 1 year                  | 937               | 754               |
| After 1 year                   | 8.079             | 8.120             |
| <b>TOTAL</b>                   | <b>9.016</b>      | <b>8.874</b>      |

THE LEASE AGREEMENT WITH OXFORD INVESTMENT LLC FOR THE PREMISES LOCATED ON EAST MAIN STREET, CHICOPEE RIVER BUSINESS PARK, CHICOPEE, MASSACHUSETTS HAS A DURATION OF FIFTEEN YEARS AND EXPECTED EXPIRY IN 2018.

THE LEASE AGREEMENT WITH OIRE MINNESOTA LLC FOR THE PREMISES IN 8600 109TH AVENUE NORTH, CHAMPLIN MINNESOTA HAS A DURATION OF FIVE YEARS AND EXPECTED EXPIRY IN 2008.

### LEASE INSTALMENTS FOR FUTURE YEARS ARE AS FOLLOWS:

| <b>Chicopee plant</b> |               |                  |
|-----------------------|---------------|------------------|
| <b>Year</b>           | <b>Amount</b> | <b>currency</b>  |
| 2007                  | 746           | thousands of USD |
| 2008                  | 746           | thousands of USD |
| after 2009            | 7289          | thousands of USD |

| <b>Champlin plant</b> |               |                  |
|-----------------------|---------------|------------------|
| <b>Year</b>           | <b>Amount</b> | <b>currency</b>  |
| 2007                  | 191           | thousands of USD |
| 2008                  | 64            | thousands of USD |

## Note 9.30

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### Transactions with associated parties

The transactions with associated parties were mainly connected to the supply of laser systems and components to the Joint Ventures in the Far East. The aforesaid supplies were made at market price.

A summary of the financial effects of these transactions is set out hereunder.

**Period: 1/01/06 ÷ 31/12/06**

| Transactions with associated parties         | SHENYANG PRIMA LASER MACHINE CO.LTD | SHANGHAI UNITY PRIMA LASER MACH. CO. LTD | SNK PRIMA CO. LTD | WHUAN OVL CONVERGENT | STRATEGIC MANAGEMENT | TOTAL     |
|----------------------------------------------|-------------------------------------|------------------------------------------|-------------------|----------------------|----------------------|-----------|
| RECEIVABLES AT 31/12/2005                    | 2.042.972                           | -                                        | 660               | -                    | -                    | 2.043.632 |
| RECEIVABLES AT 31/12/2006                    | 1.209.586                           | -                                        | 660               | 379.651              | -                    | 1.589.897 |
| PAYABLES AT 31/12/2005                       | -                                   | -                                        | -                 | -                    | 51.750               | 51.750    |
| PAYABLES AT 31/12/2006                       | -                                   | -                                        | -                 | -                    | 165.937              | 165.937   |
| REVENUES 01/01/01 - 31/12/2006               | 1.257.130                           | -                                        | -                 | 557.502              | -                    | 1.814.632 |
| COSTS 01/01/01 - 31/12/2006                  | -                                   | -                                        | -                 | 10.681               | 1.993.486            | 2.004.167 |
| CHANGES IN RECEIVABLES 01/01/01 - 31/12/2006 | (833.386)                           | -                                        | -                 | 379.651              | -                    | (453.735) |
| CHANGES IN PAYABLES 01/01/01 - 31/12/2006    | -                                   | -                                        | -                 | -                    | (114.187)            | (114.187) |

**Note 9.31**

**Significant non-recurring events**

There were no significant transactions of a non-recurring nature during the period.

**Note 9.32**

**Atypical and/or unusual positions or transactions during the period**

There were no atypical and/or unusual operations, positions or transactions during the period.

## Note 9.33

### Net Financial Position

The breakdown of the Net Financial Position is provided hereunder.

Kindly refer to the appropriate section of the Report on Operations for the relevant commentary.

|          | values in thousands of euros                                    | 31/12/2006      | 31/12/2005    |
|----------|-----------------------------------------------------------------|-----------------|---------------|
| A        | CASH                                                            | 20.703          | 11.495        |
| B        | OTHER CASH EQUIVALENTS                                          | 268             | 272           |
| C        | SECURITIES HELD FOR TRADING                                     | 0               | 0             |
| <b>D</b> | <b>CASH (A+B+C)</b>                                             | <b>20.971</b>   | <b>11.767</b> |
| <b>E</b> | <b>CURRENT FINANCIAL RECEIVABLES</b>                            | <b>0</b>        | <b>5</b>      |
| F        | CURRENT BANK LOANS                                              | 413             | 1.036         |
| G        | CURRENT PORTION OF NON-CURRENT INDEBTEDNESS                     | 4.258           | 12.534        |
| H        | OTHER CURRENT FINANCIAL PAYABLES                                | 561             | 348           |
| <b>I</b> | <b>CURRENT FINANCIAL INDEBTEDNESS (F+G+H) (LIQUID FUNDS)</b>    | <b>5.232</b>    | <b>13.918</b> |
| <b>J</b> | <b>CURRENT NET FINANCIAL INDEBTEDNESS (LIQUID FUNDS)(I+E+D)</b> | <b>(15.739)</b> | <b>2.146</b>  |
| K        | NON-CURRENT BANK LOANS                                          | 10.623          | 2.331         |
| L        | BONDS ISSUED                                                    | 0               | 0             |
| M        | OTHER NON-CURRENT PAYABLES                                      | 2.040           | 3.256         |
| <b>N</b> | <b>NON-CURRENT FINANCIAL INDEBTEDNESS (K+L+M)</b>               | <b>12.663</b>   | <b>5.587</b>  |
| <b>O</b> | <b>NET FINANCIAL INDEBTEDNESS (J+N)</b>                         | <b>(3.076)</b>  | <b>7.733</b>  |

Some of the medium-term loans in existence provide for covenants, normally based on the ratio between the Net Financial Position and EBITDA and on the ratio between the Net Financial Position and Stockholders' Equity. The company fully complies with these covenants.

On behalf of the Board of Directors  
The Chairman



Gianfranco Carbonato



**PRIMA INDUSTRIE S.p.A**

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**10. FINANCIAL STATEMENTS AT 31 DECEMBER 2006**

**ACCOUNTING STATEMENTS**

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## FINANCIAL STATEMENTS AT 31 DECEMBER 2006

### BALANCE SHEET AT DECEMBER 31, 2006 AND DECEMBER 31, 2005

| VALUES IN EURO                                    | Note  | 31/12/06          | 31/12/05          |
|---------------------------------------------------|-------|-------------------|-------------------|
| Tangible fixed assets                             | 12.1  | 3.153.790         | 3.038.861         |
| Intangible fixed assets                           | 12.2  | 161.036           | 98.697            |
| Equity investments in subsidiaries                | 12.3  | 12.840.913        | 12.840.913        |
| Equity investments valued using the equity method | 12.4  | 1.009.794         | 1.249.778         |
| Equity investments valued using the cost method   | 12.5  | 51.832            | 51.832            |
| Loans to related parties                          | 12.6  | 626.000           | 2.898.962         |
| Other financial assets                            | 12.7  | 267.999           | 258.484           |
| Tax assets for prepaid taxes                      | 12.8  | 2.784.368         | 3.859.224         |
| Other receivables                                 | 12.9  | 8.800             | 9.446             |
| <b>TOTAL NON CURRENT ASSETS</b>                   |       | <b>20.904.532</b> | <b>24.306.197</b> |
| Inventories                                       | 12.10 | 19.957.839        | 18.081.051        |
| Trade receivables                                 | 12.11 | 33.666.729        | 33.397.642        |
| Other receivables                                 | 12.12 | 2.340.099         | 2.652.279         |
| Other tax assets                                  | 12.13 | 1.592.722         | 1.264.262         |
| Derivative financial instruments                  | 12.14 |                   | 4.595             |
| Cash and cash equivalents                         | 12.15 | 14.470.160        | 7.138.093         |
| <b>TOTAL CURRENT ASSETS</b>                       |       | <b>72.027.549</b> | <b>62.537.922</b> |
| <b>TOTAL NET EQUITY</b>                           |       | <b>92.932.081</b> | <b>86.844.119</b> |
| Share Capital                                     |       | 11.500.000        | 11.500.000        |
| Treasury stock                                    |       | (109.034)         | (92.872)          |
| Legal reserves                                    |       | 2.300.000         | 770.910           |
| Other reserve                                     |       | 16.849.034        | 15.885.517        |
| Profits (Losses) carried forward                  |       | (1.601.378)       | (1.781.405)       |
| Profit (loss) for the year                        |       | 3.158.000         | 3.904.952         |
| Total Group Stockholders' equity                  |       | 32.096.622        | 30.187.102        |
| <b>TOTAL NET EQUITY</b>                           |       | <b>32.096.622</b> | <b>30.187.102</b> |
| Loans                                             | 12.16 | 11.680.253        | 4.535.931         |
| Employee benefits                                 | 12.17 | 3.935.385         | 3.616.835         |
| Provision for risks and charges                   | 12.18 | 33.500            | 28.000            |
| Deferred tax liabilities                          | 12.19 | 1.661.121         | 2.014.840         |
| Derivative financial instruments                  | 12.14 | 6.071             | 15.970            |
| <b>TOTAL NON CURRENT LIABILITIES</b>              |       | <b>17.316.330</b> | <b>10.211.576</b> |
| Trade payables                                    | 12.20 | 23.765.426        | 20.521.385        |
| Advances                                          | 12.20 | 5.299.076         | 8.726.329         |
| Other payables                                    | 12.20 | 3.446.243         | 2.510.061         |
| Amounts due to banks and in respect of loans      | 12.16 | 4.982.898         | 11.386.273        |
| Tax liabilities for current taxes                 | 12.21 | 3.666.882         | 1.405.393         |
| Provision for risks and charges                   | 12.18 | 2.358.000         | 1.896.000         |
| Derivative financial instruments                  | 12.14 | 604               | -                 |
| <b>TOTAL CURRENT LIABILITIES</b>                  |       | <b>43.519.129</b> | <b>46.445.441</b> |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> |       | <b>92.932.081</b> | <b>86.844.119</b> |

## FINANCIAL STATEMENTS AT 31 DECEMBER 2006

### INCOME STATEMENT AT DECEMBER 31, 2006 & DECEMBER 31, 2005

| VALUES IN EURO                                               | Nota  | 12/31/2006       | 12/31/2005       |
|--------------------------------------------------------------|-------|------------------|------------------|
| Net revenues from sales and services                         | 12.22 | 93.675.508       | 73.336.941       |
| Other operating income                                       | 12.22 | 1.568.542        | 2.720.284        |
| Changes in inventories of semifinished and finished products |       | (57.291)         | 442.382          |
| Increases in fixed assets for internal work                  | 12.23 | 97.298           | 27.776           |
| Use of raw materials, consumables, supplies and goods        |       | (50.231.382)     | (39.451.173)     |
| Personnel cost                                               | 12.24 | (15.825.064)     | (14.047.067)     |
| Amortization & Depreciation                                  | 12.25 | (654.019)        | (628.539)        |
| Impairment and writedowns                                    |       |                  | 2.037.436        |
| Other operating costs                                        | 12.26 | (21.745.024)     | (18.788.133)     |
| <b>OPERATING INCOME</b>                                      |       | <b>6.828.568</b> | <b>5.649.907</b> |
| Financial income                                             | 12.27 | 1.301.486        | 1.192.703        |
| Financial expenses                                           | 12.27 | (1.414.872)      | (1.264.384)      |
| Net income from transactions in foreign exchange             | 12.27 | 103.102          | (4.922)          |
| Net income from associated companies & joint ventures        | 12.28 | (239.984)        | (124.677)        |
| Net income from transactions in foreign exchange             |       |                  |                  |
| <b>INCOME BEFORE TAX</b>                                     |       | <b>6.578.300</b> | <b>5.448.627</b> |
| Current and deferred taxes                                   | 12.29 | (3.420.300)      | (1.543.675)      |
| <b>NET PROFIT</b>                                            |       | <b>3.158.000</b> | <b>3.904.952</b> |

## FINANCIAL STATEMENTS AT 31 DECEMBER 2006

### CHANGE IN STOCKHOLDERS' EQUITY AT DECEMBER 31, 2005 & DECEMBER 31, 2006

#### From January 1<sup>st</sup>, 2005 to December 31<sup>st</sup>, 2005

| VALUES IN EURO                       | 01/01/2005        | Purchase/<br>Sale of<br>treasury stock | Gains on<br>disposal of<br>treasury stock | Losses on<br>disposal of<br>treasury stock | Allocation of<br>Previous<br>Financial Year'<br>income | Dividends<br>Distribution | Profit of the<br>period | 12/31/2005        |
|--------------------------------------|-------------------|----------------------------------------|-------------------------------------------|--------------------------------------------|--------------------------------------------------------|---------------------------|-------------------------|-------------------|
| Share Capital                        | 11.500.000        |                                        |                                           |                                            |                                                        |                           |                         | 11.500.000        |
| Treasury stock                       | (170.606)         | 77.734                                 |                                           |                                            |                                                        |                           |                         | (92.872)          |
| Treasury stock owned by Subsidiaries | 15.664.893        |                                        |                                           |                                            |                                                        |                           |                         | 15.664.893        |
| Share premium reserve                | 729.550           |                                        |                                           |                                            | 41.360                                                 |                           |                         | 770.910           |
| Legal reserve                        | 0                 | 77.734                                 |                                           |                                            | 142.890                                                |                           |                         | 220.624           |
| Other reserve                        |                   |                                        |                                           |                                            |                                                        |                           |                         | 0                 |
| Conversion reserve                   | (1.919.776)       | (77.734)                               | 123.176                                   | (11.606)                                   | 104.535                                                |                           |                         | (1.781.405)       |
| Profit / (loss) carried forward      | 931.735           |                                        |                                           |                                            | (288.785)                                              | (642.950)                 | 3.904.952               | 3.904.952         |
| Income for the year                  |                   |                                        |                                           |                                            |                                                        |                           |                         | 16.656.427        |
| <b>Net Equity</b>                    | <b>26.735.796</b> | <b>77.734</b>                          | <b>123.176</b>                            | <b>(11.606)</b>                            | <b>-</b>                                               | <b>(642.950)</b>          | <b>3.904.952</b>        | <b>30.187.102</b> |

#### From January 1<sup>st</sup>, 2006 to December 31<sup>st</sup>, 2006

| VALORI IN EURO                       | 01/01/2006        | Purchase/<br>Sale of<br>treasury stock | Gains on<br>disposal of<br>treasury stock | Losses on<br>disposal of<br>treasury stock | Allocation of<br>Previous<br>Financial Year'<br>income | Distribution<br>Dividends | Profit of the<br>period | 12/31/2006        | note  |
|--------------------------------------|-------------------|----------------------------------------|-------------------------------------------|--------------------------------------------|--------------------------------------------------------|---------------------------|-------------------------|-------------------|-------|
| Share Capital                        | 11.500.000        |                                        |                                           |                                            |                                                        |                           |                         | 11.500.000        |       |
| Treasury stock                       | (92.872)          | (16.162)                               |                                           |                                            |                                                        |                           |                         | (109.034)         |       |
| Treasury stock owned by Subsidiaries | 15.664.893        |                                        |                                           |                                            |                                                        |                           |                         | 15.664.893        | a b c |
| Legal reserve                        | 770.910           |                                        |                                           |                                            | 1.529.090                                              |                           |                         | 2.300.000         | b     |
| Other reserve                        | 220.624           |                                        |                                           |                                            | 963.517                                                |                           |                         | 1.184.141         | (1)   |
| Conversion reserve                   | -                 |                                        |                                           |                                            |                                                        |                           |                         | -                 |       |
| Profit / (loss) carried forward      | (1.781.405)       |                                        | 71.273                                    | (16.338)                                   | 125.092                                                |                           |                         | (1.601.378)       |       |
| Income for the year                  | 3.904.952         |                                        |                                           |                                            | (2.617.699)                                            | (1.287.253)               | 3.158.000               | 3.158.000         |       |
| <b>Net Equity</b>                    | <b>30.187.102</b> | <b>(16.162)</b>                        | <b>71.273</b>                             | <b>(16.338)</b>                            | <b>-</b>                                               | <b>(1.287.253)</b>        | <b>3.158.000</b>        | <b>32.096.622</b> |       |

Utilizable for the following purposes: a: share capital increase      b: to cover losses      c: distribution to shareholders  
 (1) €78,956 UTILIZABLE FOR PURPOSE B; €505,185 UTILIZABLE FOR PURPOSES a, b, c

## FINANCIAL STATEMENTS AT 31 DECEMBER 2006

### CASH-FLOW STATEMENT AT DECEMBER 31, 2006 AND DECEMBER 31, 2005

| VALUES IN EURO THOUSAND                                     | 12/31/2006        | 12/31/2005         |
|-------------------------------------------------------------|-------------------|--------------------|
| Profit (Loss) before tax                                    | 6.578.300         | 5.448.627          |
| Adjustments                                                 | 1.401.825         | (826.244)          |
| Amortization for the financial year                         | 654.019           | 628.539            |
| Provisions raised to Employees' severance fund              | 497.538           | 381.373            |
| Loss (Profit) on exchange rates for currency transactions   | (103.102)         | 4.922              |
| Loss (Income) from equity investments                       | 239.984           | (1.912.759)        |
| Financial expenses                                          | 1.414.872         | 1.264.384          |
| Financial (income)                                          | (1.301.496)       | (1.192.703)        |
|                                                             | 7.980.125         | 4.622.383          |
| (Increase) /Decrease in trade and other receivables         | 790.135           | 1.229.863          |
| (Increase) /Decrease in inventories                         | (1.876.788)       | (853.549)          |
| Increase / (Decrease) in trade payables                     | (183.212)         | 781.191            |
| Increase / (Decrease) in other payables                     | 1.437.818         | 444.662            |
| Cash flow from typical activity                             | 8.148.078         | 6.224.550          |
| Interest payment                                            | (1.311.770)       | (1.269.306)        |
| Tax payment                                                 | (1.725.654)       | (603.765)          |
| <b>Cash flow derived from operating activity</b>            | <b>5.110.654</b>  | <b>4.351.479</b>   |
| Cash flow derived from investing activity                   |                   |                    |
| Purchase of tangible fixed assets                           | (672.310)         | (364.436)          |
| Purchase of intangible fixed assets                         | (178.499)         | (93.110)           |
| Sale /(Purchase) of financial assets (at cost)              | (9.515)           | (9.006)            |
| Sale /(Purchase) investments in associates                  | -                 | (2.518.150)        |
| Receipts from sales of fixed assets                         | 19.522            | 2.743              |
| Interest encashed                                           | 1.301.486         | 1.192.703          |
| <b>Net Cash flow derived from investment activity</b>       | <b>460.684</b>    | <b>(1.789.256)</b> |
| Cash flow derived from financing activity                   |                   |                    |
| Variation in the conversion reserve                         | -                 | -                  |
| (Purchase)/sale of treasury stock                           | 38.773            | 189.304            |
| Changes in balance- derivative instruments (FV)             | (4.700)           | 284.331            |
| Stipulation of loans and financing                          | 13.674.366        | 7.922.197          |
| Repayments of loans and financing                           | (12.158.186)      | (6.651.335)        |
| (Repayments)/ Raising of financial leases                   | (262.871)         | (257.535)          |
| (Repayments)/ Raising of Sabatini transactions              | (512.362)         | (776.027)          |
| (Repayments)/ Raising of infragroup financing               | 2.272.962         | 1.366.722          |
| Dividends paid                                              | (1.287.253)       | (642.950)          |
| <b>Net Cash flow derived from financing activity</b>        | <b>1.760.729</b>  | <b>1.434.707</b>   |
| <b>Increase (decrease) in the cash and cash equivalents</b> | <b>7.332.067</b>  | <b>3.996.930</b>   |
| <b>Cash and cash equivalents at the start of the period</b> | <b>7.138.093</b>  | <b>3.141.163</b>   |
| <b>Cash and cash equivalents at the end of the period</b>   | <b>14.470.160</b> | <b>7.138.093</b>   |

## FINANCIAL STATEMENTS AT 31 DECEMBER 2006

### BALANCE SHEET ACCORDING TO CONSOB RESOLUTION N. 15519 DATED JULY 27TH, 2006

| VALUES IN EURO                                    | Note  | 31/12/06          | related parties<br>(12.30) | 31/12/05          | related parties<br>(12.30) |
|---------------------------------------------------|-------|-------------------|----------------------------|-------------------|----------------------------|
| Tangible fixed assets                             | 12.1  | 3.153.790         |                            | 3.038.861         |                            |
| Intangible fixed assets                           | 12.2  | 161.036           |                            | 98.697            |                            |
| Equity investments in subsidiaries                | 12.3  | 12.840.913        | 12.840.913                 | 12.840.913        | 12.840.913                 |
| Equity investments valued using the equity method | 12.4  | 1.009.794         | 1.009.794                  | 1.249.778         | 1.009.794                  |
| Equity investments valued using the cost method   | 12.5  | 51.832            |                            | 51.832            |                            |
| Loans to related parties                          | 12.6  | 626.000           | 626.000                    | 2.898.962         | 2.898.962                  |
| Other financial assets                            | 12.7  | 267.999           |                            | 258.484           |                            |
| Tax assets for prepaid taxes                      | 12.8  | 2.784.368         |                            | 3.859.224         |                            |
| Other receivables                                 | 12.9  | 8.800             |                            | 9.446             |                            |
| <b>TOTAL NON CURRENT ASSETS</b>                   |       | <b>20.904.532</b> |                            | <b>24.306.197</b> |                            |
| Inventories                                       | 12.10 | 19.957.839        |                            | 18.081.051        |                            |
| Trade receivables                                 | 12.11 | 33.666.729        | 10.467.915                 | 33.397.642        | 7.173.439                  |
| Other receivables                                 | 12.12 | 2.340.099         |                            | 2.652.279         |                            |
| Other tax assets                                  | 12.13 | 1.592.722         |                            | 1.264.262         |                            |
| Derivative financial instruments                  | 12.14 |                   |                            | 4.595             |                            |
| Cash and cash equivalents                         | 12.15 | 14.470.160        |                            | 7.138.093         |                            |
| <b>TOTAL CURRENT ASSETS</b>                       |       | <b>72.027.549</b> |                            | <b>62.537.922</b> |                            |
| Non current assets held for sale                  |       | -                 |                            | -                 |                            |
| <b>TOTAL NET EQUITY</b>                           |       | <b>92.932.081</b> |                            | <b>86.844.119</b> |                            |
| Share Capital                                     |       | 11.500.000        |                            | 11.500.000        |                            |
| Treasury stock                                    |       | (109.034)         |                            | (92.872)          |                            |
| Legal reserve                                     |       | 2.300.000         |                            | 770.910           |                            |
| Other reserves                                    |       | 16.849.034        |                            | 15.885.517        |                            |
| Profits (Losses) carried forward                  |       | (1.601.378)       |                            | (1.781.405)       |                            |
| Profit (loss) for the year                        |       | 3.158.000         |                            | 3.904.952         |                            |
| Total Group Stockholders' equity                  |       | 32.096.622        |                            | 30.187.102        |                            |
| <b>TOTAL NET EQUITY</b>                           |       | <b>32.096.622</b> |                            | <b>30.187.102</b> |                            |
| Loans                                             | 12.16 | 11.680.253        |                            | 4.535.931         |                            |
| Employee benefits                                 | 12.17 | 3.935.385         |                            | 3.616.835         |                            |
| Provision for risks and charges                   | 12.18 | 33.500            |                            | 28.000            |                            |
| Deferred tax liabilities                          | 12.19 | 1.661.121         |                            | 2.014.840         |                            |
| Derivative financial instruments                  | 12.14 | 6.071             |                            | 15.970            |                            |
| <b>TOTAL NON CURRENT LIABILITIES</b>              |       | <b>17.316.330</b> |                            | <b>10.211.576</b> |                            |
| Trade payables                                    | 12.20 | 23.765.426        | 5.959.843                  | 20.521.385        | 4.764.798                  |
| Advances                                          | 12.20 | 5.299.076         |                            | 8.726.329         |                            |
| Other payables                                    | 12.20 | 3.446.243         | 165.937                    | 2.510.061         | 51.750                     |
| Amounts due to banks and i.r.o loans              | 12.16 | 4.982.898         |                            | 11.386.273        |                            |
| Tax liabilities - current taxes                   | 12.21 | 3.666.882         |                            | 1.405.393         |                            |
| Provision for risks and charges                   | 12.18 | 2.358.000         |                            | 1.896.000         |                            |
| Derivative financial instruments                  | 12.14 | 604               |                            | -                 |                            |
| <b>TOTAL CURRENT LIABILITIES</b>                  |       | <b>43.519.129</b> |                            | <b>46.445.441</b> |                            |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b> |       | <b>92.932.081</b> |                            | <b>86.844.119</b> |                            |

## FINANCIAL STATEMENTS AT 31 DECEMBER 2006

### INCOME STATEMENT ACCORDING TO CONSOB RESOLUTION N. 15519 DATED JULY 27TH, 2006

| VALUES IN EURO                                               | Note  | 12/31/2006       | related parties<br>(12.30) | 12/31/2005       | related parties<br>(12.30) |
|--------------------------------------------------------------|-------|------------------|----------------------------|------------------|----------------------------|
| Net revenues from sales and services                         | 12.22 | 93.675.508       | 21.728.345                 | 73.336.941       | 13.259.309                 |
| Other operating income                                       | 12.22 | 1.568.542        | 172.623                    | 2.720.284        | 161.514                    |
| Changes in inventories of semifinished and finished products |       | (57.291)         |                            | 442.382          |                            |
| Increases in fixed assets for internal work                  | 12.23 | 97.298           |                            | 27.776           |                            |
| Use of raw materials, consumables, supplies and goods        |       | (50.231.382)     | 17.045.330                 | (39.451.173)     | 9.886.827                  |
| Personnel cost                                               | 12.24 | (15.825.064)     | 914.425                    | (14.047.067)     | 356.615                    |
| Amortization & Depreciation                                  | 12.25 | (654.019)        |                            | (628.539)        |                            |
| Impairment and writedowns                                    |       |                  |                            | 2.037.436        |                            |
| Other operating costs                                        | 12.26 | (21.745.024)     | 1.480.657                  | (18.788.133)     | 1.266.795                  |
| <b>OPERATING INCOME</b>                                      |       | <b>6.828.568</b> |                            | <b>5.649.907</b> |                            |
| Financial income                                             | 12.27 | 1.301.486        | 161.395                    | 1.192.703        | 190.379                    |
| Financial expenses                                           | 12.27 | (1.414.872)      | 51.171                     | (1.264.384)      | 39.718                     |
| Net income from transactions in foreign exchange             | 12.27 | 103.102          |                            | (4.922)          |                            |
| Impairment from associated companies & joint ventures        | 12.28 | (239.984)        | 239.984                    | (124.677)        | 124.677                    |
| <b>INCOME BEFORE TAX</b>                                     |       | <b>6.578.300</b> |                            | <b>5.448.627</b> |                            |
| Current and deferred taxes                                   | 12.29 | (3.420.300)      |                            | (1.543.675)      |                            |
| <b>NET PROFIT</b>                                            |       | <b>3.158.000</b> |                            | <b>3.904.952</b> |                            |



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**SUPPLEMENTARY NOTES  
EXPLANATORY NOTES TO  
THE FINANCIAL STATEMENTS PRIMA INDUSTRIE S.p.A.**

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## **11. DESCRIPTION OF ACCOUNTING PRINCIPLES**

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### **□ COMPANY INFORMATION**

PRIMA INDUSTRIE S.p.A. ("Company") is an organisation incorporated under the legal system of the Italian Republic and is the parent company possessing directly, or indirectly through other companies, holdings in the share capital of companies belonging to the PRIMA Group. The company's registered office is in Collegno, Italy.

PRIMA INDUSTRIE SpA's corporate mission is the design, manufacture and sale of electrical and electronic equipment, instruments, machines and mechanical systems and the related software programs for use in industrial automation or in other sectors in which the company's technology may be usefully employed.

The company is also capable of providing industrial services of a technical, planning and organizational nature in the field relating to the production of capital goods and industrial automation.

The main activity is focused on the sector of 2D and 3D cutting and welding laser machines.

As parent company, PRIMA INDUSTRIE S.p.A. has also prepared the consolidated financial statements to 31 December 2006 of the PRIMA Group.

### **□ VALUATION CRITERIA**

The 2006 financial statements represent the separate statements of the parent company PRIMA INDUSTRIE S.p.A. and, for the first time, were prepared according to the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union. IFRS refers to all reviewed International Accounting Standards ("IAS") and all interpretations of the International Financing Reporting Interpretations Committee ("IFRIC"), previously known as the Standing Interpretations Committee ("SIC").

In fulfilment of European Regulation no. 1606 of 19 July 2002, since 2005 the PRIMA Group has adopted the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") to prepare the consolidated financial statements. In accordance with national legislation implementing the above Regulation, the financial statements of the parent company PRIMA INDUSTRIE S.p.A. were prepared according to the aforesaid standards, starting from 2006. In this context, it is emphasised that the applied accounting standards comply with those adopted for the opening balance sheet at 1 January 2005, prepared according to IFRS, and the 2005 income statement and the balance sheet at 31 December 2005, according to IFRS layout and published in Chapter 13 of these Supplementary Notes, to which the reader is referred. Chapter 13 contains the statement of reconciliation between the year's result and shareholders' equity as per the previous standards (Italian accounting principles) and the year's result and the shareholders' equity according to IFRS for the previous periods, presented for comparative purposes as required by IFRS 1 – *First-time adoption of the IFRS*, accompanied by the related explanatory notes

These financial statements were drawn up using the cost principle, with the exception of financial assets belonging to the category "financial assets held for sale" and financial assets and liabilities (including derivative financial instruments) falling into the "at fair value" category, with changes in fair value recorded in the income statement.



Preparation of the financial statements in accordance with IFRS Statements" inevitably involves use of accounting estimates and the opinions expressed by the Directors of the company. The areas of the statements requiring more complex estimates and greater use of the opinions of Directors are indicated below.

#### □ **CONVERSION OF ITEMS IN FOREIGN CURRENCY**

The financial statements were drawn up in euro, the functional and presentation currency.

Transactions in non-Euro currencies are initially reflected at the exchange rate applicable on the date of the transaction.

The monetary assets and liabilities in non-Euro currencies are converted into Euro using the exchange rate in force at the date of closure of the Financial Statements. All exchange differences are reflected in the income statement.

Non-monetary items recorded at historical cost are converted into Euro using the exchange rate in force at the starting date of disclosure of the transaction. Non-monetary entries recorded at fair value are converted using the exchange rate at the date of determination of that value.

#### □ **TANGIBLE ASSETS**

All the tangible fixed asset categories are included in the financial statements at historical cost, reduced by depreciation and impairment, with the exception of land, which is recorded at historical cost reduced by any impairment. The cost includes any expenses directly attributable to the purchase.

Costs incurred after the purchase of assets are accounted for as an increase to their historical value or are recorded separately, only if it is likely that they will generate future financial benefits and their cost can be reliably measured.

Depreciation on the tangible fixed assets is calculated using the straight-line method so as to allocate their residual book value over their technical-financial life estimated as follows:

|                                            |        |       |
|--------------------------------------------|--------|-------|
| □ Buildings and incremental work           | 33     | years |
| □ Plants and machinery                     | 10 - 5 | years |
| □ Equipment                                | 4 - 5  | years |
| □ Furniture, fixtures and office equipment | 9 - 5  | years |
| □ Electronic office equipment              | 5      | years |
| □ Motor vehicles                           | 4 - 5  | years |

Extraordinary maintenance capitalized as an increase to an existing asset is depreciated on the basis of its residual useful life, or if less, in the period that remains until the next maintenance work.

The residual value and the useful life of tangible fixed assets are reviewed and modified, if necessary, at the closing date of the financial statements.

Impairment: the carrying value of the tangible fixed assets is immediately written down to the recoverable value, whenever the former value exceeds the latter.

Gains and losses on the disposal of tangible fixed assets are recorded in the income statement and are determined by comparing their carrying value with the selling price.

The financial expenses incurred for the construction of tangible assets are allocated to the income statement of the applicable financial year.

## □ **INTANGIBLE ASSETS**

### *(a) Software*

Software licences are capitalized at the cost incurred to obtain and put them into operation and are amortized on the basis of their estimated useful life (3 years).

Costs linked to the development and maintenance of software programmes are considered as costs for the period and are therefore allocated to the applicable income statement.

### *(b) Research and development costs*

Research costs are recorded in the income statement in the financial year in which they are incurred.

Development costs incurred for an identifiable project are capitalized amongst the intangible fixed assets, if they can be reliably measured and if it is likely that the project to which they are tied will generate a cash flow justifying their inclusion in the financial statements.

Development costs allocated to the income statement in previous financial years are capitalized retrospectively if, at a later date, they possess the necessary characteristics.

Development costs having a defined useful life are amortized from the date of marketing the product, on the basis of the period over which it is estimated that they will produce a financial benefit and, in any event, over a period not exceeding 5 years.

Development costs that do not have these features are charged to the income statement in the year in which they were incurred.

### *(c) Other intangible assets*

Other intangible fixed assets that were acquired separately are capitalized at cost.

After the first determination, intangible fixed assets with a defined useful life are recorded at cost reduced by amortization and impairment; intangible fixed assets with an indefinite useful life are shown at cost reduced by impairment only;

Intangible fixed assets which are produced internally are not capitalized but are reflected in the income statement of the financial year in which they were incurred.

Other intangible assets are tested annually for impairment - this analysis can be carried out on individual intangible asset or on the basis of the asset's income-generating unit.

The useful life of other intangible fixed assets is reviewed annually: where possible, any changes are shown in schedules.

## □ **SHAREHOLDINGS IN SUBSIDIARIES AND ASSOCIATED COMPANIES**

These are stated at cost adjusted for impairment.

The positive difference, emerging from the purchase agreement, between the cost of acquisition and the current value of shareholders' equity in the subsidiary is hence included in the book value of the shareholding.

Stakes in subsidiaries and associated companies are subject to a yearly, or more frequent, if necessary, impairment test. If there is evidence that these shareholdings have undergone a loss in value, this fact is posted as a writedown in the income statement. If share of losses in the subsidiary exceeds the book value of the shareholding, and the company is obliged to answer for this, the value of the stake is cleared and the share of further losses are entered under liability provisions.

## □ **SHAREHOLDINGS IN OTHER COMPANIES**

Shareholdings in other minor companies, for which no market quotation exists, are entered at cost, written down for any losses in value.

## □ **RECOVERY VALUE OF THE ASSET (IMPAIRMENT)**

Assets with an indefinite useful life, not subject to amortization, are tested at least annually for impairment and whenever there is any indication that their carrying value is not recoverable.

Assets that are amortized are tested for impairment only if there is an indication that their carrying value is no longer recoverable.

The writedown amount for impairment is determined as the difference between the carrying value of the asset and its recoverable value, determined as the higher of the selling price, net of the transaction costs, and its value in use, or the actual value of the cash generated.

The recoverable value of the asset is determined by grouping the smallest cash-generating units.

## □ **FINANCIAL ASSETS**

The Company classifies its investments into the following categories: a) financial assets at fair value with changes in value recorded in the income statement, b) loans and financial receivables, c) investments held to maturity and d) financial assets held for sale.

The reclassification is dependant on the purpose of the purchase. Directors allocate financial assets to the applicable category at the time of purchase, re-assessing the allocation at the end of each financial year.

(a) *Financial assets at "fair value with changes in value recorded in the income statement",*

This category is divided into two classes: 1) financial assets held for trading and 2) those assigned to this category from the start. A financial asset is included in this category if it has been purchased for short-term resale or if has been included by the Directors.

Derivative financial instruments that do not have the requirements to be defined as hedging instruments are placed in the "held for trading" category.

Financial assets belonging to these two classes are entered among current assets if they are not "held for trading" or if they are not to be sold within 12 months of the close of the financial statements.

(b) *Loans and financial receivables*

Loans and financial receivables are non-derivative financial assets with fixed or determinable payments, not listed on a regulated market and not intended for trading. They are included amongst the current assets, (except for the portion that exceeds twelve months of closure of the statements) in the category "Trade and other receivables".

(c) *Investments held to maturity*

This relates to non-derivative financial assets with fixed or determinable payments and fixed maturity, which the Company both intends and has the capacity to hold until maturity

(d) *Financial investments held for sale*

This refers to non-derivative financial assets allocated to this category, including those allocated here as a residual classification compared to the ones mentioned above. These financial assets are placed in current assets, provided that the Directors do not decide to sell them after the 12 months following the closure of the financial year.

The purchase and sale of financial assets are recognized at the trading date that coincides with the date on which the Company undertakes to buy or sell the asset.

All financial assets, with the exception of those at "fair value with changes in value recorded in the income statement", are initially reflected at fair value increased by the costs to sell.

Financial assets are reversed from the financial statements at the time when the right to receive the financial flows deriving from them has been transferred, or when the Company has effectively transferred all the risks and benefits of ownership to third parties.

The two classes of financial assets "held for sale" and at "fair value with changes in value recorded in the income statement" class, are thereafter valued at fair value. The other two classes, "loans and financial receivables" and "financial assets held to maturity" are valued using the cost criterion depreciated using the effective interest rate method.

Gains and losses, whether realized or not, arising from a change in the fair value of the financial asset belonging to the "fair value with changes in value recorded in the income statement" category, are recorded in the income statement for the financial year in which they are generated.

Unrealized gains and losses arising from the change in fair value of the non-monetary securities classified in the "held for sale" category are recorded in shareholders' equity. When the securities classified as "held for sale" are sold or undergo an impairment in value, the accumulated adjustments to their fair value in shareholders' equity are transferred to the income statement as gains or losses deriving from the sale.

The fair value of listed shareholdings is based on the current asking price. When there is no active market for the financial asset, or if the shareholding is not listed, the fair value is set by the Company using valuation techniques, (including recent comparable market transactions, the discounted financial flows method,) which are adjusted to reflect the issuers' specific characteristics.

The Company tests, on the closure of each set of Financial Statements, whether objective evidence of the impairment of the financial assets exists. In the case of financial assets that are representative of shareholders' equity classified in the "held for sale" category, a significant or prolonged decline in fair value compared to cost is considered as one of the elements in the assessment of the loss in value. If this evidence exists for financial assets in the "held for sale" category, the accumulated loss in value, determined as the difference between the purchase cost and the current fair value, net of writedowns already made, is reversed out of shareholders' equity and allocated to the income statement. Writedowns recorded in the income statement can no longer be reversed.

## □ **INVENTORIES**

Inventories are stated at the lower of cost and the estimated realizable value of the inventories, which is represented by the normal sales value in the ordinary course of business, net of variable sales expenses.

The cost is determined using the average weighted cost method. The cost of finished and semi-finished products includes design costs, raw materials, the cost of direct labour, other direct costs and other indirect costs that can be allocated to the production activity on the basis of normal production capacity and the state of progress. This cost configuration does not include financial expenses.

## □ **TRADE AND OTHER RECEIVABLES**

Trade receivables are initially stated at their fair value and are measured after the cost has been depreciated using the effective interest method, net of writedowns to take account of irrecoverability. The debt is written off if there exists objective evidence that the Company is not able to collect the entire amount due on the date agreed to with the customer. The amount of the writedown is the difference between the book value of the debt and the actual value of future receipts, discounted on the basis of the effective interest rate. The writedown of receivables is recorded in the income statement.

Transferred recourse loans remain in the financial statements of the Company, despite the fact that they have legally been transferred; in this case, a financial liability of the same amount is entered for the advance received.

## □ **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash, immediately available bank deposits and the current account overdraft and other liquid investments maturing within three months. The overdraft on the current account is recorded amongst short-term loans.

## □ **SHARE CAPITAL**

Ordinary shares are classified in shareholders' equity.

Additional expenses directly tied to the issue of shares or options are recorded in the equity as a reduction of the cash received.

Treasury shares are entered as a reduction of shareholders' equity. The effects of any subsequent events (cancellation, remission or sale) are also entered directly under shareholders' equity.

## □ **LOANS**

Loans are recorded in the financial statements at their fair value net of any additional expenses. After their first disclosure, they are accounted for as amortized costs. Each difference between receipts, net of any additional expenses, and the value of repayment is recorded in the income statement for the period on the basis of the effective interest rate method.

Loans are recorded amongst short-term liabilities, provided that the Company has no unconditional rights to defer the loan beyond 12 months of the closure of the financial statements.

## □ **EMPLOYEE BENEFITS**

### (a) *Pension schemes*

The Company considers the Employees' Severance Fund to be a defined benefits plan, the Cometa Fund (a supplementary fund to the national collective labour contract for the metal industry) and the PREVINDAI as defined contributions plans.

Defined benefits schemes are pension plans that define the amount of the pension benefit due to the employee at the time of termination of the employment relationship - a sum that depends on different factors such as age, years of service and salary.

The defined contribution schemes are pension plans in respect of which the Company pays a fixed sum to a separate entity. The Company does not have any legal or implicit obligation to pay further sums should the assets serving the scheme become insufficient to pay the employees the benefits due to them for current and past services.

The liability recorded in the financial statements for the defined benefits plan is the actual value of the obligation at the date of closure of the financial statements, net of the fair value of the assets available in the plan (where they exist), both corrected for actuarial gains and losses and for the cost of social security for past services. The obligation is determined annually by an independent actuary using the projected unit credit method. The present value of the obligation is determined by discounting estimated future disbursements at the interest rate for the gilt-edged bonds, issued in the same currency with which the benefits will be paid, and which fall due approximately at the same time as the correlated retirement liability.

The cumulative total of the actuarial losses and gains, derived from the variations on the estimates made, which exceeds 10% of the greater of the fair value of the assets available in the plan (where they exist) and 10% of the obligation relating to the defined benefits plan, is allocated to the income statement, using the accrual principal on the basis of the expected average residual working life of the employees who participate in the plans.

The employee benefit cost relating to past services is immediately recorded in the income statement, unless the changes to the pension plan are not dependant on the employees' remaining in service for a certain period of time. In this case the employee benefit cost for past services is amortized on a straight-line basis in the period in which it accrued.

For defined contribution plans the Company pays contributions to state or private pension funds on a compulsory, contractual or voluntary basis. Once these contributions have been paid, the Company has no further obligations. The contributions paid are recorded in the income statement under labour costs when they fall due. Contributions paid in advance are recorded amongst the prepaid expenses only if a refund or a reduction of future payments is expected.

*(b) Benefits granted on achieving a certain level of seniority in the company*

The Company grants benefits to its employees when they reach a certain seniority of service in the company.

The liability recorded in the financial statement for these benefits is the present value of the obligation at the date of closure of the financial statements, net of the fair value of the assets serving the plans (where they exist), both corrected for actuarial gains and losses and for the cost of matured benefits. The obligation is determined annually by an independent actuary using the projected unit credit method. The present value of the obligation is determined by discounting the estimate of future disbursements at the interest rate for gilt-edged bonds, issued in the same currency with which the benefits will be paid and which fall due approximately at the same time as the correlated liability.

The cumulative total of actuarial losses and gains, deriving from variations in the estimates made, are posted in the income statement.

*(c) Benefits granted on termination of the employment relationship*

Workers are entitled to receive these benefits on early termination of the employment relationship, prior to the retirement date or in the case of termination due to a corporate restructuring plan. The Company records a liability in the financial statements to meet such benefits when: a) a formal and detailed incentive plan exists for early retirement which the employee will not refuse b) an offer is made to employees to encourage voluntary retirement. The amounts payable beyond 12 months of the closure of the financial statements are discounted back.

*(d) Incentives, bonuses and profit-sharing schemes*

The Company records a cost and a debt to meet the liabilities that arise for bonuses, employee incentives and profit-sharing schemes, determined using a formula that considers profits attributable to shareholders after certain adjustments are made. The company records a liability to a reserve only if contractually obliged or if there is a customary obligation to do so.

*(e) Employee benefits granted in shares*

The management of the Company, on a discretionary and periodical basis, allocates bonuses to key-employees, in the form of options on company stock (stock option plans). The right to exercise the options matures on the basis of personal objectives after a certain period of service. The fair value of the options is a working cost for the financial year, which, for the entire maturity period of the options, causes a particular reserve to be raised to shareholders' equity. When the option is exercised, the amount received, net of any transaction costs, is allocated to share capital (for the par value portion of the shares) and to the share premium reserve (for the premium portion). There are currently no stock option plans for Company employees.

## □ PROVISIONS FOR RISKS AND CHARGES

Provisions are allocated for risks and charges when:

- a legal or implied obligation arises for the Company as a result of past events,
- an outflow of resources will probably be required to settle the obligation, and its amount
- it can be reliably determined.

Provisions cannot be allocated to risks and charges to meet future operating losses.

Provisions are recorded by discounting the Directors' best estimates of the total costs that the Company must incur to settle the obligation, at the date of closure of the financial statements. Variations in estimates are reflected in the income statement for the period in which the valuation took place.

## □ RECOGNITION OF REVENUES

Revenues include the fair value arising from the sale of goods and services net of VAT, returns and discounts. Revenues are recorded according to the following rules:

### (a) *Sale of goods*

Revenues are recognized when the company transfers the risks and important benefits implicit in ownership of the goods, and the amount thereof can be reliably estimated.

Revenues from the sale of laser systems are accounted for when the machines are accepted by the end-customer, which generally coincides with the date of signing of the testing report by the customer.

On the other hand, invoicing takes place when the goods are taken on by the carrier in accordance with international commercial terms (known as "incoterms"). From that time onwards, the Company is free from all liability relating to transportation.

As a result of the difference between the invoicing date and the date of recognition of the revenue, the value of the machines invoiced but not yet accepted by the customer is brought back into the accounts amongst the inventories of finished products, net of the margin, with the contra-entry being made to "advances" under balance sheet liabilities. The Company has chosen this presentation, instead of reducing the "trade receivables" account, because this option ensures correct portrayal of underlying contractual relationships.

Application of this principle creates a temporary misalignment between the date on which the machines are dispatched and the time when they are accepted by the customer. The impact on the Company's financial statements is significant in that:

- the Company is a world-wide exporter and hence there are frequent time delays, owing to transport, between the shipping date of the goods and the date of acceptance by the customer in the destination country
- a large part of the Company's customers are large industrial concerns, with lengthy procedures for the approval of investments.



(b) *Services*

Revenues from services are accounted for on a state-of-progress basis in the financial year in which they are rendered.

(c) *Interest*

Interest received is accounted for on the accrual principle using the effective interest rate (a rate which exactly discounts the future expected financial flows on the basis of the expected life of the financial instrument).

(d) *Royalties*

Revenues from royalties are accounted for on the accrual principle on the basis of the contents of the underlying contracts.

(e) *Dividends*

Dividends are accounted for in the financial year in which shareholders are entitled to receive payment.

□ **TAXES**

a) *current*: the income tax burden for the year is determined according to the legislation in force. Income tax is reflected in the income statement. Since 2004 the Company and its subsidiary PRIMA ELECTRONICS S.p.A. have taken part in the national consolidated taxation regime for the three-year period 2004-2006, in accordance with article 117/129 of the Consolidation Law on Income Tax (T.U.I.R.). An agreement has been drawn up regulating relations between the two companies.

b) *deferred*: deferred taxes and prepaid taxes are calculated on all the temporary differences between tax value and the book value of the assets and liabilities of the company's financial statements.

These are calculated using the tax rates and laws that are in force at the date of closure of the financial statements, or using ones that are effectively in place and that are expected to be applicable at the time of the reversal of the temporary differences that gave rise to the recording of the deferred taxes.

Receivables for prepaid taxes are recorded in the financial statements only if, at the time of the reversal of the temporary difference, the likelihood exists of sufficient taxable income for them to be set off.

Receivables for prepaid taxes are re-examined at the close of each financial year and they are reduced if it is no longer likely that sufficient taxable income will become available in the future for whole or partial utilization of the receivable.

Deferred taxes relating to the components disclosed directly in the shareholders' equity are also allocated directly to shareholders' equity.

## □ **LEASING**

Leasing contracts for tangible fixed assets are considered financial leases if the Company effectively bears all the risks and benefits incidental to the ownership of the asset. The assets under financial leases are capitalized at the start of the leasing contract at the lower of the fair value of the leased asset and the present value of the lease instalments. Lease instalments are broken down between the capital portion and the interest portion, determined by applying a constant interest rate to the residual debt.

The financial debt owed to the leasing company is recorded amongst short-term liabilities, for the current portion and amongst long-term liabilities for the portion to be repaid after the close of the financial year.

Interest liabilities are allocated to the income statement for the duration of the contract.

The asset under financial lease is recorded amongst the tangible fixed assets and is depreciated on the basis of the estimated financial-technical useful life of the asset.

Leasing contracts in which the lessor effectively retains all the risks and benefits incidental to ownership are accounted for as operating leases. Payments made net of any incentives received from the lessor are allocated to the income statement on the accrual principle for the duration of the lease.

## □ **DISTRIBUTION OF DIVIDENDS**

The distribution of dividends to shareholders gives rise to a debt accounted for after approval of the dividend by the shareholders' meeting.

## □ **STATE GRANTS**

State grants are recorded in the financial statements at their fair value, only if there exists a reasonable certainty that they will be granted and the Company has satisfied all the conditions required to obtain them (obtaining the decree from the competent public body).

Revenues from state grants are recorded in the income statement if the costs for which they were granted are actually incurred.

State grants for the purchase of tangible fixed assets are recorded amongst deferred income and credited to the income statement on the basis of the depreciation of the assets for which they were granted.

## □ **THE FINANCIAL RISK FACTORS**

The Company's financial instruments, earmarked to finance its operating activity, include bank loans, financial leases, sight bank deposits and short-term bank deposits.

There are other financial instruments such as trade payables and receivables, arising out of the operating activity and derivative financial instruments, such as "interest rate swap" contracts and forward contracts in foreign currency.

The financial risk factors affecting the Company can be summed up as follows:

- ❑ the risk that the value of a financial instrument will fluctuate as a result of changes in the rate of exchange (*currency risk*);
- ❑ the risk that the fair value of a financial instrument will fluctuate as a result of changes in market interest rates (*interest rate risk on fair value*);
- ❑ the risk that the value of a financial instrument will fluctuate following variations in market price (*price risk*);
- ❑ the risk that the counter-party will not fulfil its obligations (*credit risk*);
- ❑ the risk deriving from the difficulty of raising funds to meet commitments towards financial instruments (*liquidity risk*);
- ❑ the risk that the future financial flows of a financial instrument will fluctuate as a result of changes in market interest rates (*interest rate risk on financial flows*);

*Currency risk:* the Company operates in an international environment and is exposed to exchange rate fluctuations mainly in regard to the USD/Euro exchange. Currency risk arises in relation to the following business transactions, mainly in US Dollars:

- ❑ purchase by PRIMA INDUSTRIE S.p.A. of laser sources from the subsidiary Prima North America Inc.;
- ❑ sales of machines by PRIMA INDUSTRIE S.p.A. to its subsidiary PRIMA North America Inc.;

The purchases and sales indicated above constitute a "natural hedge" in that one is dealing with opposing flows whose monetary regulation takes place in the same currency.

The Company signs forward contracts to manage the currency risk arising out of the deficit in financial flows, stemming from the operations described above as well as forward contracts on the financial flows between Group companies.

The Company holds stakes in the Chinese Joint Ventures, Shenyang Prima Machine Laser Co. Ltd (50%) and Shanghai Unity Prima Laser Machinery Co. Ltd (27.5%). The value of these shareholdings is subject to currency risk arising from variations in the USD and the Renminbi (RMB) against the Euro. The Company does not believe that the value of the shareholdings is such that specific hedging activity is required to cover currency risk.

*Price risk:* the Company's exposure to price risk is minimal.

*Credit risk:* there are no elevated concentrations of credit risk within the Company. The Company only engages in business transactions with customers that it considers to be reliable, and financial transactions are only entered into with highly trustworthy financial institutions. New customers undergo special audits to certify their ability to meet financial commitments.

*Liquidity risk:* the Company's objective is to maintain an equilibrium (including by optimizing the management of working capital), between the funding and financial flexibility by using overdrafts, loans and financial leasing contracts.

*Interest rate risk on the fair value and on liquidity flows:* the Company's exposure to interest rate risk is mainly in relation to financial payables to leasing companies and medium- and long-term loans due to credit institutions and other lenders, mainly entered into at the Euribor rate increased by a "spread". Interest rate risk is partially covered by interest rate swap contracts (IRS), aimed at translating the variable rate into a fixed rate and, in any case, the rate is lower than the rate that the Company would obtain from the credit market. IRS contracts require that, on a quarterly basis, the two counterparties exchange the net value of the net variable/fixed interest flows.

## □ ACCOUNTING IN RESPECT OF DERIVATIVE FINANCIAL INSTRUMENTS

The hedging instruments indicated in the previous paragraph, although not speculative in nature, do not reflect the requirements of IAS 39 for hedge accounting. As a result of this, in accordance with IAS 39, they are classified in the financial assets and liabilities category at “fair value with changes in fair value recorded in the income statement”.

## □ ESTIMATE OF FAIR VALUE

The fair value of the financial interests quoted on an active market is determined on the basis of the market price at the date of closure of the financial statements. The reference market price for the financial assets held by the Group is the current selling price (the purchase price for financial liabilities).

The fair value of financial instruments that are not traded on an active market is determined using various valuation techniques and assumptions depending on the market conditions existing at the time of closure of the financial statements. Medium/long-term liabilities are compared with the prices of similar listed financial instruments, for other categories of financial instruments the financial flows are discounted.

The fair value of IRS contracts is determined by discounting the estimated financial flows deriving from these, whereas for forward contracts, the forward market rates at year-end are used.

For receivables it is assumed that the nominal value, net of any adjustments made to take account of possible non-collectability, approximates the fair value.

For reporting purposes, the fair value of financial liabilities is determined by discounting the financial flows from the contract at an interest rate that approximates the market rate at which the Company obtains financing.

## INFORMATION IN TERMS OF § 116 ET SEQ. OF IAS 1

The preparation of the financial statements requires Management to make a series of subjective assumptions and estimates based on past experience.

These estimates and assumptions influence the amounts for assets and liabilities recorded in the balance sheet, as well as the costs and income disclosed in the income statement. The actual results can differ significantly from the estimate made, in view of the natural uncertainty that surrounds the assumptions and the conditions on which the estimates are based.

We set out hereunder a list of the main accounting entries whose formulation required greater subjective assumptions and estimates on the part of Management.

### Deferred taxes

Deferred tax assets and liabilities recorded in the financial statements are determined by applying the tax rates applicable in a given country in the year in which the temporary differences are expected to cease to the differences between the statutory values and fiscal values attributed to an asset or a liability.

Deferred taxes for fiscal losses that can be carried forward to future financial years are recorded in the financial statements only if and to the extent that Management believes that in future financial years the company concerned will achieve a positive tax result that will allow the deferred tax loss to be absorbed.

If, after the estimate has been made, circumstances intervene that result in a change to the estimates or the rate used for the calculation of deferred taxes, the items recorded in the financial statements will be adjusted.

### Provisions for inventory obsolescence

In determining the provision for inventory obsolescence the Company carries out a series of estimates regarding future demand for the various types of products and materials in stock, on the basis of the production plan and past experience of customer demand.

If these estimates are found to be inappropriate, this will be translated into an adjustment to the provision for obsolescence with the associated effect on the income statement.

### Provisions for doubtful debts

Provisions for doubtful debts are determined from an analysis of the individual debt positions, on the basis of past experience of debt recovery and relationships with individual customers.

If there is an unexpected worsening of the income-financial condition of an important customer, this could result in the need to adjust the allowance for doubtful debts, with negative effects on the income statement.

### Employee benefits

The company has benefit programmes, as prescribed by labour agreements or by law; employees receive these benefits on termination of the working relationship.

The amount recorded in the financial statements is determined through actuarial estimates made by making assumptions regarding a number of parameters such as the annual inflation rate, wage growth, the annual staff turnover rate and other variables.

Any changes in these parameters require a re-adjustment of the actuarial estimates and consequently the amounts disclosed in the financial statements.



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**EXPLANATORY DETAILS ON THE FINANCIAL  
STATEMENTS  
TO 31 DECEMBER 2006**

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## 12. EXPLANATORY DETAILS TO THE FINANCIAL STATEMENTS TO 31 DECEMBER 2006

### Note 12.1

| <b>Tangible fixed assets</b>            | <b>Land and buildings</b> | <b>Plants and machinery</b> | <b>Industrial and commercial equipment</b> | <b>Other assets</b> | <b>TOTAL</b>       |
|-----------------------------------------|---------------------------|-----------------------------|--------------------------------------------|---------------------|--------------------|
| <b>01-gen-05</b>                        |                           |                             |                                            |                     |                    |
| Historical cost                         | 2.362.372                 | 1.648.551                   | 1.747.984                                  | 2.227.623           | <b>7.986.530</b>   |
| Accumulated depreciation                | (347.998)                 | (1.158.413)                 | (1.399.420)                                | (1.859.395)         | <b>(4.765.226)</b> |
| <b>Net value at 1 January 2005</b>      | <b>2.014.374</b>          | <b>490.138</b>              | <b>348.564</b>                             | <b>368.228</b>      | <b>3.221.304</b>   |
| <b>Year 2005</b>                        |                           |                             |                                            |                     |                    |
| Net value at 1 January 2005             | 2.014.374                 | 490.138                     | 348.564                                    | 368.228             | <b>3.221.304</b>   |
| Increases                               | -                         | 147.080                     | 87.992                                     | 126.621             | <b>361.693</b>     |
| Disposals                               | -                         | -                           | -                                          | (2.742)             | <b>(2.742)</b>     |
| Depreciation                            | (72.690)                  | (111.379)                   | (162.583)                                  | (197.484)           | <b>(544.136)</b>   |
| Utilization of accumulated depreciation | -                         | -                           | -                                          | 2.742               | <b>2.742</b>       |
| <b>Net value at 31 December 2005</b>    | <b>1.941.684</b>          | <b>525.839</b>              | <b>273.973</b>                             | <b>297.365</b>      | <b>3.038.861</b>   |
| <b>01-gen-06</b>                        |                           |                             |                                            |                     |                    |
| Historical cost                         | 2.014.374                 | 637.218                     | 436.556                                    | 492.107             | <b>3.580.255</b>   |
| Accumulated depreciation                | (72.690)                  | (111.379)                   | (162.583)                                  | (194.742)           | <b>(541.394)</b>   |
| <b>Net value at 1 January 2006</b>      | <b>1.941.684</b>          | <b>525.839</b>              | <b>273.973</b>                             | <b>297.365</b>      | <b>3.038.861</b>   |
| <b>Year 2006</b>                        |                           |                             |                                            |                     |                    |
| Net value at 1 January 2006             | 1.941.684                 | 525.839                     | 273.973                                    | 297.365             | <b>3.038.861</b>   |
| Increases                               | 56.500                    | 67.495                      | 293.397                                    | 153.057             | <b>570.449</b>     |
| Disposals                               | -                         | -                           | -                                          | (19.522)            | <b>(19.522)</b>    |
| Depreciation                            | (74.486)                  | (125.444)                   | (184.585)                                  | (153.345)           | <b>(537.860)</b>   |
| Utilization of accumulated depreciation | -                         | -                           | -                                          | 101.862             | <b>101.862</b>     |
| <b>Net value at 31 December 2006</b>    | <b>1.923.698</b>          | <b>467.890</b>              | <b>382.785</b>                             | <b>379.417</b>      | <b>3.153.790</b>   |
| <b>31 dicembre 2006</b>                 |                           |                             |                                            |                     |                    |
| Historical cost                         | 1.998.184                 | 593.334                     | 567.370                                    | 430.900             | <b>3.589.788</b>   |
| Accumulated depreciation                | (74.486)                  | (125.444)                   | (184.585)                                  | (51.483)            | <b>(435.998)</b>   |
| <b>Net value at 31 December 2006</b>    | <b>1.923.698</b>          | <b>467.890</b>              | <b>382.785</b>                             | <b>379.417</b>      | <b>3.153.790</b>   |

Land and buildings includes land for €555,000 (unchanged since the previous year) and Light constructions with the value of €173,000.

The buildings include one building rented to PRIMA INDUSTRIE UK Ltd for €200,000 at 31/12/2006.

The building under financial leasing (factor in Via Antonelli, 28, Collegno) with a net value at 31/12/2006 of €995,000 increased in value by €39,000 during the year, following waterproofing work on the covering and redevelopment of the factory roof's support structures.

The light constructions increased in value by €17,000 owing to the supply and installation of aluminium walls in the plant in Via Antonelli, 28, Collegno.

Land and Buildings were valued at 31/12/2003 by an outside expert, which determined the fair value; at 31/12/2006 this value was not below the value entered in the financial statements.

Plants and Machinery includes land plants €324,000 and Machinery with the value of €144,000.

Industrial and Commercial Equipment includes €266,000 of equipment and Metal Dies with a value of €116,000. €97,000 of equipment were constructed internally during the year.

The other tangible fixed assets are:

- ❑ office furniture, furnishings and equipment with a value of €21,000
- ❑ electronic office equipment worth €255,000
- ❑ electronic office equipment under lease for €59,000
- ❑ vehicles for €1,000
- ❑ vehicles for internal transport for €43,000

The reduction is due to the sale of one used lift truck for €19,000.

All the above figures to 31/12/2006 are net of depreciation.

In accordance with IAS 16 para. 74, there are no restrictions on the ownership of property, plants and machinery, with the exception of the goods under financial leasing mentioned above, which remain the property of the leasing company.

## NOTE 12.2

| Intangible fixed assets              | Software      | Patents,<br>Estimate | Other    | TOTAL          |
|--------------------------------------|---------------|----------------------|----------|----------------|
| <b>Year 2005</b>                     |               |                      |          |                |
| Net value at 1 January 2005          | 89.990        | -                    | -        | 89.990         |
| increases/(decreases)                | 93.110        | -                    | -        | 93.110         |
| Depreciation                         | (84.403)      | -                    | -        | (84.403)       |
| <b>Net value at 31 December 2005</b> | <b>98.697</b> | <b>-</b>             | <b>-</b> | <b>98.697</b>  |
| <b>Year 2006</b>                     |               |                      |          |                |
| Net value at 1 January 2006          | 98.697        | -                    | -        | 98.697         |
| increases/(decreases)                | 96.148        | 82.350               | -        | 178.498        |
| Depreciation                         | (99.689)      | (16.470)             | -        | (116.159)      |
| <b>Net value at 31 December 2006</b> | <b>95.156</b> | <b>65.880</b>        | <b>-</b> | <b>161.036</b> |

The intangible assets were wholly purchased from without the company and there are no intangible assets with an indefinite useful life.

These consist of software worth €95,000 and rights worth €66,000.

Rights refers to the agreement between PRIMA INDUSTRIE S.p.A. and Stima Engineering S.r.l. whose object is non-exclusive transfer to PRIMA INDUSTRIE of the production know-how of the units entitled "compact server" and "tower server", as well as development of the compact server project with motorised pallets.



## NOTE 12.3

| Shareholdings in subsidiaries        | PRIMA<br>ELECTRONICS S.p.A | Prima Industrie<br>GmbH | PRIMA<br>North America Inc. | Prima<br>Scandinavia AB | Prima<br>Industrie UK | TOTAL             |
|--------------------------------------|----------------------------|-------------------------|-----------------------------|-------------------------|-----------------------|-------------------|
| Value of stake                       | 1.705.206                  | 474.435                 | 24.205.796                  | 248.516                 | 1                     | 26.633.954        |
| Provisions for writedowns            |                            | (149.238)               | (13.408.731)                | (235.072)               |                       | (13.793.041)      |
| <b>Net value at 01/01/06</b>         | <b>1.705.206</b>           | <b>325.197</b>          | <b>10.797.065</b>           | <b>13.444</b>           | <b>1</b>              | <b>12.840.913</b> |
| Share of earnings                    | -                          | -                       | -                           | -                       | -                     | -                 |
| Increases                            | -                          | -                       | -                           | -                       | -                     | -                 |
| Other shareholders' equity movements | -                          | -                       | -                           | -                       | -                     | -                 |
| <b>Net value at 31/12/06</b>         | <b>1.705.206</b>           | <b>325.197</b>          | <b>10.797.065</b>           | <b>13.444</b>           | <b>1</b>              | <b>12.840.913</b> |

The value of shareholdings in subsidiaries underwent no variation during 2006. All the above companies are included within the area of consolidation of the PRIMA Group. For more information on these, please see the Report on Operations.

## NOTE 12.4

| Stakes in joint ventures             | SPMLT <sup>(1)</sup> | SNK            | SHANGHAI UNITY PRIMA <sup>(2)</sup> | TOTAL            |
|--------------------------------------|----------------------|----------------|-------------------------------------|------------------|
| Value of stake                       | 913.887              | 389.827        | 449.227                             | 1.752.941        |
| Provisions for writedowns            | (328.244)            | (174.919)      | -                                   | (503.163)        |
| <b>Net value at 01/01/06</b>         | <b>585.643</b>       | <b>214.908</b> | <b>449.227</b>                      | <b>1.249.778</b> |
| Share of earnings                    | (239.984)            | -              | -                                   | (239.984)        |
| Increases                            | -                    | -              | -                                   | -                |
| Other shareholders' equity movements | -                    | -              | -                                   | -                |
| <b>31 dicembre 2006</b>              | <b>345.659</b>       | <b>214.908</b> | <b>449.227</b>                      | <b>1.009.794</b> |

(1) SHENYANG-PRIMA LASER MACHINERY CO. LTD.

(2) SHANGHAI UNITY PRIMA LASER MACHINERY CO. LTD.

These are three joint ventures set up by PRIMA INDUSTRIE in China and Japan. During the year, c. €240,000 was set aside as doubtful debts for Shenyang Prima Laser Machinery Co. Ltd. This sum represents the PRIMA INDUSTRIE share of the year's result, in that that the loss in value of the shareholding is believed to be long term.

In conformance with IAS/IFRS, the share for the year's result in the other joint ventures is posted only in the consolidated financial statements.

Please see the Report on Operations, for more information.

## NOTE 12.5

| Stakes valued using the cost method  | Consorzio Sintesi | Unionfidi  | Fidindustria | TOTAL         |
|--------------------------------------|-------------------|------------|--------------|---------------|
| Value of stake                       | 51.600            | 129        | 103          | 51.832        |
| Provisions for writedowns            | -                 | -          | -            | -             |
| <b>Net value at 01/01/06</b>         | <b>51.600</b>     | <b>129</b> | <b>103</b>   | <b>51.832</b> |
| Share of earnings                    | -                 | -          | -            | -             |
| Increases                            | -                 | -          | -            | -             |
| Other shareholders' equity movements | -                 | -          | -            | -             |
| <b>31 dicembre 2006</b>              | <b>51.600</b>     | <b>129</b> | <b>103</b>   | <b>51.832</b> |

There were no changes during the year.

The sum of c. €52,000 refers to a 10% stake in the share capital of Consorzio Sintesi. This consortium, with private and public organisations numbering among its partners, led by CNR, carries out research and development studies and technological industrialisation for the manufacturing sector. The other shareholdings refer to two guarantee consortia (Unionfidi and Fidindustria), which the Company joined in order to receive suretyship for SIMEST loans.

The shareholding in Mechanical Industries Srl, which was placed into liquidation on the 28-31/03/03, remains in the financial statements at nil.

The investment in Macro Meccanica SpA (placed into liquidation at the end of 1999) is carried in the financial statements at a nil balance since the liquidation has not been completed.

The investment in Rambaudi Industriale S.p.A. remains in the financial statements with a nil balance, in that the company was declared bankrupt by the Court of Turin on 30/09 – 27/10/03.

## NOTE 12.6

| Financial assets - loans issued to subsidiaries | Prima Industrie GmbH | PRIMA North America Inc. | PRIMA Scandinavia AB | PRIMA Industrie UK | TOTAL       |
|-------------------------------------------------|----------------------|--------------------------|----------------------|--------------------|-------------|
| <b>01-gen-05</b>                                | 169.755              | 3.413.846                | 27.714               | 654.369            | 4.265.684   |
| Increases                                       | 486.069              | 1.269.186                | -                    | -                  | 1.755.255   |
| Decreases                                       | (655.824)            | (2.436.698)              | -                    | (28.369)           | (3.120.891) |
| Exchange rate adjustments                       |                      |                          | (1.086)              |                    | (1.086)     |
| <b>01-gen-06</b>                                | -                    | 2.246.334                | 26.628               | 626.000            | 2.898.962   |
| Increases                                       | 300.000              |                          |                      |                    | 300.000     |
| Decreases                                       | (300.000)            | (2.246.334)              | (26.628)             |                    | (2.572.962) |
| Exchange rate adjustments                       |                      |                          |                      |                    |             |
| <b>31-dic-06</b>                                | -                    | -                        | -                    | 626.000            | 626.000     |

The main movements in the year refer to:

- transfer to PRIMA INDUSTRIE GmbH of €300,000 to enable the subsidiary to cope with a temporary lack of liquidity, absorbed by the start-up and total expenditure of working capital. This sum was repaid in full during the year, hence the loan stood at nil at 31/12/2006.
- Repayment by PRIMA North America Inc. of entire loan of 2.650m USD
- Repayment by PRIMA Scandinavia AB of entire loan of 250,000 SEK.

Hence, as can be seen from the table, at the end of the year the only loan still active was the one for €626,000 granted to PRIMA INDUSTRIE UK.

## NOTE 12.7

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| <b>Other financial assets, movement</b> |                          |
|-----------------------------------------|--------------------------|
|                                         | <b>01-gen-05</b> 249.478 |
| Acquisitions                            |                          |
| Sales                                   |                          |
| Revaluations                            | 9.006                    |
|                                         | <b>01-gen-06</b> 258.484 |
| Acquisitions                            |                          |
| Sales                                   |                          |
| Revaluations                            | 9.515                    |
|                                         | <b>31-dic-06</b> 267.999 |
| (minus current portion)                 | (267.999)                |
| Current                                 |                          |
| Other financial assets, detail          |                          |
| <b>UNLISTED SHARES</b>                  |                          |
| Single-premium capitalization agreement | 267.999                  |
| <b>TOTAL</b>                            | <b>267.999</b>           |

These are available financial assets valued at fair value with changes in value recorded in the income statement. These refer to a 5-year single-premium capitalisation agreement, entered into on 08/09/04. The sum was revalued at 31/12/06, by applying the valuation percentage of 3.40% for the days between the last annual recurrence on 08/09/2006 and 31/12/06. Until 08/09/2006 revaluation was carried out by rigorously applying the fund's financial yield (3.96%).

## NOTE 12.8

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| <b>Tax assets for prepaid taxes</b> | <b>31/12/2006</b> | <b>31/12/2005</b> |
|-------------------------------------|-------------------|-------------------|
| Initial balance                     | 3.859.224         | 4.354.904         |
| Allocations made for the year       | 1.959.248         | 677.786           |
| Utilizations during the year        | (3.034.104)       | (1.173.466)       |
| <b>TOTAL</b>                        | <b>2.784.368</b>  | <b>3.859.224</b>  |

The main items for fiscal assets deriving from prepaid taxes can be summed up as follows:

| <b>Tax assets for prepaid taxes</b> | <b>Deferred<br/>taxability</b> | <b>Prepaid taxes</b> |
|-------------------------------------|--------------------------------|----------------------|
| Writedown of shareholdings          | 676                            | 223                  |
| Non-deductible provisions           | 4.740                          | 1.565                |
| Other minor items                   | 219                            | 75                   |
| IAS adjustments                     | 2.531                          | 921                  |
| <b>TOTAL</b>                        | <b>8.166</b>                   | <b>2.784</b>         |

There are no fiscal assets for prepaid taxes on previous losses.

### **Note 12.9 Other receivables**

The item stands at c. €9,000 and remains more or less stable compared to the previous year's figure. Contains advances on the Employees' Severance Fund for the years 1997/98, in accordance with Law 140/97, increased by accrued interest and net of utilizations since 01/01/2000 (as per Legislative Decree no. 79/97).

### **NOTE 12.10**

| <b>Inventories</b>                         | <b>31/12/2006</b> | <b>31/12/2005</b> |
|--------------------------------------------|-------------------|-------------------|
| Raw materials                              | 9.854.474         | 7.770.395         |
| (Provision for writedown of raw materials) | (1.338.166)       | (1.188.165)       |
| Semi-finished products                     | 4.976.966         | 3.167.819         |
| Finished products                          | 6.464.565         | 8.331.002         |
| (Provision for writedown of finished prod) | -                 | -                 |
| <b>TOTAL</b>                               | <b>19.957.839</b> | <b>18.081.051</b> |

The increase in raw materials compared to 31/12/2005 can be attributed to greater requirements needed to handle the increase in turnover during the year and the substantial orders portfolio at 31/12/2006.

Finished products in stock were reduced from 2005 figures by €1.866m and are made up as follows:

|                 |                                                                                                         |
|-----------------|---------------------------------------------------------------------------------------------------------|
| 7 machines      | 1 RAPIDO, 3 DOMINO, 1 PLATINO and 2 SINCRONO<br>earmarked for demonstrations to customers;              |
| 2 machines      | 1 DOMINO and 1 PLATINO<br>used temporarily for research and development activities;                     |
| 7 machines      | 1 OPTIMO, 1 RAPIDO and 5 PLATINO<br>destined for delivery to customers at the start of 2007;            |
| 1 machine       | 1 PLATINO for training courses                                                                          |
| 3 used machines | 2 RAPIDO and 1 SINCRONO<br>withdrawn from customers and awaiting reconditioning and resale during 2007. |

8 machines                    1 OPTIMO, 1 RAPIDO, 5 OPTIMO and 1 MAXIMO delivered, though not yet accepted by the end customer, and hence not posted as a revenue in accordance with the new IAS 18 accounting standards (the value of machines not accepted is €2.040m).

In accordance with IAS 2, there now follow highlights of the movements the of provisions for writedown of raw materials:

| Provisions for writedowns | Raw materials    |
|---------------------------|------------------|
| Balance 01/01/06          | 1.188.166        |
| Utilizations              | -                |
| Allocations               | 150.000          |
| <b>Balance 31/12/06</b>   | <b>1.338.166</b> |

## NOTE 12.11

| Accounts receivable                  | 31/12/2006        | 31/12/2005        |
|--------------------------------------|-------------------|-------------------|
| Trade receivables                    | 25.179.219        | 27.946.153        |
| Provision for doubtful debts         | (1.980.405)       | (1.721.950)       |
| Net trade receivables                | <b>23.198.814</b> | <b>26.224.203</b> |
| Receivables from subsidiaries        | 9.214.979         | 4.936.702         |
| Receivables due from associated comp | 1.252.936         | 2.236.737         |
| <b>TOTAL</b>                         | <b>33.666.729</b> | <b>33.397.642</b> |

At 31 December 2006, this item stands at €33.666m and remains more or less unvaried since the previous year.

In detail, trade receivables are down (decrease net of doubtful debts of €3.035m) despite the considerable increase in sales, as a result of the careful management of collections and successful credit recovery. Receivables from subsidiaries increased by €4.279m, thanks to the good sales trend recorded by Group companies, while receivables from associated companies fell by €985,000 owing to the reduced volume of sales to the joint venture Shenyang Prima Laser Machine Co. Ltd..

Foreign currency debts mainly consist of US dollars. Given the open positions at 31/12/2006 adjustments to the exchange rate were entered according to the figure recorded by the financial markets on the same date.

The net increase of €258,000 in the provisions for doubtful debts is largely due to a specific allocation made to take account of a distributor undergoing liquidation.

## Receivables due beyond one year

€367,000 of trade receivables are due after the following financial year, with no increase compared to the previous year. These refer to one Australian, an Israeli and three Brazilian customers, who were given the opportunity to pay by instalments, at the appropriate rate of interest.

### NOTE 12.12 Other short-term receivables

The item stands at €2.340m compared with €2.652m at the end of the previous financial year and includes:

- PAMELA project (€850,000),
- RESALT project (€357,000) and
- contributions for electronic commerce (€24,000).

These contributions, still to be delivered, are for research and development agreements already signed with the Ministry of Universities and Scientific and Technological Research.

Other short-term receivables *also includes*:

- receivables from employees (€72,000) for advances on travel expenses granted to employees;
- advances to suppliers (€756,000) paid for future deliveries;
- security deposits (€144,000)
- accruals and deferrals (€127,000)
- other minor receivables (€10,000)

### 12.13 Other fiscal assets

The item stands at €1.592m compared with €1.264m at the end of the previous financial year. Fiscal assets include VAT credit (€645,000) and other tax receivables (€947,000) including a Group corporate tax receivables (IRES) of €885,000.

During 2006, the IRPEG (corporate income tax) credit of €243,000 existing at 31/12/2005 was cancelled.

### NOTE 12.14

| Derivative financial instruments  | 31/12/2006 |                | 31/12/2005   |                 |
|-----------------------------------|------------|----------------|--------------|-----------------|
|                                   | Assets     | Liabilities    | Assets       | Liabilities     |
| IRS                               |            | (6.675)        |              | (15.970)        |
| Currency Option                   |            |                |              |                 |
| Foreign currency future           |            |                |              |                 |
| Foreign currency forward purchase |            |                | 4.595        |                 |
| <b>Total</b>                      | -          | <b>(6.675)</b> | <b>4.595</b> | <b>(15.970)</b> |
| minus non-current portion         |            |                |              |                 |
| IRS                               |            | (6.071)        |              | (15.970)        |
| Currency Option                   |            |                |              |                 |
| Foreign currency future           |            |                |              |                 |
| Foreign currency forward purchase |            |                |              |                 |
| <b>Non-Current</b>                | -          | <b>(6.071)</b> | -            | <b>(15.970)</b> |
| Current                           | -          | <b>(604)</b>   | <b>4.595</b> | -               |

Financial instruments existing at 31/12/2006 refer to 3 interest rate swap agreements signed to protect interest rates on existing medium/long-term loans.

## NOTE 12.15

| <b>Cash</b>                    | 31/12/2006        | 31/12/2005       |
|--------------------------------|-------------------|------------------|
| Cash and cheques               | 412.369           | 19.223           |
| Bank accounts                  | 14.057.791        | 7.118.870        |
| Other short-term bank deposits |                   |                  |
| <b>Total</b>                   | <b>14.470.160</b> | <b>7.138.093</b> |

This item accounts for €14.470m, against €7.138m at 31/12/2005 and consists of the entire sum of cash on hand in the company treasury, and available liquidity in foreign branches and bank and post office accounts.

The increase over the figure at 31/12/2005 is the result of better management of working capital and generated cash flows.

## NOTE 12.16

| <b>Payables due to banks and other loans</b>           | 31/12/2006        | 31/12/2005        |
|--------------------------------------------------------|-------------------|-------------------|
| <b>Current</b>                                         |                   |                   |
| Bank overdrafts                                        | 164.914           | 199.283           |
| Short-term payables for Sabatini discount transactions | 273.699           |                   |
| Financial leasing                                      | 199.663           | 262.871           |
| Short-term payables for bank loans                     | 4.257.487         | 10.838.388        |
| Short-term payables for other loans                    | 87.135            | 85.731            |
| <b>Total</b>                                           | <b>4.982.898</b>  | <b>11.386.273</b> |
| <b>Non-current</b>                                     |                   |                   |
| Long-term payables for recourse discount transactions  | 110.317           | 896.378           |
| Financial leasing                                      | 468.516           | 668.179           |
| Long-term payables for bank loans                      | 10.547.815        | 2.330.634         |
| Long-term payables for other loans                     | 553.605           | 640.740           |
| <b>Total</b>                                           | <b>11.680.253</b> | <b>4.535.931</b>  |

| <b>Payables due to banks and other loans, movement</b> | <b>Balance 31/12/06</b> | <b>Creation</b>   | <b>Repayments</b>   | <b>Reclassifications</b> | <b>net change</b> | <b>Balance 31/12/06</b> |
|--------------------------------------------------------|-------------------------|-------------------|---------------------|--------------------------|-------------------|-------------------------|
| <b>Current</b>                                         |                         |                   |                     |                          |                   |                         |
| Bank overdrafts                                        | 199.283                 | -                 | -                   | -                        | (34.369)          | 164.914                 |
| Short-term payables for Sabatini discount transactions |                         |                   |                     | 273.699                  |                   | 273.699                 |
| Financial leasing                                      | 262.871                 |                   | (262.871)           | 199.663                  |                   | 199.663                 |
| Short-term payables for bank loans                     | 10.838.388              | 1.199.698         | (12.038.086)        | 4.257.487                |                   | 4.257.487               |
| Short-term payables for other loans                    | 85.731                  |                   | (85.731)            | 87.135                   |                   | 87.135                  |
| <b>Total</b>                                           | <b>11.386.273</b>       | <b>1.199.698</b>  | <b>(12.386.688)</b> | <b>4.817.984</b>         | <b>(34.369)</b>   | <b>4.982.898</b>        |
| <b>Non-current</b>                                     |                         |                   |                     |                          |                   |                         |
| Long-term payables for recourse discount transactions  | 896.378                 | 352.070           | (864.432)           | (273.699)                |                   | 110.317                 |
| Financial leasing                                      | 668.179                 |                   |                     | (199.663)                |                   | 468.516                 |
| Long-term payables for bank loans                      | 2.330.634               | 12.474.668        |                     | (4.257.487)              |                   | 10.547.815              |
| Long-term payables for other loans                     | 640.740                 |                   |                     | (87.135)                 |                   | 553.605                 |
| <b>Total</b>                                           | <b>4.535.931</b>        | <b>12.826.738</b> | <b>(864.432)</b>    | <b>(4.817.984)</b>       | <b>-</b>          | <b>11.680.253</b>       |

During the year the following new medium-term bank loans were taken out with a total of €13,674,000:

- €3m loan issued by San Paolo IMI on 25 May 2006 for 60 months, with interest rate consisting of a fixed quota of 0.72% and a variable quota corresponding to the 3 month EURIBOR; repayment is in quarterly fixed sum instalments;
- €5m loan issued by Unicredit Banca d'Impresa on 3 July 2006 with a duration until 30 November 2011, and 3-month EURIBOR rate +0.75%; repayment in deferred fixed-sum quarterly instalments;
- €3m loan issued by Capitalia Banking Group on 31 May 2006 for 5 years; 3-month EURIBOR rate +0.70; repayment in fixed-sum quarterly instalments;
- €4m loan issued by Banca Intesa on 11 October 2006; 3-month EURIBOR +0.75 interest rate, and repayment in quarterly fixed-sum instalments; the first €2m tranche of the loan was issued during 2006, and the remaining €2m is to be issued during 2007;
- Loan with maximum ceiling of €2,065,000 issued by "Società Italiana per le imprese all'estero-SIMEST" for penetration of the US market; duration of 5 years; repayment in six-monthly deferred instalments at actual interest rate of 1.36%. The last tranche of €674,000 was issued during 2006.

In accordance with IAS 17, it is disclosed that the minimum payments deriving from financial leasing (including payments owed for interest and redemption) were €199,000 within one year and €468,000 between one and five years.

## NOTE 12.17

| <b>Employee benefits</b>       | <b>31/12/2006</b> | <b>31/12/2005</b> |
|--------------------------------|-------------------|-------------------|
| Employees' Severance Fund      | 3.426.816         | 3.185.609         |
| Fidelity premium               | 508.569           | 431.226           |
| <b>Total employee benefits</b> | <b>3.935.385</b>  | <b>3.616.835</b>  |

*Employees' Severance Fund* refers to mandatory indemnities due to employees during their working life and paid on termination of their employment. This indemnity is considered a defined benefit fund, although subject to actuarial valuation with regard to future benefits and to benefits already paid.

Here are the movements of this item during the year:



| <b>Employees' Severance Fund</b>                      | <b>31/12/2006</b> | <b>31/12/2005</b> |
|-------------------------------------------------------|-------------------|-------------------|
| <b>Opening liabilities</b>                            | <b>3.185.609</b>  | <b>2.882.440</b>  |
| Severance indemnities paid out during period          | (453.558)         | (144.585)         |
| Other movements                                       | 60.178            | (68.443)          |
| Portion of Employees' Severance transferred to        | 60.105            | -                 |
| Employee benefit costs on current services            | 437.433           | 381.373           |
| Financial expenses                                    | 137.049           | 134.824           |
| <b>Total recorded in income statement</b>             | <b>634.587</b>    | <b>516.197</b>    |
| <b>Total final liabilities - Employees' Severance</b> | <b>3.426.816</b>  | <b>3.185.609</b>  |
| <b>Fidelity Premium</b>                               | <b>31/12/2006</b> | <b>31/12/2005</b> |
| <b>Opening liabilities</b>                            | 431.226           | 405.495           |
| Decreases                                             |                   |                   |
| Allocations                                           | 77.343            | 25.731            |
| <b>Total recorded in income statement</b>             | <b>77.343</b>     | <b>25.731</b>     |
| <b>Total final liabilities - Fidelity Premium</b>     | <b>508.569</b>    | <b>431.226</b>    |

Fidelity premium refers to the seniority premium for employees of the Company paid at the end of 20, 30 and 35 years of service, corresponding to two gross monthly salaries.

The main hypotheses used to estimate liabilities from employee benefits are as follows:

| <b>Actuarial hypotheses</b>         | <b>31/12/2006</b> | <b>31/12/2005</b> |
|-------------------------------------|-------------------|-------------------|
| Annual discount rate                | 4,6%              | 4,0%              |
| Annual inflation rate               | 2,0%              | 2,0%              |
| Annual pay increase rate            | 3,5%              | 3,5%              |
| Annual severance fund increase rate | 3,0%              | 3,0%              |

The demographic hypotheses used for actuarial valuation include:

- the probability of death as estimated by ISTAT in 2002, divided by sex;
- the probability of incapacity adopted in the INPS model for projections to 2010;
- retirement age, the first retirement requisite of Compulsory General Insurance;
- probability of leaving for causes other than death, with annual frequency of 5-7.5% depending on the company;
- probability of advances with an annual rate of 3%.

Starting from 1 January 2007, the Financial Law and related decrees have introduced amendments to Employees' Severance Fund regulations, including the employees' right to choose where to allocate their maturing share of the Fund. In particular, employees may direct new Severance Fund flows towards pension plans of their choosing or keep them within the company (in which case, the company will pay Severance Fund contributions to a treasury account held with INPS - the National Social Security Institute). Given the current doubts regarding interpretation of this recently issued law, the different possible interpretations in relation to IAS 19 on maturing Severance Funds and consequent amendments to actuarial calculations of matured Funds, and given the impossibility of anticipating employees' decisions on how to allocate their maturing portion of the Severance Fund (for which they have until 30 June 2007), it is premature to hypothesise the actuarial modifications to the Severance Fund calculation made to 31 December 2006.

## NOTE 12.18

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| <b>Medium/long-term provisions for risks</b> | <b>Cust. agent.<br/>ind.<br/>provision</b> | <b>TOTAL</b>    |
|----------------------------------------------|--------------------------------------------|-----------------|
| 01-gen-05                                    | <b>88.451</b>                              | <b>88.451</b>   |
| Income statement:                            | -                                          | -               |
| - Allocations                                | 8.086                                      | <b>8.086</b>    |
| Utilizations in the period                   | (68.537)                                   | <b>(68.537)</b> |
| 31-dic-05                                    | <b>28.000</b>                              | <b>28.000</b>   |
| Income statement:                            | -                                          | -               |
| - Allocations                                | 5.500                                      | <b>5.500</b>    |
| Utilizations in the period                   | -                                          | -               |
| 31-dic-06                                    | <b>33.500</b>                              | <b>33.500</b>   |

| <b>Short-term provisions for risks</b> | <b>Guarantee<br/>fund</b> | <b>TOTAL</b>       |
|----------------------------------------|---------------------------|--------------------|
| 38353                                  | <b>994.000</b>            | <b>994.000</b>     |
| Income statement:                      | -                         | -                  |
| - Allocations                          | 1.896.000                 | <b>1.896.000</b>   |
| - Reversal of surplus provisions       | -                         | -                  |
| Utilizations in the period             | (994.000)                 | <b>(994.000)</b>   |
| 31-dic-05                              | <b>1.896.000</b>          | <b>1.896.000</b>   |
| Income statement:                      | -                         | -                  |
| - Allocations                          | 2.358.000                 | <b>2.358.000</b>   |
| - Reversal of surplus provisions       | -                         | -                  |
| Utilizations in the period             | (1.896.000)               | <b>(1.896.000)</b> |
| 31-dic-05                              | <b>2.358.000</b>          | <b>2.358.000</b>   |

### **Guarantee fund**

This refers to provisions for work on Company products under warranty and is proportionate to the warranty costs that will be incurred.

### **Provision for agents' customer indemnity**

This represents the indemnity payables matured at year-end towards agents due for interruption to the agency relationship, in accordance with current legislation.

## NOTE 12.19

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The items for fiscal liabilities deriving from deferred taxes can be summed up as follows:

| <b>Deferred tax liabilities</b>          | <b>31/12/2006</b> | <b>31/12/2005</b> |
|------------------------------------------|-------------------|-------------------|
| Initial balance                          | 2.014.840         | 1.781.311         |
| Utilizations during the year             | (898.235)         | (446.178)         |
| Allocations made for the year            | 544.516           | 679.707           |
| <b>Total deferred income tax reserve</b> | <b>1.661.121</b>  | <b>2.014.840</b>  |

The main items for tax liabilities deriving from deferred taxes can be summed up as follows:

| <b>Deferred tax liabilities</b> | <b>Deferred taxability</b> | <b>Deferred tax liabilities</b> |
|---------------------------------|----------------------------|---------------------------------|
| Grants                          | 3.836                      | 1.429                           |
| IAS adjustments                 | 704                        | 232                             |
| <b>TOTAL</b>                    | <b>4.540</b>               | <b>1.661</b>                    |

## NOTE 12.20

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The increase in trade payables reflects the increased production volumes and careful management of working capital.

| <b>Trade and other payables</b>      | <b>31/12/2006</b> | <b>31/12/2005</b> |
|--------------------------------------|-------------------|-------------------|
| Trade receivables                    | 17.805.583        | 15.756.587        |
| Amounts due to subsidiaries          | 5.944.723         | 4.764.798         |
| due to related parties               | 15.120            |                   |
| <b>Total accounts payable</b>        | <b>23.765.426</b> | <b>20.521.385</b> |
| Advances from customers              | 5.299.076         | 8.726.329         |
| <b>Total advances from customers</b> | <b>5.299.076</b>  | <b>8.726.329</b>  |
| Social security payables             | 1.045.252         | 860.608           |
| Amounts due to employees             | 1.702.274         | 1.172.840         |
| Short-term payables                  | 284.486           | 176.635           |
| Accruals and deferrals               | 414.231           | 299.978           |
| <b>Total other payables</b>          | <b>3.446.243</b>  | <b>2.510.061</b>  |

The increase in trade payables can be attributed to the greater volume of assets achieved compared to the 2005 figure.

"Advances from customers" contains advances on orders for machines that have not been delivered, and advances generated by application of IAS18 for machines that have been delivered but not yet accepted by the end customer and thus cannot be entered among revenues. The considerable decrease since 2005 can be mainly ascribed to this second category.

Payables to employees refers to deferred and non-matured compensation for leave not taken, the variable quota of the production bonus and incentives matured by managers and sales personnel and for travel expenses advanced by and owed to employees.

## NOTE 12.21

This item totals €3.666m (€1.405m at 31/12/2005) and includes:

| <b>Deferred tax liabilities for current taxes</b> | <b>31/12/2006</b> | <b>31/12/2005</b> |
|---------------------------------------------------|-------------------|-------------------|
| VAT to foreign branches                           | 98.801            | 116.851           |
| Group corporate tax (IRES)                        | 1.117.650         | 656.032           |
| Regional Trade Tax (IRAP)                         | 211.626           | 64.508            |
| Corporate tax (IRES)                              | 1.830.642         | 256.351           |
| Income tax deductions (IRPEF)                     | 408.163           | 311.651           |
| Other taxes and duties                            | -                 | -                 |
| <b>TOTAL</b>                                      | <b>3.666.882</b>  | <b>1.405.393</b>  |

The increase is mainly due to the higher income tax generated by the increased yields and due the fact that the company is no longer able to take advantage of prior tax losses.

## NOTE 12.22

Revenues from the sales of goods are made up as follows:

*in thousands of euro*

| <b>Revenues from sales and services</b> | <b>total</b>  |             | <b>ITALY</b>  |            | <b>EUROPE</b> |            | <b>REST OF THE WORLD</b> |            | <b>N. AMERICA</b> |           |
|-----------------------------------------|---------------|-------------|---------------|------------|---------------|------------|--------------------------|------------|-------------------|-----------|
|                                         | value         | %           | value         | %          | value         | %          | value                    | %          | value             | %         |
| Laser systems                           | 78.870        | 84%         | 24.611        | 26%        | 41.633        | 44%        | 8.397                    | 9%         | 4.199             | 5%        |
| Customer and other services             | 14.806        | 16%         | 5.847         | 6%         | 5.936         | 7%         | 2.194                    | 2%         | 859               | 1%        |
| <b>Total</b>                            | <b>93.676</b> | <b>100%</b> | <b>30.458</b> | <b>32%</b> | <b>47.569</b> | <b>51%</b> | <b>10.591</b>            | <b>11%</b> | <b>5.058</b>      | <b>6%</b> |

Revenues in 2006 increased by 13% with respect to the €73,337,000 of the previous year. The overall number of machines delivered rose, continuing shift towards 2D systems, with a strong increase in related systems and consequently higher average unit sale prices.

| <b>Other operating income</b>                           | <b>31/12/2006</b> | <b>31/12/2005</b> |
|---------------------------------------------------------|-------------------|-------------------|
| Grants for research projects                            | 838.200           | 1.472.618         |
| Extraordinary income                                    | 428.210           | 902.000           |
| Services rendered and costs recharged to Prima Electric | 106.000           | 116.000           |
| Insurance refunds                                       | 12.833            | 93.773            |
| Other                                                   | 183.299           | 135.893           |
| <b>TOTAL</b>                                            | <b>1.568.542</b>  | <b>2.720.284</b>  |

The research grants recorded in the 2006 income statement relate to the portions of forgivable loans for research and development, accrued during 2006 for the PAMELA project (€480,000) and the RESALT project (€357,000).

Non-operating losses mainly refer to adjustments to appropriations made in the previous year.

Sundry income refers to €31,000 rental receivables on leases to Prima Industrie UK, receivable commission (€13,000) and a total of €139,000 of minor items.

## NOTE 12.23 Increases in for internal work

Capitalization for increases for internal work was €97,000 in 2006 against €28,000 in the previous year.

The amount entered in the income statement refers to the whole of costs incurred for the production of equipment, which was included among tangible fixed assets.

## NOTE 12.24

| <b>Personnel costs</b>                   | <b>31/12/2006</b> | <b>31/12/2005</b> |
|------------------------------------------|-------------------|-------------------|
| Salaries and wages                       | 11.345.097        | 10.079.185        |
| Social security contributions            | 3.555.657         | 3.293.296         |
| Provisions for potential liabilities IAS | 497.538           | 381.373           |
| Fidelity Premium                         | 77.343            | 25.731            |
| Other costs                              | 349.429           | 267.482           |
| <b>TOTAL</b>                             | <b>15.825.064</b> | <b>14.047.067</b> |

Personnel costs rose from €14.047m in 2005, to €15.825m in 2006. The increase is the result of the growth in the number of our employees.

During the year the Company hired a number of new employees, although it endeavoured to keep the increase in costs to a minimum. Furthermore, it is reminded that, given that the Company operates in a high-tech sector, employees are, on average, more specialized and thus the labour costs are higher than the average industry standard.

Changes during the year in the number of employees are detailed by category (Collegno production facility and secondary facility in Bari) below:

| <b>Personnel movements</b> | <b>31/12/2005</b> | <b>Hired</b> | <b>Ceased employment</b> | <b>Promotions</b> | <b>31/12/2006</b> | <b>Year average</b> |
|----------------------------|-------------------|--------------|--------------------------|-------------------|-------------------|---------------------|
| Executives                 | 12                | 1            | 1                        |                   | 12                | 12                  |
| Front-line managers        | 9                 |              |                          |                   | 11                | 10                  |
| Managers                   | 12                |              |                          | 2                 | 11                | 10                  |
| Office staff               | 147               | 19           | 9                        | 1                 | 166               | 151                 |
| Office juniors             |                   | 1            |                          |                   | 1                 | 1                   |
| Intermediate               | 3                 |              |                          | 1                 | 2                 | 2                   |
| Production workers         | 68                | 18           | 4                        | 9                 | 73                | 66                  |
| <b>Total</b>               | <b>251</b>        | <b>39</b>    | <b>14</b>                | <b>13</b>         | <b>276</b>        | <b>252</b>          |

In terms of staff employed at branches, the number rose by 3 units, one in the French branch and two in the Spanish branch.

The overall number of employees in our branches is 28 (8 in the French branch, 17 in the Spanish branch and 3 at the Swiss branch).

#### **NOTE 12.25**

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| <b>Depreciation</b>     | <b>31/12/2006</b> | <b>31/12/2005</b> |
|-------------------------|-------------------|-------------------|
| Intangible fixed assets | 116.160           | 84.403            |
| Tangible fixed assets   | 537.859           | 544.136           |
| <b>TOTAL</b>            | <b>654.019</b>    | <b>628.539</b>    |

Tangible fixed assets were amortized on the basis of the financial-technical useful life of assets. Intangible assets were amortized on the basis of their future useful life.

For more details, see Chapter 11, Description of Accounting Principles.

## NOTE 12.26

| <b>Other operating costs</b>                                            | <b>31/12/2006</b> | <b>31/12/2005</b> |
|-------------------------------------------------------------------------|-------------------|-------------------|
| Work by third parties                                                   | 6.750.266         | 5.444.505         |
| Travel expenses                                                         | 2.484.436         | 1.918.880         |
| Transport and custom duties                                             | 2.163.774         | 1.683.770         |
| Commissions                                                             | 1.415.610         | 1.277.274         |
| Temporary work                                                          | 233.407           | 207.231           |
| Technical, legal, fiscal and administrative consultation fees           | 1.437.172         | 1.702.734         |
| Advertising and promotion                                               | 440.094           | 272.431           |
| Third-party maintenance                                                 | 444.161           | 481.171           |
| Electricity, telephone, etc.                                            | 644.566           | 536.233           |
| Insurance                                                               | 327.084           | 331.480           |
| Directors' remuneration                                                 | 719.000           | 384.000           |
| Statutory auditors' remuneration                                        | 104.779           | 108.225           |
| Other service expenses                                                  | 1.701.020         | 988.648           |
| Rent                                                                    | 342.114           | 306.133           |
| Hire and other third-party costs                                        | 615.475           | 525.432           |
| Appropriations to the provision for contractual risks and charges (net) | 462.000           | 902.000           |
| Provision for doubtful debts                                            | 611.000           | 750.000           |
| Extraordinary liabilities                                               | 387.506           | 562.236           |
| Taxes and duties                                                        | 69.749            | 177.540           |
| Other operating costs                                                   | 391.811           | 228.210           |
| <b>TOTAL</b>                                                            | <b>21.745.024</b> | <b>18.788.133</b> |

The €2.957m increase in operating costs compared to 31/12/2005 is mainly due to the increased volume of sales in 2006.

Provisions to the doubtful loans were made to bring the fund into line with nonperforming loans existing at the end of the year. In particular, it takes account of a specific allocation made to take account of a distributor undergoing liquidation.

The most significant *Other service costs* include:

- €373,000 for labour,
- €132,000 cleaning costs,
- €7,000 security costs and
- €78,000 entertainment costs.

*Other operating costs* include subscriptions to books, journals and associations.

## NOTE 12.27

| <b>Financial income and expenses</b>      | <b>31/12/2006</b>  | <b>31/12/2005</b>  |
|-------------------------------------------|--------------------|--------------------|
| Financial expenses due to subsidiaries    | (51.171)           | (39.718)           |
| Interest on short-term bank loans         | (1.022)            | (72.744)           |
| Interest on m/l-term loans                | (605.873)          | (434.607)          |
| Interest and trade allowances             | (322.318)          | (313.060)          |
| Interest on leasing agreements            | (39.053)           | (25.809)           |
| Interest paid on Employee Severance       | (137.049)          | (134.824)          |
| Writedown of derivatives                  | -                  | (8.861)            |
| Other                                     | (258.386)          | (234.761)          |
| <b>Total financial expenses</b>           | <b>(1.414.872)</b> | <b>(1.264.384)</b> |
| Prima Electronics dividend                | 600.000            | 600.000            |
| Financial income from subsidiaries        | 161.395            | 190.379            |
| Interest on bank accounts                 | 145.339            | 55.702             |
| Interest on loans                         | 1.218              | 2.945              |
| Interest income from customers            | 379.319            | 330.294            |
| Income from derivatives                   | 4.700              | 4.490              |
| Other                                     | 9.515              | 8.893              |
| <b>Total financial income</b>             | <b>1.301.486</b>   | <b>1.192.703</b>   |
| Negative foreign exchange differences     | 563.445            | (726.404)          |
| Positive exchange differences             | (460.343)          | 721.482            |
| <b>Total foreign exchange differences</b> | <b>103.102</b>     | <b>(4.922)</b>     |
| <b>Net financial income</b>               | <b>(10.284)</b>    | <b>(76.603)</b>    |

## NOTE 12.28

| <b>Impairment of stakes in joint ventures</b> | <b>31/12/2006</b> | <b>31/12/2005</b> |
|-----------------------------------------------|-------------------|-------------------|
| Shenyang Prima Laser Machine Co. Ltd.         | (239.984)         | (74.830)          |
| Shanghai Unity Prima Laser Machinery Co. Ltd. | -                 | -                 |
| SNK Prima Co. Ltd.                            | -                 | (49.847)          |
| <b>Total</b>                                  | <b>(239.984)</b>  | <b>(124.677)</b>  |

The item shows the results of the equity method valuation of associated companies and joint ventures with long-term losses in value.



## NOTE 12.29

| <b>Current tax liabilities and deferred taxes</b> | <b>31/12/2006</b>  | <b>31/12/2005</b>  |
|---------------------------------------------------|--------------------|--------------------|
| IRAP (Regional trade tax)                         | (868.521)          | (628.625)          |
| IRES (Corporation tax)                            | (1.830.642)        | (894.649)          |
| Prepaid                                           | (1.074.856)        | 591.419            |
| Deferred                                          | 353.719            | (722.242)          |
| Income from consolidated taxation                 | -                  | 110.422            |
| <b>Total</b>                                      | <b>(3.420.300)</b> | <b>(1.543.675)</b> |

The increase in this item is due to the greater share of taxed revenues out of taxable income and the termination of the benefit of prior tax losses, enjoyed until 2005.

| <b>Reconciliation between ordinary and actual tax rates</b> | <b>Taxable amount</b> | <b>Income tax</b> | <b>Rate</b>                      |
|-------------------------------------------------------------|-----------------------|-------------------|----------------------------------|
| <i>(values in thousands of euros)</i>                       |                       |                   |                                  |
| EARNINGS BEFORE TAX                                         | 6.578                 | 2.171             | 33                               |
| LOSSES IN SHAREHOLDINGS                                     | -                     | -                 | -                                |
| RECOVERY OF WRITEDOWN PROVISIONS FOR PNA                    | -                     | -                 | -                                |
| DIVIDENDS                                                   | (600)                 | (198)             | (3)                              |
| PERMANENT INCREASE                                          | 1.391                 | 459               | 7                                |
| PERMANENT DECREASE                                          | (110)                 | (36)              | (1)                              |
| TEMPORARY CHANGES FOR UTILIZATION/ALLOCATION OF PROVISIONS  | 211                   | 70                | 1                                |
| TEMPORARY CHANGES FOR INCOMING GRANTS                       | 833                   | 275               | 4                                |
| TEMPORARY INCREASES FOR SHAREHOLDING LOSSES IN PREV. YEAR   | (2.242)               | (740)             | (11)                             |
| OTHER TEMPORARY CHANGES                                     | (512)                 | (169)             | (3)                              |
| <b>TAXABLE IRES FIGURE (CORPORATE TAX)</b>                  | <b>5.549</b>          | <b>1.831</b>      | <b>28</b>                        |
| UTILIZATION OF PREVIOUS LOSSES                              | -                     | -                 | -                                |
| gratuities                                                  | (2)                   | (1)               | (0)                              |
| <b>TAXES</b>                                                | <b>5.547</b>          | <b>1.831</b>      | <b>28</b>                        |
| <b>TOTAL CORPORATE TAX (IRES)</b>                           | <b>-</b>              | <b>1.831</b>      | <b>27,83</b>                     |
|                                                             | <b>Taxable amount</b> | <b>Rate</b>       | <b>IRAP (Regional trade tax)</b> |
| VALUE OF PRODUCTION                                         | 95.284                |                   |                                  |
| PERMANENT INCREASES/DECREASES                               | (290)                 |                   |                                  |
| <b>TOTAL POSITIVE</b>                                       | <b>94.994</b>         |                   |                                  |
| COST OF PRODUCTION (EXCLUDING LABOUR COSTS)                 | (72.630)              |                   |                                  |
| PERMANENT INCREASES/DECREASES                               | 2.738                 |                   |                                  |
| <b>TOTAL NEGATIVE</b>                                       | <b>(69.892)</b>       |                   |                                  |
| TOTAL NET VALUE OF PRODUCTION                               | 25.102                |                   |                                  |
| DEDUCTION OF PERSONNEL COSTS, R&D, ETC.                     | (2.646)               |                   |                                  |
| TAXABLE AMOUNT                                              | 22.456                |                   |                                  |
| DEDUCTION FOR FOREIGN COMPENSATION                          | (2.020)               |                   |                                  |
| <b>TAXES</b>                                                | <b>20.436</b>         | <b>4,25</b>       | <b>869</b>                       |
| <b>TOTAL REGIONAL TRADE TAX (IRAP)</b>                      |                       |                   | <b>869</b>                       |

## NOTE 12.30 Transactions with associated parties

Relations with associated parties are generally represented by transactions with companies controlled directly or indirectly by the Company or with joint ventures regulated at market conditions considered normal in the reference market, in view of the characteristics of the assets and the services rendered.

The impact of these transactions on individual items in the 2006 financial statements, already highlighted in the supplementary tables of the balance sheet and income statement, drawn up in accordance with CONSOB Resolution no. 15519 of 27 July 2006, is summarised in the following table:

| Counterparty                         | Financial receivables | Accounts receivable | Accounts payable | Other      |
|--------------------------------------|-----------------------|---------------------|------------------|------------|
| PRIMA ELECTRONICS SPA                |                       | 597                 | 3.046            |            |
| PRIMA INDUSTRIE GMBH                 |                       | 4.108               | 101              |            |
| PRIMA NORTH AMERICA INC.             |                       | 821                 | 2.776            |            |
| PRIMA INDUSTRIE UK                   | 626                   | 1.936               | 19               |            |
| PRIMA SCANDINAVIA AB                 |                       | 1.753               | 3                |            |
| MLTA                                 |                       |                     | 15               |            |
| SHENYANG PRIMA LASER MACHINE CO. LTD |                       | 1.210               |                  |            |
| STRATEGIC MANAGEMENT                 |                       |                     |                  | 166        |
| OTHER RELATED PARTIES                |                       | 43                  |                  |            |
| <b>TOTAL</b>                         | <b>626</b>            | <b>10.468</b>       | <b>5.960</b>     | <b>166</b> |

| Counterparty                         | Revenues      | Other operating | Financial income | Purchases     | Other operating | Financial expenses |
|--------------------------------------|---------------|-----------------|------------------|---------------|-----------------|--------------------|
| PRIMA ELECTRONICS SPA                | 63            | 106             |                  | 3.608         | 406             | 51                 |
| PRIMA INDUSTRIE GMBH                 | 6.732         | 23              | 6                | 68            | 68              |                    |
| PRIMA NORTH AMERICA INC.             | 5.075         | 13              | 126              | 13.268        | 153             |                    |
| PRIMA INDUSTRIE UK                   | 2.948         | 31              | 28               | 36            | 68              |                    |
| PRIMA SCANDINAVIA AB                 | 5.653         |                 | 1                | 64            | 47              |                    |
| MLTA                                 |               |                 |                  | 1             | 20              |                    |
| SHENYANG PRIMA LASER MACHINE CO. LTD | 1.257         |                 |                  |               |                 |                    |
| STRATEGIC MANAGEMENT                 |               |                 |                  |               | 719             |                    |
| OTHER RELATED PARTIES                |               |                 |                  |               |                 |                    |
| <b>TOTAL</b>                         | <b>21.728</b> | <b>173</b>      | <b>161</b>       | <b>17.045</b> | <b>1.481</b>    | <b>51</b>          |

In terms of the impact on the financial flows of relationships with associated parties, these were not represented in a table, since they are almost entirely linked to transactions with companies that are directly or indirectly controlled by the Company, as illustrated previously.

The above table does not contain entries deriving from national consolidated taxation, since they do not represent actual exchanges, but rather only those originating from the financial procedures provided for in national taxation legislation.

See page 140 for explanatory table of “COMPENSATION PAID TO DIRECTORS, STATUTORY AUDITORS, GENERAL MANAGERS AND EXECUTIVES WITH STRATEGIC RESPONSIBILITIES”.

## NOTE 12.31 Significant non-recurring events and transactions

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In accordance with CONSOB Communication dated 28 July 2006, the Company performed no significant non-recurring transactions.

## Note 12.32 Transactions deriving from atypical and/or unusual operations

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In accordance with CONSOB Communication dated 28 July 2006, during 2006 the company performed no atypical and/or unusual transaction, as defined by the Communication, which states that atypical and/or unusual transactions are those operations whose size/importance, nature of the counterparties, object, price transfer determination method and timing (proximity to close of the financial year) can give rise to doubts regarding: the correctness/completeness of the information in the financial statements, conflict of interests, safeguard of company assets, protection of minority shareholders.

## NOTE 12.33 Net Financial Position

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| values in thousands of euros                                      | 31/12/2006     | 31/12/2005    |
|-------------------------------------------------------------------|----------------|---------------|
| A CASH                                                            | 14.470         | 7.138         |
| B OTHER CASH EQUIVALENTS                                          | 268            | 258           |
| C SECURITIES HELD FOR TRADING                                     | 0              | 0             |
| <b>D CASH (A+B+C)</b>                                             | <b>14.738</b>  | <b>7.396</b>  |
| <b>E CURRENT FINANCIAL RECEIVABLES</b>                            | <b>0</b>       | <b>5</b>      |
| F CURRENT BANK LOANS                                              | 438            | 199           |
| G CURRENT PORTION OF NON-CURRENT INDEBTEDNESS                     | 4.258          | 10.838        |
| H OTHER CURRENT FINANCIAL PAYABLES                                | 288            | 349           |
| <b>I CURRENT FINANCIAL INDEBTEDNESS (F+G+H) (LIQUID FUNDS)</b>    | <b>4.984</b>   | <b>11.386</b> |
| <b>J CURRENT NET FINANCIAL INDEBTEDNESS (LIQUID FUNDS)(I+E+D)</b> | <b>(9.754)</b> | <b>3.985</b>  |
| K NON-CURRENT BANK LOANS                                          | 10.658         | 3.227         |
| L BONDS ISSUED                                                    | 0              | 0             |
| M OTHER NON-CURRENT PAYABLES                                      | 1.028          | 1.325         |
| <b>N NON-CURRENT FINANCIAL INDEBTEDNESS (K+L+M)</b>               | <b>11.686</b>  | <b>4.552</b>  |
| <b>O NET FINANCIAL INDEBTEDNESS (J+N)</b>                         | <b>1.932</b>   | <b>8.537</b>  |

## COMPENSATION PAID TO DIRECTORS, STATUTORY AUDITORS, GENERAL MANAGERS AND EXECUTIVES WITH STRATEGIC RESPONSIBILITIES

AS REQUIRED BY ARTICLE 78 OF CONSOB REGULATION No. 11971 APPROVED ON 14/5/99 A SUMMARY OF THE COMPENSATION PAID TO DIRECTORS, STATUTORY AUDITORS AND THE GENERAL MANAGER BY PRIMA INDUSTRIE SPA AND THE SUBSIDIARY COMPANIES, RELATING TO THE PERSONS WHO HELD SUCH APPOINTMENTS DURING 2006 (FROM 1 JANUARY TO 31 DECEMBER 2006), IS PROVIDED BELOW. (INFORMATION EXPRESSED IN THOUSANDS OF EURO)

| Surname and name     | Position                                                                   | Period during which position was covered | Date on which the appointment terminates | Remuneration for the company which prepares the Financial Statements <sup>(1)</sup> | Non-monetary benefits | Bonuses and other incentives | Other remuneration (salaries) |
|----------------------|----------------------------------------------------------------------------|------------------------------------------|------------------------------------------|-------------------------------------------------------------------------------------|-----------------------|------------------------------|-------------------------------|
| CARBONATO Gianfranco | Chairman of the Board of Directors<br>Managing Director<br>PRIMA INDUSTRIE | 01/01/06-31/12/06<br>01/01/06-31/12/06   | Approv. Financial<br>Statements 2007     | 322.000,00                                                                          | Car 2,975.69          | 125.000,00                   | <sup>(2)</sup> 13.500,00      |
| D'ISIDORO Sandro     | Director PRIMA INDUSTRIE                                                   | 01/01/06-31/12/06                        | Approv. Financial<br>Statements 2007     | 12.000,00                                                                           | -                     | -                            | -                             |
| LUGARESÌ Fabrizio    | Director PRIMA INDUSTRIE                                                   | 01/01/06-31/12/06                        | Approv. Financial<br>Statements 2007     | 12.000,00                                                                           | -                     | -                            | -                             |
| MAURI Mario          | Director PRIMA INDUSTRIE                                                   | 01/01/06-31/12/06                        | Approv. Financial<br>Statements 2007     | 12.000,00                                                                           | -                     | -                            | -                             |
| PINCIROLI Marco      | Director PRIMA INDUSTRIE                                                   | 01/01/06-31/12/06                        | Approv. Financial<br>Statements 2007     | 87.000,00                                                                           | -                     | -                            | -                             |
| PELLEGRINI Pio       | Director PRIMA INDUSTRIE                                                   | 01/06/06-31/12/06                        | Approv. Financial<br>Statements 2007     | 12.000,00                                                                           | -                     | -                            | -                             |
| PEIRETTI Domenico    | Director PRIMA INDUSTRIE                                                   | 01/01/06-31/12/06                        | Approv. Financial<br>Statements 2007     | 12.000,00 <sup>(3)</sup>                                                            | 5.942,25              | 59.632,00                    | <sup>(4)</sup> 183.877,57     |
| FORMICA Riccardo     | Chairman of the Board of Statutory Auditors                                | 01/01/06-31/12/06                        | Approv. Financial<br>Statements 2007     | 39.353,87                                                                           | -                     | -                            | -                             |
| MOSCA Andrea         | Statutory Auditor                                                          | 01/01/06-31/12/06                        | Approv. Financial<br>Statements 2007     | 33.843,21                                                                           | -                     | -                            | -                             |
| PETRIGNANI Roberto   | Statutory Auditor                                                          | 01/01/06-31/12/06                        | Approv. Financial<br>Statements 2007     | 31.584,19                                                                           | -                     | -                            | -                             |
| FRIGERIO GianLuigi   | Substitute Auditor                                                         | 01/01/06-31/12/06                        | Approv. Financial<br>Statements 2007     | -                                                                                   | -                     | -                            | -                             |
| CODA Roberto         | Substitute Auditor                                                         | 01/01/06-31/12/06                        | Approv. Financial<br>Statements 2007     | -                                                                                   | -                     | -                            | -                             |
| DELLE PIANE Alberto  | Corporate General Manager                                                  | 01/01/06-31/01/06                        | -                                        | -                                                                                   | 259,4                 | 121.000,00                   | 232.723,79                    |
| BASSO Ezio           | General Manager PRIMA INDUSTRIE                                            | 01/01/06-31/12/06                        | -                                        | -                                                                                   | 4.899,60              | 53.404,00                    | <sup>(5)</sup> 159.563,96     |
| RATTI Massimo        | Corporate Finance Director                                                 | 01/01/06-31/12/06                        | -                                        | -                                                                                   | 4.161,97              | 48.662,00                    | <sup>(6)</sup> 134.738,38     |

(1) DETERMINED ON THE ACCRUAL BASIS

(2) OF WHICH €13,500 AS REMUNERATION FOR THE APPOINTMENT OF CHAIRMAN OF PRIMA ELECTRONICS.

(3) BENEFIT RELATED TO REMUNERATION AS AN EMPLOYEE OF PRIMA ELECTRONICS.

(4) OF WHICH €38,500 AS REMUNERATION FOR THE APPOINTMENT OF CHIEF EXECUTIVE OFFICER OF PRIMA ELECTRONICS AND €145,377.57 AS REMUNERATION AS AN EMPLOYEE OF PRIMA ELECTRONICS UNTIL 31 DECEMBER 2006

(5) OF WHICH €3,500 AS REMUNERATION FOR THE APPOINTMENT OF DIRECTOR OF PRIMA ELECTRONICS AND €156,063.96 AS REMUNERATION AS AN EMPLOYEE OF PRIMA INDUSTRIE UNTIL 31 DECEMBER 2006

(6) (6) OF WHICH €3,500 AS REMUNERATION FOR THE APPOINTMENT OF DIRECTOR OF PRIMA ELECTRONICS AND €131,238.38 AS REMUNERATION AS AN EMPLOYEE OF PRIMA INDUSTRIE UNTIL 31 DECEMBER 2006

**SUMMARY OF THE HIGHLIGHTS OF THE MOST RECENT FINANCIAL STATEMENTS OF SUBSIDIARIES AND ASSOCIATED COMPANIES (ART. 2429 OF THE ITALIAN CIVIL CODE).**

**UNLESS OTHERWISE STATED, THESE DATA ARE SET OUT FOLLOWING THE NATIONAL ACCOUNTING STANDARDS RELEVANT TO EACH COMPANY**

**HIGHLIGHTS OF THE MOST RECENT FINANCIAL STATEMENTS OF SUBSIDIARIES AND ASSOCIATED COMPANIES (ART. 2429 OF THE ITALIAN CIVIL CODE).**

|                                                 | <i>PRIMA ELECTRONICS<br/>S.p.A.</i> | <i>PRIMA North<br/>America Inc.</i> | <i>PRIMA GmbH</i>            | <i>PRIMA<br/>Scandinavia AB</i> | <i>PRIMA INDUSTRIE<br/>UK Ltd.</i> | <i>Shenyang Prima<br/>Laser Machine Co.</i> | <i>SNK Prima<br/>Company Ltd.</i> | <i>Shanghai Unity<br/>Prima</i> |
|-------------------------------------------------|-------------------------------------|-------------------------------------|------------------------------|---------------------------------|------------------------------------|---------------------------------------------|-----------------------------------|---------------------------------|
| <i>Currency</i>                                 | <i>Thousands of Euro</i>            | <i>Thousands of<br/>USD</i>         | <i>Thousands of<br/>Euro</i> | <i>Thousands of<br/>SEK</i>     | <i>Thousands of GBP</i>            | <i>Thousands of RMB</i>                     | <i>Thousands of<br/>Yen</i>       | <i>Thousands of<br/>RMB</i>     |
| Reference period                                | 2.006                               | 2.006                               | 2.006                        | 2.006                           | 2.006                              | 2.006                                       | Half-year<br>30/09/06             | 2006 <sup>(1)</sup>             |
| Line-by-line consolidation                      | YES                                 | YES                                 | YES                          | YES                             | YES                                | NO                                          | NO                                | NO                              |
| <b>ASSETS</b>                                   |                                     |                                     |                              |                                 |                                    |                                             |                                   |                                 |
| Fixed assets                                    | 3.220                               | 5.325                               | 449                          | 149                             | 11                                 | 1.513                                       | 9.306                             | 7.040                           |
| Current assets                                  | 13.369                              | 24.859                              | 6.315                        | 25.445                          | 2.821                              | 30.306                                      | 20.633                            | 130.112                         |
| Accruals and deferrals                          | 12                                  | -                                   | -                            | -                               | -                                  | -                                           | -                                 | -                               |
| <b>TOTAL ASSETS</b>                             | <b>16.601</b>                       | <b>30.184</b>                       | <b>6.764</b>                 | <b>25.594</b>                   | <b>2.832</b>                       | <b>31.819</b>                               | <b>29.939</b>                     | <b>137.152</b>                  |
| <b>LIABILITIES</b>                              |                                     |                                     |                              |                                 |                                    |                                             |                                   |                                 |
| Shareholders' equity                            | 7.795                               | 19.882                              | 591                          | 3.728                           | 378                                | 5.120                                       | 29.837                            | 45.351                          |
| Provisions for risks and charges                | 236                                 | 2.006                               | 648                          | 217                             | 10                                 | -                                           | -                                 | -                               |
| Employees' Severance Fund                       | 1.418                               | -                                   | -                            | -                               | -                                  | -                                           | -                                 | -                               |
| Payables                                        | 7.122                               | 8.296                               | 5.525                        | 21.649                          | 2.444                              | 26.699                                      | 102                               | 91.801                          |
| Accruals and deferrals                          | 30                                  | -                                   | -                            | -                               | -                                  | -                                           | -                                 | -                               |
| <b>TOTAL LIABILITIES</b>                        | <b>16.601</b>                       | <b>30.184</b>                       | <b>6.764</b>                 | <b>25.594</b>                   | <b>2.832</b>                       | <b>31.819</b>                               | <b>29.939</b>                     | <b>137.152</b>                  |
| <b>INCOME STATEMENT</b>                         |                                     |                                     |                              |                                 |                                    |                                             |                                   |                                 |
| Turnover                                        | 20.130                              | 63.523                              | 9.110                        | 65.144                          | 3.595                              | 25.444                                      | -                                 | 99.982                          |
| Value of production                             | 20.641                              | 58.215                              | 9.689                        | 65.186                          | 3.697                              | 25.676                                      | -                                 | 115.704                         |
| Cost of production                              | (17.686)                            | (47.282)                            | (9.561)                      | (61.063)                        | (3.582)                            | (28.486)                                    | (6.242)                           | (102.907)                       |
| Difference between value and cost of production | 2.955                               | 10.933                              | 128                          | 4.123                           | 115                                | (2.810)                                     | (6.242)                           | 12.797                          |
| Financial management                            | 10                                  | (242)                               | (3)                          | 102                             | 2                                  | (1.997)                                     | 2                                 | 35                              |
| Extraordinary management                        | 50                                  | -                                   | -                            | -                               | -                                  | (7)                                         | -                                 | -                               |
| Tax                                             | (1.314)                             | 805                                 | (1)                          | (599)                           | (3)                                | -                                           | -                                 | (2.093)                         |
| <b>NET EARNINGS</b>                             | <b>1.702</b>                        | <b>11.496</b>                       | <b>124</b>                   | <b>3.626</b>                    | <b>114</b>                         | <b>(4.814)</b>                              | <b>(6.240)</b>                    | <b>10.739</b>                   |

Mechanical Industries S.r.l. and Macro Meccanica S.p.A. have not been included in the table, since the latest financial statements of these companies, both bankrupt and under liquidation, date back to 2001.

<sup>(1)</sup> IAS-IFRS reclassified



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**13. TRANSITION OF PRIMA INDUSTRIE S.p.A.  
TO THE INTERNATIONAL FINANCIAL REPORTING  
STANDARDS**

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## **TRANSITION OF PRIMA INDUSTRIE S.p.A. TO THE INTERNATIONAL FINANCIAL REPORTING STANDARDS**

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### □ APPLICATION OF IFRS 1 “FIRST-TIME ADOPTION OF THE INTERNATIONAL FINANCIAL REPORTING STANDARDS”

The first financial statements of PRIMA INDUSTRIE S.p.A. to be drawn up according to IAS-IFRS will be the statements to 31 December 2006.

The Company already prepared the half-year report to 30 June 2006 in application of IAS-IFRS 1.

The Company prepared the reconciliations provided for in paragraphs 39 and 40 of IFRS 1. The company adopted IFRS as from 1 January 2006.

The Company has adopted the mandatory exceptions of IAS-IFRS and certain optional exemptions in relation the full retrospective application of IFRS.

### □ OPTIONAL EXEMPTIONS FROM RETROSPECTIVE APPLICATION OF IFRS

The Company's actions in regard to the optional exemptions are described below. More detailed information is contained in the paragraphs below. I

#### *(a) Business combinations*

This exemption is not applicable to the financial statements of the parent company.

In terms of recording shareholdings, the Company adopted the cost criteria net of impairment as per IAS 27 § 37.

#### *(b) Fair value or redetermination of the value as a replacement of cost*

The Company decided to take advantage of the optional exemption provided for by IFRS 1 (application of the estimated cost). For certain categories of real estate the re-valued cost was used, determined on the basis of expert reports drawn up by independent experts.

#### *(c) Employee benefits*

The Company elected to use the corridor approach to record defined benefit plans. Accordingly, the actuarial profit/loss, not considering the exemption granted by IFRS1, was reflected entirely on the date of the transition with shareholders' equity as the contra-entry. Conversely, the Company adopts the corridor method for the actuarial profits and losses realized after the transition date.

*(d) Cumulative conversion differences*

The Company decided to take advantage of the exemption for retrospective application of IAS21 and accordingly the profits (loss) arising from conversion of the financial statements of foreign subsidiaries were cleared with a contra-entry to the "Profits carried forward" reserve. The cleared reserve originated from the conversion of the net assets belonging to the subsidiary companies, expressed in local currency, into Euro (functional currency).

*(e) Compound financial instruments*

The Company has issued no compound financial instruments and consequently this exemption is not applicable.

*(f) Assets and liabilities of subsidiaries, associated companies and Joint Ventures*

This exemption is not applicable to the financial statements of the parent company.

*(g) Adaptation of the comparative information for financial assets and liabilities*

This exemption is not applicable since the Company has adopted IAS32 and 39 since 01/01/2006.

*(h) Indication of previously disclosed financial instruments*

This exemption is not applicable since the Company has adopted IAS32 and 39 since 01/01/2006.

*(i) Share-based payments to employees*

The stock option plan set up in 1999 expired in 2004, and hence there are currently no plans applicable to IFRS 2.

*(k) Insurance contracts*

The Company does not issue insurance contracts and hence this exemption is not applicable.

*(l) Changes in the liabilities recorded for decommissioning, restoration and similar liabilities included in the costs of buildings, plants and machinery*

The Company has no liabilities for decommissioning, restoration or similar liabilities and hence this exemption is not applicable.



(m) *Measurement of fair value of financial assets and liabilities when these are first recorded in the financial statements*

This exemption is not applicable.

□ OBLIGATORY EXCEPTIONS FOR RETROSPECTIVE APPLICATION OF THE IFR STANDARDS

(a) *Elimination of financial assets and liabilities*

In order to be eliminated from the financial statements, even if cancelled prior to the transition date, financial assets and liabilities that do not fulfil IAS 39 requirements must not be re-entered in the financial statements.

(b) *Accounting for hedging transactions*

The Company is obliged to record hedging transactions in the form of a schedule.

(c) *Estimates*

Estimates made by the Company in accordance with IFRS at the transition date must be consistent with the estimates made on the same date using the previous accounting principles (after the necessary adjustments to reflect differences between the accounting principles) unless there is objective proof that said estimates are incorrect.

(d) *Non-current assets held for sale and disposal of operating assets*

The Company has no non-current assets held for sale and operating assets disposed of during the period. No adjustment is therefore required.

## □ AUDIT OF THE RECONCILIATIONS

In terms of full auditing of the IFRS reconciliation schedules of the parent company PRIMA INDUSTRIE S.p.A., CONSOB Communication no. 6064313 dated 28 July 2006 stressed the importance for listed issuers to engage an independent auditor to check the balances the reconciliation.

The auditing company PriceWaterhouseCoopers S.p.A. was appointed to carry out a full audit of the reconciliation of the Company's shareholders' equity at 1 January 2005 and at 31 December 2005, as well as the company results for the year closing at 31 December 2005, accompanied by explanatory notes.

The result of the work performed by PricewaterhouseCoopers S.p.A. is set out in the annexed reports.

## □ RECONCILIATION BETWEEN APPLICATION OF IFRS AND ITALIAN ACCOUNTING PRINCIPLES

The reconciliations contained in annexed tables 1 to 3, highlight the effects of the transition to IFRS on the separate financial statements of the parent company.

**TABLE 1:** reconciliation of Shareholders' equity (in the assets and liabilities format) at 1 January 2005.

**TABLE 2:** reconciliation of Shareholders' equity (in the assets and liabilities format) at 31 December 2005.

**TABLE 3:** reconciliation of the result for the 12 months of 2005

The comments to the adjustments contained in the tables are set out in the paragraphs below.

A reconciliation of the cashflow statement at 31 December 2005 was not made in that the adjustments made for IFRS purposes had no impact on the composition of cash and cash equivalents.

TABLE 1

values in thousands of euros

| Notes    | Reconciliation of Shareholders' Equity at 1 January 2005 | Statutory<br>1/01/05 | IFRS<br>reclassificati | IFRS           | IFRS<br>1/1/2005 |
|----------|----------------------------------------------------------|----------------------|------------------------|----------------|------------------|
| <b>a</b> | Tangible fixed assets                                    | 1.631                | -                      | 1.591          | 3.221            |
| <b>b</b> | Intangible fixed assets                                  | 487                  | -                      | (398)          | 90               |
|          | Shareholdings in subsidiaries                            | 8.753                | -                      | -              | 8.753            |
|          | Stakes valued using the equity method                    | 959                  | -                      | -              | 959              |
|          | Stakes valued using the cost method                      |                      | -                      | -              | -                |
|          | Other financial assets                                   | 4.266                | -                      | -              | 4.266            |
|          | Financial assets available for sale:                     | 249                  | -                      | -              | 249              |
|          | Other receivables                                        | 31                   | -                      | -              | 31               |
|          | Derivative financial instruments                         |                      |                        |                | -                |
|          | <b>TOTAL NON-CURRENT ASSETS</b>                          | <b>16.375</b>        | <b>-</b>               | <b>1.193</b>   | <b>17.568</b>    |
| <b>c</b> | Stock                                                    | 10.926               | -                      | 6.302          | 17.228           |
| <b>d</b> | Accounts receivable                                      | 32.133               | -                      | 1.072          | 33.205           |
| <b>e</b> | Other receivables                                        | 3.416                | (171)                  | (396)          | 2.849            |
|          | Tax assets for current taxes                             | 1.972                | -                      | -              | 1.972            |
| <b>f</b> | Tax assets for prepaid taxes                             | 2.923                | -                      | 1.432          | 4.355            |
| <b>g</b> | Derivative financial instruments                         | -                    | -                      | 310            | 310              |
|          | Cash and cash equivalents                                | 3.141                | -                      | -              | 3.141            |
|          | <b>TOTAL CURRENT ASSETS</b>                              | <b>54.511</b>        | <b>(171)</b>           | <b>8.720</b>   | <b>63.060</b>    |
|          | <b>TOTAL ASSETS</b>                                      | <b>70.887</b>        | <b>(171)</b>           | <b>9.913</b>   | <b>80.629</b>    |
| <b>h</b> | Share capital                                            | 11.500               | (171)                  | -              | 11.329           |
| <b>h</b> | Other reserves                                           | 16.565               | -                      | (171)          | 16.394           |
|          | Earnings (losses) carried forward                        | -                    | -                      | (1.919)        | (1.919)          |
|          | Earnings (losses) for current period                     | 827                  | -                      | 105            | 932              |
|          | <i>Total Group shareholders' equity</i>                  | <i>28.892</i>        | <i>(171)</i>           | <i>(1.985)</i> | <i>26.736</i>    |
|          | <b>Total shareholders' equity</b>                        | <b>28.892</b>        | <b>(171)</b>           | <b>(1.985)</b> | <b>26.736</b>    |
| <b>i</b> | Loans                                                    | 7.102                | -                      | 2.665          | 9.767            |
| <b>j</b> | Employee benefits                                        | 2.974                | -                      | 314            | 3.288            |
| <b>k</b> | Provisions for liabilities and charges                   | 337                  | -                      | (108)          | 229              |
|          | Derivative financial instruments                         | -                    | -                      | 37             | 37               |
|          | <b>TOTAL NON-CURRENT LIABILITIES</b>                     | <b>10.413</b>        | <b>-</b>               | <b>2.907</b>   | <b>13.320</b>    |
|          | Accounts payable                                         | 18.380               | -                      | -              | 18.380           |
| <b>l</b> | Advance payments                                         | 916                  | -                      | 9.171          | 10.087           |
| <b>m</b> | Other                                                    | 2.170                | -                      | (92)           | 2.078            |
| <b>i</b> | Amounts due to banks and in respect of loans             | 5.722                | -                      | 196            | 5.918            |
| <b>n</b> | Deferred tax liabilities                                 | 1.198                | -                      | 583            | 1.781            |
|          | Deferred tax liabilities for current taxes               | 1.335                | -                      | -              | 1.335            |
| <b>k</b> | Provisions for risks and charges                         | 1.861                | -                      | (867)          | 994              |
|          | Derivative financial instruments                         | -                    | -                      | -              | -                |
|          | <b>TOTAL CURRENT LIABILITIES</b>                         | <b>31.582</b>        | <b>-</b>               | <b>8.991</b>   | <b>40.573</b>    |
|          | <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>        | <b>70.887</b>        | <b>(171)</b>           | <b>9.913</b>   | <b>80.629</b>    |

TABLE 2

values in thousands of euros

| Notes    | Reconciliation of Shareholders' Equity at 31 December 2005 | Statutory<br>31/12/05 | IFRS<br>reclassificatio<br>ns | IFRS<br>adjustment<br>s | IFRS<br>31/12/2005 |
|----------|------------------------------------------------------------|-----------------------|-------------------------------|-------------------------|--------------------|
| <b>a</b> | Tangible fixed assets                                      | 1.597                 | -                             | 1.442                   | 3.039              |
| <b>b</b> | Intangible fixed assets                                    | 464                   | -                             | (365)                   | 99                 |
|          | Shareholdings in subsidiaries                              | 12.841                | -                             | -                       | 12.841             |
|          | Stakes valued using the equity method                      | 1.250                 | -                             | -                       | 1.250              |
|          | Stakes valued using the cost method                        | 52                    | -                             | -                       | 52                 |
|          | Other financial assets                                     | 2.899                 | -                             | -                       | 2.899              |
|          | Financial assets available for sale:                       | 258                   | -                             | -                       | 258                |
|          | Other receivables                                          | 9                     | -                             | -                       | 9                  |
|          | Derivative financial instruments                           | -                     | -                             | -                       | -                  |
|          | <b>TOTAL NON-CURRENT ASSETS</b>                            | <b>19.370</b>         | <b>-</b>                      | <b>1.077</b>            | <b>20.447</b>      |
| <b>c</b> | Stock                                                      | 12.726                | -                             | 5.355                   | 18.081             |
| <b>d</b> | Accounts receivable                                        | 33.101                | -                             | 297                     | 33.398             |
| <b>e</b> | Other receivables                                          | 2.845                 | (6)                           | (189)                   | 2.650              |
|          | Tax assets for current taxes                               | 1.266                 | -                             | -                       | 1.266              |
| <b>f</b> | Tax assets for prepaid taxes                               | 2.608                 | -                             | 1.251                   | 3.859              |
| <b>g</b> | Derivative financial instruments                           | -                     | -                             | 5                       | 5                  |
|          | Cash and cash equivalents                                  | 7.138                 | -                             | -                       | 7.138              |
|          | <b>TOTAL CURRENT ASSETS</b>                                | <b>59.684</b>         | <b>(6)</b>                    | <b>6.719</b>            | <b>66.397</b>      |
|          | <b>TOTAL ASSETS</b>                                        | <b>79.054</b>         | <b>(6)</b>                    | <b>7.796</b>            | <b>86.844</b>      |
| <b>h</b> | Share capital                                              | 11.500                | -                             | (93)                    | 11.407             |
| <b>h</b> | Other reserves                                             | 16.749                | -                             | (93)                    | 16.656             |
|          | Earnings (losses) carried forward                          |                       | -                             | (1.781)                 | (1.781)            |
|          | Earnings (losses) for current period                       | 3.780                 | -                             | 125                     | 3.905              |
|          | <i>Total Group shareholders' equity</i>                    | <i>32.029</i>         | <i>-</i>                      | <i>(1.842)</i>          | <i>30.187</i>      |
|          | <b>Total shareholders' equity</b>                          | <b>32.029</b>         | <b>-</b>                      | <b>(1.842)</b>          | <b>30.187</b>      |
| <b>i</b> | Loans                                                      | 2.971                 | -                             | 1.564                   | 4.535              |
| <b>j</b> | Employee benefits                                          | 3.370                 | -                             | 247                     | 3.617              |
| <b>k</b> | Provisions for liabilities and charges                     | 28                    | -                             | -                       | 28                 |
|          | Derivative financial instruments                           |                       |                               | 16                      | 16                 |
|          | <b>TOTAL NON-CURRENT LIABILITIES</b>                       | <b>6.369</b>          | <b>-</b>                      | <b>1.827</b>            | <b>8.196</b>       |
|          | Accounts payable                                           | 20.526                | -                             | (4)                     | 20.522             |
| <b>l</b> | Advance payments                                           | 836                   | -                             | 7.890                   | 8.726              |
| <b>m</b> | Other                                                      | 2.581                 | -                             | (71)                    | 2.510              |
| <b>i</b> | Amounts due to banks and in respect of loans               | 11.123                | -                             | 264                     | 11.387             |
| <b>n</b> | Deferred tax liabilities                                   | 1.483                 | -                             | 532                     | 2.015              |
|          | Deferred tax liabilities for current taxes                 | 1.411                 | (6)                           | -                       | 1.405              |
| <b>k</b> | Provisions for risks and charges                           | 2.695                 | -                             | (799)                   | 1.896              |
|          | Derivative financial instruments                           | -                     | -                             | -                       | -                  |
|          | <b>TOTAL CURRENT LIABILITIES</b>                           | <b>40.655</b>         | <b>(6)</b>                    | <b>7.811</b>            | <b>48.461</b>      |
|          | <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>          | <b>79.054</b>         | <b>(6)</b>                    | <b>7.796</b>            | <b>86.845</b>      |

TABLE 3

values in thousands of euros

| Notes    | Reconciliation of Profit and Loss Statement at 31/12/2005     | Statutory<br>31/12/05 | IFRS<br>adjustments | Effects of<br>transition to IFRS | IFRS<br>31/12/2005 |
|----------|---------------------------------------------------------------|-----------------------|---------------------|----------------------------------|--------------------|
| <b>a</b> | Net revenues from sales and services                          | 72.716                | -                   | 621                              | 73.337             |
|          | Other operating income                                        | 2.720                 | -                   | -                                | 2.720              |
| <b>b</b> | Changes in inventories of semi-finished and finished products | 1.389                 | -                   | (946)                            | 443                |
|          | Increases for internal work                                   | 28                    | -                   | -                                | 28                 |
| <b>c</b> | Consumption of raw materials, supplies and merchandise        | (40.075)              | -                   | 624                              | (39.451)           |
| <b>d</b> | Personnel costs                                               | (14.249)              | -                   | 202                              | (14.047)           |
| <b>e</b> | Depreciation                                                  | (611)                 | -                   | (18)                             | (629)              |
| <b>f</b> | Impairment and Writedowns                                     | -                     | 2.037               | -                                | 2.037              |
| <b>g</b> | Other operating costs                                         | (18.614)              | (110)               | (64)                             | (18.788)           |
|          | <b>EBIT</b>                                                   | <b>3.304</b>          | <b>1.927</b>        | <b>419</b>                       | <b>5.650</b>       |
| <b>h</b> | Financial income                                              | 1.194                 | -                   | (1)                              | 1.193              |
| <b>h</b> | Financial expenses                                            | (1.095)               | -                   | (169)                            | (1.264)            |
| <b>i</b> | Net result of transactions in foreign currencies              | (11)                  | -                   | 5                                | (6)                |
| <b>j</b> | Net earnings from associated companies and joint ventures     | 1.913                 | (2.037)             | -                                | (124)              |
|          | Net earnings from financial assets available for sale         | -                     | -                   | -                                | -                  |
|          | <b>EARNINGS BEFORE TAX</b>                                    | <b>5.305</b>          | <b>(110)</b>        | <b>254</b>                       | <b>5.449</b>       |
| <b>k</b> | Current tax liabilities and deferred taxes                    | (1.525)               | 110                 | (129)                            | (1.544)            |
|          | <b>NET EARNINGS</b>                                           | <b>3.780</b>          | <b>-</b>            | <b>125</b>                       | <b>3.905</b>       |

## Comments on the IFRS adjustments made to the Profit and Loss Statement to

1 January 2005 and 31 December 2005

| a. Tangible fixed assets                            | 1 gennaio 2005 | 31 dicembre 2005 |
|-----------------------------------------------------|----------------|------------------|
| Optional exemption - IFRS 1p16-19 Collegno property | 1.493          | 1.457            |
| Optional exemption - IFRS 1p16-19 Coventry property | (56)           | (51)             |
| Leased electronic office equipment                  | 154            | 36               |
| <b>Total</b>                                        | <b>1.591</b>   | <b>1.442</b>     |

### Optional exemption IFRS 1 p16-19

The Company applied the optional exemption provided for in IFRS 1 p16-19 ("Fair value or re-determination of the value as a replacement of the cost") in order to separate the value of land from the following real estate complexes:

- Collegno (made out to the Company through a financial leasing agreement IAS 17p10);
- Coventry (owned by PRIMA INDUSTRIE S.p.A. leased to the subsidiary Prima UK).

In the financial statements drawn up prior to transition to IFRS, the land "pertaining" to the building was entered in the category "land and buildings" and was subject to amortization. The fair value of the land and buildings at the transition date corresponds to the value attributed to them by an independent expert who was commissioned to draw up valuation reports.

The tax effect (payables for deferred taxes) was calculated on the difference between the recoverable taxation value of the land and the book value, in accordance with SIC 221 (Income taxes– recovery of revalued non-depreciable assets).

### Leased electronic office equipment

These are the effects of an adjustment for a number of lease agreements for electronic office equipment. These agreements are accounted for in accordance with IAS 17 p20. The tax effect (payable for deferred taxes) was calculated on and set aside for this adjustment, on the basis of the difference between the financial value and the recoverable taxation value, in accordance with the principles of IAS 12.

| b. Intangible fixed assets                                | 1 gennaio 2005 | 31 dicembre 2005 |
|-----------------------------------------------------------|----------------|------------------|
| Cancellation of restructuring costs on third-party assets | (322)          | (271)            |
| Cancellation of patent costs                              | (70)           | (90)             |
| Cancellation of trademark costs                           | (5)            | (4)              |
| <b>Total</b>                                              | <b>(397)</b>   | <b>(365)</b>     |

## **Elimination of long-term expenses**

This concerns the elimination of long-term expenses that do not have the requirements demanded by IAS 38 p10 for capitalization. The reversed expenses mainly include building work on owned or rented property, maintenance charges and trademark protection. The tax effect, deriving from the difference between the financial value and the recoverable taxation value, is calculated and set aside for this adjustment (receivable for prepaid taxes), in accordance with the provisions of IAS 12.

### **c. Inventories**

In compliance with IAS 18 p16c, revenues from the sale of laser systems are accounted for when they are accepted by the end-customer. This generally coincides with the signing of the testing report by the customer.

On the other hand, invoicing takes place when the goods are taken on by the carrier in accordance with international commercial terms known as "incoterms". From that time onwards, the Company is free from all liability relating to transportation.

As a result of the difference between the invoicing date and the date of recognition of the revenue, in accordance with IAS 18 916c, the value of the machines invoiced but not yet accepted by the customer is brought back into the accounts amongst the inventories of finished products, net of the margin, with the contra-entry made to "advances" under balance sheet liabilities. This adjustment is for €6.302m at 1 January 2005 and €5.355m at 31 December 2005.

This recording ensures correct portrayal of the underlying contractual relationships.

As a result, the portion of the provisions for work on products under warranty, included under "Provision for risks and charges", set aside for machines that have been invoiced but not yet tested, is reversed (see also paragraph k "provision for risks and charges").

The tax effect on these adjustments is calculated according to IAS 12.

### **d. Trade accounts receivable**

In preparing the financial statements according to Italian Accounting Principles, the Company disclosed in its order accounts the figure for sales transactions accompanied by guaranteed loan from the seller as per Law 1329/65 ("Sabatini recourse loans Law"). This law states that at the time of sale of an asset, the seller would refer to the bank for a series of bills of exchange signed drawn by the customer. In the event of non-fulfilment by the customer towards the bank, PRIMA Industrie would be called on by recourse to respond to the obligation of its customer.

The burden of payment of these bills of exchange by the selling company was counterbalanced by the interest applied to the buyer.

Since International Accounting Standards affirm the ascendancy of substance over form, and with the risk remaining for PRIMA Industrie, trade receivable was included among assets, and the amount payable to the bank was entered as a liability.

The receivables for dividends from the subsidiary PRIMA ELECTRONICS was reversed in that International Accounting Principles require dividends to be accounted for on a cash basis rather than according to the principle of accrual.

| e. Other receivables                                   | 1 gennaio 2005 | 31 dicembre 2005 |
|--------------------------------------------------------|----------------|------------------|
| Reclassification of treasury shares                    | (171)          | (93)             |
| Adjustment of fair value of derivative instruments     | (275)          | (64)             |
| Reversal of interest on Sabatini recourse transactions | (91)           |                  |
| Other minor items                                      | (30)           | (38)             |
| <b>Total</b>                                           | (567)          | (195)            |

## Treasury shares

In the financial statements drawn up in accordance with Italian Accounting Principles treasury shares are recorded amongst current assets and valued at the lower of cost and market value. In terms of the law, a reserve for the "purchase of treasury shares" was recorded in the shareholders' equity. The economic effects of transactions on treasury shares were recorded in the income statement.

In compliance with IAS 32 p33, treasury shares (as well as any profit or loss deriving from their trade) were used to reduce the shareholders' equity. The "Reserve for treasury shares in portfolio" was reclassified in the item "Profits (Losses) carried forward".

## Derivative financial instruments

The adjustment in question concerns reversal of forward transactions from the financial statements prepared in accordance with Italian Accounting Principles. These transactions were reinserted in the IFRS financial statements as "financial assets/liabilities at fair value with changes to the income statement" (see paragraph "g. Derivative financial instruments").

## Reversal of deferred interest on Sabatini recourse loans

This adjustment refers to the reversal of deferred interest receivables for Sabatini recourse loan transactions (for more details see paragraph "d. Trade receivables").

## f. Tax assets for prepaid taxes

The adjustments included in this paragraph highlight the fiscal effect of certain IFRS transition adjustments, which are contained in the previous and subsequent paragraphs. These are disclosed as assets in the financial statements, in accordance with IAS 12 p24, since the temporary deductible difference can be used for the taxable income achieved. In compliance with IAS 12 p472, the receivables for prepaid taxes were valued using the tax rates expected for the financial period in which the asset will be realized.



#### **g. Derivative financial instruments**

This adjustment refers to entry of the fair value of derivative financial instruments in accordance with IAS 39 p46: interest rate swaps on loan agreements and USD currency options hedging the risk of variability of the financial flows deriving from the Euro/USD ratio. Although not speculative in nature, the financial instruments indicated above do not reflect the requirements of IAS 39p88 for hedging accounting (IAS 39 p85-102).

For this reason they are accounted for in accordance with IAS 39 p46, as if they were "financial assets at fair value with fair value changes recorded in the income statement".

For further details see also the section in the financial statements dedicated to financial risk management in the chapter on accounting principles.

#### **h. Shareholders' equity**

##### **Share capital**

In terms of IAS 32 p33, the share capital is reduced by the value representing the treasury shares. For more information on this adjustment, see paragraph "e. Other receivables".

##### **Other reserves**

The reserve for treasury shares was removed from this item and reclassified under "Profits (Losses) carried forward". For further information on this adjustment see paragraph "e. Other receivables".

##### **Profits (losses) carried forward**

Adjustments to "Profits (Losses) carried forward" are the result of the other adjustments shown in Tables 1 and 2. Please see the applicable paragraphs for the related comments.

| <b>i. Amounts due to banks and in respect of loans</b> | <b>1 gennaio 2005</b> | <b>31 dicembre 2005</b> |
|--------------------------------------------------------|-----------------------|-------------------------|
| Leasing IAS 17                                         | 1.189                 | 932                     |
| Sabatini recourse transactions                         | 1.672                 | 896                     |
| <b>Total</b>                                           | <b>2.861</b>          | <b>1.828</b>            |

The adjustment made to "Amounts due to banks and in respect of loans" refers to the portion of the debt generated by the financial leases for leasing contracts on electronic office equipment which fulfil the requirements of IAS 17 p.10 for inclusion in accordance with the method of IAS17 p22 and generated by the sale transactions, as per Law 1329/65 or ("Sabatini recourse loans Law"). For more information see paragraph "d. Trade receivables".

| <b>j. Post-employment benefits</b> | <b>1 gennaio 2005</b> | <b>31 dicembre 2005</b> |
|------------------------------------|-----------------------|-------------------------|
| Employees' Severance Fund          | (92)                  | (185)                   |
| Long-service bonuses               | 406                   | 432                     |
| <b>Total</b>                       | <b>314</b>            | <b>247</b>              |

### **Employment Severance Indemnities Fund**

The Employees' severance fund, calculated in the financial statements according to Italian Accounting Principles in accordance with article 2120 of the Italian Civil Code, is considered a defined benefits pension plan under IAS 19. As such it must be valued by applying the statistical/actuarial method of "projected unit credit" (IAS 19p68). An independent actuary, duly registered on the National Roll of Actuaries, was appointed to value these liabilities. On the basis of IAS 12, the related tax effect was calculated for this adjustment.

### **Long-service bonuses**

The long-service bonus of two gross monthly salaries is paid to employees of Prima Industrie S.p.A. at the end of 20, 30 and 35 years of service. This adjustment reflects the present value of the liability. An independent actuary, duly registered on the National Roll of Actuaries, was appointed to value these liabilities. On the basis of IAS 12, the related tax effect was calculated for this adjustment.

| <b>k. Provisions for risks and charges</b> | <b>1 gennaio 2005</b> | <b>31 dicembre 2005</b> |
|--------------------------------------------|-----------------------|-------------------------|
| Guarantee fund                             | (867)                 | (799)                   |
| Provision for probable taxes               | (108)                 | -                       |
| <b>Total</b>                               | <b>(975)</b>          | <b>(799)</b>            |

### **Guarantee fund**

For further information see paragraph "e. Inventories".

### **Provision for probable taxes**

This refers to elimination of the provision for probable taxes recorded, pursuant to the tax re-assessment carried out by the Guardia di Finanza (for failure to compute interest received on loans granted to Prima North America Inc. and other minor findings). The re-assessment report was issued at the end of an audit for the 2000 financial year, which took place during the second half of 2002.

### **l. Advance payments**

Adjustments to the "Advances" account are fully described in paragraph "c. Inventories".

#### **m. Other payables**

This adjustment refers to the reversal of deferred interest payables for Sabatini recourse loan transactions (for more details see paragraph "d. Trade receivables").

#### **n. Deferred tax liabilities**

The adjustments included in this paragraph highlight the fiscal effect of certain IFRS transition adjustments, which are contained in the previous and subsequent paragraphs. These are disclosed as liabilities on account of temporary taxable differences, in accordance with IAS 12 p15. The receivables for deferred taxes were valued using the tax rates expected for the financial period in which the asset will be realized, in compliance with IAS 12 p47.

- COMMENTS ON THE IFRS ADJUSTMENTS MADE TO THE INCOME STATEMENT FOR THE PERIOD FROM 1 JANUARY TO 31 DECEMBER 2005

#### **a. Income**

"Net revenues from sales and services" of €621,000 highlights the financial consequence of adjustment needed to record the revenues deriving from the sale of laser systems at the time of acceptance, rather than at the time of invoicing (IAS 18 p16c). For further information see paragraph "e. Inventories".

#### **b. Changes in inventories of semi-finished and finished products and raw materials**

This adjustment, €-946,000 is due to the recording of revenues for the sale of machines at the time of acceptance, rather than at the time of invoicing (IAS 18 p16c).

#### **c. Consumption of raw materials, consumables and supplies**

The variation of €624,000 is for the reversal of the purchase cost of a Laserdyne system manufactured by PRIMA North America and sold by PRIMA Industrie, which is yet to be accepted by the end customer. The amount was reclassified to changes in inventories of finished products.

#### **d. Personnel costs**

**31 dicembre 2005**

|                           |              |
|---------------------------|--------------|
| Employees' Severance Fund | (228)        |
| Long-service bonuses      | 26           |
| <b>Total</b>              | <b>(202)</b> |

The adjustment highlights the financial effects of recording the Employees' Severance Fund according to IAS 19 and setting aside provisions for long-service bonuses. For further information see paragraph "j. Post-employment benefits" in the income statement.

| e. Depreciation                                    | 31 dicembre 2005 |
|----------------------------------------------------|------------------|
| Cancellation of depreciation on long-term expenses | (121)            |
| Cancellation of depreciation of land               | (6)              |
| Depreciation from financial leasing                | 145              |
| <b>Total</b>                                       | 18               |

### Elimination of depreciation on long-term expenses

See paragraph "b. Intangible fixed assets" in the income statement.

### Elimination of depreciation on land

This refers to elimination of the depreciation, calculated according to the previous Italian Accounting Principles, for land in Coventry (UK) in that the land is considered an "appurtenance" of the building (for more details see paragraph "a. Tangible fixed assets").

### f. Impairment & Writedowns

This adjustment is for reclassification of the reversal of sums deriving from the writedown of shareholdings in PRIMA Scandinavia and PRIMA GmbH (totalling €171,000) and from partial recovery of writedowns carried out in previous years on shareholdings in PRIMA North America (€2.208m).

| g. Other operating costs                                      | 31 dicembre 2005 |
|---------------------------------------------------------------|------------------|
| Reclassification of expenses on consolidated taxation         | (110)            |
| Cancellation of capitalized long-term expenses                | (89)             |
| Financial leasing cost adjustments                            | 276              |
| Reversal of commission on machines not accepted               | 37               |
| Adjustment to reserve for work under warranty                 | (68)             |
| Cancellation of provision for probable taxes                  | (108)            |
| Cancellation of capital gains on the sale of treasury shares  | (123)            |
| Cancellation of capital losses on the sale of treasury shares | 11               |
| <b>Total</b>                                                  | (174)            |

### Reclassification of expenses on consolidated taxation

This refers to reclassification at operating cost of expenses deriving from the consolidated taxation agreement between PRIMA INDUSTRIE and PRIMA ELECTRONICS, which had previously been classified under taxes.

### Elimination of capitalized long-term expenses

This concerns elimination of long-term expenses that do not reflect the requirements of IAS 38 p10 for capitalization.

### Financial leasing adjustments

This refers to the financial effect of leasing contracts, as per IAS 17 p20, for electronic office equipment, previously not disclosed as financial leases according to Italian Accounting Principles.

### **Reversal of commission on machines that have not been accepted**

This refers to the reversal of commissions following adjustment of revenues (see paragraph "c. Consumption of raw materials, consumables and supplies" in the income statement).

### **Adjustment of the reserve for work under guarantee**

This refers to the net effect of the adjustment of revenues (see paragraph "c. Inventories" in the income statement), determined as the difference between opening and closing balance sheet adjustments.

### **Elimination of utilization of the provision for probable taxes**

This refers to reversal of utilization of the portion of the provision for probable taxes, already eliminated against Shareholders' equity at the transition date. For more information see paragraph "k. Provision for risks and charges" in the balance sheet.

### **Elimination of capital gain on the sale of treasury shares**

This refers to elimination of capital gains on the sale of treasury shares, in accordance with IAS 32 p33. For more details see paragraph "e. Other receivables" in the balance sheet.

### **Elimination of capital losses on the sale of treasury shares**

This refers to elimination of capital losses on the sale of treasury shares, in accordance with IAS 32 p33. For more details see paragraph "e. Other receivables" in the balance sheet.

| <b>h. Financial income and expenses</b>                   | <b>31 dicembre 2005</b> |
|-----------------------------------------------------------|-------------------------|
| Interest on leasing agreements                            | (26)                    |
| Interest paid on contributory plans for employees         | (135)                   |
| Changes in fair value of derivative financial instruments | (9)                     |
| <b>Total</b>                                              | <b>(170)</b>            |

### **Interest paid on leasing contracts**

This refers to the portion of payable interest on leases for electronic office equipment accounted for in accordance with the financial method provided for in IAS 17.

### **Interest paid on employee contribution plans**

This adjustment takes account of the portion of payable interest determined for the Employees' Severance Fund, as a defined benefits plan, in accordance with IAS 19.

### Changes in fair value of derivative financial instruments

The adjustment includes the changes in fair value of the derivative financial instruments. For further details see paragraph "g. Derivative financial instruments" in the balance sheet.

#### i. Net result of transactions in foreign currencies

This adjustment includes the changes in fair value of the derivative financial instruments for exchange rate risk. For further details see paragraph "g. Derivative financial instruments" in the balance sheet.

#### j. Net result of associated companies & joint ventures

This reclassification is counterbalanced under "Impairment and writedowns" and concerns sums deriving from the writedown of shareholdings in PRIMA Scandinavia and PRIMA GmbH (totalling €171,000) and from partial recovery of writedowns carried out in previous years on shareholdings in PRIMA North America (€2.208m).

| k. Current tax liabilities and deferred taxes         | 31 dicembre 2005 |
|-------------------------------------------------------|------------------|
| Reclassification of expenses on consolidated taxation | 110              |
| Deferred according to IAS/IFRS adjustments            | (129)            |
| <b>Total</b>                                          | <b>(19)</b>      |

The above table highlights the reclassification commented on in paragraph "g, Other operating costs" and the effects of changes in deferred taxes relating to IAS/IFRS adjustments, described in detail in the previous paragraphs.

*On behalf of the Board of Directors  
The Chairman*



*Gianfranco Carbonato*

**PRIMA INDUSTRIE S.p.A.**

*Registered office:* Via Antonelli 32, 10097 Collegno (Turin, Italy)  
Share Capital: €11,500,000 fully paid up  
Registered in the Turin Company Register under No. 03736080015

**REPORT OF THE BOARD OF STATUTORY AUDITORS AT THE MEETING OF  
SHAREHOLDERS HELD TO APPROVE THE FINANCIAL STATEMENTS TO  
31/12/2006  
(in accordance with article 153 of Legislative Decree no. 58 of 24 February  
1998)**

Shareholders,

We hereby refer to article 153 of Legislative Decree no. 58 of 24 February 1998 to inform you that, during the financial year closed at 31 December 2006, we performed the monitoring activities designated to the Board of Auditors in compliance with the code of conduct for statutory auditors issued by the National Council of Accountants and Bookkeepers, and in accordance with the recommendations of CONSOB (National Commission for Listed Companies and the Stock Exchange) communication no. 1025564 of 6 April 2001.

We examined the proposed statements to 31.12.2006, drawn up by the Directors in accordance with legal requirements, and as communicated to the Board of Auditors during the Board Meeting of 26 March 2007.

The financial statements, preceded by a single Report on Operations, including the Consolidated statements, shows net income at €3,158,000.

We remind Shareholders that, in accordance with article 159 of Legislative decree no. 58 of 24 February 1998, and with the opinion of the Board of Statutory Auditors, you confirmed the appointment of PricewaterhouseCoopers S.p.A. as Independent Auditors for the three-year period from 2005-2007, extending their assignment from the periods 1999-2001 and 2002-2004.

Thus, pursuant to Legislative decree no. 58/1998, during 2006, the Independent Auditors checked that company accounts were duly kept, and verified the proposed financial statements against accounts entries and books.

The financial statements of Prima Industrie S.p.A. to 31 December 2006 were prepared for the first time, according to the IAS/IFRS Reporting Standards, as required by Legislative Decree no. 38/2005. In observance of CONSOB Communication no. 6064313 of 28.07.2006, the auditing company PriceWaterhouseCoopers S.p.A. was appointed to carry out a full audit of the reconciliation of the Company's shareholders' equity at 1 January 2005 and at 31 December 2005, as well as the consolidated results for the year closing at 31 December 2005, accompanied by explanatory notes.

The consolidated half-year report of the Prima Industrie Group, drawn up in accordance with International Accounting Standards and in compliance with article 81 of Issuers Regulation No. 11971, as amended by CONSOB resolution no. 14990 of 14 April 2005, underwent a limited audit by PricewaterhouseCoopers S.p.A. Quarter information is not subject to and did not undergo compulsory audit.

During the period, we met with officials of the Independent Auditors in order to exchange information, in compliance with paragraph 3 of article 150 of Legislative Decree no. 58/1998. We hereby inform you that no improper activities were reported by the Independent Auditors.

Furthermore, we obtained information from the Independent Auditors that the report, which will be issued in compliance with article 156 of Legislative Decree no. 58/1998, contains nothing of note.

In the course of our own duties, the Board of Statutory Auditors carried out monitoring activities during the year, as prescribed by law, controlling the management of the company and verifying observance of the Law and the Articles of Association.

With particular regard to the indications given in CONSOB Notice no. 1025564 of 6 April 2001, we inform Shareholders that:

- we took part in the meetings of Shareholders and of the Board of Directors, verifying observance of the statutory norms and Articles of Association that govern the management of company bodies; and, in accordance with the time limits prescribed by law and by the company Articles, we obtained information from the Directors concerning their activities and the major economic and financial transactions, including extraordinary operations, performed by the company, its subsidiaries or with related parties. Acting both collectively and individually, the Statutory Auditors ascertained that transactions that were resolved and put into effect conformed to legislative requirements, to the articles of association, and that they were not performed carelessly or recklessly, that there were no contrasts with resolutions made by the Meeting of Shareholders or conflicts of interest, and that there were no irregularities such as to jeopardise the integrity of the shareholders' equity, and that operations were based on principles of proper administration.



- in the course of our duties, we ascertained the suitability of the company's organisational structure and adherence to principles of proper administration, by direct observation through information gathered by the heads of departments and, as already stated, during meetings, with officials from the Independent Auditors in which relevant information was exchanged;
- we assessed and monitored the system of internal control and the company's administrative and accounting system, as well as verifying how accurately the accounts system represents management details, by examining information provided by the heads of these systems and analysing company documentation, the results of the work carried out by the Independent Auditors and contributions made at meetings of the Committee for Internal Control;
- during the year we carried out four checks and took part in ten meetings of the Board of Directors and one Ordinary Shareholders' Meeting. The committees set up by the Board of Directors, the Committee for Internal Control and the Remuneration Committee, met five and three times respectively during 2006. A representative of the Board of Statutory Auditors took part in the meetings of the Committee for Internal Control;
- we verified the activities carried out by the Independent Auditors, who ascertained that company accounts were duly kept and that management operations were correctly executed, so that the annual financial statement could be prepared in line with the provisions of the law;
- we monitored the flow of information between Prima Industrie S.p.A. and its subsidiaries in compliance with paragraph 2 of article 114 of Legislative Decree no. 58/1998, backed up by the instructions issued by company management for the entire Group. A further assurance of the mutual exchange of information is provided by the fact that the institutional bodies of subsidiary companies are attended by several members of the Board of Directors and top management of the parent company. We also oversaw an exchange of information with the Chairman of the Board of Statutory Auditors of the subsidiary company Prima Electronics S.p.A., which contained no significant or improper events. By law, the American and German subsidiaries require no monitoring body;
- we ascertained observance of statutory regulations and the International Accounting Standards regarding the preparation and presentation of the Financial Statements and the Report on Operations, by making direct checks and controlling information provided by Directors, company managers and the Independent Auditors. The information provided by the directors in their report on operations is accurate and complete, and likewise the information contained in the annex to the Supplementary Notes regarding the effects of compulsory transition to International Accounting Standards;

- we observed application of the “Guidelines for organisation, management and control” required by Legislative Decree no. 231 of 8 June 2001 (*Modello di organizzazione, gestione e controllo*), with an organisational and management model which includes scope for powers of independent and autonomous initiative and control;
- we ascertained that the Planning Document for Security (*Documento Programmatico della Sicurezza*) was updated, in compliance with section 19 of the technical specifications for minimum security requirements - Annex B of Legislative Decree no. 196/2003;
- we verified that Prima Industrie S.p.A. duly exercised the option to take part in the national consolidated taxation scheme with the subsidiary company Prima Electronics S.p.A. The option was binding for the three-year period 2004-2006 and is still in force, since there have been no variations causing its termination.

We hereby confirm that the organisational structure is appropriate for the size of the company.

Prima Industrie S.p.A. is not under the control of other companies, and the company's shareholders signed no shareholders' agreements in compliance with article 122 of Legislative Decree no. 58/1998.

The Board of Directors duly presented us with the report on operations for the first half of the financial year, and the quarterly reports for the first and third and fourth quarters of 2006. These were published in accordance with the time limits and methods set forth in the regulations issued by CONSOB and Borsa Italiana.

In particular, the Group's consolidated half-year report to 30 June 2006, prepared in accordance with International Accounting Standards and duly provided with accounting statements and explanatory notes regarding the parent company, and drawn up for the first time using IAS/IFRS, was subject to our in-depth assessment; our conclusions and considerations are published in a special report.

**We can confirm the following:**

- In accordance with the Consolidated Finance Law (Legislative Decree no. 58/1998), the Board of Statutory Auditors has been regularly informed of matters within its sphere of competence;
- the regular checks and audits that we have made of the company revealed no atypical and/or unusual transactions during the period, including intragroup operations and those with related parties;

- intangible fixed assets with long-term utility were recorded among the assets with the consent of the Board of Statutory Auditors in accordance with paragraph 1, article 154 of Legislative Decree no. 58/1998 and subsequent amendments. Research costs were charged entirely to Profit & Loss statement;
- with reference to intragroup transactions, in their Report on Operations, the Directors report and illustrate the existence of transactions between your company and other companies in the group, which were conducted on normal market terms. The Board of Auditors confirms that the above transactions, mainly commercial in nature, conform to the interests of the company.
- the Directors did not exercise the right to revalue existing fixed assets, with the exception of the revaluation carried out in the 1976 Financial Statements, in compliance with Law no. 576/75;
- the Report on Operations contains all the information required by current law (article 2428 of the Italian Civil Code), and corresponds entirely to the data and results in the financial statements;
- we declare, therefore, that the documents that have been presented to you provide a clear and complete picture, in keeping with the obligations imposed by the law;
- the provisions required by the company of its subsidiaries, in accordance with article 114, paragraph 2, of Legislative Decree no. 58/1998, are valid;
- the Directors drafted the Group Consolidated Financial Statements to 31 December 2006, in fulfilment of the obligations imposed by articles 25 and 27 of Legislative Decree no. 127/1991, in accordance with the International Financial Reporting Standards.  
The financial statements have been duly and properly drafted to provide shareholders with a "true and fair" view of the financial position and operating result of the Group, and will be deposited with the Register of Companies; the Board of Auditors has drafted its own report based on the statements;
- the legal audit was carried out by the Independent Auditors, PricewaterhouseCoopers S.p.A., who will issue a final report containing nothing of note regarding the annual financial statements and the consolidated statements to 31 December 2006;
- further to the duties prescribed by article 155 of Legislative Decree no. 58/1998, the following tasks have been assigned to the Auditing Company PricewaterhouseCoopers S.p.A.:
  - drafting of an opinion on the consolidation of the Chinese joint ventures for the cost of €22,000 excluding VAT;
  - full audit of IAS/IFRS reconciliation balances for Prima Industrie S.p.a. financial statements as set out in paragraphs 39 and 40 of IFRS 1, for the cost of €3,000 excluding VAT;

- accounting and taxation due diligence activities for OSAI S.p.A. and subsidiaries for the cost of €90,000 excluding VAT and expenses, attributable to the subsidiary Prima Electronics S.p.A.

The Board also examined the tax advisory services rendered by PricewaterhouseCoopers USA to Prima North America Inc. These services were part of tax advisory activities regarding federal taxation and tax planning, with the purpose of evaluating taxes and duties and presenting tax returns, for an overall cost of about 92,000 USD. The Board believes that this assignment conforms to the requirements for independent activity, as set out in article 160 of the Consolidated Finance Law and invited the Directors to be especially careful when renewing contracts for next year, also in consideration of the forthcoming CONSOB regulation. No other appointments were made to subjects with continuous relations with the appointed auditing company;

- in accordance with article 2408 of the Italian Civil Code, we have received no reports from shareholders of suspected improper conduct;
  - no petitions were presented by shareholders and/or third parties;
  - during the year, the Board expressed the following opinion, in accordance with legal requirements:
- in favour of assigning compensation to Directors holding special positions, in accordance with paragraph 3, article 2389 of the Italian Civil Code;

### **Significant transactions**

The Board of Auditors was regularly kept up to date by the Directors, and in particular, monitored all major economic and financial transactions, including extraordinary operations, performed by Prima Industrie S.p.A. and its subsidiaries. These transactions included:

- *Acquisitions*

On 12.01.2006, the subsidiary company Prima Electronics S.p.A increased its holding in M.L.T.A. S.r.l. from 41.63% to 57.84%, by subscribing an increase of €65,000 in share capital. The amount was fully paid up during the extraordinary meeting of shareholders held for this purpose.

M.L.T.A. S.r.l. is highly specialised in high-power electronics for laser generators. As a consequence, M.T.L.A. S.r.l. entered the area of consolidation as from 1 January 2006.

On 07.06.2006 Prima Electronics S.p.A. gained a minority stake of 2.2% in Electro Power Systems S.p.A. (EPS S.p.A), a start-up company operating in the sector of power systems based on hydrogen fuel-cell technology. The overall investment was €250,000.

During the year Prima Electronics S.p.A. subscribed two tranches for capital increases in EPS S.p.A., with an overall investment of €500,000, bringing its stake in the company to 6.34%.

- *Set-up of joint ventures in China*

On 24/04/2006, after completing authorisation procedures, Wuhan OVL Convergent Laser Co. Ltd., was set up, the Group's third joint venture in China. The subsidiary Prima North America and Wuhan Optics Valley Laser Technology hold 30% and 70% respectively of the share capital of the new joint venture, totalling 6,800,000 USD. Wuhan OVL Convergent Laser Co. Ltd. will manufacture low- and high-power CO<sub>2</sub> laser sources for the Asian market.

- *Extension of Prima North America's premises*

Extension work on the Chicopee plant of the subsidiary Prima North America was completed in September 2006. The 30% extension brings the total surface area of the plant to 8,175m<sup>2</sup>, and is home to the Convergent Lasers and Prima Laser Tools divisions. The new area will not only be used to increase the production area, but also to improve the service activities, with more space for customers to view machines in operation. The overall investment for the extension was 150,000 USD.

- *Research*

For the financial year to 31 December 2006, sums charged against the profit and loss statement for research by the parent company totalled €4.4m or 4.77% of turnover. The Group spent a total of €8.1m (5.5% of turnover) on research during the year.

- *Purchase of treasury shares*

The Board ascertained that at 31 December 2006 Prima Industrie S.p.A. had a portfolio of 5,036 own shares (0.11% of the share capital) worth an average value of €21.7552 per share.

- *Shareholders' Meetings*

The Ordinary Meeting of Shareholders held on 11 May 2006 approved the financial statements to 31 December 2005, acknowledged the consolidated financial statements to 31 December 2005 and resolved the distribution of a dividend of €0.28 per share to be paid on 25 May 2006 with ex-date on 22 May 2006.

The dividends distributed totalled €1,287,253.24 considering 2,667 treasury shares held in portfolio at the dividend payment date.

Furthermore, the Meeting revoked the resolution made on 08/09/2005, regarding the purchase and sale of treasury shares and resolved to authorise the Board of Directors, for a period of 18 months, to purchase and sell up to a maximum of 200,000 treasury shares of Prima Industrie S.p.A., or 4.3% of the share capital, including by instalments.

The new resolution establishes a minimum buying and selling price of €2.50 per share (equal to the par value) and a maximum buying price of €30, whereas the maximum selling price can be determined according to the terms and conditions deemed appropriate at the time.

The agreed price in off-market deals must not give rise to any capital losses for the Company.

The resolution of the Ordinary Meeting of Shareholders held on 11 May 2006 was taken as a result of the share trend which, having gone higher than the maximum buying price set at the shareholders' meeting of 08.09.2005, rendered the specialist's task impracticable. It is in this context that on 09.03.2006 the Ordinary Shareholders' Meeting of the subsidiary Prima Electronics S.p.A. resolved to purchase and sell treasury shares in the parent company Prima Industrie S.p.A., in accordance with article 2359bis of the Italian Civil Code, article 132 of the Consolidated Finance Law and article 144bis of the Issuers Regulation, authorising the Board of Directors, for a period of 3 months, to buy and sell shares in the parent company Prima Industrie S.p.A., up to a maximum of 110,000 shares for a minimum of €2.50 per share and a maximum of €26.375 per share.

On 19.07.2006 the Ordinary Shareholders' Meeting of the subsidiary Prima Electronics S.p.A. resolved to sell its remaining treasury shares in the parent company Prima Industrie S.p.A., held in portfolio, at a minimum price of €2.50 and a maximum price of €30 in accordance with article 2359bis of the Italian Civil Code, article 132 of the Consolidated Finance Law and article 144bis of the Issuers Regulation.

- *New loans*

In its meeting held on 12.05.2006, the Board of Directors gave its Chairman and Chief Executive Officer, Gianfranco Carbonato, all the powers needed to enter into new medium-term loan agreements with banks, in one or several issuances, up to a maximum of €15m, to face loan instalments of €10.3m due to expire during the year.

- *Changes to Committee memberships*

Following the resignation of Marco Pincioli from the Prima Industrie S.p.A. Internal Control Committee and the Remuneration Committee, the Board of Directors granted, at its session held on 19.04.2006, Mario Mauri, the independent director, with membership of the two said committees.

Current committee membership is as follows:

The Internal Control Committee

Pio Pellegrini – Chairman  
Sandro D'Isidoro  
Mario Mauri

Remuneration Committee

Mario Mauri – Chairman  
Sandro D'Isidoro  
Pio Pellegrini

- *Assignment of proxies to directors*

In its meeting held on 14.06.2006, the Board of Directors resolved unanimously to assign powers of attorney to Marco Pincioli for acquisition activities aimed at the Group's external growth.

- *Approval of new regulations for Internal Dealing and Market Abuse*

In its meeting held on 21.03.2006, the Board of Directors approved new internal procedures related to market abuse and illicit use of privileged information for internal dealing. As established in the new article 115bis of the Consolidated Finance Law, the company has set up a Departmental Register concerning privileged accounting information and Occasional Registers for privileged information regarding specific projects or events.

- *Half-year reports of the Internal Control Committee*

The Board acknowledges that the Internal Control Committee, as established by the Code of Conduct, delivered half-year reports of its activities to the Board of Directors.

- *Law 262/2006*

In September Moores Rowland Consulting was assigned the management of mapping out the procedures adopted by the company in application of the requirements of the new Savings Law. The overall cost of these activities is c. €22,000, excluding VAT, plus travel expenses.

- *New Code of Conduct*

In its meeting held on 30 November 2006, the Board of Directors approved the new Code of Conduct (also called the Code of Corporate Governance) drawn up taking account of the new guidelines approved by Borsa Italiana S.p.A. in March 2006. The code also contains the new procedures for operations between related parties.

- *Stock Options Plan*

The Board reports that there is currently no stock option plan in force.

- *Capital increases*

The Board acknowledges that no capital increases were resolved during the year to 31 December 2006.

- *Writedowns/value adjustments of shareholdings*

The financial statements of Prima Industrie S.p.A. to 31 December 2006 showed the writedown of equity interests in the Chinese joint venture Shenyang Prima Laser Machine Company, was for the value of €239,984, corresponding to half of the losses sustained by the investee company.



- *Net financial position*

At year-end, the net financial position of Prima Industrie S.p.A. stood at – €1.932 thousand, compared to €– 8.537 thousand at the end of the previous year. The Group's net financial position stood at €-3.076 thousand against the –€-7.733 thousand euros of the previous financial year. The improvement is attributable to the increase in cash flow generated by operational management and positive handling of net working capital, which rose at a lower rate than turnover.

The Board notes that the debt to equity ratio increased for the fourth year running, from 0.19 at 31 December 2005 to 0.04 at 31 December 2006.

### **Significant events occurring subsequent to closure at 31 December 2006**

As part of our duties, we have taken note of the following significant events occurring after the closing of the financial year:

- *Acquisitions*

The Board notes that on 23.01.2007, the subsidiary company, Prima Electronics S.p.A., purchased the entire share capital of M.L.T.A. S.r.l.. Purchase of the remaining 42.16% share capital involved a disbursement of €144,000.

On 23.02.2007 the Board of Directors meeting of the subsidiary Prima Electronics S.p.A. resolved the merger of M.L.T.A. S.r.l. .

On 27 March 2007, the Board of Directors of the subsidiary Prima Electronics S.p.A. resolved to purchase 100% of the share capital of OSAI S.p.A., leader in the field of numerical control applications, for the processing of marble, wood and glass working machines, which are complementary sectors to those of Prima Industrie S.p.A. The Italian market for OSAI S.p.A. is worth around €40m per annum and its expected growth rate is high. The transfer of property will take place on 2 July 2007 and the acquisition price is estimated at €8.5m over the net financial position at 31 December 2006.

- *Opening of new branch in Poland*

In its meeting held on 13.07.2007, the Board of Directors of Prima Industrie S.p.A. resolved to open a new branch in Poland, as the Group's increased turnover in Eastern European countries necessitates direct connection with this market. The initial workforce will be made up of four people.

- *Treasury shares*

On 28 February 2007, Prima Industrie S.p.A. held a portfolio of 3,000 shares at an average weighted price of €29.2934 euros per share.

- *Share Trend*

The continuing appreciation of Prima Industrie shares, reaching maximum levels on several stock market trading days and determining a suspension to prevent an excessive rise, is not connected to significant events or transactions, as communicated to the market on request from CONSOB. The rise rendered void the resolution made on 11 May 2006, which had authorised the Board of Directors, for a period of 18 months, to purchase and sell up to a maximum of 200,000 treasury shares of Prima Industrie S.p.A., including by instalments, with a minimum purchase and sale price of €2.50 per share and a maximum purchase price of €30 per share. Thus, on 6 February 2007 and subsequently on 23 February 2007, the Ordinary Shareholders' Meeting of the subsidiary Prima Electronics S.p.A. resolved to authorise the Board of Directors, for a period of 3 months, to purchase and sell treasury shares in the parent company Prima Industrie S.p.A., in accordance with article 2359 bis of the Italian Civil Code, article 132 of the Consolidated Finance Law and article 144 bis of the Issuers Regulation. This was part of a new resolution of the Meeting of Shareholders' of Prima Industrie S.p.A., to allow Banca Intermobiliare to continue its activities as specialist, as mandatorily required by the regulations of Borsa Italiana S.p.A. Prima Electronics S.p.A. can purchase and sell a maximum of 50,000 shares in Prima Industrie S.p.A. at the minimum purchase and sale price of €2.50 per share and a maximum purchase and sale price of €60 per share.

- *Report on the Corporate Governance system*

In fulfilment of section IA.2.13, paragraph 2 of the Instructions accompanying the Rules and Regulations of Borsa Italiana's Nuovo Mercato, the Board of Directors of Prima Industrie S.p.A., has duly presented its report on the company's system of corporate governance.

- *Fulfilment of statutory requirements as of Law 262/2006 and Legislative Decree no. 303/2006*

The Extraordinary Meeting of Shareholders for the statutory amendments required by Law 262/2006 and by Legislative Decree no. 303/2006 will be held by 30 June 2007 so to take into account the application regulations that CONSOB will issue by 30 April 2006.

- *The outlook for 2007*

The Board confirms that for the year 2007, the Directors propose to consolidate the turnover achieved during the year, and to continue external growth, thanks to the Group's substantial cash position.

Shareholders,

In consideration of the above, and of the audit lawfully carried out by the Independent Auditors, PricewaterhouseCoopers S.p.A., who will issue a final report containing nothing of note regarding the annual financial statement, the Board of Statutory Auditors believes that the financial statements to 31 December 2006 should be approved, and likewise deems the proposal of the Board of Directors for allocation of net income, and hereby expresses its full appreciation of the achievements of the Directors and the workforce, which, in the thirtieth year since its founding, have brought the best results in the history of the company, and have enabled distribution of more than double the dividend assigned in the previous year.

Shareholders,

Our mandate expires with the Shareholders' Meeting.

We would like to take this opportunity to thank you for the confidence you have placed in us during our time in office, and duly invite you to appoint a new Board of Statutory Auditors.

Collegno, 5 April 2007

[signatures]

**The Board of Statutory Auditors**


**(Riccardo Formica) – Chairman**

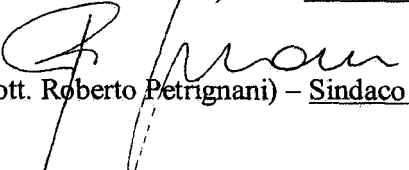
**(Andrea Mosca) – Auditor**

**(Roberto Petrignani) - Auditor**

Il Collegio Sindacale

  
(Dott. Riccardo Formica) - Presidente

  
(Dott. Andrea Mosca) - Sindaco Effettivo

  
(Dott. Roberto Pettrignani) - Sindaco Effettivo

## **PRIMA INDUSTRIE GROUP**

### **REPORT OF THE BOARD OF STATUTORY AUDITORS ON THE CONSOLIDATED FINANCIAL STATEMENTS TO 31 DECEMBER 2006**

Shareholders,

The Board of Directors of Prima Industrie S.p.A. has prepared and approved the consolidated financial statements to 31 December 2006, in accordance with Legislative Decree no. 127 of 9 April 1991, presented to the Board meeting on 26 March 2007.

The consolidated financial statements of the Prima Industrie Group, which are available for your examination, identify profits of €13,719,865 and are drafted according to the International Accounting Standards approved by the European Commission (IAS/IFRS).

In fulfilment of the provisions of Legislative Decree no. 38/2005, the parent company prepared the financial statements to 31 December 2006 in accordance for the first time with IAS/IFRS.

In observance of CONSOB Communication no. 6064313 of 28.07.2006, the auditing company PriceWaterhouseCoopers S.p.A. was appointed to carry out a full audit of the reconciliation of the Company's shareholders' equity at 1 January 2005 and at 31 December 2005, as well as the consolidated results for the year closing at 31 December 2005, accompanied by explanatory notes.

In the course of its duties, and as prescribed by law, the Board of Statutory Auditors carried out monitoring activities, and was regularly informed by the parent company's Board of Directors of major economic and financial transactions, including extraordinary operations, performed as part of Group relations.

We ascertained that transactions that were resolved and put into effect, conformed to legislative requirements and to the articles of association, that they did not diverge from the resolutions of the Shareholders' Meetings, showed no potential conflict of interest and were based on principles of proper administration.

The Board paid close attention to intragroup operations for the year, and ascertained that these were performed legitimately and were mostly commercial in nature.

Controls by the independent auditors, PricewaterhouseCoopers S.p.A., reveal that the values expressed in the consolidated statements conform to the results of the Parent company, to the statutory financial statements of the subsidiaries and to all relevant information formally passed on by them.

The financial statements and reconciliation statements prepared in accordance with IAS/IFRS, and transmitted by the subsidiaries to the parent company for the purpose of completing the consolidated financial statements, were examined by the bodies and organisations designated to monitor individual companies and by PricewaterhouseCoopers S.p.A., during auditing procedures for the consolidated financial statement.

The Board of Auditors, therefore, did not check these financial statements.

The Board of Auditors reports that the financial statements of the subsidiaries companies Prima Electronics S.p.A. and Prima North America Inc. were independently certified by PricewaterhouseCoopers S.p.A., who is also responsible for certifying the financial statements of the parent company.

We obtained information from the Independent Auditors that the report, which will be issued in compliance with article 156 of Legislative Decree no.58/1998 contains nothing of note.

The financial statements consist of the balance sheet, the profit and loss statement, statement of changes in equity, cash-flow statement, and the supplementary notes.

As in the previous year, the Board of Directors has drawn up a single Report on Operations, which contains all information pertaining to the parent company and to individual subsidiary companies.

The report illustrates the economic and financial position of all consolidated companies, their operating performance during 2006 and expected developments for 2007.

Having examined this report, we confirm that it corresponds to the Group's consolidated statements.

The supplementary notes contain the general drafting criteria for the consolidated financial statements, as well as the criteria used for assessing individual items.

For comparative purposes, the financial statements present the data corresponding to the previous year.

The area of consolidation, the principles for equity consolidation and relevant procedures were all determined in accordance with Legislative Decree no. 127 of 09/04/1991 in accordance with International Accounting Standards (IAS/IFRS). Preparation of the consolidated financial statements can therefore be considered technically correct and, as a whole, conformant to specific legislative regulations.

**The Board of Statutory Auditors affirms that:**

- the consolidated financial statements of the Prima Industrie Group include subsidiary companies using the full consolidation method and associated companies and joint ventures using the equity method, in accordance with the provisions of paragraph 38 of IAS 31.

The Board reminds shareholders that, using the full consolidation method (or line-by-line method), the consolidated balance sheet contains all balance sheet items of the parent company, with the exception of holdings in subsidiary companies, whose value is replaced by the overall assets and liabilities of the subsidiaries, determined using identical accounting principles to those applied to the parent company. For holdings of less than 100%, minority shareholders are attributed the share of equity and net income due to them. With the equity method for consolidation, the shareholders' equity portion of the holding (including net income) replaces its book value, determined using identical accounting principles to those applied to the parent company. The consolidated profit and loss statement considers the portion of the net income, which is also determined using identical accounting principles. Thus, a company valued using the equity method contributes to the consolidated financial statements with the same shareholders' equity and the same net income as if it were consolidated using the line-by-line method. The main difference lies in the different form of presentation in the statements, with only one balance sheet item (the value of the holding) and only one profit and loss item (profit or loss), instead of detailed items under assets, liabilities, positive and negative income components;

- the area consolidation differed from the financial statements to 31 December 2005, since Prima Electronics' 57.84% holding in M.L.T.A. S.r.l was included in the area as from 1 January 2006.

At the time of this report M.L.T.A. S.r.l is fully controlled by Prima Electronics S.p.A.. The Board reiterates that on 23.02.2007 the Board of Directors of the subsidiary Prima Electronics S.p.A. resolved the merger of M.L.T.A. S.r.l. ;

- in addition to the parent company, the subsidiary companies subject to consolidation by the line-by-line method are:

|                            |                |
|----------------------------|----------------|
| - Prima Electronics S.p.A. | 100% holding   |
| - Prima North America Inc. | 100% holding   |
| - Prima Industrie GmbH     | 100% holding   |
| - Prima Industrie UK Ltd.  | 100% holding   |
| - Prima Scandinavia AB     | 100% holding   |
| - M.L.T.A. S.r.l.          | 57.84% holding |

- the associated companies consolidated using the equity method are:
 

|                                                  |               |
|--------------------------------------------------|---------------|
| - Shenyang-Prima Laser Machine Company Ltd       | 50% holding   |
| - SNK Prima Company Ltd                          | 50% holding   |
| - Shanghai Unity Prima Laser Machine Company Ltd | 27.5% holding |
| - Wuhan OVL Convergent Laser Company Ltd         | 30% holding   |
  
- The Board also discloses that holdings in Macro Meccanica S.p.A., currently in liquidation, and Mechanical Industries Srl were cancelled in the financial statements for 2002. The holding in the joint venture Wuhan OVL Convergent Laser Company Ltd was not accounted for the following reasons: a) the difficulty of reliably attributing a fair value to the licence to use; b) continuation of managerial involvement in the transferred activities, a factor preventing the recording of revenues in accordance with IAS 18 par. 14b; c) the lack of a cash disbursement on the part of the Prima Industrie Group.
  
- the control techniques used during preparation of the financial statement placed at your disposal adequately ensure that the data transmitted by investee companies have been correctly utilised;
  
- consolidation adjustments have been made in consideration of their deferred tax effect;
  
- tax liabilities for current and deferred taxes stand at euro 3,856,779;
  
- the financial statements show consolidated shareholders' equity of €42,298,809 with the shareholders' equity of the parent company at €32,096,622.
-



Shareholders,

Based on our investigations, the Board of Statutory Auditors agrees with the content and form of the Group Consolidated Financial Statements to 31 December 2006.

Collegno, 5 April 2007

[signatures]

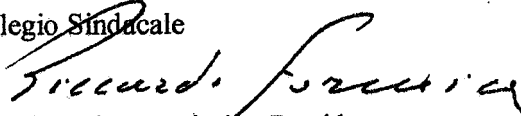
**The Board of Statutory Auditors**

**(Riccardo Formica) – Chairman**

**(Andrea Mosca) – Auditor**

**(Roberto Petrignani) - Auditor**

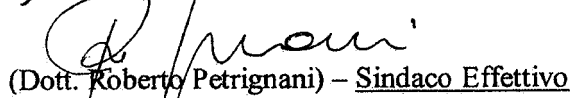
Il Collegio Sindacale



(Dott. Riccardo Formica) - Presidente



(Dott. Andrea Mosca) - Sindaco Effettivo



(Dott. Roberto Petrignani) - Sindaco Effettivo

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

**PRIMA INDUSTRIE SPA**

**FINANCIAL STATEMENTS AS AT 31 DECEMBER 2006**

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

To the Shareholders of  
Prima Industrie SpA

- 1 We have audited the financial statements of Prima Industrie SpA, which comprise the balance sheet, income statement, cash flow statement, statement of changes in stockholders' equity and the related explanatory notes as at 31 December 2006. These financial statements are the responsibility of Prima Industrie SpA's Directors. Our responsibility is to express an opinion on these financial statements based on our audit. The aforementioned financial statements have been prepared for the first time in accordance with the International Financial Reporting Standards as adopted by the European Union.
- 2 We conducted our audit in accordance with the auditing standards and criteria recommended by CONSOB. In accordance with those standards and criteria, the audit has been planned and performed 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 sample basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

The financial statements present the prior year corresponding figures prepared in accordance with the same accounting principles. Furthermore, section "Transition of Prima Industrie SpA to the International Financial Reporting Standards" explains the effects of the transition to International Financial Reporting Standards as adopted by the European Union and was examined by us in order to express our opinion on the financial statements of Prima Industrie SpA as at 31 December 2006.

- 3 In our opinion, the financial statements of Prima Industrie SpA as at 31 December 2006 comply with International Financial Reporting Standards as adopted by the European Union, as well as with regulations issued in accomplishment of article 9 of Law Decree n° 38/2005; accordingly, they give a true and fair view of the financial position, the results of operations, the changes in stockholders' equity and cash flows of Prima Industrie SpA for the year then ended.

Turin, 6 April 2007

PricewaterhouseCoopers SpA

Signed by

Piero De Lorenzi  
(Partner)

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

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

**PRIMA INDUSTRIE GROUP**

**CONSOLIDATED FINANCIAL STATEMENTS AS AT  
31 DECEMBER 2006**

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

To the Shareholders of  
Prima Industrie SpA

- 1 We have audited the consolidated financial statements of Prima Industrie SpA and its subsidiaries ("Prima Industrie Group"), which comprise the balance sheet, income statement, cash flow statement, statement of changes in stockholders' equity and the related explanatory notes as at 31 December 2006. These consolidated financial statements are the responsibility of Prima Industrie SpA's 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 the auditing standards and criteria recommended by CONSOB. In accordance with those standards and criteria, the audit has been planned and performed to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are reliable. An audit includes examining, on a sample basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness of the accounting principles used and the reasonableness of the estimates made by the Directors. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements present the prior year corresponding figures, for which reference is made to our report dated 14 March 2006.

- 3 In our opinion, the consolidated financial statements of Prima Industrie Group as at 31 December 2006 comply with International Financial Reporting Standards as adopted by the European Union, as well as with regulations issued in accomplishment of article 9 of Law Decree n° 38/2005; accordingly, they give a true and fair view of the financial position, the results of operations, the changes in stockholders' equity and cash flows of Prima Industrie Group for the year then ended.

Turin, 6 April 2007

PricewaterhouseCoopers SpA

Signed by

Piero De Lorenzi  
(Partner)

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