SUMMARY CONSOLIDATED FINANCIAL DATA

The summary financial data presented below have been extracted and derived from the Company's Consolidated Financial Statements. The Consolidated Financial Statements were prepared in accordance with Italian GAAP, integrated (when certain matters are not governed by Italian law) with the relevant accounting measurement principles recommended by IAS (see Annex A-Summary of Significant Differences Between Accounting Principles Generally Accepted in Italy (Italian GAAP) and International Accounting Standards).

The summary consolidated financial data set forth below should be read in conjunction with the Consolidated Financial Statements and notes thereto and with "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere in this Offering Circular.

CONSOLIDATED INCOME STATEMENT DATA (stated in thousand of euro, except per Share data):

	For the Year Ended 31st December,			For the Six Months Ended 30th June,	
	1998(1)	**1997**	**1996**	**1999**	**1998**
				(unaudited)	
Total revenues from sales and services	46,089	38,490	32,696	25,963	19,515
Operating income	3,886	1,664	1,218	1,753	1,413
Earnings before tax	1,962(1)	1,275	904	1,466	1,051
Net profit for the year-Group	432(1)	558	522	691	211
Earnings per Share(2)	0.78(1)	1.00	0.94	1.24	0.38

(1) Expenses include costs of € 933,000, being the cost, not considered deductible for tax purposes in 1998, of an application made in late 1997 to list the shares of a new holding company, The Prima Group International, Inc., on NASDAQ. This application to list was withdrawn on 31st July, 1998. The Prima Group International, Inc. ceased to be a shareholder of the Company on 29th June, 1999. If such expenses had not been incurred and recognised, earnings before tax for 1998 would have been € 2,895,000, net profit for the year-Group € 1,365,000 and earnings per Share € 2.45.

(2) For the purposes of this table, the number of outstanding Shares is 557,000 Shares of nominal value Lit. 20,000 each. As at 31st December, 1998, 1997 and 1996 the number of outstanding Shares was 11,134,189 Shares of nominal value Lit. 1,000 each.

CONSOLIDATED BALANCE SHEET DATA (stated in thousand of euro):

	As at 31st December,			As at 30th June,	
	1998	1997	1996	1999	1998
				(unaudited)	
Fixed assets	3,856	3,914	3,729	4,273	4,095
Net working capital	18,888	14,104	14,995	18,754	17,800
Employees' severance indemnity	(2,507)	(2,352)	(2,036)	(2,634)	(2,316)
Net financial debt	(12,240)	(8,305)	(9,989)	(11,802)	(11,845)
Minority interests	(752)	(547)	(409)	(759)	(639)
Shareholders' equity	(7,245)	(6,814)	(6,291)	(7,832)	(7,095)

PERCENTAGE BREAKDOWN OF GROUP SALES:

	For the Year Ended 31st December,			For the Six Months Ended 30th June,	
	1998	1997	1996	1999	1998
				(unaudited)	
2-D Products	33.75%	28.17%	22.57%	44.79%	29.68%
3-D Products	36.98%	42.52%	45.77%	27.66%	36.84%
Industrial electronic controls, motion controls and other products and services	29.27%	29.31%	31.66%	27.55%	33.48%
TOTAL GROUP SALES	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

GEOGRAPHIC BREAKDOWN OF GROUP SALES:

	For the Year Ended 31st December,						For the Six Months Ended 30th June,			
	1998		1997		1996		1999		1998	
							(unaudited)			
	In thousands of euro	Units sold	In thousands of euro	Units sold	In thousands of euro	Units sold	In thousands of euro	Units sold	In thousands of euro	Units sold
2-D Products:										
- Italy	5,888	20	4,137	14	2,648	8	4,493	15	1,411	5
- Europe (excluding Italy)	8,912	29	5,025	17	4,730	16	6,060	18	4,046	13
- Rest of world	755	3	1,679	5	-	-	1,077	3	335	2
Total	**15,555**	**52**	**10,841**	**36**	**7,378**	**24**	**11,630**	**36**	**5,792**	**20**
3-D Products:										
- Italy	3,622	7	4,464	8	5,021	8	2,412	4	1,461	3
- Europe (excluding Italy)	7,491	15	10,043	19	8,147	15	3,612	7	3,140	6
- Rest of world	5,929	9	1,857	4	1,798	3	1,158	2	2,588	4
Total	**17,042**	**31**	**16,364**	**31**	**14,966**	**26**	**7,182**	**13**	**7,189**	**13**
Industrial electronic controls, motion controls and other products and services:										
- Italy	3,540	-	2,754	-	2,847	-	1,949	-	1,613	-
- Europe (excluding Italy)	8,658	-	7,696	-	5,887	-	4,379	-	4,213	-
- Rest of world	1,294	-	835	-	1,618		823		708	-
Total	**13,492**	**-**	**11,285**	**-**	**10,352**	**-**	**7,151**	**-**	**6,534**	**-**
TOTAL GROUP SALES	**46,089**	**83**	**38,490**	**67**	**32,696**	**50**	**25,963**	**49**	**19,515**	**33**

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with the Consolidated Financial Statements and notes thereto and with "Management's Discussion and Analysis of Financial Condition and Results of Operations", which are included elsewhere in this Offering Circular. The consolidated income statement data for the years ended 31st December, 1998, 1997 and 1996 and the consolidated balance sheet data as of 31st December, 1998, 1997 and 1996 has been derived from the Company's audited consolidated financial statements. The consolidated income statement data for the six months ended 30th June, 1999 and 1998 and the consolidated balance sheet data as of 30th June, 1999 and 30th June, 1998 is derived from the Company's unaudited consolidated financial statements. These historical results are not necessarily indicative of the results to be expected in the future.

CONSOLIDATED INCOME STATEMENT DATA:

	For the Year Ended 31st December,			For the Six Months Ended 30th June,	
	1998	1997	1996	1999	1998
				(unaudited)	
	(In thousands of euro, except per Share data)				
Production value					
Revenues from sales and services	46,089	38,490	32,696	25,963	19,515
Changes in work-in-progress, semi-finished and finished goods	1,473	674	(1,018)	2,296	1,500
Increase from internal work (assets)	484	365	550	188	248
Other revenues and income	1,115	977	1,541	467	290
Total production value	49,161	40,506	33,769	28,914	21,553
Production costs					
Purchases of raw material, consumables and supplies, net of inventory variation	(23,406)	(19,841)	(16,045)	(14,886)	(10,133)
Service expenses	(9,560)	(7,326)	(6,138)	(5,602)	(4,342)
Lease and rent costs	(664)	(558)	(513)	(318)	(358)
Personnel expenses	(9,758)	(9,102)	(7,834)	(5,533)	(4,831)
Amortisation and depreciation	(1,254)	(1,256)	(1,530)	(673)	(502)
Other expenses	(633)	(759)	(491)	(149)	26
Total production costs	(45,275)	(38,842)	(32,551)	(27,161)	(20,140)
Operating profit	3,886	1,664	1,218	1,753	1,413
Financial income and expenses	(697)	(536)	(379)	86	(362)
Adjustments to financial assets	(294)	-	(15)	(373)	0
Extraordinary items	(933)	147	80	0	0
Profit before income taxes	1,962	1,275	904	1,466	1,051
Income taxes	(1,242)	(577)	(304)	(660)	(665)
Net profit for the year	720	698	600	806	386
Minority interests	(288)	(140)	(78)	(115)	(175)
Net profit for the year – Group	432	558	522	691	211
Earnings per Share [1],[2]	0.78	1.00	0.94	1.24	0.38

CONSOLIDATED BALANCE SHEET DATA:

	As at 31st December,			As at 30th June,	
	1998	1997	1996	1999	1998
				(unaudited)	
	(In thousands of euro)				
Fixed assets	3,856	3,914	3,729	4,273	4,095
Inventories	10,684	7,544	6,334	13,290	10,713
Receivables	26,702	21,207	21,609	25,487	21,630
Current financial assets	0	0	1	0	59
Cash and banks	1,437	1,119	466	2,458	803
Accrued income and prepaid expenses	93	198	459	606	135
Total assets	42,772	33,982	32,598	46,114	37,435
Shareholders' equity	7,245	6,814	6,291	7,832	7,095
Minority interests	752	547	409	759	639
Provision for liabilities and expenses	1,339	1,575	1,213	1,252	1,011
Employees' severance indemnity	2,507	2,352	2,036	2,634	2,316
Payables	30,541	22,359	22,377	33,456	26,066
Accrued liabilities and deferred income	388	335	272	181	308
Total liabilities and equity	42,772	33,982	32,598	46,114	37,435

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(1) No cash dividends have been declared by the Company.

(2) For the purposes of this table, the number of outstanding Shares is 557,000 Shares of nominal value Lit. 20,000 each. As at 31st December, 1998, 1997 and 1996, the number of outstanding Shares was 11,134,189 Shares of nominal value Lit. 1,000 each.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains trend analysis and other forward-looking statements that involve risks and uncertainties.

The following discussion is based primarily on the Consolidated Financial Statements. The Consolidated Financial Statements have been prepared in accordance with Italian GAAP, integrated (when certain matters are not governed by Italian GAAP) with the relevant acounting measurement principles recommended by IAS, and are included elsewhere in this Offering Circular (see Annex A-Summary of Significant Differences Between Accounting Principles Generally Accepted in Italy (Italian GAAP) and International Accounting Standards). The following discussion should be read in conjunction with, and is qualified in its entirety by, the Consolidated Financial Statements.

The consolidated income statement data for the years ended 31st December, 1998, 1997 and 1996 and the consolidated balance sheet data as of 31st December, 1998, 1997 and 1996 has been derived from the Company's audited consolidated financial statements. The consolidated income statement data for the six months ended 30th June, 1999 and 1998 and the consolidated balance sheet data as of 30th June, 1999 and 30th June, 1998 are derived from the Company's unaudited consolidated financial statements.

References in this section to "1998", "1997" and "1996" are to the financial years ended 31st December, 1998, 1997 and 1996, respectively.

Overview

The Group derives all of its revenues from the production and after-sales service of 2-D and 3-D laser Products, being three axis machines for two dimensional applications and five axis machines for three dimensional applications, which are produced by the Company, and the production of industrial electronic controls and motion controls which are produced by Prima Electronics.

Sales of 2-D laser Products and 3-D laser Products accounted for 33.75 per cent. and 36.98 per cent., respectively, of the Group's revenues in 1998. Sales of industrial electronic controls, motion controls and other services, accounted for the remaining 29.27 per cent.

The principal customers for the Company's laser Products are job shop suppliers to OEMs and OEMs themselves. The principal customers of Prima Electronics are the Company, Atlas Copco and other industrial equipment manufacturers.

The Group experienced higher sales in 1997 and 1998 due to an increase in sales of the Group's most popular laser Product, the 2-D Platino, increases in the average sale price of its 3-D laser Products, the acquisition of new clients, and increased sales by Prima Electronics. The Group has been active in the 3-D laser machine market since 1979 but it was the launch of the 2-D Platino Product in 1996 that enabled the Group to increase steadily its sales of laser Products.

During the three-year period ended 31st December, 1998 the Group's results have been principally affected by the following factors:

- the success of the 2-D Platino Product launched in late 1996. The introduction of this Product enabled the Group to achieve significant economies of scale due to the use of components and technological features common to the 3-D Optimo and Rapido Products; and

- a significant increase in net working capital used to fund trade receivables resulting in a significant increase in net financial expenses. Trade receivables have increased as a result of the Group's increased sales to the 2-D product market which has more competitive payment terms than the 3-D product market. Purchasers of 2-D Products do not have the degree of access to credit facilities as do purchasers of 3-D Products due to the smaller average size of their businesses. Therefore, the Company must provide more favourable payment terms to its 2-D customers than it provides to its 3-D customers in order to compete in the 2-D product market. The Company's average payment terms for customers in the 2-D product market can be between 1.5 months to three months longer than those for the 3-D product market.

As at 31st December, 1996, 1997 and 1998, the Group had 192, 210 and 230 employees, respectively. As at 30th June, 1998 and 1999 the Group had 217 and 248 employees, respectively.

Seasonal factors

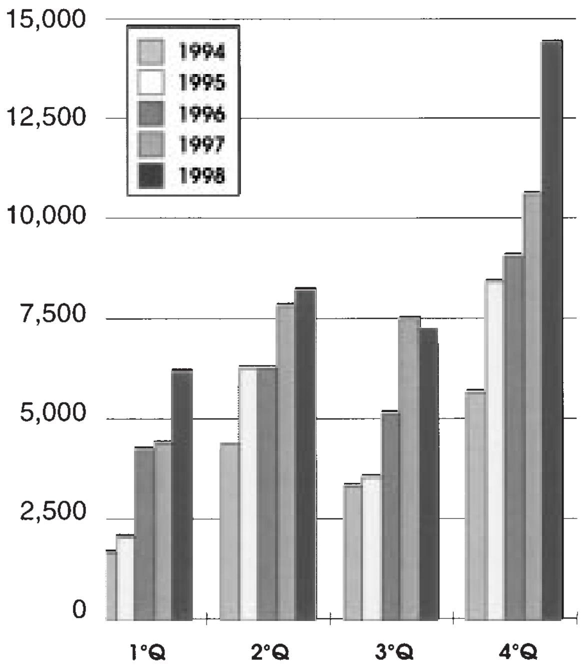
The laser machine market is distinguished by seasonal trends and limited backlog orders.

The seasonal trend is due to external factors beyond the Group's control such as the timing of purchases by customers, which is influenced by such factors as tax incentives, grants and financial packages. These factors result in deliveries that are concentrated in the fourth quarter.

The first quarter traditionally has the lowest sales volumes and generally does not reflect the estimated trend for the year. The second and third quarters mostly present a medium and uniform sales trend with a reduction in the third quarter usually due to summer holidays. Sales in the fourth quarter generally represent approximately 50 per cent. of the value of total sales in the other three quarters.

Quarterly figures can be misleading if compared within the same year. The comparison is more meaningful when made between the same quarters of different years.

Prima Industrie's quarterly unconsolidated sales for the period 1994-1998 (expressed in thousands of euro) were as follows:



Management is trying to equalise the flow of sales through suitable sale policies in order to utilise better available resources and productive capacity. First quarter sales have gradually improved over the last few years.

Order backlogs do not usually exceed two to four months in the laser machine business since customers are not inclined to accept longer delivery times. This factor is a distinguishing feature of the laser machine market as compared to certain traditional machine-tools, a market which can have delivery times of up to 12 months.

Sales of industrial electronic controls and motion controls are not subject to seasonality. Furthermore, since Prima Electronics has long-term supply contracts with a limited number of customers, resource management and the utilisation of productive capacity are easier to plan.

Currency management

Historically, the Group makes approximately 70 per cent. of its sales outside Italy in currencies other than lire and approximately 15 per cent. of its sales in currencies of countries not participating in EMU, most of which are denominated in U.S. dollars. The Group buys approximately 30 per cent. of its components outside Italy in currencies other than lire, of which five per cent. are paid for in currencies of countries not participating in EMU (taking account of the agreement with PRC Laser referred to below). This requires careful currency management, although with the advent of fixed parity rates on 31st December, 1998 for currencies in the euro zone, currency risk has decreased considerably. It now affects only a limited number of foreign currencies in which the Group trades such as the U.S. dollar, the British pound, the Swiss franc and the Swedish kronor.

Recently, the Group operated in a number of currencies which had to be properly managed in order to limit exchange exposure. Forward operations were arranged to hedge currency positions. Among other actions taken to balance individual currency exposures, an agreement was reached with the American company, PRC Laser, a supplier of lasers for machines to be sold outside the U.S.A., to pay PRC Laser in Deutsche marks, instead of U.S. dollars. Payments to PRC Laser in the year ended 31st December, 1998, were approximately € 6,135,000 which was equivalent to approximately 13.30 per cent. of the Group's total revenues from sales and services in the same year. This arrangement made it possible to reduce the Group's unhedged Deutsche mark and U.S. dollar positions and reduce the risk of fluctuation with respect to the Italian lira.

The Company's most significant exchange exposure is in respect of sales to its subsidiary, Prima U.S. Inc. These sales are denominated in U.S. dollars and are unhedged as the Company cannot predict when it will receive payment from Prima U.S. Inc. The Company enters into periodic swap arrangements in order to minimise its exposure to U.S. dollar movements. Sales to Prima U.S. Inc. accounted for approximately 11 per cent. of the Group's sales in the year ended 31st December, 1998.

Comparative income statement analysis of components for 1998, 1997 and 1996

Comparative income statements for the years 1998, 1997 and 1996 are presented below, together with the components expressed as a percentage of production value.

CONSOLIDATED INCOME STATEMENT DATA:

	For the Year Ended 31st December,					
	1998		1997 (In thousands of euro)		1996	
Revenues from sales and services	46,089	93.75%	38,490	95.02%	32,696	96.82%
Change in work in progress, semi-finished and finished goods	1,473	3.00%	674	1.67%	(1,018)	-3.01%
Increase from internal work (assets)	484	0.98%	365	0.90%	550	1.63%
Other revenues and income	1,115	2.27%	977	2.41%	1,541	4.56%
Total production value	**49,161**	**100.00%**	**40,506**	**100.00%**	**33,769**	**100.00%**
Purchases of raw materials, consumables and supplies	(25,091)	51.04%	(20,505)	50.62%	(17,245)	51.07%
Change in raw materials, consumables and supplies	1,685	-3.43%	664	-1.64%	1,200	-3.56%
Service expenses	(9,560)	19.45%	(7,326)	18.09%	(6,138)	18.18%
Lease and rent costs	(664)	1.35%	(558)	1.38%	(513)	1.52%
Personnel expenses	(9,758)	19.85%	(9,102)	22.47%	(7,834)	23.20%
Amortisation and depreciation	(1,254)	2.55%	(1,256)	3.10%	(1,530)	4.53%
Accruals to provisions for liabilities	(341)	0.69%	(283)	0.70%	(174)	0.51%
Other operating expenses	(292)	0.60%	(476)	1.17%	(317)	0.94%
Total production costs	**(45,275)**	**92.10%**	**(38,842)**	**95.89%**	**(32,551)**	**96.39%**
Operating profit	**3,886**	**7.90%**	**1,664**	**4.11%**	**1,218**	**3.61%**
Financial income and expenses	(697)	1.42%	(536)	1.32%	(379)	1.12%
Adjustments to financial assets	(294)	0.59%	0	0.00%	(15)	0.05%
Extraordinary items	(933)	1.90%	147	0.36%	80	0.24%
Profit before income taxes	**1,962**	**3.99%**	**1,275**	**3.15%**	**904**	**2.68%**
Current income tax	(881)	1.79%	(392)	0.97%	(150)	0.45%
Deferred taxes	(361)	0.73%	(185)	0.45%	(154)	0.45%
Total income taxes	**(1,242)**	**2.52%**	**(577)**	**1.42%**	**(304)**	**0.90%**
Net profit for the year	**720**	**1.47%**	**698**	**1.73%**	**600**	**1.78%**
Minority interests	(288)	-0.59%	(140)	-0.35%	(78)	0.23%
Net profit for the year – Group	**432**	**0.88%**	**558**	**1.38%**	**522**	**1.55%**

Revenues from sales and services

In 1998, Group sales registered an increase of € 7,599 thousand or 19.74 per cent., from € 38,490 thousand in 1997 to € 46,089 thousand in 1998.

62 per cent. of this increase is due to the higher number of 2-D laser machines sold (36 units in 1997 and 52 units in 1998) with a corresponding increase in sales revenues from € 10,841 thousand in 1997 to € 15,555 thousand in 1998. The increased number of machines delivered reflects increased sales of the 2-D Platino machines, of which 50 units were delivered in 1998 compared to 27 units in 1997. The remainder of the increase in sales is due to an average sales price increase for 3-D machines of nine per cent., resulting in an increase in sales revenue from 3-D Product sales from € 16,364 thousand in 1997 to € 17,042 thousand in 1998, although the number of units delivered (31) remained unchanged. Sales of industrial electronic controls and motion controls and other services increased by € 2,207 thousand or 29 per cent., from € 11,285 thousand in 1997 to € 13,492 thousand in 1998.

In 1997, Group sales registered an increase of € 5,794 thousand or 17.72 per cent. from € 32,696 thousand in 1996 to € 38,490 thousand in 1997.

Almost 60 per cent. of this increase is due to the increase in the number of 2-D machines delivered which rose from 24 units in 1996 to 36 units in 1997, with a corresponding increase in sales revenues from € 7,378 thousand in 1996 to € 10,841 thousand in 1997. The increase in the number of machines delivered is almost totally due to the success of the 2-D Platino Product launched at the Hannover machine tool exhibition in October 1996, of which 27 units were delivered in 1997 compared to the six machines manufactured and sold during the last two months of 1996. The remainder of the increase is due to the number of 3-D units delivered which rose from 26 units in 1996 to 31 units in 1997, and the consequent rise in sales revenues from € 14,966 thousand in 1996 to € 16,364 thousand in 1997, and the increase in sales of industrial electronic controls and motion controls and other services from € 10,352 thousand in 1996 to € 11,285 thousand in 1997.

Production costs

In 1998 total production costs increased by € 6,433 thousand or 16.56 per cent. from € 38,842 thousand in 1997 to € 45,275 thousand. However, as a percentage of production value there was a reduction from 95.89 per cent. in 1997 to 92.10 per cent. in 1998.

Purchases, net of inventory changes, increased by € 3,565 thousand or 17.97 per cent. from € 19,841 thousand in 1997 to € 23,406 thousand in 1998. This decrease as a percentage of production value from 48.98 per cent. in 1997 to 47.61 per cent. in 1998 reflects the economies of scale connected with a higher number of units manufactured.

Service expenses increased by € 2,234 thousand or 30.49 per cent. from € 7,326 thousand in 1997 to € 9,560 thousand in 1998. There was also an increase as a percentage of production value from 18.09 per cent. in 1997 to 19.45 per cent. in 1998. This is mainly due to the subcontracting out of the machining of large mechanical components to third parties. This work was performed in-house until the end of 1997 when the machinery and equipment for this work were sold to Macro Meccanica S.p.A. ("Macro Meccanica"), with effect from 1st January, 1998.

Personnel costs rose by € 656 thousand or 7.21 per cent. from € 9,102 thousand in 1997 to € 9,758 thousand in 1998, but, as a percentage of production value, there was a decrease from 22.47 per cent. in 1997 to 19.85 per cent. in 1998. This decrease reflects improved labour efficiency which is confirmed by the ratio of production value to labour units (employees) which rose to approximately € 200 thousand per employee in 1998 from approximately € 183 thousand per employee in 1997.

Amortisation and depreciation did not change significantly - € 1,256 thousand in 1997 compared to € 1,254 thousand in 1998 - and, as a percentage of production value, there was a decrease from 3.10 per cent. in 1997 to 2.55 per cent. in 1998. The amount primarily refers to the amortisation of intangible assets, in particular research and development capitalised for individual projects in prior years, while the amount of depreciation is not material for the Group.

In 1997, total production costs increased by € 6,291 thousand or 19.33 per cent. from € 32,551 thousand in 1996 to € 38,842 thousand in 1997 but as a percentage of production value, there was a reduction from 96.39 per cent. in 1996 to 95.89 per cent. in 1997.

Purchases, net of inventory changes, increased by € 3,796 thousand or 23.66 per cent. from € 16,045 thousand in 1996 to € 19,841 thousand in 1997. The increase in purchases, net of inventory changes, as a percentage of production value from 47.51 per cent. in 1996 to 48.98 per cent. in 1997 reflects a different production and sales mix in 1997 compared to 1996 because of higher 2-D Product sales (especially Platino machines) for which the cost of materials is higher than that for 3-D machines.

Service expenses increased by € 1,188 thousand or 19.35 per cent. from € 6,138 thousand in 1996 to € 7,326 thousand in 1997, representing an increase as a percentage of production value from 18.18 per cent. in 1996 to 18.09 per cent. in 1997.

Personnel costs rose by € 1,268 thousand or 16.19 per cent. from € 7,834 thousand in 1996 to € 9,102 thousand in 1997 but as a percentage of production value fell from 23.20 per cent. in 1996 to 22.47 per cent. in 1997. This decrease reflects improved labour efficiency which is confirmed by the ratio of production value to labour units which rose from € 170 thousand per employee in 1996 to € 183 thousand per employee in 1997.

Amortisation and depreciation decreased by € 274 thousand or 17.91 per cent. from € 1,530 thousand in 1996 to € 1,256 thousand in 1997 and, as a percentage of production value, there was a decrease from 4.53 per cent. in 1996 to 3.10 per cent. in 1997. The amount refers principally to the amortisation of intangible assets, in particular research and development capitalised for individual projects in prior years, while the amount of depreciation is not material for the Group.

Operating profit

As a result of the reduction in production costs as a percentage of production value (from 95.89 per cent. in 1997 to 92.10 per cent. in 1998) the operating profit of the Group in 1998 increased by € 2,222 thousand or 133.53 per cent. from € 1,664 thousand in 1997 to € 3,886 thousand in 1998 or, as a percentage of production value, from 4.11 per cent. in 1997 to 7.90 per cent. in 1998.

As a result of the reduction in production costs as a percentage of production value from 96.39 per cent. in 1996 to 95.89 per cent. in 1997, the operating profit of the Group increased by € 446 thousand or 36.62 per cent. from € 1,218 thousand in 1996 to € 1,664 thousand in 1997 or, as a percentage of production value, from 3.61 per cent. in 1996 to 4.11 per cent. in 1997.

Financial income and expenses

Net financial expenses of the Group increased by € 161 thousand or 30.04 per cent. from € 536 thousand in 1997, or 1.32 per cent. of production value, to € 697 thousand in 1998, or 1.42 per cent. of production value. The increase is due to greater recourse to bank facilities, in order to fund the increase in trade receivables which arose as a result of the different payment terms in the 2-D product market. Consequently, the net debt position of the Group increased from € 8,305 thousand in 1997 or 20.50 per cent. of production value to € 12,240 thousand in 1998 or 24.90 per cent. of production value.

Net financial expenses of the Group increased by € 157 thousand or 41.42 per cent. from € 379 thousand in 1996 or 1.12 per cent. of production value to € 536 thousand in 1997 or 1.32 per cent. of production value. The increase is the result of the combination of lower foreign exchange gains (from a gain of € 194 thousand in 1996 to a gain of € 164 thousand in 1997) and higher recourse to bank overdrafts during the year, notwithstanding that the net financial position fell from € 9,989 thousand in 1996 to € 8,305 thousand in 1997, due to positive, transitory, cash movements at the end of the year.

Adjustments to financial assets

This amount reflects the write-down of the Group's investment in Macro Meccanica.

Extraordinary income and expenses

This item reflects the costs of an application to list the shares of a new holding company, The Prima Group International, Inc., on NASDAQ which was withdrawn on 31st July, 1998. The Prima Group International, Inc. ceased to be a shareholder of the Company on 29th June, 1999.

Profit before income taxes

Profit before income taxes increased by € 687 thousand or 53.88 per cent. from € 1,275 thousand in 1997 or 3.15 per cent. of production value to € 1,962 thousand in 1998 or 3.99 per cent. of production value. Excluding the costs associated with the withdrawal of the listing on NASDAQ of € 933 thousand in 1998 (1.90 per cent. of production value), the pre-tax profit would have been equal to € 2,895 thousand in 1998 compared to € 1,275 thousand in 1997, an increase as a percentage of production value from 3.15 per cent. in 1997 to a theoretical 5.89 per cent. in 1998.

Profit before income taxes increased by € 371 thousand or 41.04 per cent. from € 904 thousand in 1996 (2.68 per cent. of production value) to € 1,275 thousand in 1997 (3.15 per cent. of production value).

Current income taxes

Current income taxes rose by € 489 thousand or 124.74 per cent. from € 392 thousand in 1997 to € 881 thousand in 1998 and as a percentage of production value, from 0.97 per cent. in 1997 to 1.79 per cent. in 1998.

The percentage increase can be explained as follows:

- the costs incurred in making an application to NASDAQ to list the shares of a new holding company, which application was withdrawn, of € 933 thousand in 1998 were not yet considered deductible for tax purposes; and

- the introduction in 1998 of the new *Imposta Regionale sulle Attivitá Produttive* ("*IRAP*") income tax, which replaced a number of previous taxes which had been previously classified as "Other Operating Expenses".

Current income taxes rose by € 242 thousand or 161.33 per cent. from € 150 thousand in 1996 to € 392 thousand in 1997, representing an increase as a percentage of production value from 0.45 per cent. in 1996 to 0.97 per cent. in 1997. The increase is the result of the full utilisation in 1996 by Prima Electronics of tax losses carried forward from previous years.

Deferred taxes

International Accounting Standard No. 12 (revised) has been introduced retrospectively and, applied on a consistent basis over 1996, 1997 and 1998, this results in deferred tax liabilities in 1996, 1997 and 1998, mainly due to the near-full utilisation of tax losses carried forward from 1994 and 1995.

Deferred taxes for 1998 were € 361 thousand, an increase of € 176 thousand or 95.14 per cent. compared to € 185 thousand in 1997, and, as a percentage of production value, represented 0.73 per cent. in 1998, an increase from 0.45 per cent. in 1997. The increase, as a percentage of production value, was due mainly to the losses carried forward utilised in the calculation of current taxes for the 1998 year. However, the costs for the NASDAQ listing had been assumed to be non-deductible for tax purposes in 1998. In the event of deductibility, these would have reduced the amount of deferred taxes relating to 1998 by € 385 thousand, with a consequent increase in consolidated net profit for 1998.

Deferred taxes for 1997 were € 185 thousand, an increase of € 31 thousand or 20.13 per cent., from € 154 thousand in 1996 and, as a percentage of production value, represent 0.45 per cent. in 1997 and 0.45 per cent. in 1996.

Net profit for the year

Consolidated net profit increased by € 22 thousand or 3.15 per cent. from € 698 thousand in 1997 or 1.73 per cent. of production value, to € 720 thousand in 1998, or 1.47 per cent. of production value. However, excluding the costs associated with the proposed NASDAQ listing of € 933 thousand in 1998, the net profit in 1998 would have been substantially higher than that of 1997, increasing by € 933 thousand or 133.67 per cent. from € 698 thousand in 1997 to a net profit of € 1,653 thousand in 1998, an increase as a percentage of production value from 1.73 per cent. in 1997 to 3.37 per cent. in 1998.

Consolidated net profit increased by € 98 thousand or 16.33 per cent. from € 600 thousand in 1996, or 1.78 per cent. of total production value, to € 698 thousand in 1997, or 1.73 per cent. of total production value.

Comparative balance sheet analysis of components for 1998, 1997 and 1996

Comparative balance sheets as at 31st December, 1998, 1997 and 1996 are presented below.

CONSOLIDATED BALANCE SHEET DATA:

	As at 31st December,		
	1998	**1997**	**1996**
		(In thousands of euro)	
Fixed assets (net)	**3,856**	**3,914**	**3,729**
Intangible assets	1,225	1,320	1,554
Tangible assets	1,831	1,299	1,428
Financial assets	800	1,295	747
Employees' severance indemnity	**2,507**	**2,352**	**2,036**
Net working capital	**18,888**	**14,104**	**14,995**
Inventories	10,684	7,544	6,334
Trade receivables	23,493	17,969	16,599
Other receivables	3,209	3,238	5,010
Accrued income and prepaid expenses	93	198	459
Trade payables	-15,948	-11,902	-11,099
Other payables	-2,255	-2,608	-2,036
Accrued liabilities and deferred income	-388	-335	-272
Financial position (net)	**12,240**	**8,305**	**9,989**
Cash and banks	-1,437	-1,119	-466
Bank borrowings	12,760	8,538	8,979
Borrowing from other financial institutions	917	886	1,476
Total consolidated shareholders' equity	**7,997**	**7,361**	**6,699**
Minority interests	752	547	408
Shareholders' equity - Group	7,245	6,814	6,291

Fixed assets

Fixed assets as at 31st December, 1998 amounted to € 3,856 thousand, a decrease of € 58 thousand or 1.48 per cent. compared to € 3,914 thousand as at 31st December, 1997 which was, in turn, an increase of € 185 thousand or 4.96 per cent. from € 3,729 thousand as at 31st December, 1996. The Company, during the last three years, has not significantly increased its investment in fixed assets.

Intangible assets show a declining trend, both in amounts, € 1,225 thousand as at 31st December, 1998 which was a decrease of € 95 thousand or 7.20 per cent. from € 1,320 thousand as at 31st December, 1997 which was, in turn, a decrease of € 234 thousand or 15.06 per cent. from € 1,554 thousand as at 31st December, 1996. Such a progressive downward trend reflects the Company's policy for capitalising intangible assets, where necessary, for specific research and development projects, for an amount lower than the amortisation charge for intangible assets capitalised in prior years.

As at 31st December, 1998, tangible assets amounted to € 1,831 thousand, an increase of € 532 thousand or 40.95 per cent. compared to € 1,299 thousand as at 31st December, 1997 which was, in turn, a decrease of € 129 thousand or 9.03 per cent. € 1,428 thousand as at 31st December, 1996. The increase in 1998 from 1997 is due to investments in plant, machinery and industrial equipment principally by Prima Electronics S.p.A. which established a new assembly line for electronic circuit boards. The lower amount in 1997 compared to 1996, although quite small, reflects the sale to Macro

Meccanica of plant and machinery for tooling large components, almost completely depreciated at book value, which work was subcontracted out at the end of 1997.

Financial assets were € 800 thousand as at 31st December, 1998 which was a reduction of € 495 thousand or 38.22 per cent. compared to € 1,295 thousand as at 31st December, 1997 which was, in turn, an increase of € 548 thousand or 73.36 per cent. from € 747 thousand as at 31st December, 1996. This reflects the disposal policy pursued by the Group in 1996 to sell operations that were no longer considered strategic, followed by an investment in 1997 of € 310 thousand in Macro Meccanica and The Prima Group International, Inc. Such investments gave rise to accruals in 1998 to adjust the carrying values to current values following the negative operating trend of Macro Meccanica. As at 31st December, 1998 the Company owned 25 per cent. of the share capital of Macro Meccanica.

Net working capital

Net working capital as at 31st December, 1998 was € 18,888 thousand which was an increase of € 4,784 thousand or 33.92 per cent. from net working capital as at 31st December, 1997 of € 14,104 thousand. Net working capital as at 31st December, 1997 decreased by € 891 thousand or 5.94 per cent. from net working capital as at 31st December, 1996 of € 14,995 thousand.

Inventories amounted to € 10,684 thousand as at 31st December, 1998 an increase of € 3,140 thousand or 41.62 per cent. from € 7,544 thousand as at 31st December, 1997 which was an increase of € 1,210 thousand or 19.10 per cent. from € 6,334 thousand as at 31st December, 1996. The increase between 1998 and 1997 is due to the Company's decision to keep, in rotation, three finished laser machines, of which one Rapido and one Platino are for demonstration purposes and one Platino for training of technical personnel. In 1998, 1997 and 1996, the average age of the Company's inventory was 138, 119 and 122 days, respectively.

Trade receivables from customers were € 23,493 thousand as at 31st December, 1998 an increase of € 5,524 thousand or 30.74 per cent. from € 17,969 thousand as at 31st December, 1997 which was in turn an increase of € 1,370 thousand or 8.25 per cent. from € 16,599 thousand as at 31st December, 1996.

Year-end figures are particularly affected by the seasonal nature of sales as fourth quarter sales usually represent approximately 50 per cent. of the value of total sales in the first three quarters. So, trade receivables as at 31st December do not usually reflect the average of the trend for the entire year.

The increase in trade receivables in 1998 and 1997 is directly related to the introduction of the Platino Product. The 2-D market is more competitive than the 3-D market and customers demand longer payment terms. The Company's average payment terms for customers in the 2-D product market can be between 1.5 months to three months longer than those for the 3-D product market.

Trade receivables as at 31st December, 1996 were higher than expected due to the launch of the Platino Product. Six customers demanded delivery of the new machine at the end of 1996, which led the Company to completely dedicate production resources to the delivery of these 2-D machines. This delayed the completion of installation of other machines which had already been delivered to customers. This delay in installation in turn delayed the receipt of payment in respect of these other Products. In 1998, 1997 and 1996 the average age of the Company's trade receivables was 186, 170 and 185 days, respectively.

Trade payables to suppliers were € 15,948 thousand as at 31st December, 1998 an increase of € 4,046 thousand or 33.99 per cent. from € 11,902 thousand as at 31st December, 1997 which, in turn, represented an increase of € 803 thousand or 7.23 per cent. from € 11,099 thousand as at 31st December, 1996. The resulting trend is in part due to the growth in inventories. Payment terms for suppliers cannot be extended so as to reflect the longer collection terms offered to customers because most suppliers are subcontractors supplying services such as the manufacturing of customised machine pieces. Maximum payment terms are now protected in Italy by specific laws in force since October 1998. In 1998, 1997 and 1996 trade payables had an average age of 148, 142 and 156 days, respectively.

Net financial position

The Group's net financial position (borrowings less cash) as at 31st December, 1998 was € 12,240 thousand, an increase of € 3,935 thousand or 47.38 per cent. from € 8,305 thousand as at 31st December, 1997 which was in turn a decrease of € 1,684 thousand or 16.86 per cent. from € 9,989 thousand as at 31st December, 1996.

In order to have a better mix of financing sources, the Group secured an unguaranteed, four-year medium-term loan, for approximately € 8.5 million, which was taken out during September, 1999.

Bank facilities were approximately € 10,200 thousand as at 31st December, 1996, € 13,870 thousand as at 31st December, 1997 and € 22,100 thousand as at 31st December, 1998. Interest rates over this three year period have gradually decreased.

Most borrowings are incurred by the Company, not Prima Electronics. The Group also uses current account overdraft facilities, which usually account for approximately 10 per cent. of overall facilities, customers' orders and sales invoices to finance production and sales and to hedge exchange risks.

PRIMA INDUSTRIE GROUP
CONSOLIDATED BALANCE SHEET
(In thousands of euro)

			Notes		31st December, 1998		31st December, 1997		31st December, 1996
A.	**CALLED UP SHARE CAPITAL NOT PAID**				**0**		**0**		**0**
B.	**FIXED ASSETS**								
B.I.	**INTANGIBLE ASSETS**		1						
	2)	Research, development and advertising costs			863		955		1,272
	3)	Industrial patents, intellectual properties and similar rights			114		116		161
	7)	Other			248		249		121
	Total intangible assets				**1,225**		**1,320**		**1,554**
B.II.	**TANGIBLE ASSETS**		2						
	1)	Land and buildings			549		574		600
	2)	Plant and machinery			371		81		193
	3)	Industrial and commercial equipment			337		259		236
	4)	Other			571		385		399
	5)	Assets under construction and payments on account			3		0		0
	Total tangible assets				**1,831**		**1,299**		**1,428**
B.III.	**FINANCIAL ASSETS**		3						
	1)	Investments in:	3.1		119		310		0
		b) associated companies		*119*		310		*0*	
	2)	Financial receivables:	3.2		438		623		277
		d) associated companies:		*438*		*623*		*277*	
		due beyond one year		*219*		*481*		*142*	
	3)	Other securities	3.3		243		362		470
	Total financial assets				**800**		**1,295**		**747**
TOTAL FIXED ASSETS					**3,856**		**3,914**		**3,729**
C.	**CURRENT ASSETS**								
C.I.	**INVENTORIES**		4						
	1)	Raw materials, consumables and supplies			6,701		5,003		4,466
	3)	Contract work in progress			2,009		1,771		1,089
	4)	Finished goods and merchandise			1,974		770		779
	Total inventories				**10,684**		**7,544**		**6,334**
C.II.	**RECEIVABLES**								
	1)	Trade receivables	5		23,493		17,969		16,599
		due within one year		*23,493*		*17,936*		*16,508*	
		due beyond one year		*0*		*33*		*91*	
	2)	Other receivables	6		3,209		3,238		5,010
		due within one year		*3,209*		*2,615*		*4,600*	
		due beyond one year		*0*		*623*		*410*	
	Total receivables				**26,702**		**21,207**		**21,609**
C.III.	**CURRENT FINANCIAL ASSETS**								
	3)	Investments in other companies			0		0		1
	Total current financial assets				**0**		**0**		**1**
C.IV.	**CASH AND BANKS**		7						
	1)	Bank and postal accounts			1,424		1,105		450
	3)	Cash on hand and cash equivalents			13		14		16
	Total cash and banks				**1,437**		**1,119**		**466**
TOTAL CURRENT ASSETS					**38,823**		**29,870**		**28,410**
D.	**ACCRUED INCOME AND PREPAID EXPENSES**		8						
	1)	Accrued income			13		45		105
	2)	Prepaid expenses			80		153		354
TOTAL ACCRUED INCOME AND PREPAID EXPENSES					**93**		**198**		**459**
TOTAL ASSETS					*42,772*		*33,982*		*32,598*

PRIMA INDUSTRIE GROUP
CONSOLIDATED BALANCE SHEET
(In thousands of euro)

		Notes		31st December, 1998		31st December, 1997		31st December, 1996
LIABILITIES AND SHAREHOLDERS' EQUITY								
A.	**SHAREHOLDERS' EQUITY**	9						
A.I.	Share capital			5,750		5,750		5,750
A.IV.	Legal reserve			112		11		11
A.VII.	Other reserves			0		1		1
A.VIII.	Retained earnings			945		505		3
A.IX.	Consolidation reserve			0		0		0
A.X.	Cumulative translation adjustments			6		(11)		4
A.XI.	Net profit for the year			432		558		522
TOTAL SHAREHOLDERS' EQUITY - GROUP				**7,245**		**6,814**		**6,291**
MINORITY INTERESTS		10		752		547		409
TOTAL CONSOLIDATED SHAREHOLDERS' EQUITY				**7,997**		**7,361**		**6,700**
B.	**PROVISIONS FOR LIABILITIES AND EXPENSES**	11						
	3) Other			1,339		1,575		1,213
TOTAL PROVISIONS FOR LIABILITIES AND EXPENSES				**1,339**		**1,575**		**1,213**
C.	**EMPLOYEES' SEVERANCE INDEMNITY**	12		**2,507**		**2,352**		**2,036**
D.	**PAYABLES**							
	3) Bank borrowings	13		12,760		8,538		8,979
	due within one year		*12,760*		*7,440*		*7,576*	
	due beyond one year		*0*		*1,098*		*1,403*	
	4) Borrowings from other financial institutions	14		917		886		1,476
	due within one year		*535*		*334*		*852*	
	due beyond one year		*382*		*552*		*624*	
	5) Payments on account	15		688		312		402
	due within one year		*688*		*312*		*402*	
	due beyond one year		*0*		*0*		*0*	
	6) Trade payables	16		14,326		11,017		10,239
	due within one year		*14,326*		*11,017*		*10,239*	
	9) Payables to associated companies	17		176		0		0
	due within one year		*176*		*0*		*0*	
	11) Taxes payable	18		469		638		474
	due within one year		*469*		*638*		*474*	
	12) Social security agencies payable	19		447		395		349
	due within one year		*447*		*395*		*349*	
	13) Other payables	20		758		573		458
	due within one year		*758*		*573*		*458*	
TOTAL PAYABLES				**30,541**		**22,359**		**22,377**
E.	**ACCRUED LIABILITIES AND DEFERRED INCOME**	21						
	1) Accrued liabilities			42		98		17
	2) Deferred income			346		237		255
TOTAL ACCRUED LIABILITIES AND DEFERRED INCOME				**388**		**335**		**272**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY				***42,772***		***33,982***		***32,598***
	MEMORANDUM ACCOUNTS	22						
	Personal guarantees given	22.1		33		33		20
	Collateral	22.2		65		183		292
	Commitments	22.3		748		650		420
	Risks	22.4		209		1,585		1,802
	Other memorandum accounts	22.5		4,612		3,696		2,729
TOTAL MEMORANDUM ACCOUNTS				**5,667**		**6,147**		**5,263**

PRIMA INDUSTRIE GROUP
CONSOLIDATED INCOME STATEMENT
(In thousands of euro)

		Years ended 31st December,					
	Notes		1998		1997		1996
A. PRODUCTION REVENUES							
1) Revenues from sales and services	23		46,089		38,490		32,696
2) Changes in work in progress, semifinished and finished goods			1,236		-9		-810
3) Change in contract work in progress			237		683		-208
4) Increase in internal work capitalised under fixed assets	24		484		365		550
5) Other revenues and income	25		1,115		977		1,541
TOTAL PRODUCTION REVENUES			**49,161**		**40,506**		**33,769**
B. PRODUCTION COSTS							
6) Purchase of raw materials, consumables and supplies	26		-25,091		-20,505		-17,245
7) Service expenses	27		-9,560		-7,326		-6,138
8) Lease and rent costs	28		-664		-558		-513
9) Personnel expenses:	29		-9,758		-9,102		-7,834
a) salaries and wages		*-6,816*		*-6,133*		*-5,307*	
b) social security contributions		*-2,199*		*-2,314*		*-1,916*	
c) employees' severance indemnity		*-497*		*-400*		*-422*	
d) other		*-246*		*-255*		*-189*	
10) Amortisation, depreciation and write-downs:			-1,254		-1,256		-1,530
a) Amortisation of intangible assets		*-640*		*-766*		*-968*	
b) depreciation of tangible assets		*-359*		*-403*		*-468*	
d) write-down of current receivables		*-255*		*-87*		*-94*	
11) Changes in raw materials, consumables and supplies			1,685		664		1,200
12) Accruals to provisions for liabilities and expenses	30		-341		-283		-174
13) Other accruals			0		0		0
14) Other operating expenses	31		-292		-476		-317
TOTAL PRODUCTION COSTS			**-45,275**		**-38,842**		**-32,551**
Difference between production revenues and costs			**3,886**		**1,664**		**1,218**
C. FINANCIAL INCOME AND EXPENSES							
15) Investment income			**0**		**0**		**0**
d. income other than the above		*0*		*0*		*0*	
16) Other financial income	32		**745**		**915**		**972**
d. income other than the above		*745*		*915*		*972*	
17) Interest and other financial expenses	33		**1,442**		**-1,451**		**-1,351**
TOTAL FINANCIAL INCOME AND EXPENSES			**-697**		**-536**		**-379**
D. ADJUSTMENTS TO FINANCIAL ASSETS							
18) Revaluations			**0**		**0**		**0**
a. investments		*0*		*0*		*0*	
19) Write-downs:	34		**-294**		**0**		**-15**
a. investments		*-294*		*0*		*-15*	
b. Financial assets		*0*		*0*		*0*	
TOTAL ADJUSTMENTS TO FINANCIAL ASSETS			**-294**		**0**		**-15**
E. EXTRAORDINARY INCOME AND EXPENSES							
20) Extraordinary income	35		**0**		**444**		**376**
a) gains on disposal		*0*		*431*		*361*	
b) other extraordinary income		*0*		*13*		*15*	
21) Extraordinary expenses	36		**-933**		**-296**		**-296**
a) losses on disposal		*0*		*-279*		*-279*	
b) other extraordinary expenses		*-933*		*-17*		*-17*	
TOTAL EXTRAORDINARY INCOME AND EXPENSES			**-933**		**147**		**80**
Profit before income taxes			**1,962**		**1,275**		**904**
22) **Income taxes**	37		**-1,242**		**-577**		**-304**
22.1) Current income taxes		*-881*		*-392*		*-150*	
22.2) Deferred taxes		*-361*		*-185*		*-154*	
23) **NET PROFIT FOR THE YEAR**			**720**		**698**		**600**
24) **Minority interests**			**-288**		**-140**		**-78**
25) **NET PROFIT FOR THE YEAR - GROUP**			**432**		**558**		**522**
Earnings per Share							
- basic			0.78		1.00		0.94
- diluted			0.78		1.00		0.94
Earnings per Share Excluding extraordinary items							
- basic			2.45		0.74		0.79
- diluted			2.45		0.74		0.79
Number of Shares			557,000		557,000		557,000

PRIMA INDUSTRIE GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS
(In thousands of euro)

	Years ended 31st December,					
		1998		1997		1996
CASH FLOWS PROVIDED BY (USED FOR) OPERATING ACTIVITIES						
Difference between production revenues and costs		3,886		1,664		1,218
Adjustments to reconcile difference between production revenues and costs to cash provided by (used for) operating activities:		1,100		2,030		1,707
accrual of employees' severance indemnity, net of payments	156		316		237	
depreciation/amortisation of tangible/intangible assets	999		1,168		1,436	
increase (decrease) in prepayments/deferrals	180		184		-373	
accruals to provisions for liabilities and expenses and other accruals, net of utilisation	-235		362		407	
Subtotal		4,986		3,694		2,925
Changes in operating assets and liabilities:		-5,972		-231		-4,528
(increase) decrease in inventories	-3,139		-1,211		-216	
(increase) decrease in short-term non-financial receivables	-5,463		461		-5,685	
(increase) decrease in current financial assets	0		1		0	
increase (decrease) in non-financial payables	3,872		1,095		1,677	
income taxes	-1,242		-577		-304	
Cash flows provided by (used for) operating activities		-986		3,463		-1,603
Receipts of extraordinary income net of payment of extraordinary expenses		0		147		81
Total A: cash flows provided by (used for) operating activities		**-986**		**3,610**		**-1,522**
CASH FLOWS PROVIDED BY (USED FOR) INVESTING ACTIVITIES						
(additions) to intangible assets		-560		-531		-750
(additions) to tangible assets		-894		-339		-309
(additions) to financial assets		-1,058		-975		-428
proceeds from sale of fixed assets		343		493		1,028
financial income		26		53		32
Total B: cash flows provided by (used for) investing activities		**-2,143**		**-1,299**		**-427**
CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES						
increase (decrease) in shareholders' equity		-83		-38		0
increase (decrease) in financial payables (other than monetary liabilities)		0		0		0
financial expenses		-723		-589		-427
Total C: cash flows provided by (used for) financing activities		**-806**		**-627**		**-427**
Total D: cash flows provided by (used for) investing/financing activities (B+C)		**-2,949**		**-1,926**		**-854**
NET INCREASE (DECREASE) IN CASH (NET BORROWINGS) (A+D)						
Net borrowings, end of year	-12,240		-8,305		-9,989	
- monetary assets	1,437		1,119		466	
- monetary liabilities	-13,677		-9,423		-10,455	
Net borrowings, beginning of year	-8,305		-9,989		-7,613	
- monetary assets	1,119		466		650	
- monetary liabilities	-9,423		-10,455		-8,262	
Net increase (decrease) in cash (borrowings)		**-3,935**		**1,684**		**-2,376**

PRIMA INDUSTRIE GROUP

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

BUSINESS OF THE GROUP

Prima Industrie S.p.A. has, as its business purpose, the design, manufacture and selling of instruments, machines and mechanical, electric and electronic engineering systems and the related software for use in industrial automation and other sectors in which the technologies of the company can be employed.

The company is also able to provide technical, design and organisational services in the field for the manufacture of machinery and industrial automation.

The main business of the company focuses on laser sheet metal cutting and welding machines.

Prima Electronics S.p.A. has, as its business purpose, the design, manufacture and marketing of apparatus, instruments, machines and mechanical, electric and electronic engineering systems and the related software.

The company can also acquire and sell manufacturing licenses.

Prima U.S. Inc. operates in the North American market. It imports Prima Industrie machines for their subsequent sale. Prima U.S. Inc. also provides after-sales service.

Prima Industrie GmbH used to sell Prima Industrie machines and provide after-sales service. Since 1996, partly as a result of the distribution agreement executed between Prima Industrie and Matra-Werke, this business has been considerably reduced and now Prima Industrie GmbH mainly provides spare parts.

Laserworld B.V. is a financial company. From 1996 to 1998 it has directed the disposal of its American holdings, Advanced Technology Inc., and the consequent wind-up of their residual operations.

FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The accounting principles adopted in the preparation of the consolidated financial statements are the same as those adopted in the statutory financial statements of Prima Industrie S.p.A. Such accounting principles have been applied on a consistent basis over the three years. Assets and liabilities are valued using uniform criteria.

The companies included in consolidation are accounted for on the line-by-line consolidation method and are listed below:

Name	Headquarters	Share capital	% holding 1998	% holding 1997	% holding 1996
Prima Industrie S.p.A.	Collegno (TO)-Italy	Lire 11,134,189,000	-	-	-
Prima Electronics S.p.A.	Moncalieri (TO)-Italy	Lire 1,500,000,000	59.99%	59.99%	59.99%
Prima U.S. Inc.	Farmington Hills (Michigan) – USA	US$ 50,000	100%	100%	100%
Prima Industrie Gmbh	Kronberg – Germany	DM 50,000	100%	100%	100%
Laserworld B.V.	Amsterdam – Holland	HFL 50,000	100%	100%	100%
Advanced Technology Inc.	Troy (Michigan) – USA	US$ 1,000,000	-	-	100%

The date of reference for the consolidated financial statements coincides with the closing date of the financial statements of the Group holding company.

The financial statements used in consolidation are those approved by the shareholders' meetings of the individual companies. Such financial statements have been reclassified and, where necessary, adjusted to conform to the accounting principles used by the entire Group.

PRINCIPLES OF CONSOLIDATION

The consolidated subsidiaries are those in which Prima Industrie holds a direct interest of more than 50 per cent. of that company's share capital.

The subsidiaries have been consolidated on the line-by-line method which, briefly, consists of recording all assets and liabilities as well as revenues and costs of the individual companies on a line-by-line basis.

The minority interest in the share capital and reserves of subsidiaries are recorded separately under "minority interests" in shareholders' equity, and the minority interest in the consolidated results for the year are recorded under "minority interests" in the income statement.

The main adjustments in arriving at the consolidation of the balance sheets and income statements from a simple aggregation, are the following:

- elimination of the carrying value of the investments against the underlying share of net equity. The difference, if negative, is recorded in shareholders' equity under "consolidation reserve" or, if positive, is allocated to the assets and liabilities of the companies included in consolidation or, when applicable, is recorded in "difference on consolidation" under assets;

- elimination of intercompany receivables and payables and income and expenses arising from intercompany transactions; intercompany gains and losses on transactions that have not been realised with third parties have also been eliminated, if significant;

- elimination of the valuation adjustments and accruals made solely for tax purposes, taking into account, where applicable, the related tax effect;

- the translation of financial statements expressed in foreign currencies has been effected by applying the average rate for the year to the income statement and the year-end rate to the balance sheet. Exchange differences arising from the retranslation of the net investment in foreign subsidiaries, associated undertakings and borrowings which hedge such investments are recorded in "Cumulative translation adjustments" in shareholders' equity.

The exchange rates applied in the translation of foreign currency financial statements are as follows:

Currency	Average exchange rate for the year			Year-end Exchange rate		
	1998	1997	1996	1998	1997	1996
• Dutch guilder	875.81	874.81	911.276	878.641	871.06	875.56
• US dollar	1,737.02	1,710.91	1,542.932	1,653.1	1,759.19	1,530.57
• German mark	987.37	984.79	1,026.112	989.999	981.69	982.71

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies are described as follows:

Intangible assets

Intangible assets are stated at purchase cost and reduced by amortisation.

Research & development are expensed to the income statement of the year incurred with the exception of those relating to new products; they mainly relate to studies for prototypes which are considered to benefit future periods.

Advertising costs are entirely charged to the income statement in the year incurred.

Other intangible assets are recorded with the agreement of the Board of Statutory Auditors and are amortised over a period of five years, with the exception of leasehold improvements and extraordinary maintenance on factory leaseholds which are amortised over the period of the lease contract.

Intangible assets are amortised as follows:

- Research and development	5 years
- Industrial patents, intellectual property and similar rights	5 years
- Other	5 years/over the contract period

With respect to the above:

- the amortisation of industrial patents, intellectual properties and similar rights is considered sufficient in view of the estimated period of future benefit of the assets;

- the amortisation of "other" intangible assets depends on the costs capitalised:
  -- 5 years for extraordinary maintenance and deferred charges
  -- over the life of the lease contract for leasehold improvements

Tangible assets

Tangible assets are stated at purchase or production cost, revalued, in some cases, in accordance with specific legislation. Cost includes expenses directly chargeable to the asset.

Tangible assets are depreciated on the straight-line method over the estimated useful lives of the assets.

Ordinary maintenance is charged to the income statement when incurred. Maintenance costs which extend the life of the assets are charged to tangible assets and depreciated over the life of the assets to which they refer.

Depreciation rates are as follows:

	Percentage
• Light structures	10%
• Plant and machinery	10-15.50%
• Equipment and tools	25%
• Electronic office equipment	20%
• Office furniture machines and fixtures	12%
• Internal transport vehicles	20%
• Motor vehicles	25%
• Cellular phones	20%

Additions during the year are depreciated at half the normal rate.

Assets under financial leases

Assets acquired under financial leases, if significant, are accounted for by recording the asset under tangible assets and the lease obligation under liabilities, at the commencement of the contract, at the normal value of the leased asset. Assets under financial leases are depreciated on the straight-line method over the estimated useful lives of the assets. The depreciation rates are in line with those used to depreciate tangible assets. Lease instalments are recorded in financial expenses and as reduction of the residual lease payable.

Investments and securities recorded in financial assets

Unconsolidated investments are stated at cost, determined in relation to the purchase or subscription price, adjusted for any permanent diminution in value.

Fixed rate securities are recorded in "Financial Assets" at face value.

Inventories

Raw materials are valued at the weighted average purchase price during the year, adjusted to realisable value by an allowance for write-downs.

Contract work in progress is valued at the average progressive price of materials during the year at the time the materials are used in production, plus the average hourly production labour cost and the purchase cost for external work. Finished goods are valued in the same way as contract work in progress.

The above inventory values are at or below market value.

Receivables

Receivables are stated at nominal value and reduced to estimated realised value by an allowance for doubtful receivables. Accruals to such allowance account refer to possible uncollectible receivables.

Investments and securities (recorded in current financial assets)

Investments are valued at cost, determined in relation to the purchase or subscription cost, adjusted for any permanent diminution in value at year end through a specific provision account.

Prepayments and accruals

Accruals are portions of income or expenses to be received or paid in future periods but referring the current year. Prepayments are portions of costs or income paid or received in the current year but referring to future periods.

Provisions for liabilities and expenses

The provisions for liabilities and expenses include accruals relating to losses or liabilities likely to be incurred but uncertain as to the amount or as to the date on which they will arise. The accruals reflect the best possible estimates based on available information.

Employees' severance indemnity

Employees' severance indemnity covers the entire liability accrued on behalf of employees in conformity with existing legislation, collective national labour contracts and supplementary corporate agreements. This liability is subject to revaluation based on indices.

Payables

Payables are stated at nominal value.

Recognition of revenues

Revenues for the sale of goods are recorded on an accruals basis and are recognised at the time of the transfer of ownership, which generally coincides with delivery.

The invoices to be issued carry indications of the transactions referring to the year just ended for which the relative invoice will be issued in the following year.

Grants

Operating grants received from the state or other public body to cover specific operating costs are credited to the income statement when legal certainty of the receipt of the contribution has been ascertained, or when the body disbursing the grant has issued a resolution approving the payment order.

Capital grants received for capitalised research and development costs are credited to income gradually over the amortisation of the assets to which they refer.

Income taxes

Income taxes are calculated on the basis of estimated taxable income applying existing laws and taking into account any tax exemptions.

Deferred taxes are determined in accordance with IAS 12, for all timing differences. The tax effects of current temporary timing differences have been deferred until such time as these differences reverse; they have been determined by applying the current tax rate of the year. Deferred tax liabilities and deferred tax assets are set-off against each other.

Translation of balances in foreign currency

In the financial statements expressed in Italian Lire, the receivables and payables originally denominated in foreign currency are translated into Italian Lire at the historical exchange rates as of the transaction date. Exchange differences arising at the time of collection or payment are recorded in the income statement. Receivables and payables expressed in foreign currencies not belonging to the Euro area, and which will be settled after the end of the year, have been adjusted to the exchange rates in effect at the balance sheet date and any negative difference arising therefrom has been recorded in a specific provision of the liabilities pursuant to art. 72 of Legislative Decree No. 917/86. Realised gains and losses are recorded in the income statement.

In accordance with Legislative Decree No. 213 of 24th June, 1998 (Ordinary Supplement No. 116/L to the Gazzetta Ufficiale No. 157 of 8th July, 1998) which contains the procedures for the introduction of the euro into national law, at the end of 1998 all receivables and payables expressed in foreign currencies in the Euro zone were translated into euro at the fixed exchange rate established on 31st December, 1998 by the European monetary authorities. Any differences were directly and entirely recorded in the income statement.

COMMENTS ON THE MAIN BALANCE SHEET COMPONENTS

All amounts in the following tables are expressed in thousands of euro.

1 INTANGIBLE ASSETS

	Research and development	Industrial patents	Other intangible assets	Total
1/1/96	1,586	100	84	1,770
Increase	493	152	106	751
Amortisation	(807)	(91)	(69)	(967)
31/12/96	1,272	161	121	1,554
Increase	310	18	203	531
Amortisation	(627)	(63)	(75)	(765)
31/12/97	955	116	249	1,320
Increase	424	49	87	560
Decrease	-	-	(15)	(15)
Amortisation	(516)	(51)	(73)	(640)
31/12/98	863	114	248	1,225

Research and development costs at year-end include the following:

	31-12-1998
Research and development costs – 1995	80
Research and development costs – 1996	197
Research and development costs – 1997	248
Research and development costs – 1998	338
Total	863

The costs capitalised in 1998 of € 424,000 refer solely to the development of new products (Optimo product range). The costs capitalised in 1997 for € 310,000 refer solely to the development of new products (Platino 1530 and the new Optimo product range). The costs capitalised in 1996 of € 482,000 refer solely to the development of new products (Platino and Laserwork Gold). The costs capitalised in 1995 of € 395,000 refer solely to development activities for the application of the new PRIMACH control to the entire range of corporate products.

The above research and development costs are considered to benefit future periods since they refer to high-tech projects for products that can easily be identified and which have a market. Based on market surveys, the sales of such products are expected to produce contribution margins.

Industrial patents, intellectual property and similar rights include the following at year-end:

	31-12-1998
- Industrial rights	
-- Patents	55
- User rights of intellectual property	
-- Software	59
Total	114

Other intangible assets include the following:

	31-12-1998
- Leasehold improvements	
-- Collegno building	189
-- France branch offices	1
-- USA offices	12
- Extraordinary maintenance	21
- Other deferred charges	25
Total	248

2 TANGIBLE ASSETS

Fixed Assets	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other tangible assets	Assets under construction and on account payments	Total
1/1/1996	860	1,503	2,303	1,365	-	6,031
Increase	5	6	119	179	-	309
Decrease	-	-	(93)	-	-	(93)
31/12/1996	865	1,509	2,329	1,544	-	6,247
Increase	2	21	163	153	-	339
Decrease	-	(714)	(504)	(46)	-	(1,264)
31/12/97	867	816	1,988	1,651	-	5,322
Increase	3	344	208	336	3	894
Decrease	-	-	(2)	(23)	-	(25)
31/12/98	870	1,160	2,194	1,964	3	6,191

Accumulated Depreciation	Land and buildings	Plant and machinery	Industrial and commercial equipment	Other tangible assets	Total
1/1/1996	233	1,161	2,005	1,009	4,408
Depreciation	32	155	145	136	468
Utilisation	-	-	(57)	-	(57)
31/12/1996	265	1,316	2,093	1,145	4,819
Depreciation	28	123	125	127	403
Utilisation	-	(704)	(489)	(6)	(1,199)
31/12/97	293	735	1,729	1,266	4,023
Depreciation	28	54	129	148	359
Utilisation	-	-	(1)	(21)	(22)
31/12/98	321	789	1,857	1,393	4,360

Ordinary depreciation has been calculated based on rates representing the estimated useful lives of the assets.

The building where Prima Electronics S.p.A. exercises its business was acquired under a financial lease contract with the last instalment paid at the end of 1998 (the deed to the property prepared by a notary public was drawn up in March 1999). The increase in tangible assets during 1998, equal to approximately € 894,000, mainly refers to additions made by Prima Electronics S.p.A. (approximately € 308,000 for generic and specific plant, approximately € 122,000 for equipment, approximately € 30,000 for office equipment), to modernise and upgrade plant, machinery and equipment. The rest of the increase was partially accounted for by Prima Industrie with approximately € 36,000 for plant and machinery, € 86,000 for equipment, € 302,000 for office machines (of which approximately € 268,000 was for machines related to the Enterprise Resource Planning software project) and € 10,000 for minor items.

Revaluations were effected by the Company as allowed by Law 576 of 2nd December, 1975 and Law 72 of 19th March, 1983 with a counteraccount entry to reserves under shareholders' equity. The above revaluations were made to the following asset categories: buildings, machinery, office furniture and equipment, electronic office equipment, motor vehicles, furnaces.

Such assets are still in the financial statements, with the exception of the building, the motor vehicles and the furnaces, and are grouped below. Revaluations still included in tangible assets in these financial statements total € 16,672. The breakdown is as follows (in euro):

CATEGORY	HISTORICAL COST	REVALUATION LAW 576/75	TOTAL
Machinery	8,226	10,938	19,164
Ordinary office furniture and equipment	11,258	2,866	14,124
Electronic office equipment	11,491	2,868	14,359
Total	30,975	16,672	47,647

3 FINANCIAL ASSETS

3.1 Investments

	1-1-96	Increase / (Decrease)	31-12-96	Increase	31-12-97	Increase / (Decrease)	31-12-98
Prima Cimolai Srl	15	(15)	-	-	-	-	-
Allowance for write-downs	(15)	15	-	-	-	-	-
Macken Instruments Inc	82	(82)	-	-	-	-	-
Optical Engineering Inc.	327	(327)	-	-	-	-	-
Macro Meccanica SpA	-	-	-	310	310	103	413
Allowance for write-downs	-	-	-	-	-	(294)	(294)
Total	409	(409)	-	310	310	(191)	119

During 1998 a payment was made against a future capital increase by Macro Meccanica S.p.A. so that it could meet its financial commitments after an unsatisfactory economic trend caused by operating start-up problems. The investment at 31st December, 1998, therefore, totals € 413,000, corresponding to a 25 per cent. holding, approximately.

In view of the loss reported by Macro Meccanica S.p.A. for the year 1998, the carrying value of the investment has been adjusted to the share of its net equity at 31st December, 1998.

3.2 Financial receivables

	31-12-1998	31-12-1997	31-12-1996
The Prima Group International Inc. loan	1,152	359	-
Allowance for write-downs	(933)	-	-
Tax payment on account for employees' severance indemnity	219	122	-
Lasercraft Inc.	-	142	249
Macken Instruments Inc.	-	-	28
Total	438	623	277

The Prima Group International Inc. was the Company's vehicle for its proposed listing on the NASDAQ stock exchange in the United States. The shareholders of the Company exchanged their shares in the Company for shares in The Prima Group International, Inc. Since The Prima Group International Inc. was not an operating company, the expenses of listing were funded by the Company by way of intercompany loans which in the year ended 31st December, 1998, amounted to approximately € 1,152,000. In the summer of 1998 it was decided to suspend the future listing (in view of the adverse stock market situation) and it was then decided to list the stock of the Company, not The Prima Group International Inc. on a European stock exchange in 1999 (which is currently in progress). In light of this, the former shareholders of the Company repurchased their shares in the Company from The Prima Group International Inc. In the year ended 31st December, 1998, the Company made a provision for bad debts in respect of the loan to The Prima Group International Inc of approximately € 933,000. However, since as at 31st December, 1998, The Prima Group International Inc. was still a shareholder in the Company, this amount was not considered deductible for tax purposes in the 1998 year. As The Prima Group International Inc. ceased to be a shareholder on 30th June, 1999, the tax deductibility of this amount is being reconsidered.

The resulting net amount (about € 219,000) reflects the portion of costs incurred in 1998 for work which can be used again in 1999 to list the stock in Europe, this work being the due diligence which The Prima Group International Inc. will transfer to Prima Industrie at a charge in 1999.

The tax payment on account for employees' severance indemnity (also € 219,000) represents the amount paid to the tax authorities in 1997 and 1998 by the Italian companies as per Law 140/97; this amount includes the revaluations made at 31st December, 1997 and 1998 as provided by law (€ 213,000 for principal and € 6,000 for interest).

The receivable from Lasercraft represents the balance on the sale of the investments in Macken Instruments and Optical Engineering repaid by 31st October, 1998 in monthly instalments at 8 per cent. interest.

3.3 Other securities

	31-12-1998	31-12-1997	31-12-1996
CCT 1/7/97	-	-	292
CCT 1/7/98	-	184	-
CTZ 15/6/99	65	-	-
C.D. BNL 20/3/2001	178	178	178
Total	243	362	470

As at 31st December, 1998, other securities consist of CTZ 15/6/99 with about a 4 per cent. yield and BNL certificates of deposit maturing in March 2001 with an average yield of 9.7 per cent., which are used to guarantee contracts.

They are stated at face value.

4 INVENTORIES

	31-12-98	31-12-97	31-12-96
Raw materials, consumables and supplies	7,078	5,328	4,791
Allowance for raw materials write-downs	(377)	(325)	(325)
Contract work in progress	2,009	1,771	1,089
Finished goods	1,974	770	779
Total	10,684	7,544	6,334

The total increase at 31st December, 1998, is almost completely related to higher productive volumes (more raw materials) and the decision to keep certain finished machines in the customer showroom (two machines) and in the training centre (one machine), in addition to the machines completed in December,1998, and shipped in first days of January, 1999, therefore, in transit in inventories at 31st December, 1998.

A further € 52,000 was added to the allowance for raw materials write-downs to cover the higher volumes in inventory.

The Company does not have the problem of obsolescent inventory since machines have a life of 10 to 15 years. Inventory is affected only by slow turnover of stock. The average age of inventory for 1998, 1997 and 1996 was 138 days, 119 days and 122 days, respectively.

5 TRADE RECEIVABLES

	31-12-98	31-12-97	31-12-96
Trade receivables from Italian customers	17,689	7,134	6,179
Trade receivables from foreign customers	6,154	11,149	10,760
Allowance for doubtful receivables	(350)	(314)	(340)
Net value	23,493	17,969	16,599
of which receivable beyond one year	--	33	91

The increase in 1998 is the result of the normal trend in growth connected to higher sales volumes and sales, which this year were particularly high, reported by Prima Industrie in the last quarter of 1998.

This caption includes receivables with recourse under the Sabatini law. Moreover, at year-end, an additional amount was set aside in the allowance for doubtful receivables to account for the higher volumes of existing trade receivables.

6 OTHER RECEIVABLES

	31-12-98	31-12-97	31-12-96
Direct taxes from tax authorities	1,336	1,170	1,301
Deferred tax assets	577	928	1,112
VAT receivable from tax authorities	211	165	452
Zanussi for IMI/ALASCA project	623	623	1,725
Operating grants	260	242	177
Guarantee deposits	53	51	49
Advances to employees	40	16	38
Sundry	109	43	156
Total	3,209	3,238	5,010

Other receivables are mainly composed of receivables from the tax authorities for direct taxes of the prior year for which a refund has been requested using government securities for € 1,336,000, plus the recording of deferred tax assets for € 577,000, with a total amount due from the tax authorities for € 1,913,000.

Deferred tax assets at 31st December, 1998, are as follows:

	Deferred tax assets	Deferred tax liabilities
On fiscal add-backs:		
- Warranty provision	491	-
- Allowance for inventory write-downs	149	-
- Sundry risks provision	28	-
- Allowance for doubtful receivables	23	-
- Other minor add-backs	18	19
- Deferred gains	-	134
- Dividends to be received	-	67
- Grants	-	33
Recoveries for tax loss carryforwards:		
- Prima U.S. Inc. financial statements	190	-
Consolidation adjustments:		
- Intergroup margins	102	-
- Capitalised costs	19	-
- Gain on sale of machinery to Macro Meccanica S.p.A.	42	-
- Capitalisation Prima Electronics lease	-	135
- Inventories Prima Electronics	-	30
- Accelerated depreciation Prima Electronics	-	67
Total	1,062	485

The receivable from Zanussi for the IMI/Alasca research project of € 623,000 is documented by regular invoices but it does not refer to trade transactions. Operating grants to be received relate to various projects financed by the European Union. Such receivables, which are due within one year, are all collectible and therefore no valuation adjustments were made.

7 CASH AND BANKS

	31-12-98	31-12-97	31-12-96
- Bank and postal accounts	1,424	1,105	450
- Cash on hand and cash equivalents	13	14	16
Total	1,437	1,119	466

This refers to temporary liquidity in cash and with banks for collections received during the last days of the year.

8 ACCRUED INCOME AND PREPAID EXPENSES

	31-12-98	31-12-97	31-12-96
Accrued income			
- Swaps operations	-	4	46
- Interest income	5	5	45
- Insurance refunds	-	28	-
- Other	8	8	14
Total accrued income	13	45	105
Prepaid expenses			
- Costs incurred on research projects financed by laws	-	-	300
- Supplier invoices	35	17	38
- Leasing instalments	7	19	10
- Other	38	117	6
Total prepaid expenses	80	153	354
Total	93	198	459

9 SHAREHOLDERS' EQUITY

	Share capital	Reserves	Net profit for the year	Total
1.1.1996	5,750	733	(808)	5,675
Appropriation 1995 results	-	(808)	808	-
Translation adjustment	-	94	-	94
Net profit 1996	-	-	522	522
31.12.1996	5,750	19	522	6,291
Appropriation 1996 results	-	522	(522)	-
Translation adjustment	-	(35)	-	(35)
Net profit 1997	-	-	558	558
31.12.1997	5,750	506	558	6,814
Appropriation 1997 results	-	558	(558)	-
Translation adjustment	-	(1)	-	(1)
Net profit 1998	-	-	432	432
31.12.1998	5,750	1,063	432	7,245

Share capital at 31st December, 1998 is fully subscribed to and paid-in and consists of 11,134,189 ordinary shares of nominal value Lire 1,000 each for Lire 11,134,189,000 (€ 5,750,328,724).

	1998	1997	1996
Earnings per share (euro)(1)	0.78	1.00	0.94

10 MINORITY INTERESTS

Balance 1.1.1996	330
Results 1996	79
Balance 31.12.1996	409
Other changes	(2)
Results 1997	140
Balance 31.12.1997	547
Dividends paid	(83)
Results 1998	288
Balance 31.12.1998	752

11 PROVISIONS FOR LIABILITIES AND EXPENSES

	Contractual risks and expenses provision	Litigation risks provision	Agents' customer indemnity provision	Sundry provisions	Total
Balance 1.1.1996	725	77	-	3	805
Utilisation	(725)	-	-	-	(725)
Accrual	1,133	-	-	-	1,133
Balance 31.12.1996	1,133	77	-	3	1,213
Utilisation	(1,133)	-	-	(3)	(1,136)
Accrual	1,095	401	-	2	1,498
Balance 31.12.1997	1,095	478	-	2	1,575
Utilisation	(1,095)	(424)	-	(2)	(1,521)
Accrual	1,260	-	22	3	1,285
Balance 31.12.1998	1,260	54	22	3	1,339

(1) For the purposes of this table, the actual number of outstanding shares is 557,000 shares of nominal value Lit. 20,000 each. As at 31st December, 1998, 1997 and 1996, the number of outstanding shares was 11,134,189 shares of nominal value Lit. 1,000 each.

This caption mainly refers to:

- the contractual risks and expenses provision which includes accruals for the completion of installations and work on products under warranty over the next 12 months.

- the litigation risks provision which decreased from € 478,000 at 31st December, 1997 to € 54,000 at 31st December, 1998 due to the utilisation of the provision for € 424,000 to close the Mutti (former Sapri) dispute for € 354,000 (settled at € 325,000 with a credit to income of € 29,000 referring to the accrual made in 1997), plus the utilisation of € 70,000 for the partial settlement of a dispute with INAIL;

  The amount at year-end of € 54,000 refers to:
  - € 36,000 for two disputes with agents before the courts in France;
  - € 18,000 to close the settlement of the INAIL dispute;

- agents' customer indemnity provision of € 22,000 accrued during 1998 for liabilities which could originate from cancelling agency contracts.

12 EMPLOYEES' SEVERANCE INDEMNITY

Balance 1.1.1996	1,799
Accrued	422
Indemnity paid	(185)
Balance 31.12.1996	2,036
Accrued	400
Indemnity paid	(84)
Balance 31.12.1997	2,352
Accrued	497
Indemnity paid	(342)
Balance 31.12.1998	2,507

The balance at 31st December, 1998 is net of payments on account made to employees and gross of payments on account made for taxes in 1997 and 1998, which are shown under receivables in Financial Assets.

This provision represents the gross liability matured in favour of employees on the basis of existing laws at year-end and contractual obligations for each person.

13 BANK BORROWINGS

	31-12-98	31-12-97	31-12-96
- Advances against orders and invoices	10,291	5,662	4,828
- Bank overdrafts	1,216	1,344	2,282
- Discount transactions under Sabatini law	940	1,130	1,424
- IMI	93	273	445
- Unionfidi/CRT	65	129	-
- Banca Sella loan	155	-	-
Total	12,760	8,538	8,979
Due beyond one year	-	1,098	1,403
Due beyond five years	-	-	-

Bank borrowings represented by bank overdrafts and advances against orders and invoices reflect normal borrowing operations of the group. Total credit lines from the banking system to the group at 31st December, 1998 amounted to € 2,505,000 for cash advances (average rate applied: prime rate), € 17,069 for bills presented to banks for collection (average rate: advances against orders: prime rate less 0.50 per cent., advances against invoices: prime rate less 0.75 per cent.) and € 1,705,000 for import advances and hedges of exchange risk. The average rate applied to transactions in foreign currency was Libor plus 0.50 per cent. in 1998.

Facilities	31-12-98	31-12-97	31-12-96
Total credit lines	22,100	13,870	10,200
Total drawn down	11,501	7,000	7,110
Residual not drawn down	10,599	6,870	3,090
Per cent. of facilities used during period	52%	51%	70%

As regards the debt with IMI for financing under Fondo Ricerca Applicata of € 93,000, this loan will be paid off within the 1999 year. This IMI loan, in fact, called for six month instalments, the last of which fall due in 1999. The fixed interest rate is 2.25 per cent. on a six month basis. The loan is secured by a bank surety, counter-guaranteed by securities.

A loan was also received in 1997 from CRT/Unionfidi for the "new employment" project which calls for principal instalments of € 65,000 in 1998 and in 1999. At 31st December, 1998, the remaining payable is therefore € 65,000.

The Banca Sella loan was for the 13th month payroll and refers to a normal short-term transitory loan offered by the banking system at a low interest rate. It will be paid off in the first months of 1999.

The discount transactions under the Sabatini law represent the risk of default for the financing institutions with reference to transactions with recourse.

14 BORROWINGS FROM OTHER FINANCIAL INSTITUTIONS

	31-12-98	31-12-97	31-12-96
Lease obligations	360	320	456
GE Capital Factoring	308	299	-
Ministero Industria Commercio ed Artigianato	249	267	267
SAVAFACTORING	-	-	609
IFITALIA	-	-	144
Total	917	886	1,476
Due beyond one year	382	392	439
Due beyond five years	-	160	185

These relate primarily to:

- Loans obtained from GE Capital Factoring against trade receivables from customers due beyond one year
- Ministero Industria Commercio ed Artigianato loan under Law 46 for € 249,000 for a period of 15 years of which 10 years bear interest at 8.37 per cent. per year and five years at 2.0925 per cent. per year with principal payments after five years. Repayment in ten annual instalments with the first instalment at six years from the beginning of the contract (18th February, 1992). Principal in 1999 is equal to € 20,000. The loan was extinguished in advance by Prima Electronics at the beginning of 1999.

- € 97,000 represents the remaining lease obligation on the Moncalieri building (rate equal to the interbank rate on ECU which initially was 10.75 per cent. in 1989).
- € 263,000 represents the remaining lease obligation on electronic machines (average rate of about 11 per cent.).

15 PAYMENTS ON ACCOUNT

Payments on account refer to advances received from customers against orders to be completed; the balance is € 688,000 at 31st December, 1998, € 312,000 at 31st December, 1997 and € 402,000 at 31st December, 1996.

16 TRADE PAYABLES

	31-12-98	31-12-97	31-12-96
Trade payables to Italian suppliers	13,891	7,287	6,812
Trade payables to foreign suppliers	435	3,730	3,427
Total	14,326	11,017	10,239
Due beyond one year	-	-	-

The increase is due to the normal rise in purchases connected to greater business operations.

17 PAYABLES TO ASSOCIATED COMPANIES

These refer to purchases from Macro Meccanica S.p.A. The amount at 31st December, 1998 is € 176,000.

18 TAXES PAYABLE

	31-12-98	31-12-97	31-12-96
Payables to the tax authorities for :			
- IRPEF withholdings	267	241	301
- IRPEG for the year	184	174	25
- ILOR for the year	-	53	122
- Tax on equity	-	18	20
- VAT	-	139	-
- IRAP	7	-	-
- Other taxes	11	13	6
Total	469	638	474

IRPEF withholding taxes relate to the December payrolls and professional fees which were regularly paid in January.

IRPEG refers entirely to Prima Electronics. For 1998, in fact, Prima Industrie was still able to benefit from tax loss carryforwards but these are almost completely utilised.

19 SOCIAL SECURITY AGENCIES PAYABLE

This refers to payables due to these agencies at year-end for the employer's and employees' portion regarding December payrolls; the total is € 447,000 at 31st December, 1998, € 395,000 at 31st December, 1997 and € 349,000 at 31st December, 1996. The amount owing at 31st December, 1998, was paid in January 1999.

20 OTHER PAYABLES

	31-12-98	31-12-97	31-12-96
Employee payrolls	470	291	340
Payable for acquisition of investment	-	155	-
Insurance policy differences	51	47	29
Credit card charges	51	-	-
Remuneration to directors and statutory auditors	29	29	-
Employee expense reports	37	45	41
Other minor items	120	6	48
Total	758	573	458

Other payables include amounts due for deferred payrolls, remuneration to directors and statutory auditors and other items. The amount payable in 1997 for the acquisition of investment refers to the second instalment on the acquisition of 25 per cent. of Macro Meccanica S.p.A.

21 ACCRUED LIABILITIES AND DEFERRED INCOME

	31-12-98	31-12-97	31-12-96
Accrued liabilities			
- Other	42	98	17
Total accrued liabilities	42	98	17
Deferred income			
- Interest on discount transactions under Sabatini law	122	-	-
- IMI grants	-	49	150
- Customer maintenance contracts	122	52	88
- Portion of gains on machinery	102	123	-
- Interest income from customers	-	13	17
Total deferred income	346	237	255
Total	388	335	272

Accrued liabilities – other includes payables for insurance, commissions, expenses to be paid to employees, etc.

Deferred income for interest on discount transactions under the Sabatini law are entirely due to two new discount transactions without recourse stipulated at year end.

The portion of gains on machinery relates to 25 per cent. of the amount realised on the commercial transactions with Macro Meccanica S.p.A., in which Prima Industrie has a 25 per cent. holding. This gain is deferred over five years starting from 1998, the period corresponding to the duration of the lease contract drawn up by Macro Meccanica S.p.A. for the purchase.

The customer maintenance contracts relate to maintenance and/or service on machines sold on which the warranties have expired.

22 MEMORANDUM ACCOUNTS

22.1 Personal guarantees given

Sureties given to others – These amount to € 33,000 and refer to two sureties given to Consorzio Garanzia Fidi Unionfidi. They are unchanged from the prior year.

22.2 Collateral

At 31st December, 1998, collateral refers to:

Payables recorded in the financial statements – This item refers to securities of € 65,000 to guarantee two-thirds of the surety given by Credito Italiano in favour of I.M.I.

The decrease from the prior year of € 118,000 refers to the sale of securities in proportion to the loan instalments paid during the year.

22.3 Commitments

Commitments for currency operations – There are two exactly opposite pound sterling positions open at 31st December, 1998, (one for the sale of the equivalent € 286,000 and one for the purchase of the equivalent € 285,000 approximately) relating to pound sterling 200,000, expiring 29th January, 1999.

The forward operations are made to hedge a collection in this currency which took place during the last days of the year.

Since the amounts practically compensate each other, the net commitment at year-end is not material.

Lease commitments – Financial lease commitments amount in total to € 177,000 (compared to € 650,000 in the preceding year) and represent the total value of lease obligations payable, including the purchase option at the end of the contract and excluding the instalments already paid. Lease obligations by year are as follows (in euro):

1999	€ 55,000	(including purchase option amount)
2000	€ 22,000	(including purchase option amount)
2001	€ 100,000	(including purchase option amount)
	€ 177,000	

These refer to all contracts which do not give rise to consolidation adjustments since they are not considered financial leases.

22.4 Risks

Risks refer to the non-collection of bills from customers presented to banks for collection for € 209,000 (compared to € 1,585,000 in the prior year), against which advances were received from the credit institutions.

22.5 Other

This caption includes the following memorandum accounts at 31st December, 1998:

Re-purchase commitments regarding customers and suppliers – These refer to re-purchase commitments in favour of leasing companies against sales to customers for € 1,037,000. The remaining amount of € 453,000 refers to the commitment to re-purchase Prima Industrie machines sold to the Group company Macro Meccanica S.p.A. under a 60-month leasing contract at the end of 1997. This amount totalled € 1,043,000 last year.

Assets with third parties – At 31st December, 1998, such assets amounted to € 1,787,000 (compared to € 1,342,000 in the prior year); such assets refer to materials to be processed by third parties and assets for inspection by third parties.

Sureties given by third parties on our behalf – The amount of € 1,335,000 (compared to € 1,311,000 in the prior year) represents bank and insurance sureties given to customers and third parties, bank sureties in favour of IMI/FRA and other minor amounts.

As regards the surety given by Credito Italiano to IMI/FRA, the amount is counter-guaranteed by a securities deposit for two-thirds of the amount.

23 REVENUES FROM SALES AND SERVICES

	1998	1997	1996
Optimo	4,810	5,956	5,997
Rapido	12,232	10,409	8,969
Laserwork	663	3,701	5,900
Platino	14,893	7,139	1,478
Total laser machines	32,598	27,205	22,344
Regulators	5,438	5,288	4,539
Servo drives	1,271	1,007	855
Total other products	6,709	6,295	5,394
Service and other	6,782	4,990	4,958
Total	46,089	38,490	32,696

Sales revenues by geographic area are analysed as follows:

	1998	1997	1996
Italy	13,051	11,356	10,516
Europe	25,061	22,764	18,764
Outside Europe	7,977	4,370	3,416
Total	46,089	38,490	32,696

24 INCREASE IN INTERNAL WORK CAPITALISED UNDER FIXED ASSETS

The following costs have been capitalised under intangible and tangible assets during the year:

	1998	1997	1996
Internal construction of equipment	61	55	48
Studies and research	423	310	493
Deferred charges for leasehold improvements	-	-	9
Total	484	365	550

This caption mainly refers to studies and research on new products developed by the Group holding company Prima Industrie. Internal construction of equipment in 1998 refers to capitalised testing stations.

25 OTHER REVENUES AND INCOME

	1998	1997	1996
- Operating grants	331	406	1,117
- Licenses	413	247	-
- Prior period income	193	92	58
- Gains on disposals	28	-	-
- Costs recharged	150	204	158
- Insurance refunds	-	28	208
Total	1,115	977	1,541

Operating grants recorded in the income statement in 1998 relate to grants received for research projects against research and development costs incurred during the year for € 305,000, as well as capital investment grants received under Law 626 obtained by Prima Electronics for € 26,000.

The income realised in 1997 and 1998 on the licenses refer mainly to Shenyang (€ 360,000), Strippit (€ 186,000) and Promotec (€ 114,000).

Costs recharged include the EMO fair charged to Matra Werke Gmbh (€ 158,000) and others.

26 PURCHASES OF RAW MATERIALS, CONSUMABLES AND SUPPLIES

	1998	1997	1996
Laser generators and parts	6,360	5,232	3,468
Customised subassemblies	7,442	5,640	5,037
Standard components	4,962	4,075	3,597
Raw materials	5,520	4,819	4,588
Packing	215	165	135
Consumable stores	301	344	306
Other	291	230	114
Total	25,091	20,505	17,245

Purchases increased two per cent. more than sales revenues because of purchases made in 1998 to accommodate production scheduling which was brought forward to January 1999.

27 SERVICE EXPENSES

	1998	1997	1996
Work by third parties	4,088	2,560	1,766
Travel expenses	1,266	1,176	1,034
Consulting fees	708	756	625
Freight	812	714	569
Commissions	733	524	454
Advertising and promotion	576	354	597
Electricity, telephone, etc.	347	362	324
Insurance	162	183	144
Maintenance	223	158	123
Remuneration to directors and statutory auditors	198	184	181
Other	447	355	321
Total	9,560	7,326	6,138

A part of the increase in work by third parties compared to 1997 related to mechanical work contracted outside by the company (Macro Meccanica S.p.A. operation).

28 LEASE AND RENT COSTS

	1998	1997	1996
Rent	246	284	249
Motor vehicle leasing	201	132	81
Motor vehicle rentals	92	65	79
Other leases	7	37	52
Other minor items	118	40	52
Total	664	558	513

29 PERSONNEL EXPENSES

The number of employees by category is as follows:

	31/12/98	31/12/97	31/12/96
Managers	15	16	17
Supervisors/staff	124	111	107
Supervisors /workers	73	67	53
Branches	18	16	15
Total	230	210	192

Other personnel expenses refer to canteen costs, training courses and social security contributions for the managers of the Group.

30 ACCRUALS TO PROVISION FOR LIABILITIES AND EXPENSES

This caption includes the accruals (net of utilisation of existing provisions) made during the year for potential liabilities.

31 OTHER OPERATING EXPENSES

	1998	1997	1996
Prior period expenses	159	118	157
Taxes	58	96	64
Other	75	262	96
Total	292	476	317

32 OTHER FINANCIAL INCOME

	1998	1997	1996
- Interest income from customers	399	238	258
- Interest income from banks and others	19	9	6
- Interest income from securities	26	53	47
- Interest income on VAT/IRPEG refund	41	48	73
- Sundry interest income	-	-	157
- Exchange gains	260	567	431
Total	745	915	972

33 INTEREST AND OTHER FINANCIAL EXPENSES

	1998	1997	1996
- Interest expense on bank borrowings	585	582	648
- Interest expense on Sabatini laws transactions	319	219	140
- Bank charges	156	139	145
- Interest expense on other payables	101	108	181
- Exchange losses	281	403	237
Total	1,442	1,451	1,351

Interest expense on other payables refers to medium/long-term debt, factoring and leasing companies, etc.

34 WRITE-DOWNS OF INVESTMENTS

This item amounts to € 294,000 in 1998 and refers to the accrual made against the loss for the year reported by Macro Meccanica S.p.A.

Write-downs amounted to € 15,000 in 1996 and referred to the accrual made in respect of the investment in Prima Cimolai s.r.l. following the announcement of the liquidation of the company.

35 EXTRAORDINARY INCOME

	1998	1997	1996
- Gains on disposals	-	431	361
- Other	-	13	15
Total	-	444	376

The gain in 1996 refers to the sale of Sapri S.p.A. The gain in 1997 refers to the sale of machinery and related equipment made to Macro Meccanica S.p.A. in relation to moving the mechanical processing work outside the company for € 390,000 and the sale of Advanced Technology Inc. for € 41,000.

36 EXTRAORDINARY EXPENSES

	1998	1997	1996
- Litigation expenses	-	279	-
- Losses on disposals of investments	-	-	279
- Other	933	17	17
Total	933	296	296

The 1996 amount refers to the sale of the investments in Macken Instruments and Optical Engineering for € 279,000.

The 1997 amount refers to the accrual for the additional cost relating to the Mutti/Sapri litigation for € 277,000.

This litigation settled in 1998 with the payment of € 325,000, which was less than the total amount accrued up to 1997 of € 354,000.

The 1998 amount refers to the accrual for the uncollectible portion of the receivable from The Prima Group International Inc. relating to the listing of the stock on the NASDAQ stock exchange.

37 INCOME TAXES

The increase in income taxes is due to the increase in profit on which Prima Electronics S.p.A., since 1997, pays IRPEG on total taxable income, and the introduction of the IRAP tax.

	1998	1997	1996
IRPEG	349	205	25
IRAP	531	-	-
ILOR	-	187	122
Deferred taxes	361	185	154
Other foreign taxes	1	-	3
Total	1,242	577	304

Relationship between taxes paid and pre-tax profit:

The reconciliation between the average effective tax rate and the applicable tax rate is as follows:

	1998 %	1997 %	1996 %
Applicable tax rate	41.25%	53.20%	53.20%
effect of tax loss carryforwards	*-21.7%*	*-7.4%*	*-13.6%*
tax effect of non-deductible expenses for IRAP purposes	16.65%	-	-
tax effect of non-deductible expenses (revenues)	27.1%	11.4%	-6.0%
effect on deferred taxes of reduction in tax rate	-	-11.95%	-
Effective tax rate	*63.3%*	*45.2%*	*33.6%*

38 SUBSEQUENT EVENTS

At the beginning of 1999, the following events took place:

- at the end of April, Prima Industrie subscribed for shares with a total nominal value of € 516,000 million in aggregate in Rambaudi Industriale S.p.A., representing 7.41 per cent. of the total share capital of this company which makes high speed milling machines;

- at the extraordinary shareholders' meeting held on 14th May, 1999, the shareholders of the Company approved the following resolutions:

  - an increase in the Company's share capital from Lit. 11,134,189,000 to Lit. 11,140,000,000 using the reserve fund for an amount of Lit. 5,811,000;

  - the consolidation of the Company's share capital from 11,140,000,000 shares of Lit. 1,000 nominal value each to 557,000 shares of Lit. 20,000 nominal value each.