



2005 FACTS AND FIGURES

# Contents

---

COMPANY PROFILE	2
FINANCIAL HIGHLIGHTS	3
MESSAGE TO SHAREHOLDERS	4
REVENUE ANALYSIS	6
MARKETING AND SALES	8
WORLDWIDE COVERAGE	10
RESEARCH AND DEVELOPMENT	12
PERSONNEL AND ORGANIZATION	14
GROUP'S COMPANIES AND JOINT VENTURES	16
PERFORMANCE ON THE STOCK MARKET	22
DIRECTORS AND OFFICERS	23
CONSOLIDATED FINANCIAL STATEMENTS	24
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	27

## Company Profile

---

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

During the period 1995 - 2001, after focusing the strategic business on laser systems for industrial applications, the Company has continuously recorded double-figure growth rates, simultaneously becoming one of the leaders in the laser systems market. More recently, maintaining its own leadership in three-dimensional applications, PRIMA INDUSTRIE has also become an important manufacturer on the market relating to the laser cutting of flat surfaces, thanks to its strong commitment to product innovation and its extensive sales and customer service network.

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

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

In April 2001, the Company acquired the net assets of the Laserdyne Division from GSI Lumonics – the division is a leader in the design, manufacture and sale of multi-axis laser systems, especially in the field of precision micro-drilling, cutting and welding for the aerospace and energy industries. Thanks to this acquisition, the PRIMA Group has broadened its presence in North America and in the aerospace market.

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

In 2003, the Company increased its presence on the Asian market, where it currently also operates through three joint ventures, two in China and one in Japan.

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

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

The Parent Company, PRIMA INDUSTRIE S.p.A., has been listed on the Italian Stock Exchange since October 1999 (currently STAR section); the Company has its registered offices and its business premises in Collegno (Torino, Italy).



**Listed**



ISO 9001 - Cert. n° 0758/2

**Certified**



**Audited**



**Member**

## Financial Highlights

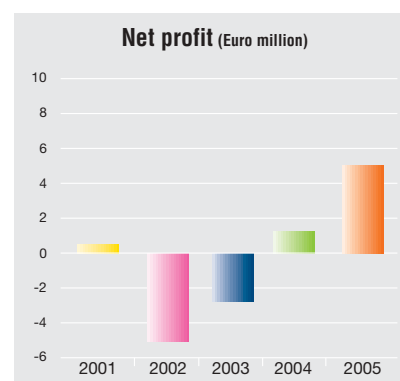
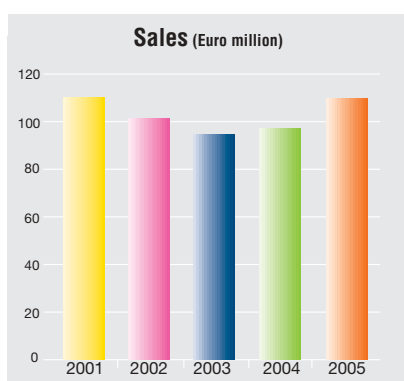
Please note that 2005 and 2004 figures are prepared/restated in accordance with IAS/IFRS. 2003, 2002 and 2001 figures are prepared according to Italian Gaap.

Year ended December 31<sup>st</sup>, (Euro thousand, except per share data)

	2005	2004	2003	2002	2001
<b>PROFIT AND LOSS STATEMENT</b>					
Net Sales	110,885	97,106	95,000	100,528	111,895
Operating Margin (EBITDA)	9,125	6,205	2,731	124	4,313
Operating Profit (EBIT)	7,916	4,991	589	(2,523)	2,113
Profit Before Taxes (EBT)	7,113	3,431	(2,083)	(5,569)	1,471
Minority Interests	-	-	-	-	(48)
Group Net Profit	5,108	1,043	(2,953)	(5,024)	197
<b>BALANCE SHEET</b>					
Fixed Assets (net)	10,431	9,522	10,432	10,985	14,358
Working Capital (net)	33,078	36,076	43,784	59,225	51,912
Shareholders' Equity and Minority Interests	30,839	25,682	27,729	27,248	33,863
Financial Position (net)	7,733	15,418	22,323	39,254	29,203
Employees' severance indemnity	4,937	4,498	4,164	3,708	3,204
<b>PER SHARE DATA<sup>(1)</sup></b>					
Number of outstanding shares	4,600,000	4,600,000	4,600,000	4,150,000	4,150,000
Weighted average outstanding shares	4,588,553	4,559,015	4,543,750	4,150,000	3,760,833
Net Profit per share (on weighted average of shares)	1.11	0.23	(0.65)	(1.21)	0.05
Book value per share (on weighted average of shares)	6.72	5.63	6.10	6.57	9.00
<b>RATIOS</b>					
Operating Income/Net Sales (ROS)	7.1%	5.1%	0.6%	(2.5%)	1.9%
Operating Income/Invested Capital (ROI)	20.5%	12.1%	1.1%	(3.6%)	3.3%
Net Income/Stockholders' Equity (ROE) <sup>(2)</sup>	18.1%	3.9%	(10.8%)	(16.8%)	0.7%
<b>OTHER KEY INFORMATION</b>					
Research and Development Expenses	7,723	6,926	6,935	7,475	6,119
Year-end Order Backlog	40,742	35,766	19,050	27,895	30,006
Number of employees	498	465	446	443	470

NOTES: (1) Number of shares as per split executed on June 4, 2001

(2) ROE is calculated on average Stockholders' Equity



## Message to Shareholders



Ladies and Gentlemen,

after the return to profitability in 2004, the 2005 financial year has seen the Group's results return to significant figures, not far off, in absolute terms, from those which were achieved in 2000, a year which the entire industrial system considers to have been the best of the years, from the beginning of the 1990s until today.

Different factors contributed to the overall improvement of all income and financial ratios, all of which were structural and not related to specific business situations, a fact which allows to forecast the positive trend being maintained, even in the near future.

- The Group's reference market restarted significant growth from the second half of 2004. Double-digit growth, which all sector analysts forecast to continue until at least the end of this decade, initially showed itself on the North American and Asian markets - the latter's growth was induced by the strong growth in China and the economic recovery in Japan. Starting from the second half of 2005 a recovery was finally noted also in the main Western European markets. This trend enabled the Group to close the 2005 financial year with a significant increase in the orders backlog.

- All main companies of the Group contributed to the growth with a significant increase in their sales: about 10% for the Parent Company PRIMA INDUSTRIE and for PRIMA ELECTRONICS, and about 20% for PRIMA North America.

In consolidated terms and therefore net of intercompany transactions, the increase in sales was set at more than 14%.

It must be emphasized that for the first time the Consolidated Financial Statements of the Group were drawn up in compliance with International Accounting Standards (IAS/IFRS).

The revenues of the two Chinese joint ventures, consolidated using the Equity method, are not included in sales of about € 111 million.

If one takes into account the sales of these companies (in particular those of SHANGHAI UNITY PRIMA), proportionate to the stake held, the total sales of the Group reached record heights, notwithstanding the continued weakness of the Dollar, a currency in which about one third of the revenues are accounted for.

The valuation of SHANGHAI UNITY PRIMA using the Equity Method has anyhow contributed to about 10% of the consolidated net profit.

- All main companies of the Group have improved all their profitability indicators (EBITDA, EBIT, NET PROFIT). In particular, the consolidated net profit has increased fivefold to € 5.1 million, also thanks to the lesser impact of taxes.

All companies have also generated cash despite the increase in revenues. As a consequence of the above, the Net Financial Position reflected a further significant improvement of about € 8 million, improving the debt/equity ratio to 0.25.

- The Group's product range was further strengthened with the launch of the machine Sincrono, which took place at the EMO fair, the European machine tool exhibition and the sector's main international show. The launch of the Sincrono, which immediately received positive acceptance from the market, contributed only marginally (having taken place in October), to the financial year's growth in revenue. It should also be noted that the new product is very important from an emblematic point of view because it has allowed the Group, which has for long time been acknowledged as a market leader in the three-dimensional machines sector, to noticeably improve its image in the large, competitive sector of two-dimensional cutting machines.

It is therefore not by chance that the Sincrono launch benefited also all other product lines of the Group.

The Sincrono is the result of a policy of strong investments in Research and Development (in 2005 too, the percentage charged to the Income Statement was 7% of consolidated sales).

- During the year the Group continued to invest to improve the business coverage in some of the main markets and in emerging countries.  
It is in this view the purchase from the previous German distributor of the branch of business that was dealing with sales and services of PRIMA INDUSTRIE products.  
After this purchase, effective from July 2005, PRIMA INDUSTRIE GmbH has 12 employees - all highly qualified. The purchase will allow the Group an efficient coverage of the German market, the widest in Europe, and improved competitiveness thanks to the shortening of the distribution chain.

The consolidated revenues for 2005, valued in compliance with IAS 18 (which provides for the recognition of revenue generally at the time of the end-customer's acceptance) amount to € 110.9 million, up 14.2% compared to € 97.1 million of the year 2004.

The year-end data confirm the trend of growth in profitability already highlighted in the interim financial statements. The Group's EBITDA, equal to € 9.1 million, grew by 47% compared to € 6.2 million at 12/31/04, whereas the consolidated EBIT (€ 7.9 million corresponding to 7.1% of the sales) improved 58.6% compared to the previous year (€ 5.0 million at 12/31/04 corresponding to 5.1% of sales). The profit before tax for the period was € 7.1 million, more than double (+107%) of the € 3.4 million at 12/31/2004. The increase in the net profit, fixed at € 5.1 million (up 390%) was particularly significant, compared to the € 1.0 million of the previous financial year. The reduction of the consolidated tax rate depends mainly on PRIMA North America's growing positive

contribution to the consolidated result, which benefits from carried forward tax losses.

Consequently, the profit per share for the financial year, taking into account the average number of treasury stock held in the period, amounts to € 1.11 per share (compared to € 0.23 per share at 12/31/04).

The improved management of working capital, that gave such excellent results in 2004, continued throughout 2005.

As a consequence of these activities and the positive cash flow generated during the year, the Net Financial Position further improved to € 7.7 million as against € 15.4 million at 31/12/2004. This figure includes Sabatini factoring transactions and financial leases on real estates for a total amount of € 1.8 million and € 1.8 million in loans provided by public bodies at favourable rates.

The short term portion of net debt (including medium term loan repayments due during 2006) is € 2.4 million, while the medium to long term portion is € 5.3 million.

As a consequence of all the above, the Stock Market, (where the Company is listed in the STAR section of the Italian Stock Exchange), has recorded a remarkable increase of PRIMA INDUSTRIE's capitalization (about 90%).

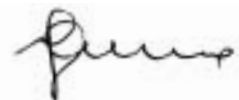
Even if the entire growth was internal, it is well known that external growth was also considered during the year but could not be realised due to factors beyond the Group's control.

It is also evident that the overall improvement of the Group's situation (and in particular the Net Financial Position) will allow it in the future to pursue external growth opportunities.

We must thank all the employees of the Group (about 650 throughout the world, including 150 people of the 2 Chinese joint ventures, which are not consolidated), for their dedication and the positive results achieved.

In the light of an improved view of the future, the Board of Directors has decided to propose to the Shareholders' Meeting a substantial increase in the dividend from the € 0.14/share of the previous year to € 0.28/share.

In conclusion, the Board wishes to thank the Group's Shareholders, Customers and Business Partners, for the trust accorded to it and firmly hopes for further improvement in the current year's results, in accordance with the present global economic trend.



Gianfranco Carbonato  
Chairman and CEO





## Revenue Analysis

The consolidated revenues for 2005, valued in compliance with IAS 18 (which provides for the recognition of revenues generally at the time of the end-customer's acceptance) amounted to € 110.9 million with a significant growth (+14.2%) compared to the € 97.1 million in 2004.

Revenues do not take into account the turnover of the Japanese and Chinese joint ventures as these are not consolidated.

2D systems 2005 sales, representing 38% on total revenues, increased by € 10.5 million compared to 2004 with a growth in the Group's product mix

equivalent to 5.6%. This increase is due not only to the demand recovery in some traditional markets (the sheet metal processing market, in particular), but also to the launch of the new product Sincrono, which has also contributed in increasing sales of other Group's 2D products.

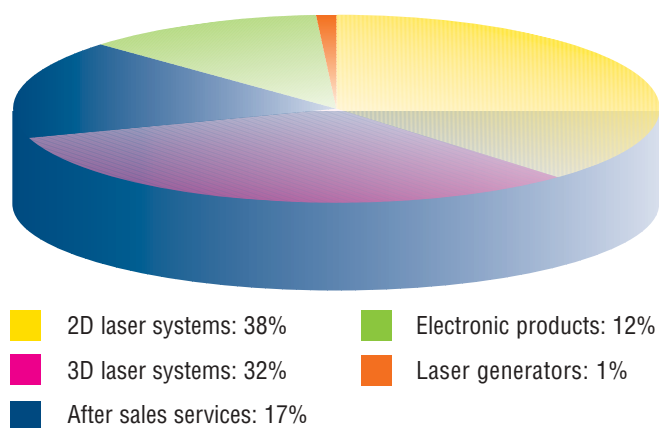
3D systems (representing 32% of total sales) showed in 2005 a limited increase (€ 2.3 million) compared to the prior year.

Electronics grew in absolute terms (€ 1.5 million), thanks to the increase in volumes sold to traditional customers and to the acquisition of new customers.

The geographical distribution of the revenues highlights the recovery underway in the Italian and European markets.

In particular, sales in Europe (excluding Italy) grew from € 35.0 million in 2004 to € 45.5 million in 2005, equivalent to 41% on total revenues (an increase of 5% compared to previous year). Sales in Italy, grew from € 26.4 million in 2004 to € 30.1 million in 2005, therefore the incidence on total revenues remained in line with the previous year (27.1% both in 2005 and 2004). Sales in North America slightly increased (€ 1.3 million) compared to the previous year, while revenues coming from Asia and the rest of the world showed a limited reduction in absolute terms (€ 1.7 million) mainly due to the higher volumes locally produced by the Chinese joint ventures, not consolidated.

2005 revenues by product

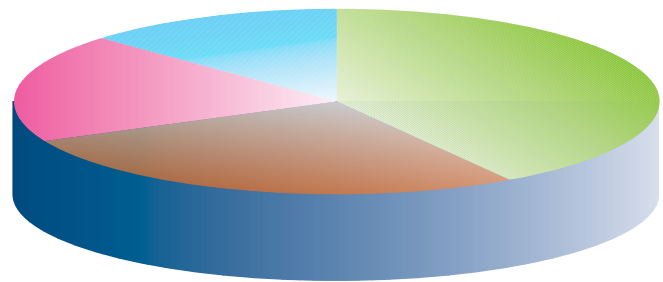


3D ROUND-THE-CLOCK PRODUCTION OF AUTOMOTIVE PARTS IN CHINA

As far as the destination market, the most important variations are the 1% growth of sales to the Sheet metal processing market and the 4% increase in sales to the Automotive market, which is mainly related to the recovery in demand from the European and Italian markets.

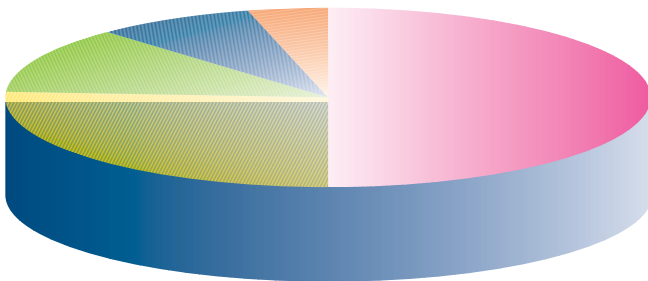
The apparent downturn of the Aerospace and Energy markets is exclusively due to the IAS/IFRS revenue recognition, particularly affecting LASERDYNE SYSTEMS.

2005 revenues by geography



Italy: 27%      U.S.A.: 19%  
Europe: 41%      R.O.W.: 13%

2005 revenues by markets



Sheet metal processing: 50%      Aerospace & Energy: 8%  
Automotive: 26%      Other: 4%  
Electronics: 12%



PLATINO WITH TOWER-STORE SYSTEM  
FOR 2D-ROUND-THE-CLOCK PRODUCTION  
IN GERMANY



## Marketing and Sales

As at 12/31/05 the consolidated orders acquisition amounted to € 118.8 million, an increase of 17.3% compared to € 101.3 million of 2004.

This increase was achieved in the second half of the year, as fresh evidence of the strength of the destination markets.

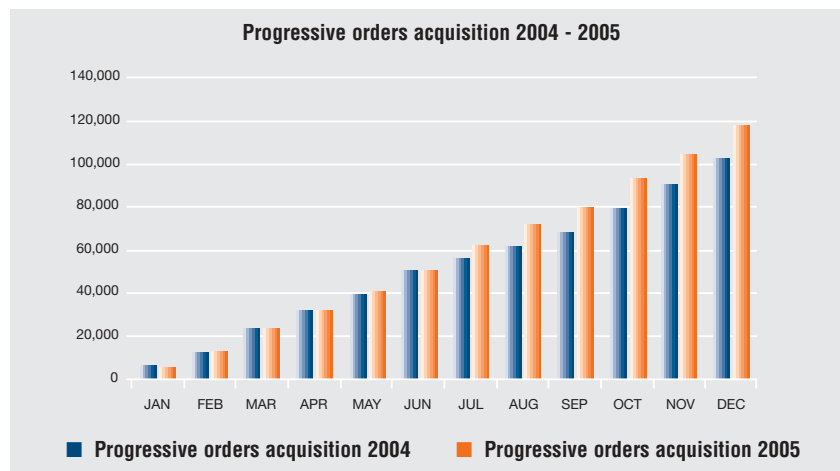
In particular, the orders acquisition of the Laser sources and systems sector totalled € 105.5 million (89.5 million in 2004), whereas those of the Electronic equipment sector, relative to third party customers, amounted to € 13.3 million in 2005.

In addition to the more favourable economic climate, the growth in orders acquisition benefited from proactive marketing activities in all major markets. This includes Germany, where the Group has returned to a direct presence after 10 years, through the acquisition by PRIMA INDUSTRIE GmbH

of the former distributor's branch. The marketing activities were also directed at taking part in many exhibitions. By way of example only, one may refer to the EMO fair and SCHWEISSEN UND SCHNEIDEN (Germany), FABTECH (Chicago),

MAQUITEC (Spain), TOL-EXPO (France) and CIMT (Beijing).

As a consequence, the orders backlog at 12/31/2005 totalled € 40.7 million increasing by 13.9% compared to the € 35.8 million at 12/31/04.



EMO - HANNOVER



FABTECH - CHICAGO






CMT - BEIJING

## Worldwide Coverage

---



 Headquarters       Group Companies, Joint Ventures, Subsidiaries and Branch Offices       Distributors and Agents

### Europe

**PRIMA INDUSTRIE S.p.A.**

Via Antonelli, 32 - 10097 Collegno (To) ITALIA  
Tel. +39.011.4103.1 - Fax +39.011.411.28.27 - [www.primaindustrie.com](http://www.primaindustrie.com)

**PRIMA ELECTRONICS S.p.A.**

Strada Carignano, 48/2 - 10024 Moncalieri (To) ITALIA  
Tel. +39.011.682.72.11 - Fax +39.011.640.42.77 - [www.primaelectronics.com](http://www.primaelectronics.com)

**PRIMA INDUSTRIE ESPAÑA**

Calle Elisa 31/33 - 08023 Barcelona ESPAÑA - Tel. +34 932 531 777 - Fax +34 932 531 778

**PRIMA INDUSTRIE FRANCE**

Parc de Courcerin - C1 Rue Lech Walésa - 77185 Lognes FRANCE  
Tel. +33.(0)1.60.17.11.11 - Fax +33.(0)1.60.17.38.74

**PRIMA INDUSTRIE GmbH**

Lise-Meitner-Straße 5 - 63128 Dietzenbach DEUTSCHLAND - Tel. +49 (0)6074 4070-0 - Fax +49 (0)6074 4070-111

**PRIMA INDUSTRIE SCHWEIZ**

Seuzachstrasse, 42 - CH 8413 Neftenbach SCHWEIZ - Tel. +41 (0)52 315 17 21 - Fax +41 (0)52 315 24 29

**PRIMA INDUSTRIE UK Ltd.**

Unit 1, Phoenix Park - Bayton Road - Coventry CV7 9QN UNITED KINGDOM  
Tel. +44 (0)2476 645588 - Fax +44 (0)2476 645115

**PRIMA SCANDINAVIA AB**

Mölnälsvägen, 30c - SE 412 63 Göteborg SVERIGE - Tel. +46-31 83 44 70 - Fax +46-31 83 14 75



## Overseas



### **PRIMA North America, Inc.**

CONVERGENT LASERS Division - PRIMA LASER TOOLS Division  
711, East Main Street - Chicopee MA 01020 U.S.A.  
Tel. +1/413-598-5200 - Fax +1/413-598-5201 - [www.prima-na.com](http://www.prima-na.com)



### **PRIMA North America, Inc.**

LASERDYNE SYSTEMS Division  
8600, 109th Avenue North - Champlin MN 55316 U.S.A.  
Tel. +1/763-433-3700 - Fax +1/763-433-3701 - [www.prima-na.com](http://www.prima-na.com)



### **PRIMA INDUSTRIE S.p.A. Beijing office**

Guomen Building Rm 1M - No.1 Zuoqia Zhuang Cheoyang District  
Beijing 100028 PEOPLE'S REPUBLIC OF CHINA  
Tel. +86-10-64603085 - Fax +86-10-64641975



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

Wanjiacun; Wangjiazhen - Dongling District - Shenyang City 110168 PEOPLE'S REPUBLIC OF CHINA  
Tel. and Fax: +86-(0)24-24772833



### **SHANGHAI UNITY PRIMA LASER MACHINERY COMPANY Ltd.**

2019 Kunyang Road - Minhang District - Shanghai 201111 PEOPLE'S REPUBLIC OF CHINA  
Tel. +86 21 64099321 - Fax +86 21 64093347



### **SNK-PRIMA COMPANY Ltd.**

c/o SNK - Misaki Works 3513-1 Fuke Misaki-Cho, Sennan-Gun, Osaka JAPAN  
Tel. +81-3-32720371 - Fax +81-3-32788077



Headquarters



Group Companies, Joint Ventures, Subsidiaries and Branch Offices



Distributors and Agents

## Research and Development

As usual all Research and Development expenses carried out during the year and totalling € 7.7 million at 12/31/05 were charged to the Income Statement. This sizable investment, which corresponds to 7% of turnover, will enable the Group to maintain and strengthen its competitive edge in the fast-paced world of laser technology.

Research was carried out in all Group's main companies; the role of the new research centre in Bari was particularly important, where at 12/31/2005, 16 researchers worked. The new centre was able to benefit from synergies with Sintesi S.r.l., a consortium that has CNR (National Research Council) as its major shareholder, in which PRIMA INDUSTRIE S.p.A. acquired a 10% stake in January 2005.

During 2005 research activities related in particular to the following:

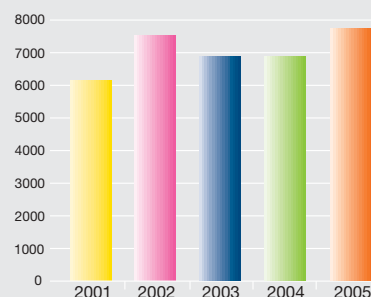
- The completion of the Sincrono project, the revolutionary 2D machine

based on a parallel kinematic head capable of an acceleration performance (6g) that is double that of the best machines on the market.

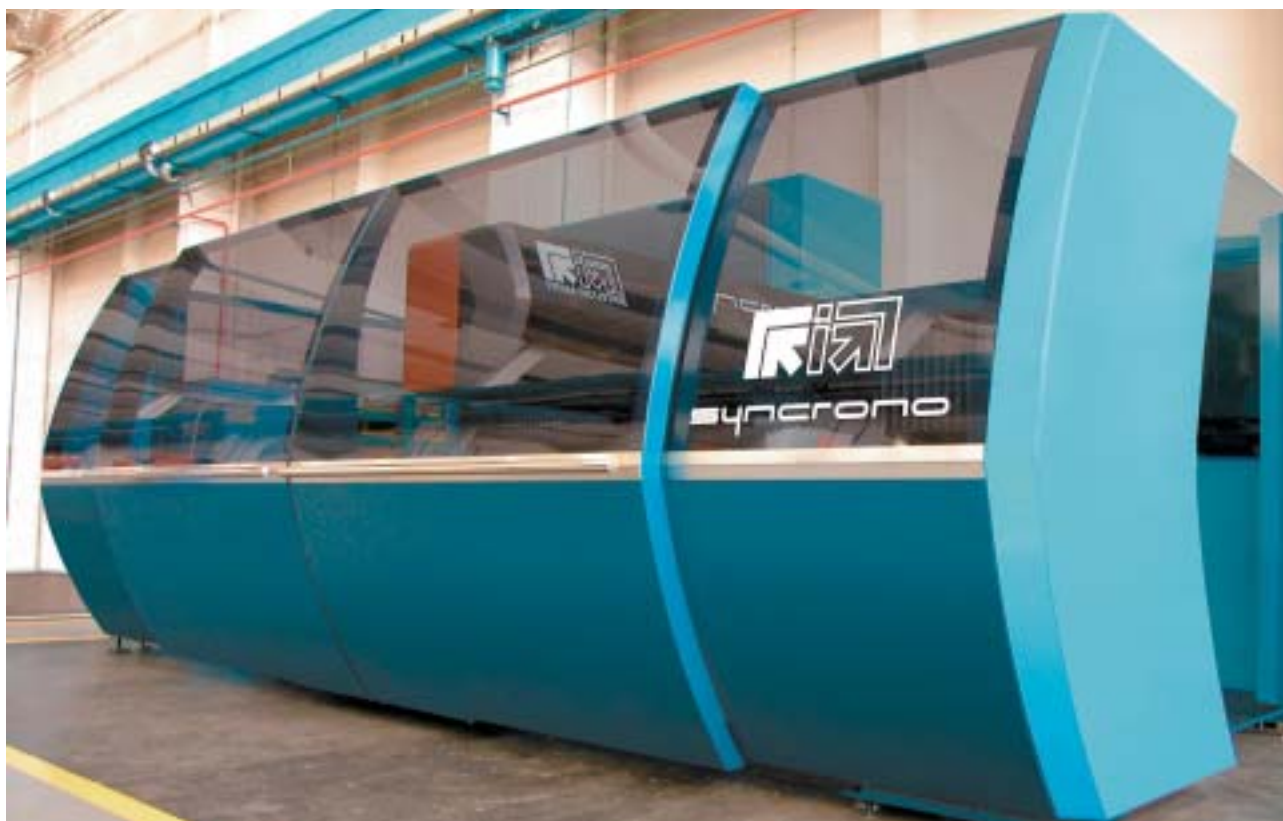
The development activities, including the completion of hardware and software design on PRIMACH-20L numeric control, were finalized and a pre-series of the machine was launched. The new machine was very successful when presented to the market at the EMO fair, which was held in Hannover in September 2005.

- The development of the new automation system for 2D machines, called CompactServer, managed by PRIMA ELECTRONICS controllers, which was presented to the market at the MAQUITEC fair in Barcelona in October 2005.
- The upgrade of the Platino with important technological developments like the new 10" focal head and the new technological tables on board CNC.

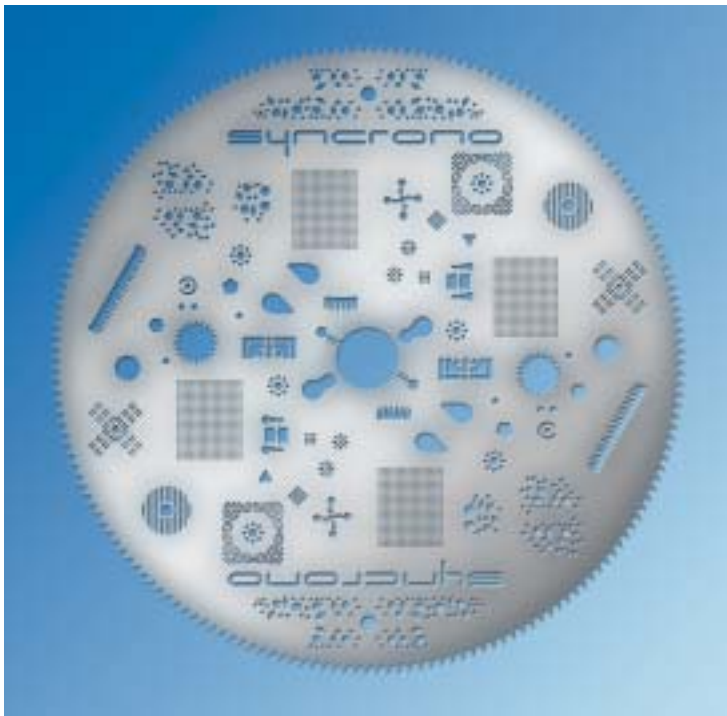
**Research and Development expenses**  
(Euro thousand)



- The development of the new version of the 3D Rapido machine with a Z stroke that has been extended to 765 mm, as well as new fast turntables for loading and unloading as well as new tools such as the wire feeder for welding applications.

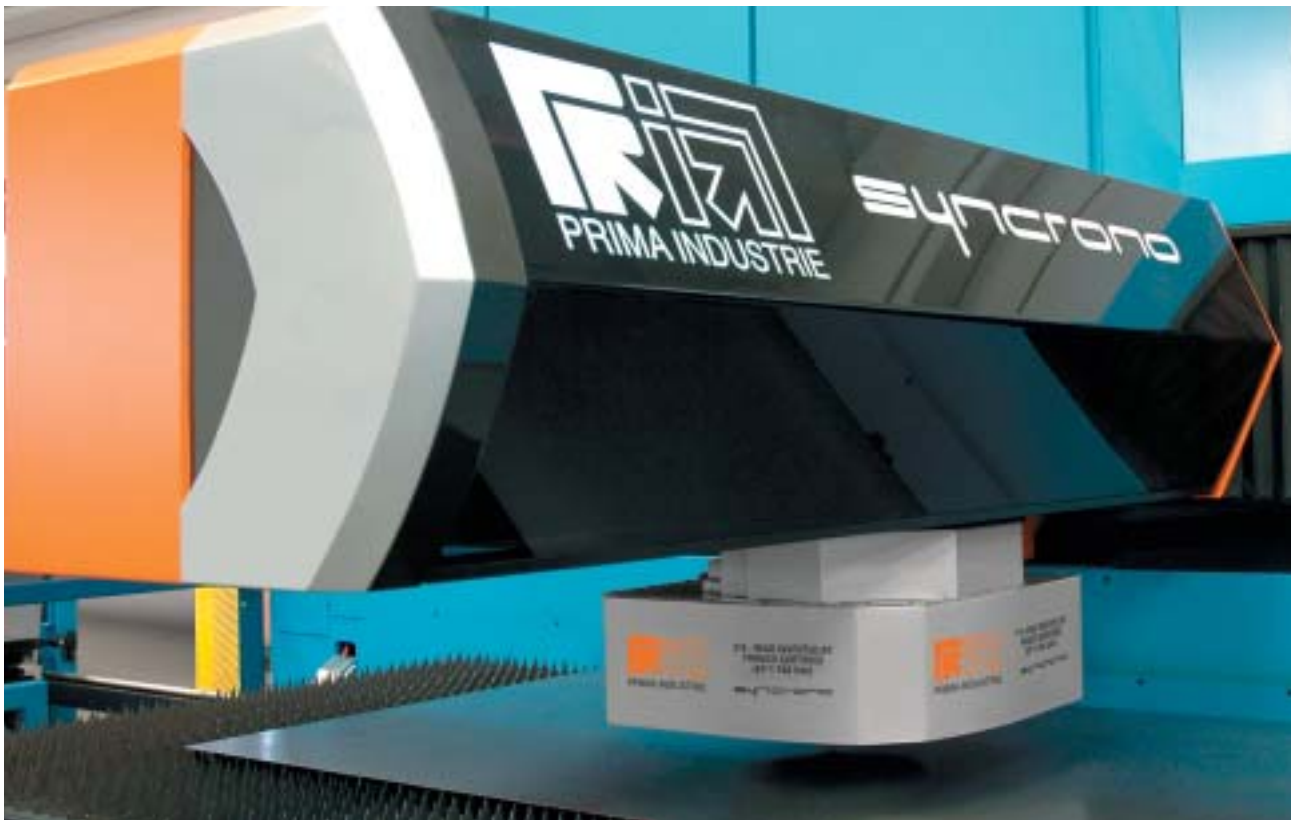


SYNCRONO PROTECTION CABIN: AN EXAMPLE OF ITALIAN DESIGN



VIRTUOSO, THE NEW BENCHMARK PIECE CUT BY SYNCRONO

- The design of a programming terminal using wireless technology, in collaboration with an important industrial partner. The new product will be used for the programming of articulated robots and three-dimensional machines for laser cutting and welding.
- The Research and Development activities of CONVERGENT LASER Division has been focused to the development of a CO<sub>2</sub> laser family with greater power than the current 4 kW laser.
- For the applications destined mainly to the aerospace market by the LASERDYNE Division, the development continued of a new 5-axis machine that will utilize the new S94 P control and a new-generation laser head.



SYNCRONO PARALLEL KINEMATIC HEAD



## Personnel and Organization

The Group's workforce increased by 7%, with 498 employees at the end of 2005 compared to 465 in the previous year.

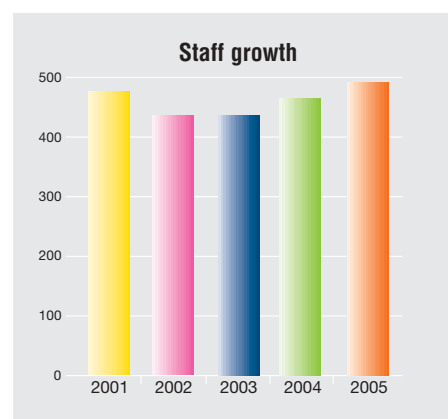
The per capita sales of 230 thousand euro at 12/31/2005, increased by about 8% compared to the € 213 thousand at 12/31/2004.

The breakdown by Group Company is shown below:

	31/12/2005	31/12/2004
PRIMA INDUSTRIE S.p.A. - Italy	251	234
• PRIMA INDUSTRIE Branch offices (*)	26	29
• PRIMA INDUSTRIE UK Ltd - United Kingdom	11	10
• PRIMA INDUSTRIE GmbH - Germany	12	0
• PRIMA SCANDINAVIA AB - Sweden	4	3
PRIMA ELECTRONICS S.p.A. - Italy	88	84
PRIMA North America, Inc. - U.S.A.	106	105
<b>Total (**)</b>	<b>498</b>	<b>465</b>

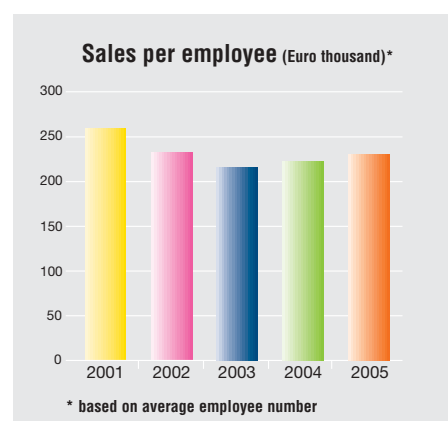
(\*) France, Spain, Switzerland and China.

(\*\*) The employees of the two Chinese joint ventures (SHANGHAI UNITY PRIMA LASER MACHINERY COMPANY Ltd. and SHENYANG-PRIMA LASER MACHINERY COMPANY Ltd.) are not included in the total as they are not consolidated.



The breakdown of the staff, subdivided in terms of function, is as follows:

	31/12/2005	31/12/2004
Production	208	205
Quality	6	7
Research and Development	76	80
Marketing and Sales	44	38
After sales service	101	86
Management and Administration	56	48
Employees temporary retirement	7	1
<b>Total employees</b>	<b>498</b>	<b>465</b>



The Group operates using highly educated staff. In this regard the breakdown of the staff by education in the Italian Companies at December 31, 2005 is set out below:

	% of the total at 31/12/2005
University graduates	21%
Secondary and High School	54%



SERGIO CHIAMPARINO,  
MAYOR OF TORINO, VISITS  
PRIMA INDUSTRIE



A PRIMA INDUSTRIE EMPLOYEE  
PARTICIPATES TO  
THE OLYMPIC TORCH RELAY

## Group's Companies and Joint Ventures



**PRIMA INDUSTRIE S.p.A.**  
Collegno (Torino) - ITALY

In 2005 sales from the parent Company amounted to € 72.7 million and grew by 10.3% compared to the € 65.9 million of 2004.

The increase in sales occurred in all the main business sectors (2D, 3D, Service and After Sales).

The growth in the 2D sector was particularly significant (+17%) where the growing sales of the Platino were also being towed by the success of the Sincrono presentation that took place in autumn.

The Operating profit (EBIT) amounted to € 3.1 million, equivalent to 4.2 per cent of turnover, against € 3.0 million or 4.6 per cent of sales in 2004 and includes depreciation of € 611 thousand.

The Company reflected a pre-tax profit of € 5.3 million, which is more than double (+113%) the € 2.5 million achieved in 2004. Net profits amounted

to € 3.8 million, after taking into account € 1.5 million in current taxes, € 0.7 million in deferred taxes and € 0.7 million for prepaid taxes, compared to the € 0.8 million in 2004.

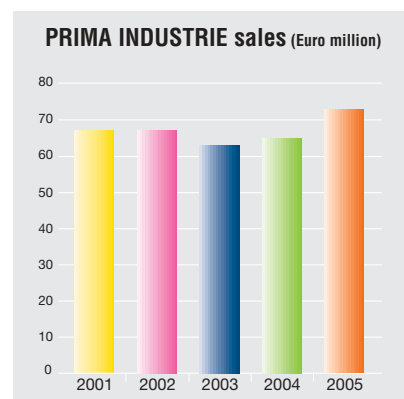
The Net Financial Position amounting to € 6.7 million shows a further improvement compared to 2004 (€ 9.4 million), owing to increased cash-flow generated by the operating income and the management of Net Working Capital, which resulted in a decrease regardless the increase in turnover.

As a result of the decrease in the Company's NFP, the debt/equity ratio, for the third year running, went to 0.21 as against 0.33 at 12/31/2004.

Order acquisition was € 74.1 million in 2005 compared to € 66.7 in the previous year.

Year-end backlog of laser machines was € 12.8 million, as against € 11.6 million in 2004.

Research and Development expenses, entirely charged against income in 2005 were € 4.3 million against € 4.1 million in 2004.

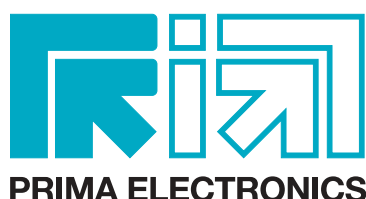


(Euro million - Italian Gaap)	2005	2004	2003	2002	2001
Net Sales	72.7	65.9	62.6	67.5	67.5
Operating Profit	3.1	3.0	1.8	2.5	5.5
Net Profit (*)	3.8	0.8	(2.8)	(4.9)	1.1
Order booking	74.1	66.7	59.3	69.1	68.1
Research and Development expenses	4.3	4.1	3.6	3.5	2.5
Number of employees	277	263	265	253	240

(\*) Including consolidation of Group Companies results

OPTIMO





**PRIMA ELECTRONICS S.p.A.**  
**Moncalieri (Torino) - ITALY**

The Company closed the 2005 financial year with satisfactory results, proceeding with the growth in sales which was already started in 2004. The sales for the financial year totalled € 16.4 million growing by 9.9% compared to the € 14.9 million of 2004. Growth of € 1.5 million relates to all the sectors in which the company operates but, in particular, it relates to the “compressor regulators” sector. This growth was even more important in that it occurred in the presence of lower average unit prices and is accordingly attributable to greater volumes. Satisfactory growth was in any event recorded also in the “motion controls” area as well as in the “other electronic products” area.

The Income Statement reflects EBIT of € 1.8 million, equal to 10.9% of sales, against € 1.7 million in the previous year.

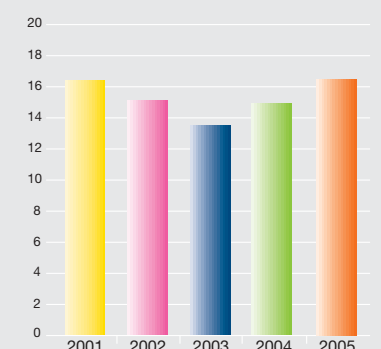
The Net profit was similar to the previous year, fixed at € 1.0 million, or 6.1% of the total turnover.

From a commercial viewpoint 2005 was a reassuring year due not only to the good number of orders totalling € 17.3 million (+ € 2 million compared to 2004), but also because of the contacts initiated with new customers operating in different business segments. These contacts offer the potential of generating new business opportunities in the years to come.

The orders backlog at January 1, 2006 was € 6.7 million, as against € 5.8 million at January 1, 2005. Research costs, which were entirely charged against income, totalled € 1.1 million, equivalent to 6.9% of sales, and were substantially in line with 2004 (€ 1.05 million).

The Company's net financial position improved even further, going from a positive figure of € 1.8 million at 12/31/2004 to a value exceeding € 2.1 million at 12/31/2005. At December 31, 2005 the Company's workforce was 88 people.

**PRIMA ELECTRONICS sales (Euro million)**



(Euro million - Italian Gaap)	2005	2004	2003	2002	2001
Net Sales	16.4	14.9	13.6	15.3	16.1
Operating Profit	1.8	1.7	1.8	2.1	2.4
Net Profit	1.0	1.0	1.0	1.1	1.2
Order booking	17.3	15.3	12.5	15.2	13.9
Research and Development expenses	1.1	1.1	1.2	1.2	1.0
Number of employees	88	84	81	80	76



TECHNOLOGICAL TABLES ON BOARD CNC



## Group's Companies and Joint Ventures



**PRIMA INDUSTRIE**

**PRIMA INDUSTRIE GmbH**  
**Dietzenbach - DEUTSCHLAND**

With effect from 07/01/2005 the Company took over from Matra, a company of the Linde Group with offices in Frankfurt (Germany), the branch of the business involved in the distribution and after-sales service of PRIMA INDUSTRIE's laser machines on the German market.

As against a price of € 0.8 million plus VAT, PRIMA INDUSTRIE GmbH obtained a series of assets that are essentially made up of a stock of laser systems and parts, taking on liabilities mainly in regard to the 12 employees that were transferred.

The six month business, recorded sales amounting to € 2.5 million with a positive result of € 0.15 million.

In the last part of the financial year the Company was able to benefit from the signs of recovery coming from the German market and thus the orders acquisition was € 4.5 million, with a backlog at 01/01/2006 of € 2.1 million.

At 12/31/05 the Company employed 12 people.

During the first months of the year 2006 the Company has moved to brand new premises in Dietzenbach (Frankfurt), where a modern show room facility and a more efficient After Sales organization have been established.



PRIMA GMBH NEW PREMISES IN DIETZENBACH



**PRIMA INDUSTRIE**

**PRIMA INDUSTRIE UK Ltd.**  
**Coventry - UNITED KINGDOM**

During 2005, PRIMA INDUSTRIE UK Ltd. (that took over the business of the English branch of PRIMA INDUSTRIE) obtained good results both in terms of sales, which amounted to GBP 3.2 million, (as against GBP 3.4 12/31/2004) as well as in terms of returns, with a net positive result of GBP 0.15 million (it was GBP 0.11 million in 2004).

At 12/31/05 the Company employed 11 people, compared to the 10 employees at the end of 2004.



**PRIMA INDUSTRIE**

**PRIMA SCANDINAVIA AB**  
**Göteborg - SVERIGE**

PRIMA SCANDINAVIA AB's sales amounted to € 0.95 million, (against € 2.0 million in 2004) and there was a negative result of € 0.16 million (the loss was € 0.07 million in 2004).

The Company which has only recently been incorporated is planning to break-even during the course of 2006 thanks to a significant increase in sales volumes.

At 12/31/05 the Company employed 4 people, compared to the 3 persons at the end of 2004.



**CONVERGENT LASERS  
PRIMA LASER TOOLS  
LASERDYNE SYSTEMS**

**PRIMA North America, Inc.  
Chicopee (Springfield), MA  
Champlin (Minneapolis), MN - U.S.A.**

The Company benefited in 2005 from all the actions undertaken in the previous financial years in terms of reorganization as well as the development of new products, which led PRIMA North America to achieve a net positive result not only in absolute terms, but also as a percentage on sales.

The Company's turnover increased to \$ 41 million (\$ 34 million in 2004), with an increase of 20.3%, which follows on from that recorded in previous years.

Sales of the LASERDYNE Division, equal to \$ 13.5 million, is substantially in line with 2004 (\$ 13.3 million); profitability also remained constant with an EBIT of \$ 1.7 million in both periods.

The CONVERGENT LASERS Division recorded revenues that grew by 35.5% going from \$ 13.5 million at 12/31/2004 to \$ 18.3 million at 12/31/2005. The EBIT of the Division was thus brought to \$ 2.2 million (as against a loss of \$ 0.9 million at 12/31/2004) benefiting from the increased volume of sales of the CP lasers line, in the light of structural costs that were substantially fixed compared to the previous year.

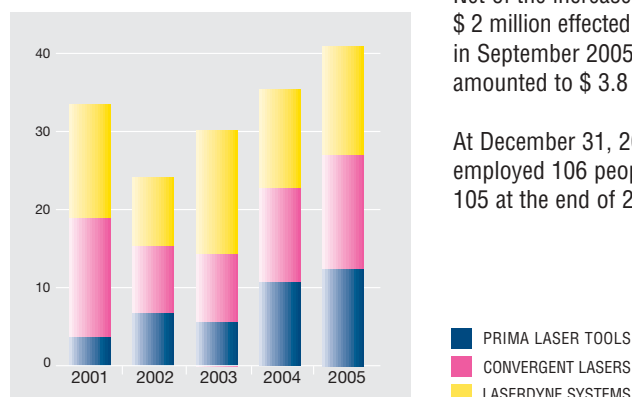
Sales in the PRIMA LASER TOOLS Division, responsible for sales and after-sale service on systems produced by PRIMA INDUSTRIE S.p.A. went from \$ 10,8 million in 2004 to \$ 12,9 million in 2005, with a growth of 19.4%. At an EBIT level the result is still negative - \$ 0.5 million, even though it has improved compared to 12/31/2004 (\$ -0.9 million).



W. MITT ROMNEY, GOVERNOR OF MASSACHUSETTS, VISITS PRIMA NORTH AMERICA

On the whole PRIMA North America closed the financial year with an EBIT of \$ 3.5 million (as against a negative EBIT of \$ 0.2 million at 12/31/2004).

The net result was \$ 2.8 million, a definite improvement compared to the loss of \$ 0.5 million of the previous year.



Research costs, which were entirely expensed during the year, totalled \$ 2.9 million as against \$ 2.2 million in 2004.

The trend in the Net Financial Position is particularly satisfying, decreasing from \$ 11.2 million at 12/31/2004 to \$ 5.4 million at 12/31/2005. Net of the increase in capital of \$ 2 million effected by PRIMA INDUSTRIE in September 2005, this decrease amounted to \$ 3.8 million.

At December 31, 2005 the Company employed 106 people, compared to the 105 at the end of 2004.

(US\$ million - U.S. Gaap)

	2005	2004	2003	2002
Sales	41.0	34.1	30.0	24.0
Operating Profit	3.5	(0.2)	(2.9)	(6.7)
Net Profit	2.8	(0.5)	(4.2)	(7.2)
Order booking	46.5	32.2	24.9	27.3
Research and Development expenses	2.9	2.2	2.4	2.6
Number of employees	106	105	100	110



## Group's Companies and Joint Ventures



**SHENYANG-PRIMA LASER MACHINE COMPANY Ltd.**  
Shenyang - PEOPLE'S REPUBLIC OF CHINA

During 2005 the joint venture in which PRIMA INDUSTRIE holds a 50% stake, achieved a sales volume of RMB 33.9 million (equal to \$ 4.2 million) with an increase in sales of 38.7% compared to 2004. This is a record for the Company that was incorporated in 1999.

The operating result, considering the exchange effect due to the trend of the €/RMB, is slightly positive whereas the net result is negative in an amount of RMB 1.5 million (equal to \$ 0.2 million) essentially due to non-recurring costs.

During September 2005 PRIMA INDUSTRIE S.p.A and the Chinese partner SHENYANG MACHINE TOOLS Co. Ltd., have subscribed for a capital increase in cash, in equal shares, for a total amount of \$ 1.0 million.



**SHANGHAI UNITY PRIMA LASER MACHINERY COMPANY Ltd.**  
Shanghai - PEOPLE'S REPUBLIC OF CHINA

During 2005, the pro forma sales (that take into account of the imported lasers bought by the Company on behalf and in the name of its customers) of the Shanghai joint venture in which PRIMA holds a 27.5% stake amounted to RMB 107 million (equal to \$ 13.0 million) compared to RMB 55.8 million in 2004.

The Net Financial Position at 12/31/05 was positive and amounted to RMB 8.9 million.

The net result was RMB 14.9 million (equal to \$ 1.8 million) as against RMB 3.6 million in 2004.



**SNK - PRIMA COMPANY Ltd.**  
Osaka - JAPAN

During 2005 the Company, in which PRIMA INDUSTRIE holds a 50% stake, only carried out marketing activities that brought in new customers with deliveries forecasted in 2006.

New development activities have also been carried out to the purpose of improving competitiveness of 3D products in the Japanese market, where the Company expects to get positive results in the near future.

SHANGHAI UNITY PRIMA BOOTH AT CCMT FAIR IN SHANGHAI





## Performance on the Stock Market

During 2005 important changes took place in the Stock Exchange indexes of reference relative to PRIMA INDUSTRIE stock.

On September 19, 2005 PRIMA INDUSTRIE stock entered the Star section of the Italian Stock Market.

This placement, in addition to being more consistent with the type of activity carried out by PRIMA INDUSTRIE, should contribute to the Company become more visible to institutional investors.

Compared to the Star index the PRIMA INDUSTRIE stock recorded an important over-performance, closing the year with an appreciation of 88.64% compared to the previous year, whereas the Star index (going from 12,769 to 16,757 points) appreciated by 31.23%. The lowest value of the year was € 6.77 per share as against a maximum of € 13.49, with an arithmetic average of 9.40 (against 6.46 in 2004).

At 12/30/05 the value was € 12.80 per share.

The volume of shares traded also grew significantly going from a daily average of 6,726 shares in 2004 to a daily average of 36,108 during 2005. In overall terms during 2005, 9,207,522 shares were traded for a value of € 96.8 million, compared to 1,728,493 shares and € 11.3 million in 2004.

As at 12/31/2005 PRIMA INDUSTRIE S.p.A. held 8,000 ordinary shares (equal to approximately 0.17% of the capital) at an average weighted price of € 11.60 per share; these shares were acquired following the mandates by the Ordinary Stockholders' Meetings held on May 14, 2004 and September 8, 2005. The latter mandate authorizes the purchase and sale of the Company's treasury stock up to a maximum of 200,000 shares (equal to approximately 4.3% of the capital that has been subscribed and paid for) for a duration of 18 months from the date of the resolution.

This new buy-back resolution also envisages a minimum buying and selling price of € 2.5 per share (equal to the par value) and a maximum buying and selling price equal to € 17.53

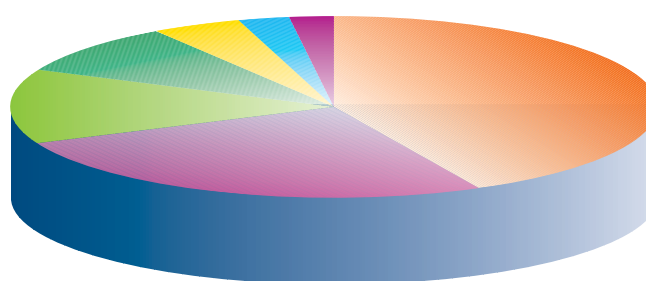
(which equates to the highest reference price recorded in the 48 months preceding July 25, 2005). Moreover, the maximum selling price can be established on the basis of terms and procedures deemed expedient, from time to time. As far as off-market deals are concerned, the agreed price must not give rise to any loss for the Company.

At 02/27/06 the portfolio decreased to 4,750 shares at a weighted average price of € 13.03 per share.

PRIMA INDUSTRIE's capital stock at 12/31/05 consists of 4,600,000 ordinary shares with a par value of € 2.5. The Group has issued no bonds or securities other than common stock.

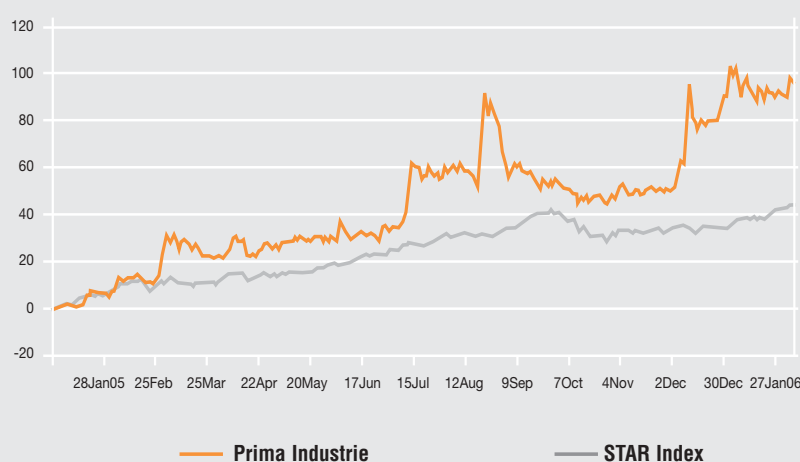
On the basis of the stockholders' register, updated on the basis of the dividend distribution that took place in May 2005 and on the basis of the subsequent notices received by the Company, the stockholder structure at 12/31/05 is as follows:

Shareholders' Structure



42.61% Market	4.49% Lestri Holding B.V.
25.85% Erste International Holding S.A.	2.55% Lemanik Sicav
13.25% Management	2.21% Arcipelagos Sicav
9.04% Helios Private Equity S.A.	

Share performance





### Board of Directors

Gianfranco CARBONATO	Chairman and CEO
Domenico PEIRETTI	Executive Director
Sandro D'ISIDORO	Non-Executive Director
Fabrizio LUGARES	Independent Director
Mario MAURI	Independent Director
Pio PELLEGRINI	Independent Director
Marco PINCIROLI	Independent Director

### Statutory Auditors Committee

Riccardo FORMICA	President
Andrea MOSCA	Effective Auditor
Roberto PETRIGNANI	Effective Auditor

### Management

<b>Gianfranco CARBONATO</b>	<b>CORPORATE</b>	<b>Chairman and CEO</b>
<b>Domenico APPENDINO</b>	<b>CORPORATE</b>	<b>Marketing and Asia-Pacific Operations</b>
<b>Alberto DELLE PIANE</b>	<b>CORPORATE</b>	<b>Customer Relations</b>
<b>Massimo RATTI</b>	<b>CORPORATE</b>	<b>CFO and Secretary of the Board</b>
<b>Ezio BASSO</b>	<b>PRIMA INDUSTRIE</b>	<b>General Manager</b>
Claudio BANCHI	PRIMA INDUSTRIE	Sales
Elio BAROSSO	PRIMA INDUSTRIE	Internal Controlling
Cinzia BELTRAMO	PRIMA INDUSTRIE	Administration and Treasury
Massimo CAVOZZA	PRIMA INDUSTRIE	Customer Service
Roberto DELPIANO	PRIMA INDUSTRIE	Procurement
Maurizio GATTIGLIO	PRIMA INDUSTRIE	2D Division
Salvatore LIBRERA	PRIMA INDUSTRIE	3D Division
<b>Domenico PEIRETTI</b>	<b>PRIMA ELECTRONICS</b>	<b>Managing Director</b>
Luca DI STEFANO	PRIMA ELECTRONICS	Technical Advisor
Giovanni GIOVINAZZO	PRIMA ELECTRONICS	Manufacturing
Flavio GREGORI	PRIMA ELECTRONICS	Marketing and Sales
Francesco SGANDURRA	PRIMA ELECTRONICS	Research and Development
<b>Paolo CIGNA</b>	<b>PRIMA North America</b>	<b>President and CEO</b>
Terry VANDERWERT	PRIMA North America	Senior VP and General Manager
Mark BARRY	PRIMA North America	Marketing and Sales, LDS and CVL
Thomas BURDEL	PRIMA North America	Marketing and Sales, PLT
Pieter SCHWARZENBACH	PRIMA North America	Laser Technology
Ray VERMOKOWITZ	PRIMA North America	Operations, CVL
Barbara WENNER	PRIMA North America	Operations, LDS

CVL - CONVERGENT LASERS  
LDS - LASERDYNE SYSTEMS  
PLT - PRIMA LASER TOOLS

# Consolidated Financial Statements

## CONSOLIDATED INCOME STATEMENT

Year ended December 31 <sup>st</sup> , (Euro thousand, except per share data)	2005	2004	2003	2002	2001
<b>PRODUCTION VALUE</b>					
Revenues from sales and services (Net Sales)	110,885	97,106	95,000	100,528	111,895
Changes in work-in-progress, semi-finished and finished goods	1,903	3,031	(2,248)	(1,779)	2,882
Increases in fixed assets for internal work	63	157	(740)	466	75
Other operating income	3,000	2,479	1,630	1,481	1,844
<b>TOTAL PRODUCTION VALUE</b>	<b>115,851</b>	<b>102,773</b>	<b>93,642</b>	<b>100,696</b>	<b>116,696</b>
<b>PRODUCTION COSTS</b>					
Purchases of raw material, consumables and supplies (net)	(55,423)	(51,064)	(46,048)	(51,705)	(63,841)
Other operating costs	(25,263)	(21,685)	(21,365)	(22,899)	(24,427)
<b>TOTAL PRODUCTION COSTS</b>	<b>(80,686)</b>	<b>(72,749)</b>	<b>(67,413)</b>	<b>(74,604)</b>	<b>(88,268)</b>
<b>ADDED VALUE</b>	<b>35,165</b>	<b>30,024</b>	<b>26,229</b>	<b>26,092</b>	<b>28,428</b>
Personnel cost	(26,040)	(23,819)	(23,498)	(25,968)	(24,115)
<b>EBITDA</b>	<b>9,125</b>	<b>6,205</b>	<b>2,731</b>	<b>124</b>	<b>4,313</b>
Amortization & Depreciation	(1,209)	(1,214)	(2,142)	(2,647)	(2,200)
<b>OPERATING PROFIT (EBIT)</b>	<b>7,916</b>	<b>4,991</b>	<b>589</b>	<b>(2,523)</b>	<b>2,113</b>
Financial income and expenses	(1,140)	(1,396)	(1,418)	(1,958)	(447)
Adjustment to financial assets	337	(164)	(48)	(939)	(195)
Extraordinary items	-	-	(1,206)	(149)	-
<b>PROFIT BEFORE INCOME TAXES (EBT)</b>	<b>7,113</b>	<b>3,431</b>	<b>(2,083)</b>	<b>(5,569)</b>	<b>1,471</b>
Income taxes	(2,005)	(2,388)	(870)	545	(1,226)
<b>NET PROFIT FOR THE YEAR</b>	<b>5,108</b>	<b>1,043</b>	<b>(2,953)</b>	<b>(5,024)</b>	<b>245</b>
Minority interests	-	-	-	-	(48)
<b>NET PROFIT FOR THE YEAR-GROUP</b>	<b>5,108</b>	<b>1,043</b>	<b>(2,953)</b>	<b>(5,024)</b>	<b>197</b>
<b>EARNINGS PER SHARE</b>	<b>1.11</b>	<b>0.23</b>	<b>(0.65)</b>	<b>(1.21)</b>	<b>0.05</b>

## CONSOLIDATED BALANCE SHEET

Year ended December 31<sup>st</sup>, (Euro thousand)

	2005	2004	2003	2002	2001
<b>FIXED ASSETS (NET)</b>	<b>10,431</b>	<b>9,522</b>	<b>10,432</b>	<b>10,985</b>	<b>14,358</b>
Intangible assets	2,739	2,487	3,845	4,509	6,443
Tangible assets	5,779	5,984	5,054	5,394	5,829
Financial assets	1,913	1,051	1,533	1,082	2,086
<b>EMPLOYEES' SEVERANCE INDEMNITY</b>	<b>4,937</b>	<b>4,498</b>	<b>4,164</b>	<b>3,708</b>	<b>3,204</b>
<b>NET WORKING CAPITAL</b>	<b>33,078</b>	<b>36,076</b>	<b>43,784</b>	<b>59,225</b>	<b>51,912</b>
Inventories	36,319	31,581	21,565	28,077	33,040
Trade receivables	22,845	23,294	40,351	52,625	43,778
Other current assets	11,353	12,210	9,785	10,622	9,643
Trade payables	(23,089)	(19,417)	(19,007)	(22,539)	(23,973)
Other current liabilities	(14,350)	(11,592)	(8,910)	(9,560)	(10,576)
<b>FINANCIAL POSITION (NET)</b>	<b>7,733</b>	<b>15,418</b>	<b>22,323</b>	<b>39,254</b>	<b>29,203</b>
Cash and banks	(11,768)	(6,698)	(3,607)	(3,329)	(8,173)
Bank borrowings	15,913	17,085	22,888	37,208	20,608
Borrowing from other financial institutions	3,588	5,031	3,042	5,375	16,768
<b>TOTAL CONSOLIDATED SHAREHOLDERS' EQUITY</b>	<b>30,839</b>	<b>25,682</b>	<b>27,729</b>	<b>27,248</b>	<b>33,863</b>
Minority interests	-	-	-	-	1,430
Shareholders' equity-group	30,839	25,682	27,729	27,248	32,433

## SHAREHOLDERS' EQUITY

	Share capital	Reserves	Net profit for the year	Total
Net profit 2001	-	-	197	197
31.12.2001	10,375	21,861	197	32,433
Appropriation 2001 results	-	197	(197)	-
Translation and other adjustments	-	(161)	-	(161)
Net result 2002	-	-	(5,024)	(5,024)
31.12.2002	10,375	21,897	(5,024)	27,248
Appropriation 2002 results	-	(5,024)	5,024	-
Equity increases	1,125	2,858	-	3,983
Translation and other adjustments	-	(549)	-	(549)
Net result 2003	-	-	(2,953)	(2,953)
31.12.2003	11,500	19,182	(2,953)	27,729
Appropriation 2003 results	-	(2,953)	2,953	-
Translation and other adjustments	-	(237)	-	(237)
Net result 2004	-	-	1,043	1,043
31.12.2004	11,500	13,139	1,043	25,682
Appropriation 2004 results	-	1,043	(1,043)	-
Translation and other adjustments	-	(173)	-	(173)
Net result 2005	-	-	5,108	5,108
31.12.2005	11,500	14,231	5,108	30,839



# Consolidated Financial Statements

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31 <sup>st</sup> , (Euro thousand)	2005	2004	2003	2002	2001
<b>A) NET FINANCIAL POSITION AT 01.01</b>	<b>15,418</b>	<b>22,167</b>	<b>39,254</b>	<b>29,203</b>	<b>14,425</b>
<b>B) CASH-FLOWS PROVIDED BY OPERATING ACTIVITIES</b>	<b>9,026</b>	<b>2,571</b>	<b>(9)</b>	<b>(1,580)</b>	<b>3,596</b>
Consolidated net income	5,108	1,043	(2,953)	(5,024)	197
Amortisation/depreciation of tangible/intangible assets	1,209	1,214	2,002	2,517	2,349
Accrual of employees' severance indemnity, net of payments	439	167	456	504	379
Accrual to other funds	1,746	(156)	297	(645)	476
Accrual to bad debt and re-valuation of financial assets	524	303	189	1,068	195
<b>C) CHANGES IN OPERATING ASSETS AND LIABILITIES</b>	<b>391</b>	<b>4,921</b>	<b>15,004</b>	<b>(6,800)</b>	<b>(17,136)</b>
(Increase) decrease in inventories	(4,738)	(1,461)	6,512	4,963	(11,843)
(Increase) decrease in trade receivables	(412)	1,572	11,653	(8,977)	(5,239)
(Increase) decrease in other current assets	857	(569)	1,319	(979)	(1,971)
Increase (decrease) in payables to suppliers	3,672	1,851	(3,544)	(1,433)	2,095
Increase (decrease) in other current liabilities	1,012	3,528	(936)	(374)	(178)
<b>D) EQUITY VARIATIONS</b>	<b>49</b>	<b>(33)</b>	<b>3,434</b>	<b>(1,591)</b>	<b>5,364</b>
Equity reserves increase (decrease)	49	(33)	3,434	(1,591)	5,896
Dividend paid to thirs parties	-	-	-	-	(532)
<b>E) CASH-FLOW FROM (FOR) INVESTING ACTIVITIES</b>	<b>(1,781)</b>	<b>(710)</b>	<b>(1,498)</b>	<b>(80)</b>	<b>(6,602)</b>
(Additions) to intangible assets (net)	(388)	(143)	(355)	502	(4,048)
(Additions) to tangible assets (net)	(867)	(734)	(643)	(649)	(1,788)
(Additions) to financial assets	(526)	167	(500)	67	(766)
<b>F) NET FINANCIAL POSITION AT 31.12</b>	<b>7,733</b>	<b>15,418</b>	<b>22,323</b>	<b>39,254</b>	<b>29,203</b>

NOTE: Net financial position as at 01.01.2004 has been restated according IAS/IFRS

# Notes to the Consolidated Financial Statements

## BUSINESS OF THE GROUP

PRIMA INDUSTRIE S.p.A. designs, manufactures and sells machines and mechanical, electric and electronic engineering systems and the related software for use in industrial automation. The Company provides also technical services in the same field. The main business of the Company focuses on laser cutting and welding machines.

PRIMA ELECTRONICS S.p.A. designs, manufactures and sells apparatus, instruments, machines and mechanical, electric and electronic engineering systems and the related software.

PRIMA North America, Inc., operating in the North American market, is comprised of three operating divisions:

CONVERGENT LASERS which designs, manufactures and sells lasers for industrial applications; LASERDYNE SYSTEMS which designs, manufactures and sells laser systems for aerospace industrial applications; PRIMA LASER TOOLS which sells imported PRIMA INDUSTRIE laser machines in North America and provides after sales services to customers.

PRIMA INDUSTRIE UK Ltd. and PRIMA SCANDINAVIA AB sell imported PRIMA INDUSTRIE laser machines in their respective markets and provide after sale services to customers.

PRIMA INDUSTRIE GmbH, previously a non-operating Company, took over from Matra, a company of the Linde Group with effect since 07/01/2005, a branch of the business involved in the distribution and after-sales service of PRIMA INDUSTRIE's laser machines on the German market. Therefore, since July 2005, the Company directly performs these activities on the German market.

## FORM AND CONTENT OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Consolidated Financial Statements for the financial years closed at December 31<sup>st</sup>, 2005 and 2004 were prepared (or, with specific reference to 2004, restated) according to International Financial Reporting Standards (IFRS).

The Consolidated financial statements for the years up to 2003 have been prepared according to the same accounting principles adopted in the Statutory financial statements of PRIMA INDUSTRIE S.p.A.

The above mentioned Companies are included in consolidation on the line-by-line consolidation method. 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 legal bodies governing 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 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
- elimination of intercompany receivables and payables and income and expenses arising from intercompany transactions
- 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 translation of the net investment in foreign Subsidiaries, associated undertakings and borrowings which hedge such investments are recorded in "Cumulative translation adjustments" in Shareholders' equity.

## SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Intangible assets

Intangible assets are stated at purchase cost and reduced by amortisation. The research costs are recorded in the Income Statement in the financial year in which they are incurred.

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

Goodwill generated by the acquisition of a stake in associated companies is recorded in the Financial Statements at cost adjusted for impairment, which is reviewed annually.

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

After the first determination the intangible fixed assets with a definite useful life are recorded at cost reduced by the amortization and impairment; the intangible fixed assets with an indefinite useful life are shown at cost and are tested annually for impairment and whenever there is any indication that their carrying value is not recoverable.

### Tangible assets

Tangible assets are stated at purchase or production cost. 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.

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

Depreciation rates are as follows:

- Buildings and improvements 33 years
- Plant and machinery 10 - 5 years

# Notes to the Consolidated Financial Statements

• Equipment	4 - 5 years
• Furniture, fixtures and office equipment	9 - 5 years
• Electronic office equipment	5 years
• Motor vehicles	3 - 5 years

## Assets under financial leases

Assets acquired under financial leases are accounted for by recording the assets under tangible assets and the lease obligation under liabilities and are depreciated on the straight-line method over the estimated useful lives of the assets.

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.

## Financial assets

All the financial assets (with the exception of those at "fair value with changes in value recorded in the Income Statement"), are initially stated at fair value increased by the costs of selling transaction. Financial assets "held for sale" and at "fair value with changes in value recorded in the Income Statement", are valued at fair value after purchase. The other two classes, "loans and financial receivables" and "financial assets held to maturity" are valued using the amortized cost using the effective interest rate method. The gains and losses, whether realized or not, arising from a change in the fair value of the financial asset belonging to the category "fair value with changes in value recorded in the Income Statement", are recorded in the Income Statement for the financial year in which they are generated. The unrealized gains and losses arising from the change in fair value of the non-monetary securities classified in the category "held for sale", are recorded in stockholders' equity and only when are sold or undergo an impairment in value, the accumulated adjustments to their fair value in stockholders' equity are transferred to the Income Statement.

## Inventories

Inventory is stated at the lower between cost and net realisable value.

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

Contract work in progress is valued at the weighted average purchase cost of materials during the year at the time the materials are used in production, plus the average hourly production labor cost and the purchase cost of external work.

Finished goods are valued in the same way as contract work in progress.

Trade receivables are initially stated at their "fair value" and are measured after the cost has been depreciated using the effective interest method, net of writedowns to take account of irrecoverability.

The debt is written off if there exists objective evidence that the Group is not able to collect the entire amount due on the date agreed to with the customer. The writedown of receivables is recorded in the Income Statement.

## 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 are raised to the provisions for risks and charges when:

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

## Employee benefits

The Employees' severance indemnity, accrued in conformity with existing legislation, and the benefits granted by some of the Group's companies at the employees' achievement of a certain level of seniority are liabilities recorded in the financial statement at the actual value of the obligation, corrected for the amount of the actuarial gains and losses and for the social security cost relative to past services. The present value of the obligation is determined by discounting the estimated future disbursements at the interest rate relating to first class bonds, issued in the same currency with which the benefits will be paid and which fall due approximately at the same time as the correlated liability.

The Group records a cost and a debt to meet the liabilities that arise for bonuses, employee incentives and benefits granted on the early termination of the employment relationship for a corporate restructuring plan.

Revenue is recognized when the Company transfers the risks and the important benefits, therefore, the revenues for the sale of laser systems are accounted for when the machines are accepted by the end-customer, which generally coincides with the signature of the testing report by the customer.

The invoicing date is not in alignment with the date of recognition of the revenue, the value of the machines invoiced but not yet accepted by the customer is brought back into the accounts, amongst the inventories of finished products, net of the margin, with the contra-entry being made to "advances" in the Balance Sheet liabilities.

## Grants

The state grants are recorded in the Financial Statements at their fair value, only if there exists a reasonable certainty that they will be granted and all the requirements to obtain them are satisfied (obtaining the competent Ministerial resolution).

## Income taxes

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

Deferred taxes are provided at an enacted statutory tax rate expected to apply to future periods for all differences between the value of assets and liabilities for financial reporting purposes and their underlying tax basis when it is probable that such assets and liabilities will be realized.

## Translation of balances in non Euro currency

In the financial statements, the receivables and payables originally denominated in non Euro currency are translated into functional currency 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 non Euro currencies have been adjusted to the exchange rates in effect at the balance sheet date and any unrealized exchange gains or losses have been recorded to profit and loss. Realized gains and losses are recorded in the income statement.

